

Scaling the Use of Guarantees in U.S. Community Investing

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Organized by the Federal Reserve Bank of Philadelphia

The **Connecting Communities**[®] audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

Welcome

Thank you for attending today's session. How to join (remember, this session is being recorded):

- Call-in number: 888-625-5230
- Conference code: 243 225 70#
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/21263>

You have two options to ask questions today:

(These questions may be part of the recorded archive for this session)

- Email us at: communities@stls.frb.org
- Type your question into the chat box of the webinar

An archived recording of this session will be available on the **Connecting Communities**[®] website shortly after the session ends. Please visit: www.stlouisfed.org/connectingcommunities/

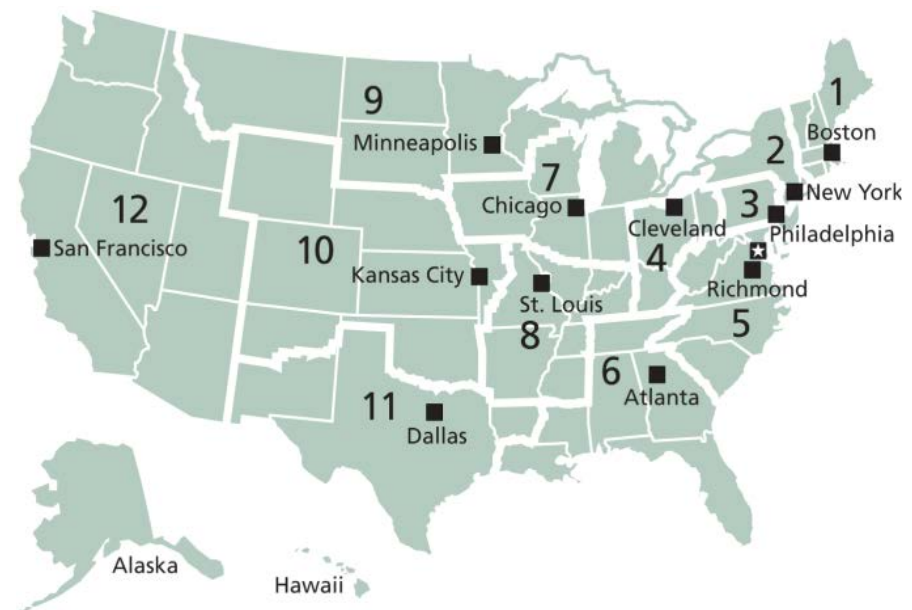
In connection with this session, you can find a variety of additional resources on this topic, available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

Community Development

- The Community Development function within the Federal Reserve System, consisting of individual departments at each of the 12 Federal Reserve Banks, as well as at the Board of Governors, promotes economic growth and financial stability for low- and moderate-income (LMI) communities and individuals through a range of activities, including:
 - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
 - **Conducting and sharing research** to examine economic challenges facing LMI communities and attendant policy implications
 - **Identifying emerging issues**



Today's Presenters and Agenda

- **Abhilash Mudaliar**, *Research Director*, Global Impact Investing Network
- **Hannah Schiff**, *Research Manager*, Global Impact Investing Network
- **Kimberlee Cornett**, *Managing Director, Social Investment Practice*, The Kresge Foundation
- The following will be discussed:
 - New GIIN research on scaling the use of guarantees in U.S. community investing
 - Case studies of illustrative guarantees

Introduction from the GIIN

Abhilash Mudaliar

Research Director
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The Global Impact Investing Network

- **The GIIN is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world.**
- To help accelerate the development of a coherent impact investing industry, the GIIN:
 - Builds critical market infrastructure
 - Supports education and industry research
 - Convenes an investor community

Definition of Impact Investments

- **Impact investments are investments made in companies, organizations, projects, or funds with the intention to generate a positive social or environmental impact alongside a financial return.**
- Core characteristics of impact investing:
 - Intentionality
 - Investment generates financial return on capital
 - Range of return expectations and asset classes
 - Impact measurement by investor and/or investment manager

