

Community Revitalization Collaboratives



Goldman Sachs Community Development Conference
Baltimore, Maryland

April 29, 2005

Presented by:
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Community Reinvestment Fund, USA



Capital for Communities –
Opportunities for People

- Long tradition of private community development initiatives
 - Settlement housing in the early 20th century
 - Early efforts were voluntary, religious, etc.
- The Great Depression changed things
 - Public Funding
 - Federal Initiatives
- The Great Society
 - Power to the People
 - Direct federal funding of “Grass Roots” organizations
- Late 20th Century
 - Flexibility, CDBG
 - Negative Income Tax
 - UDAG and CDFI



Community Development Funding in Context

Mostly Public

Mostly Private



Public Works

FHA

Low-Income Housing
Tax Credits

Urban Renewal

EDA

Industrial Development
Bonds

HUD

CDFIs

New Markets Tax
Credits

Great Society

“Public/Private
Partnerships”

CDBG, UDAG



Continuum of CD Initiatives

- No dollars
- Huge federal deficits
- State deficits
- Low interest rates
- Smaller governmental role
- Political gridlock
- Global competition



The Landscape Today

- Empowerment Zones, Enterprise Zones
 - Geographically targeted investments
- Revolving Loan Funds
 - CDCs
 - CDFIs
 - EDA
- Tax Credits
 - Historical Preservation Tax Credit
 - Low-Income Housing Tax Credit
 - New Markets Tax Credit



Legacy of Past Investment

- Intergovernmental transfers
- Grants and subsidies
- Revolving Loan Funds as a delivery system for federal programs



How We Organized to
Deliver Federal Dollars



Command and Control

Top Down

All things to all people

Delivery Mechanisms

Rules



Vertical Organizations

- Move from **Rule-Driven** delivery systems to **Mission Driven** financial institutions
- Rule Driven Delivery System
 - Categorical
 - Limited flexibility
 - Intergovernmental transfers



Paradigms

Rule Driven

Mission Driven



Continuum of CD Organizations

- CDBG → UDAG – started to change the way things work
- “Mission Driven”
 - 501 (c)(3) Charitable Organizations
 - Community Development Financial Institutions (CDFIs)
 - Community Development Corporations (CDCs)



Examples of Rule vs. Mission Driven

Political

Economic



Who Makes the Investment
Decision?

- Financial Innovation
- Increased use of technology
- Creation of new markets and “quasi markets”
 - Trading air pollution
 - CDFIs



Current Trends

- Mission
- Subsidy
- Equity
- Leverage private capital



The Role of Community Development Financial Institutions

Functions of Development Lenders

Developed by:

