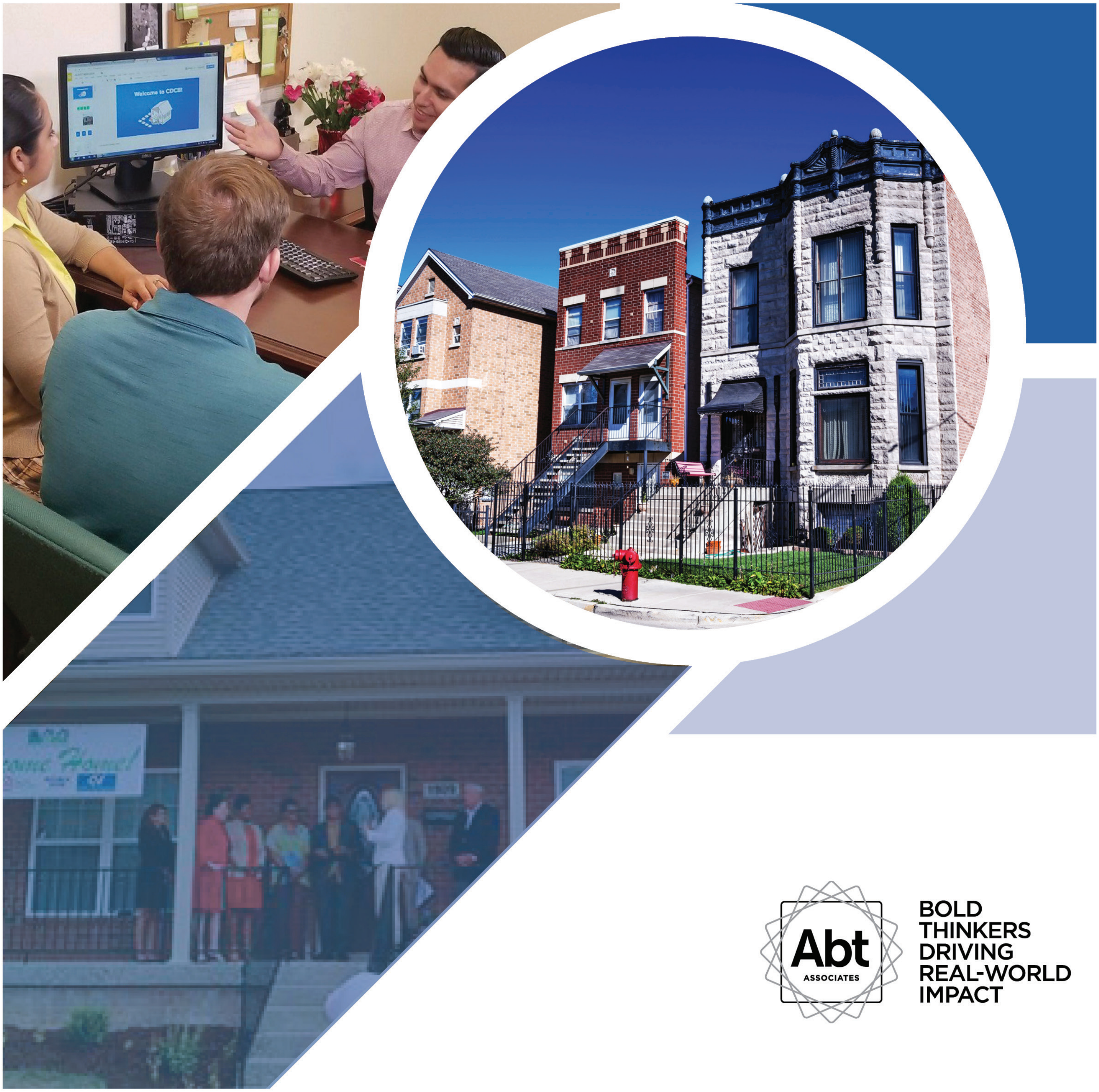
PRO NEIGHBORHOODS

JPMorgan Chase & Co.

BUILDING ORGANIZATIONAL CAPACITY AND DEEPENING IMPACT WITH PRO NEIGHBORHOODS GRANTS



Abt Associates

BOLD THINKERS DRIVING REAL-WORLD IMPACT

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Introduction

In 2013, JPMorgan Chase & Co. (JPMC) launched Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods), an annual competition that provides three-year awards of up to $5 million to Community Development Financial Institutions (CDFIs) that form collaboratives to address key drivers of inequality in their communities. The initiative's immediate goal is to increase economic opportunities in underserved communities, whether through improving residents' financial health, promoting employment, supporting small businesses, or developing affordable housing or commercial real estate. Over the longer term, the program seeks to build enduring capacity among award recipients to strengthen and ensure organizational viability and help to deepen impact.

As a grant with few restrictions, a signature of PRO Neighborhoods is its flexible capital. Though awards vary by size, all provide CDFIs with three-year grants to support operations and investments, and require recipients to leverage the funds to secure additional capital. In doing so, PRO Neighborhoods aims to position grantees to grow their balance sheets in order to strengthen operations, increase access to new capital streams, and encourage and de-risk programmatic innovations. To date, 32 collaboratives representing 104 partner organizations have collectively received approximately $131.8 million in PRO Neighborhoods funds.

In addition to its flexible grants, PRO Neighborhoods is unique in its emphasis on partnership. By requiring CDFIs to form – and apply for grants as – collaboratives, the initiative hopes to build the CDFIs' financial and organizational capacity, and incentivize organizations to pool their resources to improve the delivery of services to target communities.

In addition to its flexible grants, PRO Neighborhoods is unique in its emphasis on partnership.

This report seeks to better understand the impact of the PRO Neighborhoods awards on six CDFIs in three collaboratives funded in 2014 and 2015 and whose three-year grant terms have ended: Business and Community Lenders of Texas and Brazos Valley Community Development Bank, two of the five members of the Community Loan Collaborative; Community Ventures and Kentucky Highlands Investment Corporation, two of the three members of the PROsper Kentucky Collaborative; and Community Investment Corporation and Chicago Community Loan Fund, two of the three members of the Chicago CDFI Collaborative.

