Measuring Financial Return, Social Impact, and Risk

March 16, 2010

Overview

Session Objective:

Provide new insights into

1) Analyzing social impact and risk beyond CRA
2) Effectively conveying social impact to your stakeholders

Overview

The Panel:

- Janneke Ratcliffe - Associate Director, Center for Community Capital, UNC
- Paige Chapel - Director of CARS™
- Carla Dickstein – Senior Program Officer, Research & Development, Coastal Enterprises Inc.
- Trinita Logue – President & CEO, IFF

Overview

Agenda:

- Social impact beyond CRA
- CARS™ impact and risk assessments
- Triple bottom-line impact
- The importance of stories
- Emerging approaches to impact and risk measurement
- Q & A

Beyond CRA

Janneke Ratcliffe

Associate Director

Center for Community Capital

University of North Carolina

CARS™

Comprehensive Ratings for CDFI Investments.

- Comprehensive third-party ratings system of CDFI loan funds. Launched in 2004 by Opportunity Finance Network.
- Bring greater ***transparency*** and ***standardization*** to the field.
- Augments investors' due diligence.
- Rate impact performance and creditworthiness.
- 50+ CDFIs are rated with 20 more scheduled.

CARS™

Comprehensive Ratings for CDFI Investments.

- **Impact Performance Rating** measures how well a CDFI does ***what it says it's trying to do***.
- Four components:
  - Alignment of strategies
  - Effective use of resources
  - Measurement, tracking, and use of output data
  - Measurement, tracking, and use of outcome data
- Take policy change into account.

CARS™
Comprehensive Ratings for CDFI Investments.

Why CARS™ distinguishes between ***impact*** and ***impact performance***?

- CDFI strategies are crafted to address local challenges and opportunities.
- Collected data should respond to mission, which makes industry-wide standardization difficult.
- Actual impact can only be measured through a long-term, expensive evaluation process.

CARS™

Comprehensive Ratings for CDFI Investments.

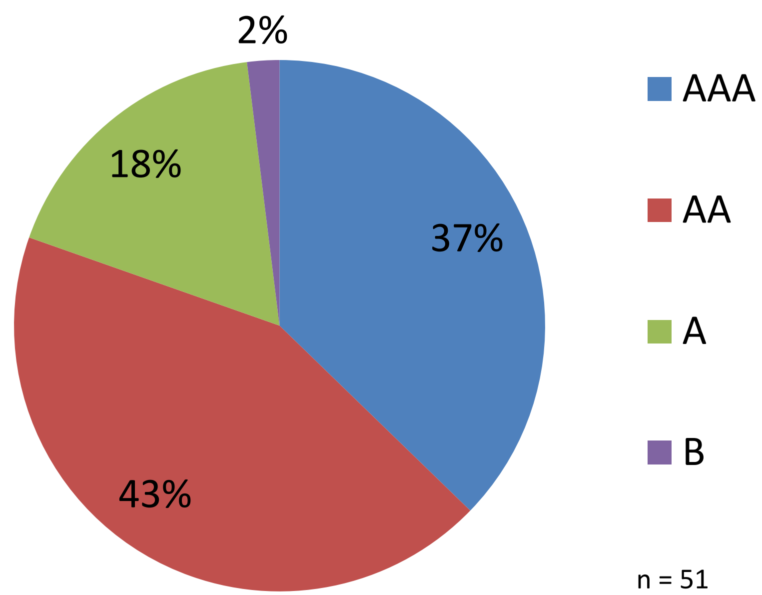
- **Financial Strength & Performance Rating** assesses ***overall creditworthiness***.
  - Based on a CAMEL analysis similar to the one regulators use for banks.
  - CARS™ does not use benchmarks.
- Focus is on how a CDFI's impact strategy translates into risk and how the CDFI protects investors from that risk.

