

Summary of the 18th Annual Financial Innovations Roundtable

*March 8-9, 2018
Federal Reserve Bank of St. Louis*

Executive Summary

Over the past eighteen years, the Financial Innovations Roundtable (FIR), located at the Carsey School of Public Policy at the University of New Hampshire and hosted by the Division of Consumer and Community Affairs at the Federal Reserve Board, has worked with a range of community development and other types of financial institutions, government agencies, foundations and trade associations to address and solve problems related to access to capital for low-and moderate-income consumers and communities. The FIR does this by tapping the expertise of thought leaders from the institutional investment, banking, philanthropic, and community development industries.

The 2018 Financial Innovations Roundtable was entitled “Financial Innovations to Improve Economic Resiliency in Rural Communities”, and brought together impact investors and community development practitioners to explore the barriers and opportunities for how mission-based financial institutions can support rural communities. Conversations focused around:

- New service delivery models for remote and/or small population areas
- Innovative ways that mission-based financial institutions can step in to provide or support rural economic development infrastructure when other local capacity is limited
- Strategies to “wrangle capital” to rural communities and the mission-based financial institutions that serve them
- Roles that regional networks for funding and financing could play to serve rural regions
- The importance of partnerships to both deploy capital and build local community development capacity
- Needs for financing rural housing and rural broadband infrastructure

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Welcoming Remarks: Understanding the Rural Context

Lisa Mensah of **Opportunity Finance Network** opened discussion by “making the case for rural America.” She noted that although the media narrative about rural communities is often negative, there are many positive developments including:

- Strong interest from millennials who want to see rural areas thrive;
- Growth in rural economic sectors including the “biological economy,” rural energy, and rural broadband; and
- Increased interest in healthy and local food that rural communities can provide.

Moreover, Mensah believes, “when rural America does better, then the rest of the country does better.”

Mensah then discussed how mission-based financial institutions are already serving rural areas, and are “ready to scale up.” She noted that in 2016, there were 43 CDFI loan funds that considered themselves rural, up from 33 in 2000. Additionally, by 2016 these rural CDFIs were able to source 23% of their funding from banks, up from 9% in 2000, showing an ability to attract bank investment in spite of the fact that banks have limited CRA obligations in rural communities.

Mensah also highlighted the USDA’s Community Relending Program as a model of innovation that she hopes will inspire similar efforts. This program made \$400 million available to mission-based financial institutions including CDFIs, with the support of a guarantee from Bank of America and involvement from the Uplift America Fund. The program thus shows how innovation involving the public, private and philanthropic sectors can encourage more dollars to flow to rural communities.

Andrea Dobson of the **Winthrop Rockefeller Foundation** discussed opportunities for local CDFIs to work with local governments to make things happen in their communities. She told the story of Dewitt, Arkansas, a “typical Delta community with agriculture” that had seen the closing of several other industries. A CDFI was able to finance development of a business growing seed for biofuel, that provides both fuel and jobs for the local community. Dobson also discussed a CDFI that is helping to install wifi on grain towers so that communities can access the internet.

Michael Swack of the **UNH Carsey Center for Impact Finance** noted that many rural CDFIs are “smaller or lack some of the sophistication that larger ones have. It’s a challenging environment for local rural CDFIs.” Swack asked the panelists whether having a lot of rural CDFIs good or better than having merged organizations or large organizations that are more sophisticated; as well as how larger and more sophisticated CDFIs might be better able to partner with small rural CDFIs.

Lisa Mensah noted that even the combined field of 1,000 CDFIs is small within the trillion-dollar US financial sector. She believes that a rural loan fund can be effective

at \$10 million or \$20 million, even though there are a dozen or so larger rural players as well, and some innovation can be done at smaller scale. “There is a beauty of place, and some CDFIs have business models that work at smaller scale,” she felt. At the same time, she supports pathways to growth and scale, including partnerships.

Joe Neri of **IFF** commented that about 15 percent of its portfolio is rural. According to Neri, “our fundamental challenge” in rural areas “is a distribution challenge, not so much a product development challenge.” Neri continued, “we can’t have an office in every rural town.” Moreover, rural pipelines are lower volume. These factors raise a challenging question for mission-based financial institutions trying to determine how much they should invest in rural business development. Neri stressed the importance of innovation around “business development and pipeline distribution channels” to change the economics of making a loan. Neri continued, “IFF will make rural loans all day long, and we’re not worried about loan-to-value ratios which can be a big challenge in rural areas.” The question is how to build a sustainable business model.

As an example, Neri discussed how the Kansas Health Foundation asked IFF to run a food program in Kansas. “Our challenge was to get the pipeline to move the money.” IFF focused on creating partnerships with the University of Kansas and Kansas State, which had extension offices in every community, as well as with the State of Kansas Economic Development Department, which had outposts across the state. IFF loan officers worked on every deal, but there was no way that IFF could have had those loan officers “riding a circuit across the state.” The partnerships around distribution were key, more so than innovation around the financial product per se.

Neri also applauded the USDA Community Facilities program, noting that the public-private partnerships developed for that program were “a huge [value] add.”

Bob Schall of **Self Help** stated that over history, about 30-40% of Self-Help’s loans have been to rural areas. Schall agreed with Neri that the crux of the matter is the distribution issue. However, he also felt that smaller organizations serving rural areas will have a harder time doing business. “They generally will have higher costs per dollar lent - more costs to finding loans, building partnerships to develop pipeline, and will generally have smaller loans.” He continued, “there is no economy of scale do just doing more of that.” Schall reported that Self Help cross-subsidizes its rural lending, with larger loans providing more revenue to offset the costs of driving around to rural areas. It has also used its scale to set up a network of offices that help it deliver services. For example, Self Help has scattered offices throughout North Carolina. Even though most are in urban areas, the distribution of offices is such that wherever you are in the state, you are no more than an hour and a half from a Self Help office. Self Help is “getting to that point in California as well.”

Schall also applauded the USDA Community Facilities program and noted that it “gave lenders a reason to focus on rural areas.” More such programs could help to drive more focus and attention on rural communities.

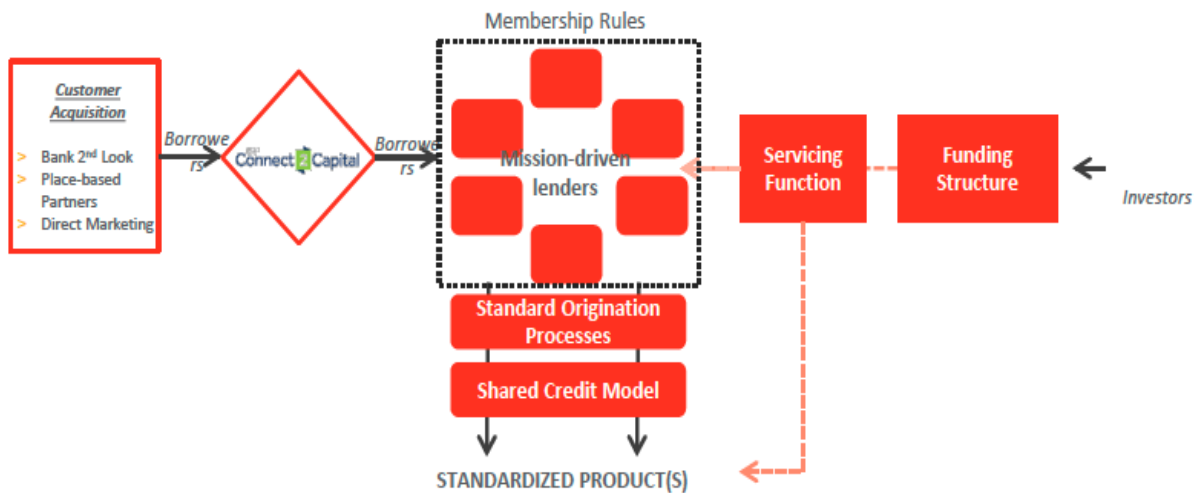
Jeanine Jacokes of **Partners for the Common Good** went back to Swack's original question about small CDFIs working in rural places. She commented, "I think we need to think differently. There are approximately 6,000 banks and 6,000 credit unions, and only 1,000 CDFIs. I think we actually need more help, rather than less help, to solve the problem of rural places that are falling further behind." Jacokes felt that we should think more broadly about who can be part of the solution. In most rural communities you could find a bank or a credit union. "The CDFI industry needs a bigger tent than what it has had," she commented. "Part of the solution... is to think more expansively and maybe that means more banks, more credit unions, more of whoever is there." "If we had a bigger army," she continued, we might be able to overcome resource limitations that currently constrain the field.

