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Detroit's proposed Community Benefits Ordinance

IFF: A leading community development financial institution expanding its market reach across the Midwest

2015 NHS Community Banks Partnership Meeting summary

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Issue 3 2015

In this third edition of 2015, NHS's Kelley Pearson and Chicago Fed Illinois Economic Development Director Jason Keller summarize a second quarter convening at the Fed: NHS of Chicago's annual Community Banks Partnership meeting. Among other topics, panelists discussed the housing market for 'millennial' buyers, and the regulatory landscape for community banks. Desiree Hatcher, the Fed's community development director for Michigan, explores community benefits agreements and ordinances in Detroit, providing some background, as well as on-the-ground experience in the city as it struggles to regain ground economically. We feature this month a profile of IFF – formerly Illinois Facilities Fund – a CDFI in its 27th year of operation, as it expands its financial and development services to a broad collection of Midwestern states.

The Federal Reserve Bank of Chicago

The Federal Reserve Bank of Chicago and its branch in Detroit serve the Seventh Federal Reserve District, which encompasses southern Wisconsin, Iowa, northern Illinois, northern Indiana, and southern Michigan. As a part of the Federal Reserve System, the Bank participates in setting national monetary policy, supervising banks and bank holding companies, and providing check processing and other services to depository institutions.

Detroit's proposed Community Benefits Ordinance

By Desiree Hatcher

The community benefits model

The Community Benefit Agreement (CBA) model was created in the late 1990s as a tool to ensure that neighborhood residents would benefit from economic development projects, which are often heavily subsidized by taxpayer dollars. A CBA is a project-specific agreement between a developer and a broad community coalition that details the project's contributions to the community and ensures community support for the project. Properly structured CBAs are legally binding and directly enforceable by the signatories.[1] According to The Partnership for Working Families, the Community Benefits Model works because, among other things, it: maximizes returns on local government investment in development; helps generate public support for economic development projects; and holds developers accountable for their promises to local governments and residents. As of 2013, there were approximately 17 CBAs in effect across the U.S. The majority (76 percent) pertained to developments in California.[2]

California is also home to what is considered the "First major Community Benefits Agreement." The 2001 CBA was negotiated for the $400 million expansion of the Staple Center in Los Angeles, California. The development included $70.5 million in public money.[3] The agreement broadened the earlier CBA model, which previously focused primarily on labor issues and job training, by widening the range of negotiations, including: environmental concerns, health impacts, traffic, congestion, noise, open space, and parkland.[4] The CBA includes an unprecedented array of community benefits, including:[5]

- A developer-funded assessment of community park and recreation needs, and a $1 million commitment toward meeting those needs
- A goal that 70 percent of the jobs created in the project will pay the city's living wage, and consultation with the coalition on selection of tenants
- A first source hiring program targeting job opportunities to low-income individuals and those displaced by the project
- Increased affordable housing requirements in the housing component of the project, and a commitment of seed money for other affordable housing projects
- Developer funding for a residential parking program for surrounding neighborhoods, and
- Standards for responsible contracting and leasing decisions by the developer

Of the CBAs identified by The Partnership for Working Families, the underlying developments range in cost from $36 million for a 33-acre industrial park in Los Angeles' San Fernando Valley,[6] to $11 billion for modernization of the Los Angeles International Airport.[7] Further, not all CBAs are connected to receipt of public subsidies. LA's Lorenzo Housing Development used no public subsidy; however, Planning Commission approval was needed because the development site was largely restricted to medical or educational uses.[8] This serves as evidence that communities may have other sources of leverage to encourage developers to negotiate agreements.

Commercial development is often seen as a precursor to neighborhood development. Economic Development officials, often charged with attracting and retaining businesses, may make assumptions about resulting job creation and potentially other community benefits that do not necessarily pan out. Economic development is occurring in Detroit, primarily in the downtown and midtown areas, and much of this development derives in some part from public subsidy of one form or another. However, though taxpayers are subsidizing major developments, some question the actual impact for Detroit residents with respect to job creation and other benefits, and the efficacy of the strategy overall. As of December 2014, the city's unemployment rate was approximately 12 percent, more than double the rate of 5.6 percent at the state level.[9] In addition, at 42.3 percent, Detroit has the highest level of poverty of all U.S. cities.[10]

Good intentions

In 2007, Marathon Petroleum requested a $175 million property tax break from the city of Detroit as part of a $2.2 billion expansion of its Southwest Detroit refinery. According to an article in the *Detroit Free Press*, with the request came the following pledge:

"As we discuss job creation, please understand that we will do what we can to hire qualified Detroit residents," then Marathon Senior Vice President Garry Peiffer wrote to City Council in 2007. "It is our intention to work closely with the Detroit Workforce Development Department and a local institution of higher education to develop curriculum and offer training for interested Detroit residents."[11]

Since Detroit approved the tax break in 2007, Marathon has added nearly 200 new jobs at its expanded refinery. The company worked with Henry Ford Community College to develop a training program for interested Detroit residents, and paid $154,000 for 37 training program scholarships for Detroiters. Entry-level refinery jobs pay approximately $50,000 per year.[12]

