CDFIs: Building Capital to Advance Our Mission

Kathy Rock – Low Income Investment Fund
Vanessa Moulin – Calvert Impact Capital
Christina Travers – Low Income Investment Fund
Matt Glatting – Capital Impact Partners
Shekar Narasimhan – Beekman Advisors

Agenda

- Introductions
- CDFI Overview
- Innovative Capital Solutions
- What’s Missing?
- Questions?
- Small Group Discussions

Kathy Rock
Low Income Investment Fund

CDFI Industry Overview

CDFI Sector Overview

- CDFIs leverage limited ***public sector*** resources with ***private sector*** investment to achieve the common goal of expanding economic opportunity for low income communities

CDFI Sector Overview

As of July 31, 2017, 1,134 CDFIs were certified by the Community Development Financial Institutions Fund ("CDFI Fund"):

- 575 loan funds
- 316 credit unions
- 139 banks or thrifts
- 87 depository institution holding companies
- 17 were venture capital funds

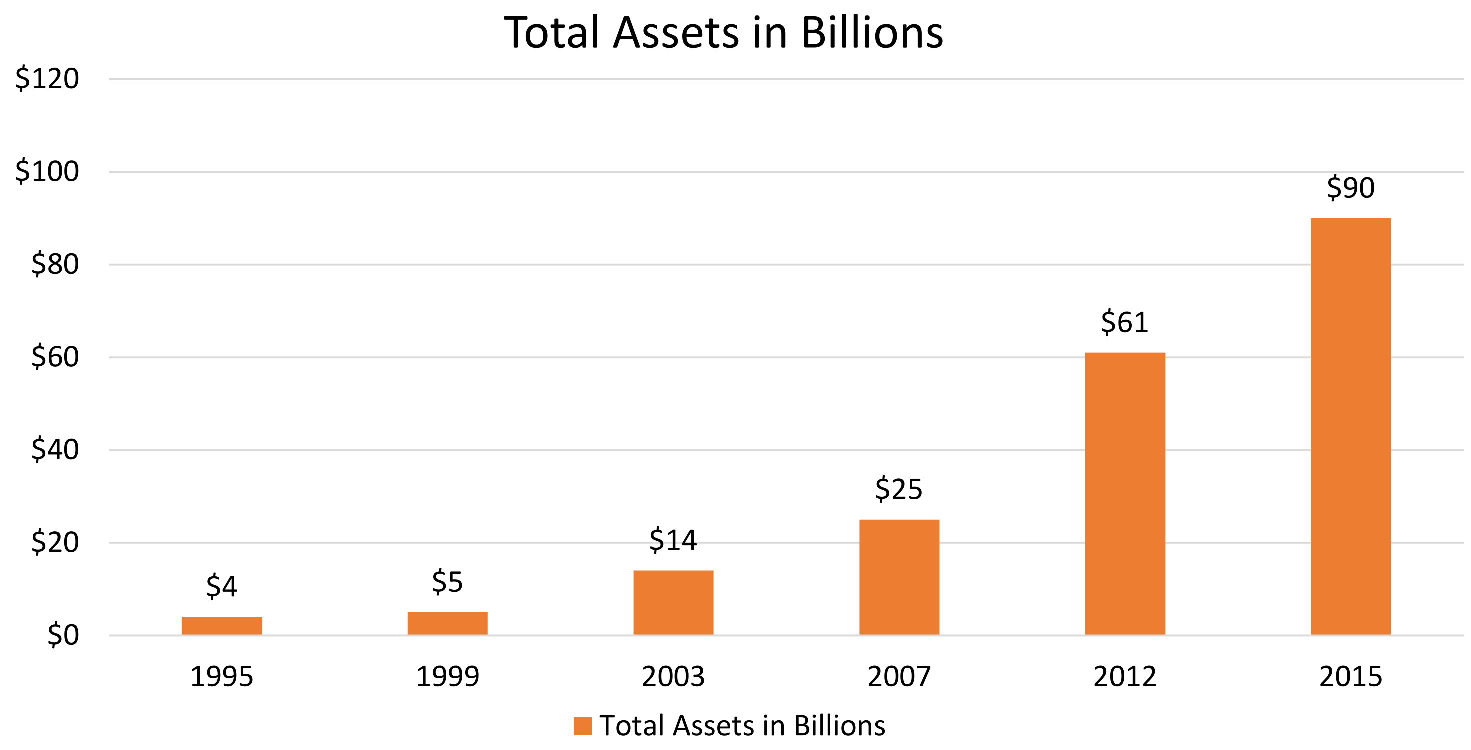
Source: https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx

