

Community Reinvestment Fund

New approaches to helping communities meet long-term economic development needs

Presented to the Federal Reserve Bank – Syracuse, NY

**By Frank Altman, President/Chief Executive Officer
July 30, 2003**



What is CRF?

- **A financial services nonprofit**
- **Purpose: Provide capital to communities that they otherwise would not have**
- **Find solutions to community development problems that no one else can tackle**



CRF's channel to communities

- **Nonprofit community development lenders**
- **Government lending agencies**
- **Some for-profit agencies dedicated to community development**



Loans provided to ...

- **Expand local businesses**
- **Meet affordable housing needs**
- **Improve community facilities**



Why no market answer?

- **Borrowers often lack background to meet bank criteria**
- **Communities weak economically, making loans riskier**
- **Projects not as attractive as more mainstream alternatives**



Lenders' usual funding sources

- **Federal agencies**
 - Programs within Departments of Commerce, Treasury, Housing and Urban Development, Health and Human Service, Agriculture
- **State agencies**
- **Banking consortia**
- **Foundations and churches**



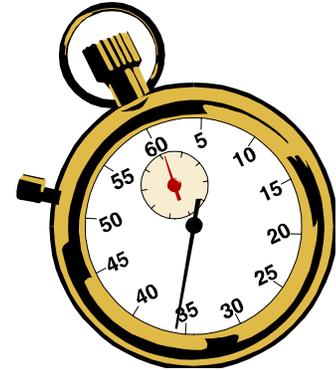
Still a gap in needs

- **Government provides capital, but usually not guidance**
- **Programs restrictive**
- **Technical assistance often not available**



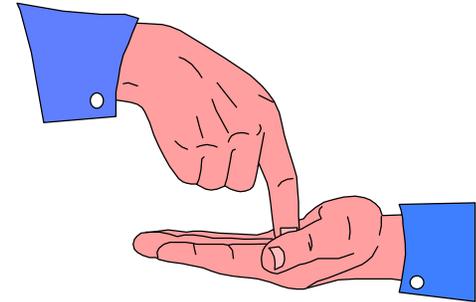
Common problems for lenders

- **Speed of funding:**
 - Funds from usual sources
slow in arriving
- **CRF solution:**
 - Provide cash quickly -- **90 days or less**



Common problems for lenders

- **Lack of flexibility in use of funding**
 - Money restricted by programmatic requirements
- **CRF solution:**
 - Allow community developer to meet local needs, as long as social benefit apparent



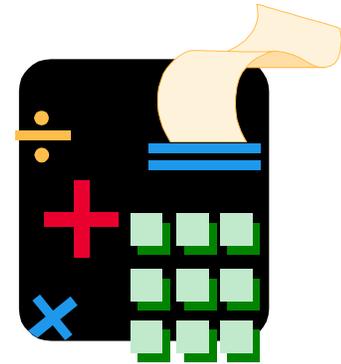
Common problems for lenders

- **Other lending partners less focused on nonprofit missions**
 - Activities fall outside normal course of partners' business
- **CRF solution:**
 - Consider nonprofit's mission, develop creative approaches to help them achieve it



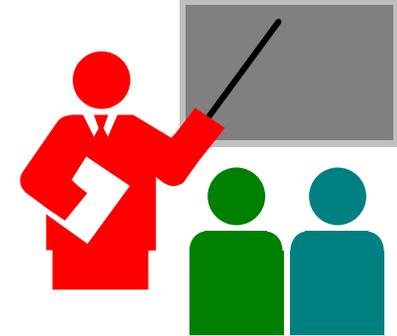
Common problems for lenders

- **Lenders lack expertise to service loans**
 - **Skills concentrated on making appropriate loans**
- **CRF solution:**
 - **Created servicing division in-house to help both those selling us loans and those retaining loans**



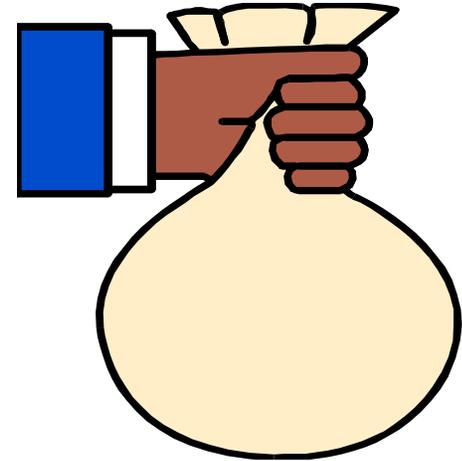
Common problems for lenders

- **Some lenders' financial skills need strengthening**
 - **Example: Lenders who come from social service backgrounds**
- **CRF solution:**
 - **Offer training and technical assistance**
 - **New division concentrating on helping lenders set up loan funds to take advantage of private capital sources**
 - **More than 500 lenders trained by CRF**



