



Summary of the 12th Annual Financial Innovations Roundtable

March 20-21, 2012

Federal Reserve Bank of Boston

INTRODUCTION

Over the past twelve years, the Financial Innovations Roundtable (FIR), located at the Carsey Institute at the University of New Hampshire, 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. The FIR does this by tapping the expertise of thought leaders from the institutional investment, banking, philanthropic, and community development industries.

According to recent research by the Carsey Institute for the CDFI Fund, the community development finance field has reached an important milestone – the ability, even during a recession, to fill a capital gap and do so in a way that successfully manages risk and maintains good portfolio performance. Since the creation of the CDFI Fund in 1994, the CDFI sector has grown to over 900 certified CDFIs. Significant scale effects exist in all sectors of the CDFI industry, and operating expenses play the driving role in determining whether CDFIs achieve self-sufficiency. Notwithstanding these trends, most of the industry remains fragmented and vertically integrated, leading in many cases to capital underutilization and operational inefficiencies.

The 2012 Financial Innovation Roundtable focused on how the sector might address the opportunity of increased impact and efficiency through networking and collaboration. Drawing from practitioner examples, FIR participants addressed important questions including:

- What are leading examples of collaboration and industry networks? What have been the challenges and lessons learned from these examples?
- What are the most crucial needs of the industry in terms of collaboration and infrastructure?
- Who needs to be involved in creating the solutions? What next steps can industry work groups take to help craft a solution? What are the key actions various participants could take?

This report summarizes key points that arose from the FIR presentations and discussions. It also foreshadows strategic next steps over the year ahead. At this point, there appears to be particular interest in a CFO task force on industry standards; a convening of smaller CDFIs to explore sharing the cost and risk of innovation; a research project on the path to growth; and a workgroup exploring the relationship between community development finance and impact investing and raising “impact capital.”

SETTING THE STAGE

At the March 21 evening session, **Prabal Chakrabarti** and co-organizer **Anna Stieger** of the Federal Reserve Bank of Boston’s Community Affairs office joined co-organizer **Michael Swack** of the Carsey Institute in welcoming participants to the 12th annual Financial Innovations Roundtable.

Linda Hacke from Living Cities underscored the relevance and urgency of this year's topic by reviewing the lessons learned from the Integration Initiative. Living Cities is a collaboration of 15 foundations and 20 financial institutions. The Integration Initiative was launched in an effort to transform the systems that shape lives of low-income people in five metropolitan areas – Baltimore, Cleveland, Detroit, Minneapolis-St. Paul and Newark. Central to the Integration Initiative was the investment of significant capital (grant dollars, below market and market-rate loans) in projects that would catalyze the revitalization of underserved communities through business development, jobs, housing and transportation.

In reflecting on the achievements and challenges of the Integration Initiative, Hacke noted that some of the initial assumptions around the initiative were flawed:

- Assumed that there would be CDFI participation on each team and that the CDFI would have \$50 million or more in assets. (However, in the 19 applications submitted, many did not have CDFIs with \$50 million.)
- Assumed that the institutions would be embedded in their communities (this wasn't the case)
- Many of the applicants had only done affordable housing (a mismatch if hadn't done other things too)
- None of the cities are still working with their original financial partner.
- Therefore, there was a problem in the original design process

They are learning from the problems in the design process. In particular, the presence or absence of CDFIs reflects problems in certain areas. The Initiative for Responsible Investment has done a few case studies looking at what was going on that some areas have a lot of CDFIs and others don't. Why do some areas have borrowers and others don't?

Hacke noted the following lessons learned:

1. **An effective ecosystem** requires a supply of capital, subsidies, borrowers and intermediaries. You need all of them.
2. **Functional infrastructure** is critical. Need to have high-up partners (and institutions) to make this work. Also need an enabling environment, vision and legitimacy (usually local).
3. **Capital Absorption Capacity** is the ability of communities to make effective use of different forms of capital to provide needed goods and services to underserved communities. Living Cities is looking at how 'communities themselves deploy investment' and create an environment that puts dollars to work on behalf of low-income people. Core functions to absorb capital and make effective community investment include:
 - a. Innovation
 - b. Management and Monitoring
 - c. Enabling Environment- usually local
 - d. Vision and Legitimacy, and
 - e. Deals (generate and close deals that contribute to community goals)

Following Hacke, **Michael Swack** from the Carsey Institute presented results from the Carsey Institute's recent industry analysis for the CDFI Fund's Capacity Building Initiative. The study looked at how the community development finance industry is doing, the portfolio health and risk, impact of the recession and how CDFIs compared with traditional financial institutions. **Figure 1** shows key findings from the analysis.

Swack noted that, overall, the 'story' that CDFIs tell is largely true. That is, CDFIs lend to those who aren't otherwise served by traditional financial institutions. CDFIs have had high levels of performance and, in spite of losses, the CDFI industry did well during the recession.

