

Tapping In

A case study on CDFI sector collaboration and growth in Hawaii



THE KRESGE FOUNDATION



Hawai'i Community Lending, a member of the CDFI cohort, recently launched the three-year Native Hawaiian Owner-Builder Project on Molokai. The project will serve 58 Nāiwa lessee families and five Native Hawaiian builders to increase their capacity to build and own homes on Hawaiian home lands. Photo credit - Tracey Lyn Photography/Hawai'i Community Lending

Table of Contents

<i>I. Letter from Joe Evans, The Kresge Foundation</i>	PAGE 2
<i>II. Introduction</i>	3
<i>III. Background</i>	5
<i>IV. Stories of Impact</i>	10
Council for Native Hawaiian Advancement	10
Lei Ho'olaha	12
Hawai'i Community Lending	14
Hawaii Community Reinvestment Corporation	16
Hawaii Habitat for Humanity	18
HHOC Mortgage	20
<i>V. Reflections and Looking Ahead</i>	22
<i>VI. Credits</i>	23

Small to scaled: How one grant led to a movement for Hawaii's community development finance sector



Joe Evans, Portfolio Director
and Social Investment Officer,
Social Investment Practice

In 2017, Kresge's Human Services Program and Social Investment Practice made a \$500,000 loan to the Council for Native Hawaiian Advancement (CNHA), an umbrella membership organization for Hawaiians and organizations owned, led by or serving Hawaiians. CNHA also operated a small Community Development Financial Institution (CDFI), where Kresge directed its support.

While getting to know CNHA, we spoke with and researched local CDFIs, funders, banks, healthcare organizations and government entities, all members of Hawaii's community development finance system. The more I learned, the more I was struck by the little investment there was in CDFIs in Hawaii. It seemed to me that the CDFIs could, at the very least, capture more regular awards from the CDFI Fund. This Federal Treasury department awards grants, loans and tax credits to CDFIs totaling hundreds of millions of dollars annually.

To begin this conversation, we convened six local CDFI loan funds, three that explicitly serve Native Hawaiians and three that serve all residents. We discussed the opportunity to increase the amount and frequency of CDFI Fund awards, and how the application process could serve as an organizing principle for a loan fund capacity building program. We sketched out a three-year program that would cost about \$1 million. With the help of some local funders, I set out to raise the funding, while the CDFIs continued to meet to develop the program.

Amazing things happened. Local funders were extremely receptive. Including a \$200,000 grant from Kresge, we raised about \$900,000. And the CDFIs began communicating and partnering more than they had previously, which boosted a critical narrative shift: they began to talk about the CDFIs in Hawaii as a community development finance system.

I had three hopes for the program. Because CDFI Fund applications are onerous, I wanted to ensure the CDFIs had systems in place that could "spit out" application data. That itself would be a capacity-building experience. I believed that by engaging the CDFIs as a group, greater cooperation and a coherent, more effective local community development finance ecosystem would emerge. And participation from local funders could help those grantmakers achieve their own goals of using non-grant forms of capital, as strong CDFIs are easier to lend to. We hypothesized that if the CDFIs each applied annually (hopefully with increasing quality) to the fund over three years, that effort would facilitate at least \$5 million in CDFI Fund awards to those applicants.

So far, the results have been remarkable. The total assets of the six organizations have doubled. The group pulled down \$4.9 million in the first two years, a year ahead of target. Four of the six CDFIs have received loans from new investors. And funders, local investors and government agencies are more aware of their local community development finance sector.

This program has been valuable, and I hope funders and the CDFIs see the annual applications as a prudent investment. The real kudos are due to the CDFIs and program administrator Hawai'i Community Foundation, along with the consultants, philanthropists, foundation staff and other local advocates for the sector, many of whom are quoted in this report. My admiration and gratitude go out to each of them.

To those of you looking to support CDFIs in your local area, I hope you can find inspiration and models in our stories. To funders and investors interested in Hawaii, there is plenty of opportunity to invest and lend in Hawaii's community development finance sector. And to the CDFI participants and your partners, mahalo friends — look what you have accomplished!

With gratitude,
Joe Evans



Downtown Honolulu

Introduction: A history of CDFIs in Hawaii

Community Development Financial Institutions, or CDFIs, provide capital and financial education to low-income, minority and underserved communities that mainstream financial institutions do not reach. Their products are more flexible than those found at traditional banks and have helped borrowers achieve homeownership, get back on their feet, improve credit scores, start or grow their businesses, build the capacity of their nonprofits, develop essential community facilities, and more.

These financial intermediaries grew out of the grassroots, self-help credit model, which dates to the 1880s, when the first minority-owned banks provided services to low-income areas. The current CDFI industry began taking shape in the 1960s and 70s. Early investments by religious institutions and philanthropy combined with policy and advocacy work led to the enactment of the Community Reinvestment Act (CRA). The CRA encouraged financial institutions to help meet the

credit needs of the people and organizations in lower-income areas of the communities they served. These institutions often worked through the CDFI sector. The sector grew incrementally until the Community Development Financial Institutions Fund, or CDFI Fund, was established by the Riegle Community Development and Regulatory Improvement Act of 1994.

Housed in the U.S. Department of Treasury, the CDFI Fund's creation dramatically increased the number of CDFIs and introduced an ongoing source of loan fund equity. It is the largest source of financing and capital for CDFIs and has to date provided more than \$5 billion through its monetary award programs. The Fund also certifies CDFIs and provides oversight and standards through recertification and award applications. These institutions can take the form of bank holding companies, loan funds, banks, credit unions, and venture capital funds. Most are nonprofit. Today, almost 1,400



Oahu housing is not easy to come by, especially for low-income residents. CDFIs often have products that help residents purchase a property.

certified CDFIs exist across the country, including in the District of Columbia, Puerto Rico and Guam.

Hawaii's certified CDFIs include six loan funds and five credit unions, however, the overall sector is still nascent and underfunded compared with the mainland. The CDFI Fund had only awarded about \$12 million to the six Hawaii loan funds between 2000 and 2020, and many of the financial intermediaries are still working to build robust investment relationships with local banks and foundations.

Following a first loan to the Council for Native Hawaiian Advancement, Kresge convened six Hawaii CDFIs to discuss needs and opportunities related to the community development finance system and the need for "a fairer share" of annual CDFI Fund awards for the state. Through those discussions, the six CDFIs, with some coaching and other support from Kresge, planned, developed and launched a three-year program to help Hawaii's six loan funds bring in more awards from the CDFI Fund and increase their capabilities to serve Hawaii's residents, businesses and nonprofits. Hawaii'i Community Foundation, Hau'oli Mau Loa

Foundation, Harry & Jeanette Weinberg Foundation, and Kamehameha Schools supported the effort with Kresge.

