

Greater Ohio Policy Center

Building Assets: Ohio's CDFI Industry

September 2018



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Executive Summary

Community Development Financial Institutions (CDFIs) lend money to people and in places where conventional lending is scarce.

They provide access to credit and specialized loan products for people who may not qualify for a typical bank loan but work with the CDFI to establish credit worthiness and long-term plans for financial success. CDFIs also fund development projects in real estate markets that are unproven but are worthy of investment, helping to unleash long-term market potential and revitalize communities. Despite often making unconventional loans, the CDFIs in Ohio maintain very low default rates, comparable to those of conventional banks. Because of their imperative to do business by assessing risk differently than conventional banks, CDFIs help individuals start businesses, create jobs, and build wealth. CDFIs provide critical capital for neighborhood revitalization, affordable housing development, and the establishment of other important community assets, like health, education and daycare facilities. A robust CDFI sector in Ohio can continue to benefit communities throughout the state that are aiming to strategically position themselves for the future.

In Ohio, CDFI lending helped transform Cincinnati's Over the Rhine neighborhood. CDFIs have funded business incubators working to retool Ohio's manufacturing sector in Northeast Ohio, and have improved the access to healthy food around the state, including in rural Vinton County, which didn't have a grocery store for three years until a CDFI financed one. **Between 2005 to 2016, CDFI investment supported the development of 36,304 units of housing, and created or retained 17,240 jobs. During this time, CDFIs in Ohio loaned \$975,127,903 in Ohio and leveraged \$5 for every \$1 of CDFI investment. That is \$4.9 billion in investment over eleven years.**

Maximum CDFI impact can be found when vibrant community institutions like banks, competent real estate developers, supportive community groups, and dynamic business and city leaders are also present. A CDFI that exists in an environment without these supportive ingredients is like a car missing a wheel or two; not able to move no matter how impeccable the condition of the motor.

CDFIs help individuals start businesses, create jobs, and build wealth. CDFIs provide critical capital for neighborhood revitalization.

To help CDFIs maximize effectiveness and strengthen the community development ecosystem in Ohio, **the recommendations in this report focus on building capacity at all levels.** We recommend:

1. **CDFIs operating in Ohio form a professional network.** Such a network would allow them to:
 - Share best practices;
 - Market themselves jointly to key partners, like banks, port authorities, and anchor institutions;
 - Develop capacity across firms by establishing mentor/mentee relationships;
 - Foster partnerships with each other; and,
 - Establish a united front to deal with issues that affect them all, like funding and policy decisions.
2. **CDFIs should work to strengthen the eco-system in which they operate.** CDFIs should evaluate the ecosystem in which they work to determine key points of intervention that could help them expand their loan portfolio and increase the overall capacity in a place.
3. **CDFIs should undertake active campaigns to educate partners. In particular, many CDFIs need to strengthen their relationships with local banks.** Knowledge of CDFIs is uneven across potential partners and it is incumbent on CDFIs to fill in these gaps in knowledge.
4. **CDFIs should get involved in any relevant efforts happening to impact low-income communities.** Finding a way to have a seat at the table can allow CDFIs a chance to influence the conversation, but can also ensure they are in step with other plans and ideas already in motion.
5. **CDFIs should adopt a mindset that they are not just responding to existing markets, but that they are also helping to uncover latent markets.**

Through a combination of business acumen and strategic risk-taking, CDFI lending in Ohio has supported the creation of jobs, businesses, housing units, and extensive neighborhood revitalization that wouldn't have happened otherwise. Further bolstering the CDFI industry will yield even more positive economic activity and help strategically position Ohio for the future.

Introduction

The intent of this analysis is to identify ways to support and expand the CDFI industry in Ohio.

Greater Ohio Policy Center (GOPC) is a statewide public policy organization that champions revitalization and redevelopment throughout the state. Many communities in Ohio are facing economic and social challenges associated with an older industrial economy that include: population decline, entrenched poverty, needs for workforce re-education, and neighborhood disinvestment. Underwriting guidelines typically do not acknowledge the latent viability of these places so as unfavorable conditions persist, the community's options for accessing conventional bank credit becomes increasingly limited. **Yet for catalytic investment and strategic realignment to occur, communities around Ohio must be able to reliably access credit.**¹ CDFIs are well-positioned to meet this need because of their ability to accept and mitigate the additional risk that comes from investing in under-recognized markets and people. GOPC views CDFIs as leaders at the forefront of efforts in communities across the state to execute strategic realignment aimed at capitalizing on their future potential. For this reason, the focus of the research outlined in this paper is how to best support and expand CDFI lending in Ohio.

This report focuses specifically on the 18 CDFI loan funds currently operating in Ohio because of their potential for initiating catalytic neighborhood change and economic development, often through real estate investment (more detail on loan funds as well as the other types of CDFIs can be found in Appendix-A). Research involved one-on-one, in-depth interviews with CDFI professionals with experience working in Ohio. Interviews were designed to gain a better understanding of the type of work CDFIs are doing here as well as to identify obstacles and opportunities facing the sector. A total of 15 interviews were conducted. For a list of contributors, please see Appendix-B.



Tech Town, Dayton
Citywide Development

Greater Ohio Policy Center views CDFIs as leaders at the forefront of efforts across the state to execute strategic realignment aimed at capitalizing on future potential.

(1) An earlier GOPC report, *Meeting the Financing Needs of Opportunity Neighborhoods in Ohio*, evaluated the need for credit in communities around the state and pinpointed specific neighborhoods where additional credit investment could be transformational.

CDFIs in Ohio: 101

What are Community Development Financial Institutions?

Community Development Financial Institutions (CDFIs) are business-minded institutions that lend money to people and in places that conventional banks do not.

What have CDFIs done in Ohio?

Ohio has 18 CDFI loan funds (See Appendix-C for a complete list), which loaned in 80 of the state's 88 counties from 2005 to 2016. During this period, CDFIs loaned \$975,127,903 in Ohio and leveraged \$5 for every \$1 of CDFI investment. These investments yielded 36,304 new housing units and created or retained 17,240

jobs. Sixty-four percent of loans issued by CDFIs in Ohio were for small or micro business development; 19% were for housing development; 11% were for consumer lending or mortgages. Economic and Community Development Institute (ECDI), a CDFI that lends for small business development is recognized nationally as the third largest Small Business Administration microlender in the country. **CDFI lending in Ohio has catalyzed many notable and catalytic projects throughout the state, including: schools; business incubators; healthcare facilities; facilities for homeless men and women; grocery stores and community markets; laundromats; housing for ex-offenders; non-profit office space; and affordable and market rate housing.** For a more detailed description of CDFIs in Ohio, see Appendix-C.



CDFIs issued loans in 80 of Ohio's 88 counties from 2005 to 2016

The following are some CDFI-funded projects around Ohio:

- CDFI lending was critical to the dramatic revitalization of Cincinnati's Over the Rhine neighborhood. Lending by Cincinnati Development Fund (CDF), a CDFI, has resulted in 1.6 million square feet of renovated real estate as well as 1,800 housing units, a community market, laundromat, and other community facilities. CDF has also provided New Markets Tax Credits to ten additional projects, bringing an additional \$78 million investment to the neighborhood.
- In Vinton County, lending from Finance Fund Capital Corporation (FCAP) was critical to financing a new grocery store in the county, which had no grocery store at all for the three years prior to this investment.

