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A New Model for Community Economic Development: CEDLI Celebrates its First Anniversary

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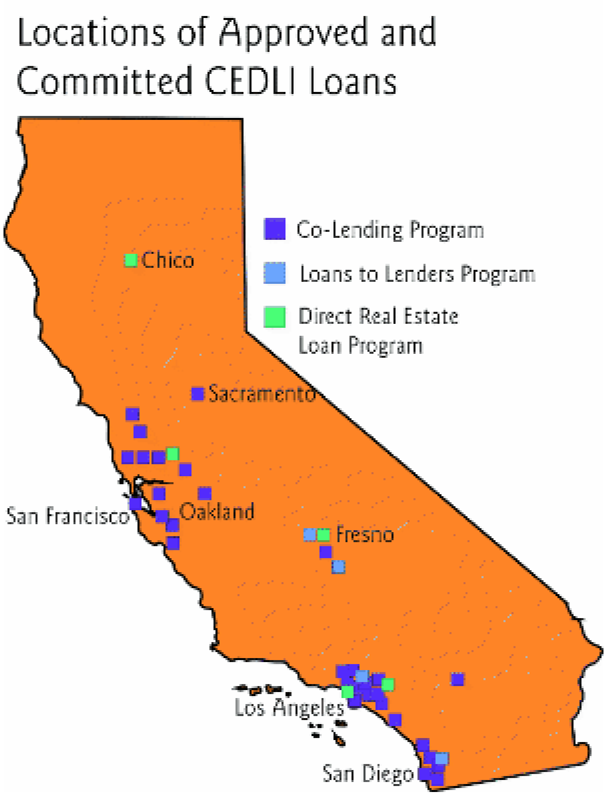
Over the next year, 273 people will find jobs and nearly 1,000 people will keep their jobs thanks to a new private-sector initiative in California. CEDLI, or the California Economic Development Lending Initiative, was launched in October, 1995, as the first program of its kind in the country. It represents a new financing vehicle designed to help financial institutions and corporations meet a broader array of community development needs more cost-effectively than possible in the past. And it now has a one-year track record.

So, what is CEDLI? Technically speaking, it is a statewide community development corporation (CDC), with $42 million in commitments from a collaboration of financial institutions and corporations, that provides financing to serve a range of community economic development needs, including small businesses, nonprofit lenders, and community real estate projects.

Perhaps the best way to characterize CEDLI, however, is through its results. During its start-up year, CEDLI has committed 40 loans totaling almost $7 million, and has leveraged an additional $9.5 million in new financing from member banks, resulting in total financings of over $16 million. At CEDLI's first-year anniversary celebration, President George Williamson remarked, "Our mission at CEDLI in its first year has been proof of concept. We are very pleased to report that all of CEDLI's loan programs have been well received and have passed the test of the marketplace. With a full pipeline, CEDLI is expected to increase its volume significantly in the upcoming year."



Examples of CEDLI's loans show the breadth of credit needs served by the program, such as:

Capital-starved small businesses

With a priority on minority and women-owned businesses as well as those located in low income communities, CEDLI finances promising small businesses that do not meet the criteria of banks or government programs. Its first loan enabled a Korean-owned clothing manufacturer to double the size of its operations and create 70 new jobs. Another loan helped a new translation services company that employs disabled people working from home to make good on a contract with a major long-distance telephone carrier.

Nonprofit and public sector lending programs

CEDLI provides much-needed financing to local community lending programs that are facing the effects of government cutbacks. It has financed economic development corporations and small business assistance centers in the Central Valley, Los Angeles, Napa Valley and various rural areas of Northern California.

Community projects

CEDLI makes real estate-based loans for community-sponsored projects that serve local needs. Examples so far include an at-risk youth employment center in Fresno, a small business incubator in Pasadena, an employment training center in Visalia and a child care center in San Diego.

CEDLI is expected to become a national model because it enables private-sector entities to serve a broad range of community needs that they could not individually serve in a centralized and efficient way. Even better, it enables banks and corporations to serve these needs while making a reasonable rate of return on their capital and concurrently achieving financial safety and soundness. These features enabled the program to garner significant private-sector participation. CEDLI kicked off its operations in October, 1995, with commitments of $38 million in a $50 million loan fund and over $4 million in equity from 37 banks and corporations. Creators and supporters of "the CEDLI concept" hope that the model will help financial institutions and community groups increase private-sector financing for community development in other parts of the country.

CEDLI's Origins

The idea for CEDLI developed from a growing need for new types of community financing vehicles to access private-sector capital. In the affordable housing arena, the financing infrastructure has become increasingly well developed nationally over the last ten years. A smaller number of programs devoted to small business lending have been created around the country in recent years. However, there exist few vehicles through which the private sector can finance a broader range of community development needs such as child care and employment centers in a safe and sound way.

The CEDLI model was created through a collaborative planning process over a three-year period from 1992 to 1995. The planning effort was sponsored and staffed by The Development Fund, a nonprofit organization that has developed a number of innovative community financing programs nationally with the guidance and support of the Federal Reserve Bank of San Francisco. The planning task force was led by Rick Hartnack, Vice Chairman of Union Bank of California.

Because CEDLI was the first program of its kind, it took more than two and a half years to design and implement. Building on the knowledge and experience gained from the creation of the CEDLI model, similar programs in other states could be developed within one year.

