Social Innovation Fund
Community Development Financial Institutions Webinar
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Good afternoon and welcome to the webinar for Community Development Financial Institutions. This is hosted by the Social Innovation Fund here at the Corporation for National and Community Service, the Community Development Financial Institutions Fund at the Department of the Treasury, and the Federal Reserve Board of Directors. We're really glad for you to join us today. I'm Damian Thorman, Director of the Social Innovation Fund. We're truly excited to engage on this webinar today for the CDFIs. At CDFIs, you represent a group of stakeholders that can play a huge role in the new development of an exciting field of Pay for Success. You'll hear throughout the hour about some of the ways that we think you can engage in Pay for Success. And you're going to hear from CDFI practitioners in the field.

First, thank you for joining us. And I'm now going to turn it over to my colleague, Jenni, who will share some of the logistics before we launch the webinar. Jenny?

Thanks, Damian. I'm Jennifer Stoff from the Social Innovation Fund at the Corporation for National and Community Service.

Before I turn it over to Annie Donovan, Director of the CDFI Fund at the Department of the Treasury, I'm going to cover some brief logistics. First, you'll notice that your phone lines are on mute; and they'll stay muted through the duration of the webinar. We'll have a question and answer period at the end of the webinar, during which time we'd like for you to type your question into the chat box. Second, following the webinar, you'll receive a brief survey. And we truly appreciate your thoughts and responses, so please do take a moment following the webinar to complete the survey.

Third, a recording of this webinar will be available and posted on the CDFI website within a few weeks' time. So please check the website to view the recording and to send to your colleagues who weren't able to join us today. And with that, I'm excited to turn it over to Annie Donovan, Director of the CDFI Fund, to introduce our webinar and say some words about the significance of this work and the opportunity for CDFIs. Annie?

Thank you, Jenni. Good afternoon, everyone, and welcome to this webinar on Pay for Success. The CDFI Fund is very pleased to host this in collaboration with the Federal Reserve and the Corporation for National and Community Service. I want to say a word just from my perspective as a former CDFI practitioner on the ground out in a CDFI organization. When I first heard about the concept of social impact bonds or Pay for Success, I have to admit to some skepticism. At the time, I was working inside of a CDFI that was mostly focused on real estate and business finance. And my initial analysis left me scratching my head a bit. Where is the primary source of repayment if not from cash flow? And where is the secondary source of repayment if not from tangible assets?

And what is all this hype about social impact bonds? Shortly thereafter, I joined the team at the White House Office of Social Innovation and Civic Participation; and the world of Pay for

Success started to make a lot more sense to me. Pay for Success is an important disruptive innovation for financing strategies and interventions that demonstrate success solving top social problems. For that reason, the mission alignment for CDFIs is clear. The product alignment is something each CDFI will have to think about carefully, and this session is designed to help you do just that. Of course wherever there are financial innovations that help solve social problems, you will see CDFIs taking a lead role. And that is who we have on the phones today, some of your CDFI colleagues. I want to thank the Corporation for National Community Service and the Federal Reserve Bank for their partnership today. Just to give you an overview of the session, during the first segment of this webinar, we will provide an overview of Pay for Success, a kind of Pay for Success 101. You'll be hearing from Damian Thorman, Katherine Klem, and Jennifer Stoff from the Corporation for National and Community Service's Social Innovation Fund. After that, you'll hear from Amanda Roberts from the Federal Reserve Board of Governors, who will speak about the opportunities for CDFIs in Pay for Success and some things that CDFIs should consider. Finally, we'll hear from two CDFIs already working in the Pay for Success space, who will share real examples. From the Nonprofit Finance Fund, NFF has engaged in Pay for Success from two vantage points. First, we'll hear from Dana Archer-Rosenthal on their work in supporting the actual structuring of Pay for Success projects. Then we will hear from David Streim on NFF's work in investing in actual on-the-ground Pay for Success projects. The second CDFI that will join us today is Enterprise Community Partners. From Enterprise, you will hear from Julia Shin as she speaks about her work on facilitating Pay for Success transaction structuring. We will pause at the end of the webinar to provide you the opportunity to ask questions of any of this afternoon's panelists. I am now delighted to turn this back over to Damian Thorman, Director of the Social Innovation Fund at the Corporation for National and Community Service. Thank you.

Thank you, Annie. I'm so excited to be here. Before we get too deep, I want to talk a little about what Pay for Success is. It's just going to be a brief conversation. As you know, the Social Innovation Fund is a key White House initiative that was founded in 2009. At SIF, we're exploring the field of Pay for Success in a really meaningful way. Our mission is quite simple: to find what works and make it work for more people. I would invite you to learn more about our SIF Classic Program, but that's not what we're here for today. We're here to talk about Pay for Success. What we're really talking about with Pay for Success is programs that have a proven record on things like literacy, third-grade reading level for example; looking at the impact of interventions, like permanent supportive housing. These are some of the toughest, most intractable problems, like chronic homelessness, that are facing the country. So what SIF is trying to do is take the limited public dollars, these Federal dollars, and leverage them to try to come up with and take programs to scale.

So far, we've leveraged over $600 million from private philanthropic dollars in the SIF Classic and the SIF Pay for Success programs. We've been in existence now for six years, and we've had over a billion dollar impact on the social sector, lifting up the good work of nearly 280 subgrantees. And we're very, very proud of the impact that we've seen across the field, the kind of promising programs that we have been able to move from early-stage success programs to programs that are really at the end of the SIF process able to scale, in a position to scale. I want to be clear that because of the relatively modest dollars that we have, SIF is not in a position to scale itself these programs. But what we really do is provide the kind of attention, the ability to take the programs and expand the data points, expand the amount of programs out there, and support rigorous evaluation that then, at the end of this process, really allows these programs to be very well-positioned to scale.

