A Report on the Study Trip to CDFIs in the US in September 2009

7th November 2009

Takashi Koseki koseki@kisc.meiji.ac.jp

Meiji University, School of Business Administration

[1] Purpose of this study trip

The purpose of this study trip is to figure out the significance of community development finance after the big credit crunch in the US.
I visited several CDFIs and a governmental agency for the first time this March, which gave me the basic understanding about the community development finance and the policy implemented by the federal government. (Please see the detail in "Report March 2009".)
After I came back to Japan, I held small seminars on community development financial institutions (CDFIs) in the US three times during this April to June in order to introduce the latest situation on CDFIs after the big credit crunch. These three seminars got more than 100 people who participated, which showed that a lot of Japanese people are now interested in CDFIs. Some attendees loved to visit CDFIs.

We can easily know the statistical social impact of CDFI sector by referring "CDFI Data Project", but I wanted to figure out more deeply on the activities of CDFIs and their social impact by seeing some case studies of lending activities to nonprofits/social enterprises.
In addition, consulting and technical assistances are said to be an important function of CDFIs. These assistance services are provided not only by CDFIs but also by consulting firms/ individual consultants. I wanted to figure out more about the role of assistance and its impact on nonprofits' management. Consulting services focused on nonprofits/social enterprises are not so common in Japan, and such consultants are still few. I'm wondering that the relatively small market of nonprofit consulting services might be one of the obstacles of the further development of nonprofit sector in Japan.
Therefore I asked some nonprofits and consultants to accept my visit at this study tour.

The experiences of community development finance in the US will give us good hints to develop similar activities in Japan, despite of many differences of historical/ social background between the US and Japan. Now Japanese society faces high poverty rate (over than 15%) and reproduction of poverty. Community development finance must be a great choice to solve poverty problem, although this idea is not common yet in Japan.

Nonprofits/social enterprises are increasing, but most of them are undercapitalized and small-sized (assets under 50 thousand dollars) in Japan. "NPO Banks", which provide debt finance to nonprofits/social enterprises, are slightly increasing. NPO Banks suffer from severe regulations by governments, and they haven't enjoyed any privileges as nonprofit financial institutions. We need some supportive governmental policies for NPO Banks like Community Reinvestment Act (CRA).

I wanted to bring diverse views and abundant insights from this CDFI study tour by bringing some of my colleagues who have different backgrounds. I'm an academic researcher, and especially I needed practitioners' viewpoints. This study group includes a chairperson of a NPO Bank, as well as a banker of big mega-bank.

This study group consisted of following 5 members:

- Akio Doteuchi, Senior Researcher of NLI Research Institute
- Emiko Oyama, Banker of Mitsui Sumitomo Bank
- Eri Mizutani, Researcher of Mitsubishi UFJ Research & Consulting Co. Ltd.
- Mari Tsuboi, Chairperson of Board Directors of Tokyo Community Power Bank
- Takashi Koseki, Associate Professor of Meiji University

After coming back to Japan, these group members held meetings and discussed what we learned at the study tour. Based on these discussions, we will hold a symposium in Tokyo on 7th November. Each of us will give different presentation based on their own interest. Although this report reflects my interest only, but I hope I will introduce other members' reports.

This report consists of several parts:

[1] Purpose of this study trip
[2] Overview of this trip
[3] Findings
[4] Conclusion

Let us express my deepest appreciation for all of people who cooperated to this study tour. They kindly welcomed our visit and gave us their time for our research interviews. CDFI officers introduced their client nonprofits and brought us to nonprofits' offices. Our success of this study tour owes their friendliness and kindness. Thank you so much.

[2] Overview of this trip

At the last time I visited several CDFIs, Woodstock Institute and OCC in this March. This time I visited some of the same organizations again with my colleagues, partly because I was wondering if I could find any changes since the last visit. According to economy news, share prices at NYSE are going up since the bottom at the beginning of this year. CDFIs were suffering from severe fundraising condition in March because of credit crunch. I expected economic conditions of CDFIs were going better in September.

We visited 19 institutions and individual consultants in total. The itinerary was:

August 31st: visited the Office of the Comptroller of the Currency (OCC) and met Kristopher Rengert.
visited Community Development Financial Institutions Fund (CDFI Fund) and met 3 officers.