CDFI Sector Overview

- CDFIs invested $3.6 Billion in 2016,
- And held total assets of $99.4 Billion

CDFI Sector Overview

Total assets grew by **2,000%** from 1995 to 2015



Source: http://www.hbcucoalition.com/wp-content/uploads/2016/04/OFN-conference-presentation-1.pdf

CDFI Sector Overview

- CDFIs are an integral part of the financial system
- How do we access the capital we need to continue to fund our mission?

Vanessa Moulin
Calvert Impact Capital

Pioneering the Social Impact Note

WHAT WE DO

We want the financial markets to work for more people, more often

Our purpose

Calvert Impact Capital uses capital in innovative and collaborative ways to create an equitable and sustainable world.

Our history

- Started by Calvert mutual funds, Ford, MacArthur, and Mott foundations in late 80's to channel investment capital into communities - spun out as an independent, 501(c)3 in 1988
- Launched the Community Investment Note in 1995 to raise and deploy capital for the benefit of low-income populations and under-represented markets focus on CDFIs, housing developers, and microfinance
- Since our founding, Calvert Impact Capital has raised and managed nearly $2 billion and currently manages over $400 million with exposures across the US and in 90+ countries

We have spent the past 20+ years raising capital from values aligned investors…

We have raised capital from more than **18,000** individuals and institutions and have repaid all of them **100% principal and interest**

…and lending to mission-driven organizations across the US and around the world

We have deployed more than **$2 billion** into hundreds of organizations in diverse global communities with a cumulative loss rate of **less than 1 percent**

Community Investment Note®

(Small sample of our 100+ borrowers)

Our global portfolio is focused on addressing social and environmental challenges

We invest in...	to address...
Increasing access to capital	Income and wealth disparities
Increasing access to quality, affordable basic services	Lack of access to affordable housing, education, and healthcare
Environmental sustainability and renewable energy	The current and future effects of climate change

EXPANDING OUR WORK

We are expanding the ways in which we connect investors with private impact markets

Global private investors seeking impact investments

Community Investment Note®

New loan syndication services

Private impact vehicles addressing social & environmental challenges

Allowing direct access to deals that we are originating and structuring

An investor can buy the Note

Community Investment Note®

Or participate in a syndicate with direct exposure to our borrower

(Small sample of our 100+ borrowers)

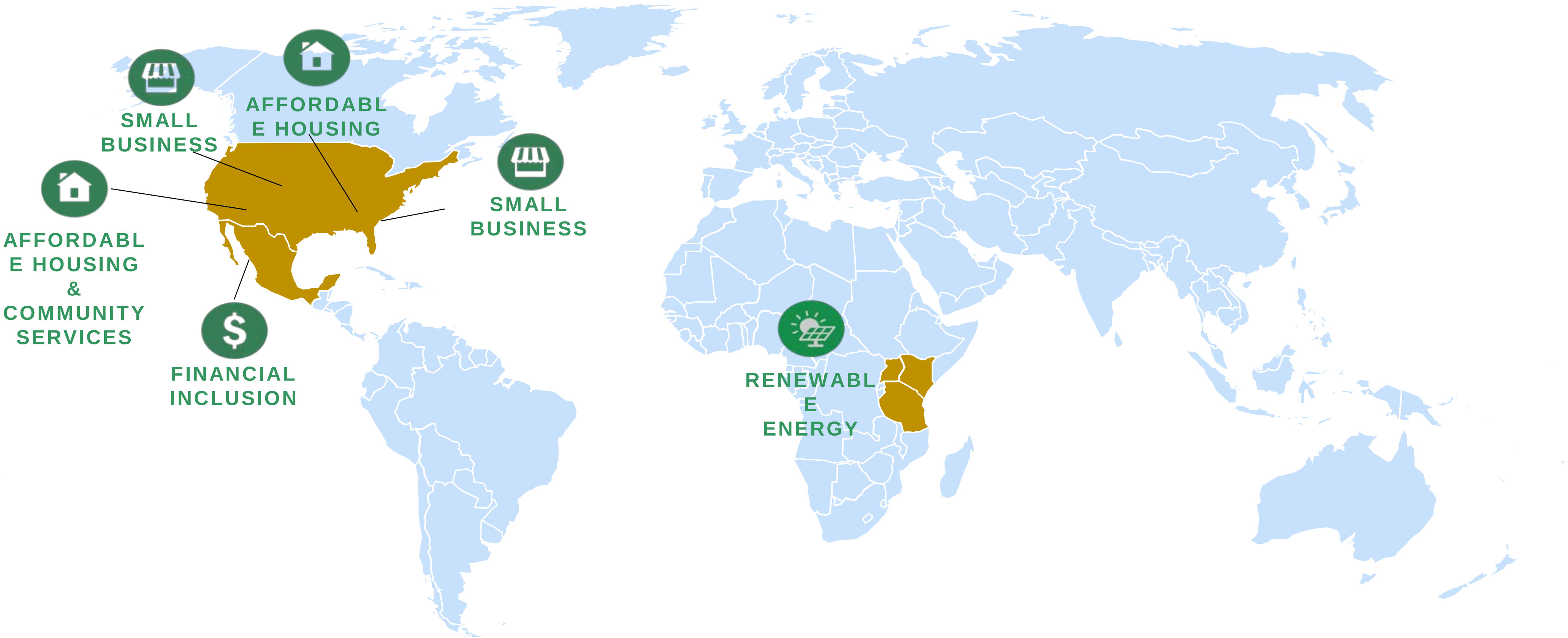
We are syndicating loans with various terms depending on the sector and asset type

