

Northern California Community Loan Fund

Working Together, Building Communities

Redding Affordable Housing Fund Presentation and Discussion

May 29, 2008

Main Office

870 Market Street Suite 677, San Francisco, CA 94102

Central Valley Regional Office

3602 North Blackstone Avenue Suite G131, Fresno, CA 93726

Introduction to NCCLF

Mission Statement

- **To strengthen the economic base of low-income communities** by assisting community-based organizations that promote housing, economic development, human services and models of participatory ownership and management.
- **To build the long-term capacity of these organizations** by providing access to affordable loan capital and technical assistance, while also providing investors with a reliable mechanism for channeling their capital to effective community development projects.
- **To further social and economic change** by increasing public awareness about the social impact of investment decisions; by advocating with lenders and other capital sources to increase resources for community-based development; and by working with other organizations that share NCCLF's goals.

NCCLF: Geographic Area Served

46 Counties of Northern California

- Bay Area
- Sacramento/Yolo area
- North and Central Coast
- Central Valley
- Foothills and Northern Counties



Today's Objectives

- **Describe and compare three lending models**
 - Evaluate each model's responsiveness to Redding's particular needs
 - Discuss pros and cons of each lending model
- **Discuss outstanding questions: the "unknowns"**
- **Make a preliminary recommendation** on the most appropriate structure for the RAHF
- **Solicit feedback:** what works best for your organization?

Lending Models

- 1** Revolving Loan Fund
- 2** Collaborative Loan Fund
- 3** Housing Trust Fund

1

Revolving Loan Fund

- Combines equity and invested funds into a single lending pool
- Often structured as an independent nonprofit entity (501c3) – with CDFI status
- As RLF grows, more staff-driven

1

Revolving Loan Fund

- **Capitalization**

- Must attract and maintain its own “equity” capital
 - makes up 15-20% of total lending capital
 - serves as a reserve against potential losses
 - provides a cushion for outside investors
- Equity is raised from outside sources as donations
- Accepts investments from a variety of entities (individuals, foundations, government, corporations) and pays modest annual return to investors

1

Revolving Loan Fund

- **Financial Structure**
 - Holds investments on its balance sheet as obligations
 - Must hold its own loan loss reserve – a percentage of total outstanding loans – as a liability on its balance sheet

1

Revolving Loan Fund

- **Operations**

- Governed by a board of directors, usually with a smaller committee for lending decisions
- Loan pricing is based on cost of funds charged by investors, plus a spread and other fees to cover operating costs of fund
- Operating revenue includes earned income from interest and fees, as well as grants from outside sources (separate from investments)
- Typically invests temporarily idle cash in CDs or other low-risk instruments to partially off-set the return paid to investors



