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Community First Fund Expands and Diversifies

By Keith L. Rolland, Community Development Advisor

Community First Fund (CFF), a regional community development financial institution (CDFI) based in Lancaster, Pa., has expanded its original focus on microbusiness lending to include larger small business loans, commercial real estate loans, and affordable-housing development loans.

Started in Lancaster in 1992 by a faith-based group, CFF has offices in Harrisburg, York, Reading, and Exton that serve a 13-county south-central Pennsylvania region. CFF's annual lending grew from \$200,000 in 2000-01 to \$5.2 million in 2006-07.

Daniel Betancourt, CFF's president and chief executive officer, explained that "business lending is in our DNA, is our core competency, and will remain our primary focus," but "we had to grow with our microbusiness clients and offer larger loans." CFF also expanded its mix of products to achieve greater self-sufficiency.*

Joan M. Brodhead, CFF's vice president and chief operating officer, pointed out that CFF strives "to have an impact on economic development in a relatively



Carlos Gonzalez (center), shown with his wife Lucciola and son Carlo Gonzalez-Navarette, renovated and sold eight houses on his block in Lancaster, Pa., with loans totaling \$188,700 from the Community First Fund (CFF). Carlo recently received a \$50,000 CFF loan to purchase a one-unit residence for renovation and resale.

small geographic area" through high-impact commercial or mixed-use real estate projects in small-city downtowns. Roughly half of CFF's borrowers are in small cities, while the other half are in suburban and rural townships and boroughs, she said.

In 2006, CFF obtained certification to make SBA 7(a) loans of up to \$2 million with a 75

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* CFF's strategic plan says: "There is increased competition for business lending from banks, especially with the increased use of credit scoring. However, there are many opportunities to work successfully with businesses that do not meet bank underwriting criteria or that qualify for a bank loan but could benefit from additional subordinated financing from CFF... CFF is aware that its current micro-lending model is not a true self-sufficiency model because of the high volume of transactions, extensive amount of time to assist the customer, and small size of each loan."



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Send comments and suggestions to Keith L. Rolland at (215) 574-6569 or keith.rolland@phil.frb.org. Send address changes and requests for subscriptions or additional copies to Kenyatta Burney at (215) 574-6037 or kenyatta.burney@phil.frb.org.

COMMUNITY AFFAIRS DEPARTMENT

Kenyatta Burney

Senior Staff Assistant
(215) 574-6037
kenyatta.burney@phil.frb.org

Jeri Cohen-Bauman

Lead Administrative Assistant
(215) 574-6458
jeri.cohen-bauman@phil.frb.org

Christy Chung Hevener

Consumer Specialist
(215) 574-6461
christy.hevener@phil.frb.org

Andrew T. Hill, Ph.D.

Economic Education Advisor
(215) 574-4392
andrew.hill@phil.frb.org

Amy B. Lempert

Community Development Advisor and Manager
(215) 574-6570
amy.lempert@phil.frb.org

Erin Mierzwa

Community Development Specialist
(215) 574-6641
erin.mierzwa@phil.frb.org

Dede Myers

Vice President and Community Affairs Officer
(215) 574-6482
dede.myers@phil.frb.org

Harriet Newburger, Ph.D.

Community Development Research Advisor
(215) 574-3819
harriet.newburger@phil.frb.org

Keith L. Rolland

Community Development Advisor
(215) 574-6569
keith.rolland@phil.frb.org

Marvin M. Smith, Ph.D.

Community Development Research Advisor
(215) 574-6393
marty.smith@phil.frb.org

John J. Wackes

Community Development Specialist
(215) 574-3810
john.j.wackes@phil.frb.org

Todd Zartman

Economic Education Specialist
(215) 574-6457
todd.zartman@phil.frb.org

Message from the Community Affairs Officer

In the midst of the unraveling of the subprime mortgage market and the present foreclosure crisis, a group of community development financial institutions (CDFIs) in our District, and nationally, continue to demonstrate that it is possible to lend to nonprime customers and get repaid. All of the CDFIs featured in this issue of *Cascade* serve customers who are not typical bank borrowers. But the CDFI lenders work hard to make certain they and their customers understand the risks of borrowing. This close relationship is often cited by the borrowers as the reason for their success.

Nonprofit community development loan funds have operated in the United States for 30 plus years, but they did not grow substantially until the CDFI Fund at the U.S. Treasury Department was created in 1994. There are now more than 700 nationally and more than two dozen in the Third District. Like mainstream financial institutions, CDFIs come in big sizes and small, and most have a particular market niche. Some are consumer-oriented; many respond to business and commercial requests. The one common factor is that all of them operate in low- and moderate-income communities. While the CDFIs may have started out as lenders to nonprofit community developers, now most lend to small developers undertaking urban projects.

As the industry has grown, CDFI leaders have been recognized by their communities. Some have partici-

pated in the Federal Reserve System's Consumer Advisory Council, and this month a new bar has been reached.

Jeremy Nowak, president and CEO of **The Reinvestment Fund (TRF)**, has been appointed by the Federal Reserve System's Board of Governors to serve on the **Board of Directors of the Federal Reserve Bank of Philadelphia**. In addition to overseeing the Reserve Bank's operations, directors provide information about the economic conditions in their industries to monetary policymakers. Jeremy has led the development of TRF from its creation as a small nonprofit loan fund in the mid-1980s to a financial services firm that lends and invests in communities in New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia. TRF closed more than \$100 million in transactions in 2007 and presently has more than \$400 million in assets under management. Congratulations to Jeremy on his new position as a director. We know he will continue to represent the community development industry well.

From March 26 to 28 we will be hosting our third **Reinventing Older Communities** conference. Our sub-theme is "**How Does Place Matter?**" We expect the presentations will give all of you good information on the complex issues that must be untangled in dealing with the problems facing America's older communities. The web address for the conference is www.philadelphiafed.org/ccal/conferences.html. Please join us.



Nonprofit Finance Fund Analyzes Nonprofit Businesses

By Keith L. Rolland, Community Development Advisor

The Nonprofit Finance Fund (NFF) has found a strong market for its nonprofit business analysis and other advisory services, in addition to its original role as a lender to nonprofits. Founded in 1980, NFF is based in New York City with a regional office in Philadelphia.

Alice Richardson, associate director of NFF's advisory services in Philadelphia and a former community development lender at J. P. Morgan and Co Inc. (now JPMorgan Chase and Co.), explained: "As NFF began lending to nonprofits in the 1980s, it developed expertise in financial areas and an understanding of the challenges faced by nonprofits. We've often found that a loan alone isn't the answer and that nonprofits need education and technical assistance as well."

