Expanding the Geographic Reach of Community Investment: The IFF Case Study

CAPITAL ABSORPTION SERIES | October 2013

INITIATIVE FOR RESPONSIBLE INVESTMENT

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This case study has emerged from a body of research on the capacity of places to effectively draw private investment to public purpose in low-income communities. We call this body of work **capital absorption capacity for community investment**.

Capital absorption focuses on the things that enable a community to be effective at developing and executing investments that benefit low-income communities. Capital absorption comprises the intersection of public, private, and civil society actors as they look to create shared goals, build a supportive environment for community investment, develop a pipeline of investable opportunities, and identify systemic interventions that help turn one-off investment opportunities into patterns of support for community investment.

Key to this discussion has been analyzing institutions that serve as community investment intermediaries and the role they play in linking private investment strategies to the larger systems that make investing for the benefit of low-income communities possible. A range of institutions can play this role including community development financial institutions (CDFIs), banks, national banks, and development corporations. However, in many places, while the institutions may be present, we are learning they may not be serving a community investment intermediary role, are only engaging in specific sectors, or are working at a relatively small scale.

For these reasons, there are communities that reach out to non-local investment intermediaries to perform this connecting function. But the entrance of outsiders has to take place within the context of the local ecosystem, and much of the hard work of community investment is built on local knowledge and community ties that outsiders will need to understand and navigate to be successful and increasing the flow of useful investments to low-income communities.

Capital absorption is the work of Living Cities, in conjunction with the Initiative for Responsible Investment at Harvard University. Learn more and access other resources in the series at **LivingCities.org**.

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INTRODUCTION

In 2006, IFF – a community development financial institution (CDFI) formerly known as the Illinois Facilities Fund – made a strategic decision to expand its operations from Illinois to five markets in four neighboring states. This case focuses on the expansion into three places: Milwaukee, St. Louis, and Indianapolis.

IFF's expansion offers a window into a set of key questions about a city's community investment climate as well as how community investment intermediaries such as CDFIs can enter into and engage local communities. These include:

- How does a CDFI prepare to enter a new market?
- What does it take for a CDFI to successfully enter a new market?
- What factors make a market ripe for entry by an "outsider" CDFI?
- What can leaders in places do to support the success of an entering CDFI?

The case draws on interviews with and material from IFF together with a series of interviews with investors, their investees, community advocates, and the philanthropic and public sectors, in each of the three expansion markets. We identify lessons from the IFF experience that may be useful for CDFIs when considering where and when it makes sense to increase their geographic reach by expanding into new areas. We also share insights about how leaders in a city can support a CDFI's expansion into their market.

IFF AND THE DECISION TO EXPAND

IFF AT A GLANCE

FOUNDED	**1988** (as Illinois Facilities Fund)
ASSETS	**$234 million** (EOY 2012)
MISSION	To support nonprofit organizations through affordable financing, real estate consulting, research, and public policy.

IFF is a nonprofit CDFI based in Chicago, IL which had approximately $234 million in assets at year end 2012. Founded in 1988 as the Illinois Facilities Fund, IFF's primary mission is to support nonprofit organizations through affordable financing, real estate consulting, research, and public policy.

Until 1997, when it launched its real estate development consulting practice, IFF's main product was a long-term, below-market rate loan for capital projects and equipment. Since 1997, IFF has also expanded its work to include research and policy initiatives, a strong charter school finance practice, a public-private child care center development/redevelopment program, and an integrated development and finance program for community health centers.

The story of IFF's geographic expansion over the past 25 years is one of measured growth, moving from Chicago to broader reach in Illinois, and eventually expanding into markets in neighboring states. This approach allowed IFF to build the internal structures and processes necessary to handle institutional growth while also allowing for flexibility when encountering local variation or unexpected changes in market conditions.

In-State Expansion

As the Illinois Facilities Fund, IFF was focused primarily on nonprofits operating in Illinois. Most of its borrowers were in or near Chicago, reflecting the population distribution of the state. A few loans had been done out of state on an as-needed or as-requested basis, but the vast majority of loans and services were offered within Illinois.

The idea of a geographic expansion was first seriously broached in 2003 when IFF staff suggested expansion into the nearby markets of St. Louis, Missouri and Milwaukee, Wisconsin. Staff had identified these nearby markets as having nonprofits with a potential need for expanded access to capital. IFF also had been involved with funders and investors in these communities who frequently encouraged expansion since there were not always local CDFIs providing similar products and services.

At that time, IFF's Board rejected the proposed expansion. The Board explained that until IFF had demonstrated that it successfully met the needs of the market in the state of Illinois—and not just Chicago—they were not comfortable with expanding out of state.

Between 2003 and 2006, IFF focused its work on Illinois, establishing a marketing department, opening a second office in Peoria to more easily serve the central and southern part of the state, and undertaking some internal restructuring to build broader geographic capacity. Expanding the geographic reach of services and the loan portfolio spurred financial restructuring and the development of new ways of funding, improvements in internal technology, and other structural, administrative and personnel adjustments that enabled IFF to handle a larger loan portfolio.

In 2006, when IFF's loan portfolio matched the distribution of nonprofits in the state (two-thirds in the Chicago metropolitan area, one-third outside of it), IFF staff again presented the idea of an out-of-state geographic expansion to the Board and received support to explore the option.

Assessing Where to Expand Out of State

In designing an expansion plan, IFF staff began by analyzing prospective expansion sites, initially focusing on metropolitan areas with a substantial pool of nonprofits in states that bordered Illinois. In addition to a market survey of nonprofits, IFF also considered if there were CDFIs or local banks providing similar loans, the culture of the business and philanthropic communities, and the level of engagement in community development. It's notable that government engagement in community investment was seen as important, but not essential, to IFF in their expansion assessments.