Of the 37 scholarship recipients, four completed the process technology training program; met the company's pre-employment testing requirements; worked a three-month internship; and obtained associate's degrees. However, according to the February 2014 report to the Detroit City Council on the company's hiring practices, of the four students who have successfully completed the program, none have been offered full-time employment by Marathon.[13] In addition, as of January 2014, of the refinery's 514 employees, 30 are listed as Detroit residents. In 2007, before the expansion, the company employed 15 Detroit residents. That means fewer than 6 percent of Marathon's workers at the refinery live in the city, according to the company's employment records, which must be submitted to the city annually under terms of its abatement agreement.[14] However, since the tax abatement contract does not require Marathon to provide a specified number of jobs to Detroiters, the provision of the scholarship and training program at Henry Ford Community College fulfills the company's responsibility under the contract.[15]

In response to criticism regarding the low number of Detroit residents in its workforce, Marathon representatives indicate that even though the company developed the training program and funds a scholarship program designed to promote local hiring, they are finding it difficult to find qualified workers. Twelve-hour shifts at the refinery and the specialized nature of some available jobs were indicated as challenges to hiring Detroiters.[16]

Subsidy equals investment

In rust belt municipalities where jobs and tax revenues have declined significantly, can communities afford to continue offering subsidized funding for large-scale projects that provide no benefit to the local community? "It's about economic inclusion," stated Ken Harris, president and CEO of Michigan Black Chamber of Commerce. "How many funders provide money with no expectation of a return on investment?" "And it is just that, an investment. Tax payers have skin in the game. Equity funds, angel investors, and venture capitalists all have requirements that must be met prior to delivering funding."[17]

Many Detroit residents and community groups feel the same, and they want an opportunity to discuss ways in which providing subsidies can benefit both developers and the community. However, they are finding out that not all developers are willing to have this conversation.

Two developments, two different experiences

The M-1 Project

The M-1 RAIL Woodward Avenue Streetcar Project, to be completed in 2017, started as a three-mile system, and later evolved into a light rail system approximately 9 miles in length. However, the city of Detroit, state of Michigan and Federal Transit Authority determined that under then current economic circumstances, and due to the lack of a Regional Transit Authority structure in Southeast Michigan, the $500 million project was not feasible. The project was then scaled down to a 3.3 mile streetcar circulator system connecting Woodward Avenue from the Riverfront to the New Center and North End neighborhoods.[18] Although plans show that the M-1 RAIL will come into the North End neighborhood, it will not allow residents to board the rail in the North End neighborhood according to Reverend Joan Ross, executive director of the North End Woodward Coalition and Equitable Detroit Coalition member. She indicated that instead, the car will be cleaned at a maintenance station to be located in the North End neighborhood, and then sent back downtown.

Ross indicated that her organization's attempts to meet with M-1 to express their concerns were unsuccessful. Instead, M-1 established a Consumer Advisory Council whose members were hand-picked and given no decision-making authority. Ross expressed that her sentiment about the project changed when it was scaled down. According to Ross:

"When it was M-1 RAIL Project and it was going to connect job centers, it was a great idea. But when it became the M-1 Streetcar Project that runs 3.3 miles, at a cost of $150 million, that comes into my neighborhood and will not pick up the people, then it became both an issue and an injustice."[19]

Whole Foods Market (WFM)

Whole Foods, the upscale grocery store, opened its Detroit location in 2013. Initially, there was fear that the Whole Foods products would be too expensive for long-time residents; that it would threaten the viability of current food vendors; and was part of the gentrification of the city's rebranded Midtown community. However, according to Myra Lee, former program coordinator of Detroit Food Justice Task Force and founding member of the Equitable Detroit Coalition, working with a high-end company like WFM was advantageous. Lee indicated that WFM provided a community liaison, Amanda Musilli, who was open to having residents provide input and help define community engagement in Detroit. Meeting discussions included: hiring locally; employment of reentries (from criminal justice system); helping Detroiters become vendors; a commitment to provide living wages; and career growth for employees. Although no formal community benefit agreement was made, the benefits realized from these meetings were no less impressive. WFM increased its commitment to local jobs at the new store from 35 to 110 (70 percent of whom are Detroiters). The store also committed to promoting local food businesses and working with entrepreneurs to improve their products and form business relationships with the store.[20]

Equitable Detroit

In January of 2013, the Woodward North End Coalition, the Detroit Food Justice Task Force, and other Detroit community-based organizations came together to begin discussing the large scale development occurring in the city. This included: a $2.1 billion international bridge project; a $500 million hospital expansion project; a new $450 million hockey arena; and a $30 million grocery store. The collective group felt there was a need to frame an ordinance that would involve communities in early stages of planned development and to ensure benefits to the impacted neighborhoods. These meetings led to the formation of the Equitable Detroit Coalition, an association of individuals; small businesses; and neighborhood, faith-based, and community organizations. Equitable Detroit Coalition's mission is "to foster beneficial relationships between developers and the Detroit community by facilitating open and honest dialogue and to assist developers, funded by public dollars, to become corporate neighbors who are transparent in their relationship with the community."[21] Equitable Detroit Coalition members then met with Detroit Councilwoman Brenda Jones to determine how to require large scale developers to engage local communities to this end. The Coalition was surprised to learn that a resolution for a similar ordinance had been on the city's books since 1984. At the next council session, a motion was made by Councilwoman Jones and seconded by Councilwoman Joann Watson to look into an ordinance for community benefits.

