Consumer Financial Services Webinar Series

Webinar #6:

The Power and Potential of CDFI Credit Union and Loan Fund Partnerships

June 22, 2016  1:00 – 2:00 PM ET
Presenters

• Lauren Stebbins
  Senior Associate, Opportunity Finance Network

• Terry Ratigan
  Senior Consultant, NFCDCU

• Seth Julyan
  Senior Vice President, Opportunity Finance Network

• Robin Romano
  CEO, MariSol Federal Credit Union

• Patricia Duarte
  President and CEO, Trellis
Agenda

• NEXT Awards and Consumer Financial Services

• CDFI Credit Unions and Loan Funds: Differences, Complementary Strengths

• CDFI Credit Union and Loan Fund Collaboration: MariSol FCU and Trellis

• Q&A
2016 NEXT Awards

- Year-long awards program
- Awarded more than $70 million since 2007
- 2012-2016 theme of expanding coverage
  - 2016 subtheme: consumer financial services
- Goals
  - Take CDFIs to the next level of growth and impact
  - Increase visibility of CDFIs and the work they do
- Combines financial support, visibility, learning, and sharing
For More Information

• nextawards.org
  – Check in August to learn about the 2016 NEXT Awardees!

• Webinar series to support the theme of consumer financial services
Reminders

• This webinar is being recorded – the recording and powerpoint will be posted at nextawards.org/webinars

• During the webinar, you can type your questions into the GoToWebinar question box
1. Capital for Loans, Investments
   - Equity / Net Worth
     - Ownership Shares & Equity Investments
     - Operating surpluses & retained earnings
     - Grants
   - Debt
     - Loans from investors for on-lending
   - Deposits
     - Deposit insurance in response to Depression-era banking crisis
     - Regulations designed to lower risk, protect assets, conserve insurance funds

2. Operating Funds
   - Earned Income
   - Operating Grants
Operating Funds

- Regulated CDFIs (Credit Unions & Banks)
  - *Must* be financially self-sufficient and cover all operating expenses through earned income
  - May supplement earned income with grants for special purposes, but must be financially sustainable without grant income

- Loan funds
  - Earned income covers approx 70% of total operating expenses
  - Operating grants cover balance
    - Programmatic and general operating support
## Capitalization of Credit Unions & Loan Funds

<table>
<thead>
<tr>
<th>Credit Union</th>
<th>Equity</th>
<th>Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Retained Earnings</td>
<td>Member Shares &amp; Deposits</td>
</tr>
<tr>
<td></td>
<td>- Unlike banks, cannot issue common or preferred securities</td>
<td>- Borrowing / Lines of Credit</td>
</tr>
<tr>
<td></td>
<td>- Capital Grants</td>
<td>- FHLB, Others</td>
</tr>
<tr>
<td></td>
<td>- Secondary Capital</td>
<td>- Non-Member Deposits</td>
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<tr>
<td></td>
<td>- Low-Income CUs only</td>
<td>- Low-Income CUs only</td>
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<table>
<thead>
<tr>
<th>Loan Fund</th>
<th>Equity</th>
<th>Debt</th>
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<tbody>
<tr>
<td></td>
<td>Net Assets (non-profits)</td>
<td>Unsecured Loans</td>
</tr>
<tr>
<td></td>
<td>Ownership Shares</td>
<td>Secured Loans</td>
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<td></td>
<td></td>
<td>Sub Debt</td>
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<td>EQ2</td>
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Capital Structure of Credit Unions

- Non-profit, member owned cooperatives
- Regulated and insured depositories
- Regulators require minimum Net Worth Ratio of 7% (equity/total assets)
- Median Net Worth Ratios:
  - 11.4% for all credit unions
  - 10.3% for CDFI credit unions
Loan Fund Sources of Debt

