The Florida Community Loan Fund

Building the assets of people, families, and communities

In its 2002 State Asset Development Report Card, the Corporation for Enterprise Development (CFED) reports that 13.2 percent of households in the state of Florida have zero net worth and that the mean household net worth is $117,023. CFED gives Florida an overall grade of "C" in both "asset outcomes" and "asset policy."

The emphasis on assets is worth noting. While many reports use employment and income levels as indicators of economic health, the Report Card[1] bases economic well-being on assets. CFED notes that, in 1998, fewer than 13 percent of U.S. households made less than the federal poverty level for income that year. However, in that same year, "25.5% of all American households had insufficient net worth [i.e., assets] to sustain living at the federal poverty level for three months if their income were to be disrupted. That means that nearly one quarter of American households – even those with current income streams – could plummet into economic disaster in times of job loss, divorce, long-term illness, economic downturns, and other factors that commonly disrupt income" (CFED 2002).

As part of a vicious cycle, individuals and organizations often have difficulty obtaining financial assistance through mainstream financial institutions when faced with economic disruption, because they lack the collateral and financial history to "vouch" for their ability to repay loans. The old saying "One has to have money to make money" comes to mind.

One approach to addressing the asset needs of low-wealth individuals and their enterprises is through community development financial institutions (CDFIs). These organizations, according to the National Community Capital Association (www.communitycapital.org), are "financial institutions that invest in individuals, small businesses, quality affordable housing, and vital community services that benefit economically disadvantaged people and communities." They can give low-wealth individuals and the businesses they run the jump-start needed to build a healthy loan repayment record and eventually to secure mainstream financing. They can help individuals to break out of a cycle of poverty that prevents them from participating fully in the U.S. political economy.

The success and effectiveness of CDFIs in the 1970s and 1980s contributed to rapid growth of this industry during the 1990s.[2] The industry became more organized and recognized with the establishment of trade associations (like the National Community Capital Association), the federal CDFI Fund, and changes in Community Reinvestment Act regulations that encouraged banks to invest in community-based financial institutions. As a result, the National Community Capital Association reports that the CDFI industry grew from "300 CDFIs managing slightly more than $2 billion in 1993 to more than 500 CDFIs managing more than $5 billion in 2000."

The growth of the industry demonstrates the importance of building organizational infrastructure to support people and communities in their pursuit of economic independence and prosperity, not simply giving out money.

Religious organizations have been particularly responsive to the CDFI movement, since many have access to capital and existing infrastructure, as well as the fundamental mission to assist the poor. African American congregations, for example, were instrumental in establishing a number of early credit unions; they were able to mobilize resources and use them in ways that were helpful to investors as well as to less fortunate members of their community.

In the Fall 1994 issue of Notes from the Field titled *Taking Action and Seeking Justice: Five Approaches to Religious Grantmaking*, the Jessie Ball duPont Fund described what had been its "most ambitious effort to date to promote investment of religious capital by its eligible religious judicatories in community development loan funds." At that time, the Fund had invested $450,000 in the Episcopal dioceses of Delaware and North Carolina to help their respective CDFIs, First State Community Loan Fund and Self-Help Credit Union, leverage small-business loans and technical assistance for people and nonprofit organizations that lacked the skills, credit histories, and development track records necessary to obtain funding from mainstream financial institutions.

A Florida Community Development Financial Institution

In the same year, Sister Mary Heyser, RSHM, then the director of the Catholic Campaign for Human Development in the Diocese of Venice, Florida, began exploring the feasibility of starting a similar community financing vehicle in the Sunshine State. Her research revealed overwhelming support for such a vehicle, and in 1994 Sr. Mary became the founding board chair of "The Florida Community Loan Fund."