September 1st: visited Philadelphia Development Partnership (PDP) and met Leslie H. Benoliel and Natasha Dravid.
visited United Bank of Philadelphia (UBP) and met Evelyn F. Smalls.

2nd: left Washington DC and moved to Philadelphia.
visited Opportunity Finance Network (OFN) and met Helen Leung and Beth Lipson.

3rd: visited Nonprofit Finance Fund (NFF) and met Joanne Bursich, Cassandra Archbold and Philip Fitzgerald.
visited The Mann Center for the Performing Arts (with Joanne and Cassandra of NFF) and met Thomas J. Metz and James E. Hines.
visited Education Works (with Joanne and Cassandra of NFF) and met Martin S. Friedman.

4th: visited Fairmount Ventures, Inc. and met Don Kligerman and Mark S. Deitcher.

8th: visited Growing Home (Wood Street Urban Farm) (with Mark Fick of CCLF) and met Harry Rhodes and other staff members.
visited Chicago Commons Nia Family Center and met Clare Golla of Shore Bank, Chris Nordloh and Dan Valliere of Chicago Commons.

9th: visited Woodstock Institute and met Dory Rand.
visited Chicago Community Loan Fund and met Calvin L. Holmes.

10th: visited Illinois Facilities Fund (IFF) and met Lucy Tuck, Dan Alexander, Steve Bricker and other staff members.
visited Noble Network Charter Schools (Muchin College Prep School) (with Dan

Alexander of IFF) and met Kimberly Neal and Bob Nardo.
visited Asian Human Services (AHS) Family Health Center and Passages Charter School (with Steve Bricker of IFF) and met Marlene Hodges and Muhammad W. Paracha.

11th: met Heather D. Parish, a consultant.
met Jean Hardy Robinson, a consultant.

[List of organizations we visited]

1. Government Office

(1) Community Development Financial Institutions Fund (CDFI Fund) <Washington DC>

(2) the Office of the Comptroller of the Currency (OCC) <Washington DC>

2. CDFIs and the national association of CDFIs

(1) Opportunity Finance Network (OFN) <Philadelphia>

(2) United Bank of Philadelphia (UBP) <Philadelphia>

(3) Nonprofit Finance Fund (NFF) <Philadelphia>

(4) Philadelphia Development Partnership (PDP) <Philadelphia>

(5) Shore Bank <Chicago>

(6) Chicago Community Loan Fund (CCLF) <Chicago>

(7) Illinois Facilities Fund (IFF) <Chicago>

3. Nonprofits or companies which borrowed and supported by CDFIs

(1) The Mann Center for the Performing Arts (NFF's customer) <Philadelphia>

(2) EducationWorks (NFF's customer) <Philadelphia>

(3) Chicago Commons (Shore Bank's customer) <Chicago>

(4) Growing Home (CCLF's customer) <Chicago>

(5) Noble Networks charter school (IFF's customer) <Chicago>

(6) Asian Human Services (IFF's customer) <Chicago>

4. Advocacy and research institute

(1) Woodstock Institute <Chicago>

5. Consulting firms

(1) Fairmount Ventures, Inc. <Philadelphia>

(2) Heather D. Parish <Chicago>

(3) Jean Hardy Robinson <Chicago>

[3] Findings

(1) Community Investment Policy

[The impact of CRA under credit crunch]

At the last study trip I recognized Community Reinvestment Act (CRA) and relating other community investment policies have had huge impact on CDFI sector and low-income communities. 96% of big banks get "Satisfactory" or greater rate of CRA assessment as of 31st March 2009.

However, CRA requires banks to keep the balance between community investment and "safe and sound operation", which might mean that banks don't have to invest so much in low-income communities under severe market conditions or bad financial performances. I was wondering how CRA requirement works under a recession time, and how supervisory agencies and advocacy groups are struggling with this situation.

At this study trip I recognized again the huge impact of CRA and other community investment policies on CDFI sector and low-income communities. OCC officer pointed out that CRA, LIHTC and NMTC program have helped partnerships among banks and CDFIs grow up. The OCC officer said that the basic attitudes of banks to comply with CRA have not been changed yet after credit crunch

However, the sanctions that CRA regulation has are limited to some situations; merger and acquisition, consolidation, and settlement of new branch. Not all of banks are going to merge or consolidate. In everyday business situation, how does CRA influence banks' management? The OCC officer said that big banks care social reputation. IF a bank is written badly in a news article, the bank's business partners would be reluctant to keep a good relationship with the bank.