Detroit's proposed community benefits ordinance

In support of the Equitable Detroit Coalition's efforts and at the request of the Detroit City Council, the Sugar Law Center for Economic and Social Justice developed a draft of the proposed community benefits ordinance (CBO) that was introduced in January 2014. The proposed ordinance, the first of its kind in the country, focused on developments expected to generate investment of $15 million or more and requested receipt of public support for investment. For these developments, the ordinance required that the developer negotiate a Community Benefits Agreement with the host community to address the following issues:[22]

- Targeted benefits or appropriately negotiated employment opportunities
- Job training
- Affordable housing
- Quality of life or environmental mitigations
- Neighborhood infrastructure and amenities, and
- Community representation for the benefit of the host community in the development and post-development process

Notably, the ordinance did not require the parties to reach an agreement to provide any particular benefit, only that each issue be addressed. John Philo, executive director and legal director of Sugar Law Center for Economic and Social Justice, indicated that there were no specific requirements in the ordinance as every community has different needs and every development differs in what it can offer. He indicated that "The main purpose was to get a discussion going between the developer and the community. The ordinance merely served as a blueprint for discussions."[23]

For developments of more than $3 million, but less than $15 million, a community agreement would not be required. However, if no community agreement is executed, the developer would adopt and implement a "First Source Hiring Program," which included provisions to promote the hiring, training, and employability of residents and displaced workers from the host community, including both construction and permanent jobs in connection with the project.[24]

Local opposition to ordinance

Not everyone felt that the Community Benefit Ordinance was a good idea. In an October 2014 *Detroit News* article, City of Detroit Mayor Duggan's administration indicated that they believed the ordinance would be negative for Detroit, creating too many hurdles that could discourage development. They further indicated that the city has been successful in structuring agreements to make certain that there is a true community benefit.[25] However, Equitable Detroit Coalition contended that the city does not have the capacity to monitor compliance. Coalition members indicated that in the past, developers have made assurances, but since 2000, officials have been unable to document their impact.

State's decision to ban CBOs

On December 2, 2014, Michigan legislators introduced a bill to prohibit local governments from making tax breaks or subsidies conditional on the wage, benefit, and hiring policies of businesses. "Local Government Employer Mandate Prohibition Act" (House Bill 5977) was passed by an 8 to 7 vote on December 9, by the House Competitiveness Committee. Legislative observers believed the Bill might have had a better-than-average chance of making it through the legislature and being sent to the governor. However, time ran out on the measure and it was never brought up for a vote in the House.[26] On January 22, 2015, a similar bill was introduced, this time by the Committee on Commerce and Trade as "Local Government Labor Regulatory Limitation Act" (House Bill 4052).[27] This time, new language was added to the final version of the bill that will allow cities to negotiate the terms and conditions of contracts with businesses outside of wages and benefits.[28]

House Democrats and five Republicans opposed the legislation and called it an "assault on local control and voters' rights to determine what is best for their towns." They tried unsuccessfully to get nearly a dozen amendments added to the bill that, in part, would have allowed communities to negotiate community benefit packages with companies that are receiving taxpayer dollars, and prohibited the law from invalidating ballot proposals passed by voters in communities."[29]

The bill was passed by the House of Representatives by a 57 to 52 vote, passed by the senate, and signed into law by Governor Snyder on June 30, 2015. In its final form, the new law:

"prohibits a local governmental body from adopting, enforcing, or administering an ordinance, policy, or resolution that imposes certain requirements or regulations on an employer, including a requirement to pay more than the minimum hourly wage, provide paid or unpaid leave time, or provide benefits that impose a cost on the employer, or that regulated the employment relationship in a way that exceeds state or federal requirements."[30]

Conclusion

The proposed community benefits ordinance was a major step toward the goal of community inclusion. The new law places significant restrictions on what local governments may request of potential developers, including cases where the developer requests public subsidies. However, there are developers who are willing to have these types of discussions outside of a formal agreement setting. These businesses have a history of commitment to community and a policy of serving the needs of residents. There is a strong benefit for cities like Detroit to use their limited resources to proactively attract and retain such companies. Detroit's relationship with Whole Foods Market is one example of what can happen when communities and businesses work toward their mutual benefit in planning a new development.

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Biography

Desiree Hatcher is the community development and Michigan state director in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.

IFF: A leading community development financial institution expanding its market reach across the Midwest

by Dawn Raftery

Managing Editor's Note: Community Development departments at Federal Reserve Banks have been mandated by the Fed's Board of Governors since 1981. As part of its mandate, the Chicago Fed's Community Development and Policy Studies (CDPS) Division works to understand and document the roles and capacities of community development organizations (CDO). With a combination of public, private, and philanthropic funding, these organizations provide an array of services for our country's vulnerable populations, and may offer investment or lending opportunities for financial institutions subject to the Community Reinvestment Act (CRA); we periodically profile CDOs that operate in the Seventh Federal Reserve District. As a bank regulator, we want to know more about the partnerships between banks and a type of CDO known as community development financial institutions (CDFI). These catalysts in community development received a boost in 1995 when the CDFI Fund was established within the U.S. Treasury Department to provide grants and other funding to organizations that apply for and receive certification as CDFIs. Over time, CDFI lending has informed lending policy at mainstream banks and transformed perceptions of lending risk. Banking institutions also benefit (as partners) from CDFIs' expertise in underwriting loans for nonprofits across sectors that work with low-income and underserved populations. In this edition, we profile one of the largest and most innovative CDFIs nationwide, IFF.