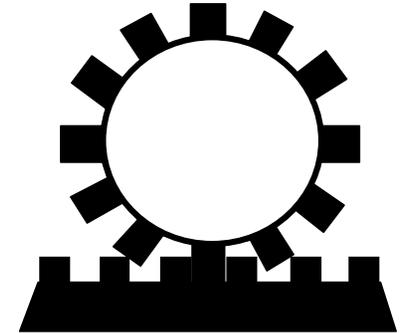
Loan types financed

- **Asset-secured business loans**
- **Commercial and residential real-estate loans**
- **Community facilities loans**



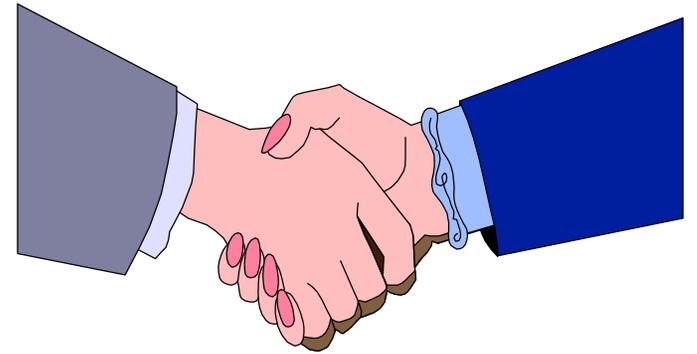
Basic ways to recapitalize

- **Lender sells existing loans, relend proceeds**
(Existing Loan Purchase) OR
- **CRF and lender agree to terms in advance**
(Advance Commitment)
 - **Lender finds appropriate borrower**
 - **Loan made**
 - **CRF buys portion that lender would normally retain**



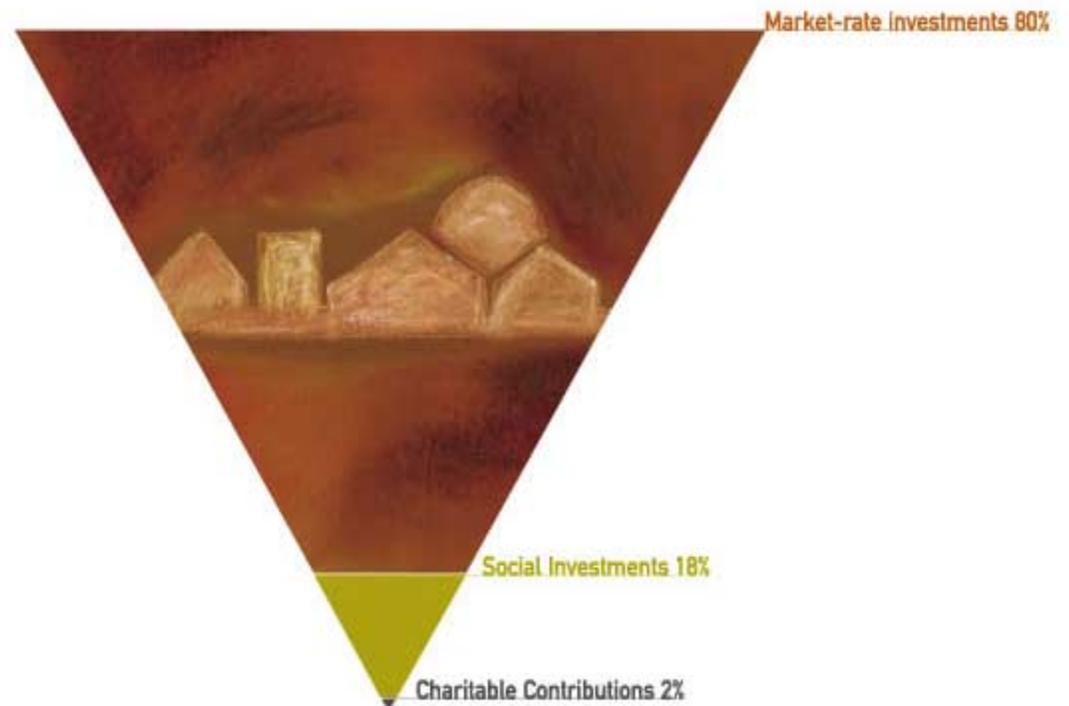
Borrower relations remain

- **CRF contracts with lending partners to service loans**
- **Servicers earn fee income**
- **Some prefer for CRF to handle servicing**



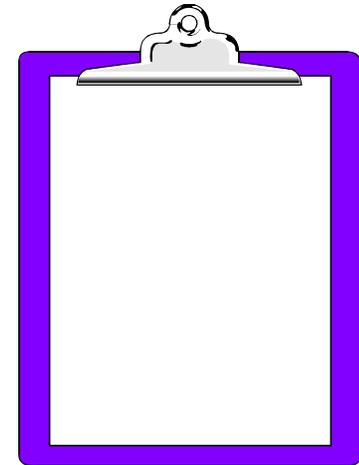
How CRF leverages funds

- **80% market-rate investments**
- **18% social-rate investments**
- **2% charitable contributions**
 - **Major foundation support from MacArthur, Ford, Fannie Mae**



