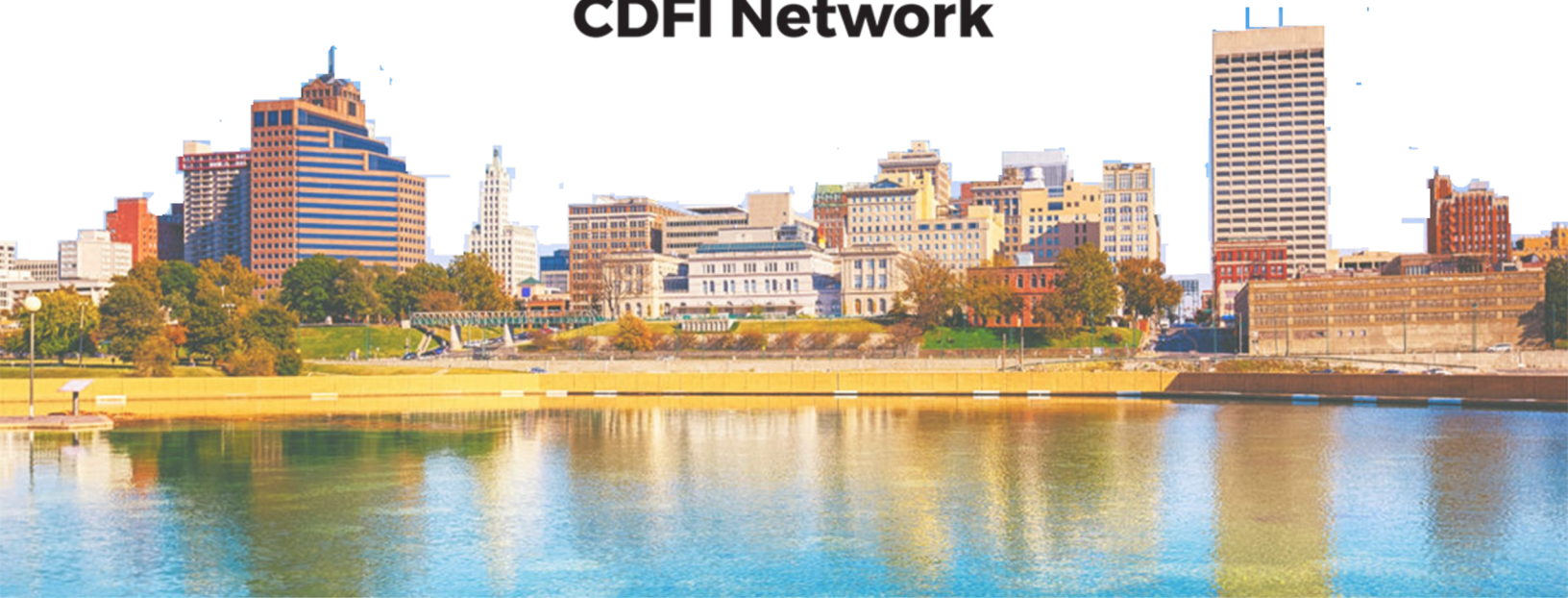




2022
White Paper



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PARTNERSHIP OVERVIEW

CDFI Memphis is a network of four diverse financial institutions that focus on the areas of banking, lending, and education, both in Memphis and the Mid-South. Working in collaboration with each other, the listed organizations are dedicated to offering families, businesses and individuals the resources they need to thrive.



BACKGROUND

In 2015, JP Morgan Chase launched PRO Neighborhoods, a \$125 million, five-year commitment designed to support communities with the capital and tools they need to drive local solutions to address key drivers of inequality. The initiative supports CDFIs and housing innovators to leverage capital and expertise to drive greater investment in low- to moderate-income (LMI) neighborhoods through:

- Annual competition and peer learning for CDFIs that address complex community challenges by aligning talent, technology and balance sheets;
- Innovative housing financing models, to increase or preserve affordable housing and connect LMI individuals to resources that drive economic mobility; and
- Research and data analysis that informs local planning and investment decision-making.

The activities described in this report were supported through a three-year, \$3 million PRO Neighborhoods Grant awarded in late 2019.

