INVESTING IN PEOPLE'S LIVES
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Executive Summary

Fondo Adelante is a San Francisco-based Community Development Financial Institution (CDFI) launched by Mission Economic Development Agency (MEDA) in 2015 to serve low- and moderate-income Latino communities in the Bay Area. To date, Fondo Adelante has provided capital and business support to more than 60 small businesses, with approximately $2 million disbursed. In 2018, the CDFI is expanding its small-business loan program complemented by launching an ambitious real estate loan program to finance urgently needed community development and anti-displacement solutions in San Francisco’s gentrifying neighborhoods. Based on this bold expansion of Fondo Adelante’s work, the CDFI is aggressively pursuing a three-year campaign to build a $100 million fund by the end of 2020.

Fondo Adelante is expanding small-business lending with two additional loan products: SBA Microloan and SBA Community Advantage. This duo of innovative programs will provide Fondo Adelante access to low-cost loan capital and grant funds for expanded business lending and support, plus provide government guarantees to serve Latino-owned small businesses in need of loans of up to $250,000, but who are challenged in endeavoring to access capital from traditional banks or other lenders. These programs will also significantly strengthen the CDFI’s financial position. From 2018 to 2020, Fondo Adelante is projected to lend $10 million to underserved small businesses, helping nearly 200 such ventures start or expand in the nine-county San Francisco Bay Area.

Fondo Adelante is launching real estate lending to respond to the need for more Bay Area options for rapid acquisition real estate financing. By underwriting organizations according to their strengths, Fondo Adelante will provide affordable-housing organizations the financial options needed to efficaciously compete in the region’s highly speculative real estate market. In the first year, Fondo Adelante will focus on lending to meet MEDA’s Community Real Estate needs, with the goal of later expanding to Bay Area organizations once the real estate lending program has been established. From 2018 to 2020,
Fondo Adelante anticipates lending up to $100 million for real estate, ensuring the preservation of at least 222 units of existing affordable housing, plus a pipeline of at least 375 units of new affordable housing to be produced.

A delineation of Fondo Adelante’s three-year campaign to build a $100 million fund is showcased in the accompanying Capitalization Plan. Fondo Adelante is seeking capital from diverse sources: banks; foundations; federal agencies; the City of San Francisco; and individual investors. In particular, the investments sought from Fondo Adelante’s bank and foundation partners are critical to the success of the CDFI’s overall capitalization.

Fondo Adelante is uniquely positioned to finance effective small-business and real estate solutions for Latino families, businesses and neighborhoods in the region. Fondo Adelante’s innovative financial products — in tandem with MEDA’s holistic set of strategies and with the support of its funding partners — will collaboratively enable the CDFI to stabilize Bay Area Latino neighborhoods and small businesses, as we turn the curve on the trend of displacement due to gentrification.
Section One: Overview

INTRODUCTION
The advent of MEDA’s Fondo Adelante as a CDFI was in October 2015, thereby creating a novel means to finance urgently needed community development and stem displacement of low- and moderate-income Latinos in San Francisco. Since its launch, Fondo Adelante has served the Bay Area’s Latino communities with microloans, small-business loans and business-support services. The CDFI is expanding its small-business loan program and launching a real estate lending program in 2018. This Business Plan details how Fondo Adelante will implement this expansion during the next three years. This document is accompanied by Fondo Adelante’s Small-Business Lending and Real Estate Lending case statements, outlining the need and justification for the CDFI’s expansion in these areas. This Business Plan is also accompanied by a Capitalization Plan that details the CDFI’s three-year campaign to build a $100 million fund, which will support the implementation of the Business Plan.

The Business Plan provides context for Fondo Adelante’s work and how it fits within MEDA’s broader community development and anti-displacement strategies. The plan demonstrates the unique value the CDFI offers to small businesses and affordable-housing organizations via its lending, while also explaining how Fondo Adelante’s impact is compounded by and contributes to the holistic work of MEDA. Additionally, the plan details the products and lending activity of its small-business and real estate lending programs, plus assesses the CDFI’s main competitors in these spaces. The last section of this document lays out Fondo Adelante’s path to growth and the staffing required to fully implement the program. The Business Plan concludes with an analysis of the major risks posed by this bold expansion of the CDFI’s work, and a strategy for mitigation of such potential issues.

