



CITY OF SOUTH BEND REDEVELOPMENT COMMISSION

Redevelopment Commission Agenda Item

DATE: 07/23/2020

FROM: Brian Donghue

SUBJECT: CDFI Friendly – Enhancement Fund

_____ Pres/V-Pres

ATTEST: _____ Secretary

Date: _____

APPROVED Not Approved

SOUTH BEND REDEVELOPMENT COMMISSION

Funding Source (circle one) River West; River East; South Side; Douglas Road; West Washington; RDC General

Purpose of Request:

Community Development Financing Institutions (CDFIs) are organizations that expand economic opportunity in low-income communities by providing access to financial products and services for local residents and businesses. CDFI Friendly South Bend acts as a liaison between CDFIs and the local community. CDFI Friendly South Bend's purpose is to strengthen the community and improve the economic conditions of its lower income residents by assisting CDFIs and other organizations to provide low-cost, accessible, flexible, affordable financing for housing, job development, charitable and educational services and other community projects.

CDFI Friendly South Bend (CFSB) and the Urban Enterprise Association (UEA) have signed an agreement for the UEA to serve as a fiscal agent for CFSB until December 31, 2021. This will allow CDFI Friendly South Bend flexibility to pursue fundraising sources without waiting for formal certification as a 501.c.3 nonprofit organization with the IRS.

Funding request is for \$200k for the Capital Enhancement fund, core to the CDFI Friendly South Bend business plan, and in alignment of the original appropriation by this board last fall. Business plan is publicly available and will be provided to the board.

EXCELLENCE | ACCOUNTABILITY | INNOVATION | INCLUSION | EMPOWERMENT

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INTERNAL USE ONLY: Project ID: PROJ _____;

Total Amount – New Project Budget Appropriation \$ _____;

Total Amount – Existing Project Budget Change (increase or decrease) \$ _____;

Funding Limits: Engineering: \$ _____; Other Prof Serv Amt \$ _____;

Acquisition of Land/Bldg (circle one) Amt: \$ _____; Street Const Amt \$ _____;

Building Imp Amt \$ _____; Sewers Amt \$ _____; Other (specify) Amt \$ _____

Use of Capital Enhancement Fund

Based on what we have heard, we recommend that the capital enhancement fund be reserved for larger, complex community development deals that usually require multiple sources and subsidy. This could include:

- Low Income Housing Tax Credit and other multi-family housing projects.
- Supportive Housing projects, including ones focused on the homeless population.
- Nonprofit facilities such as health care, education, social service, and cultural institutions.

Commercial real estate including rehabbing old factories into shared use space, new construction for grocery stores, drug stores, and other amenities, and other projects.

PROPOSED CDFI FINANCING STRATEGY

Two-Track Financing Strategy

CDFI Friendly South Bend plans to pursue a two-track financing strategy to bring needed capital from CDFIs and potentially other sources to meet the pressing needs in South Bend. It pairs priority, pressing demand in two areas that seem to present significant deal pipelines, an important consideration for CDFIs, with a set of clear financing needs that will take longer to realize.

Track I

The first track will address two financing needs where there is significant pipeline and at least one CDFI per track with stated intent to address each of them. Both have already drawn interest from CDFIs and we anticipate lending activity to begin in the first half of 2020 as a result of progress during the planning period.

- Small business loans to new and expanding businesses of up to \$50,000 with an emphasis on enterprises owned and/or led by people of color. This is a priority in South Bend, highlighted by the September 2019 Disparity Study. Qualifying existing businesses with a track record of positive cash flow may want to borrow up to \$250,000 for expansions.

ACCION Chicago has a product directly suited to the demand for loans up to \$TK and intends to operate on an ongoing basis start in early 2020. Other CDFIs, including Bankable, Community Investment Fund of Indiana, and Brightpoint offer similar products and are lending in South Bend today. Community Reinvestment Fund is interested in originating loans for small businesses over \$100,000, with or without an SBA Guarantee.

- Mortgages for home purchases involving mortgages up to \$80,000. Some of these units also need rehabilitation, and many have an “appraisal gap,” due to low real estate values in certain neighborhoods.

Teachers Credit Union and Notre Dame Federal Credit Union (both nearing certification as CDFIs by the federal CDFI Fund) offer appropriate products. First Source Bank has a program for first time homebuyers that offers up to 100% of the purchase price or appraised value, whichever is lower. All of these products are based on the borrowers qualifying under normal mortgage requirements.

Annual CDFI Friendly Loan Production: We assume that loan originations will increase each year as the potential customers and support services become more aware that these products are available.

Projected Number of Loans

| Type of Loan | 2020 | 2021 | 2022 | Total |
|----------------|-----------|-----------|-----------|------------|
| Micro Loan | 10 | 15 | 20 | 45 |
| Small Business | 3 | 6 | 9 | 18 |
| Home Mortgage | 11 | 16 | 20 | 47 |
| Total | 24 | 37 | 49 | 110 |

Projected Loan Dollars Originated

| Type of Loan | 2020 | 2021 | 2022 | Total |
|----------------|--------------------|--------------------|--------------------|--------------------|
| Micro Loan | \$250,000 | \$375,000 | \$500,000 | \$1,125,000 |
| Small Business | \$300,000 | \$600,000 | \$900,000 | \$1,800,000 |
| Home Mortgage | \$704,000 | \$1,024,000 | \$1,280,000 | \$3,008,000 |
| Total | \$1,254,000 | \$1,999,000 | \$2,680,000 | \$5,933,000 |

Because there is documented demand that seems likely to support a significant volume of business and because the lenders are present on a regular basis in South Bend, this track may not require use of the CDFI Friendly South Bend Enhancement Fund.

Track II

The second track will focus on larger transactions for real estate and likely will leverage the planned CDFI Friendly South Bend Enhancement Fund. For that reason, we expect just one completed transaction in 2020 and incremental but steady increases in 2021 and 2022.

We identified many commercial real estate and nonprofit real estate financing opportunities including larger small business and commercial real estate financing, and loans to support the development of multi-family affordable housing, supportive housing, community facilities, and for property and/or land acquisition.

By their nature, these opportunities are fewer, more complex, and substantially larger than those in the first track. They also require longer lead, or development, times. The amounts for loans originated represents the CDFI portion of these deals which will likely leverage additional financing including equity, mezzanine financing, and traditional bank financing.