Other interesting results from the CDFI analysis:

- Scale affects the efficiency of CDFIs. The CDFIs with larger assets were more efficient and had more impact. The larger CDFI's had lower combined interest and operating expenses and they had higher deployment rates.
- The CDFI industry is vertically integrated.
- The report looked at 900 CDFIs. However most of them were not that high performing.
- Hundreds of the CDFIs are marginal, have a lot of money sitting around and are not making many loans.
- One of the reasons for this is that many CDFIs do not have systems or checklists. It seems to be an industry that performs well in spite of itself.
- The authors of the study are not saying that we should get rid of smaller CDFIs. Rather, the following is being recommended.

Recommendations:

- There is a need to invest in collaboration and infrastructure.
- Need to look at what works and how it works.
- Need to build cooperating networks. Presently, the CDFI industry is not good at collaborating. People think they are 'different' and 'unique' and therefore they think they can't collaborate.
- Building Cooperating Networks takes money.
- One thing that can be done is to set up platform and show people how to share it and how to use checklists.
- Need to look further into how use technology, collaboration and networks.

Figure 1
KEY FINDINGS OF THE
CDFI INDUSTRY ANALYSIS

1. CDFIs have been "stepping into the breach" to address lending-related needs during the recession – and have paid a financial price for doing so.
2. CDFI portfolio performance has been mixed, but only for a minority of organizations is it an issue that significantly affects overall financial performance.
3. Significant scale effects exist in all sectors of the CDFI industry.
4. Operating expenses play the driving role in determining whether CDFIs achieve self-sufficiency.
5. CDFIs, particularly CDFI Loan Funds, face numerous barriers preventing them from using and leveraging capital more effectively.

The *CDFI Industry Analysis* was prepared for the CDFI Fund by Michael Swack, Jack Northrup, and Eric Hangen in Spring 2012. For more information, visit <http://www.carseyinstitute.unh.edu>.

Following Hacke's and Swack's presentations, attendees responded with comments and questions, which fell into the following broad themes:

- CDFI Industry Ecosystem
 - CDFIs are a disparate collection of entities (i.e., loan funds, venture funds, immigrant groups, etc.).
 - One question going forward: how do you collaborate and compete at the same time?
 - How do you apply 'Ecology of the Market' to CDFIs?
 - Do we need to be regulated or not? Do we need to be mission-driven or not?
 - Some of the small CDFIs become large CDFIs. The question is how do you get them to be larger and more effective?
 - Strong players can sometimes compensate for weaknesses. (Note: idea of having some CDFIs mentor others.)

- Making Change in the CDFI Industry
 - Some recommendations impose higher costs, but this might increase efficiency.
 - What platforms can we build to increase efficiency? (Need to be aware that sometimes platforms can be funded but others don't adopt it.)
 - Issues of scale: need capacity and flexibility.
 - Sometimes an entity will use capital for systems changes when systems might not be capital (i.e., the entity might need stronger civic support). Need to look at transactional vs. transformational.
 - How do you get people to adopt the needed changes? Many people in these small organizations lack time. They are working very hard but have limited staff. How can you get the staffing in place to make the changes?

- Standardization
 - Need new accounting standards. Need to standardize even within loan funds. (Note, CARS reports are good at standardizing)
 - Possibly use incentives (or punishment) to get the various entities to standardize. For example, credit unions and Neighborworks grantees are required to report on a regular basis using standard formats. A credit union will be shut down if it doesn't provide required reporting.
 - One CDFI that had several affiliated entities noted that the credit union portion of their affiliation only needed to report on one form, and that the CDFI had to prepare 350 other, varied reports for their other affiliates because there was no coordination of reporting requirements. Need a standard reporting format for CDFIs and a common reporting mechanism.

- Quality of Data
 - Collecting useful data was also mentioned. It was noted that one participant was very familiar with the data collected by Neighborworks and thought that most of the information was not useful at all.
 - CDFIs must get their financial reporting in order – but CDFIs must also get impact reporting so that the impact story is also solid.

NETWORK ORGANIZATIONS

On March 22, FIR participants turned their attention to specific examples of network organizations in the community development finance field. Outside of the field, networked organizations have proved to be a very effective business model for both building scale and retaining local ownership and control. The community development finance field has some good network examples, as well. Can the field go further?

Key Questions: What is the state of network organizations in the industry? What business models work? What has not worked? What are our long-term goals? What is needed to move to the next level?