BACKGROUND
MEDA launched its subsidiary Fondo Adelante in 2015 as a CDFI to help finance community development and anti-displacement solutions in the Mission District and beyond. Through its unique set of integrated services and programs, MEDA aims to achieve a collective impact in the neighborhood that is far greater than the impact of any one program. MEDA has a 45-year history of asset-building
and community-development programs in San Francisco’s Mission District, primarily serving low- and moderate-income Latino families. MEDA annually provides services to almost 7,200 constituents through the nonprofit’s asset-building programs, ranging from financial capability and job training to business development and housing opportunities. MEDA is also the lead agency of the Mission Promise Neighborhood, an education initiative offering a network of support services in the Mission District to help families achieve economic stability and support their children’s academic success. Additionally, MEDA began a Community Real Estate program in 2014 as an urgent response to stem the displacement of low-income families in the neighborhood.

Fondo Adelante started by providing microloans and small-business loans to San Francisco’s Latino- and immigrant-owned small businesses, as a response to the lack of targeted capital and support for this market segment. Seeded with federal grant dollars and a Program Related Investment (PRI) from the Surdna Foundation, Fondo Adelante has quickly grown to be a successful small-business lending CDFI. Fondo Adelante has already disbursed nearly $2 million, primarily to low- and moderate-income Latino-owned ventures. Leveraging MEDA’s robust, long-existing business development program, Fondo Adelante is able to serve higher-risk business owners overlooked by traditional banks — and even by many CDFIs.

In February 2017, Fondo Adelante received its CDFI certification from the U.S. Treasury Department and is now expanding on two fronts to support community development and anti-displacement strategies: a broader range of small-business loan products and a new real estate lending program. Fondo Adelante is becoming an SBA Microloan and Community Advantage lender to provide additional tools to address the displacement crisis affecting small businesses in the Mission District and beyond.

Fondo Adelante is also scaling as a means to address the greatest challenge facing San Francisco’s low- and moderate-income families: housing affordability. Fondo Adelante is launching a real estate lending program as a financing option for affordable housing and commercial real estate. The CDFI’s goal is to increase access to more efficient and affordable financing in a highly competitive real estate market.
UNIQUE VALUE PROPOSITION

As the only CDFI in the Bay Area solely focused on serving San Francisco’s Latino community and stabilizing the historically Latino Mission District, Fondo Adelante is uniquely positioned to finance effective small business and real estate solutions for such families and businesses, who for decades have lacked access to mainstream commercial lending products and are seeing high rates of displacement. Through Fondo Adelante’s unique products and services — in tandem with MEDA’s broad set of community-development strategies — the CDFI will stabilize Bay Area’s neighborhoods facing the negative impacts of gentrification.

Unique value to small businesses

**Range of loan products scaled to business need.** Fondo Adelante provides unique value in helping stabilize family-serving businesses in the Mission District and beyond by integrating small-business loan products with business-development services. With initial success offering loans up to $100,000, Fondo Adelante is expanding its range of loans with SBA Microloan and SBA Community Advantage programs, increasing loan sizes offered up to $250,000.

**Integration with business development services.** Small businesses also gain from Fondo Adelante’s partnership with MEDA’s long-time business development program, which is the leading business-support provider to Latino-owned businesses in San Francisco. MEDA’s business support includes: business planning; commercial-lease assistance; business training workshops; marketing strategies; and technology, credit building and business-expansion support. Fondo Adelante flexibly underwrites loans of existing MEDA business clients, based on demonstrated commitment and proven track record.

**Culturally relevant products and services for Latino businesses.** MEDA offers free technical assistance uniquely tailored to be culturally relevant, being offered in Spanish and attuned to the special needs of Latino entrepreneurs with limited credit, startups and businesses facing the threat of displacement. Additionally, all business products and services are offered regardless of immigration status. While the majority of CDFIs do not lend to Individual Taxpayer Identification Number (ITIN) holders — or greatly limit the loan products available to them — Fondo Adelante offers loans of up to $100,000 to ITIN holders who are otherwise qualified borrowers.
Efficient, flexible and affordable financial products. While many CDFIs and credit cards charge up to 18 percent interest — and with online lenders charging far more — Fondo Adelante’s maximum interest rate is just 9 percent. Additionally, Fondo Adelante’s products are offered at three- and five-year terms, allowing borrowers to start or expand their businesses without carrying the burden of a large monthly payment. The CDFI’s products will become all-the-more flexible and affordable as Fondo Adelante expands into the SBA Microloan and SBA Community Advantage programs.

