

Community First Fund Strategic Plan 2006-2010

I. Introduction

Community First Fund, the premier economic development organization serving central Pennsylvania, has a fourteen-year history of providing loans and technical assistance for small business owners, affordable housing developers and community groups in low-wealth communities in central Pennsylvania. As a federally certified CDFI founded in 1992, Community First Fund provides clients with technical assistance and financing, and has closed over 450 loans totaling over \$10 million to support small business development, affordable housing, and community development initiatives.

The mission of the organization is to create lasting economic growth for its communities by providing equitable financial services, technical knowledge and advocacy for its clients.

CFF operates in five offices covering a thirteen county region in central Pennsylvania that is home to 3.5 million people, with a cross section of smaller distressed urban centers, rural communities experiencing job loss and affluent suburban towns. The majority of loans are made to Persons of Color, women and low-wealth individuals. Community impact from these loans has been significant, including the creation or retention of nearly 850 jobs and the creation of over 250 units of affordable housing. Loans are made to a wide spectrum of business sectors, including retailers, the service industry, wholesalers, light manufacturing, construction entities, housing developers and social service providers.

CFF has received numerous awards and honors recognizing its strengths in offering comprehensive business development services in the community including the 2005 Eastern Pennsylvania Minority Small Business Champion of the Year Award by the U.S. Small Business Administration Philadelphia District Office and the 2004 Governor's Latino Commission Pride Award, honoring its commitment to the Latino community in Pennsylvania. CFF was also a finalist for the 2004 U.S. Commerce Department's Excellence in Economic Development Award. Recently the organization participated in the nationally acclaimed CDFI Assessment Rating process known as CARS®, and received a rating that indicates the organization "exhibits solid financial strength, performance and risk management practices".

CFF has a staff of fourteen employees; senior staff includes individuals with more than 125 years of commercial banking experience and finance expertise. The portfolio of more than 220 loans totals approximately \$6 million as of January 2006. Portfolio performance has been strong, with limited loan losses due to solid loan management practices.

For the past several years Community First Fund operated under a strategic plan which concluded at the end of 2005. CFF's Board of Directors and staff developed a focused implementation plan that provided guidance for the staff, who reported annually to the Board of Directors on progress in achieving the plan's objectives. The Board believes the goals and objectives of this plan were largely achieved in terms of the successful expansion of CFF activities in central Pennsylvania.

During the 2000 to 2005 planning period, CFF expanded from one office in Lancaster to five offices and became the premier regional economic development organization. Community First

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Fund became known throughout the region for its small business, affordable housing and community development lending. During this timeframe, CFF grew from \$1 million to \$7 million in assets, and annual lending levels increased from \$200,000 to \$2.5 million.

CFF leadership is aware that many dramatic changes have occurred in the external market, including changes in the demographics of the region and the patterns of poverty, changes in the subsidy environment for Community Development Financial Institutions (CDFIs), and changes in the banking industry and the availability of capital. In response to this, the CDFI industry is going through a restructuring, including consolidation, development of industry infrastructure, and various innovations in product development, product and service delivery, and capital formation. CFF will position itself to succeed in this new and more challenging environment to take advantage of industry innovations and infrastructure.

The leadership of CFF used the strategic planning process to consider how best to build on the success of the existing plan to better serve its market and create greater opportunities for low-wealth individuals and Persons of Color in central Pennsylvania. In addition, the Board and staff used the strategic planning process to take stock of the changes in the environment and how they affect CFF, re-examine the business model, and assess the strengths and weaknesses of the organization.

II. Vision, Mission and Values

The CFF Board of Directors approved the following vision, mission, and values on February 16, 2006.

Vision Statement

Community First Fund envisions a future where opportunities for economic prosperity are available to everyone in the communities we serve.

Mission Statement

Community First Fund creates lasting economic growth for our communities by providing equitable financial services, technical knowledge and advocacy for our customers.

