San Francisco Municipal Finance Corporation

Business and Governance Plan and Viability Study

May 10, 2023

DISCLAIMER

The following document was prepared by the HR&A Team, a consultant to the City and County of San Francisco. This document does not include legal advice, and the HR&A Team does not represent that the document, or the recommendations or conclusions therein, comply with applicable laws governing the establishment or operation of a non-depository municipal finance corporation or a municipal bank. Under the City Charter, the City Attorney is the legal advisor to the City and only the City Attorney or his authorized delegees may advise the City on legal issues, including such issues pertaining to municipal banking.

The HR&A Team consists of HR&A Advisors, Inc.; The Findley Companies; and Contigo Communications.

The HR&A Team prepared this document in anticipation of consideration for submission by the San Francisco Reinvestment Working Group (an advisory body) and Board of Supervisors. The Board of Supervisors has not endorsed or adopted its contents. Capitalization and funding plans for the proposed Public Bank have not yet been endorsed or approved by the Board of Supervisors and are based on conversations with Reinvestment Working Group members and other participants in this project.

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I. Executive Summary

In October 2019, the State of California passed AB 857 to provide a pathway for local government agencies to charter public banks. In 2021, the San Francisco Board of Supervisors created The San Francisco Reinvestment Working Group ("RWG" or "the RWG") by unanimously passing Ordinance No. 87-21 ("Ordinance" or "the Ordinance"). The RWG is tasked under the Ordinance with submitting to the Board of Supervisors and the Local Agency Formation Commission (LAFCo), (referred to as "City" or "the City"), a business and governance plan to establish a state-licensed public bank and a non-depository municipal finance corporation ("MFC").

The RWG began meeting in April 2022 and is being consulted by HR&A Advisors, The Findley Companies, and Contigo Communications (the "HR&A Team"). The HR&A Team prepared the following business plan with input from the RWG, LAFCo, the San Francisco City Attorney's Office and their advisors ("CAT"), the San Francisco Public Bank Coalition ("SFPBC"), and various other groups for submission to the City. The HR&A Team has undertaken the research and investigation indicated in this business plan.

This business plan details the proposed MFC's approach to creating an entity that achieves the City's goals while upholding the values of the City and its diverse communities and performing according to prudent financial standards and requirements. It will do so by focusing its lending activities on affordable rental housing development and affordable homeownership, local enterprises (small businesses), and green investments supporting environmental justice, working across all of these areas with San Francisco's many community financial institutions ("CFIs")—which includes both community banks insured by the Federal Deposit Insurance Corporation ("FDIC") and credit unions insured by the National Credit Union Administration ("NCUA")—and community development financial institutions ("CDFIs"). The geographic focus of the MFC will be on the region defined by the boundaries of the City and County of San Francisco and the San Francisco International Airport. The MFC will serve projects or businesses located within and persons residing in these boundaries.

The MFC can also serve as San Francisco's "green bank," a mission-driven financial institution that uses public funds to make and incentivize green investments. An MFC that functions as a green bank could leverage funding from the Inflation Reduction Act and other sources to provide low-cost loans for projects that reduce emissions, address environmental injustices, or otherwise improve environmental outcomes. The HR&A Team recommends that the green bank operate within the framework of the MFC to enable the City to consolidate its green investing activities and avoid the redundancy of creating two separate but overlapping institutions.

The fundamental need for a City-owned MFC stems from the historic failure of existing financial institutions to equitably serve the needs of low-income communities and communities of color and to deliver financial services that are not extractive or damaging to those same communities. There are two facets to this issue. The first is a lack of access to quality financial services that provide residents, businesses, and others with the instruments to better their lives. The second is the consequence of that lack of access, which has caused worse outcomes in economic, employment, health, and environmental outcomes that continue to this day.

This large gap in the local financial market, which the MFC seeks to fill, amounts to billions of dollars a year. This gap is spread across the MFC's priority lending areas. The City projects that affordable housing development will require between $1.3 and $2.4 billion a year through 2030.[1] Affordable homeownership will require additional funds to build new homes, support existing homeowners to maintain and expand their buildings, and to support down payments for first-time homeowners. Local enterprise lending for small businesses unsupported by traditional banks and other financial institutions likely runs to several tens of millions of dollars annually. Lastly, green investments constitute a vast and urgent need for San Francisco. The City has established an ambitious Climate Action Plan to reach net zero greenhouse gas emissions by 2040. The University of California, Berkeley's Center for Law, Energy, and the Environment estimated that implementing this plan could require up to $21.9 billion—approximately $1.3 billion per year.[2]

The HR&A Team has identified through extensive outreach to CFIs and CDFIs, San Francisco businesses and nonprofits, and other City agencies and entities a series of products and services that the MFC can provide to fill this gap. The MFC is designed to work in partnership with San Francisco's many dedicated CFIs and CDFIs through participation and syndication lending and other collaborative approaches. Acknowledging these institutions' front-line role in serving local communities and these institutions' extensive community relationships and trust, the MFC will establish working relationships to provide capital to and through them, achieving broader impact than it could on its own. Together, the MFC and partner institutions will support affordable housing development and preservation; small business finance; revolving loan and bridge funds; and the construction of public and private clean-energy infrastructure such as solar-plus-storage and electrification systems at the neighborhood scale or for individual homes. MFC management will prioritize lending with and through partners that helps the MFC scale existing products offered by CFIs and CDFIs for which there is additional demand; generate revenue within the first 2-3 years of MFC operations; can be easily issued; and/or do not require significant staff time for issuance and ongoing management.

If the City approves the creation of the MFC, the MFC will be formed and organized in compliance with local, state, and federal laws and regulations and adopt prudent management and financial practices to achieve its mission.

The MFC can become the City's depository public bank. The HR&A Team developed the MFC structure and operations to facilitate its transition into a depository bank with regulatory approval. The governance, management, and financial structure of the MFC should allow it to comply with regulatory review and become the public bank if and when the City decides to initiate this process.

