



**Final Report from the
NALCAB CDFI Collaborative**

**J.P. Morgan Chase Foundation
PRO Neighborhoods Grant**

JPMORGAN CHASE & Co.



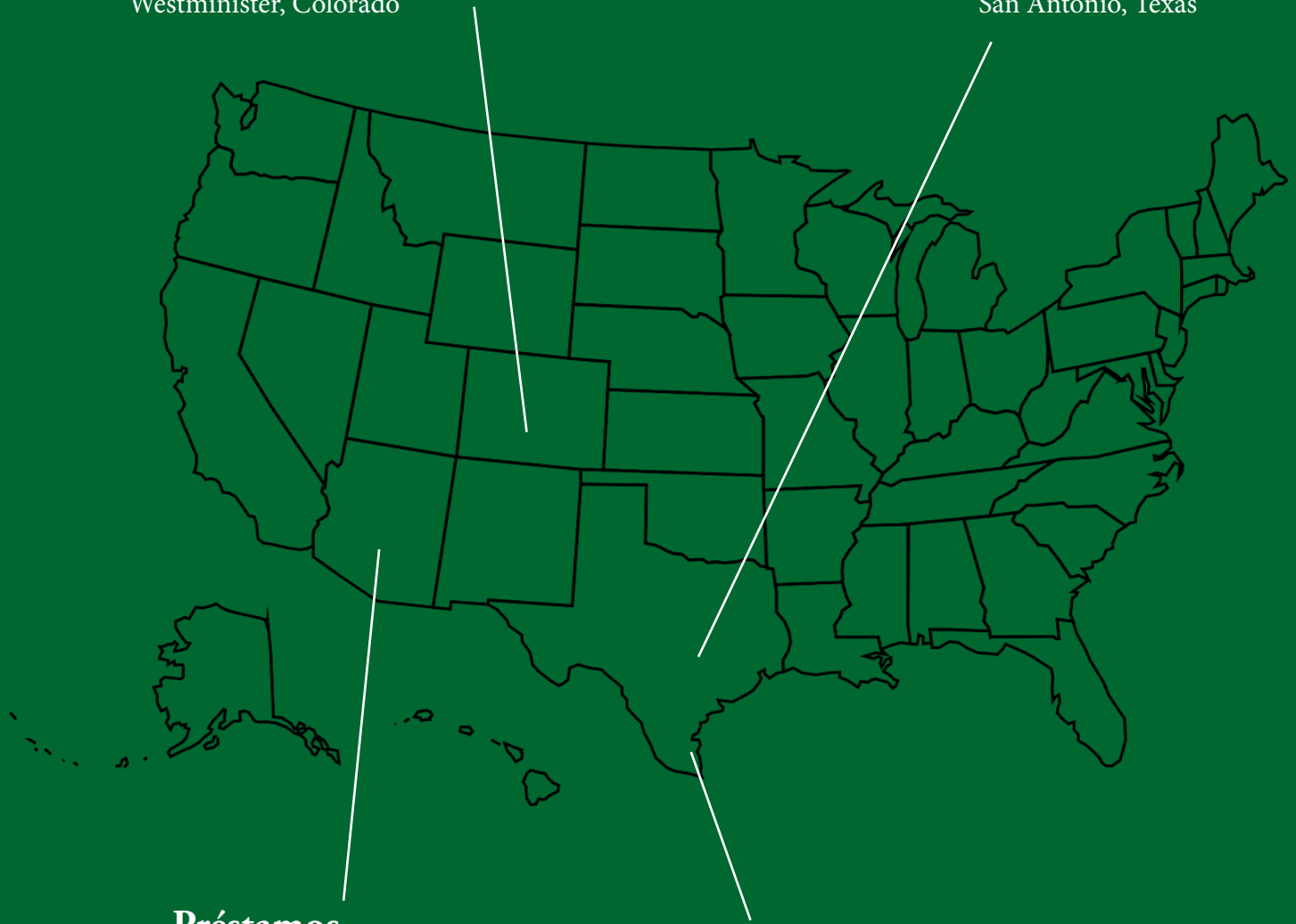
NALCAB

Colorado Housing Enterprises

Westminster, Colorado

NALCAB

San Antonio, Texas



Préstamos

Phoenix, Arizona

Affordable Homes of South Texas, Inc.

