

12 Steps to Form a Multi-Bank CDC

Often one person champions the idea of creating a bank CDC, convincing others in a given locale of its virtues and possibilities. That person gathers a core group of individuals who develop a shared vision and ultimately organize the CDC. To achieve success, they usually go through each of the following twelve steps, though not necessarily in the sequence presented. It may be necessary to pursue a number of the steps simultaneously.

1. Identify and Prioritize Local Needs -- What needs will the CDC address?

Consider:

- New housing development
- Housing rehabilitation
- Commercial revitalization
- Industrial development
- Small business assistance
- Minority-owned business assistance
- Neighborhood marketing
- Nonprofit development organizations
- Revolving Loan Funds, Micro Loan Programs, SBA 504 CDCs already available

2. Identify Possible Investors and Other Resources

Consider:

- Commercial banks
- Savings institutions
- Local and state government
- Utilities
- Insurance companies
- Hospitals
- Foundations
- Large employers
- Chambers of commerce
- Real estate industry
- Nonprofit organizations
- Small Business Development Center
- Community Colleges
- Universities

3. Develop an Investment Strategy for the CDC

Consider:

- Rates of return investors in the CDC would like to achieve
- Levels and types of risks that are necessary to finance projects
- Levels and types of risks that will be acceptable to CDC investors
- Size of investments the CDC will make
- Requirements for co-investors in deals the CDC will invest in
- Types of equity and near-equity structures the CDC will consider

4. Identify Potential Benefits to Investors in the CDC

Direct:

- Financial returns on investments in the CDC
- New loans that investor banks will be able to originate
- New deposits resulting from increased economic activity in the area
- Other revenues

Indirect:

- Market development
- Favorable publicity
- Favorable CRA evaluations

5. Discuss Obstacles and Challenges to Success

- Equity and near-equity investment decisions differ from loan decisions
- Organizing a Bank CDC may require between 1 and 3 years after initial discussions of the concept
- All investors in a CDC must communicate, work together, trust each other, contribute
- Management of a CDC must communicate well with all investors

6. Choose Likely Organizational Structure and Purpose

Consider:

- For-Profit CDC vs. Nonprofit CDC
- One-Bank CDC vs. Multi-Bank CDC vs. Multi-Investor CDC
- Local vs. Regional vs. Statewide vs. Multi-State CDC
- Voting and control questions – do voting rights correspond to funds invested or does each investor get one vote? Some CDCs set minimum and maximum allowable investments so that ownership of the CDC is evenly split. Some CDCs elect boards by votes that correspond to funds invested, but once elected, each board member has only one vote.
- Targeted CDC purpose (e.g., affordable housing only) vs. wider purpose
- Immediate needs in the area vs. changes likely to occur in the market area – is demand sufficient to support the CDC?
- Volunteer staff vs. paid staff
- Full-time staff vs. part-time staff
- Some CDCs hire a consultant to help structure loans and to perform administrative tasks such as maintaining documentation, organizing meetings, bookkeeping, etc. Others use the staff of a local economic development agency or chamber of commerce to perform these functions.
- Funding Mechanics – Many CDCs are "funded" with commitments from investors to purchase a certain number of shares of stock in the CDC. As the CDC closes its loans, it gradually draws on those commitments. By the time all the commitments are drawn, the CDC's capital should be revolving. This method eliminates the need for the CDC to manage idle capital, and it keeps investors' funds under their own control until they are needed.

7. Obtain Commitments from Investors

- Contact relevant bank regulatory agencies -- federal and state
- Write pre-organization subscription agreement
- Meet with prospective investors

8. Finalize Organizational Issues

- Prepare by-laws
- File articles of incorporation
- Issue shares of stock
- Elect board of directors
- Establish committees: lending, financial, marketing, executive

9. Write Operating Policies and Procedures:

- Lending
- Investment
- Accounting
- Personnel
- Conflict of interest

10. Write a Marketing Plan

Consider marketing the CDC to bank loan officers and others by:

- Including presentations on the CDC in regular meetings of lending staff
- Including the CDC in the orientation given to new hires at the bank
- Mentioning the CDC in written loan policies
- Sponsoring meetings of loan officers from all bank investors to acquaint them with how to use the CDC
- Making presentations to chambers of commerce and local development officials

11. Fund Projects

- Keep in mind the public welfare purposes for which the CDC was created, and stay focused on the broad outcomes you want to achieve.
- Don't be surprised if the loan committee and board struggle with questions about how much risk to accept. Discussion of these questions is common. It is important to the proper functioning of a CDC.
- Develop an organized process for reviewing loan proposals, a process that allows all points of view to be heard and that seeks ways to make loans.
- Be patient.

12. Evaluate impact

Consider tracking a variety of measures:

- Number of projects financed
- Dollars of financing the CDC has provided
- Number or quality of jobs retained or created
- Number and affordability of housing units developed
- Square feet of commercial space developed
- Community development goals met (e.g., downtown revitalization)