In addition to quantitative and qualitative market assessments, IFF leadership, primarily then President & CEO (now President) Trinita Logue and then Vice President of Lending (now CEO) Joe Neri, engaged in exploratory conversations with community leaders in targeted metropolitan regions throughout 2006. IFF leadership met with potential borrowers, philanthropic leaders, private sector executives, and government officials as well as potential collaborators, which included other CDFIs. These conversations served as informal market research about the nonprofit sector and also presented IFF with an opportunity to gain the trust of the community, and test the need for its products and services via personal relationships.

IFF asked the same general set of questions in each meeting. They focused on identifying if there was demand for IFF's products, determining if IFF would be welcomed, learning how nonprofits were currently financing their facilities, understanding existing barriers to financing (if they existed), and finding answers to other sector-specific nonprofit and facilities market research questions. These conversations typically ended with names of other people in the area to speak to, which also served as a proxy for the engagement of the interviewee with broader nonprofit or community investment field.

Ultimately, internal market research on the nonprofit and CDFI communities in bordering states, coupled with 75 interviews, led IFF to identify five initial target markets: Milwaukee, WI; St. Louis, MO; Gary/Hammond, IN; Indianapolis, IN; and the Quad Cities on the border of Illinois and Iowa. These areas were chosen because IFF believed there was unmet demand for their products; supportive stakeholder communities; and an opportunity to use these targeted markets as springboards into serving nonprofits throughout their states.

This analysis led to the development of IFF's REACH plan (see Appendix A), a business plan laying out the four-state strategy that focused on building up a base in cities prior to cultivating a broader statewide presence. This plan provided the guiding premise for IFF as it moved from Illinois into other Midwestern states.

ILLINOIS OFFICES

EXPANSION SITES

SITES CONSIDERED FOR EXPANSION

Early Days of the Expansion

In each of the target markets for expansion, IFF met with as many nonprofits as possible, developed partnerships with potential referral sources, met with government and elected officials, and identified investment sources to support additional lending. In IFF's plan, origination, underwriting, closing, and monitoring of loans in expansion markets would occur through the Chicago and Peoria offices until the loan volumes could sustain the operations of additional offices.

Initially, **Milwaukee** was prioritized as the first site for expansion because existing demand from nonprofits, previous engagement from IFF, the proximity to Chicago, and a list of potential partners suggested a specific set of opportunities. IFF thought that the **St. Louis** market would take longer to develop because it was less experienced working with CDFIs than Milwaukee, and the city was further from IFF's Illinois offices. IFF believed that the **Gary/Hammond** metropolitan area would be the most difficult site for expansion because it had relatively little experience with CDFIs and no champion like a United Way that could help facilitate market entry. Similarly, **Indianapolis** was seen as a difficult market to enter, thanks to low estimated demand for debt and a potential lack of strong partnerships.

But these early views of each place changed as IFF deepened its connections within the expansion sites. August 2007 updates to the REACH plan, reflecting expansion efforts in 2006-2007, noted that "foundations, government and banks are excellent sources of information about the nonprofit sector, and potential financial partners to IFF…still we are faced with complexity as we learn that the CRA[1] climate, the community development climate, and government organization and processes are different in each state." The process of entering new markets highlighted these differences. Identifying and tackling these issues, which were not obvious from the market surveys, would prove important to IFF's success.

Internal Preparations

The process of preparing for and executing its expansion strategy had significant implications for IFF internally. To move from being substantially focused on Illinois, with its headquarters and one other office in the state, to being able to serve the needs of a five-state region required a variety of operational, staff, and budget adjustments. Beyond "putting its house in order," IFF had to think strategically about the daily needs of running a multi-state organization.

1 CRA is shorthand for the Community Reinvestment Act, title VIII of the Housing and Community Development Act of 1977, 91 Stat. 1147, 12 U.S.C. § 2901 et seq. It is a federal law designed to encourage commercial banks to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods.

A major lesson of the expansion experience for IFF was that the whole organization must be prepared, as the addition of distance into operations brings significant complications.

On Board advice, IFF recognized that headquarters in Chicago had to take some significant steps forward to be able to operate successfully in other states. As it prepared for its expansion, IFF rethought its infrastructure. It upgraded its **information technology** systems based on a recommendation in a third-party ratings assessment by the Opportunity Finance Network[2] known as the CARS report. It also revamped its **communications strategy**.

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In addition, IFF recognized that the expansion would require **staff adjustments**. This included the creation of new positions as well as retraining existing staff. New positions created as a result of the expansion included Vice President of Public Policy and Communications, Vice President of New Initiatives, Assistant Director of Marketing, Director-Wisconsin Office, and loan officers positions in St. Louis and Milwaukee. In a number of cases, existing staff were shifted into the new positions. In many cases, staff training intersected with operational changes, particularly with regards to the adoption of new technology. While time consuming, advancing staff capacity was crucial to allowing IFF to make the jump to being a multi-state organization.

Finally, the expansion required significant **budgetary changes**. Beyond the costs of upgrading capacity, the expansion put additional pressures on IFF's budget over a significant period of time. To support the expansion, IFF increased its travel budget and relied on its existing capital to fund the growth of loan activities. Once they actually had staff on the ground in the expansion markets and ramped up the lending process, they broadened their capital sources, which also took a significant amount of time to grow.

In moving to a multi-office, multi-state organization, interviewees insisted that IFF was able to maintain its basic culture, although Chicago-based staff had to broaden their outlook. Communications among dispersed staff remains the most important challenge, along with managing the smaller offices and ensuring they have adequate support from headquarters. The initial focus on using existing staff to meet the lending and other business needs of these new communities, rather than setting up entire offices from the outset, helped to ease this transition from one office to multiple.