McAllen, Texas



Final Report from the NALCAB CDFI Collaborative PRO Neighborhoods Grant

Introduction	1
Leverage Summary	2
Program Strategy	2
Impact of the Grant Program	3
Impact on Collaborative Members	3
Rapid Balance Sheet Growth and Access to Secondary Markets	
Flexible Capital Allowed for More Efficient Capital Deployment	
Innovation	
Impact in Communities	6
Success Story – Affordable Homes of South Texas, Inc.	
Success Story – Préstamos	
Success Story – Colorado Housing Enterprises	
Success Story – The NALCAB Catalyst Fund I, LLC	
Leverage Detail	9

In December 2013, NALCAB - National Association for Latino Community Asset Builders, in collaboration with three member organizations that are U.S. Treasury-certified Community Development Financial Institutions, received a \$6 million grant from the JP Morgan Chase Foundation to demonstrate innovative approaches to scaling CDFI investment in low and moderate income communities over a three year grant period. The NALCAB CDFI Collaborative includes the following organizations;

- NALCAB - National Association for Latino Community Asset Builders;
- Affordable Homes of South Texas, Inc. (AHSTI);
- Préstamos CDFI, a subsidiary of Chicanos Por La Causa, Inc. (CPLC);
- Colorado Housing Enterprises, LLC, (CHE) a subsidiary of Community Resources and Housing Development Corporation.

Over the three year grant period, the NALCAB PRO Neighborhoods CDFI Consortium utilized the grant to leverage more than \$102 million in additional capital for financing small business lending, affordable housing development and mortgage lending - a leverage ratio of more than 15:1. By the end of 2016, the direct investments made using the \$6 million provided by the JPMC Foundation resulted in 81 mortgages for LMI homebuyers, the creation or preservation of 269 units of affordable housing and investments in 16 businesses resulting in 505 jobs.

The PRO Neighborhoods Program grant catalyzed strong balance sheet growth for each of the participating organizations, enhancing the scale and sustainability of their operations. The PRO Neighborhoods grant specifically supported access to the highly competitive U.S. Treasury CDFI Fund for the three CDFI's, which secured four CDFI Financial Assistance (FA) grant awards from 2014 - 2016. The PRO Neighborhoods grant also allowed the NALCAB partners to launch an innovative social investment fund designed to advance economic mobility for low and moderate income families by creating and preserving affordable housing in appreciating markets while producing competitive risk-adjusted financial returns for investors. As of Q1 2017, the NALCAB Catalyst Fund I, LLC, had successfully leveraged third party capital and invested in four real estate projects.

The gap between rich and poor is now getting wider, and the gap strongly correlates with the race and ethnicity. The fact that Hispanics are the nation's youngest and fastest growing major population segment and are struggling to rebuild their wealth in the post-recession era is a pressing macroeconomic concern that requires local solutions.

The NALCAB PRO Neighborhoods CDFI Consortium utilized the grant to implement two distinct strategies. In the first year of the grant period, the three CDFIs each received \$875,000 as an equity enhancement for their balance sheets, \$50,000 for general operations, and support from NALCAB, including technical assistance and facilitating regular peer-to-peer engagement around issues including capitalization, partnership development, and staff training. The goal of this approach was to catalyze the rapid growth of the individual CDFI balance sheets and their impact. The Consortium also sought to demonstrate how relatively unrestricted capital could enhance the efficiency of financing transactions.

Collaborative Member	Type of Investment Activity	# of Investments	Leverage
Affordable Homes of South Texas, Inc.	Mortgage Lending	81	\$16,171,941
Colorado Housing Enterprises - Community Resources and Housing Development Corp.	Housing Development Lending and Small Business Lending	9	\$45,144,000
Préstamos - Chicanos Por La Causa	Small Business Lending	14	\$38,665,735
NALCAB & NALCAB Catalyst Fund I, LLC	Lending and equity investment	4	\$2,400,000
TOTAL		108	\$102,381,676

The Consortium members also pursued a highly innovative and collaborative strategy by launching a social investment fund. The partners initially utilized \$2.6 million of the PRO Neighborhoods grant award to establish a capital pool, jointly owned by NALCAB and the three CDFIs. This capital pool was then invested into an equity fund structure in order to leverage third party capital. The Catalyst Fund acquires and funds the development of single family, small multi-family and or manufactured housing projects. The Fund works with high-capacity developers in the NALCAB Network to source and implement investments to effectively target underserved/at-risk low and moderate-income households in predominantly Latino communities. The Fund’s overarching objectives are: (1) to produce and preserve affordable housing opportunities that advance economic mobility for low- and moderate-income people by providing residents with access to employment, quality education and health care resources; and, (2) to produce competitive financial returns for investors by serving households across a mix of incomes. NALCAB established a wholly-owned subsidiary, *Escalera* Community Investments, LLC, to act as the Fund’s managing member.

