JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

PRO Neighborhoods Case Study

MIDWEST NONPROFIT LENDERS ALLIANCE

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Cover: Hellmann Creative Center, Covington, Kentucky, developed with the help of a loan from the Midwest Nonprofit Lenders Alliance.

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PRO Neighborhoods Case Study

MIDWEST NONPROFIT LENDERS ALLIANCE

Alexander von Hoffman
Matthew Arck

NONPROFITS BENEFIT FROM OWNING THEIR FACILITY

Bi-Okoto Drum and Dance Theater now has a permanent home for its community enriching performances and classes thanks to a $337,500 loan from the Midwest Nonprofit Lenders Alliance.

In Cincinnati, Ohio, the Bi-Okoto Drum and Dance Theater runs traditional African music and dance after school programs, summer camps, and performances; the only such programs in Ohio, Kentucky and Indiana, they constitute a unique and popular part of the local cultural scene. Since its founding in the 1990s, Bi-Okoto has been uprooted three times because, like many nonprofit groups, the theater company has never owned its own space. In 2016 the leaders of Bi-Okoto sought financing from its local bank to purchase a permanent home, but faced a problem common to many nonprofits: Bi-Okoto's irregular revenue and financial support did not align with the bank's underwriting standards.

That might have been the end of the story, but officers of Bi-Okoto's bank had learned that the Cincinnati Development Fund, a local community development financial institution (CDFI), had begun to make facility loans to nonprofit agencies. The bank officials referred the drum and dance theater to the nonprofit lender. As part of a three-way joint venture known as the Midwest Nonprofit Lenders Alliance (MNLA), Cincinnati Development Fund had developed the expertise to understand Bi-Okoto's finances and underwrite a loan so the theater company could purchase and renovate a two-story commercial building into the Bi-Okoto Cultural Center. Now firmly established in Cincinnati's Pleasant Ridge neighborhood, Bi-Okoto has been able to concentrate on enriching the cultural life of adults and children not only in Cincinnati but throughout the United States and abroad.

In 2013 three CDFIs — IFF (originally named the Illinois Facilities Fund), Nonprofits Assistance Fund (NAF), and Cincinnati Development Fund (CDF) — formed the Midwest Nonprofit Lenders Alliance to issue facility loans to nonprofit agencies that help low-income people. With the help of an award from the JPMorgan Chase & Co. Partnerships for Raising Opportunities in Neighborhoods (PRO Neighborhoods) program, the MNLA partners have been able to provide long-term facility loans to nonprofits in the Minneapolis-St. Paul, Minnesota and Cincinnati and Dayton, Ohio metropolitan areas to purchase or upgrade their places of operation. By sharing capital, underwriting expertise, and knowledge of local markets, MNLA has so far lent out more than $13 million and helped 14 nonprofits secure their future. This successful and surprisingly complex partnership holds numerous lessons in the art of collaboration for CDFIs and others in the community development field. Among the lessons MNLA teaches are the importance of publicizing new products, adjusting to market conditions, customizing underwriting and lending, pursuing complementary lines of business, and coming to a common understanding of terms and practices.

This case study is one of a series of reports written by the Joint Center for Housing Studies on PRO Neighborhoods, a grant program of JPMorgan Chase that supports CDFIs pursuing innovative collaborations.[1] These publications aim to inform the field of community development by investigating the collaborative approach to community development taken by PRO Neighborhoods awardees. The present case study reviews the achievements, challenges, and innovative practices of one of the first awardees in the PRO Neighborhoods program, the Midwest Nonprofit Lenders Alliance.

[1] To date, PRO Neighborhoods has given out $67.6 million in grants to 17 groups of collaborating CDFIs, with a planned total of $125 million in grants over 5 years.

Seeking a Home of their Own

Nonprofit social service agencies, like individuals, can benefit from owning their own homes.[2] By owning a facility rather than renting one, agencies can accumulate equity and avoid being evicted or suffering at the hands of an uncaring landlord. Whether they work in the arts, education, health care, or community development, ownership of a permanent base of operations makes it easier for agencies to deliver services and build relationships within their communities.