Now more than ever, when low-income communities and communities of color are disproportionately impacted by Covid-19 and the attendant economic crisis, we witness again the importance of strong, stable community organizations that have the flexible financing needed to pivot in the face of a crisis to better address community needs and support a meaningful recovery.

Key Findings

While the impact of the award on any individual CDFI is unique, three benefits were widely shared across the collaboratives, each of which speak to the value of flexible grant capital and the importance of partnerships.

Access to new capital sources. All grant recipients experienced at least one of the following:

Stronger balance sheets. The unrestricted grant funds acted as additional assets on organizations' balance sheets, with an average increase in total assets of 56 percent– roughly \$14.3 million – and an average increase in net assets of 38 percent – nearly \$6 million – among those CDFIs interviewed.

Additional funding. With stronger balance sheets, the CDFIs were able to leverage additional public and/or private capital, and successfully meet the requirements for accessing other funding sources, such as matching funds requirements and underwriting requirements for government, foundation and bank loans and grants. The grants also served to reduce the risk for other funders and create an easy way for grantees to merge networks and approach other funders together, further assisting them to attract additional capital. During the three-year grant term, PROsper Kentucky reported leveraging their grant to attract a total of \$69.2 million in additional funds, while the Texas-based Community Loan Collaborative reported a total of \$23.2 million, and the Chicago CDFI Collaborative reported \$13.4 million.

Reduced costs. By blending the PRO Neighborhood grant dollars with Program Related Investments, other grants, and market-rate debt, the CDFIs were able to reduce their cost of funds, in turn allowing the lender to take on greater risk or provide lower cost loans and better target low income communicates. Four of the six CDFIs reporting an average increase of 3.28 percentage points for their return on assets, further supporting the financial strength of the organizations.

Increased organizational capacity. All grant recipients experienced at least one of the following:

Greater reach. Grantees reported an increase in services, either through strategic geographic expansions or serving more clients in an existing market. The number of loans outstanding increased for all of the CDFIs, with an average increase of 78 percent, or roughly $9.5 million.

Improved delivery of services. Numerous grantees invested in technologies to improve service delivery, including the development of an online client management system that the grantee has since sold to more than forty other CDFIs, improving operations for the purchasing organizations and generating new revenue for the grantee.

Enhanced staffing. Most grantees either hired additional staff or supported existing staff to gain new skills, such as the management of pass-through grants and strategies for building effective collaborations. Grantees reported an average increase in staff of 25 percent during the grant period.

Stronger partnerships. Grantees reported increased collaboration following their involvement in PRO Neighborhoods, including initiating new partnerships, expanding partnerships with their PRO Neighborhoods partners beyond the end of the grant term and/or assuming leadership roles in partnerships.

Better positioned to innovate. All grant recipients experienced at least one of the following:

Enhancements to existing products or development of new products. The grants enable CDFIs to pursue strategies that were previously too risky and/or costly, such as the development of a new real estate acquisition fund in Chicago's Woodlawn neighborhood.

Scaling of innovative models. Through partnerships, the CDFIs expanded programs, whether from one neighborhood to multiple within a single city, from one city to multiple cities, or even across state lines, including a Texas-based loan program that is now franchised in five additional states.

Case Studies

To learn more about the impacts of the PRO Neighborhood grants, please see the three case studies included in the report and summarized below.

Case Study 1:

Building Organizational Capacity in Texas and Indiana. The $5.1 million grant helped to finance small-dollar loans through employer payroll systems to combat payday loans, a lending model that collaborative members expanded to include larger employers within Texas and five additional states via new partnerships with local CDFIs. Collaborative members also built enduring capacity by investing in technology and hiring dedicated staff, and blended grant funds with mainstream debt to expand lending while keeping costs low for borrowers.

Case Study 2:

Increasing Impact Through Strengthened Partnerships in Kentucky. The CDFIs used the $2.6 million grant to invest in housing and economic development projects designed to fight decades of disinvestment, and leveraged the grant to attract outside funding. The flexible capital also strengthened the grantees' balance sheets, enabling them to access other Federal funding programs, including grants and low-interest loans. Additionally, one Collaborative member built a client management system which provides an ongoing revenue stream and supports ongoing collaboration. The CDFIs continue to work together to co-fund large loans.

Case Study 3:

Expanding into New Business Lines in Chicago. The $5 million grant assisted the CDFIs to grow their balance sheets by attracting additional grants and low-cost loans, supported the rehabilitation of distressed 1-4 unit residential buildings in low- and moderate-income communities in Chicago, and empowered the organizations to allocate additional internal resources to promising new investment approaches. The PRO Neighborhoods partnership facilitated staff awareness of partners' loan products and services, enabling referrals between the organizations and creating a more robust, comprehensive financing landscape.

Case Study 1:

Building Organizational Capacity in Texas and Indiana

I. Introduction

Since 2011, the South Texas-based Rio Grande Valley Multi-Bank (RGVMB) has partnered with area employers to offer an affordable, short-term, small-dollar loan product that acts as an alternative to payday and other high-cost loans that dominate the region. In 2014, as part of the PRO Neighborhoods initiative, RGVMB partnered with four other CDFIs to establish the Community Loan Center Collaborative ("Collaborative"), to expand the lending program both beyond South Texas and via new partnerships with larger employers. The Collaborative was awarded a 3-year, $5.1 million PRO Neighborhoods grant to create a franchise model in which partner CDFIs would have access to RGVMB's proprietary software in order to administer and manage the loan product, and would also offer borrowers complementary financial counseling and coaching. RGVMB would provide technical support and assistance to franchisees, and continue to operate the larger lending program and refine the model, as needed, to better serve the new markets.

Over the three-year grant term, which ended in 2018, the Collaborative members achieved significant impact in their communities. Collectively, they originated more than 32,000 loans, totaling $30.7 million, to over 9,400 employees, of which about 26 percent also received financial counseling to empower them to make more informed financial decisions. Additionally, the organizations increased the number of participating employers by 85 percent,

Community Loan Center Collaborative Members
(interviewees marked in bold)

- Rio Grande Valley Multi-Bank (Texas)
- **Brazos Valley CDC (Texas)**
- **Business and Community Lenders of Texas (Texas)**
- Lafayette Neighborhood Housing Services, Inc. (Indiana)
- Community Action of Northeast Indiana, Inc. d/b/a Brightpoint (Indiana)

from 68 before receiving the grant to 126 in 2018. Also, there are now franchises funded independently of the PRO Neighborhoods grant in Maryland, Missouri, North Carolina, Arizona and Alabama.