Term	Ranges
Product types	• Typically senior position in a structured fund; senior unsecured balance sheet loans; project lending
Interest rates	• Based on risk profile and tenor • Typically structured as fixed rates with potential resets or variability as needed
Tenor	• Typically 3-7 years depending on asset type
Liquidity / repayment	• Typically quarterly interest payments with principal returned at maturity; some include amortization

- All deals are private loans
- Minimum buy-in for investors is typically $1 million
- Calvert Impact Capital is participating in every deal

We have closed ten transactions to date representing over $160 million in deal volume

We currently have six deals open



Christina Travers
Low Income Investment Fund

Accessing the Capital Markets

Low Income Investment Fund

LIIF is a leading national CDFI that creates pathways of opportunity for low income people and communities.

Our mission is to be a steward of capital for healthy communities and families. We do this by bridging the gap between capital markets and low income places.

LIIF Impact

ECONOMIC & COMMUNITY IMPACT

$2.3 billion
invested

2.1 million
people served

$60 billion
in family & social benefits

STRONG FINANCIAL TRACK RECORD

$1 billion
in managed & available capital

$250 million
deployed annually

< 0.5%
cumulative losses since inception

Accessing the Capital Markets Via an S&P Rating

S&P Rating Overview

Benefits of an S&P Issuer Rating:

- Attract impact investors who don’t know CDFIs, but know the value of an investment grade rating.
- Accelerate the underwriting process for new investors.
- Access the capital markets to raise capital with terms (rate structure and term) better aligned to lending activity.

S&P Rating Process

Issuer Rating – Methodology

QUANTITATIVE: Financial Strength & Portfolio Composition

- Equity & Capital Adequacy
- Earnings Quality & Financial Strength
- Asset Quality
- Debt Profile

QUALITATIVE: Strategy & Management

S&P assesses the operating performance of CDFIs, focusing on management, organization, philosophy, strategies, and administrative procedures.

The S&P Capital Adequacy Ratio

This calculation is a key factor in rating determination

NET EQUITY/ TOTAL ASSETS
Unrestricted Net Assets
PLUS: Temporarily Restricted Net Assets for Lending
PLUS: Loan Loss Allowance
PLUS: Average Undrawn, Unrestricted Revolving Credit Facilities
LESS: Portfolio Discount (loan losses based on portfolio stress testing)
EQUALS: Adjusted Unrestricted Equity

Rating Considerations

BENEFITS	RISKS
• Provides a standard benchmark to new investors and sectors that may be unfamiliar with CDFIs	• Industry as a whole experiencing a decline in net asset ratios, downgrades are imminent
• Allows opportunities for the diversification of capital	• Lower rating has cost implications & potential future downgrades may impact access to capital
• Access to capital markets will provide flexible, long-term capital, to meet the demand for longer term loans	• Maintaining a rating might influence or change business practices that potentially stray from mission
• Elimination of interest rate risk on variable rate debt	

Advancing the Mission While Minimizing Balance Sheet Impact

Why Off-Balance Sheet?