A Diverse Market



Using Guarantees to Expand Impact

Hannah Schiff

Research Manager
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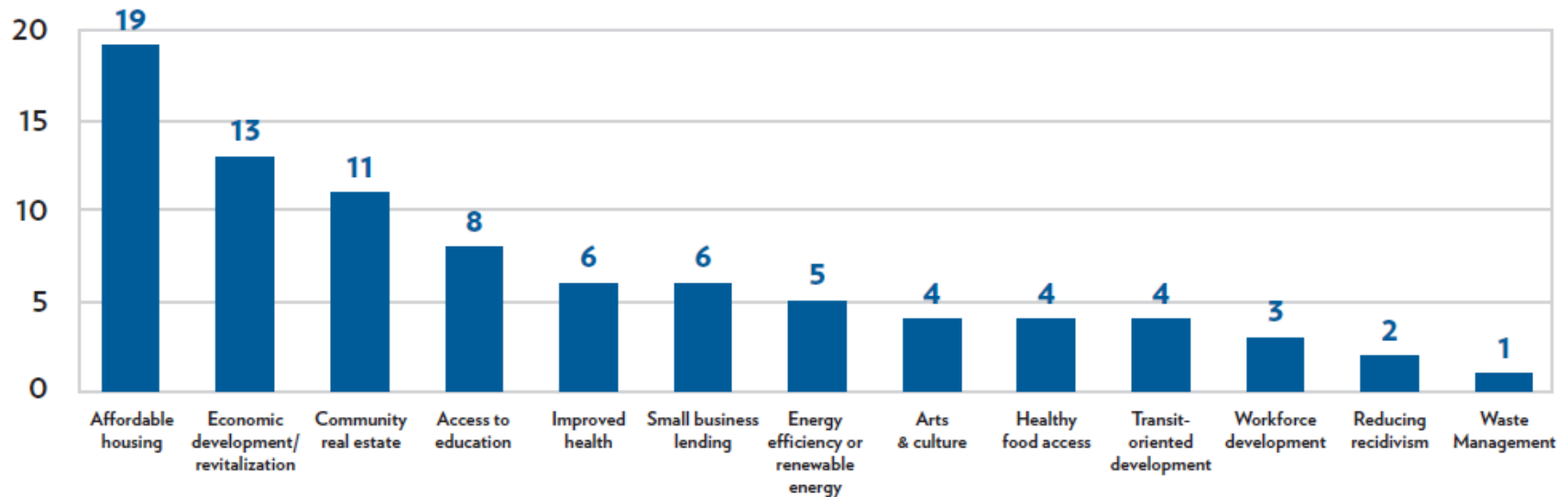
Why Use Guarantees?

- Address **real and perceived risks** to draw more capital into impactful projects and organizations
- Enable investors to gain experience with **unfamiliar sectors or business models**
- Facilitate access to capital for nonprofits or community development organizations at **favorable terms**

Where Have They Been Used?

Impact themes addressed by number of guarantees

n = 58 guarantees; some guarantees target multiple themes

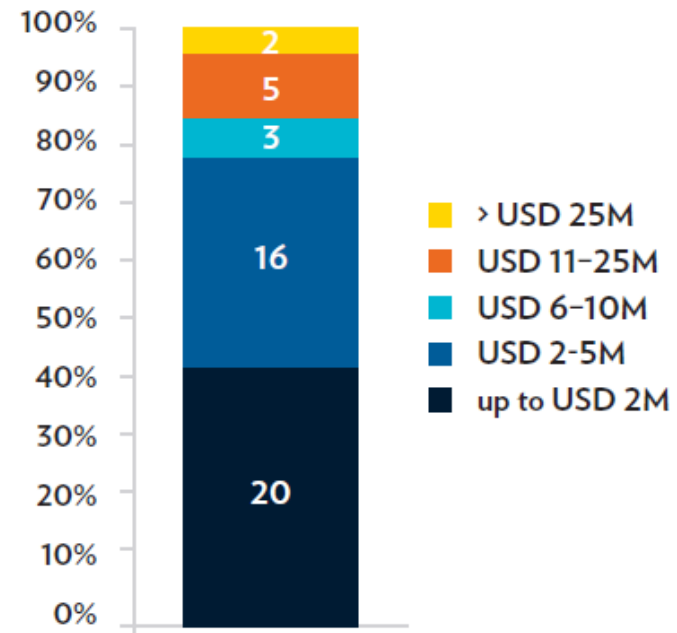


Source: GIIN

Evidence of Limited Uptake and Scale

- Most guarantees are **small** (under \$5 million).
- Most projects or funds they back are **small** (under \$50 million).
- Most guarantees are negotiated **at the loan or fund level** (not programmatic).