The organization solicited investments from Catholic communities and congregations to build its capital base. The first group of investors to step forward was a community of contemplative sisters whose passion for helping the poor guided them to invest their retirement money in the Loan Fund. Male religious orders, congregations, and dioceses followed suit, giving loans and grants to support the Loan Fund's endowment.[3] Sr. Mary, who has gone on to work for her religious community in other leadership capacities, recalled to *The Florida Catholic* newspaper: "The banks were astounded at [the investments religious congregations and communities were making] and wondered why we did not ask them first. We replied that we were expecting much more money from them [but] wanted the religious congregations to give what they could." A matching grant of $50,000 from the National Catholic Campaign for Human Development allowed the Loan Fund to begin lending.

The Archdiocese of Miami, a duPont Fund-eligible organization, subsequently partnered with the Florida Community Loan Fund in 1997, receiving a $475,000 grant from the duPont Fund ($250,000 to support permanent loan capital; the rest was paid in the amount of $75,000 annually to support operations over a three-year period from 1997 to 1999). The Loan Fund received a second grant of $500,000 from the duPont Fund in 1999 ($250,000 for permanent capital and the rest to help cover operations for a three-year period). Banks and financial institutions soon joined the list of investors.

Building Assets of People, Families and Communities

"From the first days of our partnership with the Florida Community Loan Fund," Archbishop John C. Favalora notes, "the Archdiocese of Miami believed strongly in the transformative potential of a substantial investment in the Loan Fund supported by the Jessie Ball duPont Fund." Noting the strongly focused social justice mission of the Loan Fund, the Archbishop adds, "We believed early on that support for the Loan Fund would leverage great economic potential for the people of Florida who needed it most, those who struggle day in and day out for economic security for their children and families. We believe the duPont Fund investment paid off."

The substantial success and growth of the Loan Fund supports the Archbishop's contention. Since its inception in 1995, the Florida Community Loan Fund, a 501(c)(3) entity itself, has loaned more than $12 million to 75 nonprofit organizations – and has leveraged and helped identify nearly $51 million in additional project capital. To date, Loan Fund investments helped build three daycare facilities, seven homeless shelters, and eight other community facilities to serve the needs of low-income residents. The Loan Fund estimates that its financial support has created and/or helped retain more than 350 jobs in Florida. It has helped finance 16 small businesses and three small business incubators. At least 21 nonprofit organizations have received more than 733 hours of technical assistance to enhance and sustain their operations. In addition, the Loan Fund has supported the building and renovation of more than 273 single-family housing units, 699 multi-family units, and 188 shelter units.

The Loan Fund focuses on economic and community development efforts, and many of those efforts involve housing for low-income/low-wealth individuals and families, people who live in rural areas, foster children, and people who are mentally or physically disabled – people who can and do fall through the cracks of publicly funded programs.

