

**DRAFT FOR DISCUSSION**

**February 11, 2020**

**BUSINESS PLAN  
FOR THE PROPOSED  
CDFI FRIENDLY STRATEGY  
SOUTH BEND, INDIANA**

**Prepared for the City of South Bend by**

**Five/Four Advisors**

**Philadelphia, PA**

# Table of Contents

I. INTRODUCTION .....	3
II. ORGANIZING APPROACH.....	4
III. MARKET ANALYSIS and FINANCING SOLUTIONS.....	7
IV. STRUCTURE, OPERATIONS, and BUDGET .....	20
V. IMPLEMENTATION.....	30
VI. RISKS & RISK MITIGATION .....	33
VII. CONCLUSION .....	35
APPENDICES .....	36
Appendix I: The CDFI Friendly Model.....	37
Appendix II: CDFI Friendly South Bend Organizing Timeline .....	38
Appendix III: CDFI Friendly South Bend Working Group Membership .....	39
Appendix IV: Sample Term Sheet.....	42
Appendix V: Executive Director Job Description.....	44
Appendix VI: CDFI Friendly South Bend Implementation Timeline .....	46
Appendix VII: Phase 1 Supporting Documents .....	47
CDFI Working Group Meeting Agendas: .....	47
Oct 2018 Convening Agenda .....	52
June 2019 Convening Agenda.....	54
Appendix VIII: Phase 2 Supporting Documents .....	55
Small Business Discussion Guide .....	55
Housing Discussion Guide.....	58
Opportunity Finance Network Handout Oct 2019 .....	61

## I. INTRODUCTION

This Business Plan explains the timeline of the organizing effort to form CDFI Friendly South Bend (CFSB). The Plan is intended to guide operations for CFSB through 2022.

**SECTION II** explains the value of CDFI financing for South Bend, the process by which the community organized itself toward creating CDFI Friendly South Bend, and the underlying market conditions.

**SECTION III** is a summary market analysis based on both quantitative and qualitative methods and presents the financing strategy around which CDFI Friendly South Bend is organized based on the understanding gained and presented in SECTION II.

**SECTION IV** explains the structure, functions, and budget for the CDFI Friendly South Bend entity that we propose creating and operating.

**SECTION V** explains the Implementation plan for establishing the entity, staffing it, governing it, and starting operations.

**SECTION VI** discusses potential risks for CFSB and presents mitigation strategies to minimize these risks.

**SECTION VII** is a short conclusion.

### I.A Background

CDFIs are private financial intermediaries that exist for the purpose of benefitting underserved and under-resourced people and places. More than 1,000 CDFIs are working today in all 50 states in urban, rural, and Native markets. In total, they manage more than \$180 billion. Yet CDFI financing is not evenly distributed across markets and is notably less available in smaller markets such as South Bend and other metropolitan areas with populations less than 250,000 people. In addition, CDFIs specialize in financing market sectors (for example, affordable housing development vs. businesses vs. community facilities vs. consumer or mortgage lending). South Bend has benefitted in the past from CDFI financing, but the market is underserved by CDFIs. Data from the federal CDFI Fund shows almost \$3.7 million in total CDFI financing in and around South Bend from 2003-2017. For South Bend, this suggests that a CDFI Friendly strategy to engage multiple CDFIs is likely to be the best way to serve a variety of market needs.

Our market research and planning conversations found significant interest from local and regional CDFIs in providing a range of regular, consistent CDFI financing products in response to local needs and priorities. For that reason, we project the potential for more than \$17 million in CDFI financing from 2020 through 2022.

To bring a blend of CDFI financing to South Bend residents—particularly residents living and working at the margins of the community's economic mainstream-- we recommend the creation and capitalization of a CDFI-friendly strategy fitted to South Bend's distinct needs and opportunities.

CDFI Friendly South Bend would provide two primary services:

1. Connecting local financing opportunities and CDFIs.
2. Offering complementary (*pari pasu*) financing or credit enhancement for transactions alongside CDFIs. This financing can serve multiple purposes, ranging from improving the overall pricing of a transition to sharing in risks that CDFIs might be unable to take on to serving as local “eyes and ears” for CDFIs outside the city.

If the CDFI Friendly model were implemented here, South Bend would be the nation’s second CDFI Friendly Community.<sup>1</sup> Our planning drew extensively on the experiences of and lessons learned by Bloomington, Indiana, the nation’s first CDFI Friendly Community.<sup>2</sup>

## II. ORGANIZING APPROACH

Many leaders in South Bend have long recognized the need to increase the supply of flexible, affordable financing to address a range of issues that are outside the reach of mainstream financial institutions and public funding sources. The City of South Bend’s September 2019 study of disparities by race and gender in City contracting identified limited access to financing for business operations and capital costs as a key barrier for entrepreneurs of color. In addition, the need for mortgage financing to increase home ownership among low-income and moderate-income residents in a market that is stalled due to a persistent and significant appraisal gap.

South Bend has not drawn the level of CDFI attention and financing that it could use. To address this problem, the City of South Bend explored ways to attract CDFI financing. In 2018, it focused on the CDFI Friendly model that Bloomington was pioneering and has since implemented.

The process began with City officials and has been paid for with City funds. From the start, however, the CDFI Friendly South Bend organizing process has relied on a working group of community organizations, traditional finance, and CDFIs to inform its goals and prioritize its outcomes. That coalition organized into a CDFI Working Group<sup>3</sup> to steer research and action. This Working Group included thought leaders from the aforementioned sectors and benefitted greatly from their leadership and deep knowledge.

We are confident this approach has ensured that local stakeholders understand the role CDFIs can play in partnership with existing financing sources. Further, local stakeholders have keen interest in using CDFI capital to meet existing demand and fill financing gaps among entrepreneurs, small business owners, and to increase the supply of affordable housing units.

---

<sup>1</sup> The CDFI Friendly Communities model was pioneered in Bloomington, Indiana, based on a concept proposed by Five/Four Advisors, a CDFI-focused strategic advisory firm based in Philadelphia (see Appendix I). Five/Four Advisors worked with the South Bend community through its planning process.

<sup>2</sup> The organizing and operational team at CDFI Friendly Bloomington have been generous and helpful in sharing their experiences and materials. We are grateful for their help.

<sup>3</sup> See Appendix III for a list of the participants in the CDFI Working Group.

Local stakeholders initially showed interest in forming a *de novo* (independent start-up) CDFI in South Bend. Several major barriers emerged:

1. Starting a *de novo* CDFI would require prohibitively large amounts of capital;
2. CDFI, particularly new and young ones, tend to specialize in the types of financing they offer, while local capital gaps span many types of financing demand; and
3. The South Bend market does not generate sufficient deal flow to support a *de novo* CDFI, a central issue for smaller markets.

Local organizers next considered partnering with existing CDFIs and urging them to open branches or franchise offices locally. Initial conversations with regional CDFIs were positive, but it became clear that similar barriers would constrain existing CDFIs from devoting resources to new brick and mortar presences in South Bend, at least in the short term.

Instead, local stakeholders chose to become a CDFI Friendly Community, signaling to existing CDFIs that assistance, key partnerships, and financial resources could be available to help them expand CDFI lending in South Bend. There are currently at least 13 CDFIs operating in Indiana but none with a physical presence in South Bend. At least two local community credit unions are seeking certification from the CDFI Fund and this planning process has encouraged some CDFIs to establish regular, part-time presences here. Over the past year, the CDFI Friendly organizing effort identified half a dozen CDFIs who have done some work in South Bend and are interested in partnering to do more. As this work continues, we expect that CDFIs will become increasingly familiar with the South Bend market, more active in seeking and financing deals, and continue to devote resources to growing their local presence<sup>4</sup>.

## II.A CDFI Friendly South Bend: Guiding Principles for Discussion

The CDFI Working Group recognized the need to identify organizing principles early in the process that reflect local community values and priorities, community goals, needs, assets, and aspirations.

In June 2019, the Group developed and agreed to a set of guiding principles for CDFI Friendly South Bend to stimulate engagement and encourage participation:

- Ensure equitable access to capital that reaches traditionally underrepresented groups.
- Help residents gain access to valuable and elusive financing for small business, commercial real estate, and housing.
- Facilitate and significantly lower the costs for CDFIs to expand their coverage and increase their financing activity into new, underserved CDFI markets.
- Give CDFI investors expanding opportunities and attract new investors who have previously lacked knowledge of and opportunities to invest in CDFIs
- Leverage in new and productive ways the tight resources that governments in most cities and communities must manage prudently and efficiently.

These principles organized and directed the community's work toward CDFI Friendly South Bend.

---

<sup>4</sup> See Appendix II for a timeline of the organizing effort for CDFI Friendly South Bend.

## II.B The Initial Planning Framework

As a community, in early 2019 South Bend set a workplan, milestones, and criteria to determine whether to work toward CDFI Friendly South Bend. The pathway become a CDFI Friendly City included:

- A. Completion of an evaluation and business planning process delivered by a qualified entity with expertise in the CDFI industry and business planning.
- B. Local financial support at a level sufficient to demonstrate local “skin in the game,” as CDFIs are likely to shy away from a market where local leaders are unwilling to share risks.
- C. Creation or designation of a private operating entity, either an independent nonprofit or a functional unit housed within a private nonprofit organization.
- D. Formation of a governing body for local control over strategy and implementation comprising private and public representatives representing the interests of the community, business, government, philanthropy, and finance. The Board majority would represent local non-government entities
- E. Hiring of a designated person independent of local government to lead the work. They will serve as a liaison between supply and, provide operational management, and institutionalize CDFI knowledge over time.
- F. Publishing a written strategy statement that includes production goals and a means of accountability to the strategy and results.
- G. Making a public declaration that South Bend is a “CDFI Friendly Community” and inviting collaboration with other cities and places to share best practices, knowledge, and experience.
- H. Monitoring production, impact, and performance goals to ensure that the strategy results are in line with the public promises; these might include a marginal increase in CDFI financing in the city, the number of projects financed, equitable gains in the community, or other metrics.

## II.C Phase 1: Exploring the concept of CDFIs and local needs

Phase 1 (October 2018 – June 2019) Phase 1 focused on familiarizing local stakeholders with the work that CDFIs do and determining whether there was sufficient interest to pursue becoming a CDFI Friendly Community. Local stakeholders formed a South Bend CDFI Working Group with representation from community organizations, government, traditional financial institutions, and CDFIs. Working Group membership was open to all parties who expresses interest<sup>5</sup>. The Working Group built a strong understanding of what CDFIs can and cannot do and engaged stakeholders from financial institutions and community organizations to identify existing capital gaps. Project leaders felt confident that there was local support for a CDFI Friendly initiative and some existing capital gaps could be well served by increasing CDFI presence in the market.

---

<sup>5</sup> See Appendix III for a list of the participants in the CDFI Working Group.

## II.D Phase 2: Designing a Locally Tailored Strategy

Phase 2 (July – December 2019) focused on transforming the consensus support from Phase 1 into an actionable Business Plan to guide operations for a new entity independent of government. Based on Working Group and other discussions alongside quantitative research, the project team recommended two priority CDFI financing gaps: small businesses and affordable housing. The team conducted two moderated focus groups in South Bend and met with lenders specializing in each type of financing, as well as community organizations working to meet resident needs. We deepened our understanding of the specific parameters of capital demand and scoped capacity among local institutions to partner with CDFIs and connect local borrowers to their desired capital.

## III. MARKET ANALYSIS and FINANCING SOLUTIONS

### III.A Introduction

South Bend is a small city of approximately 100,000 people with a more diverse population than the rest of Indiana. Median incomes are significantly lower than the county and nation's median while poverty rates are higher than corresponding rates for the county, state, or country. South Bend's households are more likely to be renters and cost burdened than households in the rest of the state. The city is home to just over 5,000 businesses, 89% of which are owned by men who are white.

Different sources, including individuals, community organizations, and financial institutions, reported that mortgages below \$85,000 are difficult to obtain, which encompasses many homes on the market in South Bend. Many business owners, particularly individuals of color, report particular barriers to sourcing and successfully applying for small business loans. Finally large community development real estate projects, such as multi-family affordable rental projects, nonprofit community facilities, and commercial real estate often lack flexible financing to make the project feasible.

CDFI loan funds are not regulated by an external regulator like banks and credit unions. Rather they develop their own loan policies and risk management strategies and are self-regulated. CDFIs combine their knowledge of the market with support of the borrower through business advisory services which yields repayment rates just under the level of FDIC institutions to borrowers perceived to be higher risk. Mortgage lenders may package down payment assistance, second mortgages, and other sources to help a household to avoid paying for private mortgage insurance when they do not have sufficient down payment. They may lend to household with slightly higher debt ratios or use non-traditional credit history such as rent and utilities instead of credit scores to determine the likelihood of repayment. Many micro lenders are cash flow lenders and are willing to lend to borrowers with little or no collateral. This flexibility allows CDFIs to offer innovative financing products and respond nimbly to market needs.

CDFI Friendly South Bend proposes two tracks of financing solutions to take advantage of the benefits inherent to CDFI lending: Track One addresses the credit gaps for mortgages and small business loans and Track Two addresses the community development real estate credit gaps. Track One will be comprised of a higher volume of smaller dollar loans while Track Two will be made up of a few higher

dollar, more complex financing deals. The Capital Enhancement Fund<sup>6</sup> will be available to encourage these transactions. We predict it will most likely be used to help some of the Track 2 lenders become comfortable with participating in these more challenging transactions, though it could be deployed for transactions in either track.

In Track 1, we estimate a total of just under \$6 million in originations of 110 loans in the first three years, including 45 micro loans, 18 small business loans, and 47 home mortgages. We further anticipate just over \$11 million in 17 deals over the first three years in Track 2, which encompasses larger community development real. All together, we project that CDFI Friendly South Bend will facilitate an additional \$17 million in financing that would not otherwise take place.

### III.B South Bend Demographics

South Bend, a city of approximately 102,000 people, is diverse, with a slight majority (54%) of white, non-Hispanic residents; 26% black residents, 14% Hispanic, 3.5% bi/multi-racial; and 2.1% other races. Just under 52% of the residents are female and slightly more than 48% are male.<sup>7</sup>

The median age of South Bend residents is 33.4 years and 60% of residents are aged 18-65.<sup>8</sup> More than 11,000 (24%) of the city's approximately 45,000 households live below the poverty line, and 18,164 households (33%) are asset-limited, income-constrained, and employed ("ALICE").<sup>9</sup> In both instances, the City's levels are higher than corresponding data for St. Joseph County and the state of Indiana.

Poverty levels vary significantly by census tract, reflecting uneven distribution of resources among neighborhoods and communities.

Source: 2017 ACS 5-Year Estimates, B19013: Median Household Income in the Past 12 Months

---

<sup>6</sup> See Section IV.D

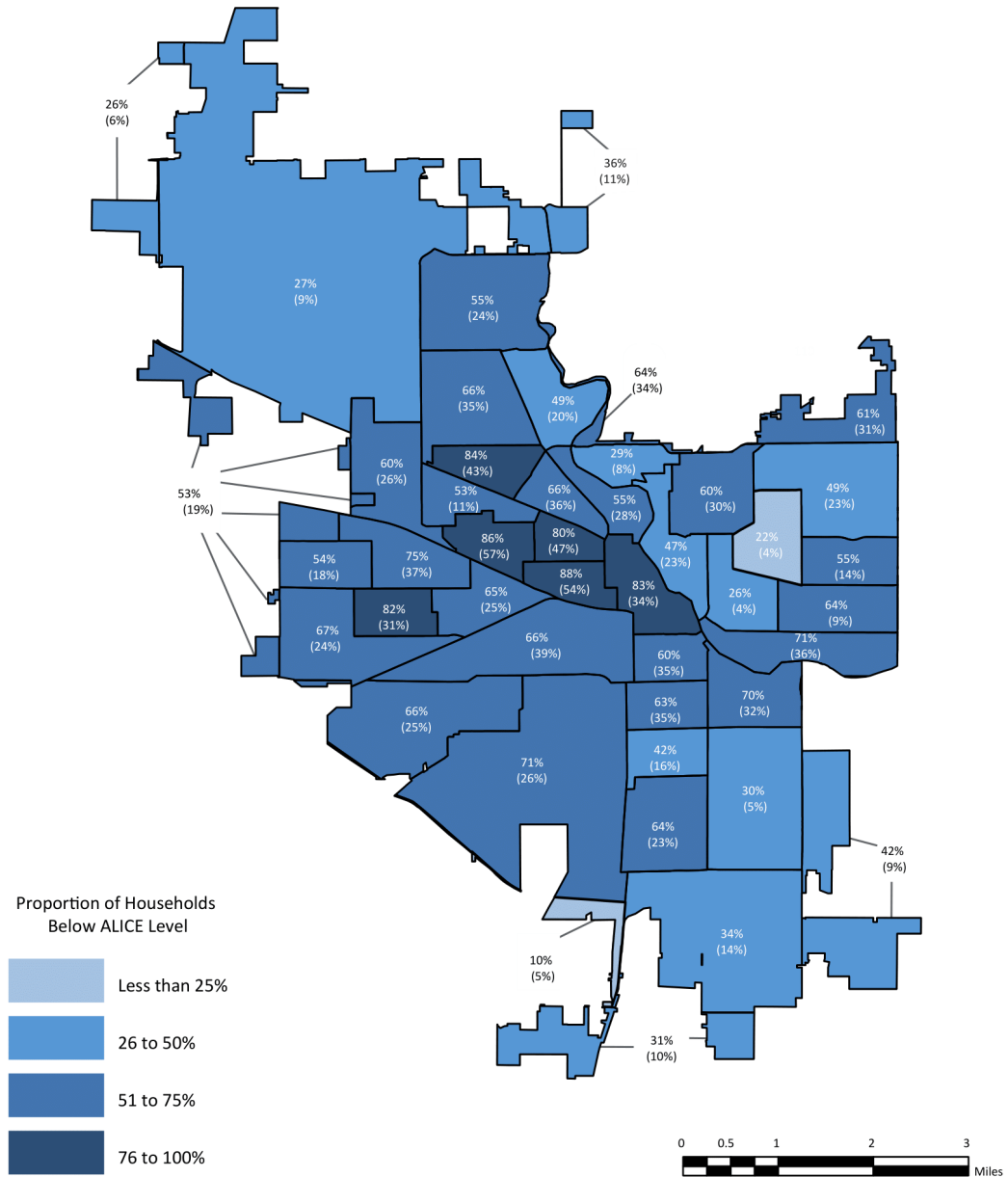
<sup>7</sup> 2017 American Community Survey (ACS) 5-Year Estimates, DP05: Demographic and Housing Estimates

<sup>8</sup> Ibid.