The NALCAB Catalyst Fund I, LLC achieved its initial closing on September 23, 2016 with \$4,223,470 million in committed capital: \$3,233,470 in equity and \$990,000 in low-cost debt. Since the initial closing, the fund has deployed substantially all of the equity capital in four separate real estate projects to preserve and produce at least 57 units of affordable housing in appreciating markets in San Antonio, TX and Washington, DC.

The Consortium members also pursued a highly innovative and collaborative strategy by launching a social investment fund.

Impact on Collaborative Members

Rapid Balance Sheet Growth and Access to Secondary Markets

The JP Morgan Chase grant dollars have allowed the CDFIs to attract new capital to their balance sheet spurring rapid growth, as follows.

Organization	2013 Total Assets	2016 Total Assets	% Growth Over 3 Yrs
NALCAB	\$1,229,982*	\$7,311,653**	494%
AHSTI	\$70,377,9	\$77,244,21	9.8%
<i>AHSTI Mortgage Portfolio</i>	<i>\$40,907,410</i>	<i>\$46,178,390</i>	12.9%
Préstamos	\$7,867,106	\$17,897,585	127%
Colorado Housing Enterprises	\$3,551,990	\$5,415,853***	52%

* Excluding the \$6 million promise to give associated with the PRO Neighborhoods grant agreement executed in late Dec. 2013

** Including \$1,882,664 minority equity interest in the NALCAB Catalyst Fund

*** As of March 31, 2017

The PRO Neighborhoods grant specifically supported access to the highly competitive U.S. Treasury CDFI Fund for the three CDFI’s, which secured four CDFI Financial Assistance (FA) grant awards from 2014 - 2016.

PRO Neighborhoods grant funding has also been critical for AHSTI in accessing secondary market capital. AHSTI used the grant funding as a “warehouse line,” to accumulate enough mortgages on its balance sheet to sell in bulk to a secondary market buyer. While AHSTI’s on-balance sheet mortgage portfolio has grown over the grant period, it also sold more than \$8 million in mortgages to a secondary market buyer.

Flexible Capital Allowed for More Efficient Capital Deployment

The unrestricted nature of the grant has allowed each of the participating CDFIs greater flexibility in deploying capital. The CDFIs have repeatedly used the funds to fill a gap or meet a timeline that more restricted capital could not, resulting in faster closings and financing of projects that would not have otherwise occurred.

- Colorado Housing Enterprises was able to close short-term gaps on larger housing development projects. Further, CHE made loans to small businesses that had access to government funding due to their being relocated as a result of a major transportation project. They needed a cash flow loan because they could only access the payments on a cost reimbursement basis.
- Préstamos was able to make small business loans that did not meet underwriting criteria associated with other sources of capital that they had available for lending. These loans ultimately performed well.
- In addition to establishing a warehouse line for mortgages, the PRO Neighborhoods funding allowed AHSTI to make loans without geographic restrictions. Much of capital available for its mortgage lending is provided by units of local government that restrict the location where mortgages can be made.

Innovation

The NALCAB Catalyst Fund I, LLC is a significant innovation for the NALCAB Collaborative members and more broadly in the field of affordable housing finance. The key elements of innovation include the following.