Guarantees by size
n = 46 guarantees



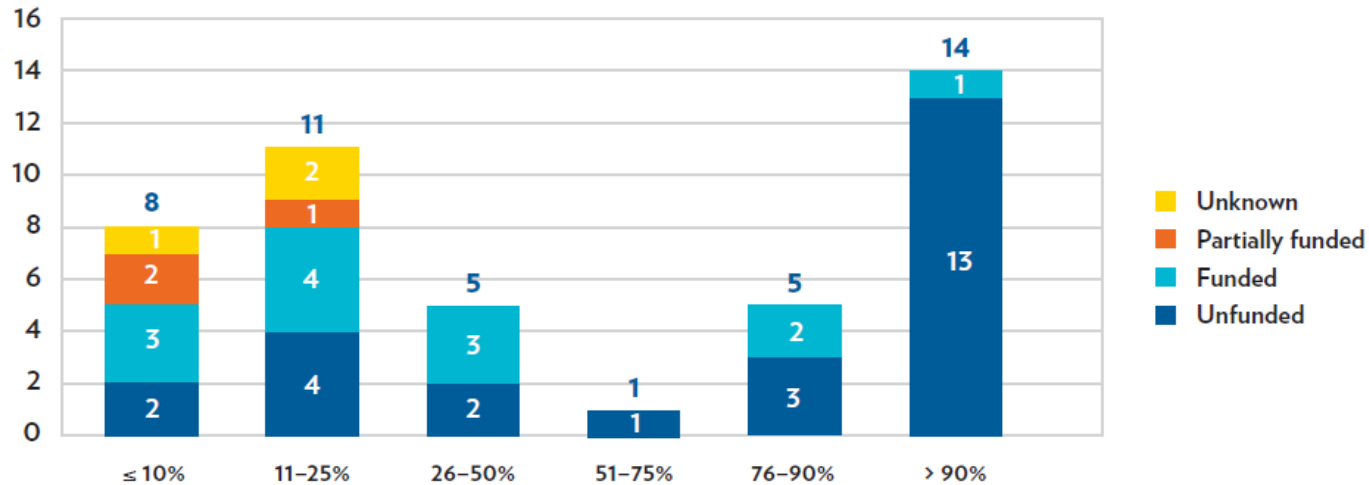
Source: GIIN

Wide Variety of Structures

- Percentage of losses covered ranges from <10 percent to 100 percent
- Can include full, partial, or no up-front funding
- Triggers and access to capital vary

Guarantees by coverage level and funding

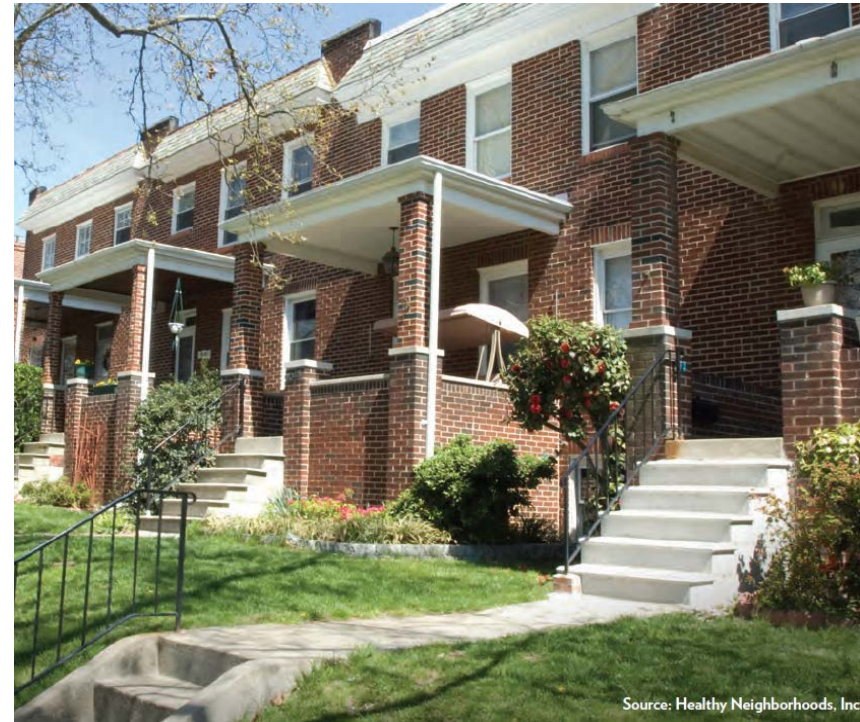
n = 44 guarantees



Source: GIIN

Example 1: Healthy Neighborhoods

- Two \$40 million loan pools for below-market-rate mortgages and renovation in Baltimore
- Unfunded guarantee from three foundations and the Maryland Housing Fund covered 10 percent top loss per loan
- Guarantee enabled lower interest rates and higher loan-to-value ratio
- 352 loans totaling \$53.6 million originated from the two pools