Among CDFIs in the Midwest, one of the largest and most geographically scaled is IFF, formerly Illinois Facilities Fund, an organization that has led the community development finance industry. The Chicago-based and Midwest-focused organization, currently active across ten states, also influences public policy through research studies that share institutional lessons and guide the allocation of resources by government, foundations, and financial institutions.

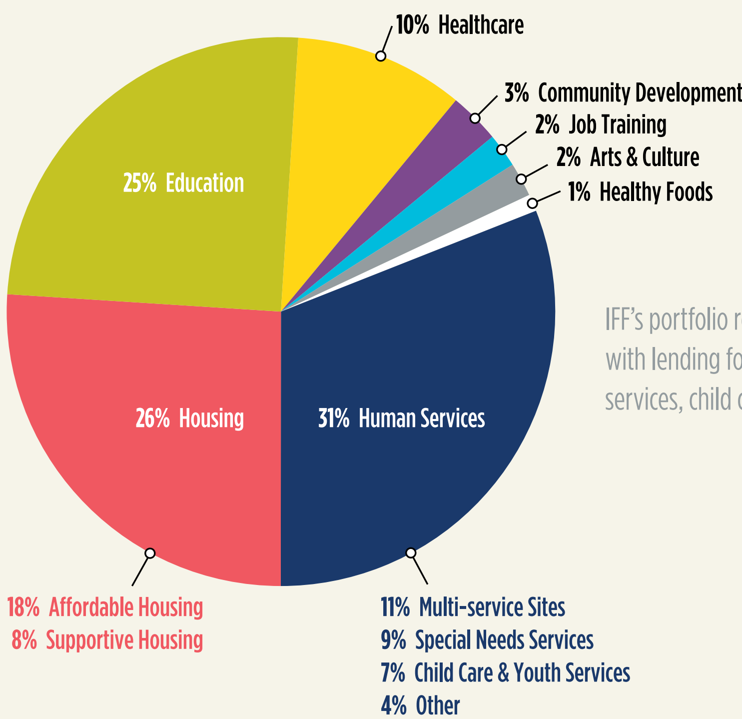
Helping banks throughout the Midwest overcome challenges in deploying capital, IFF serves as an intermediary for financial institutions to meet CRA requirements and foster community development at a greater scale. Known early on for financing and developing child care facilities, IFF also supports clients providing services in health care, housing, human services, and environmentally sustainable development (see chart 1). IFF has an Aeris[1] rating of AAA+1, the highest possible rating from the only comprehensive, independent rating service for CDFIs.

IFF's history

In 1988, IFF was launched to fill a gap often overlooked or outside traditional funding streams—the capital needs of nonprofits serving low-income populations and people with disabilities. IFF was created by the Chicago Community Trust (CCT), whose initial investment allowed it to develop its unique underwriting model and establish a track record that led to its first bank investment of $1 million from Continental Bank (later acquired by Bank of America) in 1993.

From its origins as a $1.7 million loan fund for Chicago nonprofits, IFF has grown its capital and capacity to address a multitude of community development issues. Beyond its core mission of offering flexible, affordable financing, IFF recognized a dearth of real estate professionals with a nuanced understanding of the specialized needs and operating structures of nonprofit (organization) facilities. In response, IFF began offering real estate consulting and development services in 1997. Also, numerous inquiries

Chart 1. Total portfolio by sector



IFF's portfolio reflects its highly diverse range of sectors, with lending for human services including special needs services, child care, and youth services.

Source: IFF.

from funders and service providers about the most effective methods to situate service providers (in light of shifting population trends and newer areas of need) resulted in IFF's establishment of a research department in 2003. The following year, IFF added a housing division, primarily to serve suburban neighborhoods with (typically) few community development corporations or affordable housing developers.

While the IFF portfolio of products and services has expanded, so has its geographic footprint from Illinois to nine additional states. IFF's scope and reach make it a strong "quarterback" to coordinate regional community development efforts that cross jurisdictions and political boundaries. The quarterback model reflects a major shift in the community development sector, and an integrated, comprehensive approach to addressing poverty. As a result, today IFF can play the role of researcher, lender, consultant, or developer, giving financial institutions and foundations a clearer sense of the potential impact of their investments.