Featured Organizations:

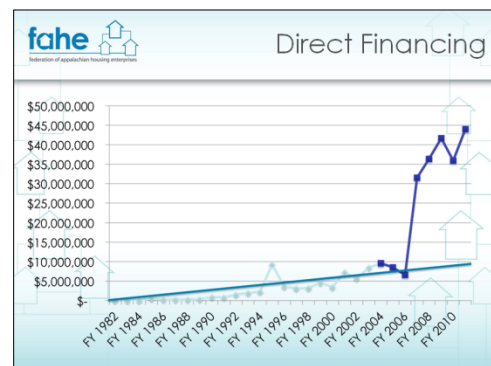
- **ROC USA.** ROC enables resident ownership of manufacturing housing parks. ROC operates through three subsidiaries: (1) A national network of nine TA providers; (2) ROC USA Capital, providing home financing and serving as a market-based system change strategy; and, (3) Corporation for Enterprise Development, a nonprofit based in Washington, D.C. promoting policy change. According to panelist **Paul Bradley**, ROC learned the following lessons:
 - “Build it and they will come” – invest in infrastructure up front. ROC had a uniform and scalable model, but since they didn’t initially have the infrastructure, their users created their own unlinked systems. While ROC now has a well-populated database, it has taken a while to bring users back into the fold.
 - Market development – ROC didn’t initially appreciate the difficulty of taking a nonprofit network into for-profit industry. It has taken time on the ground to develop relationships, tough in a down market.
- **Federation of Appalachian Housing Enterprises (FAHE).** FAHE is a coalition of 50 community-based nonprofit organizations that work together to make housing affordable and available to low-income families. Panelist **Jenna Urusky** noted that FAHE used to think of themselves as a “hub and spoke” model, then realized real value is serving as a “spider web” where members are interdependent on each other as well as on FAHE. This shift in thinking helped lead to an enormous gain in direct financing in FY 2006 (see chart) through new membership. The “spider web” approach is makes the network sustainable at scale. FAHE’s lessons learned include the following:
 - Look outside network of members to create volume. FAHE looked to Michigan, Alabama, Ohio, and Florida in addition to Appalachia, in part because Appalachia has a broken financial system so breadth of membership reduces risk.

ROC USA Network

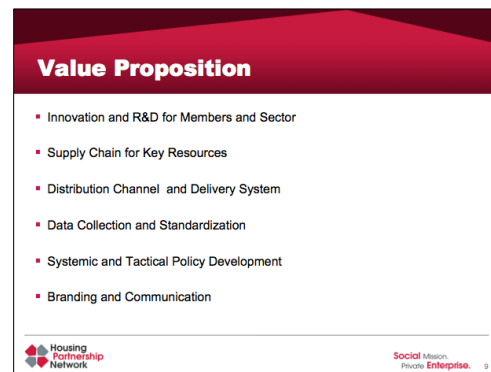
ROC USA
Certified Technical Assistance Provider

A network of non-profit community development organizations who have collectively completed over 100 MHC transactions.

- CASA of Oregon
- Community Resource Group
- Crossroads Urban Center
- Northcountry Foundation
- NeighborWorks Montana
- NH Community Loan Fund
- Northwest Co-op Dev't Ctr
- PathStone, Inc.
- Rural Communities Assistance Corp.
- READS-USA



- Centralized services – Most CDFIs were vertically integrated, providing all services, leading to redundancy across the system and waste of staff time. By looking at what services could be centralized, FAHE lets its members do what they do best, i.e., work directly in community with family. FAHE’s centralized services include:
 - Taking on more loan services functions (which reduced loan delinquency rate)
 - Mortgage origination
 - Green building
 - Multi-family development
 - Categories of benefits of networking include (1) staff functions – support, compliance, HR; and (2) front-office; and (3) risk-sharing. Re: risk-sharing, FAHE does some mortgage guarantees, but primarily talks about risk-sharing in broader context, i.e., success or failure of initiative can’t rest solely on one member. In multifamily deals, multiple orgs have a role, so share risk. People come together due to expertise areas.
 - To reach scale, it takes significant up-front investment that isn’t repaid in a 1-2 year window. The payback period is longer, even if gains are ultimately higher. All parties involved have to have mutual gains and mutual risk. Need to have executive-level involvement to establish a level of trust before partners see scalable growth occur.
 - Standardization of data is a stumbling block – eating up time and resources.
 - In some cases, savings were not enough because there were other types of social capital value that members weren’t ready to give up. E.g., cooperative purchasing – members didn’t want to give up relationships with local hardware store, since they often ask the hardware store owner to call legislators and represent a legitimate business.
 - In other cases, members didn’t want FAHE to see what was in their portfolio. E.g., one new member wanted 90 days to clean up records, and even after that clean-up period, their delinquency rate was 40% (FAHE brought it down to 12% in 30 days).
- **Housing Partnership Network.** HPN is a network of 98 nonprofit members from around country, primarily large regional developers or lenders. HPN helps its members take more of a social enterprise approach to innovation and learning. Initially organized as community of practice, HPN is committed to innovation, performance of the sector, and performance of its members as businesses. Panelist **Tom Bledsoe** explained:
 - HPN offers peer exchange, policy development and cooperative enterprise. HPN can take clusters of its members and help them organize in markets where there are benefits of collaboration. Its members don’t need help doing little things, they need help doing big things that they can’t do independently.
 - Peer exchange – bring CEOs and senior leadership together.
 - Policy development – staff in D.C. are recognized as industry leaders with practitioner perspective
 - Collaborative enterprise – since HPN is itself a CDFI, it has flexibility to raise and deploy capital. HPN incubates, finances and operates social enterprises that enhance the mission, performance and market position of its members. This combines the benefits of national scale while maintaining local accountability, and enables the sector to innovate and take on large-scale opportunities. Examples – insurance, CDFI, counseling,



charter schools, Gulf Coast, buying, data warehouse. New ventures – Mortgage Resolution Fund and the Equity Trust.