Despite these benefits, many childcare centers, charter schools, federally qualified health clinics, community development corporations, and other nonprofit agencies rent their facilities. One reason these organizations rent is the difficulty they face in obtaining mortgage loans to help them purchase or develop new facilities. The leaders of agencies that depend on state and federal grants or government contracts, which are subject to changes in policy, may not wish to take on long-term mortgage debt. At the same time, low appraisal values in historically disinvested neighborhoods where nonprofits are often located make it difficult for the agencies to get a mortgage loan from a mainstream bank.

Community development financial institutions (CDFIs), which specialize in lending to help low-income communities, would seem to be a logical source of loans to social service organizations with unusual credit profiles. Yet they often lack both the knowledge to effectively underwrite such loans and, crucially, access to the long-term capital that real estate loans require. Many CDFIs have therefore been unable to provide long-term loans to help nonprofits purchase or develop their facilities.

AN ALLIANCE TO MAKE FACILITY LOANS

In late 2013, when JPMorgan Chase announced a pilot program to support collaborations of CDFIs, the leaders of IFF, NAF, and CDF had already begun working together to expand the volume and scope of their lending to nonprofit groups. The leaders of the three groups jumped at the opportunity presented by the program. The JPMorgan Chase award, recalls Jeanne Golliher, president and CEO of CDF, "was like an answer to our prayers."[3]

With an initial boost of $3 million of debt-free capital from JPMorgan Chase, the Midwest Nonprofit Lenders Alliance set out to provide long-term loans to nonprofit organizations in health, education, human services, or social improvement fields that required their own facilities.

In the collaboration, IFF took the role of lead partner, co-lending with the other two CDFIs individually in their respective market areas. Since the Chicago Community Trust founded it in 1988, IFF has specialized (as its original name indicates) in long-term facility loans.

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[2] Passages in this paper draw on Nathalie Janson and Alexander von Hoffman, "Midwest Nonprofit Lenders Alliance: Helping Nonprofits Build Organizational Equity," Joint Center for Housing Studies, 2015.

[3] Jeanne Golliher, interview by Alexander von Hoffman, October 20, 2015.

TRANSFORMING VACANT BUILDINGS

With a $1,754,075 loan from the Midwest Nonprofit Lenders Alliance, the Center for Great Neighborhoods purchased and renovated an abandoned lumber mill into community space, artist studios, and offices.

It also now provides real estate consulting to nonprofits and develops, owns and manages real estate, including child care centers, charter schools, and housing for persons with disabilities. With offices in seven states and an annual volume of lending in 2016 of just over $100 million, IFF has grown to become the largest nonprofit CDFI in the Midwest.[4] IFF's staff knows, however, that starting to do business in new areas is difficult. Joining MNLA allowed IFF to expand its geographic scope without having to open new satellite offices. IFF provided underwriting skills and capital, while its local partners, NAF and CDF, contributed an understanding of their markets and access to local nonprofit leaders.

Since 1980, when it began as a program of the Minneapolis Foundation, the Nonprofits Assistance Fund (NAF) has provided nonprofit organizations in Minnesota, its sole clientele, with loans, financial training, and management advice. Like a small business lender, it has maintained long-term, personal relationships with many of its clients. Before joining MNLA, NAF specialized in working capital and real estate loans, but its real estate loans were restricted to terms of five years and amounts of less than $1 million. Working with IFF, NAF has been able to serve its valued clients by offering long-term loans for facilities development, but without placing additional strain on its staff.[5]

In contrast to NAF, which works exclusively with nonprofit agencies, Cincinnati Development Fund (CDF) has primarily made loans for low- and mixed-income housing developments and commercial building rehabilitation to redevelop low-income neighborhoods in Cincinnati, as well as in nearby Covington and Newport, Kentucky. Started in 1988 by local bankers and real estate professionals as a way to share the risk in local community development loans, CDF first focused on affordable housing development. Since being certified as a CDFI in 1999, CDF has expanded its lending to include mixed-income and mixed-use developments and lines of credit. CDF underwrote most of its loans on the basis of projected rental income, which is relatively predictable, especially in conjunction with the federal Low-Income Housing Tax Credit and New Market Tax Credit programs. Through the MNLA collaboration, CDF officers have worked with IFF to start a new business line of facility loans and, in the process, learn about the financial management, funding sources, and modes of operations of nonprofits.