Expansion

From its modest beginnings, IFF has grown into a 75-person organization with managed assets totaling $371 million, and has made over $536 million in loans that have leveraged over $1.7 billion in investments. In 2006, IFF began expanding its region, which now includes Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Ohio, and Wisconsin. By 2018, IFF will reach 13 states, bringing its flexible financing and other services to Nebraska, North Dakota, and South Dakota.[2]

In planning its expansion, IFF conducted research in every state in order to understand specific areas of need, local/regional economic conditions, and available state and local public support. IFF staff also met with nonprofit, civic, and elected leaders to share information and gain support. The new markets brought rapid growth of the loan and real estate services division's client portfolios, and new or expanded opportunities with banks, foundations, and other CDFIs. IFF's partnerships with Cincinnati Development Fund (in Ohio) and Nonprofits Assistance Fund (in Minnesota) have supported a charter school, a kitchen incubator and business accelerator, and an arts organization through $2.4 million in financing.

Key to its strategy of using its growing geographic footprint to bring capital to specific, local challenges, IFF has additional offices in Indiana, Michigan, Missouri, and Wisconsin, while retaining most back office functions in its Chicago headquarters. Before each office opening, IFF meets with local stakeholders to learn about the area's capital challenges. IFF underwriting documents a borrower's capacity to service a loan weighing both historical performance and the proposed project's impact. Deep and broad nonprofit lending experience and industry knowledge enable IFF to assess underwriting assumptions and propose loans that balance project goals with repayment ability. In Illinois and other states where government funding programs are slow paying, that can mean financing up to 95 percent of a total project's cost to help nonprofits preserve cash.

In 2013, IFF brought its experience as a cash flow lender and development consultant to Detroit, where building and land values have plummeted. The next year, during the Michigan office's first full year of operation, IFF approved 34 loans totaling $15 million—far exceeding its original goal of eight. Following a child care research study in the Detroit metropolitan region, IFF now is having conversations with local foundations on how to improve the city's early education system.

Investor consortium

Early in IFF's existence, Founder and President Trinita Logue noted that most nonprofits serving low-income communities did not own their buildings, that long-term financing was not generally available for nonprofit facilities, and that these organizations did not have the resources or liquidity to buy property with short-term (or no) financing. A major challenge of financing nonprofit and community buildings in low-income areas is establishing a loan-to-value ratio, as typically few if any comparable facilities (for appraisal purposes) exist nearby. Given this common issue and the need for a plausible valuation basis, IFF underwrites these loans by assessing the nonprofits' cash flow and liquidity.

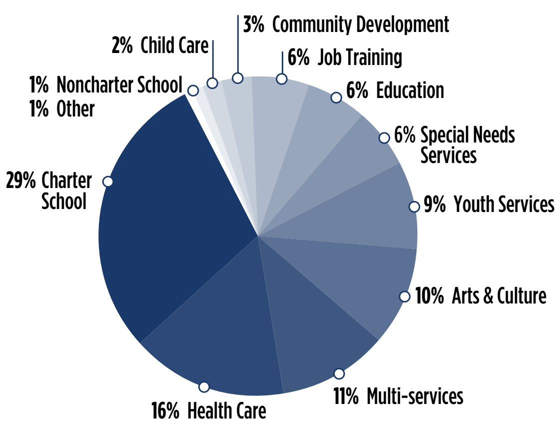
To mitigate risk for financial institutions seeking CRA-qualifying investments, IFF launched a limited recourse investor consortium in 2004 with six banks: Cole Taylor Bank (since acquired by MB Financial), Harris Trust and Savings Bank (now BMO Harris), Jacksonville Savings Bank, LaSalle Bank (now Bank of America), MB Financial, and Northern Trust Company. The consortium supports IFF's long-term lending while also offering investors (i.e., banks) a flexible, secure, and high-impact way to invest across multiple sectors and states. This structure allows IFF to plan for and deploy capital over 15 years. The limited resource nature enables IFF to greatly expand its lending throughout the Midwest.

Collateralized by seasoned IFF loans, the consortium pays interest to investors and a small servicing fee to IFF. For CRA purposes, bank investors have the option of counting their pledges toward either the investment or lending test. In essence, investors own a piece of every loan in a diverse portfolio of CRA-eligible loans across multiple sectors and disadvantaged communities—an arrangement that would be essentially too complex for banks to replicate individually. For example, in 2013, IFF's $15.5 million consortium provided its 12 bank partners with ownership in a loan portfolio including charter schools (29 percent), health care (16 percent), youth services (9 percent), job training (6 percent), special needs services (6 percent), and child care (2 percent) (see chart 2).

Since its creation, the consortium has funded a majority of IFF lending, without any net charge offs. Since 2004, 28 financial institutions have invested nearly $200 million to give nonprofits affordable, long-term financing to build key facilities and facilitate critical service delivery in low-income communities (see chart 3).

Chart 2. Consortium series 2013-1 highlights

Site Service Type (by $ amount)



IFF's 2013 Investor Corsortium closed with 12 financial partners providing nearly $16 million for 27 loans. The note represented a high-impact investment in a multitude of projects and organizations—housing, education, health care, and human services.

Source: IFF.

Playing the "quarterback" in child care, education, and healthy food access

Early child care and education is one of the areas in which IFF serves as a quarterback, combining its capital, technical expertise, and research capabilities to inform philanthropies and government. In economically struggling neighborhoods, child care remains one of many competing and unmet challenges for families. Its longer-term economic and social ramifications make child care among informed policymakers' higher priorities. During its first decade, the state of Illinois approached IFF to finance and develop child care centers in more low-income areas. Through the $21.7 million Child Care Facility Development Program, IFF financed seven facilities for licensed providers and pioneered the use of tax-exempt bonds.