- Lessons learned
 - Build from strength, not weakness; leverage power of network not center
 - Business opportunities and innovation emerge from communities of practice
 - Cooperative ownership key to collaboration among high-capacity organizations
 - Easier to share infrastructure on new ventures rather than existing value chain
 - Current environment encourages collaboration and business innovation
 - Value in learning from other international models and systems

- **Accion.** As a network, Accion provides ~50,000 loans each year, with an average loan size of ~\$8,000. Accion started 50 years ago internationally and 20 years ago in the United States, but this is the first year that international and domestic affiliates are working together under a unified brand. Accion thinks their brand can be more effective if they leverage their collective histories. Panelist **Ana Hammock** described challenges and lessons learned:
 - Cost-effective acquisition of new businesses is challenging. So Accion works through corporate partners to help with marketing and program at scale. Examples – Samuel Adams, provides 1:1 mentorship to food and beverage orgs; Tory Burch with women entrepreneurs, first in NY then national, also focus on 1:1 mentorship and counseling on how to approach market; just announced partnership with NY Stock Exchange.
 - Invested in expensive tech infrastructure to manage reports and manipulate data
 - One ongoing challenge comes from having staff of different ages. Young staff expect advanced technology.

- **Lenders One.** Lenders One is a national cooperative of community mortgage bankers, correspondent lenders and suppliers of mortgage products and services. Lenders One was initially a division of CCA Global Partners, which helped clear the hurdle of high up-front capital costs for its sophisticated operating platform. **Michael Swack**, standing in for Scott Stern noted that the primary reason that independent banks and credit unions join Lenders One is that it saves them money; they receive high-quality services at a lower price. Members aren't required to purchase from the coop, but margins feed back into the coop. Member resources include:
 - Bulk purchasing of mortgage fulfillment, technology and business products
 - Documentation and templates
 - Training
 - CRM technology
 - Social networking

Clarifying Questions:

- How do you become member of The Housing Partnership network? Can you help serve lower performing, smaller orgs? Tom Bledsoe responded that this is not role for HPN, since members are selected (six criteria) and vetted by board. HPN works with higher performing organizations in the market; they're looking for best in class in a business service or community, to maintain coherence to their model. Most members did not start as small community-based CDFIs because of barriers to growth.
- What is FAHE role in origination and servicing? Jenna Urusky noted that FAHE serves as the broker. All compliance falls on FAHE, so that they don't place undue burden on small CDCs.

- What changes did FAHE implement to make their spike in direct financing possible and sustainable? Jenna Urusky pointed to:
 - Off-balance sheet activity to drive more lending (most of growth doesn't come from growth directly on our balance sheet).
 - Overhaul staff – draw on industry experts who were not from nonprofit or CDFI industries, but rather reformed commercial or investment bankers. These people taught FAHE the “Excel analogy,” i.e., take what's standard + tweak just a little. Most of staff wasn't willing to get on board so, over a period of 7 years, FAHE went from staff of 25, to 11 one summer, and have grown again to 35.
 - Look outside of membership to like-minded organizations and take their business on. This subsidizes cost of access to systems that FAHE members couldn't afford.

Roundtable Discussion: What are the most compelling needs of the CD finance industry in terms of industry networks? What business models can meet these needs? Who can make it happen?

Respondents:

- **Frank Altman from Community Reinvestment Fund, USA (CRF)** noted that we are in an Internet era with “networks of networks.” It's important to think about nodes that operate at high levels of effectiveness and efficiency – enabling specialization and differentiation. How much redundancy exists in 50,000-person CDFI sector because we aren't well-networked? FAHE is impressive because taps internal power of network and rearranges so more output for that group. Altman described different models to consider:
 - Corporate, rule-driven model. The CDFI industry emerged from a model of CDFIs as delivery system, i.e., small, vertically integrated organizations designed to get money out from a federal program. This model can be effective but is not effective in a network situation.
 - Collaboratives. Typically come from public figure or other external impetus. Usually have MOU to get outcomes.
 - True network has value chain in exchange. Grows organically if there are value transactions. (How do you decide what you're going to buy versus what are you going to create?)
- **Adam Gromis from the Global Impact Investing Network (GIIN)** referenced Robin Hacke's comments about cluster analysis of the enabling environment and wondered, Could we use this framework to identify our internal gaps too? He encouraged CDFIs to achieve value from learning across sectors, e.g., from funders who have the bigger view.
- **Cliff Rosenthal from the National Federation of Community Development Credit Unions (NFCDCU)** opined that the conceptual universe of CDFIs is flawed, too narrow. There are 7400 credit unions nationally, 1100 of which are federally certified with mission to serve low-income people, but only 200 are CDFI certified. When the CDFI Fund originated in 1990, it was meant to be cross-sector but, at 80% loan funds, 10% credit unions, and 0.5% equity funds, the Fund's composition does not reflect this cross-sector principle. Credit unions need:
 - Massive investment in common infrastructure – only CDFI Fund has the capacity to drive this.
 - Compliance services across field. (Credit unions already have standardization of reporting.)