Clara Miller, NFF's founder, president, and CEO, has observed that most nonprofit executives are mission-focused and very knowledgeable in their specialized areas but often need assistance in managing the business side of their organizations.

NFF works with a broad range of nonprofits, primarily in arts and culture, child care, and social services. Its Philadelphia office has a service area of southeastern Pennsylvania, Delaware, and (in partnership with NFF's Morristown, N.J., office) the state of New Jersey.

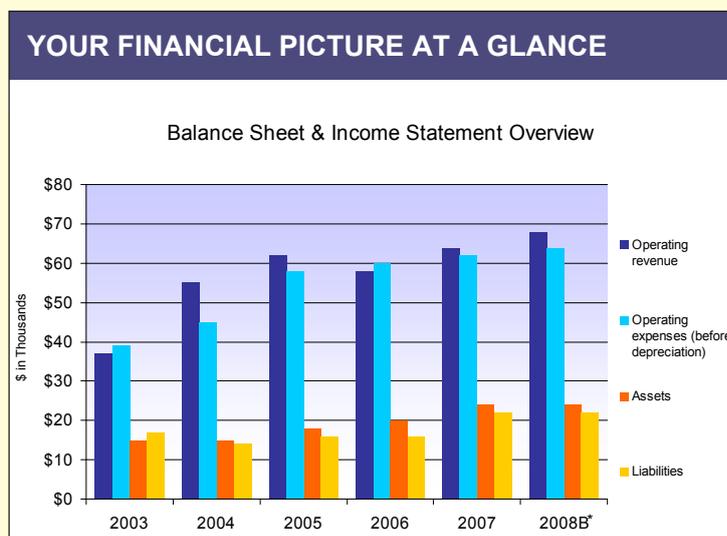
NFF's nonprofit business analysis consists of collecting and analyzing a nonprofit's audited statements, budget, and issues facing the organization, sharing its findings with the nonprofit's management team, and preparing a report. NFF says this is especially useful for nonprofits

that are facing change or strategic options, such as buying a new facility or starting a new program.

Gar Kelley, NFF's vice president for the mid-Atlantic region, observed: "Nonprofits sometimes consider facility projects or expansion plans that are too ambitious. NFF's education and technical assistance helps organizations think about the long-term implications of proposed projects or expansion of their regular operations."

In an outgrowth of one particular nonprofit business analysis, the board of directors of Children's Village Child Care Center in Philadelphia decided to establish a building reserve fund to plan for future expansion and took steps to plan for personnel needs.

NFF launched its nonprofit business analysis service in 2002 and has conducted analyses for more than 500 organizations nationwide. Richardson, who manages the analysis work in the Philadelphia office, said business analysis "can be a complement to strategic planning and enables nonprofits to be more pro-active about their financial situation. We often establish partnerships with funders to deliver comprehensive services but also provide the analysis as a



The chart above is a sample of the kind of information the Nonprofit Finance Fund provides as part of its nonprofit business analysis service.

stand-alone fee-for-service product to individual clients."

In another advisory service, NFF provides nonprofits with a comprehensive building assessment that includes a savings plan. Board members and staff use the assessment report to plan for long-term facility investments.

Cassandra Archbold, manager of financial services with NFF in Philadelphia and a former bank commercial lender, explained that NFF customizes its loans and its advisory services to fit the needs of its clients. She explained: "We are committed to lending to nonprofits that may not have access to mainstream financing, and we structure loans according to a nonprofit's unique financial situation. We might set a payment schedule that corresponds to a nonprofit's anticipated pledge payments. We often lend unsecured for the benefit of the borrower."

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The Progress Fund: Harnessing Tourism for Economic Development

By Keith L. Rolland, Community Development Advisor

In 1999, Eric Martin and his sister, Lynne, started a business offering narrated historical tours along the Youghiogheny River. They used \$50,000 in loans from The Progress Fund (TPF) to buy rafts and a truck, and a bank made a real estate loan for a building used as a storage area.

David Kahley, president and CEO of TPF, a CDFI based in southwestern Pennsylvania, said: "TPF fills gaps in financing packages for tourism-related businesses. Tourism is Pennsylvania's second largest industry, but one difficulty in lending for tourism is that many are seasonal businesses. The collateral offered is often a problem for banks. In the extreme, we've had lions, bears, llamas, and carriages with horses as collateral.

the state of West Virginia and Appalachian Ohio. Founded in 1997 by Kahley and Karen L. Post, TPF's secretary, treasurer, and CFO, the CDFI focuses on tourism that involves one or more elements of an area's history, culture, and natural resources and recreation.

Kahley explained: "We're a nonprofit organization with an economic development mission. We want to harness the power of the tourism sector of the economy to accomplish our goals, which is to help capable entrepreneurs that have well-thought-out plans but have trouble accessing loans."

A wide range of businesses have borrowed from TPF, including bed and breakfasts, lodges, and cabins; family-style and upscale restaurants and banquet facilities; a golf club; and a printing company, manufacturer, camping supplies store, smokehouse, financial advisor, blacksmith, grist mill, arts center, medical building, natural health products store, clothier, and candy-making business.

Some borrowers need coaching in putting together a financing package and in marketing their business, Kahley noted. TPF prepares one-page color project profiles that tell the borrower's story and TPF's role. The profiles are posted on the TPF website at www.progressfund.org.

About 75 percent of TPF's loans are to start-ups or new ventures of existing businesses. The average size of a loan is about \$93,000 and the average

term is 11 years, TPF said. Virtually all of the borrowers are full-time businesses, and about 50 TPF loans have involved the rehabilitation of historically significant buildings.

Many of TPF's businesses are repeat borrowers. In 2001, Eric Martin and his wife, Kasia, used \$150,000 in TPF loans to open a restaurant-pub near Ohiopyle, which draws tourists for white-water rafting and cycling. In 2005, they bought a lodge with a TPF \$200,000 loan when they were unable to get timely bank financing.

In addition to making loans, TPF tries to build tourism markets and destinations. Fallingwater and Kentuck Knob, two houses designed by the late architect Frank Lloyd Wright, were already located in Fayette County, so TPF made several loans when Kentuck Knob, a private residence, was sold and turned into a house museum. The museum now has over 31,000 visitors annually. TPF also made a loan for a Wright-designed house in Chicago to be moved to the Laurel Highlands region.