Key Features

CEDLI is designed to meet the needs of three diverse constituencies: the community, financial participants, and regulators. To be successful, the program must meet genuine community needs while fulfilling stringent private-sector financial standards. Key design features that help the program accomplish this include the following:

Working through partnerships

In order to meet a wide array of community needs, CEDLI works through broad-based partnerships with its member banks and with nonprofit and public sector programs. For example, under CEDLI's "Co-Lending Program," member banks bring small business borrowers to CEDLI that they are unable to finance on their own. CEDLI and the bank "co-lend" to the small business, with CEDLI taking the riskier portion of the financing. In a classic "win-win" situation, CEDLI gains a distribution channel through its member bank loan officer and the bank gains a tool for expanding its reach to small businesses. Similarly, in CEDLI's "Loans-to-Lenders Program," CEDLI partners with nonprofit and public sector lenders by providing them with a flexible source of financing to re-lend. Through this program, CEDLI's goal is to provide a centralized, efficient avenue for member banks to meet needs in localities throughout the state.

Sharing risks and costs

Like all consortia, CEDLI provides a risk- and cost-sharing vehicle to enable its participants to meet a broader spectrum of needs than any one entity could undertake individually. CEDLI is able to serve small businesses that are viable but not bankable because of risk factors such as lack of equity, collateral, time in business, or credit history. CEDLI is also able to serve nonprofit borrowers that require more staff-intensive underwriting and special consideration.

Becoming financially self-sufficient

In order to become a permanent and revolving source of community financing and to ensure long-term success, CEDLI needs to be a financially safe and sound entity. The program is designed to become financially self-sufficient by its third year and, to date, CEDLI's projections are on target to meet this goal. In addition to its financial soundness, CEDLI offers a fixed rate of return to member banks on the lines of credit they've extended to CEDLI; the return to members is at a fixed spread over money market rates. These financial features enabled CEDLI to secure large-scale commitments from financial institutions, and also to break new ground in procuring investments and loan capital from non-bank corporations.

CRA and other regulatory advantages for participants

The Office of the Comptroller of the Currency, followed by the three other financial institution regulatory agencies, approved CEDLI as a statewide CDC and member institutions receive CRA credit for their participation. Carefully crafted organizational and legal documents ensure that CEDLI meets other regulatory and legal requirements for its members including favorable regulatory treatment of CEDLI assets on their members' books.

Offering technical assistance to borrowers

The availability of technical assistance to small business borrowers is as critical as the financing. CEDLI operates hand-in-hand with its nonprofit affiliate, California Resources and Training (CARAT) to provide training certification and capacity-building for small business technical assistance providers and community based economic development organizations.

In its initial offering, CEDLI recruited 34 financial institution members of varying asset sizes. Insurance, telecommunications and health care industry-based corporations also joined CEDLI. This investor diversity allows CEDLI to offer a model for broadening partnerships between financial institutions and an assortment of private corporations. With $38 million in member loan commitments for its first year, CEDLI's longer range goal is to achieve $50 million in lending capacity. Its next enrollment window for new financial institution and corporate members will be the spring of 1997.

George Williamson has been President and CEO of CEDLI since its initial kickoff in July, 1995, and launched CEDLI's lending operations in October of the same year. His leadership has made a critical difference in making the concept a successful lending reality. "Our goal has been to become an effective resource for community development in all parts of the state, in both urban and rural settings, in communities of color, and in low-income areas," says Mr. Williamson.

Potential borrowers and financial institutions interested in CEDLI membership can reach George Williamson and his staff at their office in Oakland at (510) 267-8990.

About the Author:

Susan Phinney Silver was the project director for the creation of CEDLI, and is a six-year veteran of The Development Fund. Her background includes undergraduate and graduate degrees from Princeton and Yale School of Management, respectively. In addition to previous efforts in developing community financing programs for The Development Fund, her professional experience includes work as a program auditor in Africa with Catholic Relief Services and as a business consultant with McKinsey & Company in New York City.

What is the Development Fund?

Based in San Francisco since its inception in 1963, The Development Fund is a nonprofit organization serving a unique role nationally in developing private-sector financing vehicles to serve community needs. It has historically been known primarily for its work in creating vehicles for affordable housing. Between 1987 and 1995, The Development Fund, in partnership with Federal Reserve district banks, established eight successful affordable housing intermediaries throughout the country, with total commitments of $575 million from over 200 financial institutions. These programs, called "Community Reinvestment Corporations" or CRCs, are now operational in California, Florida, Hawaii, Idaho, Nevada, New Hampshire, Oregon, and Washington State. The Development Fund is currently working with a group of bankers, public agencies, and nonprofit organizations to create a new affordable housing CRC in the State of Maine and on a new community reinvestment vehicle in California to finance brownfields and other environmentally contaminated properties. The Development Fund is led by its new Executive Director, Sidney Johnson, and its Deputy Director, Susan Phinney Silver. Sid was previously President of SAMCO, and brings twenty years of corporate and real estate finance experience to his new position at The Development Fund.

Financial institutions and community development agencies interested in establishing CEDLI or CRC programs in other states, please call: Sid Johnston and Susan Phinney Silver, The Development Fund, at (415) 981-1070.