Larry Meeker

Federal Reserve Bank of Kansas City



Doing Undoable Deals

PROJECT ANALYSIS

Project / Lender Analysis

Gap Analysis

ENHANCEMENT PROGRAM ANALYSIS

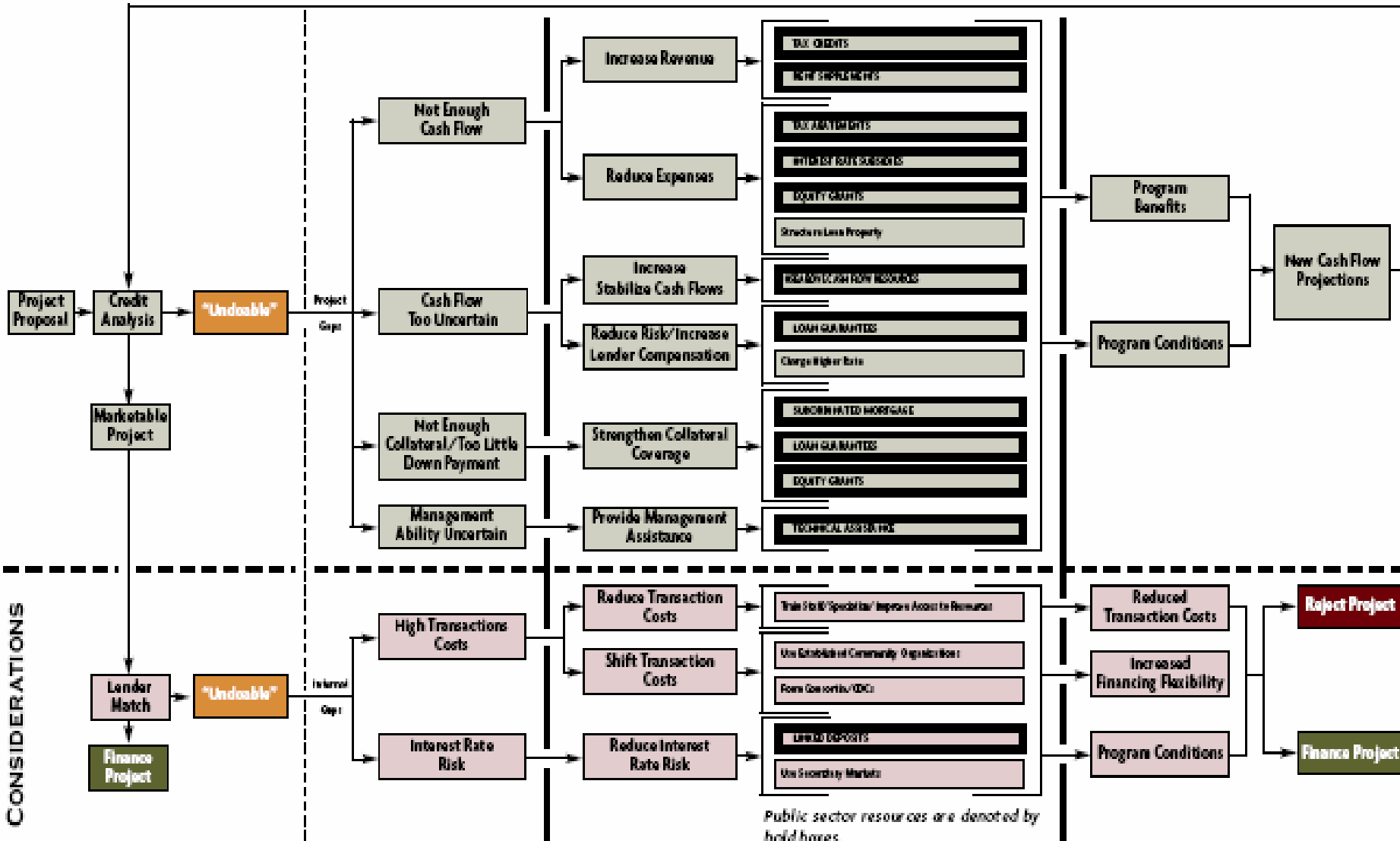
Action

Response Options

PROJECT CONSIDERATION

PROJECT DEVELOPMENT PROCESS

LENDER CONSIDERATIONS



Public sector resources are denoted by bold boxes.

The other boxes highlight private sector resources and options.

Purposes of Community Development Loans

- Incentives
- Gap Financing
- Surrogate Equity
- Affordable Housing



Multiple Community Impact
Objectives

- Leverage
- Pricing
- Complex Structure
- Specialization
- Differentiation



How Can Community
Development Lenders Tap Capital
Markets?

Purely Charitable

Purely Market



What	Grants	Social Investments	Wall Street
	Volunteerism	PRIs	IDBs
	Forgivable loans	EQ2s	CLOs
Who		Reactive = Social Screens	Asset Backed Securities
		Proactive = Direct Investments	
	Governmental	Investors	Banks
	Individuals	Foundations	Mutual Funds
		Religious Institutions	Insurance Companies
			Individuals



