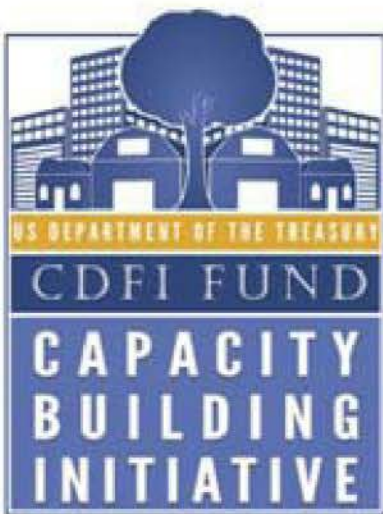


ENHANCING A NATIVE CDFI's SUSTAINABILITY



Course materials sponsored through the CDFI Fund Capacity Building Initiative.

Delivered by:

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Seven Sisters Community Development Group, LLC

Seven Sisters Community Development Group, LLC is a woman- and majority Native American-owned national consulting firm, which offers culturally relevant and innovative strategies, services, and products that create systemic change. Its team of community development experts works with low-wealth and diverse communities across the country, with a particular focus on Native Communities. The team brings a broad range of experience with tribal governments and communities as well as national and local nonprofits, foundations, corporate organizations, and governmental entities.



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COURSE OVERVIEW

COURSE TITLE: Enhancing a Native CDFI's Sustainability

LENGTH OF COURSE: One day

COURSE DESCRIPTION:

How can Native CDFIs weather unanticipated storms and ensure sustainability in the long term? This course looks at key elements of sustainability including how to consider sustainability in the Native context. Participants will also explore strategies Native CDFIs can use to diversify funding and generate earned income, which are critical parts of achieving sustainability. Finally, participants will consider the benefits and challenges of Native CDFIs growing to scale.

COURSE OBJECTIVE:

This course will expand participants' knowledge of strategies to improve the sustainability of their Native CDFIs, including funding diversification, income generation, and growing to scale.

CORE COMPETENCIES AND LEARNING OBJECTIVES:

Competency 1: Participants will have a solid understanding of the concept of sustainability, as well as sustainability in a Native context.

Learning Objective 1a: By the end of session 1, based on group discussions and a lecture, participants will be able to explain what it means for a CDFI to be sustainable.

Learning Objective 1b: By the end of session 1, participants will have a broader understanding of how traditional Native sustainability practices are still applicable in today's environment.

Competency 2: Participants will understand the benefits of funding diversification for Native CDFIs.

Learning Objective 2a: By the end of session 2, based on a self-assessment and a group discussion, participants will understand the benefits of funding diversification and explore several strategies to diversify and prioritize funding.

Competency 3: Participants will be able to understand and implement strategies to improve their sustainability and access to capital by implementing earned income generation strategies.

Learning Objective 3a: By the end of session 3, based on an overview of earned income generation strategies, participants will be able to explain different ways CDFIs can increase their profitability and sustainability through earned income.

Learning Objective 3b: By the end of session 3, based on completion of a case study, participants will be able to identify which strategies would be most appropriate for their organizations.

Competency 4: Participants will be able to understand how to grow to scale in a way that will enhance rather than threaten their sustainability.

Learning Objective 4a: By the end of session 4, based on a discussion about opportunities and challenges with Native CDFIs growing to scale, participants will be able to explain strategies for growth that will enhance rather than threaten sustainability.

AGENDA

- 8:30 am *Welcome, Review Agenda and Learning Objectives*
- What is Sustainability? What is Sustainability in the Native Context?*
- 10:00 Break
- Funding Diversification*
- 11:30 Lunch
- 12:30 *Strategies for Generating Earned Income*
- 1:45 Break
- 2:00 *Growing to Scale*
- 3:00 *Guest Speaker: "Leading your CDFI to Sustainability"*
Ignacio Esteban, CEO, Florida Community Loan Fund
- 3:45 *Wrap-up and Course Evaluations*
- 4:00 pm Adjournment

TAB 2

**What is Sustainability?
What is Sustainability in the Native Context?**

Sustainability

Sustainability is a term we hear a lot these days in different contexts – sustainable agriculture, sustainable construction, sustainable businesses... But what exactly makes a CDFI sustainable?

What do you think CDFI sustainability means?
1.
2.
3.
4.
5.

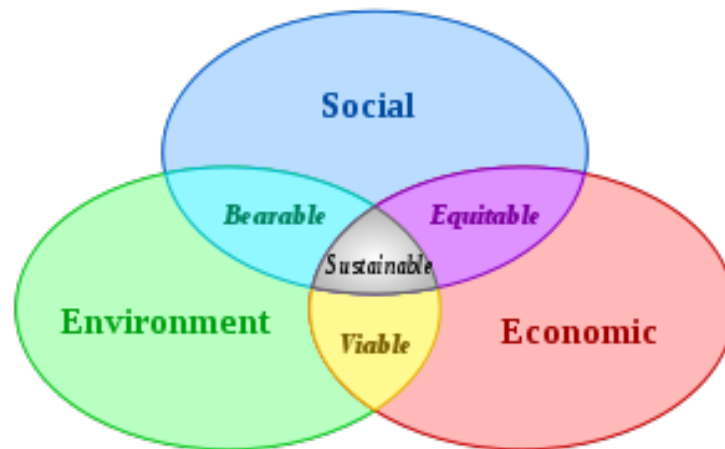
According to a study conducted by the Aspen Institute for the CDFI Fund,¹ **“sustainability represents an institution’s ability to maintain and/or increase its impact over time.”** The study also laid out some related concepts:

- Sustainability involves balancing a focus on mission, organizational capacity, and capitalization;
- Sustainability represents the ability to maintain a degree of financial stability; and
- Sustainability means having a capacity to grow revenue and assets—whether the sources are earned income, depositors, or donors—which allows the organization to expand and innovate.

The following two pages summarize the perspective of several community development experts and other sources about what sustainability means.