Special thanks to the Assisi Foundation for their leadership, guidance and support in the development of CDFI Memphis.



NETWORK ORIGIN STORY

The Memphis CDFI Network first convened in 2014–2015 at the encouragement of Jan Young of the Assisi Foundation. The aim was to focus on leveraging organizational strengths and resources to address major social and economic issues facing the city through collaboration rather than competition. Since the inception of the Network, the growth of the Memphis collaboration has set the pace for the region and gained national attention. The work has been shaped around two central questions:

1. How can the Network leverage current investment to bring more capital to the city and the Network?
2. How can the Network use a place-based approach to fill the financial gap left by traditional lenders through a focus on housing stability and business opportunity?

The Network is leveraging a three-year, \$3 million PRO Neighborhoods Grant focused on increasing housing options, improving access to entrepreneurial support and capital, and empowering parts of the Memphis community.

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EXECUTIVE SUMMARY

At the outset of the PRO Neighborhood Grant, the Memphis CDFI Network aimed to support place-based initiatives with technical assistance and equitable access to financial products and tools for economic self-sufficiency and upward mobility. In 2021, the Network shifted resources to assuage a COVID-19 housing crisis and compiled housing finance and education resources for low-income Memphians.

As the close of the PRO Neighborhood award nears, the Memphis Network's disbursement of JPMC funding decreased by 86% from 2021. Network allocations shifted away from housing development grants and consumer loans toward a larger share of home improvement and business loans. The share of female and minority borrowers increased across multiple Network products with Microloans seeing the steepest increase in the number of female, minority, and low-income borrowers.

A highlight of the network over 2022 has been the ability to subsidize lending to both small businesses and clients facing barriers to traditional markets. In particular, the network's increased communication and client referrals has helped in a fight against the impacts of the payday loan lobby and predatory lending. Looking ahead, the Network hopes to establish consistent client referral between CDFI partners and the spectrum of products offered.



INTRODUCTION

In 2020, the Memphis CDFI Network began working to increase access to the tools needed to achieve financial security, secure quality affordable housing, and start and grow businesses. Network members focused on Frayser and Whitehaven - two majority-African American Memphis neighborhoods - and by taking this place-based approach, aimed investment toward building up the communities from within. In 2021, members continued to support businesses and address problems created or exacerbated by the COVID-19 pandemic.

In 2022, the Network's disbursement of PRO Neighborhood grant funds declined 86% as it nears the end of the September 2023 grant extension. In its final period, United Housing shifted capacity toward rental assistance and counseling in crisis situations, Hope Credit Union improved their ability to make commercial loans, Communities Unlimited created new wealth building tools to help clients with risky, high-interest loans, and River City Capital developed a workshop titled "Are You Bankable?" with BLDG Memphis, a local community development nonprofit.



shared vision



shared values



shared resources



shared risks



shared rewards

INTRODUCTION

Network members highlighted the informal referral system that emerged from the the collaboration as a significant benefit. While this system assisted the network to identify issues such as predatory lending for small businesses, network members noted a missed opportunity in using available technology to formalize a referral system, develop a universal application, and track client data to establish a more holistic cycle of services.

“Our communities are facing the challenge of making ends meet but the community of institutions has a responsibility to help the community make a way forward” - Kiyadh Burt, HOPE Credit Union

Over 2022, the Network’s use of JMPC PRO Neighborhoods funding moved toward a larger share of home improvement loans and business loans. The share of female borrowers increased to over 50% across all CDFI Network products except the home improvement loan. The share of minority borrowers of business and consumer loans increased to 81% and 71% respectively. Microloans saw the steepest increase in the number of female, minority, and low-income borrowers.

PRO Neighborhood funding helped seed the ability of the networks loan products and programs to build capacity. Partners are establishing the ability to report loans to create more opportunity to build credit, and in turn, fight against the impacts of the payday lobby and lending to help clients across the network. A highlight of the network has been the ability to find ways to subsidize lending to both small businesses and clients facing barriers to traditional markets.

