JOINT CENTER FOR HOUSING STUDIES
OF HARVARD UNIVERSITY

PRO Neighborhoods

PROGRESS REPORT 2017

JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

HARVARD GRADUATE SCHOOL OF DESIGN

HARVARD KENNEDY SCHOOL

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Cover photo: Dayton Early College Academy, a charter school in Dayton, Ohio, used a loan from the Midwest Nonprofit Lenders Alliance, a 2015 PRO Neighborhoods awardee, to add new classrooms that allowed it to increase enrollment by 62 students.

Executive Summary Background Photo: Travis Estell

Executive Summary

Since 2014 the JPMorgan Chase & Co. PRO Neighborhoods program has annually awarded three-year grants to groups of community development financial institutions (CDFIs) that form innovative partnerships to enhance opportunities for low- and moderate-income Americans and to revitalize distressed neighborhoods.

IMPACT

2014 AND 2015 AWARDEES

Data from January 2014 through December 2016 show that the first two cohorts of PRO Neighborhoods awardees from 2014 and 2015 have made a significant impact on low- and moderate-income communities.

- As of December 2016, the 2014 and 2015 PRO Neighborhoods awardees together had issued about 10,700 loans worth more than $320 million.
- The 10,700 loans issued by the CDFIs in the 2014 and 2015 collaborations helped create or preserve almost 2,700 units of affordable housing and supported more than 6,800 jobs.
- In addition, the CDFIs used their awards to leverage an additional $549 million, a leverage ratio of 11.4, boosting their balance sheets by more than $107 million and pumping $303 million into community development projects.

INSIGHTS

- The PRO Neighborhoods CDFIs have increased circulation of capital in disinvested neighborhoods by
  - increasing CDFIs' access to less expensive capital and secondary loan markets and
  - attracting outside investments in small business and affordable housing.
- The PRO Neighborhoods program has strengthened small CDFIs by enabling them to share loan risk with their large CDFI partners and adopt state-of-the-art computer software.
- The PRO Neighborhoods program has fostered innovations, such as offering alternatives to payday loans; helping people displaced by development or rising property values; and focusing comprehensive revitalization efforts on target areas.
- The PRO Neighborhoods program has produced replicable models of community development projects, such as streamlining small-business lending with new technology and helping small-scale inner-city real estate investors rehabilitate one-to-four-unit residential buildings.
- The PRO Neighborhoods program presents important lessons to the community development field including:
  - Injections of flexible balance sheet capital can help CDFIs.
  - Successful collaboration brings a wide range of benefits, such as the ability to tackle large projects that are beyond the capacity of a single CDFI.
  - Communication between collaborating partners is key.
  - Participants in CDFI collaborations should be ready to adapt to unforeseen circumstances.

2014 AWARDEES COMPLETE THEIR GRANTS

The first round of seven PRO Neighborhoods awardees from 2014, comprising 26 CDFIs, have completed their three-year term. A final calculation of their community development work reveals a remarkable extent and range of assistance to low-income individuals and distressed communities.

- The PRO Neighborhoods awardees from 2014 made more than 1,700 loans totaling $283 million.
- The collaborating CDFIs used their grant funds to obtain an additional $488 million in financing, an overall leverage ratio of 15 to 1.
- The CDFIs also provided their borrowers with a wide array of additional services, such as technical assistance, community organizing, small-business training, and financial counseling.
- Demonstrating the value of collaboration, CDFI members of all seven of the 2014 PRO Neighborhoods awardees plan to work together after the completion of the grant, and several have initiated new partnerships.

CREATING OPPORTUNITIES IN DISADVANTAGED NEIGHBORHOODS

Invest in Wisconsin, a 2015 PRO Neighborhoods awardee, provided a construction loan to FEED Kitchens, a shared kitchen space and job-training program for small businesses in Madison, Wisconsin.

Photo Credit: Tom Behnke

PRO Neighborhoods and the CDFI Competition

The Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods) program is a five-year, $125 million effort undertaken by JPMorgan Chase & Co. to stimulate inclusive economic growth and physical development to revive chronically distressed neighborhoods, help communities of color, and assist small-business owners and low-income families. The program has three main components. The first encourages collaboration among community development financial institutions (CDFIs) to accelerate and expand the effectiveness of their efforts. The second provides seed grants to increase the amount of housing affordable to those most in need, and the third invests in data technology to help local leaders understand and solve their communities' most urgent problems.

PRO Neighborhoods Progress Report 2017 presents an assessment of the program's first component, which awards funds to groups of CDFIs that collaborate to enhance social and economic opportunity for low- and moderate-income people and revitalize the distressed neighborhoods in which they live. CDFIs are banks, credit unions, loan funds, and other entities that deliver financial products and services to improve social conditions in distressed communities.[1]

The PRO Neighborhoods CDFI initiative holds a competition each year and confers awards on groups of collaborating CDFIs that use innovative methods to solve problems in distressed neighborhoods. More particularly, this initiative has aimed to increase the flow of capital into underserved communities, support the growth of small CDFIs, foster innovation in programs and products, and demonstrate expandable models for community development. Now in its fourth annual round of awards, PRO Neighborhoods has issued $84 million in grants to 20 groups of collaborating CDFIs in communities across the country.

One of a series of reports and case studies written by the Harvard Joint Center for Housing Studies on the PRO Neighborhoods CDFI initiative, *PRO Neighborhoods Progress Report 2017* reviews the efforts of the PRO Neighborhoods awardees.

The first part of the report summarizes the accomplishments of the awardees of 2014, who have completed the three-year grant period, and of 2015, who have begun to see results from their projects. The second part of the report analyzes the awardees' progress toward meeting the goals of the PRO Neighborhoods program – in particular, how they have deployed capital, strengthened small CDFIs, fostered innovative ways of financing community development, and created promising models of CDFI collaboration. The final section of the report indicates the future direction of PRO Neighborhoods by describing the program's awardees for 2016 and 2017.

HISTORY OF THE CDFI COMPETITION

In the last twenty-five years, CDFIs have become one of the foremost agents in promoting community development projects in the United States. Nonetheless, many leaders in the community development field have concluded that CDFIs could do more to help low-income neighborhoods. In recent years they have urged CDFIs to collaborate with one another in order to improve their financial health, expand the volume and geographic reach

[1] For CDFIs, distressed communities are defined as census tracts with high poverty, low or moderate median family income, high unemployment, or which have experienced population loss. 12 C.F.R. 1805.201 (2017).

of their lending, increase technical expertise, and diversify the kinds of programs they support.[2] It was in this context that JPMorgan Chase started the PRO Neighborhoods CDFI competition to help distressed neighborhoods by strengthening the CDFIs that serve them. The PRO Neighborhoods strategy was to award flexible capital grants to CDFIs to encourage them to collaborate on complementary community development activities, thereby increasing their capacity to improve conditions in disinvested communities.