Innovative Models for Service Delivery in Rural Areas

Frank Altman of **Community Reinvestment Fund** described the organizations 30-year history, originating over \$2.4 billion in loans across 49 states, including many rural areas. Challenges Altman noted to working in rural areas include a shrinking number of banks serving these areas; higher operating costs; a lack of CDFI coverage; and the fact that borrowers in rural areas have a hard time finding CDFIs given that most CDFIs find borrowers through banks and informal referral networks rather than through direct marketing. Altman noted that the low CDFI coverage in rural areas may be driven in part by CDFI Fund rules about Investment Areas – in particular, it is difficult for a rural CDFI to find contiguous Investment Areas that it can serve.

Altman cited data from the Federal Reserve Bank of New York's 2016 Small Business Credit Survey showing that CDFIs have high borrower satisfaction rates and high approval rates compared to other lenders. However, the same data shows that CDFIs also have very low application rates, reflecting the low visibility of the field.

Altman introduced Connect2Capital, an online marketplace intended to create greater visibility for CDFIs and help connect small businesses to CDFI products. Behind the Connect2Capital website is a referral engine including both an online customer-facing portal as well as bank partners who can refer customers to whom they are unable to lend. By creating standardized products and processes, groups of mission-driven lenders could access customers through the referral engine as well as jointly access capital.



CRF has found that a lot of borrowers are coming in from rural areas - although many are looking for products that CRF does not currently offer. Altman said, “We are trying to build something that will be scalable, with hundreds of millions of dollars’ worth of investment opportunity.” The fact that Connect 2 Capital is an online platform, he noted, should make it much easier for rural borrowers to apply without having to drive to a bank or CDFI, such that “the issue of remoteness begins to fade away.” To date, Connect2Capital has served more than 1,000 businesses seeking more than \$250 million in total financing.

Bob Jones of United Bancorporation of Alabama described the unique role and value of community banks in rural America: “Say you wanted to create a financial entity, using local resources and talent, that had an intimate knowledge of the markets it was serving. That had a leverage factor of 10:1, so that for every dollar raised locally there was \$10 of total investment. That was a tax-paying entity that funded local schools, public services and infrastructure. That had the resiliency to survive the ebbs and flows in the economy. What I just described to you is a community bank.” Jones noted that while there is a tremendous diversity of communities across the country, community banks can customize their business model to all of those communities. Community banks hold about 14 percent of banking assets in the country, and provide about 70 percent of business and agricultural lending in rural America. More than 600 counties (1 in every 5 in the US) have no other physical banking office except a community bank.

Some challenges Jones noted that impact rural America include that over 800 rural counties have limited broadband, even as the 2020 Census is preparing to use online questionnaires. In the South, rural areas also struggles with lower philanthropic presence. In Jones’ region, average philanthropic contributions between 2010 and

2014 were \$41 per person, compared to over \$450 nationally. Other challenges include:

- rural health care (7 hospitals in Alabama have closed; Jones described critically important investments in hospital infrastructure that United Bancorp has been able to make);
- education;
- population loss;
- infrastructure;
- unemployment and underemployment; and
- lack of broadband access (“the new interstate of commerce”)

United Bancorporation of Alabama is a bank holding company that is both certified as a CDFI and a publicly traded company. It has a subsidiary that conducts New Markets Tax Credit activity, an Insurance company, and a Charitable Foundation to help community organizations access grants. Jones described the organization as pursuing a “triple bottom line” of financial performance, economic development (it has created or maintained over 10,000 jobs in the region) and community building. The organization works with a wide range of partners including nonprofits, universities, government agencies, foundations and extension offices. That said, Jones noted that in many rural areas there are no nonprofits to work with.

Jones noted that until 2011, the organization was not aware of the CDFI space. But there are now 137 CDFI Banks, 40 percent of which are rural.

Sarah Morgan of **FAHE** began by describing the Appalachian communities that FAHE serves. “Appalachia is a place where the economy and markets are broken... and where there is a lack of ability to pay for services.” FAHE seeks to eliminate poverty by providing holistic solutions at the community level and helps to shape resilient communities. The FAHE network owns over \$1 billion in assets and invests over \$500 million annually in the local economy. Since 1980, over 450,000 people have received service.

Morgan emphasized the importance of partnerships in this work. The FAHE model seeks to go beyond mere “collaboration” – “We seek to turn competitors into allies,” said Morgan. “We give collective purpose as we try to move the region forward. We play that connective tissue role – helping to connect supply with demand.”

FAHE members have built their organization capacity to become sophisticated leaders who have mastered a variety of disciplines to tackle the challenges in their communities. “They can not only build a quality home,” said Morgan, “they can finance it, and raise the grants and resources to make it affordable to a low-income family.” Morgan gave the example of FAHE members’ work with USDA, from initially working with the 502 direct loan program to now brokering loans for the 502 guaranteed loan program, through which loans are sold to banks in the capital markets. In the absence of banks, FAHE’s nonprofit members are providing a delivery vehicle for affordable mortgage finance.

Morgan concluded that rural communities need access to consistent capacity, as well as strong and determined leaders. Both with require investment in local leadership.

Maureen Rude of **NeighborWorks Montana** described how their partnership-oriented service delivery model was developed to provide homeownership education and lending across a large, sparsely populated state. NeighborWorks Montana is a statewide CDFI that works with between 15 and 25 partners across the state who deliver homebuyer education and counseling services (both in person and over the phone). It funds these activities, provides access to training for partners, and provides support and technical assistance for partners. NeighborWorks Montana itself provides home purchase assistance loans to customers referred by these partners, and partners with regional and local banks across the state who provide senior mortgage financing.

The importance of partnerships is underscored by a dip in production in northeastern Montana that occurred when a key partner in that part of the state closed down. It took the organization some time to be able to locate a new partner who could play the roles they needed. “The partners are the key,” said Rude. “We don’t go into anything without a partner.”

NeighborWorks Montana realized that many of its partners needed help to fund affordable housing development work that they were doing, and now provides loans to these developers. For example, Rude discussed a new partnership the organization has developed with another CDFI in northeastern Montana, Great Northern Development, who is addressing rental housing preservation and development needs in that part of the state.

