

Creating a Minnesota CDFI Network

Mary Mathews, former President and CEO, Entrepreneur Fund

Michou Kokodoko, Senior Project Manager, Federal Reserve Bank of Minneapolis

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Background

Around the country, many community-based organizations have come together to establish statewide or regional networks. By leveraging resources across sectors, these entities ensure the delivery of much-needed services in low- to moderate-income (LMI) communities. The impetus for forming these strategic alliances goes beyond financial considerations. A recent survey of community development financial institutions (CDFIs)¹ in Minnesota confirmed that the objectives of these networks should focus on capacity building.

On September 11, 2012, the Federal Reserve Bank of Minneapolis hosted a regional meeting of CDFI practitioners. Guest speaker Michael Swack, professor at the Carsey Institute and Whittemore School of Business and Economics at the University of New Hampshire, discussed highlights from the Carsey Institute's recent report on the performance of the CDFI industry from 2005 to 2010. He recommended that CDFIs create strong networks, build infrastructure, and attract resources in order to reach scale. At the close of the meeting, forum participants discussed the need to collaborate in order to deal with capitalization and liquidity challenges and seize opportunities for building a stronger CDFI industry in the region.

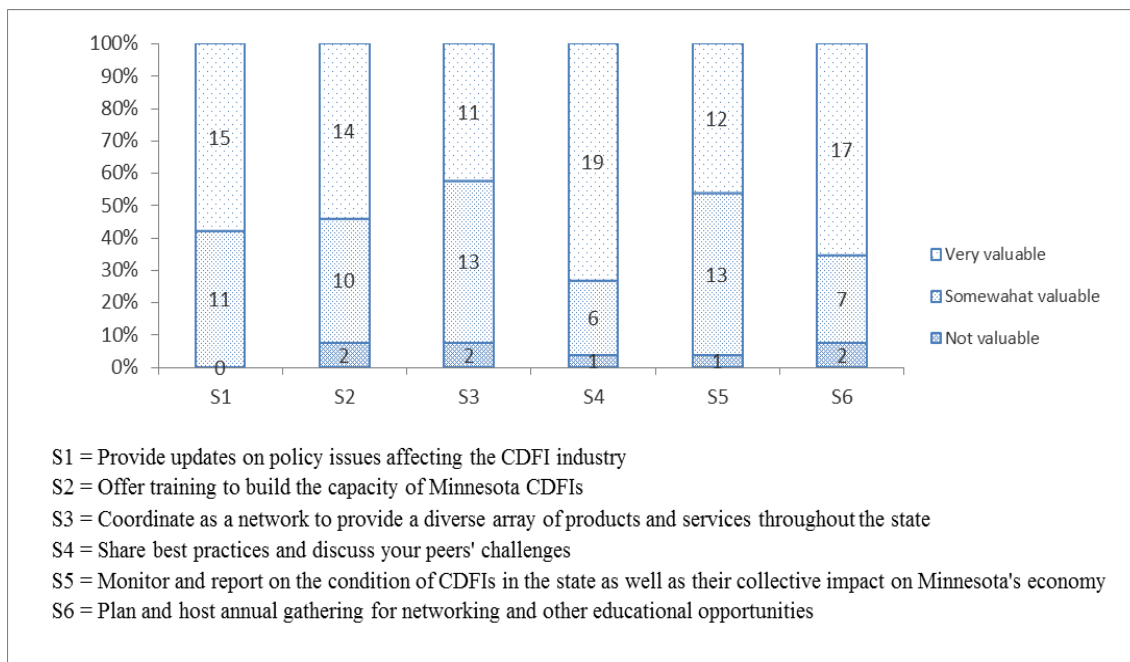
Early in 2013, a small group convened to follow up on the topic of the formation of a Minnesota CDFI network that could help build recognition of the scale, scope, and impact of the CDFI industry among the general public and elected officials in Minnesota. The group included Mike Temali (Neighborhood Development Center, St. Paul), Nikki Foster (Sunrise Community Banks, St. Paul), Arlen Kangas (Midwest Minnesota Community Development Corporation, Detroit Lakes), Mary Mathews (Entrepreneur Fund, Duluth), Tom Renier (Northland Foundation, Duluth), and Michou Kokodoko (Federal Reserve Bank of Minneapolis). Among other things, a CDFI network would provide a united front when dealing with complex issues such as CDFI recertification, CDFI bond guarantee program implementation, and the State Small Business Credit Initiative funds deployment. The group agreed to meet again but decided to first solicit input from other CDFIs in Minnesota about how to organize a state CDFI network. A survey was conducted to gather their views and the results are used to inform the next two sections of this document.