The six CDFI cohort members are:

- Hawaii'i Community Lending
- HHOC Mortgage
- Hawaii Community Reinvestment Corporation
- Lei Ho'olaha
- Hawaii Habitat for Humanity Association
- Council for Native Hawaiian Advancement

The importance of increasing the CDFIs' capacities became even more apparent as the coronavirus pandemic decimated Hawaii's tourism-dominant economy and sparked record-high unemployment rates. The six cohort members played integral roles in keeping residents housed and helping businesses and nonprofits stay afloat – this gave them an opportunity to demonstrate their abilities and potential to the broader impact investment community.

Background

Investment in Hawaii's Community

CDFIs are an important component of the financial system in Hawaii, where roughly two in five households struggle to make ends meet and more than 10,000 nonprofits exist.

The CDFI sector, however, is still emerging. Joe Evans, portfolio director and social investment officer at The Kresge Foundation, says Hawaii's CDFIs are a generation behind their counterparts on the mainland. While they are as energetic, innovative and committed as CDFIs elsewhere, they hadn't been receiving their fair share of support, particularly in the form of CDFI Fund awards. Starved for resources but trying to solve intractable problems, their internal operations and financial statements needed improvements. One of their challenges was that they weren't receiving feedback from potential investors about how to improve their loan management and investment reports, creating a barrier to raising investment and qualifying for grants and awards.

Hawaii-based financial institutions and other institutional investors sometimes perceive CDFIs as riskier investments because they work with underbanked and unbanked populations. In addition, many Hawaii foundations are mostly grant-making entities and are still learning about different types of investment tools and strategies.

"Per capita, it's hard to say why we've been so slow to develop CDFIs," says Janis Reischmann, executive director of the Hau'oli Mau Loa Foundation.

"I think it really is as much a funder problem as it is a CDFI problem that we just haven't recognized the opportunity, so we haven't resourced them."

Marisa Castuera Hayase, managing director of Hawaii programs and communications for the Harry & Jeanette Weinberg Foundation, says her foundation's grants team originally did not look at CDFIs because they weren't ready to do loans or program-related investments.

The Weinberg Foundation ended up providing grants to three CDFIs, including one in Hawaii, as part of its COVID-19 emergency grantmaking in 2021.

The Hau'oli Mau Loa Foundation began partnering with Hawaii Community Reinvestment Corporation in 2018, when it provided the CDFI with a multiyear operating grant and a low-interest loan that it could use for loan capital. Reischmann says the foundation decided to support the CDFI because it saw that it was filling a great need for nonprofit capital, and its board was willing to take a risk.

Filling a Need

Evans began looking into the local CDFI sector as part of The Kresge Foundation's due diligence when the Council for Native Hawaiian Advancement applied for a loan in 2017. Conversations with the leaders of the Council for Native Hawaiian Advancement, Hawai'i Community Lending and Hau'oli Mau Loa Foundation helped him realize that Kresge could contribute to the growth and development of Hawaii's CDFI sector.

The Kresge Foundation has helped community development systems in Detroit, Memphis and New Orleans build capacity, but this is the first time the Foundation had created a program specifically for CDFIs. When entering a new community, the foundation's approach is to understand the

existing community development system, identify connections that could help it improve, ask people already working in the system what they need, and then figure out how to address those needs, says Evans.

In Hawaii, Evans says: "I saw an opportunity that for a relatively modest amount of money we could make a long-lasting difference in the strength of the system, the receptivity of the banks and other local investors, and the amount of federal funding that could come in." The Kresge



I think it really is as much a funder problem as it a CDFI problem...

Janis Reischmann, Hau'oli Mau Loa Foundation



I saw an opportunity that for a relatively modest amount of money, we could make a long-lasting difference...

Joe Evans, The Kresge Foundation

Foundation committed \$200,000 to the Hawaii program.

One of the main goals was to help the six CDFI loan funds bring in at least \$5 million from the CDFI Fund by the program's third year. The federal Fund's application would be used as a capacity building tool. By making improvements to their internal systems to better meet the needs of the application, the hope was that they'd also improve in other areas, like loan fund management and raising capital from other funders. The CDFI Fund application requires several years of detailed data about an institution's financials, plus information about its business strategy, impact on the community, market analysis, and projections.

"If you can get to the point where you have a system that can accurately provide the data that a CDFI Fund award application requires, then you've probably got a pretty good system," Evans said.

Developing the program, raising funding, and selecting a program manager took about three years. Hawai'i Community Lending, HHOC Mortgage, Hawaii Community Reinvestment Corporation, Lei Ho'olaha, Hawaii Habitat for Humanity Association, and the Council for Native Hawaiian Advancement volunteered to participate and collectively put out a request for proposals for a program manager in 2020. Hawai'i Community Foundation was selected for that role. Kamehameha Schools, Hau'oli Mau Loa Foundation, and the Harry & Jeanette Weinberg Foundation joined The Kresge Foundation and Hawai'i Community Foundation as funding partners.

Evans says developing the program was itself a capacity-building exercise as cohort members helped shape its design and began to present themselves as a sector to county and state governments.

"An early outcome was a move, which happened during the first year of planning, toward a more collective view

of their role in the state," Evans said. "They started to use language like, 'members of Hawaii's community development finance system' and talk less about separate loan funds competing for resources and attention."

Launching the Program

The three-year capacity-building program launched in 2021 after pandemic-related delays. It provided three major areas of support: group learning activities, funding to pay for a CDFI Fund application writer for each cohort member, and \$5,000 stipends that each CDFI could use for their individual technical assistance needs. All cohort members committed to submitting at least one CDFI Fund application each year of the program.

Daisy Chung, program manager at Hawai'i Community Foundation, says the early days of the program were challenging because some cohort members experienced staffing changes and were stretched thin trying to meet increased demand for their services. Meetings were originally planned to be held in-person but most transitioned to Zoom due to the pandemic.

The cohort virtually met six times in Year 1 to discuss their CDFI Fund application plans, the challenges that Hawaii small businesses were facing, the group topics they wanted to learn about, and their individual technical assistance needs. Chung says the larger focus for Year 1 was on individual learnings because the cohort members were busy with their pandemic programs.

Cohort members met four times in Year 2. The group contracted Friedman Associates to lead virtual group learning calls on effective board governance and defining strategic growth imperatives. The Iowa-based CDFI consulting services firm also conducted analyses of each cohort member and provided recommendations for how they could improve their capacity.



Just the exponential growth that we've seen in that short period of time in our first year together really inspires me about what is possible.

Michelle Kauhane, Hawai'i Community Foundation

The last two meetings that year were in-person gatherings. One was for cohort members to discuss the challenges they encountered and their future capacity-building needs. The second was a celebration of their progress with funding partners and other stakeholders who might want to invest in them in the future.

Jean Lilley, who served as the executive director of the Hawaii Habitat for Humanity Association until December 2022, says the larger gathering was helpful in increasing broader awareness and understanding among potential funders of what CDFIs do.

