



# **The Bloomington Project**

## A New Approach for Expanding CDFI Coverage in Smaller Markets

A White Paper  
Explaining the *CDFI Friendly City*<sup>™</sup> Model

"CDFI Friendly City<sup>™</sup>" and "CDFI Friendly Cities<sup>™</sup>" are trademarked by MPinsky LLC d/b/a Five/Four Advisors.



## Summary

In 2016 and 2017, community leaders in Bloomington, Indiana, saw the need for financing for a range of purposes in forms more flexible, risk-tolerant, and creative than seemed available from banks and other conventional sources. In particular, they saw small businesses, including startups, commercial real estate projects, and affordable housing deals stalled by limited access to financing.

Bloomington Mayor John Hamilton, who had worked for much of his career as an executive or board member of a community development financial institution, or CDFI, suggested that a CDFI could help meet the community's needs. Bloomington is a city of almost 85,000 people, approximately half of whom are students at Indiana University. The City is the economic center of Monroe County and of the Southwest Central Indian Region, with a total population of about 400,000.

A Bloomington CDFI Working Group initially explored two options:

- Starting a new CDFI serving Bloomington and possibly the region (the *de novo* option), and
- Recruiting a CDFI working elsewhere to open an office in Bloomington (the partnership option).

The Bloomington Urban Enterprise Association (BUEA), a quasi-governmental economic development group, and the Community Foundation of Bloomington & Monroe County (the Foundation) each pledged \$75,000 (a total of \$150,000) to support exploration and development of a CDFI.

The Working Group asked Five/Four Advisors, with extensive experience in the CDFI industry, to help.

Discussions centered on the size of the Bloomington and regional markets, the range of financing opportunities and needs, the likely costs of each option over a 3-5 year period (including support for operations and capital for financing), the time it would take for a new CDFI to get up to speed, and the challenge of finding a single partner CDFI that could meet the range of financing needs.

The Working Group added to its options the possibility that it could use its resources and civic capacity more efficiently to reach out to, encourage, and incent CDFIs nearby and across a broader geography to finance opportunities in Bloomington. That idea came to be known as the "CDFI Friendly City™" option.

Follow-on conversations with multiple CDFIs found strong interest in the CDFI Friendly City™ option. Over the past 6-8 years, many CDFIs have sought to expand their geographic and market coverage. They were acting in response to perceived demand where no or few CDFIs were working, what was known as gaps in coverage. One constraint for the CDFIs is the high overhead costs of operating in multiple cities or locations.

Through a series of discussions, the Bloomington community and Five/Four Advisors developed both a model for the CDFI Friendly City™ approach and a process for establishing one.



In January 2018, Bloomington's CDFI Working Group opted to officially become a CDFI Friendly City™ while continuing to explore the potential for a standalone CDFI in the future.

*This White Paper describes the approach Bloomington took, key lessons it learned, and the criteria that emerged for classifying a place as a CDFI Friendly City™. It also suggests the potential for the model to benefit others of the thousands of cities and towns in the United States with populations less than 100,000, as well as related rural areas.*

It concludes that the model developed in Bloomington, replicated and improved over time by other places, could:

- Help thousands of communities and millions of people gain access to valuable and elusive financing for small business, commercial real estate and housing;
- Facilitate and significantly lower the costs for CDFIs to expand their coverage and increase their financing activity into new, underserved CDFI markets;
- Give CDFI investors expanding opportunities and attract new investors who have previously lacked knowledge of and opportunities to invest in CDFIs; and
- Leverage in new and productive ways the tight resources that governments in most cities and communities must manage prudently and efficiently.

As Bloomington Mayor Hamilton said during his community's process, "Every city is trying to invest its public dollars in the best ways possible, and there are some things we, as smaller communities, are never going to achieve on our own. CDFIs are great at some of those things. It only makes sense to find the best possible ways to get them working together."

## **The Bloomington Process**

### *Assessing Community Understanding & Interest*

Leaders in Bloomington convened a series of small local meetings in August 2017 involving more than 20 local representatives to discuss local demand and need for CDFI financing. Each meeting began with a brief explanation of what CDFIs do and how they do it. A critical challenge in Bloomington was improving understanding of CDFIs so that local business, civic, and community leaders could assess whether they would benefit the local and regional market.

The CDFI Working Group had started to raise awareness of CDFIs earlier in 2017, and the August discussions were the first of two steps to assess whether CDFI financing could help the local market and whether there is sufficient demand in the local market to support one, two, or three of the options the Working Group was considering.



