MANY CDFIs ONE PURPOSE
ALIGNING CAPITAL WITH JUSTICE
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2013 OPPORTUNITY FINANCE NETWORK
ANNUAL CONFERENCE
PHILADELPHIA, PA • OCT. 15-18, 2013

Collaboration is the New Competition

TRF, LIIF, PCG and ACC
October 18, 2013

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Agenda

- Introductions
- Collaboration!
- Why collaborate?
- Models of collaboration
  - Ingredients of healthy collaboration
- Outcomes/Challenges
- Lessons Learned
- Questions

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TRF THE REINVESTMENT FUND
Capital at the point of impact.

The Reinvestment Fund builds wealth and opportunity for low-wealth people and places through the promotion of socially and environmentally responsible development.

Business Lines

Lending and Investing

Policy Solutions

Real Estate Development

PolicyMap

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Low Income Investment Fund (LIIF)

- Mission-driven nonprofit CDFI founded in 1984
- Invested $1.3 billion, leveraged $6.8 billion
- Headquartered in San Francisco, with offices in Los Angeles, New York and Washington, D.C.
- Activities: Financing, fund structuring, policy, technical assistance and programming
- Programs: housing, education, child care, health, transit-oriented development

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Partners for the Common Good

- Partners for the Common Good is a national CDFI that operates as a wholesale participation lender and network.
- Since 2004, PCG has worked with 35 lending partners (of which 31 are certified CDFIs)
  - Financed 105 participation loans in 31 states and DC.
  - PCG's $36 million in participation financing has leveraged $153 from lending partners and $230 million from non-CDFI lenders to support deals totaling $618 million.
- CapNexus was introduced by PCG in 2012 to help facilitate collaboration across the CDFI & community development finance sector.

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Mountain BizWorks

- MBW: 25 year old CDFI providing loan capital and TA to small businesses and entrepreneurs in 40 WNC counties
- Asset-size: $5mm, Loans o/s: $3.1mm
- Capitalization: 75% public funders
- ~3 years ago pivoted from a training-led microlender to a credit-led CDFI
- Greatest constraint to growth (scale & sustainability): our balance sheet

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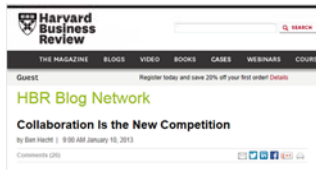

- ★ Ben Hecht, Living Cities, HBS blog, Jan 2013
  http://blogs.hbr.org/cs/2013/01/collaboration_is_the_new_compe.html

- ★ Marketing literature references ~2010

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“Co-Labor”

- ★ Working together to do a task
- ★ Team up, join, band together

- ★ “to cooperate with an agency or instrumentality with which one is not immediately connected”

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CDFI collaboration

- lending
- capital raise
- policy/advocacy

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Path to Collaboration

- Joint exploration of a new sector
  - Shared costs.
  - Shared learning.
- Building on past successful transactional collaboration
- Developed shared objectives for collaboration

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Model of Collaboration

- Capital
  - 50/50 shared capital model.
  - Shared underwriting guidelines.
  - Coordinating marketing efforts.
  - Joint loan committee presentations.
- Fundraising
- Policy

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Ingredients of a Healthy Collaboration

- Transparency
- Shared objectives
- Relationship building at all levels of organization
- Constant communication

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What is your collaborative model?

- Partners for the Common Good is a national CDFI that operates as a wholesale participation lender and network.
- Our network is based on the loan participation and syndication models used successfully for decades by small community banks to leverage limited capital.
- We are a lender and a matchmaker connecting local CDFIs with other lenders and investors interested in direct loan participation.

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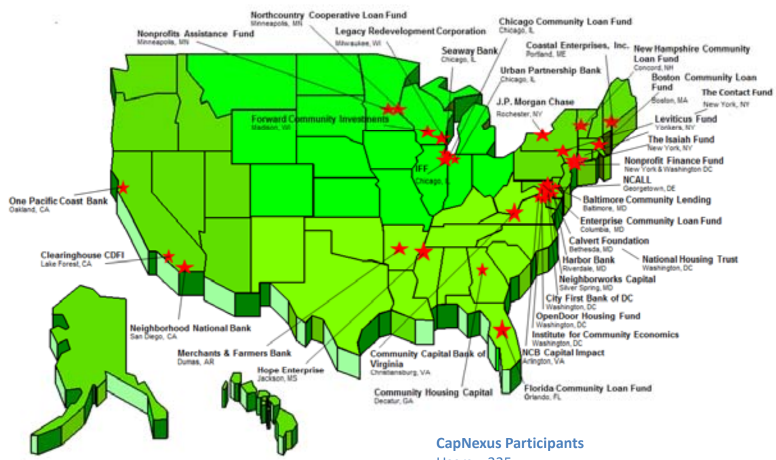
PCG Lending Partners



CapNexus Participants
Users – 225
Deals – 40
Deals closed (directly or indirectly) – 5
Total historic financing -- $200 million (approx.)
Total historic funding sought -- $120 million (approx.)

Our Newest Collaborative Tool: CapNexus

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What was the motivation?

- Participation network was created to enable PCG to reach markets it couldn't reach alone and address inefficiencies shared by our CDFI peers that frequently prevent capital from getting to the types of deals that need it.
- CapNexus was created to "scale up" efforts to help CDFIs match deals with available capital.
- We facilitate cross-industry lending partnerships that help CDFIs manage:
  - Loan limits – Do bigger deals than a CDFI can do alone.
  - Liquidity challenges – Too much demand, not enough capital.
  - Portfolio concentration risk -- Too much of demand for some types of credit.
  - Transaction risk – Too much risk to manage alone.
  - Idle capital – Too much deployed capital that isn't maximizing earnings or creating impact.