Unique value in real estate lending

Rapid acquisition lending. Fondo Adelante’s initial loan products are designed to help affordable-housing organizations, such as MEDA’s Community Real Estate program, to expeditiously purchase and preserve market-rate, rent-controlled housing. These loans will allow organizations to borrow based on total acquisition and rehabilitation costs rather than a loan-to-value limit, affording borrowers much-needed flexibility and the time to line up subsequent take-out financing. Additionally, these products will allow organizations to quickly acquire and hold underdeveloped land today for future infill construction of affordable-housing developments.

Portfolio-based lending. The CDFI will work with its borrowers to move beyond project-by-project lending by providing enterprise-level financing based on the strength of the housing organization sponsor. In doing so, Fondo Adelante will offer more efficient and flexible acquisition financing than other local lenders.

Fondo Adelante’s impact as a community capital strategy of MEDA

Fondo Adelante’s expanded small-business and real estate lending provides a community-capital strategy to fulfill MEDA’s vision for its community:

We envision generations of Latino families with sufficient assets to thrive. Inspired by the past and present life of the Mission District, families are rooted in vibrant, diverse and forward-thinking communities, have opportunities to grow, and are actively engaged in the civic and political life of their neighborhoods and the institutions that affect their lives.
The CDFI’s community capital strategy is clearly articulated in Fondo Adelante’s mission statement:

_Fondo Adelante’s mission is to provide equitable access to capital for housing, microenterprise and small business, advance economic opportunities through community ownership and advance the Latino community in the Mission District and beyond._

The impacts of Fondo Adelante’s lending are instrumental in contributing to the vitality of the communities long served by MEDA.

**Results of Fondo Adelante’s small-business lending**

**Families are financially thriving.** The CDFI’s lending helps Latino families start and expand businesses, fostering generational wealth for business owners and creating jobs in the local community.

**The Mission is a strong and supportive community for Latino residents, businesses and institutions.** Fondo Adelante’s small-business loans enable Latino-owned businesses to remain in San Francisco’s Mission District and will eventually provide pathways for small businesses to achieve ownership of their commercial spaces, allowing them to secure permanent homes in the neighborhood.

**Results of Fondo Adelante’s real estate lending**

**Families have affordable and stable housing.** Fondo Adelante’s initial real estate loan products are specifically designed to help preserve existing rent-controlled affordable housing in San Francisco.

**Families are financially thriving.** Fondo Adelante will ensure that housing organizations, such as MEDA, are able to provide affordable housing as an asset for families to leverage as they strengthen other areas of their financial lives. The CDFI will also provide financing toward projects that create below-market-rate (BMR) homeownership opportunities for families, contributing to generational wealth.

**The Mission is a strong and supportive community for Latino residents, businesses and institutions.** The Mission District will remain a neighborhood of opportunity as Fondo Adelante acts as a catalyst for real estate to be preserved or produced as affordable housing.
Section Two: Small-Business Lending

FINANCIAL PRODUCTS

Fondo Adelante began with a pair of products for small businesses: a microloan ($5,000 - $50,000) and a small-business loan ($50,001 - $100,000). Many Latino-owned small businesses in San Francisco have a challenge accessing capital necessary to start or expand their ventures, and Fondo Adelante launched with such borrowers as its initial focus.

The CDFI’s small-business lending is offered across the nine-county Bay Area, focusing on Latino communities in San Francisco, Alameda, Contra Costa and San Mateo counties. Fondo Adelante’s loan products are flexible and affordable, made accessible for any legitimate business purpose: startups; supplies and inventory; equipment; commercial-lease improvements; vehicles; purchasing a business; business-debt consolidation; and working capital.

Loan products are offered on affordable terms: Interest rates start as low as 7 percent, with three- and five-year terms, plus neither prepayment penalties nor application fees. The loans also assist small-business owners in building their personal credit. There is no minimum credit score required, as Fondo Adelante ameliorates risk because all borrowers receive pre- and post-loan business coaching from MEDA’s adept business development staff.

In 2018, Fondo Adelante is expanding its small-business lending with two additional loan products: SBA Microloan and SBA Community Advantage.

SBA Microloan

Fondo Adelante will offer this loan product and invoice for up to $150,000 annual reimbursement of its business-support services to SBA Microloan recipients. This additional operations support will enable the CDFI to improve its staff capacity in offering robust business support to small-business owners. Like its existing microloan product, Fondo Adelante will offer the SBA Microloan for up to $50,000, at low interest rates, and at three- and five-year terms.