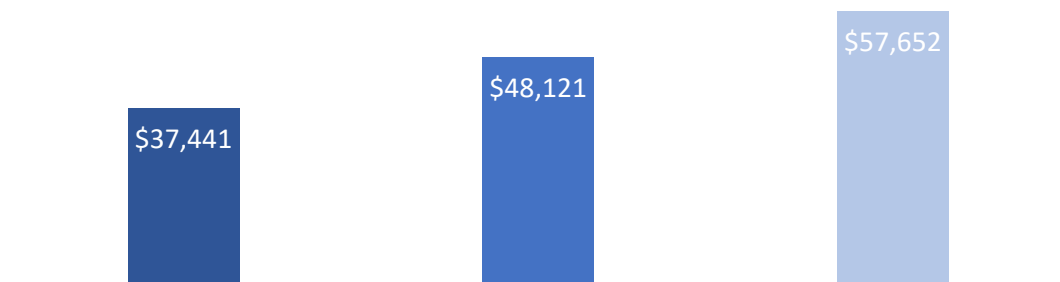
<sup>9</sup>Data provided by United Way ALICE project based on 2016 American Community Survey Data, 2016 ALICE threshold, and 2016 Federal Poverty Guidelines.



## South Bend Census Tracts Have An Uneven Distribution of Households Below ALICE and Poverty Levels



## South Bend Median Household Income Falls Below County and National Averages



Source: United Way ALICE project based on 2016 American Community Survey Data, 2016 ALICE threshold, and 2016 Federal Poverty Guidelines

This map represents households in South Bend that are Asset Limited, Income Constrained, and Employed (ALICE).<sup>10</sup> ALICE households are often colloquially known as the “working poor”, in contrast to those households living below the poverty level, represented in parentheses above.<sup>11</sup>

### III.C The South Bend Housing Market

Of the 39,025 occupied housing units, more than 31,000 were built before 1980 and are aging stock.<sup>12</sup> 22,335 (57%) of the units are owner occupied, below County (70.4%) and national (65.4%) owner-occupancy levels.<sup>13</sup> In the 16,690 rental housing units, 7,419 (44%) are rent-burdened, paying at least 30% of their income for rent, and 3,903 (23%) are severely rent-burdened, paying at least 50% of their income for rent.<sup>14</sup>

As of 2017, homes valued at less than \$80,000 in South Bend made up at least 31% of the total single family residential asset base and comprised more than 70% of homes on the market, yet received just 22% (by number) of the mortgages originated and only 6% of the mortgage financing (by dollar).<sup>15,16</sup> These data convincingly reinforce the demand the CDFI Friendly planning process surfaced for mortgage financing in the under-\$80,000 category.

---

<sup>10</sup> ALICE mapping is a project of the United Way and completed on a County-level throughout the Country.

<sup>11</sup> The 2016 federal poverty line is \$11,880 for a single adult and \$24,300 for a family of four, while the 2016 ALICE threshold for St. Joseph County is \$19,716 for a single adult and \$54,564 for a family of four

<sup>12</sup> 2017 ACS 5-Year Estimates, S1101: Households and Families

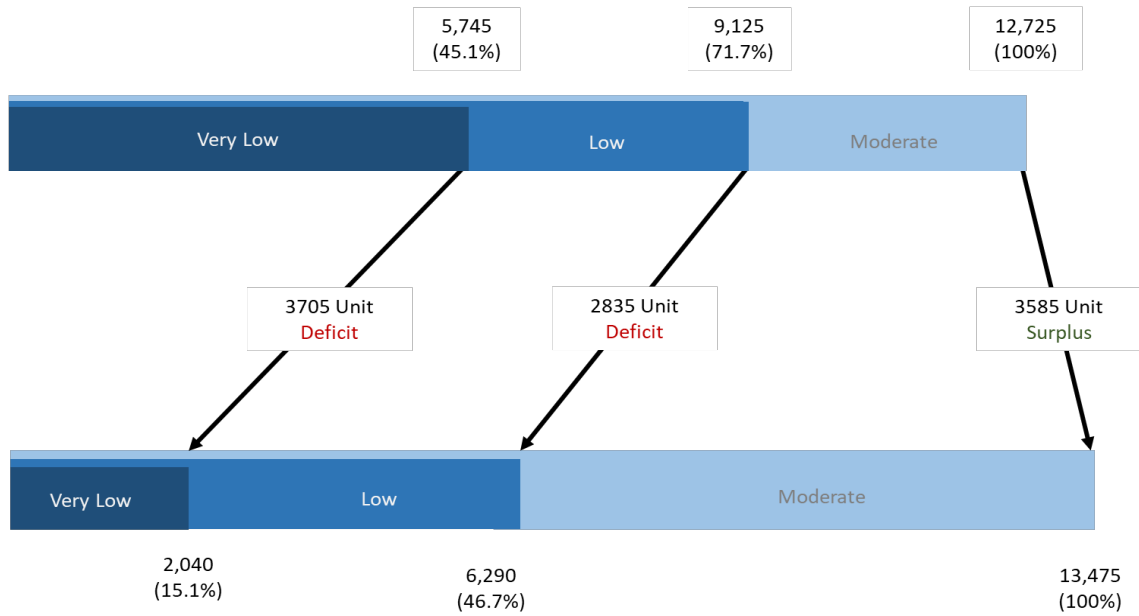
<sup>13</sup> 2017 ACS 5-Year Estimates, S2504: Physical Housing Characteristics for Occupied Housing Units

<sup>14</sup> 2017 ACS 5-Year Estimates, B25070: Gross Rent As a Percentage of Household Income in the Past 12 Months

<sup>15</sup> 2017 HMDA Conventional Mortgage Data obtained from Consumer Financial Protection Bureau, South Bend MSA level, St. Joseph County only

<sup>16</sup> 2017 American Community Survey 5-Year Estimates, South Bend City level

### Breakdown of Low/Moderate Income Renters



17, 18, 19, 20

Available Housing Units Affordable for Each Income Group

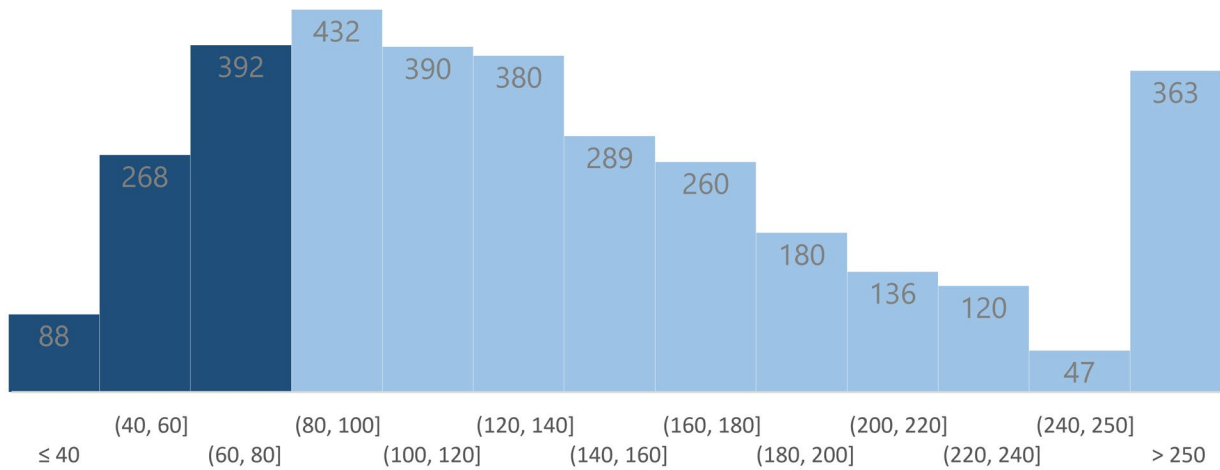
<sup>17</sup> Affordable and available units are defined by the National Low Income Housing Coalition as “a unit that is both affordable and vacant or is currently occupied by a household at the defined income threshold or below.”

<sup>18</sup> 80% of HUD’s Area Family Median Income

<sup>19</sup> 50% of HUD’s Area Family Median Income

<sup>20</sup> 30% of HUD’s Area Family Median Income

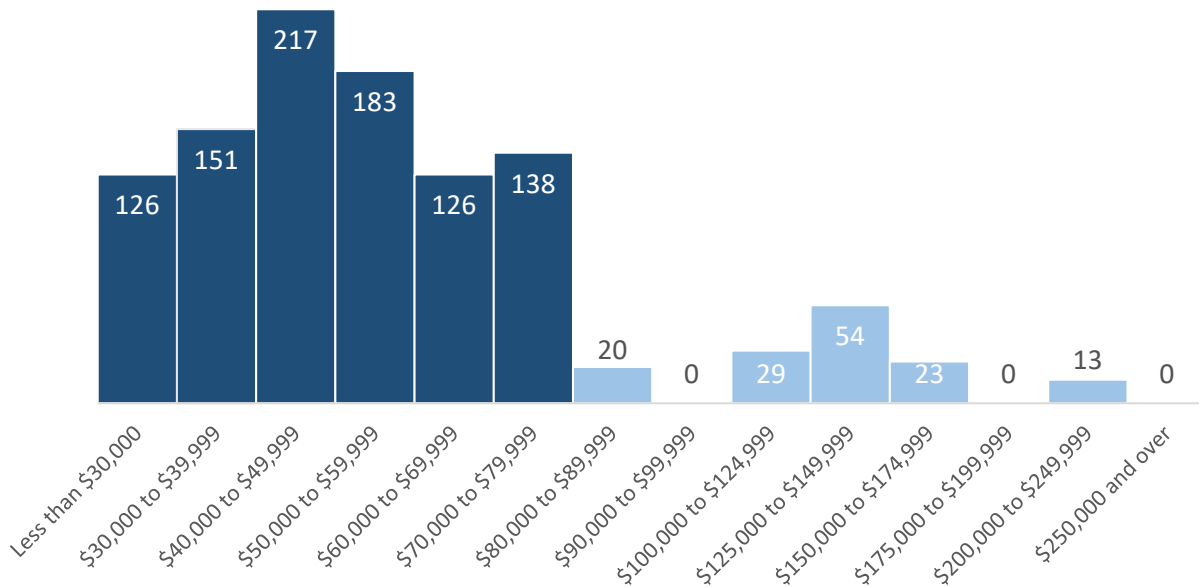
Only 22% of mortgages originated in South Bend are valued below \$80k



21

22

71% of home ask prices in South Bend fall below \$80k



23

<sup>21</sup> 2017 HMDA Conventional Mortgage Data obtained from Consumer Financial Protection Bureau, South Bend MSA level, St. Joseph County only

<sup>22</sup> 2017 American Community Survey 5-Year Estimates, South Bend City level

<sup>23</sup> 2017 American Community Survey 5-Year Estimates, South Bend City level

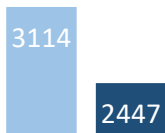
### III.D Affordable Housing Challenges in South Bend

Through a combination of learnings from data analysis, conversations with City housing officials, insight from affordable housing developers, and a recent focus group about increasing the supply of all types of affordable housing in South Bend we conclude:

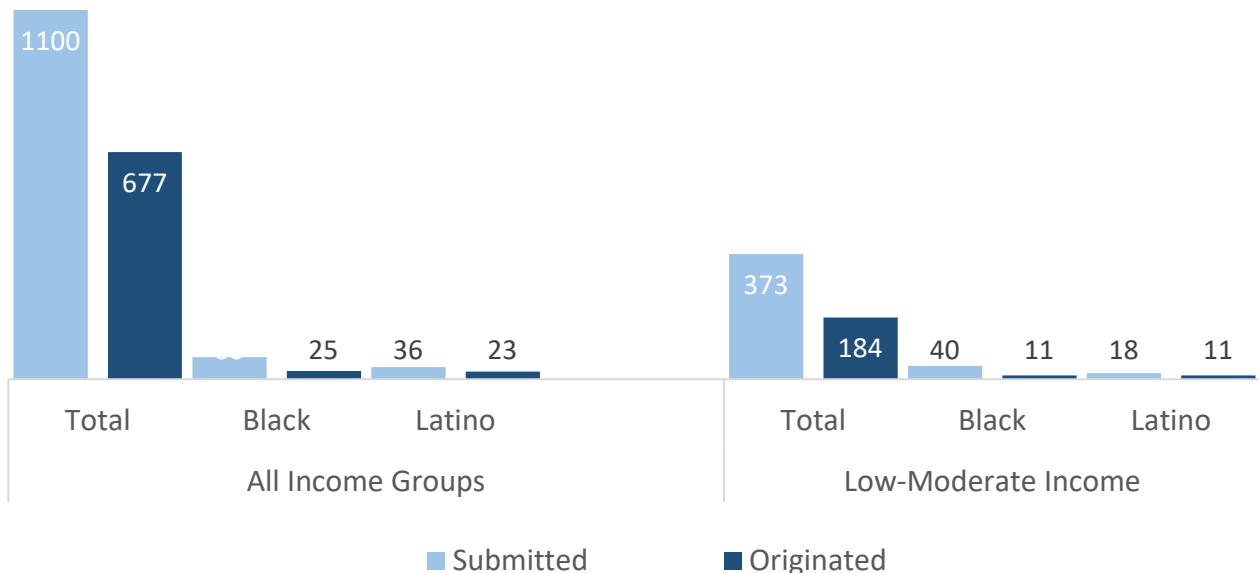
- Much of the housing stock is aging and has often been poorly maintained.
- There is large variation between neighborhoods, with many renters priced out of neighborhoods closer to amenities or containing higher-quality housing stock.
- Those seeking to buy homes face a shortage of available units and struggle to secure capital to purchase homes, especially buyers seeking to purchase homes assessed under \$80,000.
- South Bend developers and buyers face a significant and persistent appraisal gap. In other words, the cost of property acquisition and construction or rehabilitation is significantly greater than the appraised value of the home.
- Chronically homeless populations face challenges finding permanent housing as there is an insufficient number of supportive housing units.

There are other credit gaps and challenges, for example, financing for multi-family projects and supportive housing, but these are likely to be a lower volume of overall requests. Initially, CDFI Friendly South Bend will focus on higher volume gaps where existing CDFI lending products can be deployed.

