

COMMUNITY LENDING PEER BENCHMARKING STUDY

MIE National Conference

December 5, 2022



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Agenda

- Survey Objectives
- Participant Characteristics
- Lending Programs and Sources of Capital
- Policies, Procedures and Governance
- Lending Activity & Performance
- Program Satisfaction and Challenges
- Table Discussion



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Peer Benchmarking Objectives

Objectives

- Annual source of peer benchmarking data for foundation leaders and practitioners
- Identify common and best practices
- Support informed design and decision making
- Activate more pools of capital for impact through community investment

Methodology

- Collaboration between **Community Capital Advisors** and **Mission Investors Exchange**
- Invitation to participate sent to MIE and FAOG members and various state councils/alliances for distribution to their foundation members
- Survey conducted September-November 2022. Survey data as of June 30, 2022



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Respondent Characteristics

20 Participants

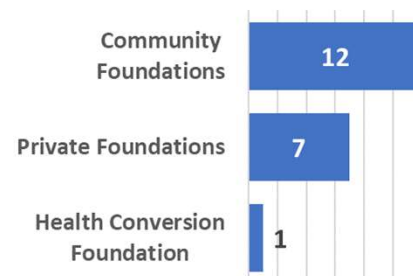
Geographically Diverse:

California, Colorado, Florida, Indiana, Kansas, Maine, Michigan, Minnesota, Nebraska, New Hampshire, New York, Ohio, Oregon and Texas

Program Launch

All respondents started their program within the last 10 years

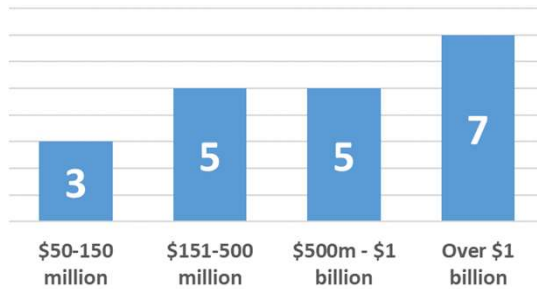
Participants by Type



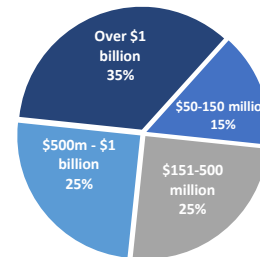
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Diversity of Participant Asset Size

Number of Respondents by Asset Size



Respondents by Asset Size

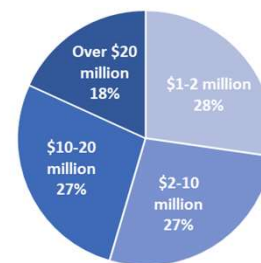
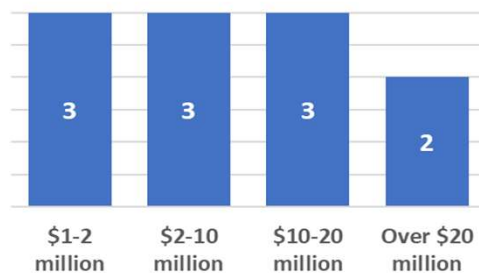


Regardless of size, all respondents wish they had more resources to support their place-based lending efforts.



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Lending Program Size (6/30/22)



N = 11

Average committed: **\$11 million**

Average number of loans: **9**

Average deployed: **\$8.8 million**

Largest program: **\$28 million**

Range of loans: **1 to 25**

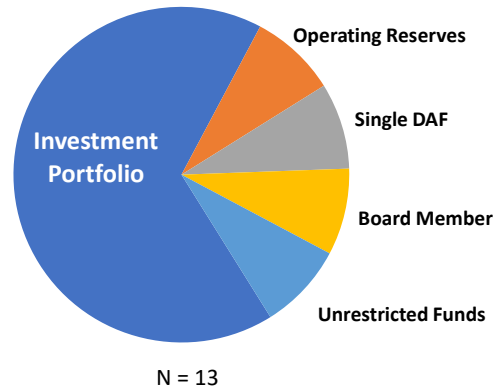


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Sources of Loan Capital

Initial Sources

- Most began with a carve out from their investment portfolio
- Others reported tapping operating reserves, DAFs, board members and unrestricted funds
- None reported using a portion of the annual grant budget