Here Is Where CRF Comes Into Play

- Small Loan Volumes
- Small Staff
- Delivery System Model



The Dilemma of the Vertically Integrated Institution

Functions of the Vertically Integrated Institution

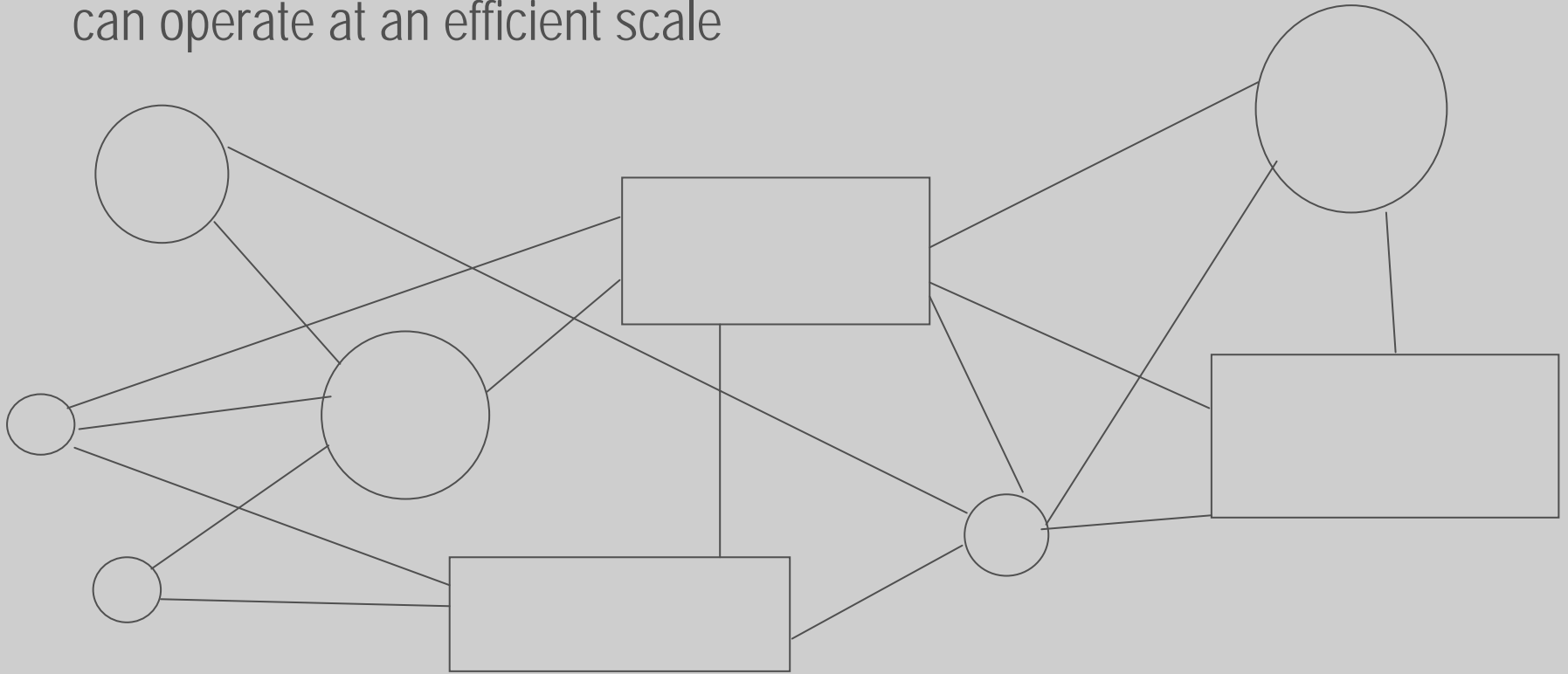
- Marketing
- Organizing and planning
- Security
- Fundraising
- Origination
- Servicing
- Collecting
- Compliance
- Technical Assistance



The Dilemma of the Vertically
Integrated Institution

Community Development Financial Network

Create specialized and differentiated organizations that can operate at an efficient scale



Alternative Approach

Here's Where Community Reinvestment Fund Plays a Role



Community Reinvestment Fund USA

To **transform** the Community Development Finance system by accessing capital markets on behalf of local lending partners so they can increase their impacts on people and communities



CRF USA's Mission

- A national non-profit financial services organization based in Minneapolis, MN
- Provides capital to communities by purchasing economic development and affordable housing loans from community development lenders
- Helped establish New Markets Tax Credit as a member of the NMTC Coalition



What is CRF?

- More than \$450 million in loans purchased
- \$265 million in debt securities issued
- \$54 million in loans placed with institutional investors
- More than \$85 million in NMTC loans closed
- Loss ratio is less than 0.5%
- Loans from 113 sellers in 25 states and Washington, DC



CRF Track Record

- Highly specialized, experienced people who...
- Helped spawn other specialized organizations