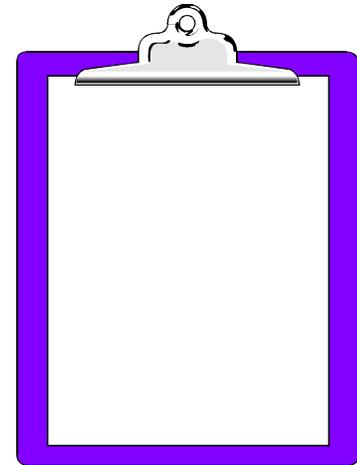
Minneapolis Community Development Agency

- **Used to substitute for SBA 504 loans**
- **Formula for SBA 504**
 - 50% bank
 - 40% SBA
 - 10% borrower
- **Not affordable for deals of \$250,000 or less**
 - Transaction costs too high



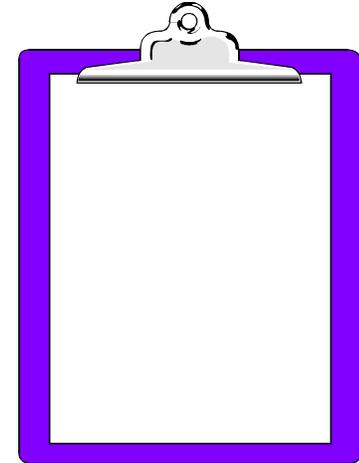
Minneapolis Community Development Agency

- **Formula for new program**
 - **50% bank**
 - **40% Community Reinvestment Fund**
 - **10% borrower**



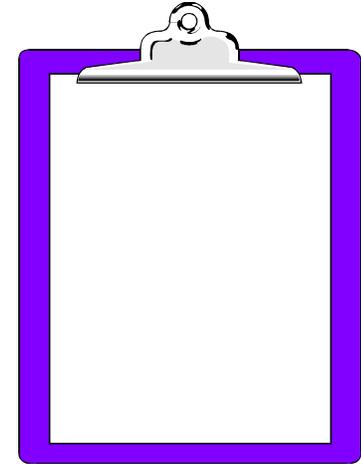
Minneapolis Community Development Agency

- **Nine banks participating**
 - **Firststar Bank**
 - **U.S. Bank**
 - **Wells Fargo**
 - **Six local banks**



Minneapolis Community Development Agency

- **More than \$5.5 million provided by CRF to borrowers in select Minneapolis neighborhoods**
- **More than \$12 million total**
- **Businesses acquire properties, equipment critical to growth**
- **Areas improved by more jobs, better use of community assets**



Others joining this approach

- **City of St. Paul**
 - **New agreement with city agencies, local banks**
 - **More funding uses, including nonprofits**
 - **First deal done last month**



Receiving notice from media

- Newspapers finding new program worth noting
- Stimulating additional inquiries

Metro/State
Star Tribune

A St. Paul loan program helps smaller, minority- and women-owned businesses and nonprofit groups.

Lending a hand to small business



By Curt Brown
Star Tribune Staff Writer

With their space crammed with racks of clothes and shoes for teenagers, Ge Lee and Bee Lor decided it was time to expand their 1,200-square-foot Fashion Today shop on University Avenue in St. Paul.

The Hmong couple eyed a vacant lot a few blocks east at University and Western Aves. and envisioned a larger store with offices to rent out upstairs.

But Lee and Lor had trouble securing financing from larger banks because most of their cash was earmarked for inventory and because leasing office space could be a risky enterprise.

Then they heard about St. Paul's new Small Business Expansion Program, a pilot partnership aimed at helping smaller, minority- and women-owned businesses and nonprofit groups grow. With the city and the Community Reinvestment Fund backing the loans, Lee and Lor were able to put down \$50,000 in cash on a \$450,000 project slated for construction this summer. The grand opening is set for the fall.

This program really helps small businesses like ours that don't have enough money to expand," said Lee, 41, who emigrated from Laos in 1981.

"It lets us save money to increase inventory and spend less on a down payment."

The program creates a revolving pool of loan money by bringing together limited city resources, a \$100,000 grant from the St. Paul Foundation and a big assist from the Community Reinvestment Fund.

In Lee and Lor's case, Fashion Today, they put a \$50,000 as a down payment and pledged \$50,000 in loan value to add up to \$100,000 equity in the \$-450,000 project. That's 22 percent.

PROGRAM continues on B3:
— You can call 651-647-0131.

Richard Sennett/Star Tribune

Ge Lee and wife/business partner Bee Lor are expanding their Fashion Today operation on University Avenue in St. Paul. Come fall they'll have a grand opening at their new building down the street.

Bank and architect of the loan program. "It's extremely flexible and can help manufacturers buy new equipment, as well as helping theater groups and other nonprofits."

Immigrant merchants are the logical target, according to Beeson, a key campaign adviser to Mayor Randy Kelly and the city's planning director under former Mayor George Latimer.