Potential Benefits of a Minnesota CDFI Network

The Minnesota CDFI network survey included two questions. The first asked what are the most valuable services a CDFI network would provide and the second invited respondents to offer comments regarding additional services a statewide CDFI network can provide to best meet and serve the interests of practitioners in the field. Twenty-six people, each representing a different Minnesota-based CDFI, responded to the survey.

¹ CDFIs are specialized entities that provide financial products and services, such as small business loans and technical assistance, and financing for housing, community facilities, and consumers in markets not fully served by traditional financial institutions. CDFIs can include banks, thrifts, bank holding companies, credit unions, loan funds, and venture capital funds. For more information about CDFIs, visit http://www.minneapolisfed.org/community_education/cdfi/.

The following chart illustrates which services survey participants would most like a statewide group to provide. If any conclusions may be drawn from the survey results, they are as follows: Field practitioners have limited opportunities to get together and discuss challenges and share best practices. A Minnesota CDFI network will create these opportunities and foster better communication in the industry. Furthermore, a statewide network would commit to plan and host an annual gathering for industry participants and ensure that Minnesota CDFIs are well represented in the policy dialogue on matters affecting CDFIs and the communities they serve.



Below is a list of additional comments made by survey respondents regarding how a statewide network can best serve their interests. (Note: Minor edits have been made for stylistic consistency.)

- Help to pool funding and financial operational resources to assist emerging CDFIs with the opportunity to 1) Help the target clients they serve access developmental products and services; 2) Help the emerging CDFI to build infrastructure and experience in lending to help them gain access to future funding opportunities; and 3) Help them to leverage more effectively, which will include engaging in loan participation to mitigate risk for partnering CDFIs. Aligning more experienced CDFIs with emerging CDFIs to help strengthen and build capacity to assist more clients effectively is critical.
- Share emerging trends related to clients, products, and the sector in general.
- Advocate for CDFIs with public and private funders and investors. CDFI network for other purpose works better nationally. Stating the case for increasing investment and a campaign to make that happen would be valuable. Mission Related Investments are on funders' radar screens but PRIs and grants to CDFIs are more important and more appropriate.
- Perhaps assist with leveraging capital and with CDFI Fund processes (such as Financial Assistance applications and recertifications).
- Find ways to jointly seek additional loan capital, participate in deals, and perhaps find ways to pool capital to develop specialized financing tools.

- Make sure the reporting on the collective impact on Minnesota’s economy includes a cut on the data about the race, income, and location of the businesses served and the people impacted (employees, residents, business owners, etc.).
- Provide a unified voice to regional and national CDFI member organizations and to government legislators, organizations, and departments, and coordinate and host networking and educational meetings/events.
- Brainstorm, discuss, and advocate for possible state policy initiatives to support CDFIs and other ways to bring capital to underserved communities and groups in the state.
- Collaborate on deals.
- Develop a “voice” on critical issues that impact CDFIs (e.g., recertification). I do not think the network should duplicate offerings of OFN [Opportunity Finance Network] or other resource and membership organizations that serve CDFIs, but perhaps make those services more accessible.
- First create awareness about the roles and importance of CDFIs as an industry among the corporate community, the public sector in general, and more specifically the state, and finally foundations. Help drive more resources to them. Help CDFIs be perceived as a key part of the solution to society’s problems.
- Bring resources and information about initiatives by other CDFIs in other states.
- Formulate/suggest Minnesota CDFI legislation. Identify (collective) funding opportunities for loan capital and technical assistance support. Policy updates as they relate to Minnesota. National organizations provide national updates. Regional connection to OFN, other national associations.

Local Context: Why Now?

In Minnesota, there are 35–40 emerging or certified CDFIs that finance housing, business, consumer, and community facilities in underserved markets. There are a few additional national CDFIs that also serve Minnesota. The industry has demonstrated effective strategies for serving the credit needs of LMI communities, especially during the economic recession. Despite the impressive results, the majority of these organizations are still finding it challenging to scale up their operations and achieve sustainability. Some of the reasons are listed below.