MANY LATINO-OWNED SMALL BUSINESSES IN SAN FRANCISCO HAVE A CHALLENGE ACCESSING CAPITAL NECESSARY TO START OR EXPAND THEIR VENTURE.
SBA Community Advantage

Fondo Adelante will offer this loan product to small businesses in need of loans up to $250,000, but who are struggling to access capital from traditional banks or other lenders. By qualifying borrowers through SBA Community Advantage, Fondo Adelante can access a federal guarantee on 75 to 85 percent of the loan principal, thereby lowering potential risk to the CDFI. Additionally, Fondo Adelante is able to sell the guaranteed portion of these loans at a premium rate on a secondary market, providing the CDFI quick liquidity and lowering the amount of loan capital that must be raised from alternative sources.

These loans are offered at competitive interest rates, and Fondo Adelante expects to limit terms to five years. By qualifying borrowers through SBA Community Advantage, Fondo Adelante will be able to make loans to small businesses with a limited financial track record or credit history, or paucity of collateral. One restriction of this program is that ITIN holders do not qualify, per government guidelines; therefore, Fondo Adelante’s loans to ITIN holders will remain capped at $100,000.

The increased loan size via this product will allow Fondo Adelante to serve a broader range of small businesses in the San Francisco Bay Area. Many businesses in Fondo Adelante’s portfolio have already reached the current maximum of $100,000 in financing and are in need of larger loans to continue growing. This program will allow the CDFI to continue serving these borrowers. Additionally, with MEDA’s focus on stabilizing the Mission District — highlighted by a focus on maintaining Mission Street as the primary commercial corridor for the family-serving ventures of the neighborhood — MEDA and Fondo Adelante can provide a much-needed augmented capital stream. Finally, SBA Community Advantage offers Fondo Adelante an added tool in working with growing small businesses that are committed to partnering with MEDA’s workforce development program to hire local, low-income workers.
LOAN-VOLUME PROJECTIONS

As part of its business planning, Fondo Adelante has modeled its next three years’ estimated loan production, cash flows and revenues for its small-business lending and operations. The loan-volume projections for small-business lending are outlined below.

Fondo Adelante small-business loan-volume projections

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TRADITIONAL MICROLOANS, SMALL-BUSINESS LOANS AND SBA MICROLOANS ($5,000-$100,000)</th>
<th>SBA COMMUNITY ADVANTAGE LOANS ($50,000-$250,000)</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$1.4MM</td>
<td>$600,000</td>
<td>$2MM</td>
</tr>
<tr>
<td>2019</td>
<td>$2MM</td>
<td>$1MM</td>
<td>$3MM</td>
</tr>
<tr>
<td>2020</td>
<td>$3.2MM</td>
<td>$1.8MM</td>
<td>$5MM</td>
</tr>
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</table>

From 2018 to 2020, Fondo Adelante is projected to lend $10 million to underresourced small businesses, helping nearly 200 such ventures start or expand in the San Francisco Bay Area.

MARKET COMPETITION

There are numerous small-business lenders in the San Francisco Bay Area. Many lenders have specific competitive advantages based on scale and financial backing, or via their speed and efficiency; fortunately, Fondo Adelante benefits from an unmatched credibility within the Latino community in San Francisco. While this does not curtail all advantages other lenders may exhibit, established community trust provides Fondo Adelante the opportunity to become the lender of choice for its target borrowers: San Francisco’s Latino-owned small businesses.
CDFI lenders

Numerous CDFIs in the Bay Area conduct small-business lending of $5,000-$250,000. While some CDFIs offer quick and simple underwriting for small loans, Fondo Adelante has also been successful in limiting its loan processing time.

Only two other local CDFIs offer small-business loans to ITIN holders, but neither of them offer above $10,000 to such borrowers; conversely, Fondo Adelante lends up to $100,000 to ITIN holders, providing a significant advantage with a large segment of Latino-owned small businesses in the Bay Area.

This is Fondo Adelante’s key advantage: While four other CDFIs offer SBA Community Advantage, these lenders are neither focused on San Francisco’s Mission District nor the Latino community. With staff and partners on the ground in the Mission District — diligently surveying small businesses’ needs and providing robust business support — Fondo Adelante has established deeper connections to the Latino small-business community than any other CDFI lender in the Bay Area.

Online lenders

The proliferation of online lenders in recent years presents a major challenge to Fondo Adelante. These lenders take more risks and provide funding within a few business days, but they counter such vulnerability by charging far-higher interest rates, generally priced at well over 36 percent. Fondo Adelante unequivocally advises small-business owners to never consider such usurious loans.

