BUILDING NATIVE CDFIS’ SUSTAINABILITY AND IMPACT

A CAPACITY BUILDING TRAINING AND TECHNICAL ASSISTANCE SERIES

Advanced Capitalization
or
the First to $10 Million Wins!
WEBINAR REMINDERS AND COURTESIES

- Recorded webinar will be available at www.nw.org/nativecdfi.

- Please put your phone on MUTE (#6).

- Ask a question any time by typing in the chat box or by using the “hands-up” function in the control panel.
INTRODUCTIONS

MODERATOR:

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Partner
INTRODUCTIONS

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WEBINAR OBJECTIVES

• By the end of the webinar, participants will be able to:
  – Understand why small CDFIs struggle to realize operating efficiencies
  – Explore capitalization strategies to overcome those challenges
  – Learn about a group of Native CDFIs called the Native Ninth, LLC which is working together to access New Market Tax Credits
PARTICIPANT INTRODUCTIONS

• Type in the chat box:
  – Name
  – Organization
  – Location
WEBINAR OVERVIEW

• Challenges achieving operating efficiencies

• Capitalization strategies for large and narrow target markets

• *Native Ninth, LLC* New Markets Tax Credit model
CHALLENGES ACHIEVING OPERATING EFFICIENCIES
FOR SMALL CDFI’S
Tell us about your ASSET SIZE and TARGET MARKET.
CDFI Industry Observation #1

The capacity needed to operate a $500,000 CDFI loan fund is about the same as operating a $10M loan fund.
CDFI Industry Observation #2

Some experts say $10 million is the minimum size to operate an efficient loan fund.
Many CDFIs have a target market too small to attain the size needed for desired operating efficiencies.
External Challenges

Direct federal appropriations have been declining and are being replaced by tax credit programs.
External Challenges

Tax credit programs favor large markets and large projects, atypical for Native CDFIs.
External Challenges

Tax credit programs can be overly complex compared to traditional grants or other sources of capital.
Internal Challenges

Small CDFIs cannot afford to hire/recruit the expertise needed to deploy more complex exotic products.
Internal Challenges

Governing Boards may be wary of involvement with complex programs.
Internal Challenges

Investing in high cost staff in hopes of future funding is risky given inherent uncertainties.
STRATEGIES TO OVERCOME CHALLENGES
TO ACHIEVE OPERATING EFFICIENCY
Polling Question

What limits your ability to grow?

- Access to capital
- Size of target market
- Neither
Choosing Capitalization Strategies

Target market size determines growth potential
Strategies for Large Target Markets

• Growth through a single product
  – e.g., mortgages, commercial loans, etc.

• Diversification by geography and industry
Strategies for Large Target Markets

• Achieve greater impact which leads to greater access to capital
But what if your CDFI’s target market is small?
Many Native CDFIs are Small

Some Native CDFIs choose small markets for cultural or other reasons.
Strategies for Narrow Target Markets

1. Decrease operating costs
2. Expand lending
3. Consider investing
4. Explore New Market Tax Credits
1. Decrease Operating Costs

- Stay lean
- Use partnerships to keep breakeven point very low
2. Expand Lending

**PORTFOLIO LOANS**

- Access capital from others
  - USDA Intermediary Relending Program (IRP)
- Intermediary orgs

**SECONDARY MARKET LOANS**

- Originate guaranteed loans
  - SBA, BIA, FSA, HUD
- Buy or sell loan participations
3. Consider Investing

- Use the Office of Community Services Discretionary Grant Program for equity investments

- Leverage deposits by partnering with a credit union or a bank
4. Explore NMTCs

• Become a Certified Development Entity (CDE):
  – An intermediary that provides loans, investments, or financial counseling in low-income communities.
  – CDE certification allows direct or indirect participation in NMTC program.
4. Explore NMTCs (cont.)

• Partner with an established allocatee

or

• Seek your own allocation
Partner with Established CDE

• Simplest NMTC approach and no entry cost
• Partner with CDE with successful track record to generate pipeline
• Share sponsor/exit fees
• Receive portion of asset management fees
Seek Allocation for your CDE

• Obtain sponsor/exit fees

• Receive asset management fees
NMTC Challenges

• Assuming ongoing risk of tax credit recapture
• Have to make the case that a small Native CDFI can easily implement a NMTC allocation
• A small allocation may be worse than no allocation
Questions about these capitalization strategies?
NATIVE NINTH, LLC
A CASE STUDY
Native Ninth, LLC

- **July 2015**: Four Native CDFIs invested $50,000 each to establish LLC
- **November 2015**: LLC applied to become CDE
- **December 2015**: CDE applied for tax credit allocation
Overcoming Inherent Limitations

• Eight-state target market
  – Large enough to generate sufficient number of transactions to justify larger allocation

• No staff, few expenses, and breakeven point near zero
Overcoming Inherent Limitations

• Contracted for loan closing and compliance expertise

• Expenses incurred only if allocation is received
Potential for Success

• CDFI Fund would like to deploy NMTCs to eligible Native CDFIs
• Applied for $70M, hoping for $50M
• Investment in staff and internal systems only if allocation is received
  — Limited downside risk if no allocation received
CONCLUSIONS
Conclusions

• Size of target market determines growth potential
• Staying small requires finding operating efficiencies
• Opting to become larger may be more enjoyable
Conclusions

• New Markets Tax Credits offer opportunities for even the smallest Native CDFI
Please complete a brief evaluation survey to give us feedback about this webinar.
THANK YOU FOR YOUR PARTICIPATION

For this recording and for the upcoming BNCSI schedule, visit www.nw.org/nativecdfi

Contact nativecdfi@nw.org with questions.