As the first Federal program, we really have a role in developing the fund and these projects; and we see the fund as a tremendous opportunity. We know that there is a lot to learn about Pay for Success; that's why we're here today. For example, we're already learning how the programs start to work; what makes a Pay for Success program work; what might not; who needs to be at the table; what level of evidence is necessary for getting a project up and running. These are all questions that we started to discern and understand in a much more meaningful way. The thing that we can offer you, I think, as part of this program is that you're on the forefront. This is the frontier of the Pay for Success program. And so what we're really asking you to do is to consider joining us at a very exciting time in the development of Pay for Success, to learn with us; to build this program; and to really dramatically increase the impact for the people that we really care most about and want to serve. Now I'm very proud to turn over to you our resident Pay for Success fellow at SIF, Katherine Klem, who is going to describe a little bit more about what Pay for Success is.

Thanks so much, Damian. Pay for Success is known to different people to mean different things; but to us, it's really quite simple. Pay for Success is a contracting model that ties funding for an intervention to its impact in the community. That's really it in a nutshell. So instead of paying for an activity to take place or for compliance with rules, you pay instead for specific outcomes that benefit individuals, a community, or even the environment. Now, often these entities, usually nonprofits in the community, delivering interventions, will not have the money on their own to cover the cost of delivering that intervention. So often, a project will need what's called Pay for Success financing.

And that's where this concept of social impact bonds comes in. Really, social impact bonds are not synonymous with Pay for Success per se. Social impact bonds are another way of talking about Pay for Success financing, which is the capital to cover those upfront costs of delivering the intervention until the impact of that intervention is measured. So here's how the money flows in a typical transaction involving Pay for Success financing. I think this may be one of the easiest ways to really wrap one's head around what we're talking about here. First, investors who can be high net worth individuals, CDFIs, commercial investors, or philanthropies, will provide upfront capital to a nonprofit organization providing a service that is likely to generate a positive impact in the community.

Second, once the nonprofit organization has operating capital to deliver their service, the organization will begin implementation to a target population. An example of this intervention might be an evidence-based afterschool program trying to reduce teen pregnancy among a particular high school population in a particular school district. Third, an independent evaluator will measure the causal impact of that service. So in this example, they would measure the degree to which that afterschool program causally influenced a reduction in teen pregnancy. If the service is shown to have achieved that performance goal established at the beginning of the project, say, a reduction in teen pregnancy among the target population by 10 percentage points, then, fourth, it will be determined that outcome payments should be released.

And then the fifth step comes into play; that's outcome payments actually being released by a payor, which is often a state or local government, but not always, as we're starting to see with some innovators. Sometimes it could be a hospital or even an insurance company, for instance. The outcomes payments will flow to the investors where there's Pay for Success financing involved. And these outcomes payments cover both the principal investment and sometimes a return. However, if this intervention, if the service, so the program to reduce teen pregnancy in this case, is not shown to have achieved the goal at the preset target levels, then the payor will owe nothing to the investors. This allows taxpayers or stakeholders for other players to ensure that their limited dollars are spent really only if and after a service achieves that impact we're going for. Additionally, and this is the box in the middle, some Pay for Success projects will include a third-party validator to certify the findings of the evaluator.

And I'm sorry, this is the box in the middle, most Pay for Success projects to date have included a Project Coordinator. This is an entity that really serves as the intermediary between the contracting parties. So those are the parties engaged in a typical transaction involving Pay for Success financing. Let's now turn to the stages of such a Pay for Success project coming to life. Really, we think about this in terms of four buckets or stages from just hearing about Pay for Success to actually delivering impacts for people or the environment. The first stage is really conception. This is a stage where you're learning about the model; it's what we're doing today. And this is also the stage where you might gather together a crew of organizations or specific individual leaders that are interested in this model as well. The second stage is really all about feasibility. So here a payor like a county government, as well as a service provider or a project coordinator, will be asking questions like: What problem in our community are we trying to solve? What promising interventions could be tested, or what evidence-based interventions could be replicated or scaled to help solve this problem?

And what kind of data, like the utilization of unemployment benefits, is already being collected that we could tap into and use to evaluate whether this sort of intervention is successful? So those are the kinds of questions you're asking. And you're essentially exploring how a Pay for Success project could take shape in a particular context for a particular community. The third stage is construction, and here you're truly creating the Pay for Success project. You're negotiating the contract, you're raising money from investors, if Pay for Success financing will be involved, and the like. And the last stage is executing, so it's making all of this come to fruition. Here the intervention is being delivered; the impact of the intervention will be evaluated; and, if outcomes are achieved at levels set during the construction phase, outcome payments will be released. Next slide, please. There are many benefits to using a Pay for Success approach; there are also some risks. We can talk about those in the Q&A if anyone is interested.

But I think it's important to highlight some of the real advantages to using this sort of model. In the typical projects that we've seen to date, wherein a government is the outcomes payer and there's Pay for Success financing involved, a few benefits really stand out to me. First, you'll be able to access from a service provider perspective or even a government perspective, new money to fund interventions that stand to make a real difference in sometimes seemingly intractable problems. Prevention can often be some of the trickier programs to fund, and this is a good mechanism for doing that. Second, if you're looking at an evidence-based intervention, this is a tool for scaling. Or third, this bullet here, if you're looking at an area that really has no yet proven solutions, Pay for Success provides an opportunity to really test drive a promising, creative new approach without having taxpayers bear the risk.