- In Youngstown and Warren, Village Capital Corporation (VCC) closed on two separate loans to start and expand business incubators. The new incubator and expanded facility are both geared toward retooling the manufacturing base in the Mahoning Valley to be more competitive in future markets. The Youngstown Business Incubator has been ranked as one of the top two university-associated business incubators in the world.
- In Dayton, CDFI lending supported the renovation of commercial space for a deaf-owned business aimed at American Sign Language Interpretation and C-Print Captioning.
- In Toledo, LISC, a national community development intermediary, has funded a senior housing development project named Valley Bridge, which will merge senior housing with an on-site geriatric medical clinic to improve the health of residents.
- All over the state, ECDI has funded business start-ups and the organization has also established Food Fort, a food-based business incubator, which provides training and important facilities to establishing businesses. It also operates a Women’s Business Center to help support women entrepreneurs. Through these and other avenues, ECDI has provided thousands of hours of one-on-one coaching to clients in addition to financing.
- IFF, a regional-serving CDFI, has partnered with in-state CDFIs to offer a small business loan to a faith-based construction company building affordable housing geared at helping provide housing for homeless people and ex-offenders. IFF has also funded Lower Lights Christian Health Center in Franklin County to build a grocery store and demonstration kitchen in a health facility where dieticians train patients on healthy food shopping and preparation.

Where do CDFIs operate?

CDFIs must lend in designated “Target Markets” that are certified by the US Department of Treasury. These markets can be designated to target low-income populations, geographic investment areas, or other communities that have historically lacked access to credit.

CDFIs loaned \$975,127,903 in Ohio from 2005 to 2016 and leveraged over \$4.9 billion in additional investments.

How do CDFIs operate?

CDFIs are businesses driven by a clear mission to expand credit in areas where it is not readily available. To do this, CDFIs aggregate capital from a variety of sources – including foundations, banks, governments, religious organizations, corporations, and individuals – and then lend it with the common goal of expanding

economic opportunity in disadvantaged areas. Bank investment in CDFIs is often done to satisfy a bank's Community Reinvestment Act (CRA) obligation to serve the needs of low- and moderate-income communities, though partnerships with banks can be far more robust. CDFIs are certified by the US Department of Treasury, which also funds them on a competitive basis. CDFIs make strategic investment decisions, just like banks do, and maintain default rates, lower or comparable to most banks. In Ohio, the average CDFI default rate from 2014 to 2016 was 0.9%.

What type of financing do CDFIs offer?

The type of financing CDFIs provide may vary considerably from small business to real estate lending to consumer to non-profit lending. Projects they fund can include small business creation, child care and education, health care, commercial and real estate development, housing development, and financing for expanding the access to healthy foods. CDFIs often provide a great deal of one-on-one coaching and support to their borrowers to mitigate credit risk and build community capacity.

Key Findings

Finding #1

The flexibility of the CDFI structure, and variation in local conditions, has generated a statewide inventory of distinctly different CDFIs in Ohio. Significant differences exist in their organizational structure, type of lending, and geographic focus.

Some CDFIs in Ohio were started by corporate leaders, others through philanthropic investment, and others grew out of existing community development organizations or governmental entities. Some CDFIs, like Economic and Community Development Institute (ECDI), are solely focused on small business lending, but have continually innovated new loan products and one-on-one coaching and support to meet client demand. Others, like Finance Fund, offer loan products spanning small business creation, real estate development, facilities development and healthy food initiatives. Some CDFIs lend to both non-profit and for-profit developers, while others lend only to non-profits. **Funds exist that can loan anywhere in the state, while others have been created to target large multi-county regions, and others focus on a single city. Some funds excel at fast and efficient formula lending while others innovate new funding mechanisms based on an understanding of local conditions.** Many funds provide extensive coaching and support to borrowers, thereby building financial, business, and technical capacity within the local community. **The sources of CDFIs' capital also varies considerably with a few mostly administering public funds and others maintaining capital reserves from diverse sources, including their own retained earnings.** Some CDFIs, like Village Capital Corporation, exist within a parent organization (Cleveland Neighborhood Progress). Many other CDFI funds are stand-alone organizations.



NINE at Hensville
LISC Toledo

Photo: Heather Ballmer Meyer

Finding #2

CDFIs operating in Ohio share a strongly mission-driven culture.

Though no two CDFIs approach lending in exactly the same way, all the CDFIs we spoke to expressed a strong governing objective for improving communities for the people living in them. Some discussed carefully tracking neighborhood demographics to ensure that improvements are occurring in key areas. Others detailed the steps they take to ensure that the projects they fund will benefit low-income people. Still others report earnest efforts to use their role to improve the capacity of local organizations serving low-income communities. Many provide lengthy and detailed one-on-one coaching and support to individuals and firms accessing their loans. For example, Village Capital Corporation issues loans based on an eight point lending criteria, which includes

- Building affordable, low-income housing
- Improving housing stock
- Building market-rate housing aimed at creating mixed-income, revitalized communities
- Improving the quality of durable good and/or services for residents
- Creating or retaining good jobs
- Maintaining or enhancing community assets
- Improving the physical condition of the neighborhood
- Enhancing environmental conditions, like brownfield remediation ²

Though all CDFIs acknowledge the business imperative to be profitable and maintain fiscal solvency, none make decisions solely with profit in mind.



St. Lukes Building
Village Capital Corporation

All the CDFIs expressed a strong governing objective for improving communities for the people living in them.

