

Testimony of
Joe Neri, Chief Executive Officer, IFF
on
The U.S. Department of the Treasury's
Community Development Financial Institutions Fund
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Committee on Appropriations, U.S. House of Representatives
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Chairman Quigley, Ranking Member Graves and members of the subcommittee, my name is Joe Neri and I am the CEO of IFF. IFF is certified by the U.S. Department of the Treasury as a Community Development Financial Institution, or CDFI, and is one of only a handful nationally to hold a top-level Aeris© rating for impact management and AAA rating for financial strength and performance. We are based in Chicago and operate across a 10-state Midwest region that includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Ohio, Wisconsin, and Northern Kentucky. Our primary business is to help nonprofits that serve low-income communities and persons with disabilities to plan, finance and build the facilities and housing they depend on to provide critical health and human services; a quality early childhood and K-12 education; job training; affordable and accessible housing; and access to healthy food.

In short, for many low-income neighborhoods, older suburbs and rural towns in the Midwest, we help to finance and build the infrastructure and amenities that are essential to a strong and healthy community, and which many of us are fortunate enough to be able to take for granted. Thank you for this opportunity today to testify about our work and the CDFI Fund.

My message today is simple: The very essence of the CDFI Fund acknowledges the old adage that “Washington doesn’t always know best.” That’s because the power of the CDFI Fund – and the reason I believe it has received strong bipartisan support for so many years – is that it is not a one-size-fits-all policy prescription developed in Washington, D.C. Instead, the flexible grants it provides to mission-driven lenders of every type – serving people, businesses and communities with completely different needs and challenges – puts capital into the hands of the local problem solvers best equipped to find solutions; allows them to use those resources to raise additional private capital; and permits them to redeploy those funds on an ongoing basis to confront new challenges in the future. It was a good idea when the Fund first launched 23 years ago, and it is an even better idea today given the Fund’s incredible record of success.

IFF: A Different Type of Lender

As the witnesses on this panel demonstrate, CDFIs come in different shapes and sizes. Like about half of all CDFIs nationally, IFF is what is known as a community development loan fund – that is, a revolving loan fund that raises capital to invest in low-income communities and for the benefit of populations that have been underserved by traditional financial institutions.

However, several important characteristics distinguish IFF from other CDFIs that are community development loan funds.

- 1. IFF is a full-service lender to nonprofits.** Since it was founded over 30 years ago to meet the credit needs of human service providers working to improve the quality of life in Illinois' most economically challenged neighborhoods, IFF's fundamental belief has been that nonprofits are essential agents of change in communities, and that by investing in and financially strengthening them, we also invest in and strengthen the people and communities they serve. That is why IFF aims to be a source of flexible, affordable capital to nonprofits throughout their life cycle – not just when they are ready to build a new facility, but when they need to make emergency repairs or code improvements; buy a new vehicle to safely transport their clients; or expand programming space at their current facility. And while today IFF makes loans for other purposes to certain businesses, such as for affordable housing or to grocery stores that locate or expand in “food deserts,” its primary focus as a full-service lender to nonprofits providing critical services has not changed.
- 2. IFF is a non-appraisal-based lender.** When IFF was first established, most of the nonprofits it served did not own the buildings in which their services were offered, or – if they did – the appraised value of those buildings was far too low for any bank to make a loan to them. Either way, the result was the same: they fundamentally lacked access to the capital they needed to grow and serve their communities. IFF solved for this by developing a lending model and standard loan product that did not

depend on appraisals. Instead, we focused on each nonprofit's individual finances and management, and over time deepened our knowledge of the various sectors in which they operated and the markets in which they were located. This approach opened the door for us to lend in neighborhoods where real estate and collateral values were very low – something that is all too common in the industrial Midwest; to provide leasehold mortgages; and to subordinate our loans to those of banks or other lenders to attract additional capital to our projects. Not being constrained by loan-to-value limits also freed us up to make loans that could pay for nearly all of a project's total cost – or 95 percent, up to a maximum of \$2 million. Today, although we use appraisals in our underwriting and take collateral in the majority of our loans, we do not lend based on the value of that collateral – but instead on our analysis of a nonprofits' financials and overall ability to pay.