In addition to expanding their reach, the Collaborative members also took advantage of the flexibility of PRO Neighborhoods' unrestricted grant dollars to increase their organizational capacity, including strengthened financial positions, increased staffing and streamlining operations, as discussed in more detail in the next section.

The purpose of this case is to identify and discuss the impact of participation in the PRO Neighborhoods initiative on members of the Collaborative. Data from this report was gathered through quantitative reporting from the Collaborative members, analysis of members' financial audits, and qualitative interviews with Business and Community Lenders of Texas (BCL) and the Brazos Valley CDC ("Brazos Valley.") The remainder of the case study focuses on the experiences of these two CDFIs.

II. Increased Organizational Capacity

One of the goals of the PRO Neighborhoods initiative is to empower grantees to increase their financial and organizational capacity through access to unrestricted grant dollars and incentivizing collaboration. In the case BCL and Brazos Valley, both reported strengthened capacity across a range of metrics, including strengthened financial positions, increases in staff and more efficient operations, as discussed in more detail in this section.

Strengthened Financial Position. From the beginning to the end of the grant term, both Brazos Valley and BCL experienced increases in each of four key growth metrics: assets, net assets, revenue, and outstanding loans, as summarized in Tables 1 and 2. For example, BCL's revenue nearly doubled during the grant period.

Table 1.1: Business and Community Lenders (BCL) – Growth Measures

	FY2014	FY2018	% Change	Change
Assets	$19,206,364	$22,606,328	18%	$3,399,964
Net Assets	$10,458,140	$14,088,965	35%	$3,630,825
Revenues	$3,281,278	$6,350,251	94%	$3,068,973
Loans Outstanding	$9,553,655	$12,004,806	26%	$2,451,141
Staff	9 employees	16 employees	78%	7 employees

Table 1.2: Brazos Valley – Growth Measures

	FY2014	FY2017	% Change	Change
Assets	$959,719	$2,685,283	180%	$1,725,564
Net Assets	$482,403	$773,055	60%	$290,652
Revenues	$62,168	$408,898	558%	$346,730
Loans Outstanding	$600,037	$1,962,257	227%	$1,362,220
Staff	1 employee	1 employee	0%	0 employees

This growth is consistent with that seen across the six CDFI members surveyed for this report, who experienced an average increase in total assets of 56 percent– roughly $14.3 million – and an average increase in net assets of 38 percent, or nearly $6 million.

Increased Staffing. Thanks to BCL's strengthened financial position, the organization was able to improve administration of its loan program and deepen staff expertise. Prior to the grant, the BCL staff members administering the loan program also had other responsibilities and were supported by a dedicated AmeriCorps VISTA volunteer. After receiving the grant, BCL hired one additional staff person to work exclusively on the loan program, as well as additional new staff to work on other BCL programs. BCL also leveraged the grant to obtain other funds that supported additional staff for other areas of BCL loans and services. In contrast to BCL, Brazos Valley did not increase its staff capacity as a result of the PRO Neighborhoods grant, in part because it was able to secure additional staff support from its parent organization, the Brazos Valley Council of Governments.

Streamlined Operations. The collaborative used a portion of its grant to develop a borrower portal that borrowers could use to check their account balances, make pre-payments, and renew their loan applications. The portal expanded the CDFI partners' capacity by reducing the organization's servicing costs. Because the portal was folded into RGVMB's overarching servicing platform, other franchise lenders also experienced reduced servicing costs.

III. Increased Impact

The increases in the CDFIs' internal capacity enabled them to increase their community impact by expanding geographically, establishing new, strategic partnerships, and standardizing products to insure consistency and competitiveness across franchisees.

Strategic Growth via New Partnerships. The unrestricted grant supported the expansion of services by Collaborative members. For example, prior to receipt of the PRO Neighborhood funds, Collaborative member BCL had sufficient lending capital to partner with one large employer, the City of Dallas, whose 11,000 employees submitted 450 loan applications in the first 30 days of the partnership. Though the partnership with the City of Dallas was a success, it required the majority of BCL's lending capital, and proved to BCL that it would need significantly more capital in order to serve additional large employers. The PRO Neighborhood grant provided that capital, enabling BCL to partner with Parkland Hospital to serve its 13,000 employees.

In addition to partnering with new employers, Collaborative members have built enduring partnerships amongst themselves that have allowed for geographic expansions. For example, BCL and Brazos Valley supported two Indiana based CDFIs, LNHS and Brightpoint, to introduce the loan program in their state, making these two CDFIs the first organizations outside of Texas to offer the loans as a franchise. There are now franchises funded independently of the PRO Neighborhoods grant in Maryland, Missouri, North Carolina, Arizona and Alabama. In total, 58 new employers joined the program during the grant term.

Product Consistency Across Markets. Prior to receiving the PRO Neighborhoods grant, the CDFIs cost of funds limited who they could serve. For example, both BCL and Brazos Valley relied on debt capital to finance the loan product. The cost of capital associated with that debt financing limited the two organizations to partnerships with "low-risk" employers, meaning those with low rates of employee turnover and those with fewer employees. Absent the grant dollars, the organizations would have had to either assume additional debt or spend down operational funds to partner with “higher-risk” employers, in turn weakening their overall financial health. The PRO Neighborhood funds facilitated partnerships with additional employers, without adjusting product features or increasing fees to offset the additional risk. That consistency and competitiveness is crucial given that each CDFI operates as a franchise of the larger RGVMB loan program. As a representative from BCL explained, “We’re working collaboratively with several organizations across the nation, and we’re working with a similar model. If you go into any franchise, you’re going to get the burger from Wendy’s the same way and from McDonald’s the same way. If we’d had to go in and do special customization, we’d lose the actual product that’s out there.”