“What we were showing was the CDFIs right now have over \$36 million working in the community and it’s not enough for what we do, and there’s a lot more money out there that we can tap into,” she says.

Boosting Capacity

The capacity-building program, now finishing its second year, has helped the cohort successfully receive \$4.2 million from the federal CDFI Fund’s Rapid Response Program. Marisa Hayase of the Weinberg Foundation says, “We see that as a huge gain for our islands, and that’s one of the biggest measurable areas of progress.”

The pandemic elicited a strong response from the Biden administration, including the CDFI Fund. The Rapid Response Program for CDFIs had a streamlined application and review process so that certified CDFIs could quickly respond to pandemic impacts. It’s possible Hawaii’s CDFIs could have received similar award amounts without the program, but some may not have known to apply for it or had the interest without the cohort. Each cohort member has since applied for at least one CDFI Fund program in 2022, though many put in applications for two or more.

The program has also helped increase collaboration among the cohort members as they engage in participation

lending, mentor one another, cross refer potential clients, advocate for legislation, and combine their loan products and wraparound services to support their communities.

The CDFI cohort members say they’re in a better place today than at the beginning of the pandemic. The individual technical assistance stipends have helped them with things like updating their websites, contracting a chief financial officer to build efficiencies within their financial systems, attending the Northwest Native Development Fund conference, and covering licensing fees for a streamlined online loan application system.

Many cohort members have also participated in other learning programs. And various fellowship, incubator and accelerator programs have helped create an appetite for development capital in the state.

Program Timeline

The capacity-building program brought the six CDFI loan funds together several times for group learnings and to share updates and best practices.

YEAR 1

FEBRUARY 2021

Discussed what the capacity-building program's structure would look like and whether cohort members needed consultants to prepare their CDFI Fund applications.

MARCH 2021

Discussed who would be applying to the CDFI Fund's Rapid Response Program, if they were using consultants for their applications, and whether they would be applying for other award programs. Hawaii Community Reinvestment Corporation and Hawai'i Community Lending also asked if other cohort members would be interested in collaborating on a potential housing acquisition fund.

JUNE 2021

CDFIs gave feedback about the State Small Business Credit Initiative. Cohort members also discussed challenges local small businesses were facing around accessing capital and credit.

JULY 2021

Stan Keasling, the former CEO of the Rural Community Assistance Corporation, gave a presentation about the CDFI Fund's Capital Magnet Fund application.

OCTOBER 2021

Some cohort members had new staff attend this meeting, so the group provided feedback on the technical assistance received so far and discussed whether there were other consultants that the program could bring in.

JANUARY 2022

The cohort participated in a call with Friedman Associates to discuss Phase I assessments and group learning for 2022

YEAR 2

JUNE 2022

Friedman Associates held a training on effective board governance.

AUGUST 2022

Friedman Associates held a training on how CDFIs can attract capital investment through positioning and messaging.

NOVEMBER 2022

Guest speakers Joe Evans and Fran Lutz talked about Pooled Loan Guarantees with cohort members. The group reviewed their shared understanding and program vision for new cohort attendees. The CDFIs also discussed Friedman Associates' Phase II proposal, changes to the CDFI Certification Target Market Verification for the new CDFI Fund annual recertification process, technical assistance needs and group training topics for the upcoming year, and budget priorities for program.

NOVEMBER 2022

Cohort members gave presentations to program funders and other stakeholders. This gathering also gave the CDFIs an opportunity to network and build relationships with the broader social investment sector.

YEAR 3

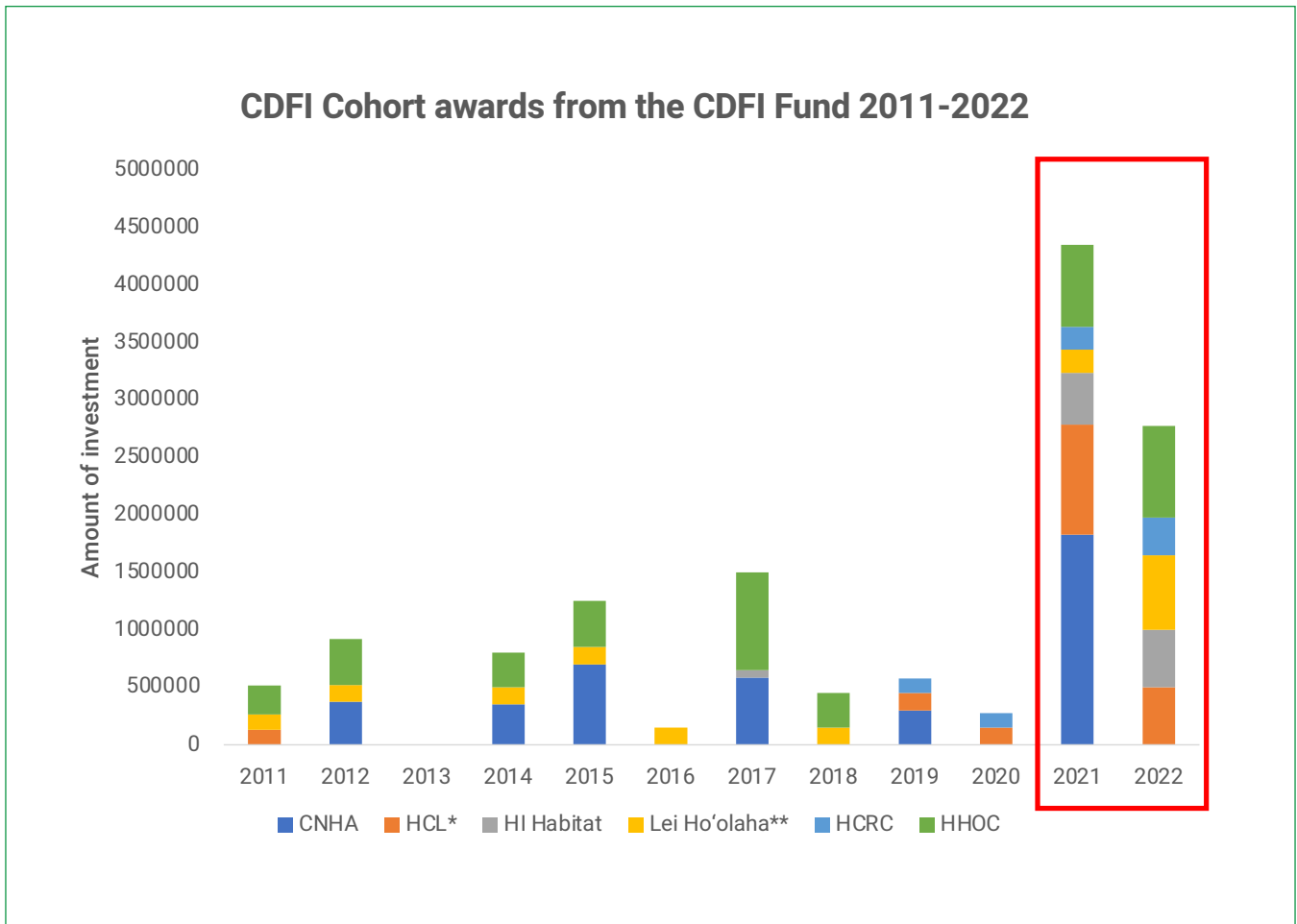
MARCH 2023

The group discussed changes being made to the CDFI recertification process, application plans for 2023/2024, CDFI software, shared metrics for the cohort, policy and advocacy priorities, and the Federal Home Loan Bank's "Member Impact Fund" program to encourage investment from local banks.