2 CARS, the CDFI Assessment and Rating System, is a comprehensive analysis of community development financial institutions, carried out by the Opportunity Finance Network, that aids CDFI investors and donors in their investment decision-making. (http://www.opportunityfinance.net/store/downloads/cars_set.pdf)

IFF EXPANSION EXPERIENCE IN MILWAUKEE, ST. LOUIS, AND INDIANAPOLIS

As IFF expanded into Milwaukee, St. Louis, and Indianapolis, the organization encountered diverse conditions and generated different results. The expansion helps us better understand how institutions and places interact, in the context of community investment. **What about the history, culture, infrastructure, politics, leadership and community of each city informs how community investment functions and how new institutions can grow or expand into new communities?**

The sections that follow are snapshots of IFF's experience in Milwaukee, St. Louis, and Indianapolis based on loan data, interviews with IFF staff, and interviews with community development stakeholders in each market. Each snapshot communicates four pieces of the story:

- IFF's expectations prior to entering the market.
- What actually happened when IFF entered the market.
- Market background that contextualizes and illuminates IFF's experience.
- How IFF engaged with the community development and investment communities in each market.

Milwaukee: Developing a Specialized Niche

IFF's expansion into Milwaukee was seen as a natural first step in the geographic growth of the organization. The city is less than two hours from IFF's central office in Chicago, and the work of underwriting loans and building relationships in Milwaukee could be managed from Chicago.

Business in Milwaukee started slower than IFF expected, with just 3 loans worth under $2 million cumulatively made in 2006. However, IFF's business has grown substantially, with 29 loans made in 2010 and 2011 combined worth nearly $22 million.
(For more information, see Appendix B.)

CITY BACKGROUND

Stakeholders in Milwaukee described the city as a relatively underdeveloped community investment market, with affordable housing as the primary focus of activity. Headline-generating failures of housing nonprofits and CDCs in particular in the 1990s had reduced both the public sector and the banking community's engagement on community development issues through the 2000s. Interviewees referred to the 1980s as a more active period for community investment.

In interviews, local banks were described as relatively disengaged with community investment, averse to nonprofit lending except in cases where personal and institutional connections – bankers serving on boards of directors, for instance – built trust. Post-financial crisis, there have been stricter collateral assessments on real estate loans, and increased skepticism about repayment from public sector revenues (such as federal Medicaid payments) or philanthropy, which are seen as subject to political risk or to cuts in uncertain economic and political times.

MILWAUKEE AT A GLANCE

POPULATION	597,867 (2011)
NONPROFITS	2,704*
IFF Forecasted Loans/Amount, 2007-2009	15/$4,500,000

*In the metro area w/ revenues >$25k

Though Milwaukee did not have a reputation as a particularly robust market for community investment, the market did have stakeholders that could be potential partners. This included community development corporations (CDCs) and other CDFI lenders in Milwaukee, most of which are smaller than IFF and focused on affordable housing development and small business lending. A notable exception is that Milwaukee has an active Local Initiatives Support Corporation (LISC) office that is valued for its work on neighborhood development.

Unlike the other expansion cities, a CDFI that lends exclusively to nonprofits, the Madison-based Forward Community Investments, did have a small footprint in Milwaukee. In addition, there was some limited philanthropic interest from foundations both in neighborhood development and program-related investments.

Milwaukee also had had some success with the public sector supporting community investment in the years preceding IFF's expansion. One example frequently cited by interviewees was the redevelopment of the Menomonee Valley area of the city, where extensive brownfield redevelopment and real estate investment led to business growth in an underserved area. The City of Milwaukee, the Menomonee Valley Business Association, and the Milwaukee Metropolitan Sewerage District developed a land use plan in 1998 that mapped out sustainable redevelopment of the area, and created a nonprofit, public-private partnership organization to shepherd the vision through.

IFF ENGAGEMENT IN MILWAUKEE

Interviewees universally identified the chief barrier to expansion as the skepticism that Milwaukee, as a community, holds for Chicago-based institutions. Local leaders described Chicago institutions parachuting in without local ties or a commitment to long-term community investment. Milwaukeeans feared these institutions might undermine local efforts at community investment without building longer term relationships and capacity in the city.

Interviewees universally identified the chief barrier to expansion as the skepticism that Milwaukee, as a community, holds for Chicago-based institutions.

IFF worked to address this barrier by building lending partnerships with existing institutions based on the belief that the difference in scales of operation could make for complementary roles in particular deals, and a division of labor in taking on different size deals. But the partnership approach proved time consuming, both in terms of building the trust and formal relationships necessary to make such partnerships possible, and in identifying deals where such partnerships would make the most sense.

Over time IFF has built up its Milwaukee operations, including a sizeable real estate consulting practice. Interviewees pointed to three things that have allowed IFF to establish itself in Milwaukee.

1. **Establishing a local presence.** With support from the Walton Family Foundation, IFF was able to hire additional staff and build up the local office in Milwaukee and add real estate consulting services, which reduced the suspicions about a Chicago organization over time. This process was accelerated by hiring someone to work locally who had been in the area for a while and already had established relationships in the community.
2. **Catalyzing efforts about high-performing schools.** IFF completed research quantifying the unmet demand for high-performing schools. Leveraging a core competency that IFF brought from its work in Illinois, it catalyzed efforts to increase development of new schools focusing on both replication of successful Milwaukee schools and attraction of outside operators.
3. **Filling a unique market niche.** IFF engaged in research and local policy advocacy around initiatives impacting charter school development and financing, including rules for opening empty public facilities for non-District school use that fueled momentum around growth of the sector. IFF's experience in school lending, where Milwaukee had relatively little capacity, created a market niche that IFF could fill that also gave the organization additional visibility.

