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Community Development Finance (CoDeFi) Progression Model & Investment Connection Program in Puerto Rico



For additional information visit
<https://nyfed.org/InvestConnectPR>

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Enhancing Community Development Investments in Puerto Rico

When communities are affected by natural disasters, banks can play a critical role in the recovery thanks in part to the Community Reinvestment Act (CRA), a regulatory framework that requires financial institutions to lend, invest, and offer services to low- and moderate-income communities in which they operate. Banks [can help](#) stabilize and revitalize neighborhoods, promote economic and small-business development, repair deteriorating infrastructure, and create long-term employment opportunities for all.

In September 2017, Hurricane Maria struck Puerto Rico as a Category 5 storm, resulting in unprecedented damage, including the destruction of homes, businesses, and vital infrastructure. In fact, the Puerto Rican government has [estimated](#) a total cost of recovery of approximately \$94.4 billion.

Banks with branches or retail operations in Puerto Rico were quick to respond and have channeled much needed investments to critical areas. However, the scope of the disaster is enormous, and recovery will require the support of new players.

In January 2018, the Federal Reserve Board of Governors, along with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, issued the [Interagency Statement on CRA Consideration for Community Development Activities in the U.S. Virgin Islands and Puerto Rico Following Hurricane Maria](#). This statement established that financial institutions located outside of Puerto Rico and the U.S. Virgin Islands can receive CRA credit for supporting certain community development activities on the islands. These efforts can include community services or affordable housing for low- or moderate-income individuals, or activities that promote economic development by financing small businesses or small farms. (Regulatory agencies issued a similar statement following Hurricane Katrina, providing a critical incentive for banks outside of the New Orleans area to play a role in the recovery.)

The Launch of Investment Connection and the CoDeFi Progression Model in Puerto Rico

Given the unique opportunity to enhance community development investments, the New York Fed is launching the first iteration of its Investment Connection program in Puerto Rico. Since 2011, Investment Connection — a program developed by the Kansas City Fed — has helped match financial institutions, corporate enterprises, and community foundations with organizations that have CRA-eligible community and economic development proposals in need of an investment, grant, or loan. The New York Fed's Investment Connection program is slated to kick off in Puerto Rico this fall, and we will be reaching out to banks across the country to participate.

This program is a critical step in the New York Fed's Community Development Finance (CoDeFi) Progression Model, created to support community development financing in the Fed's



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Second District by identifying community development opportunities and attracting investment capital to the region. More information about the CoDeFi Progression Model can be found [here](#).

In Puerto Rico, the goal of the CoDeFi project is to strengthen the commonwealth's [capital absorption framework](#) by increasing the capacity of local organizations and connecting them to mainland financial institutions for new funding opportunities.

In 2018, the New York Fed began conducting listening sessions and meetings with local stakeholders. We found both a current lack of private investment in community development efforts, as well as a need to build the capacity of community development organizations and their networks in Puerto Rico. Furthermore, while there is interest in funding recovery activities, banks without operations in Puerto Rico lack an understanding of community development priorities and relationships with potential intermediaries or beneficiaries of funding. These findings supported the need for a program like Investment Connection in Puerto Rico.

To ensure that the program is inclusive and considerate of the various needs of local organizations, the New York Fed is collaborating with the [Fundación Comunitaria de Puerto Rico](#) and the nonprofit organization [Inclusiv](#) to implement the CoDeFi Progression Model. Both organizations have a long history of supporting community development and capacity-building initiatives in Puerto Rico.

**Community Development Finance Progression
Model and Investment Connection Overview**



The New York Fed is Committed to the People of Puerto Rico

The New York Fed is deeply committed to the people of Puerto Rico and to its growth and prosperity. Hurricane Maria was an unprecedented disaster for the people of the Island, resulting in significant damage to vital infrastructure, homes, and business. To support the recovery, the New York Fed will launch the Community Development Finance (CoDeFi) Progression Model in Puerto Rico in 2019.

The New York Fed's CoDeFi team supports the transformation of entire communities in our region by working closely with regional organizations and helping to increase the effectiveness of community development investments.

CRA consideration for community development activities in Puerto Rico following hurricane Maria

Banks are important players in the disaster-recovery process because they are uniquely situated to offer assistance during this precarious time, given their compliance requirements under the Community Reinvestment Act (CRA).

The Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued the statement "Interagency Statement on CRA Consideration for Community Development Activities in the U.S. Virgin Islands and Puerto Rico following hurricane Maria." on January 25, 2018.

The statement explains that a financial institution with assessment area(s) located outside the U.S. Virgin Islands and Puerto Rico will receive consideration for community development activities that revitalize or stabilize the areas affected and activities that assist people displaced by the hurricane, as long as the institution has been responsive to the community development needs and opportunities of its assessment area(s).

CoDeFi Progression Model in Puerto Rico

To leverage the statement, the New York Fed will launch the Community Development Finance (CoDeFi) Progression Model in Puerto Rico. The program aims to attract funding from financial institutions across the country to address the community development needs in the Island.

For Additional Information

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Community Development Finance (CoDeFi) Progression Model



Dialogue with community: The CoDeFi team conducts a series of outreach meetings with local leaders to hear a first-hand account of economic conditions and community development priorities.

Resource Guidebook: A directory of nonprofits and community based organizations in Puerto Rico which will serve as a guide for investors who are not based in Puerto Rico.

CRA and Community Development Training: A series of educational programs on the CRA, Community Development, and capacity building for non-profit and other community development organizations in Puerto Rico.

Investment Connection: A program that helps match financial institutions, corporate enterprises and community foundations with organizations that have Community Reinvestment Act (CRA) eligible community and economic development proposals in need of an investment, grant or loan.

Important Dates

EVENT	DATE
Building Public-Private Partnerships Workshop	September 12, 2019
Drop-In Call for Investment Connection Applicants	September 23, 2019
Investment Connection Proposal Submissions	October 1-15, 2019
Investment Connection Proposal Review	October 15 - November 30, 2019
Organizations informed of proposal status	December 1, 2019
Investment Connection Pitch Program in San Juan, Puerto Rico	January 28, 2020

Investment Connection FAQs

Investment Connection Puerto Rico

FAQs

1. What is Investment Connection?

Investment Connection is a program by the Federal Reserve that matches financial institutions and other capital providers (“funders”) with nonprofit and community development organizations (“applicants”) whose needs may qualify for credit under the Community Reinvestment Act (“CRA”). The aim of the program is to boost investments in low- and moderate-income communities and encourage effective partnerships between funders and local stakeholders. Though funding is a crucial component, the connection also provides opportunities to inform funders about critical needs facing low- and moderate-income populations and help them build relationships with members of the nonprofit community. Investment Connection also offers educational resources to applicants on the CRA and community development. For additional information on the Investment Connection Program visit <https://nyfed.org/InvestConnectPR>

2. Why did the Federal Reserve create Investment Connection?

The Federal Reserve identified the need to help match funders with organizations that had community development proposals. To achieve this goal, the Federal Reserve Bank of Kansas City created Investment Connection in 2011 and to date, has helped facilitate approximately \$30 million from funders to community organizations. Several other Federal Reserve Banks have also launched their own Investment Connection programs including Richmond, St. Louis and Minneapolis. The Federal Reserve Bank of New York (“New York Fed”) is launching Investment Connection with the initial focus on initiatives that support recovery and resiliency in Puerto Rico.

3. Why is the New York Fed launching Investment Connection in Puerto Rico?

In the aftermath of Hurricane Maria, the Federal Reserve Board of Governors, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, issued the *Interagency Statement on CRA Consideration for Community Development Activities in the U.S. Virgin Islands and Puerto Rico following Hurricane Maria*. This statement established that financial institutions located outside of Puerto Rico could receive CRA credit for supporting eligible activities on the island thereby providing a unique opportunity for the New York Fed to launch and implement the Investment Connection program in the Second District.

The New York Fed will implement Investment Connection in other economically distressed regions in the Second District which includes New York State, Fairfield County, Connecticut, the 12 northern most counties of New Jersey, Puerto Rico, and the U.S. Virgin Islands. Additional program locations and dates will be announced in 2020.

4. How does Investment Connection in Puerto Rico work?

In October 2019, the New York Fed will call for proposals from organizations servicing Puerto Rico. Submitted proposals will be reviewed by New York Fed CRA examiners and Community Development Finance staff to determine if the proposed loan, investment, or service generally aligns with the definition of a community development activity in accordance with the CRA. This evaluation does not

constitute a determination that a loan, investment, or service made by the funder to the organization will receive CRA credit. As the scope of a submitted proposal may change prior to funding, a final determination of community development qualification by the regulator of the financial institution can only be made after funding. Funders shall perform their own due diligence before engaging in any transaction with an organization to ensure that any such transaction meets the funder's objectives. Investment Connection and the New York Fed do not endorse or make any representation as to the propriety or suitability of the organizations, their programs or their submitted proposals that are featured as part of Investment Connection.

