

Transcript

Fed Talk: The Role of CDFIs in Lower-Income Communities

Federal Reserve Bank of Cleveland

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Presentation

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[Dan Kane](#), president, CityWide Development Corporation

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Robert Brinkley:

Good afternoon, and welcome to today's Fed Talk, The Role of CDFIs in Lower-Income Communities. I'm Robert Brinkley, Senior Regional Outreach Manager at the Federal Reserve Bank of Cleveland and moderator for today's session. If this is your first time joining us, you may wonder what is Fed Talk? It's the Federal Reserve Bank of Cleveland Speaker Series where we dive into research that really matters to our community. Fed Talks have covered everything from inflation to getting into the job market to financial literacy. And if you've missed any of the past sessions, no worries. You can catch them all online at clevelandfed.org.

Before we jump in, just a few quick housekeeping items for you. Your microphone and camera are disabled during the event, but we do want to get your questions, so you can submit them using the Q&A feature in Zoom. We will get to as many questions as we can as time permits. If Zoom decides to act up and the meeting drops, just use the dial-in info from your invitation to rejoin by phone. And one last thing, the views shared today by myself and our panelists are our own and not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve system.

All right, with that, let's get started. I'd like to introduce you to Merissa Piazza, who is lead policy analyst in community development at the Federal Reserve Bank of Cleveland. In her role, she conducts analysis and applied research related to workforce and economic development as well as community capital and CDFIs. She will be providing key insights from her report, Beyond Investment, How CDFIs Support Community and Economic Development in Low- and Moderate-Income Areas.

Merissa Piazza:

Thank you, Robert. Welcome again, everyone. I'm Merissa Piazza. I'm with the Federal Reserve Bank of Cleveland. I'm going to talk today about some research I've conducted related to the role CDFIs play in community and economic development. This research started because CDFIs are an important actor in economic development deals, and this is acknowledged by economic development practitioners. But outside of the practitioners in this space, there's very little discussed about how CDFIs play a role in making development happen.

So, this research takes place in two parts. One is a quantitative assessment of the economic contribution they provide, and as well as a qualitative investigation in the value CDFIs provide beyond the money invested. This research sought to understand how CDFIs support community and economic development in low- to moderate-income areas across the Fourth Federal Reserve District. Next slide, please.

As Robert had mentioned, the views expressed are those of the author and not necessarily those of the Federal Reserve Bank of Cleveland and the Federal Reserve Board of Governors. Next slide, please.

As an introduction, CDFIs were born out of the need for financing in low- to moderate-income communities in the 1960s and '70s. A lot of this was related to building affordable housing over the last few decades. This has expanded to provide support to small businesses and commercial real estate. CDFIs are mission-driven lenders who provide financial products in what they call qualified investment areas, and this includes low- to moderate-income communities, and many CDFIs are nonprofits. These institutions seek to overcome a variety of challenges in LMI communities by increasing access to credit and capital for both consumers and businesses. And CDFIs can come in a variety of forms such as credit unions, banks, loan funds, among others. Some of them take deposits, and some of them just loan out money. Next slide, please.

Beyond understanding what CDFI is, it's important to have some context about community development versus economic development, right? These research and practice areas have historically been different work streams, but more and more, are converging. This is happening because it's important to understand that one, community development practitioners cannot help create vibrant spaces if people do not have jobs, as well as it can be difficult to attract and retain companies for workers for economic development if communities do not have quality-of-life amenities. There's some examples of literature seen on the slide here related to CDFI investment. Much of this is concentrated on new market tax credits, which are federal tax credits that encourage private investors for real estate developments. These studies have shown that there are associations between this investment and economic outcomes such as business growth, jobs, and income. There is less literature on CDFI contributions with mixed results. Next slide, please.

So, to jump into the report, I want to talk a little bit about the data used for the quantitative analysis. So, I use transaction-level CDFI investment data from the CDFI fund. These are recorded in a variety of forms and can be categorized as business, home purchase, for purchases and improvement, housing development, and commercial real estate, among others. Only CDFIs that receive grant funds from the CDFI fund are included. And the data does not include the universe of CDFI lending. This data is public, so feel free to go and look at it if you so choose. For more information on the methodology and how this data was constructed, please check out the methodology section of the report. The link to the report will be populated in the chat. Next slide, please.

So, let's get into some of the results. In the sample looked that was investigated for the nation and the Fourth District, CDFIs invested \$51 billion throughout the United States in 2022 and one billion across the Fourth District. Total CDFI investments from 2018 through 2022 showed an increase in the dollar amount and the number of census tracts receiving investment, and there was a large increase in the number of new CDFIs certified.