When PRO Neighborhoods started in 2013, JPMorgan Chase sought coalitions of CDFIs that were led by high-performing organizations and brought together groups with different capacities and core businesses in innovative ways. Over the following four years, JPMorgan Chase refined its approach in response to the experience of the early awardees and its other community development programs, especially the ongoing revitalization efforts in Detroit. Increasingly, the program has requested proposals for programs that emphasize specific geographical foci and are flexible enough to respond to local circumstances. In addition, the PRO Neighborhoods CDFI program has expanded by offering opportunities for awardees to learn from each other's experiences and share best practices with other leaders in the community development field.

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[2] U. S. Department of the Treasury CDFI Fund, "Models of Collaboration and Partnership," presentation at workshop, Understanding the Benefits of CDFI Status for Newly-Certified and Prospective CDFIs, July 23, 2015, Denver, CO; Michael Swack, Jack Northrup, and Eric Hangen, *CDFI Industry Analysis: Summary Report* (U. S. Department of the Treasury CDFI Fund and Carsey Institute, 2012), 9; Boston Foundation, "'Catalyst Fund' Created to Support Collaboration among Nonprofit Organizations in the Region," press release, September 22, 2010.

SUPPORTING VIBRANT COMMUNITIES

Small-business owners in Mesa, Arizona, gathered for a series of business skills workshops organized by Adelante Phoenix, a 2014 PRO Neighborhoods awardee, and the local Latino Business Alliance.

2014 PRO Neighborhoods Awardees at a Glance

ADELANTE PHOENIX!

Affordable housing development, small-business loans, small consumer loans, and mortgages for first-time homebuyers along the Phoenix area's existing and planned light-rail lines. $6 million award.

- Raza Development Fund (Lead Partner)
- Neighborhood Economic Development Corporation
- MariSol Federal Credit Union
- Trellis

CHICAGO CDFI COLLABORATIVE

Technical and financial assistance to small-scale investors and owner-occupants of distressed 1-4 unit properties in several low- and moderate-income Chicago neighborhoods. $5 million award.

- Community Investment Corporation (Lead Partner)
- Chicago Community Loan Fund
- Neighborhood Lending Services, Inc.

EXPANDING RESIDENT OWNED COMMUNITIES

Loans and organizational support to help residents of mobile-home communities across the United States purchase the land on which they live. $4 million award.

- ROC USA (Lead Partner)
- Leviticus 25:23 Alternative Fund
- Mercy Loan Fund

MIDWEST NONPROFIT LENDERS ALLIANCE

Facility loans for nonprofits working in health, education, human services, and other fields in the Cincinnati-Dayton and Minneapolis-St. Paul areas. $3 million award.

- IFF (Lead Partner)
- Cincinnati Development Fund
- Nonprofits Assistance Fund

NALCAB NETWORK

Mortgages, construction financing, and small-business loans in predominantly Latino low- and moderate-income communities in Arizona, Colorado, Nevada, New Mexico, and Texas. $6 million award.

- National Association for Latino Community Asset Builders (NALCAB) (Lead Partner)
- Affordable Homes of South Texas, Inc.
- Colorado Housing Enterprises
- Préstamos

REFRESH

Facility loans, working capital, and advocacy to support access to healthy food in limited supermarket access areas in California, Colorado, Florida, and Ohio. $2 million award.

- Reinvestment Fund (Lead Partner)
- Colorado Enterprise Fund
- Finance Fund Capital Corporation
- Florida Community Loan Fund
- Northern California Community Loan Fund

SMALL AND MEDIUM ENTERPRISES INITIATIVE

Small business lending through the federal SBA 7(a) program using shared technology and a novel funding source in Buffalo, Chicago, Denver, Detroit, Milwaukee, New York City, and selected rural communities. $7 million award.

- Community Reinvestment Fund, USA (Lead Partner)
- Calvert Foundation
- Coastal Enterprises, Inc.
- National Development Council

The 2014 Awardees Helped the Disadvantaged in Diverse Ways

The first set of PRO Neighborhoods awardees received grants in 2014 as part of JPMorgan Chase's pilot program, and they have now completed the three-year term of the awards. In seven unique collaborations, these CDFIs helped disadvantaged neighborhoods in diverse ways. They offered credit of various types, from small consumer loans to multi-million-dollar development loans, and inaugurated several new loan products to serve their clients' distinctive needs. Each of the seven awardees also pursued non-lending activities to support their borrowers and communities.

The 2014 awardees used their PRO Neighborhoods awards to increase their loan capital and multiply the number of loans they issued. As a group, they made more than 1,700 loans totaling $283 million. In total, these CDFIs expanded their grant funds by $488 million, achieving an overall leverage ratio of 15 to 1. The numbers of jobs and homes created and preserved by these loans reflect the improvements awardees made in the neighborhoods and lives of low-income people. Overall, the 2014 awardees made more than 400 loans to small businesses, which supported nearly 2,500 existing jobs and helped create more than 2,600 new ones. They made almost 350 housing loans, which created or preserved nearly 2,500 units of affordable housing. About a quarter of the housing loans went to help finance new developments, and many of these paid for predevelopment actions, without which the projects could not have proceeded.

TABLE 1. THROUGH UNIQUE AND VARIED APPROACHES, THE 2014 AWARDEES HELPED LOW-INCOME PEOPLE AND DISINVESTED NEIGHBORHOODS

AWARDEE	TOTAL LOANS	TOTAL DOLLAR AMOUNT OF LOANS (THOUSANDS)	TOTAL LEVERAGE (THOUSANDS)	LEVERAGE RATIO	SMALL BUSINESS LOANS	HOUSING DEVELOPMENT LOANS AND MORTGAGES	JOBS CREATED OR PRESERVED	HOUSING UNITS CREATED OR PRESERVED
Adelante Phoenix	852	32,448	180,309	30.1	51	52	128	717
Chicago CDFI Collaborative	430	24,776	13,400	2.7		252		593
Resident Owned Communities	12	24,434	42,413	10.6		12		895
Midwest Nonprofit Lenders Alliance	14	13,484	1,000	0.3				
NALCAB Network	108	9,077	101,982	17.0	16	31	505	269
ReFresh	37	9,801	21,125	10.6	37		ND	
Small and Medium Enterprises	309	169,905	127,428	18.2	309		4,463	
Total	**1,762**	**283,925**	**487,657**	**14.8**	**413**	**347**	**5,096**	**2,474**

Notes: Data are from January 2014 through December 2016. Loan data include equity investments made by awardees. Total leverage is the awardee's combined project leverage, balance-sheet leverage, and secondary market loan sales. Empty cells do not apply to that awardee. Cells marked "ND" indicate that no data were available.

The CDFIs in the 2014 PRO Neighborhoods groups also actively helped their communities in diverse ways other than lending. Most of the participating CDFIs offered their potential customers some form of technical assistance, with several going to great lengths to help potential borrowers. The Resident Owned Communities collaborative, for example, spent considerable time organizing manufactured-housing community residents to prepare for the unique loan product that the collaborative offered. An Adelante Phoenix collaboration member, NEDCO, offered ten-week trainings for small-business owners to help them gain the financial knowledge needed to qualify for their first loans. Many other CDFIs offered valuable financial counseling and technical assistance to potential borrowers, some of whom they ultimately counseled not to get a loan. Even though such activities are not easily quantified, they are a cornerstone of the CDFI industry's effectiveness.