Meetings were also planned for May 2023, July 2023, and November 2023.

CDFI Fund Awards

From 2011 through 2020, the six CDFIs received \$7,159,140 in CDFI Fund Awards, about \$720,000 a year. In the program's first two years, the CDFIs received \$7,123,265.



* Includes funds awarded to Hawaiian Community Assets, which created Hawai'i Community Lending.

** Includes funds awarded to Kanu o Ka 'Āina Learning Ohana, which created Lei Ho'olaha

Source: CDFI Fund

Council for Native Hawaiian Advancement



Created in 2001, the Council for Native Hawaiian Advancement is a member-based nonprofit, U.S. Treasury-Certified CDFI and HUD-Certified Housing Counseling agency dedicated to enhancing the cultural, economic, political and community development of Native Hawaiians.

CNHA's loan fund was created in 2011 with a \$50,000 investment from Alaska Natives. Over time, it's been supplemented with funds from the CDFI Fund, Department of Hawaiian Home Lands, donations and other organizations.

CEO Kuhio Lewis joined CNHA in 2018 with a background in community and economic development. When he took over, the nonprofit had a \$3 million loan fund and seven full-time employees. With support from his predecessor, Michelle Kauhane, and board of directors, he restructured the staff and increased their focus on managing the loan fund.

Today, CNHA has a \$16 million loan fund and about 100 employees. In addition to providing access to grants and loans, the nonprofit also offers business and workforce development classes, financial education, and individualized financial and housing counseling.

Lewis says CNHA's many programs have helped its loan fund thrive: "It's not just we help you here. We're helping them in all the areas that follow so they have a successful pipe into what they want to go into. I think that's one of the kakou things about our loan fund – it's not standalone. It's a much bigger entity."

Lewis says the pandemic was a turning point because it gave CNHA an opportunity capitalize on its ability to help the community and leverage its assets to attract new funding.

The organization created an online marketplace, called Pop-Up Makeke in April 2020 to

Helping a Family Build Their Home

Rocky and Kamala Cashman moved from Oahu to Hawaii Island to be closer to their daughter and granddaughter. They never thought they'd spend years living in a trailer waiting for their house to be built.

Banks wouldn't lend them money because their Waimea lot was in an area with unexploded ordnances from World War II. In addition, the bonding company they purchased their prefabricated home from went out of business.

Kuhio Lewis remembers visiting the five-acre property and the Cashmans shortly after joining CNHA as its CEO: "I left there, saying there's no way we can't help this family."

He adds with a chuckle: "The only thing that would help this family was a divine intervention, like some crazy new CEO who don't know nothing about banking, going to their property. I saw them, I saw within their hearts, I saw that this family just needed a hand up."

He made the pitch to his board, who agreed to provide the Cashmans with interim construction financing. Today, the Cashmans' home is complete, and their granddaughter, who has since graduated from college, is now living with them.

"It's a tearjerker to know that they might have still been in the trailer had we not come along," Lewis

says. “My grandmother used to always tell me, help others and you’ll receive more blessings. And that’s exactly what’s happened. Like, was it the safest bet to support this family? No. Was it risky? Absolutely.”

He adds that a bank took out the mortgage after the house was built and paid CNHA off so that the CDFI can lend to the next family. “We gave a family a home that wouldn’t have a home,” he says. “This encapsulates the power of CDFIs.”



help local businesses survive. It has since supported about 525 local businesses and made millions of dollars in sales.

In addition, CNHA administered over \$500,000 in federal Payment Protection Program loans for small local businesses, became a U.S. Small Business Administration microlender, and administered multiple Covid housing relief programs. It also co-created a \$1 million line of credit with Rural Community Assistance Corp. to help Honolulu-based nonprofit Housing Solutions Inc. provide first month rent and security deposit assistance. Hawai’i Community Foundation guaranteed the loan and paid the loan fees.

“This is how community capacity can come together where two CDFIs put their resources together, a foundation steps in to guarantee the loan, pay the loan fees, so we don’t just run out of money, and we have a successful program,” Lewis says. “Dozens of families were able to move into housing because of that program.”

In its 2022 fiscal year, CNHA distributed over \$77 million in relief assistance, secured \$5.6 million in new lending capital, and delivered 36 new loans totaling \$3.4 million. It also awarded over \$1.5 million in separate home construction loans to four families residing on Hawaiian Home Lands. Its Hawaiian Trades Academy workforce development program graduated 76 residents, and its Kuhana Business Program served 66 companies and disbursed \$82,500 in cash and technical assistance awards.

CNHA also purchased its first multi-unit affordable housing project, called Hale Manako. The first families moved into the Wahiawa building in September 2022.

Lewis says participating in the Hawaii CDFI cohort program helped CNHA get on new funders’ radars. In January, the nonprofit received its largest infusion to date: \$4 million from the Oweesta Corp. Most of that capital, \$3 million, will be used for new home construction loans for Department of Hawaiian Home Lands beneficiaries. The remaining \$1 million will be used for loans for women-owned businesses. CNHA is also talking with a local bank about a \$1 million investment.

“Once you’re on their growth trajectory, people want to be a part of change,” Lewis says. “People want to be part of a movement. They don’t want to just dump money in the same old thing. I think we attracted that newer synergy.”

“People want to be part of a movement. They don’t want to just dump money in the same old thing. I think we attracted that newer synergy.”

— **Kuhio Lewis,**
CEO

Lei Ho'olaha

Located in the rural, ranching town of Kamuela on Hawaii Island, Lei Ho'olaha was created in the mid-2000s as a program of Kanu o Ka 'Āina Learning Ohana, a nonprofit that provides financial services to educational programs across the state. It became an independent, native CDFI in 2011 to help finance the state's 17 Native Hawaiian charter schools.



In 2014, Lei Ho'olaha received its certification from the U.S. Department of the Treasury and shifted its focus to providing affordable loans and financial education to the Native Hawaiian small business community. Louie Rios III, loan associate at Lei Ho'olaha, says the change was made due to a new state law that altered how charter schools could acquire capital.