Accepted proposals will be announced in December 2019 and organizations will then be given an opportunity to provide their proposal pitch to funders at the Investment Connection Pitch Event in Q1 2020. Approximately 15 to 20 proposals will be selected for the Investment Connection Pitch Event (see Questions 5 and 9 for more information on selection criteria).

5. What type of proposals are we looking for?

The organization or project proposed must currently operate or will operate within the stated geographic area for the Investment Connection program. The organization must have demonstrated expertise in the project area proposed and a record of sustainable operations. Greater weight will be given to proposals that address disaster recovery and resiliency. As stated in the Question 4, proposals for a loan, investment, or service must generally align with the definition of a community development activity in accordance with the CRA. For additional information on the CRA please see "Materials on the Community Reinvestment Act" on the [New York Fed's Community Development Finance website](#).

6. Who are the funders?

The target funders are financial institutions with CRA obligations. The *Interagency Statement on CRA Consideration for Community Development Activities in the U.S. Virgin Islands and Puerto Rico following Hurricane Maria* referenced in Question 3 provides an opportunity for funders both within or outside of Puerto Rico to participate.

7. Is the New York Fed responsible for awarding grants?

The New York Fed is not a grantmaking organization. The purpose of *Investment Connection* is to facilitate education, information sharing and potential opportunities related to the CRA and to make connections between organizations and potential funders.

8. When do I submit a proposal?

The timeline of *Investment Connection* is the following:

Oct 1-15, 2019	Investment Connection Proposal Submission Period
Oct 15-Nov 30, 2019	Investment Connection Proposal Review Period
Dec 1, 2019	Organizations are informed of Proposal status
Jan 28, 2020	Investment Connection Pitch Program in San Juan, Puerto Rico

9. What are the organization's requirements to submit a proposal?

The following items are key requirements:

- Submit a proposal using the online template (see "*Overview of Investment Connection Website and Proposal Submission Process*");
- Submit a copy of the most recent audited financial statements (preferably audited between 2013-2018); and
- Submit a copy of the organization's most recent strategic plan

10. How do I submit a proposal?

Participating organizations are required to submit their proposal and supporting documentation (see Question 9) on the Investment Connection online platform. A link to the online proposal submission platform will be available on the CoDeFi website on September 30, 2019. Organizations will be asked to create a username and password for access to the site. Once a profile is created, the proposal may be submitted. The site will allow saving and editing of the proposal. More detailed instructions on how to use the website will be available on August 30, 2019.

A copy of the proposal template and a sample proposal can be found on the CoDeFi Website.

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Sample Investment Connection Proposal

Federal Reserve Bank of Kansas City
Investment Connection Online Proposal



Contact	Synthia Jaramillo
Title	Director, Economic Development Department
Email Address	synthiaj@cabq.gov
Phone	505-377-0339
Name of organization	City of Albuquerque Economic Development Department is the applicant, for its Incremental Development ABQ collaborative
Mission statement	Incremental Development ABQ’s mission involves teaching entrepreneurial residents and small businesses currently renting space to become the real estate and economic developers of their own disinvested neighborhoods. It involves small-scale projects not touched by the local construction industry which specializes in tract housing and multi-story, tax credit projects. Instead it focuses on the “missing middle” or modest scale residential and mixed use projects such as an in-fill vacant property that also provide local services or amenities, and broaden the range of affordable residential rents, while building wealth for families in the neighborhoods and the city as a whole.
Overview of organization	<p>Incremental Development ABQ is a program of the Economic Development Department, and a multi-partner collaboration.</p> <p>The department has invested almost \$100,000 in a two year set of events and trainings involving over 100 people to date. Training introduces proven small scale development approaches that build local skills to take advantage of untapped and unserved real estate market segments in Albuquerque.</p> <p>The effort supports aspiring small developers seeking to develop bank-financeable, innovative urban infill properties that contribute to the “missing middle” affordable housing shortage, provide small and micro-scale retail and other entrepreneur space, and build the capacity of the incremental development subset of the construction market and strengthening our neighborhoods. Because incremental development does not rely on subsidy, and zoning barriers have been systematically removed in conjunction with this program during the rewrite of the citywide zoning code in 2017, the pathway to sustainable income streams are substantially within an individual’s control.</p> <p>The department considers the program an anti-poverty and wealth building effort that is responsive to the most motivated of the participants who will receive hands-on mentoring as they move forward from skills acquisition to application with a real world development project. Broader benefits include the infilling neighborhood “missing middle” workforce affordable housing and small scale/micro retail and the eventual jobs supported by both the construction and small retail and entrepreneurial tenants—at a scale well</p>