DURABILITY OF PARTNERSHIPS

One important measure of the success of the PRO Neighborhoods program is the degree to which the collaborating CDFIs continue to work together after the grant period has expired. In this regard, the 2014 awardees are off to a promising start: the members of all seven awardees intend to continue collaborating, and several of them have taken steps to embark on new partnerships. Among the Adelante Phoenix partners, for example, two CDFIs, MariSol and Trellis, increased their lending commitment to each other for 2017, and Raza Development Fund and MariSol have formed a new partnership to create affordable housing. By offering the use of lead partner Reinvestment Fund's mapping tool and technical assistance, the ReFresh initiative has persuaded fourteen new CDFIs to join the collaboration's ongoing quest to improve low-income people's access to healthy food. In 2016 the NALCAB Network created the Catalyst Fund, a social investment fund that, with the help of an additional $2 million in leverage, will provide community development loans long after the PRO Neighborhoods grant that produced it.

SMALL BUSINESSES ON THE RISE

A loan from the NALCAB Network, a 2014 PRO Neighborhoods awardee, helped Nava Thuraisingam, a small-business owner in Phoenix, Arizona, expand his bakery and café business from one to three locations.

2015 PRO Neighborhoods Awardees at a Glance

COMMUNITY LOAN CENTER PROGRAM

Small-dollar loan program that combats payday loans by partnering with local employers in Indiana and Texas. $5.1 million award.

- Business & Community Lenders of Texas (Lead Partner)
- Brazos Valley Community Development Corporation
- Brightpoint Development Fund
- Lafayette Neighborhood Housing Services
- Rio Grande Valley Multibank Corporation

INVEST IN WISCONSIN CDFI COLLABORATIVE

Small-business loans, real estate development loans, and CDFI advocacy in five smaller cities and nearby rural areas in Wisconsin. $2.7 million award.

- Forward Community Investments (Lead Partner)
- Community Assets for People
- First American Capital Corporation
- Wisconsin Women's Business Initiative Corporation

PRO OAKLAND

Loans to small businesses, nonprofits, and affordable housing developers along a new bus rapid transit line in Oakland. $2.1 million award.

- Northern California Community Loan Fund (Lead Partner)
- OBDC Small Business Finance

OPPORTUNITY FUND AND CRAFT3

New model of small-business loans over the internet in California, Oregon, and Washington. $2.6 million award.

- Opportunity Fund (Lead Partner)
- Craft3

URBAN-RURAL KENTUCKY COLLABORATIVE

Loans and credit counseling to manufactured-housing residents in rural areas, first-time homebuyers in urban areas, and small businesses in four urban and rural locations in Kentucky. $2.6 million award.

- Community Ventures Corporation (Lead Partner)
- Federation of Appalachian Housing Enterprises
- Kentucky Highlands Investment Corporation

The 2015 Awardees Devise Innovative Ways to Improve Low-Income Communities

In the effort to improve low-income communities, the PRO Neighborhoods awardees for 2015 have devised a variety of innovative new products and partnerships. In general the groups are hewing closer to specific geographic areas than did the 2014 awardees. Three of the five awardees for 2015 are addressing the needs of particular underserved regions, while the two others are delivering new loan products that could serve as models for providing loans to residents and business owners in underserved communities.

After a year and a half, the 2015 awardees had already made $36 million of loans in low- and moderate-income communities, a substantial step toward meeting their lending goals. More than half of their borrowers were members of racial or ethnic minorities, 40 percent were women, and almost 80 percent earned low or moderate incomes.

OPPORTUNITY FUND AND CRAFT3

In a groundbreaking arrangement with Lending Club, an online lending marketplace, two West Coast CDFIs, Opportunity Fund and Craft3, have been applying advanced financial technology (called "fintech") to automate the credit approval system for low- and moderate-income income customers. In this pioneering collaboration, Lending Club identifies loans to small businesses that fall just short of its credit criteria and refers the applications to Opportunity Fund, which uses Lending Club's marketplace technology to offer a pre-qualified loan amount, rate, and term and subsequently collects all pertinent borrower data for underwriting and loan decisions. Opportunity Fund originates and services all the loans, while the two CDFIs divide the loans and post-loan technical support according to whether the clients were based in California, the home of Opportunity Fund, or Washington and Oregon, where Craft3 operates.

In the first stage of the collaboration, Opportunity Fund's staff built the technological infrastructure to manage the loans and instituted new policies and practices, including the methods to make loans online, to underwrite and service loans, and address potential fraud. Opportunity Fund's officers have also advised their counterparts in Craft3 extensively on technological, operational, and strategic issues.

Already in the nine months since the automated loan platform went live, Opportunity Fund and Craft3 lent $2.5 million to 85 small businesses. Encouraged by the initial results, Opportunity Fund is looking to replicate the Lending Club partnership with CDFIs operating in other states.

URBAN–RURAL KENTUCKY COLLABORATIVE

The members of the Urban-Rural Kentucky Collaborative are fighting economic and physical deterioration in both the Appalachian countryside and the cities of Lexington and Louisville, Kentucky. Community Ventures Corporation, Kentucky Highlands Investment Corporation, and Federation of Appalachian Housing Enterprises have taken a multi-pronged approach to their goals of increasing homeownership, supporting business development, and helping to create and retain jobs. They have helped mobile home residents achieve security by purchasing the land under their homes, provided inexpensive mortgage and small-business loans, and initiated housing developments, including the redevelopment of a manufactured housing park.

Among the innovations of the Urban-Rural Kentucky Collaborative is a “Lease-Purchase Program,” which gives long-term renters in the East End of Lexington the opportunity to receive financial counseling and eventually buy their homes. This program complements the collaboration’s other neighborhood revitalization efforts by providing existing residents with affordable housing and preventing eventual displacement when property values begin to rise.

So far, the Urban-Rural Kentucky collaborative has made 179 loans, totaling more than $12 million, the overwhelming majority of which went to low- and moderate-income small business owners and homeowners. In one particularly noteworthy instance, the collaboration made a $3.3 million equity investment in a rural business that created more than 300 jobs.

PRO OAKLAND

In East Oakland, partner CDFIs Main Street Launch and Northern California Community Loan Fund identify and support small businesses and nonprofits at risk of displacement due to rapid transit construction and an appreciating real estate market. Using loans and technical assistance, the partners encourage sustainable development and help small businesses and nonprofits capture some of the benefits of economic development without getting priced out by high rents.

BETTER OPTIONS FOR LOW-INCOME PEOPLE

At an employee benefits fair in Brownville, Texas, Melissa Landin of the Community Loan Center Program, a 2015 PRO Neighborhoods awardee, tells government workers about CLCP’s low-cost alternative to payday loans.