¹ “Approaches to CDFI Sustainability,” The Aspen Institute Economic Opportunities Program, July 2008.

Sustainability is...



Source: Wikipedia

Sustainability is:

- increasing client capacity and organizational capacity,
- looking at efficient service delivery (not wasting money),
- providing quality training and technical assistance services, and getting feedback on them,
- looking at trends, responding to the market, and designing products to meet the needs of the market, and
- creating earned income opportunities.

- Tanya Fiddler, Executive Director
Four Bands Community Fund

Sustainability is the ability to meet your budget every year.

- Lynn Rippy, Executive Director, YouthBuild Louisville

Sustainability... is not just about surviving. It is about thriving and growing...

*"Approaches to CDFI Sustainability," The Aspen Institute
Economic Opportunities Program*

... sustainability involves balancing a focus on mission, organizational capacity, and capitalization.

- Clara Miller, *Linking Money and Mission: An Introduction to Nonprofit Capitalization* (New York: Nonprofit Finance Fund, 2001)
Quoted in *"Approaches to CDFI Sustainability," The Aspen Institute
Economic Opportunities Program*

If we don't visualize achievement [of sustainability], our chances of realizing that achievement are virtually nil.

- Bryan Welch, Author of *Beautiful and Abundant*

Sustainability in a Native Context

Sustainability is certainly not a new concept for Native communities. Native people have overcome tremendous obstacles to ensure the sustainability of their communities.

With your table, discuss how Native communities achieved sustainability historically, and how Native communities are achieving sustainability today.

Historically, how did Native communities achieve sustainability?
1.
2.
3.
4.
5.
How are Native communities working to achieve sustainability today?
1.
2.
3.
4.
5.

Now, we'll tie what Native communities have done historically and how they are currently working to achieve sustainability to the work of our organizations.

What practices can we incorporate into our organizations?	
Traditional Native Practice	Our Organizations Today
Sharing resources	Sharing best practices, models – what's working in one community could work in another
Planning ahead for the future – hunting, growing food	Planning for the future – developing strategic plans, work plans
Clear leadership structure, chain of command	Clear leadership structure, chain of command
Succession planning – careful planning of who will be next, future leaders	Succession planning - careful planning of who will be next, future leaders

Peer Discussions on Sustainability

Now that we've taken a look at sustainability, and discussed what it can mean, we're going to take a look at how we're doing. Are we well on the road to sustainability? Are we financially stable? Is our human and organizational capacity strong? Are we planning for the future of our organization or are we constantly in survival mode? Are there some elements that we can strengthen to ensure that our organizations are sustainable in the future?

For our peer discussions, work in pairs so that colleagues can interview each other. As you're interviewing and being interviewed, think about how your answers may reflect promising sustainability practices, or how they might reflect challenges to your organization's long-term sustainability.

Interview Questions

1. What is the smallest (asset size and number of staff) your organization has been? What is the largest? Has your staff and asset size fluctuated?
2. To what do you attribute your organizational growth?
3. Have you ever had to lay off staff because of budget?
4. How many funding sources do you have? How diversified are they?
5. How long has your executive director been in charge? How would his or her departure affect the future of your CDFI?
6. Does your organization charge for any development services?
7. Do you earn income from sources other than the interest rates and fees you charge for your loan products?
8. Do you have a business model and staffing plan to help support your organization's desired growth?

Reflect on your peer discussions. Think about what emerged as promising sustainability practices or challenges to long-term sustainability for your organization. Record your thoughts below and be prepared to share with the group.

Some examples of promising practices might be:

- *Identified two new sources of capital beyond the CDFI Fund's Native American CDFI Assistance (NACA) grant*
- *Developed a succession plan in anticipation of our founding CEO's retirement*

Some examples of challenges might be:

- *Lack of a business plan with financial projections to support our CDFI's proposed growth*
- *If we don't get our NACA grant, we won't be able to stay afloat*

Promising sustainability practices
Potential challenges to long-term sustainability

Sustainability Issue	Challenges	Promising Practice
Funding sources	Sometimes, we tend to rely on just one main funding source, or a few key sources, thinking that they'll always be there.	Making sure we have a diverse array of funding sources will help ensure that if we lose one funding source, our programming and operations won't be affected.
Income generation	We tend to rely on grants, and don't think about income generation. Sometimes clients are not used to paying for our services, and it may be hard to figure out how much to charge.	Income generation is one effective way to diversify funding – by charging for our services or products. Funders like to see this direct contribution by the organization.
Organizational growth	Once we are no longer a young organization and have become successful, we may feel pressure to grow – to offer more services and hire more staff. If we don't do this carefully, growing too quickly may not be sustainable and can seriously damage an organization.	Once we decide we need to grow our organization, we need to plan carefully, thinking through how to add staff and programs.
Leadership and succession planning	Often, it is easy to rely on one person who has always been an organization's leader. It is hard to imagine the organization without them.	It is also important to plan carefully for future leadership. Who is in charge now? How can we ensure effective leadership in the future?

Next, we will discuss some strategies that can help Native CDFIs to improve their sustainability. These include:

- Diversification of funding resources
- Income generation
- Growing to scale

TAB 3

Diversifying Resources

Diversifying Resources

To begin, let's look at our own funding resources, and complete the worksheet below. Is our funding diverse? Are there steps we can take to diversify it even more?

Individual Funding Assessment
1. What is your main source of funds?
2. What would happen if this funder went away (due to budget cuts, changed priorities...)?
3. Do you have other actual funders in place? Who are they?
4. Do you have other potential funders that you've thought about approaching but haven't yet? Who are they?
5. Why haven't you approached other potential funders yet?
6. Have you explored strategies to leverage your equity to access debt?
7. Outline your next steps to take to begin diversifying your funding:

Diversifying resources is directly tied to sustainability. Often, it's easy to rely on one main source of funding, or a few key sources. We think – we've always had this source – why wouldn't we continue to receive it in the future? But federal programs may be cut, foundations may change their priorities, and funding is certainly tied to the overall economy. If we lose key funding, our entire organization may be in jeopardy.