Since its founding 20 years ago, NeighborWorks Montana has built a \$25 million asset base. Rude reports that “we are able to have a lot of impact at that level.” Over the past 3 years, NeighborWorks Montana has invested \$6.7 million in multifamily development projects creating or preserving 618 affordable housing units, and has delivered \$4.7 million in subordinate home purchase assistance loans.

Rude also described a how NeighborWorks Montana joined the ROC USA affiliate network in order to preserve manufactured housing parks. Manufactured housing makes up 19 percent of the stock in Montana. NeighborWorks Montana has worked with 8 manufactured housing communities to date, providing technical assistance and loans.

Rude noted that there is a banking presence throughout much of Montana, including Wells Fargo, regional and community banks, and credit unions. Rude agreed with Altman’s earlier comment about the need to do more marketing and outreach to raise the visibility of CDFIs, and noted that NeighborWorks Montana has started to invest more in marketing and seen some positive returns to it. Their marketing budget, however, remains limited compared to others in the field (such as mainstream banks and Realtors).

The organization is doing business planning. Some key issues with which it is grappling now include:

- Broadband needs that are prevalent throughout the state, most of which only has access to satellite internet. NeighborWorks Montana is looking to implement more online homebuyer education, but that resource does not work very well with satellite internet.
- Long driving distances and counties with very small populations (as low as 589 people in one county).
- NeighborWorks Montana's current partners are mostly serving the county that they are in and maybe one other county. For them, this means that "we're still not really serving the whole state and we've got to find a way to get out to the *really* rural parts of the state."
- NeighborWorks Montana is doing some capitalization planning work, and is trying to be more strategic in thinking through what capital it needs, at what rate, from whom, and matching the assets and liabilities.
- Training the next generation of leaders to ensure the longevity of the organization.

Swack noted a few themes emerging from this panel – as Mensah initially noted, "creative partnerships are driving resiliency, and I think we heard that in all of the presentations." The question is how to drive innovative partnerships. We heard about the importance of place and culture, capacity, technology.

State Roles in Addressing Rural Financial Needs

Kelvin Hullet of the **Bank of North Dakota (BND)** discussed the history of the institution which is the only state-owned bank in the country. This state bank (and state grain elevator) was started in 1919 with a goal to address the needs of farmers who felt they were being treated unfairly by the financial industry. The bank was controversial when it was started, and faced stiff opposition from the financial industry and grain dealers.

The mission of BND has not changed since its founding – "to deliver quality, sound financial services to promote agriculture, commerce and industry in North Dakota."

BND seeks to cooperate rather than compete with the financial industry. It makes direct loans only for student loans, agriculture loans to beginning farmers, and loans to local governments in the state. Otherwise, it buys participations in loans originated by local banks "who serve as our distribution channel." BND envisions itself as an "agile partner that creates financial solutions to current and emerging economic needs."

BND is governed by the State Industrial Commission, which includes the Governor, Agriculture Commissioner, and Attorney General. The Industrial Commission appoints BND's president and senior staff executive committee, and approves any

loans larger than \$15 million. BND also has a 7-member advisory board, currently including 3 bank presidents and 4 other representatives from across North Dakota. All representatives are familiar with the economy of North Dakota with a broad understanding of finance.

BND has its annual budget approved by the State legislature through the appropriations process. The legislature can also legislate specific loan activities and products.

BND is structured as a state-owned entity and made \$145 million last year. However, it values both stability and its economic development mission over profits, according to Hullet. “We make money, but we don’t make as much money as we would if we were a private-sector bank.”

BND’s portfolio currently includes over \$2 billion in commercial loans, \$1.4 billion in student loans, \$762 million in residential loans (although the Bank is starting to exit this program due to interest-rate risk), and about \$670 million in farm loans.

On the operations side, BND serves as a “Banker’s bank” or “sort of a Federal Home Loan Bank for our community banks in North Dakota,” Hullet said, providing these banks with a variety of services and acting as their partner. A video providing more details about BND’s operations is available here:

[Bank of North Dakota](#)

BND is capitalized through taxes and fees that go through the State Treasurer, who then makes deposits in the Bank. Effectively, “BND has a captive deposit base that forms about 85 percent of our deposits,” Hullet said. “We also work with some other companies in the state and provide safekeeping for them.”

BND is not regulated by the OCC or the FDIC, “which gives us the opportunity to do some things you might not otherwise be able to do,” says Hullet. However, BND is inspected by the State banking regulator every other year and is audited regularly.

BND’s profits can go back to the State legislature, in the form of a dividend, or can be reinvested into the bank. Bank profits provided \$100 million to the 2015-2017 General Fund Budget and \$140 million to the 2017-2019 budget. Profits have also funded a \$100 million infrastructure revolving loan fund, and \$31 million for interest rate buy-down programs for key economic development programs. Lastly, BND profits have funded loans to state agencies, such as a \$50 million line of credit to the State Water Commission.

BND is flexible to meet changing community needs and address lending gaps in North Dakota:

- For example, it created a Farm Financial Stability program helping North Dakota farmers who experienced cash flow shortages during 2014-2016.

The program allowed farmers to restructure their debt load with lower interest rates. BND has funded \$155 million in investments through this program.

- BND also created a “Critical Needs Program” to respond to infrastructure and housing needs in rapidly growing oil-drilling regions. BND was able to finance critical infrastructure needs for local communities based on their access to Gross Production Tax cash flows from drilling activities. BND financed \$200 million in public-sector improvements such as schools, law enforcement facilities and courthouses.
- BND created a mortgage origination program to help rural lenders with limited operational capacity. Through this program, BND has originated USDA and conventional financing working directly with borrowers referred by rural lenders. The local banks appreciate this service because BND does not compete for their customer.
- BND has offered student loan consolidation to North Dakota residents to bring down their interest rates.

Hullet closed by emphasizing that first and foremost, BND is run as a bank, not as a state agency. He expressed concern about proposals he has seen for other state banks where the composition of the board is such that the entity could be pressured to depart from sound banking principles.

Bob Schall of Self Help summarized some lessons learned from the BND model:

- One is around the importance of the customer acquisition and service delivery model, which for BND and other mission lenders has revolved around local banks. Schall pointed out that in many areas of the country, these banks are becoming fewer and fewer, which raises questions about how to proceed.
- Another key point for Schall is that even though BND is working through a traditional financial infrastructure, it is able to expand access to credit by offering unique products. “That is a great model for an intermediary,” Schall commented.
- Schall felt that part of the “genius” of BND was where it gets its money. “In many places, public sources could be a fantastic source of capital... the CDFI industry has not really effectively tapped that source.”
- BND’s lack of federal regulation and its consistent source of capital from the state makes it “somewhat immune to economic cycles,” felt Schall. “You can be a counter-cyclical lender and actually fill the void when other banks are constricted. Things like that are unique.”
- Schall also pointed out that BND is headquartered in Bismarck. “You don’t need to be based in a rural area to serve a rural area, and you don’t need to be exclusively a rural organization to serve rural areas. But it helps to be an organization that has a strong focus on rural areas, and create the type of entity that will be responsive to the needs of rural areas and provide a broad range of credit services.”

- Lastly, Schall expressed happy surprise that there is a public bank in the USA. Schall felt that “this demonstrates that you should look beyond the near horizon,” and also consider models from other places in the world.

Jones commented on the declining number of community banks. He believes that this decline does not have to do with the viability of the community bank model, but rather the regulatory challenges faced by these banks. “It is a self-inflicted demise, not an economic one,” he stated. “It’s an institutional decision by policymakers.” Hullet agreed, “When Dodd-Frank was introduced, it was a one-size-fits-all. Community banks were punished for something they were not involved in.”