The participants in the August conversations<sup>1</sup> consistently expressed a high level of interest in what a CDFI strategy might do for the city, its residents, and the surrounding region. Five/Four Advisors analysis of those meetings included a series of key takeaways.

#### *Key Takeaways from Bloomington Conversations*

*Interest was High.* Across almost all conversations, people volunteered support for further work toward a CDFI strategy. This was consistent among financial institutions, funders, and investors; affordable housing and community service advocates; nonprofit leaders, educators; business owners and leaders; and public officials.

*Knowledge of CDFIs was Low,* due to lack of exposure and experience. The CDFI model was a vague concept to most of the people. Their questions were consistently on point and insightful, however, reflecting what seemed to be genuine desire to figure out if CDFIs could strengthen the fabric of the local community and the economy, particularly the emerging tech economy.

Two factors stood out during the conversations:

- *First*, it is difficult for people who have not seen CDFIs in action to understand the power of the model to stimulate innovation, creative solutions, and change. CDFIs believe that supply (of flexible, patient capital driving innovation derived in part through the national CDFI network) creates its own demand for projects that might not have otherwise seemed worth considering and for approaches that include low-income, low-wealth people in the community's economic progress.
- *Second*, as in many cities and places, there seems to be little focus on strategies that prioritize creating opportunities for underserved people and communities, save for traditional government approaches and nonprofits. CDFIs work to create inclusive prosperity.

*The community is rich in talent and related expertise and experience.* A CDFI or a CDFI strategy would draw on a deep pool of people with the range of skill sets that are key to success—finance, economic development, nonprofits, economic and demographic inclusion, entrepreneurship, real estate, and more. The presence of Indiana University seemed to make a significant difference in the pool of talent to draw on. Several people focused on governance from a range of perspectives; Bloomington's community would provide the expertise and experience necessary to effective CDFI governance.

Bloomington seems to have a small but active advocacy community on behalf of typical CDFI populations—low-income, low-wealth, and other historically underserved communities. The community draws on collaborations among financial institutions, business leaders, and community leaders, as well as Mayor Hamilton's experience starting and leading a CDFI in a distressed and racially diverse community in Washington, DC.

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<sup>1</sup> A list of participating organizations is included in Appendix A.  
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*Demand for CDFI Financing Exists*, though the scale of the demand was not clear from the Bloomington meetings. There appeared to be demand for affordable housing finance, small business finance, and commercial real estate finance. The scale and scope of the demand was not clear, however, absent CDFIs actively assessing the financial viability and mission potential of each project.

The type, size, timing, and nature of demand is fundamental to answering the set of questions the community faces; for example,

- Is there sufficient demand to support a *de novo* CDFI?
- Is the demand in a particular asset class (e.g., affordable housing) that would guide the community's CDFI strategy?
- Can the community support a multi-asset class CDFI, i.e., one that directs support both to affordable housing and to small business, for example?
- How can we compile an inventory of potential CDFI type projects that would help the Bloomington community, as well as potential partner CDFIs and potential CDFI investors, assess the opportunity?

*The community seemed eager to support action.* The risk of taking next steps was low and the potential upside was high. Many people asked about next steps and everyone seemed in favor of proceeding. The next steps needed to get into the details to inform understanding about CDFIs and the community's decisions about how to proceed.

*Local banks in and around Bloomington expressed interest* in bringing CDFIs to Bloomington, and wanted a better understanding of how CDFIs supplement and complement ongoing bank lending and services. Local banks were active members of the Bloomington CDFI Working Group.

### *Assessing CDFI Interest*

Based on community's clear interest in bringing CDFIs to the region, community, the Bloomington CDFI Working Group was eager to learn more about CDFIs and the level of their potential interest in working with and in Bloomington and South Central Indiana. With guidance from Five/Four Advisors, Working Group representatives met in Washington, DC, with nine (9) CDFI industry leaders, including CDFI executives, CDFI investors, and CDFI funders.<sup>2</sup> Each CDFI was selected for a specific reason relative to Bloomington—their markets, their asset focus (eg., small business), their strategies, and/or their size (by assets and lending volumes).

The level of interest among most CDFIs for working in and around Bloomington was high, and the broader question of how CDFIs could do more in smaller markets like Bloomington was notable among all CDFI participants. Many CDFIs are eager to expand their markets and to reach markets that

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<sup>2</sup> The list of participants in those meetings are presented in Appendix C.  
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are difficult for them to serve; the economics of the CDFI business make it difficult to support operational costs in places where the need is real but the demand is low.