Ongoing Sources

- Most will continue to use the same sources of capital for ongoing funding
- Community foundations have used or plan to use DAFs as the ongoing source of capital



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Motivations for Launching Loan Program

In rank order:

- | | | |
|--|---|--|
| 1. Advance racial equity and social justice | } | 1. Address societal needs |
| 2. Respond to community need and capital gaps in our region | | |
| 3. Utilize investment capital to extend our impact | } | 2. Extend our impact |
| 4. Drive greater donor engagement in local community investment | | |
| 5. Attract and activate external capital for greater impact | } | 3. Engage donors and activate other pools of capital |
| 6. Utilize donor advised fund capital for greater community impact | | |
| 7. Deepen engagement and expand network of investees | | |

Designing loan programs with effective strategies for engaging DAF capital and/or activating other pools of capital is key to extending impact, filling capital gaps and advancing social justice goals.



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Policies, Procedures and Governance



Lenders will need to add more formal structures and governance as their lending programs grow in size, complexity and impact.

- **65% to 70%** of respondents have an investment policy and both financial and impact reporting in place
- **Only 50%** report having formal procedures and process maps in place
- **35% or less** have committee charters, underwriting guidelines or risk rating systems in place



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Staffing and Infrastructure

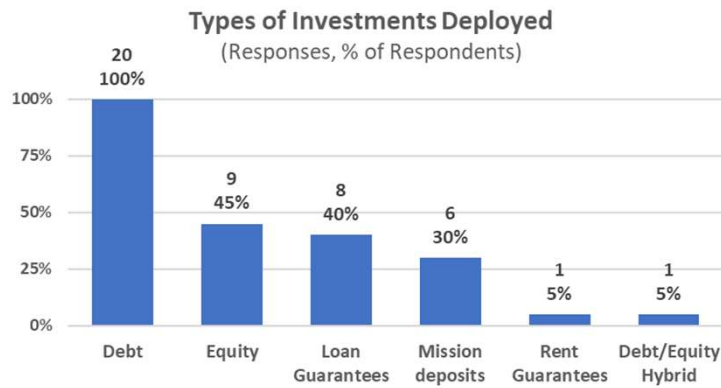
- Most foundations have 1 to 3 staff members involved in administering the loan program
- Two large foundations reported having as many as 8 to 9 staff members involved
- Most foundations are using Excel to manage their loan portfolios.
- Other systems being used include iPhi, Fluxx and AIIMS



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Types of Investments Deployed



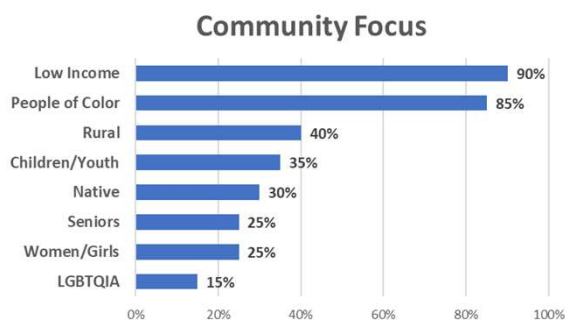
Just under half of all survey respondents reported making other types of investments besides loans (debt), including mission-aligned cash, loan and rent guarantees and equity.



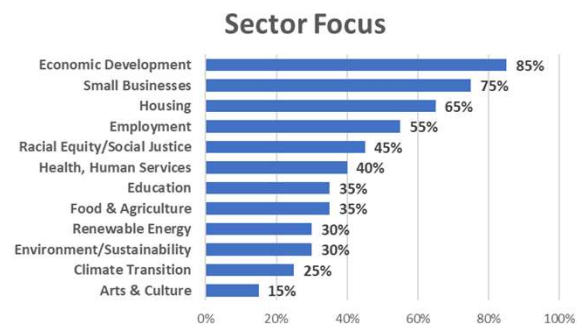
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Areas of Lending Focus



- Most foundations report a strong focus on supporting communities of color and low-income populations.
- Only 3 foundations reported a focus on supporting the LGBTQIA community.



- Correspondingly, top sector areas of focus include economic development, small business lending and affordable housing.
- Climate, sustainability, renewable energy and the environment collectively also rank highly.