TPF is also conducting an economic development initiative along the Great Allegheny Passage, a 132-mile stretch of trails built for cyclists on railroad tracks in southwestern Pennsylvania. It is helping six towns in a 25-mile stretch from West Newton to Meyersdale to improve marketing and signage and assess the state of existing businesses. Before it started the initiative, called the Trail Town Program, TPF raised state and foundation funds for five years of TPF's costs of operating the program and \$1.6 million in loan funds for new business development.

About 75 percent of TPF's loans are to start-ups or new ventures of existing businesses. The average size of a loan is about \$93,000 and the average term is 11 years.

"About half of our loans are made in concert with banks. TPF is typically in first position on loans for business assets, whereas a bank is typically in first position on real estate loans. We bring in our own loan funds and important state money through the First Industries Fund program and sometimes USDA Rural Development's programs."

TPF, based in Greensburg, Pa., lends to tourism-related businesses in 39 rural counties in southwestern and northern Pennsylvania. It also covers



Eric and Kasia Martin received loans from The Progress Fund to acquire and operate a lodge.

TPF's staff consists of seven full-time employees, including two lenders, as well as two part-time employees. Six of TPF's seven-member loan committee currently work for, or are retired from, financial institutions, the SBA, and economic development nonprofits. Its board includes a financial institution representative and a retired banking executive.

TPF has made 235 loans totaling \$21.2 million to 155 different borrowers since its inception. It made 33 loans totaling \$3,895,500 in calendar/fiscal year 2005, 22 loans totaling \$2,603,500 in 2006, and 32 loans totaling \$3,143,800 in 2007. TPF said that as of the end of December 2007 its delinquency rate (90 days or more past due) was 3.18 percent on outstanding loans, while its cumulative default rate was 2.45 percent of dollars lent. In addition to its own capital sources, in 2005 The Progress Fund began to underwrite loans for Pennsylvania's First Industries Tourism Program, and it made five such loans totaling \$550,317 in 2006 and 15 loans totaling \$2,032,809 in 2007.

Recently, a TPF for-profit subsidiary, TPF Loan Corporation, received SBA authorization to make 7(a) loans and

is raising capital for the loans, which will be made and serviced by TPF staff. Under the 7(a) program, loans of \$100,000 or less carry an 85 percent SBA guarantee, and loans of \$150,000 to \$2 million carry a 75 percent guarantee.

In a move to extend its impact in the rural areas it serves, TPF has started a foundation-funded sustainable agricultural initiative. As part of this initiative, they made a loan that enabled a couple in Bedford, Pa., to buy a neighboring farm and expand their sheep farm and vacation home business. TPF also made a loan to a farm in Somerset, Pa., for the construction of a facility to store, pack, and ship products of farms in the region. The farm, which is owned by two sisters and their husbands, now supplies a dozen grocery stores and a regional restaurant chain.

A report published in August 2006 by Pennsylvania State University found that the impact of TPF clients on the regional economy was business revenues of \$76.46 million and 1,203 jobs.* The report noted that TPF finances many projects that businesses would otherwise have financed personally, often with credit cards.

The authors observed: "We see the heritage tourism (field) as a growing market, especially when it is based on models of regional cooperation. Given the richness of the region's history, this area has great potential... Ecotourism that is closely linked to heritage tourism development is an especially promising area of future growth."

Asked about lending and investment opportunities in TPF, Kahley said banks can obtain additional financing for their customers in a financing package with TPF, lend funds that TPF will then re-lend to viable small businesses, and help capitalize its new SBA 7(a) loan fund.

For information, contact David Kahley at dkahley@progressfund.org; www.progressfund.org

* The report, "Evaluation Research and Strategy Development for the Tourism Enterprise Development Activities of The Progress Fund," can be found at www.nercrd.psu.edu/publications/rdppapers.html.

SPOTLIGHT ON RESEARCH



How Can Community Development Financial Institutions Measure Economic and Social Impact?

Prior to 1970, many low-income consumers felt their credit needs were largely ignored by conventional financial institutions. In the 1970s, this situation was addressed, in part, by the establishment of new types of financial entities – community development banks and community development credit unions. Today, these and other financial institutions are known as community development financial institutions (CDFIs).¹ CDFIs meet the financial needs of their customers while also supporting community development initiatives that promote social goals.

By most accounts, CDFIs have been a valued addition to the financial industry. However, past assessments of the performance of CDFIs have focused mainly on their outputs, such as the number of clients served, number of loans made, and the dollar value of the loans. Less attention has been paid to measuring the outcomes of CDFIs, especially those that involve an impact on their customers. Jane Kolodinsky, Caryl Stewart, and Antonia Bullard look at whether community development financial institutions “provide a measur-

able level of social benefit to [their] members?”² The following is a summary of their analysis.

Background

Until the 1970s, traditional nonprofit organizations used grant-funded programs to combat poverty. These organizations focused on individuals who lacked accumulated wealth, education, and access to traditional financial services. Such individuals, along with their families and communities, face persistent poverty. The authors note that starting in the 1970s, ShoreBank in Chicago, Self-Help in North Carolina, and others pioneered a new type of anti-poverty strategy: the CDFI. CDFIs are financial intermediaries that rely on funds from a variety of sources to pursue community development.³ They have challenged the notion that low-income communities are poor credit risks. CDFIs have shown that “it is possible to serve the underserved in a way that [is] financially self-sustaining.”

The future of CDFIs was bolstered by the creation of the CDFI Fund. Administered by the U.S. Depart-



Marvin M. Smith, Ph.D.,
Community Development Research Advisor

ment of the Treasury, the fund serves to “stimulate the creation and expansion of CDFIs, including banks, credit unions, revolving loan funds, and venture capital funds.” The authors report that as of 2003 the fund had expanded the capacity of the nation’s over 675 CDFIs with the investment of over \$600 million.⁴

Methodology

The CDFIs that hold customer deposits are regulated, while non-depository CDFIs may require some state registration or control.⁵ Although the latter are not strictly regulated, they have “developed relatively standardized reporting that provides numerous measures of financial efficiency to investors and funders.” However, measuring the

¹ Other CDFIs include community development loan funds, community development venture capital funds, and microenterprise development loan funds.

² Jane Kolodinsky, Caryl Stewart, and Antonia Bullard, “Measuring Economic and Social Impacts of Membership in a Community Development Financial Institution,” *Journal of Family and Economic Issues*, 27, 1 (Spring 2006), pp. 27-47.

³ CDFIs draw funds from public, philanthropic, and private capital and loans as well as investments.

⁴ The fund has made awards of \$820 million. In addition, it has awarded allocations of new markets tax credits that will attract private-sector investments of \$12.1 billion.