This runs parallel to the challenges many mainstream banks have serving smaller markets. For that reason, banks are interested in helping CDFIs expand their coverage because CDFIs can better serve smaller markets than the mainstream banks can.

Most of the CDFI industry participants in the Washington, DC, meetings enthusiastically agreed to travel to Bloomington for a meeting focused on the CDFI Friendly City™ model. All endorsed the value of the meeting.

### *Engagement: Joining Together*

On Wednesday, November 8, 2017, the Bloomington community hosted a meeting of approximately 50 local representatives and CDFI industry leaders with two goals:

- To help the Bloomington CDFI Working Group decide its CDFI strategy, and
- To explore in depth the issues related to increasing CDFI financing in smaller markets and small cities including rural areas

The prior evening, CDFI visitors took a 90-minute tour of the City, including looks at some of the potential financing opportunities the Working Group had compiled (see Appendix F for a list and brief write-ups of the opportunities).

The meeting was structured to increase bilateral understanding and to culminate in concrete discussions about opportunities, issues, challenges, and next steps. (See Appendix E for a copy of the agenda.)

## **Implementation**

The November 8 convening in Bloomington generated bilateral interest among CDFIs and Bloomington entities in most, if not all, the opportunities the Bloomington community had summarized for the CDFIs. Several are in negotiations and at least one seems likely to close in early 2018.

Based on the work to date as well as the CDFI response to opportunities in Bloomington, the CDFI Working Group chose in January 2018 to implement a CDFI Friendly City™ strategy immediately and to also consider a *de novo* small business CDFI as part of that strategy. The Community Foundation of Bloomington & Monroe County and the Bloomington Urban Enterprise Association, the funders, agreed to allocate unused funding to support implementation.

The Community Foundation agreed to serve as fiscal sponsor for the start-up enterprise and its Board of Directors authorized creation of a fund to receive, hold, and disburse operating funds. It is



anticipated that a new entity would eventually assume the role played by the Community Foundation. The Community Foundation is not intending to be the operating parent indefinitely for the effort. In the interim, the oversight board for the operating entity comprises Members of the CDFI Working Group in Bloomington.

The Community Foundation also began (as of February 2018) developing a “financing” fund to hold and allocate money from the City, from private philanthropies, and/or from banks to financing opportunities in and around Bloomington alongside CDFIs. The form of those investments—i.e., credit enhancements, interest rate write-downs, direct investments—will be resolved based on market conditions. The Community Foundation drew from the expertise of the Indiana Philanthropy Alliance and the John D. and Catherine T. MacArthur Foundation, a leader in community development and CDFI financing.

The Community Foundation expects the financing fund to transfer as soon as possible to the new operating entity that assumes responsibility for the effort in Bloomington.

The Community Foundation extended its contract with Five/Four Advisors to assist with implementation. The goal is for the strategy to be locally operated and managed, however, and so the Community Foundation expects to transfer implementation to a local staff person in 2018.

In 2018, it is expected that multiple CDFI transactions will close in Bloomington. Additional goals for the year include the development of a multiyear business plan for the new effort, the capitalization of a financing fund, securing additional funds for ongoing operations, assessing whether to create a *de novo* small business CDFI, making adjustments in the strategy based on experience, hiring local management, and transferring knowledge and expertise to the local manager.

The Community Foundation and Mayor Hamilton announced on February 28, 2018, that Bloomington has become a CDFI Friendly City™.

### **What is a CDFI Friendly City™?<sup>3</sup>**

Like most ideas, a CDFI Friendly City™ is easy to recognize but harder to define. For CDFI Friendly Cities™ to be a useful concept, it needs to have a meaningful set of criteria and accountability measures that it meets. In a practical sense, it is a civic or public effort that is using its resources *and* authority to facilitate CDFI financing that benefits under-resourced and/or underserved populations and communities. Some large U.S. cities with longstanding and active CDFI networks already facilitate most, if not all, the functions and characteristics that emerged in Bloomington as key to a CDFI Friendly City™. Those comprise:

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<sup>3</sup> “CDFI Friendly City™” and “CDFI Friendly Cities™” is the property of MPinsky LLC d/b/a Five/Four Advisors located at 240 East Evergreen Avenue, Philadelphia, PA 19118. Any use of the phrase without permission is forbidden.



