



CDFIs and mission-driven lenders: Tailor-made for the current financial crisis

By Trinita Logue

There is no avoiding the fact that today's economy is bleak. Indiana, like the rest of the nation, is feeling the impact of the current financial crisis and economic slowdown.

Unemployment is up, consumer spending is down, and nearly every major economic indicator points to a further contraction in the economy.

Of the large banks that are still standing after recent financial blowouts, many are still reluctant to lend or are closing their doors to customers that do not meet the most rigorous lending criteria. This often leaves nonprofit corporations or small businesses with limited options for financing their operations or capital improvements.

Despite government support and their significant benefit to the community, nonprofits and small business are often considered too risky for bank financing.

Ironically, it is during this financial drought that nonprofits and small businesses are most in need of capital. Finding a lender that is willing to provide loans, at affordable interest rates, and with flexible but sound underwriting practices is a challenge for many.

That is why, to survive today's economy, many of these people are likely to turn to mission-driven lenders, like Community Development Financial Institutions (CDFIs), that rely on alternative lending models to provide capital to low-income individuals, nonprofits, small businesses and other groups that may not meet traditional credit standards.

Despite the fallout on Wall Street and among the nation's major commercial banks, most CDFIs continue to perform well. They have become experts in underwriting loans to more hard-to-serve markets and leverage billions of dollars in private capital while also maintaining a net charge-off rate of less than one percent. Over the past 25 years they have contributed more than \$25 billion in financing.

IFF, of which I serve as president and CEO, is a CDFI that serves the Indiana market. It provides below-market rate real estate loans and consulting to nonprofits that serve low-income neighborhoods, helping these organizations finance and build child care facilities, charter schools, primary health clinics and other essential community facilities.

IFF was established 20 years ago in Chicago, at a time when most banks saw little value in making real estate loans to nonprofits in the inner city. Many of these nonprofits had plans for providing critical services to the city's high-need neighborhoods, but they suffered from weak balance sheets. They also lacked knowledge of the real estate market and finance, and didn't own the facilities they sought to improve in order to fulfill their missions.

To address this problem, the Chicago Community Trust invested \$1.7 million to establish a revolving loan fund, and to develop a business model and underwriting criteria that allowed nonprofits to gain access to real estate loans, improve their facilities, build equity and bolster their balance sheets.

Where banks had seen properties that didn't appraise and organizations with little or no credit history, IFF – as the new fund later became known – saw

a steady source of government revenues, committed borrowers, the ability to leverage funds, and the potential for community facilities whose value to the neighborhoods in which they were being built was nothing short of priceless.

CDFIs, like IFF, are often the link between banks and nonprofits, and serve as valuable partners. Banks invest in IFF to augment their community lending programs, and, in turn, we use those funds to invest in nonprofits. Oftentimes, we collaborate with banks to fill financing gaps in projects they support.

Still, IFF is a different kind of lender; and it makes loans that banks are not able to make. Together, these lending policies have saved our customers millions of dollars in loan fees and interest through the years.

Today, with total assets approaching \$150 million, IFF is financially strong and growing. It provides affordable, flexible financing to nonprofits in Illinois, Indiana, Iowa, Missouri and Wisconsin – and will continue to do so during the current financial crisis.

In the months ahead, as the banking industry adjusts to the shifting financial landscape, CDFIs will emerge as an even more important source of capital for underserved lending markets.

As our leaders in Washington consider strategies to overhaul our financial system and bolster the economy, they must recognize that CDFIs and other mission-driven financial institutions are a key part of the solution.

Trinita Logue is President and CEO of IFF. Founded in 1988, IFF is the Midwest's leading nonprofit Community Development Financial Institution (CDFI). It has total assets of more than \$140 million and offers below-market loans, real estate consulting, and research services to nonprofits serving low-income areas and special-needs populations. For 20 years, IFF has worked to strengthen nonprofits in Illinois and recently it opened an office in St. Louis. To learn more about IFF, visit www.iff.org.