- Investment in hybrid organizations, where loan fund and depositories work side by side and achieve synergies.

Following the respondents, attendees shared the following questions and observations:

- Need to think more about efficiency of delivery system. In the UK, we've seen consolidation to make the system more rational. How do we get organizations to give up their mediocre services and outsource?
- PEOs (Professional Employer Organizations) can be useful for outsourcing HR management and healthcare.
- Elyse Cherry noted that they are now looking for a new PEO and encouraging others to do the same, ever since Insperity (their PEO) advertised on Rush Limbaugh and would not back down – important to take shared values seriously
- Michael Schaaf noted a stark contrast between FAHE/ROC member and HPN member capacity for innovation; HPN members appear to have surplus resources for innovation including financial support for start-ups.
 - Paul Bradley said that ROC was initially distributed some seed money, which has dried up. Bradley was conflicted about grant-making function, since heart of ROC's model is entrepreneurship at local level, with a focus on production and not subsidy. ROC now has a small investment program to match TA capacity-building.
 - Tom Bledsoe noted that, for HPN members, time is the most critical resource and so serves as an effective filter for priorities. Effective initiatives are cooperatives, so members share risk.
- Frank Altman promoted the concept of a “market” versus a “network” – focus on value in transactions. Small CDFIs excel at finding deals, understanding community and demographics (e.g., ethnic group). If CRF can get them capital, then they can get the capital out onto the street. CRF does document preparation for business loans at low cost, creates standard branded products and online ‘smart’ documents (e.g., that stop you if you're not eligible). CRF has been able to close in communities where they never would have if they had required themselves to have an office in each geography.

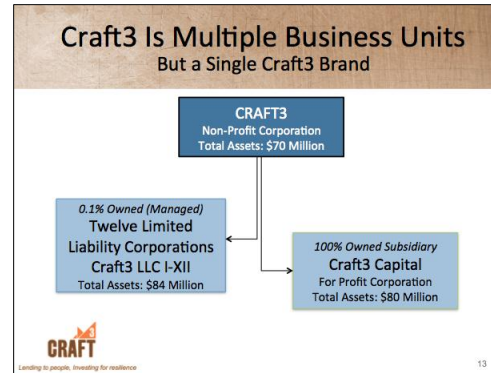
COLLABORATION IN PRODUCT AND SERVICE INNOVATION

Community Development Lenders have begun to collaborate around products and services in ways that promote growth and efficiency in the sector. Many of these collaborations are new – but promising.

Key Questions: What is the state of collaboration relative to product and service innovation in the community development finance industry? What business models work? What has not worked? What are long-term goals? What is needed to move to the next level?

Featured Collaborations:

- **Craft3.** Craft3 (formerly Enterprise Cascadia) formed in 2007 through a merger of Enterprise Pacific with Cascadia Revolving Fund of Seattle. The merger not only doubled the size of Craft3’s capital fund to \$28 million, but also expanded the once rural organization’s footprint to include the urban centers of Portland and Seattle, making Craft3 a regional institution. Now Craft3 is multiple business units that “collaborating with themselves” to enable 7x leverage. **John Berdes** reflected on Craft3’s experience and aspirations:

