



Cases Prepared for Practitioner Review and Learning

Prepared by MBA students at the McDonough School of Business at Georgetown University
under guidance and direction of Capital Markets Access Program (NY) and NCCED (DC)

FINANCIAL CASE STUDIES

SUCCESSFUL COMMUNITY DEVELOPMENT FINANCE TRANSACTIONS

\$ 2mm - 15 mm during 2000-2002

Community Development Finance Case Studies for Practitioners

Seven detailed cases explaining how to complete certain types of financing:
Each case provides a detailed summary of recent successfully completed transactions.

Prepared by Capital Markets Access Program [CMA]



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Introduction

Throughout the following case studies we will focus on the lessons learned and how the particular financing may work for a type of nonprofit's assets. We have worked with each student team; approximately 2-4 members of the 2nd year MBA program at Georgetown's McDonough School participated in researching and interviewing for each case study.

This included a 2 semester long course called the Independent Community Development Tutorial of initially 25 students but throughout the year averaged 15-18 students involved in the task of preparing these cases. This a work in progress. These cases will be going through an edit in late June, 2002, Please feel free to add , write or email your comments.

The cases included:

- Financing a Bakery which trains welfare to workforce workers: Using a 501 c (3) Nonprofit Bond Finance with equity capital for \$ 9 MM The Greyston Foundation as a social business venture, Yonkers, NY
- Financing a tough brownfield with CRA bank capital debt and equity and retain 1200 jobs in Brooklyn from leaving NY with various long term mortgage finance and PRI capital of \$ 12.5 million
- Greenpoint Manufacturing & Design Center (GMDC), Brooklyn, NY (financing a Brownfield commercial real estate development)
- Financing Manufactured Homes in New Hampshire and shut out predatory lenders on a statewide basis. The NH Community Loan Fund has helped mobile homes owners coop and refinance their sub prime mortgage debt of approximately \$ 20mm. A national model.
- Financing a social business venture – a retail thrift store and bookstore as a subsidiary of financially insolvent parent. Housing Works. Financed retail business with \$ 1.75 mm apolitical bank debt providing accommodating terms short term debt
- Financing Predevelopment costs among 10 nonprofit low-income housing developers through formation of LLC, which raises low cost debt from family foundations through Calvert Foundation and as peer lending committee, lends to its LLC members. \$ 5 MM
- Financing economic development loans through securitization. Community Reinvestment Fund applies structured finance disciplines and structures to develop private placement debt for institutional investors such as Pru, Met Life, Wells-Fargo. Most recent securitization Series 13: a \$ 14.0mm private placement
- Financing a start up urban bank, which addresses the needs of African American and Latino financial banking and financial product needs. Urban Financial Corp: The Communities Bank raised \$ 12 mm equity and purchased \$ 65 in assets and brick and mortar banks from Fleet in New Haven CT area.
- Financing nonprofit behavioral care facilities with low cost fixed rate loans through a nonprofit bond finance



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CASE # 1

The Greyston Foundation: Financing a New Greyston Bakery

Summary by Lee Boyle and Jennifer Folsum

Contact: Charles Lief
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<http://www.buycake.com/>
<http://www.greyston.org/>

Project Summary

Over a three-year period that began in 1999, the Greyston Foundation was able to raise the funds necessary to build a \$9 million, 23,000 square-foot baking facility in Yonkers, New York. The site is in a blighted section of town and about mid-way into the financing process the soil was determined to be a contaminated “brownfield.” In spite of this and other setbacks, the Greyston Foundation was able to issue tax-free industrial development (IDA) bonds as the cornerstone financial piece. The bakery’s financing also benefited from the Department of Housing and Urban Development’s Enterprise Zone designation along with a similar designation from the State of New York.

Financial Component and Analysis

The Greyston Bakery is a fully functioning bakery located in South Yonkers, New York that primarily employs disadvantaged and chronically unemployed residents of Yonkers. The bakery is profitable, and its profits are used to help support the social service units of the Greyston Foundation such as Greyston Health Services and the Maitri Day Program. The bakery employs about 50 workers and produces mostly dessert foods such as cakes and brownies.

The bakery sells its cakes and pastries to local restaurants, but most of its business comes from producing brownies and other ingredients for Ben and Jerry’s ice creams.

In early 1999 it became clear to the operators of the Greyston Bakery that they had outgrown their baking facility and so they began looking for new space. The Bakery was committed to remaining in Yonkers and by mid-1999 had decided to try to build on an open lot just down the street from its current location, near the Hudson River. The property was attractive because it was within a new state Empire Zone, the state-level equivalent to a federal Empowerment Zone.

Greyston worked with Enterprise Foundation, Calvert Foundation, and the Heron Foundation to secure a total of \$575,000 in below-market-rate loans for pre-development costs such as legal, design and architect fees. These loans involve interest rates ranging from four to six percent APR.



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Through a connection of the Chair of the Board of Directors, Jonathan Rose, renowned designer Maya Lin (designer of the National Vietnam Memorial in Washington, DC) agreed to design the new

facility. Working with architecture firm Cybul and Cybul, Ms. Lin designed a beautiful 23,000-foot facility with capacity for 120 workers.

The project gained significant momentum when Yonkers Industrial Development Agency (IDA) (www.cityofyonkersida.com) authorized Greyston to sell \$ 4.5 million in tax-exempt bonds for construction. Greyston qualified for a Small-cap Industrial Bond, a form of tax-exempt municipal bond sanctioned by the federal government for businesses that have particularly positive social benefits.

Greyston found an investment banking firm based in New York called Advest (www.Advest.com), a specialist in economic development financing and industrial development bonds, to first help outline the project's different financing options. Advest was particularly helpful in identifying financing alternatives to tax-exempt bond such as direct placement of loans through various banks for Community Reinvestment Act (CRA) credit¹. Greyston finally settled on a tax-exempt option that the Advest helped Greyston write-up a financing proposal to go along with its business plan and began shopping for a bank to underwrite the bonds. Advest directed Greyston to ten banks and received serious interest from three and finally settled on the Key Bank (www.key.com), based in Cleveland, Ohio. In the end, Key Bank provided the letter of credit for the financing, which provided the security for the bonds which Advest sold. Once Greyston had secured a letter of credit, it decided to have Advest offer a variable rate bond, which has been historically much less expensive than fixed rate bonds.

Although Key Bank was only able to secure a \$3.2 million bond sale (not the \$4.5 million that was authorized by the Yonkers IDA), it was the lynchpin that allowed the rest of the \$9.4 million deal to follow. Though the bond portion only turned out to be about one third of total borrowings for the bakery, it was the centerpiece of the deal. Key Bank also offered an equity piece totaling \$800,000, made possible by a \$200,000 tax credit from NY State for investing in an Empire Zone.

