Established in 1996, COIN (http://www.insurance.ca.gov/COIN) facilitates insurance industry investments that offer a competitive risk-adjusted financial return and that also benefit California’s environment and/or low- to moderate-income (LMI) and rural communities. COIN is a unique partnership between the California Department of Insurance, the insurance industry, affordable housing organizations, economic development groups, and community advocates and banks, and has the following functions:

- COIN performs due diligence on investment opportunities that generate significant impact in California’s underserved communities and provide appropriate risk-adjusted financial returns, and shares these opportunities with insurers;
- COIN awards state tax credits of up to $10 million annually to insurers and other investors investing in COIN-certified CDFIs, who receive a tax credit equal to 20 percent of the qualified investment amount; and
- COIN analyzes and reports data on insurer community development, rural, and green investments in California.

PCV InSight (www.pacificcommunityventures.org/insight) is the impact investing research and consulting practice at Pacific Community Ventures, a U.S. Community Development Financial Institution and nonprofit organization. PCV InSight provides information and analysis to investors and policymakers with the goal of driving capital to social purpose. PCV InSight’s work has provided the basis for national and international policy initiatives, including the U.S. National Advisory Board, White House Impact Economy Forum, and the Social Investment Taskforce, established under the U.K.’s presidency of the G8 among others. PCV InSight clients include the California Public Employees’ Retirement System (CalPERS), The Rockefeller Foundation, The Omidyar Network, Citi, Union Bank, PG&E, Hamilton Lane, Progreso Financiero, Northern California Community Loan Fund, the Northwest Area Foundation, The California Organized Investment Network (COIN), The California Endowment, and The Annie E. Casey Foundation. PCV InSight evaluates the social and economic impacts of over $30 billion of institutional investments across asset classes.

Reader comments and ideas are welcome. Please direct correspondence to:

Daniel Brett
Manager, PCV InSight
dbrett@pcvmail.org

Tom Woelfel
Director, PCV InSight
twoelfel@pcvmail.org
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>Purpose and Scope of Report</td>
<td>5</td>
</tr>
<tr>
<td>Overview of COIN</td>
<td>6</td>
</tr>
<tr>
<td>COIN’s Impact</td>
<td>9</td>
</tr>
<tr>
<td>Social Impact by Sector</td>
<td>12</td>
</tr>
<tr>
<td>Environmental Investments</td>
<td>18</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>20</td>
</tr>
<tr>
<td>The Future of COIN</td>
<td>23</td>
</tr>
</tbody>
</table>
The inaugural COIN Impact Report examines the California Organized Investment Network’s (COIN) impact within the state of California over the past five years (2011-2015), assessing both the quantitative and qualitative societal and environmental benefits supported by COIN’s activities as well as the financial performance of COIN-facilitated investments. COIN engaged InSight at Pacific Community Ventures (PCV InSight), a provider of impact investing research and consulting, to collect, analyze, and report on COIN’s impact.

Key Findings
Between 2011 and 2015, COIN has delivered significant social and environmental impact, particularly within low-to moderate-income (LMI) communities across California, by facilitating investment opportunities that offer a competitive financial return to insurers and other investors. Highlights include:

• **COIN facilitated the investment of $237.5 million** into 34 organizations, which in turn deployed $505.7 million of pooled funds into projects and businesses that benefit underserved communities across the state of California.1
  » Seventy six percent of capital invested in LMI areas.2
  » Seventy eight percent of capital invested in ethnically diverse communities.3
  » Investments in each of the 40 Senate districts and in 74 of the 80 Assembly districts in California.

• The creation of **985 new permanent jobs** and supported 2,300 existing permanent jobs throughout underserved areas of California, primarily through the financing of real estate projects and small and medium-sized businesses. Additionally, 3,230 construction jobs have been created.

• **The development of over 12,000 units of affordable housing across California** for 18,184 residents, two-thirds of whom are very low income individuals earning less than 50 percent of the Area Median Income (AMI).4

• Financial support for **212 small businesses that employ 884 individuals**. Approximately 68 percent of these businesses are minority-owned or controlled.

• The construction or expansion of **22 community facilities** including healthcare centers for the medically underserved, childcare centers and facilities offering social services. These facilities serve over 210,000 individuals, over 40,000 of whom live in rural communities.

• Construction of nine water treatment facilities, water access projects and desalination plants, which **provide 2,765 households and businesses with safe drinking water**.

The Benefit of COIN-Facilitated Capital and Advice
CDFIs who received investment through COIN highlighted several ways that the COIN program has strengthened their organizations:

• **Catalytic capital:** equity investments made through COIN helped Clearinghouse CDFI double the amount of equity it raised since 2011, which leveraged or facilitated the investment of an estimated $160 million to low-income or underserved communities.

• **Low-cost capital:** Rural Community Assistance Corporation (RCAC) reported that the unique terms of COIN-facilitated investments enabled the firm to provide affordable financing to water treatment and sewer development projects that had difficulty accessing capital.
Expansion and diversification of funding sources: Opportunity Fund stated that working with COIN has opened up relationships and new sources of capital that they would not have had access to otherwise, enabling the firm to meet its increasing capital needs over the last three years.