⁵ Community development banks are regulated by the Office of the Comptroller of the Currency, while community development credit unions are regulated by the National Credit Union Administration.

social impact of CDFIs is more difficult to accomplish. The majority of previous studies “assume, implicitly or explicitly, that economic measures are good proxies for impacts on individuals and families, and thus communities.” Few studies have measured the impacts of CDFIs beyond those related to economic measures.

To overcome the difficulty in assessing the social benefits that accrue to the members of a CDFI, the authors use both qualitative and quantitative measures. They adopt an eclectic approach that draws on methods used in several disciplines – organization theory, family life management, and evaluation theory. They augment the basic model that considers inputs (capacity), throughputs (activities), and outputs (counts) with impacts related to the user of services as opposed to the provider.⁶ The authors further separate these impacts into three levels: “First level effects are impacts whose causation can arguably be linked to credit union membership. Second and third level effects are impacts of broader economic and social gains, respectively.”

The authors used data from one CDFI, the Vermont Development Credit Union (VDCU), to examine the social benefits provided to its members.⁷ They used two focus groups to assist in formulating hypotheses that could be examined using regression analysis. The focus group results and a review of the literature led to the development of a questionnaire used for data collection. The authors used a specially designed software package to group the responses into three levels of impacts. In addition to

the focus group results, survey data were collected from a sample of 244 credit union members (out of a total membership of 6000). The data included demographic characteristics of the sample members, the range of services they used, and the most important services used.

Results

First the authors examined the qualitative responses from the focus groups and then used regression techniques to analyze the survey data. Responses to questions about whether or not a specific type of impact had occurred were arranged into the three levels of impacts along with the degree to which VDCU contributed to each specific type of impact on a scale of 0-10. They also employed a specialized Likert scale commonly used with questionnaire items of this nature to calculate a score that summarized the percentage of members surveyed who had impacts at each of the three levels and the corresponding degree of VDCU’s contribution. Results for the first level impacts are shown in the table below.

The corresponding results for the second (with six impacts) and third (with four impacts) level impacts were 72 percent and 21.96 out of 60 and 67 percent and 19.18 out of 40, respectively. The authors suggest that these results demonstrate that credit union membership does appear to have a positive impact on members’ lives.

Next, the authors used multivariate techniques and the survey data to further quantify the influence of membership in the credit union. This was accomplished by estimating two regressions. First, they estimated the probability of receiving an impact from credit union membership and, second, the level of that benefit. In general, the authors found that:

- the probability of having an impact at all three levels increases with an increase in the use of credit union services;
- the greater the number of services used, the greater the members’ perceived degree of impact at all levels; and
- impact is influenced by members’ goals, most important services, and demographic characteristics.

Further analysis revealed that the probability of the occurrence of a first level impact was greater for women, those of lower income levels, and those under the age of 25.

The authors point out that their analysis validates an assumption in previous research that “output measures such as services used are measures of well-being.” Their overall conclusion is that “getting one’s financial house in order through membership and use of services from a CDFI does change lives for the better.”

First Level Impacts	% with impact	Degree of VDCU’s contribution
I am better able to manage my money	57	6.51 out of 10
I have been able to get my finances on track	63	6.91 out of 10
I am able to pay off my debts	61	7.12 out of 10
Summated score, first level	77	17.12 out of 30

⁶ “Inputs/capacity include the characteristics, resources, and goals that members of a credit union bring into the picture,” as well as characteristics of the credit union. Throughputs/activities consist of the services offered by a credit union and those services actually used by members. Outputs/counts comprise an accounting of the number of loans made and members served. Impacts involve the “effects of using credit union services on the individual member.”

⁷ The Vermont Development Credit Union recently changed its name to Opportunities Credit Union.

Demand Grows for CDFI Financing

Community development financial institutions (CDFIs) “need to keep pace with the rapidly growing demand for CDFI financing in a way that’s sustainable,” Mark Pinsky, president and CEO of the Opportunity Finance Network (OFN), said. To move to higher levels of lending, CDFIs must raise capital from new sources such as individual philanthropy, increase the liquidity of their loans, and improve their financing models and systems, he explained.

CDFIs must raise capital from new sources such as individual philanthropy, increase the liquidity of their loans, and improve their financing models and systems.

OFN has 164 members, consisting of community development loan funds, banks, credit unions, venture funds, and microloan funds. Virtually all of its members are certified as CDFIs by the CDFI Fund. OFN shares CDFI experience through a national conference, online training classes, a consulting business, and publications; seeks to influence federal policy on access to capital and economic development strategies; and provides financing to CDFIs. Established in 1985, OFN has a staff of 26 people.

One CDFI that has been receiving larger lending requests is the Low Income Investment Fund (LIIF), based in San Francisco. Nori Ramos, chief credit officer at LIIF, said that larger requests have prompted LIIF to invite intermediaries such as the Local Initiatives Support Corporation and Enterprise Community

Partners to participate in financing packages. LIIF can provide multilayered financing that is “seamless to the borrower” because of its accounting system, lending software, and loan management structure, she added.

Some CDFIs have increased their lending volume by selling loans to secondary-market entities. Several, including New Jersey Community Capital, have sold their loans to the Minneapolis-based Community Reinvestment Fund USA (www.crfusa.org) and thereby replenished their capital. In addition, The Reinvestment Fund (TRF) has sold loans to the Community Development Trust Inc. (www.cdt.biz), a community development real estate investment trust.

CDFIs have expanded the boundaries of viable markets, as they’ve done in child care lending, and corrected market information flaws, as they’ve done in charter school lending, Pinsky said. CDFIs also make assets market-ready, he said.

OFN is currently in the midst of a public education effort to bring CDFI accomplishments and challenges to the attention of U.S. presidential candidates and congressional representatives.

Pinsky identified the following CDFI innovations:

- The New Hampshire Community Loan Fund (NHCLF) has provided extensive technical assistance and financing to help homeowners buy and manage their manufactured-housing parks as cooperatives. NHCLF has no defaults on nearly \$40 million of loans, consisting pri-

marily of subordinated acquisition debt, in 85 resident-owned communities. Its success led to a national initiative, ROC USA. (Paul Bradley at pbradley@rocusa.org; www.nhclf.org; www.rocusa.org)

- Coastal Enterprises in Maine and ShoreBank Enterprise Cascadia in the state of Washington have led exploration into greater CDFI use of a triple bottom line, which includes environmental concerns as well as financial and social goals. In this approach, CDFIs make lending and investment decisions that have positive effects on the environment, such as preserving water quality, and reduce negative effects, like energy consumption and greenhouse gas emissions.