Schall referenced a study that had concluded that BND had contributed to a more stable community banking industry in North Dakota, compared to other states. North Dakota has the most community banks per capita in the United States, affirmed Hullet.

Brian Fogle from Community Foundation of the Ozarks asked about fintech and the threat it may present to the banking industry.

Hullet responded that in the last year BND has been looking at this issue closely, as well as at issues like cryptocurrency. “We are definitely seeing competition from fintech and are working with our community banks to figure out how to compete with that.”

Bob Schall noted a “wide chasm” between the community development finance world and the economic development infrastructure, particularly in southern states. With better integration, he believes we could see different results. Hullet responded, “part of my job is to figure out how to integrate things. I think we are reaching a point where we are starting to understand” how to do that. Hullet mentioned a legacy fund that the State created, and the possibility of using it for low-interest-rate infrastructure loan programs.

Another participant asked if BND had looked at financing broadband projects, and commented on the need for both fiber and wi-fi investment. BND has looked at that issue, including whether to use its Legacy Fund to support these projects.

Swack asked if BND was an exporter of capital from North Dakota. Hullet confirmed this is a case. BND has gone to community banks with locations in other states, and has indicated its willingness to participate in certain types of loans in these states. “It goes back to diversifying our base so that we are protected in a downturn,” noted Hullet.

“But Not For” – Innovative Ways that Community Developers are Supporting Rural Economic Development Infrastructure

St. Louis Federal Reserve President Bullard opened the second day of the FIR by describing several initiatives the St. Louis Fed has launched with bearing on rural issues:

- The Delta Communities initiative, a place-based approach that aims to strengthen rural communities in the Mississippi and Arkansas Delta. This initiative has hosted regional forums on various topics.
- The St. Louis Fed Community Investment Explorer provides data on investment flows around the country.
- The Center for Household Financial Stability has done research on issues such as the racial wealth gap, and on the financial ability of families to handle emergency expenses

Andrew Dumont of the **Federal Reserve Board** provided some takeaways from the previous day’s conversation, including the importance of partnerships and networking in rural communities. Key questions going forward include who are the partners, what is their capacity, and how do we support their capacity.

Janie Barrera of **LiftFund** talked about how the microlending work LiftFund does is “hard, but even harder in rural areas.” LiftFund has grown from its inception in 1994 to an organization with \$70 million in assets serving 13 states including some of the poorest areas of the country, with almost \$30 million in loan volume in 2017. “It takes partnerships,” stated Barrera.

Barrera noted that in rural communities, there are fewer assets, and LiftFund had to come up with a product that doesn’t require collateral – which it called the “Promise Loan.” The Promise Loan used an interview to measure borrower character, honesty, resiliency, and acumen as its underwriting. LiftFund lost 30% of its initial portfolio, but 70% were still in business. It was able to tweak that model and launch a new product called “LiftUp” in 2015, which has achieved lower default rates of 3-5%. LiftFund has been able to do \$17.6 million in rural lending from 2010-2017. Barrera highlighted that technical assistance needs to be coupled with access to capital for these borrowers to succeed.

Mary Elizabeth Evans of **HOPE Enterprise Corporation** provided some background on the organization, which includes both a CDFI, a Credit Union, and a Policy Institute under the same umbrella, with different boards but shared staff. Evans noted that the partnership between the depository institution and the loan fund has been critical for HOPE’s growth and impact. HOPE has 31 locations across Louisiana, Mississippi, Tennessee, and Alabama, serving 44,000 members.

HOPE’s credit union members are predominantly minorities (73% African American), and 37% of members had never had a bank account before joining. An

additional 32% were underbanked and utilized payday or predatory loan services. The region has a high concentration of persistent-poverty counties, and significant racial disparities along indicators such as unemployment, child poverty, and school quality. Additionally, only one bank has a CRA assessment area in the Mississippi Delta, which significantly impacts the region. Evans also reiterated statistics on the lower level of philanthropic activity in the area that Bob Jones and mentioned the previous day.

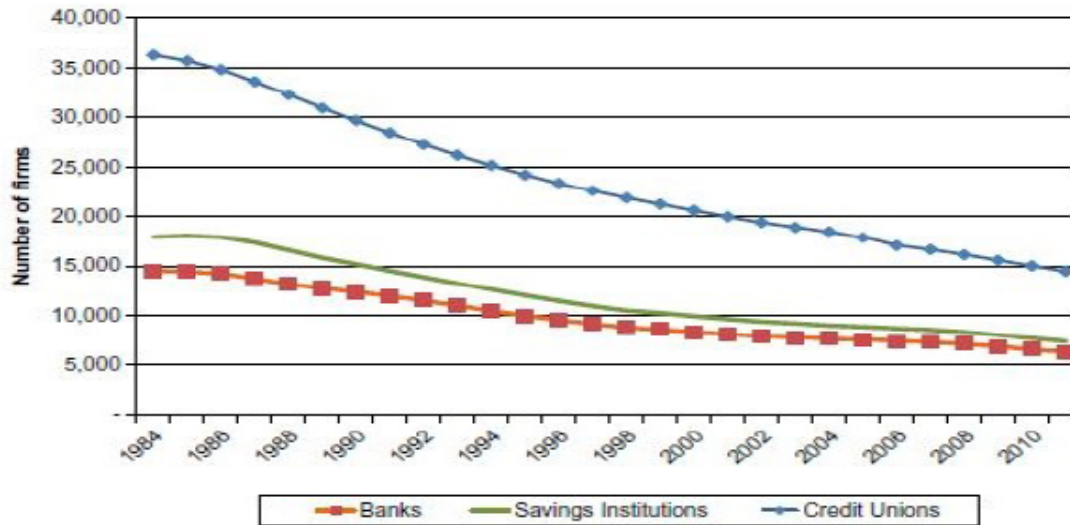
HOPE is growing through both mergers and new office openings in communities with banking needs. It has accepted 4 branches as donations from Regions Bank, which was closing those branches. HOPE tries to cluster branches to maximize staffing efficiency.

HOPE has created a “small towns partnership” program where it is working more intensively in certain communities where it has branches; most of these communities face concentrated poverty, population decline, and other challenges. The small towns partnership program seeks to build the capacity of towns to facilitate economic development; support communities in developing strategic plans; empower community leaders with tools and leadership skills; identify priority projects; and provide training and technical assistance to advance priority projects and leverage capital. Examples of projects include a historic school in Drew, MS, that was converted to affordable housing; and an effort to improve utility infrastructure in Itta Bend, MS.

Betsy Biemann of Coastal Enterprises (CEI) drew a portrait of the types of communities in Maine, which can be thought of as “three Maines” – the greater Portland Area, a booming area with lots of economic activity; rural counties that have been stagnant for 6 years, with an extended recession and outmigration; and the central / midcoast region which is depressed economically but not as much as inland counties. Biemann described communities working on different visions of how to build their economies, with ideas ranging from rebuilding shuttered industries such as paper mills, to promoting tourism, to developing agriculture. Communities are trying to diversify economic development strategies while building on local assets, and also connecting to people who have moved away from Maine but have skills and resources they would still like to contribute to their home communities.