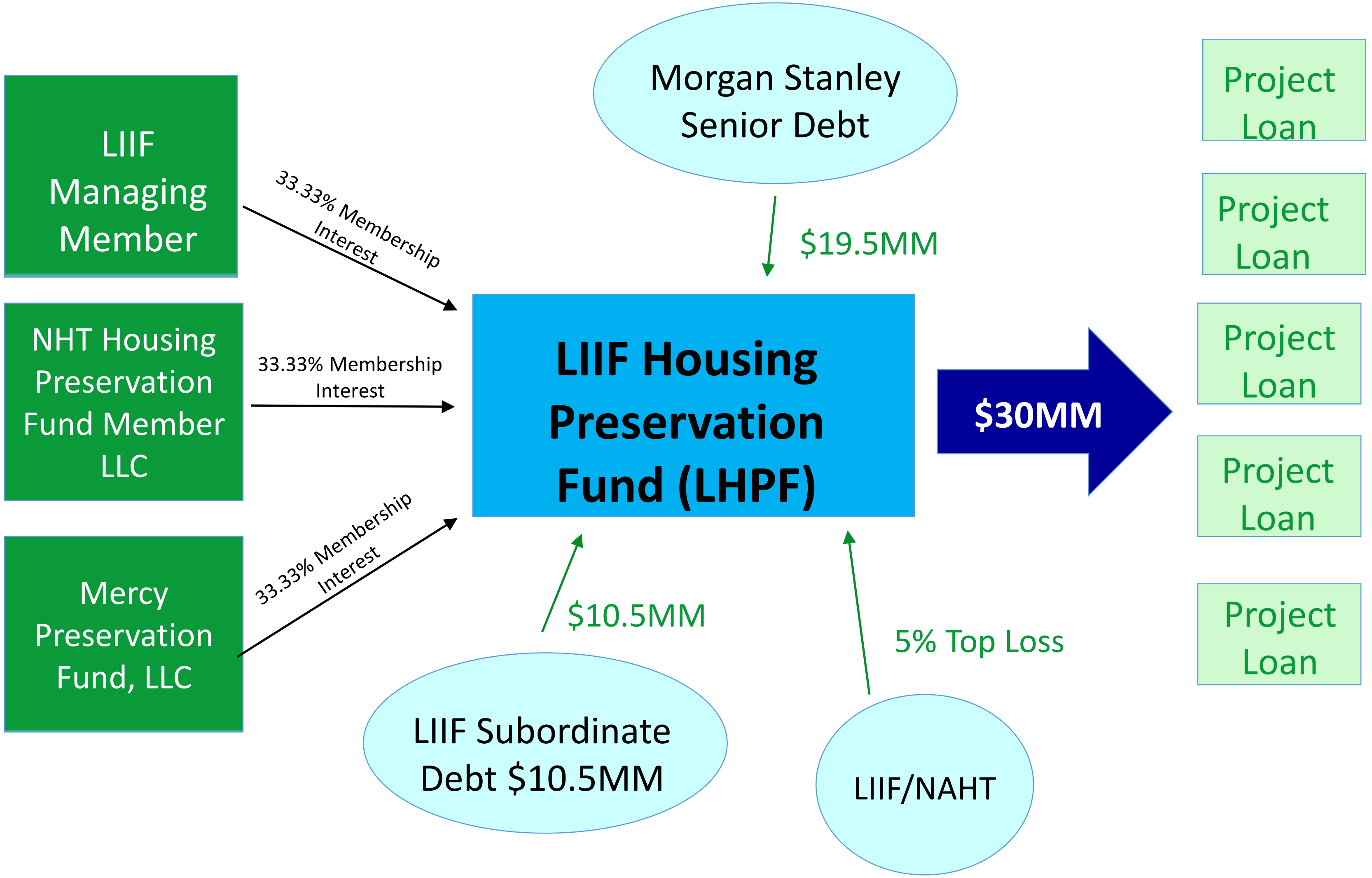
- Maximize impact without fully leveraging balance sheet
- Provide investment vehicle for investors that have reached limits on unsecured lending
- Targeted strategy for raising funds for a specific initiative
- Branding opportunity

LIIF Off-Balance Sheet Example

Fund to Preserve Affordable Communities (FPAC)

- Partnership between LIIF, National Affordable Housing Trust (NAHT), and Morgan Stanley.
- The preservation fund fills a critical funding gap for affordable housing – acquisition financing to acquire and preserve the affordability of housing units that are at risk of turning over to market-rate.
- The fund is reserved for high-capacity nonprofit developers that can assure long-term affordability and stabilize communities around the country.
- $30 million has been raised to date.