⁽²⁾ Source: Village Capital Corporation Mission Statement

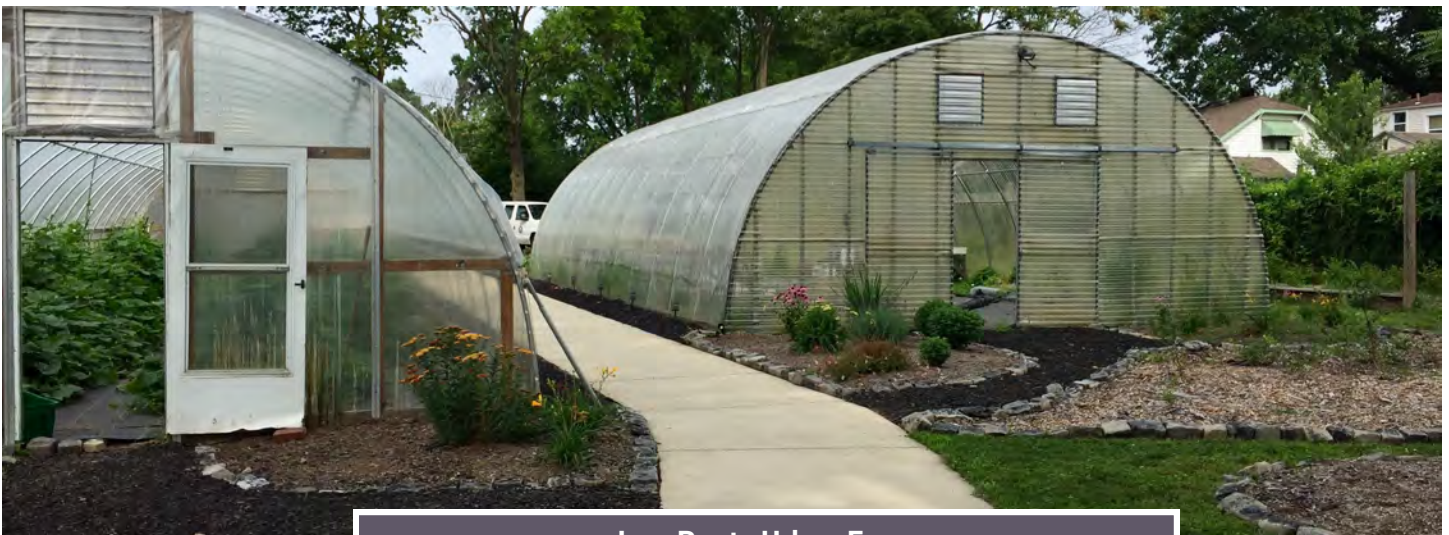
Finding #3

Personal relationships are critical for CDFIs to operate; as social capital and connection in a place increases, so do opportunities for CDFI lending.

Relationships are integral to all aspects of CDFI work starting with staffing and board of directors appointments and extending to important partnerships with other players in their geography and region. Many CDFIs discussed how a well-diversified board of directors with representatives from local business, other like-minded civic organizations, and the broader community is vital to their success because it affords them in-roads into the many disciplines they encounter in their work. For this same reason, it is advantageous for CDFI leadership to also serve on boards of other community organizations.

Relationships are integral to all aspects of CDFI work starting with staffing and board of directors appointments and extending to important partnerships with other players in their geography and region.

Additionally, the flexible structure of CDFI work and the fact that there is room for CDFI lending to take so many avenues means that personal relationships may present unique development opportunities to the CDFI interested in taking them. Many of the CDFIs we spoke to shared the sentiment that they are always open to forming new partnerships, and underscored the importance of personal relationships by insisting that the chemistry must be right between the organizations for the relationship to really work.



Iron Roots Urban Farm
Youngstown Neighborhood Development Corporation

CASE STUDY: PERSONAL RELATIONSHIPS LEAD TO MORE CREDIT IN YOUNGSTOWN

In 2014, Village Capital Corporation, a CDFI located in Cleveland and housed within Cleveland Neighborhood Progress, expanded its geography to include Youngstown and the Mahoning Valley. This expansion was feasible because of a \$1.5 million program-related investment (PRI) from the Mahoning Valley-based Raymond J. Wean Foundation, which wanted to support community development and work to counter the cycles of disinvestment that have been so detrimental to the valley. This partnership came to fruition because of personal relationships that already existed between the two organizations. Joel Ratner, the current President and CEO of Cleveland Neighborhood Progress, is the former President of The Wean Foundation, and Gordon Wean of The Wean Foundation sits on the board of VCC. This deep knowledge and comfort with one another afforded The Wean Foundation with a relatively low-risk partnership to scale up an existing operation and bring increased investment to the Mahoning Valley.

After identifying the synergy between the organizations, the Wean Foundation issued a PRI to VCC in 2014. A non-governing advisory committee was formed in the Mahoning Valley to advise VCC on deals and provide insight into local markets. In 2015, VCC closed on two separate loans, both for business incubators. The first was the Tech Belt Energy Innovation Center (TBEIC) located in Warren, Ohio. This non-profit supports the development and creation of clean technology companies and used the VCC loan to redevelop an old Montgomery Ward department store in the downtown center for its headquarters, laboratory space, incubator, and office space. The second loan was to the Youngstown Business Incubator, which used the loan to purchase the former *Youngstown Vindicator* building. The Youngstown Business Incubator has five incubator buildings in the Mahoning Valley and specializes in additive manufacturing. It seeks to repurpose some of the legacy brain power and industrial know-how that exists in Youngstown into modern manufacturing practices. The Youngstown Business Incubator has been ranked as one of the top two university-associated business incubators in the world. These projects support ongoing efforts in the Mahoning Valley to modernize the regional economy by building on existing strengths and both resulted in the repurposing of underutilized historic buildings. Both loans were repaid in full and on time and now VCC is looking for deals to redeploy the PRI in the Mahoning Valley.



YNDC "Revitalize" Mural
Youngstown, OH

In locations with the most CDFI lending, the capacities of the other actors mentioned here are strong and partners understand how a CDFI can work to advance their interests.

Finding #4

All CDFIs operate within an ecosystem of supporting institutions and there is a symbiotic relationship between the vitality of these organizations and opportunities for CDFI lending.

The specific institutions in any given place may vary but several key ingredients need to exist to foster an ecosystem supportive of CDFI lending, particularly in the real estate realm. These include: supportive government; an active community organizing effort to help communities develop a vision and plan for their community; community development organizations who can help build, attract developers, implement community plans, or steer business clients to CDFIs; business leadership to fund and support neighborhood redevelopment; philanthropy that can fund and support capacity development; banks that can provide capital and value the benefits of robust partnerships with CDFIs; and strategic partnerships with other CDFIs, ports, national non-profits or intermediaries, anchor institutions, hospitals, and county land banks. In locations with the most CDFI lending, the capacities of the other actors mentioned here are strong and partners understand how a CDFI can work to advance their interests. **Likewise, Ohio's CDFIs anecdotally report and available data indicate that in places where institutions are weak or lacking, less CDFI lending is taking place.**

CASE STUDY: GROWING A REVITALIZATION ECOSYSTEM IN CINCINNATI

The Cincinnati Development Fund (CDF) is a CDFI located in Cincinnati, Ohio that has been an energetic leader in the massive revitalization of downtown Cincinnati and the nearby Over the Rhine (OTR) neighborhood, which are together referred to as The Basin. The significant revitalization story of this area underscores the importance of fostering strategic relationships and the fine balance CDFIs strike at being responsive to initiatives that already have some footholds in the community while also leading and advancing other synergistic efforts in strategic and creative ways.

CDF was founded in 1988 and for many years provided financing for Low Income Housing Tax Credit deals, a new program at the time. In 1998, the current President and CEO, Jeanne Gollhofer, was hired and expanded the scope of lending to address the population decline that was draining the city's resources and vitality. CDF began targeting reinvestment in the center city, downtown, and OTR, but before lending could happen in earnest, it was essential to knit together the necessary ingredients in the community to realize the goal of revitalization. Building this foundation came from a two-fold process: forging partnerships to unite key business, civic, and



Over The Rhine
Cincinnati Development Fund

community interests behind this goal and creating a loan fund that would demonstrate the unrecognized market value of downtown property.

CDF joined forces with Downtown Cincinnati, Inc. (DCI), and the Cincinnati Business Committee (CBC) to create the Urban Living Loan Fund to demonstrate that adapting vacant downtown buildings into residential units was a viable course for the city. The concept meshed well with DCI's objectives, which was funded by a downtown special improvement district that aimed to bring people downtown for civic events and market downtown businesses. This non-profit group reflected the interest of some of the largest businesses in Cincinnati, and became a key alliance for CDF because they also saw latent opportunity in converting abandoned buildings into residential uses. DCI hired a development director who was also a forceful advocate for downtown revitalization.