Creating the MFC and Bank offers the City an opportunity to invest in its communities to support economic and environmental strength, resilience, and equity. These entities are designed to align with the City's values, be mission driven, and generate positive impacts across the three lending areas, thus addressing historic challenges by creating affordable homes, new businesses, and jobs, and by improving the built environment to face the future. This plan indicates that the City's investments in an MFC and

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[1] City & County of San Francisco, "Board of Supervisors Government Audit and Oversight Committee: Affordable Housing Funding," 2022. https://sfgov.legistar.com/View.ashx?M=F&ID=10905702&GUID=037E15BE-0136-4350-AEA7-717766EF1472

[2] University of California, Berkeley Center for Law, Energy, & the Environment, "Funding San Francisco Climate Action: Strategies for Revenue, Implementation, and Equity," 2022. https://www.law.berkeley.edu/wp-content/uploads/2022/11/Funding-San-Francisco-Climate-Action-Nov.-2022.pdf

Bank could yield the "triple bottom line" of achieving significant benefits for people and planet through a financially sustainable model.

Note from the HR&A Team: We are not representing that this business plan complies with applicable laws but stating that the MFC, once established, will do so.

Why Is an MFC Needed? San Francisco Challenges and Priorities for MFC Operations

The City and County of San Francisco took action to address decades of racial discrimination and unequal access to finance by private lending institutions by passing Ordinance No. 87-21 in 2021. The Ordinance established the Reinvestment Working Group to study the potential use of public funds through a City-owned MFC to address three main areas where financing disparities are most pronounced: affordable housing, small businesses, and green investments, recognizing the need for public engagement in closing the gap in access to capital. To understand historical challenges and needs, and offer context to the potential products or services that a City-owned MFC can offer, it is important to examine how traditional banks have underserved or actively discriminated against multiple communities in San Francisco.

Banks closed large numbers of branches in the aftermath of the 2008-2009 financial crisis and the COVID-19 pandemic, resulting in many parts of San Francisco no longer having access to physical bank branches.[3] This has led to potential "banking deserts" where communities lack easy access to personal, business, and other financial services with bankers with local relationships and knowledge, a trend that has disproportionately affected low-income and minority populations.[4] This lack of services can lead customers to payday lenders, check cashers, and other financial services providers who offer predatory and harmful products. While the number of payday lenders and volume of business has declined in California, this dynamic remains an issue for many San Franciscans.[5, 6]

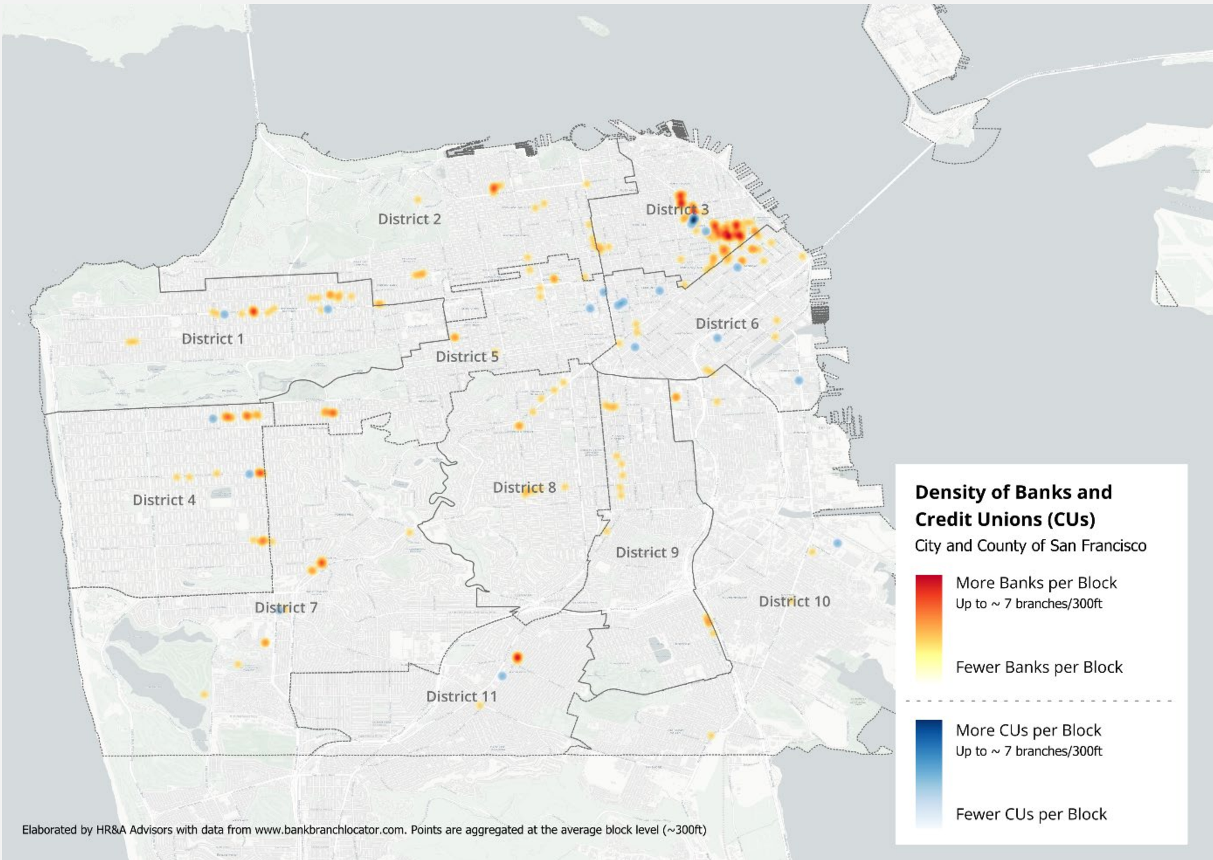
[3] National Community Reinvestment Coalition, "The Great Consolidation of Banks and Acceleration of Branch Closures Across America: Branch Closure Rate Doubled During the Pandemic," 2022. https://ncrc.org/the-great-consolidation-of-banks-and-acceleration-of-branch-closures-across-america/

[4] Federal Reserve Bank of St. Louis, "Banking Deserts Become a Concern as Branches Dry Up," 2017. https://www.stlouisfed.org/publications/regional-economist/second-quarter-2017/banking-deserts-become-a-concern-as-branches-dry-up

[5] California Department of Financial Protection and Innovation, "Annual Report of Payday Lending Activity Under the California Deferred Deposit Transaction Law," 2021. https://dfpi.ca.gov/wp-content/uploads/sites/337/2022/07/DFPI_AnnualReport_CDDTL-2021.pdf