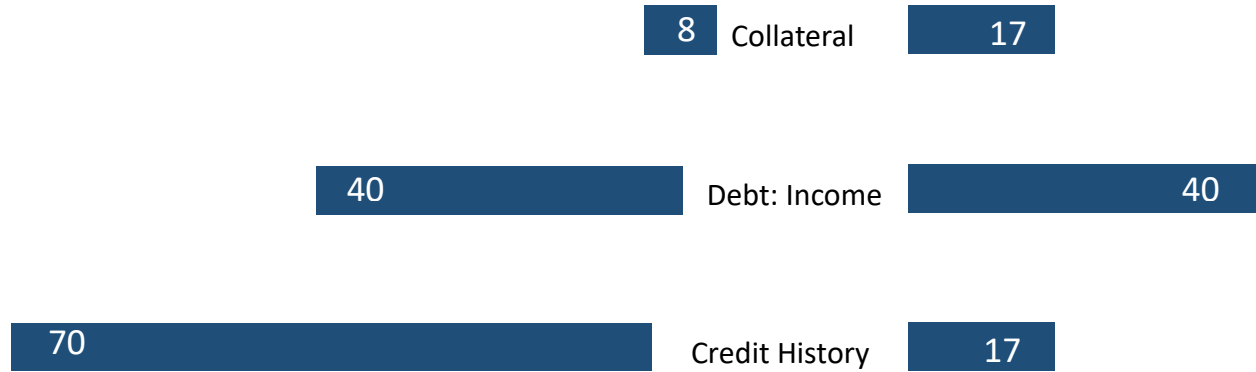
#### Significant Gaps Evident in Home Mortgage Applications by Income, Race and Ethnicity



#### Significant Gaps also Evident in Home Repair Lending



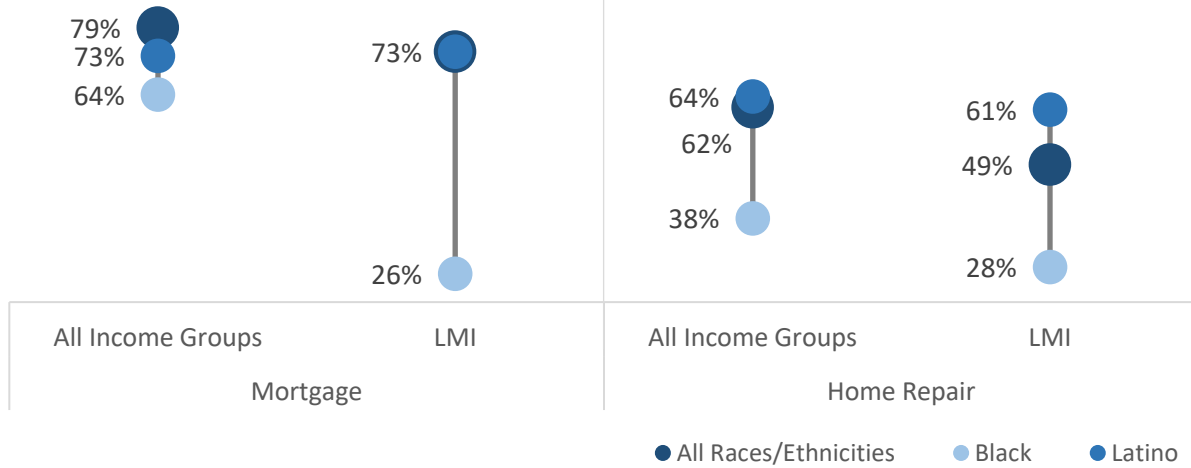
### Reason Given for LMI Loan Denial



### Conventional Mortgages

### Home Repair

### Black Residents Experience Lower Loan Origination Rates



<sup>24</sup> 2016 HMDA Conventional Mortgage Data, South Bend MSA level

<sup>25</sup> 2016 HMDA Home Repair Loan Data, South Bend MSA level

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*

<sup>28</sup> 2016 HMDA Conventional Mortgage Data, South Bend MSA level

<sup>29</sup> 2016 HMDA Home Repair Loan Data, South Bend MSA level

### III.E Potential CDFI Financing Solutions: Housing

There are many financing solutions that could help alleviate the housing shortage in South Bend. In this stage of the process we are focusing on two solutions that we feel could be relatively easily accomplished and could have significant impact:

1. Home mortgages for \$80,000 or less; and
2. An innovative “shared home ownership” model.

Several local credit unions and banks shared that they offer mortgages for \$80,000 and less to qualified applicants. Matching up qualified applicants with these institutions could be one activity for CDFI Friendly South Bend. The challenges that remain in this area are increasing the number of qualified borrowers and finding properties in this price range that either do not require substantial rehab or are still within this price range including the cost of rehab. CDFI Friendly South Bend will be depending on homeownership counselors to help qualify applicants. Becoming a qualified applicant can be a rigorous effort for a low- or moderate-income household but the City offers homeownership counseling and one-on-one guidance to become prepared. Increasing the presence of CDFI lenders to complement the offerings of banks and credit unions will open the path to home ownership to a wider pool of applicants.

### III.F The South Bend Small Business Market

The robust small business community in South Bend comprises 5,303 small businesses, according to the City’s 2019 disparity study. Just 594 businesses (11.2%) are owned by minorities and women, well below the minority and female population of the city. By comparison, 4,709 businesses (89%) are non-women or minority owned businesses. The City of South Bend recently completed a Disparity Study, which provides a substantive guide for improving procurement practices so that they better reflect community expectations.<sup>30</sup>

### III.G Small Business Challenges in South Bend

Through a combination of quantitative data analysis, conversations with City officials, small business technical assistance providers, and from a recent focus group about the challenges South Bend small business have in accessing capital the following picture of the market emerged:

- South Bend has rich resources in its community organizations and public institutions providing technical assistance to current and aspiring small business owners. However, these organizations are not designed to provide small businesses with capital and their customers have not always had positive relationships with traditional financial institutions.
- Entrepreneurs currently face problems around the speed with which they can access loans, requirements for credit history and collateral, as well as repayment timelines.
- Some small business owners and entrepreneurs have challenges accessing smaller loans, generally under \$50,000.

---

<sup>30</sup> City of South Bend Disparity Study completed in 2019 by Colette Holt & Associates.

- The City's 2019 Disparity Study shows a need for more contractors owned by People of Color.

According to 2017 CRA Small Business Loan data, banks received 3,541 small business applications in the South Bend MSA, and approved only 23.6% of them. There are other credit gaps and challenges, for example, financing for commercial real estate for light manufacturers, but these are likely to be a lower volume of overall requests; initially CDFI Friendly is focusing on the higher volume gaps.

### III.H Potential CDFI Financing Solutions: Small Business

There are many financing solutions that could help alleviate this capital gap. In this stage of the process we are focusing on two solutions that we feel could be relatively easily accomplished and could have significant impact. Brightpoint, Bankable, and ACCION Chicago are beginning to serve South Bend with micro-loans. These loans are up to \$50,000 for businesses of five employees or fewer including the owner(s). These loans are approved based on a combination of ability to repay based on business and personal cash flow, credit scores, experience in the business, and do not depend as much on collateral. ACCION is also rolling out a line of credit product that could benefit contractors who need capital to bridge the timing gap between purchasing supplies and employees and being paid by large anchor institutions. Banks, Credit Unions, and CDFIs also mentioned they offer micro and larger small business loan products, some with SBA guarantees. The SBA guarantee process can be challenging for smaller businesses and some people are excluded. The CDFI Friendly effort has made warm introductions between the small business TA providers and CDFIs, and we anticipate that matching capital sources and applicants will be a major activity of the CFSB Executive Director.

Startup and existing businesses can receive support from the Indiana Small Business Development Center, the West Side Small Business Center, the South Bend Elkhart Regional Partnership, and the Women's Entrepreneurship Initiative at St Mary's. By engaging with these organizations, entrepreneurs can be better prepared to seek loans from banks, credit unions, or CDFIs.

Several CDFIs have processed small business loans in South Bend, but at relatively low volumes. ACCION Serving Illinois and Indiana closed four loans from 2014-2019 for \$2,500; \$2,500; \$6,000; and \$36,000. Half the applicants were African American and half white, with three men and one woman. Brightpoint Development Fund closed three loans to two people between 2018-2019 for \$500; \$1,000; and \$1,500. One applicant, a white male received a \$500 business builder loan and then a \$1,000 loan while the second applicant, an African American woman, received a \$1,500 loan. Bankable closed two loans in 2019 for \$15,000 and \$50,000. Both businesses were startups and woman-owned.

ACCION Serving Illinois and Indiana, a high volume microlender serving Illinois and Indiana, is ready to devote resources to South Bend, and has the capacity to do 30 plus micro loans per year in the Greater South Bend Market. We assume that Bankable and Brightpoint will continue to increase their efforts in South Bend, while Accion has committed to beginning to take in clients in early 2020.

One financial institution has already collaborated with City staff to create a new small dollar commercial loan product for residents seeking to access the City's Sidewalk Repair Program. The City hopes to finalize a similar product for businesses seeking to access the Façade Repair Matching Grant. Both these opportunities represent high volume pipelines of personal and small business loans respectively.



### III.I CDFI LENDING

CDFIs have been active in South Bend on a limited basis, according to data collected by the U.S. Department of the Treasury’s CDFI Fund. For the five-year period 2003-2017, CDFIs made 77 loans in South Bend totaling \$3,688,765. The majority of loan volume was small-dollar consumer loans (57 totaling \$452,275). The majority of money loaned was for construction and real estate development; often this type of CDFI activity leverages investment from other partners. In South Bend, CDFI lending helped generate a total of \$13,486,275 in economic activity during this period.

#### **CDFI Lending in South Bend: 2003-2017<sup>31</sup>**

	Number of Projects	Total Loan Amount	Total Project Cost
Business	3	\$361,460	\$376,460
Consumer	57	\$452,275	\$452,275
CRE Construction/Acq. /Perm	3	\$2,525,000	\$6,710,148
Home Improvement	1	\$14,800	\$14,800
Home Purchase	3	\$218,010	\$218,010
MF Housing Construction	1	\$50,000	\$5,643,915
Microenterprise	7	\$46,050	\$48,810
Other	2	\$21,170	\$21,857
<b>Total</b>	<b>77</b>	<b>\$3,688,765</b>	<b>\$13,486,275</b>

### III.J Track I: Small Business and Mortgage Lending

Track 1 is the combination of small business and mortgage lending. We estimate a total of just under \$6 million in originations in 110 loans in the first three years, including 45 micro loans, 18 small business loans (loans to small businesses greater than \$50,000) and 47 home mortgages. [Note: Projected loan activity in this business plan is estimated based on conversations and analysis to date; the numbers here are not predictive and do not represent certain commitments on any institution’s part.]

**Annual CDFI Friendly Loan Production:** We assume that loan originations will increase each year as the potential customers and support services become more aware that these products are available.

---

<sup>31</sup> US Treasury CDFI Fund Transaction Level Report Data (2018)

### Projected Number of Loans

Type of Loan	2020	2021	2022	Total
Micro	10	15	20	45
Small Business	3	6	9	18
Home Mortgage	11	16	20	47
<b>Total</b>	<b>24</b>	<b>37</b>	<b>49</b>	<b>110</b>

### Projected Loan Dollars Originated

Type of Loan	2020	2021	2022	Total
Micro Loan	\$250,000	\$375,000	\$500,000	\$1,125,000
Small Business	\$300,000	\$600,000	\$900,000	\$1,800,000
Home Mortgage	\$704,000	\$1,024,000	\$1,280,000	\$3,008,000
<b>Total</b>	<b>\$1,254,000</b>	<b>\$1,999,000</b>	<b>\$2,680,000</b>	<b>\$5,933,000</b>

There is documented demand that seems likely to support a significant volume of business in Track 1 lending. The lenders serving this need are present on a regular basis in South Bend, so this track may not require use of the CDFI Friendly South Bend Enhancement Fund.

### III.K Track II: Larger Community Development Real Estate Lending

The second track of CDFI Friendly lending is larger loans, mainly required as part of real estate development or rehabilitation. We identified many commercial real estate and nonprofit real estate financing opportunities, including larger small business and commercial real estate financing, as well as loans to support the development of multi-family affordable housing, supportive housing, community facilities, and for property and/or land acquisition.

These projects are much more complex, almost always involve several layers of financing, and take much longer to develop. These deals require sophisticated developers who can manage the development process “on time and on budget.” These developers also need an in depth understanding of how to package and structure a deal with available subsidy and / or tax credits (which becomes equity), and a variety of layers of debt. CDFIs provide loans to these types of projects throughout the development cycle including pre-development, acquisition, construction, and permanent establishment. Developers in the South Bend community development area include Community Development Corporations such as 466 Works, the Near Northwest Neighborhood, Inc., and South Bend Heritage Foundation; as well as independent, for-profit organizations such as Hurry Home, Neighborhood Development Associates, and Foundre. All of these organizations are working to provide affordable housing and/ or community facilities but have shared that access to capital is a barrier to increasing their development activities. Due to their complexity, we are projecting many fewer transactions in this track.

The types of real estate deals are varied and could include:

- Low Income Housing Tax Credit and other multi-family housing projects.
- Supportive Housing projects, including ones focused on the homeless population.
- Nonprofit facilities such as health care, education, social service, and cultural institutions.
- Commercial real estate including rehabbing old factories into shared use space, new construction for grocery stores, drug stores, and other amenities, and other projects.
- Businesses seeking financing over \$100,000.

#### Projected Number of Loans

Type of Loan	2020	2021	2022	Total
Commercial Real Estate		1	1	2
Multi-Family Affordable Housing	1		1	2
Community Facility		1		1
Creative Home Ownership Model	1	2	2	5
Larger Business Loans	1	2	4	7
<b>Total</b>	<b>3</b>	<b>6</b>	<b>8</b>	<b>17</b>

#### Projected Dollars Originated

Type of Loan	2020	2021	2022	Total
Larger Business Loans	500,000	1,000,000	2,000,000	3,500,000
Commercial Real Estate		750,000	750,000	1,500,000
Multi-Family Affordable Housing	1,500,000		1,500,000	3,000,000
Community Facility		750,000		750,000
Creative Home Ownership Model	500,000	1,000,000	1,000,000	2,500,000
<b>Total</b>	<b>2,500,000</b>	<b>3,500,000</b>	<b>5,250,000</b>	<b>11,250,000</b>

We foresee several CDFIs interested in financing these opportunities and there may also be local banks and credit unions willing to participate with CDFIs. CDFIs will add value by their ability to assess and address risks that could deter other financing sources. They are also skilled at structuring layered financing in prudent ways without burdening borrowers.

CDFIs who have expressed an interest in these larger real estate deals include:

- Cinnaire: A CDFI and equity syndicator throughout the Midwest and mid-Atlantic with an office in Indianapolis and headquartered in Lansing, MI, serving affordable housing and nonprofit real estate needs.
- IFF: A CDFI serving affordable housing developers and nonprofit real estate needs throughout the Midwest, headquartered in Chicago, IL.
- Community Reinvestment Fund: A small business and commercial real estate lender headquartered in Minneapolis, MN.

### III.L Use of Capital Enhancement Fund

Based on what we have heard, we recommend that the Capital Enhancement Fund be reserved for larger, complex community development deals that usually require multiple sources and subsidy. This could include all of the types of deals mentioned above. CDFIs are able to stretch traditional credit requirements in ways that banks cannot due to regulations, including lower collateral requirements, an openness to work with less experienced developers, slimmer debt service coverage ratios, and other similar measures. This is where the CFSB Capital Enhancement Fund could play a significant role. For example, a CDFI who is not from South Bend could become much more comfortable with the risk in a deal with less collateral, or a less experienced developer if the credit enhancement fund offered an additional credit cushion and provide a local assessment of the organization.

## IV. STRUCTURE, OPERATIONS, and BUDGET

### IV.A Proposed Mission

The permanent mission of CDFI Friendly South Bend will be articulated by the founding Board of Directors in line with the purpose of creating opportunities by addressing financing gaps in South Bend and the region and as articulated elsewhere in this document. It will derive from the working mission statement that emerged from the CDFI Working Group:

CDFI Friendly South Bend's mission is to increase the flow of capital in and around South Bend in support of affordable housing, entrepreneurs starting and expanding small business, and nonprofits benefiting the community's residents.

### IV.B The CDFI Friendly South Bend Business Model

CDFI Friendly South Bend will operate as a 501.c.3 nonprofit under the United States Code. This is consistent with its purpose as a non-commercial service organization in support of increasing CDFI financing in and around South Bend, IN. Most CDFIs are nonprofits, as well, and many, if not most, of their borrowers are eligible public welfare investments under Part 24 of the U.S. Code, and so are eligible as Community Reinvestment Act, or CRA, qualifying activities.