The largest proportion of this investment occurred in two major areas: housing and business. The largest share of CDFI investment in our district in 2022 was in housing, and this includes home purchases, home improvements, the construction, rehabilitation of single and multifamily homes. Business investments were the second-largest type, and investments made either for for-profit or nonprofit businesses for the purpose unrelated to construction and rehabilitation of facilities. So, the numbers are interesting. If you're not a numbers person, which I understand, they only can provide you so much information. So, we wanted to investigate above and beyond the economic contribution, what was the broader contribution? Next slide, please.

But as we've discussed and we will talk about more with the panel discussion today, CDFIs do more than just provide investment dollars. They help with financial literacy, provide all types of technical assistance. They connect with investors and resources, such as an example of finding out who you need to talk to at the city for certain paperwork, environmental assessments. And all of this isn't reported in a number. Next slide, please.

So, knowing that CDFI investments beyond the numbers, the numbers can underestimate the contribution that they have. So, we engaged in qualitative interviews. We went out and talked to people to understand how these leaders saw CDFI activities and why they believe these activities support community and economic development in low- to moderate-income areas. I focused on CDFI loan funds and how they saw their role in the financial ecosystem. We looked at connections with economic development and commercial banks and what they saw going forward in this space. I will say that because each CDFI has a distinct mission and lending pattern, no one in CDFI information can provide a representative scope of the overall industry. Next slide, please.

In the end, three key themes emerged. So, you will see quotes from people that we interviewed, and they provide a lot of color and a lot of nuance to what we were discussing. CDFIs, one of the themes with CDFIs are a key actor and connector in economic development. They provide key supports for a variety of deals and can be a catalyst for investments. The second one is they provide credit and investments as a lender of last resort, and the third is they provide technical assistance. So, what I'm going to walk through now is some of the quotes and some of the main findings, and hopefully, you find it as interesting as I do. Next slide.

So, digging into CDFIs as a role of catalyst and connector. You'll see two great quotes here. The report, again, has more. CDFI lenders reinforced that the idea of both community and economic development worked to create economically-vibrant neighborhoods. Many CDFIs that engaged in larger economic development projects, whether it was real estate or affordable housing, found the process a fluid one that was forged in the relationships that they built. Many loan fund CDFIs could easily recount several projects that would not have happened if it was not for CDFI investment.

These projects include helping nonprofit daycare purchase the building, transforming vacant buildings into affordable housing, and constructing mixed-use development, which also included creating a much-needed grocery store in a LMI neighborhood. Many CDFIs deeply understand

the needs of their communities. One even pointed out that their staff live in the investment community and know each property within their service area. Next slide, please.

CDFIs are sometimes categorized as a lender of last resort because many CDFIs can provide capital in ways that the private market cannot. CDFIs can braid their variety of funding streams from public, private, and philanthropic dollars to assist in making loans where traditional banks may not. Their flexible underwriting allows them to take on riskier loans, and they can provide technical assistance to help shepherd applicants through the process. Some CDFIs recognize that this funding model allowed them to take a chance on entrepreneurs or finance deals that banks could not. Since we talked specifically loan funds who were not depository institutions, CDFI interviewees discussed how commercial banks did not see them as competition, but rather as complimenting their work. Next slide, please.

Technical assistance, by far, most interviewees talked about the technical assistance and how technical assistance to applicants can make deals happen. CDFIs directly finance businesses or small developers. They talked about how they help walk their clients through the financial process. CDFI technical assistant provides value beyond what is offered by traditional banking. And as one interviewee explained, a bank may require that a loan application be ready to go where a CDFI can really help and hold their hand through the process. Technical assistance can extend beyond underwriting to enhance community capacity to nonprofits, municipal governments, economic development organizations, developers. And some of this is helping with tax credit applications, environmental feasibility, and an understanding of who to talk to when you want to get things done. I like to say that I feel like CDFIs look at their clients and say, “Don’t worry, I got a guy.”

One interviewee discussed how their CDFI was involved in a complicated real estate finance deal. This consisted of the CDFI acquiring the property, finding a primary lender, and using their expertise to apply for tax abatements and tax credits, all of this just to get the project to the financing stage. And this project ended up providing affordable housing units in an otherwise vacant and derelict building. Next slide, please.