[6] CBS Bay Area, "History Of Redlining, Predatory Lending, Systemic Racism Impacts Black Home Ownership In Bay Area," 2020. https://www.cbsnews.com/sanfrancisco/news/history-of-redlining-predatory-lending-systemic-racism-impacts-black-home-ownership-in-bay-area/

Figure 1. Bank Branch Presence in San Francisco by District



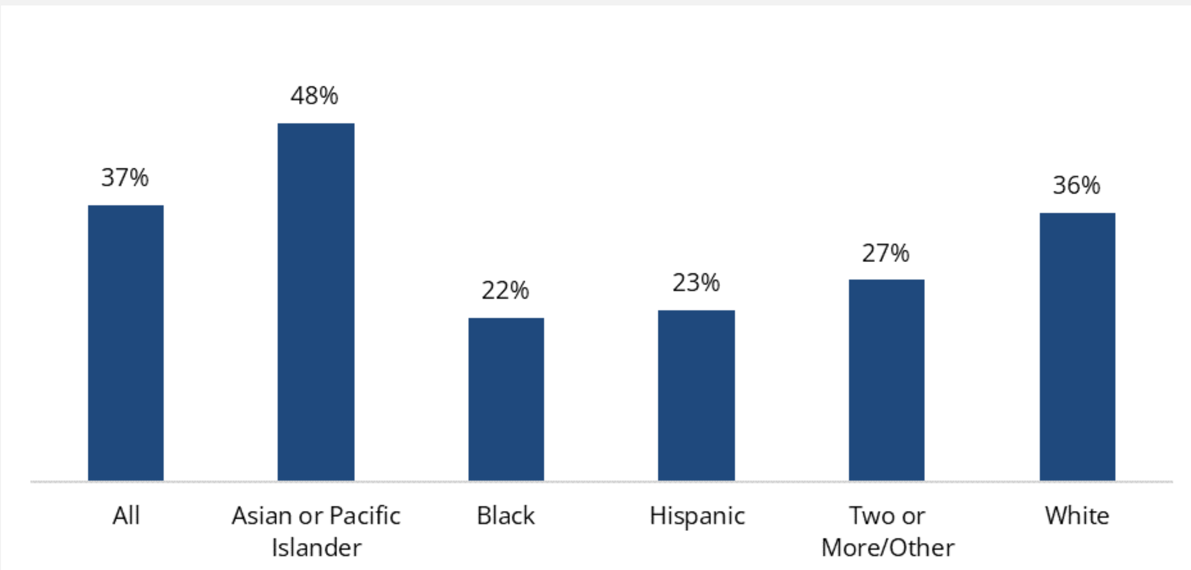
The MFC will provide lending but not personal banking services (personal checking and savings accounts, debit and credit cards, etc.) and seeks to fill gaps in access to capital to support community-serving activities. It will partner with community-based and community-serving financial institutions to address some of the dynamics caused by banking deserts and predatory finance, while acknowledging that further work is necessary from other types of financial institutions to fully address these challenges.

Affordable Housing

Prospective homeowners and renters have been actively discriminated against and experience disparate outcomes based on race, ethnicity, and income. The Greenlining Institute found that in the San Francisco region racial minorities, particularly Black and Hispanic communities, are disproportionately denied home purchase loans compared to their population size.[7] Specifically, Black households, which make up 6% of the population, receive less than 1% of home purchase loans, while Hispanic households, which make up 16% of the population, receive only 4% of such loans. These figures suggest that existing banks have been less likely to lend to people of color, which has had a detrimental effect on the ability of these communities to build wealth. This is due to underwriting criteria and lower average incomes for people of color, but banks are twice as likely to deny a conventional mortgage to Black applicants than to white applicants even when controlling for income, which suggests a pattern of discrimination.[8]

Less than a quarter of Black (22%) and Hispanic (23%) San Franciscans are homeowners, compared to a citywide average homeownership rate of 37%. Large commercial banks, which currently account for 65% of all loans issued in the City, have played a significant role in discrimination through the historic, government-sanctioned practice of redlining. This now-illegal practice involved denying loans or credit to certain neighborhoods based on the racial makeup of the area and has contributed to lower homeownership rates for minorities and lower access to opportunity. The gap in homeownership between Black and white San Franciscans today is the largest it has been since 1890[9] and the homeownership rate in formerly redlined neighborhoods is about 25%, compared to a citywide average of 40%.[10]

Figure 2. Homeownership Rates by Race and Ethnicity in San Francisco



Source: IPUMS USA and Bay Area Equity Atlas (2019).

As the cost of homeownership continues to rise, with home prices reaching unprecedented levels and interest rates increasing, the rental market is becoming the primary option for many households across all demographic groups and even for higher-income households that would be expected to have become homeowners.[11]

[7] Greenlining Institute, "Home Lending to Communities of Color in California 2020," 2022. https://greenlining.org/wp-content/uploads/2022/02/Greenlining-Home_Lending_to_Communities_of_Color_in_CA_2020-02.pdf

[8] California Office of the State Treasurer, "California Dream for All" A Proposed Shared Appreciation Loan Investment Fund for the State of California," 2022. https://www.treasurer.ca.gov/publications/ca-dream-for-all-report.pdf