FPAC Structure



Matt Glatting
Capital Impact Partners

Building on the Strategies

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CAPITAL IMPACT PARTNERS

- Mission-driven Community Development Financial Institution (CDFI)
- 30+ year track record of successful investments in underserved communities
  - Average delinquency rate of 0.77% over past 5 years
- $2.5 billion+ loans disbursed to projects increasing access to critical social services
- AA- S&P Issuer Credit Rating and Issue Long-Term Credit Rating as of April 9, 2018*
- CDFI with national presence -- offices in Arlington, VA; Detroit, MI; & Oakland, CA
- Member of Federal Home Loan Bank Atlanta
- Strategic Pillars: Address systemic poverty; create equity; build healthy communities; promote inclusive growth

** S&P will update its credit rating at the time of sale of each series of Notes offered for sale.*

HOW WE CREATE IMPACT

What We Do

Mission Driven Lending

- Aggregate & Direct Capital

Policy to Practice

- Fund & Program Incubation
- Partnerships & Convenings
- Cutting Edge Research

Impact Investing

- Investment Notes
- Innovative Investment Portfolio

Public Policy

- Advocate for Federal, State, & Local Programs

Where We Focus

- Health Care
- Education
- Affordable Housing
- Healthy Food
- Cooperative Development
- Dignified Aging
- Placed-Based Revitalization

How Communities Benefit

Address Systemic Poverty

Effect system change at scale people have paths out of poverty

Create Equity

Support equitable access to services & opportunity regardless of race, ethnicity, gender, income or geography

Healthy Communities

Foster connections and social supports that strengthen links between health, education, housing and opportunity.

Inclusive Growth

Build diverse, mixed-income communities that promote economic mobility & empower individuals to break the barierrs to success.

Evolving Capital Strategy

Capital Impact Capitalization

	1-3 Year	3-8 Year	8-12 Year	12+ Year
Pre 2015	CRA Bank Lines of Credit	N/A	Foundation PRIs	N/A
Present	Capital Impact Investment Notes Federal Home Loan Bank Atlanta CRA Bank Lines of Credit	Capital Impact Investment Notes Federal Home Loan Bank Atlanta Equity Fund (CIIF)	Capital Impact Investment Notes Federal Home Loan Bank Atlanta Foundation PRIs	Federal Home Loan Bank Atlanta CDFI Bond Guarantee Program

Federal Home Loan Bank Atlanta Membership

- 11 districts => CDFI membership and advance requirements differ by district
- Meet 4 financial conditions for membership (e.g. 20% net asset ratio; positive 3-year average net income) => CDFI risk rating based on these ratios
- Purchase membership stock (Q2 2018 dividend at 6.19%)
  - B1 stock: 0.09% of CIP's total assets at 12/31
  - B2 stock: 4.25% of CIP's advances outstanding
- Collateral requirements
  - FHLB-A permits municipal securities, mortgages, commercial loans, etc.
  - CIP strategy: Government and Agency MBS with advance rate of 95% (89%-92% at 103-104 risk rating)
- Credit availability generally 10-15% of total assets
- Flexible capital at favorable borrowing rates and without end use restrictions
- Access to Affordable Housing and Community Investment Programs (10% of FHLB Atlanta earnings)

Federal Home Loan Bank Atlanta September 10, 2018 Rate Indications

Rate Indications

FHLBank ATLANTA A FEDERAL HOME LOAN BANK

FHLBank Atlanta Rate Indications as of September 10, 2018

FRC (<$1mm)	Rate
1 Mo	2.13
3 Mo	2.27
6 Mo	2.43
12 Mo	2.72
18 Mo	2.80
2 Yr	2.86
3 Yr	2.97
5 Yr	3.07
7 Yr	3.27
10 Yr	3.46

Act/360; Same Day Settle Available, Monthly Payments; Non-symmetrical Prepay.