And finally, Pay for Success stands to create a more accountable government insofar as the expectation of not how many programs can you fund, but rather the measure is what kind of life you can help people achieve. Before I hand it back over to Jenni, I'll just make a note that there are six places in the United States where Pay for Success contracts involving Pay for Success financing have been executed. There are four localities: Chicago, Cuyahoga County in Oho, New York City, and Salt Lake City, as well as two states; and those are New York State and Massachusetts. And in Massachusetts, there are actually two projects being implemented at the moment. And the problems that are being tackled through these seven projects include recidivism, homelessness, and early childhood education. But we believe that really this is just the start of applications of the Pay for Success model.

Now, you may have heard of the results of the New York City project recently. And it turns out that that intervention did not achieve outcomes at the preset target levels. And that's really a great thing in some ways because it's saving New York City taxpayers from paying for an intervention that turned out to be not as successful as people hoped for these particular individuals being served. And these seven projects are really setting the stage for several dozen that are currently in the pipeline, projects with which we hope you, as CDFI practitioners, may engage. Now back to Jenni.

Great, thank you so much, Katherine. When we here at the Social Innovation Fund were considering how exactly to put together a Pay for Success program as Katherine was describing, we really recognized the significance of helping to build the pipeline of Pay for Success projects across the country. That said, we're directing our funds toward the second and third stages of Pay for Success project development. That is, assessing the feasibility of Pay for Success projects and providing funding to project coordinators to actually structure the Pay for Success projects after they have passed through the feasibility stage. When we talk about feasibility assessments, an example is one of our grantees, the National Council on Crime and Delinquency, that happens to today be working with the City of New Haven in Connecticut to determine whether a Pay for Success model can work to reduce the incidence of youths involved in the Juvenile Justice and Welfare systems in New Haven.

So NCCD is working with the City to, for example, conduct a budget analysis and a needs assessment to really understand what the target population is that would most benefit from these interventions; whether there's enough evidence in the intervention to spur investor interest; and so forth. And from there, New Haven will then determine whether a Pay for Success project is a viable model to pursue. Then we're also providing funds to organizations like nonprofit finance funds, from whom you'll hear later in the webinar, to support the on the ground work of project coordinators to bring Pay for Success projects from idea to implementation. For example, NFF is supporting the Community Foundation of Utah in their structuring of three distinct Pay for Success projects at once at the State level, which have already undergone feasibility assessments.

And we're very excited to see the outcomes of NFF's work and believe it will lead to many more well-executed, high-quality Pay for Success projects in implementation across the country. And of course, for more information about the grantees that we're funding in our program, please do visit our website at: www.nationalservice.gov for requests. And on the next slide, just would like to share a few things to look out for in the coming months and years for the SIF Pay for Success program that will be particularly of interest to you on the phone coming from the CDFI community. Currently, we have 8 grantees that are working on developing projects in more than 35 places across the country -- as Katherine said, cities, states, counties, from Arkansas to San Diego to Memphis -- in fields ranging from early childhood education to recidivism to veterans unemployment and more.

And as CDFIs, there will be ample opportunity to engage in these projects. We really hope that you'll be in touch with us and our grantees to learn more. Our current eight grantees will be releasing a next round of RFPs in the coming months for more work on both the feasibility side and the transaction structuring side which, again, are terrific opportunities for CDFIs to get engaged in Pay for Success. And as you may know, in 2015, we were again authorized to use up to 20% of our funds to test Pay for Success approaches at the Social Innovation Fund. So there will be another round of up to $14 million in funding hitting the street in the next few months, and we would love for you to stay in touch with us. As you can see, this is just a tremendous moment to begin to engage in this work in such a cutting-edge field as Pay for Success. We really think that you, as CDFIs, can make a huge impact in this field. Now that we've shared a bit more about the ways in which the Federal Government is funding the development of Pay for Success projects, I'm going to turn it over to Amanda Roberts, Senior Community Development Analyst at the Federal Reserve Board of Governors, who will share with us just how CDFIs can think about Pay for Success as a tool toward their larger mission. Amanda?

Thank you, Jenny. Good afternoon, everyone. My name is Amanda Roberts. I'm here in Washington D.C. in the Federal Board of Governors. But I do think it's important to note that I am in many respects channeling my colleague, Ian Galloway, from the Federal Reserve Bank of

San Francisco, who is really the expert in Pay for Success but, alas, is on vacation today. Before we move forward, I do want to address a question that I receive often, which is: Why is the Fed interested in impact investing or, in this case, Pay for Success specifically?

And I think the answer to that, first of all, for those of you who don't know, lies in the department that Ian and I are in; and that is Community Development. There are about 125 of us around the Federal Reserve System who are focused explicitly on the credit needs of low- and moderate-income communities. And we have the Community Reinvestment Act, the CRA. We've been paying attention to Federal funding, foundations, et cetera, all with an eye toward how we can get more capital into these distressed communities. So of course we see Pay for Success financing and impact investing more broadly as a way to help build out that pipeline of investable opportunities for community development. It has the potential to bring substantial new private capital into distressed communities.

And we are looking at ways to use our own research, convening, and potentially even bully pulpit powers to aid in the deployment of impact investing dollars in underserved domestic communities. Next slide, please. On this slide, I think we all know the takeaway on this, that we're winning battles but losing the war against poverty, especially in the community development realm. Next slide, please. And that's because we're very good at building apartments, or doing real estate in community development. We have been doing this for 30 years, and we have very effectively found that there is indeed a cash flow in real estate; and we know how to leverage that. We have developed very sophisticated financing mechanisms to leverage this cash flow that is real estate.