Revolving Loan Fund

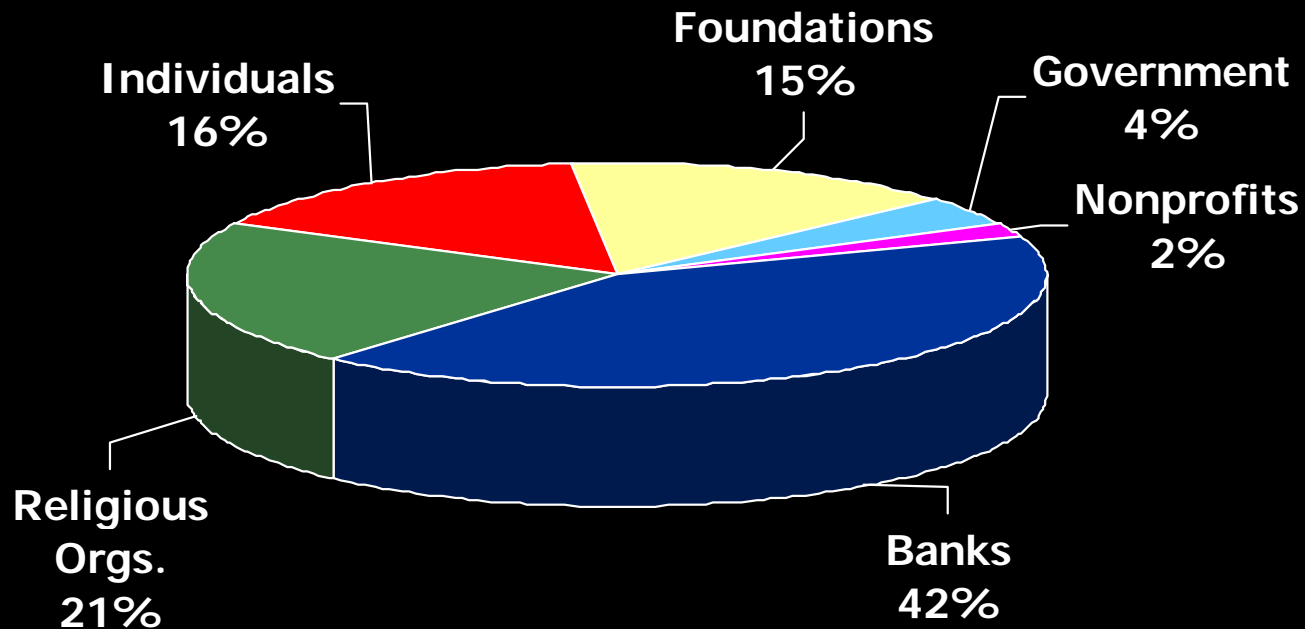
Example: NCCLF

- Federal- and state-certified 501c3 CDFI formed in 1987
- Founders' intent:
 - Create a direct community investment vehicle for socially conscious investors
 - Provide debt capital and technical assistance to nonprofits serving low income communities
- Initial capital sources: individuals, religious community
- Then: \$179,000 total lending capital in 1988
- Now: nearly \$30 million total lending capital
- Lending history: \$78.4 million committed for 260 projects in 24 counties

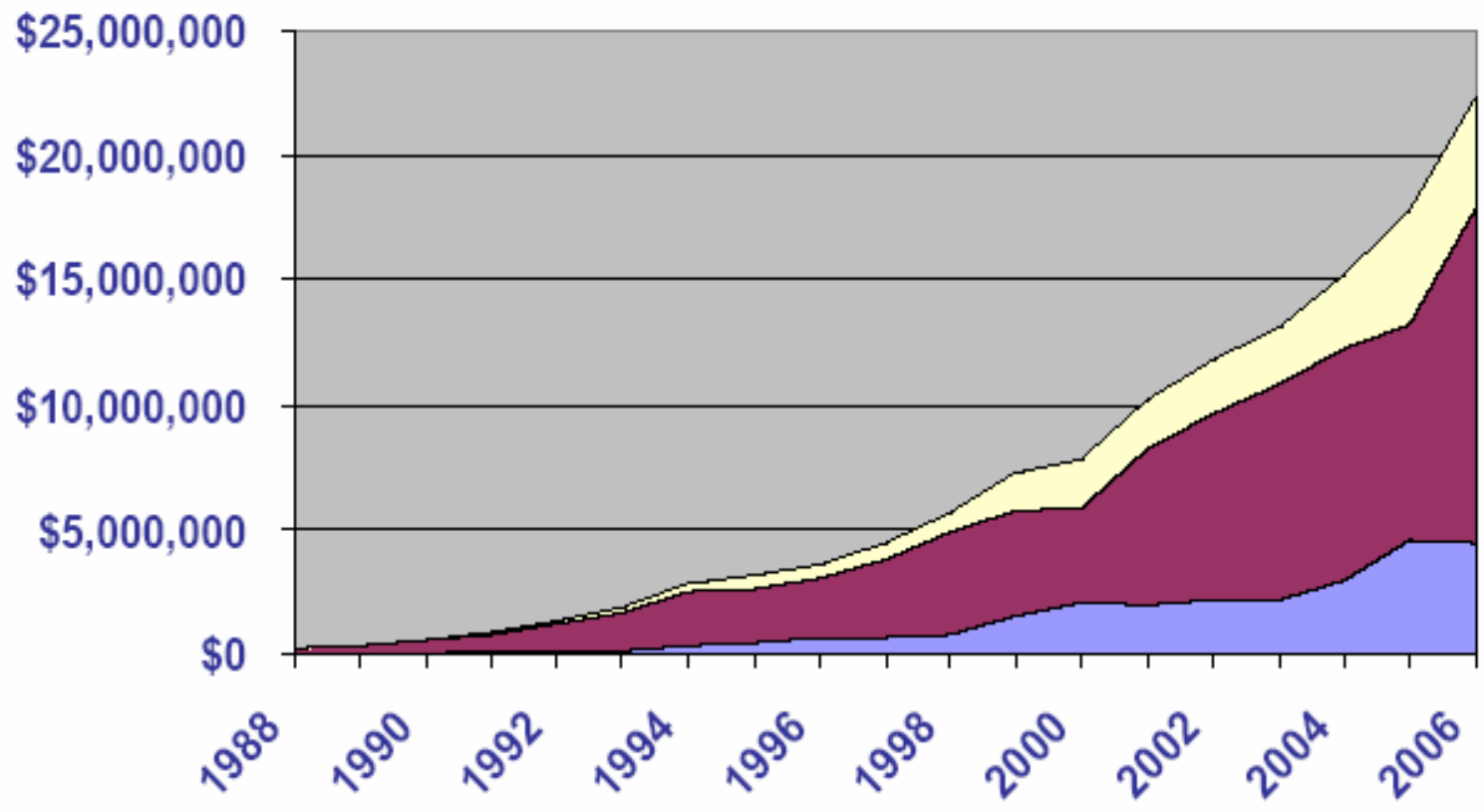
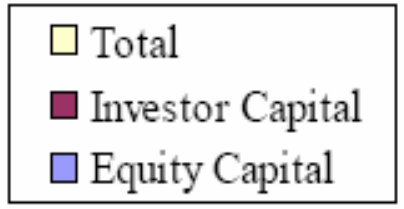
Investments into NCCLF