Photo courtesy of the Community Development Corporation of Brownsville.

Originally the partners planned to concentrate their work on the planned bus rapid transit route along Oakland's International Boulevard, but municipal delays in transit construction also delayed the displacement that the collaboration intended to mitigate. In response to the new circumstances, the partner CDFIs expanded their service area to include downtown and East Oakland.

During the first 13 months of the grant period, the PRO Oakland partners made 55 loans totaling nearly $10 million. These loans have supported the preservation of 138 units of affordable housing and the creation of a 13,000 square foot community space. In addition, Main Street Launch developed a new low-interest microloan product, with which it can reach a wider range of potential small-business borrowers and thus achieve a greater volume of lending in its target area. So far, PRO Oakland has made 33 such microloans, with a median value of $3,450.

INVEST IN WISCONSIN

Through the Invest in Wisconsin collaboration, leading CDFIs from across Wisconsin provide financing and technical assistance to underserved communities in rural areas and neighborhoods in five small cities. The partner CDFIs are building a state-wide organization to meet the particular needs of Wisconsinites outside of Milwaukee by training new staff, targeting new borrowers, and using the partner CDFIs' combined geographical reach to offer each other's products in new markets.

During the first year of the PRO Neighborhoods award, the members of Invest in Wisconsin laid the groundwork for their project. They held "community listening sessions" to better understand the needs of the residents in the five cities and hired new staff members to carry out the lending in the selected rural and urban districts. In a novel approach to promoting the cause, Invest in Wisconsin's partners organized a "CDFI Day" at the state capitol to educate lawmakers on the financial needs of underserved communities and how CDFIs can fill them. In addition, the members of the collaboration improved their organizations by, for example, undergoing a professional business assessment and obtaining industry-standard credit ratings to attract new investors.

During its first 13 months, Invest in Wisconsin made 17 loans, totaling $1.5 million, for projects that included small-business support, a community facility, and an affordable housing development. Most were large loans, with a median loan amount of $80,000, and an unusually high percentage of the collaboration's projects also attracted additional financing from outside investors.

COMMUNITY LOAN CENTER PROGRAM

The Community Loan Center Program has devised a new small-dollar loan product to counter the problem of low-income people taking out costly payday loans. By enlisting local employers to automatically deduct payments out of employees' paychecks, the CLC partners reduce the risk of non-payment, which allows them to charge a low interest rate. The low rates, combined with an online loan application, have created a competitive small-dollar loan product. Having shown the effectiveness of the model in Dallas, the Community Loan Center Program partners are attempting to replicate the model in Lafayette and Fort Wayne, Indiana, and in other Texas communities.

Altogether, the Community Loan Center Program has made 8,610 loans totaling more than $6 million so far. Most of this volume has been in Texas, but as the partner CDFIs in Indiana recruit new employers to the program, they will increase their pace of lending in the Hoosier State.

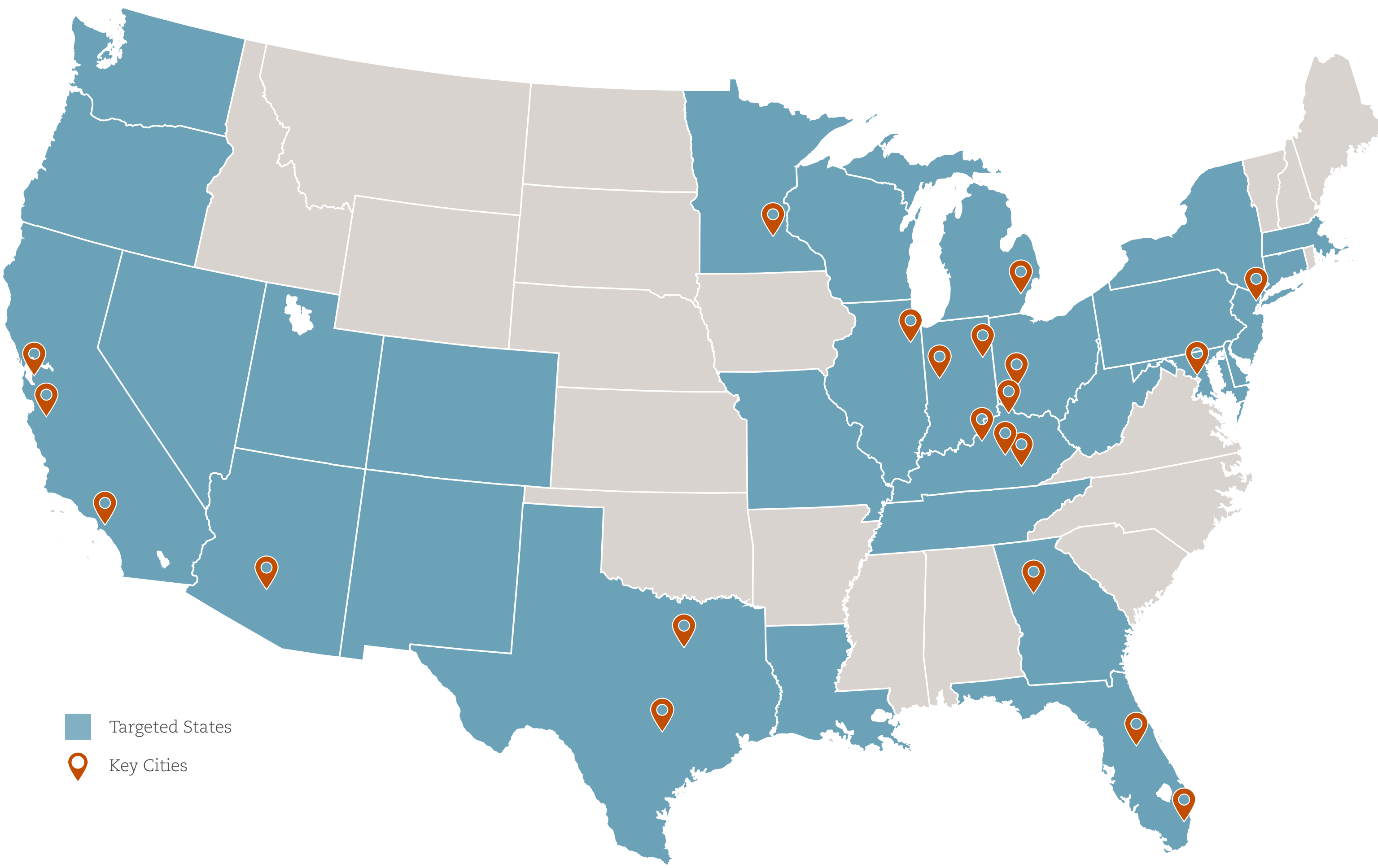
Goals of The PRO Neighborhoods CDFI Competition

By supporting collaboration among CDFIs, the PRO Neighborhoods program aims to:

- Increase the flow of capital into underserved communities,
- Support the growth of small CDFIs,
- Foster innovation in programs and products, and
- Demonstrate scalable models for community development.