- The Minnesota Community Capital Fund, formed in 2003, is designed to increase the availability of gap-financing capital for affordable housing and economic development projects in the rural areas of Minnesota. The Northland Institute, a Minneapolis-based nonprofit, pools funds from participating organizations, originates loans on behalf of its participants, and sells the loans on the secondary market. (www.mncommunitycapitalfund.org)

- The Latino Community Credit Union (LCCU) in Durham, N.C., was formed in 2000 in response to violence against Spanish-speaking residents in the state. LCCU has more than 50,000 members and branches in five locations and plans to expand to three new markets. It works closely with the State Employees Federal Credit Union, which provides back-office processing of transactions. (www.cooperativalatina.org)

- ACCION Texas, based in San Antonio, uses an automated underwriting system and business model for microloans and has made over 8,100 loans totaling over \$58 million to customers in Texas. (*www.acciontexas.org*)

OFN has begun producing reports on CDFI innovations. For information on the innovation guides, contact lpape@opportunityfinance.net.

One of OFN's initiatives is the CDFI Data Project, in which OFN surveyed 496 CDFIs representing approximately half of the existing CDFIs. OFN found that in 2005 CDFIs provided \$4.3 billion in loans and investments, financed and assisted 9,074 businesses, and facilitated the construction or renovation of 55,242

affordable housing units and 613 community facilities.

In a new venture launched in June 2007, OFN started a national mortgage platform as a local, market-based response to predatory lending for first-time homebuyers, minorities, immigrants, and low- and moderate-income communities and residents. Products are being offered for home mortgage purchase and refinance.

To facilitate investment in CDFIs, OFN developed the CDFI Assessment and Ratings System (CARS), which provides in-depth evaluations of a CDFI's impact and financial strength. OFN has completed CARS evaluations on 32 CDFIs.

Bank investment opportunities in OFN include debt, equity, or equity-equivalent investments of at least \$100,000 for seven years at interest rates ranging from 0 to 4 percent. Investments go into a revolving loan fund and enable OFN to provide flexible financing to high-performing CDFIs. Investors can also subscribe to OFN's CARS ratings of CDFIs.

For general information, contact Mark Pinsky at mpinsky@opportunityfinance.net. For information on the mortgage platform, contact Howard Banker at hbanker@opportunityfinance.net.

– Keith L. Rolland

Background: CDFI Fund

Community development financial institutions (CDFIs) serve low-income people or work in economically distressed communities, often occupying market niches that may be underserved by traditional financial institutions.

A total of 784 CDFIs were certified by the CDFI Fund as of February 1, 2008. They consisted of loan funds (532), credit unions (139), banks or thrifts (64), venture capital funds

(28), and depository institution holding companies (21). Of the 784, 33 had headquarters in Pennsylvania, 12 in New Jersey, and three in Delaware.

The CDFI Fund, which is located within the U.S. Department of the Treasury, was created in 1994 to promote economic revitalization and community development through investment in and assistance to CDFIs. The fund invests in and trains

CDFIs, allocates new markets tax credits to community development entities, encourages banks to invest in their communities and CDFIs through Bank Enterprise Awards, and provides financial assistance and training to CDFIs that serve Native Americans.

The CDFI Fund is seeking public comments until March 8, 2008, on the fund's parameters and process for certifying organizations as CDFIs. For details, see www.cdfifund.gov.

Community First Fund Expands and Diversifies ...continued from page 1

percent guarantee. CFF plans to use the product for businesses that are seeking to expand and that are requesting loans of more than \$50,000. In 2007, CFF began offering larger loans for commercial real estate and affordable housing and hired Mary Kay Eckenrode, who has 10 years' experience as a housing developer, to oversee these lending areas.

Technical assistance is key to CFF's work. Betancourt explained: "We take a lot of time providing intense technical assistance to our borrowers, reviewing business plans, mentoring borrowers, and helping them understand the transaction and the implications of their financial information. Many of our businesses have not borrowed before, but they have business experience and ideas. They can become very loyal customers if you spend the time with them."

Brodhead said: "We take a little more risk than a bank, but the amount of time we spend with clients is a bigger difference than credit quality. We spend more time than a bank can in underwriting and monitoring the loan closely."

She explained: "CFF's loans cannot be underwritten out of a box or using a scoring program because the entrepreneurs we support have

distinctly different capabilities that need to be fully assessed. Underwriting is based on the 'five Cs of credit,' but the weight of each 'C' is assessed for every applicant; if the balance of strengths mitigates the underlying risk, we are able to make a loan. A hotel, grocery, and retail business must be underwritten very differently."

CFF makes loans to a wide range of businesses, including retailers, service businesses, wholesalers, light manufacturing firms, construction entities, housing developers, and social service providers.

In 2006-07, CFF received its largest investment, \$2 million from Bank of America, and made a \$500,000 loan (the largest made by CFF) providing furniture and equipment in the adaptive re-use of a long-vacant warehouse into the Lancaster Arts Hotel. Fulton Bank provided construction financing for the project.

Recently, CFF provided two loans totaling \$935,000 to Ken and Barbara Hammel of Hammel Associates Architects who were renovating a building in Lancaster's Heritage Conservation District that had several businesses on the first floor but vacant second and third floors, a common problem in communities served by

CFF. The Hammels worked with local developer John Meeder, whose adjacent building became part of the project. CFF's loans provided permanent financing for the project along with support from the city of Lancaster and the Bank of Lancaster County, a division of BLC Bank. The project calls for a condominium containing three retail shops on street level; three businesses on the first level, including offices for the Hammels and Meeder; two apartments and the Hammels' home on the second floor; and another apartment on the third floor.

CFF's loan product terms and interest rates vary with the type of investment and the relative risk of the loan. The general parameters are:

Microenterprise Loans – Up to \$35,000 with interest rates of 7 to 12 percent and a term of up to five years. The average loan size is approximately \$15,000.

Mid-Size Business Loans/Community Development Loans – These loan products range from \$35,000 to \$500,000 with interest rates of 6 to 9 percent and a term of up to seven years. The average loan size is \$110,000.

Affordable Housing Loans – Between \$25,000 and \$500,000 with interest rates of 6 to 9 percent and a term of up to 25 years.

CFF said that as of mid-December 2007 its delinquency rate (90 days or more past due) was 5.3 percent on outstanding loans, while its cumulative default rate was 1.6 percent of dollars lent. Its lending for the last three years is shown at left.