On the other hand, I'm interested in the role of advocacy groups as a promoter of CRA requirements. Some interviewees disagreed that advocacy groups' protests would affect big banks' decision-making, but Woodstock Institute and Illinois Community Investment Coalition negotiate and ask banks to comply with CRA. In fact, such negotiations succeeded to change banks' attitudes for community investment. It might depend on geographical areas in the US that community groups have power enough to advocate, but I think advocacy groups promoted community investment so far.

Curiously enough, most banks don't think much of CRA requirements, partly because CRA rating doesn't affect banks' profitability so much. This seems to be contradictory. I heard that banks have not been willingly to lend to CDFIs in order to avoid risks since the credit crunch happened. It might be quite natural that banks avoid high risks in recession time, but CRA should work harder.

[CDFI program and Capital Magnet Fund]

CDFI Fund and CDFIs are welcoming the increase of budget of CDFI program, especially Capital Magnet Fund (CMF) of Recovery Act. The budget doubles from 109 million in 2009 to 243 million dollars in 2010. The use of CMF capital is only affordable housing, but generally speaking, CDFI sector expects CDFIs might be able to get more grants from the federal government.

CDFIs now face serious difficulties of fundraising from private sector and therefore they are going to rely on public grants more. However, relying on public grant too much is risky because CDFI management would be affected more by federal yearly budget and political changes. Big grant injection like Recovery Act doesn't last long and has only temporal effect.

[New Market Tax Credit]

At the last study tour I heard many criticisms against New Market Tax Credit (NMTC) program. Such criticisms include duplicated procedure, a lot of paperwork, investors' huge profit, temporal effect, only suitable for big institutional investors, and so on.

However, I heard positive opinions for NMTC program in general from CDFI officers rather than criticisms this time. NFF's officer said that NMTC is a good program to promote investment in low-income area. NMTC is suitable for raising large capital and lending to nonprofits.

In addition, CDFI Fund is now trying to improve this program. CDFI Fund buries the gap between urban and rural area, by investing 18-20% of total allocation in rural areas. NMTC program has been useful for large-sized real-estate dealings, but it was not the case with other investment. CDFI Fund is now trying to solve this problem.

NFF's officer pointed out that in fact investors are able to get over than 100% of tax credit from NMTC program, though investors are supposed to get only 39%. I'm not sure about the true mechanism, but it might be a problem that investors receive too much profit from socially-oriented program.

[Local Partnerships]

At the last study tour I didn't focus on local level of community investment policies. This time I found strong partnerships among local governments, community organizations, CDFIs and charitable foundations. CDFIs are able to raise capital from local

governments and/or banks, thanks to such partnerships.
OFN officers pointed out that many state governments have their own policies to support CDFIs, for example Pennsylvania Community Development Bank Loan Program (PCD Bank). The state of Pennsylvania provides grants/loans to CDFIs through PCD Bank program in order to promote CDFI sector to grow up. Other than PCD Bank, The state of Pennsylvania has several programs which give CDFIs grants, for example "Fresh Food Financing Initiative". The state government gives "Fresh Food Financing Initiatives" grant to CDFI which lend to supermarkets located in low-income communities.
City governments also have supportive policies: for example, City of Chicago supports affordable housing projects through the partnership among banks, CDFIs and the city governments. The city of Philadelphia deposits dollars at United Bank of Philadelphia (UBP) in order to support UBP to lend to small businesses.
Community investment policies collectively succeeded creating social impact; not only CRA and CDFI program but also tax credit system, loan guarantees, various local grants, deposits, and other many kinds of policies have generated good effect.

(2) CDFI Fundraising

[Competition among CDFIs and banks]

CDFI Data Project says that there estimates to be approximately 1250 CDFIs in the US and the number is still increasing. Certified CDFIs are more than 780. CDFIs now experience difficulty of raising funds from banks/ foundations under the recession. On the other hand, I've heard banks began targeting affordable housing or charter schools, which have been traditionally within CDFI market. Will commercial Banks and CDFIs compete for the same market? Do some CDFIs fail?
According to OFN officer, competitions among CDFIs and banks are not so common. Rather, CDFIs and commercial banks co-exist peacefully. Commercial banks ceased dealing with affordable housing or charter schools, and CDFIs have much more clients after the credit crunch. Curiously enough, there are almost no failures of CDFI management or bankruptcies. If a CDFI doesn't succeed managing, other CDFI might help or merge it. CDFIs face difficulty of raising fund, but they seem to manage doing that.