With this extensive experience in a highly regulated industry, IFF also helped to design facility layouts, merging property and asset management considerations with spatial and developmental criteria, and the workflow of caregivers, managers, and support staff. IFF understood that ensuring efficient, effective use of physical space, money, and human capital makes for a better facility, stronger outcomes, higher demand, and thereby more certain revenue streams. These centers changed the face of child care for children from low-income families in these neighborhoods, and the success from taking an active role in building design prompted IFF – in an effort led by (now) CEO Joe Neri in 1997 – to create a permanent real estate services division and apply this expertise to other types of facilities. IFF is still one of only a few CDFIs in the country that provides both loan and development services for nonprofit service providers, helping banking institutions make safe investments in projects that are well placed, well planned, well designed, and responsibly/sustainably financed.

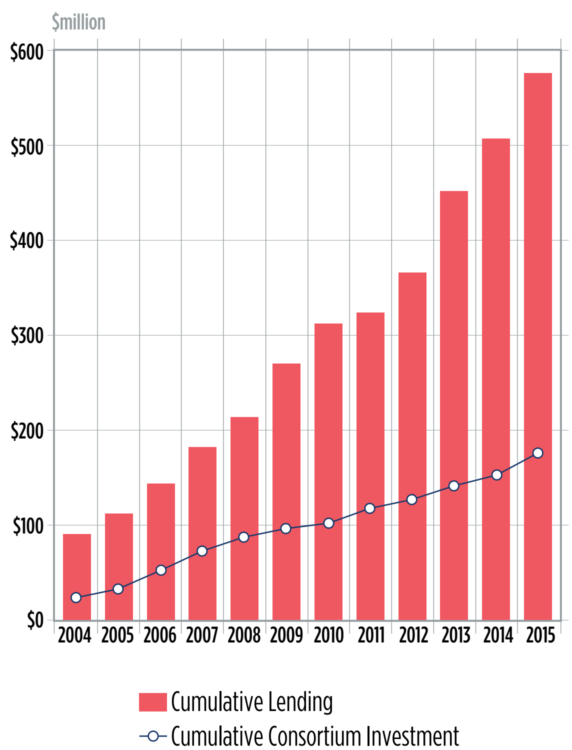
In 1998, the city of Chicago asked IFF to expand child care by ranking its 77 neighborhoods according to the number of children needing care and the level of available child care resources. This research supported a new strategy for prioritizing capital funding for unmet needs in disadvantaged communities. IFF worked with the Chicago Department of Human Services (now the Chicago Department of Family and Support Services) to establish the Children's Capital Fund, whose goal was to increase licensed child care in the 20 highest-need areas.

With its expertise as a lender and real estate consultant, IFF built or expanded 14 centers, handling everything from identifying property for development to managing their design and construction. Allstate Insurance Company and financial institutions, including Cole Taylor Bank and MB Financial, provided $5 million in private capital. Between 2001 and 2007, IFF leveraged over $45 million in federal, state, and local funds for the 14 facilities, creating over 132,000 square feet to serve 1,800 children.

Ensuring that children in economically struggling communities have access to quality school options has been another priority for IFF, one that naturally followed the organization's investment in early child care. Building on relationships with government, IFF fills the quarterback role in improving education opportunities in economically marginalized neighborhoods by gathering and deploying private capital where it's needed most. Among the first CDFIs in the country to provide below-market rate financing specifically to charter schools, IFF gained national recognition for its use of U.S. Department of Education credit enhancement grants[3] to finance these projects in Illinois, Indiana, Missouri, and Wisconsin.

IFF also has been entrusted with the deployment and management of public funding to support expanding charter schools in multiple geographies. In 2012, through funding from the state of Indiana, IFF launched the Indiana School Facilities Loan Fund, a revolving loan fund to support the capital needs of quality charter schools. IFF leveraged $3.4 million from the Indiana Department of Education into $14.3 million for Indiana charter schools by helping such financial institutions as

Chart 3. Consortium historical performance



Source: IFF.

IFF's Investor Consortium has provided banks with an investment opportunity in education, health care, child care, community development, and human services in low-income communities since 2004. Twenty-eight financial institutions have invested nearly $200 million in this low-risk, highly-diversified investment vehicle.

Main Source Bank, National Bank of Indianapolis, and Old National Bank invest in projects they otherwise would have difficulty supporting.

As public school districts across the region face significant challenges, IFF sees the need to apply its expertise to the redeployment of closed school buildings. In Chicago, it is working with local partners in four (Greater Englewood, Humboldt Park, North Lawndale, and South Lawndale) neighborhoods to assess community priorities, determine feasibility, and, if possible, ultimately place the underutilized buildings back into service. Most recently, IFF formed a partnership with the Puerto Rican Cultural Center to redevelop the former Von Humboldt elementary school building to include housing for current and retired public school teachers, educational programs, and office space.

Recognizing the link between access to fresh food and better health in communities, IFF also has played a quarterback role in bringing full-service grocery stores to neighborhoods with little or no access to fresh food. IFF leveraged a $10 million commitment from the Illinois Department of Commerce and Economic Opportunity into $36 million in overall investment, supporting the development and financing of new Save-A-Lot grocery stores in Rockford, Waukegan, and East St. Louis, as well as a Mariano's in Chicago's Bronzeville neighborhood.