- Demographic changes. The growing number of new immigrants in Minnesota cities is changing the mix of services CDFIs traditionally provide. According to the U.S. Census Bureau’s American Community Survey and the decennial census, the share of the total Minnesota population that is foreign-born increased from 2.6 percent in 1990 to 7.1 percent in 2011. Nearly 80 percent of the foreign-born population live in the Twin Cities. CDFIs, the majority of which are located in the Twin Cities (two-thirds), are often taking the lead in assisting newcomers with home purchasing, starting a small business, financial counseling, credit building, finding employment, providing community facilities, and other necessities.
- Fragmentation. An analysis of fiscal year 2011 financial statements of 26 CDFIs in Minnesota indicates that the majority of them have limited capacity (See the table at right for breakdown of CDFIs by asset size). They are vertically integrated, doing everything from underwriting, originating, and servicing loans. They provide similar products and services, resulting in duplicated efforts across the field and an inability to take advantage of economies of scale.

Asset Size	Number of CDFIs
< \$500k	1
\$500k–\$1M	1
\$1M–\$5M	8
\$5M–\$10M	6
\$10M–\$50M	6
\$50M–\$100M	3
> \$100M	1

- Industry loan-level data are still unavailable for CDFI loan funds. One would have to collect, compile, and harmonize these data from individual organizations. This information barrier affects the ability of CDFIs to access capital markets and obtain long-term debts at affordable costs that provide them with enough leverage.
- Changes in funders' expectations. Funders of CDFI work are increasingly looking for comprehensive impact evaluation reports from their grantees. Small CDFIs are often not able to afford resource tools needed to produce these reports. Consequently, they cannot get beyond year-to-year funding concerns.

In order to serve more communities, access more funds, and have greater impact, Minnesota CDFIs might need to change the way they do business. Continuing to operate as small, individual, and unaffiliated lenders might not help achieve and build recognition of the expected scale, scope, and impact of the industry among the general public and elected officials. The formation of a statewide CDFI network seems to be the next logical move.

Recommendations for Developing a Successful Minnesota CDFI Network

Some CDFIs in Minnesota already belong to national or regional networks. For instance, nationally, CDFIs organize through OFN, National Association of Federal Credit Unions, Community Development Venture Capital Association, CDFI Coalition, and others. While OFN periodically hosts regional meetings, these organizations generally hold annual conferences and other events. They focus on policy and advocacy issues that affect their members. A Minnesota CDFI network would therefore be one that focuses on addressing operational issues related to growth, efficiency, and scale in the state as well as some state policy matters. We recommend these steps:

- Organize a CDFI forum to discuss this paper, review other materials, and form a core planning team to take the lead in coordinating preliminary activities. Members of this team must commit to spend the necessary time. They should also reflect the diversity in the communities that CDFIs target and must be true stakeholders.
- Conduct key informant interviews.
- Decide on an initial framework for working together (i.e., decision-making and governing process).
- Decide on name, purpose, and mission. Organize around a vision, mission, and goals that promote change in the industry and ensure continuity of working together as a network.
- Decide on structure (i.e., loosely formed alliance vs. membership organization).
- Agree on criteria for CDFI network candidates; create membership information packet and recruit members.
- Create a business plan and a budget.
- Organize and hold first official meeting.
- Register organization if necessary.

Reading Materials

1. Past Minnesota Statewide Effort: Alliance for Minnesota MicroEnterprise

The Alliance for Minnesota MicroEnterprise (AMME) was formed in 1995, after a number of microenterprise organizations had formed in Minnesota. It followed a study that was commissioned by the legislature, through the Department of Employment and Economic Development (DEED), and conducted by the Entrepreneur Fund. The study identified the level of microenterprise development work underway in the state and identified additional needs and coverage gaps. At its peak, AMME had 20+ members. AMME charged annual membership dues and, in addition, for five or six years received annual operating grants from the Aspen Institute to support policy work. Over a six-year period, AMME was successful in garnering a total of \$1.2 million from the Minnesota legislature for technical assistance grants for organization, plus held networking and capacity-building events. It stopped meeting shortly after the Aspen Institute operating grants ran out. It was difficult for members to raise money for AMME as they were raising money for their own organizations. At the same time, interest in the policy effort waned as DEED provided many very small grants to individual organizations, diluting their potential impact.

2. Other Network Efforts

A. In 2011, OFN released the *State CDFI Legislation and Advocacy Report*, which revealed that many states continue to look to CDFIs to help alleviate poverty and deploy capital. In 2009, state legislatures used the same three primary mechanisms to increase CDFIs' access to state government resources as they had in previous years:

- Tax credit legislation—i.e., providing tax credits for investments in eligible businesses/entities, in particular programs modeled on the federal New Markets Tax Credit.
- Accessing capital through federal programs administered at the state level.
- Opening existing programs to CDFIs by making them eligible lenders or participants.

B. Native CDFI Network

Mission

According to its website (<http://nativecdfi.net/>), the Native CDFI Network's mission is to be a national voice and advocate that strengthens and promotes Native CDFIs creating access to capital and resources for Native peoples.