[Loan Funds' Fundraising]

A loan fund generally raises capital from banks, foundations and governments. The biggest percentage of capital sources is from banks which motivated by CRA requirement. I recognized again the impact of CRA and NMTC which affected to the partnership between banks and CDFIs. CDFI Data Project shows that 53% of capital comes from banks, thrifts and credit unions. I got a result of the same direction as CDFI Data Project this time.

However, the partnerships between CDFIs and commercial banks are not only loan/equity but also a variety of cooperation; for example, consulting services, project finance, loan guarantee, grant for new initiatives, and so on. Bank of America has developed innovative types of partnerships between OFN, IFF and other CDFIs in recent years. Bank of America, which got "outstanding" CRA rating, announced a 1500 billion dollars community investment initiative in 2008.

Among other CDFIs, the fundraising strategy of Philadelphia Development Partnership is a little unique because all of the capital resources are grants, though PDP will get loans from the government for the first time this year in order to strengthen its capital portfolio.

On the other hand, we shouldn't forget the effort to gather capital by individual CDFIs. For example, NFF appeals its investors its excellent clients, strong connection with the government and safe financial operation. IFF has kept good cooperation with its investors for more than 20 years, and the investors make a consortium to support IFF.

I'm also interested in fundraising activities done by community development banks. CD banks are different from loan funds which receive loan/equity from banks. CD banks get deposits, but from who? How do these CD banks gather deposits?

We visited two CD banks: United Bank of Philadelphia (UBP) and Shore Bank. I found some differences between two banks in terms of marketing method. The marketing method of UBP is little different from that of commercial banks, but UBP collects deposit capital mainly from residents in underserved communities in Philadelphia, though it receives investment from big companies or churches. On the other hand, Shore Bank collects deposit mainly from nonprofits, foundations, SRI (socially responsible investment) funds and individual depositors. Especially, Shore Bank has "Development Deposits", a saving deposit to support the bank's mission. The Development Deposits is a strong tool to get capital from broad area. Shore Bank positively discloses its information, explains nonprofits how to manage its asset and accepts SRI funds. Shore Bank has succeeded in gathering funds from mission-oriented organizations/individuals nationwide.

[Influence of credit crunch]

I had expected some economic improvement since this March, but CDFIs are still suffering from the tough fundraising situation after a half year. Partnerships between banks and CDFIs themselves are still alive. However, banks are told to increase their equity capital by governmental regulators, which decreased investment from banks to CDFIs. OFN officer pointed out that CDFI market would take at least 1~2 quarter period to recover more than mainstream market. Though CDFIs didn't provide high-risk sub-prime loans, they have received serious damages from the credit crunch. CDFI sector doesn't see the light at the end of the tunnel yet.

[Impact of CARS rating system]

CARS rating system was developed by OFN to promote investment from private sector. At the last study tour, many CDFI officers basically agreed the significance of CARS. According to CDFI managers who I interviewed, they might check organizational weaknesses through the assessing process, so CARS would be useful as a management tool. However, I was wondering if CARS really works to attract capital. The number of rated CDFIs is still fairly small (now 48).

The OFN officer said that CDFIs which apply for CARS rating are now increasing. The rating system will be more important for investors and CDFIs in the near future, because capital resources available for CDFIs are limited under the credit crunch.

(3) Lending and Consulting Services

[Target client market of CDFIs]

Each CDFI has its own target client market. NFF and IFF lend to only nonprofits, whereas PDP lends to micro-enterprises run by low-income people. UBP really cares minorities and communities in Philadelphia. IFF and CCLF specialize in real-estate/ building. TRF and IFF are good at lending to charter schools.

NFF and IFF lend to only nonprofits more than 5 years operating history, whereas PDP lend to business beginners. Their different special expertise of lending activities underpins their strengths.

[The difference between loan fund and community development bank]

Community development banks are regulated by the federal supervisors, and loan funds aren't regulated. Banks might have to be much more deliberate when they make a decision of loan.

UBP has quite deliberate and cautious attitude when the bank judges whether to lend. The bank doesn't lend to new companies within 3 years old. Shore Bank requires its client borrowers to make alternative fundraising scenario, in case the borrowers fails to raise fund. Whereas, loan funds are not regulated, so loan funds can change loan program more flexibly than banks.