Increased Lending and Financial Education. Both BCL and Brazos Valley more than doubled their lending volume during the three years of the PRO Neighborhood grant. When comparing the twelve months prior to receiving the grant to a similar 12 months period after receiving the funds, BCL generated 285 percent more loans, up from roughly $1.1 million to almost $4.3 million, while Brazos Valley’s lending increased 188 percent, from $251,259 to $724,211. Coupled with an increase in lending was an increase in the number of borrowers receiving financial education. A total of 2,512 borrowers received financial education during the grant term. This programming can assist borrowers to better manage their money and, in turn, increase the likelihood of repayment. For example, early on in the program, 50% of the borrowers from one of Brazos Valley’s partner employers were returning for a second loan before they paid off the first, which raised program costs, as well as concerns about the borrowers’ financial health. That employer began to require that all employees participate in financial coaching before they applied for a second loan. According to Brazos Valley staff, the increased emphasis on financial education helped to reduce the number of borrowers who either fell behind on their payments or applied for a second loan, resulting in borrowers who are better able to manage their money and also a reduction in risk for Brazos Valley.

IV. Conclusion

Investments in CDFIs are investments in the people they serve, a point that comes through again and again when looking at the impact on borrowers of the Collaborative's loan program. According to data from this Collaborative:

- Forty-one percent of borrowers surveyed indicated that they are saving money and that those savings have increased "somewhat" or "a lot" since obtaining the loan;
- Forty-four percent of participants reported a credit score increase after obtaining the loan, as compared to 5 percent of participants who reported a credit score decrease; and
- Sixty-six percent of the participants reported that their debt decreased after receiving a loan, as compared to five percent that reported an increase in outstanding debt.

Additionally, the Collaborative estimates that their borrowers saved an estimated $106.3 million in interest and fees when compared to the cost of a comparable loan from a payday lender. As one BCL representative explained, "I get calls from people crying because they're about to be evicted, and we're able to provide that added assistance.... These are real lives that are affected by small-dollar loans that allow people to survive and thrive."

Case Study 2:

Increasing Impact Through Strengthened Partnerships in Kentucky

I. Introduction

In 2015, two Kentucky-based CDFIs, Community Ventures and Kentucky Highlands Investment Corporation ("Kentucky Highlands"), joined with a third, Fahe (formerly the Federation of Appalachian Housing Enterprises), to form the Urban-Rural Collaborative with a goal of reducing poverty and increasing economic opportunities in four low-income urban and rural communities across the state through loans to entrepreneurs and homebuyers. The collaborative received $2.6 million from JPMorgan Chase's PRO Neighborhoods initiative, which the organizations combined with other funds to deliver capital to communities working to recover from decades of disinvestment and a dearth of traditional bank capital.

Collectively, the CDFIs lent nearly $34 million over the three-year PRO Neighborhoods grant term, which ended in 2018, including roughly $15 million in mortgages to approximately 150 families, and almost $19 million in business loans to 210 entrepreneurs, including supporting the development of a kitchen incubator and the redevelopment of a mobile home park. According to Collaborative staff, the small business loans supported the creation of 1,054 jobs and the preservation of another 712. The mortgage loans were equally impactful, with 80 percent of the loans originated to first-time homebuyers, nearly all of whom had low or moderate incomes.

Notably, though the organizations worked in partnership, each also pursued its own strategy for community lending, with Community Ventures and Fahe focused primarily on mortgage lending, and Kentucky

PROsper Kentucky Collaborative Members

(interviewees marked in bold)

- **Community Ventures Corporation**
- **Kentucky Highlands Investment Corporation**
- Fahe (formerly the Federation of Appalachian Housing Enterprises)

Highlands focused primarily on business loans. That flexibility is a signature of PRO Neighborhood's unrestricted equity, and has proved significant not only in supporting grantees to increase their impact in their communities, but also in assisting them to increase their organizational capacity. In the case of Community Venture and Kentucky Highlands, the funds facilitated access to new income streams, strengthened both organizations' financial positions, and supported the development of new technology, as discussed in more detail in the next section.

The purpose of this case is to identify and discuss the impact of participation in the PRO Neighborhoods initiative on members of the Collaborative. Data from this report was gathered through quantitative reporting from the Collaborative members, analysis of members' financial audits, and qualitative interviews with Community Ventures and Kentucky Highlands. The remainder of the case study focuses on the experiences of these two CDFIs.

II. Increased Organizational Capacity

PRO Neighborhoods is built on the belief that equity can be a game-changer for the capacity and operations of a high-performing CDFI because grantees are empowered to determine how best to spend the money to strengthen and grow the organization. This proved true for both Community Ventures and Kentucky Highlands. Both organizations experienced meaningful increases in organizational capacity, as discussed in this section.

Access to new income streams. Raising equity financing has become more challenging over the past 15 years, according to Community Ventures. This is especially true for CDFIs operating in areas with few local sources of capital, as is the case in eastern Kentucky. As one interviewee explained, "I can't stress enough the need for private funds that you can use for match for other funds. It's really almost impossible to raise money locally because of the income of the market we're in." For both CDFIs, the PRO Neighborhoods grant proved significant in unlocking new income streams that were previously inaccessible. Specifically:

- **Federal dollars**. The CDFIs used equity grant funds to meet grant-specific requirements for matching and leveraged funds. For example, the CDFI Fund requires CDFIs that receive a grant from the Capital Magnet Fund to provide funding for projects in an amount at least 10 times the amount of the grant. To meet this requirement, the CDFI needs a source of capital to pair with the grant. Community Ventures reported that it used the PRO Neighborhoods grant to contribute to the required funds to qualify for a Capital Magnet

Fund award of $750,000. Similarly, Kentucky Highlands used the PRO Neighborhoods grant as one source of required matching funds for two CDFI Fund Financial Assistance awards.

- **Debt Financing**. The equity positioned both CDFIs to meet lender requirements and borrowing limits set by their boards, thereby giving them access to debt financing. For example, the Community Ventures' board requires the CDFI maintain a 50% net assets ratio. The PRO Neighborhoods grant increased the Community Ventures' net assets, which made the board more comfortable with additional borrowing. Both CDFIs borrowed from local banks, the CDFI Fund Bond Guarantee Program, and the United States Department of Agriculture, among other sources.