"Historically, retail attracts immigrants who have brought trading skills from the Old World," Beeson said. "These store, restaurant and market owners tend to be in low- and moderate-income transit corridors and have had trouble getting credit and capital."

A way to grow

Kelly sees the program as a way to fix up neglected properties and jumpstart small-business growth along University Avenue and other commercial corridors.

"It frees up scarce public resources and stretches the funds the city traditionally has loaned to small businesses," Kelly said. "It lets us reach out to minorities and women to raise capital and revitalize key corridors."

Fashion Today is the first business to jump into the loan pool, but Beeson said other deals are in the early stages. He said past government loan programs, such as those offered by the Small Business Administration, required the owner to occupy 50 percent of the property. This pilot program requires the owner to occupy only 20 percent of the space, meaning

AT A GLANCE

Loan program
St. Paul officials have started a revolving loan pool to help small businesses grow.

- **What:** St. Paul Small Business Expansion Program.
- **Goal:** To tap private sources of capital, lessening public funding.
- **Targets:** Nonprofit groups, minority- and women-owned small businesses.
- **Partners:** Community Reinvestment Fund, St. Anthony Park Bank, St. Paul Port Authority, St. Paul Department of Planning and Economic Development, St. Paul Foundation.
- **Size:** The Minneapolis nonprofit Community Reinvestment Fund guarantees loans as a secondary source of capital to leverage up to \$24 million in loans with a \$500,000 city investment.
- **More information:** Contact Rick Beeson, president of the St. Anthony Park Bank, at 651-647-0131.

several small shops can combine without scaring away the lending bank.

"I think this program will help a lot of small-business owners like myself who didn't have enough resources to expand," Lee said. "It's a good opportunity to grow."

Curt Brown is at curt.brown@startribune.com.

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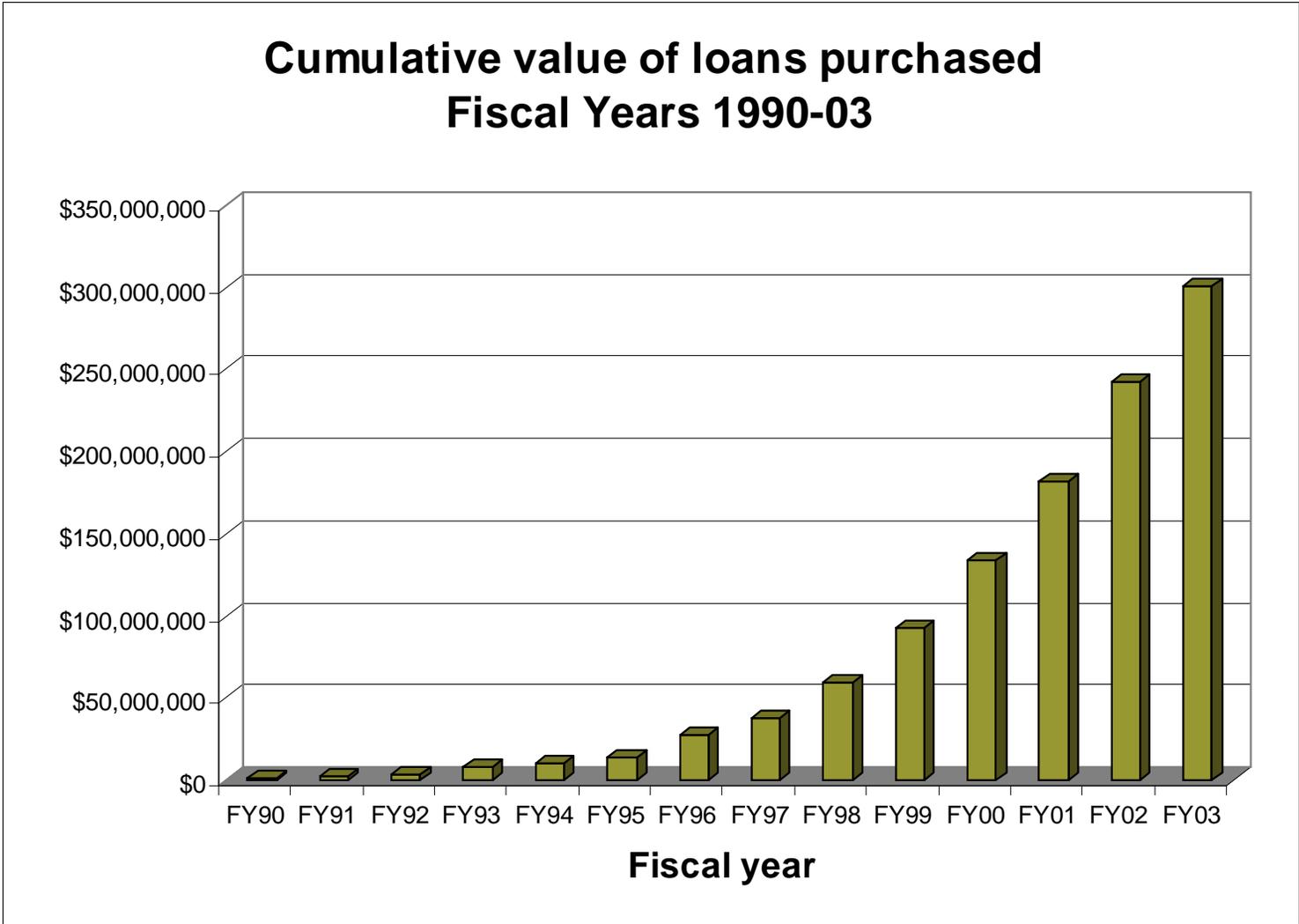