There are many advantages Fondo Adelante offers as an alternative to online lenders: lower pricing; longer terms; culturally relevant service; and robust business support. The CDFI has prioritized efficient underwriting to minimize the potential for borrowers to turn elsewhere. Fondo Adelante has been successful in not losing out to these lenders when borrowers are faced with the side-by-side choice, and the CDFI will prioritize comparison-shopping marketing over the next three years to educate borrowers on the numerous advantages of an Fondo Adelante loan.
Storefront lenders

There are several storefront lenders that have opened in San Francisco’s Mission District over the last half decade. Historically working-class neighborhoods, such as the Mission District, showcase a saturation of payday lenders, cash-advance merchants and other predatory financial-service providers. The additional storefront lenders, such as Oportun and Apoyo Financiero, generally target small-business owners looking for microloans. While their products are offered on better terms than online lenders, Fondo Adelante still defines these loans as predatory, for cost and structure are constraining and products are never paired with business support. This is juxtaposed with Fondo Adelante’s flexible and affordable loan products, always coupled with MEDA’s business support services; therefore, the CDFI will maintain its competitive advantage within the local Latino small-business community.
Section Three: Real Estate Lending

FINANCIAL PRODUCTS

Fondo Adelante’s real estate lending is responding to the need for additional San Francisco Bay Area options for rapid acquisition financing. Fondo Adelante aims to provide products to housing organizations, such as MEDA, to help them quickly purchase buildings and land, affording borrowers time to line up subsequent take-out financing. Initially, MEDA will be Fondo Adelante’s primary borrower, but the CDFI will quickly expand to offer financing to the range of Bay Area housing organizations looking for additional acquisition-financing options. Fondo Adelante will eventually roll out other products, including loans for land-banking and commercial real estate acquisition.

Small Sites acquisition and rehabilitation

Fondo Adelante will initially provide loans to MEDA and other housing organizations to support the scaling of the Small Sites Program (SSP) throughout San Francisco. Through SSP, housing organizations acquire, rehabilitate and manage small multi-family buildings to preserve affordability to households making less than 80 percent Area Median Income (AMI) while concurrently ensuring quality homes in the neighborhood. Target buildings are properties for sale that feature affordable rents for long-term, rent-controlled tenants vulnerable to no-fault eviction by speculators taking the units off the rental market, with most buildings showcasing deferred maintenance. By purchasing and rehabbing these properties, housing organizations stabilize the neighborhood by keeping these homes as part of the affordable rental stock and permanently preserve affordability for current and future households.

Informed by MEDA’s experiences, Fondo Adelante will provide another option for rapid acquisition financing to housing organizations utilizing SSP. MEDA has been successful in harnessing the power of SSP, accessing subsidies from the San Francisco Mayor’s Office of Housing and Community Development (MOHCD) and private financing to acquire and rehabilitate buildings. As of the end of Q1/18, MEDA had acquired and is rehabilitating 20 properties comprising 144 affordable units — 128 residential homes and 16 commercial spaces. Looking to scale, MEDA has recognized the need for more rapid
acquisition financing options. Such options will allow housing organizations more time to line up permanent financing for properties, in the form of first tier private financing and second tier MOHCD subsidy.

Acquisition loans of up to $10 million will be approved with a letter of support from MOHCD, softly committing the availability of long-term City subsidy at permanent take-out financing; alternately, housing organizations in other Bay Area cities will also be able to access these loans on similar buildings, oftentimes not requiring public subsidy to support the projects. These loans will cover acquisition costs of the properties and all necessary rehabilitation projects, including soft-story retrofits and potential addition of Accessory Dwelling Units (ADUs). The loans will require permanent take-out financing to close within 24 months.

Land-banking and pre-development

This product will allow borrowers to quickly acquire and hold underdeveloped land today for future affordable-housing development. The loans are intended to help housing organizations immediately bank as much land as possible in their communities to set these parcels aside for future affordable housing rather than market-rate units.

Most new affordable housing stock created in the Bay Area is developed on large parcels of land and financed through tax-exempt bonds and low-income housing tax credits. This type of large-site development requires a multi-year process of land acquisition, pre-development and construction. Due to the limited availability of land on which to build these large sites, housing organizations need additional rapid-acquisition options to gain site control and aggressively purchase land parcels.