Together CDF and DCI convinced downtown business leaders of the viability of this strategy. Raising the capital for this fund required hustle and initiative on the part of CDF and DCI. It meant targeting stakeholders with financial resources and making clear how they themselves could benefit from the plan. Employers needed to be convinced that a revitalized downtown would help with recruitment and retention. These messages were reinforced by comparing Cincinnati with competitor cities like Chicago, Boston, and Charlotte. Thinking about how the efforts would benefit individual stakeholders was also a key component of bringing developers on board. In this case, highlighting the competitive advantage of downtown development over greenfield development was critical to attract developers to what at the time was a fairly untested type of development.

CDF joined forces with Downtown Cincinnati, Inc. and the Cincinnati Business Committee...to demonstrate that adapting vacant downtown buildings into residential units was a viable course for the city.

Ultimately, CDF raised \$25 million in capital for the Urban Living Loan fund. To get banks and other funders to buy-in to the idea of the fund, they created sample development scenarios that demonstrated that projects were viable with minimal out-of-pocket cost to the developer, even factoring in the extremely low market rents at the time. This was possible by using every available community development tool to subsidize the loans to the point where projects were no longer risky for a bank or a developer. An essential component to winning support for the idea was to demonstrate that these projects could be immediately advantageous to the developer even when compared to greenfield development in the suburbs. A greenfield development, by contrast, was not eligible to use these funding tools and typically required 30% cash equity from the developer. Deals were structured with bank money providing 80 percent loan to value, a patient second mortgage from the CDFI at 90 percent loan to value, and forgivable loans, grants, or an equity participation loan from the city to cover the remainder. Historic tax credits were also widely used to subsidize the projects and cover any required upfront cash. Later the city began offering credit enhancements to further support development efforts.

Over time, the Urban Living Loan Fund and other efforts demonstrated enough viability that in 2003, the business community backed the creation of 3CDC, a non-profit community development corporation dedicated solely to the revitalization of OTR. Since that time, OTR has experienced massive transformation that includes a host of new residential units, the addition of a boutique hotel, renovation of a historic music hall and neighboring park, and the addition of a streetcar. Despite these successes, ongoing debates exist about gentrification and how best to ensure that existing and low-income residents benefit from the new investment. Nevertheless, it is hard to deny that the efficacy of the mechanisms and partnerships begun decades ago have successfully attracted capital to Cincinnati's downtown and OTR.

CDF continues to build upon the successful revitalization underway in the Basin, by working with low income neighborhoods throughout Greater Cincinnati to attract capital to fund their redevelopment strategies, with an emphasis on incorporating equitable development concepts from the beginning.

The Community Building Institute, which operates out of Xavier University, helps write grassroots neighborhood plans that reflect each community's values. The presence of a trusted and effective entity facilitating community plans helps develop community leadership and buy-in for the plans developed through the process. This community support gives future development a strong footing by providing the assurance to the private developers that the community will support the development.

After a neighborhood plan is in place, a community development corporation (CDC) steps in to oversee the implementation of the plans. CDCs work to match developers with proposed projects or develop projects themselves. In Cincinnati, this process was given a shot in the arm by the opening of a LISC office in 2001 at the behest of the local philanthropic community, which saw the need to support and strengthen local CDCs. The local LISC office provides technical assistance to CDCs to help develop capacity and the knowledge base to work with the development community to realize projects.

Several key ingredients emerge in the story of Cincinnati's revitalization and Golliver likens them to the variety of elements that contribute to the growth of a garden. They include: solid community planning, which serves as the soil out of which development will grow; competent neighborhood CDCs who plant the seeds by executing neighborhood plans; willing lenders who provide fertilizer; and corporate and civic engagement, which like sun or water are also essential elements in revitalizing a community. Cincinnati is fortunate to have three very effective community development partners in CDF, LISC and the Community Building Institute, which collaborate with the local community development corporations (CDCs) to provide the necessary elements for successful revitalization.

This community support gives future development a strong footing by providing the assurance to the private developers that the community will support the development.

Finding #5

An often underappreciated component of CDFI work is the need to educate partners about CDFI lending.

The CDFI model is not known widely or well enough in Ohio for most CDFIs to be able to make assumptions that other partners understand the value they can bring to a project or neighborhood revitalization efforts. **Education about CDFIs is required across the entire continuum of partners, even including potential clients who may be a perfect fit for a CDFI loan and not know the resource exists.** Therefore, it is incumbent on CDFIs to define a space for themselves in the marketplace and demonstrate to other stakeholders in the industry how partnering with a CDFI can be beneficial to them.

It is incumbent on CDFIs to define a space for themselves in the marketplace and educate stakeholders how partnering with a CDFI can benefit them.



**Nexus Health Care Center
LISC Toledo**

Photo: Heather Ballmer Meyer

Finding #6

Bank relationships are critical for CDFI work. In many locations in Ohio, particularly in small- and mid-sized cities, these relationships have not reached their full potential.

Small, community banks often do not understand CDFIs and regional banks can lack understanding of local conditions in a way that makes deals difficult. **In cases where bank and CDFI partnerships are healthy and active, financial institutions do more than provide capital investments for CDFI lending.** In those cases, banks understand that a relationship with a CDFI can benefit them beyond a CRA credit; **CDFIs can take risk off a bank's balance sheet and generate new business.** Ideally, banks participate in loans with CDFIs, they partner on riskier projects by allowing CDFIs to underwrite loans or mitigate risk by accessing credit enhancements, or they direct potential borrowers to CDFIs for technical assistance or lending. There are many strong relationships between financial institutions and CDFIs in Ohio today. However, **our research suggests that particularly in Ohio's small- or mid-sized cities, banks may not understand what CDFIs can do and are reluctant to work with them.** In one example, this dynamic has limited a CDFI's expansion into neighboring counties because the banks that currently fund the CDFI are based in one county and they require CDFI lending to be done within that county. In order to expand, the CDFI would need to attract support from smaller community banks in neighboring counties but these smaller banks are reluctant to partner with the CDFI due to a perceived lack of understanding about how a partnership with CDFIs could benefit them. **Other CDFIs in smaller communities noted the discrepancy between local bank representatives with deep local market knowledge but decision-making and broader CRA lending expertise housed in larger markets.** This structure can make it difficult for CDFIs to develop strategic relationships at the bank. Other CDFIs in small- and mid-sized cities commented that despite trying to educate financial institutions about their services, particularly in the technical assistance realm for home or business loans, **banks failed to refer non-qualifying customers to them for support.**

Banks may not understand what CDFIs do and can be reluctant to work with them.