- 3. IFF is a long-term, flexible lender.** In order to provide nonprofits with the financial stability and predictability they needed to stay focused on meeting their mission and serving their clients and communities, we knew we needed to provide our customers with patient, longer-term capital. Thus, for most of our history our primary loan product has had a term of up to 15 years. What's more, we currently offer this long-term loan product for as little as \$10,000 or as much as \$2 million (or for up to \$6 million with one of our lending partners). The combination of long-term rates and often-smaller-sized loans provides great flexibility for nonprofits of all sizes to purchase a facility, improve a facility, or acquire equipment. Because we are often

borrowing short from banks and lending long to clients, this complicates our model and makes raising capital even more challenging – but it is essential to our nonprofit customers, and we have found a way to make it work. In short, the combination of sources from which we raise capital give us this flexibility. These sources include: equity from the CDFI Fund; patient and low- or no-cost capital from philanthropy; access to flexible, affordable capital from the Federal Home Loan Bank of Chicago, of which we are a member; and perhaps most importantly our Investor Consortium, an investment vehicle through which we package performing loans into a collateralized trust note that we then then sell to a network of about 50 bank partners.

4. IFF is a statewide lender that serves urban, suburban and rural communities.

Historically IFF has been a statewide lender that has sought to serve every type of low-income community – urban, suburban, and rural – in the Midwest states it serves. For example: In Illinois, where we were founded and have operated the longest, we have always had a deep presence on the south and west sides of Chicago, as well as in the surrounding suburbs, and with loans in rural towns across the state, too. Recent studies by the Brookings Institution have confirmed that in the Midwest as well as in other parts of the country, the growing concentrations of poverty are increasingly located in older suburbs, where there is limited if any human service infrastructure to address the needs of their new residents and changing population. Confronting this challenge – as well as the persistence of poverty in rural towns – are important priorities for us.

5. IFF is a real estate consultant and developer. Lastly, like a few other larger, more established CDFIs, IFF is engaged in non-lending activities to support its investments and increase its impact on communities. We provide hands-on technical assistance to borrowers, conduct research studies to help inform the investments we and other stakeholders make, and engage with state and local governments in public policy initiatives to invest in or build community infrastructure. But most significantly – and I think unique in the CDFI world – for more than 20 years IFF has operated a separate real estate consulting and development business that provides nonprofits with a broad range of services to help them make sound decisions about their long-term facility needs. These services include helping them assess the financial feasibility of potential real estate projects, conducting assessments of prospective facilities, creating strategic facilities plans, conducting site searches, and managing construction. Since 1997, IFF has assisted on over 1,200 such real estate projects.

IFF and the CDFI Fund: Growth, Innovation and Impact

There are now more than 1,000 certified CDFIs nationally, and IFF is fortunate to have been one of the very first to be certified by the CDFI Fund and receive what was formerly known as a CDFI Fund Core grant in 1996. IFF was also one of the first to receive an allocation of New Markets Tax Credits in 2002, a Healthy Foods Financing Initiative grant in 2011, and a Disability Funds grant in 2018. We also have received grants from other former and current programs, including those for Small and/or Emerging CDFI Assistance, Technical Assistance,

Financial Assistance and the Capital Magnet Fund. Overall, since the CDFI Fund's launch over two decades ago, IFF has received 26 grants, ranging from \$50,000 to \$5 million, and five NMTC allocations, ranging from \$10 million to \$80 million.