Broad range of lending partners

- **More than \$276 million in capital provided to 103 lenders in 23 states, District of Columbia**
 - **Including the New Jersey Redevelopment Authority, Accion New York, National Development Council**
- **Debt securities bought by major banks, insurance companies**
 - **Examples: Citigroup, Prudential, MetLife**

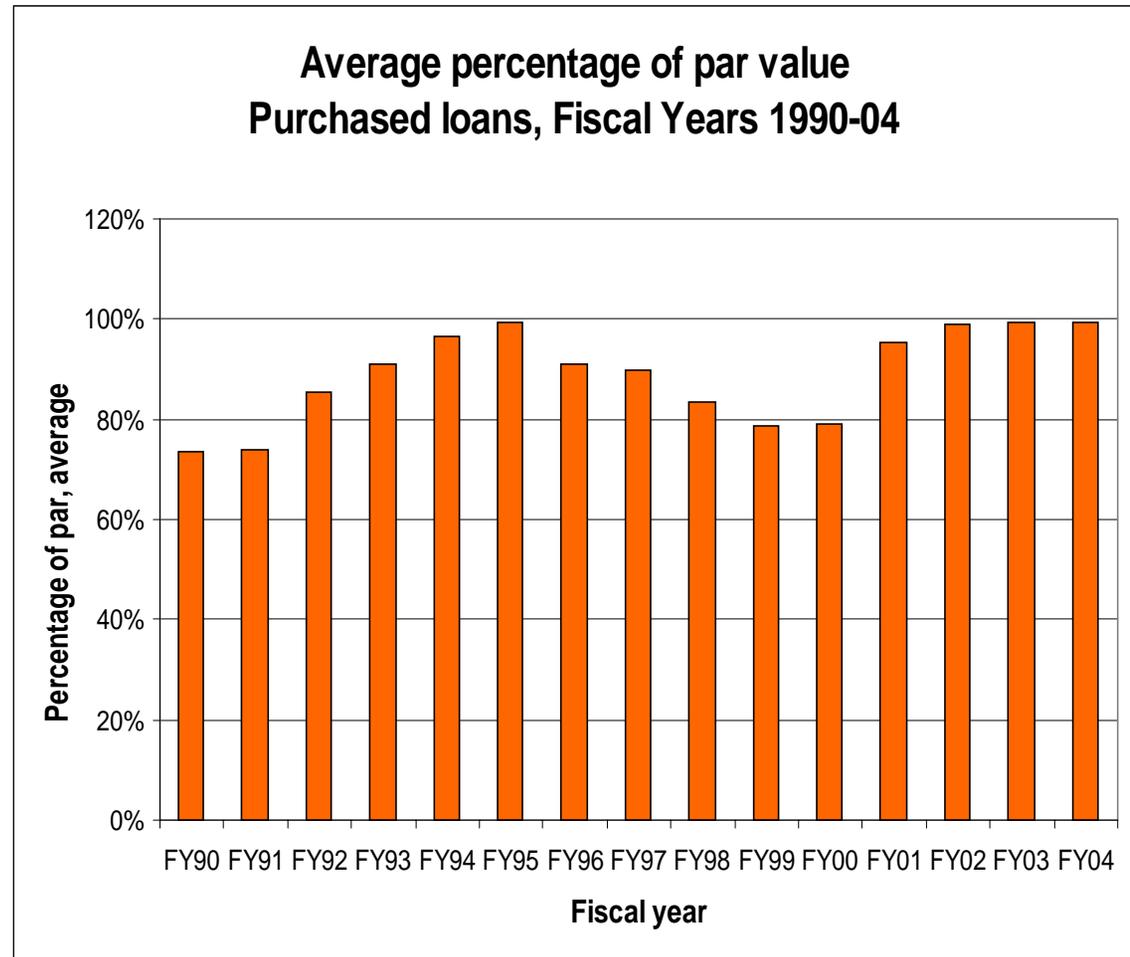


The rapidly growing market for community development loans



Higher percentage of par received

- **Close to 100% of par received over past few years**
- **Due in part to interest rates**
- **Reflects more advance commitments**