Fondo Adelante’s land-banking product will be used for the first phase of tax-credit-financed projects and income-restricted homeownership projects. Fondo Adelante will provide financing of up to $12 million for site acquisition and pre-development. Eventually, Fondo Adelante’s financing will be taken out by construction financing, which will then be taken out by permanent financing. Loans will be offered at interest-only until take-out financing. As with its other real estate products, once it raises lower-cost capital and builds equity, Fondo Adelante will be able to offer blended capital at lower interest rates to borrowers. The loans will require the construction take-out financing to close within 24 to 48 months.
Commercial real estate acquisition and development
Fondo Adelante will offer this product to enable small businesses and nonprofits to purchase their own buildings, ensuring their long-term presence in the community. While preservation and development of affordable housing is critical to the stabilization of San Francisco’s neighborhoods, these strategies must also be applied to commercial spaces for family-serving businesses, nonprofits and cultural institutions. For the Mission District and other neighborhoods to remain strong and supportive for low- and moderate-income families, small businesses and nonprofits must be able to thrive in affordable commercial spaces. The development of these loan products will be largely dependent on the CDFI’s ability to establish a strong track record of real estate lending through the SSP and land-banking products.

LOAN-VOLUME PROJECTIONS
The business model is built on current assumptions of loan terms, fund capitalization (see the accompanying Capitalization Plan), and demand for SSP and land-banking products. The loan-volume projections for real estate lending are outlined below.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SSP LOANS</th>
<th>SSP $ COMMITTED AND/OR DISBURSED</th>
<th>LAND-BANKING LOANS</th>
<th>LAND-BANKING $ COMMITTED AND/OR DISBURSED</th>
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</thead>
<tbody>
<tr>
<td>2018</td>
<td>7</td>
<td>$21 million</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>2019</td>
<td>10</td>
<td>$30 million</td>
<td>1</td>
<td>$10 million</td>
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<tr>
<td>2020</td>
<td>20</td>
<td>$60 million</td>
<td>2</td>
<td>$20 million</td>
</tr>
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These projections assume an average SSP building of six units, with average acquisition and rehabilitation costs of $3 million. The projections also assume an average land-acquisition loan of $10 million. By the end of 2020, Fondo Adelante anticipates enabling the preservation of at least 222 units of affordable housing via SSP loans, while also enabling the development of a pipeline of at least 375 units of affordable housing through land-banking loans.
MARKET COMPETITION

With Fondo Adelante’s focus on providing acquisition financing for real estate projects, the CDFI will be providing another greatly needed rapid acquisition option for housing organizations in the San Francisco Bay Area. The primary competitors in this space are small banks, CDFIs and the San Francisco Housing Accelerator Fund (SFHAF).

Bank lenders

Numerous local and regional banks provide loans for affordable housing, but few lend for SSP because it requires dedicated loan staff who understand the intricacies of the innovative program. Some smaller banks, such as Mechanics and First Republic, are willing to participate in SSP because the City’s subsidies allow them to lend for as little as 40 percent loan-to-value; unfortunately, banks are not a ready source for rapid acquisition financing because they generally are only able to make loans up to 60 percent loan-to-value.

Because of the risks involved, banks do not provide financing for land-banking and pre-development. This is another gap Fondo Adelante will fill for housing organizations that are strategically trying to gain control of the scarce San Francisco parcels still available for large-site development.

CDFI/Nonprofit lenders

Approximately 10 CDFIs provide lending to housing organizations in the San Francisco Bay Area, including California-based CDFIs Northern California Community Loan Fund and Housing Trust Silicon Valley, plus national CDFIs Local Initiatives Support Corporation and Enterprise Community Partners. Most of these CDFIs provide a range of construction, equity, tax-credit and preservation financing for large-site development. This is not a space in which Fondo Adelante is looking to compete; instead, Fondo Adelante is focusing on land-acquisition financing. There are a few CDFIs that do provide acquisition financing for underdeveloped land, such as Century Housing. Fondo Adelante will be competitive with pricing, thereby providing another rapid-acquisition option for housing organizations attempting to land-bank.

SFHAF was established by the City and County of San Francisco to provide affordable-housing developers with acquisition, pre-development and rehabilitation financing. Similar to Fondo Adelante, SFHAF is designed to be
responsive to the unique characteristics of San Francisco and offers an innovative, flexible and financially sustainable model for future housing initiatives coordinated with the public sector. Fondo Adelante will add a focused loan option for geographies experiencing high displacement in San Francisco, such as the Mission District, and throughout the Bay Area.
Section Four:
CDFI Growth and Operations

FUND CAPITALIZATION

Based on this bold expansion of Fondo Adelante’s work, the CDFI requires an aggressive three-year campaign to build a $100 million fund by the end of 2020. The accompanying Capitalization Plan details this campaign, which will support the implementation of this Business Plan. The Capitalization Plan outlines the phases, funding sources and initial funding targets of the three-year campaign. The CDFI is seeking capital from a broad range of funders: banks; foundations; federal agencies; the City of San Francisco; and individual investors. In particular, the investments sought from Fondo Adelante’s bank and foundation partners are critical to the success of the CDFI’s overall capitalization.