Minnesota Community Capital Fund

Twin Cities Community Capital Fund

South Dakota Community Capital Fund



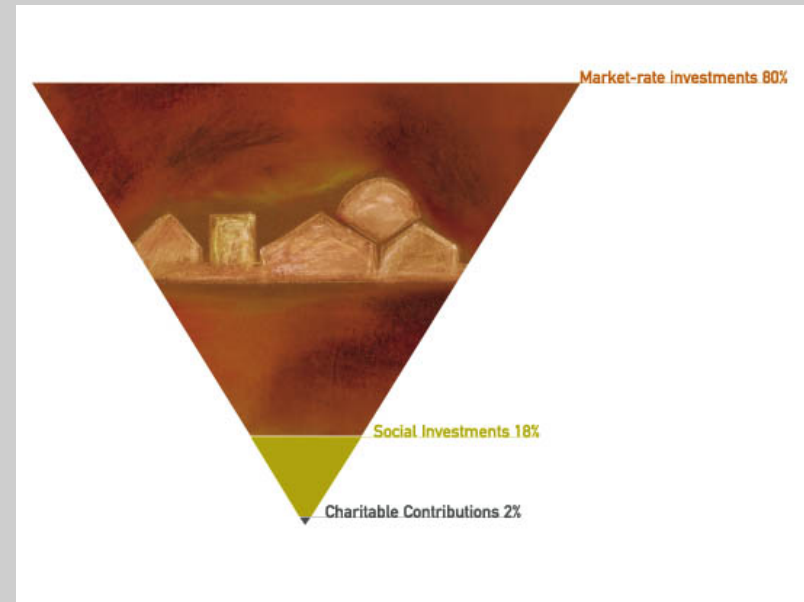
Specialized Expertise

- Securitization
- Sale of whole loans
- New Markets Tax Credits



Sources of Capital for the
Secondary Market

- **2% charitable contributions**
 - Major foundation support:
MacArthur, Ford, Fannie Mae
F B Heron, McKnight and others
- **18% social-rate investments**
 - Prudential, U S Bank, Wells Fargo,
HSBC Bank
- **80% market-rate investments**
 - Northwestern Mutual, Met Life,
Washington Mutual, ELCA Board of
Pensions, Methodist Pension Fund, CRA
Fund Advisors, Access Capital
Strategies, Catholic Slavic Ladies
Association, Mennonite Mutual Aid,
Citibank, JPMorganChase



How CRF USA Leverages Funds

- Two series of notes totaling \$130 million
- Portions of these were rated AAA by Standard & Poor's



CRF USA – Rated Securities

- \$46.1 million total security
 - \$26.1 million in Class A Notes
- Rated by Standard & Poor's
- Privately Placed



Details on CRF USA's
Recent Rated Economic
Development Security

\$26,091,000 Class A Notes consisting of:

	Original Amount	Interest Rate	S & P Rating	Expected Final Distribution Date
A-1	\$8,871,000	2.77%	AAA	August, 2006
A-2	\$8,610,000	3.59%	AAA	March, 2008
A-3	\$8,610,000	4.21%	AAA	August, 2009



Details on CRF USA's
Recent Rated Economic
Development Security

- Senior class – Pay rate equivalent to Triple B securities. Weighted average maturity: 30.4 months assuming no losses, 38 months with 3% loss.
- Junior class – Issued by pre-arrangement with supporting institutional investors. Weighted average maturity 65 months.
- Supporting class: CRF's portion. Payment begins when other classes paid off.



Difference Among Security Classes

- Can be earned for banks by purchasing loans
- Depending on circumstances, can qualify as either a loan or investment
- CRF allocates security geographically to various lenders to help meet CRA tests



CRA Credits

- New Opportunity to access the capital markets
- 39% Federal Tax Credit over 7 years
- Must be invested in Community Development Entities that have been awarded tax credit allocation
- Investments in Qualified Low-Income Businesses
- Located in Low-Income Communities



New Markets Tax Credit

- Congress recently amended NMTC statute
- Now includes Low-Income Places *and* People
- IRS must issue new regulations before statutory changes can be implemented



New Markets Tax Credit

- NMTC has the scale to get Wall Street's attention
- Connects "Wall Street" to "Main Street" Community Development
- Transforming the Field of Community Development Finance



New Markets Tax Credit

- We don't speak each other's language
- Skills needed to change
- Mission driven vs. rule driven
- Innovation



- Access to tax credits with greater advantages
- Lower interest rate to lending organization
- No origination fee assessed by CRF to lending partner
- Lending organizations can make additional dollars



Teaming Up with CRF –
The Benefits

The CRF NMTC Allocation

\$312.5 Allocation from Rounds 1 and 2 to be used nationally in two programs

- Originate loans to large commercial projects with substantial community impact aka "Commercial Lending, LLC"
- Purchase loans made to qualified active low income community businesses from community development entity (CDE) lenders aka "Business Loan Conduit, LLC"