Clifton Natural Foods
Cincinnati Development Fund

CASE STUDY: OBSTACLES IN BANK – CDFI RELATIONSHIPS

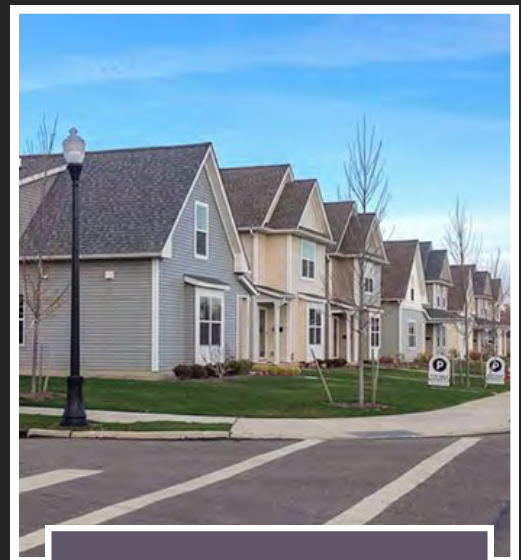
CDFIs describe some of the obstacles they face in developing partnerships with banks, especially in mid-sized cities.

Competition with Regional Banks in \$250-500K Small Business Space

One CDFI provided a prototypical example of a salon wanting to expand and do tenant improvements. This CDFI offers a product designed for this purpose that has low fees and would allow the salon owner to borrow only what they need. Though the regional bank in this area is aware of the CDFI's program, they often aggressively attempt to push the borrower into their SBA guaranteed loan, which costs the borrower more in the long run due to higher fees and the bank's need to increase the loan amount to meet SBA requirements. The bank is often able to convince the borrower to execute deals like this through their brand and reputation, causing the CDFI to lose out on potential deals. This CDFI would like for the bank to refer clients to them that are on the fringe of being eligible for the SBA guarantee loan instead of guiding those clients into that loan. They would also like the bank to refer clients to them who are all-together ineligible for bank products.

Bank Simply Won't Take Time To Understand Atypical Credit Stories

In the experience of one CDFI we spoke with, local bankers are often not even willing to look at unconventional deals, which are the bread and butter of CDFI lending. This is likely because they know that decision makers in the bank's central underwriting department are not going to take the time to understand the deal beyond how it looks on paper. This is particularly problematic with regional banks, which often have senior risk management teams based in larger cities and therefore do not fully understand the intricacies of local markets. In some cases, small community banks may help fill this hole due to the deep knowledge they have of their local community. One example shared by a CDFI is of a restaurant's loan application that would not have been approved by a regional bank but was funded by a small community bank because the bank manager was an active member of the community, knew the borrower, and was therefore comfortable with the risk. The CDFI would like for banks to consider engaging with a CDFI or Community Development Finance Organization to participate on projects that don't completely qualify for a conventional loan. In such a scenario, the bank would still get a deal, though it might not be at their typical 80-90 percent loan-to-value and may take longer, but it would be a deal nonetheless that overtime could increase their volume.



Slavic Village (Cleveland)
Village Capital Corporation

Photo: Erin O'Brien

Finding #7

Although CDFI funding is technically available anywhere in the state, there are some potential gaps where more lending could be taking place.

Throughout our interviews and investigation into the CDFI sector, we found limited amounts of lending in the following areas:

Small- and Mid-sized Legacy Cities, Rural Areas, and Appalachia

Anecdotal accounts and available data support the conclusion that although it is possible to receive CDFI lending anywhere in the state, less lending is currently happening in rural areas and smaller cities than in the state's three largest cities. **Interviewees also report that projects take longer to get done in places where local capacity is weaker.** There are often fewer sources of capital in the form of interested banks, business, and philanthropy as well as fewer skilled developers and other partners to actively support a project. GOPC's earlier report: *Meeting the Financing Needs of Opportunity Neighborhoods in Ohio*, documents the deep demand for capital in these places. Given the need, it is important to figure out why less lending is occurring in these places. Although the addition of Appalachian Growth Capital in Appalachia in 2017 will provide a new source of lending for small business, the need for financing for other types of projects will remain. We make recommendations at the end of this report regarding some ways to address this geographic gap in access to capital.

Lending Targeting Middle-Income Real Estate

Additionally, we found that **CDFI lending targeting the development of middle-income housing projects was not prevalent and CDFI residential loans were primarily focused on low-income and market rate housing development.** Middle-income housing projects are often needed in areas where markets are strengthening or in places engaged in concerted employee attraction and retention efforts. Despite a demonstrated need, there is currently not a federal or state program that strives to address the demand for middle income housing in the way that Low Income Housing Tax Credit programs address the need for low-income housing, so there may be future opportunity for future CDFI lending in this space.⁽³⁾ Currently, there is significant CDFI lending in Ohio for Low Income Home Tax Credit projects and other guaranteed low-income programs. Additionally, market-rate units received funding through loans geared toward supporting catalytic investment in neighborhoods. Some CDFIs acknowledged that an opportunity exists to fund more middle-income housing but report being so busy funding low-income projects that there is not currently an undeniable force

Less lending is currently happening in rural areas and smaller cities than in the state's three largest cities.

⁽³⁾ Tax code changes in late 2016 may make LIHTC projects less attractive to investors in the future.

pushing them to develop new moderate-income product lines.

Consumer Lending

Consumer lending was also seldom mentioned by CDFIs, although one CDFI did report considering expanding into consumer lending as a way of supporting local economic development efforts. However, transformational neighborhood change is key to stabilizing and strengthening Ohio's communities; subsequently GOPC did not deeply explore the challenges and opportunities around consumer lending.



Finding #8

CDFI expansion into new product lines or geographies requires precious operating capital to support the research and experimentation necessary for innovation.

It is evident that **more staff time, and therefore operating capital, is required at any point where new loan products are being devised and evaluated.** Many CDFIs spoke about the conflict this presents given the fact that many operate lean organizations with few staff and deliberately tight budgets. Operating capital is limited due to most CDFIs' missions to keep their rates as low as possible and investors' preferences for providing loan capital rather than operating funds.

...more staff time is required at any point where new loan products are being devised and evaluated.

CDFIs in Ohio have begun to utilize collaborative partnerships to extend capacity and lending. A competitive grant program from JPMorgan Chase—Partnership for Raising Opportunity in Neighborhoods (PRO Neighborhoods)—has been a major impetus for recent collaborations, as has the early results from PRO Neighborhood partnerships from around the country.

Despite the promising possibilities of CDFI collaboration, identifying sources of new operating capital will remain critical as CDFIs attempt to move into new markets and geographies.

Finding #9

In some cases, Ohio CDFIs view each other as competition.

Despite across the board concern for improving life and neighborhoods for low-income Ohioans, there nevertheless is some competition between the state's CDFIs. Some of this may come from larger national or regional organizations entering the market and some may be a normal product of a competitive finance industry. However, it is evident from numerous sources, including GOPC's *Meeting the Financing Needs of Opportunity Neighborhoods in Ohio* report, that **the need for credit in communities throughout Ohio is too much for any one CDFI to address on its own.** With this understanding, there is some optimism that an avenue exists for vibrant coexistence of many CDFIs in the Ohio market. There is also potential that competition may be to the benefit of borrowers by further driving down rates and fees. As the industry grows and evolves and service areas change though, it is reasonable to expect that the issue of competition will continue to rise to the fore.