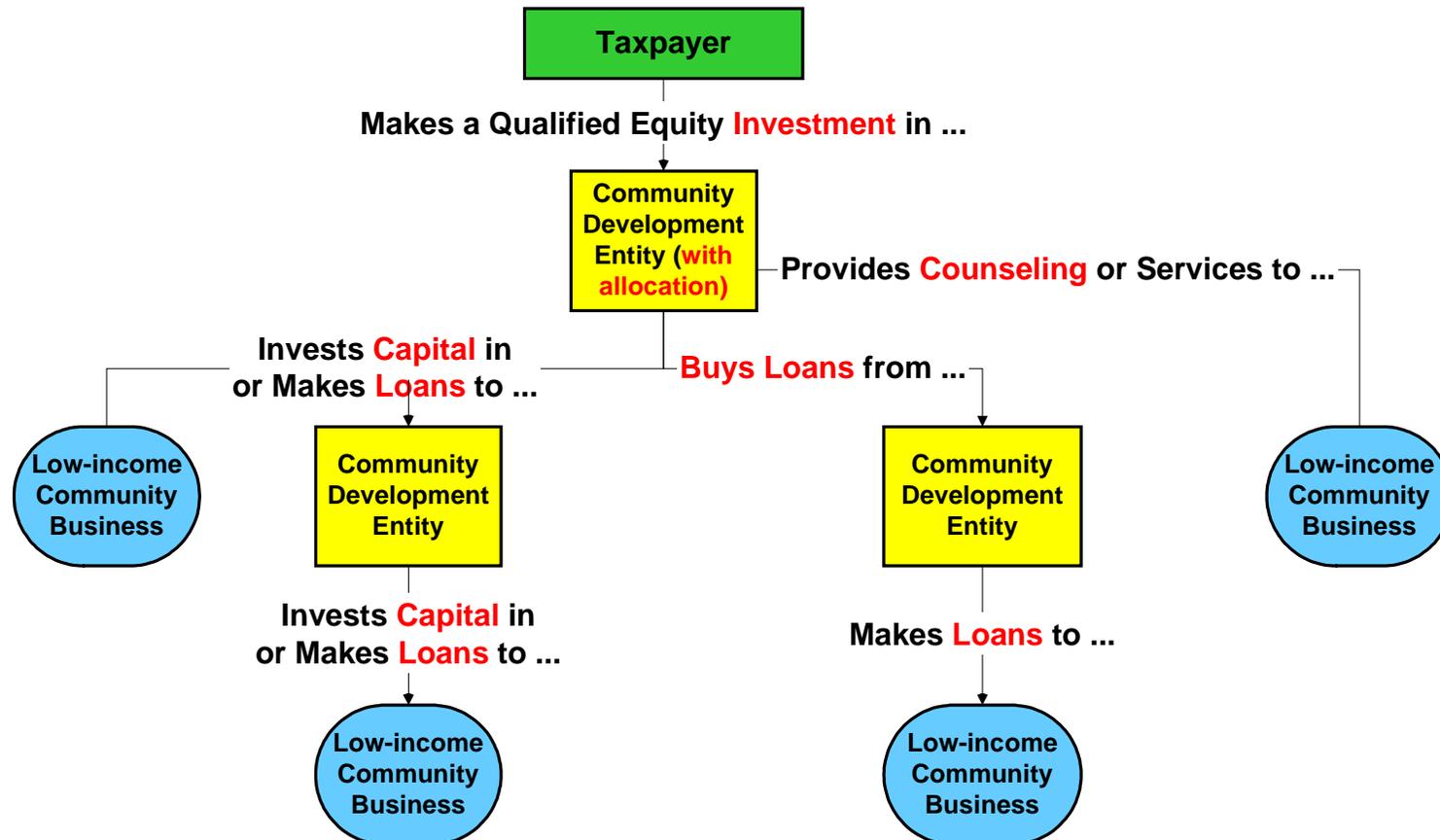


New Markets Tax Credit: Another opportunity to grow field

- **Provides another tool to make investments in ED attractive**
- **Gives visibility to market for those previously unaware of its strengths**
- **Helps move industry to greater scale, thus overall more efficient**
- **CRF allocated \$162.5 million in credits – largest of any national organization**



Many paths to take to get benefit to businesses



NMTC glossary

- **QLICI (Qualified Low Income Community Investment) – investment that qualifies for New Markets Tax Treatment (5% first three years, 6% last four years)**
- **QLICB (Qualified Low Income Community Business)**
 - 50% of activity comes from low-income area
 - 40% of tangible property located in low-income area
 - 40% of employees work in low-income area
- **CDE (Community Development Entity) – Organization that qualifies to participate in program – cannot be governmental agency**