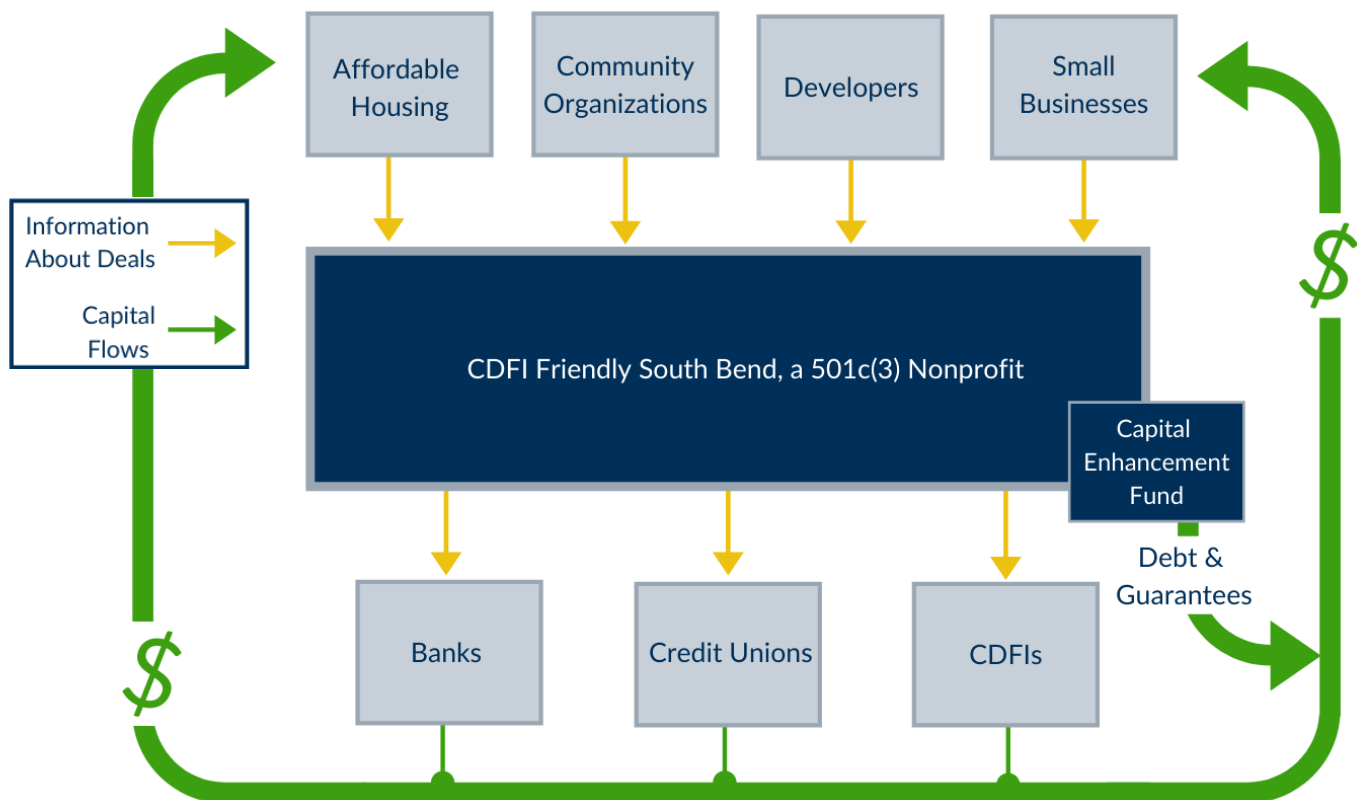
As a nonprofit, CFSB will be able to solicit and receive qualifying philanthropic support (revenue) as grants and potentially as program-related investments (PRIs), or low-cost, risk-tolerant loans or

investments. It expects to raise most of its operating support this way primarily from local financial institutions, local non-financial corporations, and public philanthropies.

It will spend its revenue entirely on activities related to its mission of increasing financing—particularly but not only CDFI financing—in the local marketplace. Because CFSB is planned as an agile intermediary between CDFIs outside the market and local South Bend-area nonprofits, small businesses, and others, its business model must demonstrate bang-for-the-buck. In other words, its expenses must be tightly controlled to ensure it is creating net-positive value for the community.

We expect staffing to be minimal, at most 1.5 full-time equivalents, and for staffing to be the major expense, along with corresponding benefits, travel, outreach, and other mission-associated business activities. The first, key hire will be the Executive Director, and their primary role will be to be a liaison between the local market, service providers, and sources of financing including CDFIs, banks, and credit unions<sup>32</sup>.

## CDFI Friendly South Bend Business Model



<sup>32</sup> See Appendix V for Executive Director job description.

## IV.C The Work of CDFI Friendly South Bend

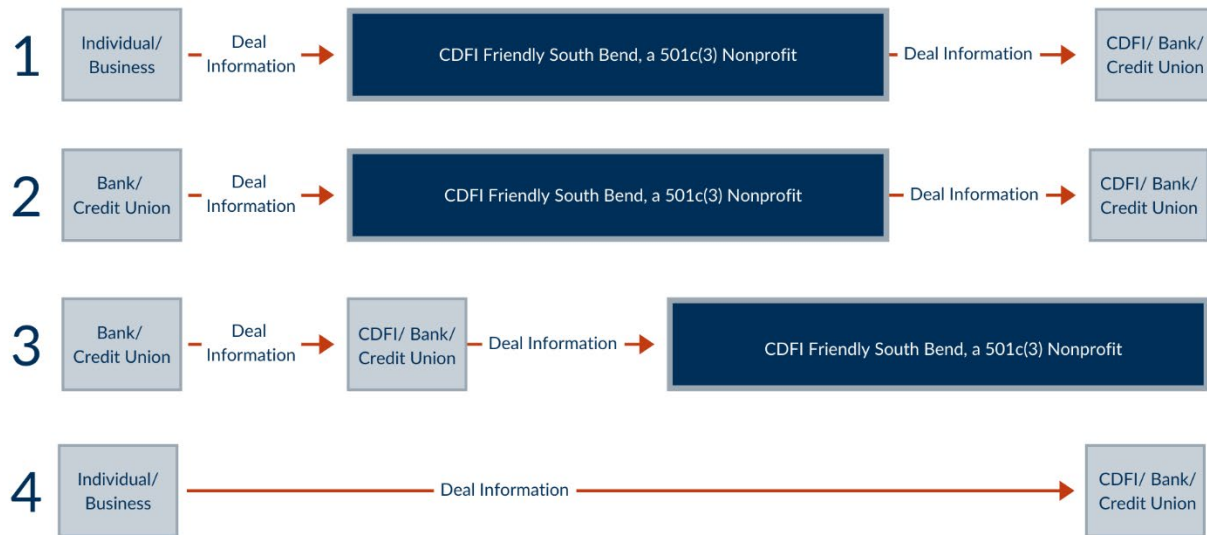
CFSB will broker relationships between local, regional, and national traditional and non-traditional financing sources, especially CDFIs seeking financing opportunities, and local businesses, developers, nonprofits, and social enterprises. It will seek to cultivate and provide a steady pipeline of financing opportunities and a reliable flow of CDFI financing matched to the opportunities.

To that end, it will:

- Communicate regularly with
  - o Businesses, nonprofits, developers, community organizations, homeowners, renters, the City, other government entities, and others to understand their financing needs and to discuss opportunities.
  - o CDFIs that have demonstrated interest in providing financing in the South Bend market to understand their priorities and to connect them to opportunities for financing.
  - o Local financial institutions, particularly banks and credit unions that are working with CFSB, to discuss their priorities, their understanding of market conditions, and opportunities for financing on their own or in collaboration with CDFIs.
  - o Public entities (local, regional, state, and national, as needed) to anticipate opportunities and other factors that might affect the CFSB effort.
- Market financing opportunities in South Bend directly to CDFIs and other financial institutions and indirectly through digital means, conference participation, and other means.
- Market financing options to South Bend companies, developers, nonprofits, and others.
- Pair up CDFI and other technical assistance providers with business and others in need of support, where possible, with the understanding that CDFIs manage risk by the assistance they provide to borrowers.
- Monitor CDFI asset performance in South Bend and the region as eyes-and-ears in the community for CDFIs that are not in the market on a regular basis.
- Secure operational and financing resources as needed to support the steady operations of the enterprise.
- Provide financing or financial guarantees, on occasion, through the Capital Enhancement Fund.

CFSB will partner with local providers of technical assistance and development services. It will not provide those services directly but will instead complement the local capacity to pair opportunities with financing. At its inception, CFSB will not itself be a CDFI and it will not make independent lending decisions, but rather lend alongside CDFIs. The Board may revisit this decision at a later date.

## A CDFI Friendly Community Has Many Sources for Deals



### IV.D Financing: The Enhancement Fund

In addition to its program operations, CFSB will operate a Capital Enhancement Fund, comprising grant-equity and debt, to use as a tool to facilitate CDFI financing in the market.

#### Financing Products

This enhancement fund will provide two products:

- *Debt* alongside (*pari pasu*) CDFI debt into local deals to share risk with CDFIs that might be reluctant to provide financing from afar without a local anchor partner. This debt will be available to local deals at the discretion of the CFSB Board of Directors through its Investment Committee. (The Board might use the availability of debt to set and encourage priorities. For instance, the Board might make the financing available for entrepreneurs of color seeking to participate in public contracting opportunities but not for other business uses.)
- *A guarantee* (also *pari pasu*) for opportunities in which CDFIs do not need to share risk through debt but want to ensure that a local investor will be alerted to market conditions and other factors (such as entrepreneur's health) that might affect the risk performance of a loan or investment.

Both products will be used in conjunction with CDFIs and will follow CDFI financing into transactions, although those transactions might also include bank, credit union, public, or other financing.<sup>33</sup>

<sup>33</sup> See Appendix IV for a sample term sheet outlining both financing options.

## Financing Process

Use of the Capital Enhancement Fund will occur through an Investment Committee operating in service to the Board of Directors. That Committee will include financial professionals and community representatives jointly able to make decisions that balance financial risks and the needs of the South Bend community. The Committee will include Board representation but will not comprise only Board members.

The process for using these financing products is material to the operations of CFSB. CFSB will under no circumstances initiate financing for opportunities in South Bend; instead, it will consider participating in CDFI-initiated financing when requested by a CDFI. In addition, it will not assess the potential risks of investments or guarantees until a CDFI has made a determination that it intends to proceed with its financing. As a result, CFSB will base its risk assessment and underwriting on the expertise of a skilled CDFI, substantially limiting the potential exposure to risk that it faces. CDFIs participating in the South Bend market have demonstrated track records of assessing and managing risks in markets similar to South Bend. that they will be working in in SBN. In addition, CDFIs have substantial first-loss capital (in the forms of loan loss reserves and low-leverage capital) that insulate CFSB and other investors from undue risk. Over several decades, CDFIs in general have loaned or invested more than \$100 billion with net charges-offs (losses) comparable to mainstream banks in conventional markets. In addition, CDFI investors have lost almost no capital over 40 years. Finally, CDFIs participating in CSBN are audited, some are rated by AERIS (a CDFI-industry-specific rating agency), and generally operate with full transparency. CFSB will reserve the right to not work with any CDFI that it does not believe meets its standards of performance and/or mission.

In particular, while the use of financing requires distinct skill sets that the enterprise will need financial expertise, those skills are not essential to the choice of Executive Director for CFSB. The need can be met through the compositions of the Board and the Investment Committee.

## IV.E Management: The Executive Director

The Executive Director selection is critically important, as the key person responsible for the operation and efficacy of CFSB. Knowledge of the local market and constructive relationships with key local leaders is essential. Understanding of CDFI financing, community development, and individual CDFIs is valuable but not essential at the start, for two reasons. First, the organizing process described earlier has identified CDFIs actively engaged and/or interest in the South Bend market. Second, the Executive Director can learn the CDFI industry as needed.<sup>34</sup>

## IV.F Governance: The Board of Directors

The Board of CFSB should be broad enough to represent the diversity and range of the community, targeted enough to include expertise on key strategic goals.<sup>35</sup> (as described under financing strategy above/below), independent of any single entity (government, financial institution, community

---

<sup>34</sup> See Appendix IV for a sample job description for the Executive Director, based on CDFI Friendly Bloomington.

<sup>35</sup> See Section III, Market Analysis and Financing Solutions



organization, etc.), and small enough to operate with agility through start-up and beyond. The target size of the Board is 9, 11, or 13 members.

The Board should be led by independent and non-conflicted representatives—that is, not by a City official or an investor. It can and should include both the City and investors as key partners in its success. It also should include community representatives who are able to address important issues in the communities, including but not limited to race, gender, housing strategies, small business challenges and opportunities, and more. The Board will operate with the benefit of Committees, which should be led by Board members but should also include non-Board Members.

With support from consultants and the Executive Director, the Board will develop and approve policies for Lending, Financial Management, Investments, Personnel, and other key areas. It will draw on the work at CDFI Friendly Bloomington and the deep resources available through the CDFI industry.

## IV.G Financing: The Investment Committee

The Board's investment committee will require financial expertise, as noted. Fortunately, South Bend has depth of expertise across commercial financial institutions, public purpose financial institutions (i.e., credit unions), local business, the public sector, and local enterprises. The investment committee also should include people familiar with and engaged in community issues. The Committee will struggle if it seeks to evaluate opportunities solely through a financial lens; as with CDFIs, it needs to be able to take a 360-degree look at community factors that affect both the value of investments and risks.

## IV.H Professional Services

CFSB will contract for or seek in-kind contributions of legal, financial, and other professional services. Where possible, CFSB will seek donated services from supporting institutions.

## IV.I Financial Management & Audits

CFSB will be audited following its first full complete year of operations and annually thereafter.

Accounting will be done in line with generally-accepted accounting practices, including monthly internal reporting for management, quarterly reporting for management, the Board of Directors, and investors; and annual reporting and annual audits for all parties and the public.

## IV.J Operational Funding

Most of the operational funding will come through grant revenue. Financing activity may provide up to 15% of operational costs but likely will provide less, especially in the first few years of operations.

The ability of CFSB to raise enough operating grant support will be an indicator of its value to the community. If it is unable to raise the \$565,250 it requires over its first three years of operation (or at any time after), its Board will assess whether it should continue operating.

The organizers are engaged in Fall 2019 in discussions with potential funders to gauge reasonable levels of support. Based on responses to date, we are confident that CFSB will be able to raise start-up funding. In addition, the City of South Bend has provided a large start-up grant to CFSB of \$500,000, up to 20% of

which will be available as start-up operating support to (a) mitigate against delays that can occur starting a non-profit enterprise and (b) provide sufficient start-up momentum to allow CSBN to prove its worth. We intend to finalize financial support and loans during the early stages of implementation in the first half of 2020<sup>36</sup>.

## IV.K BUDGET: CDFI Friendly South Bend Pro Forma Financials

### PRO FORMA STATEMENT OF ACTIVITIES FOR CDFI FRIENDLY SOUTH BEND

2020-2022

	2020	2021	2022	TOTALS
<b>INCOME</b>				
Net Financing Income	\$ 750	\$ 27,500	\$ 35,000	\$ 63,250
Other Earned Income	\$ 1,000	\$ 2,500	\$ 3,500	\$ 7,000
Grant Income	\$ 175,000	\$ 160,000	\$ 160,000	\$ 495,000
<b>TOTAL INCOME</b>	<b>\$ 176,750</b>	<b>\$ 190,000</b>	<b>\$ 198,500</b>	<b>\$ 565,250</b>
<b>EXPENSES</b>				
Personnel & Benefits	\$ 100,000	\$ 100,000	\$ 125,000	\$ 325,000
Occupancy	\$ 6,000	\$ 6,000	\$ 7,500	\$ 19,500
Direct Program Expenses	\$ 50,000	\$ 25,000	\$ 25,000	\$ 100,000
Indirect Program Expenses	\$ 15,000	\$ 17,500	\$ 20,000	\$ 52,500
<b>TOTAL EXPENSES</b>	<b>\$ 171,000</b>	<b>\$ 148,500</b>	<b>\$ 177,500</b>	<b>\$ 497,000</b>
<b>NET OPERATING RESULTS</b>	<b>\$ 5,750</b>	<b>\$ 41,500</b>	<b>\$ 21,000</b>	<b>\$ 68,250</b>
<i>Net Operating Margin</i>	3%	28%	12%	
<i>Self-Sufficiency Ratio</i>	1%	20%	22%	

## IV.L Statement of Activities

CDFI Friendly South Bend is presenting pro forma operating financials over a three-year period to show the complete start-up cycle, with the expectation that by Year Three the organization will be operating at full capacity. As a result, the Year Three numbers should be indicative of future activity. Our business model assumes that CFSB will be able to operate at a steady size from Year Three forward. CDFI Friendly South Bend will operate with positive net operating results annually. That will require ongoing regular fundraising for operating support as earned revenue potential is limited.

### Revenue

The pro forma financials project a total of \$565,250 of revenue in Years One to Three.

The primary source of revenue is *grant funding*, which should be raised as general operating support to give management and the Board of Directors the ability to adjust nimbly to changes in operating conditions. We expect an initial infusion of operating support during Year One from City funding to ease

<sup>36</sup> See Section V for Implementation

the pressures of starting the organization and while it proves its value. We do not necessarily assume City funding after Year One.

Sources of funding will include local and regional financial institutions, philanthropic institutions in South Bend and regionally, local and regional corporations, and might include state and/or federal funding. If possible, CFSB might seek funding from the CDFI Fund at the U.S. Department of the Treasury.

CFSB will require a broad base of funders because its benefits will be broad—reaching across sectors of the local economy ranging from homeownership to economic development to small business to nonprofits.

CFSB will earn a small amount from *fee and interest (earned) income*. Fee income could come through its financing activities (for example, a fee related to guarantees). Interest income will come from the net spread it expects to earn on its financing. Because the total assets for financing will be modest and the purpose of CFSB's financing is to facilitate CDFI financing, the financing activity will contribute modestly to revenue.

CFSB will seek in-kind revenue through donated professional services, where possible. This could include financial administration (for example, loan closings), legal, marketing, rent, and other types of services.

### **Expenses**

The largest expense by far will be personnel and related benefits. We are planning a lean organization with one employee initially expanding to no more than 1.5 FTEs over time. Because the role of CFSB is to broker and leverage relationships, it will rely on alignment of the work of others to achieve its goals.

CFSB expects to provide competitive compensation and benefits to attract and retain high-quality talent.

