



IN BRIEF

DATA TRANSPARENCY AND STANDARDIZATION

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Ten years ago, community development loan funds, led by Opportunity Finance Network, tasked themselves with increasing transparency, accountability, and standardization in their industry to strengthen performance and attract increased capital. The result was CARS, the Community Development Financial Institution (CDFI) Assessment and Ratings System, which over the past decade has led to the collection of an unprecedented amount of data and information on individual CDFIs. The CARS methodology is used by Aeris (www.aerisinsight.com) to analyze and rate CDFIs' impact performance and creditworthiness. Back in 2004, being rated was an unsettling proposition for many CDFI leaders, who worried that capital would flee to only the highest-rated institutions and that CDFIs would be pitted against each other. Ten years later, those fears have not materialized. Instead, ratings have brought more standardization and transparency to CDFIs' financial and portfolio performance reporting. Some CDFIs have used the ratings as a management tool for strengthening organizational effectiveness. For others, the ratings have sped up the underwriting process for their investors and, for a small but increasing number, attracted capital from new investors.

Aeris ratings sit atop a deep foundation of highly standardized data, but until recently those data were not available to the general investor market. As the number of rated institutions has increased, investors new to the CDFI sector approached us about accessing CDFI data. Investors recognize that CDFIs are one of the few mission-driven, fixed-income investment opportunities in the social investment space. But without timely, standardized data, it was nearly impossible to understand the performance of CDFIs

as an investment class. Aeris had much of the data investors sought, but not in a format that would serve as a due diligence vehicle for investors and a useful management tool for CDFIs.

With significant support from the Citi Foundation and the Ford Foundation, Aeris built a cloud-based data collection and analytic system—the Aeris Cloud—that allows both Aeris-rated and non-rated CDFIs to easily upload quarterly financial and portfolio performance data and annual impact metrics. The Aeris Cloud provides both CDFIs and investors access to standardized quarterly performance data—including all the ratios, tables, and graphs used in Aeris ratings analyses, as well as real-time peer and industry trend analytics drawing from CDFIs' audited annual and internally reported quarterly data.

We created the Aeris Cloud as a central repository of standardized data that would: (1) help position CDFI debt as part of a recognized asset class in mainstream financial markets; (2) reduce reporting redundancies that divert CDFI resources from creating opportunities in underserved, low-income, and marginalized communities; and (3) serve as a useful tool for CDFI managers and boards. The challenge was building a system that could capture the complexity of these diverse institutions without adding burden to their reporting process.

Surveys had shown that CDFIs supported creation of a central repository and saw value in quarterly reporting, but only if it required fewer than 30 minutes each quarter to input data. To ensure the system's responsiveness to CDFI needs, Aeris assembled 10 chief financial officers (CFOs) from a diverse group of loan funds. The CFOs emphasized that data input had to be easy, but also that they wanted to be able to access the data to both ensure the data were correct and to track their own performance. Accordingly, uploading data requires as few as five minutes each quarter. The only requirement is that the upload must be in a single Microsoft Excel file in whichever format the CDFI uses. Once the data are uploaded, the CDFIs can click on their standardized financial statements to check for accuracy and review multiple years (or quarters) of data, performance ratios, and analytic trends. The process for submitting data corrections to Aeris is interactive, electronic, and tracked in perpetuity to create an audit

history. Once the CDFI's financial audit is available, Aeris staff “true-up” internally reported year-end data to reflect audited results.

The Aeris Cloud also allows CDFIs and investors to track a variety of performance metrics (annually or quarterly) against an Aeris-established or user-defined peer group. It supports trend analysis for all reporting CDFIs, specific lending sectors, or a user-defined set of loan funds. CDFIs can compare their own performance with that of their peers, and investors have the tools they need to better understand and assess industry and enterprise risk and performance.

Standardized financial performance data and analytics are one piece of the investment puzzle—impact data are another. CDFI loan funds collect and report myriad impact metrics based on funder and investor requirements and the CDFI's own internal assessment of progress against its mission. But these data are not in forms that can be aggregated to support an understanding of the industry's impact on the nation's low-income populations or communities. As a future project, Aeris will work with CDFIs and investors to define a set of standardized impact metrics that apply to specific CDFI sectors and can be easily collected, reported, and aggregated.

Reliable data are important for positioning CDFI loan fund debt as part of a recognized investment class. The Aeris Cloud is a major advancement, but more is needed. At a minimum, the following must be achieved:

- More CDFIs must join the early adopters who embrace the greater transparency and standardization that mainstream financial markets expect. Although financial data are publicly available for nonprofit loan funds via the Internal Revenue Service (IRS), some CDFIs are hesitant to share their data. Unfortunately, IRS data, which do not capture the complexity of CDFIs, can be easily misinterpreted. The Aeris Cloud allows CDFIs to share their financial data in a format appropriate for a financial institution.
- CDFIs must make transaction-level performance data more transparent to support development of new capital vehicles and to open investment management platforms to CDFIs. These data could be used to: (1) challenge the convention that CDFIs must maintain high net-asset levels to protect investors from loss (capitalization ratios for CDFI loan funds are

at least double the level for regulated depositories); (2) help overcome misperceptions about loan performance that prevent CDFIs from being listed on trading platforms; and (3) support development of investment vehicles that provide access to new sources of capital.

It may take a decade or longer, but with the infrastructure Aeris has built, the CDFI industry is closer to meeting the data and information needs of the capital markets and realizing improved efficiencies through standardized reporting. The ultimate beneficiaries will be underserved communities throughout the United States that will gain access to more capital and more opportunity as CDFIs thrive and expand.



PAIGE CHAPEL *is President & CEO of Aeris (www.aerisinsight.com), the information service for community investors. Paige has been a leader in community development finance for more than three decades, and is one of the foremost experts on community development financial institution (CDFI) loan funds. Presently, her career is devoted to connecting CDFIs with financial markets to increase the flow of capital to disadvantaged communities in the U.S.*