Managers at the Greyston Foundation decided that a variable rate bond would be better than a fixed rate bond given market conditions. This differs from a fixed rate bond in that the bank issuing the bonds takes responsibility for paying the bondholders if Greyston cannot make its payments. Such a situation makes it much easier to value the bonds and their risk level because effectively the bonds are tied to the bank and not the issuing company.

Greyston was able to secure \$1 million in loans from the US Department of Housing and Urban Development (from Section 108 funds) as well as \$200,000 in federal dollars that was funneled through the Yonkers City Government.

Loan from Yonkers Bureau of Community Development was followed by a \$500,000 grant from the US Department of Housing and Urban Development. Both monies came as a result of the Greyston property being within a NY State Empire Zone.

In early 2000, Greyston became aware that the site on which it was planning to build contained contaminated soil and would require an extra \$1 million to be cleaned up. This complication nearly

¹ The new bakery, essentially because of its location in an economically distressed neighborhood and the bakery's social benefit, qualifies for special attention for commercial loans as a result of the CRA, a set of federal laws which requires banks to distribute their loans to all neighborhoods they serve.



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spoiled the deal, but Greyston was able to acquire environmental risk insurance in early 2001, which satisfied the lenders. Greyston was able to pay for the insurance and environmental clean-up costs using money that it acquired in early November 2001 from a \$900,000 legal settlement with the party responsible for the contamination – an electric utility company that had created the contamination nearly 100 years ago. As a result, the Greyston Foundation signed a voluntary clean-up agreement with the State of NY that releases Greyston from any liability to the State for the contamination.

Initially, the Key Bank offer was for \$5 million, but the appraisal of the new facility turned out to be lower than expected due to the economically depressed neighborhood. Therefore, the Key Bank reduced its offer to \$4 million, which caused Greyston to look for subordinate lenders.

One million dollars of less-secured subordinate loans were secured with the Nonprofit Finance Fund (www.nonprofitfinancefund.org), an organization that loans money for projects with a financial mission. This loan was possible using a small part of the bakery’s appraised value as well as the bakery’s equipment, inventories and receivables as collateral.

Predevelopment loans totaling \$575,000 from Enterprise, Heron, Calvert Foundations were secured throughout 1999 and are not included in the formal project costs (sources) that Greyston uses to summarize the financing of the Bakery.

Total Project Development Sources:

City of Yonkers IDA Bond	\$2,425,000	(Real Estate Bond)
City of Yonkers IDA Bonds	\$700,000	(Equipment Bond)
Interest on Bonds	\$100,000	
NFF Loan	\$989,000	
HUD Section 108 Loan	\$1,000,000	
Greyston Foundation Loan	\$475,000	
Brownfield Revolving Loan	\$276,250	
Brownfield Revolving Grant	\$148,750	
City of Yonkers Loan (CDA)	\$200,000	
HUD EDI Grant	\$500,000	
Empire State Development Grant	\$80,000	
Greyston Bakery Equity	\$300,000	
Greyston Foundation Equity/ Deferred Dev. Fee:	\$1,104,474	
City of Yonkers TIP	\$300,000	
KCDC/Key Bank Equity	<u>\$800,000</u>	
Total Project Sources	\$9,398,474	

KCDC = Key Bank Community Development Corporation

CDA = Community Development Activity

NFF =

EDI =

IDA = Industrial Development Agency

TIP=



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Lessons Learned/Significance of Project

Take advantage, to the full extent possible, of every government incentive available.

These deals require much more complicated and take much more time to complete than traditional real estate transactions which normally involve just one bank and one equity partner. Projects like this that utilize a main lender and subordinate lenders as well government agencies make for deals that are extremely complicated and take lots of time to close. Such deals require at least one lawyer from each involved party and any alteration that is made in the deal can effect the role each party, which may require the deal to be significantly rewritten.

Transferability of the Project

It helps to get to know people in the non-profit finance world. Greyston was led to Advest by Greg Stanton, a former Wall Street investment banker who now heads up GMS Capital Access, a firm that specializes in helping socially responsible businesses. Without Advest or a similar firm, this deal would not have succeeded.

Investment Banking Firms that could be alternatives to Advest: Goldman Sachs, Merrill Lynch, JP Morgan.

Supporting Documents

- Greyston Bakery business plan
- Letter of credit agreement for the bond issuance from the Key Bank
- Term sheet from the City of Yonkers for “Section 108” loan
- Bond indenture agreement from the Key Bank
- Term sheet for Key Bank preferred equity investment
- Term sheet for Nonprofit Finance Fund loan
- Soil contamination settlement agreement from New York State

Contacts

Contact persons at Greyston Foundation:

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About the Authors

Lee Boyle and Jennifer Fulsom are Masters of Business Administration candidates at the McDonough School of Business at Georgetown University. Mr. Boyle currently works part-time in the Social Research department at Calvert Asset Management, the nation's largest socially responsible mutual fund company. He will work in Calvert's marketing department this summer. Prior to business school, Mr. Boyle was a policy analyst for the US Congress, Deputy Press Secretary for President Clinton's Initiative on Race, and an inner-city teacher in Washington, DC. During business school Ms. Fulsom pursued a summer internship in investment banking and consulted on a variety of financial services consulting projects. Prior to business school, Ms. Folsom was an Associate in the High Net Worth Group at Legg Mason Wood Walker, Inc., where she helped manage a \$3 billion client portfolio.



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CASE # 2

Greenpoint Manufacturing and Design Center, Brooklyn, New York

By Daniel Jackson and Margarita Muzzall are Master of Business Administration degree candidates at the McDonough School of Business at Georgetown University

Contact:

Mr. David Sweeny, CEO, 1155 Manhattan Avenue, Brooklyn, NY 11222 (718) 383-3935 ext 11

“The fatal flaw of most social entrepreneurs is their tendency to try and go from 0 to 100 percent immediately...burning out quickly along the way. Start slowly, generate cash flow and a track record...”
--David Sweeny, CEO, Greenpoint Manufacturing and Design Center

Project Summary:

Like many social-economic development projects, the Greenpoint Manufacturing Design Center (GMDC), the only not for profit industrial developer in New York City, rose from the toil of a few opportunistic problem solvers. In this case David Sweeny set out to create and preserve quality blue-collar jobs for low income New Yorkers.² While working at the North Brooklyn Community Development Corporation, before founding GMDC, David Sweeny studied ways to create jobs for skilled and semi-skilled tradesmen in low-income Brooklyn neighborhoods. Industrial abandonment led by local manufacturers seeking more affordable rent, had left thousands of low-moderate income residents either unemployed and on welfare, or commuting to outlying industrial zones for manufacturing jobs they relied on for economic independence. In 1958, New York City had more than 1 million manufacturing jobs and fewer than 300,000 people on welfare; in 1990 more than 1 million people were on welfare and fewer than 300,000 in manufacturing.³ The decreasing availability of quality affordable light manufacturing space continued throughout the 1990's due to zoning changes and increasing competition from “dot com” companies and residential developers. A few small-time artisans and craftsmen, fleeing high rents in Manhattan, began to set up shop in an abandoned and dilapidated manufacturing building on Manhattan Avenue in Brooklyn. These few were the beginning of a re-birth of manufacturing to the Greenpoint neighborhood in Brooklyn.