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Interest Rate Charged to Borrowers

Rates to Borrowers

- Rates ranged from **0% to 12%**
- Average interest rate of **2.7%**
- Most mentioned rate is **3%**
- Many offer loans at **1%**
- None charge an origination fee to the borrower

3%
Median
Interest
Rate

Technical Assistant Support (out of 19 respondents):

- 5 offer TA grants regularly (26%)
- 9 offer TA support occasionally (47%)
- 5 do not offer TA grants at all (26%)



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Loan Program Performance

- No loan delinquencies over 90 days reported
- 3 foundations reported write-offs ranging from \$65,000 to \$1 million
- Most foundations do not have a loan loss reserves, while two foundations reported having a dollar amount and/or % tied to risk levels
- Most foundations do not hold specific collateral and structure loans as general recourse to the borrower

➤ *Nearly all respondents plan to increase lending over the next 12 months*



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Impact Measurement & Management

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Like many impact investors, study participants are also trying to figure out how to best measure, monitor and report on the impact on their investments.

Respondents reported the following:

- 4 are currently not measuring or reporting impact
- 4 are currently researching different methodologies
- 5 have internal evaluation teams to support IMM
- 2 are using existing IMM frameworks such as UN SDGs and the Impact Management Project



For those that are reporting impact, most report annually.



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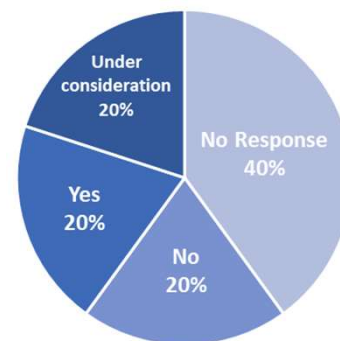
Lending Practices to Minimize Bias

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Only 4 respondents report having underwriting practices in place to minimize racial bias, while 4 more are currently considering it.

Practices mentioned include:

- Actively seeking higher risk and below market rate return opportunities in and led by BIPOC communities
 - Lending only to minority-owned businesses
 - Demographic data of constituents served is reviewed
 - Demographic data of the leadership of the borrowing entities is reviewed
- Opportunity for lending programs to more formally adopt practices that eliminate bias from their or their intermediary's underwriting processes.



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Satisfaction & Challenges

Foundations are **mostly satisfied** with their lending programs, indicating “mostly happy” or “somewhat happy” with results.



Limited capacity to manage the program is the most frequently mentioned challenge, including aspects of:

- Balancing internal capacity with community need
- Identifying suitable investments and growing the pipeline
- Moving multiple opportunities through to the committee stage
- Agreeing on what risks to take



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Looking Forward

Study participants expect to do more of the following in the months ahead:

- Expanding pipelines and lending
- Increased focus on impact measurement
- Engaging more DAFs
- Developing more intentional policies
- Creating a new fund



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Looking Back

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**What do you wish you had known before you started?
What you would have done differently?**

- Spent more time building systems to track payments to we could spend less time “chasing checks”
- Thought deeper about the opportunities and challenges created by the sometimes-long time gap between commitment of capital and actual draws
- Thought more about how to incorporate origination fees
- Nothing: we built the program iteratively incorporating learning and best practices along the way
- Pursued more TA along the way – it’s a long journey without it
- Secured dedicated staff and advisors earlier in the impact investing journey



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Participate in the Study It's not too Late!

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<https://www.surveymonkey.com/r/Q8VGNJB>



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Table Discussions

- What did you find most interesting or surprising?
- What information was most useful and why?
- Where would you like more detail or qualitative insights?
- What would make future benchmarking studies most useful to you?

Please assign a scribe, your notes will be collected afterwards.



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Study Sponsors

Mission Investors Exchange is the leading impact investing network for foundations dedicated to deploying capital for social and environmental change. With over 200 members, we provide resources, inspiration, and connections to help our members increase the scale and impact of their impact investing practice. Members come to Mission Investors Exchange and each other for best practices, new investment opportunities, deal partnerships, and innovations in impact investing around the world. missioninvestors.org

Community Capital Advisors helps foundations and mission-driven organizations maximize their impact by prudently aligning their investment capital, policies and practices with their mission to advance racial equity, inclusive economies, sustainable growth and healthy communities. We offer expert guidance through the entire process of designing, implementing and administering equity-focused, place-based investment strategies. We draw on experience and insights from a team of “been there” practitioners with in-depth community investing experience and commitment to racial equity, innovative thinking and action in the field of philanthropy. communitycapitaladvisors.us



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