However, it's quite interesting that community development banks develop various systems to mitigate risks and lend more to community: outreach activities, partnership with big banks, loan guarantee from foundations, and so on.

[Eco-business in fashion]

Some CDFIs recently tend to focus on eco-business. TRF (The Reinvestment Fund) lend to natural energy plant (like wind power). The origin of NFF activity is technical assistance services for nonprofits about saving energy/cost of their offices. CCLF provides consultation on ecological building—"Building for Sustainability". IFF has criteria of ecological sustainability when it provides a nonprofit a loan service. IFF requires its borrowers to be environmentally sensitive. In addition, eco-business boom and Obama Administration's Green New-Deal policy seem to affect CDFIs' recent trend. Dory Rand of Woodstock Institute pointed out that more CDFIs now lend to eco-businesses which deal with eco-friendly buildings and houses and that such a trend will continue for several years.

[Consulting and technical assistance services]

At the last study tour, some of CDFI officers didn't agree to the significance of consulting services provided by CDFIs. At the same time, I basically recognized that the role of consulting firms/ individual consultants in terms of technical assistance for nonprofits is quite large in the US. However, I didn't know the diversity of assistance services well. CDFIs and consulting firms/ individual consultants provide their own assistance, but what are the differences between them? There are only a few consultants who focus on nonprofits/ social enterprises in Japan, so I was really interested how consultants work for nonprofits.

[How necessary consulting services are for nonprofits.]

A consultant pointed out that nonprofits tend to be reluctant to welcome support from consultants because nonprofit managers don't recognize their problems. Nonprofits suffer from the shortage of expertise on contract, building maintenance or organizational administration. The needs which a client recognizes and those which a consultant understands are sometimes slightly different. When a nonprofit manager thinks the organization needs more dollars, the consultant of the nonprofit organization might know the main problem is the whole strategic plan rather than fundraising. One of the important roles of nonprofit consultant might be to let nonprofit managers notice more radical problem which they haven't noticed before. These radical problems include organizational structure, whole governance, the role of board members, or cost-efficiency of activities. Interestingly, almost all of consultants who we interviewed referred this point. But this role is not so easy because some nonprofit managers are not so efficiency-conscious.

[A variety of consulting services and target markets]

At this study tour we learned that the content of assistance/consulting services depends on each CDFI/consultant.

The main target clients of PDP's consulting are micro-entrepreneurs, most of whom are low-income people with low educational background/business experiences. PDP provides one-to-one consulting services and business skill training courses to help people start micro-businesses.

On the other hand, NFF provides Nonprofit Business Analysis (NBA) service, which analyses the financial structure and cost-income balance of client nonprofits based on 5 years financial performances. Shore Bank created a new service center exclusively for nonprofits in downtown Chicago. The nonprofit service center provides nonprofits different services like deposits, loans and consulting. It could be an innovative challenge for a bank, partly because a bank usually avoids expensive and costly services. United Bank of Philadelphia ceased such consulting services to cut cost.

[The difference between CDFIs and consulting firms]

What are the differences between CDFIs and consulting firms in terms of the content of consulting services? Calvin Holmes of CCLF pointed out that a financial institution tends to show multiple choices of actions its client borrower can take rather than giving specific directions at the consulting. CDFI's client borrower organization would be introduced other consultants by the CDFI and the organization can get more specific suggestions from consultants. Therefore, CDFIs and consultants are in good partnership. Some consultants work closely with CDFIs, and other consultants are board members of CDFIs.

[The role of consultants]

Nonprofit consultants have their own strength. A consultant focuses on making strategic plans, whereas another consultant mainly gives advices on fundraising (like donations or grants). Nonprofits can't afford hiring experts as full-time staff, so consultants play quite an important role for nonprofits to help improve their management. Some consultants worked at for-profit consulting companies before, and now these mission-driven consultants work exclusively for small-sized nonprofits. The fusion of experiences of work at for-profit companies and the mission to serve nonprofit sector are creating a good impact for nonprofit management.