Conclusion

Each step in IFF's expansion has been driven by a strategic assessment like the one that brought about its founding over 25 years ago: where are the gaps in existing approaches, and what capacity, resources, and strategies could help fill them and create transformational change? Its growth from specialization in a few social service areas to all of the major sectors increased national visibility for IFF, which now is compared with the nation's other leading CDFIs.

Midwest metropolitan areas facing extreme challenges increasingly will rely on skilled regional CDFIs with experience in leveraging capital for market restoration—the timely theme of a conference held this past spring by the Chicago Fed in partnership with IFF and the American Bankers Association. IFF's combination of capital, capacity, and technical knowledge position it well to channel and optimize investment in low-income communities across the Midwest.

Notes

1. More information at www.aerisinsight.com.
2. Living Cities, for more on IFF's expansion, visit https://www.livingcities.org/resources/237-expanding-the-geographic-reach-of-community-investment-the-iff-case-study.
3. U.S. Department of Education, for more information, visit http://www2.ed.gov/programs/charterfacilities/index.html.

Biography

Dawn Raftery is the corporate communications manager at IFF.

2015 NHS Community Banks Partnership Meeting summary

by Kelly Pearson and Jason Keller

Neighborhood Housing Services of Chicago (NHS) held its annual Community Banks Partnership Meeting on Wednesday, April 22, 2015, at the Federal Reserve Bank of Chicago. The meeting brought together over 70 representatives from Chicagoland community banks, regulators, housing experts, and industry partners to discuss meeting the residential lending needs of area communities. NHS is Chicago's largest nonprofit neighborhood revitalization organization and works in partnership with businesses, government, and neighborhood residents to revitalize low- and moderate-income neighborhoods throughout northeastern Illinois, specifically Chicago, south suburban Cook County, Elgin, and the Fox Valley.

Established in 2007, the Community Banks Partnership is an innovative collaborative that supports NHS' community reinvestment programs and services through financial support, lending capital, service, and counsel. This group meets at least once annually to discuss issues important to the housing and lending industries, and also host NHS' Annual Meeting each fall.

Michael Berry, director of Policy Studies for the Federal Reserve Bank of Chicago Community Development and Policy Studies (CDPS) Division, welcomed the Community Banks Partnership to the Federal Reserve Bank and provided the opening address. He noted that NHS and the Reserve Bank have a long history of partnering on local, community-based housing-related initiatives, and the Federal Reserve was instrumental in establishing what is now known as NeighborWorks® America, which delivers its programs through the national NeighborWorks® network – 240 independent, community-based organizations – one of which is NHS of Chicago. Berry stated that one of the Federal Reserve Bank's core responsibilities is to obtain and analyze data and demographics about the region to inform community development policy. As an example of the Reserve Bank's recent work, Berry highlighted the Industrial Cities Initiative. Known as ICI, this multi-year study coupled longitudinal demographic and economic analyses with the results of over 200 interviews with local and regional constituents to assess how midwestern cities such as Aurora and Joliet have responded to significant losses in manufacturing since the 1960s. In addition, the Federal Reserve Bank of Chicago continues to administer surveys around current economic conditions, and exploring the intersection between public health and community and economic development. Berry noted, "We look at this interconnection in still a broader context of comprehensive community development…in short, housing alone is not the answer, but safe, sustainable housing is an indispensable component of community health, safety, and economic vitality."

Berry then introduced Kristin Faust, president of NHS of Chicago. Faust joined NHS in 2014, bringing more than 25 years of experience in community development finance serving the private, public, and nonprofit sectors. Faust described the Community Banks Partnership as a key group of NHS supporters who promote the mission of NHS and bolster NHS' work in the neighborhoods that need it most. Faust described how NHS is seeing signs, nationally and locally, that the foreclosure crisis is slowly subsiding and housing markets are beginning to rebound. In fact, over the first three months of 2015, only 38 percent of NHS callers requested assistance in preventing foreclosure, while 62 percent were interested in other pre- or post-purchase assistance, including home buyer education and resources for home maintenance. This is evidence that people are ready to start buying and rehabbing homes again. Faust went on to thank Linda Boyer, vice president and senior compliance officer from Inland Bank and Trust, who chaired the Community Banks Partnership during 2014.

Following Faust to the podium was Mary Morstadt, senior vice president, Standard Bank and Trust Company, and 2015 chair of the Community Banks Partnership. Morstadt welcomed guests and spoke about the essential role of community banks in NHS' work and in the revitalization of Chicago's communities. Morstadt also urged the Community Bank partners to join NHS in volunteer activities, such as NeighborWorks® Day, held annually each June.

Panel discussion

Allen Rodriguez, vice president of Resource Development, NHS Board of Directors, moderated the morning's panel discussion. Panelists included: Jason Keller, economic development director (for Illinois), Community Development and Policy Studies Division, Federal Reserve Bank of Chicago; Emilio Carrasquillo, director, Back of the Yards Home Ownership Education Center, NHS; and Carrie Bey-Little, real estate broker, Baird & Warner.