Core Values

1. **Equity:** CFF advocates and supports initiatives that create access for equitable economic opportunities in our communities.
2. **Justice:** CFF is dedicated to the promotion of economic and social justice in order to improve the quality of life for our communities.
3. **Permanence:** CFF continuously improves its business model to ensure sustainability of our services.
4. **Commitment:** CFF is dedicated to superior customer service for clients.
5. **Excellence:** CFF is dedicated to maintaining a highly effective organization by fostering professional development for employees.

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III. Strategic Goals, 2006 to 2010

1. **Expansion and Growth:** Community First Fund will significantly grow its loan fund by providing a broader set of products and services for clients in the market that it serves by researching market demand and implementing demand-driven loan programs for affordable housing development, community facilities, and larger business loans.
2. **Organizational Impact:** Community First Fund will create effective impact measurement tools to evaluate the benefit delivered to the target market and will use the information to evaluate existing programs and determine new opportunities for the development of programs, products and services.
3. **Marketing:** Community First Fund will create a “CFF brand” to broaden awareness of its products and services among diverse audiences.
4. **Business Model:** Community First Fund will develop a sustainable business model that advances its mission and values by increasing earned income, diversifying funding sources, and by leveraging operational efficiencies.
5. **Capitalization:** Community First Fund will expand capital under management to \$15 million by 2010 and will seek more private sources of capital that are compatible with CFF’s mission.
6. **Industry Leadership:** Community First Fund will become the recognized expert in best practices for community economic development for small cities in order to influence policy and create new opportunities.

IV. Rationale for and strategies toward CFF’s Strategic Goals

Goal 1— Expansion and Growth: Community First Fund will significantly grow its loan fund by providing a broader set of products and services for clients in the communities it serves by researching market demand and implementing demand-driven loan programs for affordable housing development, community facilities, and larger business loans.

First Steps: For any new product or service, Community First Fund will begin by conducting market research in the dynamics of the new sector and the demand for particular financial products. For example, preliminary market research results showed demand for loans to develop or renovate mixed use properties and for larger business loans. The key informant interviews provided mixed messages about the need for loans for affordable housing. Each of these opportunities will be further researched and appropriate products will be developed.

Community First Fund is well known and well respected within its region. CFF has many of the relationships it needs to make expansion into new sectors and products go smoothly. In order to expand into real estate based lending, Community First Fund will need to develop or recruit new lending skills, as the evaluation and monitoring of a larger loans and specialized real estate loan has different elements than lending to small businesses. CFF will have to intensify existing relationships and develop additional and new partnerships with groups advocating for and developing affordable housing.

Background: Community First Fund spent the last five years expanding geographically and becoming a regional organization. Starting with an office in Lancaster, the organization

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expanded to serve a thirteen county area which includes Adams, Berks, Chester, Cumberland, Dauphin, Franklin, Lancaster, Lebanon, Lehigh, Montgomery, Northampton, Perry, and York Counties from offices in Lancaster, York, Reading, and Harrisburg. The great majority of the organization's lending activities are micro and small business loans. Over the next five years CFF will provide a larger array of economic development financing opportunities (such as larger loans) for the geographic market and will develop additional products to complement related community development sectors, such as housing, and nonprofit organizations. CFF has always offered selected housing and nonprofit loans primarily to organizations with which it had an established relationship. Over the next five years CFF will create proactive programs to address the needs of low income and People of Color throughout the region by increasing the supply of capital for affordable housing, community facilities and nonprofit services.

Many commercial renovations, mixed use or community facility projects are extremely complex and developers limit the number of these projects they do over time. Developers in Central Pennsylvania complain of the numerous levels of government approvals necessary, the confusing maze of funding programs, and regulations. There will be many opportunities for CFF to play a leadership role in convening the parties needed to put the financing together and to make a project go forward efficiently.

