

**California Community Development Finance Meeting:  
Strategies to Respond to the Economic Crisis  
Issues Backgrounder**

Lisa Richter, GPS Capital Partners, LLC

“Economic recovery, like economic development, is a bottom-up as well as a top-down process. Through their work at the community level, CDFIs (Community Development Financial Institutions), together with other community development organizations, can help build a sustainable recovery for all of us.”

Ben Bernanke, Federal Reserve Chairman  
Global Financial Literacy Summit  
June 17, 2009<sup>i</sup>

The Federal Reserve Bank of San Francisco’s November 9, 2009 **California Community Development Finance Meeting: Strategies to Respond to the Economic Crisis** brings together a small group of institutional investors, banks, community development finance specialists and government agencies to explore how the sectors can best work together to ensure that California’s recovery includes robust, bottom-up community development, resulting in a stronger community development finance sector and State economy for all.

California has in place the building blocks for a dynamic, state-wide community development finance market to support economic opportunity across the State’s low- to moderate-income (LMI) urban, rural and reservation communities. California is home to a number of the nation’s most successful Community Development Financial Institutions (CDFIs) and other community development institutions,<sup>ii</sup> which are ready and able to put capital to work. While these organizations are by no means immune to the economic downturn, they are applying skills developed in decades of effectively serving LMI communities to identify and manage heightened risks. Early signs are that they are emerging on a strong footing to carry forward their financing activities across the State.

Providing capital are significant private, philanthropic and government investors representing a spectrum of risk tolerance and risk-adjusted return expectations. The nation’s largest pension funds and insurance company consortia making high quality investments in LMI communities are based in the State. Together with the nation’s largest banks, and regional banks encouraged by the Community Reinvestment Act (CRA), these investors have directed billions of dollars to California’s underserved communities. A growing number of foundations and other social investors seeking double or triple bottom lines of financial, social and/or environmental performance are joining this investor base, if at more modest investment levels. Finally, \$85 billion of federal stimulus dollars are expected to flow into California under the American Recovery and Reinvestment Act of 2009 (ARRA), augmenting existing public sector grants and tax incentives that support investments in the State’s community development finance sector.

Through forty years of partnering with investors who share a vision of increasing opportunity in underserved markets, the community development finance sector has successfully created investment products suited to investors with appetites across the risk-return spectrum. The November 9 discussion will focus on how public, private and philanthropic investors can co-invest in these structures to most effectively support California’s economic recovery. As background, this document briefly summarizes the important niche filled by CDFIs and similar organizations, the investors and investment structures that support their work and the opportunities and challenges for expanding the use of these structures in the State.

## The Niche of Community Development Finance

Community development finance is a growing segment of the financial services sector that meets the demand for safe and sound capital, credit and financial services in underserved LMI communities and populations. Comprised primarily of entities certified by the U.S. Department of Treasury's Community Development Financial Institutions Fund (CDFI Fund), the sector's for-profit, nonprofit and cooperative organizations serve a primary mission of community development.

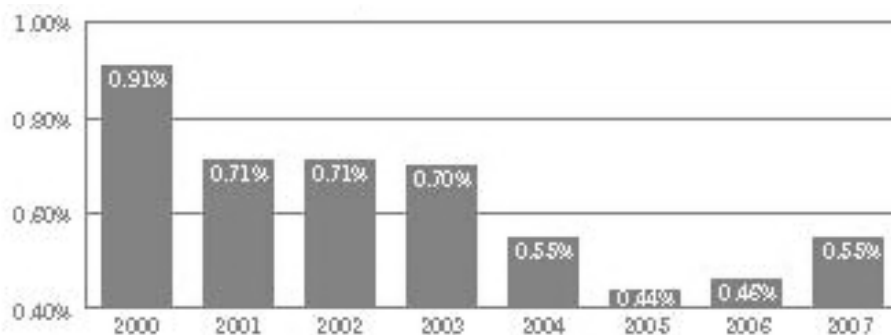
**Community Development Financial Institutions (CDFIs)** are financing entities certified by the U.S. Department of Treasury as operating with a primary mission of community development in distressed markets or to serve underserved populations. CDFIs include both regulated banks and credit unions and unregulated loan and venture capital funds. This backgrounder uses the term CDFI to refer to entities that are certified as such by the CDFI Fund, as well as other mission-oriented institutions dedicated to financing that benefits low-income and low-wealth people and communities. We refer to all financiers of CDFIs and similar organizations as investors. This includes CRA-motivated banks and thrifts, socially-motivated investors from philanthropy, faith-based groups, insurance companies, pension funds and other corporations, and state housing finance agencies and other government agencies.

CDFI activity is well tracked and presents a window on the financial and social performance of the community development finance sector. The CDFI Fund reports that there were 798 certified CDFIs as of September 30, 2009.<sup>iii</sup> With an estimated \$29 billion in assets under management,<sup>iv</sup> they include regulated banks, thrifts and related holding companies (71), regulated credit unions (156), and unregulated loan (508) and venture capital funds (24).