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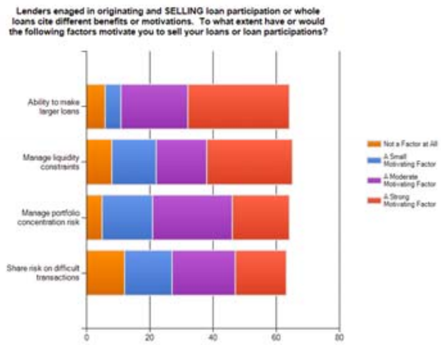
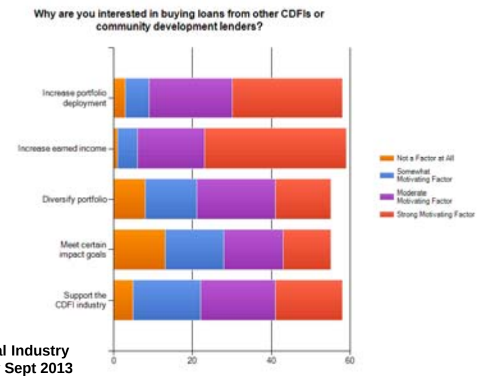


Selling Loans

Sellers motivated to make bigger loans & manage liquidity

Buying Loans

Loan buyers motivated to increase portfolio deployment & earned income



Source: PCG Annual Industry Participation Survey Sept 2013

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Ingredients of healthy collaboration
(for lending partners)

- Good ongoing communication is key
  - A healthy participation is based on trust
  - Two way communication is essential
  - Knowledge should be symmetrical
- A formal loan participation agreement is important for protecting your relationship & managing risk if things go wrong
- Know your partners to understand alignment of:
  - Underwriting approach
  - How will you share risk
  - Monitoring practices (e.g. review portfolio performance – delinquency & loss history, loan restructuring)
  - Approach to work out, restructuring & when to foreclose
  - Loan pricing, fees
  - Sharing costs
  - Loan documentation
  - Commitment to collecting monitoring & social impact data

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Appalachian Community Capital
The Model

- A member-controlled capital intermediary
- Current participants: 13 small business development lenders
- Governance: 9-member Board of Directors
- Geography: 13-state Appalachian region
- Likely or pending funding sources: to include the Appalachian Regional Commission, financial institutions, foundations and utilities, etc.

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The Problem
Visible disparities in the deployment of capital

- Recent studies highlight the disparities:
  - Appalachian small businesses receive 82% of the loans of their comparable counterparts nationally
  - Businesses in Appalachia's economically distressed counties receive less than 60% of the loans of their national counterparts.
  - The full report of "Access to Capital and Credit in Appalachia" is now accessible via ARC's web site at this link: http://www.arc.gov/research/researchreportdetails.asp?REPORT_ID=104

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The Opportunity
Appalachian Community Capital

- ARC convened a group of small business community loan funds (most are CDFIs) to establish a capital intermediary, ACC.
- Over the better part of 18 months they supported our earliest organizing efforts to draft a Board of Directors, raise capital, approve bylaws, articles of incorporation, guidelines for participation in this intermediary, the recruitment of a CEO, etc.

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Positive Outcomes
Challenges
Lessons Learned

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Questions?

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Partners for the Common Good Collaboration as the New Competition

Friday, October 18, 2013
9:00 AM - 10:30 AM

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PCG Partners for the Common Good

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2

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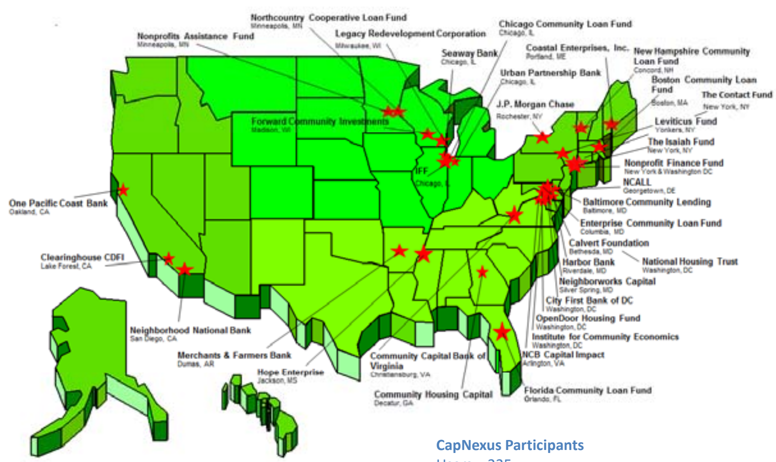

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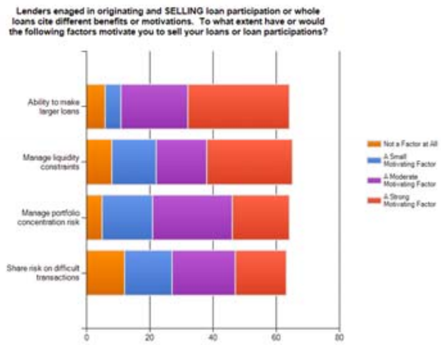

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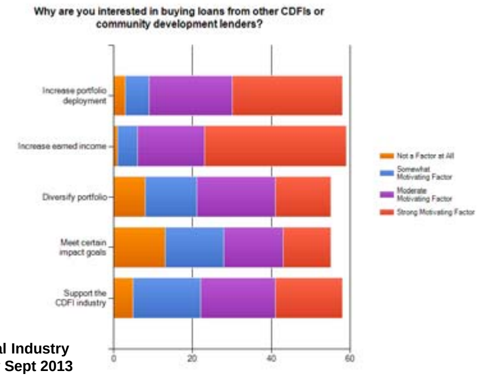

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8

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