INTRODUCTION
The Butte Region initiative seeks to develop a regional lending structure that connects local investors, smaller CDFI’s with local governments, and regional branches of larger lending institutions. This structure will build capital by promoting both financial and social returns on investment. The social responsibility motivator is much easier to activate when connecting local capacity with local need. This initiative becomes another model of regional solutions to regional problems that naturally incorporates a Triple Bottom Line Philosophy.

The profit – social responsibility structure requires a champion to continually rally investment dollars through a stewardship message. This message naturally resonates with our citizenry, but is easily drowned out by the “profit only” perspective of investing. 3CORE is a champion of this initiative in the Butte Region.

The demand for social return on investment (ROI) is increasing. The question is how to measure social return? The DuPont Return on Investment method compares operating efficiency in relation to profitability. This measure is a way to compare different business units on an “apples to apples” baseline.

Modifying DuPont measure to fit the community development lending model, the social ROI focuses on how well does a community development investment generate loan volume (efficiency) x % growth in loans made over the investment life (profitability) or stated another way, \( ROI = E \times G \).

Profitability is always important for non-profits. But in terms of impact, profitability is also how well a social investor penetrates the intended underserved market.

We should formalize measuring social ROI and then manage to meet the targeted ROI, consistent with the social investor’s mission.

FILLING THE GAP
The Federal Reserve Bank of Richmond just issued an Economic Brief called “Explaining the Decline in the Number of Banks since the Great Recession.” The authors of the article note that the Great Recession substantially altered the banking landscape.

Historically, from 1960-1980 there were somewhere around 12,000-13,000 independent banks in the U.S. Beginning in the 1970’s, states began to relax regulations that limited branch offices doing business across state boundaries. Prior to that time, the regulations created a banking system that was made up of thousands of small, independent banks clustered in each state. The deregulation process continued through the 1980’s & 1990’s. This led to consolidation of smaller or weaker banks by larger or stronger institutions who took advantage of economies of scale. By the year 2000, commercial banks dwindled to less than 7,000.

Up until the mid-1980’s, new bank growth was very strong, generally averaging 100-250 new banks per year. During 2002-2008, new bank formation averaged about 100 per year. From 2007-2013, the Great
Recession culled the herd by 836 banks, equaling about 14% of the total. Equally telling is that this drop was heavily concentrated in small community banks with assets of less than $50 million.

In fact community banks saw their numbers drop by 41%. Since 2010 only 4 new banks were formed nationally. The article states “This collapse in new bank entry has no precedent during the past 50 years, and it could have significant economic repercussions.”

Capital access for small & medium-sized businesses has been permanently impaired by the Great Recession with no substantial relief from the State or Federal governments. There are a number of programs through the SBA or the State Treasurer’s office in terms of loan guarantees or loan loss reserves. These programs and inducements to capital flow are important.

But the problem is much deeper—the dwindling distribution system (where pooling unused money and redeploying it into local loans and investments) points to a real problem in generating sustained local wealth creation. Crowdfunding and other on-line lenders are too small and too narrow in their scope; and they tend to take money from one place and invest it somewhere else. So the places that generate the cash aren’t the ones who benefit from the investment and wealth created by those investments.

Federal and State economic development programs have become more complicated, exclusive, and expensive to access. In the past, portions of funding from these programs were allocated as annual grants to organizations and intermediaries whose purpose was to nurture local or regional long-term economic development. But now, more funding is put out in competitive events where the strongest and biggest organizations (mostly urban) are getting the greatest share of the dollars. Many times these stronger, bigger organizations have the capacity, the reach and the outright mass that funders are looking for. Average funding rates (the rate of proposals funded as opposed to those applying) range about 15-30%; this competitive system works against smaller, non-metropolitan areas that lack capacity and mass.

Place matters. We need to be encouraging our citizens to put their money in institutions that invest locally as an alternative to the current competitive model.

**INVESTING IN THE REAL ECONOMY**

A new paper by the Roosevelt Institute announced their new project to explore how the “financialization” of the economy has broken the link between the financial realities facing large corporations and the realities facing regular people. J.W. Mason, an assistant economics professor at John Jay University who wrote the paper, notes “The health of the financial system might matter less for the real economy than it once did because finance is no longer an instrument for getting money into productive businesses, but for getting money out of them.”

The Roosevelt Institute paper delves into the facts of the situation. In the 1960’s, 40% of earnings and borrowing by major corporations flowed into investments. But by the 1980’s, investment fell to less than 10%, and it hasn’t risen since that time. Instead of investment, borrowing is closely correlated with shareholder payouts. These payouts have nearly doubled as a share of corporate assets since the 1980’s.

Since the Recession, large corporations have had more incentives to dispense cash rather than invest in business growth. So these large corporations take low-priced credit, buy back their own stock, boosting
their share price and keeping their investors happy. But this merry-go-round does nothing to create value or growth, nor help create jobs or reward current employees who have been doing the heavy lifting with wage freezes or wage cuts. The “financialized” economy no longer has a reliable link between credit availability and real production or job growth.

We need to consider how we pool and invest local money in the real economy that creates financial and social return on investment. Sometimes that may mean a local fund will be the initiating trail blazer, or it may work in tandem with a public, private, or non-profit partner to syndicate investment that will have long-term impact. In either case, there is a clear role for an honest broker to encourage and bring together interested parties to do what is needed most to get a ball rolling.

