

Where's the Capital?

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Current Issues in CDFI Capitalization

- Continued effectiveness of the business model for generating retained earnings
 - Varies by asset class, line of business; small business lending may be most at risk
 - Varies by segment of the industry
- Reduced availability of project or loan subsidy to leverage to generate earnings
- Ability to raise capital from external sources
 - Equity and equity-like capital most difficult
 - Well-priced and termed debt capital also becoming harder to get from traditional sources

Business Model Issues

- Traditional model of spread covering operating costs is under stress
 - Increased cost of capital
 - Exacerbated by highly targeted funding sources
 - Increased costs of doing business
 - Vertical integration issues
 - Scale issues, for individual loans and at entity level
 - Paying staff a living wage and treating them as professionals
 - Demands for loan loss reserves in excess of amounts required to meet historic losses
 - In some sectors, loan demand high, but not clear quality is what CDFIs, with renewed sense of financial risk, want to finance
- Holistic impact questions being asked: is traditional CDFI focus on housing, small business and facilities sufficient? What about health?
- Limited funds for research, impact analysis, policy and advocacy, all of which are important for future revenues

Subsidy Issues

- Stress on government budgets at all levels; foundations still recovering from stock market crash
- Some willingness to be creative, but focus on jobs and small business squeezes programs into boxes that don't always fit with both business models and community needs
- Foundations less willing to take most subordinated risk layer
- Heightened interest in demonstration of impact

Capital Issues

- CRA less impetus to providing capital than previously
 - Stress in banking industry; tighter underwriting, less willingness to price below hurdle rate, less interest in tax credits
 - Consolidation means fewer institutions, less local knowledge and ability to tailor
 - Outdated regulations put focus on a limited number of geographies
- Capital markets are pretty much closed to small institutions, including CDFI banks
- Securitization of CDFI debt, either direct or asset-backed completely stopped
 - Opportunity in CDFI bond program with Treasury guarantee
- Opportunities with social impact investors
 - How big are these
 - How to tap
 - How to demonstrate impact
