CDFI FAQ

(The following questions were posed by members of the executive committee)

1. Have we identified the investment area and the targeted population? How are those defined and what role do we have in defining those areas?

   Yes, 60% or more of our investment area (clients) must fall within the targeted populations. Our intention would be to continue to serve all of the targeted areas, as we do now. The targeted populations are below as well as our current demographics (which already meet the targeted populations).

   Targeted Populations as defined by CDFI:
   - Low Income Targeted Populations – for a specified geographic unit, individuals whose family income (adjusted for family size) is essentially 80% of the area median family income, and/or
   - Other Targeted Populations which can include:
     - African-American
     - Hispanic
     - Native American
     - Native Alaskan
     - Other Pacific Islander
     - Other (reviewed and approved on a case-by-case basis)

   Our current demographics are as follows and already meet that above criteria:
   - 22% of clients non-white
   - 87% of clients at or below 80% LMI

2. Do we anticipate any issues in meeting the 60% threshold in funds going to those target markets?

   No, please see above. We already meet that threshold and see no issue in continuing to do so.

3. Do we anticipate any issues in meeting the 34% threshold on all accounts receivable coming from loan payments?

   In our current mission/financial make up we could not meet the 34% threshold. We would have to raise/loan out/bring back in loan payments on at least $800,000 additional dollars. This also assumes we do not increase any of our other non-loan fundraising or grow any of our other programs. This would require a considerable shift in our mission which is why we propose establishing a second 501c3 to house the loan fund. This is the route many organizations take. It would ensure that the loan fund is separate and therefore would be more quickly qualified as a CDFI and not interfere with our other fundraising, programs, and mission.

4. Will be for sure be setting up a second entity to operate as a CDFI? Any issues with doing so?

   See above. This has been approved by unanimous vote by the executive committee and will now require a vote by the board. Only issue is I (Megan) would have two boards to manage but my recommendation would be that the board of the second entity be the exec committee of the first and meetings be the last 10 minutes of all currently scheduled meetings. My recommendation is it has an investment committee and loan committee (for loans above a certain size). These committees would be for the loan director to manage and would ensure transparency and engagement.

5. What is One Economy that is pursuing CDFI status? Who are they? I looked online but was not familiar with them.
   One Economy is a project of The Directors Council. It is an interesting and important group. Their focus is 100% African American….not just business owners. I've had a few conversations about them, including with Micah and Franklin and spoken with their chair and the consultant for the CFDI project directly as well. We have additional conversations scheduled to ensure dialogue between our organizations. I do not see any issues with the two CDFIs co-existing should they eventually launch one (or even launch theirs first). I invite you to visit their website if you want to learn more about them; I can try to explain a bit as well. www.tdcdsm.org

6. What, if any, regulatory oversight will we be subjected to?
   Because CDFI is regulated through the Dept of Treasury, we will be subjected to annual financial and narrative reporting. We also anticipate site visits as well as required conferences and training opportunities in collaboration with the Treasury and other CDFIs across the country. This is something we are well experienced with because of our work with SBA and IRS. In past positions, a few of us on the team have worked with other federal departments as well. In addition, we will hire someone with banking experience who also has knowledge of reporting and oversite. This would be a staffing obligation that we are comfortable and ready to take on. Additionally, having some regulation and oversite is one of my favorite benefits of becoming a CDFI. Traditional microlending can be very unregulated. I like the idea (per our past conversations) of having some regulation and oversite….being able to share that with donors and the board is reassuring to me.

7. What financial risks/obligations are we (The Iowa Center) taking on?
   The new organization in and of itself would assume the cost of its own annual audit and 990. We reached out to our current auditor and a few others. It would come in under $10,000. Any other financial obligations would fall under the senior organization and be commiserate with growth.

8. What risk is the new entity (assuming we go that route) taking on?
   We will continue to build out policies/procedures/loss assumptions/reserves to cover losses, etc. There is a structure/best practice for this that we don't have to invent. We do it to a small degree already with the state and our own tiny fund that already exists.

   The new entity would be at the benevolence of the original entity. The bylaws, etc would outline that the fund for the second entity would exist for the purpose of providing capital to the loan program run by the first entity. Other language, etc would be put into place so that over its lifetime, if it outlived all of us, future boards could not redirect the funds to another purpose. We will work with attorney on the creation of the second entity. There are several members of staff, board, and the consultant we worked with that have experience in this area. This is a very popular way for organizations with multiple revenue streams to establish a CDFI without compromising their other programs and revenue streams. We will not have to reinvent the wheel as best practices, policies and procedures already exist. To the public we will not discuss or promote two different entities as all the services, fundraising, promotion, etc funnel through the senior organization. The second, junior entity would be called something like The Iowa Center Loan Fund. And it would be that, a loan fund, similar to a nonprofit that houses its foundation money separately to protect it. But again, the best part is this is not something we have to figure out how to do for ourselves/by ourselves. That is the benefit of CDFI, their infrastructure, and mentor organizations/network.

9. How will we raise funds? What is the value proposition to the individual organization contributing funds?

   The benefit to an organization contributing to this fund would be the same as organizations that currently donate to The Iowa Center. Financial institutions would receive CRA credit, etc. Corporations have budgets they must donate, to donate to our fund would be a benefit to their stories, etc. We would raise funds essentially as we do now only with a new benefit of CDFI/opportunities to engage in a loan fund. Additionally, we can offer large donor organizations to engage in loans instead of gifts where they would get a rate of return on our loans. All of this is regulated through CDFI and best practices, policies and procedures are also shared to guide us through this.

10. By shifting our WeLend funds to the new entity, would this count towards our matching requirements?

    Moving WeLend funds to this new entity acts as seed money. It also consolidates all of our "owned funds" (versus "managed funds" like TSB)

11. Last bullet on "what if this doesn't work" slide - Would we be permitted to roll funds back into the Iowa Center? I'm curious to understand what rules/requirements there may be about this. Is there a time period involved? Minimum? Maximum?

    If we want to fold the second non-profit, forgo CDFI, etc, yes, we can refinance the loans back into the senior Iowa Center organization. There is no time period involved but my recommendation is to treat this as an 18-month pilot. 12 months to get it going, 6 months to assess how we are doing and decide to officially move forward or pull the plug. We have been operating a very successful loan program for 6 years with everything in place except most of our capital currently belongs to someone else (IEDA). With the addition of WeLend, we dipped our toes into our own capital; the operations/infrastructure are the same. The addition is CDFI oversite which opens-up a lot of additional federal funding opportunities to support the program as well as the trust of organizations to make larger gifts to the fund.

12. What is an example of an organization that is already doing this (in a similar "market")?

    An organization I quite admire and see as a guidepost through our discernment is WWBIC. They are based in Wisconsin. I mentioned them in the first power point. Their website is: www.wwbic.com

    I've had very helpful and insightful conversations with their CEO and Loan Portfolio director.