FRC ($1mm+)
Call the Funding Desk for indications. 800.536.9650 x8011

Act/360; Two Day Settle, Monthly or Quarterly Payments; Symmetrical Prepay(fully or partially).

Convertible Berm Call-Quarterly Start	Term 5yr	7yr	10yr
2yr	2.58	2.44	2.29
3yr	2.75	2.60	2.49
5yr	N/A	2.94	2.84

Convertible Euro Call-One Time	Term 5yr	7yr	10yr
2yr	2.63	2.54	2.50
3yr	2.76	2.65	2.58
5yr	N/A	2.94	2.88

Quarterly Dividend		
2nd Qtr 2018	6.19%	3mL+ 3.85%
1st Qtr 2018	5.78%	3mL+ 3.85%

DRC	2.16
Daycount - Act/360, Resets Daily, Monthly Interest	

PRC(<$1mm)	Rate	WAL
3yr FIX/ 10yr AM	2.95	2.55
5yr FIX/ 15yr AM	3.05	4.18
7yr FIX/ 15yr AM	3.21	5.41
10yr FIX/ 15yr AM	3.35	6.69

Act/360; Same Day Settle Available, Monthly Payments, Non-symmetrical Prepay.

Floating to Fixed	
3-Year Total Term	
1.5yr Float 3mL flat	1.5yr Fixed @ 3.23%
4-Year Total Term	
2yr Float 3mL flat	2yr Fixed @ 3.3%
5-Year Total Term	
2yr Float 3mL flat	3yr Fixed @ 3.34%

Forward Starting FRC Hybrid	Term 1yr	3yr	5yr
6mo	3.00	3.08	3.19
1yr	3.10	3.13	3.27
2yr	3.17	3.15	3.35

Capital Impact Investment Notes Strategic Goals

- Investor diversification and broad electronic distribution
  - S&P rating & CUSIPs allow for trading via brokerage accounts
  - Incapital relationship with 800+ broker-dealers
  - Diversify our investor base, engage retail and impact investors in our work

- Scalable facility
  - Ability to issue additional prospectuses to keep up with a growing balance sheet

- Flexibility of capital
  - No end use restrictions (sector or geographic; operations)
  - No financial covenants
  - Ability to select term of Notes (1-10 years) at each monthly offering to meet potential asset-liability gaps and loan funding needs

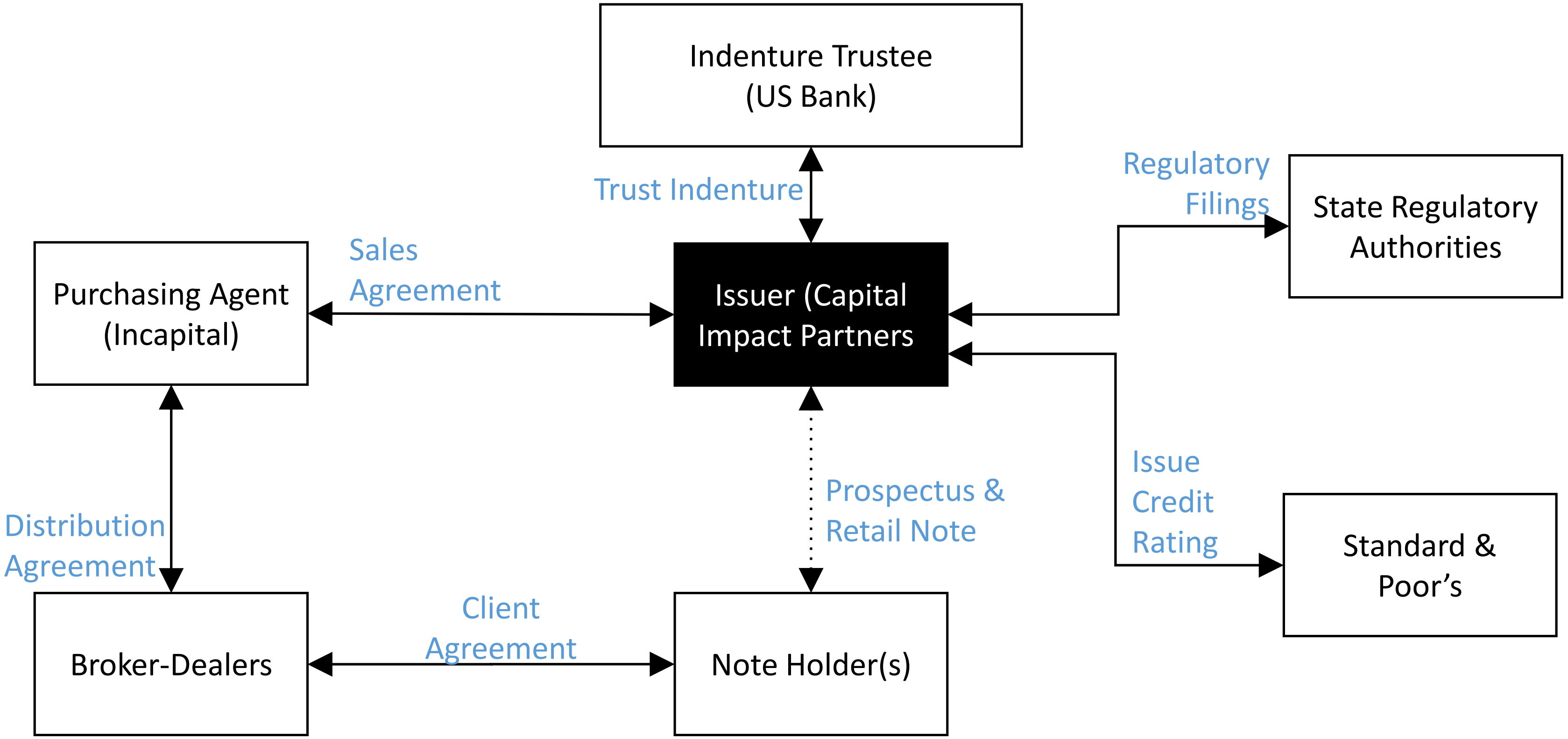
2018 Capital Impact Investment Notes Summary Terms