“We have a better understanding of who we all are and what we all can offer [and] we have been able to work better together. [For example], with Hope Credit Union on a home repair Savings Account Program or Communities Unlimited on a predatory loan curriculum.” Amy Shaflein - United Housing

A CHANGING CDFI AUDIENCE

In response to changes arising from the COVID-19 Pandemic, the Memphis CDFI Network received both a grant extension as well as permission to expand the geography for grant disbursements to all of Memphis and Shelby County, TN. Originally focused on empowering the Frayser and Whitehaven communities through increased housing finance, entrepreneurial support, and capital, the geography shifted along with the profile of the initial CDFI audience.

Overall, the Network's use of JMPC PRO Neighborhoods funding in 2022 moved away from housing development grants and consumer loans toward a larger share of home improvement loans and business loans (Table 1). In part this was reflected in the activity of United Housing, who began working with more renters compared to their typical first-time-buyer client, and River City Capital, who increased their origination of Microloans more than 1000%.

In 2021 the largest share of JPMC dollars went to home purchase loans and consumer loans. In 2022, despite overall disbursement of JPMC funding being reduced by 86%, the largest share of disbursements went to home improvement loans and business loans. Alongside the reduction in JPMC capital used, the dollar amount granted or originated also declined except in the case of business loans and home purchase loans.

Table 1. Dollar amount of JPMC loan capital used

	2021	2022	%change
Business loan	\$ 86,843.00	\$ 63,500.00	-27%
Consumer loan	\$ 244,885.36	\$ -	-100%
Grant business development	\$ -	\$ -	-
Grant housing development	\$ 90,000.00	\$ -	-100%
Home improvement loan	\$ 209,550.00	\$ 78,500.00	-63%
Home purchase loan	\$ 537,300.00	\$ 37,000.00	-93%
Housing loan to a developer	\$ -	\$ -	-
Microloan	\$ -	\$ 10,000.00	-

A CHANGING CDFI AUDIENCE

The share of female borrowers increased to over 50% across all CDFI Network products except the home improvement loan which had no female borrowers in 2022. The share of minority borrowers of business and consumer loans increased to 81% and 71% while the share of minority borrowers of home purchase loans decreased to 84% from 98% in 2021. However, it should be noted that the number of home purchase loans in 2022 increased 65% from 2021.

In 2022, Microloans saw the steepest increase in the number of female, minority, and low-income borrowers to a total of 15 compared to only 1 borrower in 2021. In part, these numbers are reflected in a doubling of Hope Credit Union membership numbers at its Crosstown Branch which benefits from proximity to centralized retail, business, and community services including the Women's Business Center South which has shepherded relationship building and new small business referrals to the credit union.

The second highest rate of change in borrowing came from moderate-income borrowers of home purchase loans who made up 53% of borrowers in 2022. Low-income borrowers made up the full share of borrowers of home improvement loans, less than 50% of the share of borrowers of consumer and home purchase loans, and 60% of the share of borrowers of microloans.

Over 2022, Communities Unlimited added new clients through MEMShop and allocated resources to help clients with risky, high-interest loans as a start of a new wealth building initiative.

A benefit of the collaboration has been the ability to cross referencing clients to the services, products, or resources available among Network partners. The partner referrals and increased network communication revealed an emerging trend of Small Minority Enterprises suffering from a prevalence of predatory lending to small businesses. The recognition of the trend has allowed the network to create new educational outreach materials, share best practices, and work together to create new products based where current products aren't meeting the need.

ADJUSTING CAPITAL FLOW

The greatest change in capital dispersed was in the category of Microloan products. While only \$232K was dispersed in 2022, the increase from 2021 was over 5000%. The second largest change as well as the largest lending category for the Memphis Network was in business loans. Several high-dollar loans between \$1M and \$10M increased the business loan disbursements by 3586% (Table 2). Despite this increase, the amount of JPMC capital used toward business loans decreased 27% from 2021 to 2022 (Table 1, p. 5).