**SUMMARY of 3CORE’s REGIONAL STRUCTURE for IMPROVING ACCESS to CAPITAL**

1. **Large Banks.** Strong relationships with large banks looking to build development lending capacity within their region. These financial partners provide important seed money to establish lending pools in specific areas of focus.
   - Wells Fargo Bank, acting as a first adopter, has invested $1,000,000 in capital while granting 3CORE $122,500 in unrestricted funding since 2002. Through their leadership, 3CORE has been able to raise $4 million in additional lending capital.
   - Rabobank has provided substantial $700,000 in capital and operating support to 3CORE in addition to $2.15 million in combined capital and operating support to the unfolding of California Finance Consortium (CFC).
   - Bank of America has helped 3CORE with loan loss reserves and operating support. B of A has empowered 3CORE to compete nationally and win a $1 million SBA investment, augmenting our loan loss reserves to insure 3CORE would be in the running. To date, we have funded $715,269 in SBA loans through this investment.

2. **Regional Banks.**
   - Tri Counties Bank $750,000
   - Golden Valley Bank $100,000

3. **Partnerships with statewide Community Development Financial Institutions (CDFI’s).**
   - Shared “profit – social responsibility” mission creates vertical integration for this concept of building and investing capital.
   - Local access for larger CDFI’s
   - Increased leverage for smaller CDFI’s

4. **Partnership with Community Foundations.**
   - North Valley Community Foundation (NVCF) initially began a collaboration with 3CORE through the development of the Business Vitality Seed Fund—a philanthropic fund to promote business growth in the region. It soon became clear that by working together, 3CORE and NVCF could provide meaningful assistance to businesses in our region. By addressing capital needs unmet by commercial institutions, this partnership contributes to economic vitality by addressing small to medium business needs with community impact.

5. **Partnership with other regional development lenders.**
   - The California Finance Consortium (Superior California EDD, Yuba-Sutter EDC, Arcata EDC, Sierra EDC, and 3CORE). The operating framework and business plan will be completed by June 2015 with CFC raising capital and initial operating funds after that. These regional development lenders will cover a 22 county footprint, north of
Sacramento to the Oregon border, the Upper California coast north of Sonoma County, and east to the California/Nevada state line.

6. Local Investors.
   • 3CORE provides an organized platform for investors as a 501 (c)(3) charitable corporation as well as a Community Development Financial Institution to focus local resources into financially and socially attractive community investments.

7. Partnership with local governments.
   • 3CORE working with Chambers, Business Associations, and other community partners to work with local governments to encourage the removal of hurdles that hinder regional business growth.

SUMMARY of 3CORE’S INVESTMENT PRIORITIES

1. Regional food production.
   • Discussions with the California FreshWorks Fund, a $272 million fund targeting food and food-related activities in underserved areas is progressing. In addition, 3CORE is exploring with the Northern California Community Loan Fund (NCCLF) based in San Francisco a deeper partnership to invest in local food systems and housing.
   • Small Farmer Sustainability Fund is being developed to target emerging local food producers that need special purpose financing for growth, water conservation, and sustainable food production practices.

2. Housing.
   • The North Valley Housing Trust (NVHT) and 3CORE entered into a Designated Fund Agreement in May 2014 creating the COIN Fund through the North Valley Community Foundation. The Fund purpose is to acquire and rehabilitate real property for transitional housing to eligible individuals and families. Eligibility is determined by the NVHT; financial feasibility is determined by 3CORE. 3CORE raised $650,000 targeted to support the NVHT. The $650,000 matched a State Housing Trust Fund grant of $500,000, bringing the total NVHT Fund corpus to $1,150,000. The NVHT has been working through its organizational development and is now ready to initiate a Request for Proposal (RFP) process to solicit possible transitional housing projects with other organizations.

3. Public/Private partnering through the formation and operation of the regional California Finance Consortium.

3CORE’s SUMMARY of TRENDS

1. Local food & local food systems will be an important economic driver for our region—if nothing else, healthy food, sourced locally, will be our bread and butter;

2. Increasingly, our lending will be impact oriented—whether it is economic impact or social impact. Our mission is to act as a flexible and multifaceted financial intermediary in areas underserved by other institutions;

3. Collaboration will be demanded by all current and future public and private investors—so playing together isn’t just “feel good stuff”, it is a business model that we all must embrace if investment is to flow in our backyard;
4. Financial and governmental consolidation will continue—the unmet needs in the vacated space by this institutional shrinkage has to be filled by other models that are neither fully private nor fully public;
5. Community economic resiliency will be a mark of successful communities that thrive, that leverage public investment, and draw in wealth-creating private investment—communities that don’t plan or who just subsist will lose out over time;
6. Community wealth building will start by community planning, preparation, persistence—who will invest in you if you haven’t invested in your own economic future?

THE NEW REALITY is 6 UNFOLDING THEMES.
1. Public investments will move away from programs and use incentives, subsidies, and tax credits to leverage private investment to fund community development.
2. In other words, private investment for public good.
3. Community development investment will flow through intermediaries or conduits fashioned for these purposes. The era of vast bureaucracies is fading away—they cost too much and they suck the power of change away from communities. Problems are best solved at the source by those most vested in eliminating that problem.
4. There will be a rise in performance-based community development investments where we search for successful models with reach and impact. And these solutions will need permanent means of addressing problems through endowments and other assets designed for long-term sustainability.
5. Communities have to be both persistent and prepared. Nobody will help a community who wallows in victimhood unprepared to do its part in addressing its problems.
6. Communities have to be good at defining and knowing their problems. From that understanding, then solutions can become more evident and investors can see a path to resolution. Certainty greases the skids for action.

All these themes point to more informal networks of concerned citizens teaming with other private, non-profit, and public organizations addressing community issues. Teams, networks, collaboration, and consensus are the drivers in the New Reality. Social investment, philanthropic approaches and public private partnerships will begin to loom large in addressing reoccurring problems or needs.