In order to ensure the sustainability of our organizations or departments, we must think broadly – who else could fund our work, and how else could we generate revenue to fund our work? A diverse array of sources will help ensure that we can continue our work, even if we lose a key source or two.

As we're thinking about diversifying our resources, it is helpful to brainstorm different sources and types of funding. This may include both equity (grants) and debt (loans). Native CDFIs have successfully accessed a wide range of **equity** including:

- Federal sources (HUD, HHS, USDA, SBA)
- State funding programs
- Foundations: large, regional, community
- Banks
- Private donors

The chart below summarizes sources and types of **debt** for Native CDFIs.

Don't put your eggs in one basket!

At-a-Glance: Types of Debt for Native CDFIs

	Bank Loan	Program Related Investment	EQ2	Nonprofit Intermediary	Social Investor	Religious Investor	Government Sources
Source	Banks	Foundations	Banks	Nonprofit Intermediary	Wide range – individuals, foundations, institutions	Religious orders and healthcare systems	Government agencies
What’s good?	Standard underwriting criteria	Usually interest only payments with principal balloon	Bank position will be subordinate, making EQ2 good for leveraging	Familiarity with the field; their pressure to deploy funds	CDFIs fit their mission; Socially Responsible Investors (SRIs) value social impact	Religious investments are focused on mission	Program guidelines are straightforward
What’s tricky?	Mission/ Social impact not taken into account	Foundations have decreased PRI activities	EQ2s are not equity – they are debt; banks are pulling back from EQ2s	Investment is governed by the investor’s source of funds; often CDFI has to “bend” their request to funding source	SRIs may not be aware of CDFIs successful track record	Very competitive source; need to develop relationships to open door	Federal budget uncertainties makes the future of these programs uncertain; Reporting can be onerous
Typical interest rate	3 – 8%	0 – 2%	2 – 4 %	5 – 10%	Depends on investor, usually market rate +	1 – 3%	IRP – 1 % RMAP – 1-2 %
Typical term	Usually 5 year max	3 – 10 years	Longer term, often renewable	Varies, < 7 years	3 – 5 years	Longer term (10 + years w/ option to renew)	Depends on program

Identifying Resources for Each Line of Business

Another strategy we can use to diversify our funding is to break down or identify the different components of our work by line of business. Are we teaching financial education? Homebuyer education? Credit counseling? Free tax preparation? Expanding the financial capability of youth? Coaching start-up businesses? Credit builder loans? Construction loans?

Once we have isolated each line of business, we can think about different funders who you could target to support each of these different components in addition to funders may support our overall organizational operations. Think about what a funder's priorities and try to match them with a related line of business.

What does your organization do? Outline your lines of business – that could appeal to different funders.	Who could fund this? List some funders that might be excited about what you're doing.
1.	
2.	
3.	
4.	
5.	
6.	
7.	

Funding Diversification Strategies

In talking about the need to diversify our funding sources, we've covered a number of different ways we might do this:

- approach a new type of funder,
 - approach a funder you've thought about or heard of, but haven't approached yet,
 - pursue a mix of equity and debt funding, or
 - break down your CDFI programs into different lines of business that could be attractive to different funders.

My CDFI's Funding Diversification Strategy

Which of these strategies do you think could work for you? Using the flip charts, work with colleagues at your table to draw a diagram to illustrate a new funding strategy that could work for you. Then copy your diagram in the space below or in your TLJ II journal.

In the next section, we'll consider another strategy to help achieve sustainability – generating earned income.

TAB 4

Strategies for Generating Earned Income

CDFI Earned Income Generation Strategies

All CDFIs need capital. Typically, we seek grant sources for operations and debt/investments for loan capital. We've covered debt and equity in previous sessions. In this section, we will focus on another source of revenue: earned income, or income from operations. As the availability of both private and public resources declines, CDFIs are looking more closely at ways to generate earned income to diversify their funding and sustain their operations.

A distinction should be made between earned income and revenue – revenue comprises all dollars coming in the door, whereas earned income comprises dollars coming in from the lines of business your CDFI is specifically engaged in, e.g. lending, training, development fees, servicing, rent, and other business activities.

An Earned Income Generation Strategy to Explore

Given your CDFI's resources and stage of development, identify a revenue generating strategy that you think is worth exploring?

➤ _____

What should you consider before you start this new income generating strategy?

➤ _____

➤ _____

➤ _____

➤ _____

➤ _____

➤ _____

➤ _____

Considerations for Developing Earned Income Strategies

Before your Native CDFI decides to enter into a new undertaking to earn income, there are some key points you should consider:

- What are you good at?
- What do people need?
- How have others addressed the demand?
- If there is money to be made, why isn't someone already doing it?
- What is fact and what is assumption about the potential market? What have you documented/researched?
- What is the total exposure if things don't work out as planned? Will this affect other lines of business? To what extent?
- Do you have the dollars, staffing, capacity, and infrastructure to execute the strategy?

Distinguishing Revenue from Profitability

Profitability and revenue don't go hand in hand. Profitability should be achieved in three years or the venture may not be able to attract external funding. The example below shows the revenue, expenses, and profitability of three CDFIs. The example illustrates that profitability is not necessarily a function of revenue. Rather, it is the difference between revenue and expenses. Even though CDFI 3 has the highest revenue, it has the lowest profitability due to its high expenses. Profitability can be increased by cutting expenses.