Financial Performance

The strong track record of investments facilitated by COIN supports the substantial body of evidence that investments which generate social or environmental benefits are not inherently more risky than traditional investments and can achieve appropriate risk-adjusted financial returns.

- COIN-certified CDFIs experience limited losses on their loans. Net charge-off rates are 0.39 percent, in line with the average FDIC-insured institution (0.42 percent) and the CDFI industry as a whole (0.41 percent).
- COIN-certified CDFIs receive a weighted average return on their loans of 4.9 percent (net of charge-offs), demonstrating that CDFIs have a sizeable buffer with their margins before loan losses are incurred.
- Intermediaries making equity investments expect to receive a weighted average return of 10.8 percent, reflecting that equity investments typically generate higher returns than debt investments.

The Future of COIN

For the last twenty years, COIN has played an important role in facilitating safe, low-risk investments that significantly benefit California’s underserved communities. CDFIs and other intermediaries’ financial performance and low charge-off rates demonstrate that insurers need not sacrifice risk-adjusted returns to pursue positive social and environmental outcomes in California. In order for the COIN program to best serve California’s insurers, other investors, and intermediaries seeking to invest in and support underserved communities, COIN should be made permanent to demonstrate that investments that benefit California’s underserved communities are a high priority for the state and COIN is an important tool in facilitating investments that benefit California’s environment, LMI areas, and rural communities.
The 2016 COIN Impact Report examines the COIN program’s impact within the state of California from investments made over the past five years (2011–2015), assessing both the quantitative and qualitative societal and environmental benefits supported by COIN and financial performance of COIN-facilitated investments. COIN engaged PCV InSight, a provider of impact investing research and consulting, to collect, analyze, and report on COIN’s impact. This report focuses on primary data collected from 34 Community Development Financial Institutions (CDFIs) and other investment managers (intermediaries) who have received COIN-facilitated investments. The report includes:

- an overview of COIN’s activities;
- a summary of COIN’s impact in California’s underserved communities;
- an in-depth look at COIN’s impact by geography, sector, and thematic area;
- an overview of the financial characteristics of COIN-facilitated investments;
- case studies on recipients of COIN-facilitated capital; and
- implications for the future of the COIN.
Established in 1996, the California Organized Investment Network (COIN) facilitates insurance industry investments that offer a competitive risk-adjusted financial return and that also benefit California’s environment and/or LMI and rural communities. COIN is a unique partnership between the California Department of Insurance, the insurance industry, affordable housing organizations, economic development groups, and community advocates and banks. COIN works with insurers in several ways.

Facilitating Insurer Investments
COIN provides information to insurers about investment opportunities that benefit California’s underserved communities and offer appropriate risk-adjusted financial returns. Investment intermediaries such as CDFIs and investment managers seeking capital for projects in California’s underserved communities bring investment opportunities to COIN. COIN vets these intermediaries based on their track record of making debt and equity investments in underserved communities and upon due diligence, certifies qualifying CDFIs and non-CDFIs deemed eligible to receive COIN-facilitated capital. COIN then shares information about certified intermediaries with insurers and other investors through ‘Investment Bulletins’, published on COIN’s website. From 2011 through 2015, COIN facilitated $237.5 million of insurer and other investments into 34 CDFIs and funds.

Analyzing Insurer Portfolios
With the help of insurers, COIN collects, analyzes, and reports data on their community development investments and green investments in California. This reporting is mandatory for insurers, pursuant to California Insurance Code Section 926.2 and provides insurers, the Department of Insurance, the California legislature, and the general public insight into the extent to which insurer investments are supporting California’s underserved communities. COIN analyzes the holdings and reports on insurer community development investments over a multiyear period in California as determined by statute. Findings from the most recent insurer data call can be found on COIN’s website.

Investing in California’s Underserved Communities
COIN increases the flow of investment capital to California’s underserved communities in two primary ways:

1. Investment Bulletins: COIN provides information to insurers and other investors on investment opportunities that have been verified by COIN to provide a positive environmental or social impact to LMI households or areas or rural communities in California. Investments have a reasonable expectation of achieving competitive financial returns, and the risk level is within the bounds of industry norms. COIN prioritizes investment opportunities which intend to deploy a majority of capital to California-based companies.
2. The COIN CDFI Tax Credit Program: In 1997, the COIN CDFI Tax Credit Program was created to attract and leverage private capital into CDFIs that yield economic and social benefits for California’s underserved markets, as well as environmental benefits. Each year, COIN awards state tax credits of up to $10 million to insurers and other investors investing in COIN-certified CDFIs, who receive a tax credit equal to 20 percent of the qualified investment amount. These investments must be $50,000 or more, have a minimum duration of 60 months, and be structured as equity, equity-like debt, or zero percent interest deposits. Since the inception of the COIN CDFI Tax Credit program in 1997, $57 million in State tax credits have leveraged more than $285 million of private investments into COIN-certified CDFIs.