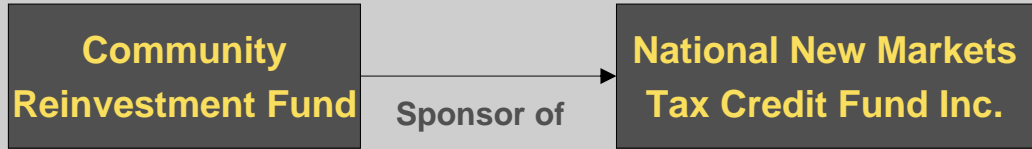


CRF New Markets Strategy

Community
Reinvestment Fund



Community Reinvestment Fund
Becomes More Complex



Community Reinvestment Fund Becomes More Complex

**Community
Reinvestment Fund**

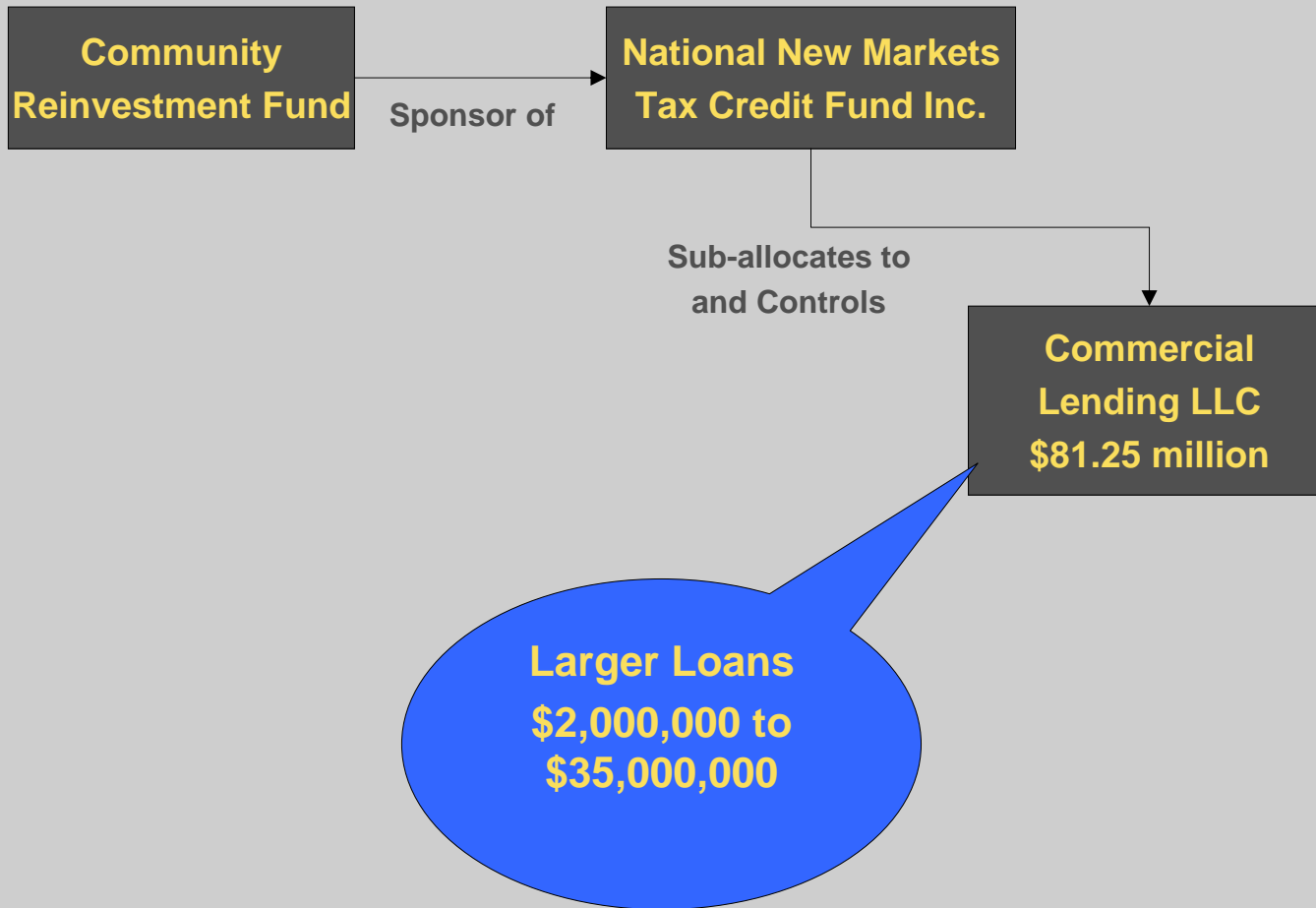
Sponsor of

**National New Markets
Tax Credit Fund Inc.**

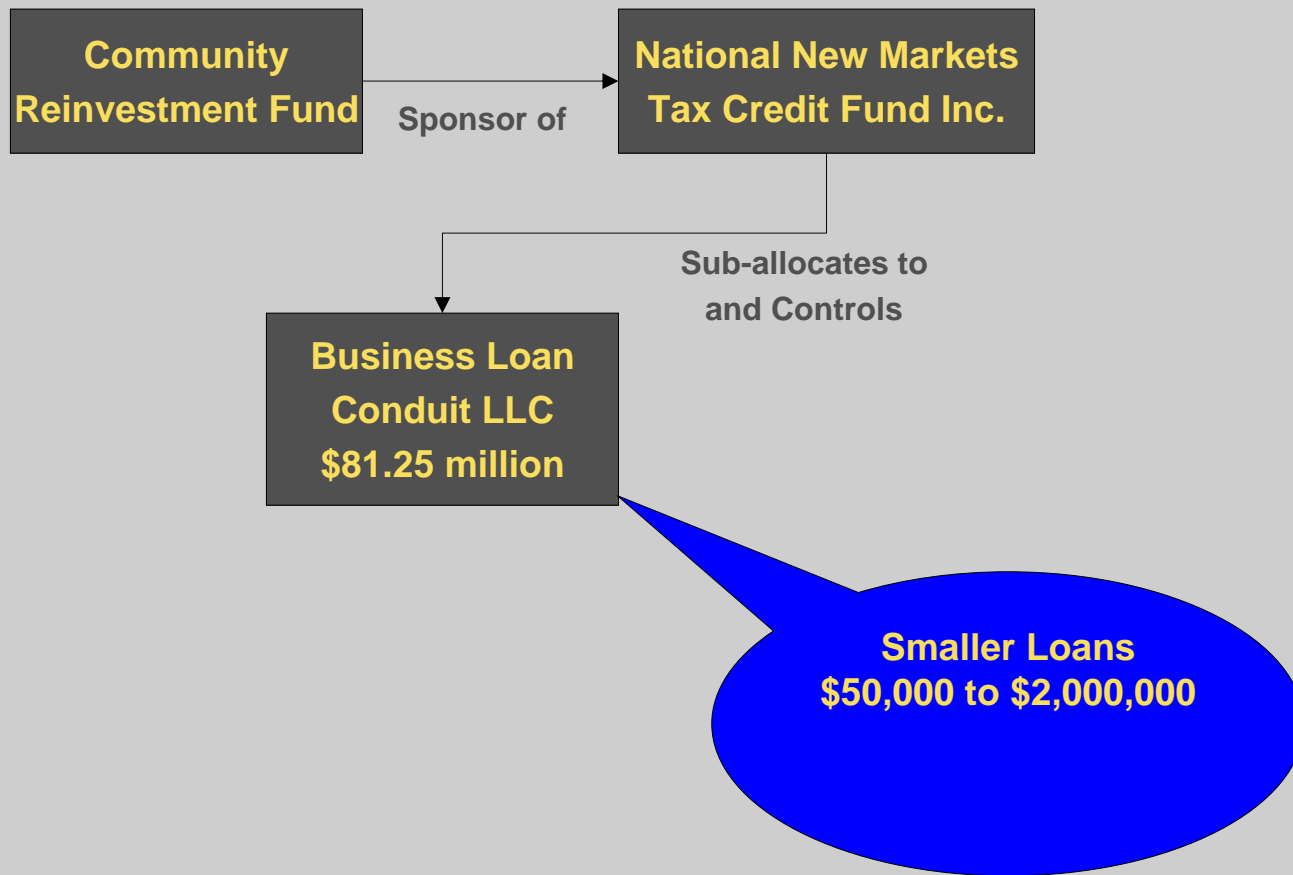
**Round 1:
\$162.5 million
Round 2:
\$150 million**