CDFI Revenue v. Profitability Example

	CDFI 1	CDFI 2	CDFI 3
revenue	1,000	10,000	100,000
expense	900	9,500	101,000
profit	100	500	(1,000)
profit/revenue	10%	5%	-10%

Ways CDFIs Generate Earned Income

There are many ways for CDFIs to earn income to contribute towards their profitability, asset growth, and sustainability. Consider how most businesses turn a profit. Corporate America typically assumes five ways to generate additional revenue:

- Expand your product line or your target market area
- Conduct more outreach in your existing target market about your current products to generate more customers
- Increase conversion rate from potential customers to actual customers
- Repeat sales to previous customers
- Sell more products to each customer during every transactions

Much of this is applicable to CDFIs. Ways for CDFIs to “turn a profit” or earn income:

1. Interest income
2. Fee income
3. New loan products
4. Grants
5. Fee for service
6. Other innovative strategies

The following section describes these strategies in more detail in the context of CDFIs.

1. Interest income

Interest rate spread

The most obvious way for CDFIs to earn income is by charging interest on their loans. The income stems from the *interest spread* which is the difference between the interest rate charged for a loan and the lender's cost of funds. In order to benefit from this type of income, a CDFI must understand its cost of capital.

Interest Spread Example

	CDFI A	cost of capital	CDFI B	cost of capital
equity	1,000,000	0%	500,000	0%
debt	1,000,000	5%	1,500,000	5%
weighted cost	2,000,000	2.5%	2,000,000	3.75%

Once the cost of capital has been determined, the spread can be calculated. For example:

- *CDFI A's* weighted (or average) cost of capital is 2.5% because \$1 million is equity obtained at no cost and another \$1 million is debt at 5%.
- *CDFI B's* weighted cost of capital is more expensive at 3.75% because only \$500,000 of its \$2 million was no-cost equity.

If *CDFI A* charged 8% for its loans, its interest spread is 5.5% ($8\% - 2.5\% = 5.5\%$).

CDFI B, on the other hand, only has an interest spread of 4.25% because its weighted cost of funds is higher ($8\% - 3.75\% = 4.25\%$).

To increase interest income, a CDFI can either find less expensive capital or charge higher rates. Most CDFIs try to earn at least 2% to 4% over the cost of their funds.

Loan Pricing by Loan Type

A consideration for interest income is whether to further refine loan pricing by using a risk-based assignment of interest rates based on the type of loan or the various types of borrowers. In general, the riskier the type of loan, the higher the interest rate should be.

Historical Risk Continuum by Loan Type – Higher Risk to Lower Risk



Risk-Based Pricing by Borrower

Risk-based pricing means that a borrower who is determined to be a higher risk would pay a higher interest rate. Factors used to determine the risk of a borrower include credit score, cash flow, employment status, income, unknown environmental concerns, history of litigation, and existing debt burden.

2. Fee income

Loan Fees

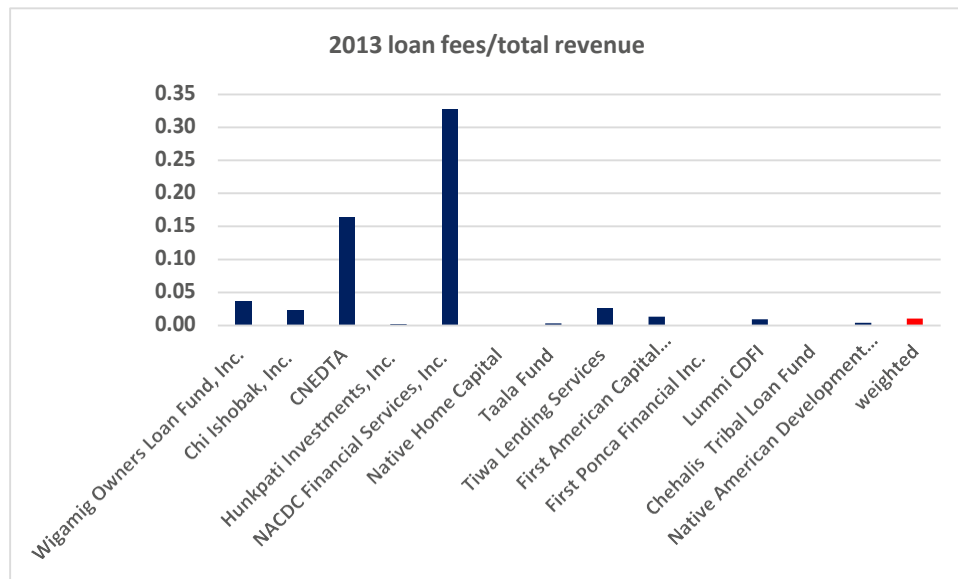
Another way to generate revenue is from loan fees. Native CDFIs have historically charged below market loan fees making this a possible area for increased revenue.

These fees may include: application fees, credit score “pull” fee, origination fees, delinquency fees, etc.

The table below summarizes TLJII cohort member loan fees as a percentage of total revenue for 2013.

loan fee income calculation: fees/revenue

	fees/revenue	loan fee income	total revenue
Wigamig Owners Loan Fund, Inc.	0.037	16,077	430,680
Chi Ishobak, Inc.	0.024	13,804	585,600
CNEDTA	0.164	11,798	71,863
Hunkpati Investments, Inc.	0.002	1,342	827,251
NACDC Financial Services, Inc.	0.328	763	2,327
Native Home Capital	0.000	0	431,621
Taala Fund	0.003	1,326	394,969
Tiwa Lending Services	0.026	394	15,233
First American Capital Corporation	0.013	5,455	405,615
First Ponca Financial Inc.	0.000	0	748,103
Lummi CDFI	0.009	1,650	189,910
Native American Development Corporation	0.004	7,995	1,898,324
weighted rate	0.010	60,604	6,001,496



Financing Loan Fees

In order to lower the upfront costs to borrowers and to increase earned income, some CDFIs may offer to finance fees. It is important to consider the impact of financing the cost of fees to the borrower. In other words, CDFIs should be able to calculate what the effective interest rate is for borrowers if they finance a fee.

Example: A client borrows \$100,000 and there is a 1% origination fee. It is a one-year loan with a 5% interest rate. The borrower can:

- pay the fee up front
- pay for the fee out of the proceeds of the loan
- finance the \$100,000 plus the \$1,000.