Total Aggregate Offering	$125 million (~$81 million issued under 2017 prospectus)
Financial Return	Fixed interest rates set at the time of issuance; Terms of 1-10 years
Social Return	Delivers social impact to underserved communities across multiple sectors nationwide
Minimum Investment	$1,000
S&P Credit Rating	S&P assigned a long-term issue credit rating of AA- to the Notes issued on April 9, 2018
Use of Proceeds	General corporate purposes, including to fund initiatives in low-income communities across the US
Ranking	Senior unsecured debt obligations
Redemption	Notes will not be redeemable at Capital Impact's option, or except for Survivor's Option, be repayable at the option of the holder prior to its stated maturity date
Distribution	Notes are offered to or through Incapital LLC as Lead Agent for resale

* S&P will update its credit rating at the time of sale of each series of Notes offered for sale.

2018 Capital Impact Investment Notes

Key Players



Community Investment Impact Fund Strategic Goals

- Raise strategic equity that can be leveraged to grow balance sheet
  - Need to maintain 20% Total Net Asset to Total Asset covenant

  => $20 million in new equity enables $80 million in new debt issuance

- Increase bottom line earnings as a result of:
  - New lending capacity from increased balance sheet leverage, and
  - Management fees higher than what CIP would have earned on servicing fees had loans been participated to CDFI partners or other bank investors

- Broaden and diversify our investor base

- Scalable facility
  - Ability to scale existing facility to keep up with a growing balance sheet

Community Investment Impact Fund Summary Terms

Fund	Closed-end SPV
Managing Member (“MM”)	Capital Impact Partners
Non-Managing Member (“NMM”)	Annaly Capital Management or a wholly owned subsidiary thereof
Capital Commitments	Equal to at least $25MM. 80% by NMM and 20% by MM
Capital Invested	First 5 years: At least 90%; MM will reinvest within 90 days if balance falls below 90%; uninvested portion earns money market return
Distribution Waterfall	1. Preferred return to NMM 2. 99% of balance to MM; 1% of balance to NMM
Management Fees	1% paid to MM
Asset Selection	List of criteria includes seasoning, LTV, and delinquency history requirements
Performance Metrics	List of criteria includes no non-accrual loans, 30+ delinquencies will not exceed 5%

Shekar Narasimhan
Beekman Advisors

What is missing and how do we get it?

Questions to Consider

How can these structures be adapted to benefit smaller CDFIs?

What about equity?

Thank you!

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