Keller offered his perspective on the current consumer compliance regulatory landscape as it relates to community banks. Keller advised attendees to be mindful of the new qualified mortgage definitions, ability to repay rules, and appraiser guidelines, as well as the pending disclosure changes under Truth in Lending and the Real Estate Settlement Procedures Act. Regulators will be looking for strong internal controls, documented policies and procedures, as well as structured board and senior management oversight to ensure community banks are in compliance with the new rules. Bank staff should be adequately trained on the new rules and exceptions to policy should be immediately documented to ensure legal and reputational risks are kept low, he noted. Community bankers were advised to consult with their primary regulator to discuss their specific plans for implementing and adhering to the changes. Keller also highlighted three proposed legislative actions being considered at the federal level: H.R.1113 – Portfolio Lending and Mortgage Access Act; S. 727 – the Financial Institutions Examinations Fairness and Reform Act; and H.R. 1389 – the American Jobs and Community Revitalization Act. If they were not already engaged, community bankers were encouraged to participate in dialogue surrounding these proposals. Keller closed his remarks by suggesting that banks:

- regularly review their assessment areas to ensure their business strategies align with market demographics;
- consider having their organization's compliance officer join or have regular access to the marketing and technology committees (as applicable); and
- maintain their online presence.

Emilio Carrasquillo outlined NHS' Financial Capability Program with the goal of narrowing the wealth inequality gap by addressing the needs of consumers struggling with their finances. Components of the program address budgeting, avoiding credit traps, saving, and paying down debt. Examples of ongoing partnerships were discussed, including those with parent groups at local community schools; the city of Chicago's One Summer Chicago Program, Waypoint Homes for Renters, and New Pisgah, specifically to prepare veterans for homeownership. Carrasquillo stated that, of the clients he serves, approximately 62 percent kept cash aside as savings within their homes, and less than half had a checking or savings account. Because clients are so often 'underbanked,' NHS continues to hold financial capability workshops and one-on-one coaching sessions. From February 2014 to February 2015, NHS counseled 320 households through such programming. Results have been positive, as Carrasquillo has seen the credit scores of participants increase by as much as 59 points, and debt load reduced by as much as $3,310.

Left to right: Carrie Bey-Little, Michael Berry, Jason Keller, Kristin Faust, Emilio Carrasquillo, Mary Morstadt, Deborah Ross, and Allen Rodriguez.

Carrie Bey-Little provided comments on marketing to millennials in a changing homeownership landscape. Bey-Little stated that millennials, defined as aged 18-34, are using technology no matter what community they live in, and this behavior is shaping how real estate is bought and sold. Millennials like to undertake research on their own, and ask for referrals from peers. Bey-Little discussed behaviors of baby boomers (52+) and boomerang buyers, who lost their homes in the crisis, have repaired their credit since, and are looking to reenter the housing market. To find these potential buyers, Bey-Little suggested targeting renters with leases coming due. Lists of prospective buyers are available, and lenders should collaborate with real estate agents who have (access to) databases of renters. Social media is another option to find these buyers, as this is where the millennials and many younger buyers exchange information. Bey-Little posed the question, "Is your website mobile friendly?" Another way to reach these potential home buyers is to "farm by exemption." Lists are available for seniors, veterans, those with disabilities, and those with homestead exemptions.

Rodriquez opened the floor to a lively Q&A. When asked about why there are so many unbanked people, Carrasquillo responded that people lack trust in traditional banks, or don't feel they have enough money to open accounts. Bey-Little challenged the notion that millennials are not interested in homeownership as compared to prior generations. Rather, millennials are more conservative in their homeownership choices. They are buying smaller, less expensive homes, and staying in these homes longer. Millennials look for urban areas with "walkability." Carrasquillo shared that he recently taught a financial capability workshop to DePaul University undergraduate students, and they had tremendous interest in learning more about the benefits of owning a home. A question was posed about segmenting the market by age. Bey-Little shared that Facebook and LinkedIn advertisements can target particular ages or other demographic groups. Keller mentioned that bank marketing programs should evolve to target all cohorts of new and existing borrowers, and that although benefits may derive (from targeted ads) from a Community Reinvestment Act perspective, banks should be mindful of fair lending laws and regulations, as (among other considerations) age is a prohibited basis for determining creditworthiness.

Conclusion

Although CDPS is not focused on bank supervision, the group has long been interested in community banks, current regulatory developments, and the ways smaller banks adapt to environmental changes, such as the influx of millennial borrowers and boomerang borrowers into the marketplace. As the landscape of homeownership continues to evolve, it is imperative for community banks and their partners to remain diligent in responding to the needs of the neighborhoods they serve. By providing a forum for sharing insights and information, the NHS Community Banks Partnership will continue to offer lenders, intermediaries, and other interested constituents an opportunity to discuss issues central to lending, community reinvestment, and housing in the Chicago region.

Biographies

Kelly Pearson is a resource development associate, Foundation and Corporate Relations, of Neighborhood Housing Services of Chicago. She manages many of NHS' corporate, foundation, and government funding partnerships, as well as the Community Banks Partnership.

Jason Keller is the economic development and Illinois state director in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.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