- Individuals: 7%
- Religious Institutions: 3%
- Foundations: 14%
- Corporations: 5%
- Federal Government: 7%
- State/Local Government: 3%
- Non-depository Financial Institution: 5%
- Banks: 49%
- Other: 6%
# Loan Fund Ratios and Client Demographics

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Borrowed Capital Cost</td>
<td>2.31%</td>
</tr>
<tr>
<td>Borrowed Capital Term</td>
<td>110 months</td>
</tr>
<tr>
<td>Self Sufficiency Ratio</td>
<td>62%</td>
</tr>
<tr>
<td>Net Asset Ratio</td>
<td>43%</td>
</tr>
<tr>
<td><strong>Client Demographics</strong></td>
<td></td>
</tr>
<tr>
<td>Low Income</td>
<td>73%</td>
</tr>
<tr>
<td>Persons of Color</td>
<td>49%</td>
</tr>
<tr>
<td>Female</td>
<td>48%</td>
</tr>
</tbody>
</table>
Financing Sectors – CDFI Loan Funds and Credit Unions
Barriers to Collaboration

- Lack of education about each CDFI type
- Inability to find CDFIs to form collaborations
Reasons for Collaboration

- Mission
- Products and services are complementary
- Build economies of scale
- The communities we serve need us
Strengths & Challenges

Credit Unions
- Nonprofit
- Fully Regulated
- Community Owned
- Retail Financial Services
- High Leverage on Equity
- Savings & Deposits
- Diversified Lenders
  - Consumer
  - Mortgage
  - Business

Challenges
- Regulations, Regulators
  - Net Worth Ratio
  - Portfolio Limits
  - Product Restrictions
  - Risk Aversion
- Institutional History & Culture
- Fundraising Eligibility
- Fundraising Expertise
- Impact Tracking
- Institutional Partnerships
- Achieving Scale
Strengths & Challenges

Challenges

- Leverage
- Loan Capital
- Transaction Services
- Savings & Asset Protection
- Financial Technologies & Reporting
- Financial Sustainability
- Transparency
- Accountability
- Achieving Scale

Loan Funds

- Flexible Underwriting
- Fundraising Expertise
- Partnerships
- Impact Tracking
- Focused Lending
  - Commercial RE
  - Business
  - Affordable Housing
  - Microfinance
  - Community Facilities
Stronger Together

Credit Unions

- Nonprofit
- Fully Regulated
- Community Owned
- Retail Financial Services
- High Leverage on Equity
- Savings & Deposits
- Wide Range of Loans
  - Consumer
  - Mortgage
  - Business

Loan Funds

- Flexible Underwriting
- Fundraising Expertise
- Partnerships
- Impact Tracking
- Focused Lending
  - Commercial RE
  - Business
  - Affordable Housing
  - Microfinance
  - Commun. Facilities
Example: Self-Help

Credit Unions

- Self-Help CU
- Self-Help FCU
- Secondary Capital investments leveraged record growth in multiple states
- Loan participations
- Now more than 120,000 members
- $1 Billion in loans

Loan Fund

- Self-Help Ventures Fund
- Fundraising
  - CDFI FA, NMTC
  - Private Foundations
  - Banks
- Secondary Capital Investments
- Commercial RE & CRA Mortgages
Example: Hope

**Credit Union**
- Hope FCU
- Secondary Capital investment leveraged 10x growth in assets through deposits
- Loan participations
- Now more than 30,000 members
- $120 million in loans

**Loan Fund**
- Hope Enterprise Corporation
- Fundraising
  - CDFI FA, NMTC, CMF
  - Private Foundations
  - Banks
- Secondary Capital Investments
- Project Financings & Loan Participations
Collaboration
The Collaborators

- Trellis
- Raza Development Fund
- MariSol Federal Credit Union
- All Community Development Financial Institutions

(Plus some funding from JP Morgan Chase - the bank)
Trellis is a CDFI Loan Fund - 501(c)3 non-profit. Established 1975. NeighborWorks America® member and Freddie Mac Borrower Help Center
**Vision:** An Arizona where everyone has a place to call home.