Some of these interviews we discussed about challenges and opportunities in the market. Some CDFIs discussed their precarity of their situation depending on their funding model. And like many nonprofits, staffing capacity and shortages were also mentioned. Many interviewees discussed capitalization, which means how they acquired and structured their loan fund dollars. Interviewees were looking beyond federal CRA investments to strengthen their balance sheets. And current economic conditions were a factor with some of them indicating that there was an endless number of deals while others saw a slowing market, right? As we talked about before, not one CDFI shows the entire market. Each one is particularly different. Next slide, please.

This quote, I think is a really great example of what color and what nuance we got from CDFI interviewees. These conversations revealed interesting subtleties regarding how CDFIs play a role in community and economic development using vast referral network of banks, economic development actors, and municipalities. Interviewees discussed how their mission-driven lending in low- to moderate-income neighborhoods can contribute to economic and community development and the vitality of an area. Additionally, they highlighted the importance of technical assistance and capacity building to the success of individuals, projects, and businesses. There’s a QR code on the screen. Feel free to click it and it’ll take you directly to the report.

At this time, I’m going to transition back to Robert. Robert will introduce our individuals on our panel and have a great discussion with them. Robert, thank you.

Robert Brinkley:

Thank you very much, Merissa, for sharing that wonderful report. Now, I'd like to welcome our panelists. We'll start with Sharon Bollers who serves as senior director of lending at Enterprise Community Partners, where she leads a team of lenders covering the Mid-Atlantic, Chicago, Detroit, and Ohio markets. She's responsible for components of enterprise community loan funds, loan origination, and capital deployment, including expanding the organization's expansion into solar and green financing and support of the lending to socially- and economically-disadvantaged developers.

Next is Catherine Cawthon, who's president and CEO of the Ohio Capital Corporation for Housing, where she's been since December of 2020. An Ohio-based nonprofit provider of equity and a CDFI lender bringing solutions for affordable housing, OCCH represents investors and lenders focusing capital in 13 states and has invested over six and a half billion and lent over a billion into affordable housing developments over the past 37 years. Catherine brings 26 years of experience in the industry, including her prior role at a financial institution where she was responsible for CRA qualified investment originations.

The next, we have Dan Kane, president of CityWide Development Corporation. Dan joined CityWide Development in late 2017 after spending 31 years in the banking industry, all primarily in the Dayton region. Dan focuses on establishing and expanding developer, small business, and community relationships to utilize CityWide's CDFI, CDC, and CDE designations to drive meaningful and catalytic projects in neighborhoods throughout the Dayton region.

And then, finally, last but not least, we have Max Upton, Director of Economic Development at Bricker Development Strategies. Max, as Director of Economic Development, has extensive experience advising municipalities, developers, and public sector clients on economic development strategy, public finance, land use, and real estate development. He has led projects involving tax increment financing, community reinvestment areas, affordable housing, infrastructure funding, industrial site development, and economic impact analysis throughout Ohio. Max regularly assists clients with complex development initiatives, incentive programs, and strategic planning efforts that support long-term community growth and investment.

I want to thank you all for being here, and then, what I'd like to do is get into... If you could be so kind as to talk a little bit about your role, and your organization, and how it fits into the community and economic development puzzle. And if we could start with the way that I introduced everyone, so we'll start with Sharon.

Sharon Bollers:

Yes, thank you and good afternoon. Again, thank you for inviting me to join the panel today. I'm very excited to be a part of this conversation. So, Enterprise Community Loan Fund is one of the largest nonprofit investment-grade rated community development financial institutions, CDFIs, as we discussed earlier in the country and a member of the Enterprise family. And so, Enterprise Community Partners is a parent organization of the Enterprise family of companies and is a national nonprofit that exists to make a good home possible for the millions of families without one. Together, the organization supports community development organizations on the ground, aggregates and invests capital for impact, advances housing policy at every level of governments, and builds and manages our own communities ourselves. Since 1982, we've invested 92 billion and created 1.1 million homes across all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

So, where our work fits into the community and economic development puzzle is our goal to build resilience and upward mobility. Enterprise is organized around three central goals. The first, increase housing supply, the second, to advance racial equity, and the third, to build resilience and upward mobility, port residents, strengthen communities to be resilient and to unpredictable, and make upward mobility possible. Now, research has shown that 50% of renters spend more than 30% of their income on housing, a cost burden that severely limits their economic potential. We see addressing this burden as a means of creating economic opportunities for low-income families.

Robert Brinkley:

Thank you, Sharon. Catherine?

Catherine Cawthon:

Yeah, thank you for having me. Once again, I head up Ohio Capital Corporation for Housing, which is actually a holding company for various companies within our structure that provide different financing mechanisms to be able to accomplish the creation and rehabilitation predominantly of housing is where our focus is. So, we are not only an equity provider through a syndication platform, but we also have our CDFI, which is our lending arm that focuses on the flexible and innovative piece of our business, providing different structures that we can leverage other folks' money.