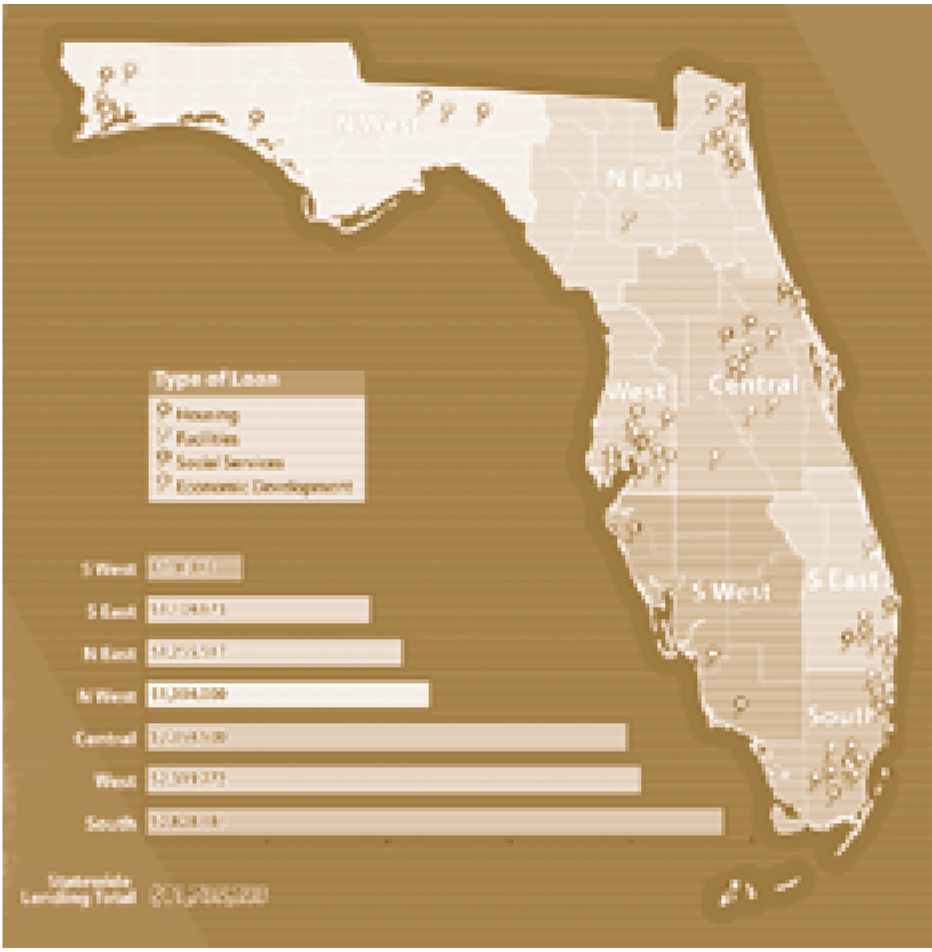
In serving these vulnerable populations and communities, the Loan Fund meets the social justice charge of the Catholic Bishops whose leadership and economic support were instrumental to its inception. In their 1986 *"Economic Justice for All: A Pastoral Letter,"* the U.S. Catholic Conference of Bishops state: "Economic decisions have human consequences and moral content; they help or hurt people, strengthen or weaken family life, advance or diminish the quality of justice in our land."

"As Catholics, our faith calls us to act on behalf of our brothers and sisters in need, be it a spiritual or a physical necessity," Archbishop Favalora notes. "The mission of the Florida Community Loan Fund echoes that of Catholic social teaching: the dignity of the human person must be defended and promoted before all else in every sphere of life, including the economic arena."

Ignacio Esteban, executive director of the Florida Community Loan Fund acknowledges the role that the Archdiocese played in promoting creation of the Loan Fund. "The Archdiocese of Miami has been very important in shaping who we are and how we go about doing our work," Esteban said. "Its support of the Fund through the duPont Fund grant came at a critical time in our growth, when we had to show whether or not we could meet the demand for loan capital that we knew existed. It increased our legitimacy with other investors. But even more than that, the leaders from the Archdiocese, like our second board chair the late Monsignor Bryan O. Walsh, helped us think about the work we had been entrusted to do for Florida residents from a social justice perspective that still guides us."

While about 24 percent of its lending has supported nonprofits in Fort Lauderdale and Miami, the Florida Community Loan Fund is committed to nonprofits and communities across the state. It is the only statewide CDFI in Florida.

"We saw a great need for housing and economic development in rural and urban areas, for low- and very-low wealth families, for immigrant populations, for the mentally and physically disabled, and for foster care populations," says Nelson Black, the Loan Fund's senior loan officer and a former board member. "We decided to keep our mission broad so that we can respond to different communities' needs – and the innovative development solutions – that come up in Florida." The three largest diocesan investors in the Loan Fund illustrate its statewide presence: the Diocese of Venice (where Sr. Mary began the Loan Fund), the Archdiocese of Miami, and the Diocese of St. Augustine.



The Florida Community Loan Fund tracks its lending both by the type of loan and the geographic location of the recipient. This map shows the types and locations of investments and the amounts invested in each region. Map courtesy of the Florida Community Loan Fund

How a CDFI for Nonprofits Differs from Conventional Lending Institutions

The Loan Fund differs from conventional lenders in many of the ways most CDFIs do:

• It is willing to make small loans that are not profitable for most banks to make. (Black says the loans have ranged from "$7,000 to $500,000. Most banks can't do a $10,000 commercial loan.")