[The financial source of consulting services]

One of our main questions was why nonprofits can afford consulting services. Generally speaking, nonprofit sector doesn't have a culture of consulting in Japan now. Nonprofit managers might not think they need consulting/ technical assistance. We don't have a lot of nonprofit consultants in Japan. If they can find some consultants, they might give up getting consulting services because of the shortage of budget. However, it's not the case in the US. All of nonprofits we interviewed this time made use of consulting services. Nonprofit managers think consulting services really important and necessary.
The main financial source of consulting services is grants from charitable foundations. Nonprofit clients make use of consulting services for free or with nominal fees. Most of cost of consulting services is paid by foundations or banks. Big banks sometimes contribute "CRA money" for consulting or management analysis program.
Grants or donations are usually supposed to be directly used for projects (like helping refugees). If grants or donations are used for capacity-building services of nonprofit organizations, what outcomes will we expect? Capacity-building is really important because it strengthens the overall capacity of nonprofits and increases the efficiency of activities. Capacity-building will help nonprofits serve our society better in the near future. It is interesting that some foundations like MacArthur Foundation provide grants only for capacity building. Such foundations are a key-factor of the growth of nonprofit sector. We have only a few foundations/ cooperatives which provide capacity-building grants in Japan. But the outcome comes out indirectly, and takes longer time. Foundations tend to request short-term effect from grants, so capacity-building is not so an easy task. After the credit crunch, foundations have lost their assets, which affect the management of nonprofits. Foundations not only give nonprofits grants but also lend them money with low interest (Program Related Investment: PRI).

(4) Nonprofit Management

[Financial structure and fee from governments]

The financial structure of a nonprofit organization heavily depends on its activity. If the main portion of the activities is occupied by public projects from the government, the organization relies on fee paid by the government and the organization might be affected by the paying capacity of the government. If the organization gets major income from donations from for-profit companies, the budget of the organization might be affected by economic climate.

EducationWorks is a nonprofit to provide educational services for children in Philadelphia and New Jersey, and it heavily relies on fees from the state governments. The state of Philadelphia has huge deficit and is behind in paying fees. In addition, some state budget plans were not implemented because of the shortage of dollars. EducationWorks has to pay its teachers their wages every two weeks, so bridge financing is needed. Commercial banks doubt the ability of state government's payment and disagree to lend for bridge financing. Commercial banks might think that a contract with state government is not valuable enough as a collateral. The problem of payment in arrear by state government is not seen only in Pennsylvania but in Illinois. In response to that problem, CDFIs can provide nonprofit organizations bridge loans to bury the financial gap.

[The affection of credit crunch]

Nonprofit management textbooks often tell us that well-balanced income among donations, grants, earned income, and so on. However, the nature of the nonprofit activities confines the extent of income category. In addition, this credit crunch affects multiple aspects.

The Mann Center for the Performing Arts is a nonprofit to manage a big music concert hall in Philadelphia. The Mann Center receives earned income from ticket sales, but the income cannot cover the full cost of music concerts. The center sometimes holds for-free concerts for the public and provides children music education, so the center is strongly mission-oriented. The center has to ask people to give donations, and to ask local governments to give grants. After the credit crunch, the center suffers from much less income than before because people give less, companies contribute less, ticket sales less and banks are reluctant to lend a bridge loan, but the cost of concert is still going up. Though the Mann center kept a good balance of earned income, grants and donations to cover cost, the center couldn't avoid the total affect of the credit crunch.

[How important is loan financing?]

One of my biggest questions is how important loan financing is for nonprofit financial management. When I asked CDFI officers that question at the last study trip, almost all of them answered that nonprofit organizations are willingly to borrow and loan financing is very common among nonprofits in the US. In addition, CDFIs which specialize in real estate financing like IFF or CCLF exist. Loan financing is relatively rare and loan financing cases to buy real estate are much rarer in Japan. A nonprofit organization usually tends to avoid borrowing, especially from financial institutions. Nonprofits in the US tend to borrow from banks/CDFIs rather than individuals. I was so surprised at the huge differences between two countries in March.

However, I heard slightly different answers about that this time. A consultant said that nonprofits usually rely on grants and it is not so common for nonprofits to borrow except real estate businesses (like affordable housing/community facilities). The consultant pointed out that nonprofits are not generally so willingly to borrow in the US as well.

The potential probability of borrowing money depends on the kind of a nonprofit activity and the size of an organization. If you are a CDFI manager and frequently hear nonprofits' asking for loans, you could think that most nonprofits are seeking loans. If you are a consultant and usually provide services for small nonprofits, you could think that most nonprofits don't want loans.