So, in that, we are able to bring to different communities within our region, the different sources that are needed specifically for those communities, and we'll talk a little bit more about that later. We've been able to bring financing for over 70,000 units within our 13-state footprint, and also, been able to bring that billion dollars of lending, which provided that flexibility so that those deals, but for that money, would not have been able to move forward.

Robert Brinkley:

That is fantastic. Thank you, Catherine. Dan?

Dan Kane:

Yes, good afternoon. So, after hearing Sharon and Catherine, you're hearing very large CDFIs, very large presence. I'm on the other side of that spectrum. I'm a very small CDFI located in Dayton, Ohio. Our CDFI operates under the name of Dayton Region New Market Fund, and we're focused primarily in the city and as well as Montgomery County. We do have a very distinct difference when it comes to maybe some other CDFIs in that we have a community development arm, which has boots on the ground in 15 of the 18 communities within the city of Dayton doing literally door-to-door type work, building a park bench, building, improving a park, things very crucial to that specific neighborhood. We have six people doing that. We have about four or five people doing the lending needs that come up in our communities as well.

Both groups interact with each other very well. Oftentimes, lending opportunities come from the community interactions that we're having on the community development side. We also maintain designations, as Robert mentioned, as a CDC, which allows us to do SBA 504 lending, as well as a CDE status, which allows us to do new market tax credit financing when an award has been issued. So, we do a lot of different things in our community and are at the table of a lot

of discussions involving the city, the county, and different types of organizations that are working to improve the communities in Dayton.

Robert Brinkley:

Thank you very much for that, Dan. Max?

Max Upton:

Thank you. I don't quite know how I follow all three of my panelists, but I will try my best. My name's Max Upton. I am the director of economic development for Bricker Development Strategies, which is a wholly-owned subsidiary of Bricker Graydon Wyatt, the law firm. Most of you know us as Bricker and Eckler, and then, Bricker Graydon, and now, after our latest merger, Bricker Graydon Wyatt. We are in Kentucky, Ohio, Indiana, a little bit in Michigan, Tennessee as well. We are about 330 attorneys as a practice. About 40 of those attorneys are in the public finance space. So, think of your traditional public finance tools, TIF, tax abatement, development agreements, new community authorities and the like.

My role is a little bit different in that I'm not an attorney. I'm an economic development professional. I spent over a decade in various economic development roles at the director level from a neighborhood nonprofit all the way up to the ninth-largest city in the state of Ohio. And so, my perspective on CDFIs is from the boots on the ground economic development practitioner. I am really thrilled to be here with these esteemed panelists and wish you would've picked me first. So, I was a bad cleanup hitter, so thank you for having me.

Robert Brinkley:

Thank you so much, Max. I hope that everyone, as you listen to our panelists, you can appreciate, one, the breadth and the diversity of experience and expertise that they bring to this panel today. I know that I am honored to be able to talk with you all this afternoon. Wanted to get into a little more detailed discussion around the functions of CDFIs. So, if we could, again, in the same order of the introductions, in your work as a CDFI or with CDFIs, how do CDFI capital investments drive outcomes?

Sharon Bollers:

Yes, and I'll go first again. And so, again, cross country, millions of people face persistent barriers in excess to capital that undermine their economic mobility. And CDFIs, we seek to invest in people, places, and communities that traditional capital either deemed either not profitable enough or perhaps too risky to invest. And so, you're going to hear a common theme here, this term of but for. So, in very simple terms, we like to say, "CDFI capital is that but for," meaning that but for the CDFI lending or investing into a project, it more than likely would not have occurred. And in some cases, sometimes that access to capital is actually just access to the right capital because in some communities, there is capital, but it's not exactly the right capital. And so, ultimately, for some communities, what CDFIs provide access to is just non-predatory capital. So, oftentimes, various types of financial products, again, might be deemed too risky for traditional lenders. For example, pre-development lending or a source loan into new market tax credit project where there is no real estate collateral.

And so, what that looks like in our world is CDFI capital often being the first dollars in a project. So, funders often require certain information to be able to decide whether or not they want to

invest in a project. And the amount of capital needed to get to project to the point where an investor can or a funder can invest is often more than developers actually able to contribute on their own. So, therefore, having access to the early stage capital, the early stage financing that CDFI such as ours provides is a critical step in unlocking that larger capital stack, which oftentimes, includes equity or debt from traditional sources.