Collectively, the three Collaborative members reportedly leveraged nearly $70 million during the three-year grant term. The table below outlines some of the funding sources that Community Ventures and Kentucky Highlands accessed during that period. While the PRO Neighborhoods grants did not provide the only source of funds needed to meet the requirements, both CDFIs described the PRO Neighborhoods grant as instrumental in enabling them to access these other sources of funds.

Stronger Financial Positions. As with members of other PRO Neighborhood collaboratives, both Community Ventures and Kentucky Highlands experienced increases from the beginning to the end of the grant term in each of four key growth metrics: assets, net assets, revenue, and outstanding loans, as summarized in Tables 2.2 and 2.3. Please note that while some of the asset growth experienced by Kentucky Highlands was due to projects that the organization undertook with the PRO Neighborhoods grant, including the

Table 2.1: Community Ventures and Kentucky Highlands additional funding sources

Funding Source	Requirement	Amount Raised
CDFI Fund Capital Magnet Fund	1:10 leverage requirement	$750,000 grant (Community Ventures) $700,000 grant (Kentucky Highlands)
CDFI Fund Bond Guarantee Program	Negotiated leverage requirement, often 1:5	$15 million loan (Community Ventures) $10 million loan (Kentucky Highlands)
CDFI Fund Financial Assistance (FA) Award	1:1 matching funds	$2 million loan (Kentucky Highlands) $1,384,402 grant (Kentucky Highlands) $1,006,905 grant (Kentucky Highlands)
USDA Uplift America Program	Letter of Credit for 5 years of payments	$25 million and $3.8 million loans (Kentucky Highlands)

Kentucky

Table 2.2: Community Ventures – Growth Measures

	FY2014	FY2017	% Change	Change
Assets	$41,445,785	$63,841,298	54%	$22,395,513
Net Assets	$22,706,701	$32,040,854	41%	$9,334,153
Revenues	$8,295,115	$11,287,918	36%	$2,992,803
Loans Outstanding	$15,968,744	$30,408,688	90%	$14,439,944
Staff	52 employees	62 employees	19%	10 employees

Table 2.3: Kentucky Highlands – Growth Measures

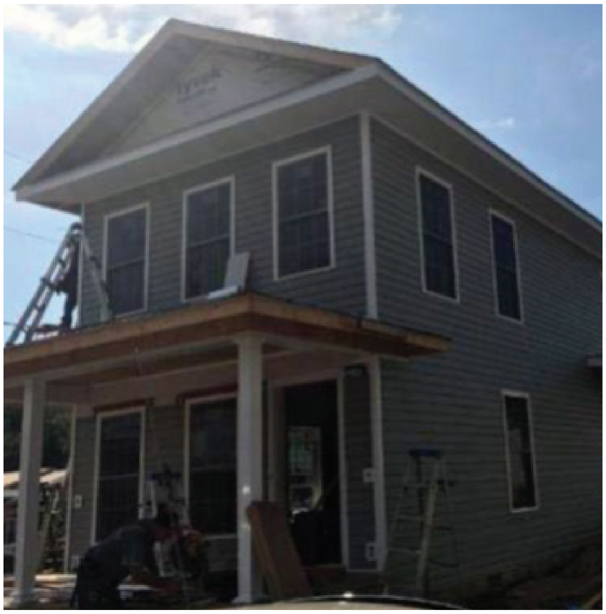
	FY 2014	FY2018	% Change	Change
Assets	$72,459,698	$94,365,472	30%	$21,905,774
Net Assets	$55,007,910	$59,143,403	8%	$4,135,493
Revenues	$6,474,840	$8,327,742	29%	$1,852,902
Loans Outstanding*	$42,937,497	$64,453,826	50%	$21,516,329
Staff	24 employees	22.5 employees	–6%	–1.5 employees

* Includes program-related equity investments.

purchase of a mobile home park and the renovation of an industrial facility in Mt. Vernon, some is attributable to activity unrelated to the grant, such as loans made through the U.S. Department of Agriculture (USDA) programs and their acquisition of the Pine Mountains Community Development Corporation.

This growth is consistent with that seen across the six CDFI members surveyed for this report, who experienced an average increase in total assets of 56 percent– roughly $14.3 million – and an average increase in net assets of 38 percent, or nearly $6 million.

New technology. In addition to lending, Community Ventures used some of the PRO Neighborhoods grant funds to develop mPact Pro, a proprietary client management system that streamlines and centralizes mortgage borrower intake, data collection, tracking, and reporting. It collects, stores, and manages data for clients participating in various education and counseling programs, including eHome America, the Internet-based homebuyer education training course developed by Community Ventures and used by more than 650 housing counseling agencies nationally. Through mPact Pro, lenders and housing counseling agencies are better able to communicate and coordinate to move households into homeownership in a more timely and cost effective manner. In addition to streamlining operations and reducing costs for users, mPact Pro is also functioning as a new source of revenue for Community Ventures, who took the product to market in 2018 and now has 41 organizations using the system and is in the process of adding another 70.



III. Increased Impact

The combination of strengthened operations and flexible capital enabled the CDFIs to meaningfully increase their impact in their target communities by financing a wider range of projects, collaborating to fund loans previously considered too large, and developing new products to serve local needs.

Finance a wider range of projects. The flexibility of the unrestricted equity was very valuable to the CDFIs, as it enabled them to respond to a wider range of community needs by providing them access to a greater variety of loan and investment products. The equity supported a multitude of loans and investments in small businesses, mortgages, and commercial and residential developments, with the results ranging from new jobs created in areas devastated by the loss of coal mine operations to increases in the availability of safe, affordable housing. For example, Community Ventures used a portion of the funds to finance a shared kitchen incubator, while Kentucky Highlands invested part of its PRO Neighborhoods grant in the purchase and rehabilitation of a mobile home park, and also mortgages for individuals to purchase newly built, energy efficient, homes on the site. As a Kentucky Highlands interviewee explained, "It was really, vitally important that we used private funds instead of public funds to do that work…. If we used public money, it would've been five to six times more expensive."