But until now, we haven't been able to find a cash flow for human capital, for the people who may live in these apartments or in neighborhoods where these apartments are located. So Pay for Success offers a way to finally invest directly in human capital development. Next slide, please. Let's take a minute and talk about LIHTC. I'm sure actually many of you on the phone are probably even greater experts on LIHTC than I am. And for those of you who don't know, I don't know if I spelled this out on the earlier slide, it's the Low Income Housing Tax Credit. LIHTC has been around for about 30 years; and I should clarify, it is not Pay for Success. It is not a social impact bond. However, it is a sophisticated financing tool. It's very similar to the Pay for Success model and one that I think is a good model for us to talk about the similarities. So it is performance-based contracting. It has private capital upfront. It has a government end payor over time. And there's a performance-based contract. It sounds a lot like Pay for Success, right?

And I really want to point this out because as an industry, the CDFI field, the community development field, is very comfortable with LIHTC. We know how to do it; we know how to leverage private capital; and we have created all of the systems and syndication and everything necessary to actually implement LIHTC and build apartments in the communities that need them. And I really feel that it's a way for us to kind of as a mindset say, well, we've had our toe in this water for a long time. And Pay for Success really isn't necessarily the huge leap that many people may think it to be.

Next slide, please. So of course here is a LIHTC diagram. And you'll notice it's actually not too dissimilar from the slide that Katherine showed earlier, slide 9. You have a nonprofit in the middle; you have a private investor; you have government involvement; and you have someone monitoring to make sure that it's done correctly. Of course for LIHTC, there isn't a success payment; but there is a penalty for failure. And I think, again, these are the mechanisms that we've been working with and that are really akin to the Pay for Success model.

Next slide, please. With that, now that we've talked about why I think the community development field is well-positioned to play a greater role in Pay for Success financing, let's talk a little more specifically about the roles that CDFIs could play. The first one is as a subordinate lender. This is a familiar role for CDFIs; you provide leverage to bring in market-rate capital. You've been doing this in real estate deals for a very long time, and you can envision that this might be similarly achieved through Pay for Success. Now, one thing that's on here, the second bullet, that I think is important is that most CDFIs are loan funds that are set up to make pretty vanilla loans that are repaid on a predictable schedule. From what I understand, many of these funds are actually prohibited from making equity investments and would need to get approval from their Boards to do so.

So the problem is that while Pay for Success investments are technically structured as debt, there is nothing predictable about the repayment terms. And that makes them appear more like equity, which could run afoul of some of the rules governing CDFIs. So you would need to get your Board members comfortable with this and potentially even make changes to your organizational structure in order to actually make this possible. So I do want to just flag that. Next slide, please. A second role that CDFIs could play is as an intermediary or, actually to steal Katherine's term from earlier, a Project Coordinator. That's the go-between in the middle between the government, the investor, and the service provider. And you would do the brain damage required to structure these very complex deals. But anybody on the phone who has ever done a new market tax credit deal or even a LITHC deal understands brain damage. This is a role that CDFIs and syndicators have played for a very long time, and one that I think we're sophisticated enough financially to execute on.

And the upside, the payment for that brain damage, would be generating fee income, which is important because it would diversity the CDFI's business model. It would also be especially important if social impact bonds scale. Katherine said earlier that there are 50 that are in the pipeline. And I would hope that in the years ahead that number would balloon that much more. There are a couple of organizations out there who currently play this project coordinator intermediary role. But you can imagine that as this field grows, there might be more of a demand for others. And that's really where we feel CDFIs might really be able to play a role.

Next slide, please. Now, should you decide to jump into this phase, I just kind of want to address two very common questions that you will receive and give you some answer for them. The first is: Isn't it scary to invite private investors into human capital developments? And I think for most of us on the phone who are in the CDFI or community development field, we'd say, "No, that's not scary at all; we've been doing this for 30 years." But you can envision people who are perhaps in the education sector or the health sector or the job training, recidivism sector, what have you, may not feel the same way. They may not have had the relationships with large financial institutions that we have had over the years. And that, again, is a way for you to kind of be the voice to say, well, we have a 30-year history of doing really good things in underserved neighborhoods using private capital. And we think that this actually isn't necessarily a bad thing.

Then the second question, which actually Katherine addressed earlier as well, is around Rikers Island. And you might get this question: Didn't that just prove that social impact bonds don't work? And much as Katherine said earlier, I think, again, this is a topic of success through failure. No tax dollars were expended. And there are also some lessons learned. I mean, that was literally the first one in the United States. There are things that we can learn from anything, successes or failures, around how rigidly structured that particular one was. These are real human beings that we're dealing with. My understanding of the Rikers deal is that the service provider, due to the experimental design, had a very set box of services that they could provide to these young, formerly-incarcerated prisoners. And these are human beings with real problems. And you can envision that these young men had problems that would require additional services.

And the service provider was not allowed to provide those. So these are the types of things just to think about as we expand beyond real estate, where it is simply apartments that we're building, to real people that we are working with and the types of problems they may encounter. I will leave you with some resources mainly out of the, again, San Francisco Federal Reserve Bank. And I would look forward to the Q&A. Thank you very much.

Great, thank you so much, Amanda; that was terrific. Now I am excited to turn it over to our friends at the Nonprofit Finance Fund. NFF has been engaged in the Pay for Success field for several years and, as a CDFI, has some great perspectives to share. So we will hear from Dana Archer-Rosenthal, Pay for Success Manager, and David Streim, Investment Underwriter at NFF, who are here with us today. Dana?

Great, thank you, Jenni. Good afternoon to everyone on the phone. By way of introduction, NFF is a national nonprofit organization as well as a CDFI. Our mission is to unlock the potential of other mission-driven organizations.