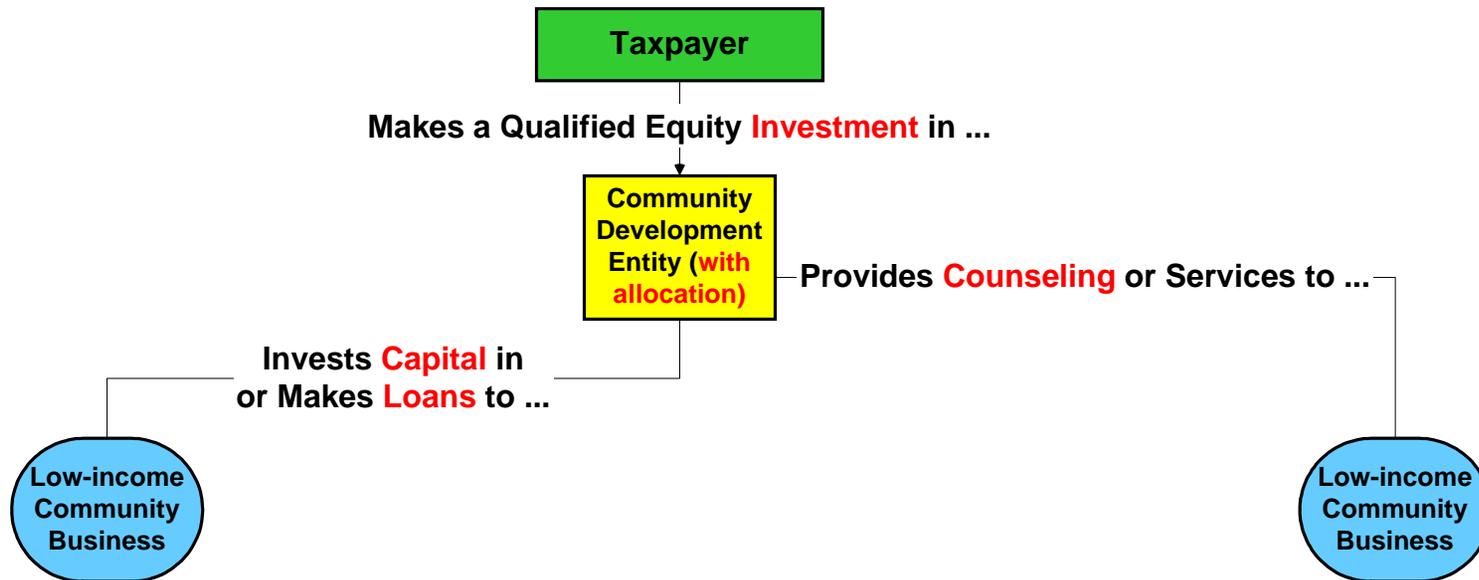
CRF's investment offerings

Four separate vehicles:

- **Affordable housing**
- **Economic development: non-New Markets**
- **New Markets: Small business finance unit**
- **New Markets: Larger commercial projects finance unit**