- *Alignment with research on economic mobility* - Where we live plays an important role in shaping our economic opportunities.¹ We now know that areas with greater economic and racial diversity favorably impact the economic opportunities for children and families.² We also know that stable, affordable housing that provides access to employment, educational institutions and health care resources is critical for building wealth and economic mobility.³ The NALCAB Catalyst Fund I, LLC is designed to produce and preserve affordable housing opportunities that advance economic mobility for low- and moderate-income people by providing residents with access to employment, quality education and health care resources.
- *A market-based solution for advancing fair housing* - The challenges to developing affordable housing in areas with higher incomes and greater access to opportunities are not limited to cost. Community opposition expressing a Not In My Back Yard (NIMBY) sentiment toward low-income people and racial minorities can make it difficult to steer a project through public approval processes such as rezoning or securing public financing. NIMBY-motivated community opposition tends to be stronger around projects with a larger number of units. The NALCAB Catalyst Fund I, LLC produces housing that is affordable to low- and moderate-income people in areas with higher incomes and greater access to opportunity, by investing in property without public subsidy and developing smaller projects that do not require rezoning. This approach minimizes the leverage of NIMBY-motivated opposition.
- *Effectively targets Latino communities* – The last recession dealt a major blow to the promise of social mobility and economic integration for low- and moderate-income people, and had a particularly devastating impact in Latino communities.⁴ The gap between rich and poor is now getting wider, and that gap strongly correlates with race and ethnicity.⁵ The fact that Hispanics are the nation’s youngest and fastest growing major population segment and are struggling to rebuild their wealth in the post-recession era is a pressing macroeconomic concern that requires local solutions. There are very few social investment strategies that have the strategic intent and practical capability to deliver benefits in predominately Latino communities. Through its integration with highly-experienced, Latino-led, non-profit housing developers, the NALCAB Catalyst Fund is an innovation in the social investment field – a local solution to a major macroeconomic challenge.

1 <http://economics.harvard.edu/news/new-research-mobility-studies-profs-chetty-hendren-and-katz>
http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pes_assets/2013/mobilityandthemetropolispdf.pdf
https://www.macfound.org/media/files/HHM_Moving_to_More_Affluent_Neighborhoods_Improves_Health_and_Happiness.pdf

<http://www.urban.org/research/publication/benefits-living-high-opportunity-neighborhoods>

2 http://www.equality-of-opportunity.org/images/nbhds_paper.pdf

3 <http://www.macfound.org/programs/how-housing-matters/strategy/>

4 A Pew Research analysis of the Great Recession reports that from 2005 to 2009, median net worth fell by 66% among Latino households, compared with just 16% among white households.

http://www.pewtrusts.org/-/media/assets/2015/07/fsm-irs-report_artfinal.pdf?la=en

5 Kochhar and Fry. [Wealth inequality has widened along racial, ethnic lines since end of Great Recession](http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/), Dec 2014. <http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/>

Policy

Throughout the PRO Neighborhoods grant period, NALCAB actively communicated with the US Treasury CDFI Fund, with a particular focus on how the CDFI Fund could achieve more equitable investment in diverse communities. NALCAB was among a group of organizations that made significant policy efforts to achieve greater equitable investment by the CDFI Fund. NALCAB submitted a letter to the Director of the CDFI Fund describing our overall policy recommendations and has responded to numerous requests for public comments. Significant changes in the 2016 CDFI funding round were consistent with NALCAB’s recommendations and resulted in more equitable funding to CDFIs that address the financing needs of highly underserved populations as well as for developing CDFIs. All of the NALCAB PRO Neighborhoods CDFI Consortium partners secured funding from the CDFI Fund in the 2016 round.

NALCAB has actively engaged in advocacy efforts to ensure strong appropriations for the CDFI Fund. NALCAB’s Executive Director has also participated in round tables and public events organized by the Urban Institute, the MacArthur Foundation and the JPMC Foundation related to the CDFI field and housing investment strategies. Further, the Ford Foundation and the JPMC Foundation co-hosted a convening with NALCAB at the Ford Foundation in January 2015 to address issues of equitable investment in Latino communities and to highlight the NALCAB Catalyst Fund strategy.



Impact in Communities

By the end of 2016, the direct investments made using the \$6 million provided by the JPMC Foundation resulted in 81 mortgages for LMI homebuyers, the creation or preservation 269 units of affordable housing and investments in 16 businesses resulting in 505 jobs.

CDFI Partner	Affordable Mortgages	Units of Affordable Housing (Created/ Preserved)	Jobs Created/ Retained Through Small Business Lending
Affordable Homes of South Texas, Inc.	81	N/A	N/A
Colorado Housing Enterprises -CRHDC	N/A	7 transactions/ 212 units	2 loans/ 6 jobs
Préstamos - CPLC	N/A	N/A	14 loans/ 499 jobs
NALCAB & NALCAB Catalyst Fund I, LLC	N/A	4 transactions/ 57 units	N/A
TOTAL	81 mortgages to LMI households	11 transactions/ 269 units	16 loans/ 505 jobs

Success Story – Affordable Homes of South Texas, Inc.

First-time Homebuyer Esmeralda Zuniga: AHSTI provided a path to homeownership for Esmeralda Gutierrez Zuniga. “As a single mother, it is never easy. Sometimes, I wasn’t sure how I would be able to pay the rent or buy food for the week.” Working through AHSTI’s financial fitness program, she was able to save money for a down payment, budget and provide for her children.