And our roots are really in the community development/finance field where for more than 30 years, we have been financing nonprofit organizations through our tailored investment practice. From this work, we've gained a deep understanding of the nuances of the social sector funding streams that support our clients. And we use this insight to provide strategic advice and consulting services to nonprofits, as well as to funders. We aim to disseminate what we learn from this work through blogs, reports, commentary, and events that highlight the impact of the organizations that we work with and the challenges that they face. Next slide, please. About five years ago when the first social impact bond in the United Kingdom was launched, we were approached by a large international and national foundation to test how the concept of Pay for Success might be applicable to the U.S. context. When we looked more closely at the Pay for Success model, we saw its potential to create a better capitalized social sector by focusing on what our nonprofit clients cared the most about, which is the impact that they have in the communities that they serve with the services and programs that they provide.

We also saw that Pay for Success represented a shift, or could represent a shift, from what we were seeing for a long time in our work with nonprofits, which was an ongoing struggle to provide the most robust set of services possible while demand for services was rising. Government funding was flat or declining, but often not growing. And our clients were frequently paid for activities or short-term outputs and at rates that didn't cover the full cost of their service delivery. So we were also mindful that with Pay for Success, as with any new mechanism, there are bound to be challenges, as well as real or perceived criticisms. And we've carved out our place in the Pay for Success space accordingly. Over the past five years, we've worked to establish ourselves as an independent voice and resource for all stakeholders as they explore and test this outcomes-driven model. We really want to ensure that all of the early Pay for Success activity in this country is filtered through a very strong learning lens, given the newness of the model and the significant opportunities as well as potential pitfalls that we see in this.

Before I move to talking about how our work has taken shape, I want to clarify that we ourselves do not assess project feasibility or coordinate projects or potential Pay for Success financing transactions. Next slide, please. What do we do? We describe our role in the Pay for Success space as that of both a knowledge integrator and a market facilitator. Our work as a knowledge integrator and field educator goes back the farthest to our earliest involvement in the field. Since 2010, we've hosted and curated the Pay for Success Learning Hub, which is the online home to all things Pay for Success-related including news, articles, field reports, as well as some more practical tools for new and experienced Pay for Success practitioners. So we have overviews and documents from existing projects, tools to assess stakeholder readiness, and an activity map highlighting U.S. activities. I would encourage all of you who are exploring Pay for Success to take a look there. Participating in and convening events has also been a major part of our work to date. We continue to participate in opportunities like this one, but we've also taken a more proactive role as a convener to facilitate learning and information sharing amongst new and early Pay for Success practitioners.

A recent example of this is a series of three regional summits that we cohosted in partnership with the White House on Pay for Success in late 2014 and early 2015. We also recognize that success in Pay for Success relies on strong service providers. That is organizations that can offer high-quality services and programs, while also having the strong organizational infrastructure and capacity to support their participation and often their growth as a result of Pay for Success investments. So the operational needs and capacity of nonprofits are something that we continue to advocate for and work to address. To that end, we've run a series of boot camps -- one- and two-day sessions aimed to bolster and identify capacity, strengths, as well as gaps in nonprofit providers in locations that are exploring Pay for Success. In more recent years, we've evolved our role in the Pay for Success space further to serve as a facilitator of market growth. This has taken shape through two major initiatives, both our California Pay for Success initiative and our work as a Social Innovation Fund grantee. The activities for both of these initiatives are to provide financial and technical assistance to projects at different stages of development. In our work in a Social Innovation Fund grantee, we are providing late-stage transaction structuring support to projects that have already conducted feasibility assessments.

At this point, we've already provided financial support to five projects through a competitive RFP process, with another two to four anticipated before the end of the year and more in 2016. Our goal, which we share with the Social Innovation Fund, in making these awards is to really diversity the Pay for Success field in terms of the actors, geographies, and issue areas involved, while also supporting projects that have the potential to make a great impact in the communities that they target. We also hope to draw out lessons and tools that could speed the process of project development moving forward. Both of these initiatives, the California and the SIF work, have really given us unparalleled insight into the Pay for Success project development process, which is really consistent with our goal for involvement in the Pay for Success market's development as an organization.

We really want to understand from this experience how the Pay for Success mechanism works, its potential strengths and constraints, and disseminate our learning so that we can help steward Pay for Success' responsible and appropriate implementation as another tool in the toolbox for addressing community problems. I'm going to now pass it off to my colleague, David Streim; and he's going to talk about the final side of our Pay for Success work.

Thanks, Dana. There is one more component to NFF's work that has completed our involvement in Pay for Success to date, and that's really on the investment side. And so I've been leading our efforts to deploy CDFI Fund Awards that we specifically have dedicated to making subject investments in Pay for Success projects as a way to support the projects and also to deepen our involvement and understanding and learning in this space. And so in December of 2014, we closed our first investment, which was a subordinate debt to support the seventh Pay for Success project to launch in the U.S., which was the one in Cuyahoga County, Ohio. And that was a program that was intended to reduce the time that it takes to reunify homeless mothers with their children who are in the foster care system.

And also, just note that we actually also got pretty far along into the structuring phase of another project that we had hoped to invest in. The project didn't end up launching; but in the process, we actually got quite a bit more experience and perspective on the investing side, which proved to be very valuable. And so that's our involvement on the investing side to date, and we hope to be working with a couple more projects in the near future as well. On the next slide, I'll just give you kind of a high-level overview of why this work is a good fit for NFF as a CDFI, as an investor in particular. And partly it's a natural fit for us, given our history and our focus on the social sector. But I suspect that the same reasons that make Pay for Success a good fit for us in terms of our expertise and our mission will probably resonate with a lot of the people on the line from CDFIs and other mission-driven lenders.