In 2013, the California state legislature enacted AB 32 (J. Pérez), which increased the total amount of tax credits available through the COIN CDFI Tax Credit program from $2 million to $10 million. This increased allocation has paralleled an increasing demand for the program, which has outpaced supply: in 2015, demand for tax credits exceeded the authorized amount by approximately $8 million, and is estimated to exceed available tax credits by over $19 million in 2016. In fact, insurers and CDFIs estimated they had a maximum combined capacity to make or receive COIN CDFI tax credit investments of $490 million using $98 million of tax credits annually. This increasing demand underscores the important role that COIN plays in unlocking institutional capital for the benefit of underserved communities in the state of California.

**Note:** In 2011, COIN awarded tax credits that had rolled over from previous years. In 2014 and 2015, COIN awarded the $8 million in additional tax credits that had rolled over from 2013 due to the passage of AB 32 in October 2013.
COIN’s Investment Process

**Sourcing quality, impactful deals**

COIN evaluates CDFIs and fund managers seeking investment to identify safe, sound, and impactful opportunities that support California’s underserved communities for insurers and investors.

**Building insurers’ pipelines**

COIN shares with insurers and other investors vetted investment opportunities through Investment Bulletins and by listing CDFIs that have been certified by COIN.

CDFIs and fund managers deploy insurer and other investor capital into affordable housing projects, small businesses, commercial properties, consumer financial services, education, healthy food, etc.

**Unlocking institutional capital**

Insurers and other investors make COIN-facilitated investments in CDFIs and fund managers that have been vetted by COIN.

Investments benefiting California’s underserved communities
COIN’S IMPACT

Since its inception in 1996, COIN has helped channel hundreds of millions of dollars of institutional capital into various community development projects across California that have generated significant social and environmental impact. This flow of capital has increased in recent years: between 2011 and 2015, COIN facilitated the investment of $237.5 million into 34 organizations, which in turn deployed $505.7 million of pooled funds into projects and businesses that benefit underserved communities across the state of California.

Despite the critical need for investment capital in underserved areas, these communities continue to face challenges in accessing capital. This is exemplified by the past decade’s trend of community bank closures and consolidation of traditional banks, which has hit rural and underserved areas particularly hard. According to data from the Federal Deposit Insurance Corporation, the number of community banks in the US has declined by an average of 300 per year over the past 30 years. The COIN Program proactively targets communities that lack access to capital and within the last five years, has channeled 76 percent of capital into LMI areas.

The proportion of COIN-facilitated investments in LMI, high minority, and high unemployment areas reflects COIN’s commitment to serving areas that are ethnically and economically diverse and are often bypassed by investors in favor of other investment opportunities. COIN-facilitated capital is deployed across multiple sectors, as is highlighted in the chart to the right.

The millions of dollars of capital invested across California benefits the state and its residents, including through the support of local employment, development of critical real estate infrastructure for communities and commerce, support of business expansion and development. The following map depicts the geographic location of projects and companies that have received COIN-facilitated capital and illustrates the relative size of capital deployed across various sectors in California.
COIN-Facilitated Investments in California
Over the last five years, the CDFIs and intermediaries that received capital through COIN have invested in each of the 40 Senate districts and in 74 of the 80 Assembly districts in California, highlighting that COIN has benefited an extensive, diverse group of communities in need of investment throughout California.

Given that finding investable projects in underserved or rural areas requires local expertise, COIN works with CDFIs whose staff are based in or have extensive networks within the communities they serve, and are therefore best positioned to identify and evaluate investment opportunities.

**Employment Impact**

One of the most important ways that COIN benefits underserved communities in California is its support of job creation, retention, and training. Over the last five years, COIN-facilitated investments have created 985 new permanent jobs and supported 2,300 existing permanent jobs throughout underserved areas of California, primarily through the financing of real estate projects and small and medium-sized businesses. Real estate projects include affordable housing developments, community facilities such as healthcare and social services centers, and educational facilities. These real estate projects have also created 3,230 construction jobs and are expected to create an additional 13,550 construction jobs over the life of the investment period.

Given that a majority of the intermediaries receiving COIN-facilitated investments support job creation in low-income areas and communities with high levels of unemployment, it is clear that COIN contributes to improvements in quality of life for residents of the state’s most disadvantaged communities.

<table>
<thead>
<tr>
<th>TYPE OF EMPLOYMENT</th>
<th>NUMBER OF JOBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent Jobs Created to Date</td>
<td>985</td>
</tr>
<tr>
<td>Permanent Jobs Supported to Date</td>
<td>2,300</td>
</tr>
<tr>
<td>Construction Jobs Created to Date</td>
<td>3,230</td>
</tr>
</tbody>
</table>
COIN-facilitated investments across multiple sectors support a wide variety of activities that benefit California.

**Affordable Housing**

According to an April 2016 report by the California Housing Partnership Corporation, California is facing an estimated shortfall of 1.54 million affordable rental homes for very low income and extremely low income households, with every county in the state facing an affordable housing shortfall.\(^\text{13}\) This issue is exacerbated by increasing housing costs: median rent in California has increased by 24 percent since 2000, yet real median household income for renters has declined by seven percent over that same time period.\(^\text{14}\) Many small builders continue to experience rising construction costs and limited access to credit. To help tackle this issue, COIN has facilitated $277 million in financing for affordable housing projects, both for rental and ownership.

