LISC Offers First CDFI Bond to Bring Private Capital to Low-Income Communities.

It's a strange time to have a landmark day for U.S. community development financing. Crucial community development programs at Housing and Urban Development, the Treasury Department and the Department of Agriculture are on the budget chopping block.

That makes it all the more significant that the Local Initiatives Support Corporation, or LISC, is today announcing it is issuing $100 million in general obligation bonds to raise capital for its community development work in the first offering of its kind.

As one of the nation's largest nonprofit community development organizations, LISC is breaking new ground to access urgently-needed long-term capital for community development.

"Irrespective of what happens in DC…this is providing a channel for the capital markets to go to work in communities across the country that we are trying to make into high-opportunity communities," says LISC CEO Maurice Jones, who previously worked in HUD under the Obama Administration.

The projects to be funded span 31 urban and rural areas in 44 states. Standard & Poor's, or S&P, has given the offering a 'AA' rating, and Morgan Stanley is underwriting the 10- and 20-year bonds.

Access to capital

The bond markets represent serious capital. At the end of last year, the U.S. bond market stood at $39.3 trillion, including $3.8 trillion in municipal bonds. By comparison, HUD's Community Development Block Grants in 2016 totaled just $3.2 billion.

But for places like Puerto Rico, or for the school systems of Chicago or California, bonds have represented a temptation to pile up excess debt, as well as a minefield of deceptive practices. Jones believes LISC can avoid the problems, in part by attracting like-minded investors.

"We are seeking investors who are interested in us both as a business investment and a business that can serve the communities and people that we are serving," Jones says.

Founded in 1979, LISC has invested $17.3 billion to build or rehabilitate 366,000 affordable homes and apartments and develop 61 million square feet of retail, community and educational space. LISC is among the more than 1,000 community development financial institutions, or CDFIs, certified by the U.S. Treasury. CDFIs – nonprofit funds and credit unions and for-profit banks – specialize in providing access to capital and basic financial services to historically marginalized neighborhoods and groups. The U.S. Treasury typically requires CDFIs to target at least 60 percent of their lending to low-and-moderate income areas; they typically exceed that percentage.

According to Elise Balboni, LISC's vice president for lending, the bond proceeds will provide "more flexibility to fund a range of high impact products and programs that don't fit within the geographic and programmatic constraints of individual funders or the short time-horizons or underwriting limitations of individual investors."

LISC is the first CDFI that doesn't take deposits to offer its own bond to private investors. Historically, nonprofits have worked with local or municipal governments to access tax-exempt bond financing.

LISC cut its teeth in the bond market through the U.S. Treasury's CDFI Bond Guarantee Program. The federal government has exclusively purchased or authorized more than a billion dollars in Treasury-guaranteed CDFI bonds since 2013. LISC credits that program with helping it get ready to offer bonds to private investors.

"There is pent up desire on the part of impact investors, especially at the family and foundation level, to deploy longer-term capital domestically," says Andrea Armeni, executive director of Transform Finance, an impact investor network. "This instrument allows for that, matching the timeline alignment of the projects that need funding with a solid credit rating."

CDFIs typically raise capital through grants or donations, or deposits in the case of banks and credit unions. They can also access short-term loans from larger banks seeking credit for meeting their obligations under the Community Reinvestment Act or CRA.

Bond ratings

As some CDFIs have grown, they have sought new sources of capital. CDFIs as a group have around $108 billion dollars in assets. LISC is one of five non-depository CDFIs with an S&P rating.

"This is a hybrid of municipal and corporate issuers," says Ki Beom K Park, a credit analyst at S&P who works on CDFI ratings.

CDFIs are similar to housing finance authorities that issue tax-exempt bonds, Park explains. They get a significant amount of revenue from public sources, sometimes around 35 percent. They also each have a lot of real estate in their lending portfolio, especially in low-to-moderate-income census tracts.

Like other lending companies, factors like portfolio quality, underwriting guidelines, management experience, non-performing loan ratios, and cash reserves to cover for losses are key factors for CDFIs. Despite CDFIs working in neighborhoods historically considered "risky," some CDFIs have non-performing loan ratios as low as 1%.

Park says to get an 'AA' rating S&P likes to see that CDFIs have enough equity set aside to survive a "doomsday scenario" of 51.8% of their loan portfolio defaulting.

"We're hoping that five to ten years from now, the notion of CDFI and other community-based organizations issuing bonds will not be news," says LISC's Jones. "The markets will become more familiar with us, and we will become more familiar with them."

IMPACT ALPHA

BY OSCAR PERRY ABELLO • APRIL 4, 2017

Oscar is a New York City-based journalist, covering people and ideas that help create a more just and equitable world. He is a 2015-2016 Equitable Cities Fellow for Next City.