The “Go it Alone” approach

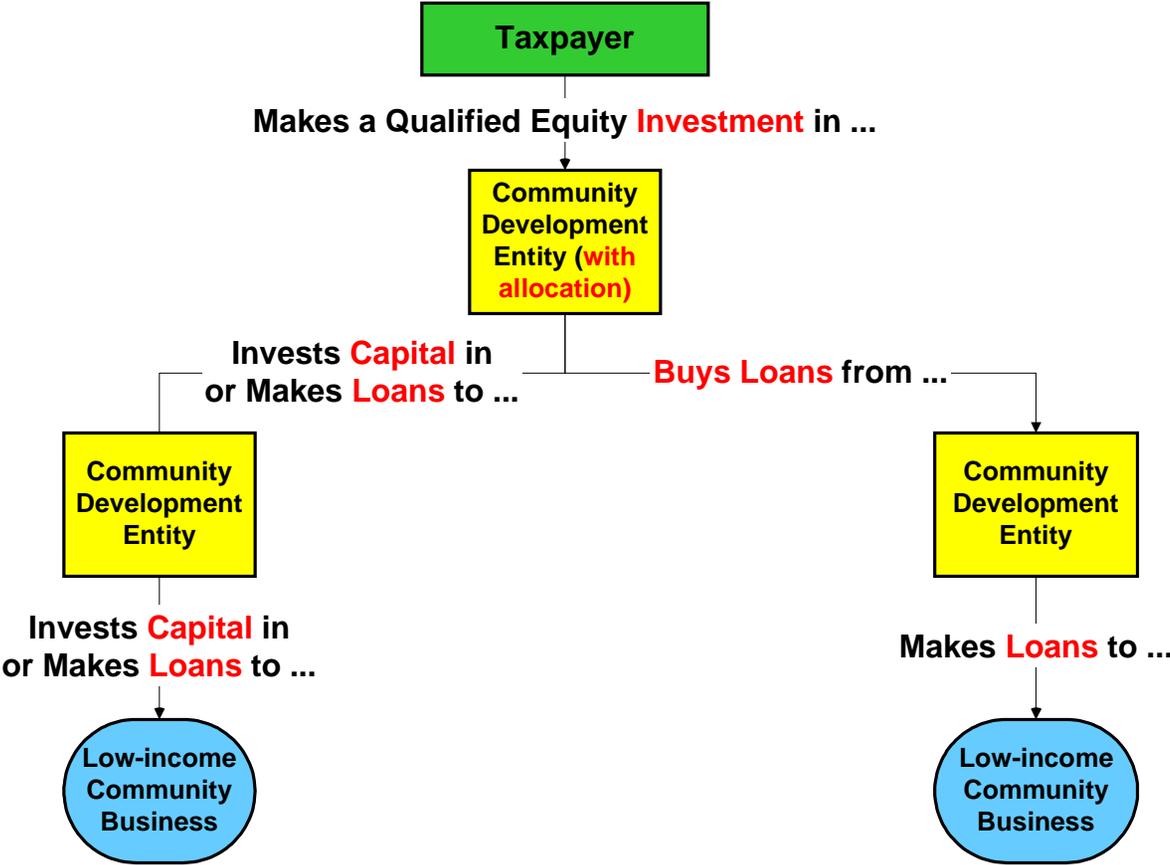


Go It Alone Issues

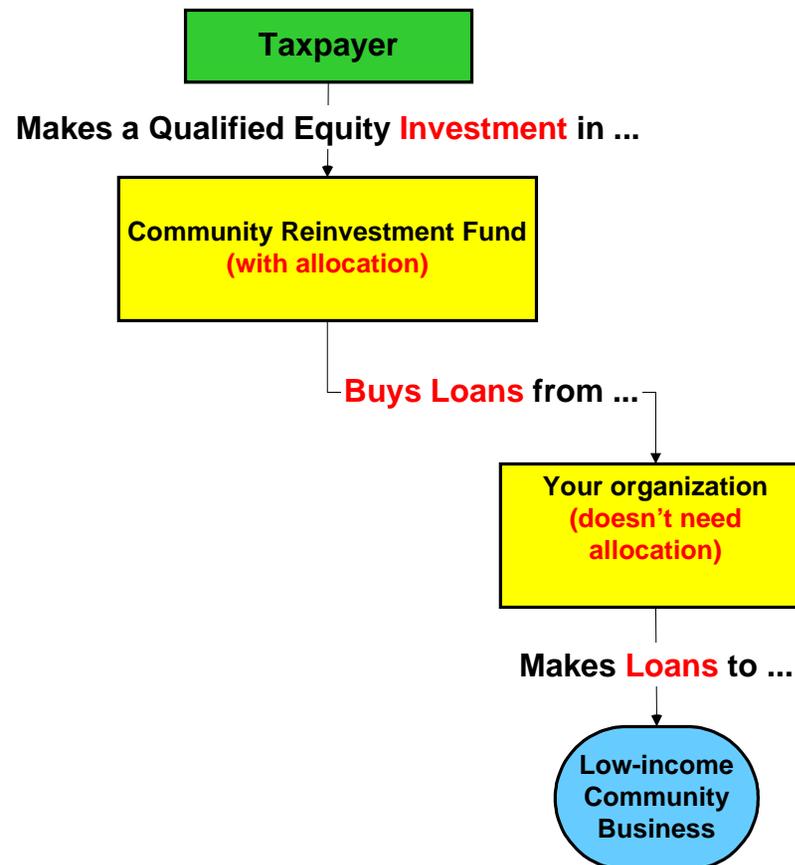
- **Requires lender to form for-profit organization to receive allocation of tax credits from CDFI Fund**
- **Assumes that the lender lines up investors**
- **Requires lender to report use of credits to investors and IRS**



The “Team Up” Approach



The Specific CRF “Team Up” Approach



Team Up Issues

- **Requires lender to become a CDE only**
- **For-profit not required on part of lender**
- **Investors not required on part of lender**
- **No reporting to IRS by lender**



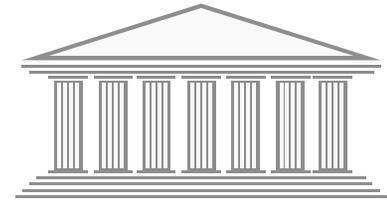
Possible to do both

- **Can use own allocation as well as team up with CRF**
- **50 lenders nationwide joined our application for credits**
- **Can work with us for larger deals, if capacity used up, to sell existing loans and re-qualify for NMTC**



For bank investors ...

- **NMTC investments can be both equity and debt with CRF**
- **Banks can designate areas to target and earn CRA credits for investment**
 - **Current bank investors earn such credit with CRF debt securities**



Current opportunities for lenders

- **Currently reviewing demand from partners**
- **Will make available capital for projects with what remains**
- **As before, CRF plans to apply for credits by teaming up with lending partners**
- **Not too early to approach us with expectation of doing so**



To follow progress of CRF and New Markets ...

- **Send e-mail to marketing@crfusa.com to get on newsletter list**
- **Read updates on Web site: www.crfusa.com**
- **Add your link to our Web site by contacting our marketing department**
- **Call anytime: 1-800-475-3050**