Of the projects receiving support through COIN-facilitated investments, 77 percent are based in LMI communities and 90 percent are located in ethnically diverse areas, providing much needed affordable housing in California’s underserved communities. COIN-facilitated affordable housing investments aim to provide safe, stable and affordable homes for low-income families, homeless individuals, seniors, people with disabilities and at-risk youth.

COIN-facilitated investments have supported the development of 12,226 housing units for 18,184 residents in total. Forty-two percent of these units are rehabilitated properties, indicating a concerted effort to leverage existing community assets in revitalizing neighborhoods. Approximately 67 percent of affordable housing units were allocated to residents earning less than 50 percent of the AMI, reflecting a commitment to support some of California’s lowest income residents.

COIN-facilitated investments have also financed CDFIs that provide high-quality supportive housing to particularly vulnerable populations, which provide on and off-site services customized to meet the needs of residents with mental health or substance abuse issues. Supportive services include case management, mental health services, alcohol and substance abuse services, independent living skills building, vocational services, health services, peer support services, and social activities and are intended to improve outcomes for at-risk populations and build strong communities.

<table>
<thead>
<tr>
<th>AFFORDABLE HOUSING SUMMARY FINDINGS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of housing developments in LMI communities</td>
<td>77%</td>
</tr>
<tr>
<td>Percentage of housing developments in High Minority areas</td>
<td>90%</td>
</tr>
<tr>
<td>Housing units financed</td>
<td>12,226</td>
</tr>
<tr>
<td>Percentage of housing units designated for very low income residents (&lt;50% AMI)</td>
<td>67%</td>
</tr>
<tr>
<td>Total residents supported</td>
<td>18,184</td>
</tr>
</tbody>
</table>
Background: Corporation for Supportive Housing (CSH) is an intermediary that offers financing solutions for supportive housing projects as well as training, consulting and advocacy services designed to support the development of high-quality supportive housing for vulnerable populations, such as homeless individuals suffering from substance abuse and mental health problems. CSH often invests at the predevelopment stage of a project or for land acquisition, helping fill a critical financing gap facing many supportive housing developers who cannot access capital in the early stages of development. Since its inception, CSH has been responsible for the development of 200,000 units of supportive housing across the United States.

COIN’s Support: Bob Friant, Director of Communications at CSH, emphasized how COIN has supported CSH in accessing much-needed capital. “The investment we received that was facilitated by COIN has been essential to CSH. It served as a bridge to access other capital sources and leverage other opportunities that might not have been possible without COIN. Ultimately, we were able to obtain capital for financing the predevelopment or acquisition stages of supportive housing projects where other capital sources weren’t available.”

CSH received a $6 million zero-interest loan from MetLife Insurance Company through COIN’s CDFI Tax Credit Program, which CSH used in combination with other funding sources to provide 36 loans to supportive housing projects. “The flexibility of COIN capital allowed us to marry it with other funds and offer a higher volume of smaller loans, making a big difference to beneficiaries,” reflects Friant. “That contribution is absolutely essential for us. It prescribes no restrictions on how to disburse those loans and provides a level of flexibility we don’t experience with other investors.”

Borrower Profile: CSH invested $3 million to rehabilitate a large mixed-use and affordable housing complex for seniors and ageing individuals called San Diego Square. This investment would not have been possible without capital raised through the COIN program. By leveraging the COIN-facilitated investment, the project also secured federal funding extension for rental assistance from the US Department of Housing and Urban Development for the development’s residents. Although the San Diego Square project is still in development, CSH’s investment will finance the creation of 154 units of housing, 16 of which are primarily for supportive housing. The vast majority (122) of these units will be reserved for seniors at least 62 years old with an annual income that is 60 percent less than the area’s median income, while the remainder of units (32) are reserved for seniors whose income is 50 percent less than the area’s median income.
Business Financing

Intermediaries offering financing to the small and medium sized businesses that play an essential role in California’s regional economies have received $24 million in investment through COIN. COIN-facilitated investments have provided important financing for California businesses who have difficulty accessing capital through traditional sources. CDFIs and investment managers receiving COIN-facilitated investment provide loans and equity investments to small and medium sized businesses to assist them in growing their businesses and hiring from California’s underserved communities. Given that over a third of the private sector jobs in California are created by small businesses, COIN’s support of these businesses directly contributes to the state’s economic vitality.

In total, COIN-facilitated investments have supported 212 small businesses, helping create economic activity in underserved communities across California. Approximately 68 percent of these businesses are minority-owned or controlled, indicating these businesses are reflective of California’s diverse communities.

Businesses receiving investment have supported a total of 884 employees, with businesses employing four workers on average. Of the jobs supported, 40 percent are new jobs that have been created and 60 percent are jobs that were retained from the time of investment. These businesses also expect to create an additional 206 jobs over the life of their investments, representing 23 percent job growth.