As an indication of the social impact delivered by the sector, 508 CDFIs tracked by the CDFI Data Project invested \$5.3 billion in fiscal year 2007 to create economic opportunity in the form of new jobs, affordable housing units, community services, and financial services for LMI and low-wealth communities. These investments created or maintained 34,276 jobs; financed the construction or renovation of 57,274 units of affordable housing; financed the construction or renovation of 687 community facilities in economically disadvantaged communities; provided 15,546 responsible mortgages to first-time and other homebuyers; provided 14,480 alternatives to payday loans; and helped 7,706 low-income individuals open their first bank account.<sup>v</sup>

Despite limited capitalization, community development finance has emerged as a professionally managed sector that effectively serves large groups of customers who are underserved by conventional institutions. This includes both individual and organizational customers whose small transaction size, market focus, organizational structure or stage may fall outside conventional strategy. CDFI financing activities are grounded in a rigorous approach that includes market analysis, transaction due diligence that documents borrower repayment capacity, loan structuring that leverages available subsidies to credit enhance transactions and intensive portfolio monitoring. CDFIs originate billions in annual financings that serve customers in LMI and low-wealth communities with minimal loan losses. For the years 2000 – 2006, the CDFI Data Project reports net loan losses of less than 1.0% per year (see Figure 1).

**Figure 1 - CDFI Net Loan Loss Rates, 2000 – 2007**



Source: CDFI Data Project 2007, [http://opportunityfinance.net/store/downloads/cdp\\_fy2007.pdf](http://opportunityfinance.net/store/downloads/cdp_fy2007.pdf)

Notwithstanding CDFIs' activities, the borrowers and communities that CDFIs serve have not been immune to the epidemic foreclosures and loss of property value, jobs and income that have plagued the broad economy since 2007. Indeed, many of the predatory sub-prime mortgages that precipitated the crisis were targeted at LMI and minority borrowers, producing a disproportionate toll on their communities. These hardships at the community level have been compounded by state financial crises that have delayed or decreased government revenues that sustain safety net and other nonprofit organizations serving LMI communities at the time when their services are needed most. Finally, broad declines in corporate profitability and tightened credit criteria have thinned the previously robust market of investors for tax credit projects, stalling needed affordable housing and other development and reducing fee income to mission-driven developers who, together with community nonprofit organizations, frequently borrow from CDFIs. All of these factors have impacted CDFI loan portfolios, which began to show signs of weakening in 2007.

In response, CDFIs, their trade associations and their primary investors have rallied to identify and proactively manage heightened risks. As described in the San Francisco Federal Reserve Bank's May 2009 Working Paper, *The Economic Crisis and Community Development Finance: An Industry Assessment*,<sup>vi</sup> CDFIs and other development financing entities have stepped up loan monitoring, problem asset identification, workouts, charge-offs and loan loss reserves, while also stress testing organizational budgets and cutting expenses to reinforce sustainability.

Many committed CDFI investors are operating under revised and evolving corporate and risk management regimes, causing uncertainty regarding the amount and terms of capital they can maintain or extend in the sector.<sup>vii</sup> At the same time, some CDFI investors, including major bank and foundation lenders who themselves have experienced destabilization,<sup>viii</sup> are taking a lead in responding to the deteriorated conditions with flexibility. Some of the largest CDFI investors have extended or are planning forbearance on interest and principal for a period of time as they more closely evaluate the challenges that individual CDFIs in their portfolios may be facing. The CDFI Fund, the sector's primary grant funder and tax credit provider, has responded with increased support under ARRA ("the stimulus"). Treasury has made Troubled Asset Relief Program (TARP) funds available to a limited number of CDFI banks, has announced a further program for CDFI banks and credit unions and has stated that it is working on a program for CDFI loan funds.<sup>ix</sup>

Absent further significant contractions in the broad economy, these proactive measures appear to have had a stabilizing effect. While more than half of CDFI respondents to the Second Quarter 2009 Conditions Report by the sector's largest trade association, Opportunity Finance Network, indicate that they remain capital constrained and expect continued operating and liquidity challenges due to insufficient capital, fewer operating grants, increasing loan loss

reserve ratios, and higher cost of capital, they also report lower charge-offs than at year-end 2008 (1.1% at June 30, 2009 versus 1.7% at December 31, 2008) and a slowing in the pace of increased delinquencies. Half of respondents (51%) reported that Second Quarter originations had increased, up from one-third in each of the prior two quarters, and they generally expect the demand for financing to continue to increase.<sup>x</sup>

*Community Development Finance in California.* A number of the nation's oldest, largest and most effective CDFIs are headquartered in California, as are some of the largest and most innovative institutional investors in community development.<sup>xi</sup> Example CDFIs include San Francisco-based Low Income Investment Fund (LIIF) and Sacramento-based Rural Community Assistance Corporation (RCAC), each of which bring some 30 years of successful affordable housing and facilities lending focused in urban and rural communities, respectively. Among CDFI equity funds, San Francisco-based Pacific Community Ventures is on the forefront of providing equity capital to small businesses that offer employment with health benefits to LMI workers. Statewide, there are some 70 certified CDFIs, including seven banks and a dozen credit unions. Adding to these local CDFIs are leading national development finance organizations that are active in the state. This includes NCB Capital Impact, a provider of community health center, charter school and fresh food cooperative financing, and Self-Help Federal Credit Union, an operator of credit unions that provide household, small business and facilities finance.