183 investments = diverse, stable source of lending capital

Sources of Investment \$22.8 million as of 4/30/08



NCCLF Loan Capital Growth





Revolving Loan Fund Pros and Cons

Pros

- Can be certified as a CDFI and apply for equity funds from the US Treasury
- Can take advantage of state incentive programs for CDFI investors
- Investors place money in a blind pool and are not subject to risk of each specific loan – lowering overall risk
- Uses equity to leverage investments from outside sources
- Most independent model, with flexibility in decision-making – good for borrowers

1

Revolving Loan Fund Pros and Cons

Cons

- Investments are recourse to the Loan Fund - risk
- Typically must pay regular interest payments to investors regardless of deployment, increasing operating costs
- Size of loan pool is limited to leverage ratio—equity must make up 15-20% of pool
- Must hold its own loan loss reserves as a liability against its balance sheet
- More administrative tasks, costs of structure

2

Collaborative Loan Fund

- Sets up a partnership structure: investors pledge a certain dollar amount to be drawn down when each loan is made by the collaborative
- Lending decisions are typically made by a loan committee of representatives of all of the funding partners

2

Collaborative Loan Fund

- **Financial Structure**

- Allows for a blended interest rate based on the returns required by all investors
- Unlike Model 1, Model 2 does not hold investments; thus, does not pay an annual rate of return to investors unless funds are outstanding
- Does not hold investments on its balance sheet as obligations
- Does not require as much equity as traditional revolving loan funds because it does not accept investments
- Loan loss reserves are held by each participant in proportion to their exposure

2

Collaborative Loan Fund Example: LCD

- **Lenders for Community Development**
 - Formed in 1993 as a for-profit bank consortium. Certified as a CDFI in 1996. Converted to a nonprofit in 2000.
 - Initial capital sources: Banks
 - Current capital sources: Banks, foundations, corporations
 - Initial program: Loans for small business and affordable housing
 - Now: Individual Development Accounts (IDAs), micro-lending for small business, loans for nonprofit housing development and facilities
 - Each member pays annual fee for operating expenses; all members participate in loan review, decision-making

2

Collaborative Loan Fund Pros and Cons

Pros

- Can be certified as a CDFI and apply for equity funds from the US Treasury
- Can take advantage of state incentive programs for CDFI investors
- Can blend rates of different investors to benefit borrowers
- Does not require substantial equity base to obtain investor commitments, because investments are not held by a separate entity
- Offers individual investors more control, more direct role

2

Collaborative Loan Fund Pros and Cons

Cons

- Not a blind pool – investors do not passively invest lending capital. Instead, are actively involved in decision-making for each loan, which can present challenges to some investors
- Guidelines, loan documents and agreements typically have to be negotiated up front -- can limit flexibility and will require longer ramp-up time
- Closing loans requires administrative coordination of multiple funders – unwieldy process can delay loan disbursement, and potentially hurt borrowers
- Participants must set aside their own loan loss reserves

3

Housing Trust Fund

Typically, Housing Trust Funds are

“established by elected government bodies – at the city, county or state level – when a source or sources of public revenue are dedicated, by ordinance or law, to a distinct fund with the express and limited purpose of providing affordable housing.”

– Mary E. Brooks

Housing Trust Fund Progress Report 2007

3

Housing Trust Fund *Emerging Trends*

- Several HTFs in California were established as independent nonprofit corporations, bringing together funding from both public and private sectors.
- Examples: regional HTFs serving San Luis Obispo County and San Mateo County.