The following sections describe the progress that the PRO Neighborhoods awardees have made toward each goal, highlighting noteworthy examples of successful practices.

PRO NEIGHBORHOODS LENDING AREAS



PRO Neighborhoods CDFIs Reach Underserved Communities

$48,092,000	**PRO Neighborhoods Awards**
11.4	**Leverage Ratio**
$549,129,000	**Total Leverage**
$107,595,000	Balance-Sheet Leverage
$303,083,000	Project Leverage
$138,452,000	Secondary Market Sales
10,710	**Total Loans**
666	Small Business Loans
95	Housing Development Loans
334	Mortgages
22	Facility Loans
9,593	Consumer Loans
$320,446,000	**Total Loans**
$194,943,000	Small Business Loans
$26,036,000	Housing Development Loans
$29,349,000	Mortgages
$70,118,000	Consumer Loans
6,841	**Jobs Created or Preserved**
2,956	Jobs Created
3,885	Jobs Preserved
2,657	**Housing Units Created or Preserved**
806	Housing Units Created
1,851	Housing Units Preserved

Notes: Data are for the 2014 and 2015 PRO Neighborhoods awardees, covering from the beginning of each awardee's grant period through December 31, 2016. Totals include equity investments.

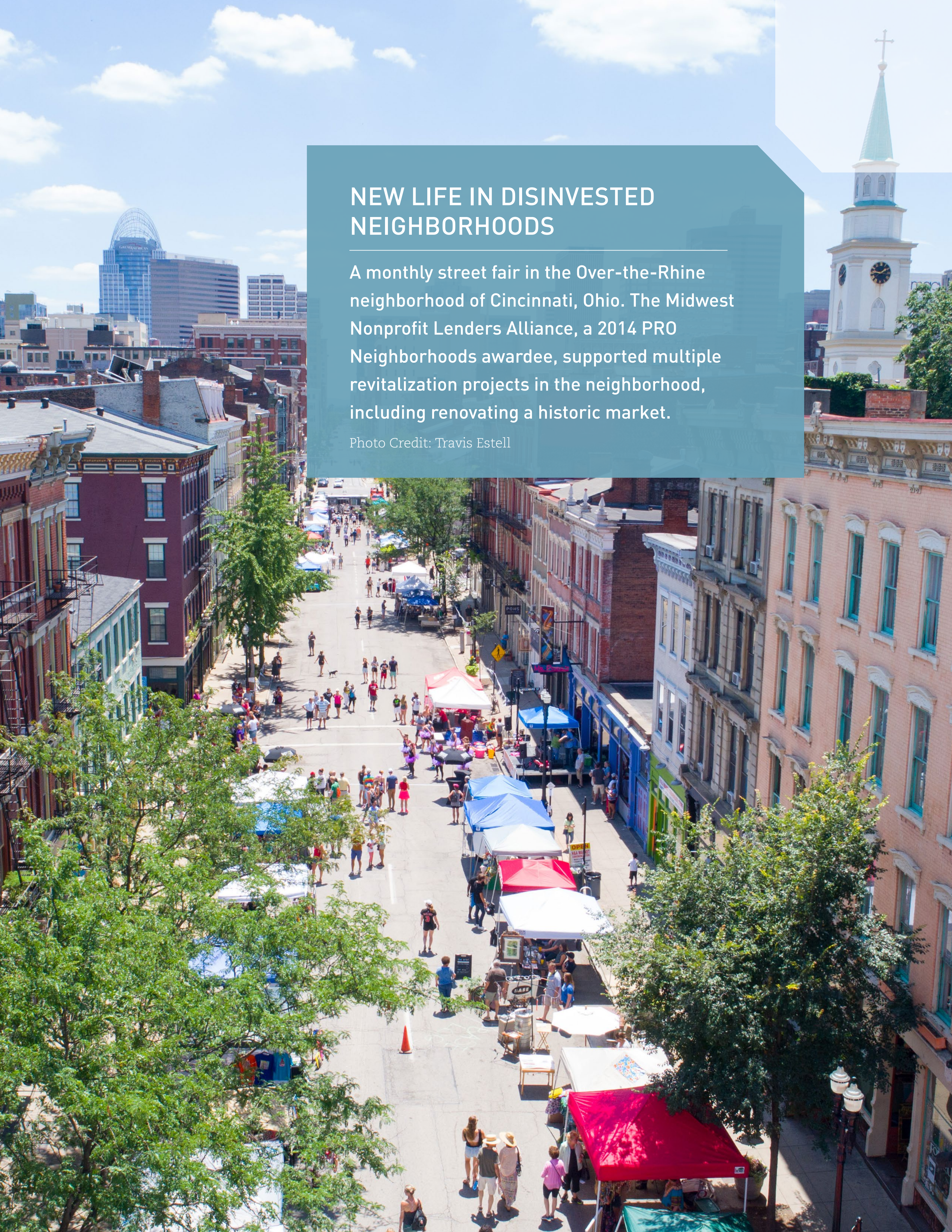
INCREASING ACCESS TO CREDIT IN DISTRESSED NEIGHBORHOODS

CDFIs were created to address the shortage of credit in disadvantaged neighborhoods. In these communities, low- and moderate-income residents and small business owners often do not have access to reasonably priced loans and quality banking services. Furthermore, developers wishing to build in these areas often cannot get traditional bank financing, especially for predevelopment activities. Without credit, business owners cannot expand or hire new employees; homeowners cannot repair or renovate their houses; real estate developers cannot launch or complete new construction projects; and very low-income individuals have trouble meeting day-to-day expenses.

Hence, an important accomplishment of the PRO Neighborhoods awardees has been to increase the scale and scope of lending in the underserved communities in which they operate.[3] As of December 2016, the CDFIs that received PRO Neighborhoods awards in 2014 and 2015 have issued about 10,700 loans worth more than $320 million to borrowers in distressed neighborhoods, a significant increase above the amount of credit CDFIs have typically provided.[4] The largest loans, totaling nearly $26 million, went to finance 95 construction and

[3]All data in this section are combined totals for the 2014 and 2015 awardees; data for the 2016 and 2017 awardees are not yet available.

[4]The PRO Neighborhoods program increased lending by an average of $10.9 million per CDFI for the 26 CDFIs in the 2014 cohort over the past three years (2014-2016). In contrast, the average CDFI in the U.S. Department of Treasury's CDFI Fund database (including almost all CDFIs in the United States) increased its lending by only $5.9 million over a comparable three year period (2012-2014, which is the most recent comparable data available as of this writing). U.S. Department of Treasury CDFI Fund, "FY 2014 CDFI Program Reporting CIIS Data Release," July 2016.



NEW LIFE IN DISINVESTED NEIGHBORHOODS

A monthly street fair in the Over-the-Rhine neighborhood of Cincinnati, Ohio. The Midwest Nonprofit Lenders Alliance, a 2014 PRO Neighborhoods awardee, supported multiple revitalization projects in the neighborhood, including renovating a historic market.