• It offers low interest rates to clients who might be considered "risky" by the banking community because they lack cash flow and a record of loan repayment. "The more risk the bank assumes, the higher the interest rate it charges," says Black.

• As a non-profit itself, the Loan Fund is less concerned with making a profit than with improving conditions in the community. Esteban says the Loan Fund has a "double bottom line": "We have to ensure a fair return to our investors, but it's lower than what they can get elsewhere. In exchange, we provide them with a chance to make a positive, socially responsible impact that otherwise couldn't happen."

But its focus on strengthening nonprofit organizations that are working to help people in communities is what really distinguishes the Loan Fund from conventional financing sources. All of its 75 loan recipients to date have been 501(c)(3) nonprofits.

Building Assets of People, Families and Communities

The Loan Fund's borrowers have demonstrated that a strong commitment to meet pressing community needs and the discipline to meet financial obligations are not mutually exclusive. As of June 30, 2003, the historical loan loss rate for the Loan Fund stood at 0.084%, significantly lower than the 0.50% that would satisfy most conventional financial institutions.

Near the time the Loan Fund was getting started, Florida launched the State Housing Initiatives Program (SHIP), a trust fund built by an incremental tax on the sale of each home in Florida to be used by counties that have affordable housing plans. "SHIP was one of the most forward-thinking moves Florida had ever made," recalls Black. "Counties had a guaranteed source of money that their nonprofits could use to leverage conventional bank loans. But it was like a stool with two legs," he says. "Too many nonprofits lacked the training and experience to create a viable plan that would qualify them for the special funds. The Loan Fund saw that, along with being another source of financing, we could offer the assistance and advice the nonprofits needed to access other funds –

the third leg of the stool."

Thus, a distinguishing characteristic of the Florida Community Loan Fund is its deep commitment to nurturing nonprofits. "We treat our borrowers the way bankers treat their private banking clients," says Black. That kind of attention involves spending extra time with nonprofit borrowers to assess their organizational strengths and weaknesses, to get to know their connections with the people and communities they serve, and to help them identify and secure additional sources of financing. One result, he says, is that the Loan Fund has to be much more flexible in its time frames than a conventional lender would be if it wants to ensure the success of its loan. "Sometimes three years will pass from the time when the Loan Fund commits to financing a project to the actual time of the loan – and the rate doesn't change," Black says. By being willing to become a "first source" of funding, a catalyst to leverage other investments in development projects, the Loan Fund has been an invaluable ally to the nonprofits it serves.

Bonita Springs: Building Assets for the Working Class

One of the most successful projects the Florida Community Loan Fund has helped support to date has been the Bonita Springs Area Housing Development Corporation (HDC) in Lee County, Florida. Between Fort Myers and Naples, Bonita Springs has a high proportion of middle- to upper-income residents and many high-end homes in gated communities. The working-class residents, most Hispanic or Latino, have difficulty finding housing, and increasingly must look outside of the city in which they work to find affordable housing.

A children's play space is at the heart of Silverado East, a 26-home subdivision for low- to very-low-income people in Bonita Springs, Florida. The project's financing began with an investment from the Florida Community Loan Fund.

Photo courtesy of the Florida Community Loan Fund

The Bonita Springs Area HDC served as both a developer and credit counselor for families in the area, so they had a natural pool of interested potential homeowners. Their average of six new affordable homes a year was modest, and it was not really making a dent in the growing demand for affordable homes. A loan in 2001 from the Florida Community Loan Fund enabled the HDC to take on its first major project: a 26-home subdivision – Silverado East – for low- to very low-income people in the heart of Bonita Springs. Because it had never completed a construction project of such magnitude, the HDC was not the kind of client a conventional banker could take a chance on. "Ironically," says Black, "it was a banker who wished he could make a loan to the HDC that referred the organization to the Loan Fund."