Rios joined the CDFI in March 2021 when Lei Ho'olaha was at the brink of closing. It didn't have any loans on its books when Rios arrived, and it had long encountered challenges with growing its loan fund and finding executive directors. A \$200,000 grant from the CDFI Fund's 2021 Rapid Response Program showed its board of directors that the CDFI had potential to grow.

"I really fell in love with the mission," says Rios. "And so I had six months to try to make a loan and find a borrower. We ended up making it happen. I got training, I got certified as a CDFI practitioner through Oweesta, I found a bunch of online training modules and retreats or conferences." Oweesta Corporation is a native CDFI intermediary that provides financial services, training and technical assistance to native CDFIs.

He also received assistance from Heather Piper, executive director of Hawai'i Community Reinvestment Corporation, a CDFI based in Honolulu. He met her through the capacity-building program.

"She really took me under her wing," he says. "She didn't have to. She just saw someone who had the potential but didn't have someone to unlock that potential. She took that upon herself basically out of the goodness of her heart but also as part of her responsibility in the cohort in general and also being mission driven for the community anyway."

Rios has been Lei Ho'olaha's only staff member during his three-year tenure at the CDFI. He's responsible for capitalization strategies, nonprofit management, making sure Lei Ho'olaha remains certified, applying for grants, reaching out to the community, and providing business education.

"Everyone knows how hard it is to set up a certified CDFI, and they really wanted the success for us, and I think we're finally on the cusp of some real growth and becoming a major player in this space."

*— Louis Rios III,
Loan Associate*



Today, Lei Ho'olaha's loan fund has about \$300,000 and its average loan size is about \$40,000. Its products include working capital loans, building improvement and rehabilitation loans, facilities loans, and personal loans.

Rios says the CDFI has come a long way from when he started: "I think we've made up a lot of lost time in the last two years that we've never been at this position before, which is really exciting for the board, it's been exciting for the people who have known our organization longer than I've been around," he says. "Everyone knows how hard it is to set up a certified CDFI, and they really wanted the success for us, and I think we're finally on the cusp of some real growth and becoming a major player in this space."

Lei Ho'olaha has helped support over 40 jobs through its loan fund to date. And it's lending in spaces that are making meaningful differences in the community. The CDFI recently made an operating capital loan to a new nonprofit healthcare organization on Hawaii Island, a county that has the third highest shortage of healthcare professionals in the nation. The organization saw 700 new patients within its first week. Lei Ho'olaha, in partnership with other organizations, also made a \$500,000 loan to agricultural communities on Kauai and Oahu; it has since helped to provide 26 agricultural jobs on Kauai.

"Who else is going to help these organizations because the local banks are just not doing it," Rios says. "If we have the money and even though it's not the perfect scenario for our own financial risk, we need to invest in the community because that's the whole reason we exist is to fill these gaps where the banks aren't reaching."

Hawai'i Community Lending

One of Hawai'i Community Lending's largest strengths is its deep connection to the local community.

Many residents and families have relied on its credit builder, debt consolidation, emergency and small business loans to help them better position themselves and build wealth.

Its community connection began in the early 2000s when Hawai'i Community Lending operated as a mortgage brokerage program under the nonprofit Hawaiian Community Assets. It spent about 10 years

being the primary lender on Hawaiian Homelands and then transitioned to making its own consumer loans. Hawai'i Community Lending became its own organization in 2014 and was certified as a CDFI in 2016.

The coronavirus pandemic greatly increased the demand for its products. The CDFI deployed almost \$1.03 million in loan capital and closed 232 loans in the first six months of fiscal year 2020. That's the same amount of lending it did in its first five years.

Jeff Gilbreath, Hawai'i Community Lending's executive director, says building the CDFI's capacity was its largest challenge going into the pandemic because it only had a few staff members. The organization has since grown to a staff of 16, and Gilbreath says he's been lucky to pull employees from Hawaiian Community Assets who were already familiar with housing counseling and getting households qualified. Other employees have come from other mortgage lenders.

Participating in the Hawai'i CDFI cohort has helped Hawai'i Community Lending's staff increase their capacity and access new trainings. Gilbreath also worked with others through the cohort to establish new legal documents, such as deed restrictions and equity sharing agreements, for the CDFI's affordable housing loans. And the nonprofit contracted with a chief financial officer to improve its financial systems and purchased a new loan management software.

"The cohort has been critical, not the only reason, but a major driving force in how we can have that staff and we can have the structure that we have and deliver the production



Native Hawaiian families are supported all the way through the affordable housing process by the loans, grants and programs of Hawai'i Community Lending. Photo by Tracy Lin Photography

Housing Native Hawaiians on Hawaiian Homelands

Native Hawaiians on the small island of Moloka'i were awarded leases for the 341-acre Naiwa Agricultural Subdivision in 1986. But without water or electricity, many homesteaders have lived in makeshift shacks and tents in the decades since. A few lucky families have been able to build modest, off-grid homes.

A three-year Native Hawaiian Owner-Builder Program aims to change that. The state Department of Hawaiian Homelands is building roadways, driveways, electrical power connections, and irrigation and potable water lines for the 58 agricultural lots. And Hawai'i Community Lending, with \$1.5 million in grant funds from the Administration for Native Americans and Office of Hawaiian Affairs, will help the lessees build and own their own homes.

"Hawai'i Community Lending, they're willing to work with the lessees in helping them to gain credit, also to help them if they have to do any debt consolidation, budgeting, building capacity through higher education, so all these different (things) required to be a responsible homeowner," says Lily Napoleon, president of the Naiwa Agricultural Subdivision Alliance.

Hawai'i Community Lending has helped borrowers consolidate \$326,570 of debt. It'll provide lessees with consumer and interim

construction loans so they can get mortgage financing and guide the lessees through the permitting, approval and construction process. The families will also receive agricultural training so they can create food-producing farms.

"There isn't much access when it comes to financing on the island of Molokai, especially for folks who are below that typical area median income, that poverty guideline levels," Napoleon says.



Executive Director Jeff Gilbreath speaks with Hawai'i Community Lending staff as they set strategic goals for 2023. Photo by Tracey Lyn Photography.

we have now," he says, adding that Hawai'i Community Lending also went through a training institute through the Homeownership Council of America to further develop its business plan of transitioning away from emergency response to economy recovery and affordable housing.

Hawai'i Community Lending has a \$7-million loan fund, and Gilbreath anticipates that the CDFI will grow to \$15 million by 2025. It deployed \$2.5 million in loan capital and closed 193 loans in fiscal year 2022. Debt consolidation loans were the most popular product; they consolidated \$901,836 for borrowers.

The CDFI has so far deployed \$918,810 in loan capital and closed 72 loans in fiscal year 2023. It also has done \$1.72 million in pre-approvals for interim construction loans so 12 Native Hawaiian families can build homes on Hawaiian Homelands on Kauai.