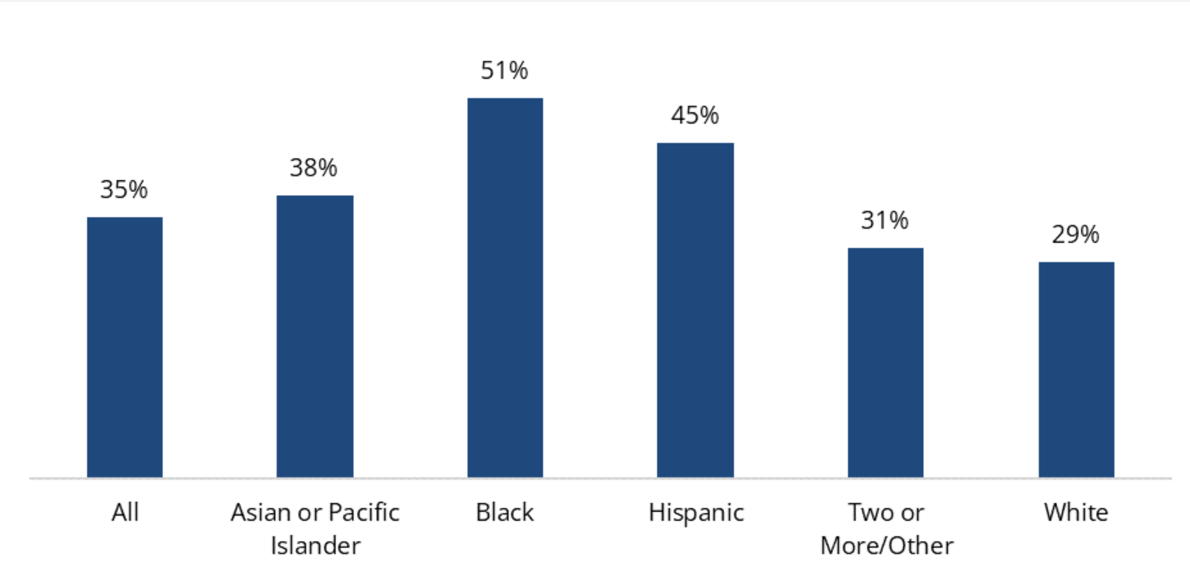
[9] The American Prospect, "How to Start Closing the Racial Wealth Gap" 2020. https://prospect.org/economy/how-to-start-closing-the-racial-wealth-gap/

[10] U.S. Census Bureau, 2020 American Community Survey

[11] California Office of the State Treasurer, "California Dream for All" A Proposed Shared Appreciation Loan Investment Fund for the State of California," 2022. https://www.treasurer.ca.gov/publications/ca-dream-for-all-report.pdf

Yet San Francisco has the country's second-highest median rents, causing households to spend a large and often unsustainable share of their income on housing.[12] More than half of Black (51%) and nearly half of Hispanic (45%) San Franciscans who rent are housing burdened, compared to a citywide average of 35%. (Burdened households are those that spend more than 30% of their income on housing.)

Figure 3. Housing Burden by Race and Ethnicity in San Francisco



Source: IPUMS USA and Bay Area Equity Atlas (2019).

Furthermore, Black and Hispanic communities also face discrimination within the rental market even before they become housing burdened. Prospective renters of color are faced with higher security deposit demands and must submit more applications and pay higher fees than white renters.[13] In 2021, 61% of renters applied for two or more properties, an increase of 11 percentage points from 2019 and five points higher than in 2020. White or Asian American and Pacific Islander renters typically submit two applications, while Black or Hispanic renters typically submit three. More than a third of renters of color, 38% of Black and Hispanic renters, 33% of Asian American and Pacific Islander renters, and 21% of white renters had to submit five or more applications during their home search.

Disparate outcomes also appear in housing conditions. Although the share of people living in overcrowded conditions has decreased since 1990, more people of color continue to experience substandard housing than white city residents.[14] For instance, 20% of Hispanic and Asian and Pacific Islanders, and 8% of African Americans live in overcrowded housing, compared to 3% of the city's white population. While these disparate outcomes may not be the direct result of banking policies and activities, they suggest the need for broader policies and financial solutions that seek to provide better access to more affordable and higher-quality housing for all San Franciscans, and for communities of color especially.

[12] Zumper, "Zumper National Rent Report," 2023. https://www.zumper.com/blog/rental-price-data/
[13] Zillow, "Renters of color pay higher security deposits, more application fees," 2022. https://zillow.mediaroom.com/2022-04-06-Renters-of-color-pay-higher-security-deposits,-more-application-fees
[14] San Francisco Planning Department, "San Francisco Housing Needs and Trends Report," 2018. https://default.sfplanning.org/publications_reports/Housing-Needs-and-Trends-Report-2018.pdf

In addition to sustained racial disparities in housing access and security, San Francisco faces very high demand for new affordable housing. In accordance with State law, the City adopted in 2023 its Sixth Cycle Housing Element to plan the production of over 82,000 units, of which roughly 46,000 must be affordable to moderate-, low-, and very-low-income households. This provides an opportunity to deploy additional lower-interest loan capital to support the development of much-needed affordable housing and to complement the limited subsidy options available. This proposed development also offers the opportunity to benefit and stabilize diverse communities across the city, including those that suffered from redlining in the past and suffer from increasing rent and home cost pressures today.

Small Businesses

The uneven representation of Black- and Hispanic-owned small businesses in San Francisco highlights a lack of equal economic opportunities and social mobility in the City. According to data from the U.S. Census Bureau, the percentage of employer businesses owned by African Americans in the city is lower than the national average. In 2019, only 1.5% of employer businesses in San Francisco were owned by African Americans, compared to 2.5% nationally.[15] This disparity is stark as African Americans make up 6% of the city's population. Likewise, the share of Hispanic-owned small businesses is disproportionately low compared to the national average and their weight in the city's population: only 3.5% of small businesses are owned by Hispanic residents, as opposed to the national average of 5.5%, and much lower than the 16% share of Hispanic residents in San Francisco.[16]

Low access to financial services significantly contributes to this ownership disparity, mainly due to limited access to banking services in many neighborhoods and discriminatory underwriting criteria. In terms of the former, in San Francisco 14% of total bank branches closed in the period between 2008 and 2016. Many of these closures occurred in neighborhoods with concentrations of Black and Hispanic residents.[17] These communities are disproportionately likely to have limited access to traditional banking services, with many living in "banking deserts."[18] (See Figure 1 above.)

Biases in loan underwriting criteria also play a significant role in the financing gap faced by minority-owned small businesses in San Francisco and across the country. Even after controlling for credit score and income, these businesses often face more stringent procedures and suboptimal terms and interest rates, continuing the historic legacy of racial bias. Furthermore, financial institutions may also prefer businesses with a more established track record, leaving at a disadvantage newer and smaller businesses in need of capital to scale up their operations.