CEI has a 40-year history in micro and small business lending, as well as community facilities lending. CEI offers business coaching, workforce development intermediation, and brings particular expertise in natural resources-based industries. It also engages in state and federal policy. It has \$100 million in total assets, and has several for-profit subsidiaries such as a NMTC subsidiary, a solar financing subsidiary, and an SBA 7(a) lending subsidiary.

Karama Neal of Southern Bancorp Community Partners (Southern) described the mission of her organization around wealth building. Neal emphasized that traditional financial institutions in rural America are disappearing:



Tolbert, Charles et. al. 2014, “Restructuring of the Financial Industry: The Disappearance of Locally Owned Traditional Financial Services in Rural America.” Rural Sociology, Advance Copy.

Neal noted that this trend is not new. Southern was founded 30 years ago to provide financial services and access to capital in places that don’t have it. “There are six communities where we are the only bank in town... these are challenged communities where we are working,” she noted. Southern consists of three separate CDFIs under a common umbrella: a holding company, a bank and a loan fund – similar to structures in place at Self Help and at HOPE Enterprise, she noted. “Each of these entities has different tools they can use to help achieve the mission we were founded to serve,” Neal stated. The combined entities have \$1.1 billion in assets, up from \$10 million at the organization’s founding in 1986.

Southern has 44 locations serving 65,000 customers in Arkansas and Mississippi. Branches are concentrated in areas of high poverty, and with high rates of unbanked / underbanked population. Communities they serve have experienced outmigration over an extended time.

Neal highlighted some common themes between Southern’s work and that of other presenters, including:

- The importance of having a policy shop, which Southern also has, to promote fairness and justice for low-income communities; and
- The need for technical assistance beyond just capital – Southern’s activities in this area include VITA tax return programs, IDA programs, and housing and credit counseling.

More than half of Southern’s loans are for amounts under \$10,000, which helps to combat payday and other forms of predatory lending. Savings accounts help customers to build net worth so they can then start businesses or buy a home.

Dumont asked the panelists to discuss how they identify the partners they are going to work with, and what local partner needs must be addressed so that they can be effective:

- **Barrera** replied that LiftFund’s number one partners are banks. “Our challenge is not finding customers, it is finding capital to be able to make these loans. Banks and foundations are a great resource for us,” as well as religious congregations. LiftFund has an investment program where individuals can invest \$1,000 and earn a 2% return, and either roll over the investment after 12 months or ask for the money back. The other partners are people who work in the communities. “We have feet on the ground in 10 cities in Texas, “as well as several other communities, but there are communities where LiftFund needs partners and/or uses the internet.
- **Evans** replied that “we look for partners with aligned visions.” Community banks are critical partners who help HOPE serve what would otherwise be bank deserts, as are many national CDFIs who help HOPE to “import capital” into the region. Evans noted that HOPE’s strongest partnerships are often with churches, schools, businesses, and local and state governments in the areas they serve.
- **Biemann** noted that CEI partners with many community banks, which are plentiful in Maine. These partnerships include loan participations. Economic development and workforce development organizations are other key partners. CEI has also helped to incubate other CDFIs, including a Native American – led CDFI, Four Directions, and the Genesis Fund, a religious-based affordable housing lender. CEI also has a number of its business coaches housed in other organizations around the state so that they can be closer to the local businesses they are counseling. Lastly, CEI engages in national partnerships such as with the CDFI Coalition and national CDFIs.
- **Neal** talked about how Southern tries to maintain a narrow focus, but finds low-time-commitment ways to connect people or to help people write grants. Southern tries to create an environment that allows partnerships to thrive. Neal mentioned collaborative efforts around issues of underbanked populations as an example.

Dumont then asked the panelists to discuss how they deliver capacity-building services, especially in more remote communities – how much do the organizations do themselves, versus through partners.

- **Neal** replied that Southern does some of that work in house, but has a small staff and a large geographic area. Southern tries to find partners to help out. She noted that state-funded programs are accountable to provide statewide service (such as a statewide small business technology organization), and therefore can make good partners for this outreach work.
- **Biemann** added that in some cases funding drives how you can partner (and funding can also either facilitate partnerships or create friction). Biemann described how Small Business Development Centers (SBDCs) are allocated to

different regions of the state; CEI operates one SBDC and partners in other regions operate other SBDC's with which CEI collaborates. In other cases it is more "organically complementary" – for example, there is an organization who does a lot of workshop-style business training. CEI knows the nature of this organization's work and if that is what a borrower needs, they will make the referral rather than design their own workshop.

- **Evans** pointed out that HOPE has always provided training and technical assistance as part of its model, but has similarly also often partnered with organizations who could provide more in-depth assistance in particular topics. HOPE's small town partnership program has received funding from USDA and other sources to support technical assistance. It has hired staff with expertise in various areas such as affordable housing, food retail, and educational facilities. HOPE does not have experience doing strategic planning with communities and has partnered with a strategic planning firm, with whom it is working side by side in those communities. Finally, Evans pointed out that "there is significant, deep expertise in the communities that we are serving." For example, there is Delta Housing, a nonprofit housing developer, who can help develop affordable housing strategies.
- **Barrera** said that LiftFund's business loan officers spend about 15 percent of their time providing technical assistance. "We definitely need partners for the other 85 percent – we don't want to say no to our customer, what we say is not now, these are the things you need to clean up." Partners are the ones who help us make sure that "not now" becomes a "yes" for the borrower.

Dumont reflected on Evans' story about how some communities have had strategic planners in the past who would drop off the completed plan, and leave the community. He tied this story to the need for community capacity to be consistent and reliable. "How can you be visible if you are only there half the time?" he wondered. Dumont asked the panelists how they can make sure they can be there into the future as reliable and consistent partners to communities, what sort of resources and funding they needed to do that, and more broadly how they could sustain this work.

- According to **Evans**, HOPE has tried various models of credit union branches – micro-branches, cashless branches with kiosks with online apps, and full-service cash branches. It has tried a mobile app with a financial manager and budgeting tool. "However," Evans continued, "because of the lack of trust in some of these communities, people want to have a relationship with their bank. Having a physical presence in these rural, underserved communities is critical to our model." At the same time, part of the sustainability conversation is that the majority of HOPE's lending is in urban areas. "We've put a very intentional focus on balancing our lending between rural and urban areas," she said – HOPE's urban activity subsidizes the rural work.
- **Biemann** related that because CEI is 40 years old, and has a reputation for both financial strength and expertise, it is approached all the time from people who are asking CEI to lead new initiatives or help develop big new

ideas. CEI is in the position of needed to evaluate these opportunities in the light of its strategic plan, its mission and its understanding of its comparative advantage. “It happens far more than I anticipated and one needs to have the capacity that enables you to take on some of those things, which don’t necessarily have funding that comes with them, but where it somebody needs to do this and we are the right ones.”

- **Barrera** added “to follow along with [Biemann’s comment], patient capital is needed. People want results in one year – but how can you change a community in one year? Can we at least talk about 3 years?”
- **Neal** described how “unexpected partners” can sometimes help to build trust. For example, Southern works with a major utility that is recognized in the community as a longstanding institution. She also brought up the “small town advantage” – “first, word spreads really fast because there are not a lot of people to spread it to and that can be really helpful when you are trying to make a change.” Neal continued, “The other piece is that... if you are doing 1,000 tax returns in a town of 10,000 people, you’re reaching a significant chunk of folks.”

Brian Fogle was in a small community where a community member asked him, “why can’t we keep our children [in the community]?” He sought the panelists’ advice on this question.