CARS™

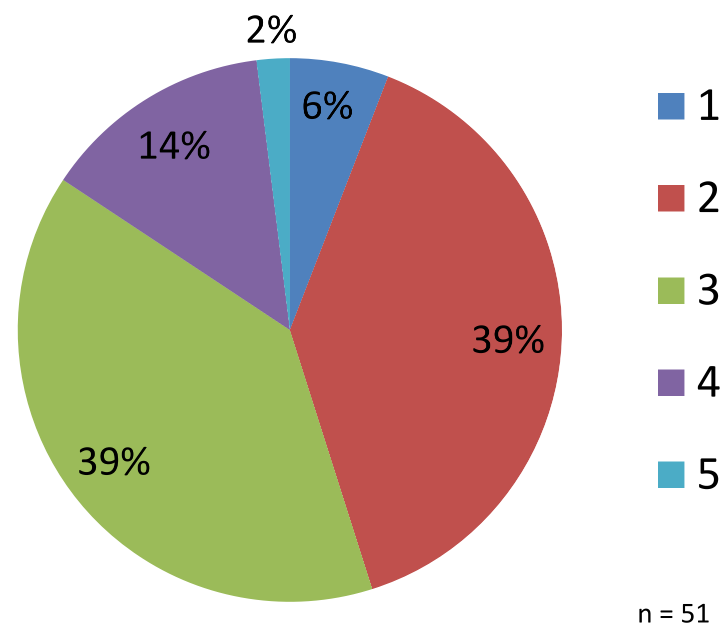
Comprehensive Ratings for CDFI Investments.

Ratings distributions at 3/10/10

Impact Performance Ratings



FSP Ratings



CARS™

Comprehensive Ratings for CDFI Investments.

No direct correlation between impact and financial strength and performance:

- 38% of all rated CDFIs received a AAA; 6% received a FSP 1.
- 70% of CDFIs that received lower Impact Performance ratings (A or B) were financially sound (FSP 2 or 3).
- 60% of CDFIs that were financially vulnerable (FSP 4 or 5) received a AA rating for Impact Performance.

CARS™

Comprehensive Ratings for CDFI Investments.

Important to look for risk mitigants to offset higher-risk but effective impact strategies:

- High deployment that strongly supports mission can squeeze liquidity. Off-balance sheet strategies can be an effective mitigant.
- Higher-risk lending to achieve mission can be offset by
  - strong borrower support programs,
  - a deeper, more flexible capital structure,
  - stronger credit and portfolio management practices.

CARS™

Comprehensive Ratings for CDFI Investments.

In general, most CDFIs with a strong commitment to measuring outcome against mission, also understand that strong financial performance leads to stronger impact.

Triple Bottom Line

A TBL approach to investment expands traditional double bottom line CRA criteria and looks for "the 3Es":

- **Economic returns**: financial returns, jobs and assets, community or regional economic growth.
- **Equity returns:** assets and jobs created for historically disadvantaged individuals, sectors, and communities.
- **Environmental returns** that increase positive and reduce negative effects on nature's macro systems.

Triple Bottom Line

WHY is TBL IMPORTANT?

It is not required for CRA. But it's of growing importance to:

- Consumers
- Businesses
- Investors
- Policy Makers

Triple Bottom Line

CDFI Experience

CEI

- Conducted studies defining what is green, how to undertake sustainable development
- Launched Green Fund to finance green industries and businesses greening their production processes and services.
- Undertook sector initiatives (farms, fisheries, forestry).
- Experimented with incentives in exchange for increased environmental benefit.

Triple Bottom Line

CDFI Experience

TBL Collaborative

- Started in 2004 with Ford Foundation support.
- 17 CDFI members around country
- Developed scorecard to document, demonstrate and assess impact of members.

Triple Bottom Line

CHALLENGES

- Environmental expertise to assess 3rd bottom line
- Finding TBL in one deal
- Additional Measurement Requirements – environmental measures differ according to sector.

OPPORTUNITIES

- New markets
- New partners
- New funding opportunities
- Greater impact

The Importance of Stories

Trinita Logue
President & CEO
IFF

Emerging Approaches

Janneke Ratcliffe

Associate Director

Center for Community Capital

University of North Carolina

Nonprofit financial and real estate resources

Where nonprofits come first

2010 National Interagency Community Reinvestment Conference

March 2010

IFF Background

- CDFI established in 1988
- Standard product is long term real estate loan to nonprofit service providers in low income communities
- Illinois, Indiana, Iowa, Missouri, Wisconsin
- Major sectors are health clinics, supportive housing, child care centers, charter schools, multi-service community centers

The Borrower

- Background
- Mission
- Goals (defining success)

The Borrower’s client

- Needs
- Environment
- Goals (defining success)

How We Tell the Story

External to the Borrower

- Community needs
- Resource opportunities
- Relationships structured to take opportunities

External to the Borrower's client

- Poverty
- Social issues/deficits
- Disability

The Story of the Balance Sheet

- Primary IFF goal:

  - Building Net Assets over time
  - We go back ten years and review audits
  - Examples of combined stories in annual report
  - Additions each quarter

www.iff.org

Nonprofit financial and real estate resources

Where nonprofits come first

Thank you