<table>
<thead>
<tr>
<th>BUSINESS FINANCING SUMMARY FINDINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and medium-sized businesses financed</td>
</tr>
<tr>
<td>Percentage of businesses owned or controlled by minorities</td>
</tr>
<tr>
<td>Jobs Supported</td>
</tr>
<tr>
<td>Additional Jobs Expected to Be Created Over Life of Investments</td>
</tr>
</tbody>
</table>
Background: Since its founding in 1993, Opportunity Fund has grown to become one of the largest microloan and small business lenders in California, with a loan portfolio of $50 million, comprised of loans ranging in size from $2,600 to $100,000. Opportunity Fund’s micro-lending program helps entrepreneurs expand their businesses and create jobs, while its micro-savings program enables students to pay for college. More than 70 percent of Opportunity Fund’s clients reside in LMI communities and 90 percent of businesses financed are minority owned.

COIN’s Support: Since receiving its first COIN-facilitated investment in 2010, Mike Torres, Financial and Compliance Analyst at Opportunity Fund emphasized the pivotal role that the COIN program played in attracting and unlocking additional sources of capital. “Participating in the COIN program has opened up relationships and new sources of capital that wouldn’t have been available to us otherwise. Our demand for capital has increased greatly in the last two or three years and having the COIN investment has been a real boon, allowing us to meet our needs and goals.”

Working with COIN has enabled Opportunity Fund to forge new connections with banks such as Silicon Valley Bank, Pacific Western Bank and Banc of California and deepen its existing relationship with Wells Fargo, which is currently one of its largest institutional investors. During the last five years, Opportunity Fund’s loan portfolio has increased by 600 percent and the volume of loans provided has grown by 315 percent. The COIN CDFI Tax Credit program has played a supportive role in this growth and has materially helped lower the Fund’s cost of capital.

Borrower Profile: Emilia Otero, founder of La Placita Commercial Kitchen, is a long-term champion of mobile food businesses – advocating for them even before they were legal in the city of Oakland – and operates a commercial kitchen that supplies to local vendors providing fresh food.

When the building that housed her commercial kitchen went into foreclosure, and Otero lacked the capital to purchase the building, her business was nearly forced to close. Instead of losing hope, Emilia renovated a dilapidated building in Oakland’s Fruitvale district and obtained financing from Opportunity Fund to make critical upgrades to her kitchen facilities. With the help of Opportunity Fund’s loan, Otero’s relocated commercial kitchen remains operational and continues to provide fresh and healthy food to low- and moderate-income communities in Oakland.
Commercial Real Estate

Commercial real estate investments in underserved communities provide vital economic infrastructure for the local community and have received $43 million in investment through COIN. Ninety-seven percent of capital deployed by CDFIs and investment managers engaged in commercial real estate activities was invested in LMI communities. Fifty percent of commercial projects financed were part of larger mixed-use developments that are designed to create more inclusive communities for residents through better access to transit and goods and services, and shared community spaces.

Community Facilities

Community facilities, which include healthcare, childcare, human social services, and religious facilities, have received $84 million in investment through COIN. These facilities serve a total of 213,600 individuals each year, or approximately 10,000 people on average per community facility. Many of these facilities represent important community assets that connect California residents to services and communities that support health, religious, social, and other critical – but hard to measure – needs. In addition to serving a large number of individuals, the community facilities financed are expected to create approximately 21 permanent jobs on average per facility financed over the life of the investment. Furthermore, an estimated 18 percent of capital is invested in community facilities located in rural areas of California, serving approximately 40,000 residents within these communities.

### COMMERCIAL REAL ESTATE SUMMARY FINDINGS

<table>
<thead>
<tr>
<th>Summary Finding</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Deployed</td>
<td>$43 million</td>
</tr>
<tr>
<td>Percentage of capital deployed in LMI communities</td>
<td>97%</td>
</tr>
<tr>
<td>Percentage of commercial real estate projects which are a part of a larger mixed-use development</td>
<td>50%</td>
</tr>
</tbody>
</table>

### COMMUNITY FACILITIES SUMMARY FINDINGS

<table>
<thead>
<tr>
<th>Summary Finding</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community facilities financed</td>
<td>23</td>
</tr>
<tr>
<td>Average permanent jobs created per facility</td>
<td>21</td>
</tr>
<tr>
<td>Individuals served annually</td>
<td>213,600</td>
</tr>
<tr>
<td>Individuals served annually in rural areas</td>
<td>40,000</td>
</tr>
</tbody>
</table>
Consumer Financial Services

Many CDFIs, including community banks and community development credit unions that received COIN-facilitated investments, provide a suite of financial products including affordable home mortgage loans, auto loans, fairly priced microloans and affordable interest credit cards to low-income individuals who have difficulty accessing capital from banks and other traditional sources. In total, consumer financial services received $7 million in investment. These services create access to economic mobility for low-income residents and others from underserved communities by helping them manage their finances and build wealth.