Only 25% of Hispanic-owned firms with low credit risk received all the non-emergency financing they sought, compared to 48% of white-owned firms with the same low credit risk. The same study also showed that, in aggregate, only 35% of Black-owned small businesses received all requested funding,

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[15] Brookings Institution, "To expand the economy, invest in Black businesses," 2020. https://www.brookings.edu/essay/to-expand-the-economy-invest-in-Black-businesses/

[16] U.S. Census Bureau, Annual Business Survey Annual Business Survey, 2019

[17] National Community Reinvestment Coalition, "The Great Consolidation of Banks and Acceleration of Branch Closures Across America: Branch Closure Rate Double During the Pandemic," 2022. https://ncrc.org/the-great-consolidation-of-banks-and-acceleration-of-branch-closures-across-america/

[18] National Community Reinvestment Coalition, "Bank Branch Closures from 2008-2016: Unequal Impact in America's Heartland," 2017. https://ncrc.org/wp-content/uploads/2017/05/NCRC_Branch_Deserts_Research_Memo_050517_2.pdf

compared to 60% for their white-owned counterparts.[19] If evaluated by ethnicity, 60% of non-Hispanic-owned firms received all funds requested, while only 45% of Hispanic-owned businesses received requested funding.

Even publicly funded initiatives like the Paycheck Protection Program ("PPP"), created to provide financial assistance to small businesses to help them keep their employees on payroll during the COVID-19 pandemic, failed at improving this financing disparity. Businesses located in areas with high median household incomes ($150,000 or more) were more likely to receive PPP loans, with around half receiving loans. Conversely, only about a quarter of businesses located in areas with lower median household incomes (under $75,000) received loans. Furthermore, the data shows that business owners in predominantly Hispanic areas had the lowest rate of PPP loan receipts, with only 22% receiving loans. Businesses in primarily Black neighborhoods had a similarly low rate of loan receipt at 23%, while businesses in predominantly Asian and white areas fared better, with 34% and 41% receiving PPP loans, respectively.[20] This lack of access to capital has significantly impacted minority-owned businesses' ability to grow, thrive, and sustain economic shocks, hindering their ability to create jobs and wealth and stimulate economic growth in their communities in an enduring and sustainable way.

There is evidence that a public bank model can provide needed services: PPP data shows that North Dakota businesses had greater access to capital in the first round due to the Bank of North Dakota, which is a public bank owned by the state of North Dakota.[21]

Green Investments

Residents of low-income and minority communities in San Francisco suffer from environmental inequality as they face limited access to safe housing options in areas with lower ecological hazards. The San Francisco Human Rights Commission found that neighborhoods with a history of industrial and polluting activities, such as Bayview Hunters Point, have higher rates of chronic conditions that put pressure on public health and the labor market.[22] This is reflected in data from the California Environmental Protection Agency's CalEnviroScreen tool, which shows that census tracts with the highest pollution burden scores in the City also tend to have a higher proportion of Hispanic and African American residents.

The transition to a sustainable energy future Is crucial for addressing the pressing environmental challenges facing the planet today. However, it is essential that this transition is not only environmentally sustainable, but also socially just. This means that investments in electric appliances, solar power, energy storage, weatherization and insulation, and other green technologies must be directed towards addressing the environmental injustices faced by communities of color across the city. Unfortunately, existing financial institutions continue to fund fossil fuel projects and have a history of neglecting investment in minority communities and are unlikely to address this need effectively.

[19] U.S. Federal Reserve, Availability of Credit to Small Businesses, 2022.
[20] Oh, Soo et al. (2021). *Geocoded loan data from the Paycheck Protection Program 2020 (PPP)*. Reveal from the Center for Investigative Reporting.
[21] The Washington Post, "North Dakota businesses dominated the PPP. Their secret weapon? A century-old bank founded by radical progressives", 2020. https://www.washingtonpost.com/business/2020/05/15/north-dakota-small-business-ppp-coronavirus/
[22] City & Couty of San Francisco, "DRAFT San Francisco Reparations Plan," 2022. https://sf.gov/sites/default/files/2023-01/HRC%20Reparations%202022%20Report%20Final_0.pdf

Therefore, innovative models of financing and investment must be developed that prioritize the needs of historically marginalized communities. This includes community-based and socially responsible public-owned options that ensure that the transition to sustainable energy is inclusive and equitable.

II. Description of Business

A. Business and Market Niche

1. Overview of Lending Areas

As originally articulated in Ordinance No. 87-21, the establishment of the MFC will create a "fiscally safe and sound institution" to invest City public funds in ways that advance the City's values and interests.[23] In particular, the MFC will provide loans and other financial products that not only increase overall capital supply, but also promote alternative underwriting criteria (or other risk adjustments) to expand access to prospective borrowers who typically do not qualify under current conditions. The MFC proposes to focus efforts in the following three lending areas:

- **Affordable Housing Development and Affordable Homeownership**, to address the City's worsening affordability crisis and socioeconomic and demographic homeownership gaps. The MFC will primarily support the production and preservation of affordable rental units, which may include supporting initiatives that dedicate public lands to affordable housing and that develop land banks for affordable housing. (The MFC itself will not serve as a land bank.) The MFC may also provide support for existing and prospective homeowners—especially lower-income households —to purchase, maintain, and/or expand their homes. However, with its limited initial funds the MFC will initially prioritize support for rental housing to ensure that the largest number of households can benefit from MFC lending since supporting rental housing is more cost effective in supporting more units than equivalent homeownership support.

- **Local Enterprises**, to address racial disparities in accessing commercial capital and build community wealth through small businesses, nonprofits, and cooperatives. The MFC will strengthen the viability of local small businesses and nurture entrepreneurship, specifically for women, people of color, and LGBTQIA+ people.

- **Green Investments and Environmental Justice**, to mitigate the impacts of climate change and environmental racism. The MFC will support initiatives that reduce greenhouse gas emissions—such as building electrification, renewable energy production, transit expansion, and vehicle electrification—and reduce pollution burdens in lower-income communities. The MFC will function as San Francisco's green bank.

CFIs and CDFIs already make loans in these three priority areas. The MFC will partner with these institutions to deploy its loans. See Section III.B.1. Partnership Strategy for more information.

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[23] City & County of San Francisco, "Ordinance No. 87-21" 2021. https://sfgov.legistar.com/View.ashx?M=F&ID=9596572&GUID=E3366761-048C-40AD-AF3D-FC352B6A33D7

The geographic focus of the MFC will be the region defined by the boundaries of the City and County of San Francisco and the San Francisco International Airport. The MFC will serve projects or businesses located within, and persons residing in, these boundaries.