- a. **Completion of an evaluation and planning process** similar to that used by Bloomington and delivered (for quality control purposes) by an entity like Five/Four Advisors or another designated partner.
- b. **Skin in the game**—local public and private financing or credit enhancement, likely combined with other financing from outside the city, that facilitates and/or encourages CDFI financing;
- c. Creation or designation of an **operating entity**, either an independent nonprofit that can easily receive contributions or a functional unit housed within a private, nonprofit community organization.
- d. **Local governance**—a governing body comprising private and public representatives, possibly including community, business, government, philanthropic, financing, and possibly other affiliations. A majority of the Board should represent local, not government, entities. The governing body is the means for local control over priorities for seeking financing, particularly through decision-making authority over the financing work.
- e. A **strategy statement** available to the public that includes production goals and a means of accountability to the strategy and results.
- f. **Specific written goals** that ensure a means of accountability going forward to ensure that the strategy is producing results in line with the public promises it makes by becoming a CDFI Friendly City™; these might include a marginal increase in CDFI financing in the city, the number of projects financed, or other metrics.
- g. **Staffing**—a designated person independent of local government to lead the work, particularly serving as a liaison between supply and demand (local investment opportunities and CDFI investors), operational management, and CDFI knowledge over time. The absence of a dedicated staff person increases the possibility that the local strategy is an extension of rather than a lever for local government.
- h. A **public declaration** that the city is a “CDFI Friendly City™”.

This description of what it means to be a “CDFI Friendly City™” will be a work in progress and will likely evolve as more cities become “CDFI Friendly Cities™”.

Part of being a CDFI Friendly City may mean collaborating with other cities and places, in sharing best practices, knowledge, and experience.

### **Replication: The “CDFI Friendly Cities™” Project**

Five/Four Advisors expects to replicate Bloomington’s work in other cities in 2018 and beyond. If the CDFI Friendly City™ model seems to produce real value for Bloomington and other early adopters, that value should grow with experience and replication.



For that reason, Five/Four Advisors anticipates replication at a measured pace to ensure a solid basis for growth. In 2018, that likely means a modest number of efforts toward replication across smaller markets—small cities of different sizes and rural communities—in multiple regions of the U.S. To the extent possible, replication should also reflect a range of financing strategies and asset types.

*Five/Four Advisors is considering possible replication sites and invites interested communities to make initial inquiries to [info@mpinsky.com](mailto:info@mpinsky.com).*



## **Appendix A**

### **Membership of the Bloomington CDFI Working Group**

Alex Crowley, Director Economic & Sustainable Development, City of Bloomington

Warren Cutshall, In House Counsel, Miller Real Estate LLC

Margaret Fette, Owner, The Tailored Fit (Bloomington Urban Enterprise Association Representative)

John Hamilton, Mayor, City of Bloomington

Cindy Kinnarney, Market President, First Financial Bank

Randy Lloyd, Principal & General Counsel, TM Crowley & Associates

Tina Peterson, President & CEO, Community Foundation of Bloomington and Monroe County

Jeff Underwood, Controller, City of Bloomington



**Appendix B**  
**Organizations Participating in the August Assessment Conversations**  
**August 21-22, 2017**

Bloomington Housing Authority  
Bloomington Urban Enterprise Association  
Cheddar  
City of Bloomington  
Community Foundation of Bloomington & Monroe County  
CoWork Bloomington  
Envisage Technologies  
F.C. Tucker  
German American Bank  
Hanapin Marketing  
Indiana Small Business Development Center  
Indiana University  
Indiana University Center for Innovative Teaching and Learning  
Indiana University Foundation  
Indiana University Kelley School of Business  
Indiana University Office of the Vice President for Engagement  
Ivy Tech Cook Center for Entrepreneurship  
Ivy Tech Community College  
LIFEDesigns  
Miller Real Estate  
Regional Opportunity Initiatives, Inc.  
South Central Indiana Housing Opportunities  
Sproutbox  
T.M. Crowley & Associates  
VisionTech