I cannot emphasize enough how important these grants have been and continue to be to IFF's ability to grow and provide capital to more low-income communities and persons with disabilities. **These grants are the only consistent source of equity capital available to nonprofit CDFIs and are an absolutely essential component of our business model.** For every \$1 we receive from the CDFI Fund in grants, we borrow an additional \$4 from our banks. We use the combined capital to make loans to nonprofits and businesses in low-income communities, helping to finance projects that leverage, on average, an additional \$3 in overall investment. The result: every \$1 IFF receives from the CDFI Fund leverages about \$12 in total public-private investment. But the impact of these funds does not stop with this initial leverage. IFF does not use CDFI Fund grants to pay for any expenses, so each \$1 we receive from the CDFI Fund remains on our balance sheet permanently and continues to generate capital in perpetuity.

When IFF was certified and received its first CDFI Fund grant of \$900,000 in 1996, we had made 99 loans for \$16.5 million during our previous eight years of operation. We averaged about 10 loans annually at the time but the need for our financing was much greater. However, the foundation grants that provided our start-up capital were nearly exhausted, and only a few banks in those early years were willing to provide us with the debt capital we needed to grow.

Those first few grants from the CDFI Fund made all the difference. They gave a boost to our net assets and helped more banks get comfortable lending to us. Just as importantly, they gave us the flexibility to innovate and craft the specific loan products we needed to meet the capital needs in our communities. And over time, we were able to leverage our growing balance sheet and meet more of the demand for our loans.

As IFF's balance sheet grew, we were able to expand outside of our home state of Illinois. Between 2006 and 2012, we began to provide our financing in four neighboring states – Indiana, Iowa, Missouri and Wisconsin. And in 2013, we expanded to five additional states – Kansas, Michigan, Minnesota, Ohio, and adjacent metro areas in Northern Kentucky. **These states had different credit needs and, again, because of the flexibility of our CDFI Fund grants, not only were we able to leverage more private capital to make more loans, but also to adapt our products and services to meet the needs of these diverse communities.** Today, 60 percent of our \$350 million loan portfolio consists of loans originated in these new states that we were able to serve because of the Financial Assistance grants we received from the CDFI Fund.

CDFI Fund grant support also has made it possible for IFF to innovate and offer new products. Through the years, their support gave us the flexibility to double our loan limits, increasing the maximum for our standard improvement loan from \$1 million to \$2 million. Grants from the Healthy Food Financing Initiative opened the door for us to develop, market and offer a new loan product that targeted full-service grocery stores that locate or expand in “food deserts.” And more recently, through the NTMC program, IFF has set aside 20 percent of

its NMTCs to capitalize a series of small loan pools to bring the benefits of NMTC financing – very low rates and seven-year interest-only payments – to smaller nonprofit projects that typically cannot access NMTC financing because of the high transaction costs.

And today, 23 years after our first CDFI Fund grant, and with its continued support, IFF has grown its lending and impact substantially. Not only we have expanded and innovated to serve more nonprofits and communities, but our loans have contributed to important measurable outcomes on the ground. In fact, between 1988 and 2018, we made 1,723 loans totaling \$900.9 million, which have:

- Created or preserved 10,741 housing units;
- Created 50,311 slots for students in K-12 schools;
- Created 6,783 slots for children in early childhood education facilities;
- Enabled 369,920 new annual patient visits in health care facilities;
- Developed 26.1 million square feet of commercial real estate;
- Created or maintained an estimated 75,000 jobs; and
- Leveraged a total public-private investment of \$2.9 billion.

But these numbers, as impressive as they may sound, do not begin to tell the whole story of our impact as a CDFI, which I believe is best measured by the individual nonprofits, communities and people that experience the benefits of IFF's financing and technical real estate and development support. Let me share an example of each.

1. **First, an example of how IFF's long-term relationships with small nonprofits make a real difference in communities.** Meet The Need (MTN), a low-budget nonprofit in a small town outside of Kansas City, does just what its name says – it helps meet the needs of people who are having trouble making ends meet, be it because of job loss or health problems. But what started out in 2004 with \$40 and the goal to help neighbors through tough times has blossomed into a vibrant social enterprise that assists thousands of people each year. IFF has provided financing to this nonprofit at several key moments in its development.