Increased collaboration to fund larger loans. Though staff at Community Ventures, Kentucky Highlands, and Fahe were friendly prior to launching the Collaborative, the three CDFIs seldom collaborated previously. Through the Collaborative, they transitioned from peers to partners, and, in doing so, seized opportunities to deepen their impact in their communities.

Kentucky

Table 2.4: Urban-Rural Collaborative, Cumulative Activities*

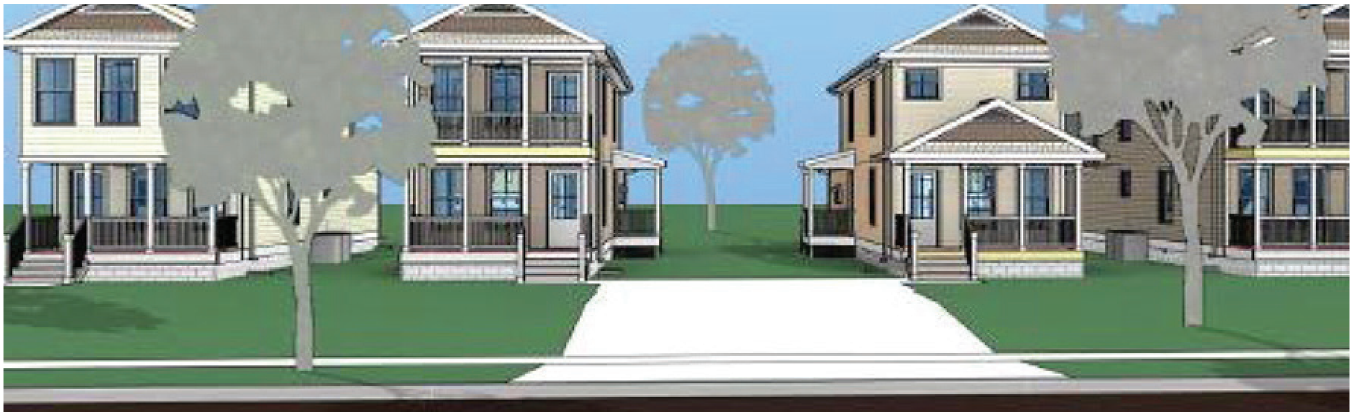
	#	$
Total Loans	361	$33,991,822
Small Business Loans	210	$18,592,880
Businesses supported	184	
Jobs created	1,054	
Jobs preserved	712	
Mortgage Loans	151	$15,398,942
First-time homebuyers supported	121	
Low- and moderate-income first-time homebuyers	114	

* For the period November 2015 through December 2018

For example, the two of the three CDFIs provided a piece of the financing to support a local YMCA, a project that was too large for any one organization to fund independently, and one which has fundamentally changed how the organizations now interact. As a Community Ventures interviewee reported, “When we run into the larger credits now, because the underwriters know each other they just pick up the phone and say, ‘Hey, do you want a piece of this?’ We never did that before. And why we didn’t, I can’t tell you. It seems obvious in hindsight.” They are also exploring ways to collaborate on underwriting and sharing certain technologies to streamline operations and reduce expenses.

New products. Community Ventures used a portion of the PRO Neighborhood funds to develop its First Mortgage Program, an affordable mortgage product that is coupled with financial and homeownership education, and targets borrowers with credit scores between 600 and 680, a customer segment that most traditional lenders stopped serving in the aftermath of the 2008 housing crisis. According to Community Ventures staff, the grant equity was critical to establishing the program for three reasons. First, the equity gave the organization’s board the necessary cushion to approve the program. At the same time, the equity proved critical in enabling Community Ventures to convince a consortium of six local lenders to provide a line of credit that the CDFI could draw down to finance the mortgages. Finally, with the additional equity on its balance sheet, Community Ventures was now able to meet the requirements for the CDFI Bond Guarantee Program, which Community Ventures tapped to borrow $15 million to buy out the costlier debt from the local lenders. As one staff member explained, "That equity allowed us to also participate in the CDFI Bond Funds Program, which released the capital we needed to do the 30 year long-term mortgages. If you want to bottom line that, 144 families are living in houses today because of that."

The First Mortgage Program not only allowed Community Ventures to originate nearly 150 mortgage loans, it also financed the creation of new staff positions, says one employee. "Our portfolio nearly doubled when we added $15 million more in loans. By almost doubling it, we added almost a quarter million dollars to our earned revenue, which allowed us to bring on probably three of the ten new lending staff. They can do all those things that we always wanted to do and never could, like quality control on our loans."



IV. Conclusion

In Kentucky, the needs of people living in poverty are many and varied. As one interviewee explained, "We continue to lose coal mining jobs and counties that are heavily depending on coal jobs are shrinking. Some of them have lost 10 percent of their population in just the last six years … The loss of that primary income into the counties has just been devastating. We had a hospital close. The miners had excellent insurance for their families. A lot of the second tier providers provided private health insurance. That's almost totally gone from that community. And it just ripples through the economy. One customer-based business after another has just been devastated. So the need for what we do has just been greatly amplified."

Kentucky

Against such a varied set of challenges, it makes sense that the members of the Urban-Rural Collaborative used their PRO Neighborhood funds to catalyze a range of economic opportunities in a range of rural and urban communities. Nevertheless, it's a degree of variation that is unusual for a single grant, as grants are often restricted to a programmatic or geographic area of particular interest to the funder. Such variation requires flexible funding and deference to the grantees' local expertise, both of which are hallmarks of the PRO Neighborhoods initiative. In allowing for a more open-ended use of the funds, PRO Neighborhoods empowers grantees to refine their work to best suit the unique opportunities and needs of specific communities.

Case Study 3:

Expanding into New Business Lines in Chicago

I. Introduction

In late 2013, three Chicago CDFIs—Community Investment Corporation (CIC), Chicago Community Loan Fund (CCLF), and Neighborhood Lending Services (NLS)—created the Chicago CDFI Collaborative to finance the rehabilitation of vacant housing units in a handful of Chicago's low-income neighborhoods that were especially hard hit by the nation's foreclosure crisis and subsequent Great Recession. The collaborative received $5 million from JPMorgan Chase's PRO Neighborhoods initiative, which the partners combined with other funds to acquire vacant one- to four-unit properties and provide purchase/rehab financing to owner-occupants and small-scale developers, helping to fill a crucial gap in financing for revitalization in the communities and increase the availability of safe, high-quality, affordable housing.