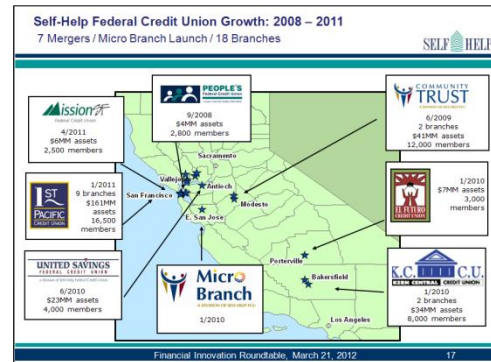


- Enterprise Pacific leadership had a “grow, change, or die” Aha! Moment – decided to not be cute, triple bottom line, revolving loan fund
 - 2007 merger was supposed to be merger of equals (1+1=3) but ended up as more of an acquisition, considering Cascadia’s entire human capital had moved on within six months. The merger cost \$500k – how do we create truly effective mergers?
 - The CDFI industry’s current 4x leverage results from lack of transparency, lack of standardization, lack of ability to be evaluated and monitored – we won’t get past 4x until we address these challenges.
 - Craft3’s 2012-2016 goals to grow off balance sheet capital – will no longer be rural or rural+urban CDFI, now regional (a little lonely, a little scary). Craft3 will need to develop networks since place still matters (“density of outcomes moves needles”). Craft3 is a regional CDFI surrounded by 30-40 smaller organizations who view it as the 800-lb gorilla. There’s a need for networking and consolidation.
 - As a CDFI industry, we’ve bifurcated ourselves – urban/rural, housing/community-facilities/business, etc. Craft3’s perspective is that the whole Washington+Oregon region has synergies. Craft3 is a larger platform that programs across the barriers to regional resistance. But there are perceptions among rural folk that doing anything in city is sleeping with enemy. It’s still not widely believed that rural needs urban + urban needs rural.
 - How can a regional CDFI with direct relationship with customers ALSO have a wholesale relationship with smaller CDFIs? One answer is a business line called “infrastructure” that presents value proposition to smaller CDFIs. How can we operate these various lines and stay intact?
- **The Reinvestment Fund (TRF) and Low-Income Investment Fund (LIIF)** – Community Health Care Center (CHC) partnership. **Don Hinkle-Brown from TRF** noted that TRF had talked about expansion into CHCs, but was led by a funding carrot to take the first step. The Kresge Foundation wanted to invest in sector learning, but also wanted an efficiency of learning and so encouraged TRF to partner with LIIF and follow an open-source process for peer learning. The initial grant was for \$50-60,000 to do a high-level market scan; they then picked three states to do a deeper scan. Now, each partner has pledged to create a \$25 million fund to create CHCs, with Kresge providing first-loss guarantee. Their approach (creating a platform for other CDFIs to pursue CHC projects) is more innovative than their product. **Nancy Andrews from LIIF** said that LIIF and TRF are now collaborating in new ways and detailed the success factors of the partnership:
 - Each transaction is jointly underwritten. They each have a stake in the success of each project.

- Agreed on common underwriting standards for this initiative, but also talked enthusiastically about loan staff presenting to each other’s staff about transactions – there’s trust and shared values – initially reluctance, but now excitement to increase efficiency
- Beyond personal friendship, need a sustainable venture: Where are the good fences that make good neighbors? How do we keep channels of communication and collaboration strong? What would cause us to separate (“pre-nup”)?
- Need to really understand each other’s balance sheet
- Benefits: scale opportunities, comfort to test new geographies – multiple strategic benefits beyond just this project,

- **Self-Help.** As part of Self-Help’s evolving strategy to serve the under-banked, Self-Help partnered with Latino leaders and State Employees Credit Union (SECU) to create the Self-Help Credit Union (SHCU) in North Carolina, which has grown into the largest civilian credit union in the world with \$106 million in assets, 10 branches, and 52,000 members. Panelist Bob Schall noted that each group (Self-Help, SECU, Latino leaders) provided its strength and didn’t try to overextend.

- Self-Help provided technical assistance – including credentialing and shadow management – to develop capacity.
- SECU was better at providing back office services in remote areas (though Self-Help could have provided this as well)
- Latino leaders provided community relationships and credibility.



Building on their success in North Carolina, Self-Help wanted to expand to California. The Self-Help Federal Credit Union was created through 7 mergers with different credit unions, all of which were on the ropes, with poor portfolios and shrinking capital ratios (but “caught early enough to save”). Deposits fueled their growth model. Self-Help became fastest growing credit union in the country and plans to continue growing through mergers, though opportunities are narrowing.

- Benefits include more services, better price to customers (e.g., ATM network, mortgage loan products, fewer fees, charter school loans (take advantage of tax credits)). They maintain their credibility on the ground and community linkages.
- Each branch is growing organically after acquisition. Check-cashing is bait – we’ll cash your check, and if you start a checking account it will be free next time
- Challenges: Merger strategy is limited because can’t always get them where you want them and/or partner isn’t interested. In our case, the CA Credentialing Agency decides who’s eligible to merge. Mergers require an enormous amount of systems integration.

Roundtable Discussion: What are the most compelling needs of the CD finance industry in terms of infrastructure for product innovation? What business models can meet these needs? Who can make it happen?