In the future, the MFC may consider entering other markets, such as public lands (beyond affordable housing), sustainable food systems, foreclosure prevention and homeowner assistance, and student loans. The MFC will be prohibited from lending for and participating in other activities that conflict with the City's values, including (but not limited to) predatory lending, fossil fuels, tobacco, firearms, other weapons, prisons and detention centers, and businesses holding a record of labor law violations.

This section details local lending needs in priority lending areas and outlines the specific financial services that the MFC proposes to provide.

2. Methodology

The HR&A Team conducted extensive research, analysis, and outreach to answer two primary questions surrounding the priority lending areas and to define the market niche for the MFC:

- What are the unmet financing needs and barriers to access for lower-income populations?
- What services, products, or terms are required to meet those needs?

This process entailed a three-pronged approach, including qualitative and quantitative methods, to validate the need for the MFC and inform its product offerings. These steps are displayed in Figure 4 below and described in greater detail on subsequent pages.

Figure 4. Methodology to Define Market Niche

a. Landscape Scan

The first task was to establish a sound understanding of the local lending landscape. To quantify the supply of local financial products, the HR&A Team investigated the services provided by regional CFIs and CDFIs and the City departments with which they frequently partner, including the Office of Small Business

(“OSB”), Office of Economic and Workforce Development (“OEWD”), Mayor’s Office of Housing and Community Development (“MOHCD”), and Department of the Environment (“SF Environment”). For each, the HR&A Team documented core product offerings, rough order-of-magnitude financing availability (total and per applicant), loan terms, and impact metrics. Where possible, the HR&A Team also identified points of contact at each organization or department to engage (described more in the following section).

To better understand the scale of demand for these services, the HR&A Team also analyzed national studies from the Federal Reserve Bank for local enterprise, City department reports for affordable housing, and a strategy report from the University of California, Berkeley’s Center for Law, Energy, and the Environment (“CLEE”) for green investments and environmental justice. The HR&A Team also reviewed the San Francisco Human Rights Commission’s Draft Reparations Plan to better understand local trends of racial inequities in these various lending areas.[24]

b. Stakeholder Engagement

The outreach phase focused on engaging would-be clients and partners of the MFC, such as CFIs, CDFIs, organizations and businesses that operate in San Francisco or at San Francisco International Airport, and City departments.[25] The efforts focused on reaching those that are most likely to benefit from the creation of the MFC, and negatively impacted by current lack of access to financial services. The aim was to identify unmet needs and inform the MFC’s niche.

The engagement process included both focus group discussions and one-on-one interviews. These were structured to have representation from various supervisorial districts, particularly those with concentrated low-income and racially diverse populations, San Francisco residents and business owners with different socioeconomic backgrounds, and individuals who have had experience interacting with existing financial institutions. 26

Based on these criteria, the HR&A Team met with the following organizations:

Affordable Housing Development and Homeownership

- Council of Community Housing Organizations
- Episcopal Community Services of San Francisco
- Homeownership San Francisco
- Housing Rights Committee of San Francisco
- Mission Economic Development Agency
- Mission Housing Development Corporation
- San Francisco Community Land Trust
- San Francisco Housing and Development Corporation
- Tenderloin Neighborhood Development Corporation
- Young Community Developers

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[24] City & Couty of San Francisco, “DRAFT San Francisco Reparations Plan,” 2022. https://sf.gov/sites/default/files/2023-01/HRC%20Reparations%202022%20Report%20Final_0.pdf

[25] See Glossary for definitions.

[26] The City and County of San Francisco is divided into 11 supervisorial districts, each of which elects one member to the Board of Supervisors, the City and County’s legislative body.

CFIs, CDFIs, and Credit Unions

- Beneficial State Bank
- California Credit Union League
- EastWest Bank
- Enterprise Community Loan Fund
- Fondo Adelante (Mission Community Loan Fund)
- Housing Trust Silicon Valley
- ICA Fund Good Jobs
- Main Street Launch
- Momentus Capital
- Pacific Community Ventures
- San Francisco Federal Credit Union
- Self-Help Federal Credit Union
- Working Solutions

Small Business

- California Reinvestment Coalition
- Chinatown Merchants Association
- National Association of Minority Contractors
- North-East Business Association
- Project Equity
- San Francisco Small Business Commission member
- Small Business Majority
- Sunset Mercantile
- Multiple small businesses

Green Investments and Environmental Justice

- Bay Area Climate Adaptation Network member
- Bayview-Hunters Point Community Advocates
- Bicis del Pueblo
- Emerald Cities Collaborative
- Just Solutions Collective
- Literacy for Environmental Justice
- San Francisco Climate Emergency Coalition
- San Francisco Electrical Contractors Association

City and County of San Francisco

- Contract Monitoring Division
- Office of Economic and Workforce Development
- Office of Small Business
- Port of San Francisco

Community and Policy Advocacy Organizations

- People Organizing to Demand Environmental and Economic Rights
- SPUR (the San Francisco Bay Area Planning and Urban Research Association, which goes by SPUR, is a nonprofit public policy organization)

Other Organizations

- Merriwether & Williams (private company providing risk management and insurance brokerage services that has supported City programs in the past)

c. Gap and Needs Analysis

The HR&A Team synthesized findings from the above research to define overall market gaps: markets, products, and services for which demand exceeds supply. Specific types of gaps identified include product types (e.g., credit enhancements, guarantees, etc.), loan repayment terms (i.e., duration and interest rate), and estimated shortfall of capital. These findings are described below, and they inform the MFC's proposed market niche and activities.