Another area we see CDFIs bring about changes is in the area of de-risking a product or a loan type. So, oftentimes, CDFIs can be a source of capital in these type of transactions where you establish a history. I'm thinking of green financing or so forth, establish a deep history of lending in a particular area, so then the product then has a history, and then, allows traditional capital to start lending.

And lastly, another way we see CDFIs driving outcome is just really through our unique... And again, a lot of these words are similar to what you heard earlier. We're nimble capital providers. We can respond quickly to changing market conditions, community needs, and so forth, uniquely positioned to adapt and for where things are needed most. I'm thinking something very simple as disaster recovery. We often go in and the first ones in after a major disaster in order to provide capital and financing to these communities.

Robert Brinkley:

Thank you very much for that, Sharon. Appreciate that. Catherine?

Catherine Cawthon:

To build on what Sharon was saying, I don't want to be too duplicative because a lot of what Sharon was saying is actually is exactly how we come to play in a transaction, but I do want to make a comment. I don't think it was by mistake that you have the folks on here that you do, because it really does represent the different facets. A lot of times, that can come to the table in a transaction. So, really, we drive outcomes by partnership, and those outcomes are sometimes small organizations being able to partner with some of the larger organizations. One CDFI being able to partner with another CDFI to bring our capital together, which I think is so important. And really to make change in a community, it does have to have some scale. And so, whoops, we really do need each other in this space.

The other thing too I want to bring up before we transition to the next speaker is not just the but for, but also scale. A lot of times a lender, a lot of lending, and a lot of equity now is institutionalized. It is much more advantageous for a lender to come to the table when it's a larger-dollar amount. We have that flexibility that Sharon mentioned to do the small scale. And why the small scale is important, because you know what? It does take a lot of human capital to do those in a lot of time. It's important because we're building the capacity maybe in a neighborhood of somebody that doesn't have that ability otherwise. And so, it's not only for today's numbers, but it's for tomorrow's numbers, for those outcomes of additional units of housing, or home ownership, or jobs that are created by community and economic development.

I think that's the small scale, as well as we're seeing large-scale projects that are absolutely a lot of zeros, more zeros than I would've thought when I started my career. And if it wasn't for us coming together with other folks such as on this platform today, but then also our financial institutions. So, there's so much that we could talk about on where CDFIs fit in and drive that outcomes.

Robert Brinkley:

Thank you so much for that, Catherine. Dan, if you would like to continue painting this picture for folks?

Dan Kane:

Yeah. Sure, sure. Yeah, I'll talk a little bit about what we do in Dayton, and many CDFIs would do this in their respective communities as well. One of the main things is that I always preach to my team and to our community is that our capital is more flexible. Generally speaking, it's more flexible than any bank capital that's going to be out there. It may or may not be lower rate. It probably is. In today's environment, it probably is lower rate, but it's more flexible, regardless. And there is a lot of value in coming to a transaction and providing flexible capital, even though it might only represent maybe 10 to 15 or 20% of a total project. That is either equity that the developer does not have to inject or it's advantageous to secure first mortgage lending if it's a real estate transaction because they can go at a lower loan to value or a better loan to value for the financial institution that's kind of coming into the transaction.

So, what we provide too is we create loan funds. We secure capital either through grants or from direct investment from local community financial institutions or foundations. And those loan funds are for specific purposes. It could be for downtown revitalization. It could be for Northwest Dayton specific funding needs or West Dayton specific funding needs. So, we can create access to capital through the generation or through the formation of these loan funds. And then, once we have those loan funds, we can inject them into a project to get immediate benefit to the project owners, and then, the community recipients. So, I think a lot of what we do is complimentary to other financing providers that are part of a transaction. We very seldom would be the only financing solution that's part of a capital stack. Matter of fact, most of the time, we're not, but we're still a vital piece of that capital stack due to that flexibility.

Robert Brinkley:

Thank you so much for that, Dan. And Max, being the non-CDFI on the panel here.

Max Upton:

Yeah, no, I'm not going to completely co-sign everything that my colleagues on this panel have said. I think from our perspective, from my perspective as the practitioner, everyone wants to be the last dollar in to a project, be it a public source, a state grant fund, a state loan fund, a local source of funding. There are very few dollars that are the first dollar in. The first dollar is often the hardest dollar to get. And so, that is the first thing I like to point out. The second thing is if we think about who our entrepreneurs are, I know that Sharon talked about enterprise community partners driving racial equity through what they do. We look at our entrepreneurs that don't have that generational wealth to pull back on to be that first dollar in to support their dream or their vision. That's how CDFIs advance racial equity outcomes through their mission-driven work.