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[4] www.iff.org/states and www.iff.org/bythenumbers, accessed March 18, 2017; "A Different Kind of Lender: The First Ten Years at the Illinois Facilities Fund, 1990–2000," IFF, 2003, 7-10.

[5] NAF recently merged with a firm that offers consulting accounting, financial management, and governance services to nonprofits. Kate Barr, interview by Alexander von Hoffman and Matthew Arck, February 28, 2017.

A Three-way Collaboration

The Midwest Nonprofit Lenders Alliance attacked the challenges of nonprofit facility lending by sharing local knowledge, underwriting expertise, and capital. Making a nonprofit facility loan requires local relationships to find a willing and able borrower, general expertise to underwrite the loan, and long-term capital to fund it. The MNLA collaboration brought together two CDFIs, NAF and CDF, which understood local markets and had access to local customers, with a regional CDFI, IFF, which possessed expertise in nonprofit lending and long-term capital. Within MNLA, the partner CDFIs have worked together to originate and fund the loans.

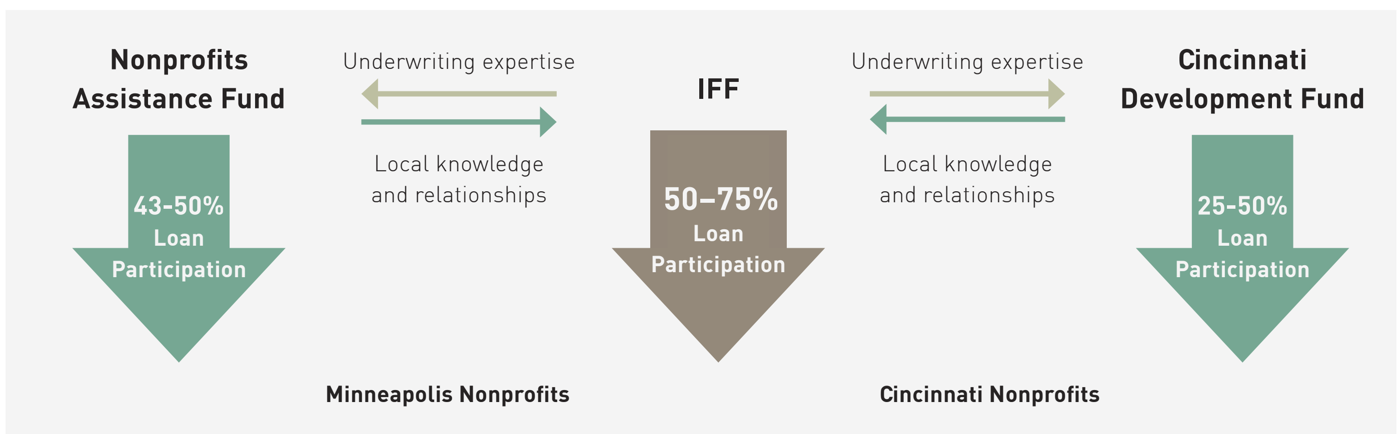

Figure 1. Flow of expertise between MNLA partners, and flow of loan capital to local nonprofits

