Innovations in Capital Resources for CDFIs

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Nancy Wagner-Hislip, The Reinvestment Fund
The Reinvestment Fund

- A CDFI with a mission to build wealth and opportunity for low-wealth people and places through the promotion of socially and environmentally responsible development. Since 1985, TRF has made $1.5 billion in cumulative investments and loans.
- Supported by over 850 investors that include individuals, foundations, religious institutions, financial institutions, civic organizations and government.

Social Impact Bonds

Pay for Success financing (aka a Social Impact Bond) plays a role in the social sector similar to that of growth capital or private equity in the private sector. It helps take promising ideas to scale and replicate them in new places.

The essential structure of Pay for Success financing is as follows:

- A payer—usually a government agency—contracts with a private service provider to administer a program.
- The contract between the two is structured such that all or a majority of payments are made only when the service provider hits certain performance targets.
- To obtain working capital to fund its operations in advance of those performance payments, the service provider leverages its government contract to obtain private financing, which is repaid with profit when performance goals are met.
Cuyahoga County, OH

Goal: 25% Reduction in days spent in foster care for children in homeless families.

- TRF: $1.575MM Senior Investment, 5% interest
- $2.425MM in three subordinate tranches
- TRF funds after 1 year implementation period
- TRF Principal repaid with 9% reduction; no upside to TRF.

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Key Considerations

- Organizational capacity
- Approval process
- How to treat on books
- Scalability

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Susan Mosey, Midtown Detroit, Inc.

WILL Leather Goods
Forest Arms

Strathmore
Woodward Willis

Auburn
EB-5 Immigrant Investor Program
Employment-Based Immigration

- Established by Congress in 1990
  - Create jobs
  - Attract investment capital
- Administered by U.S. Citizenship and Immigration Services (USCIS)
- Investment Requirements
  - Equity — “at risk” investment
  - In a new commercial enterprise (NCE)
  - $500,000 (if NCE is in a targeted employment area (TEA))
  - $1,000,000 (if NCE is not in a TEA)
  - Create 10 new U.S. jobs per investment
- Immigrant Investor Benefit
  - Potential for conditional-to-permanent U.S. residence
  - Investor, spouse, and children under age 21
EB-5: AN ECONOMIC DEVELOPMENT TOOL

Impact (2010-12)

- 130,000 American jobs at no cost to the tax payer
- $6 Billion contribute to GDP
- $894 Million in Federal Income Tax
- $483 Million in State and Local taxes
- 95% invested in targeted employment area

Source: 2014 IIUSA
EB-5 Marketing Challenges

- MEDIA
- PAST PERFORMANCE OF PROJECTS
- SEC Violations
- “Green card for sale”
- Unknown exit strategies
- Investment is lost due to management or market conditions
- Green Card application is denied even after full investment

EB-5 INVESTORS DEMAND

- Clear investment plan
- Cushion for job creation
- Solid Management
- Clear exit strategy and repayment plan
- Track record of approved I-526
EB-5 Impact Fund

Highlights

- Promoters and Managers have no access to the fund
- Investment is easily tracked
- Investment is made in multiple CDFI’s creating levels of investment security
- Funds are tracked not only by the fund, but the CDFI, the borrower and the regulators
- Exit strategies are defined
- Return of investment is clear and documented

Kimberly Latimer-Nelligan, Low Income Investment Fund
Low Income Investment Fund

30 years of investing in low-income communities and families nationwide

- $1.7 billion invested
- $7.8 billion leveraged
- 1.7 million people served
- $47 billion in social benefits

Equity with a Twist (EQT)

Enterprise-level product for Community Connectors

EQT offers long-term (10-year), flexible, outcomes-driven financing for Community Connector organizations leading holistic, integrated initiatives.

Objectives:
- Support & accelerate the work of Community Connectors
- Demonstrate modest financial return and high social return
Equity with a Twist
*Rigorous focus on outcomes*

Each borrower is required to track a set of outcomes measuring social impact in its local community:

- Public safety
- Health and well-being
- Child development/early learning assessment
- Third grade reading and math scores
- Local market strength, as measured by vacancy rates, blight, housing prices, or other appropriate measures

**Prediction:** Concentrated investment in multi-sector community development should lead to improvement in social metrics.

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Equity with a Twist
*Initiative status*

$3MM grant from JP Morgan Chase + $3MM LIIF capital = $6MM pilot

Two applicants for pilot so far:

- BRIDGE Housing Corporation in San Francisco
  - Housing developer leading redevelopment of two communities
    (Potrero Terrace & Annex in San Francisco, and Jordan Downs in Watts, Los Angeles)

- Bayou Development Foundation in New Orleans
  - Foundation leading revitalization of community devastated in Hurricane Katrina