Community First Fund also has tremendous opportunities to expand in the micro and small business lending sectors. The thirteen-county area that CFF serves has some of the heaviest concentrations of businesses, especially those owned by Persons of Color, in Pennsylvania, outside of Philadelphia and Pittsburgh. Business formation in the region continues to grow steadily. Over two-thirds of the new firms in Pennsylvania in the past ten years were firms with twenty employees or less; this is CFF's market.

There is increased competition for business lending from banks, especially with the increased use of credit scoring. However, there are many opportunities to work successfully with businesses that do not meet bank underwriting criteria or that qualify for a bank loan but could benefit from additional subordinated financing from CFF. Opportunities also exist for CFF to expand into small business lending utilizing the Small Business Administration 7A Loan Guarantee program, once final approval is received. Banks offer credit quickly through credit cards, credit scoring, and lines of credit. To successfully compete, CFF will have to offer value added services such as ongoing technical assistance, training, and other services.

It is still the case that firms owned by Persons of Color use credit less than other owners, so there is still significant opportunity in this market for CFF. The CFF region is becoming more diverse; in addition to a growing cadre of businesses owned by African Americans, Asians, Latinos, and others. This suggests new markets for CFF and the need for ongoing sensitivity to cultural differences.

Goal 2—Organizational Impact: Community First Fund will create effective impact measurement tools to evaluate the benefit delivered to the target market and will use the information to evaluate existing programs and determine new opportunities for the development of programs, products and services.

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First Steps: Based on the newly approved vision and mission, the CFF Board should develop a short list of the types of change the organization is trying to create. The staff should then establish measurements to assess these changes and determine baselines for the starting point. Some of these measurements should be internal to CFF, and some should be external, reflecting changes in the communities we serve.

Background: Community First Fund recognizes that in order to know if it is meeting its mission and goals, it must be able to answer the question “are we making positive change in our communities?” In order to answer that question Community First Fund must first be very clear about the change it is trying to create while making such change measurable and consistently collect and analyze the necessary data to accomplish this. CFF must make such processes efficient, streamlined and easily implemented.

Once the goals about change are created and the measurements are in effect Community First Fund should use this data as a feedback loop to evaluate its existing programs and evaluate new opportunities. This will likely result in dropping some existing programs that do not produce the social impact CFF is striving for, and promoting programs that do create that change.

Community First Fund is aware there may be certain types of business loans that have higher impact than others, which they would want to target. Proactive efforts will offset the natural but reactive nature of lending – CFF will seek to find, develop, encourage, and bring in businesses/entrepreneurs with a higher likelihood of success based on their type of business and stage of development. For example, our research shows that in Pennsylvania once women owned businesses transition from being a sole proprietorship to having employees, the revenue and profitability rises faster than the average small business by two to five times. Nonetheless, many of these businesses still need CFF products and services. CFF should focus some efforts to lending, training, and technical assistance to meet the needs of this market segment. Other high impact projects are key commercial or mixed use real estate projects in main corridors of the downtown of a city. CFF can proactively seek to play a role in convening and financing to make these projects happen more quickly and with a greater probability of success.

Goal 3— Marketing: *Create a Community First Fund brand to broaden awareness of its products and services among diverse audiences.*

First Steps: The branding effort will serve to position CFF in the minds of stakeholders, partners, clients, prospects and other industry participants by providing a clear message about the organization’s purpose and services. The process will define CFF’s uniqueness and place among other providers in the market place. In order to develop the CFF brand the organization will seek out and contract with one or more organizations for marketing, advertising, and public relations services. A campaign and follow-up plan should be developed. As the branding and marketing campaign is implemented, CFF management should assess the need to bring some of the more routine tasks in-house to be carried out by the appropriate staff as this is an ongoing operational need.