- **Neal** was heartened by the conversations around broadband at the FIR. She believes that the nature of work is changing, and as people have more opportunities to live where they want to and work someplace else, that may change the calculus. The two things to consider are: 1) how to help people growing up in rural communities to understand what their opportunities are?; and 2) maximizing opportunities for work that allows you flexibility of place.

A participant asked whether panelists were modifying their business models or experiencing mission creep because of funding?

- **Biemann** replied that CEI is fortunate in that it does generate enough revenue to support the organization and it has diversity in its funding.
- **Neal** replied that HOPE tries to go after flexible funders, and that one of the reasons it invests in policy work is to be able to advocate for resources where it sees important needs.
- **Barrera** discussed the difficulties of making microloans in the United States, noting that it is hard to break even for loans under \$20,000.

Swack asked Barrera about LiftFund’s borrower questionnaire (that asks borrowers about their character, honesty, and acumen), and linked it to the emergence of the field of behavioral economics. “People don’t do stuff because they are rationally maximizing their utility, they do stuff because of their history, their emotions, their culture, all sorts of different things.” Swack asked, “what has LiftFund has learned from its borrower questionnaire?”

- **Barrera** replied that most of LiftFund’s customers are not bankable, and that their average customer credit score is 580. LiftFund started to use its data to create a profile of a good-paying customer versus a not-so-good-paying customer in order to better inform its credit decisions and process applications faster. For example, some of its questions are “how much time do you spend at your children’s school? Have you ever had your refrigerator repossessed?” LiftFund has run applications that got denied previously and found about 600 people that we could have helped using this behavioral methodology.
- **Neal** chimed in that she felt that it “absolutely made sense” for CDFIs to apply the lessons of behavioral economics in their work with customers.

Swack asked several presenters, “one of the themes from the event so far seems to be about the effectiveness of combining a regulated financial institution with an unregulated one, because it allows you to do more things than you could otherwise do.” He asked Neal and Evans, as well as Bob Schall to expand upon how that model has worked for them. He asked Biemann about whether CEI has ever considered starting a bank, and Bob Jones about whether United Bank has ever considered starting an unregulated entity.

- **Bob Jones** affirmed that they have started a nonprofit affiliate, but that even as a regulated institution United does make loans to customers with subprime credit. On the other hand, it would not have the flexibility to make character loans using a questionnaire as LiftFund does – “if we did what she described, I would literally be in federal prison.” Jones continued that one of the challenges that CDFI Banks have is that as they pursue their mission, they do so at a heightened risk of compliance issues. Swack asked whether this issue would not be another reason to start an unregulated affiliate.
- **Biemann** argued that the trajectory of the CDFI field has moved CDFIs to become more bank-like, which has resultantly narrowed the field’s ability to generate impact. Biemann stated, “I do not know enough about what it would actually take for CEI to start a bank, but my concern about the trajectory of the field is that as more of the capital going into CDFIs has come from banks, and more of the folks working for CDFIs have come out of banking, that our focus has become more on transactions as an end rather than transactions as a means to an end. I am not sure that starting a bank is the best use of the precious capital and limited capacity that we have.”
- **Neal** reflected that because the loan fund where she works is closely affiliated with a bank, “we try very hard not to do what a bank would do – because otherwise, why would we be there?” At the same time, having a bank CEO “down the hall” is a very different relationship for her than with an external bank partner, providing much closer access.
- **Evans** felt that the question of whether or not to form an allied loan fund / depository structure “depends on where you are in the region,” and

what financial institutions are already there. For HOPE, which started as a loan fund, having the credit union greatly increased the combined ability to raise capital. Evans also agreed with Neal that the allied relationship leads to clear thinking about which entity (the credit union or the loan fund) is best suited to do a particular type of lending or activity. She also agreed with Jones that “the regulatory constraints are significant and real.”

Swack asked participants to reflect on what drives institutional decision making. He gave the example of a merger discussion in which the organizations spent very little time talking about how a merger would change their ability to achieve mission, and most of the time talking about who would get to be the CEO, the CFO, where would the office be located, etc. Such examples should lead us to think, Swack argued, about “what motivates the behaviors we have to create institutional partnerships, and what mitigates against that?” It makes Swack wonder about the ability of organizations to behave in ways that are really mission oriented, versus letting emotions affect organizational decisions.

Innovations for Capitalizing Rural Mission-Based Financial Institutions

David Dangler of **NeighborWorks America** reflected on how 40 years ago, there wasn't a lot of institutional knowledge in rural areas about community and economic development, but “that has changed immensely.” Today in the NeighborWorks network, 116 out of 250 organizations have elected to participate in the NeighborWorks rural initiative, including some of the largest organizations in the network. Nonprofit leaders from around the country, both in and out of the NeighborWorks network, are coming together to see how they can work together to address various rural challenges in a variety of contexts (for example the Mississippi Delta, Native American communities, the Colonias, the Appalachians).

More generally, while the nonprofit sector in rural areas has matured and grown over the decades, the private and public sector have retracted, and have much less staff capacity to deliver on their programs.

Dangler cited the ROC USA model is an example of how to use flexible capital to disrupt a market in positive ways.

Finally, Dangler put forth a challenge to the group: How can we leverage our strengths and maintain rigor of underwriting in areas of persistent poverty? “Premium challenge needs to be met with premium support,” he suggested.

Pablo Bravo of **Dignity Health** described his organization's growing interest in addressing social determinants of health (the issues that may cause people to become unhealthy). Dignity Health is a nonprofit healthcare provider that currently

serve 3 states, but is growing to serve 26. It currently operates 39 hospitals and several health clinics as well.

Dignity Health began to make community investments at the time of its founding by the Sisters of Mercy. Current Dignity Health policies allow it to place up to 5 percent of its portfolio in community investments. Dignity has invested over \$300 million to date in community loans or investments addressing issues including arts and education, environmental, food, job creation, access to capital, and affordable housing. Dignity Health has partnered directly with housing developers and CDFIs that lend to housing. Its investments have included loans, guarantees, special lines of credit, and various other products to meet the needs of the community. Loans may be secured or unsecured, and generally carry a term of 7 years and an interest rate of 0.5 percent.

About 21 percent of Dignity's portfolio is invested in CDFIs. Dignity is focusing on CDFIs doing riskier work, such as serving rural communities. Dignity has a direct interest in rural work as it operates some of its facilities in rural communities. Key focus areas in rural communities include housing, access to care, access to food, and access to water. Dignity also provides working capital for Federally Qualified Healthcare Centers. FQHC's are now major employers in rural areas. Dignity is hoping to further expand its involvement in job creation investments through partnerships with CDFIs.

Toby Rittner of the **Council of Development Finance Agencies** talked about innovations and collaborations with state and local development finance agencies. Rittner noted that 20,000 bonds are issued every year for activities such as building roads, schools, YMCAs, hospitals, bonds for first time farmers, and much more. There are 55,000 authorities in the United States that are able to emit bonds, and every state has a development finance agency. Moreover, bond authorities operate around 20,000 revolving loan funds, and some bond authorities are even certified as CDFIs or Community Development Entities (CDEs).

Rittner mentioned several innovative initiatives from around the country where development finance agencies have been investing in rural development:

- Launch Tennessee (<https://launchtn.org/>) has established 8 entrepreneurial centers in rural areas around the state with the goal of getting capital to small businesses and entrepreneurs. The initiative includes a \$2 million loan fund.
- Kentucky Wired (<https://kentuckywired.ky.gov/>) has issued \$232 million in bonds to bring broadband internet to all areas of the state, including rural areas that previously lacked access.
- The Colorado Housing and Finance Authority is administering a \$20 million fresh food financing fund (<https://www.chfainfo.com/CO4F/>).
- Rittner also discussed agriculture bond programs that are in place in 22 states.