In 1994, after he was asked by the City of New York to help resolve a situation between the City and tenants at the Manhattan Ave. building, Sweeny joined forces with the tenant group, to realize their shared vision of new manufacturing space and jobs in Greenpoint. The group formed GMDC and acquired the building for one dollar from the City of New York. At the time of the sale the building was in need of such extensive repair, that GMDC was thought to have taken on a \$14 million liability for one dollar. Thus began the arduous process of making the building inhabitable. Initially only 40,000 of nearly 400,000 square feet were made inhabitable; translating to only 12 tenants.⁴ GMDC ultimately sunk almost \$7 million into the building that now houses 72 small manufacturing businesses employing over 500 workers; 70 percent of them live in the Greenpoint or nearby Williamsburg neighborhoods of Brooklyn.

Central to Mr. Sweeny's success renovating and achieving 100 percent occupancy of the 1155 Manhattan building, as well four additional Brooklyn buildings over the last eight years, has been his ability to penetrate mainstream financial channels that traditionally have shunned non-profit organizations.

² Mission Statement, GMDC, www.gmdconline.com

³Liff, Bob, New York Daily News, December 22, 1997

⁴ Prud'Homme, Alex, New York Times, January, 10, 1999



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Financial Challenge:

GMDC's financial challenge was not very different from funding challenges facing non-profits across the country. Public funding was scarce and inconsistent, and private lenders were typically unenthusiastic about GMDC's not for profit business model and considered them more risk than they were worth. Sweeny commented at one point in the beginning that "...we were shopping for a line of credit and were continually rejected..., the banks gave us good chat on the phone, but they were skeptical."⁵ At the outset, GMDC lacked both a management track-record and consistent cash flow, and furthermore, owned a piece of property whose value was ambiguous at best and negative at worst (at least from the standpoint of the City of New York). Yet completion of renovation and improvements on the 1155 Manhattan building would require an estimated \$7 million dollars; much more than they could possibly obtain from normal non-profit funding channels.

Upon GMDC's purchase of the building, one million dollars in capital was granted by the City of New York Municipal Assistance Corporation, and funded through general obligation bonds. While these funds were originally intended only to help bring the building up to absolute minimum inhabitable standards (based on NYC building codes), Sweeny's team was able to put them to a more important use. GMDC leveraged the grant funds to obtain further public funding that allowed them to complete the renovations necessary to accommodate positive cash flow generating occupancy levels.

The combination of this seed capital, Sweeny's contacts in the economic development arena, and the popularity of the "bring blue collar work back to Brooklyn" cause, enabled GMDC to tap into various other public funding resources. In 1996, GMDC received its first loan, for \$250,000, from the Non-Profit Finance Fund (NFF); a New York based "Community Development Financial Institution" (CDFI). This loan enabled Sweeny to complete renovations of sufficient space for to twelve new tenants. With rents from these new tenants, GMDC began to finance additional improvements, adding tenants as more and more space was completed.

Between 1996 and 1999 GMDC received \$600,000 from NFF as well as \$700,000 in small grants and loans from various other foundations and public funding sources like the New York Foundation and the Federal Office of Community Services. This capital supplemented another \$3 million in renovation capital obtained from GMDC's retained earnings. However, public funding was insufficient to complete renovation of the 1155 Manhattan site. Private financing was essential to obtain the estimated \$2.5 million necessary to complete the project.

Transaction:

The first quarter of 1999 GMDC was generating positive cash flow and had bolstered its balance sheet with over \$3 million in retained earnings. From a financial perspective, Sweeny's persistent focus on cash flow resembled more of a for-profit business than a not for profit community development organization. GMDC first considered approaching a private lender upon the recommendation of one of David Sweeny's contacts at Sandler, Oneil & Partners, a New York securities firm. Sweeny and his team shopped the loan around until they found interest at First Republic Bank. First Republic had just entered the New York City market from their home base in California, and was hungry for Community Reinvestment Act (CRA) credit. Combined with GMDC's reputation as a "Tiffany" economic

⁵ Prud'Homme, Alex, New York Times, January, 10, 1999



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redevelopment project in New York City, potential CRA credit was enough to spark serious interest from First Republic. To further solidify a deal, Sweeny was able to demonstrate GMDC's ability to generate sufficient net income to cover First Republic's required 1:1.5 debt service coverage ratio. From the look of things, GMDC was now a very bankable prospect.

However, the transaction was not without other challenges. Placing a value on the facility was very difficult due to the fact that it was still largely deteriorating and unfinished. Sweeny pushed for an "as

complete" appraisal, which would allow for the full \$2.5 million plus a safety margin of additional equity, based on a maximum 50 percent loan to value ratio. First Republic initially insisted on an "as is" appraisal, but Sweeny was able to change their mind by demonstrating how the completed building would be self-sufficient with less than \$1 million in revenues.

As with most "brown field" development projects, GMDC faced a substantial environmental cleanup liability that First Republic understandably wanted nothing to do with. Sweeny and his team were successful in obtaining an indemnity bond, which satisfied First Republic's requirement and helped move the project forward. GMDC closed on the \$2.5 million loan in the summer of 1999.

This transaction provided Sweeny and his team with sufficient momentum and confidence to successfully continue their pursuit of private capital to fund new growth opportunities. GMDC's 1155 Manhattan building is an outstanding example of the remarkable capacity of non-profits to employ sound business models of profitability to become "bankable" and obtain the necessary capital to achieve their socially responsible goals. GMDC has gone on to finance four more buildings in the Greenpoint and Williamsburg neighborhoods of Brooklyn, using a mix of grants and loans from private and public sources.

Financial Structure:

The transaction with First Republic was a variable rate seven-year loan for \$2.5 million, collateralized with the property at 1155 Manhattan. An initial three year grace period, during which only interest payments were due, enabled GMDC to complete the renovation and lease the additional space before principal payments came due. The variable interest rate was based on 3% over the 11th District Cost of Funds, limited to a minimum-maximum range of 7.10% to 12.95%.

The Greenpoint Manufacturing and Design Center Local Corporation is structured as a non-profit holding corporation with three subsidiary's, the Local Development Corporation, the Brooklyn Waterfront Corporation, and the Manhattan Avenue Holding Corporation. GMDC generates revenue from two primary sources, rent and sales of custom office furniture produced by its for-profit subsidiary "SPACECRAFT FURNITURE & MILLWORK." In fiscal year 2001 the corporation had a debt ratio of 59% and a debt to equity ratio of 1.45; both of which have proven acceptable to private lenders due to GMDC's consistent rental income and healthy net change in assets margin of 21%. There has typically been a waiting list of tenants for all of GMDC's developments.