Respondents:

- **Jeannine Jacokes from Partners for the Common Good** observed that, regarding CDFI partnerships (temporary/transactional or permanent), the most important piece is that it meets a legitimate need of each partner. Need to be clear on our goals and priorities.
- **Laura Sparks from Citi** noted that we've been having this conversation for years and questioned, "What's new and why is this starting to take hold?" She answered her own question by identifying two new factors:
 - Larger CDFIs have had impressive success in target areas – impetus to significantly scale impact through entering other markets and offer other products. Look for other high-quality partners who can add value.
 - Use this window of opportunity. Dire times have motivated important collaborative activity. E.g., Self-Help in California was responsive to struggling CDFIs and had a market-driven opportunity to expand. Also should catalyze change at broader level including municipal and state government, as well as Federally Qualified Health Center (FQHC) policy.
- **Debra Schwartz from the MacArthur Foundation** envisions a sector composed of a handful of powerhouse entities that can provide "heart surgeon-like" services, a set of regional players that can raise their own capital or partner with national, and small players. The challenge is, how to share (communalize) cost and risk of innovation – thereby mitigating the trend of innovators handing over their innovation at the exact time when the business can start to make money?

Like Sparks, Schwarz noted that "policy matters to scalability." The industry should use its practice lending and its insights to push public systems. Infrastructure finance is another moment of opportunity: "infrastructure finance is a form of impact investing" and a tax-exempt market may not exist.

Following the respondents, attendees shared the following questions and observations:

- Brian Rozental noted the CDFI Fund Task Order to provide technical assistance around small business lending. He encouraged FIR participants to share infrastructure needs so the CDFI Fund can design its next task order.
- One idea: an industry standard IT platform – a credible, robust, secure platform to allow back-end functions to talk to front-end functions. The most important consideration is transparency, though should also include outcome reporting.
- Another idea: technical assistance to help CDFIs understand where their needs can be met by conventional, off-the-shelf vendors – and where their needs are so specialized that they need to work with others like them. (Cliff is looking at Salesforce.)
- Need intermediation between investor and CDFI or borrower. It's hard for willing investors to find projects they want to invest in.
- Robin Hacke observed that local CDFIs need be active in bridging local needs/relationships (on one hand) with regional and national product knowledge and ability to source and blend capital (on the other).

LOOKING AHEAD

Three respondents kicked off FIR's final session, which addressed the following questions, "What are the most crucial needs of the industry in terms of collaboration and infrastructure? Who needs to be involved in creating the solutions? What next steps can industry work groups take to help craft a solution? What are the key actions various participants could take?"

Respondents:

- **Elyse Cherry from Boston Community Capital** asked the room, "How many psychologists does it take to change a light bulb?" The answer? "Only one, but it has to want to change." Cherry then posed a comparable question for small CDFIs: Do they want to grow/change? Is it part of their DNA?
 - In our longstanding conversation about industry collaboration or consolidation, people confuse offense and defense. People start defending what they have without thinking about whether they have enough to defend.
 - Assets under management or retained earnings could look linear, but it's really a set of inflection points, after which there's exponential growth. Scale means figuring out how to manage inflection points. Capital, R&D, but also staffing is critical.
 - Staffing – As you get bigger and more complex, you need more and more sophistication within your organization – but that sophistication may not currently reside in our industry. So we bring in private sector folks with content expertise and skills, but without experience of standing at the intersection of downtown and community, values-driven and market-driven. How do we translate our values to people who would love to join us?

"We've looked at the enemy and he is us." We have a bunch of stuff internally to get through.

Some suggestions:
 - Articulate route that larger CDFIs have taken to see if they're relevant in other places.
 - Focus on hiring and training people in their 50s who want to shift to the nonprofit sector
 - Collaborative parties need to articulate strengths that they bring, so can assess whether they buttress each other. It's time-consuming to vet partners.
 - Organizational retreats with both staff and board to see what route is useful with respect to the market you serve, or if you should serve other markets.
- **Cathy Dolan from Opportunity Finance Network** said OFN's mission is to ensure all low-income people have access to affordable finance. With such a broad mission, the industry group needs to be in a lot more places and doing a lot more things – and even then, will need to look beyond just the industry group. The question is not, DO we collaborate and innovate, it's HOW do we do it?
 - Need to make room for different ways of improving impact and then reward performance.
 - Focus on replication of what works but not force on people as "one size fits all."
 - What is FIR's role? Are we going to play a leadership role? What piece are we trying to solve? Facilitate different groups to pursue in their own way (a series of organic collaborations) and serve as umbrella. Funding will follow value.
- **Lisa Hall from the Calvert Foundation** said that we need a paradigm shift. Collaboration is not the question. We've already seen some big successes – \$7million through the Starbucks/OFN partnership, \$100 billion dispersed through collaboration with Citi. Our trouble is, we've been

living in a resource-constrained world for so long that we see only binary choices. Let's not limit ourselves to what exists today. Let's focus on what we need.