In order to provide long-term loans to nonprofits while meeting the capital needs of all three CDFIs, IFF developed a new loan-participation structure that allows the partnering CDFIs to make long-term loans. "CDF and NAF did not have access to long-term capital," Joe Neri, CEO of IFF, explains. "To make this work, we needed to devise a funding mechanism that honored their short-term capital nature for their own balance sheet, but also got our customers long-term loans."[6] The three CDFIs agreed to a loan-participation structure for a fifteen-year loan in which IFF provides up to 76 percent of the loan capital, with either NAF or CDF providing the remainder. During the first five years of the loan, the local CDFI lender (either CDF or NAF) receives and retains the principal payments from the nonprofit borrower, and thus recovers all its capital in five years. During these same first five years, IFF receives only interest payments; afterwards, during the remaining ten years of the loan, IFF receives all remaining payments and recoups its principal. Origination fees from the loans pay the administration costs for NAF and CDF, while an operating grant from the PRO Neighborhoods award covers IFF's administration costs.[7]

With their new loan product and the springboard of the PRO Neighborhoods grant, the MNLA partners anticipated a high volume of loan demand. Once they began their program, however, the partners realized that successful facility lending would require a slow and steady approach based on relationships with the nonprofit customers.

[6] Joe Neri, interview by Alexander von Hoffman and Nathalie Janson, October 13, 2015.

[7] MNLA divided the $3 million PRO Neighborhoods award into three parts: administrative costs for financing and lending, capacity building for staff and marketing, and capital deployment. At $2.7 million, capital deployment is by far the largest item in the MNLA budget.

Implementation

GETTING THE WORD OUT

To attract borrowers, the MNLA partners found it crucial to involve a wide variety of parties in getting the word out. At first, CDF and NAF, despite their long-standing reputations in their communities, discovered that many potential customers did not think of them as long-term real estate lenders. In response, the partners spread the news about their new loans through a variety of professional networks.

Given the specialized nature of nonprofit facility loans, NAF and CDF pursued multiple methods of communication simultaneously. NAF used the annual conference it hosts for local nonprofits, for example, to announce its new loan product. After NAF had closed some deals, its officers wrote and distributed case stories that illustrated specific ways that their nonprofit customers were benefitting from the loans. NAF staff members personally called the leaders of local organizations to tell them about the availability of the new real estate loans. This last approach paid off quickly. Six months after NAF contacted Project for Pride in Living, a nonprofit that had an existing line of credit with NAF, the group's leaders saw an opportunity to buy the building next door to their headquarters and applied for and received a loan.

CDF made use of their relationships with other community institutions, such as banks and the United Way, to obtain referrals for loans. CDF staff members used their regular loan committee meeting with local bankers to spread awareness of their new loans. It was at one such loan committee meeting that Bi-Okoto Drum and Dance Theater's bankers learned of CDF's facility loans and referred the group to CDF. Golliher believes that referrals of this kind benefit both the banks and CDF. "I'm constantly reminding the banks that, if you have a nonprofit depositor that you want to preserve, refer them to us and we'll make you proud."[8] Besides the loan committee meetings, CDF made sure to take time to discuss their newly available facility loans at their events and financial management seminars for nonprofits.

At the outset of the collaboration, both NAF and CDF brought in outside help to support their marketing efforts. NAF hired a marketing company to develop a marketing plan, and CDF hired an experienced nonprofit loan officer from a local bank. In the end, however, direct communications, especially within their professional networks, provided the bulk of new business possibilities.

ACHIEVEMENTS

Thanks to the Midwest Nonprofit Lenders Alliance, 14 nonprofits have the security of owning their facility. So far, the MNLA partners have lent out more than $13 million across 14 loans (see Table 1). IFF participated in all of the loans, providing 50–76 percent of the MNLA loan capital per loan.

[8]Jeanne Golliher, interview by Alexander von Hoffman and Matthew Arck, March 2, 2017.

TABLE 1. MIDWEST NONPROFIT LENDERS ALLIANCE LOANS

LOCAL CDFI	NUMBER OF LOANS	TOTAL LOAN AMOUNT	LOCAL CDFI PARTICIPATION AMOUNT	IFF PARTICIPATION AMOUNT	OTHER PARTICIPATION AMOUNT
Cincinnati Development Fund	9	$ 9,659,304	$ 2,732,420	$ 5,926,884	$1,000,000
Nonprofits Assistance Fund	5	$3,825,125	$ 1,866,150	$ 1,958,975	
Total	**14**	**$13,484,429**	**$4, 598,570**	**$7, 885,859**	**$1,000,000**

Note: Data are for the period January 2014 through February 2017. "Other" category includes a non-MNLA CDFI that participated in a co-equal share of a $3 million loan.