Lessons Learned & Transferability:

According to David Sweeny, the most important lesson he learned in the process of taking GMDC from theory to reality was that patience, persistence and cash flow is critical. Careful regulated growth, lean management operations, and successful leverage of available subsidized capital were key to GMDC's access to mainstream financial resources. However, our observations of Sweeny and GMDC demonstrated to us not just the importance of the three qualities mentioned above, but also the importance



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of knowing or obtaining the identities of community development and finance players in the local area. Sweeny built strong relationships with key contacts during his time with the North Brooklyn Community Development Corporation; relationships he continued to nurture while at GMDC. Doing so not only helped Sweeny ensure sound financial advice, but also led to introductions that yielded critical access to mainstream capital markets. Strong relationships and knowledge of local community development programs and policy not only enabled the purchase of a city owned building for \$1, but allowed GMDC to find public grant money that was sufficient to leverage for additional subsidized loans. Each of these steps was critical to building an organization with sufficient financial health to access mainstream financial channels.



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CASE # 3

Cooperative Financing for Manufactured Housing Parks New Hampshire Community Loan Fund

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Project Summary

Created in 1985, the New Hampshire Community Loan Fund (NHCLF) is a non-profit lender that has assisted helped tenants of manufactured housing parks to form cooperatives by securing financing and providing technical for the length of the loan. There is a critical need for this sort of financing because 4% of New Hampshire's 1.2 million residents live in manufactured housing, which has become a viable form of affordable housing. Currently, 10% of New Hampshire's 460 manufactured housing parks are cooperatively owned. Tenants typically own their manufactured house, often at extremely high mortgage interest rates, but rent the land in the park on which the home is located. This leaves low- to moderate-income tenants exposed to many risks, including rent increases, park closure and environmental and public health problems. Due to favorable legislature in New Hampshire, if a mobile home park is for sale and an outside offer is made, the tenants have 60 days to form a cooperative and secure funding. Because this type of lending does not meet the risk requirements of commercial banks, the NHCLF helps the tenants form a cooperative and provides subordinated debt to commercial loans so that park tenants can become tenant-owners. Additionally, the NHCLF helps residents create by-laws, track finances, manage receivables as well as encourage tenants to become more involved in the cooperatives.

Financial Challenge

Manufactured housing tenants, who typically have low- to moderate-incomes, have historically been unable to qualify for a traditional commercial bank mortgage individually. Although the tenants may have qualified collectively, traditional commercial banks would not extend mortgages to a non-legally bound group, as this type of lending does not fit the bank's risk requirements and lending practices. Commercial banks face many challenges to extending this type of financing because the borrowers lack fixed leadership, have low cash equity, and are democratically controlled with no prior management experience. By helping tenant groups become cooperatives, often under the 60-day timeline, the NHCLF is able to create a legal entity that qualifies for purchase financing. Additionally, the NHCLF's senior/subordinated debt package helps commercial banks to overcome their own lending practice challenges.

Because this new business model was initially unproven, the NHCLF originally sought funding from the State Housing Finance Authority, as it had a policy obligation to assist low-income residents, and non-profit organizations such as the Sisters of Mercy, to provide loan and down payment financing. After the fourth successful financing transaction, the NHCLF was able to secure financing from banks that were members of the Federal Home Loan Bank (FHLB). FHLB-member banks have been able to offer two key elements to successful cooperative financing: interest-only advances for down payments and fixed rate financing. The interest-only advances are crucial, as tenants typically do not have sufficient funds for a significant down payment, particularly within the 60-day time limit. Fixed rate financing is also imperative for the financial stability of the park tenants going forward. Private banks have seen the success experienced by the NHCLF and New Hampshire Housing Finance Authority and have followed suit. The NHCLF has found that FHLB-member banks are willing to make cooperative loans because they receive Community Reinvestment Act (CRA) credits and the NHCLF assumes subordinated debt and provides technical assistance for the life of the loan.



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Financial Structure and Benefits

The NHCLF helps manufactured housing park tenants form a cooperative, and each tenant pays a low, one-time membership fee, usually ranging from \$500 to \$1,000. Because tenants pay the membership fees up-front, they collectively become sufficient for a down payment on the mortgage to purchase the park. The NHCLF assumes subordinated debt for the gap between the capital the residents are able to raise from membership fees and what the commercial banks are willing to lend.

In all of the NHCLF-financed cooperatives, the land and infrastructure (water, sewer, etc.) are financed and secured by mortgages known as “blanket land loans.” This financing results in an expansion in the affordable housing market with stabilized rents and financing that is not at sub-prime rates, but instead at a fixed rate for the life of the loan. Additionally, the NHCLF is able to expand the home-ownership market, which results in a number of social benefits as well.

Social Benefits

There are many studies that prove that an increase in home ownership increases neighborliness and results in a decrease in crime. Additionally, the pride in home-ownership typically results in beautified communities, from replacing old manufactured housing with new homes, to capital expenditures for infrastructure (such as water and septic systems) that result in health and safety improvements. The NHCLF also points to anecdotal evidence of many tenant-owners gaining experience in areas such as management, financial reporting and public speaking through the management of the cooperative. This experience is afforded to lower-income residents who may not have received this experience otherwise, and has even resulted in job promotions.

Project Significance & Transferability

The NHCLF financing projects are significant because they have proven successful a business model that, prior to 1985, did not exist. This financing provides a long-term financing solution for the manufactured housing industry, a sector that has traditionally had little respect for its consumers. Because the NHCLF has proven the success of the senior/subordinated lending model through its 36 transactions worth \$14 million since 1984, this project is imminently transferable. In a favorable policy environment, revolving state loan funds and other non-profit lenders can secure commercial bank funds from FHLB-member banks at a fixed rate and with interest-only advances for down payments. Additionally, the NHCLF is in the process of standardizing and institutionalizing its training and technical assistance programs, which are also transferable.

Recommendations

In order to fuel the expansion of affordable housing through senior/subordinated financed manufactured housing, two tracks must be pursued simultaneously. **Policy Initiatives:** In order to put land ownership in the hands of residents or a benevolent landlord, there needs to be a favorable policy environment. New Hampshire has enacted a “60 Day Notice” law that requires a manufactured housing park seller to allow its residents 60 days to form a cooperative and secure financing. This legislation should be pursued in states where it currently does not exist. Because the manufactured housing industry grew from the travel industry, it has historically been treated as personal property, not permanent housing. Manufactured housing should be considered permanent and its lending practices should be covered under ERISA regulations to ensure maximum consumer protection against predatory lending practices.. Entrepreneurs in the non-profit sector can improve markets simply by participating in the market.