And I think too, as we look at the global picture of economic development, you'll hear but for a lot today, I also talk about market failure. And I think part of what we have here is the failure of traditional markets to serve everyone equally. And that takes on a lot of different tentacles, whether that's out migration from the city that's urban cores that are eroding tax bases, creating difficult-to-develop areas, whether that's rural America that doesn't have comps and capital to drive new housing investment in otherwise areas that have need for housing. And so, I think

what CDFIs do in terms of outcome is we start to have levers to correct for market failures that otherwise would be exacerbated if the markets were left to their own devices.

Robert Brinkley:

Great. Thank you for that. And this question is going to be specific for the CDFIs on the panel. We've had the financial role of CDFIs, but now, I want to get into the non-financial roles in community and economic development projects or entrepreneurial efforts and the benefits of that technical assistance or financial coaching that we talk about that comes with CDFIs. We can start with Sharon here again.

Sharon Bollers:

Yeah, thank you again. So, yeah, I appreciate that question. And for us, that role of that non-financial support, it really oftentimes comes in the form of trainings provided to developers and our partners. We've worked with our sponsors on how to structure deals as well as how to underwrite to lender standards. We often work as a sounding board with developers. For example, I may review a project, find it's not quite ready for our capital, and in that case, I might give them feedback on what could help them get there. I really appreciated what Catherine shared about that cross collaboration, that working together because that is certainly something that is very common, and it is just how we, quite frankly, work in this field. And so, oftentimes, we are just connecting them directly with the sponsors or other lenders that could actually support the project itself.

And then, specifically at Enterprise, we also have our policy team where we work to advocate for policy changes at the local level, which can help to support the goal of developing more affordable housing and making it easier for emerging developers to actually be able to develop projects and just actually receive access to public funds. Because sometimes again, even from the public sector, as Max mentioned, it could be challenging even on that level, to access that capital. So, even advocating on that from that perspective.

And then, from a community level, one example that we are currently engaged in is really actually working with... This is actually in Baltimore, it's the Greater Baltimore Committee, working with them as an action advisory to implement an implementation partner to help design a private capital strategy around neighborhood revitalization and addressing the issue of vacant homes in Baltimore. I don't know if any folks are familiar with that challenge that the city has been facing. And so, really, our goal there is we'll be helping them identify pipeline for current projects that could work with both a public investment and establishing a structure to launch a private capital fund to actually support a neighborhood scale level redevelopment.

Robert Brinkley:

Thank you. Catherine?

Catherine Cawthon:

OCCH has over the years, kind of created a ability, I guess, to have all of our information and our contacts. So, we are finding ourselves as kind of a conduit, like I talked before. We aren't the specialist in absolutely everything. We do focus a lot on housing. So, we do know who in the industry focuses on different things, and we find ourselves bringing those folks to the table. I feel like we're also very much dependent upon having the relationships with different municipalities

because then, they are a source for us to really provide expertise, education, and also, that handholding that really is needed to bring actually an idea from somebody to a project and a development that actually closes on the lending facility and is able to then move forward. Some of the other ideas too, that I feel like people depend on us for that are non-financial is really that structuring of what does make sense from a taxable standpoint? And bringing in nuances of understanding the underlying real estate, the actual dirt and things like that.

Our team, I feel like we fill a role that in a traditional financial institution setting, they don't have the time for, they don't have the staffing for, and really, we can complement their efforts by bringing that to the table. Does our staffing make sense maybe for a lending platform at a financial institution? Absolutely not. They are driven by the markets. They are for-profit organizations. And we pride ourselves in not looking at what should be the financial model for us as an organization, but really, how are we going to meet the mission of creating more units of housing, seeing more jobs created in our communities and revitalization? So, it's a lot of that back room, I guess, that we love to volunteer for to bring people through the underwriting and et cetera, all the nuances of a deal.

Robert Brinkley:

Thank you so much for that. And we're going to try and accelerate things a little bit just so that we make sure that we have time for audience questions. But before we move on, Dan, wanted to get your response to that.

Dan Kane:

Sure. I just synopsise very quickly. It's a part relationships and the relationship that we carry, and can introduce to project developers is pretty critical because we can help navigate the zoning processes, the architectural requirements, environmental issues that may be part of a property that a developer may not be aware of because of relationships that we have within the city and the county that we work in. So, there's lots of examples where that comes to fruition and helps drive a project. So, local knowledge is something that we tend to try to take advantage of that really there's not a... In that respect, we don't have really a competitor per se because of the relationships, and the contacts, and the convening authorities that we have. And that not only applies in the CDFI space, but the CDE space as well for new market tax credit transactions. It's very common that we are able to attract out-of-town tax credits to a project in Dayton. And so, that's based on relationships that have been established over a long period of time.