Table 2. Dollar amount originated

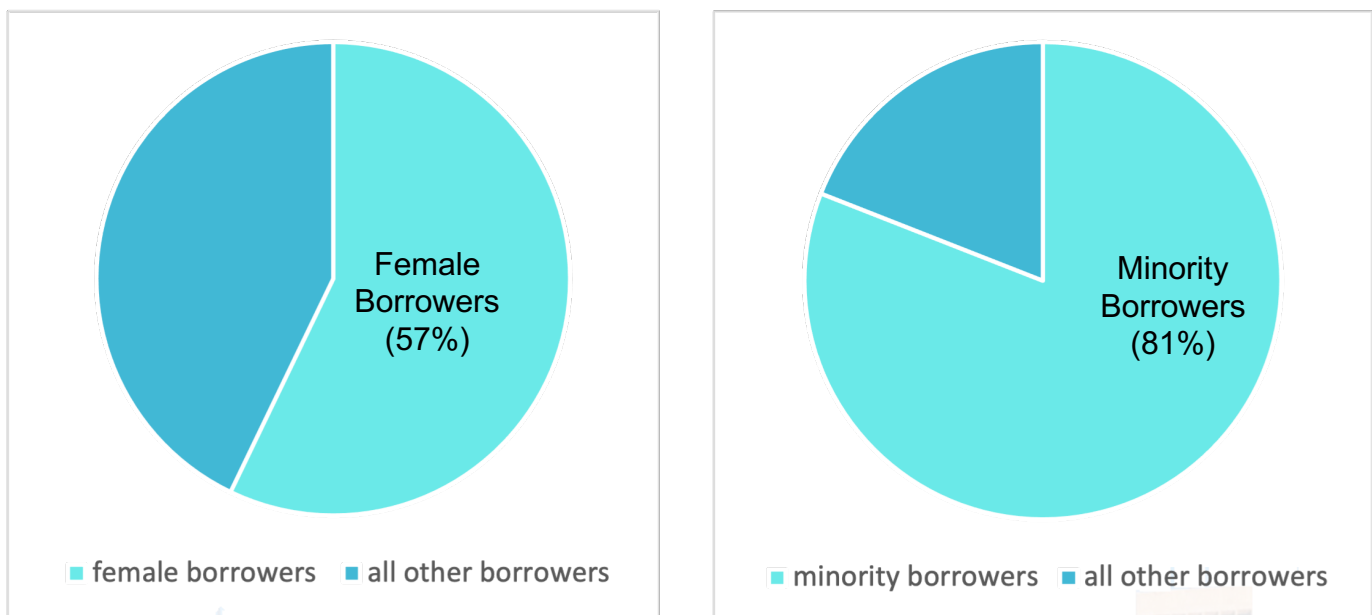
	2021	2022	%change
Business loan	\$ 406,149.00	\$ 14,970,750.00	3586%
Consumer loan	\$ 724,178.75	\$ 184,531.70	-75%
Grant business development	\$ 1,950,000.00	\$ -	-100%
Grant housing development	\$ 90,000.00	\$ 111,365.00	24%
Home improvement loan	\$ 1,028,763.00	\$ 237,775.00	-77%
Home purchase loan	\$ 1,548,110.00	\$ 3,193,360.00	106%
Housing loan to a developer	\$ 84,275.00	\$ -	-100%
Microloan	\$ 4,200.00	\$ 232,000.00	5424%

With the disbursement of nearly \$15M in business loans in 2022 there was only only a 17% increase in the total number of loans originated. Totaling only 21 loans, the several high-dollar loans made up 97% of the total amount loaned. Among the business loans originated, the Network saw significant increases in the number of loans to female and minority borrowers who each received over half of the loans. In addition, low-income borrowers received 81% of the CDFI Network's loans in 2022.

ADJUSTING CAPITAL FLOW

The significant increase in business loan origination saw the loan amounts dispersed to female and minority borrowers grow. However, while the percent of the total loaned to female borrowers increased to 60% in 2022 (from 42% in 2021), the percent lent to minority borrowers decreased two percentage points in 2022 to 77% from 79% in 2021. Setting aside the dollar amount loaned, which is skewed by several multi-million-dollar loans, the number of loans increased 17%. Among this increase, low-income borrowers received over half of the loans and the share of loans to female and minority borrowers increased to 57% and 81% (Charts 1 and 2).