While IFF's work in Milwaukee was not exclusively focused on schools, interviewees did emphasize the importance of that work in IFF's ability to build capacity and gain trust in the market.

St. Louis: Building a Community Base

The St. Louis market was somewhat familiar to IFF, as the organization had completed a few loans in St. Louis and in nearby areas of Illinois in years before expansion took place. Expansion into St. Louis was meant to move beyond incidental investments into a fuller engagement in the region. **IFF's growth in St. Louis has been relatively steady, with loan numbers in the double digits in 2009-2011, and a cumulative loan total between 2007 and 2011 of $38 million, the highest of any of the expansion markets.** (For more information, see Appendix B.)

CITY BACKGROUND

According to local practitioners, community investment in St. Louis is an underdeveloped field. Though they note having some strength in affordable housing development, practitioners believe development has been hindered by municipal fragmentation.

There are 91 municipalities in St. Louis County, scattering resources and making larger scale community investment complicated. Within the city itself, there are 28 wards, and a fragmented system for distributing resources – such as federal Community Development Block Grant money – that encourages competition rather than collaboration. This approach does not support sustained planning and redevelopment efforts, which local practitioners view as necessary to scale community investment.

A similar pattern exists in the St. Louis philanthropic community – a number of smaller foundations provide important support for children, health, arts and culture but few focus on community development and investment. The lack of a large, dominant foundation or foundations interested in community development may also help explain why community investment institutions have not emerged with the assets, expertise, products and relationships to achieve scale. There have been efforts, particularly in the county, to organize philanthropic support for community investment. These efforts also have used IFF's expansion as a way to encourage discussion about community investment generally.

ST. LOUIS AT A GLANCE

POPULATION	**318,069** (2011)
NONPROFITS	**2,704***
IFF Forecasted Loans/Amount, 2007-2009:	**18/$6,300,000**

*In the metro area w/ revenues >$25k (Missouri only)

Interviewees suggested that the sizeable local banking community is not particularly focused on community investment, with tight underwriting standards for nonprofits and a conservative CRA investment community. In part, the lack of community development activity may be traced back to the 1930s, when local urban redevelopment laws were instituted that allowed for-profit developers to act on behalf of cities. According to one interviewee, this led to a separation between government and urban redevelopment, and may have contributed to a lower profile role for nonprofit organizations in this work.

IFF ENGAGEMENT IN ST. LOUIS

Interviewees emphasized the importance of building community ties and trust with local leaders, engaging with them on the role that community investment might play in support of civic or philanthropic goals. Early visits from Trinita Logue and Joe Neri, the top executives at IFF, proved important in signaling long-term interest and commitment to the area. Continuous local engagement and finding the right community leaders to meet with were both important to this process.

Multiple interviewees highlighted the import of the United Way of Greater St. Louis, which is the fifth largest United Way in the country, and in particular the capacity-building opportunities it has created for local nonprofits by linking them to the local business community. Given its size and reputation, IFF's relationship with the United Way was important because it opened doors to community leaders.

IFF's assessment of St. Louis was that it had an underdeveloped community investment infrastructure. However, it also understood that the city had a strong non-profit network, with significant potential effective demand for lending. IFF's efforts to tap into this existing network gave them a solid base to work from.

Another important engagement strategy for IFF was establishing a local office from which staff could build a presence in and connections to the community. Early on, IFF dedicated part of an existing, Chicago-based staff member's time to be on the ground on a regular basis in St. Louis as its representative in local community engagement. Having an individual in St. Louis able to speak to IFF's interests and become the face of IFF in the city went a long way to demonstrating commitment and gaining trust in the city. Eventually, the staffer relocated to St. Louis full-time.

Another important engagement strategy for IFF was establishing a local office from which staff could build a presence in and connections to the community.

IFF's development as a St. Louis institution was seen by interviewees as relatively rapid. This change may be attributable both to the relationship building mentioned previously as well as to the recognition in St. Louis of the capacities that IFF could bring to the city that were missing there. The ability to lend in sectors beyond affordable housing, to work at larger scale, and to engage community lenders on the topic of community investment seem to have been important elements. More generally, interviewees pointed to the expansion as an opportunity to raise the profile of community development finance in St. Louis.

Indianapolis: Slower Development and Integration

IFF had less previous experience working in Indianapolis prior to expansion than it had before entering the Milwaukee and St. Louis markets. The decision to focus on Indianapolis rested largely on potential demand for loans from nonprofits, a robust philanthropic community, and, outside of housing (and affordable mortgage lending in particular) a dearth of community investment intermediaries, particularly those that provided the kind of financing provided by IFF.

Deal flow in Indianapolis has been relatively low, with only 22 deals completed between 2006 and 2011, worth a cumulative $15 million. Only four loan applications from Indianapolis were received by IFF in the early years, even after marketing attention equal to that of St. Louis and Milwaukee. (See Appendix B for more information.)

CITY BACKGROUND

Interviewees from Indianapolis highlighted the public sector's engagement on downtown revitalization over the past decades, with stable commitment across mayoral administrations and party politics leading to what is widely seen as a successful downtown redevelopment. The city has actively used Tax Increment Financing districts to complete infrastructure and other projects for redevelopment.[3]

Though there has been less attention paid by the public sector to community investment in Indianapolis, there has been public support for work that required the sort of multi-sector engagement and agenda setting often associated with community investment. In particular, the experience of hosting the 2012 Super Bowl has created a multi-sector platform that turned its attention to community development in underserved areas adjacent to the Near Eastside Legacy Center, aided by significant new resources brought to the city by the event.