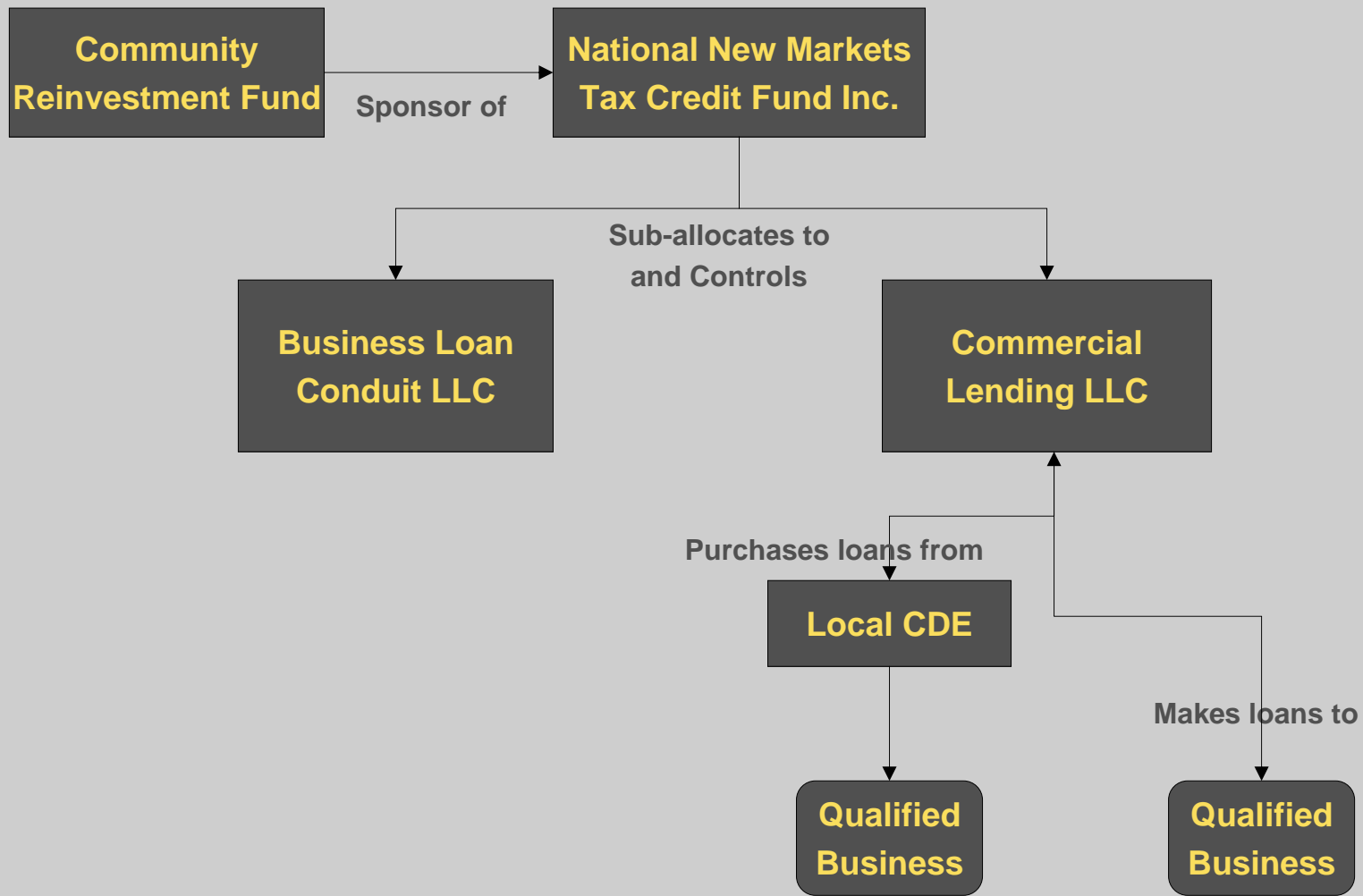
**Community Reinvestment Fund
Becomes More Complex**