Educational Facilities

Forty-five million dollars in investment have been deployed to finance the development of educational facilities. CDFIs and funds engaged in developing educational facilities seek to build, improve, or reduce the environmental footprint of schools and other educational facilities for the benefit of underserved communities. New or improved educational facilities support the attainment of better academic and life outcomes for low-income students. CDFIs that received COIN-facilitated investment supported the development of 12 schools serving grades K through 12 grades, with combined enrollment of approximately 7,847 students. Seventy three percent of students are from low-income communities, demonstrating that COIN-facilitated investments are intended to reduce educational inequities for California’s most economically disadvantaged residents.

<table>
<thead>
<tr>
<th>EDUCATIONAL FACILITIES SUMMARY FINDINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools built or improved (K-12)</td>
</tr>
<tr>
<td>Students enrolled</td>
</tr>
<tr>
<td>Percentage of students from LMI communities</td>
</tr>
</tbody>
</table>
ENVIRONMENTAL INVESTMENTS

COIN-facilitated investments have generated positive environmental impact, most notably with water access and solar energy projects.

COIN-facilitated investments have enabled several CDFIs to invest directly in water treatment facilities, water access projects, and desalination plants, particularly in rural areas where access to financing for such capital-intensive projects is limited. A total of nine water projects have been funded, which provide 2,765 households and businesses with safe drinking water. In addition to financing, these CDFIs provide hands-on technical assistance and expertise to these water projects to assist in their development and operation.

In 2012, COIN qualified two solar energy production facilities, Topaz Solar and Genesis Solar. Insurers invested $682 million and $660 million into these projects, which are among the largest solar farms in the world. With an average combined energy generation of 1,680 gigawatt hours each year, production of electricity by these facilities displaces an estimated 348,000 metric tons of CO2, which is equivalent to taking 73,509 passenger vehicles off the road for a year.16

Construction of the Topaz Solar Farm in San Luis Obispo County
Background: Rural Community Assistance Corporation (RCAC) is a CDFI that provides financing and technical assistance for affordable housing, development and maintenance of water facilities, community facilities and small businesses in rural communities across California and twelve other Western States. RCAC is committed to serving rural areas and Native American communities, and offers specialized financing and technical assistance programs focused on water and wastewater systems.

COIN’s Support: RCAC was able to secure funding from two banks as a result of tax credits offered through the COIN CDFI tax credit program and used this capital to attract additional funding. Michael D. Carroll, Lending and Housing Director at RCAC, emphasized COIN’s critical role in the financing of infrastructure development projects in rural areas, particularly wastewater systems and community facilities.

"The lending terms of COIN’s capital are unique and hard to find. We either get grants or low interest loans, but don’t have access to any other zero interest loans. COIN-facilitated investments enable us to fund water treatment and sewer development projects that most other CDFIs don’t invest in, while keeping lending rates low.”

Rural infrastructure development can be capital-intensive, with communities incurring substantial upfront predevelopment costs such as hiring engineers and preparing environmental impact studies, and is particularly challenging because local expertise and capital support is often not available. RCAC uses COIN-facilitated investments to cover the predevelopment costs of rural infrastructure projects and utilizes COIN capital to access federal and state funding for the expansion and ongoing development of such projects.

Borrower Profile: Lewiston Community Services District (LCSD), a small water utility based in Shasta County, California, was in dire need of replacing its arsenic-contaminated and antiquated water system. Although LCSD had received $4.5 million in grant funding from the California Department of Public Health (CDPH), the funding disbursements from CDPH came through at a slower pace than what the project needed to cover its operating costs. LCSD required an additional source of credit to make timely payments to contractors and engineers on an ongoing basis, to avoid additional costs in late payments. To help LCSD meet its working capital needs, RCAC approved a revolving line of credit to LCSD and also provided technical assistance to improve the organization’s ability to manage its finances and effectively provide safe and reliable drinking water to 1,200 individuals in the community.
FINANCIAL PERFORMANCE

Over the past five years, COIN has facilitated investments of $221.5 million into COIN-certified CDFIs and mission-aligned funds, $127 million of which was structured as debt and $94 million as equity. Intermediaries making equity investments expect to generate between one and fifteen percent gross returns, with a weighted average of 10.8 percent. Financial returns from loans made by CDFIs and funds were expected to generate weighted average gross returns of 5.3 percent, with a majority of CDFIs lending at rates in the range of four to seven percent. When accounting for net charge-off rates, the weighted average loan return for COIN-certified CDFIs is 4.9 percent, demonstrating that CDFIs have a sizeable buffer with their margins before loan losses are incurred. The graph on the next page shows interest rates charged by CDFIs making loans along with average loan returns that account for net charge-off rates. Even in the case of the single institution that has a negative loan return, no insurers or other investors have lost money on a COIN-facilitated investment.

The financial performance of investments into COIN-certified CDFIs and funds demonstrates that investments benefiting underserved communities can achieve comparable risk-adjusted financial returns to traditional investments - enabling investors to both fulfill their fiduciary duty and benefit California’s underserved communities. This is demonstrated by COIN-certified CDFIs’ net charge-off rates, which are comparable to the CDFI industry as a whole (0.41 percent) and are on par with the average FDIC-insured institution.