RECLAIMING NEIGHBORHOOD ANCHORS

A $250,000 loan from the Midwest Nonprofit Lenders Alliance allowed the Kennedy Heights Arts Center to rehabilitate an abandoned grocery store into a community center with low-cost artist studios, a Montessori school, and an event space.

MNLA loans have supported a wide range of nonprofit organizations in the two metropolitan areas. In three low-income neighborhoods, MNLA loans helped transform large, abandoned buildings into useful community spaces. With access to MNLA credit, three charter schools built or expanded their space to serve more students and hire more teachers. In addition, four community organizations developed or refinanced old buildings, which helped to stabilize their communities.

A few MNLA loans helped groups upgrade or expand their activities. Two groups – an Ohio United Way chapter that supports social service agencies and a St. Paul community television station – used MNLA loans to purchase new electronic equipment to modernize their operations. One organization, the Children's Home of Northern Kentucky, refinanced a short-term loan into long-term loan that allowed it to increase staffing and expand its services to youth and families.

CHALLENGES

Overall, MNLA's leaders experienced lower loan volume than they expected. "I really thought that once we got this out there that it would just go like gangbusters," Golliher recalled, "but it took longer."[9] It took time for the partners to spread awareness of the newly available real estate loans. Local nonprofits thought of NAF and CDF as short-term lenders. It was a challenge to change perceptions so that nonprofits would think of the CDFIs as potential long-term, facility lenders.

Competition from traditional banks in providing mortgage loans to nonprofits was also surprisingly strong, so MNLA partners worked to find their niche market: nonprofit organizations to whom their skills and capacities were particularly suited. These nonprofits had difficult or unusual financial circumstances that required a customized loan. By learning about the finances and business models of these particular nonprofit borrowers, the partner CDFIs could lend to them when traditional banks would not, providing credit for vitally important facility improvements and acquisitions. Because of the time it takes to process such customized loans, MNLA did not reach the brisk pace of loans they had initially expected, but instead emphasized quality over quantity.

[10]Golliher, interview, March 2, 2017.

RAISING OPPORTUNITY IN UNDERSERVED COMMUNITIES

Students learning in a new classroom at Northeast College Prep in Minneapolis, built using a $1,150,000 loan from the Midwest Nonprofit Lenders Alliance.

Photo courtesy of Northeast College Prep

Observe and Adjust to Local Market Conditions

The MNLA partners learned from experience to observe and adjust to local market conditions, an important lesson for all CDFIs. Besides the difficulty of getting the word out about their new loans, there were two local market conditions in particular that affected MNLA's ability to lend.

First, in both markets MNLA expected to lend to nonprofits that fell just short of qualifying for bank loans, but in both markets they found that very few nonprofits fit that description. Barr explained that MNLA thought there was "this little layer where there's a little bit of overlap between banks and CDFIs." But in the first year of the partnership, MNLA discovered, according to Barr, "that strata doesn't exist here, in this market, at this time."[10] Similarly, CDF met early on with many larger nonprofits in Cincinnati, but as Golliher described, they ultimately found that if a potential borrower was a "large, well-established nonprofit, it's likely that their bank will be able to meet their credit needs."[11]

Second, MNLA loans competed differently in Minnesota and Cincinnati, partly due to differences in the real estate markets. In the Twin Cities, real estate appraisal values are higher, and increasing faster, than in Cincinnati (20 percent higher for commercial real estate, 60 percent higher for residential).[12] Traditional banks rely on appraisal value when considering a loan, so they can finance a greater share of development costs for projects that require significant renovations to a building when the appraised value of that building is higher to begin with. This matters especially for nonprofits, which often are in the position of purchasing buildings that require significant renovation.