So hopefully this will ring true for a lot of you. I think first and foremost, NFF has always provided a range of capital, from working capital financing to growth capital to facility financing. But ultimately, our experience has really been in assessing the risks and opportunities of the underlying operating business, the borrower, which is often, but not always, some kind of social service provider. So right off the bat, these are our clients already. And so we have an understanding of the business models, and we know how to have those conversations and how to work with them. And I think the same is true on the broader market side, which is to say these Pay for Success projects are taking place in the same geographic markets and within the same broad sectors that NFF has already deeply engaged through our direct lending and our new markets tax credit investing.

And again, I think that would probably ring true for a lot of other CDFIs as well. In terms of how we come to the work and responding to a market need, I want to underscore that I think with any new product development, it's really not about financial engineering for its own sake but about responding to a market need which, in this case, is really a demand for this kind of upfront risk capital to fund social sector innovation and proof-of-concept demonstrations and pilot programs that hopefully can be scaled if they're proven to be successful. That's what it's all about for us as an investor. In terms of who the players are and who is in the sandbox, so to speak, the lender-driven deals that have launched so far, and I think this will probably continue to be the case, have involved a pretty familiar cast of characteristics from a CDFI perspective. It's other CDFIs, it's commercial lenders, it's local foundations, national foundations, faith-based investors.

And so, like most CDFIs, I think NFF has a long history of working on multi-investor deals and structured funds that really require cooperation and collaboration with other types of capital providers that may look a little different but share our mission. For us in particular, I would say that this has also fit well in our toolkit, given our national scope and the fact that NFF is, for the most part, issue-area agnostic. So that's been helpful in the early days of the NFF investing because the universe of shovel-ready projects is still somewhat limited at any given time. That may not be true for everybody, but it certainly helps for NFF getting involved. And then lastly, I would say that raising funds to invest in a handful of Pay for Success projects was a really great opportunity for not just supporting the projects themselves, of course, and having a positive impact in these communities, but it was also an opportunity for us as an organization to learn by doing.

And being inside of a deal as an investor, there's no better way to learn if that's the primary resource that you have. And so that has definitely proved to be an invaluable way to deepen our knowledge and involvement. I'll pause there; and I'm happy to talk more about the ins and outs of our experience actually being in deals, during Q&A, if folks have questions. But for now, I'll pass it back to you, Jenni.

Terrific, thank you so much, David. Now we'll hear from another representative of a CDFI working in the Pay for Success space, Julia Shin, Vice President of Innovation at Enterprise Community Partners, who will talk about how Enterprise is working as a Pay for Success project coordinator in two different projects in Denver and in Cuyahoga County, Ohio. I should also just note that I think that we will go a few minutes past the hour. So of course you can feel free to drop off at five if you need to, but I think that we'll probably end up going maybe about 10 minutes over. So I encourage you all to stay on the line so that we can get to the Q&A period. And for now, I will turn it over to Julia.

Thanks, Jenni. I thought I'd start with an explanation as to why we at Enterprise are engaged with Pay for Success and how it fits with our work generally, and then describe briefly different roles that we have and can play in Pay for Success, and finally end with a discussion of two transactions, as Jenni mentioned, that we are currently engaged in. We at Enterprise became involved with Pay for Success in 2012 when a local partner reached out to us with a promising social intervention. Since then, we've been involved in five projects, two of which are in later phases; and that we will discuss a little bit more in detail later. Our participation in the first and subsequent Pay for Success discussions and deals was really based on the recognition that this instrument is a promising capital innovation to be studied and deployed, where appropriate, for community needs, as we did and do with LITHC in new markets and various innovative offerings to our loan fund. Beyond capital, we viewed the discussions around Pay for Success as really an opportunity for us to reiterate our focus on results and impact data building and as a means to help to support the capacities of our local organizations and partners that have effective programs.

And from our government partners' perspective, we saw that Pay for Success can be a means to test innovative solutions less hindered by annual budgetary processes and agency siloing that may exist. Finally, we were encouraged and motivated to engage in this work by the fact that we have expertise in infrastructure to contribute to the development of this field. And it's based on our record of financial stewardship and impact work and our national programmatic capital and policy reach, especially where housing is a platform to magnify and expedite the efficacy of social intervention. Next slide, please. Enterprise has been engaged in social impact and capital innovation since our inception. And over our 30-plus years of history, we have raised and invested over $18 billion in equity grants and loans to PILs or preserve more than 340,000 affordable homes across the country. Starting with our work around LITHC, Enterprise has helped to forge various forms of public/private solutions, in many cases through and by our loan fund and with the leadership of our 10-plus local market offices across the country and in partnership with our national network of over 2,500 community development organizations.

Next slide, please. To us, Pay for Success is an example of a public/private solution tool. And it really has a good potential to help us to identify and expand effective programs and thus create impact data in the process for future improvements and iterations and on the capital side, to attract additive capital and bring more market participants to engage in solving for challenging social issues.

And finally, it helps us to build bridges and reduce barriers to really have a shot at achieving an effective and efficient solution, both internally within organizations, for example, by desiloing some agencies in some governments, and externally by bringing together different entities and expertise in industries. At a minimum, what we hope to achieve by engaging in this is to really help to answer the question: Can we achieve more with what we have? And at the end of the day, our goal with the Pay for Success is in recognizing that it is just one more tool in our toolbox; but it is a tool that we can use to work towards the goal of measurably improving the lives of people in need in the communities that we serve. Next slide, please. There are a number of different roles that Enterprise has and can play around Pay for Success, and I'll mention a few of them in different categories. The first one is in the program solutions area.