Photo Credit: Travis Estell

redevelopment projects, which provided needed housing or facilities for these communities. Awardees also made more than 9,500 small consumer loans — one for as little as $400 — to consumers who often have either no access to loans or access only to expensive and sometimes predatory loan products.

LEVERAGE TO MULTIPLY CAPITAL IN LOW-INCOME COMMUNITIES

PRO Neighborhoods awardees increased the flow of capital to low- and moderate-income communities not only by directly lending funds from their JPMorgan Chase grants, but also by using those funds to secure new financing from other sources. Using a range of methods, awardees leveraged an additional $549 million in funding for a leverage ratio of 11.4 on their PRO Neighborhoods grants, greatly exceeding the awardees' average goal of a 6.5 leverage ratio.

To achieve this leverage, some PRO Neighborhoods Awardees kept grant money on their balance sheets, which strengthened their credit and gave them access to larger amounts of less expensive capital, sometimes called balance-sheet leverage. For example, a CDFI could keep $100,000 on its balance sheet, and use that money as a credit enhancement to borrow $1 million from a larger bank. The CDFIs can then use the new debt capital to increase lending or undertake new projects. PRO Neighborhoods awardees were able to acquire more than $107 million in balance-sheet leverage, a substantial increase in capacity for awardee CDFIs, almost all of which have net assets less than $75 million.

Leverage also includes outside money that augments a CDFI's loan on a particular project, sometimes called project leverage. Project leverage could take the form of, for example, a small business that is able to get a loan for new inventory after using a CDFI loan to build a new storage space. PRO Neighborhoods loans have helped borrowers secure more than $303 million of project leverage, which includes $25 million for small businesses and $236 million for affordable housing development.

Finally, CDFIs can sometimes sell loans on the secondary market and use the proceeds to make new loans more quickly, rather than waiting for the loan to be paid back over many months or years. Often, CDFIs have difficulty selling loans because the loans are not the standard products with standard underwriting offered by traditional banks. Within several PRO Neighborhoods collaborations, CDFIs worked together to craft loan products that were easier to sell on the secondary market, and awardees overall were able to recycle $138 million of loan capital into new loans through secondary market sales.

COMMUNITY IMPACT: AFFORDABLE HOUSING AND JOBS

As described above in this report and in case studies prepared by the Joint Center for Housing Studies, PRO Neighborhoods awardees have enhanced the communities in which they work in many different ways. It is difficult to isolate the effects of community development efforts from the many factors that influence the lives of the people who live and work in disadvantaged neighborhoods, but it is possible to calculate improvement in two key areas: affordable housing and jobs. The 2014 and 2015 awardees have already helped create or preserve almost 2,700 units of affordable housing, by financing construction of new residences, renovation of existing homes, and mortgages for first-time low-income homebuyers. In addition, the PRO Neighborhoods CDFIs issued loans and provided technical assistance to small business owners whose companies support more than 6,800 jobs, of which nearly 3,000 were new positions.

Helping Small CDFIs

A central goal of PRO Neighborhoods is to support small CDFIs, many of which face financial challenges. The retained earnings of small CDFIs are often low, which forces many of them to rely on grants to cover operating expenses. Small CDFI credit unions (those with net assets of $10 million or less), for example, on average earned negative net income in 2015.[5] Despite these challenges, small CDFIs often have a deep understanding of the local communities they serve, making them valuable potential partners for large regional and national CDFIs. The PRO Neighborhoods collaborations have pursued diverse ways of strengthening the finances of their smaller partners, particularly by sharing the risks of loans and distributing banking and information technology.

SHARING LOAN RISK

More than traditional banks, CDFIs tend to keep loans on their balance sheets rather than to sell or securitize them. This practice ties up the lending CDFI's loan capital until the borrower repays it and makes the CDFI financially liable if the borrower defaults. To counter the disadvantages of keeping loans on the balance sheet, PRO Neighborhoods awardees found different ways of mitigating loan risk by sharing it among the CDFI members.

The Resident Owned Communities (ROC) collaboration, for example, mitigated risk through loan participation arrangements. ROC helped organize residents of manufactured housing communities to purchase the land collectively under their homes and provide the community purchasers with loans, which averaged more than $2 million. In ROC, the lead partner ROC USA sold a fraction of its loans to two other CDFIs, Mercy Loan Fund and Leviticus Fund, which allowed each of the three partners to diversify its loan portfolio and reduce its financial risks. As a result, the partners were able to offer more loans to protect this vital source of affordable housing.

In the Adelante Phoenix collaboration, the lead CDFI, the Raza Development Fund, helped its smaller CDFI partners mitigate risk by providing them with partial loan guarantees. Raza Development Fund provided a 20 percent loan guarantee for small consumer loans – including immigration loans, payday-alternative loans, and auto loans – made by MariSol Federal Credit Union in the areas that Adelante Phoenix had targeted for redevelopment. This loan guarantee was crucial for MariSol to feel comfortable with the risk entailed by offering new and modified loan products. These loans, worth several million dollars, have performed well. Marisol has had to collect only $6,000 from Raza's loan guarantees, a paltry sum compared to the benefit provided by the increase in lending.

The Midwest Nonprofit Lenders Alliance (MNLA) shared risk by collaborating on loans in a way that matched the different capital needs of its large and small partner CDFIs. For the MNLA's fifteen-year facility loans to nonprofit community organizations, lead partner IFF, a regional CDFI, provided up to 76 percent of the loan capital, with one of the smaller, local partners (either Nonprofits Assistance Fund or Cincinnati Development Fund) providing the remainder. During the first five years of the loan, the local CDFI lender 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. Through this structure, IFF took on the riskier long-term portion of the loan, which allowed the local CDFIs to offer a long-term loan product that would be too risky for them without IFF's participation.

SECURING COMMUNITIES

With the help of 2014 awardee Expanding Resident Owned Communities, the homeowners of Venture Lake Estates, a manufactured housing community in Hyde Park, New York, were able to purchase the land under their homes.

SHARING TECHNOLOGICAL EFFICIENCY

The tight finances of small CDFIs can hinder their ability to acquire state-of-the-art computer software, which can be prohibitively expensive.[6] Hence, several PRO Neighborhoods collaborations devised ways to distribute lending and information technology to increase the effectiveness of their members in pursuing community development.

Up-to-date lending software can dramatically reduce the time and effort that CDFI officers must spend on managing loan documents and tracking the loans. In the Small and Medium Enterprises Collaborative, a 2014 awardee, the lead CDFI shared its existing loan platform with its partner CDFIs, to great effect (see discussion in the “Demonstrating Scalable Models” section, below). Similarly, the Urban-Rural Kentucky Collaborative, a 2015 awardee, is currently developing a new client management system to share among the members.

The use of software tailored to specific loan products can greatly increase the efficiency of particular business lines. Opportunity Fund and Craft3, a 2015 PRO Neighborhoods awardee, worked with a for-profit online lender to develop new software for finding clients and scoring credit risk that allowed it to make small business loans without recourse to time-consuming face-to-face meetings with potential borrowers. In Indiana and Texas, partner CDFIs in the Community Loan Center Program, another 2015 awardee, are using BCL of Texas’s loan software to efficiently provide a small-dollar loan product that is a promising alternative to predatory payday loans.