3. Lending Needs and Proposed Services

a. Affordable Housing Development and Homeownership

Lending Needs

San Francisco's housing affordability crisis continues to worsen. The median rent in the city ($3,000) is the second-highest in the nation[27] while the median price of single-family homes ($1.57 million) is the third-highest among all California counties.[28] Nearly 74% of renter households earning less than $75,000 annually are cost burdened (meaning that they spend more than 30% of their income on housing)[29] while evictions have escalated since the conclusion of California's eviction moratorium in October 2021.[30] The racial gap in homeownership has also continued to widen; between 2000 and 2019, the Black and Hispanic homeownership rates in San Francisco dropped by 7 percentage points each, compared to just 3 percentage points for white households.[31]

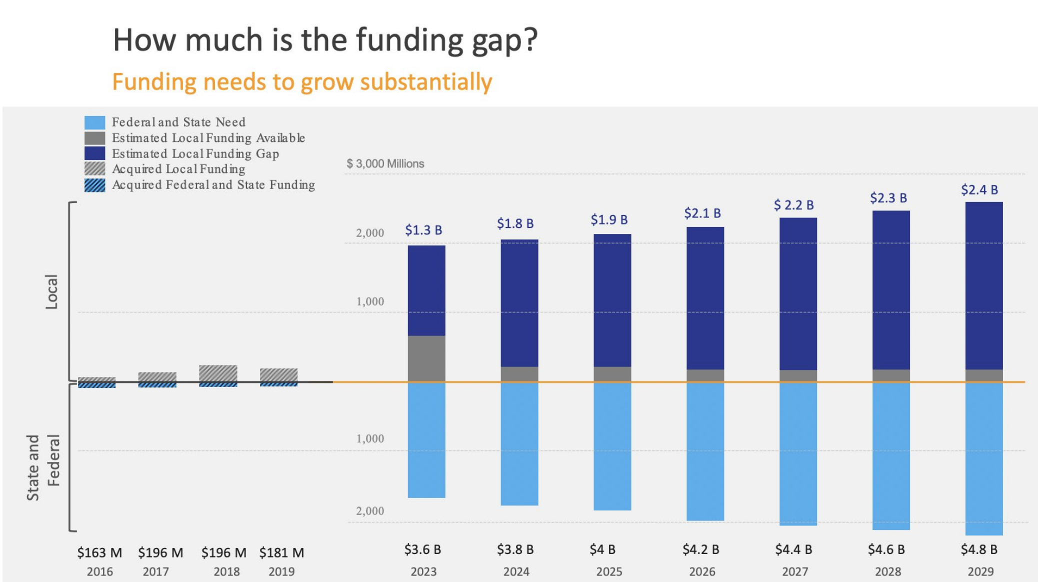
Underpinning this crisis is a lack of affordable housing supply. In recent decades, construction of affordable housing has not kept pace with a growing population, and has seen production of market-rate housing above targets and underproduction of affordable housing. In the Fifth Cycle Housing Element (2015-2022), San Francisco permitted the construction of 151% of its State-mandated target for above-moderate-income units (18,929 units permitted vs. the goal of 12,536) but of just 48% of units needed for moderate-, low-, and very-low-income households (7,915 units permitted vs. the target of 16,333).[32] Numerous factors contribute to the slow rate of affordable housing production, including escalating

[27] Zumper, "Zumper National Rent Report," 2023. https://www.zumper.com/blog/rental-price-data/
[28] California Association of Realtors, 2022
[29] U.S. Census Bureau, American Community Survey, 2020; Cost burden is defined as spending at least 30% of household income on housing costs
[30] San Francisco Chronicle, "Two types of eviction are rising in San Francisco. Advocates fear there's 'something else going on,'" 2022. https://www.sfchronicle.com/realestate/article/eviction-notices-san-francisco-17553841.php
[31] Bay Area Equity Atlas, "Homeownership is Unattainable for Most Bay Area Black, Latinx, Cambodian, and Pacific Islander Households," 2021. https://bayareaequityatlas.org/node/65531
[32] City & County of San Francisco, "Board of Supervisors Government Audit and Oversight Committee: Affordable Housing Funding," 2022. https://sfgov.legistar.com/View.ashx?M=F&ID=10905702&GUID=037E15BE-0136-4350-AEA7-717766EF1472

development costs, high land costs, and insufficient public subsidy. This gap is expected to widen in the coming years; for the Sixth Housing Element Cycle (2023-2030), the City has planned for the construction of over 82,000 units, of which approximately 46,000 (56%) must be affordable to moderate-income, low-income, and very-low-income residents.[33]

Robust funding and financing mechanisms are needed as demand continues to grow. Although significant public resources have been committed to new affordable housing in recent years, available funding is expected to decline in 2023 as current bond financing and federal transfers are fully allocated.[34] As a result, San Francisco faces a $1.3 billion funding gap in 2023, which is expected to widen, peaking at a $2.4 billion in 2029 (see Figure 5). This analysis does not account for potential additional financing currently being planned by the Bay Area Housing Finance Authority.

Figure 5. Projected City Sources and Gap for Affordable Housing



Source: MOHCD Presentation to GAO Committee, May 18, 2022.[35]

Additionally, strong dependence on cross subsidization—where affordable units require market-rate units to support a project's financial feasibility—curbs development of affordable housing for very-low- and low-income households. In parallel, according to the Housing Element the City and its nonprofit partners need to increase site acquisition and land banking. These challenges require additional financing tools to address.

[33] Association of Bay Area Governments, "Final Regional Housing Needs Allocation (RHNA) Plan: San Francisco Bay Area, 2023-2031," 2021. https://abag.ca.gov/sites/default/files/documents/2021-12/Final_RHNA_Allocation_Report_2023-2031-approved_0.pdf

[34] San Francisco Planning Department, "Affordable Housing Funding, Production, and Preservation," 2020. https://default.sfplanning.org/plans-and-programs/housing/affordability-strategy/HAS_Affordable%20Housing%20White%20Paper_Final.pdf

[35] City & County of San Francisco, "Board of Supervisors Government Audit and Oversight Committee: Affordable Housing Funding," 2022. https://sfgov.legistar.com/View.ashx?M=F&ID=10905702&GUID=037E15BE-0136-4350-AEA7-717766EF1472

Our analysis revealed financing challenges and gaps for both affordable housing development and homeownership. These include, but are not limited to, the following:

- There is a strong dependence on expensive commercial loans to fund pre-development activities.
- There is a strong dependence on expensive commercial loans to fund construction activities, and project delays threaten the viability of each project.
- Smaller organizations find meeting guarantees a challenge.
- A combination of grants and loans are needed to make small sites programs possible.
- Financing from City bond issuances is getting very competitive so developers cannot rely on this funding with as much certainty as they did in the past.
- There is a lack of long-term financing.
- Organizations face a challenge in meeting loan loss reserves.
- The cost of financing the software development needed to provide small businesses with credit lines is cost prohibitive for CFIs and CDFIs to enter that market with such products. Most CFIs and CDFIs utilize software from established third-party vendors that is not always adaptable to nontraditional lending.
- Underwriting rules are outdated and do not reflect changes to how people earn their income (e.g., gig economy, self-employment).
- There is a need for financing tools to support the increased site acquisition and land banking adopted within the Board of Supervisors' January 2023 Housing Element.