Fondo Adelante capitalization campaign targets

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<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Participation loan pool</td>
<td>$10MM</td>
<td>$15MM</td>
<td>$40MM</td>
</tr>
<tr>
<td>Federal Home Loan Bank of San Francisco</td>
<td>$3MM</td>
<td>$7MM</td>
<td>$23MM</td>
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<tr>
<td>EQ2s</td>
<td>$2MM</td>
<td>$4MM</td>
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<tr>
<td>Foundation PRIs</td>
<td>$2MM</td>
<td>$2MM</td>
<td>$4MM</td>
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<tr>
<td>City of San Francisco Treasurer’s Office</td>
<td>$500,000</td>
<td>$2MM</td>
<td>$4MM</td>
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<tr>
<td>Grants/Donations/Equity</td>
<td>$1.5MM</td>
<td>$3MM</td>
<td>$7MM</td>
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<tr>
<td>Neighbor-To-Neighbor (N2N) Fund</td>
<td>$2MM</td>
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<tr>
<td>Lines of credit</td>
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<td>$2MM</td>
</tr>
<tr>
<td>Total</td>
<td>$22 million</td>
<td>$40 million</td>
<td>$100 million</td>
</tr>
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</table>
**TIMELINE**

Fondo Adelante growth timeline and road map

<table>
<thead>
<tr>
<th>CDFI governance</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand CDFI Board</td>
<td></td>
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<tr>
<td>Finalize CDFI Operations Manual</td>
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<tr>
<td>Form Real Estate and Small-Business Credit Committees</td>
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<tr>
<td>Annually review and revise Operations Manual</td>
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<tr>
<td>CDFI governance</td>
<td></td>
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<tr>
<td>Capitalization (see accompanying Capitalization Plan)</td>
<td>Target: $22 million</td>
<td>Target: $40 million</td>
<td>Target: $100 million</td>
</tr>
<tr>
<td>Capitalization (see accompanying Capitalization Plan)</td>
<td></td>
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<tr>
<td>Operations</td>
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<tr>
<td>Hire a Small-Business Loan Officer and a Fund Manager</td>
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<td>Contract Real Estate Underwriter</td>
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<tr>
<td>Hire In-house Real Estate Underwriter</td>
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<tr>
<td>Add fund development and lending capacity (as needed)</td>
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<td>Add fund development and lending capacity (as needed)</td>
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<tr>
<td>Small-business product rollout</td>
<td>SBA Microloan and SBA Community Advantage</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Small-business loan volume</td>
<td>$2 million</td>
<td>$3 million</td>
<td>$5 million</td>
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<td>Small-business product rollout</td>
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<tr>
<td>Real estate product rollout</td>
<td>SSP acquisition</td>
<td>Land acquisition</td>
<td>Commercial real estate acquisition</td>
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<tr>
<td>Real estate product rollout</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Real estate loan volume</td>
<td>$21 million</td>
<td>$40 million</td>
<td>$80 million</td>
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</table>
REVENUE SOURCES FOR OPERATIONS

As part of its business planning, Fondo Adelante has modeled its estimated loan production, cash flows and revenues for its lending and operations over the next three years. The model shows the CDFI’s real estate lending will be self-sustaining through the income and fees generated; conversely, small business-lending operations will require grant support for the foreseeable future.

Revenue for small-business lending operations

Fondo Adelante has received significant federal funding through the U.S. Department of Health and Human Services’ Community Economic Development (CED) program — monies used to launch and grow Fondo Adelante’s small-business lending program, providing $1 million in loan capital and more than $1.2 million in operations support to the CDFI and MEDA since 2014. In addition, Fondo Adelante received a CDFI TA award in 2016 and an FA award in 2017. Because of this funding, current staffing and operations are covered through 2018.

Having established a strong lending track record, Fondo Adelante is well positioned to seek greater grant support from banks. The CDFI was recently notified of its first major award from a bank, which was a $250,000 grant through Wells Fargo’s Diverse Community Capital program. Fondo Adelante’s unique value proposition for Latino-owned businesses, complemented by MEDA’s extensive bank relationships, will translate to Fondo Adelante being successful in securing additional bank funding for operations for the foreseeable future.

Fondo Adelante will continue to aggressively seek federal grant funding through the CDFI Fund, SBA, CED grants and other impending opportunities. Because of their size and the fact that these are often multi-year awards, such funds will prove particularly beneficial to the long-term sustainability of the CDFI.