Example 2:

Collaborative for Healthy Communities

- Two CDFIs began lending in a new sector—Federally Qualified Health Centers.
- \$5 million unfunded guarantee from the Kresge Foundation on initial pool of \$25 million
- Later enabled further capital raise, more than doubling the amount of capital
- Enabled CDFIs to gain experience with FQHCs and demonstrate their creditworthiness



Source: Low Income Investment Fund

Case Study: The Kresge Foundation

Kimberlee Cornett

**Managing Director, Social Investment Practice
The Kresge Foundation**



Why we do our work

We influence and advance how markets work on behalf of low-income people and those who serve them in partnership with practitioners, investors, policymakers and governments.

The way we do our work

We make bold social investments that are flexible, creative and responsive to unlock capital for the benefit of low-income people in cities, and demonstrate the role of strategic philanthropy in solving complex social problems.

2020 GOALS

Accelerate progress toward Program and Foundation wide strategic objectives

Leverage at least \$1 billion from other investors

Demonstrate “best in class” strategic philanthropy through the use of multiple capital tools

Recycle Foundation resources for future use



INCREASING CAPITAL SOURCES FOR COMMUNITIES

 Debt, Deposits, Grants

10-year loans to Community Development Financial Institutions, Development Finance Agencies and Credit Unions working in urban communities in areas of importance to one of Kresge’s Programs.



STRATEGIC INVESTMENTS FOR PROGRAMS

 Debt, Equity, Guarantees, Grants

Investments that target a specific capital barrier in a sector relevant to a Kresge Program.



INVESTMENT CHANNEL/ AMERICAN CITIES PRACTICE

 Debt, Equity, Guarantees, Grants

Initiative to spur the development of mixed income communities and mixed use development in urban markets. Investments will have H.E.A.R.T elements (promote health; preserve equity for low income residents; be adaptive and resilient to climate changes; and have access to transit).



MISSION RELATED INVESTMENTS

 Debt, Equity

Market rate investments from the endowment that are focused on US urban markets and benefit low income individuals.

Areas of Interest



SCALING THE USE OF GUARANTEES IN U.S. COMMUNITY INVESTING



- Powerful but less utilized tool by philanthropic investors
- Effective in leveraging capital
- Keeps assets fully invested

Illustrative Guarantees

- *Detroit Home Mortgage* Guarantees to bank lenders making high LTV loans to single family purchasers
- *Commons Energy* Loans for energy efficiency in municipal buildings or buildings with nonprofit owner
- *Strong Families Fund* Guarantees to release reserves required by investor that were repurposed to be used to fund social service coordination
- *Aora Mortgage (BCC)* Guarantee to back stop CDFI Bond Guarantee Program
- *A College* Guarantee to lender to induce them to refinance senior debt
- *Healthy Futures Fund* Guarantee to keep payments on leveraged loan current

Join Us for Our Next Connecting Communities

- Regional Food Systems: Driving Entrepreneurship and Small Business Development
- Thursday, September 14, 2017
- 2–3 pm CT/3–4 pm ET
- Presenters:
 - Lisa Benson, Director, Rural Development, American Farm Bureau Federation
 - Donna Leuchten Nuccio, Director, Healthy Food Access, Reinvestment Fund
 - Kathleen Merrigan, Executive Director of Sustainability, George Washington University

Questions?

You have two options to ask questions today:

1. Email us at: communities@stls.frb.org
2. Type your question into the chat box of the webinar

Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website, and in the next few days, we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions or any questions about this program, please feel free to contact us at: communities@stls.frb.org.
- Information about future sessions will be posted on our website, along with archived materials from past sessions: www.stlouisfed.org/connectingcommunities/.

Related Resources



FedCommunities.org
Federal Reserve community development resources promoting
people, place, policy and practice, and small business

- In connection with this session, you can find a variety of additional resources on this topic available at **www.fedcommunities.org**.
- It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the policy and practice of community development, or small business development.