INDIANAPOLIS AT A GLANCE

POPULATION	836,924 (2011)
NONPROFITS	2,704*
IFF Forecasted Loans/Amount, 2007-2009:	8/$2,800,000

*In the metro area w/ revenues >$25k

3 Tax increment financing, or TIF, districts are a policy tool used by cities to subsidize community-improvement projects like infrastructure or environmental remediation. In TIF districts, public authorities issue bonds against the anticipated future tax gains generated by the funded projects, when completed.

The city's philanthropic community is large and active relative to the city's size. The Lilly Endowment in particular plays a vital role in the economic life of the nonprofit community, though it does not focus on affordable housing and charter schools. Interviewees suggest that this has had important impacts on the use of debt financing for capital projects. The Lilly Endowment is not an active mission investor or a consistent major capital project funder outside of its support for the United Way of Central Indiana's Capital Fund, and interviewees noted that it has discouraged its grantees from taking on debt. The nonprofit community in Indianapolis has found ways to fund capital projects by working with others in the philanthropic community on fundraising for facilities financing.

The banking community in Indianapolis is dominated by regional and national banks, with few homegrown institutions. In recent years a few of these banks have become more active in community investment but interviewees do not see community investment as a bank priority.

The field of community development investment has focused largely on affordable housing finance, with mortgage financing vehicles and a number of affordable housing developers and CDCs that engage in development. The development work has tended to be neighborhood-based and relatively small scale. Like their nonprofit counterparts, for-profit real estate developers engaged in community development work have tended to be smaller scale. The federal tax credits that support larger scale investments of these sorts are scarce in Indianapolis. Low-Income Housing Tax Credits are unavailable, and projects typically are too small to use New Markets Tax Credits.[4] The local office of LISC has supported dialogue around the future of neighborhoods in the city and is seen as an important center for agenda-setting as well as capital for community investment.

IFF ENGAGEMENT IN INDIANAPOLIS

IFF had relatively less success engaging stakeholders in Indianapolis when it first entered the market compared to St. Louis and Milwaukee. Receptivity to IFF's inquiries on product interest, potential clients, and prospective collaborators was lower than in the other communities. Meetings with community leaders and stakeholders were cordial, but did not lead to substantive engagement.

IFF identified the following key challenges to its expansion in Indianapolis:

- a need to build trust and relationships in the community,
- the relative dearth of facilities financing needs due to the focus on philanthropic solutions, and
- IFF's lack of physical presence in Indianapolis.

4 The Low-Income Housing Tax Credit (LIHTC) is a federal tax credit that supports affordable housing development. The New Markets Tax Credit (NMTC) is a federal tax credit that supports investments in U.S. Treasury-certified Community Development entities, which invest in low-income communities.

To address these challenges, IFF decided to build presence in the community by committing to have someone on the ground, and opened an office in Indianapolis in the summer of 2012. Also, IFF identified a significant need for its real estate services in Indianapolis. Rather than beginning with loan activity as it had in other markets, in Indianapolis IFF will focus on real estate investment and policy work, where there are clearer matches between the market's needs and IFF's skills. From these efforts, IFF is hoping to work towards community relationship building.

Forecasted versus Actual Results in IFF Expansion Markets

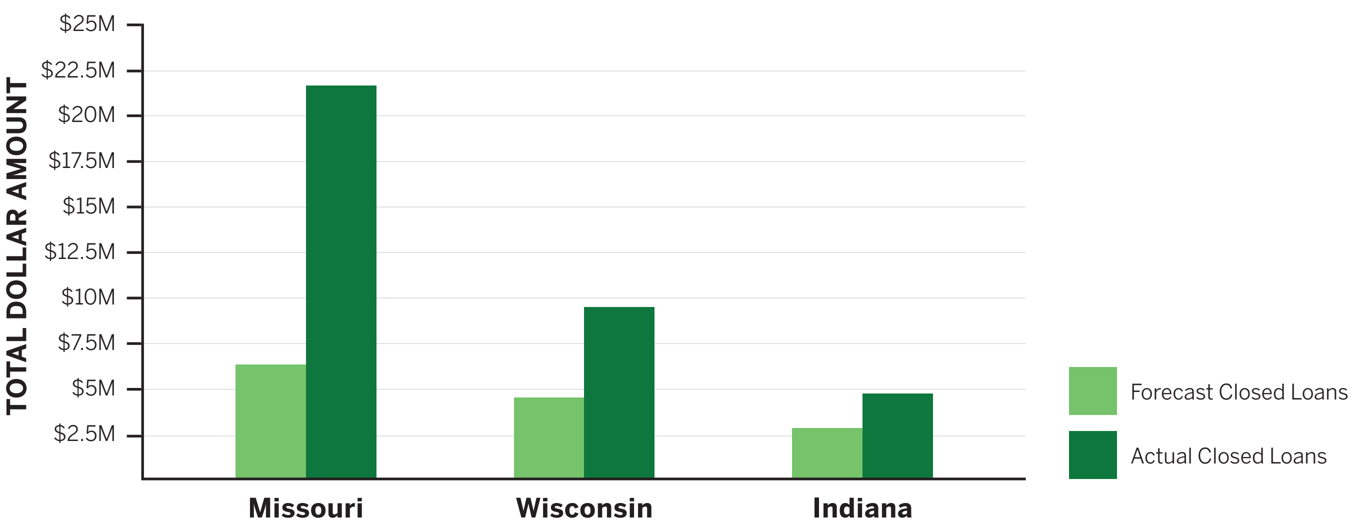
Despite having dissimilar experiences expanding into each market, IFF was able to exceed its own forecasts in terms of both the number of loans it made, and the total dollar amount of those loans in Milwaukee, St. Louis, and Indianapolis. However, there were differences among the markets in terms of how significantly they exceeded expectations. And the variability between the actual results in the three markets was much greater than the difference between the forecasted results.