**Foundation and faith-based investors have been critical to the growth of the CDFI industry since its inception.** Foundation **mission investments** may carry below market-rate or market-rate returns on a risk-adjusted basis. **Program-Related Investments (PRIs)** were created in 1968 by the Ford Foundation and defined for private foundations in the Tax Code of 1969 as investments for which the primary purpose is charitable, no significant purpose is the generation of income or appreciation of property and no purpose is political activity prohibited for charitable organizations generally. Qualifying PRIs carry a below market-rate expected return on a risk-adjusted basis and can be counted towards a private foundation's distribution requirement. The term **Mission-Related Investments (MRIs)** is often used to refer to foundation investments that advance mission but carry a market-rate of expected return on a risk-adjusted basis. Foundation PRIs often supply CDFI equity, while their MRIs increasingly support market-rate deposits in CDFI banks and credit unions and private equity in real estate and other sustainable development activities focused in LMI communities. **The F.B. Heron Foundation's Continuum of Mission-Related Investments** (see Figure 2) is a useful guide to the asset classes across which foundations make mission investments. As with conventional investments, the asset classes provide varying levels of risk and expected return, with guarantees being a special case in which the risk level varies from deal to deal. Further information on the Heron continuum and foundation mission investing is available in the **Resources** section at the end of this report.

These development finance leaders have capitalized their activities primarily through institutional investors headquartered or active in the state. The primary source of lending capital for CDFI loan funds, including those in California, has been large national CRA-motivated banks, which have invested hundreds of millions directly and through off-balance sheet pools (see next section).<sup>xii</sup> Insurance companies working within the San Francisco-based consortium, Impact Community Capital, have placed additional capital in CDFIs and community development projects using the Low Income Housing Tax Credit, New Markets Tax Credit and the State's tax credit for insurance industry investors in community development operated by California Organized Investment Network (COIN).<sup>xiii</sup> The California Public Employees' Retirement System (CalPERS) and California State Teachers Retirement System (CalSTRS) have placed several billion dollars in funds designed to generate economic benefits in underserved markets, including with the CDFI, Pacific Community Ventures.<sup>xiv</sup> Finally, California leads the nation in the number of foundation mission investments reported in the state—over \$97 million in some 168 investments that advance charitable purpose such as local community development while earning some financial return.<sup>xv</sup>

These community development finance and investment resources are critically needed if California is to have a bottom-up as well as a top-down recovery. While important indicators for the nation's economy may be starting to improve, California continues to face unprecedented challenges, which are intensified in its LMI and minority communities. Compounding the State's budget crisis, as of September 30, 2009 California ranked third in national foreclosure rates (one for every 53 households),<sup>xvi</sup> fourth in unemployment (12.2%,<sup>xvii</sup> with rates in excess of 15.0% in many of the state's counties and among African Americans and Hispanics)<sup>xviii,xix</sup> and third in bank failures (18).<sup>xx</sup> Such conditions underscore the need for expanded service by CDFIs to meet heightened credit, capital and financial services demand among fundamentally creditworthy but seriously challenged households and organizations. CDFIs need continued and significant additional investment capital and other support to be able to meet the need.

## **Community Development Investors and Investment Structures**

CDFIs and similar organizations have achieved a scale of financing and community development impact exceeding what their aggregate assets of less than \$30 billion might predict.<sup>xxi</sup> This is largely due to their collaboration with institutional investors to create on- and off-balance sheet investment and secondary market structures that meet a range of risk tolerance and risk-adjusted return expectations, attracting significant additional capital to total assets under management.

As summarized in Figure 2, the resulting investment opportunities represent asset classes that can fit a charitable or market-driven investor's asset allocation—and everything in between. Significantly, these structures allow for investors to invest in both the debt and equity portions of a CDFI's balance sheet (i.e., capital structure). Equity capital or net worth is the critical resource that enables CDFIs to raise the much larger volumes of investor debt that they re-lend to community borrowers. While for-profit CDFIs such as banks can raise needed equity by issuing common or preferred stock,<sup>xxii</sup> the far larger number of nonprofit CDFIs (including credit unions, which are nonprofit financial cooperatives), must raise equity through grants and equity-like funds, such as subordinated debt. Equity requirements are set by the regulators for banks and credit unions. They are set by investors—but just as strong and often stronger—for unregulated CDFIs.