Tools that help CDFIs access and visualize information about potential markets can lead to better strategic planning and provision of the right loans in the right places. Reinvestment Fund, lead partner of 2014 awardee ReFresh, provided its partner CDFIs with a mapping tool tailored to their particular markets, which the partners used to find the communities most in need of greater access to fresh, healthy food. Similarly, Reinvestment Fund, a member of 2016 awardee Equity Atlanta, is providing its “Policy Solutions” data analysis to its local partner CDFIs in Atlanta.

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[5] Similarly, the average CDFI self-sufficiency ratio – earned revenue (e.g., interest and fees) divided by operating expenses – of CDFI loan funds with less than $10 million in assets was half that of larger CDFIs. Opportunity Finance Network, *20 Years of CDFI Banks and Credit Unions 1996-2015: An Analysis of Trends and Growth*, 2017; CDFI Fund, *CDFIs Stepping into the Breach: An Impact Evaluation — Summary Report,* 2014.

[6] Swack, Northrup, and Hangen, *CDFI Industry Analysis*, 14.

Fostering Innovation

The PRO Neighborhoods program also aims to foster innovation in programs and products. In a world of scarce resources, innovative approaches to addressing the challenges of distressed neighborhoods can help CDFIs to better fulfill their mission. While each PRO Neighborhoods awardee is unique, some common strains of innovation have emerged among the first three cohorts of awardees. To help residents and businesses in distressed communities, many awardees have offered new products, marketed to new types of customers, and delivered complementary types of loans to targeted communities.

Awardees introduced several new loan products to meet the unique financial needs of low- and moderate-income individuals and small businesses. The Urban-Rural Kentucky Collaborative, for example, created a "Lease-Purchase Program" that puts low-income residents who have been long-time renters on a path to homeownership. In addition, the Midwest Nonprofit Lenders Alliance, Adelante Phoenix, the Chicago CDFI Collaborative, and, notably, the Opportunity Fund and Craft3 collaboration each offered new loan products, ranging from small consumer loans with lower fees to long-term, multi-million-dollar facility loans to nonprofits.

In an effort to reach new underserved individuals and small businesses, several awardees sought out new types of customers. PRO Oakland, for example, targeted people at greatest risk of displacement from a new transit corridor. The Chicago CDFI Collaborative partnered with small-scale investors who acquire and rehabilitate distressed homes, tapping into a large, underutilized resource in community development. Invest in Wisconsin has helped its member CDFIs find rural customers by holding community meetings and hiring new staff to reach new clients.

Several PRO Neighborhoods awardees have concentrated complementary forms of lending and technical assistance in specific neighborhoods. Equity Atlanta, Adelante Phoenix, PRO Oakland, the Detroit Strategic Neighborhood Initiative, and the Urban-Rural Kentucky collaboration have all offered both housing and small business loans in defined target areas. The members of the Chicago CDFI Collaborative, on the other hand, confined their lending to housing rehabilitation projects but offered five different types of financing to cater to the needs of different kinds of clients.

REACHING NEW HEIGHTS

Carousel Gymnastics built a new facility in Waupaca, Wisconsin, for youth gymnastics classes and birthday parties, thanks to a loan from Invest in Wisconsin, a 2015 PRO Neighborhoods awardee.

Photo Credit: Megan Fletcher

GROWING OPPORTUNITY

Mark Walden, a family farmer in Madison County, Kentucky, received a loan from the Urban-Rural Kentucky Collaborative, a 2015 PRO Neighborhoods awardee, that allowed him to expand fruit production on his farm.

Photo Credit: Candace Mullins

Demonstrate Scalable Models

The PRO Neighborhoods program also sought to demonstrate models for community development that could be replicated or carried out on a large scale. Over the course of their three-year PRO Neighborhoods grants, the 2014 awardees created successful community development programs that other CDFIs and funders might emulate. The Small and Medium Enterprises (SME) collaboration and the Chicago CDFI Collaborative, for example, each generated programs that could be replicated in other markets.

STREAMLINING THE PROCESS TO BOOST LOAN VOLUME

Despite the time-saving potential of technology, many small CDFIs have neither the time nor the expertise to develop their own software tools to manage the lending process. To address this difficulty, the Community Reinvestment Fund (CRF) shared “SPARK,” its proprietary loan software, with its partners as a part of the SME collaboration. The results demonstrate the promise of technology adoption in the CDFI field and the potential of collaboration to strengthen smaller CDFIs.

The SPARK platform allows CDFIs to spend less staff time on each loan and thus make more loans. CRF estimates that using SPARK reduces the time spent on loan processing by 40 percent. The results have been striking: the two CDFIs that began using SPARK as a part of the SME collaboration issued twice the number of loans they had set as a goal, lending $40 million more than they projected.

After the initial success sharing SPARK with its SME partners, CRF has provided SPARK as a subscription service to other small business lenders across the country. Notably, CDFI members of Invest in Wisconsin, a 2015 PRO Neighborhoods awardee, have adopted SPARK as a part of their own collaboration's strategy to streamline operations and increase lending to underserved communities.

The adoption of CRF's lending software offers another major potential benefit for CDFIs and by extension the communities they serve: it makes the loans more attractive to investors. The software allows CDFIs to make their loans with standardized, electronic documentation. Such loans, as CRF has already proven, can be packaged into debt securities that capital market investors will purchase. Therefore, an increased flow of standardized CDFI loans eligible for securitization could give CDFIs greater access to large quantities of low-cost capital from the capital markets.

LOOKING TO SMALL-SCALE INVESTORS TO REHAB TROUBLED BUILDINGS

The work of the Chicago CDFI Collaborative points the way for CDFIs to mobilize a crucial but overlooked group of possible affordable housing developers. One-to-four-unit buildings make up nearly half of the affordable rental stock in Chicago, yet government and community development nonprofit groups have rarely engaged the small-scale private investors who own many of these structures. In a city containing thousands of vacant and dilapidated residences, these owners are, according to the RAND Corporation, "a tremendous resource of untapped potential" in the fight to develop affordable housing.[7]

The Chicago CDFI Collaborative found small-scale investors as well as individual owner-occupants and helped them acquire and restore small residential properties in selected inner-city neighborhoods. One member of the collaboration, the Community Investment Corporation, acquired distressed properties and sold them to local small-scale investors. Another CDFI, the Chicago Community Loan Fund, provided purchase and rehabilitation loans to similar investors. Another partner, Neighborhood Lending Services, Inc., issued purchase and rehabilitation loans to owner-occupants. All three CDFIs supported their clients with in-depth technical assistance. At the same time, the Chicago CDFI Collaborative made effective use of federal and local government programs and partnerships for acquiring and improving troubled properties.