About the Network

The Native CDFI Network was formed in 2009 to unify Native CDFIs serving Native trust land communities, American Indians, Alaska Natives, and Native Hawaiians.

The Native CDFI Network seeks to create opportunities to share our stories, identify our collective priorities, and strengthen our industry. In addition, the Native CDFI Network works to ensure that Native peoples are represented in the national policy dialogue and innovative solutions created by CDFIs are spread throughout our Native communities.

As a strong national network, the Native CDFI Network empowers its members to engage our best ideas, connect to one another, and collectively advance policy priorities that foster systemic and sustainable Native community and economic development.

Annual Goals

The Native CDFI Network maintains four foundational goals:

- Build a strong membership network and infrastructure.
- Commit to gathering members annually.
- Create CDFI-to-CDFI peer mentoring and sharing opportunities.
- Identify our Native CDFI policy priorities.

Eligibility Requirements

To join the Native CDFI Network, an organization must:

- Be a certified or emerging Native CDFI.
- Support the Native CDFI Network's mission to be a national voice and advocate that strengthens and promotes Native CDFIs creating access to capital and resources for Native peoples.
- Commit to participating in the network's data collection initiatives.
- Be willing to promote the work of the network through use of own connections or through other networks.

Member Benefits

- Ability to collectively decide the future of the Native CDFI Network by voting in the network's elections and joining working committees.
- Use of Native CDFI Network member logo on website or other marketing/promotional materials.
- Connect with and learn from other members through peer-to-peer learning activities during bimonthly webinars.
- Subscription to the *Network News*, the Native CDFI Network's quarterly newsletter, and periodic e-mail alerts regarding industry events or policy issues.
- Receive Action Alerts via e-mail that outline how potential actions can influence policy decisions.
- Significantly discounted registration to the Native CDFI Network's annual member gathering.
- Access to research reports or data collected by the network.
- Access to Native CDFI Network member profiles.
- Ability to submit your organization's news stories for potential inclusion in the network's quarterly newsletter, website, or social media outlets.
- Access to tools and support in achieving your organization's policy agenda.
- Access to membership portal on the Native CDFI Network website.

C. South Carolina Community Development Finance Alliance

In March 2013, CDFIs in South Carolina formed the South Carolina Community Development Finance Alliance (SC CDF Alliance)², a statewide network of community development financial organizations that invest in community-based assets that build wealth in underserved communities throughout South Carolina. Members offer the following financial products and services (including, but not limited to): Capital access programs, community businesses, community facilities, consumer products, energy efficiency, franchise financing, guaranty performance bonds, healthy food outlets, housing, IDAs, infrastructure, microlending, renewal/clean/alternative energy, and small business/entrepreneurial services. Primary membership (target members include): community development banks; community development credit unions; community development entities (CDEs); CDFIs; council of government/city/county/state loan funds; corporate loan funds; community development loan funds. Secondary membership: policy partners—other alliances and coalitions; community development partners—organizations; community development supporters—individuals.

Vision

Our vision is for all South Carolina residents to have access to financial resources and opportunities to act in the best interests of their communities, themselves, and future generations.

Mission

Our mission is to facilitate the investment of capital in South Carolina in order to improve the quality of life for all her citizens by providing responsible and affordable financial products and services that are a major catalyst for community development and economic growth in underserved neighborhoods and communities.

Constituency and Geography

All citizens of the State of South Carolina, with a focus on those living in underinvested, underserved, or distressed communities.

The SC CDF Alliance pursues its mission across four key areas:

- Capital
 - Advance policy for expansion of the South Carolina community economic development fund and community development tax credit that promotes capital investment in South Carolina community development financial organizations.
 - Utilize a statewide financial intermediary that facilitates the investment of capital throughout the entire state of South Carolina and across a broad spectrum of financial products.
 - Leverage private, state, and local funding and bonds to promote increased community economic development investments in South Carolina.
- Capacity
 - Collaborate as a network to develop the necessary systems to increase our collective growth, performance, and impact.

² Information obtained from an RFP issued by Low Country Housing Trust (<http://www.lowcountryhousingtrust.org/>)

- Coverage
 - Coordinate as a network to provide a diverse array of financial products and services in every South Carolina community.
- Communication
 - Report our collective impact on the South Carolina economy to raise the profile of community development financial organizations and create a broad base of support for community development financial organizations and the people and communities they serve.
 - Create a SC CDF Alliance brand (name/logo/tag line) that is recognized and respected across the state.