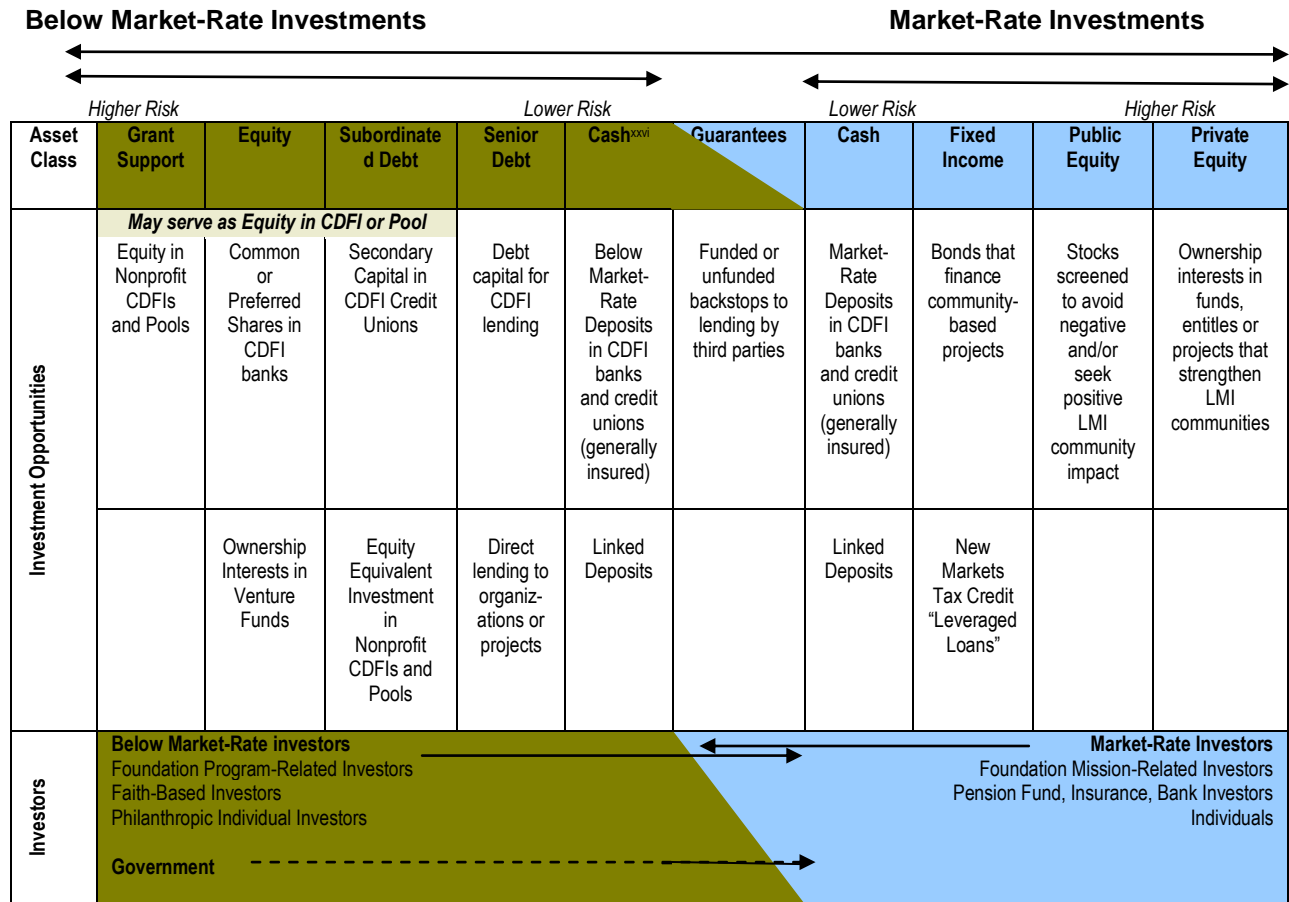
As depicted in Figure 3, CDFIs serve a particularly valuable function in aggregating equity and equity-like investment in the form of grants (subsidy), tax credits and subordinated debt from government, faith-based and foundation investors. CDFI banks and credit unions leverage such equity with deposits to make direct loans. Loan funds leverage equity and equity-like investment with large amounts of near-market rate and market-rate senior debt from banks, pension funds, insurance companies and other socially-motivated institutional investors, building bridges to the capital markets and creating transactions of a size that are feasible for large institutional investors. New investment in both equity and debt are needed to equip CDFIs to expand this bridging function and access the broad capital markets, if an adequately scaled response to the challenges facing LMI communities is to be achieved, both in California and nationwide.<sup>xxiii</sup>

*Community Development Investing Across Asset Classes.* Investors can readily make community development investments in the basic asset classes of cash, debt and equity.

*Cash.* Placing insured deposits in regulated CDFI banks and credit unions fuels direct lending by these institutions and represents perhaps the most straightforward and low-risk investment option for investors seeking to support community development. As noted, there are seven FDIC-insured CDFI banks and approximately a dozen NCUA-insured CDFI credit unions

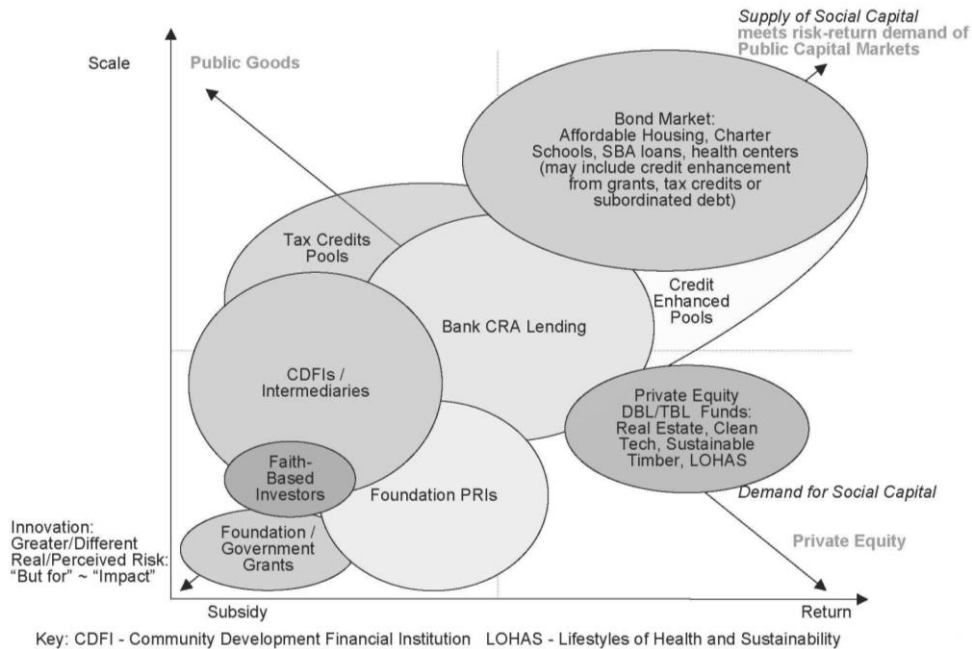
throughout California.<sup>xxiv</sup> CDFI banks generally finance a range of well-underwritten and appropriately structured loans for local borrowers, including mortgage, home improvement, energy retrofit and consumer loans for households; commercial real estate, equipment and working capital loans for small businesses; and facilities loans for nonprofit profit organizations and faith-based groups. Credit unions typically provide consumer and some residential loans, and some provide microloans to their members who are self-employed. Most banks and credit unions offer a range of asset building financial services including savings accounts. Credit unions typically provide particularly strong financial education for their members.<sup>xxv</sup>