<table>
<thead>
<tr>
<th></th>
<th>DEBT</th>
<th>EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital deployed into Intermediaries</td>
<td>$127.3 million</td>
<td>$94.2 million</td>
</tr>
<tr>
<td>Range of Expected Returns for Investments Made by Intermediaries</td>
<td>0–18%</td>
<td>1–15%</td>
</tr>
<tr>
<td>Expected Returns for Investments Made by Intermediaries*</td>
<td>5.3%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Net Charge-off Rate for Loans*</td>
<td>0.4%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

* Weighted average based on amount of COIN-facilitated capital deployed
CDFI Loan Rates and Returns Net of Charge-offs

- Lending Rate
- Loan Return

COIN-Certified CDFIs
CASE STUDY: CLEARINGHOUSE CDFI

Background: Clearinghouse CDFI invests in small businesses, affordable housing, community facilities, and commercial real estate located within underserved communities in California and throughout the Western United States. The firm has grown rapidly in recent years, increasing total assets and net worth from $75 million and $7 million in 2006 to over $360 million and $50 million in 2016 respectively.

COIN’s Support: Jay Harrison, Clearinghouse CDFI’s Chief Investment Officer, emphasized the instrumental role that COIN played in supporting Clearinghouse CDFI’s growth and success.

“COIN has been a great partner of ours, particularly by effectively encouraging investors to make Class A stock investments which are critical to our growth. In the absence of COIN, we would certainly be a smaller institution. We would have made fewer and smaller loans, and as result we would have achieved less positive impact in the communities we serve throughout California.”

Indeed, a majority of the equity ($5.3 million out of $10.4 million) raised by Clearinghouse CDFI over the last five years were COIN-facilitated investments, which leveraged or facilitated the investment of an estimated $160 million to organizations in low-income or underserved communities. While some of Clearinghouse’s equity investors would have invested even without support from COIN, many would have perceived the investment opportunity as too risky. “In many cases that I’ve seen, the existence of the CDFI tax credit makes the difference between an investor saying yes or no to an equity investment opportunity in Clearinghouse CDFI. And these investments are critical to our success.”

Borrower Profile: Monarch Schools, based in San Diego, is a K-12 comprehensive school designed to educate homeless youth and provide specialized social services that help keep at-risk students in school. Clearinghouse CDFI provided a loan to Monarch Schools so that it could move from a 2,500 to a 50,000 square foot facility, enabling the school’s expansion while dramatically improving the quality of resources available and services provided to students. When Monarch Schools was unable to obtain a loan from traditional lenders, Clearinghouse CDFI approved a loan to Monarch Schools based on future expected revenues: Monarch intended to launch a capital campaign that would be used as a primary source of repayment for Clearinghouse’s loan. Exceeding Clearinghouse’s expectations, Monarch was able to repay Clearinghouse CDFI’s loan before its maturation due to the success of the school’s capital campaign.
THE FUTURE OF COIN

Impact and financial performance data reported by intermediaries as well as interviews with CDFIs have shown that the California Organized Investment Network plays a critical role in facilitating safe, low-risk investments that significantly benefit California’s underserved communities. CDFIs and other intermediaries’ financial performance and low charge-off rates demonstrate that insurers need not sacrifice risk-adjusted returns to pursue positive social and environmental outcomes in California. Given the increasing demand for the COIN CDFI Tax Credit, as well as an expanding number of CDFIs and intermediaries interested in raising capital from insurers, COIN is poised to play an increasingly crucial role in guiding capital towards investments that benefit California.

While the COIN program has become an increasingly important partner to intermediaries and insurers over the last 20 years, it will only continue to be able to support California’s underserved communities so long as it is reauthorized. The COIN program’s lack of permanent status presents real challenges for COIN staff, investors, and intermediaries. For COIN to be most effective in meeting the capital needs of California’s underserved communities, it is important that the program be made permanent to eliminate uncertainty surrounding the program’s status and signal to the market that investments in underserved communities are a priority for the state. A permanent COIN program will:

- Enable staff to dedicate a greater amount of time and resources to facilitating impactful investments that benefit California;
- Provide insurers and other investors with even greater confidence that the COIN program can help them identify safe investments offering a competitive financial return that provide positive environmental or social benefit;
- Support the growth and development of California’s CDFIs and other intermediaries who are focused on serving California’s underserved communities through greater levels of investment by insurers and other investors;
- Make it possible to use data collected annually on investments in California’s underserved communities to better understand the needs of these communities and support investors and intermediaries in better aligning their activities with the interests of these communities; and
- Focus program plans and strategies on meeting the long term capital needs of California’s underserved communities.

The COIN program has demonstrated a strong track record of catalyzing socially and environmentally impactful investments in California and is well positioned to continue to benefit the state by working with insurers, other investors, and CDFIs and investment managers to facilitate investments into California’s underserved communities.
Amount invested in California ($506 million) is higher than the total amount of COIN-facilitated investments ($237.5 million) as COIN-facilitated capital is comingled with – and in some cases, leverages - larger pools of capital that are subsequently deployed into various projects that benefit underserved communities and the environment.