Charts 1 and 2. Business Loan Activity - Number of Loans in 2022



In 2022, the Memphis CDFI Network did not dedicate any additional JPMC PRO Neighborhood dollars toward Consumer Loans and the total amount originated for Consumer Loans decreased 75%. Although the dollar amount of consumer loans decreased significantly from 2021, disbursements in 2022 made up a larger share of the total number of loans directed toward female and minority borrowers. It is noteworthy that, in 2021, there were no loans disbursed to low- and moderate-income borrowers but, in 2022, nearly 70% of loans went to these borrowers.

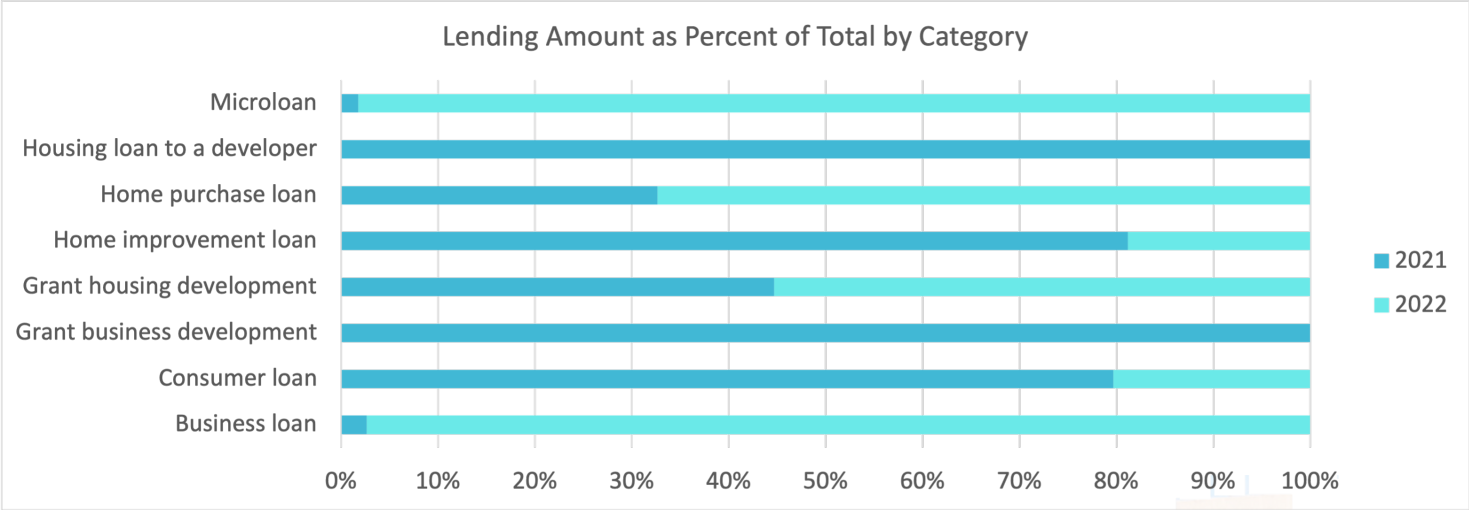
ADJUSTING CAPITAL FLOW

In 2022, the Memphis CDFI Network shifted lending away from Business Development Grants. The prior year saw nearly 100 \$20K grants distributed, but 2022 saw no activity in this category.

Housing Development Grants also underwent significant change in 2022. While 2021 saw more and smaller grants distributed, the total amount granted in 2022 increased by 24% while the number of grants decreased 95%.

From 2021 to 2022, the Memphis CDFI Network shifted lending focus away from Home Improvement Loans with a 77% decrease in the amount loaned and 79% decrease in the number of loans. Despite this decrease in activity, the lending activity maintained 100% focused on low-income borrowers.

Chart 3. Change in Lending 2021 and 2022



Unlike the decrease in Home Improvement lending, the Memphis CDFI Network saw a significant increase in Home Purchase Loan activity. The total amount originated in 2022 increased twofold and the number of loans by 65%. However, while the number of loans to female borrowers increased to 62% (from 15% in 2021), the share of total loans to low-income and minority borrowers declined. Despite the decline in the number of loans as a percent of the total, the dollar amount lent to minority and low-income borrowers increased to 94% and 64% of the total \$3.1M loaned for home purchase.