**Figure 2 - Community Development Investment Opportunities by Asset Class and Investors**



*Source of Mission-Related Investment Continuum Framework: The F.B. Heron Foundation*

**Figure 3 - Community Development Investment Opportunities by Scale, Return and Investors**



Source: GPS Capital Partners, LLC

*Debt Structures.* CDFI loan funds may finance borrowers directly (originating loans that they hold on their balance sheets) or indirectly (through off balance sheet pools). Under either structure, investors require that CDFIs attract and/or maintain equity or equity-like funds to serve as a cushion against possible credit and other losses. Investors can participate in a number of ways:

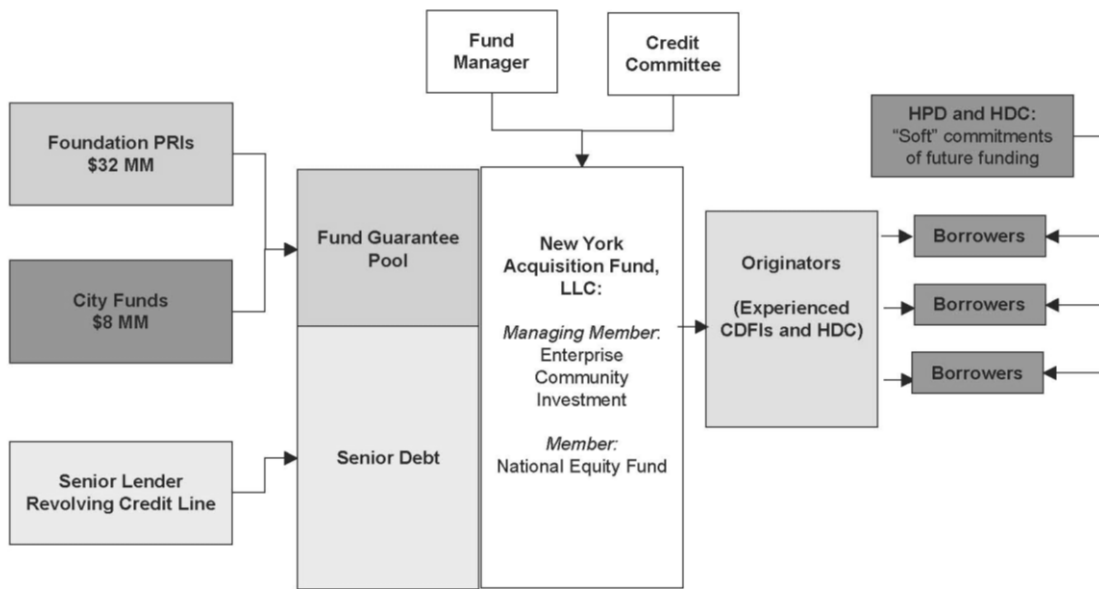
- Loan Fund Direct Lending.* Loan funds constitute the most numerous category of CDFIs and specialized community development lenders. As direct lenders that evolved originally to finance affordable housing, loan funds typically provide early stage, “predevelopment” financing to real estate projects, including affordable housing, nonprofit facilities and in some cases, commercial real estate. They may also directly finance real estate construction and “mini-permanent” (five to seven year) mortgages. Business-focused loan funds finance a range of small business credit needs including real estate, equipment and working capital. Most loan funds are structured as nonprofit organizations, and, as such, cannot issue stock. Consequently, they raise equity through grants and subordinated debt, which is sometimes structured as “Equity Equivalent” investment with rolling maturity and flexible payment terms. Loan funds leverage this equity at a rate of approximately 5:1 with debt from CRA-motivated banks, foundations, faith-based and other socially-motivated investors, who typically accept below-market or near-market rates of interest for long-term, fixed rate debt.

*Loan Fund Sponsored Off Balance Sheet Pools.* As loan funds mature and require greater levels of capitalization to both expand lending activities and continue to finance their larger borrowers, they increasingly raise capital through off balance sheet (OBS) pools. Under these structures, loan funds underwrite deals for the pool using delegated underwriting criteria set by one or more pool investors. Pool financings typically carry partial recourse to the loan fund, providing the “skin in the game” for risk sharing that was absent from many of the failed structured financings of the current global credit crisis. The pools typically include additional credit enhancement or equity, which may

come from government or foundation grants, tax credits or subordinated debt. Senior debt to capitalize pool financing typically comes from market-rate investors such as banks and insurance companies. Using such a structure, The New York City Acquisition Fund attracted \$8 million in a City 0% interest rate loan that serves as a first loss fund and \$32 million in below-market rate foundation program-related investment (PRI) as a second loss fund to leverage over \$200 million in senior debt authority from conventional lenders (see Figure 4).