Its growth and success are attracting other investors, such as the Harry & Jeanette Weinberg Foundation and Hawai'i Pacific Health. The two organizations recently provided Hawai'i Community Lending with \$1.5 million in social impact loans and grants. Gilbreath says part of that capital support will re-establish the CDFI's mortgage brokerage and expand its Hawai'i Affordable Housing Fund, which it created in 2019.

"It's amazing to me how groundbreaking it is that a health system makes an investment in a CDFI," Gilbreath says. "That's not happening in very many places, but Hawaii is one of them now because Hawai'i Pacific Health saw the need and took action."

With the re-launch of its mortgage brokerage, Hawai'i Community Lending will be able to help local families through the entire affordable housing process, from constructing the homes to getting qualified for financing to preventing foreclosure.

The CDFI is in negotiations to pull in another \$10 million from local banks, foundations, Native Hawaiian trusts and even county governments. Gilbreath adds that there's still a perception of risk in the work Hawai'i Community Lending does, but its default rates show that it is making investments in the right people and places. The CDFI's emergency loans have a 5% default rate; its nonemergency loans are at 2.8%.

That low rate is attributed to its relationships with its borrowers, which Gilbreath says is different from the mainstream finance model. A borrower making his payment is like making sure the auntie down the road can get the same support.

"We're making investments in families and communities that understand this place, that have a commitment to this place, and that is, in my mind, anything but risky – we're betting on our people," he says. "And to me that's the greatest asset that we have."

"It's amazing to me how groundbreaking it is that a health system makes an investment in a CDFI. That's not happening very many places..."

***— Jeff Gilbreath,
Executive Director***

Hawaii Community Reinvestment Corporation



Hawaii Community Reinvestment Corporation has existed for more than 30 years but its role in helping to capitalize community-based organizations is still relatively new.

The organization was originally a syndicator of affordable housing development loans for a group of local banks. It was so successful in de-risking that lending that the banks began doing those loans on their own. So when Heather Piper joined the CDFI as its executive director in 2015, she had to create a new lending strategy that aligned with the organization's mission of supporting low-income communities.

Hawaii Community Reinvestment Corporation made its first loan through its Community Loan Fund in 2019. The organization was originally certified by the CDFI Fund in 2009 but was dormant while the organization pivoted to its new lending strategy. It was re-certified in 2020 and made six loans that year, then four loans in 2021 and nine in 2022. It has made two loans so far in 2023.

"It's a balance of building your pipeline of loans with raising the capital, and they kind of have to move in unison otherwise they'll get stuck with loan demand and no money for them, or you'll get stuck with capital that doesn't get deployed," she says.

The CDFI has participated in several learning programs to improve its internal systems, such as the Hawai'i Alliance of Nonprofit Organization's Government Grant Working Group, Funder Hui Capacity Building for Nonprofits, the Federal Home Loan Bank Affordable Housing Advisory Committee, and the Harry & Jeanette Weinberg Foundation's CDFI cohort. Hawaii Community Reinvestment Corporation was one of three CDFIs in the country that received a grant from the Weinberg Foundation, and the cohort brought the three organizations together to share lessons learned.

Piper says one of her goals for participating in the Kresge Foundation's capacity building program was to strengthen the overall Hawaii CDFI sector. "The timing was a really good

Expanding Maternal and Child Health Care in Hawaii

Healthy Mothers Healthy Babies Coalition of Hawai'i has worked to improve equitable access to maternal and child health care for more than 30 years.

The nonprofit launched a new mobile clinic in 2021 to provide prenatal and postpartum visits, reproductive care, primary care, lactation consultations, vaccinations and social services to Oahu's most vulnerable mothers and babies. The Mana Mama Mobile Clinic operates out of a converted 22-foot passenger van, and clinical services are provided by licensed midwives, nurse practitioners and other specialists.

Healthy Mothers Healthy Babies has since opened a second mobile clinic on Hawaii Island. Sunny Chen, the organization's executive director, says that was only possible with the help of the Hawaii Community Reinvestment Corporation.

"They helped us get a second van, and they helped me make payroll and helped me sleep at night and just be smarter with the way we're utilizing our funding," she says.

She adds that it's important for other nonprofit leaders to understand that CDFIs are an option: "The first place that you go to is your bank," she says. "But I think that the first place that they should go to is a CDFI."

“The timing was a really good alignment because it gave us momentum to move forward and with others moving forward, so the whole ecosystem seemed to be moving forward at the same time.”

— Heather Piper,
Executive Director



alignment because it gave us momentum to move forward and with others moving forward, so the whole ecosystem seemed to be moving forward at the same time,” she says.

Hawaii Community Reinvestment Corporation used Friedman Associates to help with its CDFI Financial Assistance application,

which resulted in a \$325,000 grant. And the cohort’s technical assistance stipend allowed the organization to revamp its website.

Today, Hawaii Community Reinvestment Corporation has a \$1.4 million Community Loan Fund that provides business loans to help community-based organizations fulfill their missions. Loan capital has come from Hau’oli Mau Loa Foundation, Lili’uokalani Trust, the Harry & Jeannette Weinberg Foundation, and KL Felicitas Foundation. The fund has \$1.1 million in total loans outstanding.

The CDFI also has a \$1 million Community Real Estate Fund that provides predevelopment loans for affordable housing developers and community-based organizations and is actively raising capital to grow this fund.

“We have found a niche in lending to nonprofits for general business purposes now to real estate projects on the predevelopment side with the hope and anticipation that once they get through the risky part of the development that the banks will come in and provide traditional loans for them,” she says. “So we’re kind of teeing them up for the banks.”

That’s especially important when the state needs about 50,000 new housing units between 2020 and 2025, according to the Hawaii Housing Planning Study published in 2019. Piper says her goal is to have at least \$2 million in loan capital for the real estate fund by the middle of this year, and she’s already received a commitment for a \$250,000 program-related investment loan from Hau’oli Mau Loa Foundation.

Piper says Hawaii Community Reinvestment Corporation is in a good place and poised for additional growth. The organization has provided \$2.2 million in business loans to local nonprofits and mission-aligned businesses. And it averages more than 240 hours a year of free technical assistance to community-based organizations and 150 hours of community engagement through various coalitions and working groups.

The organization has also facilitated more than \$200 million in financing through a consortium of local banks to support the construction of over 3,500 housing units across the state and gifted \$790,000 to the University of Hawai’i Foundation to create an endowment for the Hawaii Community Reinvestment Corporation Distinguished Professorship in Affordable Housing.

Hawaii Habitat for Humanity Association



The Hawaii Habitat for Humanity Association went into the pandemic with just one staff member and two AmeriCorps Vista members. The \$3.5 million loan fund had just updated its loan documents, upped its max loan amount to \$40,000 per Habitat home and underwent a strategic planning process.

So when it hired one of those AmeriCorps members as an employee in 2021, the association's executive director at the time, Jean Lilley, saw it as an opportunity to increase her focus on developing the CDFI's capacity – just in time for the launch of the Hawaii CDFI cohort.