About the Authors : Jennifer Folsom and Lee Boyle are Masters of Business Administration candidates at the McDonough School of Business at Georgetown University. During business school, Ms. Folsom pursued a summer internship in investment banking and consulted on a variety of financial services



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consulting projects. Prior to business school, Ms. Folsom was an Associate in the High Net Worth Group at Legg Mason Wood Walker, Inc., where she assisted in the management of a \$3 billion client portfolio. Mr. Boyle currently works part-time in the Social Research area for the socially responsible mutual funds managed by the Calvert group in Bethesda, MD. Prior to business school, he worked for the US Congress as a policy analyst.



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CASE # 4

CRF - Community Reinvestment Fund

Securitization of EDA Loans

Mr. Frank Altman, President, Community Reinvestment Fund, Inc.
801 Nicollet Mall, Suite 1800 West, Minneapolis, MN 55402
Tel.: 800-475-3050, Fax: 612-338-3236
www.crfusa.com

Project Summary

By simply extending its current business practices, the leading economic development loan reseller was able to create a new secondary market for grants made from a government agency. By doing so, the grants were able to create economic development dollars well beyond their original value.

Community Reinvestment Fund (CRF) is a nonprofit corporation that provides capital to community development lenders across the country. It works with all type of lenders, from single person nonprofit organizations to giant state agencies. CRF provides a “secondary market” for these community development loans by buying loans secured by assets - including business loans, commercial and residential real-estate loans, and community facility loans. By selling loans at the fair market value to CRF, the lenders receive funds immediately and with minimal restrictions. To date, community-development lenders in 22 states have received more than \$200 million in cash from CRF. Most of the loans that are purchased by CRF are “warehoused” until a sufficient quantity is acquired to pool together for a secondary debt offering (called Community Reinvestment Revenue Notes) issued by CRF to institutional investors, such as banks, insurance companies and pension funds. Since its inception in 1989, CRF has made 13 such Community Reinvestment Notes offerings totaling over \$54 million.

In 1999, The Economic Development Administration (EDA), a division of the U.S. Department of Commerce that has long provided funds for the nation’s economic developing lending organizations, announced a pilot project to test recapitalizing its lenders by encouraging them to sell loans made with the agency’s dollars. CRF jumped at the opportunity and devised a program to satisfy the needs of EDA lenders.

CRF determined that the most efficient way to resell EDA loans was to bundle those loans with non-EDA loan pools and offer them as Community Reinvestment Notes. Thus far, CRF has made two offerings that have included loans bought as part of EDA’s securitization project. These mark the first time that EDA funds have ever been made available for a secondary market transaction. Many organizations pursued the challenge set forth by EDA, but CRF was the only one in the country able to buy and securitize EDA-backed loans in 2000. This case will detail CRF’s groundbreaking endeavor with the EDA.

Financial Challenge

Since no organization had ever attempted to securitize and sell EDA Revolving Loan Fund (RLF) grants, CRF had numerous challenges to bear. Not only did CRF need to educate potential participants, but it was also competing with other possible loan resellers. First, CRF needed to identify and contact associations that were receiving EDA grants and invite them to participate in the pilot program. In doing so, CRF found it necessary to lay out the goals for the project, its restrictions, and CRF’s particular qualifications and advantages as a loan purchaser to each potential participant. This process was completed by individually phoning 425 organizations that had received EDA grants.



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Of the 425 community developers, nine notified CRF that they intended to participate in the securitization project. In the end, however, only two actually followed through with the EDA program. It should be noted, though, that all but one organization did conduct business with CRF in other manners outside of the EDA pilot program. Furthermore, four organizations that initially declined participation, actually did sell EDA-funded loans to CRF.

CRF found that eligible organizations did not participate merely because they held EDA-funded loans. In conducting its marketing efforts, CRF identified three factors that influenced the loan-sale decision of the loan holders; (1) the size of the unmet demand for loans by potential borrowers, (2) the price received for the loans sold, and (3) the impact of a loan sale on the organization's operating revenue. It may seem to be a straightforward quantitative decision in which the lending organization's officers undertake a cost-benefit analysis of a loan sale versus other options for raising capital. However, several other factors enter into the equation that make a loan sale a less objective decision than it might appear. These factors include the political and organizational climate in which the officers are operating; the financial background and expertise of the officers themselves; the real or perceived quality of the loans themselves and the officers' willingness to have outside parties inspect them; and the personal motivation of the officers to increase the volume of the organization's business.

The participating lenders had several characteristics similar among them. First, most of the organizations that sold loans had an immediate need for funding. As one participant explained, "Our borrowers need the money now, they don't need it nine months from now," and further said that raising money through grants often takes too long. Second, some, but not all, of the lending officers had prior experience in the financial services industry and specifically commercial lending. In other words, those that were familiar with and saw the benefits of secondary financial markets did not need to be further educated.

Next, the lending rates of those RLFs that sold to CRF varied widely, with interest rates as low as 4% and as high as 10.5%. Lenders had a variety of reasons for selling loans priced significantly below market. Some wanted to reposition their portfolios to higher rates. Others simply needed to raise funds and had few other options. Many of the loans sold, however, tended to be priced close to or at market rates. Finally, most of the organizations had other sources of funds that they could use to balance their revenue stream. They were not excessively reliant on the EDA for funding because they had significant other sources of lending resources.

Conversely, the organizations that did not participate also had common characteristics. By far, the most frequent reason given for not participating was, "No need for funding." However this can be broken down into several possible situations: (1) The organization recently received new grants that replenished its lending capital, (2) the organization has funded the bulk of its likely borrowers and is positioned to fund new borrowers incrementally as needed with its current sources of capital, (3) the organization lacks the marketing capacity to attract new borrowers or the administrative capacity to manage the loans, and (4) the current local supply of private capital can meet borrower demand.

However, there were several other reasons for not participating identified by CRF. First, a number of loan officers were simply not motivated to increase the volume of their business, even though that potential exists. In some cases, the idea of selling loans was viewed unfavorably by some members of boards that control the organizations. Other organizations declined to participate for fear of outside review of their loan portfolio and business operations. While some officers had strong financial backgrounds, others come from planning, grassroots organizing and social services and had no experience with secondary market techniques. Others may have made problematic loans and feared outside review would uncover poor lending practices and jeopardize future funding.



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Another reason given for not selling EDA loans were fear of discounts on the sale of their loans. Some groups were convinced, sometimes wrongly, that the sale of loans priced at below market rates would mean very sizable discounts in the purchase price. However, CRF (in its original marketing materials) gave general estimates of what they might expect to receive for their loans, so there should

have been little fear on behalf of the sellers. Conversely, CRF recognizes that those organizations lending at significantly below-market rates are not well-positioned for loan sales.

Although the loan purchase procedure may seem like a lengthy process, CRF believes that the purchase procedures required are minimal enough that there is no need for the lender to request professional assistance to comply. The speed with which these transactions can be closed is determined in part by the size of the loan and the ability of the lending organization to marshal its own resources. In the case of the pilot project, approvals of EDA loan sales were handled quickly and did not cause any delays in sales.

