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Downturn means less money for community lending

by [Mark Anderson](#) Staff Writer



Jose and Noemi Payan, pictured, have built their Payan Enterprises over the last into a thriving south Minneapolis business. They were able to expand into a new home last year with financing help from the city of Minneapolis and Community Reinvestment Fund, enabling them grow to 50 employees.

But tax credits, new program could help fill the gap

The recession began on Wall Street. During the past six months, it migrated to Main Street. Now, it's reached all the way to Lake Street.

The link between those very different addresses was a lot closer than many initially guessed. Many of the giant Wall Street banks and

financial institutions that collapsed during the past nine months

were also major providers of funding for loans in inner city commercial districts – such as the Lake Street area in Midtown Minneapolis – through innovative programs designed by the Minneapolis-based Community Reinvestment Fund USA.

The biggest and longest-running of those programs raised money for community development lending by securitizing the loans and selling them – with credit enhancements – to the nation's biggest banks, who could utilize them to comply with community reinvestment requirements.

But today, many of the most active investors in that market – from Bear Stearns to Washington Mutual and Merrill Lynch – have disappeared, and all of the remaining investors have stepped away from the market, at least temporarily.

Any investors that remain in the market now demand a king's ransom as a return on their investment, according to Frank Altman, CRF's chief executive.

"We sold our 18th round of securities three years ago and those priced about 150 basis points over the benchmark" swap index. "That spread was up to 250 basis points on last year's issue, and those AAA securities would price at a 900 to 1,000 basis point spread now. That's a risk premium that's just incredible."



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The result is that many fewer loans will be made in central cities and low-income communities all over the nation, at least for the time being.

"We've closed the window on our program that bought and then securitized business loans, and on our program that financed affordable housing," Altman said.

The agency anticipated buying and securitizing \$170 million in loans for its fiscal year that ends June 30, "but we'll end the year with no more than half that amount," Altman said.

But the spigot won't run completely dry for community

lending.

Community Reinvestment Fund USA

Volume: \$1.03 billion in community development loans

Impact: 170,000 families served

36,000 jobs maintained or created

16,000 affordable housing units financed

Investments: 19 separate securities backed by community development loans; rated AAA since 2004

Source: CRF USA

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One of the other major sources for community development funding, the New Markets Tax Credit (NMTC) program, will almost double in size this year, thanks to a \$3 billion expansion provided by the federal economic stimulus act. New Markets generated revenue by selling tax credits to large investors, creating a revenue source for business development and expansion in low-income communities.

Altman said investor demand for those tax credits has also remained strong this year.

CRF, which has been one of the largest users of the NMTC, won \$115 million in allocations earlier this winter, and Altman said he hopes that it will receive an additional \$15 million in the expanded allocation.

And banks are not abandoning the community development markets altogether.

Altman said the situation faced by Wells Fargo & Co., one of CRF's big investing partners, is typical. Wells acquired another big CRF investor in Wachovia Corp., leaving the consolidated bank with a concentration of CRF assets in their portfolio.

"They have to work through that, but they're definitely looking for ways to continue investing in community development loans," Altman said.

Altman also credited U.S. Bank for being a loyal partner through this turmoil.

U.S. Bank has long provided CRF with a line of credit that enables it to hold loans on its balance sheet until they're securitized and sold.

Those loans are going to remain in place much longer now, though, which required a restructured line of credit. "But U.S. Bank is being very supportive, and they're going to make this happen," Altman said.

A new tool

CRF and Altman are looking for funding opportunities in a new direction this year, too.

They're collaborating with the Calvert Foundation, the nonprofit affiliate of the socially responsible mutual fund company, on a program that enables individuals to invest directly into a menu of socially targeted investments, including CRF's programs.

"People who invest with social goals in mind have a lot of options that can help them screen out activities they don't support, but this is one of the few places where they can really direct their funds towards goals that are important to them," Altman said.

The program, Calvert Notes, enables individuals or small organizations to invest a minimum of \$1,000 into a savings note. They can choose the term of the investment – from 1 to 10 years – and they can designate an interest rate of from 0 to 3 percent, based on their generosity and return needs.

"We're starting small, and anticipating that this will grow over time," Altman said. CRF targeted proceeds of \$300,000 by June 30 and they're at \$120,000 now.

But investment opportunities with the individual market look strong, he said. Organizations that are established and have been building their visibility in this channel are now raising millions of dollars in investments each year.

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