And really, this is where our Pay for Success work starts. It's in sharing our knowledge of the tool and importance of data as the basis for Pay for Success work with our local partners. And then where the discussion develops to a point where there may be feasibility, in deciding and helping to determine what effective program is at issue, what partners could come together to address that issue, and what goals are trying to be achieved with the tools. And once these elements are in place, there are different roles that could be played during the execution stage. As an example of a program role, we decided to become an intermediary in the Cuyahoga transaction where, among other things, we are committed for the duration of the program, which is five years, as the entity that oversees and lends support, as needed, for the successful implementation of the program social interventions.

Another area that we can touch on, and we do touch on, is capital solutions. And that really happens during the construction implementation phases that were highlighted earlier, where we can provide capital structuring expertise and execution expertise. So for example, on the execution side, we have worked to structure and form an SPV, special purpose vehicle, that houses and implements the project. And we have acted as a fiscal agent, and we are acting as a fiscal agent, during the term of the project. And recognizing that Pay for Success projects in essence privately negotiated contracts, we have also acted as a de facto legal advisor and drafter of documentation during the implementation. Also on the capital side, and this is really a work in progress still, our loan fund is reviewing opportunities to act as an investor in appropriate transactions and to think through various due diligence and risk management criteria for transactions that could also be helpful to the industry at large in assessing their investment in some potential transactions. The third area that we look at is in scaling solutions, and that's really the work of our policy group and our advisory services group.

And that's really looking beyond individual projects. We look at how we can help to scale the potential for Pay for Success through that work. For example, as part of our policy effort, our policy team has worked to achieve the passage of a bill through the House that now authorizes a new Pay for Success demonstration within the Department of Housing and Urban Development, which allows HUD to enter into a Pay for Success contract to raise private capital to be able to retrofit the HUD-assisted building for water and energy efficiency. Next slide, please. Here are three examples that I referenced of Pay for Success transactions that we are involved in. And I'll touch upon and describe in a little bit more detail the two transactions listed here, which are Cuyahoga County and Denver.

Next slide, please. Cuyahoga transaction, the program that underlies the transaction is called the Partnering for Family Success Program. It is the first county-level execution to date, and it raised $4 million of capital for a five-year program. It was also the first Pay for Success project in the combined areas of homelessness and child welfare. 135 families over five years will be provided with services and given priority for housing. It was an effort to reduce the length of stay in out-of-home foster care placements for children whose families are homeless. In that transaction, Enterprise played the role of program intermediary which included, as part of its role, helping to articulate and also manage the corporate governance process as the implementation stage progresses. We are also the fiscal agent that provides the report in and the report out, both for payment purposes as well as for the results. As noted earlier, we provided de facto legal advisory services, which in essence are taking a leadership role in the partnership with others in drafting the Pay for Success contract, the investor contracts, the service provider contracts, among others. And also providing the formation and structuring of the SPV and addressing issues that arise with how that should be structured to mitigate any residual risks that might reside ultimately with the transaction.

Next slide, please. We are on the Denver transaction, which is 2015. Execution -- in 2014, we were invited by the City of Denver to partner as intermediary for the Housing for Health Pay for Success project which, in conjunction with CSH, which project is to provide supportive housing for 300 chronically homeless individuals with significant primary and behavioral health challenges, which make them super utilizers of the emergency health and criminal justice services. And working with CSH as co-intermediary, we are in the process of developing a constructing transaction that includes a former partnership with some health care organizations who have begun working with housing and service providers on agreements to increase and improve the integration of Medicaid into the financing of supportive housing services.

As I noted, this transaction is in the construction stage, with CSH and Enterprise as intermediaries and Urban Institute as independent evaluator. And we are looking forward to a 2015 execution. Now I will turn it back over to Jenni for our Q&A period. Jenni?

Great, thank you so much, Julia. We've covered quite a lot of information, and we know that you likely have questions for our panel. So at this time, I just invite you to please type your questions into the chat box. And if the question is directed at a particular person, please remember to indicate just who that person is. Next slide, please. While you are typing your questions, just to review, we really see four distinct ways, if not more, that CDFIs can engage in Pay for Success. First, you can support transaction structuring efforts, like Nonprofit Finance Fund. One way to do this is to apply to be a SIF Pay for Success grantee in the next year. Second, you can act as an investor in a specific Pay for Success project; also Nonprofit Finance Fund is doing this. PayforSuccess.org represents a great repository of information, where you can see the projects that are going through the pipeline.

Third, you can act as a project coordinator, like what Enterprise is doing in Denver and in Cuyahoga County. And finally, we just encourage you to learn more about this exciting field and participate in events and roundtables, panels happening across the country on Pay for Success. In fact, there may be some CDFI-focused roundtables on Pay for Success happening in the coming months; and I know that you'll probably get more information soon from the Federal Reserve and Treasury with those developments. We have a couple of questions ready to go.

First, I would like to ask either David or Amanda to take a question from Peter Lawrence; let me just pull up Peter's question. Peter asks: Do any panelists have experience with Pay for Success investments from financial institutions receiving significant positive CRA considerations? Pay for Success investments targeting LMI populations and communities would appear to be eligible, but actually getting positive CRA consideration in examinations is another matter. Great question, so I would suggest that maybe either Amanda or David take that.

Sure, this is Amanda. The short answer, Peter, is not yet that I am aware of -- and, please, correct me on the phone if somebody else is. But this is certainly something that is on our radar because I agree with your question, that it is very much within the realm of the CRA and very much something that potentially could get CRA credit in the future. I do know that at least one of the deals, the bank has applied for CRA credit. And I'm embarrassed; I really should know this. I don't actually know what the end result was.