I guess that several subsectors of nonprofits (like affordable houses, community facilities (like day care center or supermarkets), charter schools, natural energy, organic farms, art & culture organizations and so on) seek loans. Especially, nonprofits have difficulties of getting loans from commercial banks after credit crunch, and they are rushing into borrowing from CDFIs. These nonprofits have been rescued by CDFIs.

These nonprofits need a lot of working capital to manage their businesses, and they can expect to repay loans by earned income or donations. Thinking of low interest rate (3% or less) for nonprofits in Japan, it is amazing that a lot of nonprofits can afford to purchase real estate, despite high interest rate of loans (more than 7%).

[The difference between commercial banks and CDFIs]

What do nonprofit managers think about the differences between commercial banks and CDFIs? Chicago Commons is a nonprofit organization which has several welfare/education facilities including nursery and senior day care center in Chicago. Chicago Commons used to borrow from a big national bank, but ceased borrowing from that bank and now borrows from Shore Bank. The manager of Chicago Commons said that big banks pursue profit and provides sophisticated financial services, whereas CDFIs think much of community and really understand what a nonprofit is. Shore Bank decided to lend to Chicago Commons, based on the credit history and present projects.

EducationWorks is a nonprofit organization which receives fees from the state of Pennsylvania and borrows working capital from NFF. The contract with the government and payment of fees are sometimes behind time, so big banks see it's too risky to lend without collateral. Banks didn't lend sufficient working capital to the nonprofit. The CEO of EducationWorks said that big banks wouldn't take risks and lack flexibility of loans. He pointed out that CDFIs wouldn't maximize the stockholders' value and that they think much of past performance rather than collateral when they decide whether to lend to a nonprofit.

Asian Human Services (AHS) borrowed from IFF when AHS constructed a new clinic for Asian refugees. The financial officer of AHS explained the advantages of borrowing from CDFIs compared to commercial banks. She said that IFF lends larger amount of dollars to nonprofit for a longer term in lower interest rate than commercial banks, and that IFF doesn't require its borrowers to pay origination fee. AHS relies on grants and donations to bury the gap between the cost and earned income because AHS clinic provides medical services for refugees or low-income immigrants with lower fees or for free. Such a nonprofit organization can't afford to pay high interest. After the credit crunch, it's getting much tougher for a nonprofit to borrow from commercial banks. In addition to lending money, IFF gave AHS a lot of useful advices about choosing a real-estate, procedure of using a building and financial analysis.

Of course, commercial banks are still committed to help nonprofits and keep lending to them (including Program Related Investment: PRI). Some nonprofits borrow from both commercial banks and CDFIs at the same time. However, banks are now regulated by the supervisory agency and are required to strengthen their equity capital. Therefore it's getting more difficult for banks to take risks. CDFIs evaluate the risks of loans to nonprofits in different way, so CDFIs will play a more important role of providing capital for nonprofits hereafter.

[4] Conclusion

This market condition (in September) hasn't gone better compared to this March yet, but CDFIs play very important role of supporting low-income communities by providing loans in this tough time. CDFIs wouldn't be able to do without the support from governmental policies and other partners. CRA requirement, CDFI Fund grants, tax credit system and local governments' support programs create a synergic effect as a whole. Technical and financial supports by consultants and charitable foundations are also quite important to succeed performing the CDFIs' mission. Advocacy organization and national association like OFN and Woodstock Institute are necessary to improve the governmental policies to support CDFI sector. Advocacy organizations not only give congressman pressures but also negotiate with big banks. It's impressive that a manager of a commercial bank in Chicago changed his mind and behavior for community investment and now he is a manager of a credit union. Commercial banks can be good partners of CDFIs. We couldn't visit charitable foundations and local governments at this study trip, which are important players of community development. However, we recognized how the community development finance work in the US after the credit crunch.

We are now in severe recession also in Japan. A lot of small enterprises suffer from banks' reluctance to loan. In addition, the poverty rate is going up and now 15.7% in Japan. Young people cannot find easily fulltime jobs and rural areas are underserved. More and more people suffer from multiple debts from money sharks because of low-income. We have just begun recognizing the problem of poverty and seeking a solution. Some people are now paying attention to micro-finance, which might be a good way to solve the problem in Japan. Microfinance used to be thought as a tool to help people in developing countries.

What can we learn from the experiences of community development in the US? We would like to thing this theme with keeping a discussion with you.

Thank you so much.