**Direct Expenses** will include contracted professional services, as needed, and might include travel, meals, etc. involved in the conduct of the organization's primary business of recruiting and completing CDFI financing in the South Bend market.

**Indirect Expenses** comprise overhead costs.

As a financial intermediary, CFSB will maintain loan loss reserves (LLR) at a level consistent with the risks it understands it is taking. Consistent with CDFI practice, the LLRs will be non-cash expenditures out of net assets.

## PRO FORMA STATEMENT OF FINANCIAL POSITION FOR CDFI FRIENDLY SOUTH BEND

2020-2022 (Consolidating CFSB Capital)

	2020	2021	2022
<b>ASSETS</b>			
Cash & Cash Equivalents			
<i>For Operations</i>	\$ 5,750	\$ 47,250	\$ 68,250
<i>For Financing (see note)</i>	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Grants Receivable	\$ 100,000	\$ 80,000	\$ 60,000
CFSB Capital Financing Outstanding	\$ 750,000	\$ 1,875,000	\$ 2,375,000
<b>TOTAL ASSETS</b>	<b>\$ 3,855,750</b>	<b>\$ 5,002,250</b>	<b>\$ 5,503,250</b>
<b>LIABILITIES</b>			
CFSB Capital Loans Payable	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
<b>TOTAL LIABILITIES</b>	<b>\$ 1,500,000</b>	<b>\$ 1,500,000</b>	<b>\$ 1,500,000</b>
<b>NET ASSETS</b>			
Unrestricted	\$ 5,750	\$ 47,250	\$ 68,250
Temporarily Restricted	\$ 2,350,000	\$ 3,455,000	\$ 3,935,000
<b>TOTAL NET ASSETS</b>	<b>\$ 2,355,750</b>	<b>\$ 3,502,250</b>	<b>\$ 4,003,250</b>
<i>Unrestricted Capital Ratio</i>	<i>0.15%</i>	<i>0.94%</i>	<i>1.24%</i>
<i>Capital Ratio (Unrestricted + Temp)</i>	<i>61.10%</i>	<i>70.01%</i>	<i>72.74%</i>

*Note: Cash Equivalents for Financing includes both drawn and un-drawn portions of loans to CFSB Capital + Net Assets for Financing*

### IV.M Statement of Financial Position

#### Assets

The primary assets of CFSB will be capital dedicated to financing and unused operating grant funding. Because we anticipate a pool of capital for financing between \$2 million and \$4 million, it will be the largest asset on the statement.

Approximately half of the financing assets will be in the form of loans and so will be offset by loans payable liabilities. Most if not all the loans will be from financial institutions.

While the assets are not complex, the practice of providing financing alongside CDFIs will require accounting practices that are unusual in most nonprofits.

#### Liabilities

The largest liabilities will be loans payable. At least through the startup period, CDFI Friendly South Bend will seek to have stable loans payable liabilities by borrowing for fixed terms at fixed costs. For that reason, these three-year financials will not show the significant challenges of recapitalizing its financing

as needed, particularly if future financing involves a range of terms, prices, and loan terms and conditions. Other liabilities will include a low level of operating payables.

## Net Assets

CFSB will maintain unrestricted and temporarily restricted net assets.

As a financial intermediary, CFSB will hold substantial net assets as temporarily restricted net assets securing the debt it borrows. Initially, it will maintain a net asset ratio of 50% or greater to de-risk the loans that financial institutions and others make to a start-up financial intermediary with no experience developing a new business model. Based on performance, it will aim to reduce that ratio to 33% by the end of Year Three, subject to the decisions of the lenders working with the Board of Directors.

As with most nonprofit financial intermediaries, that net worth will be acquired through grant funding from financial institutions, government, quasi-governmental agencies, foundations, or others. That money will be raised as temporarily restricted net assets for financing and will not be available for operating costs.

Unrestricted net assets will include retained earnings and could involve some grant support.

Allowance for loan loss (ALL) on the projected statement of financial position will reflect the non-cash expenditures (described above) based on the organization's assessment of risks in financing.

### FINANCING GOALS FOR CDFIs WORKING WITH CDFI FRIENDLY SOUTH BEND

(\$ millions)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>TOTALS</u>
Affordable Housing	\$ 2,704,000	\$ 2,024,000	\$ 3,780,000	\$ 8,508,000
Small Business	\$ 1,050,000	\$ 1,975,000	\$ 3,400,000	\$ 6,425,000
Community Facilities	\$ -	\$ 750,000	\$ -	\$ 750,000
Commercial Real Estate	\$ -	\$ 750,000	\$ 750,000	\$ 1,500,000
Other	\$ -	\$ -	\$ -	\$ -
<b>TOTALS</b>	<b>\$ 3,754,000</b>	<b>\$ 5,499,000</b>	<b>\$ 7,930,000</b>	<b>\$ 17,183,000</b>

### CDFI FRIENDLY BLOOMINGTON'S CFB CAPITAL FINANCING GOALS

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>TOTALS</u>
New Originations	\$ 750,000	\$ 1,500,000	\$ 1,500,000	\$ 3,750,000
Repayments	\$ -	\$ 375,000	\$ 1,000,000	\$ 1,375,000
<b>NET OUTSTANDING YE</b>	<b>\$ 750,000</b>	<b>\$ 1,875,000</b>	<b>\$ 2,375,000</b>	

## Financing Projections

CFSB has prepared projections of lending and guarantee activity on a conservative basis for planning purposes.<sup>37</sup> These projections assume that all of the activity in the first three years of CFSB is in line with the strategic priorities of enhancing CDFI financing for microbusinesses and target residential properties.

<sup>37</sup> See Appendix IV for a pro forma term sheet for CDFI Friendly South Bend's Capital Enhancement Fund.

Over the first three years, through its Capital Enhancement Fund, CFSB projects to make **\$3.75 million** in loans and guarantees alongside CDFIs in support of projected CDFI financing activity of \$17.183 million in new originations. Losses, if any, will be paid first out of allocated LLR, second out of net assets dedicated to financing, and third—if necessary—out of borrowed funds.

The level of financing activities, the types of financing employed, and the amounts of individual loans and/or guarantees will affect earned revenue marginally. Because the financing revenues are expected to be modest, differences in actual financing activity compared to projected activity will have modest impact on operations.

## Financial Statements Conclusion

These pro forma financial statements and plans reflect the best thinking of the CFSB planning team for planning purposes only. They likely will change in implementation at the discretion of the Board of Directors at the direction of the Executive Director.

They show the organization intention of operating at a profitable but not a profit-maximizing level through the first three years of operations, to provide a steady supply of enhancement financing to support CDFI financing in line with the strategic priorities developed for this effort, and to steadily and gradually build the financial strength and capacity of CFSB.

## V. IMPLEMENTATION

All nonprofit corporations need to organize their human resources, raise funds, and develop systems in order to be successful. The process of standing up CDFI Friendly South Bend will involve several components, including:

- Selecting and forming the Board of Directors;
- Recruiting, selecting, and hiring an Executive Director;
- Finalizing the funding commitments for both operations and the Capital Enhancement Fund;
- Continuing work with CDFIs and local social enterprises to identify and cultivate possible CDFI financing transactions
- Numerous administrative requirements.

This section will outline the implementation process and provide an approximate time frame. Implementing CFSB benefit tremendously from the experience in Bloomington. South Bend stakeholders have worked closely with Bloomington leaders, including the recently-hired Executive Director of CDFI Friendly Bloomington and the Five/ Four Team, and concluded that implementation should simultaneously pursue administrative and financing goals. This will allow the organization to form a Board, begin a hiring process, and continue building on the organizing work conducted by the Working Group without losing momentum. By January 2020, the City of South Bend will hire a law firm to create the corporate entity that will be CFSB and file required legal papers

## V.A Selecting and forming the Board of Directors: Jan – April 2020

The first critical step to standing up CFSB is to form the Board of Directors. The Board should include people from in and around South Bend with key skills and representations. This Board should include people with community development experience, specifically community development finance, affordable housing, and small business development. It also should include people with other critical skills to most nonprofits such as marketing and communications, management, and strategy.

The Board should be accountable to the community through the appointment of members who are leaders in the community and who are knowledgeable about South Bend's various community development support organizations and developers. The Board will include representatives of at least some of the companies invested in the Capital Enhancement Fund, including the City of South Bend. However, being an investor is not a guarantee of a seat on the Board, as a variety of perspectives will strengthen CFSB.

The ideal Board size would be between 9, 11, or 13 people. The list of nominees for the founding Board will be developed in consultation with the CDFI Friendly Working Group. After the first set of Board Members are appointed, the Board will be self-appointing and recruit its own members.

Board members will serve two-year terms, with a recommended maximum of three terms. The initial Board should roll off in a sequenced, staggered schedule to ensure overlapping terms. The Bylaws should specify the length of the term and term limits. After the Board is seated, its first orders of business will be to appoint officers, approve by-laws, and begin the search process for the Executive Director.

## V.B Recruiting and hiring an Executive Director: March – August 2020

The Board's most important first task will be the selection of the Executive Director. As the first employee, this person will lead the organization and be the public face. The Board will want an individual with knowledge and preferably relationships with the community development organizations and leaders in South Bend, the ability to be a liaison between financial institutions and a diverse set of borrowers, and preferably some familiarity with the financing process. The candidate does not necessarily need to be knowledgeable about CDFIs, as that can be learned on the job. The candidate must be self-motivated and be able to work on their own.

The search process will begin with the Board deciding how to conduct the process; it could choose to form a committee or act as a committee of the whole. It could hire a search firm or do it on their own. The next step is approving a Job Description and a compensation range. The job description will likely be very similar to the one used to recruit the Executive Director at CDFI Friendly Bloomington, and the Board can learn about compensation ranges from that organization as well<sup>38</sup>. Once the Job Description is approved, the recruitment process can begin, including posting on relevant internet job sites, Board, City officials, investors, and working groups members networking and encouraging appropriate candidates to apply, and any appropriate advertising. Once a month or when a reasonable number of qualified resumes are received, these resumes should be evaluated as to how well they match up with the requirements listed in the Job Description. The Board Committee or search firm should conduct first

---

<sup>38</sup> See Appendix IV for the CDFI Friendly Bloomington Executive Director Job Description.

interviews of the top three to five candidates and choose the top two candidates. These candidates will participate in a second, more in depth, interview process and then the finalist should be chosen. The Board should vote on the finalist. After checking references, CDFI Friendly South Bend will make an offer, which hopefully will be accepted. The recruitment process will take three to six months.

An orientation process will be developed based on the skills and experience of the Executive Director, including but not limited to a review of the CDFI Friendly organizing effort and all that we learned in that process, introductory meetings with key players not on the Board, training in CDFIs (if needed), and any nonprofit management skill development.

## V.C Finalize the funding: January – June 2020

The Board should finalize the agreements with funders of both operations and the Capital Enhancement Fund and set up requisite financial systems, accounts, and procedures to receive and manage the funds.

## V.D Administrative requirements: January – October 2020

Starting any organization requires figuring out and implementing many basic administrative requirements. Some of these will be accomplished by the Board prior to the hire of the Executive Director and others should wait until the staff person is in place.

The Board should:

- Form the legal corporation;
- Establish bank accounts; and
- Find office space and furniture. This could be in a shared or incubator space, but it is not recommended to be co-located with government or traditional financial institution. It should be easily accessible to public transportation and include access to conference room space.

The Executive Director should:

- Contract for accounting, bookkeeping, and technology services. The Board will approve the auditor;
- Draft and approve basic organizational policies including accounting, personnel, and investment policies that cover the operation of the Capital Enhancement Fund as well as how to best manage idle cash.
- Determine branding, obtain the domain name, and develop the company's web site; and
- Apply for 501c3 status.

Due to the technical nature of many of these startup tasks, the limited volunteer time of the Board, and the desire to capitalize on the organizing effort and move quickly, CDFI Friendly South Bend will benefit from the ongoing commitment of a point person familiar with this effort and may choose to continue its contract with Five/ Four advisors.

With the Board, staff, and funds in place, the organization will be ready to start operations. Many of the administrative components can be completed even as the operations of matching applicants with sources of financing begins.



## VI. RISKS & RISK MITIGATION

Every startup enterprise faces risks. Nonprofits face an additional set of risks and financial institutions face complex risks. CDFI Friendly South Bend was organized and planned to minimize the impact of those risks on its efforts to increase CDFI financing in South Bend.

### VI.A Organizational Risks

#### Resources

To manage the possibility that operational funding falls short, the organizing process has actively engaged and sought input from potential funders. While most have responded with encouragement, this process has identified those potential funders who appear unlikely to participate. The plan tries to incorporate these constraints.

Indeed, this Business Plan is an effective way of testing support and investment before startup. By making plans transparent and clear, funders and investors should know what they would be supporting and can anticipate their interest in providing support, participating in governance, or otherwise getting involved. As a result, the organizers of CFSB should receive clear feedback.

*Disruption*—The CDFI Friendly model has drawn wide interest and support, yet in implementation it will disrupt familiar patterns of activity in South Bend community development systems. It might affect funding flows, investment patterns, development priorities, institutional relationships, etc.

For that reason, the organizing and planning process was aggressively collaborative and transparent. To the extent possible, the process, as well as this Plan, make the path clear to everyone who might be affected and offers the means to anticipate and address concerns.

In addition, in our experience CDFI disruption almost always leads to new opportunities that outweigh concerns. For example, CDFIs may bring to South Bend new forms and approaches to financing that make local projects possible. We saw examples of that in the outreach that was part of the planning process. In addition, CDFIs bring to the community capital from sources that otherwise might not be present. In Bloomington, for example, Bank of America made a substantial (10-year, 0-1%, \$10 million) commitment to CDFIs working there, despite the fact that the bank has no footprint there. A similar offering could be available in South Bend.

#### Key Person

Startups are particularly vulnerable to the magnified impact of heavy dependence on a single, key person in the Executive Director role. At least two major mitigants reduce this risk:

- First, the key person will be working at the intersection of two vibrant support communities: the South Bend community development community, represented by the CDFI Working Group, and the CDFI industry, which is particularly cooperative and collaborative. In addition, the enterprise will have backup from Five/Four Advisors, the City of South Bend, and others with necessary skills and experience.
- Second, the founding Board of Directors of CFSB will comprise people who were actively involved in its creation and have skin in the game.

## VI.B Operational Risks

### Deal Flow & Pipeline

If the market research and business planning is wrong, there may not be sufficient deal flow in South Bend to interest CDFIs in working here. Or the deal flow might take on different priorities than this plan identifies.

The size and diversity of the South Bend market make this unlikely. Our market research identifies significant credit gaps and economic conditions suggesting deal flow potential. Further, comparison to the Bloomington financial market, which has already seen several deals enter discussions with CDFI Friendly Bloomington, indicates that the larger market in South Bend will be able to support adequate deal flow. More likely, deals require support or seasoning to be ready for CDFI financing, a common issue for CDFIs.

The financial impact of slow or no deal flow is minimal. Revenue from financing is a very small part of the revenue stream for the enterprise. Of greater concern would be losing the attention of CDFIs. Fortunately, CDFIs have been exploring the South Bend market for years and have considered the planning process a chance to go deeper. As a result, several CDFIs (ACCION Chicago, Bankable, Brightpoint, Cinnaire, CIFI, CRF, and IFF) are more engaged and making plans to increase their presence independent of CFSB.

The CDFI Friendly South Bend strategy relies heavily on the demonstrated expertise of CDFIs leading the way. All of the CDFIs currently working with this organizing effort have strong track records of scoping new market potential and entering markets successfully. CDFI Friendly South Bend would not be viable without demonstrated interest from multiple CDFIs. At the same time, the range of CDFIs and the spectrum of their financing products mitigates against mistakes in focusing the financing strategy; if the demand is different than anticipated, other CDFIs will come to the table.

### Financing Expertise

While CFSB will be a financing entity through its Capital Enhancement Fund, it will draw on the expertise of its financial institution partners, skilled community development professionals, and contract professional support to minimize its financing expertise risk to virtually nil.

The financing process is CDFI-led, and so CFSB will not consider financing requests until CDFIs have underwritten them to the point of confidence to proceed. The CFSB Capital Enhancement Fund financing will be *pari pasu*, not subordinate, to CDFI financing in transactions, so through the life of loans it will stand on equal footing with its more experienced CDFI partners.

Finally, to raise debt CFSB will structure its Capital Enhancement Fund to conservative standards, notably a 50% capital ratio that means there is one dollar of equity to absorb possible losses for every dollar loaned to it. While experience might lead CDFI Friendly South Bend to lower the capital ratio to 2:1 (33%) over time, that would come only after the model was proved.

The CDFI Friendly Model is based on decades of experience in the development, design, and operation of CDFIs. Five/Four Advisors has worked with many hundreds of CDFIs and other community organizations with consistent success.

The organizing and planning process engaged by the City of South Bend has built knowledge, trust, capacity, and aspirations for this strategy. At the same time, prudence has led to a conservative business strategy with clear risk mitigants and significant potential upside.