As a result of these higher appraisal values, MNLA found that banks were more willing to lend for nonprofit facilities in Minnesota than in Cincinnati. "We're just in a moment when the banks are hungry," says Barr, where banks are able to offer lower rates. Thus, bank loans have proven more appealing to some nonprofits in Minnesota than a CDFI loan, even one which does not have to be refinanced in five years.[13]

Both of these local market conditions — the unforeseen ability of nonprofits to obtain traditional bank loans and the higher appraisal values in Minnesota — forced MNLA to focus on nonprofit deals that most traditional banks would avoid. In Cincinnati, for example, lower appraisal values allowed MNLA to make several loans to nonprofits to renovate abandoned buildings in disinvested neighborhoods; exactly the kind of low-appraisal projects that traditional banks shy away from.

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[10]Barr, interview, February 28, 2017.

[11]Golliher, interview, March 2, 2017.

[12]As of June 2016, according to Zillow Home Price Index and LoopNet commercial real estate market analysis. https://www.zillow.com/research/data/, http://www.loopnet.com/Cincinnati_Ohio_Market-Trends/, and http://www.loopnet.com/Minneapolis_Minnesota_Market-Trends/.

[13]Kate Barr, interview by Alexander von Hoffman and Nathalie Janson, October 22, 2015.

Handcrafted Loans

Understanding local market conditions means CDFIs can and must be flexible in tailoring their underwriting to the particular borrower. Unlike many traditional banks, CDFIs can take into account the irregular funding cycles and other idiosyncrasies of nonprofit agencies. MNLA's experience teaches the value of this handcrafted style of lending. The MNLA found the market for its loans in situations where an agency or its intended project appeared too risky, or where other factors made traditional bank loans difficult to obtain. By understanding the particulars of a nonprofit's finances, operations, and goals, MNLA was able to confidently underwrite a loan even in difficult circumstances.

MNLA's focus on handcrafting for unique circumstances addressed a variety of challenges faced by nonprofits. In Minnesota, for example, the MNLA issued two loans to charter schools. Banks were willing to lend only up to 80 percent of the appraisal value, but by understanding the charter school laws and the strengths of each school, MNLA was confident enough in the schools' revenue that it was willing to be a subordinate lender for the remaining 20 percent of the cost.

In another case, Project for Pride in Living (PPL), a social service agency in Minnesota, had long wanted to buy the building next door to its headquarters, but did not have sufficiently fast access to the large amount of capital needed. When the building came back on the market, MNLA moved quickly to approve a loan, and PPL was able to complete the purchase. Unique circumstances like these meant, Barr says, that all of the loans that NAF has made through the collaboration were "not bankable" as far as traditional banks were concerned.[14]

In Cincinnati, the MNLA helped nonprofits turn several abandoned, eyesore buildings into community spaces that helped transform the image of their disinvested neighborhoods. The Kennedy Heights Arts Center, for example, took a former grocery store and turned it into a home for a Montessori school, artist studios, and a community center. The acquisition of this space not only provided these organizations with the stability and security of owning one's facility, but also provided an anchor for the struggling Kennedy Heights neighborhood of Cincinnati. Similarly, the Hellmann Creative Center renovated a dilapidated old lumber mill in Covington, Kentucky, into community space, artist studios, and offices for the Center for Great Neighborhoods, a community housing development organization.

The Bi-Okoto Drum and Dance Theater, discussed earlier, is another example of an organization that could not get a bank loan. MNLA's loan to Bi-Okoto "took a lot of sitting down, rolling up the sleeves, and getting comfortable with the realities behind their financial statements," Golliher recalls, but "once we did that, we were very comfortable, and so was IFF."[15] The Bi-Okoto loan, says Neri, "really speaks to why IFF is in this business, which is to help nonprofits, to strengthen nonprofits."[16]

Sometimes learning about a nonprofit's unique circumstances revealed that a loan was not the right answer. Barr explains that in many instances, "someone comes and says, we want to borrow money, and then we essentially start delivering technical assistance right away. We sit down with them and talk to them about, what's the situation, what's the problem, what are you trying to solve for?" For a number of nonprofits, Barr says, "a loan would be a bad idea."[17] Although NAF did not issue a loan in these cases, it nonetheless helped the nonprofit's leaders learn ways of improving their organization.