Campbell's Market
Finance Fund

*...the need for credit in
communities throughout Ohio
is too much for any one CDFI
to address on its own.*

*CDFI funding made
Campbell's Market
possible — the first
grocery store in
Vinton County since
2013*



Recommendations

GOPC aimed to devise realistic and implementable recommendations for ways to support growth in the CDFI sector in Ohio. For example, although we understand that CDFIs would value the security of a large and guaranteed funding source, this is not something that we can realistically expect to achieve in the near term and is therefore not included in the recommendations. Additionally, the task of devising strategies to support CDFI lending is made more difficult by the vast differences in the types and operations of CDFIs working in Ohio; there is no silver bullet solution for such a diversified field.

Nevertheless, though there are many differences within the firms operating in the sector today, they also face very similar funding and market realities, including: perilous budget environments, weak markets, low-income populations, and population decline. For these reasons, **our suggestions focus primarily on harnessing the full potential of the personal relationships of professionals in this field and the civic capacity of its institutions, which we believe could yield significant dividends to the state's CDFI sector.**



Youngstown Business Incubator
Village Capital Corporation

Recommendation #1

CDFIs working in Ohio should consider forming a network or professional alliance.

CDFI coalitions currently exist in Detroit, Baltimore, and Georgia. CDFIs in Ohio should drive their own agenda for this group; however, the following discussion details some of the work we think a professional coalition could under take.

- Professionals in the CDFI industry could get to know each other better and **partner with another firm**. Partnering with other CDFIs would be beneficial in terms of the number of loans a CDFI carries on its books, but it is also likely to **expand expertise and capacity** in both organizations.
- Where there are needs to “manage up” or “educate partners,” like philanthropy (on social impact lending), small community banks (on the value of CDFIs), or major intermediaries (on development in weak markets), they can **join forces to create work products, share contacts and case studies, and strategies for educating partners**. Improving bank relationships in particular, are discussed in more detail in Recommendation #3.
- A regular convening would provide opportunities to **share best practices** or **troubleshoot issues** facing the organizations. In some cases, the group may decide to **tackle key issues from a unified front instead of on a piecemeal basis**. It could mean lobbying state leaders or others about policy decisions affecting the industry. Some such issues may include: how to do smaller New Market Tax Credit projects, small historic tax credit deals, how to support capacity development within the non-profit sector and development community, how to make middle-income housing development more attractive to the development community, or other issues identified by the larger group.
- From these shared conversations, it is also possible that **mentor/mentee relationships could develop** between the more established CDFIs and newer ones or simply between professionals. These mentoring relationships could conceivably take the form of codified partnerships, thereby expanding the geographical reach of some of the more established firms, or may simply help newer ones increase their balance sheet and get a foothold in their service area.
- Though it may be uncomfortable, this group could also **address the issue of competition** with other CDFI organizations working in the state. It would be useful to identify the areas where competition exists and agree on operating procedures in instances when they do find themselves competing. They could potentially develop strategies for expanding into new geographies or product lines.

- Joining forces lends CDFIs the opportunity to **lobby state (or federal) leaders for additional funding sources**. Some suggestions were made for specific asks a group could make, including lobbying state government for a seat at the JobsOhio table or other capital allocations, such as 166 loan funds. It would be up to a CDFI coalition to determine if the “lift” is within their collective abilities.
- CDFIs could look for **opportunities for shared services** or back office or underwriting sharing that may help lower operating costs.
- CDFIs could **market themselves as a group to potential partners**, like banks, port authorities, philanthropy or anchor institutions, who may have varying levels of understanding of what a CDFI is depending on location.
- CDFIs could **join together to create a shared funding source of their own**. This could come from pooling any of the traditional sources of capital for CDFIs. Another possibility would be the joint creation of a security product that could attract additional investment and partners and keep investment dollars in Ohio. One CDFI, ECDI, has already created a security product allowing the Cuyahoga County Land Bank to invest proceeds in ECDI, which could serve as a model approach for such an effort. Additionally, a coalition of Ohio CDFIs could consider collaborating to issue bonds, like what the Reinvestment Fund, a national CDFI, has done recently.



Joining forces lends CDFIs the opportunity to lobby state (or federal) leaders for additional funding sources.

Recommendation #2

Ohio's CDFIs should work to strengthen the ecosystem in which they operate.

CDFI lending does not happen in a vacuum and relies on the energy of symbiotic entities like government, the development community, business leaders, and financial institutions. Because their fate is so closely tied with that of other agents in the community development field, **CDFIs should evaluate the ecosystem in which they work to determine key points of intervention that could help set the stage for expanding their loan portfolio and increasing the overall capacity in a place.** Depending on the situation, this could mean serving on important boards of directors, advising in the hiring process for key positions in other institutions, meeting with business leaders to develop buy-in for community plans, or attending port authority conferences to promote mutually-beneficial partnerships. Indeed, efforts to foster cross-sectoral leadership activity can yield broad dividends, and has been identified as a critical component of resurgence in smaller legacy cities by GOPC and others, including the Federal Reserve Bank of Boston.

Recommendation #3

CDFIs should undertake active campaigns to educate partners. In particular, many CDFIs need to strengthen their relationships with local banks.

It is incumbent on CDFIs to “manage up” and educate potential partners on the unique role they can play in community development. This type of effort could be targeted at a variety of institutions, such as educating philanthropy on social impact lending tools, educating developers on in-fill development, or port authorities on potential mutually-beneficial partnerships. But during interviews, the critical partnership that was discussed most frequently was that of CDFIs and conventional banks. In some cases, these partnerships were robust and mutually beneficial, with financial institutions understanding the ways that they could benefit from a partnership with a CDFI. More often, however, the discussion centered on conventional banks' lack of knowledge of what a CDFI can do and lack of interest in partnering. This was especially true in small and mid-sized cities. Because the bank relationship can be so fruitful this should be a primary area of focus for CDFIs. **It is our recommendation that this is an area that CDFIs should consider addressing jointly through a network since its impact is so widespread.**

Recommendation #4

Get involved with any relevant efforts happening to impact low-income communities.

Likewise, it is advantageous to figure out where local efforts are already focused and get involved at that decision point. **Finding a way to have a seat at the table can allow CDFIs a chance to influence the conversation, but can also ensure they are in step with other plans and ideas already in motion.** Depending on the locations, this can take a variety of forms; it could mean partnering with transit agencies, public housing authorities, hospitals or other anchor institutions with a stake in low-income communities. For example, Cincinnati Development Fund was strategic in getting a seat at the table when local philanthropy decided to recruit a national community development intermediary to Cincinnati.

Recommendation #5

CDFIs should adopt a mindset that they are not just responding to existing markets, but they are also helping to uncover latent markets.

Cincinnati Development Fund used their lending position to demonstrate that a latent market existed for residential development near downtown. The beauty of this product was that it served to galvanize support for the effort but also seeded a niche market for their future lending. In many cases, CDFIs in Ohio are at capacity administering their existing portfolio but given the large degree of credit need in the state, there are other new markets waiting to be discovered. Forming a network could help the CDFI industry grow to meet demand by: establishing new partnerships, which could expand service areas and/or lending portfolios; sharing of best practices to streamline some operational areas, like back office duties; collectively knocking down some barriers to lending; or identifying new funding sources, which could help to grow organizational capacity, and expand lending.

Given the large degree of credit need in the state, there are other new markets waiting to be discovered.