My kids have their own backyard now. Watching them laugh and play as they run around is the most rewarding feeling.



Success Story – Préstamos

Milam Glass Company: One of the first loans Prestamos provided through the JPMC fund, was to Alex Nevarez, who, after 20 years of working at a Milam Glass Company was provided a loan to purchase the business from the retiring owner. At the time, Mr. Nevarez was not bankable as he had filed bankruptcy several years earlier due to insurmountable medical bills.



Today, Alex and his business are doing well and he is bankable. Alex was able to get financing approved from a bank to build his own new headquarters as he has outgrown his current leased facility.

Success Story – The NALCAB Catalyst Fund I, LLC

The story of the Alianthus Cooperative dates to 2005 when the continued neglect of the building by consecutive landlords and the rapid loss of affordable housing in Northwest DC, galvanized the residents to purchase the eight unit building with assistance from Mi Casa, Inc. – a nonprofit housing development organization and NALCAB member.

The residential building is located in the heart of the Columbia Heights neighborhood where the average income has increased from \$75,000 in 2000 to more than \$113,000 in 2012. The percentage of Latino residents dropped from 25% in 2000 to 21% in 2010 and the percentage of Black residents also fell from 47% to 33%; while the percentage of White non-Hispanic residents increased from 24% to 40% during the same time frame.

Soon after the cooperative purchased the building, but before they could close on construction financing for rehabilitation, the consequences of the Great Recession stalled the financing for the project. Almost a decade later, with the senior lender threatening foreclosure, the Catalyst Fund stepped in with short-term financing to save this deal and preserve the eight units of permanently affordable housing.

“When our building was bought in 2003 by a landlord that was only interested in flipping it without investing anything into the building, it became clear that we as a community within the building had to act to change our own circumstances. We have put so much time and effort in trying to rehab our building that I would like to see it through.”

– Secretary of Alianthus Cooperative

Success Story – Colorado Housing Enterprises

Sol Naciente Farmworker Housing: A short-term predevelopment loan was made to Southwest Development for pre-development costs associated with Sol Naciente, a 49-unit farmworker housing development in Fort Morgan, Colorado. The loan from Colorado Housing Enterprises (CHE), allowed Southwest Development to pay for final architectural designs, updated environmental reviews and other items that need to be completed prior to the funding of the construction loan on the development. This loan was leveraged by funds from the USDA, Boston Capital and the Colorado Division of Housing. The full amount of leverage for this project is \$12 million. Sol Naciente closed on its permanent financing in late May 2015 and the project broke ground on June 11, 2015. The loan was paid back in full to CHE by the end of July 2015.

This loan was leveraged by funds from the USDA, Boston Capital and the Colorado Division of Housing. The full amount of leverage for this project is \$12 million.



Dvorak Rafting and Kayak Expeditions: Dvorak Rafting and Kayak Expeditions, is located in the scenic Arkansas River Valley at the headwaters of the Arkansas River in Colorado, a business since 1985, the Dvorak's own the first outfitter's license issued by the state of Colorado. The full loan amount allocated to Dvorak Expeditions is \$200,000, with \$150,000 of which is funded through the USDA IRP Program and \$50,000 of which is from the revolved JP Morgan Chase funding. Funding this business loan improved Dvorak Expeditions business operations, allowed the owners to get the roof replaced, purchase updated inventory (vehicles and rafting equipment), upgrade the business marketing campaign for the 2015 season, and pay off revolving debt.

Collaborative Member - Affordable Housing of South Texas, Inc. (AHSTI)

Deployment of JPMC Grant Funding	Leverage	Amount Leveraged
Warehouse line for mortgages sold to LMI buyers, 20 loans	Transaction level leverage for 20 Loans. Lines of credit from private banks, City of McAllen, Hidalgo County- Urban County Program, Texas Dept. of Housing and Community Affairs, AHSTI program income	\$2,808,213
	Recapitalization by selling 18 of 20 first mortgages to a secondary market buyer (Self Help Credit Union)	\$1,381,239
	Recapitalization by selling 61 first mortgages to a secondary market buyer (Self Help Credit Union)	\$4,982,489
	<i>Balance Sheet Leverage</i> - CDFI Fund FA Award 2014	\$1,500,000
	<i>Balance Sheet Leverage</i> - EQ2 BBVA Compass	\$5,000,000
	<i>Balance Sheet Leverage</i> - CDFI Fund FA Award 2016	\$500,000
		\$16,171,941