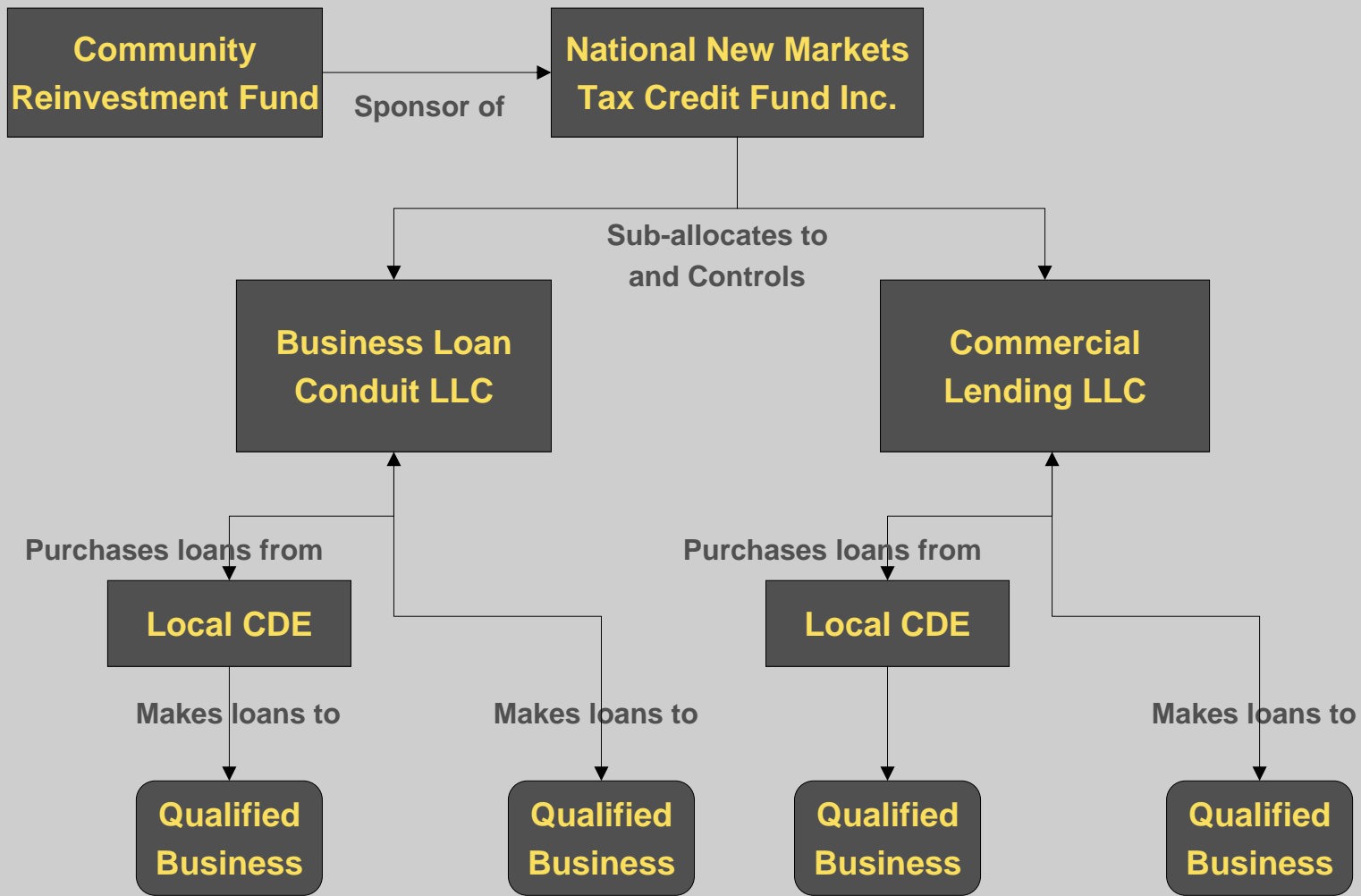
Community Reinvestment Fund
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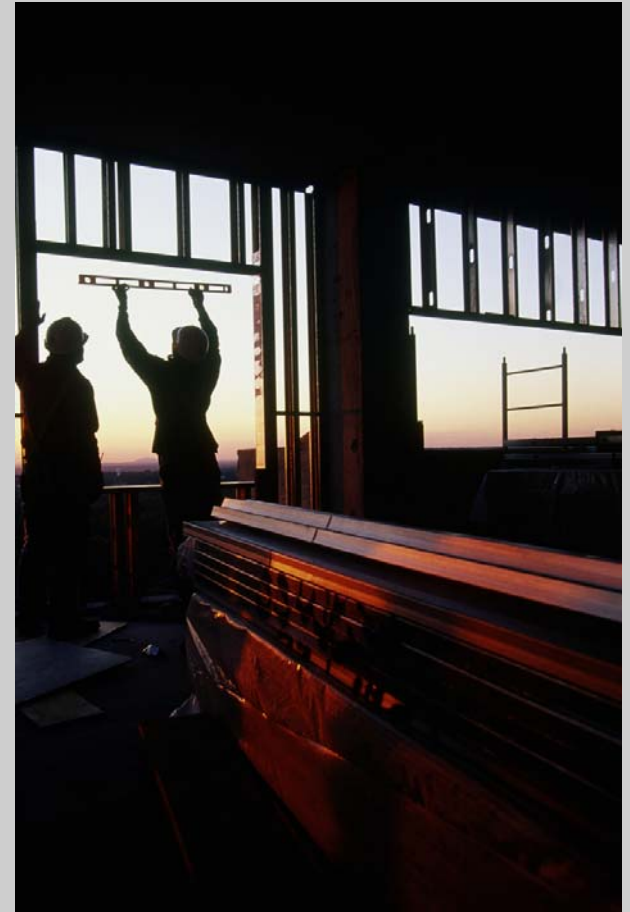
Community Reinvestment Fund
Becomes More Complex

Determine Core Competencies

Create a Value Chain

Focus on Mission

Work Horizontally as well as Vertically



How Can This Work in Baltimore?

If you would like more information, please contact us.

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Capital for Communities –
Opportunities for People

Capital for Communities Opportunities for People



Community Reinvestment Fund, USA