Note: If the origination fee is financed, the CDFI's earned income is higher.

Fee v. Earned Income

5% rate	loan amount	net proceeds to borrower	effective interest	monthly payment	CDFI earned income
origination fee up front	100,000	100,000	5.12%	8,561	3,303
from loan proceeds	100,000	99,000	5.12%	8,561	3,303
finance fees	101,000	100,000	5.12%	8,646	3,326

3. New loan products

Another strategy to earn revenue is to offer new loan products that yield higher returns to the CDFI.

Why would a CDFI consider adding a new loan product?

- _____
- _____
- _____
- _____

Some potential new product lines to consider include:

- Mortgage
- Home improvement
- Construction
- Pre-development/development financing
- Home equity
- Line of credit
- Working capital
- Inventory/equipment
- Consumer
- Auto
- Education
- Credit cards
- Credit builder
- Factoring
- Energy efficiency improvements
- Community facilities

The table below shows the loan products offered by each member of the TLJ II cohort members in 2013.

TLJ II loan products

	home equity	home mortgage	gap	construction	credit builder	down payment	consumer	microloans	participation	debt consolidation	commercial	auto
Wigamig Owners Loan Fund, Inc.	X					X	X			X		
Chi Ishobak, Inc.							X				X	X
CNEDTA							X	X	X		X	X
Hunkpati Investments, Inc.					X			X			X	
NACDC Financial Services, Inc.					X			X				
Native Home Capital			X	X					X			
Taala Fund							X	X			X	
Tiwa Lending Services		X										
First American Capital Corporation				X					X		X	
First Ponca Financial Inc.								X	X		X	
Lummi CDFI							X	X			X	
Chehalis Tribal Loan Fund												
Native American Development Corporation								X	X		X	

Price Sensitivity

In setting interest rates for a new loan product, a CDFI needs to be aware of its customers' price sensitivity. In the exercise below, we will discuss the range of possible loan products and determine the price sensitivity (to interest rates) for each one of the class of borrowers.

Exercise On your own, rank the markets listed by interest rate sensitivity as highly, moderately, or mildly sensitive, and estimate what percentage of customers you would lose by raising rates by 1%. Discuss your results with your table.

Loan Product	Term (in years)	Rank the price sensitivity as highly, moderately, or mildly sensitive	Estimate change in market when interest rate is increased by 1%
Mortgage	30		
Home improvement	10		
Construction	2		
Home equity	30		
Line of credit	1		
Working capital	3		
Inventory/equipment	10		
Consumer	3		
Car	5		
Education	15		
Credit cards	No term		
Credit builder	1		
Factor	1		
Energy improvements	Variable		
Community facilities	30		

4. Grants

Although grants do not necessarily increase a CDFI's self-sufficiency in the long term, they do increase dollars coming in the door. For example, when a CDFI is developing a new program, grant income can subsidize start-up expenses such as a market study or new product development.

As a CDFI becomes more adept at pricing its services, it should be able to accurately estimate administrative costs associated with implementing grant deliverables and charge the grant accordingly. This practice doesn't necessarily generate new income, but it helps to ensure that you are recapturing your expenses through your grant revenue.

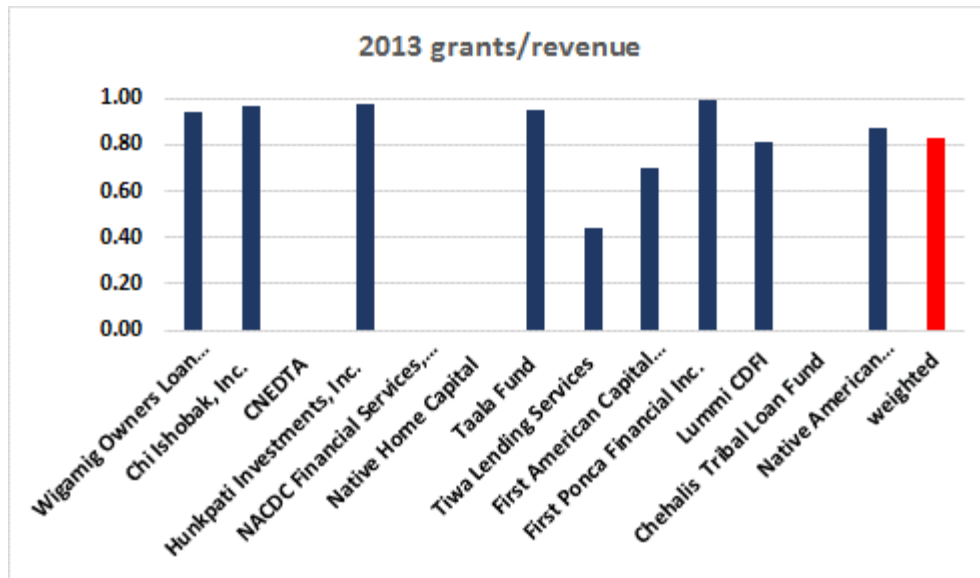
Another possible way to earn revenue through grants is to invest your grant funds, subject to any restrictions in your grant agreement.

Note: It is recommended that you conduct a cost benefit analysis of your grant dollars. What is the real value of the grant? Be sure you are taking into consideration the staff and/or consultant time to prepare grant applications, comply with grant requirements, and compile and submit grant reports. Before you pursue grant funding, make sure your current reporting systems can be easily adapted to comply with the new grant reporting requirements.

The table below shows grant revenue as a percentage of total revenue for each TLJII cohort member in 2013.