Rittner also discussed the new Opportunity Zone program and the challenges for states of selecting which census tracts they should include in the program. A concern about the Opportunity Zone program is whether it will truly incentivize mission-oriented investment or merely serve as a new form of tax shelter for capital gains.

Ellis Carr, the moderator, asked what are factors that may cause organizations not to collaborate. David Dangler suggested that organizations may allow themselves to be framed in certain ways such that they are siloed as a housing organization, small business organization, etc. On the other hand, rural organizations may be less likely to box themselves in because they often offer many types of services and products.

Frank Woodruff asked if Dignity Health is working with the traditional banking sector. Bravo replied yes. Dignity has worked with Wells Fargo to put capital stacks into different projects to keep housing affordable in areas of California that were impacted by fires. It has also worked with banks as the leveraged lender on an NMTC transaction where the bank purchases the credits.

Brian Fogle asked Rittner about how rural communities could take advantage of the Opportunity Zones program. Rittner replied that first, it will be important to talk to Governor's offices to include these areas in the census tracts they select for the program. After that, the next step will be to work to set up Opportunity Funds, once guidance is available from the US Treasury on the requirements to do so. Treasury is currently receiving comments on this process. An open question is whether or not investments in Opportunity Funds will receive CRA credit.

David Lipsetz commented that many public policies have been developed without running them through a rural lens first. Examples of policies and programs that have proven unwieldy in rural areas include CRA, CDBG, NMTC, LIHTC, and others. Toby Rittner gave one example where they believe a policy has worked well in rural areas, namely the State Small Business Credit Initiative. This initiative gave more decision-making power to states.

Regional Networks for Funding and Financing: Appalachian Funders Network Case Study

Justin Maxson of **Mary Reynolds Babcock Foundation** provided a video with background on the Appalachian Funders Network, which can be accessed via this link: <https://www.appalachiafunders.org/transition>

Maxson commented that aspects of stereotypes about Appalachia – that it is a region of poverty, economic decline, and environmental degradation – are true in part, “but there is another Appalachia that we see every day which is an Appalachia of hope and opportunity, where young people are choosing to stay... and communities are coming together to build on their assets and create the next economy.” Maxson also emphasized the importance of the coal industry in the history of the region and the nation. Coal industry employment has declined from over 400,000 50 years ago, to 40,000 5 years ago, to 12,000 last year. “Appalachian Funders Network was born

from the desperation of the region,” related Maxon. “The collapse of employment [in the coal industry] opened up new public conversations about the need to invest differently for a brighter future for the region.”

Ray Moncrief of **Kentucky Highlands Investment Corporation and Appalachian Community Capital** talked about the capital landscape in Appalachia, which is “extraordinarily bleak” in his opinion. He began by observing that “rural is the stone that gets kicked down the street.” For example, Moncrief pointed out that the rural share of NMTC allocations last year was about 29 percent.

In 2011, the Appalachian Regional Commission initiated a study by NCRC showing that only one regional bank is headquartered in Appalachian Kentucky. “Banks of substance don’t exist in Appalachia,” said Moncrief. The banks that exist there are community banks, but they are experts in the coal mining industry. Moncrief also noted that major SBA and USDA loan programs are hard to utilize.

Moncrief argued that it is necessary to establish a fund for investing in businesses before successful businesses can be created. “When there’s a business to be financed, you have to be quick,” he said. “I believe there is a need for a significant need for a major fund in Appalachia,” to avoid exporting talent out of Kentucky. “Thus the formation of Appalachian Community Capital,” said Moncrief, a collaboration of CDFIs that are pooling their knowledge and resources to invest in Appalachia. That entity has raised and invested \$15 million in capital, from sources including \$3 million from the Appalachian Regional Commission as well as investments from 2 foundations and 2 large national banks. Appalachian Community Capital is now entering a second round of capitalization, including investment in additional CDFIs.

Moncrief believes that “there is no better delivery system for grassroots financing in America than the CDFI system. They aren’t regulated, and the people that invest the money [in the community] live there.”

Michelle Foster of **The Greater Kanawha Valley Foundation**, a community foundation in West Virginia, described the history of the Appalachian Funders Network (AFN). AFN started in 2010, as people realized their shared concern about the economic transition of the region. The idea behind the network was to leverage resources to propel the prosperity of the region, share experiences, develop workable strategies, and build a movement towards an equitable economic transition. Partners include private foundation, community foundations, corporate foundations, BB&T bank, and the Federal Reserve Bank of Richmond. AFN has grown to over 80 organizations throughout the central Appalachian region. Goals include building relationships and trust; facilitating common understanding, analysis and vision; fostering cross-sector collaborations; aligning existing resources and leveraging new ones; and supporting network leadership and network leadership.

“What I found in linking up with the Funders Network was a group of people who were very hopeful about the region, and focused on making a difference in Appalachia. And they were unusually collaborative,” said Foster. “That’s what makes the network unique.”

“The collaboration has worked to develop a vision of an economy that is based on our unique assets,” said Foster. “A big part of what we do is learn together, so that we can take it home to our individual organizations – learning about entrepreneurial opportunities in promising sectors.” Members have organized themselves into five working groups around health, community capacity, energy and natural resources, food and agriculture, and arts and culture.

AFN partnered with the Rockefeller Family Fund to establish the Just Transition Fund – a vehicle that was designed to allow national and regional foundations to invest in energy and economic transition issue, and to assist those communities that were affected by the loss of coal. A variety of other funders participated. To date, the Fund has awarded \$1.4 million in capacity building grants.

Maxson added that the Network has enabled analysis of what types of economic development strategies could work, which has helped to align the efforts of 80 grant-makers around these strategies – for example, around entrepreneurship, and around sectoral strategies for local food, energy, health, broadband, and arts and culture. The Network also developed a policy agenda aimed at supporting these strategies.

Maxson noted two key problems on which the Network is working now:

- First, that there are fundable deals and organizations willing to fund them if they had the capital, but they lack the access to capital.
- Second, there are social enterprises and small entrepreneurs who need technical assistance to become deal-ready.

Impact Appalachia is a new initiative meant to address these issues. It will be a multifaceted investment platform to connect people to capital who have fundable deals in the region, and coordinate technical assistance and other resources for those deals that aren’t quite capital-ready yet. It will serve as a basket to collect and hold investment capital from outside the region- providing an opportunity for those who are divesting from coal to then reinvest in the region.

Moderator **Julia Shin** of **Enterprise Community Partners** asked the panelists a two-pronged question. First, what is keeping the AFN partnership together, and what are some of the necessary ingredients or resources needed to strengthen it? Secondly, what other partnership models exist that participants could share?

- **Maxson** replied that “AFN has been practitioner-connected since Day One,” which has been both a tension and a driver. He added that “I really do think that the region is in a moment where there is a growing public sentiment that

we have to ratchet up our response” to the decline of the traditional coal economy.

- **Foster** felt that the key has been a shared commitment to the cause of Appalachian transformation, and there is a strong belief in the utility of working together.