Federal Reserve Bank of Kansas City

Investment Connection Online Proposal

	<p>suited to serve, low income and persons of color given the existing demographics of the urban labor base and tenant rental pools.</p> <p>Program partners have conducted outreach to members and used their networks to find potential trainees in the city's core disinvested neighborhoods where historically there were many examples of this missing middle development--today some of our most cherished contributing structures in our neighborhoods.</p>
Website	https://www.incrementaldevelopmentabq.com
State where proposal is located	New Mexico
Proposal title	Small Scale Incremental Development Construction Loan Fund
Support request	<ul style="list-style-type: none"> • Loan • Investment/Grant
Requested amount	\$500,000
Other significant partners in the proposal	Small Scale Incremental Development Construction Loan Fund
Proposal narrative	<p>Create a CRA Small Development Construction Loan fund to underwrite and administer acquisition and construction debt in underserved neighborhoods.</p> <p>The loan fund will be augmented by equity from 1031 tax deferred exchange investors in neighborhood scale residential and mixed use projects. The Construction Loan fund would revolve, and the fund administrator (The NM Loan Fund (a CDFI) or NUSENDA Credit Union), would underwrite deals and provide technical assistance to borrowers positioning their projects for 1031 Exchange investors to reinvest their funds via a series LLC to defer capital gains payments.</p> <p>The Loan Fund will be an efficient vehicle for banks in the region to participate in a well-administered credit facility lending in census tract that qualify them for improved Community Reinvestment Act ratings.</p> <p>The Loan Fund (TLF), a New Mexico-based CDFI, serves as fiscal sponsor for the project and would administer the proposed loan fund and provide wrap around services for investors and borrowers in conjunction with a local lender to be identified.</p>
Issues addressed	<ul style="list-style-type: none"> • Small Business Development / Microlending • Affordable Housing
Geographic impact	Neighborhood(s)
Population served	<p>Training beneficiaries include targeted (but not exclusively) low income individuals, often in construction, real estate or adjacent trades, and wanting to become entrepreneurs usually in their own neighborhoods.</p> <p>Project workforce is often LMI individuals, usually neighborhood based and often sole proprietors.</p>

Federal Reserve Bank of Kansas City

Investment Connection Online Proposal

	<p>Given resulting residential unit size and innovative configurations, rental housing (or live work space) is often affordable to LMI individuals, though affordable housing is not an express program outcome.</p>
<p>Population income</p>	<p>65% of the 14 Census Tracts in the Central Avenue Corridor (the core, but not exclusive program geography) qualify for CRA.</p> <p>Trainees include LMI and marginalized populations.</p> <p>A significant number of census tracts in the project area are also designated in the City's current Consolidated Plan as one 39 "Reinvestment Areas / "Disinvesting" as well as several Racially and Ethnically Concentrated Areas of Poverty (R/ECAPs)</p>
<p>Anticipated outcomes/impact</p>	<p>The Loan fund will create a vehicle for CRA Lending and 1031 Equity investment in disadvantaged neighborhood. Increasing access to this type of debt and equity combined with the current training and coaching by Incremental Development ABQ will create and sustain the creation of new household wealth and provide a stable foundation for neighborhood scale redevelopment of disadvantaged neighborhoods</p>
<p>Evaluation methods used to measure success</p>	<p>The current CRA metrics for measuring loan volume and the number of construction loan transactions, and conversions to permanent small commercial loans and conforming 30 year mortgages will provide a baseline.</p> <p>The Loan Fund will use the CRA metrics to track increased loan volume and transactions across all loan products.</p> <p>The same geographic framework should be used to identify equity investments through local 1031 intermediaries.</p>
<p>Project timeframe. Is your request for an existing or new program?</p>	<p>Existing Program</p>