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Background: The CDFI industry in general and Community First Fund in particular are hidden in plain sight. Despite the good works of hundreds of organizations nationwide many key constituents have never heard of CDFIs or have only a limited idea of what we do. Constituents who know about Community First Fund, including entrepreneurs, bankers, elected officials, and economic development groups, have a positive image of the organization. However, many of CFF's constituents have a limited concept of CFF's mission, role, and programs. Many still see CFF as a micro-lender, when in fact the organization offers a broader array of loans. As CFF expands into other types of lending such as housing or community facilities it will have to more visibly and repeatedly reach out to potential partners, borrowers, and a new cadre of officials to be effective.

To create a broad awareness of CFF's role, products, and services, CFF will create a brand for the organization. The best brands have a consistency across every interaction, a promise that is meaningful and clear, and something special that helps them stand out. CFF's brand will express and represent our mission, values, positive reputation and identity through our name, logo, tag line, and overall look. Marketing this brand and the organization will become integrated throughout all of our activities. CFF will consistently pursue marketing and public relations throughout its region.

Consistent with this goal, CFF will strive to maintain an ongoing "connection" or dialogue with the communities in the target region. This dialogue will help foster stronger and longer lasting relationships between CFF and the people that make up the target audience, including community leaders, lenders, clients, and others. CFF will leverage existing media and other technologies to facilitate the ongoing two-way communication with target audiences.

Goal 4— Business Model: *Develop a sustainable business model that advances CFF's mission and values by increasing earned income, diversifying funding sources, and by leveraging operational efficiencies.*

First Steps: Community First Fund will pursue a number of strategies simultaneously to develop a new business model by evaluating and developing financial projections for high, low, and moderate funding, operating, and business level scenarios. As CFF develops new products and services, new and ongoing analysis of break-even will be conducted to assess the viability and sustainability of these products and services in relation to market demand and available resources. The organization will seek out new and more diverse sources of capital to fund growth. At the same time CFF will examine some of the most common and best business practices for opportunities to become more efficient, productive and resourceful.

Background: As a CDFI, CFF views itself as a permanent community asset. In order to remain as a valuable institution, it is critical that CFF develop a sustainable business model. Almost all CDFIs are feeling the reduction in both operating and capital subsidy. This is an across the board change, as all major sources of CDFI support are decreasing at the same time, including government, foundations, banks, and other corporate support. CFF will develop a business model less dependent on subsidy and government contracts through greater lending volume, increasing operational efficiencies and careful consideration of the elimination of certain programs that are less effective while also exploring and pursuing new capital sources. Community First Fund will also stay aware of and consider implementation

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of new infrastructure developed for the industry. All lending programs, training, and technical assistance services must be evaluated from a financial as well as a mission perspective. Training and technical assistance products and services should be aligned with providing access to capital and strengthening a client's business operation.

Community First Fund is aware that its current micro-lending model is not a true self-sufficiency model because of the high volume of transactions, extensive amount of time to assist the customer, and small size of each loan. CFF seeks to create a mix of products with better overall self-sufficiency, including larger business loans and real estate based loans. Designing a new business model will allow CFF to continue its commitment to micro-lending. CFF still firmly believes in the power of entrepreneurship to help individuals and their families to realize their dreams and improve their economic status. However, from both a mission and a financial perspective other types of lending models can also provide benefit to CFF and to its market.

Goal 5—Capitalization: *Expand capital under management to \$15 million by 2010. CFF will seek more private sources of capital that are compatible with mission.*

First Steps: Community First Fund will seek out new investors based on this plan, especially in the private sector. Public sector capital, while very helpful, often has many strings attached. Compared to other similar CDFIs, CFF has fewer foundation and individual investors. CFF may have to consider somewhat higher cost of capital as it grows, as there is less subsidized capital available. CFF will also return to certain existing investors to see if they wish to increase their investment. CFF will consider all sources of capital consistent with its mission and program. CFF should also consider other means to augment its capital base and origination levels, such as purchasing loans, participations with other lenders, and originating for other lenders.