**Mission:** Trellis is dedicated to making stable homes and communities possible by educating, building and lending.

*Established in 1975*
TRELLIS IMPACT FY 2010 to 2014

Counseling and Education: 4,935
Homeowners Created: 845
Preserved Homes: 956

Total Investment: $160,523,252
Grants Received (NWA Core): $1,901,991

Grant Leverage: 84:1
Average Jobs Created/Maintained: 67
Staffing/Programmatic housing-related FTE: 27.5
40 years of service -
More than 28,000 households served
• Pre and Post purchase Housing Counseling and Education
• More than 2,200 first-time homebuyers
INVESTING

Raza Development Fund

INVESTMENT • SOLUTIONS • COMMUNITY • FAMILY

IN PEOPLE
History and Milestones

Founded in 1999, RDF was created to be a nonregulated community development specialty finance company by the National Council of La Raza to serve Latino markets nationwide as a high touch development advisor, a direct senior lender (predevelopment through permanent) and offering credit enhancements to expand the reach of local Latino-serving lenders.
National Service Area

RDF is active in over 20 states across the country.
Our Credit Products

We have the ability to serve our clients with traditional and innovative financial tools.

- Pre-Development Loans
- Land Loans
- Construction & Bridge Loans
- Mini-Permanent & Term Loans
- Operating Lines of Credit
- Tenant Improvement Loans
- Guidance Lines of Credit
- Business & Equipment Loans
- NMTC Leveraged Loans
Our mission is to deliver high quality member services that meet the financial needs of our members while maintaining a strong financial condition. As a financial cooperative, we leverage our members’ resources to directly benefit them and the communities in which they live.

MariSol Federal Credit Union is committed to financial inclusion and empowerment by expanding access to affordable and equitable financial services for all.
MariSol FCU

- Credit Union since 1954
- CDFI since 2010
- CDFI Fund Grant Awardee
- Dedicated to serving modest income members in Maricopa County
MariSol FCU

- Financial Education since: 1,506 staff hours, 1,434 attendees
- Loans funded since 2010: $48.2 million
- Pay Your Self Mortgage funded: $2.2 million
- Payday alternative loans since 2010: $3.4 million, 6,865 loans
- Grants Received (NWA Core): $1.5 million
How did we find each other?

- MariSol became a CDFI in 2010! MariSol sent a letter to the existing CDFI’s in Maricopa County and asked how we can work together!
- Trellis and Raza responded.
- Worked with Trellis on partnering to provide loan capital to them since 2010.
- Worked with Raza in learning about small business accounts and how to serve MariSol CDFI areas - One of the Raza Business Loan Officers sits on the MariSol Advisory Committee.
Why are we together?

- Staying true to our missions!
- We share common values and goals.
- Our different business models allow us to complement each other, not compete.
- We want each other to succeed.
What we are doing together?

- Counseling - Home buying by Trellis, consumer education by MariSol!
- Pay Your Self Mortgages - product created by MariSol for both Trellis and MariSol customers
- ITIN consumer lending - MariSol and Raza
What are we doing together?

- Small business loans - MariSol and Raza
- ITIN Mortgage Loans - MariSol, Trellis and Raza
- State of Arizona - Fresh Start loans
Working Together

RAZA
- Supplies funding for credit enhancement
- Supplies operational funding
- Supplies loan capital

MARISOL
- Produces consumer, real estate and small business loans
- Creates products for joint community market served
- Performs financial education
- Refers clients for real estate counseling
- Supplies loan capital

TRELLIS
- Produces real estate loans
- Performs home buying counseling
- Performs foreclosure counseling
- Marisol funds and books mortgages, Trellis originates and services
Lessons Learned

- There are a lot of resources available in your community!
- Learn what a loan fund is and start talking to each other!
- Be creative!
Q&A

Type your question into the GoToWebinar question box