CFF said that of the 329 loans, 23 percent were made to borrowers of

CFF Lending for 2005 to 2007

Sector	Number	Dollar Amount	Percentage of Total Dollars Lent
Micro Businesses	236	\$3.7 Million	30%
Mid-Size Businesses ¹	38	\$2.4 Million	20%
Affordable Housing	25	\$2.6 Million	21%
Commercial Real Estate	30	\$3.7 Million	30%
Total Loans	329	\$12.3 Million	101% ²

¹ Defined as business loans over \$35,000.

² Percentages do not add to 100 percent due to rounding.

Source: CFF. CFF operates on a July 1 to June 30 fiscal year.

Latin American origin, 21 percent to African Americans, and 1 percent to Asians.

Before joining CFF, Betancourt had nine years' experience in business and community development lending, and Brodhead had 17 years' banking experience in retail and commercial lending and as a manager of community development programs. CFF's 25-member staff includes 12 lenders who have an average of 15 to 20 years' experience in business and commercial lending, Brodhead said.

CFF is an advocate on behalf of the communities it serves on downtown development issues. It does so, in part, through the membership of senior staff on economic development boards. In 2007, Betancourt was elected chairperson of the Association for Enterprise Opportunity, a national organization of microbusiness lenders.

CFF generally seeks investments from commercial banks, individuals, foundations, and governmental organizations at low interest for up to 15 years. In addition, CFF is currently working with Sovereign Bank to serve as a community development entity under the bank's new markets tax credit (NMTC) allocation. Sovereign Bank will be investing \$1 million of its NMTC allocation with CFF, which will reinvest these funds in eligible businesses located in low- and moderate-income communities throughout CFF's market area.

For information, contact Daniel Betancourt at betancourt@commfirstfund.org or Joan Brodhead at brodhead@commfirstfund.org; www.commfirstfund.org.

Nonprofit Finance Fund Analyzes Nonprofit Businesses

...continued from page 3

NFF provides loans with flexible terms for facility projects, specifically for acquisition, construction, and renovation, as well as for soft costs such as relocation. It also provides bridge loans, lines of credit, working capital, and loans for organizational growth. NFF sometimes lends money for equipment needs such as computer hardware or vehicle purchases. Loan amounts generally range from \$100,000 to \$2 million.

A typical NFF borrower is a nonprofit with a 501(c)3 IRS designation, at least three years' operating history, and an operating budget of \$500,000 or more. Loans are made out of a single fund managed by NFF at its main office. Underwriting is conducted at NFF regional offices.

In addition, NFF provides planning grants of \$1,000 to \$20,000 to help organizations assess the feasibility of facility projects or new business ideas.

In a child care initiative, NFF offers capital and technical assistance to providers wanting to improve the quality of their programs and facilities. NFF has provided \$5.8 million in capital grants and \$1.8 million in loans for the renovation and construction of 120 child care centers in southeastern Pennsylvania.

NFF's national fund has made 600 loans totaling \$172 million since its inception in 1980. As of the end of 2007, the rate of write-offs as a percentage of cumulative loans closed was 0.3 percent, while the delinquency rate on outstanding loans 90 days or more late averaged 2.9 percent, according to NFF in New York City.

In the region served by the Philadelphia office, NFF closed over 40 loans totaling nearly \$18 million in calendar years 2005, 2006, and 2007.

On the investment side, NFF has a \$20 million allocation of new markets tax credits (NMTC) to help finance community facility projects in low-income communities. Nationally, NFF has approved more than \$10 million in NMTC financing. No NMTC investments have been closed in the region thus far.

NFF's Philadelphia office staff observed:

- NFF's NMTC allocation enables the CDFI to participate in larger deals than it had previously done and opens it to new partnerships with financial institutions.
- More commercial banks are interested in lending to nonprofits in the region served by the Philadelphia office and many have established nonprofit lending groups.

Opportunities for bank investments, loans, and services with NFF include partnerships on large NMTC projects; investments, which may be targeted geographically, in NFF's loan fund; lending to nonprofits in conjunction with NFF; and referral to NFF of clients that banks cannot assist, and vice versa. Fifteen banks are investors in NFF's loan fund, representing approximately 55 percent of total dollars in the fund, NFF said.

For information, contact Gar Kelley at (215) 546-9426 or garvester.kelley@nffusa.org. For general information on NFF, see www.nonprofitfinancefund.org.

Good Data Drive Good Investment Decisions

The Reinvestment Fund (TRF), a major community development financial institution based in Philadelphia, has developed PolicyMap for use by policymakers, investors, nonprofit and for-profit developers, foundations, and other civic investors. Cascade asked TRF to explain the product.

Why did TRF develop PolicyMap?

Maggie McCullough, director of PolicyMap at TRF, explained: "TRF has used data to target its investments and has been a frequent resource for public, private, and philanthropic investors seeking to refine their own strategies to preserve and rebuild vulnerable communities. We realized there was a new opportunity to get good data into the hands of more policymakers and the general public."

What are PolicyMap's strengths?

Launched in late 2007, PolicyMap is a web-based data analysis and mapping tool that makes it quick and easy to gather and analyze information. PolicyMap offers more than 4,000 indicators related to demographics, real estate markets, crime, health, schools, housing affordability, employment, energy, and public investments.

PolicyMap presents data from a variety of resources, including the U.S. Census, Claritas, FBI, IRS, Home Mortgage Disclosure Act, Boxwood Means (a value-added reseller of home sale data), and TRF. PolicyMap is reliable and accurate, with data compiled and scrubbed by data professionals at TRF who understand the use and limitations of the data. PolicyMap offers users a visually powerful way to convey data findings through maps, reports, charts, and tables, all of which can be saved and printed.

How does PolicyMap work?

PolicyMap is available to anyone with Internet access. The site, with its maps, charts, and reports, is viewable on any standard browser and does not require any additional software or plug-ins.

Users can enter a specific location or select a specific data indicator and zoom in on a map to a particular geography. Users can browse by address, census tract, city, county, state, zip code, school district, or political district.

While many of PolicyMap's data are available to the public for free, other data, such as demographic and employment projections as well as home sales, are proprietary and available only to paying subscribers. Subscribers can also access reports and make use of more advanced functionality, such as drawing a customized region for analysis.

Premium subscribers can upload their own data into the tool so they can map their organizations' investments. This allows investors to see how neighborhoods have changed in the places where they invest and to consider future investments. Subscriptions start at \$2,000 per year for a single standard subscriber or \$5,000 per year for a single premium subscriber.

Will this product allow different organizations to share data with each other?