TLJ II grant revenue/total revenue

	grant revenue/total revenue	grants	revenue
Wigamig Owners Loan Fund, Inc.	0.945	406,984	430,680
Chi Ishobak, Inc.	0.963	563,745	585,600
CNEDTA	0.000		71,863
Hunkpati Investments, Inc.	0.973	804,748	827,251
NACDC Financial Services, Inc.	0.000		2,327
Native Home Capital	0.000		431,621
Taala Fund	0.953	376,408	394,969
Tiwa Lending Services	0.444	6,763	15,233
First American Capital Corporation	0.700	283,830	405,615
First Ponca Financial Inc.	0.994	743,483	748,103
Lummi CDFI	0.808	153,387	189,910
Native American Development Corporation	0.874	1,660,014	1,898,324
weighted rate	0.833019	4,999,362	6,001,496



5. Fee for service

Fee for service is another strategy we can use to earn income. In looking at fee for service, we're asking – what assets (strengths, knowledge, expertise, services) does our organization have that we can sell or charge fees for? Maybe if you're teaching homebuyer education classes – could you charge for these classes? Think broadly. It doesn't have to be the client who pays for the classes. Maybe another program in your community has funding to cover these costs. Or maybe a lender would pay you to provide the classes to their potential borrowers.

Maybe you're planning to build a new office building, with a big conference room – could you rent out the conference room to generate income for your organization?

It is difficult to imagine being completely self-sufficient, and relying only on the fees or income you generate. But these fees can become an important part of the funding picture. Funders often like to see what we can bring to the table. Even a relatively small amount (say \$15,000 per year), can make a big difference to a funder.

Possible fee-for-service activities include:

- Fiscal agency – serving as a fiscal agent for another emerging nonprofit
- Servicing for other CDFIs, e.g. Individual Development Account servicing or loan servicing
- Consulting services
- Charging for development services.

6. Other innovative strategies

Other innovative strategies you can explore to earn income include:

- *Social enterprise* – This broadly encompasses ventures of nonprofits, civic-minded individuals, and for-profit businesses that can yield both financial and social returns. Some examples include:
 - o Food ventures like community supported agriculture, commercial kitchens, value-added food products
- *Real estate development*
 - o Single-family
 - o Multi-family
 - o Commercial
 - o Mixed-use developments
- *Geographic expansion*
 - o Expanding your service area
 - o Serving your tribal members nationwide
 - o Serving tribal members beyond your own tribal members
 - o Serving non-tribal members (within a specific service area, for example)
- *Out of the box ideas*
 - o Agriculture – land purchase, trading development rights
 - o Education reform – charter schools
 - o Bond financing – community bonds
 - o Equity pools – providing equity to relatively new businesses
 - o Secondary markets – purchasing other loans for social or financial return
- *Business ownership*
 - o Management company
 - o Managing partner in a limited liability company (LLC)
 - o Equity investor, partnership
 - o Alternatives to equity such as:
 - Royalties (a fee received by a 3rd party on the sale of an item), or
 - Options/warrants (a contract between two people that gives the hold the right, but not the obligation, to buy or sell outstanding stocks at a specific price and at a specific date).
 - o Affiliate – usually a non-profit venture that you don't really own but are affiliated with such as a food kitchen, day care, charter school, community garden, incubator, homeless shelter, credit union, etc.
 - o Subsidiary – usually a for-profit venture such as commercial space, asset management

Case Study

To assist in our income generation discussion, let's take a look at a case study about a Native CDFI that is looking for new strategies to improve their long-term sustainability. First, read over the case study. Then, work with other participants at your table to answer the discussion questions.

Indians United CDFI

Indian United CDFI (IU CDFI) is a Native CDFI with a target market of serving citizens of the Great Desert Tribe residing on their reservation. IU CDFI does consumer and business lending, and offers basic financial education and small business start-up technical assistance. IU CDFI has been in existence for five years, and is certified by the CDFI Fund. Here are some key facts about the organization:

- They have three employees – an executive director, loan officer, and business coach. Their loan officer is a former banker with lots of lending experience.
- Their board is very pleased with the current state of affairs with the CDFI. The Board Chair's nickname is "Status Quo Joe."
- IU CDFI says they are the best kept secret on the reservation because not many tribal members know about them. Even so, their loan capital is fully deployed.
- The tribe donated a large office building with lots of space for training and community meetings.
- To date, their funding sources have been the CDFI Fund's Native American CDFI Assistance (NACA) program and the Great Desert Tribe. Last week, the tribal council told them not to expect any more funding because the tribe would be moving in another direction.
- The small business coach just received a federal grant NOFA to fund Native nonprofits to help tribal members renovate their homes to become more green and energy-efficient.
- The tribe would like to offer all of its employees' financial education classes as an employee benefit. They are currently looking for vendors.
- IU CDFI charges a flat rate of 3% for all of their products, and they don't charge any fees at all. Several predatory lenders in the border towns offer similar loan products at much higher rates.
- There are two other Indian reservations near the Great Desert Tribe. Neither has access to any financial institutions so their tribal members travel to Great Desert to use those predatory lenders.

Discussion Questions

1. What strategies would you recommend to the IU CDFI to improve their long-term sustainability?
2. How would you rate their current funding diversification?
3. What are some possible income generating strategies that they should consider?
4. What challenges should they watch out for as they consider your recommended income generating strategies?

Revisiting your Earned Income Generating Strategy

Think back to the revenue generating strategy you proposed on page 22. Do you still think this is a viable strategy for generating revenue?