Robert Brinkley:

Excellent. Thank you for that. Just want to try and get one more question in quickly here before we get into the audience questions, and we'll start with Max on this. But going forward, what do you see as some of the biggest opportunities for CDFIs going forward?

Max Upton:

I think the biggest opportunities that the CDFI world has is just telling its story. I think the flip side of opportunities is challenges, and I think thankfully, the CDFI fund has been resilient through various swings within the federal government. But I think the biggest opportunity is telling our story, telling them about the vacant building that used to be downtown, but thanks to someone who took a chance on a character-based loan, made a business, and restored a building,

and brought brick-by-brick and building-by-building, downtowns, and commercial corridors, and housing developments online. I think one of the things when we're all in it every day, it's hard for us to look up, and then, go out and evangelize all the work that we've been doing all day. And I think that's the biggest opportunity for us is to just pause and say, "We do a lot of really good stuff in this space," right?

Robert Brinkley:

Absolutely. Great point. Great point. And then, I'm going to go with Dan here next to the opportunities.

Dan Kane:

Yeah, the opportunities, I think, continue to be educating the local community to make sure they know who we are. And despite some of the things that I've said already, one of the things that we recognize is a lot of people still don't know what we do. There's a lot of confusion about what we may be able to do, what we maybe can't do. And that isn't just local, that's throughout the state. Max mentioned that I think one of the challenges we have is that state and federal legislators aren't very familiar with our industry. And that remains a challenge, especially from a funding standpoint when you're seeking government funding, which has then created a greater necessity to find non-government funding because of the lack of real knowledge about what the industry really does. So, I think that's kind of what I'd zero in on.

Robert Brinkley:

Thank you for that, Dan. Catherine?

Catherine Cawthon:

I want to double down on that. You're 100% right. And we are coming up with actually our impacts booklet so that we can tell our statewide different Congress folks, and then, bring that federal. And we have a turnover that occurs in these offices that we have to keep up on. So, that education should never wane. I am going to bring up challenges. Challenges to this is we really depend on financial institutions' dollars to leverage ours. And I want to continue to see growth in that area for all of us because without them, [inaudible 00:47:25] dollars that go into a project. And I would hate to see any reduction of requirements from a regulated entity to be able to not invest what they've always done with us. So, I do see that as a challenge in the future that I want to make sure we prevent.

Robert Brinkley:

Thank you for that, Catherine. Sharon?

Sharon Bollers:

Yes, and I guess it's my turn to say, yeah, agree with what has been shared before. I particularly appreciate what Dan mentioned about growing that. I'll paraphrase and say that that pie of capital that's available. In our perspective, we see greater diversification of capital sources as being critical to scaling the CDFI investment activity and impact. So, our focus, and we see the expansion of resources to CDFI as an opportunity to expand the economic access, social areas, opportunities for job creation, economic growth, housing affordability. I need not say to anyone

on this here today that we're seeing the increased... The challenges, increased cost of living, and we know it disproportionately impacts the populations that we're seeking to serve. And where we are right now, we require our industry to develop new tools, come up with new creative solutions, continuing bringing that. And part of that solution, part of that opportunity is just growing that pie of bringing more folks in to invest in this community so there is more capital to help solve these problems.

Robert Brinkley:

Thank you so much. And for the sake of time, I want to get into the audience-provided questions. And we can just, if you are comfortable answering the question, feel free to just jump in here, but I'm going to throw this out here. Are there any misconceptions you wish community residents and or businesses knew that may be preventing them from fully leveraging CDFIs?

Max Upton:

So, I'll step in real quick. In the ecosystem, I often view economic development not as just this idea of how public incentives are dolled, but I think of the person who is the switchboard operator on the old telephones connecting wires in the back of the system to people. And so, with that context, I feel like the folks who may already be bankable, they miss an opportunity to engage with CDFIs on growth planning and new product lines and new markets, separate and apart from new markets tax credits. I think going back to saying what CDFIs do, they allow the entrepreneur to focus on the thing that they know best. If you could build the best widget, they provide you with everything around you so that you can continue to build the best widget that you can and grow your business.

Robert Brinkley:

Fantastic. Fantastic. Thank you.

Catherine Cawthon:

I think another misconception is that we only work with nonprofits, that we only support nonprofits, when that is further from the truth, furthest from the truth. It actually, we work with nonprofit, for-profit, small, medium-sized, sometimes larger, and we are that connector, like Max said.