Building Assets: Ohio's CDFI Industry

Appendix

A: Types of CDFIs

There are three main types of CDFIs: loan funds, credit unions, and venture capital funds.

CDFI loan funds provide financing and technical assistance to businesses and individuals in low-income communities or areas targeted for reinvestment. Lending typically focuses on microenterprise or small business creation, real estate and commercial development, or community-service organization development. Individual CDFIs may conduct one or more types of lending and the geographies in which they lend vary widely by organization. Most of the active CDFIs in Ohio are loan funds.

CDFI credit unions typically provide consumer lending to people who live or work in a specific area or to a specific low-income group. They are owned by members in the credit union. Their loan capital often comes from deposits to the institution. In most cases, deposits are insured by the National Credit Union Administration. For example, credit unions may provide savings and checking accounts, car loans, student loans, first mortgages, among other things. In Ohio, there are eight active CDFI credit unions: AP Federal Credit Union, Commodore Perry Federal Credit Union, Coshocton Federal Credit Union, Faith Community United Credit Union, North Coast Credit Union, Nueva Esperanza Community Credit Union, Softite Community Federal Credit Union, and Toledo Urban Federal Credit Union.

CDFI venture capital funds provide investment for small and medium-sized businesses working in designated areas. Ohio has one venture capital fund: Ariel Economic Development Fund, LLC.

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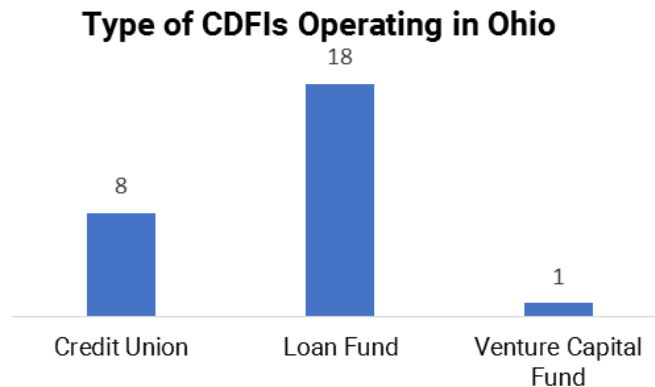
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C: Lay of the Land in Ohio

There are many and varied CDFIs currently operating in Ohio.

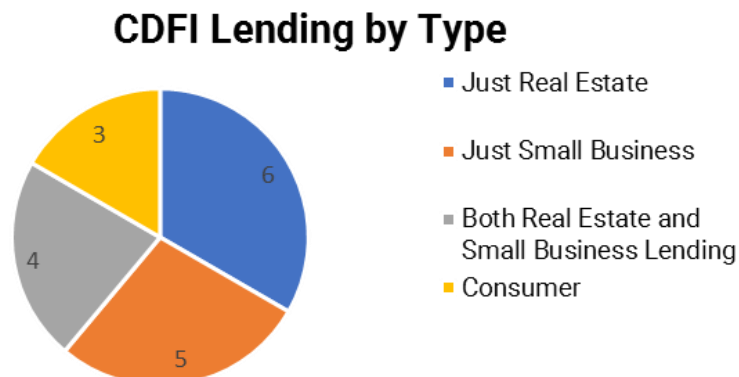
There were at least 27 CDFIs operating in Ohio in 2017 representing all three major CDFI types: credit unions, loan funds, and venture capital funds.ⁱ Most CDFIs discussed are headquartered in Ohio, but three are national or regional loan funds with a strong presence in the state.



Loan fund CDFIs in Ohio vary tremendously across firms: there are new and well-established CDFIs, there are CDFIs that do small business lending and others that focus on real estate and still others that do both.

Some CDFIs are new while others are almost 30 years old. Two new CDFIs are currently being formed: one to serve the city of Youngstown and another for 32 counties in Appalachian Ohio.ⁱⁱ Six CDFIs operate statewide, one of which, together with its parent company and other subsidiaries, have completed projects in all but three counties since 1985.

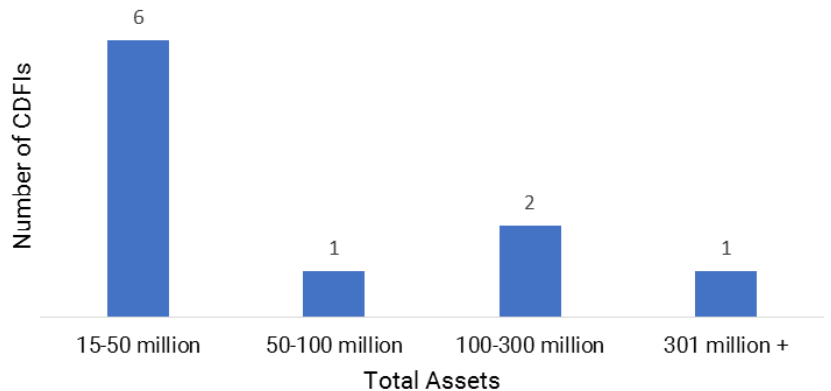
In Ohio, there are six CDFI loan funds operating in just the real estate sector; five operating in just the small business sector; four operating in both the small business and real estate sector; and three offering consumer loans.



Most CDFIs operating in Ohio have innovated multiple loan products targeting specific needs in their communities. CDFIs’ loans vary in size and risk to the lender. Some CDFIs have elected to become Community Development Entities (CDEs) to receive New Market Tax Credit (NMTC) allocations.ⁱⁱⁱ The NMTC program allows CDEs to attract private capital to low-income communities by offering a tax credit in exchange for an equity investment in a CDE. Some have won funding from the CDFI Fund at the U.S. Treasury department. Three have earned a Federal Home Loan Bank designation.

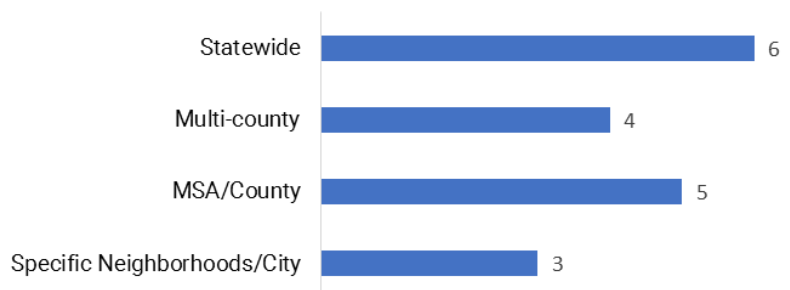
As a group, the CDFIs operating in Ohio have innovated new product lines based on market demand, thereby scaling up. They have sustained their business portfolio for significant, though varied, periods of time and they have attracted and retained diverse sources of capital. Many are well-established in the niche they serve and currently report record numbers of deals. In some cases, the high demand for existing loan products keeps funds from developing new lines of business because capital and operating resources are fully tapped servicing existing product lines. From a financial standpoint, there is significant capacity within the field of CDFIs in the state. Of CDFIs with available data, seven CDFIs operating in Ohio have a total asset size of \$100 million dollars or less. There are three with total assets above \$100 million.