IFF CLOSED LOANS, 2007-2009

	FORECASTED		ACTUAL		PERCENTAGE ACTUAL / FORECASTED	
State	**# of Loans**	**Total $ Amount**	**# of Loans**	**Total $ Amount**	**# of Loans**	**Total $ Amount**
Missouri	18	$6,300,000	44	$21,771,737	244%	346%
Wisconsin	15	$4,500,000	22	$9,551,184	147%	212%
Indiana	8	$2,800,000	11	$4,720,900	138%	169%

Source: IFF

COMPARISON OF FORECASTED VS. ACTUAL CLOSED LOANS, 2007-2009 (TOTAL $ AMOUNT)



WHAT CAN CDFIS LEARN FROM IFF'S EXPANSION?

Though all three of the markets featured in this case are Midwestern cities relatively close to IFF's home office of Chicago, each city had its own distinct environment for community investment. The differing community development climates in each market impacted the ability of IFF to reach out through networks of clients, investors, and civic leaders to establish a presence.

The lessons on geographic expansion that come out of IFF's experience highlight the importance of engaging community leaders, fully understanding customers and their financial needs, thinking strategically about market mapping, and demonstrating serious commitment to the local market and integration with home operations. These lessons include:

- **Identifying and filling gaps in the market helps overcome local bias.**

  The easiest way to expand into a community and gain the trust of key partners is to identify a niche which local stakeholders acknowledge needs to be filled. Particularly if an institution is not indigenous, a business plan and market focus that duplicates or is perceived to duplicate existing activities may not be financially successful, and may antagonize key stakeholders in the local community. Finding a gap in the market and filling it well helps overcome any local bias against outside institutions and proves an institution's usefulness to the community.

- **Having a physical presence in the market demonstrates commitment and raises an organization's profile.**

  Despite having previously decided only to open a local office if loan volume reached a self-sustaining level, and despite consulting advice that claimed nonprofits didn't need their lenders to be located locally, having a physical presence was key to IFF's success. While it may not have been required by its clients, physical presence demonstrated that IFF was committed to being a part of the community and to helping it grow and develop. It also raised IFF's profile in the community, enabling staff to attend local meetings and providing a point person for prospective partners and clients. Regular physical presence opens doors and strengthens relationships in a way that visiting solely for marketing purposes does not.

Engaging with leaders in many sectors is key for sourcing deals and integrating into the community.

By engaging with an array of leaders, an institution entering the market can get buy-in and raise its profile with potential clients and partners. As with most activities, many community investment transactions are the result of personal relationships, so making connections with community leaders is important to sourcing deals and integrating into the community. Engaging with community leaders is also a useful tool for gaining a greater understanding of market's history and how it operates.

Balancing a strategic plan and adaptation to market realities is essential.

While having a strategic plan is important to guiding expansion activities, being willing and able to adapt quickly and thoughtfully to unexpected circumstances will help ease an expansion process. IFF experienced unique stresses on its internal structures as a result of the expansion, which required accelerating hiring while also trying to meet loan volume demands. Expansion also required modifications to how the organization operated: for instance, IFF's initial lending program was built on foundation subsidy, which it did not yet have in expansion communities. The skills necessary to adapt to the differing demands of local communities while maintaining core business activities requires concerted attention and flexibility. Additionally, internal practices may need to change as institutions learn from their expansion locations—expansion will work best when communications and discussion flows in two directions, not just from headquarters out.

Entering a new geographic market is easier when it is close to home, or where there is a preexisting relationship.

IFF's targeted locations were close to its home state—all the cities we discussed in this case are located in contiguous states. There are advantages to choosing expansion locations that are relatively accessible from headquarters—costs of travel, which can be substantial, are lower; monitoring is easier; and there may already be some familiarity with a relatively nearby place. IFF had already done a few loans in St. Louis and Milwaukee prior to its expansion. Going to a place where staff or board members have existing relationships that can be leveraged may also be a way to establish a foothold more easily.

These keys for success also have implications for local leaders interested in supporting the entry of high-capacity community investment organizations into their markets. In particular, local leaders identifying areas where the local ecosystem appears to be struggling or less developed and devoting time and resources to building it up may help a new organization enter and begin their work more efficiently and with greater impact. Additionally, facilitating personal relationships and cross-sector engagement will foster collaboration and smooth the road to investment activity. These are time- and resource-intensive practices, and they require strategic commitment.

The experience of IFF's expansion suggests that there are ways for the community investment world to strike a balance between scale and capacity on the one hand, and local ties and knowledge on the other. But it also reinforces the notion that close community ties and geographic presence are fundamental to community investment in practice. This is a lesson not only for CDFIs considering expansion, but also for communities who wish to build community investment capacity. Creating local structures that facilitate interaction around community investment may make it easier for actors who aren't locally-based – who have something to bring to the table – to engage with and become part of local community investment ecosystems.

The experience of IFF's expansion suggests that there are ways for the community investment world to strike a balance between scale and capacity on the one hand, and local ties and knowledge on the other. But it also reinforces the notion that close community ties and geographic presence are fundamental to community investment in practice.

QUESTIONS FOR DISCUSSION

1. If you were in the executive leadership at IFF, what would you have wanted to know about a market before entering it? How would you have gone about getting that information?