Over the three-year PRO Neighborhoods grant term, which ended in 2017, the Collaborative members collectively acquired and sold to small-scale investors for rehabilitation a total of 178 distressed properties, or 268 housing units. They also lent nearly $25 million to a mix of owner-occupants and investors to support the purchase and/or renovation of an additional 252 properties, or 325 housing units.

Chicago CDFI Collaborative Members

(interviewees marked in bold)

- **Community Investment Corporation**
- Neighborhood Lending Services
- **Chicago Community Loan Fund**

As with members of other PRO Neighborhood Collaboratives, the three Chicago-based CDFIs partnered on a shared vision for revitalizing the targeted neighborhoods while pursuing complementary but distinct strategies for community reinvestment. Specifically, CIC used the grant funds to establish an acquisition fund and acquire distressed properties to resell to responsible, small-scale investors. CCLF and NLS both used the funds to make purchase/rehab loans, with CCLF providing financing to investors, and NLS supporting owner-occupants. The result was an acquisition and financing ecosystem that could collectively address a wide range of borrower needs, helping to spur revitalization on a larger scale than any CDFI could have achieved individually.

The purpose of this case is to identify and discuss the impact of participation in the PRO Neighborhoods initiative on members of the Collaborative, with a focus on ways the grants helped to increase organizational capacity and deepened community impact. Data from this report was gathered through quantitative reporting from the Collaborative members, analysis of members' financial audits, and qualitative interviews with Community Investment Corporation (CIC) and the Chicago Community Loan Fund (CCLF). The remainder of the case study focuses on the experiences of these two CDFIs.

II. Increased Organizational Capacity

In providing unrestricted grant dollars and incentivizing collaboration, PRO Neighborhoods seeks to position grantees to increase their organizational and financial capacity. This proved true for CIC and CCLF, both of which strengthened their financial positions, enhanced staffing and experienced strategic growth and diversification, as discussed in more detail in this section.

Table 3.1: Chicago CDFI Collaborative, Cumulative Activities*

	# Properties	# Housing Units	$ Invested
Total	430	593	$41,107,509
Property Acquisition Fund	178	268	$2,931,628 (acquisition) $13,399,999 (rehab**)
Purchase/Rehab Loans to Investors	58	94	$6,041,750
Purchase/Rehab Loans to Owner-Occupants	194	231	$18,734,132

* For the period January 2014 through December 2016 as reported in the Joint Center for Housing Studies of Harvard University's report PRO Neighborhoods Case Study: Chicago CDFI Collaborative available at: https://www.jchs.harvard.edu/research-areas/working-papers/pro-neighborhoods-case-study-chicago-cdfi-collaborative

** This is the amount invested by the purchasers in rehabbing the acquired properties

Strengthened Financial Positions. As with members of other PRO Neighborhood collaboratives, both CIC and CCLF leveraged the PRO Neighborhood grant to create new revenue sources that lasted beyond the grant term, and strengthen their financial positions. Their distinct business models resulted in different kinds of growth. CCLF used the majority of the funds to fund a loan loss reserve and a small portion ($38,000) to provide technical assistance. Because the organization holds its loans on its balance sheet, earned revenues increased 46%. CIC, which sold many of the loans they originated and used the PRO grant for a revolving acquisition pool, saw modest increases in assets and loans outstanding, but a 29% growth in revenues as it continuously recycled the grant dollars to generate earned revenue, as summarized in Tables 3.1 and 3.2. Additionally, CIC's acquisition fund (see section III for more details) contributed an estimated $500,000 to $1.1 million in revenue annually, further helping to increase CIC's self-sufficiency ratio, which was 92 percent prior to receiving the grant, and 98 percent by the end of the three-year term.

This growth is consistent with that seen across the six CDFI members surveyed for this report, who experienced an average increase in total assets of 56 percent– roughly $14.3 million – and an average increase in net assets of 38 percent, or nearly $6 million.

Table 3.2: Community Investment Corporation (CIC) – Growth Measures

	FY2014	FY2018	% Change	Change
Assets	$322,958,971	$328,323,081	1.66%	5,364,110
Net Assets	$28,481,472	$36,635,959	28.63%	8,154,487
Revenues	$18,629,198	$22,172,519	19.02%	3,543,321
Loans Outstanding	$269,929,385	$287,194,937	6.40%	17,265,552
Staff	45	48	7%	3 employees

Table 3.3: Chicago Community Loan Fund (CCLF) – Growth Measures

	FY2014	FY2018	% Change	Change
Assets	$60,145,351	$91,142,723	52%	$30,997,372
Net Assets	$18,256,393	$28,594,616	57%	$10,338,223
Revenues*	$9,212,643	$8,795,921	–5%	–$416,722
Loans Outstanding	$42,272,880	$71,825,102	74%	$29,552,222
Staff	17 employees	21 employees	23%	4 employees

Growth from FY2014 to FY2018.
* Total revenues declined slightly, largely a result of when the CDFI received large grants, including the PRO Neighborhoods grant. Earned revenues increased over this time period.