For TRF, PolicyMap presents a great platform to share its own data and analysis, such as its Market Value Analysis (MVA). Premium subscribers can also use PolicyMap to share their own data. They send PolicyMap their data to be geo-coded and incorporated into the tool. Data owners

then assign viewing rights, designating their data as available to the public, affinity groups, or only the owner's organization. These organizational data can be viewed as point data against thematic maps.

Can you give examples of how subscribers are using PolicyMap?

The Pennsylvania Housing Finance Agency (PHFA) uses PolicyMap to assist in the development of its overall housing policy and initiatives. PHFA analyzes data and maps its investments over a variety of demographic, labor, and housing markets, along with school quality data for Pennsylvania.

The Wachovia Regional Foundation uses PolicyMap for a variety of grant-maker needs, ranging from evaluating its planning grant applications to helping active grantees build their analytical and mapping capacity. "As a long-term, place-based investor, we are particularly interested in using PolicyMap to view our investments in a specific neighborhood in relationship to others by public, private, and nonprofit investors," said Lois Greco, the foundation's evaluation officer. "This PolicyMap feature offers the opportunity for truly collaborative partnerships between investors, where we can support and understand each other's work in a way that creates maximum impact in a neighborhood."

For information, contact Maggie McCullough, director of PolicyMap, at (215) 574-5800 or maggie.mccullough@trfund.com; www.trfund.com; www.policymap.com.

NCALL Loan Fund: Filling Funding Gaps

By Erin Mierzwa, Community Development Specialist

What can be more difficult than finding predevelopment funds? If you ask NCALL (National Council on Agricultural Life and Labor Research Fund Inc.), it is finding predevelopment funds in rural areas, such as in Delaware. NCALL recognized that many of its nonprofit customers faced this challenge and became a community development financial institution (CDFI) in 2004. While NCALL is not the only statewide CDFI in Delaware, it is the only one with a mission that is primarily focused on rural areas.

NCALL, a 501 (c)(3) nonprofit based in Dover, Delaware, has been providing technical assistance to nonprofits focused on housing development and homeownership counseling to individuals for over 30 years. Since 1983, it has been making small predevelopment loans to nonprofits, often in conjunction with multifamily housing development. NCALL formalized its approach to lending and began making larger loans when it became a CDFI and created the NCALL loan fund.

NCALL hired Karen Kollias, a community development lender with over 25 years' experience, including with ShoreBank, to manage the loan fund. Kollias, originally from Delaware, had been providing NCALL with technical assistance on its CDFI application while she was at NeighborWorks America (formerly the Neighborhood Reinvestment Corporation). Joe Myer, executive director of NCALL, said: "Kollias brings a key set of community development lending and financial skills that were not previously available in

Delaware." Working with Kollias is Dave Callahan, a lender with 15 years' experience in community banking who oversees customer service, settlements, and servicing activity of the loan fund.

NCALL has focused its efforts on rural areas in Delaware, although it is able to lend throughout the Delmarva Peninsula, which includes the entire state of Delaware and portions of Maryland and Virginia. The loan fund offers a variety of products, including predevelopment loans, revolving lines of credit, construction loans, gap/bridge financing, and credit enhancements/guarantees. In addition to underwriting loans, NCALL provides nonprofits with feedback on their financial position. Most of NCALL's loans are for no more than five years and are typically made at market interest rates or slightly below market. Most of the loans have terms and conditions that would be difficult for a traditional lender to offer.

One of the main challenges that NCALL faces is raising enough capital to meet the demand for loans. Kollias said, "The loan fund has grown tremendously since its inception in 2004, but we are always looking for ways to secure additional capital. It is a balance between projects we want to support and the capital we have available. We have had to be very creative in bringing other funding sources to our table." According to NCALL, the loan fund has received capital from the CDFI Fund, NeighborWorks America,



NCALL and Discover Community Development Corporation participated in \$1.5 million of financing that enabled Community Legal Aid Society Inc. to acquire and renovate a new office building in Georgetown, Del.

Fannie Mae, JPMorgan Chase and Co., Wachovia Regional Community Development Corporation, the Longwood Foundation Inc., and the Welfare Foundation Inc.

NCALL's capitalization strategy includes attracting a mix of local, regional, and national investors who share in NCALL's mission. NCALL offers a great deal of flexibility for investors, including project-specific loan participations. Kollias noted: "Every participation is different, as is every project, and NCALL is willing to structure participations to meet the financial requirements of its investors." NCALL said that lenders that have participated in loans include Discover Community Development Corporation (DCDC),* NHTSA-CDFI (an affiliate corporation of Neighborhood Housing Services of America), Deutsche Bank, the Housing Assistance Council, and Neighborhood Capital Corporation.

In 2006, Discover Bank's CRA director, Matthew Parks, asked NCALL to participate in and service loans on behalf of DCDC. DCDC has participated with NCALL on loans and lines of credit totaling \$17.9 million. The loans and lines of credit have been made primarily to for-profit organizations for land or building

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* DCDC was formed in 2005 as a for-profit subsidiary of Discover Financial Services to provide community development loans within portions of Kent and Sussex counties, Del.

New Jersey CDFI Focuses on Child Care Facilities and Charter Schools



A student at North Star Academy in Newark, N.J. The school, which opened as a charter school in 1997, is one of the highest-performing schools in the state. Photo credit: Stephen Shames.

New Jersey Community Capital (NJCC), a statewide CDFI based in Trenton, has emerged as a significant lender for the construction of child care facilities and charter schools in New Jersey.

Jennifer M. Bredehoft, vice president and manager for communications and investor relations at NJCC, said that in all of its lending, NJCC reviews each potential borrower and transaction on an individual basis and provides predevelopment, acquisition, construction, and permanent financing with flexible rates and terms. A half-dozen NJCC funds and bank lines of credit provide long-term and short-term funds that the CDFI blends to structure transactions that best benefit NJCC clients, she explained.

NJCC has closed more than 75 loans totaling approximately \$30 million to 35 child care borrowers since 1994

and has closed 17 loans for more than \$15 million to seven different charter schools since 2003, she said. (Child care encompasses infants, toddlers, and children who attend pre-school or after-school programs.)

The obstacles to charter school lending are well documented in an NJCC technical assistance brief. For example, charter schools are bound by strict state financial regulations affecting facility development and cannot use state funds to construct or renovate facilities, the brief explains.

David Scheck, president of NJCC, observed that when NJCC began making loans for child care and charter school facilities these were new lending markets and NJCC had to rely substantially on qualitative benchmarks such as community support, leadership in management and governing board, program goals, and staff commitment. In addition,

NJCC has always used quantitative indicators when they're available, for example, on teacher certifications, student-to-teacher ratios, and student performance.