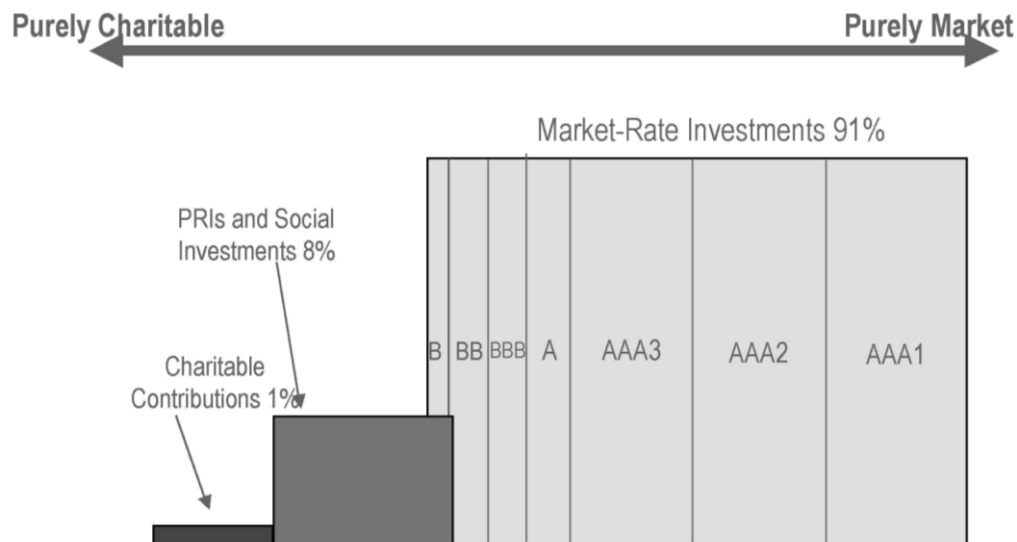
*Loan Fund Sponsored Bond Conduits.* A further variation of the off balance sheet fund structure includes bond conduits, in which a loan fund combines existing affordable housing, small business, facilities or other loans with one or more layers of credit enhancement in order to produce a bond—ideally a rated security—that can be sold in the commercial capital markets. Community Reinvestment Fund pioneered this structure with its rated securitizations of community development loans (see Figure 5). More recently, the Charter Schools Financing Partnership is seeking to use such a structure to create a secondary market for performing charter school loans originated by CDFIs.

**Figure 4 – New York Acquisition Fund**



Source: Forsyth Street Advisors

**Figure 5 – Community Reinvestment Fund Series 19 Rated Securities Collateral**



Source: Frank Altman, *Community Reinvestment Fund, Wall Street Without Walls Workshop on Mission-Driven Investments*, September 18, 2009

**Equity Structures.** While equity as an asset class generally carries greater risk than debt, it also offers the potential for greater risk-adjusted returns in market-rate or so-called double or triple bottom line investments (DBL, TBL). There is an increasing range of equity investment opportunities that are designed to strengthen low-income communities. As with any investment opportunity, and given the specialized skill set required to successfully manage community development in underserved markets, these require rigorous due diligence to evaluate both financial and social expected returns:

- **Venture Capital and Private Equity.** Community development venture capital and other private equity funds typically raise equity through for-profit limited partnerships or limited liability corporations that issue ownership interests. The funds then invest equity or various debt structures including debt-with-equity-features<sup>xxvii</sup> in small businesses with growth and local job creating potential, as well as expected ability to repay the investment with capital appreciation through sale of the company, an initial public offering or some other take-out financing.

In addition to venture capital funds targeting small businesses with job creation potential in LMI communities, equity investment opportunities have expanded to include real estate private equity funds focused on foreclosure prevention (in essential partnerships with community based organizations), worker housing in high-priced markets, transit-oriented development, and commercial development featuring fresh food markets, as well as sustainable commodity private equity such as for timber and fisheries. Buyout funds are also available that focus on retaining community and/or minority- or woman-ownership of local businesses.

- **Equity Investment in CDFI Banks.** As for-profit corporations, banks (or bank holding companies) raise equity capital by issuing common or preferred stock (or, on occasion, subordinated debt). Banks historically have leveraged their equity capital at a rate of approximately 10:1 with deposits, some 80% or more of which are typically lent to community borrowers. Most CDFI banks are privately held, with equity shares thinly traded. While the social return for an equity investment in a CDFI bank is generally

extremely high, the financial return may be modest due in part to limited liquidity of the stock. These characteristics, however, can be a good fit for a foundation PRI or other social investor. As noted above, since most nonbank CDFIs are nonprofit organizations, they use grants and subordinated debt to serve as equity, and do not issue stock. As with CDFI bank equity investments, equity-like investments in nonprofit CDFIs can offer particularly strong social returns.

*Other Structures.* In order to carefully target outcomes, investors on occasion prefer direct investment strategies, including direct loans or investments in real estate, projects or organizations.<sup>xxviii</sup> These transactions, separately or in a strategic framework, can create significant benefits for LMI communities. In addition, an investor may choose to place direct co-investments into organizations or projects that it also supports through CDFI or other fund investments.

## **Expanding on Success in California**

Positioning California's LMI and low-wealth communities for success in the recovery calls for a well-planned and focused effort on expanding and replicating proven community development finance models to reach the range of individuals, households, small businesses and organizations in need of appropriately structured and priced credit, capital and financial services. CDFIs and similar providers are uniquely suited for this role for two reasons. With decades of experience serving steadily increasing numbers of customers of limited means in distressed communities, they bring proven skills and commitment to the job. In addition, CDFIs combine training and technical assistance with the delivery of financial products. As California's residents and organizations re-assess their financial position and plan for the future, guidance and support from professionally managed financial organizations who share their interests in building long-term security is critical. CDFIs are such institutions.