## VII. CONCLUSION

This Business Plan presents the current best thinking for CDFI Friendly South Bend based on more than one year's work involving dozens of private and public, nonprofit and for profit, community development and small business, and financial and non-financial professional who share a deep interest in increasing flexible, affordable financing in and around South Bend. As with every business plan, it sets a course and assumes that the organizations management and Board of Directors will follow that course with open eyes and discretion about opportunities and threats.

The underlying platform for the proposed CFSB rests on the experience of the startup CDFI Friendly Bloomington and the combined 60 years of experience in community development finance shared by the consultants from Five/Four Advisors. There is no doubt that South Bend would benefit from expanded access to CDFI financing and that CDFIs, including but not limited to those that have participated in this process in South Bend, are interested in expanding markets for their financing.

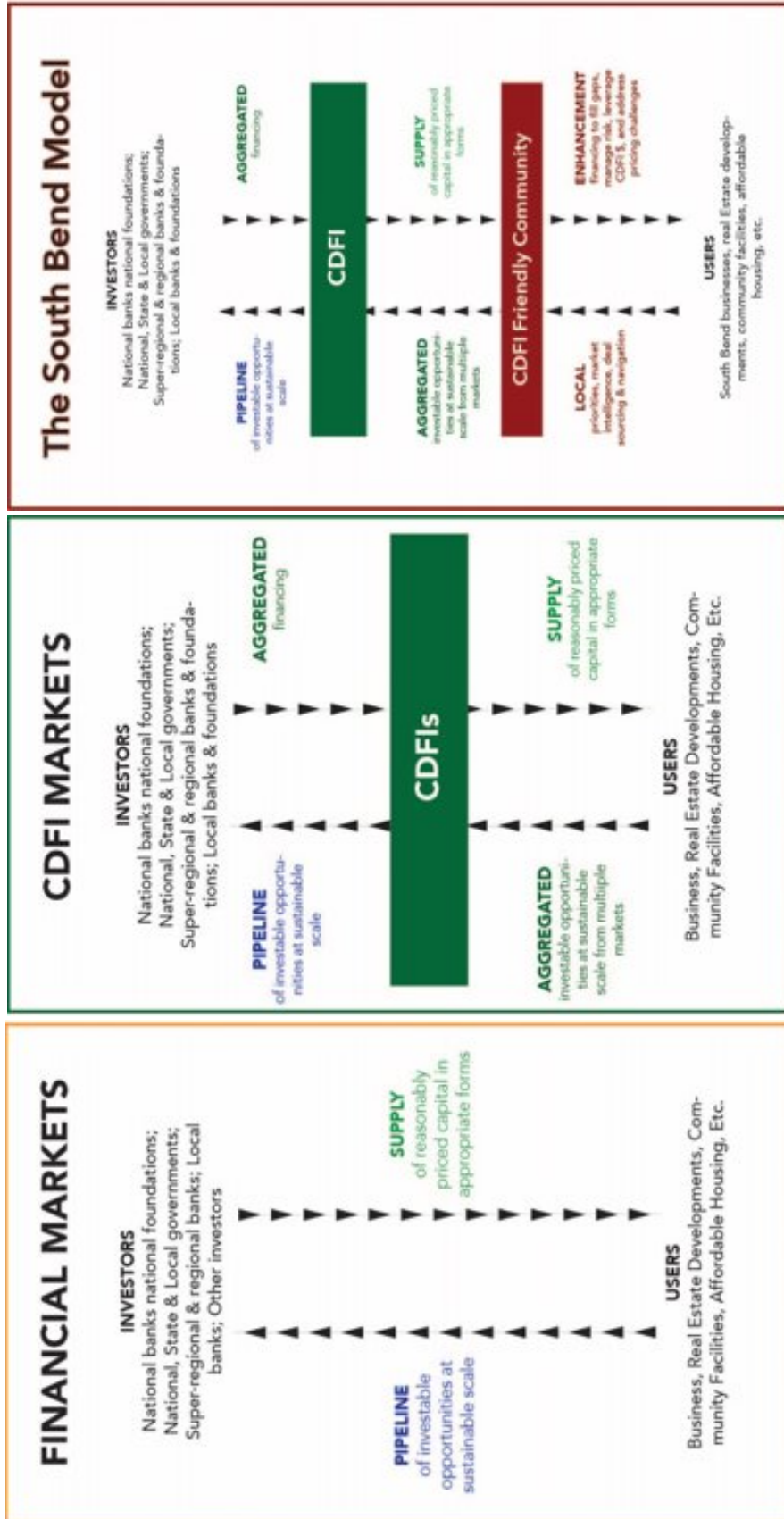
The key element to this business strategy is the ability to match up supply of capital to demand for it in South Bend. That requires a combination of civic collaboration and local market insight, which we believe is well represented in the CDFI Working Group and others involved in the planning process. As a result, we are confident that CFSB will succeed at its financing goals over 2020-2022 and beyond. The opportunities are well documented and ready for action.

The establishment and implementation of CFSB will mark a significant new step for the community to gain greater control over its future so that it can be more inclusive, sustainable, and equitable. The role of CDFIs in every community where they work is not only to provide financing but also to give local leaders the ability to make informed and well-resourced decisions that they believe serve the best interests of their community. As such, actively engaging CDFIs in South Bend brings to the community breadth and depth of experiences the CDFIs have gained working in hundreds of other communities.

## APPENDICES

- I. The CDFI Friendly Model
- II. CDFI Friendly South Bend Organizing Timeline
- III. CDFI Working South Bend Group Membership
- IV. Sample Term sheet
- V. Executive Director Job Description
- VI. CDFI Friendly South Bend Implementation Timeline
- VII. Phase 1 Supporting Documents
  - A. CDFI Working Group Agendas
  - B. Oct 2018 convening agenda
  - C. June 2019 convening agenda
- VIII. Phase 2 Supporting Documents
  - A. Small business discussion guide
  - B. Housing discussion guide
  - C. Opportunity Finance Network Handout Oct 2019

# Appendix I: The CDFI Friendly Model



## Appendix II: CDFI Friendly South Bend Organizing Timeline

**October 2018:** Chicago Federal Reserve Bank, Federal Depository Insurance Commission, Office of the Comptroller of the Currency, and the City of South Bend convened stakeholders representing service providers, traditional financial institutions, and CDFIs to discuss CDFI lending in smaller markets. This meeting started the conversation about what CDFIs can do and connected this concept to local capital gaps.

**November 2018- May 2019:** Local stakeholders formed a CDFI Working Group\* that met monthly to learn more about CDFI lending and make suggestions to leverage this tool locally, helping the project team scope the landscape of capital need in South Bend.

**June 2019:** City of South Bend hosted a convening entitled, “Investing in Our Future: Expanding South Bend’s Commitment to Inclusive Growth”. This event highlighted insights from the Working Group’s conversations and demonstrated that representatives from banks, credit unions, CDFIs, and community organizations were all excited to move forward with a CDFI Friendly strategy in South Bend.

**July 2019:** Project team debriefed June convening with Working Group and members of the public, as well as sharing timeline to complete Business Plan by year-end 2019.

**August 2019:** Project team conducted initial conversations with potential funders of CDFI Friendly South Bend, including financial institutions, community organizations, and government.

**September- October 2019:** Project team hosted focus groups and targeted follow up conversations to nuance the Team’s understanding of local capital gaps and share successful CDFI products that could solve capital gaps with local stakeholders.

**November – December 2019:** South Bend Common Council approved budget line item to support CDFI Friendly South Bend in 2020 and received formal presentation of business plan. Draft business plan presented to and discussed with various potential funders and investors.

**January 2020:** CDFI Friendly South Bend is publicly launched, including Board composition, comprised of stakeholders from community organizations, government, and financial institutions.

## Appendix III: CDFI Friendly South Bend Working Group Membership

The following list of Working Group membership is as-exhaustive-as possible, though individuals who did not correspond via email may have been inadvertently excluded, due only to technological record-keeping and not a reflection on their contributions.

<b>Name</b>	<b>Organization</b>
Akeelah Harrell	Manager of Inclusion Projects <b>at</b> City of South Bend
Alan Steele	Regional Director <b>at</b> Northwest Indiana Small Business Development Center
Alex Strati	Regional CEO <b>at</b> Old National Bank
Alkeyna Aldridge	Director of Community Engagement & Economic Empowerment <b>at</b> City of South Bend
Amy Kuhar Mauro	Vice President <b>at</b> 1st Source Bank
Andy Burggraf	Chief Executive Officer <b>at</b> Community Wide Credit Union
Angela Workman	Vice President of Programs <b>at</b> Community Foundation of St. Joseph County
Angelina Billo	Business Development Manager <b>at</b> City of South Bend
Angie Swartz	Retail Center Manager <b>at</b> Old National Bank
Anne Mannix	President <b>at</b> Neighborhood Development Associates
Anthony Bridgeman	Vice President of Community Development Banking <b>at</b> PNC Bank
Art Russell	Vice President and CRA Officer <b>at</b> Centier Bank
Beth Wittling	President and COO <b>at</b> Business Development Corporation
Bethany Hartley	Director of Diversity and Inclusion <b>at</b> South Bend - Elkhart Regional Partnership
Bill DeLuca	Commercial Loan Officer <b>at</b> Teachers Credit Union
Brad McConnell	Chief Executive Officer <b>at</b> Accion Serving Illinois and Indiana
Brett Bauer	Vice President and Chief Investment Officer <b>at</b> 1st Source Bank
Brian Donoghue	Director of Innovation <b>at</b> City of South Bend
Celena Green	Founder <b>at</b> Foundre
Chad Douglass	Chief Lending Officer and Senior Vice President <b>at</b> Teachers Credit Union
Christina Brooks	Diversity and Inclusion Officer <b>at</b> City of South Bend
Chuck Leone	Attorney <b>at</b> Halpin Slagh
Cindy Kirkham	Community Development Analyst <b>at</b> 1st Source Bank
Dan Buckenmeyer	Director of Business Development <b>at</b> City of South Bend
Dan Eggleston	Co-Founder <b>at</b> Main Street Match
David Balkin	Chancellor South Bend- Elkhart <b>at</b> Ivy Tech Community College
David Finley	Director of Business Analytics <b>at</b> City of South Bend
DeAnna Moyers	Vice President of Mortgage Services <b>at</b> Teachers Credit Union
Denise Riedl	Chief Innovation Officer <b>at</b> City of South Bend
Dennis Cecil	Community Development Relationship Manager <b>at</b> Woodforest National Bank
Esmi Rivera	Diversity and Inclusion Officer <b>at</b> Notre Dame Federal Credit Union
Garvester Kelly	Community Development Director <b>at</b> Federal Reserve Bank of Chicago
Geoff Barden	Portfolio Analyst <b>at</b> 1st Source Bank
Gerald Mast	Vice President and Tax Director <b>at</b> 1st Source Bank
Greg Hakanen	Board Member <b>at</b> Northeast Neighborhood Revitalization Organization

Hardy Blake	Director <b>at</b> West Side Business Development Center
Jada McLean	Co-Founder <b>at</b> Hurry Home
James Seitz	President <b>at</b> 1st Source Bank
James Summers	Director <b>at</b> West Side Business Development Center
Jamie Morgan	Senior Policy Fellow <b>at</b> City of South Bend
Jason Arnold	Managing Director for the Fitzgerald Institute for Real Estate <b>at</b> University of Notre Dame
Jason Taege	Michiana Market President <b>at</b> Old National Bank
Jeanne Gollither	President and Chief Executive Officer <b>at</b> Cincinnati Development Fund
Jeff Wisler	Woodforest National Bank
Jitin Kain	Deputy Director of Public Works <b>at</b> City of South Bend
Joe Neri	Chief Executive Officer <b>at</b> IFF
John Gibbons	Co-founder <b>at</b> Hurry Home
John Wingfield	Branch Manager <b>at</b> Centier Bank
Josue Ortiz	Branch Manager <b>at</b> Woodforest National Bank
Karen White	Member <b>at</b> South Bend Common Council
Karl King	Board Member <b>at</b> Northeast Neighborhood Revitalization Organization
Karol Griffin	Director of Financial Empowerment and Historian <b>at</b> Teachers Credit Union
Kate Lee	Director of Talent Engagement <b>at</b> South Bend Regional Chamber
Kathy May	Vice President of Mortgage Operations <b>at</b> Teachers Credit Union
Kathy Schuth	Director <b>at</b> Near Northwest Neighborhood, Inc.
Keith Broadnax	Senior Vice President <b>at</b> Cinnaire
Kyle Fawcett	Director of Marketing <b>at</b> Bankable
Laura O'Sullivan	Chief of Staff <b>at</b> City of South Bend
Len Amat	Michiana Market President <b>at</b> Centier Bank
Liz Maradik	Principle Planner <b>at</b> City of South Bend
Lory Timmer	Director of Neighborhood Grants <b>at</b> City of South Bend
Luis Zapata	Vice President and Financial Wellness Administrator <b>at</b> 1st Source Bank
Marco Mariani	Executive Director <b>at</b> South Bend Heritage Foundation
Mark Gould	Vice President and Community Development Manager <b>at</b> 1st Source Bank
Marty Wolfson	Member <b>at</b> Community Forum for Economic Justice
Mary Fran Riley	Senior Vice President External Affairs <b>at</b> Accion Serving Illinois and Indiana
Matt Roth	President of Core Business Solutions <b>at</b> IFF
Maureen McKenna	Senior Development Officer <b>at</b> Community Reinvestment Fund, USA
Mike Hastings	Board Member <b>at</b> Northeast Neighborhood Revitalization Organization
Mike Keene	Principle <b>at</b> Thrive Michiana
Mike Morris	Professor <b>at</b> University of Notre Dame
Neil Miller	Commercial Business Banker <b>at</b> 1st Source Bank
Nick Johnson	Director of Lending <b>at</b> IFF
Nicola Brown	Co-Founder <b>at</b> Main Street Match
Pam Meyer	Director of Neighborhood Development <b>at</b> City of South Bend
Paulina Mayagoitia	Branch Manager <b>at</b> Woodforest National Bank
Pat Gamble-Moore	Senior Vice President, Community Development Banking <b>at</b> PNC Bank
Patrick McGuire	Intern <b>at</b> City of South Bend



Pete Morgan	Attorney <b>at</b> Hackett Associates
Phil Black	Executive Director <b>at</b> Community Investment Fund of Indiana
Phillip McCandies	Regional Business Development Officer <b>at</b> Community Investment Fund of Indiana
Ralph Villalon	Community Development Outreach Officer <b>at</b> Lake City Bank
Regina Emberton	President and Chief Executive Officer <b>at</b> South Bend - Elkhart Regional Partnership
Robin Newberger	Senior Business Economist <b>at</b> Federal Reserve Bank of Chicago
Rose Meisner	President <b>at</b> Community Foundation of St. Joseph County
Ryan Bell	Assistant Vice President <b>at</b> 1st Source Bank
Scott Ford	Associate Vice President for Economic Development <b>at</b> University of Notre Dame
Shelli Alexander	Senior Vice President <b>at</b> 1st Source Bank
Sherry Aden	Vice President of Operations <b>at</b> Brightpoint Development Fund
Sonja Karnovsky	Business Analyst <b>at</b> City of South Bend
Stephanie Socall	Managing Director of Lending <b>at</b> IFF
Steve Watts	Community Bank President <b>at</b> Centier Bank
Steve Hoffman	President and CEO <b>at</b> Brightpoint Development Fund
Susan Longworth	Senior Business Economist <b>at</b> Federal Reserve Bank of Chicago
Taryn Macfarlane	Indiana Regional Program Officer <b>at</b> Asset Funders Network
Tim Corcoran	Director of Planning <b>at</b> City of South Bend
Tim Scott	Member <b>at</b> South Bend Common Council
Todd Bruce	Senior Vice President and Commercial North Region Manager <b>at</b> Lake City Bank
Tom Gryp	President and CEO <b>at</b> Notre Dame Federal Credit Union
Tony Obringer	Vice President <b>at</b> 1st Source Bank
Venus Myles	Branch Manager <b>at</b> PNC Bank
Willow Wetherell	Director <b>at</b> Women's Entrepreneurship Initiative at St. Mary's