Size of CDFI Loan Funds Operating in Ohio

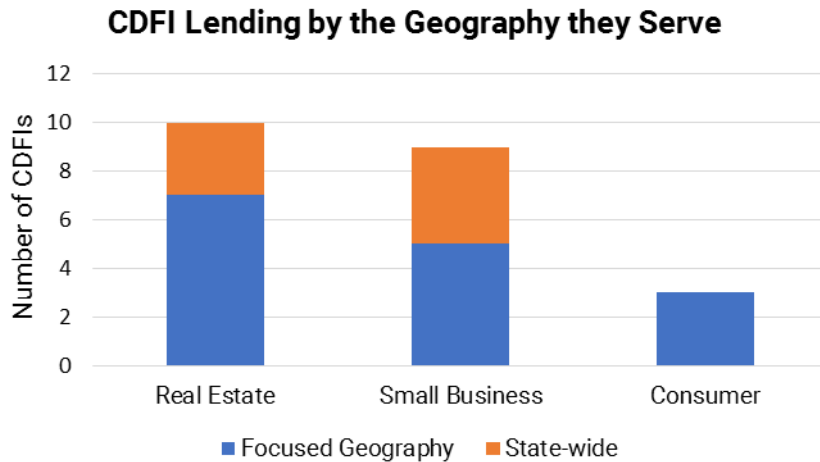


Among CDFIs with a focused geography, the size of their service areas range from large multi-county areas to individual cities. Several CDFIs have specified large, multi-county service areas. This includes Village Capital Corporation, which has recently expanded to serve 18 counties in Northeast Ohio. It also includes Neighborhood Development Services, which serves 12 Northeast Ohio counties and parts of West Virginia, and LISC, which operates in Toledo and Cincinnati and targets lending in rural areas. There are several CDFIs that mainly serve one county or metro area, including: The Affordable Housing Trust of Columbus and Franklin County, Neighborhood Housing Services of Hamilton County, Cincinnati Development Fund and Greater Cincinnati Microenterprise Initiative, Inc.

Number of CDFIs by Service Area Size

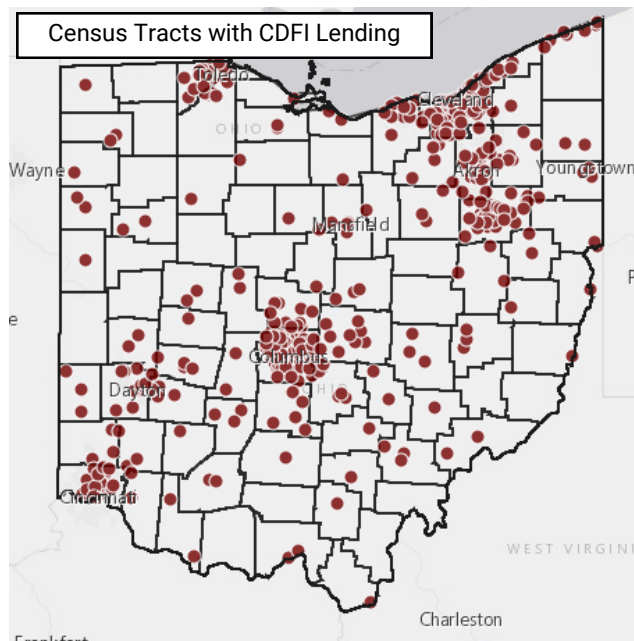


A variety of CDFI loan products are potentially available anywhere in the state, including small cities and rural areas. Six CDFI loan funds are chartered to operate statewide.^{iv} Due to the presence of several statewide funds, the potential exists for real estate development and small business loans to be made nearly anywhere in the state. Currently, consumer loans made by CDFI loan funds are only available in select geographies.



Note: This chart reflects lending activity by the 18 CDFI loan funds; some CDFIs lend in multiple lending areas which results in a total count of 22 on this chart.

The map below was created using data collected by The Opportunity Finance Network, a national network of CDFIs, showing where CDFI lending has taken place in Ohio.^v This data does not include all of the CDFI loan funds operating in Ohio, but nonetheless, it does illustrate a trend of lending being concentrated in Ohio’s largest cities, especially Columbus and Cleveland. Lending does happen in Ohio’s small- and mid-sized legacy cities but not as consistently and to a lesser degree.



CDFI loan funds in Ohio have developed loan products targeting a range of issues facing low-income and weak market communities in the state.

As of summer 2018, Ohio's CDFIs offered loan products for the following purposes:

- Affordable housing development
- Market rate housing development
- Health facilities
- Healthy food access (grocery store and co-op development)
- Neighborhood safety programs
- Educational facilities/schools
- Commercial, retail, and mixed-use development
- Small business lending
- Parks and placemaking
- Business incubators
- Corridor redevelopment
- Sustainability/LEED
- Consumer mortgage
- Other non-profit facilities (e.g. childcare)

Consumer lending is a lesser focus of CDFI loan funds. A complete list of Ohio's loan fund CDFIs and the type of lending they do can be found in Appendix D.

The roster of CDFI loan funds operating in Ohio covers most important categories.

Upon surveying existing conditions, we did not see evidence that there is a clear lack of a particular type of CDFI lending in the state. For example, one may have concluded that the state would need to attract a large regional or national CDFI if all the state's CDFIs were small and working in only a few select neighborhoods. But this is not the case in Ohio. In fact, the flexibility of the CDFI model, which allows organizations to evolve to reflect the needs of their community, has largely worked as intended. Because there is no evident gap in the CDFI industry itself in the state, we did not compare the Ohio landscape to the nation or other peer states. For additional national comparison, please see the Urban Institute's national analysis of CDFI capacity.^{vi}

Acknowledgements

Thank you to the CDFIs who contributed to this report.

A special thanks to additional GOPC contributors: Aaron Clapper, John Collier, Alison Goebel, and Maria Walliser-Wejebe.

[i] Source: <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>; CDFI websites and in-depth interviews conducted March and April 2017. Because the CDFI fund site only lists CDFIs by the location where they are headquartered, it is possible that there are other national or regional funds operating in Ohio not captured in this analysis. However, we believe this list reflects the most significant loan funds currently operating in the state.

[ii] Appalachian Growth Capital - <http://www.chillicothe Gazette.com/story/news/local/2017/06/05/county-learns-new-development-tool/371289001/>; <http://www.yndc.org/>

[iii] A Community Development Entity (CDE) is the specific organizational structure that may receive tax credit allocations. They serve as an intermediary through which New Market Tax Credit equity flows from investors to qualified businesses.

[iv] Commonwealth Revolving Loan Fund, Economic and Community Development Initiatives, Finance Fund, IFF, Ohio Capital Finance Corporation, and West Central Development Corporation

[v] <http://ofn.org/cdfi-coverage-map>, June 2017 - This map shows lending for the following CDFI loan funds: Cincinnati Development Fund, IFF, Enterprise Community Loan Fund, Economic and Community Development Institute, Ohio Capital Finance Corporation, LISC, and Finance Fund Capital Corporation.

[vi] https://www.urban.org/sites/default/files/publication/93396/cdfi_factsheet_0.pdf?utm_source=EA&utm_medium=email&utm_campaign=cdfi_factsheet&utm_content=cd