Moncrief asked, “how can we cooperate to take better advantage of all the philanthropic energy that is going on?” He noted the power that philanthropic energy can have, for example its role in helping the community development venture capital sector to launch. “The more that we can collaborate, the better the opportunities we are going to have,” Moncrief felt, which is exactly what happened with Appalachian Community Capital.

Maxson noted that “there is a real recognition at AFN that while there is a lot of capacity, there are also places with real capacity challenges. If AFN only seeks to shunt capital to opportunities that are investment-ready, we fail.” The question is then how to coordinate subsidy and other support to energize a technical assistance ecosystem in Appalachia and fill gaps in that system.

Betsy Biemann reflected that panelists’ work cuts across both state boundaries and political timelines, and asked how AFN is connected to state governments, including work it may be doing to advance its policy agenda.

- **Moncrief** replied that in Kentucky, “we spend a lot of time working with elected officials.” Kentucky has been creating centers for entrepreneurial development – but the problem that most of the centers are not led by entrepreneurs. Moncrief feels that there are hot spots in Kentucky for entrepreneurship, but that many rural communities do not have a culture of entrepreneurship. “We need something that changes that culture,” he said. Moncrief has invested in a company that provides networking software to connect entrepreneurs to each other and to how-to resources.
- **Maxson** described AFN involvement in federal policy, such as in the POWER Initiative supporting economic revitalization and workforce training in coal communities. AFN has also engaged in policy initiatives focused on the Appalachian Regional Coalition.

Brian Fogle asked panelists about where they have seen successes in replacing jobs that have been lost.

- **Moncrief** has seen call centers creating jobs – for example, for Humana health care.
- **Maxson** notes that “tele-work is big” – there are efforts at scale to connect people from their homes and generate contracts with tele-work providers. Maxson also sees job creation opportunities in arts and culture, and “huge opportunities” in energy efficiency. Because energy from coal has been so cheap, there is very little efficient residential housing. Utilities are turning

towards implementing energy efficiency at scale, which could create many jobs.

- **Moncrief** added a caveat about the importance of broadband to creating jobs. Pockets of Kentucky and West Virginia still do not have high-speed internet access. Cottage industries, call centers, and other businesses depend on internet access.

Maureen Rude commented that she had heard the term “unusually collaborative” on the panel. “What struck me is, it seems like people in rural areas are unusually collaborative – we tend to want to work with each other instead of against each other.” She also commented that she is seeing growth in the beer industry in Montana, with people growing barley and selling it to local breweries. A lot of this activity is in rural communities – and a lot of collaboration is happening in local breweries over a glass of beer. **Moncrief** lamented that much of Kentucky is dry.

Maxson pointed out that there are communities across the region, even in the heart of the coal fields, that have new restaurants, stores and cultural activities, and have young people who want to stay. **Foster** discussed a growing music, arts and culture movement in Charleston, WV.

Shin identified a takeaway from the conference: “In some ways, the constraints of the geography and the constraints of the economic environment [in rural communities] is fostering partnerships” that go beyond the norms of what one typically sees in the CDFI industry. Shin asked participants to describe outside-the-box partnerships that we should start exploring.

- **Maxson** described difficulties in partnerships with state economic development agencies – “it’s something we can’t hold on to in a meaningful way.” He asked how others are working with these agencies.

Swack wondered whether, with 80 funders over multiple states, AFN has a powerful enough policy lever to change state economic development policy. Swack also asked both Maxson and Foster to describe, as practitioners who have “crossed over” to philanthropy, whether there are disconnects in which philanthropists do not understand the work of practitioners. Where does there need to be better collaboration?

- **Foster** has found that a lot of community foundations are very conservative. As a result, the foundation shies away from funding any initiative that would lead to the group lobbying. “We do not play in the state policy space at all, because we’ve got funders on both sides. As a community foundation, you don’t want to upset donors who are on each side of an issue.”
- **Moncrief** commented that Foster had “hit the nail on the head.” He also noted that, with particular emphasis on larger / national foundations, that these foundations may change their areas of interest from one year to the next. Foundation leadership can change and foundations “typically follow

their leaders.” He has seen foundations have a significant Appalachian focus under one leader and lose that focus under the next.

Shin asked practitioners in the room, “when you are working with rural communities, there’s a sense that you are not just responding to the capital needs but also developing markets [both capital markets and markets for goods and services]. Do you engage in that kind of activity more so in a rural setting than in an urban area? And if so, what does that look like?”

- **Toby Rittner** responded by emphasizing the role of analytics to show whether investments in developing markets can be paid back. He provided the example of how energy efficiency loans have shown strong performance. The other side of it is to look at new markets – “there are four revolving loan funds around the country for food enterprises. All of those funds [have] virtually no defaults. No one would have said that five years ago. So to me it is all about the analytics” to show bond investors that the bonds can get paid back. The participant suggested that in new markets, “someone should step in and credit-enhance these bonds.” If they perform well, future credit enhancement needs would be lessened. This is an area where philanthropy could play a big role.
- **Maxson** agreed, but focused on the challenges of product innovation and policy making. For example, he discussed efforts they worked on to develop on-bill financing with a utility. They could not get the utility to sign on – fundamentally, the utility did not really want to promote energy efficiency, as it was afraid to lose revenue.
- **Shin** felt that credit enhancement “works fine in a developed market like a bond market, with sophisticated investors.” But to her mind, here we are talking about “new frontier” investments, where we don’t necessarily have data about how the investment will perform. “In order to make some of these ideas work, there’s a development time that is necessary and there’s a process that needs to be done, both on the product development side and the investor development side.” For example, in solar, Enterprise had to work for several years to set up a fund to monetize investment tax credits for solar.

Chelsea Cruz asked about what metrics and benchmarks AFN used to guide the work of its five working groups, as well as how it is assessing collective impact, given that different funders often have different reporting requirements.

- **Maxson** replied that AFN made a deliberate effort not to create shared funds right out of the gate. Working groups drove learning and analysis (for example about sectoral opportunities) but not investment. Benchmarks have not been developed yet, although the intention is there to do so.

David Lipsetz commented that the biggest employment centers remaining in Appalachia are health and education. Both of these industries are regulated regardless of the size of the institution (unlike in the financial sector). The

participant asked whether the panelists had done any co-investing with either health systems or education providers.

Maxson replied that in AFN's health working group, there are two hospitals participating who have been part of investments. "The beauty of a network includes the staff investments AFN has made." AFN has 1.5 FTE of consultants who staff work groups, plus foundation staff who play a significant role. These expert resources help to maintain the intensity of the collaboration, for example in supporting three advisory boards.

Joe Neri noted that not only in rural areas but also in large cities, there is a significant conversation going on about how to create the capacity for capital absorption. "Capacity building is a big part of this. We keep throwing this word 'capital' around, but we have to get to a place where we really start to break that down." Do we mean capital for operating grants, for equity to leverage debt? Dissecting the problem and breaking down the capital discussion in terms of what is needed is important. **Shin** agreed that there should be clear distinctions made about the type of financing we need for a given initiative.

Swack offered a few concluding thoughts:

- Community investment is hard; rural community investment particularly so due to issues with distance, capacity, the need for partners and legitimate collaboration, and the need for both internal and external investment.
- We have seen examples of effective efforts presented over the past two days, with real results.
- There is an opportunity to expand access to capital, between tools such as national networks, hospital collaborations, bonds, state development finance agencies, foundations, and state banks.
- The questions that still arise are how do we access broader capital markets? There are lots of pieces in place, but the question is how to pull all of this together and connect the dots.