Since NJCC started lending to charter schools, a market for these loans has been established and demand is increasing, Scheck noted. "Much of the risk on loans to charter schools," he added, "is perceived risk, and today more and more banks are financing charter schools."

New markets tax credits (NMTCs) have been a useful tool in financing the packages NJCC has assembled for child care, charter school, and other community facilities. Bredehoft said that NJCC's NMTC structures provide "strong financial and social returns with limited risk to investors and ultimately provide critical cost saving for schools, allowing them to allocate more of their limited financial resources toward their educational programs." NJCC used its initial \$15 million NMTC allocation for six transactions, including three charter schools, a child care center, and other community and commercial facilities, she said.

NJCC often makes loans to repeat borrowers with excellent track records who understand their community's needs and choose to expand their programs accordingly, Bredehoft said. Discussions on expansion are already underway with three charter schools that have been funded in part with NJCC's NMTC allocation. Scheck noted that the costs of constructing new child care facilities are prohibitive and that larger facilities with at least 180 students are more feasible.

In addition, NJCC has replenished its capital by selling loans to the Community Reinvestment Fund (CRF), a nonprofit purchaser of community development loans in Minneapolis, Minn. Since 2004, NJCC has sold loans of about \$8.77 million to CRF, including \$5.1 for charter school loans and \$3 million for child care centers, Bredehoft said.

Early in 2007, NJCC received an \$8.15 million grant from the U.S. Department of Education to credit-enhance loans, leases, and investments for charter school facilities, primarily in New Jersey. The CDFI has provided credit enhancements in four New Jersey charter school transactions since receiving the award.

In one of the most complex facility transactions financed by NJCC, the CDFI assembled a \$4.84 million financing package in 2005 that enabled the North Star Academy Charter School in Newark, N.J., to reduce its occupancy costs and commit the resulting savings to educational programs for 300 students who attended the school. Today, the school serves 450 students. PNC Community Partners Inc., a community development subsidiary of PNC Bank, provided a portion of NMTI equity and purchased tax-exempt capital appreciation bonds issued by the New Jersey Economic Development Authority. The funding package included the sale and leaseback of real estate.

From fiscal 2005 to 2007, NJCC has closed 44 economic development and commercial real estate loans totaling \$56.2 million; 51 affordable housing loans totaling \$23.3 million; and 32 child care, charter school, and other community facility loans totaling \$22 million.

Delinquencies in all of NJCC's funds, including its NMTI I fund, were 3.24 percent as of September 30, 2007, while historic net chargeoffs for all funds was 1.03 percent, according to NJCC.

Scheck explained that NJCC offers its financial institution partners a variety of ways to support its mission. NJCC issues CD Notes (an unsecured debt instrument) and equity equivalent (EQ2) investments to raise capital for its real estate debt funds. Also, NJCC's real estate debt funds offer participatory interests in some of the financings it provides, as well as occasionally offering whole loans for sale. In addition, NJCC issues equity in the form of nonvoting common stock and preferred stock to raise capital for its small business investment company. Finally, NJCC's nonprofit affiliates accept charitable contributions to improve the capitalization of real estate debt funds, capitalize specialized loan funds, provide technical assistance to its clients, and undertake critical research and development.

For information, contact dscheck@njclf.com or Jennifer Bredehoft at (609) 989-7766, ext. 401, or jbredehoft@njclf.com; www.newjerseycommunitycapital.org. Twenty CDFIs active in child care lending participate in peer learning and policy advocacy through the National Children's Facilities Network. For information, go to www.ncfn.org.

– Keith L. Rolland

NCALL Loan Fund: Filling Funding Gaps

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acquisition with a community development impact. While the purpose of these loans was consistent with NCALL's mission, the loan size and type of borrower would have prevented NCALL from making the loans without a partner like DCDC.

The capital for the loan fund provided by DCDC has enabled NCALL to further build its capacity by generating origination and loan servicing fees. Parks explained: "DCDC chose NCALL as its lending partner because of Discover Bank's long-standing relationship with the organization and NCALL's continued commitment to meeting the housing and service needs of southern Delaware's low- to moderate-income community."

Since becoming a CDFI, NCALL has closed 33 loans and provided \$26 million in financing, of which \$21 million came from other lenders. The loans have financed 46 single-family housing units, 308 multifamily housing units, five office buildings for nonprofits, rural infrastructure improvements, working capital, and a single room occupancy residence. Kollias added, "CDFIs are a critical tool for rural development and an important resource in Delaware. They are able to connect regulators, borrowers, and other lenders, and structure financing in ways that make the deals work."

For information, contact Karen Kollias of NCALL at (302) 678-9400 or kkollias@ncall.org; www.ncall.org; or Matthew Parks of Discover Bank at (302) 323-7485 or matthewparks@discover.com; www.discoverbank.com.

CALENDAR OF EVENTS

Brownfields — New Market Opportunities for Lenders: Investing for the Future of the Mid-Atlantic Region

March 4, 2008, 9 a.m. to 4 p.m., Philadelphia

Agenda topics include why brownfield lending makes sense, lenders' role in community revitalization, and public-private mid-Atlantic brownfield financing success stories.

Register at brownfieldlenderworkshop@icfi.com.

Regional Equity '08: The Third National Summit on Equitable Development, Social Justice, and Smart Growth

March 5-7, 2008, New Orleans, La.

Highlights the impact of policy efforts on urban, suburban, and rural communities. Topics include using equitable development tools and strategies to address poverty, restoring cities, and creating affordable housing.

For information, see www.regionalequity08.org.

Reinventing Older Communities: How Does Place Matter?

March 26-28, 2008, Marriott Philadelphia Downtown Hotel

Leading practitioners and researchers share their experience relating to critical issues in the reinventing process. Learn how to attract private-sector development, use data and mapping, and analyze neighborhood change. Hear how European mayors have reinvigorated cities. Gain insight on subprime mortgage foreclosures. Useful for planners, nonprofit and for-profit developers, lenders, funders, and policymakers.

See www.philadelphiafed.org/ccal/conferences.html for conference information. Contact Jeri Cohen-Bauman at (215) 574-6458 or jeri.cohen-bauman@phil.frb.org for information.

The Congress for New Urbanism (CNU) XVI: New Urbanism and the Booming Metropolis

April 3-6, 2008, Austin, Texas

Annual CNU conference features alternatives to sprawl and includes discussion on issues concerning design and architecture, financing and development, codes, sustainability, transportation, and diversity.

See www.cnu.org/cnuxvi for details. For information, contact Sandrine Milanello at (510) 633-9339 or sandrinem@cnu.org.

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