[14] Barr, interview, February 28, 2017.

[15] Golliher, interview, March 2, 2017.

[16] Joe Neri, interview by Alexander von Hoffman and Matthew Arck, February 28, 2017.

[17] Barr, interview, February 28, 2017.

Complementarity Breeds Collaboration

Leaders of CDFIs contemplating joint ventures might heed another lesson from the MNLA experience: complementarity encourages collaborations.

When the leaders of the three Midwestern organizations were first thinking about a joint venture, it seemed that IFF and NAF, which were relatively similar in mission and type of lending, would find more opportunities to work together than would IFF and CDF, which are very different organizations. It turned out differently, however.

NAF's leaders have relished working with IFF because they both served the same type of customers. "It's been fun with IFF," Barr commented, "because they're one of the very few other CDFIs in the country where nonprofits are all they do." Similarly IFF's officers found great satisfaction in helping NAF increase their facilities lending and make larger and longer loans than they had before. In the end, Neri explains, working with NAF allowed IFF to expand its business to Minnesota without having to open an office, as it recently did in Detroit, Michigan. Instead, NAF has operated the local retail window for their joint loans.[18]

Meshing NAF's and IFF's business operations, however, required the staff to straighten out overlapping practices and coordinate the particulars of underwriting. The similarities of the two CDFIs has made this process more complicated than either expected. Although staff members of the respective organizations have enjoyed making facility loans together, they have found little time for new modes of collaboration.

IFF had less in common with CDF, but despite or perhaps because of their differences, they found different ways to supplement each other's businesses. CDF could not have made the leap into facility lending without IFF, which provided both capital and training in underwriting. For CDF's small staff, the particulars of lending to nonprofit agencies as opposed to nonprofit real estate developers were, Golliher observed, "kind of beyond our capacity."[19]

But the intensive interactions related to their facility lending led the two groups to collaborate in other ways. IFF and CDF have partnered on loans for housing and commercial development projects. IFF helped CDF obtain financing from some of its investors who wanted to further community development in Cincinnati. As a result, CDF received $2 million in capital for use in either IFF co-loans or CDF's direct lending. On the other side, CDF's introductions have opened the possibility of Cincinnati-area investors doing business with IFF.[20]

Yet another byproduct of the working relationship between the larger regional CDFI and its local partner was a deal for Cincinnati that fell outside the MNLA collaboration and the PRO Neighborhoods project altogether. In 2015 the federal government's CDFI Fund did not issue community development organizations in Ohio a single allocation of New Markets Tax Credits, a program that rewards investment in commercial, industrial, and other economic development projects in low-income areas. Community development professionals in Cincinnati were dejected, in particular because a number of them had for years been trying to build a homeless shelter that would offer supportive services. CDF's director, however, knew that IFF had won a New Markets Tax Credit allocation and was able to use fifteen percent of its allocation outside its service boundaries (which at the time did not include Ohio). Golliher persuaded IFF's leaders to shift their "outside" allocation to Cincinnati, where the tax credits brought in $6 million to develop the Shelterhouse Men's Center in the city's Queensgate neighborhood.[21]

The example of CDF and IFF shows how very different organizations can become complementary, productive partners in ways that they themselves might not at first recognize. In seeking out partners for collaboration, other CDFIs would do well not to limit their options to organizations closely resembling themselves.