Consider the pros and cons of the following:

- Capital requirements
- Start-up costs
- Need for market research
- Pricing
- Length of time to become profitable
- Risks
- Board support
- Staffing
- Technical expertise
- Organizational capacity

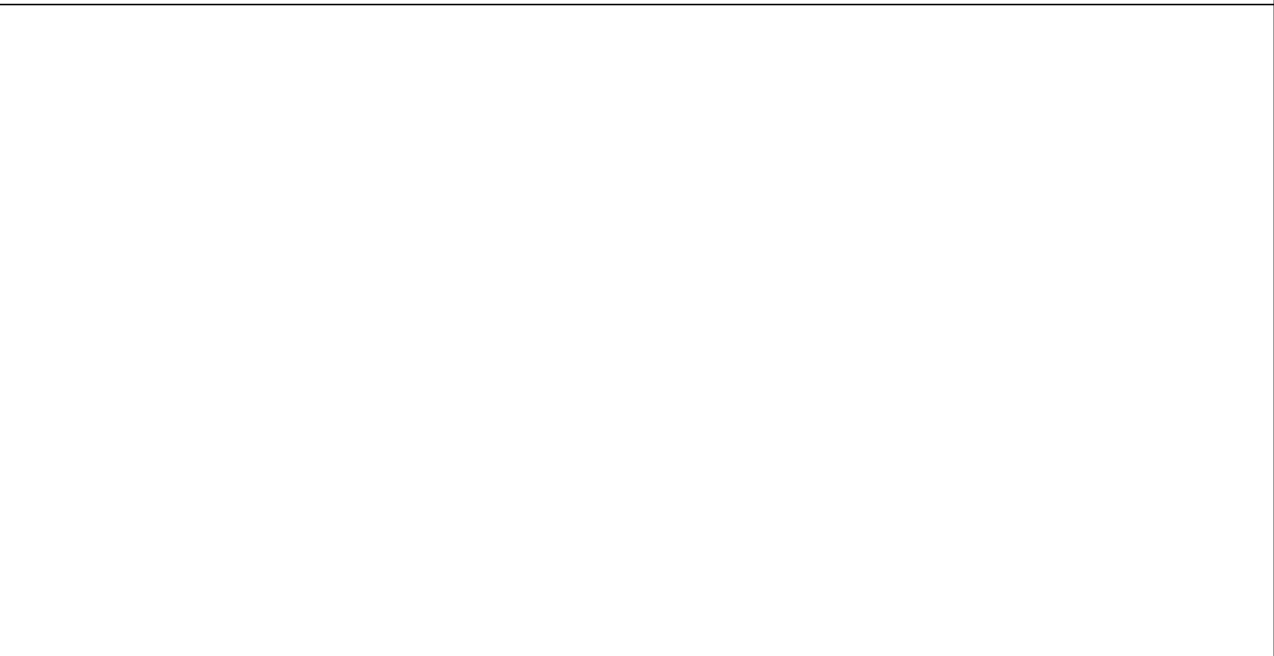
Are there other strategies that might be more viable as a way to generate income to enhance the sustainability of your Native CDFI?

My CDFI's Income Generating Strategies

Which of these strategies do you think could work for you?

- Interest income
- Fee income
- New loan products
- Grants
- Fee for service
- Other innovative strategies

Using the flip charts, work with colleagues at your table to draw a diagram to illustrate a new funding strategy that could work for you. Then copy your diagram in the space below or in your TLJ II journal.



TAB 5

Growing to Scale

Growing to Scale

There are many reasons Native CDFIs feel the urge to grow. They may feel pressure from the community or funders to help more people. If the CDFI is successful, the board may feel like it can take on more programming and staff. You may come across a great funding opportunity that is related to but not directly within the scope of your mission, but it might seem too good to pass up. You may also be looking for ways to generate more earned income by increasing your loan volume.

It is important to recognize that bigger isn't always better. CDFIs should take care not to let themselves get pulled into too many directions. Growing too fast and without a well thought out plan could dilute your work and resources.

What could happen if your CDFI grows too fast?

- You may not be able to sustain the growth;
- You may find it hard to find funding to pay for a larger staff and more programs;
- It might be hard to find the right people to hire;
- Our work and mission might become diluted and less focused;
- You may find it difficult to manage a bigger staff and more programs;
- Increasing your loan volume too quickly may cause the quality of your services to decline, and
- Growing too fast could even lead to an organization needing to close its doors.

What are some recommendations for smart growth?

- Make sure you have funding in place for the long term (not just one new grant, for example, that lets you hire new people for the term of the grant);
- Make sure there is a strong management plan in place for staff and programs;
- Select income generating opportunities that align with your mission;
- Be careful hiring new staff: make sure new staff have experience and capacity, and understand our mission; and
- Be clear on why we're growing, and make sure growth is necessary and the best step for our organization.

TAB 6

Additional Resources

Additional Resources

Approaches to CDFI Sustainability, The Aspen Institute Economic Opportunities Program, July 2008, (<http://www.aspeninstitute.org/publications/approaches-cdfi-sustainability>).

CDFI Industry Analysis: Summary Report, Carsey Institute, Spring 2012, (<http://carseyinstitute.unh.edu/publications/Report-Swack-CDFI-Industry-Analysis.pdf>).

New Pathways to Scale for Community Development Finance, The Aspen Institute Economic Opportunities Program, December 2004, (http://www.aspeninstitute.org/sites/default/files/content/docs/pubs/12_2004_pnv_new_pathways_to_scale.pdf).

Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions, Federal Deposit Insurance Corporation, March 2014, (http://www.fdic.gov/consumers/community/CDFI/CDFIs_EntireReport.pdf).

Appendix A

Community Wealth Ventures and their Resources

When we're looking at income generation, one company called "Community Wealth Ventures" (CWV) can be a great resource. CWV is a for-profit subsidiary of Share Our Strength, one of the nation's leading anti-hunger and anti-poverty organizations. Profits generated from CWV's consulting services go back to support Share Our Strength's anti-hunger mission. CWV focuses in assisting nonprofit organizations in developing income generating strategies.

CWV leaders also teach a NeighborWorks class, ML 226, called "Generate Revenue for Your Nonprofit's Long-Term Sustainability."