2. If you were a leader in one of the cities that IFF was entering, what could you do to help them succeed?

3. If you were an IFF Board Member, what questions would you have about the expansion strategy?

4. What would you have expected IFF's results to be?

5. How should IFF evaluate if its expansion is a success?

APPENDIX A: EXECUTIVE SUMMARY IFF REACH EXPANSION PLAN 2006

EXECUTIVE SUMMARY

After market research of nonprofit agencies and community development financial institutions and over 75 meetings and interviews with nonprofit, association, foundation, government, and private sector representatives, the IFF has embarked on an expansion of its lending services to the four states adjoining Illinois. The IFF's target market remains nonprofits that serve or are located in low income communities and that lack access to traditional commercial sources to meet their needs.

EXPANSION COMMUNITIES

The IFF will expand its lending services to four states adjoining Illinois and focus on five target areas:

STATE	Target Areas
Missouri	St. Louis Metropolitan Area
Iowa	Quad Cities Metropolitan Area
Wisconsin	Milwaukee/Kenosha Metropolitan Areas
Indiana	Gary/Hammond and Indianapolis Metropolitan Areas

OPERATIONS

The IFF will market, originate, underwrite, close, and monitor loans through a combination of the Chicago, Peoria, and future offices:

STATE	Marketing	Origination/ Underwrite	Close	Monitor
Missouri	Chicago	Peoria, St. Louis in 2008	Chicago	Peoria, STL in 2008
Iowa	Chicago	Peoria	Chicago	Chicago, Peoria
Wisconsin	Chicago	Chicago	Chicago	Chicago
Gary/Hammond	Chicago	Chicago	Chicago	Chicago
Indianapolis	Chicago	Chicago, TBD after 2008	Chicago	Chicago

The IFF will add a Loan Officer to the Peoria office in 2007 to allow the Central Illinois Director of Lending to focus attention on the Missouri and Iowa markets. The IFF will increase travel expenses for senior staff to continue to develop relationships in the expansion states and allow Loan Officers to travel to borrowers. Expenses related to PR and marketing strategies will also be increased in 2007.

After reaching a $6 million portfolio in Missouri, it is anticipated that in 2008 the IFF will add a Missouri Lending Director and loan office in St. Louis.

KEY PARTNERSHIPS

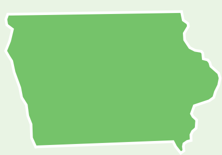
In each of the expansion areas the IFF will pursue partnerships that extend the geographic reach or support in-depth market penetration to special sectors. Presently, the IFF has or will form working relationships with the following agencies:

MISSOURI

United Way of Greater St. Louis (UW) – The UW will schedule and host IFF presentations and workshops. The UW will feature the IFF in its newsletter and work on additional opportunities for the IFF to reach out to its extensive membership, which extends into southern Illinois.

Missouri Primary Care Association (MOPCA) – The IFF and MOPCA will work on a loan program for its membership to leverage state funding and bridge gaps in financing for the memberships Information Technology plan.

IOWA



United Way of the Quad Cities (QCUW) – The QCUW will schedule and host IFF presentations and workshops to its membership and the greater nonprofit community.

WISCONSIN

Partners for Advancing Values in Education (PAVE) – In partnership with PAVE, the IFF will lead 50/50 participation loans for nonprofit choice and charter schools expansions. PAVE will assist IFF market facility improvement and equipment loan products through scheduling and hosting presentations and workshops for Milwaukee schools.

Forward Community Investments (FCI) - The IFF and FCI have created a standard Facility Loan product. FCI and the IFF will originate participation loans up to $1 million with up to a 15 year terms to nonprofits throughout Wisconsin.

Local Initiatives Support Corporation – Milwaukee (LISC) – LISC will refer facility loans to the IFF and will participate in community development loans in LISC planning communities.

PROJECTED LOAN ESTIMATES[5]

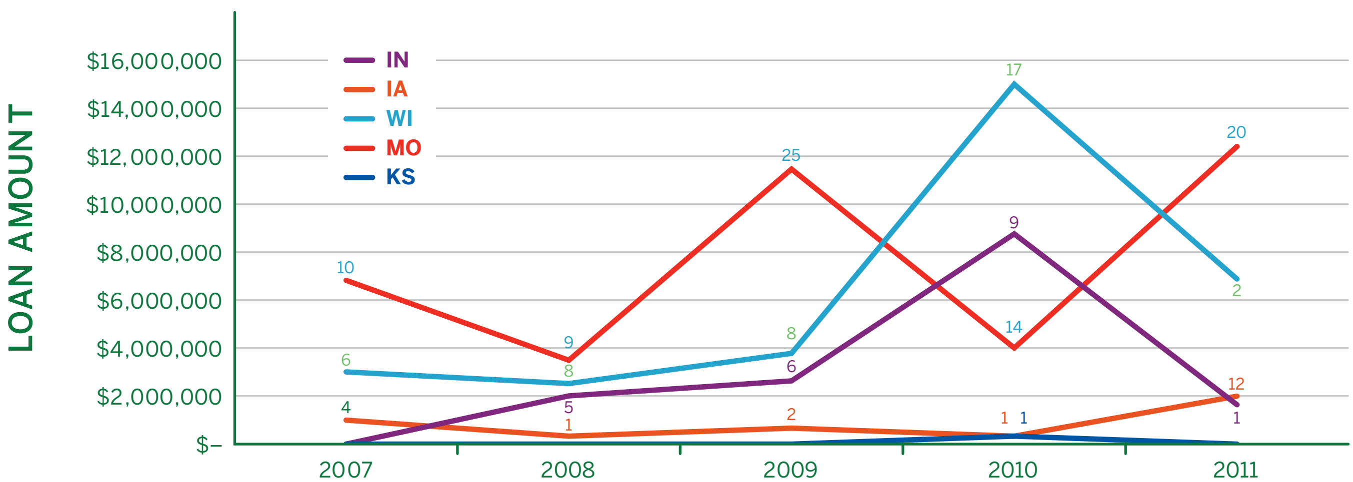
The IFF will market, originate, underwrite, close, and monitor loans through a combination of the Chicago, Peoria, and future offices:

STATE	2007 Closed Loans #/ Total $	2008-2009
Missouri	8 / $2,800,000	10 / $3,500,000
Iowa	4 / $1,400,000	4 / $1,400,000
Wisconsin	7 / $2,100,000	8 / $2,400,000
Indiana	3 / $1,050,000	5 / $1,750,000
TOTAL	**22 / $7,350,000**	**27 / $9,050,000**

5 To compare to actual experience, see Appendix B.

APPENDIX B: IFF ANNUAL LOAN CLOSINGS DATA[6]

LOAN CLOSINGS OUTSIDE OF ILLINOIS 2007-2011*



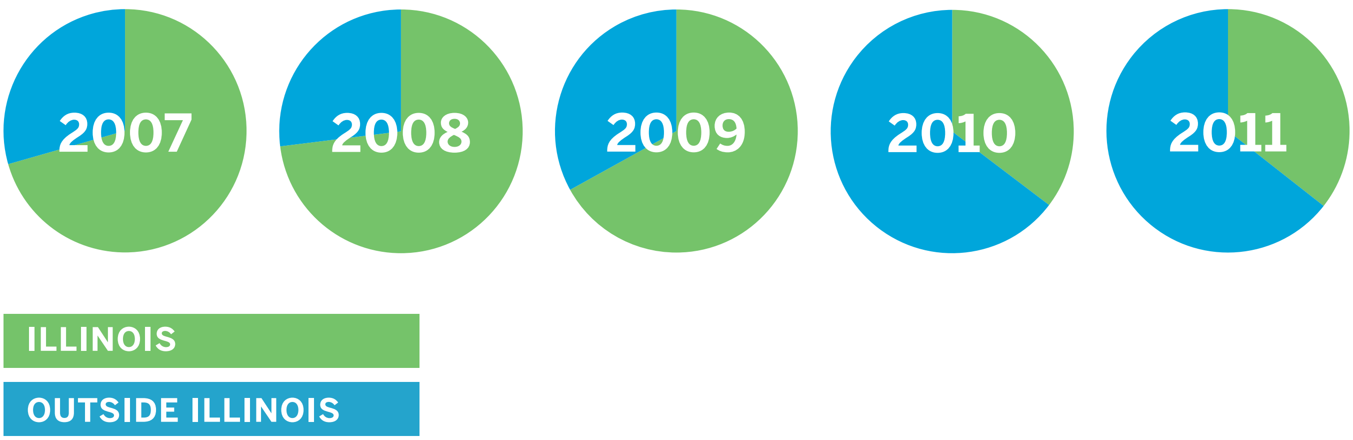
*As of December 31, 2011

ALL IFF LOAN CLOSINGS 2006-2011

	IL	IN	IA	WI	MO	KS	TOTALS
2006	$29,155,148.52	$-	$451,000.00	$1,892,200.00	$453,000.00	$-	**$31,951,348.52**
2007	$26,359,967.84	$-	$1,040,000.00	$3,131,000.00	$6,817,755.90	$-	**$37,348,723.74**
2008	$23,216,486.51	$2,085,900.00	$377,000.00	$2,582,999.60	$3,527,781.10	$-	**$31,790,167.21**
2009	$37,654,121.04	$2,635,000.00	$676,000.00	$3,837,184.24	$11,426,200.00	$-	**$56,228,505.28**
2010	$15,572,757.67	$8,846,242.57	$308,750.00	$14,995,717.91	$4,016,867.35	$350,000.00	**$44,090,335.50**
2011	$12,683,719.22	$1,740,000.00	$1,900,000.00	$6,928,211.00	$12,317,111.21	$75,000.00	**$35,644,041.43**

6 Data, table, and charts source: IFF

IFF LOAN CLOSINGS INSIDE AND OUTSIDE ILLINOIS, 2007–2011



	ILLINOIS	OUTSIDE ILLINOIS
2006	$29,155,148.52	$2,796,200.00
2007	$26,359,967.84	$10,988,755.90
2008	$23,216,486.51	$8,573,680.70
2009	$37,654,121.04	$18,574,384.24
2010	$15,572,757.67	$28,517,577.83
2011	$12,683,719.22	$22,960,322.21

ABOUT THE INITIATIVE FOR RESPONSIBLE INVESTMENT

The Initiative for Responsible Investment at the Hauser Institute for Civil Society at Harvard University serves as a research center on fundamental issues and theories underlying the ability of financial markets to promote wealth creation across asset classes, while creating a stronger society and a healthier environment. The IRI accomplishes its mission by developing and presenting original research, providing a platform for dialogue, and taking practical action around issues of importance to the responsible investment community.
Learn more at: hausercenter.org/iri

ABOUT LIVING CITIES

Founded in 1991, Living Cities is an innovative collaborative of 22 of the world's largest foundations and financial institutions. In 20 years, Living Cities members have collectively invested almost $1 billion, helping shape federal funding programs, redirecting public and private resources, and helping communities to build homes, stores, schools, community facilities and more. However, our members are not simply funders. They shape our work and priorities by participating on the Living Cities Board of Directors, four standing committees and three working groups. In sum, our members contribute the time of 80-plus expert program staff toward improving the lives of low-income people and the cities where they live. Learn more at: LivingCities.org

To learn more about capital absorption, please contact **Robin Hacke**, Director of Capital Innovation, Living Cities at rhacke@livingcities.org or **David Wood**, Director, Initiative for Responsible Investment at David_Wood@hks.harvard.edu

To learn more about IFF, visit their website: iff.org.

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