## Appendix IV: Sample Term Sheet

### **DRAFT TERM SHEET: CDFI Friendly South Bend** Proposed Credit Facility

<b>Borrower:</b>	CDFI Friendly South Bend (“CSBN”), a newly created 501(c)(3) non-profit organization with a mission to encourage and increase the activities of Community Development Financial Institutions (CDFIs) in and around South Bend, Indiana
<b>Purpose:</b>	CDFI Friendly South Bend will provide financing incentives to CDFIs to increase their mission-oriented financing in and around South Bend for affordable and workforce housing, small businesses, commercial real estate, community facilities, nonprofit enterprises, and other purposes. CDFI Friendly South Bend will establish a fund (CSBN Capital) to manage its financing.
<b>Facility Type:</b>	Term Loan(s) This term sheet describes the terms upon which CFB Capital proposes to borrow from one or more banking institutions or foundations (“Lender” or “Lenders”). Each Term Loan shall be structured as a bilateral agreement between CFB Capital and a Lender in the structure and terms described herein. All loans to Borrower shall be <i>pari passu</i> in priority and payment.
<b>Closing Date</b>	By January 31, 2020
<b>Amount:</b>	Up to \$?,000,000 in aggregate; however, no more than \$? million in term debt during the first 12 months following Closing Date.
<b>Eligible Use of Proceeds</b>	Borrower may use proceeds of this Credit Facility to originate mission-oriented loans (“End Loans”) to affordable housing developers, non-profit organizations and to small businesses (“End Borrowers”) in and around South Bend, Indiana; however, any such End Loans shall require that an independent CDFI also make a loan to the End Borrower in an amount equal to or exceeding the End Loan (“a Risk Sharing Agreement”). {It is expected that such Risk Sharing Agreement is done on a <i>pari passu</i> basis with CDFIs} Borrower may also use proceeds to pledge to an independent CDFI as a credit enhancement (in the form of partial guarantee) to encourage such CDFI to extend loans to affordable housing developers, non-profit organizations and to small businesses in and around Bloomington
<b>Conditions precedent to Closing:</b>	<ul style="list-style-type: none"><li>• Delivery of Lending Policies and Procedures in form and substance satisfactory to Lender(s);</li><li>• Evidence (in form and substance satisfactory to Lender(s) that Credit Facility shall qualify under the Community Reinvestment Act (CRA)</li></ul>

for banks and under Internal Revenue Service distribution rules related to Program Related Investments (PRIs) for foundations;

- No fundings/advances shall occur unless or until the Total Net Assets of CFSB equals or exceeds \$2,000,000

<b>Interest Rate:</b>	2.0%
<b>Recourse:</b>	Full and direct recourse to Borrower.
<b>Collateral</b>	This Credit Facility shall be unsecured; All loans to Borrower shall be <i>pari pasu</i> in priority and payment
<b>Maturity:</b>	This Facility shall be paid in full on the fifth anniversary following Closing Date
<b>Covenants:</b>	Borrower must comply with the following: <ul style="list-style-type: none"><li>• <b>Minimum Capital Requirement</b> – Borrower’s ratio of Total Net Assets to Total Assets shall not fall below 50% during the first 12 months of this Facility, and shall not fall below <b>33% thereafter</b>.</li><li>• <b>Loan Loss Reserve</b> – Borrower shall maintain allowance for loan losses at a level set by the Board and consistent with Generally Accepted Accounting Principles</li></ul>
<b>Management &amp; Board:</b>	Borrower shall establish of Board of Directors, to include investors, funders and members of business community, civic organizations and local government; Borrower shall establish of Investment Committee authorized to approve loans and guarantees;
<b>Reporting:</b>	Borrower will provide audited financial statements and loan portfolio report within 120 days following the end of each fiscal year (following the closing of this Facility).

## Appendix V: Executive Director Job Description

### **CDFI Friendly Bloomington Executive Director Job Description**

The Executive Director will lead CDFI Friendly Bloomington in its mission to:

- Create a new model for CDFI financing, by establishing local CDFI Friendly Bloomington to collaborate with regional and national CDFIs and encourage them to serve the Bloomington market.
- Market and promote Bloomington and Monroe County to CDFIs across the state, the region, and the nation.
- Match CDFIs to local demand for financing from businesses, housing developers, nonprofits, and community organizations.
- Structure and manage financial investments alongside the CDFIs in support of local borrowers.

The Executive Director will assume responsibility in the areas of program development, management, fundraising, and public relations. The Executive Director's primary responsibilities will be the following:

#### **Program**

- Represent CDFI Friendly Bloomington in the local community, promoting its goals and services, and with the CDFI industry locally, regionally, and nationally, advocating and advancing local financing opportunities.
- Develop outreach and marketing materials to distribute to potential partners, investors, funders, and allies.
- Coordinate CDFI Friendly Bloomington's work with investors, funders, the City of Bloomington, and others pursuing aligned goals.
- Participate in CDFI industry activities to understand CDFI priorities, to promote Bloomington and Monroe County, and to seek financial support.
- Negotiate and structure financing using CDFI Friendly Bloomington's defined products, present financing opportunities to CFB's Investment Committee and Board, close transactions, and monitor investments and portfolio performance.
- Report regularly to the Board and to investors on programmatic outcomes and performance.
- Develop and propose programmatic adjustments and/or enhancements in pursuit of CDFI Friendly Bloomington's mission and purpose.
- Provide strategic direction and leadership, including recommending to the Board of Directors possible improvements in the organization's strategy and program.

#### **Management**

- Set up and supervise operating systems, including financial management, operational policies, loan policies, and other core functional procedures.
- Create and implement procedures and documentation to close funding and financing as well as other contractual business relationships for CDFI Friendly Bloomington.

## **Fundraising**

- Raise funds, as determined with the Board of Directors, to ensure ongoing operations and organizational sustainability.
- Manage relationships with funders and investors, including seeking and cultivating relationships with new and additional funders and investors, as needed.
- Maintain and track fundraising results.

## **Public Relations**

- Conduct organized and effective public relations effort in local and CDFI markets through social media, earned media, and direct communications.
- Ensure a clear understanding of the goals and mission of CDFI Friendly Bloomington throughout the region.

## Appendix VI: CDFI Friendly South Bend Implementation Timeline

	Oct- Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan - March 21
<b>CDFI Friendly South Bend Implementation Plan</b>														
<b>I. Board of Directors Formation</b>														
Develop nomination list for founding Board of Directors														
Initial Board is created														
Board elects officers														
Board drafts and approves Bylaws														
Board approves Executive Director Search Process														
Board creates committee structure and invites committee members														
Board drafts and approves Loan Policies														
<b>II. Executive Director Search</b>														
Choose search firm and/or Board Search Committee														
Job Description developed and approved														
Determine compensation														
Advertise Position														
Network to publicize position														
Review resumes														
First interviews among 4-6 candidates														
Narrow to 2 finalists														
Second interviews with finalists with Board quorum or more														
Decide on 1st choice and make offer														
Hire Executive Director														
Executive Director onboarding														
<b>III. Administrative Requirements</b>														
Find office space														
Purchase, borrow, furniture & equipment														
Contract for IT services														
Contract for accounting services														
Contract for bookkeeping services														
Contract for legal services														
Obtain domain name														
Branding														
Establish banking accounts														
Apply for 501c3 status														
<b>IV. Capital and operating funding</b>														
City approval of \$500,000														
Present completed business plan to sources for debt, negotiate														
Identify sources for operating support														
Present completed business plan to sources for operating support														

## Appendix VII: Phase 1 Supporting Documents

### CDFI Working Group Meeting Agendas:

#### **South Bend CDFI Working Group**

**11.16.18**

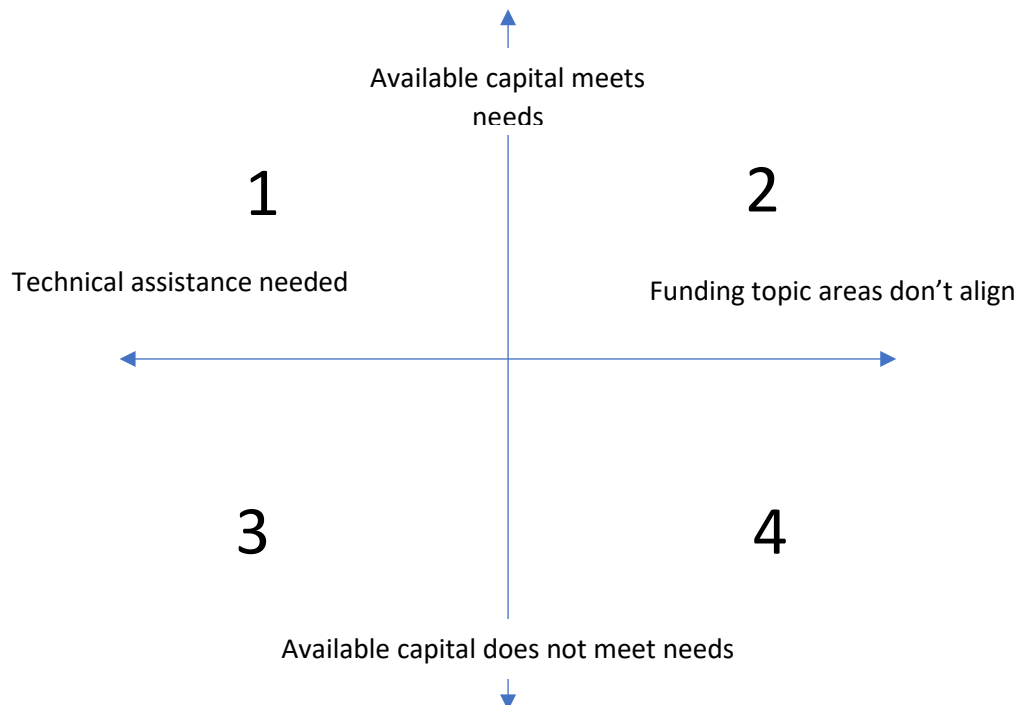
1. Overview of Different CDFI Options
  - a. Create new CDFI in South Bend
  - b. Create direct relationships with select CDFIs to handle different lending needs
  - c. Create CDFI Friendly Fund to pursue CDFI lending and match projects with lenders
2. Further Exploring Gaps in South Bend Capital Landscape and Capacity for Additional Capital
3. City Role: Continue working with Mark Pinsky to synthesize different innovative financing options
4. Next Steps
  - a. Assemble sample deals for CDFI lending:
  - b. Continued engagement as City explores different CDFI options

#### **South Bend CDFI Working Group**

**12.14.18**

#### **Investment Opportunities in South Bend**

*Participants were asked to list investment opportunities in South Bend and place them in the appropriate quadrant below.*



Quadrant 1 (Available capital meets needs, technical assistance needed)

- Details on person offering deals, not just program
- Standard docs/certifications to show banks/CDFIs (with City support)
- MBE/WBE certification
- Premium rock affordable marble tiling
- Small business incubator in NNN (this is close to real project)
- Undocumented individuals running businesses (NDFCU has flexible products)
- Game changer by Sengo products concession tray
- Daycare community building in southeast neighborhood (this is a real product)
- Consensus block chain
- Designated opportunity zones
- Facilitate new market rate housing on West Side and southeast of city (variety of housing types)
- Hurry Home
- Affordable short term housing for entrepreneurs/ artists in residence
- Vested Interest-type spaces (repurposed industrial buildings); need intervention to make project affordable
- Community center B/A insurance programs
- Small dollar mortgages

Quadrant 2 (Available capital meets needs, funding topic areas do not align)

- Ward banking – low barrier business incubator
- Short term loans for community projects (while pledges come in)
- Small loans for Local Cup type enterprises
- Micro-loans for assets in bi2:
  - Equipment/marketing
- Affordable housing
  - Rentals/section 8
  - Purchase renovation

Quadrant 3 (Available capital does not meet needs, technical assistance needed)

- Minority business startup classes like SPARK
- Night shift childcare
- Salon- building rehab equipment
- Local groceries
- Fitness equipment
- Industry 4.0 Consortium
- Integrated new tech (solar, bio, diesel, etc.)
- Childcare building, rehab, learning materials
- Solar manufacturer
- Design Align landscape siding connector
- Physical infrastructure money for childcare providers
  - Home



- Church
- Standalone “commercial” nonprofit or for profit
- The Bridge
  - English for non-native speakers
  - Online learning platform
- Machining equipment
- Demystifying lending and under writing
- SBIR/STTR Accelerator
- Phenom M&M marketing and management pop up experiences
- Book and game shop downtown
- Construction loan for new CPCs
- House cleaning/ organizing
  - Vehicle equipment
  - Light manufacturing
- Restaurants
- Soul Food kitchen
- New untested restaurant ideas

Quadrant 4 (Available capital does not meet needs, funding topic areas do not align)

- Bridge loans for equipment
- Landscaping equipment
- Young (age) entrepreneurs
- Landscaping equipment
- Appraisals incentivize larger projects
- Production company
- Support in acquiring building from absentee landlords
- Small scale trades specialist
  - Masons
  - Carpenter
- Service based- consulting
- Events center
  - Lincolnway
- Motor carrier eco-diesel and auto... semis
- Underrepresented businesses become certified vendors
- Small developer projects
  - Construction rehab – duplex, ADUs 4-plex. Mixed use
- Businesses ready to graduate from incubator
- Lower rent options for growing bus...
- Small mortgage loan fund
- Duplexes in low income areas
- Beauty/ Salon
- Apex/ the local Crag
  - Climbing gym and community space

## **South Bend CDFI Working Group**

**1.25.19**

1. Reflections on January Meetings:
  - a. High level of engagement in South Bend
  - b. Working within financial existing infrastructure
2. Niches for CDFI Funding:
  - a. Small business/startup growth
  - b. Business growth (generational change, expanding existing entities)
  - c. Real estate (commercial and residential mortgages)
  - d. Small dollar personal credit building
3. Next Steps:
  - a. Spring convening: Who do you want to hear from? What do you need to know about CDFI lending?
  - b. Mark March visit: feedback, how do we go deeper with data and people?
  - c. Options to pursue
    - i. State CDFI Fund
    - ii. Capitalize a matchmaking fund (CDFI Friendly Bloomington)

## **South Bend CDFI Working Group**

**3.8.19**

1. June Convening:
  - a. Assembling sample deal sheets (e.g. Hurry Home)
  - b. Presenting working group recommendation
  - c. Did deal sheet assembly prompt adjustments or new collaborations?
2. Many CDFIs call on banks already; is funding available already that we haven't tapped into already?
3. Does anyone know a project that is ready for CDFI funding? (NDFCU)
4. Bloomington Background
  - a. Wanted to start CDFI but realized market wouldn't support deal flow for CDFI and couldn't meet wide range of needs
  - b. Fund combined public and private dollars
  - c. Bank of America will give money to CDFIs who do deals in Bloomington
  - d. Bloomington staff of 1 will network locally and with CDFIs
5. South Bend Model
  - a. Must exist outside of the City
  - b. Seeing deals would help
  - c. Need to keep social networking piece to ensure residents have easy access points

## **South Bend CDFI Working Group**

**4.12.19**

1. CDFIs present existing programs
  - a. CRF: Detroit Home Mortgage
  - b. Brightpoint: SBA and microlender, housing development
2. Update on deal sheets (20 min)
  - a. Brightpoint has worked with one of the mentioned businesses previously
  - b. Desire to include more financial information for small businesses
  - c. Add zip code and MBE/WBE status as-applicable
3. PRO Neighborhoods grant application
  - a. Hope to support operations of new entity in part through grant funding
4. June Convening agenda preview

## **South Bend CDFI Working Group**

**5.10.19**

1. Guiding principles will be a reference doc for June 4 attendees
  - a. Was a strategy statement created for Bloomington? At what point?
  - b. How do investors put in their money?
  - c. What is the role of the Community Foundation?
  - d. Adding market research/ community feedback/ stakeholder engagement mechanism so new entity has feedback beyond Board
  - e. Add a goal around MBE/ WBE participation
  - f.
2. Deal sheet update
  - a. Not all will be used
  - b. People will sort by topic area
  - c. Two rounds of conversation during June 4 activity
3. June 4 feedback
  - a. Second panel would benefit from more specificity on entrepreneurship outcomes for individuals
  - b. Coaching session for entrepreneurs to prepare to pitch a deal sheet
4. Working Group Meeting June 21 for reflection and next steps

## Oct 2018 Convening Agenda

# COMMUNITY DEVELOPMENT FINANCE IN SMALLER MARKETS: COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

---

**When:** October 23, 2018  
**Time:** 8:30AM – 3:00PM Eastern  
**Where:** Charles Martin Youth Center, 802 Lincoln Way West, South Bend, IN 46616

<b>8:30</b>	<b>Registration &amp; Networking</b>
<b>9:00</b>	<p><b>Welcome and Introduction</b>  <i>Laura O’Sullivan, City of South Bend</i>  <i>Gar Kelley, Federal Reserve Bank of Chicago</i></p>
<b>9:15</b>	<p><b>The Community/Economic Development Landscape</b>            This session will highlight the community development landscape at the county and local level with a focus on affordable housing, facilities and small business financing needs. In addition, we will hear about the current activities/discussions relating to the formation of a local or regional CDFI.</p> <p><i>Hong Zhuang, Ph.D., Indiana University South Bend</i>  <i>Regina Emberton, South Bend-Elkhart Regional Partnership</i>  <i>Alkeyna Aldridge, City of South Bend</i></p> <p><i>Facilitator – Robin Newberger, Federal Reserve Bank of Chicago</i></p>
<b>10:15</b>	<b>Break</b>
<b>10:30</b>	<p><b>Community Development Finance and Community Development Financial Institutions</b>            This session will provide an overview of community development finance and the highlight how CDFIs work with community and financial institutions to achieve positive, measurable impact in the communities served.</p> <p><i>Adam Hoeksema, Bankable</i>  <i>Nicholas Johnson, IFF</i>  <i>James Gilliam, Fifth Third Bank</i></p> <p><i>Facilitator – Jenny Dandridge, Federal Deposit Insurance Corporation</i></p>
<b>11:30</b>	<b>Break/Lunch</b>
<b>12:00</b>	<p><b>The Bloomington Project and the CDFI Friendly City™ Model</b>            This session will describe the approach and process undertaken by Bloomington, IN to become a CDFI Friendly City™. We will hear how counties/cities could:</p> <ul style="list-style-type: none"> <li>• Help communities and people gain access to valuable and elusive financing for small businesses, commercial real estate and housing;</li> <li>• Facilitate and significantly lower the costs for CDFIs to expand their coverage and increase financing activity into new, underserved CDFI markets</li> <li>• Give CDFI investors expanding opportunities and attract new investors who have previously lacked knowledge of and opportunities to invest in CDFIs</li> </ul>