In order to fulfill its potential to support and accelerate California's recovery, the State's community development finance sector requires continued and significantly increased public, private and philanthropic investment. In addition to the equity and debt investments discussed above, the sector needs grant funding for market research and planning of expansion efforts and collaborations. The expected influx of \$85 billion of federal ARRA dollars provides an unusual opportunity for all sectors to jointly examine how these funds can best be leveraged. Again, CDFIs are in a good position to structure and help finance the leverage. In many cases, ARRA funds provide support for small businesses with job creation potential, a key borrower segment for the range of CDFIs. In other cases, ARRA funds contribute to revenue for the State's health centers and other safety net organizations, which can be leveraged through cash flow lending by CDFIs. In still other cases, ARRA provides tax credits (or backstops for tax credit programs that may be experiencing depressed demand due to market conditions). These can be used to structure a range of nonprofit facilities and affordable housing developments.

By convening a range of public, private and philanthropic investors to consider these and other investment opportunities related to California's recovery, the San Francisco Federal Reserve Bank aims to begin an ongoing dialogue and investor collaboration that supplies the range of additional capital and partnership that California's community development finance sector needs to build upon proven models and generate long-term benefits for the LMI and low-wealth communities it serves. The effort is needed as part of California's broader recovery, and planned in the hope and expectation that learnings may be replicable in other regions.

*Lisa Richter is principal and co-founder of GPS Capital Partners, LLC, a consultancy that assists foundations and institutional investors in the design and execution of investment strategy that enhances mission and public purpose goals. Her work spans asset classes and issue areas, incorporating place-based and investment focus geared to increasing equitable access to opportunities, such as community development, education and health.*

## Resources

Readers seeking additional background on community development finance, CDFIs, foundation mission investing and economic recovery initiatives may wish to review the following materials and websites:

### Community Development Financial Institutions and Community Development Finance

San Francisco Federal Reserve Bank, *The Economic Crisis and Community Development Finance: An Industry Assessment*, 2009 - 05 (May 2009). Includes articles by Mark Pinsky, Opportunity Finance Network, Nancy Andrews, Low Income Investment Fund, Paul Weech, Innovative Housing Strategies, LLC with Ellen Seidman, New America Foundation and Shore Bank and Rick Cohen, Nonprofit Quarterly.  
<http://www.frbsf.org/publications/community/wpapers/index.html>

CDFI Data Project, 2007. Describes CDFI sector, including organizational types and financial and social performance.  
[http://opportunityfinance.net/store/downloads/cdp\\_fy2007.pdf](http://opportunityfinance.net/store/downloads/cdp_fy2007.pdf)

CDFI Market Condition Reports  
<http://www.opportunityfinance.net/store/product.asp?PID=166>

CDFI Trade Associations and Groups  
<http://www.cdcu.coop>  
<http://www.cdbanks.org>  
<http://www.cdvca.org>  
<http://www.ncif.org>  
<http://www.opportunityfinance.net/>

### Community and Foundation Mission Investing

<http://www.fbheron.org/programs/investing.html>  
[www.moreformission.org](http://www.moreformission.org)  
[www.primakers.net](http://www.primakers.net)  
[www.communityinvest.org](http://www.communityinvest.org)  
<http://www.moreformission.org/readings/item/102/october-2009-community-investing-opportunities-across-asset-classes-evaluation-associates>  
[http://www.moreformission.org/assets/files/Equity\\_Advancing\\_Equity\\_092809.pdf](http://www.moreformission.org/assets/files/Equity_Advancing_Equity_092809.pdf)

### American Recovery and Reinvestment Act (Stimulus) and Troubled Asset Relief Program (Bailout)

[www.recovery.gov](http://www.recovery.gov)  
<http://www.recovery.ca.gov/>  
[www.financialstability.gov](http://www.financialstability.gov)

## Endnotes

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<sup>i</sup> <http://frbsf.org/publications/community/wpapers/2009/wp2009-05.pdf>.

<sup>ii</sup> CDFIs are financing entities certified by the US Department of Treasury as operating with a primary mission of community development in distressed markets or to serve underserved populations. CDFIs include both regulated banks and credit unions and unregulated loan and venture capital funds. As in the San Francisco Federal Reserve Bank's May 2009 Working Paper, *The Economic Crisis and Community Development Finance: An Industry Assessment*, we use the term CDFI to refer to entities that are certified as such by the Federal CDFI Fund, as well as other mission-oriented institutions dedicated to financing that benefits low-income and low-wealth people and communities. In contrast to the Working Paper, we refer to all financiers of CDFIs and similar organizations as investors. This includes CRA-motivated banks and thrifts, faith-based investors, socially motivated investors from philanthropy, insurance companies, pension funds and other corporations, and state housing finance agencies and other government agencies. In this way, we highlight the supply and demand of capital in the community development finance sector.

<sup>iii</sup> [www.cdfifund.gov](http://www.cdfifund.gov).

<sup>iv</sup> *ibid.*, <http://frbsf.org/publications/community/wpapers/2009/wp2009-05.pdf>.

<sup>v</sup> [http://opportunityfinance.net/store/downloads/cdp\\_fy2007.pdf](http://opportunityfinance.net/store/downloads/cdp_fy2007.pdf).

<sup>vi</sup> *ibid.*, <sup>vi</sup> <http://frbsf.org/publications/community/wpapers/2009/wp2009-05.pdf>. See articles by Ellen Seidman, Mark Pinsky and Nancy Andrews.