Transaction Summary

Loan Purchase Procedure

All loans purchased by CRF go through several phases. First, CRF provides a preliminary pricing to interested sellers to get an idea of what the loan is worth. If the RLF agrees to pursue a transaction, CRF then asks the lender for additional documentation, which is used to evaluate the quality of the individual loans and decides which loans can be purchased. Then, all loans must pass through a multi-layer approval process at CRF. Once approval is made, CRF provides a final price for the loans, which the RLF can accept or reject.

Description of Loan Assets for CRF's 12th Community Reinvestment Revenue Notes

- The pool is composed of 174 loans totaling \$14.3 million of outstanding balances. Of this pool, 27 loans totaling \$1.2 million are EDA loans.
- The loans were purchased from 27 sellers, of which 3 were of EDA loans (an additional 6 of these sellers operate EDA loan funds but did not sell EDA loans to CRF for this pool).
- The loans are located in 14 states, with EDA loans coming from 3 states.
- The weighted average interest rate on the loans in the pool is 8.5%, with rates on individual loans ranging from 2% to 14%. The weighted average interest rate on EDA loans is 8.65%.
- The typical loan amount of the loans in the pool is \$57,800.

Security Characteristics of the 12th Series

- The total dollar amount of securities issued was \$11,750,000.
- The securities were issued in three classes as follows:
 - Class A Senior securities in the amount of \$7,637,000
 - Class B Junior securities in the amount of \$3,525,000
 - Class C Subordinate securities in the amount of \$588,000



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- The weighted average coupon on the securities was 7.73%
- The weighted avg lives of three security classes are as follows (assuming a 0% default rate)
 - Class A – 35 months
 - Class B – 71 months
 - Class C – 94 months
- The securities were issued through a bankruptcy-remote special purpose entity (SPE). This SPE is a wholly-owned affiliate of CRF and is known as CRF-12, LLC.
- CRF is the holder of the Class C Subordinate securities and a portion of the Class A and Class B notes. In the event of defaults, the amounts that CRF would receive from future loan payments represented by these future interests would be reduced and would buffer both the Class A and Class B security holders from losses as a result of loan defaults.

Investors in the Community Reinvestment Notes: The debt security was closed on September 28, 2000. Investor participation was strong and diverse. Indeed, the 12th Series was over subscribed by more than 10%. The investors in the Class A and Class B securities included two commercial banks, three life insurance companies, two pension funds and one foundation. These investors included Wells Fargo Bank, Firststar Bank, Equitable Life Insurance, Mennonite Mutual Aid Assoc., Catholic Order of Foresters, Evangelical Lutheran Church of America Board of Pensions, the John D. and Catherine T. MacArthur Foundation and Prudential Insurance Co. Investors in all of CRF's notes receive Community Reinvestment Act (CRA) credit.

The 13th Offering

The success of CRF's 12th offering encouraged the organization to include EDA loans in its next offering in June 2001. The 13th offering sold for \$14 million, again offered in three classes. Twenty-two EDA loans were included in this offering totaling over \$1.2 million in unpaid principal balance. The characteristics and experience of the 13th offering mirrored that of the 12th offering of CRF.

Lessons Learned

CRF was very pleased with the results of the EDA loans used for the 12th and 13th Series securitizations and made the following observations:

- The EDA loans caused no particular concern to investors and were accepted by investors on equal footing with other loans purchased by CRF as acceptable collateral.
- As stated above, investor participation was strong, with the 12th Series being oversubscribed by 10%. Participation was also diverse, including two commercial banks, three life insurance companies, two pension funds and one foundation.
- The weighted average yield on the securities was higher than CRF hoped for, but was within an acceptable range. However, this may have been due to volatile conditions and an inverted yield curve in the bond market at the time of the offering.
- The ability to aggregate a sufficient volume of loans for a cost-efficient securitization in a short time period is important. Lengthy aggregation periods expose CRF to market risks that may become increasingly difficult to manage.
- It will be necessary to aggregate larger pools of a more standardized product before it becomes possible to obtain a rating for securities backed by such loans. The advantage of a rating is that it potentially increases the total base of interested investors.



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Transferability

The procedures for structuring and marketing a securitization are complex and require professional assistance. Further, they are cost effective only for those organizations of the very highest lending

volume. The many costs associated with securitization, both out-of-pocket expenses and institutional capacity-building, suggest that it is not cost-effective for most RLFs to consider self-securitization. As such CRF believes RLFs should view securitization as a specialized field that is not cost-effective for most individual entities.

CRF has created organizational structures that situate it well to provide services in a cost-effective manner. CRF provides institutional investors a market rate of return, hence ensuring that its debt securities are attractive to a wider range of investors than if it offered “social investment” instruments paying below-market rates. However, as a nonprofit, CRF utilizes foundation resources to lower its cost of capital and purchase and warehouse loans to provide cash to RLFs more quickly, thus extending the reach of its services. CRF believes this elaborate balancing of the advantages of for-profit and non-profit strategies provides the best opportunity to allow securitization of economic development lending to continue for the foreseeable future.

Both EDA and CRF required that the sellers of EDA funded loans obtain any consent necessary to effectuate a loan sale. For the pilot program, EDA required CRF to obtain its prior approval on behalf of the EDA grantee considering a loan sale.

About the Authors

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A significant portion of the information for this case study was gathered from the Securitization Project Final Report, dated April 30, 2001 and prepared by Michael Blumfield, Director of Marketing for Community Reinvestment Fund. This report details CRF’s experience and outcome of the EDA pilot program.



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CASE # 5

SEA Corporation

Organizations

Sustained Excellence Alliance Corporation

Calvert Social Investment Foundation

Contact

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Project Summary

The main goal of this project is to give community development organizations new ideas on how to raise capital. To that end, we will look at the Sustained Excellence Alliance Corporation and its Program-Related Investment (PRI) administered by Calvert Foundation.

The 10 community development corporations that make up SEA Corp needed flexible capital that could be drawn upon during initial phases of project planning, research, and development. To satisfy this need, SEA Corp teamed up with the Calvert Foundation to create a PRI to raise capital and create a fund for the member organizations to access predevelopment money. SEA Corp is expecting to raise a total of \$5 million through the offering.

Antecedent

1998 marked the 10th anniversary of Fannie Mae Foundation's (FMF) Maxwell Awards of Excellence, which awarded nonprofit organizations in the area of low-income housing development and maintenance. In honor of the anniversary, FMF created the Sustained Excellence Alliance Program. The goal of the program was to take the top performers in the area of low-income housing and use them as examples for other nonprofits to follow. FMF chose 10 nonprofits to receive the SEA awards. In addition to receiving Fannie Mae Foundation Community and Neighborhood Development Fund Loans and other funding, each organization was granted 3 years of support in which FMF would help them develop as organizations and increase their effectiveness. During this time, the 10 award winners met biannually to discuss their individual progressions and learn from one another.