MTN first came to IFF in 2009 to finance the acquisition of the building it was renting. The organization's founder, Kris Peoples, told us that: "Back then, the building was not in great shape, but it was all we could afford. I called normal banks, and they all wanted 20 percent down, and there was just no way could we do that." Noting that IFF required just a 5 percent down payment, she added: "IFF is the only reason we are in existence today – that, and the grace of God."

The \$309,000 loan closed in July 2009 – but three months later, tragedy struck when a fire destroyed most of the building. Although MTN was insured, the building's value didn't cover the cost of the substantial repairs. IFF worked with MTN again, and after paying off the first loan with the insurance money, MTN obtained a new \$275,000 IFF-backed loan in order to rebuild. That was in April 2010, and MTN re-opened later that year. Today, the renovated building is worth \$1.2 million.

Years later, MTN came back to IFF for a third loan – \$61,000 for equipment for its latest venture, a social enterprise coffee shop. The Opportunity Café and Coffee Shoppe provides hands-on job training for MTN clients, while also generating revenue towards the agency’s nonprofit programs. If the past is any indication, MTN will do great things with their new café, which opened in 2017.

- 2. Second, an example of how IFF’s flexible real estate development assistance, coupled with financing and construction management, led to a new full-service grocery store in a 35-year “food desert.”** In August of 2015, I attended the ribbon-cutting for a new Save-A-Lot grocery store in the West End neighborhood of Rockford, Illinois. It was a beautiful sunny day, and everyone was there – the Mayor; Save-A-Lot representatives; the head of the local community health clinic; the head of the housing authority; local, state and federal officials from both parties; and a broad cross-section of community members.

Everyone was there and in a good mood because for two years, a local task force that came together around the HUD Choice Neighborhoods Initiative had been prioritizing community needs. And over that period, attracting a new full-service grocery store with fresh and healthy foods had become the number-one priority.

At IFF, we knew this, but our financing alone was not enough to get a grocery store to move into that community, which had been a “food desert” for 35 years. Put simply, no one was willing to take both the development and operational risk for a location that seemed so challenging.

So, after conversations with our partners – the City of Rockford, the State of Illinois and Save-A-Lot – we decided to develop the store ourselves.

And once we did, we were able to partner with Save-A-Lot on the new store, to finance and manage construction of the \$3 million project, to work with the local United Way to help fill the 25 new local jobs, and to build linkages with the community to use the store to promote better health in the neighborhood.

3. Finally, an example of how IFF’s partnerships with banks help get meaningful projects off the ground. In recent years, dozens of Milwaukee families have gained a new, quality Head Start facility, thanks to the nonprofit Next Door and a partnership between BMO Harris Bank and IFF.

Next Door has been working with Milwaukee children and families on improving literacy and school readiness for more than 50 years. When the agency first came to IFF in 2013, they were tackling some huge and challenging changes – they had just been asked to triple the size of their Head Start program in order to fill a gap left by another local

provider; they had just committed to an enormous real estate project in order to convert a 100,000-square-foot former hospital into a modern center for early childhood education; and they had just secured a \$2.6 million loan to do it. A lot of the hard work – establishing a great reputation as a child care provider, identifying a proper site for expanding their services, and working with their long-term banking partner, BMO Harris Bank, to secure a loan – was already done. Problem was – they still had a \$1 million financing gap, and the project couldn't move forward without those additional funds.

That's where IFF came in. Our knowledge of nonprofits and early education, our long working partnership with BMO Harris, and our flexibility on securing second mortgages – these factors combined to allow IFF to provide the final \$1 million loan needed to move the project forward.

As a result of its expansion, Next Door was able to serve 450 additional children (750 in total), create 100 full-time jobs, and rehabilitate a large vacant building in the community, which increased its long-term value substantially.

The CDFI Fund: More Relevant Than Ever

I started my testimony by saying that, given the incredible success of the CDFI Fund these past 23 years, I believe it is just as good an idea today as it was when it first launched. But a skeptic might ask: Given the tremendous growth and success of CDFIs like IFF, why should the federal government continue to invest in them? It is a fair question, and one that I would

like to address by taking a big-picture look at our industry's challenges as well as a couple forward-looking opportunities for the CDFI Fund.