ADJUSTING CAPITAL FLOW

Similar to the shift away from business development, the Memphis CDFI Network reduced all PRO Neighborhood lending to Housing Developers in 2022.

Table 3. Dollar amount of JPMC loan capital used for housing

	2021	2022	percent change
	\$ 836,850.00	\$ 115,500.00	-86%

Overall, the dollar amount of JPMC capital used for housing financing in 2022 saw an 86% reduction (Table 3). However, while CDFI Network loans originated for Home Improvement decreased 77%, Housing Development Grants grew 24% and the amount loaned for Home Purchase doubled (Table 4).

Table 4. Dollar amount originated in loans or grants

	2021	2022	change
Housing Development Grant	\$ 90,000.00	\$ 111,365.00	24%
Home Improvement Loan	\$ 1,028,763.00	\$ 237,775.00	-77%
Home purchase loan	\$ 1,548,110.00	\$ 3,193,360.00	106%
Housing loan to a developer	\$ 84,275.00	\$ -	-100%
	\$ 2,751,148.00	\$ 3,542,500.00	29%

A new focus of the Memphis CDFI Network in 2022 was Microloans. The Network used \$10K of JPMC capital and originated over \$200K, a 5000% increase over 2021. Over half of these dollars went to low-income borrowers and 95% to minority borrowers. Of all the JPMC PRO Neighborhoods-related lending products, the Memphis CDFI Network's use of Microloans saw the steepest growth in both the dollar amount loaned and the number of loans.

WINS AND BENCHMARKS

Over 2022, the Network turned their attention and resources to the high volume of predatory lenders within Memphis neighborhoods. This shift came in response to research findings by HOPE Credit Union's policy institute and allowed the CDFI to position itself as an alternative for residents and small business owners. As the Network worked to refinance these loans, it took measures to repair client credit and continued to find ways to educate community members on how to recognize and avoid predatory loans.

The Memphis CDFI Network continues to demonstrate its flexibility in its response to the Covid-19 pandemic. In response to current economic trends, the Network is adapting by closely monitoring changing banking regulations and adjusting as needed. The products offered by the Network partners are providing Memphians with access to funding options that are more affordable with lower interest rates than traditional lenders.

Another highlight for the network in 2022 was being able to assist six MEMShop businesses in establishing themselves. The CDFI Network's support of these fledgling businesses is an example of their commitment to building wealth at the community level and their ability to provide access to capital for small business owners who are unable to get loans from traditional sources.

"[Traditional lenders are] a little skittish about doing some of the loans... As the economy changes over the next couple of years CDFIs can be a strong alternative to those rising rates." - Amelia Crowley, River City Capital

2022 was a year where the CDFI gained momentum and direction that has set the collaborative up for even more impact in fiscal year 2023.

"We're excited that we have these candidates lined up that are about to go through training to get them capital-ready and help them find locations to open and be successful" - Marnell Love, Communities Unlimited.

WHAT COMES NEXT

Referral network

While the CDFI Network's reach within Memphis has continued to grow in 2022, an identified need is to establish a consistent way to refer clients between the CDFI partners. Over the past year, the partners have gained familiarity with each other's products which has allowed for an increase in referrals. Having a referral system that is accessible to all CDFI members would allow the network to better understand how and when clients are utilizing products from multiple network partners. Many members also pointed out that gathering these statistics would also be an impactful angle to explore for marketing the network in the future.

Memphis CDFI network structure

As the end of the JP Morgan Chase grant approaches (September 2023), the CDFI Network is not done with its work in the lives of Memphians. The partners' cited goals of continuing their joint work to address predatory lending and refining the vision for what can be accomplished through the collaboration in the next five years. This includes continuing to build out their lending and restorative credit products and finding ways to meet their client base in person through additional community events.

Neighborhood level engagement through events

To build upon the benefit of events in promoting The Network's services and products, the partners look forward to launching MEMShop and partnering with CDCs to develop and host neighborhood-specific workshops.