The 10 groups accomplished much during the 3 years, and wished to continue working together permanently. In addition, the groups all had an immediate need for more resources to fill funding gaps and increase outreach. The most important need was for predevelopment capital. Because the groups usually had very little money available to them at any given time and no collateral, they found it difficult to get approved for loans for projects that were in the predevelopment phases, where only planning and preparation were being done. Once a project was up and running, banks were much more approachable as there would be land and/or other resources that could be put up as collateral and tangible milestones they could observe toward completion.

To meet these needs, they created the Sustained Excellence Alliance Corporation (SEA Corp), a non-profit corporation filed in Washington, D.C. (501-c-3 pending.). Each of the original groups would continue with its own vision, but this new non-profit would allow the collective to continue learning from and supporting one another and to combine their resources to raise capital. After much goal setting and



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projections, SEA Corp decided to raise \$5 million for flexible, predevelopment capital for housing units and other community development services such as day-care or parks and recreation

facilities, depending on the needs of each community. This capital will be distributed amongst the member organizations.

By working with Calvert Foundation, a nonprofit organization that provides philanthropic financial services products to allow individuals and institutions to invest in community development, SEA Corp was able to set up a program-related investment offering and reach an enormous pool of investors.

Financial Challenge/Components

As with Wall Street offerings, the SEA Corp PRI transaction has three groups of participants: investors (both individuals and institutions), the beneficiary (SEA Corp), and an investment bank (Calvert Foundation). However, these are not securities to be traded on the secondary market. If an investor wishes to cash out before the retirement date, SEA Corp or Calvert must be contacted well in advance so that replacement investor can be found.

The capital for this PRI will be directed to SEA Corp and administered by the Calvert Foundation. Investments may be targeted toward one or several SEA Corp members, and made in amounts of between \$25,000 and \$500,000. The capital is channeled through the pool and either directed to the selected organization, or dispersed equally. A Loan Committee comprised of the SEA Corp Board of Directors, will have final approval on loan amounts to each member and loan policies. Investments over \$500,000 are allowed, but cannot be directed at any one member organization. The excess amount will not be backed by the security enhancements.

Credit enhancements come from two sources; an equity reserve of \$250,000 funded by SEA Corp (\$25,000 from each of the 10 member organizations), and a \$50,000 subordinated investment provided by Calvert Foundation. Grant support is also welcomed as an increase in reserves. No property will be used as collateral. All monies will remain in liquid accounts and be maintained at a minimum of 5% of total assets raised by the PRI. Investments made into SEA Corp after the initial offering will require an increase in reserves to maintain the 5% net assets to total debt ratio, and the consent of current investors. The equity reserve fund may be used for principal and interest payments if SEA Corp payments are late. However, amounts used to cover principal must be replenished within a 12 month period, and amounts used to cover interest must be replenished within 90 days. Calvert will notify investors of any payments late more than 90 days, and will assemble a workout plan for any loan that officially goes into default.

Structure of Notes*

Amounts:	Increments of \$25,000
Term:	3, 5, or 7 years
Return:	0%, 1%, 2%, or 3%; Interest paid semi-annually
Structure:	General recourse, principal due upon maturity
Security:	\$300,000 first loss pool committed

*from SEA Corp PRI Offering

Loan Pool*



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Eligibility:	10 SEA Corp. member organizations
Amount:	Maximum loan limited to 15% of total loan pool (\$750,000 based on \$5 million pool)
Rate:	Weighted Average Cost of Funds + 1%
Term:	3 years, with 2-year extensions based on actual investor terms
Issuer:	Sustained Excellence Alliance Corporation (legally incorporated 501c3)
Use:	Real estate predevelopment projects (not tied to any specific project). May not be used to pay operating expenses.
Payments:	Balloon. (Principal payments may be required at 3 and 5 years, in addition to the 7 th year, depending on the term of the funds raised)
Prepayment Penalty:	Borrower can prepay at any time without penalty.
Documentation:	Promissory Note between Sustained Excellence Alliance Corporation and Borrower.
Collateral:	None. General recourse loan between SEA Corp and borrower.
Credit Enhancement:	Minimum \$50,000 Subordinated Debt and \$250,000 equity for \$5 million pool.
Administrator:	Calvert Social Investment Foundation

*from SEA Corp. PRI Offering

In addition to these tangible protections, Calvert Foundation will perform due diligence on each SEA Corp member. The members will provide Calvert Foundation annually with audited financial statements, the value and composition of assets, and staff/board changes, after which a due diligence report will be written. Internal financial statements, and any other information Calvert requests, will be provided quarterly for review of changes in possible risk. Investors may request copies of the due diligence reports.

In exchange for these services, Calvert Foundation received a 1% fee on the initial \$5 million investment, and will continue to receive 1% per year as an administrative fee.

Significance

Using program related investing as a source of capital for nonprofits rather than grant money is a significant change for many organizations. The lender relies on the borrower for repayment, which facilitates more of a partnership between the two entities, and the rate of interest owed is often lower than the nonprofit would be responsible for with a commercial loan. This partnership is usually long-term in nature and allows for a more sustainable flow of capital than that received by grants. In addition, goals for use of the funds and timeframes for project completions do not have to be nearly as specific, which gives the non-profit some needed flexibility.

Transferability

Program related investments are rarely pursued by foundations because, as grantmakers, they have not felt comfortable with projects so different from their normal business. However, this is the main business of Calvert Foundation. It focuses only on underwriting, financing, and fund administration for non-profit organizations. As such, it would be easy for other non-profits to utilize this service through Calvert.



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CASE # 6

Community Health Facilities Fund “CHFF”

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Project Summary

“CHFF assists the non-profit behavioral care borrower in obtaining low-cost, fixed-rate loans. Borrowers can finance new construction, renovation, the acquisition of property and high cost debt. They can also finance equipment, as long as there is real estate to be financed also. Some working capital can be financed.¹ Loans financed by CHFF generally have a 25-year term. The interest rate is below the prime rate and is fixed for the term of the loan. CHFF lends up to 90% of the asset's appraised value.”¹ CHFF has set up a loan program that can finance borrowers one at a time and on their own schedule. So far, CHFF has provided 31 behavioral care organizations with a total of \$80 million in loans.

Financial Challenge

CHFF's financial challenge was finding the appropriate mix of capital that would allow it to offer loans. This was conducted in steps. Grant money was first obtained from The Robert Wood Johnson Foundation (RWJ). This allowed

Financial Structure & Benefits

CHFF was created by two trade organizations in the behavioral care market to establish a source of low cost financing for similar trade organizations. Chris Connleey, a former employee of Lehman Brothers, was brought on board to handle the finance side of CHFF, which he manages with a three person team. RWJ was contacted to provide an initial amount of \$7M in capital. Eaton Vance (EV) of Boston, MA then contributed \$63M to match RWJ's initial capital of \$7M. This arrangement allows CHFF to lend out funds to qualifying not-for-profit organizations (NFPOs), from which repayments provide the means to give EV investment returns. Effectively, the \$7M from RWJ is like equity and the \$63M from EV is like debt.