The experience of the Chicago CDFI Collaborative demonstrates that CDFIs can work with small-scale investors to reclaim blighted areas. Other CDFIs could emulate its methods of using multiple programs and methods to acquire and renovate significant numbers of properties in distressed neighborhoods.

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[7] Heather Schwartz, Raphael Bostic, Richard Green, Vincent Reina, Lois Davis, and Catherine Augustine, "Preservation of Affordable Rental Housing: Evaluation of the MacArthur Foundation's Window of Opportunity Initiative" (RAND Corporation, 2016), 109.

MOVING FORWARD TOGETHER

Sarah Meyer with her team at Shift Collaborative, a mission-driven small business that works with nonprofit clients to create websites and marketing material. Shift used a working-capital loan from Opportunity Fund and Craft3, a 2015 PRO Neighborhoods awardee, to help it manage cash flow and maintain staffing levels.

Photo Credit: Mark Simpson

Emerging Lessons for CDFI Collaboration

The Joint Center for Housing Studies case studies and research briefs, including a forthcoming analysis from the Initiative for Responsible Investment at the Harvard Kennedy School of Government, reveal numerous lessons from the PRO Neighborhoods program for both the directors and financial supporters of CDFIs. Here are a few important insights gleaned from the experiences of the PRO Neighborhoods awardees so far.

1. INJECTIONS OF FLEXIBLE CAPITAL CAN HELP CDFIs

Four years after PRO Neighborhoods was launched, the program's record clearly demonstrates to funders of community development that providing additional flexible capital can motivate CDFIs to collaborate on new activities beyond their previous capabilities. As all the Joint Center's case studies show, PRO Neighborhoods awards enabled CDFIs to develop strategic plans, enhance organizational capacities, and coordinate with other CDFIs. As a result, the recipients of the awards were able to offer new or different types of loan products, conduct their businesses in new geographic areas, and take on a wide range of non-lending activities, such as technical assistance and organizing.

2. SUCCESSFUL COLLABORATION BRINGS MANY BENEFITS

Although not always an easy thing to do, collaboration holds many potential benefits for CDFIs. First, as noted above, it can strengthen the finances and capacities of small or medium-sized organizations. Second, joint ventures allow groups of CDFIs to tackle large problems – such as acquiring and rehabilitating a city's abandoned houses – and to deliver new or specialized products – such as mortgages tied to savings accounts and alternatives to payday loans – that would exceed the capacities of individual CDFIs. Third, collaboration among CDFIs often leads to coordinating with government officials and outside organizations, such as community groups and trade associations, on a wide variety of local and policy issues.

3. COMMUNICATION IS KEY

Collaboration lives and dies by communication. Virtually all the collaborating CDFIs in the PRO Neighborhoods program discovered the value of exchanging ideas at the outset and communicating regularly throughout the course of their partnerships. Such interactions provided a structure for CDFI officers to learn business opportunities, practices, and connections from their counterparts in the other organizations. At the same time, clear communication helped CDFI officers to avoid misunderstandings when referring to key lending terms, concepts, and procedures and to discover emerging problems sooner than they would have otherwise.

4. BE READY TO ADAPT TO CHANGING CIRCUMSTANCES

Participants in CDFI collaborations should expect the unexpected and be ready to adapt. In implementing their collaborative programs, PRO Neighborhoods awardees encountered unforeseen market conditions, unfavorable shifts in government policy, and even the exit of their own members. The leaders of the collaborating CDFIs made adjustments large and small to deal with unanticipated circumstances – replacing one type of customer with another, expanding methods of acquiring troubled properties, or recruiting a new member to carry out different programs than those originally planned. Because of the complexity and unpredictability of CDFI collaborations, their leaders must adjust if they wish to succeed.

In conclusion, the PRO Neighborhoods program has demonstrated the value to the CDFI field of offering CDFIs incentives to collaborate. Although the process of collaboration may be difficult, with adequate financial resources and time it can multiply the scale and scope of community development efforts on behalf of low-income people and distressed neighborhoods.

2016 PRO Neighborhoods Awardees at a Glance

DETROIT STRATEGIC NEIGHBORHOOD INITIATIVE

Commercial real estate loans, small-business loans, and nontraditional residential mortgages with the goal of repopulating three Detroit neighborhoods. $5 million award.

- Invest Detroit Foundation (Lead Partner)
- Detroit Development Fund
- Opportunity Resource Fund

EQUITY ATLANTA

Loans to small businesses and affordable housing developers by two Atlanta CDFIs with a data support and technical assistance partnership with the Reinvestment Fund. $4 million award.

- Reinvestment Fund (Lead Partner)
- Access to Capital for Entrepreneurs
- ANDP Loan Fund

NEIGHBORHOOD RETAIL–CHICAGO COLLABORATIVE

Loans for multiple phases of commercial property development in Chicago, including site acquisition, predevelopment, construction, and equipment, as well as small-business microloans. $3.49 million award.

- Chicago Community Loan Fund (Lead Partner)
- Chicago Neighborhood Initiatives Micro Finance Group
- SB Friedman Development Advisors

NORTH MIAMI–DADE CDFI COLLABORATIVE

Housing, commercial, and small-business development loans in the distressed communities of Opa-locka and Liberty City, Florida. $3.65 million award.

- Community Fund of North Miami-Dade (Lead Partner)
- Black Economic Development Coalition, Inc.

NYC COLLABORATIVE

Small-business loans and microloans integrating the outreach, services, and technology of the partner CDFIs in underserved neighborhoods of New York City. $3.25 million award.

- Excelsior Growth Fund (Lead Partner)
- Accion East, Inc.
- Renaissance Economic Development Corporation

2017 PRO Neighborhoods Awardees at a Glance

EQUITABLE DEVELOPMENT AT THE 11TH STREET BRIDGE PARK

In conjunction with the redevelopment of a bridge into community and retail space in Washington, D.C., small-business loans, worker training, and creation of a new community land trust to preserve affordable housing. $5 million award.

- Building Bridges Across the River (Lead Partner)
- Washington Area Community Investment Fund, Inc.
- City First Enterprises, Inc.

RENTAL HOUSING INNOVATIONS IN CRISIS AREAS OF ORLANDO

In Orlando, Florida, purchase of foreclosed homes in bulk and their sale to nonprofit housing organizations and an experimental program in using shipping containers to build affordable housing. $5 million award.

- Florida Community Loan Fund (Lead Partner)
- New Jersey Community Capital

SAN FRANCISCO ENTREPRENEURS OF COLOR FUND

In San Francisco, California, intensive technical assistance and small-business loans from $5,000 to $1 million to entrepreneurs of color. $3.13 million award.

- Working Solutions (Lead Partner)
- ICA Fund Good Jobs
- Pacific Community Ventures

SMALL HOUSING, BIG IMPACT

In Los Angeles and San Jose, California, a new type of loan for the construction of accessory dwelling units on single-family lots and loans to nonprofit organizations to acquire and develop affordable housing. $3.5 million.

- Genesis LA Economic Growth Corporation (Lead Partner)
- Housing Trust Silicon Valley

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