Background: If a CDFI is to grow it must grow its capital base. For a CDFI capital is the organizations' inventory. Community First Fund seeks to grow to \$15 million between 2006 and 2010 requiring an average annual growth rate of 20% for each of the next 5 years. This is ambitious but achievable. This goal is directly related to the first goal. In order to develop and deliver larger loan products, Community First Fund will need significantly more capital. Community First Fund expects that its average size loan will be much larger in 2010; in 2005, its average loan outstanding was \$20,000.

Community First Fund has a very strong equity base upon which to grow. In 2005 CFF ended the year with 50% equity. For lenders with a significant micro-loan portfolio, a 35% equity base is sufficient. As CFF expands its loan product mix, and levels the risk in the portfolio, it could increase its leverage.

Goal 6—Industry Leadership: *Become the recognized expert in best practices for community economic development for small cities in order to influence policy and create new opportunities.*

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First Steps: Community First Fund should start by codifying what works and what doesn't work in community development for small cities. CFF should seek out opportunities to speak at small city events and conferences and to insert itself into relevant policy discussions in county seats and in Harrisburg. This knowledge base should encompass financial, operational, political, and strategic facets and include examples of the degree of success and/or failure of specific approaches to issues.

Background: There is a growing recognition among economic development practitioners that the distinction between a rural area and a city is not so clear-cut, but rather a continuum. While there is a wealth of scholarship about big city development, less attention has been paid to smaller cities. All of this points to the need for new approaches to revitalizing these communities. By supporting and disseminating best practices, CFF will benefit the communities in which it works, which in turn will make their business borrowers more successful. It will also promote the organization's leadership, which, in turn, will lead to other opportunities.

Community First Fund is already a recognized leader in central Pennsylvania. CFF is one of the few institutions to work in the entire region, including the cities, towns, and rural areas. Members of the Management Team and lending staff are already known in the Mayors' offices, city councils, and economic development offices in Harrisburg, Reading, York, and especially in Lancaster. Community First Fund will expand on its existing knowledge and expertise on "what works" in these communities and consciously share the lessons from one community to another. Community First Fund is in a unique position in Central Pennsylvania to bring in knowledge and lessons from outside the region and evaluate what will work in the region. Taking this kind of leadership will position CFF at the state level, complemented by local and national level arenas in a manner that will have CFF poised to influence new ideas and initiatives.

V. Strategic Planning Methodology

The strategic planning process began in August 2005 and was completed in January 2006. Community First Fund hired National Community Capital Association (NCCA) and Venture Clarity to facilitate the planning process. The two lead consultants were Adina Abramowitz from NCCA and David Acosta of Venture Clarity. The consultants began the engagement by interviewing senior management and the board about their goals for the planning process and their assessment of the organization. Then they held a face to face session with the staff to introduce the strategic planning process, discuss the values present in the work of the organization, and the changes in the CDFI Industry. On the same day the consultants led a thorough SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis with the Management Team. The planning process then entered a research phase, consisting of a comprehensive environmental scan of the organization and industry, which included:

- Quantitative Market Analysis
- Key Informant Interviews, and
- Peer Comparison of CFF against similar CDFIs.

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CFF's Board heard the results of the research on October 10, 2005, and discussed its implications for Community First Fund. On November 29, 2005, the Board met for a second time in a full day meeting. During this meeting, the Board engaged in an exercise to develop a new mission statement and decided on six strategic goals, based on recommendations by the consultants. Based on this input the senior management and consultants crafted the mission and goals for board approval.

This document was approved by the Board on February 16, 2006. The consulting team plans to meet with CFF Management immediately to develop an operational plan for implementation commencing by April 2006.

The organization will integrate this plan into every aspect of its operations. To make sure that the organization is aligned with the plan at every level, the Board will now focus most of its attention on plan implementation on the strategic level. The organization will create an annual operational plan; the plan will then be translated into divisional plans. Each individual employee's annual goals will be based on achieving the division's goals and his or her annual evaluation will be based on these goals. So from the individual employee up to the Board, everyone will have a role in helping CFF achieve these strategic goals.