“When Kresge came out and started doing this, we were all like, ‘Yeah, we need some help,’ all of us,” she says. “And none of the CDFIs were getting funding from the CDFI Fund, and we weren't sure why because we all had good stories.”

The Hawaii Habitat for Humanity Association was created in 1996 as a support and advocacy organization for the local Habitat affiliates. It became a CDFI in 2015 and provides construction loans to help the affiliates build homes with partner homebuyers.

Prior to the capacity-building program, the Association had only received an award from the federal CDFI Fund in 2017. Lilley, who stepped down from her executive director role in December 2022 and now serves as a consultant to her successor, says it was challenging to input the organization's numbers into the CDFI Fund's application system. The Association can't write its proposal until after completing this step because the Fund will tell applicants the maximum amount they can apply for. She also found it challenging to create new products that don't veer from the organization's mission when applying for certain federal awards.

With the cohort's help, the Hawaii Habitat for Humanity Association has since received \$450,000 from the CDFI Fund's 2021 Rapid Response Program and in winter 2023 was waiting to hear back on another \$750,000 in CDFI Fund financial assistance.



Affordable Homes on the Garden Island

A \$500,000 investment from the Hawaii Habitat for Humanity Association will result in 17 new homes for low- and moderate-income families on Kauai's west side.

Stephen Spears, owner of Affordable Housing Kauai, used the loan to help him purchase the land two years ago. He plans to split the property into 17 condominium property regime units and partner with two other island organizations to build the homes.

Kauai Habitat for Humanity will use its self-build model to develop three units for households making between 30% and 80% of the area median income. For a family of four, that's between \$34,200 and \$91,200 a year. Permanently Affordable Living Kauai, a nonprofit developer based on the island's North Shore, will develop 10 units for households between 80% and 120% of the area median income. Spears will develop the remaining four, also for that moderate income group.

“My idea is that the only way to create affordable housing is for everyone to partner and work together,” he says. He adds that this project wouldn’t be possible without Hawaii Habitat for Humanity Association’s help. Banks, he says, would have seen the project as too risky and required higher interest rates of 7 to 8%. Hawaii Habitat for Humanity Association’s loan has a 5% interest rate.

It made it possible to do this. I didn’t see a path forward to pull off the purchase without them. And it’s doing exactly what their mission is.”



Lilley says one of the biggest benefits of participating in the cohort program has been the collaborations it’s engaged in with other CDFIs. She and Jeff Gilbreath of Hawai’i Community Lending have referred folks for each other’s boards. And the Association in talks with Hawaii Community Reinvestment Corporation and Lei Ho’olaha to potentially create and share a full-time loan management position. The three CDFIs each have one or two staff members, so this position is a way to help all of them build their internal capacities.

In addition, cohort members are advocating for legislation as a sector. In 2021, the state created a \$5 million Affordable Homeownership Revolving Fund that nonprofit developers could use to create affordable for-sale projects. The Association and other local CDFIs helped write the fund’s administrative rules and have been fighting to have CDFIs be included as a qualified user of the fund. Erik Mann, the Association’s current executive director, says he and Gilbreath have also gathered data around the state’s affordable housing financing programs. They’ve identified a \$60 million deficit for affordable for-sale projects slated for the next five years.

Mann says he’s optimistic about Hawaii Habitat for Humanity Association’s future. The CDFI recently began allowing affiliates to borrow up to \$250,000 in construction funding; the increased amount reflects the rising costs to build homes and the affiliates’ efforts to ramp up their production.

“Just in my first couple months going around and meeting with our affiliates and kind of feeling out the needs and what their challenges are, makes me even more optimistic because I think there’s going to be a huge need for us in helping with predevelopment work ... to get all our affiliates building at a larger scale,” he says.

Lilley says her original goal was to grow Hawaii Habitat for Humanity Association’s loan fund to \$20 million by 2026 or 2027, but its board president thinks it’ll be possible to build the fund even more.

The association recently made a \$500,000 investment to a Kauai developer who leveraged the funds and will soon build 17 much-needed homes.

“Hopefully these kind of stories will get more investments,” she says, adding, “What funder wouldn’t want to make a one-time \$5 million investment and just let it ride? A \$5 million grant can go in perpetuity to fund projects. So I think that’s kind of the hope for the marketing strategy.”

“Hopefully these kind of stories will get more investments.”

— Jean Lilley, Former Executive Director

HHOC Mortgage

Nonprofit mortgage broker HHOC Mortgage provides affordable and flexible financing options for a variety of residential loan transactions. It was created in 2008 as a social investment to compliment the homebuyer education provided by the Hawai'i HomeOwnership Center and became a certified CDFI in May 2011.

It primarily serves low- and moderate-income communities and offers first and second mortgages, plus deferred closing cost assistance loans. First mortgages are available in conventional, Veterans Administration, Federal Housing Administration and U.S. Department of Agriculture programs. HHOC Mortgage's \$2 million loan fund provided 26 households with 72 loans in 2021.

One of the CDFI's largest challenges is employee turnover. It only has a handful of employees and recently went through three processors in two years and operated without a lending manager for a year, says Reina Miyamoto, executive director of HHOC Mortgage and its two nonprofit affiliates, the Hawai'i HomeOwnership Center and HHOC Housing and Land Trust.

"It's still difficult now, too," she says. "When we couldn't find qualified staff, we hired a number of people without residential lending experience and provided training. We're pretty lean in staff, so it was a heavy lift and those staff haven't remained with us for a number of reasons."

HHOC Mortgage receives most of its funding from the federal CDFI Fund. Between 2010 and 2018, it received awards almost every year for a total of \$2.6 million. One of those awards was from the Fund's Capital Magnet Fund Program, which aims to spur investment in affordable housing and related economic development efforts. Miyamoto says she thinks increased competition from other CDFIs prevented HHOC Mortgage from receiving more awards.

"We always struggle with showing impact for our applications (i.e. numbers we will serve) – as a CDFI focused on residential financing in a high cost housing market where wages don't keep pace with the market, the amount of support needed to be relevant is higher than what would be needed in the continental US," she says.

"CDFIs also provide consumer loans where the loan amounts are usually lower than what is needed for a residential transaction in Hawaii – since their loan amounts would be lower, the projected households to be served would be higher than what we'd typically project," she adds.

HHOC Mortgage has what Miyamoto considers to be a narrow target market: Oahu homebuyers at or below 80% of the area median income. For a family of four, that's a maximum annual income of \$104,480.

Successfully receiving federal awards is also complicated by the fact that the CDFI sometimes needs to create a new product to apply. That's difficult to do when the CDFI has relatively low loan capital and a small staff that would have to manage the deployment of new products. Other times, the CDFI Fund requires that applicants expand their service to a new geography. Miyamoto says the challenge then is showing that HHOC Mortgage is already serving that new area or has secured partnerships to deploy capital in

Making First Home Purchases Possible

Nick Severson's search for his first home only took four months but encountered a hiccup when the newly built Kakaako unit he and his wife originally made an offer on was held up with development-related issues. They ended up rescinding their offer and made another on a different unit.