First, despite the CDFI Fund's success, the fact remains that **there is still a large and fundamental need for the financing work that CDFIs do.** From my vantage point at a CDFI that lends to nonprofits in the Midwest, that seems all too obvious. As I mentioned before, poverty is rising and concentrating in suburbs with very limited human services infrastructure, which will need investment. Also, real estate values remain depressed in many urban neighborhoods and rural towns that have experienced disinvestment and population loss for half a century. These problems were a long time in the making, and they will take time to address. Further, in much of the country, there will continue to be a robust need for IFF and CDFIs like it to finance the special-purpose buildings that nonprofits require to provide health and human services to our communities. To be frank, our government – at all levels – has not regularly funded this type of capital investment for some time now, and banks – given the constraints they face because of their loan-to-value limits – are not very likely to start meeting this demand for financing by themselves. It is just not what they do.

Second – and this an important point that often gets overlooked when we discuss the need for and impact of CDFIs – **there is a huge and lasting public policy benefit to the vibrant network of CDFIs that the Fund has seeded and grown for more than two decades.** This benefit may not be obvious when you look at the CDFI Fund's impact data, but I believe this is one of its most important accomplishments. Yes, as with IFF, we have invested in CDFIs in

order for them to make more affordable loans, innovate and serve more low-income communities. But we have also created a cohort of strong and nimble financial institutions that have robust balance sheets that they can leverage to raise substantial capital from multiple sources, inject that capital into neglected markets and better manage risks than when we were new or emerging.

Despite its growth, this network of CDFIs has remained deeply rooted in communities. As a result of this connection, these CDFIs have developed significant, on-the-ground expertise in early childhood education, K-12 education, health and human services, healthy foods financing, housing, universal access and other pressing issues. And with their powerful toolbox of capital, data, policy knowledge and execution ability, they have the capacity to work directly with local, state and federal governments to successfully address critical public policy issues. At IFF, partnering with government – as well as with banks and foundations – to be this type of last-mile policy implementer is a growing part of the work we do. In fact, we recently launched our Social Impact Accelerator to scale our impact in this way, and it is currently leading a series of initiatives to provide affordable, accessible homes for person with disabilities and to increase access to quality early childhood and K-12 education in high-need neighborhoods.

And third, while the CDFI Fund has done so much to promote the leveraging of private bank capital, the truth is **we have only scratched the surface of true public-private partnerships**. If we are going to begin to fill the pockets of need that we still have in our country, we need to move beyond the concept of simple leverage and develop much deeper

partnerships between banks and CDFIs – partnership where banks are lending to CDFIs for what they do best, such as community facilities and micro loans, for example; co-lending with CDFIs on large and complex community development projects; and actively working together with CDFIs to innovate to meet the credit needs of all communities.

Some of this is already happening. For example, the Next Door Head Start facility in Milwaukee was a joint effort between IFF and BMO Harris Bank, one of several bank partners with whom we regularly co-lend on projects. And for several years now, JPMorgan Chase has led an initiative – called PRO Neighborhoods – to promote formal lending partnerships and other collaborations so that CDFIs, with their support, can reach deeper into our communities and better address unmet credit needs across the country. As a part of this effort, IFF was able to co-lend with two local CDFIs in Cincinnati and Minneapolis, so that together we provide our core nonprofit facilities loans to human service providers in their states. Promoting these next-level public-private partnerships is another opportunity for the CDFI Fund to lead and build on its past success.

And so to that skeptic who might have asked why the CDFI Fund should continue despite its clear record of success, I say this: There is still a lot of un-met need for flexible, affordable financing in all types of communities; there is a huge and lasting public benefit to the vibrant network of CDFIs that the Fund has helped to establish; and our industry is facing a new frontier of public-private partnerships that can fundamentally change the way we invest in

communities. And as I say to my staff frequently: We are not here just to make loans or create buildings; we are here to change the world. Thank you, Mr. Chairman.