**Appendix C**  
**CDFI Industry Participants in the September Assessment Conversations**  
**September 26-27, 2017**

Dan Betancourt, Community First Fund, Lancaster, PA

Allison Clark, The John D. & Catherine T. MacArthur Foundation, Chicago, IL

Beth Davis, Dakota Resources, Renner, SD

Ignacio Esteban, Florida Community Loan Fund, Orlando, FL

Jeannine Jacokes, Partners for the Common Good Loan Fund, Washington, DC

Amir Kirkwood, Amalgamated Bank, New York, NY

John Hamilton, Mayor, City of Bloomington

Mark McDaniel & James Peffley, Cinnaire, Lansing, MI

Joe Neri, IFF, Chicago, IL

Tina Peterson, Community Foundation of Bloomington & Monroe County

Shawn Wellnitz, Entrepreneur Fund, Duluth, MN



**Appendix D**  
**Organizations Participating in the Bloomington Engagement Convening**  
**November 8, 2017**

Bankable (Indianapolis, IN)  
Bank of America (New York, NY)  
Bloomington Economic Development Corporation  
Bloomington Housing Authority  
Bloomington Redevelopment Commission  
Bloomington Urban Enterprise Association  
Bunger and Robinson Attorneys at Law (Bloomington, IN)  
Cheddar (Bloomington, IN)  
Cinnaire (Lansing, MI)  
Cinnaire (Indianapolis, IN)  
City of Bloomington  
City of Bloomington Economic and Sustainable Development Department  
City of Bloomington Housing and Neighborhood Development  
Community First Fund (Lancaster, PA)  
Community Foundation of Bloomington & Monroe County  
Community Investment Fund of Indiana  
Cook Medical (Bloomington, IN)  
Dakota Resources (Renner, SD)  
F.C. Tucker Bloomington Realtors  
Federal Reserve Bank of Chicago  
First Financial Bank (Bloomington, IN)  
Greater Bloomington Chamber of Commerce  
Habitat for Humanity of Monroe County  
IFF (Chicago, IL)  
Indiana Neighborhood Housing Partnership  
IndianaPhilanthropy Alliance  
Indiana University



Indiana University Public Policy Institute  
IU Credit Union (Bloomington, IN)  
Ivy Tech Community College - Bloomington  
KeyBank (Indianapolis, IN)  
LifeDesigns (Bloomington, IN)  
Miller Real Estate (Bloomington, IN)  
Monroe County Commissioners  
Monroe County Council  
Old National Bank (Bloomington, IN)  
Old National Bank (Grand Rapids, MI)  
Partners for the Common Good & CapNexus (Washington, DC)  
PNC (Indianapolis, IN)  
Radius Indiana  
South Central Indiana Housing Opportunities  
SproutBox (Bloomington, IN)  
The CDFI Fund (Washington, DC)  
The John D. & Catherine T. MacArthur Foundation (Chicago, IL)  
The Tailored Fit  
TM Crowley & Associates (Bloomington, IN)  
United Way of Monroe County  
Vectren Foundation (Evansville, IN)  
Wells Fargo, Minneapolis, MN



**Appendix E**  
**Agenda for the Bloomington Engagement Convening**  
**November 8, 2017**

**CDFIs & Bloomington**  
**A National Convening on CDFIs Serving Smaller Markets**

*Hosted by*  
*The Community Foundation of Bloomington and Monroe County*  
*The Bloomington Urban Enterprise Association*

**AGENDA**

- 9:00 AM **Welcome**, Tina Peterson, Community Foundation of Bloomington & Monroe County  
**Goals & The Day Ahead**, Mark Pinsky, Five/Four Advisors
- 9:20 **Conversation #1: Introducing CDFIs to Bloomington**
- 10:30 Break
- 10:45 **Conversation #2: Introducing Bloomington to CDFIs**
- 12:00 Lunch onsite
- 12:30 **Strategies for Serving Smaller Markets**, Jeff Merkowitz, The CDFI Fund  
**Keynote: The Bloomington-CDFI Connection**, Mayor John Hamilton
- 1 PM **Bloomington's Opportunities: An Overview of the Development Market**
- 1:30 **Exploring Real Deals: Roundtables on Opportunities**
- Small Business
  - Affordable Housing
  - Nonprofit Facilities
  - Commercial Real Estate
- 3:00 PM **Takeaways, Responses & Next Steps**
- 3:30 PM **Conclude**



**Appendix F**  
**List of Investment Opportunities for Discussion**

**Bloomington, IN**  
**November 8, 2017**

Commercial Office Space: Trade District Flexible Office Building  
Community Facility: Bloomington Regional Food Hub  
Mixed Use Development: IU Health (Former) Hospital Site  
Affordable Housing: Kinser Flats/LIFE Designs  
Affordable Housing: Downtown Lot Owned by the First United Methodist Church  
Affordable Housing: Middle Earth/Bloomington Cooperative Living  
Affordable Housing: Converting Manufactured Housing Communities to Tiny Home Pocket Neighborhoods  
Affordable Housing: Park Entrance Housing/Switchyard  
Expanding Pathway Programs Model: Public-Private Partnership to Increase Economic Mobility  
Community Facility: Childcare/Pre-K Facilities in Downtown  
Affordable Housing: Capitalizing Rental Home Sustainability  
Small Business: Job-Creating Small Business Capital  
Affordable Housing: Switchyard Apartments