But this is something that we have been approached on. It's something that's on our radar and that we're very much aware of.

This is David. I will just add quickly that in one of our experiences, there was a bank that was interested in investing; and that interest was coming from the CRA group. It didn't end up working out for other reasons, not so much about concerns about whether or not they could get credit, but more about being able to sort of fit this investment product into a box at the bank that was sort of acceptable within their credit guidelines.

So I think that was a whole separate question. But I think there was at least enough confidence and interest that they were taking a look at it.

This is Annie. Can I add a dimension to that too? Bank of America has been active in this space. And it's just interesting to me that they are coming at it from -- not from their CRA group, not from Commercial Real Estate, but from the private wealth side of the business. So that's just another consideration.

Thank you so much, Annie. We have a question from Dan Ringsler, and I would suggest maybe that Dana Archer-Rosenthal take this question; or anyone else is, of course, able to. What are the prospects for PFS initiatives focused on health improvements and medical cost savings, and which kinds of agencies or payers seem most amenable to giving it a shot? Wondering about CMS, state agencies, or managed care organizations.

Sure, I'm happy to answer that. I'll share anecdotally that of the applications we reviewed for the first round of our SIF transaction structure and competition, I'd say about half of them could be categorized as for health-related programs. And they really ran the gamut from disease-specific interventions, so programs focused on things like asthma reduction and control to pretty innovative uses of new care coordination and care delivery models aimed at reducing things like emergency room usage and Medicare/Medicaid utilization for high utilizes. I'd say this is also the area where we have seen the greatest variety in terms of the proposed back-end payer, ranging from county and city agencies with savings coming from their public hospitals. But we've also seen some private health care providers interested as potential payers, as well as private insurers and managed care organizations.

Terrific, thank you so much, Dana. There's so much movement going on in the health and human services realm; so that was a great question. I just do want to reiterate -- we've had several questions basically asking where this presentation will be available and when. We will send you our decks, the decks that we used, shortly after today's webinar. And then in a couple of weeks, the recording will be available on the CDFI website, so a couple of different options for you there. The next question I would like to ask is actually directed at Julia Shin. Rex Fowler asks Julia: Could you provide some more specific flow of funds in the Denver example; for example, who funds, when do they fund, on what performance benchmark, what specifically are they funding, et cetera? You can be general or even make up numbers if needed.

Denver is still in the process of construction, so it might be easier for me to talk about the Cuyahoga transaction. And when it comes to funding, the upfront private capital that is raised, or capital that's raised, the funding is not subject to any performance benchmark.

On Day 1, for simplicity sake, on Day 1, the investors put in the dollar amount that's agreed upon in order to initiate the project. Again, going back to the fact that this is a privately-negotiated contract, the investors and the Pay for Success participants can negotiate when that funding can occur. It can all occur in a lump sum in Day 1 to fund the entirety of the project on Day 1. Or the project can be funded over time as the need for the fund arises in a periodic way. If the benchmarks are relevant when you actually are talking about whether or not the performance measurements have been met -- and that happens pretty much towards the end, if not at the end, of the project itself and with the help of the evaluator, that's when the calibration of whether or not success is deemed to have been met by looking at pre-specified and agreed-upon benchmarks being met. Does that answer the question?

Terrific, thank you so much, Julia. We have a next question: Say that an independent evaluator finds that PFS-funded intervention meets its desired outcomes. How will the intervention continue to be funded beyond the Pay for Success period? I will ask my colleague, Katherine Klem, to speak to that. Katherine?

Sure, it's a really interesting question. A Pay for Success transaction is time-limited, at least the projects to date so far have been, though you can certainly imagine a Pay for Success model in which funding was available on an ongoing basis for outcomes payments. And that was just the way that the funding stream would flow for the project in perpetuity. You could certainly theoretically imagine that, but the seven projects to date certainly have not followed that form. And there has been an intervention period of several years, followed by a point of outcomes evaluation; possible release of outcomes payments; and then the transaction truly does conclude. In those situations, it's an open question of how interventions will be able to be sustained and where future funding comes from. I don't think the Pay for Success model, unless it is set up to recur, necessarily provides an answer to that question; nor do I think we necessarily should expect it to. This is, in my mind, a great tool to either test a new, innovative, creative approach or to help scale an evidence-based intervention for a period of time. But it's sort of a challenge to all of us who care about really great interventions in the community to figure out how to sustain those on an ongoing basis.

One of the things that the Pay for Success model does in helping to provide for that sustainability is, one, it enables certainly capital to provide for the intervention, where Pay for Success financing is involved, I should say, is provides for the capital to allow the intervention to be delivered for several years. It also, though, provides a great evidence base that, as your question poses, should the evaluation deem the intervention to hit these outcomes at preset target levels, the folks running that intervention will be able to now have a terrific, robust set of outcomes that were rigorously evaluated with which they can make the case that dollars from public or private sources should be deployed. So I think Pay for Success doesn't necessarily solve the sustainability challenge, but it has other important benefits that can assist with sustainability.

Great, thank you, Katherine. Just being mindful of the time, it is 5:12 p.m. We have a number of questions that we, unfortunately, were not able to get to. We will do our best to send you e-mail answers to those questions. So thank you so much for asking them. Again, you will receive a survey shortly after logging off of the webinar. We just please ask that you take a moment and complete it.

And we just thank you so, so much for participating in this webinar today. It's an exciting moment, and please do not hesitate to get in touch with any one of the panelists. These are our websites. Until next time, signing off -- thank you, again, everyone.