Severson learned about HHOC Mortgage through a coworker at the Legal Aid Society of Hawai'i, where he now works as managing attorney of the nonprofit's housing and consumer unit. Despite possessing a strong knowledge of housing law, he was overwhelmed by the transaction. He recalls calling his loan officer, Cathy, multiple times a week with questions.

"The market and rates changed so much, and she was really helpful helping us navigate that and make sure we were comfortable with all that was moving around the transaction," he says.

The Seversons got their second mortgage and a deferred closing cost assistance loan from HHOC Mortgage and closed on their 420-square-foot studio in July 2022.

The young couple is coming up on their first year in their new home and enjoy its proximity to grocery stores, restaurants, entertainment, and work. Severson's office is only a 15- or 20-minute walk away, and his wife's commute consists of a short bus ride.

“It really sounds kind of corny, but it really is our own,” he says. “As soon as we got it, we painted this really beautiful accent wall and did this cool treatment on the glass (partition). And nothing major because it’s a new unit but kind of made these modifications or changes to it and set it up in a way that we couldn’t do if we were renting. So it feels more unique to us.”



that area. And those partnerships must be in place even when HHOC Mortgage does not know whether it’ll receive those federal funds.

The cohort has also led to increased collaboration with other local CDFIs. For example, HHOC Mortgage and Hawai‘i Community Lending brought together their lending and education staff members to learn about each other’s loan products so that they can make

referrals to the other organization. The two organizations also collaborated on a funding application for a down payment assistance program on Maui.

Miyamoto says HHOC Mortgage has a strong track record of helping local borrowers. Its portfolio hasn’t had any foreclosures in its 15 years in operation – a testament to the CDFI’s strong relationships with its borrowers, many of whom are first-time homebuyers, as well as its homebuyer education and coaching programs.

And its down payment assistance loan has helped make home purchases more affordable. The product began as an unproven idea 13 years ago when Miyamoto’s predecessor, Dennis Oshiro, put up a loss reserve with UH Federal Credit Union in exchange for the credit union funding the the down payment assistance loans. HHOC Mortgage’s loan officers broker all of its first mortgages to various lenders and the second mortgage with UH Federal Credit Union in exchange for the credit union loaning HHOC Mortgage money to fund down payment assistance loans.

This model continues today because it allows qualified buyers to have access to this niche product. Miyamoto says: “Since we have limited loan capital, instead of DPAL not being available when our funds run out, this loss reserve arrangement allows us to continue to serve buyers with the product.”

Her goal is to eventually build the loan fund to \$10 million: “With a loan portfolio of \$10 million, our role in the community could change — we could deploy our products through other lenders, providing wider access and creating opportunities for working families to own their own home,” she says.

Reflections and Looking Ahead

The coronavirus pandemic provided both opportunities and challenges for Hawai'i's CDFIs. Many were small and had to quickly ramp up operations to meet increased community needs, but the health and financial crisis also enabled the financial intermediaries to show the broader impact investment field what they're capable of.

Many of the cohort members agree this was an opportune time to bring them together to collaborate, share resources and lessons learned, and receive technical assistance. Today, Hawaii's CDFI sector is stronger and poised to grow even further.

Michelle Kauhane, senior vice president and chief impact officer at the Hawai'i Community Foundation, says the six CDFI loan funds collectively had about \$17.6 million at the start of the program. At the end of 2022, their combined assets had increased by 360%.

"Just the exponential growth that we've seen in that short period of time in our first year together really inspires me about what is possible," she says.

Lessons Learned

This capacity-building program was the first of its kind that The Kresge Foundation has helped to organize specifically for CDFIs. Program organizers and participants reflected on several lessons learned:

- Building a system's capacity works best when you help grow the people already working in the community, rather than bringing in outsiders. The Kresge Foundation has always believed that a community has the answers to its own problems but just needs more resources and connections. Evans says: "My engagement in Hawaii really drove home that lesson for me."
- Have a larger budget for individual capacity-building. Each of the cohort members had different niches; some were in consumer lending while others were providing loans for real estate transactions or business operations. One cohort member says this meant that some trainings weren't applicable to their CDFI, so they expressed a desire to focus more on individual capacity-building.

- It's important for CDFIs to tell their own stories. Jeff Gilbreath of Hawai'i Community Lending says that Hawaii CDFIs have allowed others to tell their stories for years, but they're now able to start controlling their own narratives. "We're telling our own story and we're doing so in a way that brings authenticity, that really shows the true colors of each of our CDFIs so folks can't paint a broad brush over all of us," he says.



Just the exponential growth that we've seen in that short period of time in our first year together really inspires me about what is possible.

**Michelle Kauhane
Hawai'i Community Foundation**

Growth Potential

The cohort program has helped generate opportunities for local foundations, banks and other impact investors to directly support CDFIs.

"Thanks to Kresge, Hawai'i Community Foundation, the institutional investors are now saying, 'Oh, maybe now I should make this investment and put these dollars to work,'" says Gilbreath. "I think financial institutions, the mainstream banks are slowly coming along as well."

One of the best examples is a \$1.5 million investment that the Harry & Jeanette Weinberg Foundation and Hawai'i Pacific Health made to Hawai'i Community Lending.



The Aloha Diaper Bank is a new borrower of the Hawaii Community Reinvestment Corporation. One third of all Hawaii families struggle with diaper need. Photo courtesy of HCRC.

“That was very intentional from the beginning that our team looked at how can we model some cross sector collaborations in support of our CDFIs in Hawaii that might encourage others to do some more work,” says Marisa Hayase of the Weinberg Foundation, which is also looking at potential grants to other CDFIs.

Likewise, the Hau’ol Mau Loa Foundation has since made a second investment in the Hawai’i Community Reinvestment Corporation to help the CDFI’s new Community Real Estate Fund, which will provide predevelopment loans for affordable housing projects.

In the meantime, Hawaii’s community loan funds

continue to provide essential services and products to low-income and hard-to-reach borrowers. And they’re ready to grow even further.

Janis Reischmann of the Hau’oli Mau Loa Foundation says there’s still more education that needs to take place for borrowers, administrators, and funders to actualize the potential of Hawaii’s CDFIs. But the state can also celebrate the growth the local CDFI sector has achieved and the impacts it has made.

“You can’t forget the impact those individual loans have either on organizations or in some cases individual borrowers,” she says.

Credits

Writer

Noelle Fujii-Oride, freelance writer

Editor

Krista Jahnke, The Kresge Foundation

Designer

Alejandro Herrera, The Kresge Foundation



THE KRESGE FOUNDATION

SIP1044-0723