Collaborative Member - Colorado Housing Enterprises, Community Resources and Housing Development Corporation

Deployment of JPMC Grant Funding	Leverage	Amount Leveraged
Overland Trail, LLC: Short-term construction loan for multi-family housing development	<i>Transaction-level leverage</i>	\$1,500,000
Community Pathways – Single family preservation	<i>Transaction-level leverage</i>	\$900,000
Sol Naciente: Short-Term Pre-Development Loan for Multi-Family Housing	<i>Transaction-level leverage</i> - Boston Capital, USDA, Colorado Division of Housing	\$12,000,000
Southwest Development Corp. Modular Housing: Revolving Line of Credit	<i>Transaction-level leverage</i> - Conventional mortgage financing is source for take-out	\$300,000
Goplen Glass: Business Loan	<i>Transaction-level leverage</i> - Colorado DOT relocation reimbursement to business repaid half of the loan	\$50,000
Dvorak Rafting and Kayak Expeditions: Business Loan	<i>Transaction-level leverage</i> - Colorado DOT relocation reimbursement to business pays ¾ of the loan	\$150,000
Montaña Azul Phase 5: Self Help Housing Project	<i>Transaction-level leverage</i> - USDA, Mutual Self Help; HUD SHOP, NALCAB Rural Revolving Loan Fund	\$4,200,000
San Luis Valley Farmworker Housing Coalition	<i>Transaction-level leverage</i> - Market Study Pre-Development loan	\$3,000,000
The Schoolhouse	<i>Transaction-level leverage</i> - 4% LIHTC school redevelopment project in Fort Morgan, CO (pre-development loan)	\$20,000,000
	<i>Balance Sheet Leverage</i> - Bank of the West EQ2	\$500,000
	<i>Balance Sheet Leverage</i> - CDFI Fund FA Award 2016	\$1,250,000
	<i>Balance Sheet Leverage</i> - USDA0 RMAP and IRP for Small businesses in rural Colorado	\$794,000
	<i>Balance Sheet Leverage</i> - Wells Fargo –EQ2	\$500,000
		\$45,144,000

Collaborative Member - Préstamos, Chicanos Por La Causa (CPLC)

Deployment of JPMC Grant Funding	Leverage	Amount Leveraged
14 small business loans	<i>Transaction-level leverage</i>	\$ 9,615,735
	<i>Balance Sheet Leverage - Lending capital from Dignity Health (5 yr. at 3%)</i>	\$1,000,000
	<i>Balance Sheet Leverage - Alliance Bank (5 yr. at 3%)</i>	\$2,000,000
	<i>Balance Sheet Leverage - Nordstrom Bank (5 yr. at 2%)</i>	\$2,000,000
	<i>Balance Sheet Leverage - SBA Accelerator Award</i>	\$50,000
	<i>Balance Sheet Leverage - VEDC Loan</i>	\$750,000
	<i>Balance Sheet Leverage - CDFI Fund FA Award -2016</i>	\$1,500,000
	<i>Balance Sheet Leverage - USDA Community Facility Relending Program (40 yr at 2.63%, 5 yr. draw period)</i>	\$20,000,000
	<i>Balance Sheet Leverage - SBA Microloan Capital (10 yr at .375%)</i>	\$1,250,000
	<i>Balance Sheet Leverage - OCS CED Grant- Capital for Small Business Equity Investments</i>	\$500,000
		\$38,665,735

Collaborative Member - NALCAB, NALCAB Catalyst Fund I, LLC

Capital Investors	Leverage	Amount Leveraged
The Sustainability Group of Boston	Mixed Debt and Equity Investment	\$1,400,000
Meadows Foundation of Dallas	Equity Investment	\$100,000
The Resurrection Project of Chicago	Equity Investment	\$100,000
US HUD Rural Capacity Building Loan Fund	Grant for lending	\$800,000
		\$2,400,000



NALCAB

Copyright © 2017
National Association for Latino Community Asset Builders,
All rights reserved.

NALCAB is a 501(c)3 nonprofit organization.

NALCAB.ORG

Our mailing addresses are:

5404 Wurzbach Rd.
San Antonio, Texas 78238

910 17th St Suite 500-C
Washington, DC 20006.

JPMORGAN CHASE & Co.