<sup>vii</sup> *ibid.*, <http://frbsf.org/publications/community/wpapers/2009/wp2009-05.pdf>. See articles by Paul Weech and Rick Cohen.

<sup>viii</sup> The Council on Foundations reported that three out of four foundations saw their assets decline by 25 percent or more in 2008 and a number of the development finance sector's most significant bank investors were merged out of existence. *ibid.*, Weech, <http://frbsf.org/publications/community/wpapers/2009/wp2009-05.pdf>.

<sup>ix</sup> See October 29, 2009 keynote address by CDFI Fund Director, Donna Gambrell, at the Opportunity Finance Network Annual Conference, <http://www.cdfifund.gov/speeches/Gambrell-2009-08-OFN-Conference-Keynote-Speech.asp>.

<sup>x</sup> *ibid.*, [www.opportunityfinance.net](http://www.opportunityfinance.net).

<sup>xi</sup> The breadth of CDFI activities within California is suggested by the CDFI Fund's 15-year cumulative report of 242 awards within the state totaling \$1.8 billion across all programs. <http://www.cdfifund.gov/awardees/db/index.asp>.

<sup>xii</sup> *ibid.*, [http://opportunityfinance.net/store/downloads/cdp\\_fy2007.pdf](http://opportunityfinance.net/store/downloads/cdp_fy2007.pdf).

<sup>xiii</sup> <http://www.insurance.ca.gov/0250-insurers/0700-coin/>.

<sup>xiv</sup> CalPERS Alternative Investment Management (AIM) Program had committed over \$3.4 billion to private equity firms that are majority-owned by women or minorities as of June 30, 2008. The investment thesis is that targeting less efficient markets represented by emerging managers carries the potential for superior returns due to higher rates of proprietary deal flow, fewer auctions, smaller fund focus on maximizing profit versus increasing assets under management and diversification. Private Equity and Capital Workshop, February 10, 2009.

<sup>xv</sup> [www.primakers.net](http://www.primakers.net). The PRI Makers Network is a membership organization of foundations that make program-related investments or are planning to do so. Other states reporting high mission investing volume include Illinois, with \$48 million in 42 reported investments, and Ohio, with \$34 million in 50 reported investments.

<sup>xvi</sup> [www.realtytrac.com](http://www.realtytrac.com).

<sup>xvii</sup> <http://www.bls.gov/web/lauhsthl.htm>.

<sup>xviii</sup> Sacramento Bee interactive map, [http://www.sacbee.com/1232/rich\\_media/1698037.html](http://www.sacbee.com/1232/rich_media/1698037.html).

<sup>xix</sup> Economic Policy Institute data as of June 30, 2009. <http://www.epi.org/>.

<sup>xx</sup> [www.fdic.gov](http://www.fdic.gov).

<sup>xxi</sup> *ibid.*, [http://opportunityfinance.net/store/downloads/cdp\\_fy2007.pdf](http://opportunityfinance.net/store/downloads/cdp_fy2007.pdf). The CDFIs tracked in the 2007 CDFI Data Project managed \$25.5 billion in assets at the end of fiscal year 2007, a modest amount when benchmarked to the more than \$13.0 trillion in assets controlled by FDIC-insured institutions at that time.

<sup>xxii</sup> In the case of depositories, banks and credit unions fund loans primarily with deposits. These, however, are a form of debt or liability to the depositories, which they must repay to depositors, typically with interest.

<sup>xxiii</sup> Prior to the economic crisis, community development bond issuances had begun to attract significantly greater amounts of capital with the success of charter school issues and the securitizations sponsored by Community Reinvestment Fund. Severe disruption in the bond market during the credit crisis notwithstanding, some specialists report preliminary signs of pricing and functioning that could once again support this activity.

<sup>xxiv</sup> A number of these credit unions are small institutions, some of which may be considering mergers. There are approximately ten additional Low Income Credit Unions in California; this is a designation of the National Credit Union Administration indicating that a majority of credit union members are low-income. The NCUA grants Low Income Credit Unions additional flexibility in raising non-member deposits and Secondary Capital, a form of subordinated debt that the regulator treats as equity.

<sup>xxv</sup> CDFI banks have access to the Certificate of Deposit Account Registry Service (CDARS<sup>TM</sup>), which can extend FDIC insurance to \$50 million per depositor. Despite this availability of extended FDIC insurance, institutional investors typically conduct due diligence to select depositories with a strong track record of financial and community development performance.

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<sup>xxvi</sup> Linked deposits are deposits placed in any insured depository with an agreement that the depository will provide a certain type of loans or financial services. Linked deposits can be structured to earn either below market or market rates of interest. Linked deposits can also be used as cash collateral to guarantee loans.

<sup>xxvii</sup> *ibid.*, [http://opportunityfinance.net/store/downloads/cdp\\_fy2007.pdf](http://opportunityfinance.net/store/downloads/cdp_fy2007.pdf). Debt-with-equity features includes convertible debt, as well as debt with warrants, participation agreements, royalties, or any other feature that links the investment's rate of return to the performance of the company that received the investment.

<sup>xxviii</sup> An example of a direct investor is Hartford, Connecticut-based Melville Charitable Trust, which has acquired and developed both residential and commercial properties in order to fulfill its mission to prevent homelessness. Working with community-based partners, the Foundation provides shelter in residential properties and operates a restaurant with a job training program in the commercial property.