Robert Brinkley:

Great point. Great point.

Dan Kane:

I'll add one more thing. This is maybe more of what we're not, maybe. We have to underwrite our loans to try to get repaid, and I'm not bashful about saying that. We're not a social service agency that's issuing grants. So, we do try to structure transactions that get repaid in a flexible manner over maybe a longer period of time, but it is something that we try to strive to at least structure our transactions to get repaid. And I think a lot of times, there's an assumption that, well, we are funded by the government or something, which we're not, and that we do have funding sources that we need to repay as well.

Robert Brinkley:

Absolutely. Great point. Just for the sake of time, I'm going to move on to another question here. And as banks look to achieve meaningful CRA impact while addressing persistent credit and investment gaps, what are the most effective partnership models you've seen between CDFIs and financial institutions? And where do you see the greatest opportunities for collaboration over the next few years there?

Catherine Cawthon:

I'll start with this one. I have seen in our organization, those targeted loan funds where we could really work with financial institutions in bringing in their money for a specific purpose, neighborhood, geographic area that they are interested in. So, it's really aligning what they need from an impact perspective and where they want to focus their dollars, as well as us being able to focus our dollars and bringing those rates down, providing some flexible financing within the guardrails of what we need to do to pay back that financial institution.

Dan Kane:

I'd echo that too, Catherine. My background is all in the commercial banking space, all in the Dayton area. So, I have very good relationships and our staff has very good relationships with the local banking community. So, we have established those funds. We have established those with the financial institutions in town. And not one of them is just pulling the heavy lift. It's intended to be spread out amongst a group of those, so none of it feels too heavy, either in the form of direct investment or an EQ2 loan or something like that. But the institutions that we work with have been very cooperative and collaborative with us.

Sharon Bollers:

Yeah. And if I can jump in, certainly capital is always king, right? That's definitely something that's necessary. But I think even expanding the same way CDFIs support beyond capital is also in that being a collaborative partner. We've certainly seen and worked with banks in terms of being a thought partner, in terms of addressing from a macro level, a larger community-wide challenge where we can think together about how various funding sources can help to address a larger overlying issue within a community.

Robert Brinkley:

Thank you. Thank you. And as we wrap up, I'm going to get one more from the chat here. Are the CDFIs well-known in your communities? The participant asks because they were involved in a panel, and they were brought up, CDFIs were brought up, and no one had known of them. So, when you came into your role, did you feel like there was education that needed to take place around what CDFIs were and what they did?

Catherine Cawthon:

100%. 100%. And it's continued, like we spoke before, making sure that we are... I think we need to come up with some commercials or some billboards. Okay, maybe not that, but we need to come up with... And we're talking about this at the national level with some organizations I know I'm involved with, and I'm sure others are as well. How do we? What is the best impactful way for us to continue those education? And because those folks are always turning in different

offices and different positions, and I just think we have to have the tenacity to continue to toot our horn and really share our successes. And it's okay to raise your hand and say, "Hey, guess what? This didn't work, so let's do this." But we need to speak up and toot our horn more often than not.

Robert Brinkley:

That's fantastic. Fantastic. Well, we are approaching time here, but I wanted to thank you all so much for taking the time to participate in this panel, in this discussion. This was robust, and I could keep going for hours. But before we wrap up, I want to make sure that the audience knows about a few things. First, we'd love to hear what you thought. There's a survey link in the chat, and also, it will pop up in your browser when we close out of Zoom. Please take a quick moment to share your feedback with us. It really helps us make these sessions even better. We'll be sending you a follow-up email with information about today's program, so keep an eye out for that. And if you decide that you want to watch this or listen to this again, the video and audio recording will be posted on the Fed Talk website at clevelandfed.org/fedtalk.

And actually, if you're a podcast person, you can subscribe to the Fed Talk podcast and catch this session, plus all the previous ones. It's available wherever you get your podcasts. So, please consider joining us for the next one on November 2nd, and the Fed Talk topic there is going to be Why Cleveland? The Story Behind the Fed's Regional Structure and Why it Matters Today.

And once again, I want to thank all of our panelists for participating in this. This was fantastic. I really, really appreciate your time today and the insight and perspective that you brought to the table. And I want to thank all of our participants for coming on and taking the time to watch this webinar. We really appreciate having you here, and we hope that it was helpful, that it was insightful, and that you also enjoyed it. So, again, I want to thank everyone again for being here today. Thank you very much. We hope to see you at the next one. Bye-bye.