

Financing Hope

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At its core, community development finance is different, and more difficult, than traditional finance because social outcomes are among its essential products. Not only must development lenders structure sound loans that will be repaid, but they must often do so in the context of inadequate collateral, borrowers with limited personal equity, and in locations that are increasingly described as “emerging domestic markets.” Financial risks are high, but they can be managed. While opportunities for lasting community impacts are also high, they must be nurtured.

Over the last decade or so, the community development industry has risen to these challenges. New institutions, such as the Community Development Financial Institutions Fund, helped to create hundreds of mission-oriented financial institutions throughout the United States dedicated to strengthening communities by improving the supply of affordable housing, or more recently by investing in job-creating businesses in low-income neighborhoods.

In addition, these institutions have created sophisticated financial and risk-management tools, from high loan-to-value loan products to asset development accounts that employ leading-edge financial technologies. In fact, the Community Reinvestment Fund, USA (CRF), the organization with which I am associated, has been in the forefront of these industry trends by bringing increasingly sophisticated financial technologies such as asset securitization to the community development field. CRF and its lending partners have delivered more than \$500 million in capital to communities for small business expansion, job creation, entrepreneurship, and affordable housing. We now operate at a significant scale with the potential to bring even greater amounts of capital to communities.

This focus on financing hope—seeing a community as it can be rather than as it is—provides a major motivator for those who work in this field. Our missions are not simply to make loans that will be repaid or to run our institutions at a profit. We have an added responsibility: to see to it that those businesses in which we invest spin off benefits to the larger community. Improving neighborhoods improves lives. Creating opportunities for people moves more people into the American middle class.

The challenge of transforming capital into hope and hope into opportunity comes at an increasingly difficult time. The record federal deficit is not a friend of increased government funding for community development. Even the New Markets Tax Credit, which provides incentives to private investment into low-income communities, cannot fill the demand that exists in emerging markets. Moreover, while these tools move capital at the margins, they are not adequate to meet the wide variety of needs in many low-income communities.

CRF is helping to fill the increasing void left by shrinking subsidy dollars by applying financial technologies in partnership with local, mission-driven lending organizations to increase the amount of capital funneled into economically underserved communities. The organization helps community development lenders accomplish their missions by providing them with greater access to capital. At the same time, CRF helps institutions and social investors meet their investment goals.

By purchasing loans from community development lenders and pooling them into asset-backed debt securities sold to institutional investors through private placements, CRF provides lenders with the capital needed to make more loans and drive more dollars into disadvantaged communities. This secondary market has become an expanding resource for community development finance nationwide. Working closely with its network of more than 110 lending partners across the country, CRF brings hope to individuals, families, small business owners, and entrepreneurs—many of whom could not obtain financing from any other source. From charter schools and tortilla factories to bakeries and pharmacies, CRF and its partners help people realize the American Dream.

For example, the Greater Brunswick Charter School, which provides education to students in kindergarten through eighth grade, had moved four times during its first five years of existence. They needed a new and permanent home. In this case, CRF provided the capital (with a boost from the New Markets Tax Credit program), and New Jersey Community Capital (NJCC) financed the opportunity.

NJCC provided the Greater Brunswick Charter School a \$1.4 million loan with a low interest rate and twenty-five-year term. The loan payment is lower than the monthly rent the school was paying at its previous location. Now the school has a more modern educational facility with the capacity to add 100 more students, serving up to 250 children.

Similarly, the Bay Area Development Company stepped in to help a family-owned tortilla factory in San Jose, California, with a \$210,000 loan to fund a new warehouse property for business expansion. The expansion created five new jobs and increased business in an underserved community. The Bay Area Development Company then sold the loan to one of CRF's affiliates.

The City of Minneapolis Department of Community Planning & Economic Development (CPED) partnered with CRF to provide the owners of Shabelle Grocery Store—run by two Ethiopian immigrants—and Shega Bakery, which makes injera, a thin spongy bread that is a hallmark of Ethiopian cuisine, with the capital needed to purchase a new building. The goal was to transform a decaying property into an anchor for community revitalization.

In business for several years now, the project has been a dramatic success, serving as an inspiration to other Ethiopian and Somali immigrants in the area. In addition to housing the grocery store and bakery, the building owners have attracted an unlikely combination of tenants, including a Sierra Club chapter, a state association of pool leagues and tournaments, a construction company, and a chiropractor.

CRF also partnered with an economic development agency in Montana to give a Native American woman the capital needed to purchase a new facility for her pharmacy. The deal enabled the entrepreneur to own her place of business for the first time. It also allowed for the retention of eight jobs and the creation of at least two new jobs in the economically distressed area.

While CRF and its many partners have transformed numerous lives, businesses, and communities across the country, we see ourselves as a vital node in a growing network of development organizations. That network must continue to break new ground to continue to advance and stimulate growth within the community development industry. But breaking new ground is not sufficient. The outcome must be economic opportunities in low-income communities throughout this country. That is how we finance hope.

Frank Altman is President and CEO of CRF, which he has led since its inception in 1989. A pioneer of community development financing, Mr. Altman has advised key governmental and business leaders on using market forces to meet public needs. Mr. Altman serves on the Advisory Committee of the Center for Community Development Investments at the Federal Reserve Bank of San Francisco. Prior to founding CRF, Mr. Altman was a member of the cabinet of Minnesota Gov. Rudy Perpich. Mr. Altman holds a masters degree in public administration from the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota and an AB degree from Brown University.