- For example – is the question “not enough capital” OR “not enough absorptive capacity”? It's both! We have a huge need for patient capital and risk capital – adaptive capital, growth capital, R&D capital. The answer may not be getting traditional foundations to provide net asset grants. What about social investors, including those who don't need any return on capital? What about changing corporate structure? Need to raise at-risk equity capital that can be lost but also generate return.
 - The question is not “community development finance” OR “impact investing.” It's both! Community development finance can be positioned as a form of impact investing. Impact investing is investing that generates return of, and on, your principal and also generates a social benefit. We think investing in CDFIs is impact investing. Let's make the pie bigger.
 - People want to align their money with their values. A group of Harvard donors put their donations in escrow in Cambridge Savings Bank instead of giving to Harvard because didn't feel endowment was being well-used. We're missing the boat if we don't leverage movements underfoot – including the Occupy movement. We have both a sustainable obligation and moral obligation to listen to what's going on more broadly.
 - We should open the FIR room to include small family foundations, community foundations, and sustainable investors – not the same people who have been coming for 5+ years. Also, this country (“the new majority”) does not look like people in this room. FIR also should put more attention to learning from failures through case studies on initiatives that didn't work.
- **Clara Miller from the Heron Foundation** spoke about:
 - Potential for data to help us look at our own terraria, get outside ourselves
 - Wants single financial reporting location – data warehouse with cooperative data set
 - Reduce costs
 - Enable analysis
 - Power of simple comparability to help orgs learn from each other
 - Avoid freezing business model in false sense of standardization
 - Regulation could hurt our valuable entrepreneurial roots
 - Tendency to separate data from stories will also hurt us.
 - Strong attraction to built platforms (not building another) – borrow and tailor
 - Comparability vs. standardization

On approaching FASB– looking at changes in financial reports for CDFI nonprofits, there's a huge variety of people in the FASB room, it's very slow, controlled process.

Following the respondents, attendees shared questions and observations around the following themes: CFO task force on industry standards; a convening of smaller CDFIs to explore sharing the cost and risk of innovation; a research project on the path to growth; and a workgroup exploring the relationship between community development finance and impact investing and raising “impact capital.”

- State of the industry
 - Things HAVE changed. Twenty years ago, CDFIs weren't on the map. Now, “CDFIs are where it's at.” We may not be able to see the change day or day or even year to year, but we've moved the needle in significant ways with significant audiences.

- In response to need for standardization for loan funds because they don't have call reports – through Citi, CARS will be creating quarterly reports. If you're with an unregulated CDFI, volunteer to participate!
- Professional development
 - We have no trouble finding young people, but we need the leaders. Sector-switchers often have erroneous assumptions. They're penny wise pound foolish, and think that a lower quality of work is acceptable. (Elyse Cherry tells sector-switchers, "If you want to screw up, stay downtown – they have the margins for mistakes, we don't.") The culture story.
 - Need a model of talent acquisition and development. Boot camp, fellowship program, a marketplace for open positions. We should create a dedicated pathway – and then give preference to that pathway in hiring and promotion since we all designed it and have confidence in it.
 - FIR should scan university institutions that are the best match, possibly create regional partnerships in a certificate program. FIR attendees could be instructors.
 - We should survey where there are larger Net Impact chapters that coincide with CDFI presence and make introductions. Since people are less mobile in this economy, re: professional development, the only thing CDFIs within a given geography might have in common is their geography – which is nevertheless a fine reason in itself to collaborate.
- Infrastructure and standardization
 - The Strength Matters Initiative includes a data warehouse for housing developers (they wanted it so that they could benchmark themselves). There is value for people who are providing the data. Separate aggregating role from value-added analytics.
 - Group of Strength Matters CFOs ("accountants gone wild") have released 25 white papers for potential investors. They're thrilled to be part of working group and have met for the last four years.
 - Greatest invention in shipping industry was the shipping container. Standardization can be catalytic.
- What's worked in attracting investors?
 - Lisa Hall pointed to special purpose vehicles that Calvert manages for investors, and working with advisors and on broker/dealer platforms. "Women Investing in Women" has been really successful as a way to attract new investment in the field. This affirms we need to tell our story differently. We're used to inside baseball, speaking business to business.
 - Calvert's syndications have not worked. There's a valuable role for intermediaries to do capital aggregation, but some foundation would prefer to go directly to CDFIs.
 - With CDFI cost of funds at 3-4%, compared to a market rate of <1%, there's an understandable reluctance to syndicate – but there's also tremendous inefficiency when CEOs fly across country for \$100k.
 - It's important to leverage CDFIs reputation, especially in new groups. There's work to be done in individual investing and corporate investing. We need to articulate the value proposition, e.g., focusing on workforce and housing issues of anchor institutions in a community (hospitals, museums).

Next Steps

During the discussion, there was particular interest in a CFO task force on industry standards; a convening of smaller CDFIs to explore sharing the cost and risk of innovation; a research project on the path to growth; and a workgroup exploring the relationship between community development finance and impact investing and raising “impact capital.” As with former FIR sessions, the specific topics, goals, and participants for working groups in the intervening year between FIRs tend to emerge organically in the weeks following the event. We will share updates and look forward to the 13th annual Financial Innovations Roundtable in the Spring of 2013.