Revenue for real estate lending operations

Fondo Adelante’s business modeling shows that its real estate lending will be self-sustaining — even in Year One — through the income and fees generated. The model is built on current assumptions of loan terms, fund capitalization (see the accompanying Capitalization Plan) and demand for the SSP and land-banking. The model shows that a spread of 0.75 percent to 1.0 percent between borrowing and lending, in both interest rates and fees, will more than cover anticipated staffing and operations. By Year Three, revenues should generate
a significant surplus for the CDFI. Fondo Adelante’s overall budget has taken into account the necessary upfront investments for real estate lending, namely consulting fees, and these costs are fully covered by already-secured funding.

**STAFFING**

Fondo Adelante expects to build a team of four in 2018: Director of Fondo Adelante; Small-Business Lending Manager; Small-Business Loan Officer; and Fund Manager. The latter will be responsible for additional loan servicing, fund management and portfolio-compliance responsibilities, given the increased capitalization and lending activity. Fondo Adelante will also contract with an experienced commercial real estate underwriter for at least the first 12 months of real estate lending. Beyond 2018, Fondo Adelante will pace its growth to expand to a team that includes loan officers, fund developers and underwriters.

**RISK MANAGEMENT**

Fondo Adelante recognizes the numerous risks that must be considered given this bold expansion of the CDFI’s work. These activities pose risks to MEDA and Fondo Adelante, and appropriate steps will be taken to mitigate potential issues.

**CDFI governance**

The increased complexity of Fondo Adelante’s lending requires greater governance and oversight of the CDFI. MEDA’s Board is currently increasing the size and scope of responsibilities of Fondo Adelante’s Board, empowering it to provide more specific oversight of the CDFI. Additionally, Fondo Adelante is recruiting experienced individuals for its Real Estate and Small-Business Credit Committees. The Real Estate Credit Committee will be responsible for approving all real estate loans. The Small-Business Credit Committee will be authorized to approve small-business loans above $100,000.

**Fund management**

The ambitious growth of Fondo Adelante’s capitalization requires increased fund-management capacity. MEDA staff are supporting Fondo Adelante in the early fund development, compliance and administration. Fondo Adelante will hire a Fund Manager in 2018 to add capacity in these areas — and will continue to add capacity, as needed.
Long-term funding for SSP
The success of Fondo Adelante’s real estate lending depends in part on continued funding for SSP; fortunately, the program enjoys broad political support, as it is a proven strategy for preventing displacement of low- and moderate-income families. Fondo Adelante does not expect SSP’s budget allocation to be reduced or eliminated in the foreseeable future. Additionally, MOHCD and other policy stakeholders are actively pursuing additional permanent sources of funding.

Related-party lending to MEDA
Because Fondo Adelante plans to conduct significant lending activity with MEDA, the CDFI must establish firewalls to protect the arms-length nature of its lending. These firewalls must safeguard Fondo Adelante’s decision-making, ensuring a strict separation between the loan applicant and the underwriting decisions of the CDFI. The full range of these firewalls are outlined in the CDFI’s Operations Manual. The CDFI will also develop a firewalls-training schedule and conduct such trainings with all relevant MEDA and Fondo Adelante staff. The trainings will cover staff roles and responsibilities, Fondo Adelante’s legal and financial obligations, and other relevant topics.

Financial risks
The expanding lending activity poses financial risks to MEDA and Fondo Adelante. To mitigate these risks, lending-concentrations limits are set in the CDFI Operations Manual. In addition, Fondo Adelante has set financial targets that will keep MEDA and the CDFI in a healthy financial position — underleveraged and capable of raising additional debt capital. Finally, Fondo Adelante’s Board has been authorized to provide more-robust oversight to the CDFI as it capitalizes a diverse fund and builds its loan portfolio.
CONCLUSION

This Business Plan has detailed how Fondo Adelante will implement the bold expansion of the CDFI’s work during the next three years. The financial products Fondo Adelante is rolling out will help scale MEDA’s innovative and unique community development and anti-displacement solutions. Within San Francisco’s Mission District, Fondo Adelante will be able to provide the capital and support to a significant number of family-serving businesses on which low- and moderate-income Latino families rely. Additionally, the CDFI’s lending will be able to make significant amounts of real estate permanently affordable, thereby stabilizing San Francisco’s neighborhoods confronting the negative impacts of gentrification. Finally, Fondo Adelante will play an important role in land-banking for future affordable-housing development, ensuring San Francisco remains a diverse and welcoming city — for all.