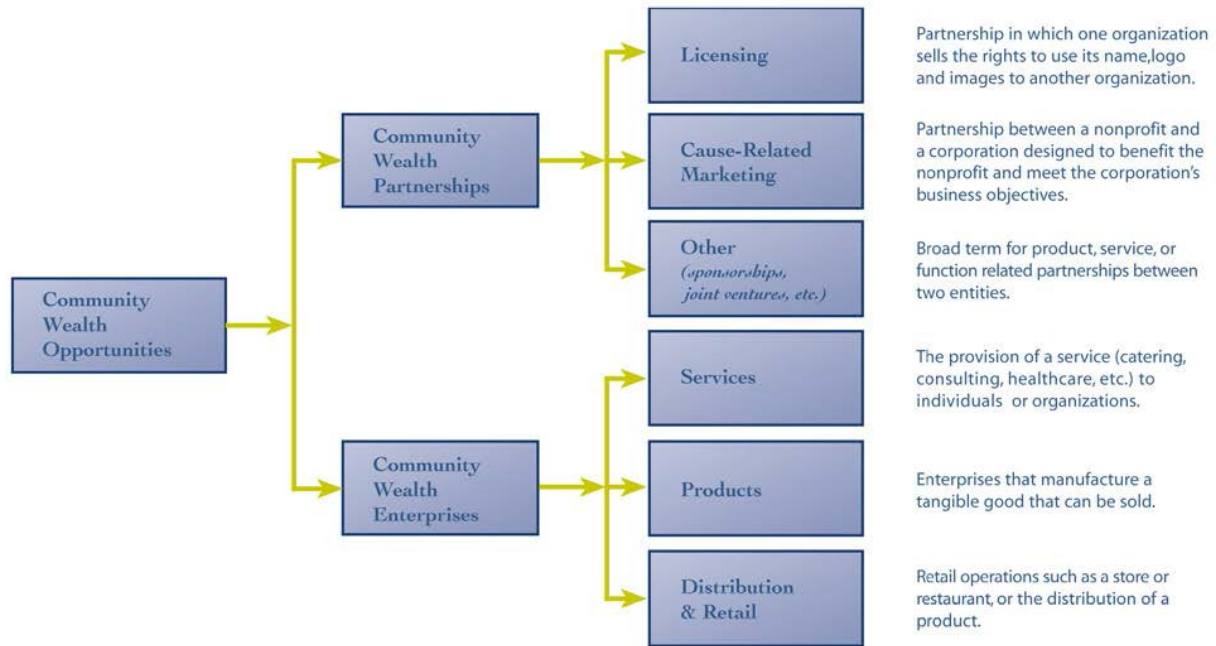
Their website is: www.communitywealth.com, where you can find many resources. One resource is their "Community Wealth Seeker's Guide – Mapping Your Assets and Opportunities." Two models from this guide appear below.

**Diagrams from “Community Wealth Seeker’s Guide
Mapping Your Assets and Opportunities”**

A publication of Community Wealth Ventures



Diagrams from “Community Wealth Seeker’s Guide Mapping Your Assets and Opportunities” *A publication of Community Wealth Ventures*



ABOUT THE INSTRUCTORS and CURRICULUM DEVELOPERS

Jack Northrup – Instructor and Curriculum Developer

Jack Northrup is President of New England Market Research, Inc. of Middlebury, VT, a company that works with nonprofits, foundations, government agencies and private companies conducting primary research. Clients include the CDFI Fund, US Fund for UNICEF, Annie E. Casey Foundation, Habitat for Humanity, the Aspen Institute, and the cities of New Orleans, Oakland, New York, Atlanta, Indianapolis and Providence, RI. He has co-authored several publications including, most recently, a CDFI Industry Analysis for the CDFI Fund, case studies for the FB Heron Foundation on mission related portfolio investing, portfolio investing for community development for the Responsible Endowment Coalition and insurance company community philanthropy for AltruShare Securities. Additionally, he designed the curriculum for the first CDFI Online Training and training for the North Carolina Community Capital Initiative. He has taught at the University of Vermont and at the Graduate School of Business at Southern New Hampshire University.

Prior to his current position, Jack was Director of Research for Integrated Media Measurement Inc., of San Mateo, CA, President of the New Hampshire Consumer Utilities Cooperative and Director of the Institute for Cooperative Community Development, a nonprofit research firm. He holds a BS and MS from New Hampshire College and a MBA from Dartmouth College.

Joanna Donohoe – Instructor and Curriculum Developer

Joanna has over 22 years of experience with banking, housing, and community development issues. She specializes in organizational and program development, capitalization and financial leveraging strategies, consumer financial protection, and other community development services to clients in underserved communities, particularly American Indian, Alaska Native and Native Hawaiian communities. She has coordinated several national efforts in Indian Country including: a Treasury/HUD initiative called the One-Stop Mortgage Center Initiative in Indian Country which sought to streamline the homeownership process; the Native Financial Education Coalition, and the Native IDA and Native Financial Skills Initiatives, two comprehensive training and technical assistance contracts funded by Treasury's CDFI Fund.

Previously, she served as the Director of Financial Education and Asset Building at Oweesta Corporation, a national nonprofit Native Community Development Financial Institution (CDFI) intermediary that provides investment capital, technical assistance

and training to help start other Native CDFI's. She has also worked as a Community Builder Fellow in HUD's Southwest Office of Native American Programs in New Mexico;

an attorney at the Office of the Comptroller of the Currency, a bureau of the U.S. Department of the Treasury in Washington, DC; and a legislative representative for the Independent Bankers Association of America in Washington, DC. She currently resides in Palm Beach Garden, FL where she serves as a Girl Scout Brownie leader and a Boy Scout committee member. She earned a B.A. in American Government from the University of Virginia in Charlottesville, VA in 1989 and a Juris Doctor from The Catholic University of America in Washington, DC.

Collaborating Organization: Seven Sisters Community Development Group, LLC

www.7sistersconsulting.com

Seven Sisters Community Development Group, LLC is a national consulting firm which offers culturally relevant and innovative strategies, services, and products that create systemic change. Our team of community development experts assists low-wealth and diverse communities across the country. We plan, develop, and implement community based economic development strategies. Incorporating the values and vision of our clients, we offer inspiring and insightful solutions to support the growth of energized, self-reliant individuals, organizations, and communities.