

# Clearinghouse CDFI

## Momentum Texas

Federal Reserve Bank of Dallas

Texas Mezzanine Fund

April 13, 2004

## Overview

- History of Clearinghouse
- Corporate Structure
- Success and Challenges

## Clearinghouse History

- 1990 - Started as non-profit lender consortia to broker loans (called Affordable Housing Clearinghouse)
- Technical assistance to non-profit borrowers
- Structure was lender “Participation” in loans

## 1990-1996 Track record

- Affordable Housing Clearinghouse was able to broker about \$20 million in projects
- Unsuccessful in placing additional \$100 million in projects

## Clearinghouse CDFI History

- 1994 began planning to create affiliated corporation that would be a direct lender
- Incorporated and first loan in 1996
- Initially raised \$ 1million in equity and \$10 million in loan funds

## Mission Statement

The Clearinghouse CDFI is a for-profit corporation that is addressing unmet credit needs in Southern California. The CDFI provides direct loans for affordable housing, community development, small business and other qualified CRA activities. CDFI loan funds are leveraged with conventional lenders whenever possible. A safe and secure fund management plan provides a return to the corporate investor.

## Why For-Profit ?

- Something to Prove
- Attract Capital

## Corporate Structure



- Stock Ownership / shareholders (regulated financial institutions) input in risk
- Non-profit community partner appoints majority of our board of directors

## Organizational Chart



## Initial Capital Offering

- Raise \$10 million in loan funds and \$1 million in equity
- Dual investment required
- 21 regulated financial institutions invested
- Smallest investment \$10,000 equity and \$100,000 loan
- Largest investment \$210,000 equity \$2.1 loan

## Return to our investors

- Loan Funds
  - Fixed for 20 years
  - Rate: Ten-year Treasury plus 100 bs.pts.  
(Above 5.63%)
- Equity Funds
  - Eligible for dividends
  - Carried as “other assets” on books



## Other Unique Issues

- No Programs – Flexible
- Primarily Real Estate Secured
- Loan Loss Reserve
- Active Board and Committees

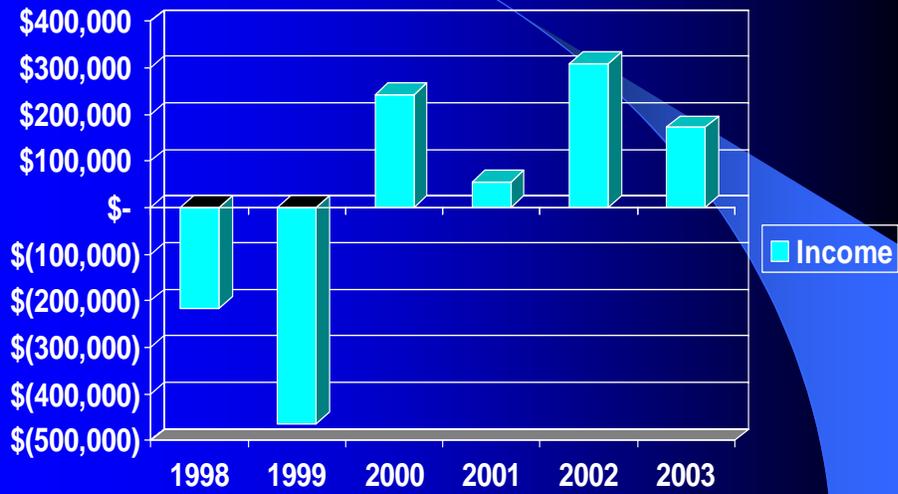
## Shareholder's Value

- Never missed a quarterly payment owed on loan portion of investment
- Structure maximizes CRA lending test
- Responsive to shareholder's needs
- Augment investor return through various programs
- Regular reporting on corporation

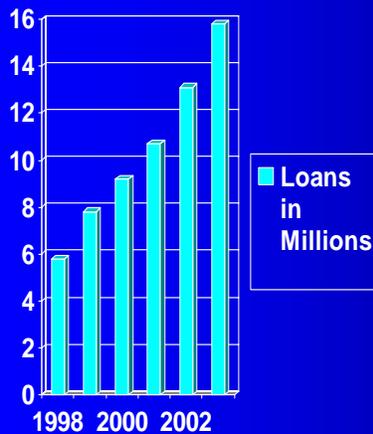
## Clearinghouse CDFI Track Record

- 3<sup>rd</sup> Private Placement offering
- Added deposits, and "Class C" investors
- Worked with over 50 regulated financial institutions to provide CRA investments/loans
- \$ 80 million in assets under control as of 3/31/04

## Annual Net Income



## CDFI Loan Production



- 1998 - \$5,089,220
- 1999 - \$7,792,898
- 2000 - \$9,224,100
- 2001 - \$10,721,392
- 2002 - \$13,133,083
- 2003 - \$15,885,240

## Clearinghouse CDFI Loans

- Total of 157 loans in 6 years (not including SFR lease Purchase loans)
- 73 % of all loans made to non-profit organizations
- Over 70% loans made in Low-income communities
- 2 charge-offs totaling \$ 444,000 (less than 1%)

## Affordable Housing



## Affordable Housing



## Substandard Housing



## Code Violations



## Community Development



## Churches



## Mobile Home Parks



## Small Business



## Shopping Center New Markets Tax Credits



## Challenges

- Prepayment of Loans
  - Higher interest loans in portfolio have all paid off
  - Interest rate spread squeezed impacting profitability

## Challenges

- Growing Pains
  - Small staff with variety of expertise – multi-task work environment
  - Need specific expertise and focus

## Our Success

- Focus on Profitability
  - Aggressive in increasing loan portfolio
  - Limiting costs / staff size
  - Diversification of loan products / Lease Purchase

## Our Success

- Government Programs
  - CDFI Fund
  - BEA Program
  - COIN State Tax Credit
  - New Markets Tax Credit

## Our Success

- Customer Service
  - Quick Approval / Denial
  - Low up-front costs
  - Survey to each applicant
  - Reputation

## For More Information

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Thank you !