	<p><i>John Hamilton, Mayor of Bloomington, IN</i>  <i>Tina Peterson, Community Foundation of Bloomington &amp; Monroe County</i></p> <p><i>Facilitator – Mark Pinsky, Five/ Four Advisors</i></p>
<b>1:00</b>	<p><b>What It Takes to Become a Certified CDFI</b>  This session will outline the steps necessary to obtain the U.S. Department of Treasury designation as a certified Community Development Financial Institution</p> <p><i>Presenter – Lolita Sereleas, FUND Consulting</i></p>
<b>2:00</b>	<p><b>Next Steps and Closing Remarks</b>  Summarize the morning’s conversations and identify possible next steps</p> <p><i>Facilitator – Paul Ginger, Office of the Comptroller of Currency</i></p>
<b>2:30</b>	<p><b>Adjourn &amp; Networking</b></p>

## Investing In Our Future:

### Expanding South Bend's Commitment to Inclusive Economic Growth

9:00am-9:40am – Registration & networking

9:45am-10:00am – Council President Tim Scott & Council Vice President Karen White

10:00am-10:15am – Opening remarks: Mayor Pete Buttigieg

10:15am-11:15am – Principles for CDFI friendly South Bend

- Mayor Pete Buttigieg, City of South Bend
- Mayor John Hamilton, City of Bloomington
- Dan Letendre, Bank of America
- Christina Brooks, City of South Bend
- Adina Abramowitz, Consulting for Change
- *Moderator: Mark Pinsky, President of Five/ Four Advisors*

11:15am-11:30am – BREAK

11:30am-12:30pm – Creative investing in partnership with CDFIs in South Bend

- Keith Broadnax, Cinnaire
- Allison Clark, MacArthur Foundation
- Regina Emberton, South Bend – Elkhart Regional Partnership
- Ignacio Esteban, Florida Community Loan Fund
- Mike Keen, Thrive Michiana LLC
- *Moderator: Scott Ford, University of Notre Dame*

12:30p,-1:30pm – Lunch break

1:30p,-3:00pm – Interactive activity with sample deal sheets

3:00p,-3:15pm – BREAK

3:15p,-4:00pm – Lessons learned & next steps for CDFI Friendly South Bend

# Appendix VIII: Phase 2 Supporting Documents

## Small Business Discussion Guide

### South Bend Small Business Discussion Guide FINAL

#### **I. Welcome and Introduction (5 minutes): 1:00 – 1:05**

Good Afternoon.

Welcome everyone, and thank you for coming to this focus group. We appreciate your generosity in giving your time and energy to help the CDFI Friendly South Bend effort and to help us better understand how CDFI products and services may be able to address some of the small business issues in South Bend.

I am Adina Abramowitz, and I am working with Mark Pinsky of Five Four Advisors on this project. I worked at a CDFI in NJ from 1987 to 1996 and have been working with CDFIs throughout the country since then, mostly providing management consulting, including a ten year stint with Mark at the national CDFI membership organization, Opportunity Finance Network. I will be facilitating this focus group. I am joined today by several people from the City of South Bend government who work on these issues. Patrick McGuire will be listening and taking notes.

This focus group is one of two groups we are facilitating this week, this one is about small business development and finance, and tomorrow we will discuss affordable housing.

In a moment I will ask you to introduce yourselves and you will see that you are a varied group from different sectors, such as government, nonprofit, and the private sector. The purpose of the group is to help those of us working on the CDFI Friendly South Bend effort understand the range of opinions about how to improve the supply of capital and support services to new and emerging businesses in South Bend. It is ok to disagree – we even hope you will disagree, as long as you can do it respectfully. We are not looking for consensus or resolution, but rather to understand the various approaches and opinions about affordable housing in South bend that are represented in this room. Here are some guidelines that will help us make the best use of our time together:

1. If you agree with something that has been said, please just let us know you agree and not repeat the entire comment. Of course feel free to add any nuances or modifications to the prior statement.
2. We really want each person's participation, so please share the airtime equally.
3. It is very helpful if each person speaks one at a time. Please do not interrupt one another or talk over each other. If you have something to say, please let us know by raising your hand and I will call on you in turn.
4. If someone uses a term or an acronym you are not familiar with, please stop us so we can clarify. Please do your best not to speak in acronyms to help everyone in the room understand your comments.

The entire focus group will take two hours or less, and I will have you out of here no later than three o'clock.

Please sign in on the sheet we are sending around so that we have an accurate record of who participated in this discussion.

Just to let you know - We are recording the session simply to help us remember what was said. The results of this session will be reported out in summary format without any attribution of who said what.

Any questions so far?

#### **II. Introductions (15 minutes) 1:05 – 1:20:**

As you may have heard, South Bend is exploring becoming what we are calling a “CDFI Friendly City.” This is a city that seeks to connect local financing opportunities to CDFI and traditional lenders from the region by organizing the deal pipeline and incentivizing equitable development. Your input will directly inform the business plan we are drafting to guide the direction for CDFI Friendly South Bend.

We will be discussing three topics today:

1. What is the landscape in South Bend for small business lending and what are the gaps in terms of people served, loan products provided and services offered?
2. What do small business owners value in a lender and support service provider?
3. How could the CDFI Friendly effort support small business development and growth in South Bend?

So that we can get to know each other, please tell us: *(have these written on a flip chart)*

- Your name
- The company or agency you represent
- In one sentence, your connection to the issue of small business in South Bend, and
- When you were young what did you want to be when you grew up?

### III. What’s happening in South Bend? (45 minutes) 1:15 – 2:00

First, I would like to gain a better understanding of the landscape of financial and technical support for new and existing small businesses in South Bend.

1. Tell us the top 3 or 4 ways your organization supports small businesses in the City of South Bend? GO AROUND THE TABLE
2. How would you describe the gaps in capital for new and small businesses in Bloomington?  
(Drill down on stage of business, targeted industries, especially contractors)
3. How would you compare the experience of businesses owned by People of Color when they seek out capital to the experience of white owned businesses?
4. What are the range of credit characteristics that make it more likely any business will be turned down? (i.e. profitability, collateral, credit score, other) which are most challenging to your lending institution?
5. We have heard that it is challenging for small contractors, especially those owned by People of Color, to access working capital financing to support their operations while they are waiting to be paid. What has been your experiences with this situation?
6. Where do South Bend businesses go to access capital?  
*After the first round dies down, ask: Where do they go after being turned down?*  
If not mentioned ask about online lenders  
ASK Who else?
7. Who is offering support services for businesses in South Bend?  
*Probe on where and what they offer)* Ask about mentorship  
Ask Who else?
8. What other support services would help startups and emerging businesses in South Bend?

### IV. Topic 2: What do small business owners value in a lender / support service? (30 minutes) 2:00 – 2:30

Now I would like to get your perspective on what the customer, the small business owner, is looking for in a lender and in a service provider.



1. From your perspective, what do small businesses value in a lender?  
(PROBE on speed, total cost, ease of application, anything else?)
2. What is the tradeoff between speed and cost?  
(PROBE on especially for those who use on-line lenders?)
3. How is what is valued in a lender different for startups?
4. What are the most effective communication channels to reach small businesses looking for financing?
5. What do startups value in a support service?
6. How is what is valued in support services different for already operating businesses?  
(PROBE on what services they need and how they like them to be delivered)
7. Are there chambers of commerce or industry trade associations, religious or cultural organizations that could be helpful to reach these customers? Who are they?  
(PROBE on city based, People of Color based, Foreign Born etc.  
(Ask Who else?)
8. (If time) Does anyone use on-line referral system to get leads for loans?  
What are they?  
Are they helpful?

**V.Topic 3 How could CDFI Friendly help: (25 minutes) 2:30 – 2:55**

We have about a half hour left, and I just have a few more questions.

1. How could the CDFI friendly effort help organize the market to help you access potential borrowers in South Bend?
2. Is there a specific way that CDFIs or other lenders in this effort could help small contractors access the capital they need?
3. What else would make you more comfortable to become a more active small business lender in South Bend?
4. Those are all of our questions for today. Is there anything else you want to tell us about small business lending and support in South Bend today?

**VI.Conclusion (1 minute)**

Thank you again for coming today; you have been incredibly generous with your time and ideas. I am sure that Sonja and the other CDFI Friendly leaders are also incredibly appreciative of your efforts to help us formulate a strategy for attracting more CDFI activity to South Bend. We will be completing the draft business plan by year end and I am sure the Mayor's Office will be reaching out to you to let you know the results of the effort.

SONJA: We will be working on drafting a business plan in the next month and will be reaching out again soon. Thanks to each of you who participated today. Feel free to be in touch with me, Adina, or Mark with any further comments or questions.

# Housing Discussion Guide

## South Bend Housing Discussion Guide Final

### I. Welcome and Introduction (5 minutes): 1:00 – 1:05

Good Afternoon.

Welcome everyone, and thank you for coming to this focus group. We appreciate your generosity in giving your time and energy to help the CDFI Friendly South Bend effort and to provide us with a better understand how CDFI products and services may be able to address some of the affordable housing issues in South Bend.

I am Adina Abramowitz, and I am working with Mark Pinsky of Five Four Advisors on this project. I worked at a CDFI in NJ from 1987 to 1996 and have been working with CDFIs throughout the country since then, mostly providing management consulting, including a ten year stint with Mark at the national CDFI membership organization, Opportunity Finance Network. I will be facilitating this focus group. I am joined today by several people from the City of South Bend government who work on these issues. Patrick McGuire will be listening and taking notes.

This focus group is one of two groups we are facilitating today and tomorrow, this one is about capital and skills gaps for affordable housing and the other is about small business.

In a moment I will ask you to introduce yourselves and you will see that you are a varied group from different sectors, such as government, nonprofit, and the private sector. The purpose of the group is to help those of us working on the CDFI Friendly South Bend effort understand the range of opinions about how to improve the supply of affordable housing by making CDFI lending and other services available to non-profits and mission-related for profit borrowers. It is ok to disagree – we even hope you will disagree, as long as you do it respectfully. We are not looking for consensus or resolution, but rather to understand the various approaches and opinions about affordable housing in South bend that are represented in this room.

Here are some guidelines that will help us make the best use of our time together:

1. If you agree with something that has been said, please just let us know you agree and not repeat the entire comment. Of course feel free to add any nuances or modifications to the prior statement.
2. We really want each person's participation, so please share the airtime equally.
3. It is very helpful if each person speaks one at a time. Please do not interrupt one another or talk over each other. If you have something to say, please let us know by raising your hand and I will call on you in turn.
4. If someone uses a term or an acronym you are not familiar with, please stop us so we can clarify. Please do your best not to speak in acronyms to help everyone in the room understand your comments.

The entire focus group will take two hours or less, and I will have you out of here no later than three o'clock.

Please sign in on the sheet we are sending around so that we have an accurate record of who participated in this discussion.

Just to let you know - We are recording the session simply to help us remember what was said. The results of this session will be reported out in summary format without any attribution of who said what.

Any questions so far?

### II. Introductions (15 minutes) 1:05 – 1:20:

As you may have heard, South Bend is exploring becoming what we are calling a “CDFI Friendly City.” This is a city that seeks to connect local financing opportunities to CDFI and traditional lenders from the region by organizing the deal pipeline and incentivizing equitable development. Your input will directly inform the business plan we are drafting to guide the direction for CDFI Friendly South Bend.

We will be discussing three topics today:

1. What are the affordable housing challenges in South Bend?
2. What are the opportunities and existing resources to develop and preserve affordable housing in South Bend?
3. What are the barriers, gaps in capital, skills, or other resources to increase the supply of affordable housing in South Bend?

So that we can get to know each other, please tell us: *(have these written on a flip chart)*

- Your name
- The company or agency you represent
- In one sentence, your connection to the issue of affordable housing in South Bend, and
- When you were young what did you want to be when you grew up?

### **III. Topic 1: What is the affordable housing challenge in SB? (30 minutes) 1:20 – 1:50**

Our first topic is to explore the affordable housing challenges here in South Bend. Like everywhere in America, it is a given that there is not enough affordable housing in the city or region. Let’s find out more about the specifics of that gap here in South bend.

1. From your perspective, what are the biggest needs for more supply of affordable housing? (Drill down on supportive, transitional, for sale and multi-family)
2. (IF NOT DISCUSSED) What is being done in your community to promote the preservation of affordable multi-family units?
  - i. What could be done that isn’t happening now?
  - ii. Is there NOAH housing (Naturally Occurring Affordable Housing) in South Bend? If so, is attention being paid to preserving it?
3. What are the challenges for providing housing for seniors in South Bend? How are you meeting them now?
4. Are there affordable housing needs you would like to highlight for other specific populations in South bend?
5. What kinds of mixed use projects are happening or are in the planning stages in your community?

### **IV. Topic 2: Opportunities & Existing Resources (30 minutes) 1:50 – 2:20**

Now I would like to gain a more nuanced understanding of the opportunities to develop and preserve affordable housing and the resources that exist to support these efforts currently. In the next section we will talk about the barriers and what resources are missing.

1. What are the significant opportunities to expand the supply of affordable housing in South Bend? (if not mentioned, ask about For-Sale and Multi-Family)
2. What subsidies are available?
3. What resources to support affordable housing are available in South Bend? (including but not limited to availability of land or buildings, city support, state support, homeownership counseling and financial education, and developer interest.)

### **V. Topic 3: Barriers and Gaps in Capital, skills, other potential resources (30 minutes) 2:20 – 2:50**

Everyone knows that affordable housing is HARD, and financing it is always pushing the boulder uphill. Now I would like to understand better what are the barriers and gaps to building and preserving more housing for low and moderate income people.

1. What keeps more affordable housing from being developed? In other words what are the barriers? (If not mentioned ask about availability of land or buildings, city support, state support, homeownership counseling and financial education and developer interest. ) Who are the developers working on this?
2. Are there kinds of financing that are hard to find for affordable housing projects? (If so, what kinds)
3. If we had \$1M more in subsidy right now, what do you think would be the best way to put it to work?
4. If the local developers could gain greater skills and experience that would help them take on larger or more challenging projects, what would those be?

**We have about 10 minutes left, and I just have one more question.**

5. Other than more subsidy, what are some ways the CDFI Friendly approach could incentivize more affordable housing here in South Bend?

#### **VI. Conclusion (1 minute)**

Thank you again for coming today; you have been incredibly generous with your time and ideas. I am sure that Sonja and the other CDFI Friendly leaders are also incredibly appreciative of your efforts to help us formulate a strategy for attracting more CDFI activity to South Bend. We will be completing the draft business plan by year end and I am sure the Mayor's Office will be reaching out to you to let you know the results of the effort.

SONJA: We will be working on drafting a business plan in the next month and will be reaching out again soon. Thanks to each of you who participated today. Feel free to be in touch with me, Adina, or Mark with any further comments or questions.

## Opportunity Finance Network Handout Oct 2019

### **CDFI Friendly Communities**

CDFI Friendly Communities have committed to organizing markets and signaling to existing CDFIs that partnerships and financial resources are readily available to help them start lending at higher volume. They are working to deploy a new strategy developed for the unique challenges of smaller communities to increase flexible and affordable financing to businesses, housing developers, nonprofits, and others outside the economic mainstream.

### **Why not start a CDFI?**

1. Starting a de novo CDFI would require prohibitively large amounts of capital
2. Capital gaps in CDFI Friendly Communities span many areas of lending, which would strain any one CDFI's financing expertise.
3. These emerging markets do not have sufficient deal flow to support a de novo CDFI.

### **Where has this approach been tested?**

Bloomington and South Bend, Indiana are the first two CDFI Friendly Cities in the country. Each region convened local stakeholders to build understanding of CDFI financing, identify existing capital gaps, and develop locally-tailored products that bring together CDFIs, banks, and credit unions to meet financial needs.

### **Contact**

Mark Pinsky, Five/ Four Advisors

mark@mpinsky.com

(215) 736- 9525

Brian Payne, CDFI Friendly Bloomington

cdfifriendly@cfbmc.org

(651) 500-9968

Adina Abramowitz, Consulting for Change

adina@consultingforchange.com

(215) 247- 1544

Sonja Karnovsky, City of South Bend

skarnovs@southbendin.gov

(734) 904-8547

Washington, D.C.

October 22, 2019