The Loan Fund provided $425,000 in loans to help the organization build the infrastructure (sewers, roads) it needed to secure bonding for permits and loans for construction. A significant portion of the Loan Fund's investment was placed in an escrow account for basic infrastructure. Black recalls: "Having that escrow account allowed the HDC to pull the permits for the new homes just before they were about to go up by $5,000 each. That saved the HDC, and ultimately the homeowners over $100,000." Putting up such a sum so early in the process was a risk the Loan Fund weighed seriously, with input from the technical assistance providers. After weighing the possible risks to funding this part of the project, in the end, Black says, "It was a relatively simple decision to make, and it was going to benefit the people who would live in that community. But it was the kind of decision a conventional lender would have had a difficult time making."

All told, the project required $2,774,359 in financing from public and private investors. Some of the grants the HDC received imposed a tight, 18-month timeframe on the project. This placed a new level of demand on the six-homes-per-year organization. The Loan Fund supported the technical assistance needs of the HDC to tackle the challenging project through a partnership with its technical assistance partner, the Florida Housing Coalition.

Silverado East opened in August 2003 with 26 detached, two-story homes with two to four bedrooms and two baths each. The homes are valued between $106,000 and $116,000.
Photo courtesy of the Florida Community Loan Fund

On August 7, 2003, the Bonita Springs Area HDC turned over the keys to Silverado East to the homeowners association. All 26 units, two-story homes with two to four bedrooms and two baths, are finished and occupied by their new owners. Residents are paying about $650 a month – comparable to rent for a smaller apartment in the area – for their $106,000 to $116,000 homes. They are beginning the process of building equity and building assets. What's more, they are committed to making the community a safe and healthy place for their children to grow. "Everybody here is very friendly," William Vasquez, a new homeowner and president of Silverado's homeowner's association, recently told *The News-Press.* "It's a big, strong family."

Completion of the Silverado East subdivision has taken the Bonita Springs Area HDC to a new level of capacity. "This has been a tremendous step for the organization toward building greater credibility with government and other sources of funding," says Black. The Loan Fund has indicated its support and enthusiasm for the organization's success by assisting HDC with a loan to acquire vacant land and by committing to a new $450,000 line of credit to the HDC as it tackles its next projects: two subdivisions (one 20 homes, the other 10 homes) to be built simultaneously during the next 18 months.

"By providing support and technical assistance, we try to create more efficient flows of capital into low-income communities by connecting investors to organizations working in and for low-income communities," says Esteban. "The Bonita Springs project is a perfect example of how the Florida Community Loan Fund can help nonprofits help low-income individuals gain access to assets they wouldn't otherwise have."

On the Horizon

Thinking about the Loan Fund's past, present, and future, Esteban gives a lot of credit to the philanthropic community: "Ultimately, the Loan Fund will be as big as the philanthropic community wants it to be, because their investments have leveraged – and hopefully will continue to leverage – banks, communities of faith, and private investors." The Loan Fund hopes to build a strategy for private and individual investors in the coming years to give Floridians a strong option for making socially responsible investments in their state. "We need to make sure they know their money can be used at low risk," he says, "but that they have the potential to change the lives of people and communities. We need for them to see the connection that they can have to such a change."

[1] The *State Asset Development Report Card* is a benchmarking tool, whereby each state is evaluated relative to the performance of the other 49 states. Information has been collected on each of the 50 states in three main areas: asset outcomes, asset policy, and tax policy and accountability. Of these, the first two indices are analyzed comparatively across states and grades are given. The asset outcomes (which consider 30 economic measures) and asset policy indices (which consider 36 economic measures) are explained at http://www.cfed.org/about/publication_list.htm.

[2] While the origins of community development financial institutions (CDFIs) go back to early credit unions in the 1940s, most of the current-day institutions have started since the early 1990s. For a good overview of the CDFI field, see www.CFED.org.

[3] Original (and current) investments from religious orders came from Louisiana, Maryland, Delaware, Pennsylvania, New York, Iowa, Missouri, Indiana, Michigan, Ohio, Wisconsin, and Italy – as well as from Florida.