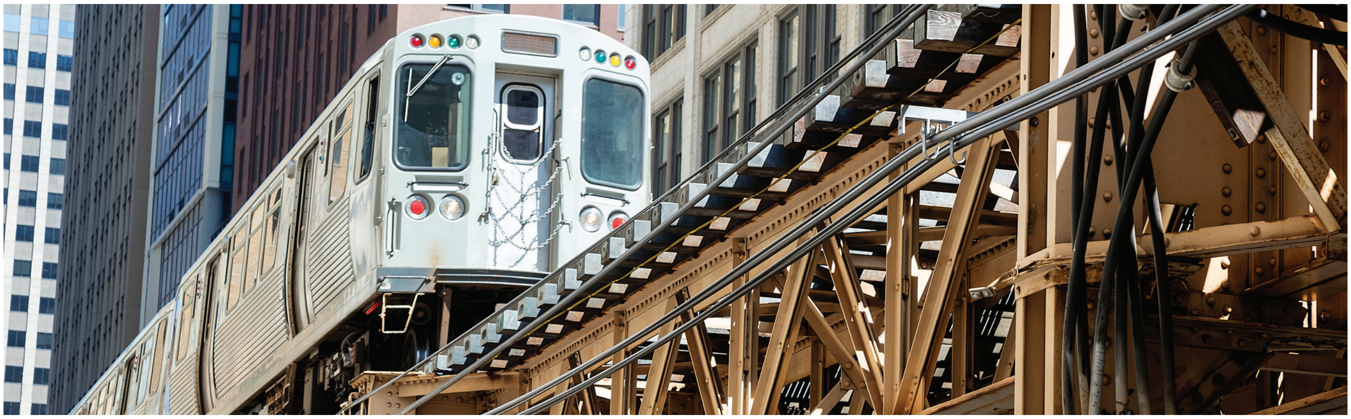
Enhanced staffing. Both CIC and CCLF grew their staff during the grant term. CIC's staff increased by three full-time employees, and CCLF's increased 23 percent – or four new full-time employees – including the newly created position of Vice President for Economic Development to help manage loans to for-profit commercial developers, a new line of business for the CDFI established with PRO Neighborhood funds. CCLF also plans to further increase its staff by adding a commercial loan officer to handle the increasing volume of commercial loans that the organization is originating.

In addition to adding staff, both organizations reported that existing staff developed new skills, including learning to manage and account for pass-through grants and how to effectively tell their story in conferences and other public spaces. Staff also developed leadership skills, according to CCLF, which says that its experience in the Chicago CDFI collaborative prepared it to serve as a lead CDFI in the Neighborhood Retail-Chicago Collaborative (a 2016 PRO Neighborhoods grantee) and helped position the organization to work with City of Chicago agencies on the Chicago Neighborhood Rebuild Training Pilot Program.

III. Increased Impact

In the same way the organizations bolstered their financial and organizational capacity, they also deepened their impact within their target neighborhoods by developing new products, establishing a more comprehensive, effective financing environment, and expanding into new markets.

Develop New Products. CIC deployed the PRO Neighborhoods grant to launch an acquisition fund, a significant change both in how the organization approaches its work and the types of housing it supports. Prior to the grant, CIC focused exclusively on larger, multifamily properties, both as a lender to investors and also as a buyer and seller of properties on a case-by-case basis. With the new acquisition fund, CIC expanded into financing the redevelopment of smaller properties, with vetted developers and rehabbers securing financing from CIC to purchase groups of properties from CIC, a new strategy that reduced the time needed to rehabilitate a property, thus reducing costs for developers and rehabbers. According to CIC staff, the organization's board approved the new strategy because of the dedicated funding provided by PRO Neighborhoods. Since launching the fund, CIC has bought and sold more than 500 properties as the organization continues to recycle the initial investment from the PRO Neighborhoods grant. Based on that success, the Board has agreed to a doubling of funding dedicated to acquisitions.



Establish a more comprehensive, effective financing environment. By collaborating, the CDFIs were able to achieve more than any single organization otherwise could have accomplished independently. Specifically, the CDFIs agreed to concentrate their efforts within the same neighborhoods, going so far as to sometimes work within the same block, or even on the same property. Consequently, they developed an awareness of each other's products, services and constraints. For example, CIC and CCLF provide different loan products and also employ different underwriting criteria, such as loan-to-value ratios and collateral requirements. As a result, the organizations could refer developers to one another as needed, helping to fill critical financing gaps and, in turn, increase the likelihood of completing revitalization projects in targeted areas. As one staff member explained, in discussing the impact of PRO Neighborhoods on their approach to collaboration, "Chicago's CDFI landscape was fractured before. We're much better at seeing each other as allies rather than competitors now." Collaborative members have found their partnership so effective that they have opted to continue working together beyond the grant period. Today, the organizations are jointly participating in the City of Chicago's "Micro Market Recovery program, which invests in homeownership and property rehabilitation in ten Chicago neighborhoods grappling with high vacancy rates.

Expansion into new markets. With the equity from the grant, CCLF was able to substantially leverage its net assets with more debt financing. The increase in assets and net assets allowed CCLF to make larger loans and, according to the CDFI, support larger and stronger projects. For example, they began making loans to for-profit developers and commercial real estate projects, both new markets for the CDFI.

Similarly, CIC used its newly-developed acquisition infrastructure to supply a pipeline of properties for the Restore Woodlawn project, which focused on rehabilitating distressed properties to increase homeownership opportunities in Chicago's West Woodlawn neighborhood. Overall, 44 individuals, mostly African-American first time homebuyers, purchased homes through this program. CIC emphasized that the West Woodlawn program would have been impossible without the acquisition fund they established with their PRO Neighborhoods grant, illustrating how a product developed in one community with funding from PRO Neighborhoods can then be exported to another neighborhood, and then administered completely independently of the grant funds.

IV. Conclusion

The Collaborative targeted certain Chicago neighborhoods in part because they were among those hardest hit by the 2008 collapse of the nation's mortgage market, and subsequent Great Recession. As part of their goal of assisting those communities to recover, the CDFIs initially planned to pursue a revitalization strategy grounded in selling distressed and abandoned properties to owner-occupants. But as one interviewee from CIC explained, there simply wasn't a market for that. "After the crash, there just wasn't any homebuyer demand and the buildings were sitting vacant. So the question became what to do instead. We thought of affordable rental housing because we could rehab it, get it re-occupied, and get it back into the housing stock."

The transition from financing owner-occupants to small, multi-family projects was not one that the collaborative had anticipated, and when their plans changed, it was the flexible nature of the PRO Neighborhoods grant structure that enabled them to pivot quickly, and with significant impact. "Fast forward a few years and though most of the neighborhoods are still significantly underwater from their peak values, the homebuyer demand is gradually increasing. When we started the program, that number was zero. This year, more than half the buildings we sell are going to rehabbers who sell to homebuyers, and that's delightful."