A ZIP code is classified as low-to-moderate income (LMI) if at least 50 percent of the population residing in the ZIP code resides in LMI census tracts. A census tract is designated as LMI if the Median Family Income of the tract is at or below 80 percent of the Core Based Statistical Area’s Median Family Income (AMI). A Core Based Statistical Area (CBSA) is a U.S. geographic area defined by the Office of Management and Budget (OMB) that consists of one or more counties (or equivalents) anchored by an urban center of at least 10,000 people plus adjacent counties that are socioeconomically tied to the urban center by commuting. Thirty eight percent of all U.S. ZIP codes are LMI.

ZIP codes in which the percentage of the minority population is higher than the median percentage of the minority population in all California ZIP codes.

Low-income households are defined as earning 80% or less of the median family income of the area in which they live, also known as the Area Median Income (AMI). This income threshold is defined by California’s Department of Housing and Community Development. Moderate-income individuals earn 120% or less of the median family income of the area in which they live. See: http://www.hcd.ca.gov/housing-policy-development/housing-resource-center/reports/state/inc2k15.pdf.

CDFIs are financial institutions certified by COIN that service underserved populations in California. The U.S. Department of the Treasury has a separate program by which CDFIs are certified, which is not covered in this report.

From Assembly Bill 2128, 2014 (Gordon): Each admitted insurer with annual premiums written in California equal to or in excess of one hundred million dollars ($100,000,000) for any reporting year shall provide information to the commissioner on all of its community development investments, community development infrastructure investments, and green investments in California. This information shall be reported by July 1, 2016, on investments made or held during the calendar years 2013, 2014, and 2015 and list, if applicable, investments that are high-impact, green, or rural. The information reported by insurers may include investments both held and originated, the percentage of any investment that qualifies, and why an investment qualifies. This information shall be provided as part of the required filing pursuant to Section 900 or 11131, or through a data call, or by other means as determined by the commissioner. The California Organized Investment Network (COIN) shall provide insurers with information on why investments, if any, were found not to be qualified by the commissioner.

While these investments made into CDFIs are interest-free and are held for a minimum of 60 months, an investor can equate receipt of the tax credit as comparable to an investment with a 3.7 percent annualized return over the five-year period.

Insurers and CDFIs estimated demand level for CDFI tax credits to be a maximum of $98 million, which would facilitate $490 million in investments in California. See the projected economic impact of AB 32: http://www.insurance.ca.gov/0250-insurers/0700-coin/upload/AB-32-Economic-Impact-Report.pdf.


ZIP codes in which the percentage of the minority population is higher than the median percentage of the minority population in all California ZIP codes.
ENDNOTES (continued)

12 Defined as 1.25 times CA’s unemployment rate, see https://www.etp.ca.gov/hua.cfm.


14 Ibid.


16 Assumes that the produced energy by solar farms displaces ‘grid’ energy produced by commercial power stations. Pacific Gas and Electric (PG&E) reported the average CO2 emissions per kilowatt hour of energy they produced was 0.2074 metric tons between 2009 and 2013, indicating that 1680 gigawatts of solar energy displaced an estimated 348,432 metric tons of CO2 (1680 GWh * 1,000 MWh / GWh * 0.2074 metric tons of CO2 / MWh = 348,432 metric tons of CO2). See PG&E’s guidance for calculating greenhouse gas emissions factors: https://www.pge.com/includes/docs/pdfs/shared/environment/calculator/pge_ghg_emission_factor_info_sheet.pdf. According to the US Environmental Protection Agency (EPA), reducing 348,432 metric tons of CO2 emissions is equivalent to emissions generated by 73,509 passenger vehicles driven for one year. See the EPA’s Greenhouse Gas Equivalencies Calculator: https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator.

17 A $16 million COIN-facilitated equity investment is excluded from this analysis as the intermediary had not yet deployed capital as of the time of data collection. This accounts for the difference between the $221.5 million figure cited in this section and the $237.5 capital received through COIN cited throughout the report.


19 COIN-certified CDFIs reported a weighted-average net charge-off rate of 0.39 percent, while the Federal Deposit Insurance Corporation reported in Q2 2015 that FDIC-insured commercial banks and savings institutions had an average net charge-off rate of 0.42 percent, its lowest level since before the Great Recession. See: https://www.fdic.gov/bank/analytical/qbp/2015jun/qbpall.html.

20 Prior to the preparation of this report, data on investments made by insurance companies was only provided to COIN every two to four years. The primary data collection approach taken to prepare this report demonstrates the usefulness of collecting information on investments’ social and environmental outputs as well as financial performance on an annual basis, which is associated with the following benefits: a) the data and types of investment are more accurately reported; b) data collection is less time-consuming as it does not require verification of historical data; c) annual assessments of financial and nonfinancial performance enable COIN to more readily determine how and where it is – and is not – benefiting the state of California, which would allow COIN to more effectively channel capital into the geographies, sectors, and impact areas where investment is most needed. Additionally, the approach taken to collect data that was analyzed within this report demonstrates that utilizing an online survey tool as well as standardized impact metrics can improve the efficiency and accuracy by which insurers, CDFIs, and investment managers report on their impact investments.