3

Housing Trust Fund

Potential Funding Source: Prop 1C

- State legislation has set aside a portion of funds raised under Proposition 1C to fund housing trust funds throughout the state
- Guidelines for the Prop 1C HTF monies are still being drafted.
- Funding is expected to be \$35M
 - half of the funds may be set aside for new HTFs
 - a set-aside for HTFs in rural counties is probable

3

Housing Trust Fund

Potential Funding Source: Prop 1C

- Previous state HTF funding required applicants to demonstrate a dedicated funding source of at least \$200,000/year for five years– similar guidelines are expected in this round
- Draft guidelines require HTFs to use 65% of all state funds they receive to finance ownership housing development
 - remaining funds can be used for rental
 - HTF's own funds can be used for either purpose

3

Housing Trust Fund

Example: San Louis Obispo HTF

- Established in 2003 as a 501(c)(3). Certified as a California CDFI in 2004.
- Currently a \$4.0M fund with 9 government partners including SLO County, seven municipalities and the Housing Authority of SLO
- Governed by 7-member Board. Lending decisions are made by a separate committee of representatives of government entities that support the HTF
- Operating revenue includes earned income, private sector grants and grants from member governments

3

Housing Trust Fund

Example: San Louis Obispo HTF

- 12 investors: banks, foundations, religious orders
- Holds donated equity “in house” while “invested” loan funds remain with investors, until when needed for each loan
- Loan Terms:
 - up to five years
 - can be used for a variety of housing-related costs, from predevelopment through construction
 - 6-7% fixed interest rate, or adjustable based on 30 day LIBOR
- Also provides TA to developers, governments, nonprofits
- To date, SLO HTF has funded three projects



Housing Trust Fund

Example: HEART of San Mateo

- Quasi-governmental agency established in 2003 through a Joint Powers Agreement
- Governed by the JPA, signed by San Mateo County and 19 jurisdictions within the county
- 21 member Board of Directors: 11 representatives from participating jurisdictions and 10 representatives from the private sector

3

Housing Trust Fund

Example: HEART of San Mateo

- Has raised \$10M in loan funds to date
- Loan funds are raised from the county, state and private sources -- both donations and loans
- All parties to JPA contribute funds annually for HTF administration (amount based on population)
- Parties may withdraw from JPA at any time



Housing Trust Fund

Example: HEART of San Mateo

- Holds donated lending capital in house; “invested” loan funds remain held by investors until HEART needs to disburse each actual loan
- Investments include an “equity equivalent” long-term loan (EQ2) from Wells Fargo
- Programs include:
 - Down-payment assistance for moderate income buyers
 - Construction loans, up to three years, at 2% interest
 - Construction loans for “in-law” secondary units
- To date, HEART has funded three projects (398 units) for a total of \$4 million



Hybrid Housing Trust Fund

Pros and Cons

Pros

- Can potentially access California Proposition 1C funds for Housing Trust Funds
- Funds operations through fees from funding partners— providing ongoing support
- Doesn't require substantial equity base
- Most potential for growth
- Best model for long-term sustainability, if funders are onboard
- Provides maximum partnership across sectors

3

Hybrid Housing Trust Fund Pros and Cons

Cons

- Requires ongoing government / public participation for success
- Subject to government fluctuations
- Will take longer to implement than other models
 - Both HEART and SLO HTF took over a year to start up

Preliminary Recommendation

- **Model 2 (collaborative fund) seems to offer the best option given the needs and situation:**
 - Does not require large equity base to leverage additional investments
 - Allows investors to hold their funds until needed
 - Provides for ongoing administrative funding – assuming investors willing to pay annual fee
 - Could be structured as a hybrid HTF if there is sufficient government interest in the future
 - Takes advantage of low-cost funds by blending interest rate

Questions and Unknowns

For Discussion

- **Demand for potential products**— how big does the RAHF need to be?
- **What products and what terms** do potential borrowers need, and can this fund respond to those needs?
- Can the RAHF meet the (possible) requirements for **state HTF funding**? Should this be a driving concern in considering structure?
- **What structure** do potential investors prefer: a blind pool or a collaborative pool?

Questions and Unknowns

For Discussion

- Is there interest from government entities to support / participate in the fund?
- Is regional expansion of the RAHF a priority?
- Where will RAHF find equity capital? Operating support?
- How can RAHF manage expectations from the public, the government, and potential borrowers?

Next Steps

- **To decide, need more info on:**
 - **Volume – what can we expect? This is key**
 - **Borrower needs – amounts, terms**
- **Next steps**
 - **Steering committee decision**
 - **Refine model**
 - **Solicit investors, equity donors**