Eaton Vance was attracted to the investment because it provides interest income that is tax-free with respect to federal taxes, due to CHFF's 501c3 tax status. Additionally, EV liked the historically low default rates on the loans that CHFF made to not-for-profits, as this attribute provides a high level of assurance that EV will not lose money on its investment.

Eaton Vance made its \$63M contribution by buying bonds that were backed by the loans made to CHFF's borrowers. The bonds have been issued based upon the amount of money in the pool of funds contributed by CHFF and EV. The bonds contain a Debt Service Reserve Fund (DSRV), which is an "emergency fund" that is used in case the borrower misses a loan payment. Every Nonprofit Capital loan must have a DSRF equal to approximately one year's principal and interest. The DSRF is funded from the bond offering. The size of the bond offering is increased to include funds for the DSRF. At closing, a portion of the proceeds of the bond issue are placed into the DSRF held by the Trustee. The DSRF is furthermore treated as a restricted asset on the balance sheet, and is held by the Bond Trustee for the benefit of the



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bondholders. The interest earnings on the DSRF benefit the borrower by reducing the annual debt service payments. DSRF will be used to make the final payments of the

loan. For example, if the loan has a 25-year term, cash payments are made by the borrower for 24 years and the DSRF is used to make the payments in the 25th year.

Social Benefits

Social Benefits of the project include the ability of NFPOs to own facilities that they previously leased. Often times, NFPOs lease their facilities because they started small and have always leased their facilities. Additionally, many NFPOs choose to lease because federal authorities will pay lease payments but not interest on loans. Historically, leases often have had average rates of approximately 14%, which is relatively high compared to the rates offered by CHFF, which are generally below the prime rate.

Project Significance

To date, the most popular uses of CHFF financing have been the refinancing of high rate debt and the purchase of facilities that are currently being leased. Other acceptable loans include renovating a facility, purchasing a computer system, or purchasing capital equipment.”¹

This financing is significant because it provides liquidity for a unique lending system. Banks cannot normally package and re-sell loans to NFPOs. Instead, the loans must be held on their books. This results in disincentives to banks to offer such loans, leaving many NFPOs without funding. CHFF has an established history of underwriting these loans, and knows the kinds of credit criteria that are necessary to identify good borrowers. Many banks do not have the appropriate amount of knowledge concerning the necessary credit criteria, which leads the banks to engage in conservative lending practices that also leave many NFPOs without any or the best sources of funding.

Project Transferability

CHFF's accomplishments can be utilized by others on two basic levels. First, NFPOs seeking funding can use CHFF's services to obtain financing that will save money in the long run through refinancing existing credit obligations with CHFF's lower rate loans. Second, CHFF serves as a model for financing. The organization received its financing in stages. The first stage was a grant that provided an equity cushion for EV. Bonds also had to be issued in order for EV to inject its funding.

Recommendations

If your NFPO has large financing needs, you can see if you qualify for a loan by going to <http://nonprofitcapital.com/>, a web site affiliated with CHFF. Covenants on the loans are violated occasionally. If you violate a covenant, you must notify the bondholders, including Nonprofit Capital, request a waiver of the covenant, and comply with any other provisions of the loan documents for covenant violations.

Author

Scott Cottrell is a first-year student at The McDonough School of Business at Georgetown University. He is a CPA and worked as a financial analyst in banking prior to business school.

Works Cited: Community Health Facilities Fund Web Site, <http://www.chff.org/>



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CASE # 7

The Community's Bank

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Project Summary

The Community's Bank is the only independent, minority-owned bank in Connecticut. It was established by Peter Hurst to meet the banking needs of the previously underserved areas of Bridgeport, Hartford and Bloomfield, Connecticut, which are all ethnically, racially and economically diverse. Mr. Hurst's key observation was that this area's diversity represented potential profitability. This led him to establish banking locations in areas that other financial institutions refrained from entering, and serve markets whose banking needs had been left unmet.

Financial Challenge

The Community's Bank was started by purchasing \$60M in deposits from an existing bank with approximately 8-9k customers. Funding for the purchase was obtained from individuals, institutions, Fannie Mae, National Community Investment Fund, People's Bank and New Capital Access Group, a private equity fund in California. The funding process was only half of the battle though, as Mr. Hurst had to spend over a year to make his case in the regulatory approval process.

Financial Structure

Specific details of the financial structure

Social Benefits

An interesting aspect of The Community's Bank is that it is a for profit entity with goals similar to those of some not-for-profit entities. First, it brought financial services to many people that did not have them. Second, it dramatically lessened the cost of certain financial services that were previously available, although not through banks. Many residents in the specified target markets of The Community's Bank had to pay exorbitant fees for services like check cashing and wiring money. Additionally, funds derived from loans were often only available from institutions engaging in predatory lending practices that involved extremely high rates of interest and overzealous charging of fees.

Project Significance

The bank is significant in that it demonstrates how a for-profit business model can be used to generate returns to investors and society. Additionally, it provides a model for offering fairly-priced financial services to communities for which such services have been historically denied.

Transferability

Good business ideas arise from seeing opportunities that others miss. Additionally, sufficient data is often needed to verify that what appears to be an opportunity is quite likely to be an opportunity (Mr. Hurst obtain a significant amount of demographic data concerning his target markets). One must also know how to pull together the financing necessary to take the leap from a good idea to a reality. In Mr. Hurst's case, he had experience in finance and knew how to introduce himself and his idea to people with money that they were willing to invest. Many or most people do not have such financial experience and connections; however, they just need to find an honest person who does. Ask a banker, CPA or attorney about financing, as they are often "plugged into" the network that finds uses for dollars waiting to be invested. Finally, one must have a certain amount of intestinal fortitude to build an enterprise. Mr. Hurst had to endure a long and grueling process to file the forms and make the arguments necessary to win



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regulatory approval. Such roadblocks can only be overcome by diligence and asking the right questions of the right people.

Recommendations

The approach used in this case is a classic entrepreneurial approach that can be used for other for-profit or not-for-profit concepts. Once Mr. Hurst established a vision of his bank, he just asked himself and others what was necessary to achieve his goals. Then, he found answers and acted upon them. Most not-for-profit or for-profit initiatives will also require certain elements of expertise. If you do not have them, then you must find them in others. Mr. Hurst drew upon his financial expertise to both create his business idea and find funding. He had to utilize the resources and feedback of many others to obtain the funds needed for financing and to determine what needed to be done to gain regulatory approval. Others may use a similar approach to successfully start their own projects and ventures.

Author

Scott Cottrell is a first-year student at The McDonough School of Business at Georgetown University. He is also a CPA and lives in Northern Virginia.