The Importance of Shared Definitions

"The most important lesson learned," according to Neri, is that "each CDFI has a vocabulary and processes that are fairly unique to them, and even though they use the same words, those words mean different things at different CDFIs."[22] Because of these possible discrepancies, at the beginning of a collaboration CDFIs must take great care to define their words and loan origination processes. This lesson, Neri observes, is "one that CDFIs talk a lot about, but then they don't really learn it."[23]

A co-lending collaboration, such as that between IFF, CDF, and NAF, requires the development of a shared set of underwriting standards. But, as Barr observes, "no two CDFIs do everything the same way."[24] Underwriting in particular is not an exact science, but rather an art that is based on the way an organization and its officers perceive and manage risks. Thus, "a big part of every collaboration is understanding each other's credit culture and vocabulary," Neri observes. "What you learn is that two loan officers could be having a conversation and using words that they feel like they understand, except that it's very different for each place."[25]

Miscommunications about loan origination can slow down the approval process, and diminish the customer's experience. To avoid this, Neri suggests that CDFIs "really do need to get down to step-by-step" definitions at the outset of a collaboration. He concludes emphatically that "you really cannot overdo it when you're first working on talking about your process versus another CDFI's process."[26]

[18]Building on its work in the Twin Cities, another branch of IFF has opened a real estate consulting services office in Minneapolis to serve the region's charter schools. Barr, interview, February 28, 2017; Neri, interview, February 28, 2017.

[19]Golliher, interview, March 2, 2017.

[20]Neri, interview, February 28, 2017; Golliher, interview, March 2, 2017; Caitlin Koenig, "CDF/IFF Nonprofit Loan Program Leads to Community Reinvestment," Soapbox Cincinnati, February 21, 2017, http://www.soapboxmedia.com/devnews/022117-cdf-iff-nonprofit-loan-program-update.aspx.

[21]Neri, interview, February 28, 2017; Golliher, interview, March 2, 2017; Caitlin Koenig, "CDF/IFF Nonprofit Loan Program."

[22]Neri, interview, February 28, 2017.

[23]Neri, interview, February 28, 2017.

[24]Barr, interview, February 28, 2017.

[25]Neri, interview, October 13, 2015.

[26]Neri, interview, February 28, 2017.

Collaborating to Help Those Who Help Others

In the United States, nonprofit organizations provide many forms of community development, cultural, educational, and social services. All of these services depend on physical facilities, yet because their funding sources make it difficult to qualify for regular bank mortgages, nonprofits often cannot own or upgrade their own properties. Policy makers tend to focus on nonprofits' service programs and the degree to which they benefit low-income people, frequently overlooking the financing of facilities underlying these services.

The purpose of the Midwest Nonprofit Lenders Alliance is to help such nonprofit organizations thrive by financing the purchase of buildings and equipment. Boosted by a PRO Neighborhoods award, IFF, NAF, and CDF expanded the volume and scope of facility lending in the Twin Cities, Cincinnati, and Dayton metropolitan areas.

The experience of the three organizations offers four important lessons to other CDFIs considering similar collaborations.

First, know your markets. This means not only identifying and reaching potential borrowers but also learning about the competition for those borrowers. In the end, understanding who the potential borrowers are and where they may seek financing can help CDFIs discover a viable market niche.

Second, some worthy nonprofits require non-standard loans. Underwriting these loans takes intensive study of the prospective borrower's finances, operations, and goals, which allows lenders to match the needs and financial resources of their customers. Although such handcrafted loans are time consuming, they provide needed credit to agencies that otherwise might not have been able to receive it.

Third, CDFIs may find fruitful collaborations with unexpected partners. Although similarity is helpful in joint ventures, CDFIs should not necessarily look for carbon copies of themselves. Different areas of expertise may offer the possibility of complementary business lines.

Finally, partner organizations should seek common understandings of key terms, concepts, and practices. Business activity such as lending is complex, and its practitioners often use shorthand to refer to different aspects of their work. But organizations, even CDFIs with similar missions, differ from one another. It pays to work together to agree on the meaning of the many terms and actions involved in the lending process.

Because the members of the Midwest Nonprofit Lenders Alliance learned these lessons, they have been able to play a valuable role in our nation's social welfare system: helping to strengthen the agencies that serve low-income people and communities.

Joint Center For Housing Studies
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FIVE DECADES OF HOUSING RESEARCH
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