Untraditional Lending

CDFIs make tax credit deals work

By Mark Fogarty

Community development financial institutions are small but nimble providers of housing and economic development funding for a very wide array of purposes often not filled by traditional lenders. They are often useful to help make Low Income Housing Tax Credit deals work by providing things, like LIHTC equity bridge financing and capital for general and limited partnership acquisitions.

CDFIs get their certifications and some of their lending money from the CDFI Fund, a unit of the U.S. Treasury that also administers the New Markets Tax Credit. They can be either nonprofits, like credit unions, or for-profits, like banks. The firms can also, in some instances, tap the Federal Financing Bank for bond money to lend to other CDFIs.

While they aren't big ($100 million in assets would place a CDFI loan fund in the top tier), there are a lot of them. One thousand institutions have qualified for the CDFI designation, according to the CDFI Fund. They can be banks, credit unions, loan and microloan funds and venture capital providers. They are focused on helping low-income communities get access to finance.

A few of the other niches where CDFIs provide much-needed liquidity are pre-development lending, energy retrofit lending, acquisitions of naturally occurring affordable housing, lending in underserved geographies and mixed-use projects.

Though they may be small individually, CDFIs' collective heft is not inconsiderable. In 2016, for instance, CDFI award winners used the money to leverage $3.6 billion in loans and investments and helped finance 33,500 affordable housing units. Leveraging isn't just encouraged. It is mandatory. CDFIs are required to match the money they get from the fund dollar-for-dollar.

And the CDFI Fund casts quite a wide net. Besides its general CDFI program and the NMTC, it also runs the bond guarantee program ($333 billion loaned from bond proceeds to date), a program targeting banks, a capacity building initiative, a capital magnet program for developing affordable housing, and a Native initiatives effort to encourage lending and investment in Indian Country.

A few of the other niches where CDFIs provide much-needed liquidity are pre-development lending, energy retrofit lending, acquisitions of naturally occurring affordable housing, lending in underserved geographies and mixed-use projects.

Not all CDFIs are tiny. Jose Cerda III notes his CDFI, Illinois-based IFF, has $600 million in assets under management, a $400 million loan portfolio, about 100 employees and six regional offices.

Passionate Advocacy for the Underserved

Cerda, vice president of corporate communications and public affairs, says IFF is one of only a handful of CDFIs to earn the AERIS five star, triple A, policy plus rating. He says IFF is different than many other CDFIs. For one thing, it does a lot of non-appraisal lending.

"This allows us to do all sorts of lending in communities where projects don't appraise," he says.

IFF, started 30 years ago with $1.7 million, also does longer-term lending, with 15-year loan terms of up to $2 million and up to 95 percent of a project's cost. And it has added for-profit lending to traditional CDFI nonprofit lending. IFF's lending is very diverse. "We're in every sort of project sector you can imagine," Cerda says. The CDFI touts that its diverse list of clients includes human service agencies, health centers, schools, housing developers and grocery stores. It focuses on low-income communities and people with disabilities, and it is a real estate consultant and developer, as well as a lender.

In the housing arena, the CDFI does between $12 and $20 million in originations each year, according to Stephanie Socoll, director of lending for affordable housing.

"Tell us a story and tell us how we can help," she says. "We can be a lot more flexible and creative" than other lenders.

Socoll also notes that IFF got into LIHTC lending in 2007, when lots of lenders were leaving the market. It

CDFI, continued on page 30

CDFI, continued from page 28

also does pre-development loans for LIHTC projects.

One of the more unusual niches IFF serves is the healthy food market. Cerda says this involved an amendment to the CDFI's charter to allow for-profit lending, but now it lends directly to grocery stores, as well as to nonprofit food projects. The CDFI owns the property for a couple of food stores, manages the Illinois Fresh Food Fund, and is involved with a statewide rural food effort in Kansas through the Kansas Healthy Food Initiative.

The CDFI just won a $4 million award from the CDFI Fund. Of that, $3 million was from the Fund's Healthy Foods Financing Initiative. And it is the lead developer of The Hatchery, a huge food business incubator in Chicago supported by $8.5 million in NMTCs.

IFF features passionate advocacy for underserved groups. "Social return can coincide with financial return" is a motto at the largest CDFI in the Midwest. Its footprint includes ten Midwest states.

Since inception in 1988, IFF has made more than $700 million in loans and leveraged another $2.3 billion in community investments, it says. Its services include capital solutions (which includes LIHTC and NMTC products), real estate services, community development and research.

Unsecured Lending

Other CDFIs also have made their presence visible in the tax credit arena. Boston-based loan fund CDAH Fund LLC, for instance, has just closed a $12 million financing line to purchase general and limited partner interests in LIHTC partnerships.

Money from the $115 million asset loan fund, a unit of San Francisco-based syndicator Candeur Group, would allow borrowers to gain control of the properties, refinance the existing debt, and make any necessary property improvements while maintaining affordability for the residents.

The CDFI says it provides subordinated acquisition loans, investor bridge financing, limited partner buyout funds, and construction financing targeting non-commercially available investments or financing lines that create or preserve affordable housing.

Chief Executive Greg Judge says the CDFI, started up in 2013, is unusual for a number of reasons. It is for-profit, for one thing, one of only three or four CDFI loan funds with that status. And, it specializes in unsecured lending. "You can go to banks for secured lending," he says. "But there are not that many that do unsecured."

Some people might think unsecured lending is riskier, but Judge says, "We understand low-income housing very well."

One of their loans was for a college dormitory. Another was to a developer who purchased his syndicator out of his limited partnership. Others are bridge loans to tax credit funds in support of its parent, Candeur.

Cinnaire, based in Lansing, MI, is also an active partner for tax credit deals. Among its $3.7 billion in investments and $7 billion in community impact it lists 58 housing tax credit equity funds and management of more than $500 million in NMTC allocations.

The company notes it has been active in the LIHTC market since its inception in 1992. Its total impact in the housing field includes 656 housing developments and more than 47,000 affordable housing units. With the NMTC, it counts $239 million in awards since 2010.

While CDFIs quite often are housing specialists, they are also a good source for business loans. One such is Pathway Lending of Nashville, TN. Focusing on small businesses in Tennessee and Alabama, the CDFI made nearly 1,000 loans between 2000 and 2015, for a total of $175 million in finance. It also put in more than 36,000 hours of advisory services for its clients.

Its business loans have up to 100 percent financing, and loan amounts between $5,000 and $3 million.

Pathway, started in 1999, also considers affordable housing to be a key focus for it. It offers multifamily loans for affordable housing, with some of its projects earning LIHTCs. TCA

STORY CONTACTS:

Jose Cerda III
Vice President of Communications and Public Affairs, IFF
jcerda@iff.org

Stephanie Socoll
Director of Affordable Housing Lending, IFF
ssocall@iff.org

Greg Judge
CEO, CDAH Fund LLC
gjudge@candeurgroup.