Proposed Products and Services

Considering these gaps, this business plan proposes that the MFC provide the following products and services to meet market demand and encourage additional borrowing:

Table 1. Affordable Housing and Homeownership Products and Services

Product	Solution
Patient and equity-like capital, including for land and building acquisition	Provide longer-term (10+ years) and low-interest loans—potentially structured as equity equivalent products—to CDFIs to finance long-term affordable housing projects including, but not limited to, preservation and building and land acquisition. Patient capital can provide CDFIs greater long-term certainty in funding availability that enables them to support larger projects over more time with greater flexibility.
Short-term financing	Provide pre-development loans to developers to cover a wide variety of expenses such as architectural and engineering fees and acquisition costs, among others.
Gap financing	Help developers address mismatches between costs and revenue and cover unexpected increases in labor and material costs through gap financing.

Credit enhancement to serve customers perceived as riskier*	Establish credit enhancement products to facilitate home loans to nontraditional borrowers who may lack standard credit indicators. Note that credit enhancements may be operationally complex.
Guarantees*	Set up guarantees—construction loan, completion, operating deficit, and tax credit—for affordable housing developers.
Alternative products	Support the creation of alternative products and markets for less-common structures like community land trusts, mutual housing associations, and limited equity housing cooperatives.
Downpayment Assistance*	Provide long-term, low-interest loans as downpayment assistance for first-time homeowners.
Existing Homeowner Assistance*	Provide loans to low- and moderate-income homeowners to perform a variety of home improvements, including energy efficiency upgrades, building upgrades, and the development of accessory dwelling units ("ADU").

** Note: The MFC is unlikely to support these products in its initial years of operation due to their complexity and/or constraints on repayment and revenue generation. In the future, when the MFC has established sufficient revenue and financial self-sustainability, management should also consider these additional products.*

In addition to supporting new construction and housing preservation, the MFC could help finance office-to-residential conversions for which there is significant interest but that are thought to be infeasible under current market conditions.[36]

The MFC will adopt affordable housing targets and definitions that are consistent with City policies and requirements, and will seek to support projects that are affordable to San Franciscans who are extremely low income (0-30% of area median income, "AMI"), very low income (30-50% of AMI), low income (50-80% of AMI), or moderate income (80-120% of AMI). The MFC will support projects that include, but are not limited to, public, cooperative, or nonprofit ownership with models such as community land trusts, limited-equity cooperative housing, mutual housing associations, nonprofit housing development, and municipally owned housing. The MFC will work with partner institutions to provide the deepest and longest-lasting possible affordability requirements for the projects it supports.

[36] City & County of San Francisco, "Repurposing Commercial Real Estate for Residential Use," 2023. This report provides recommendations for the City to support office-to-residential conversions. However, most of the proposed solutions are regulatory or zoning changes, which are outside of the role of an MFC, or grants and subsidies (including tax incentives), which are not products that an MFC could offer due to their structure and lack of financial returns. As a result, the MFC can provide capital for office-to-residential conversions, but conversion feasibility will also depend on solutions that are beyond the MFC's responsibilities.

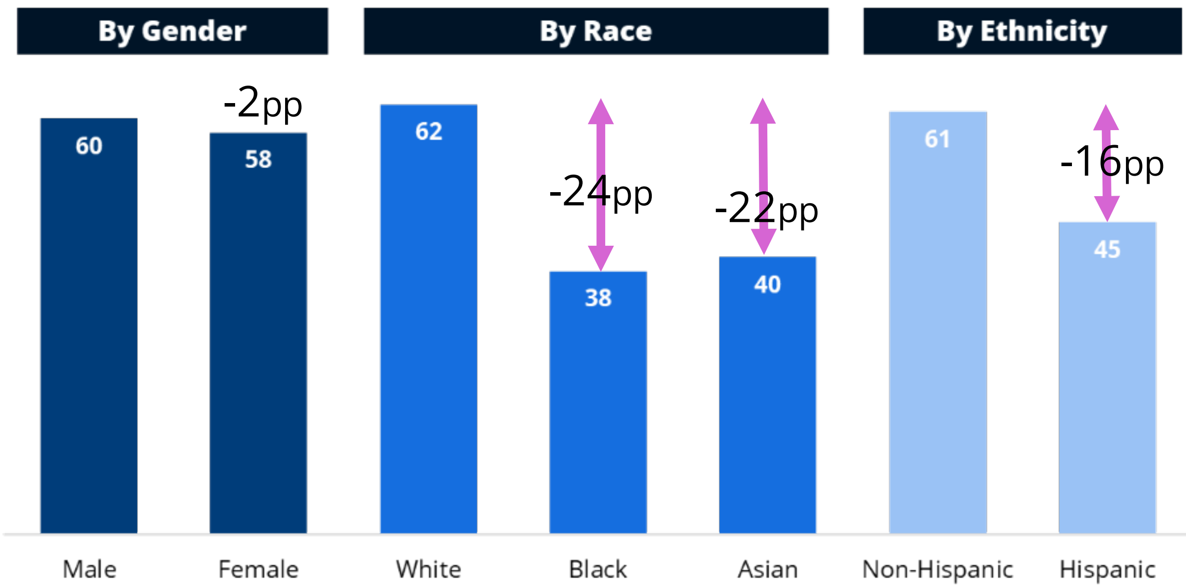
MFC management will develop terms (interest, duration, other conditions, etc.) for each product based on CFI and CDFI partnerships, MFC financial needs, product risk, prevailing economic conditions, and other factors deemed material at time of issuance.

b. Local Enterprises

Lending Needs

Nationally, the commercial lending landscape displays various inequities. As of 2022, only 38% of Black and 40% of Asian small business owners received all funding they requested, compared to 62% of white applicants (see Figure 6). As a result, the unmet credit needs among entrepreneurs of color are estimated to be 15-25% higher than those of white entrepreneurs.[37] The racial disparity in small business lending persisted during the pandemic: only 37% of small, Black-owned businesses (with $250,000 or less in 2020 revenue) received loans through the PPP, compared to 52% of small, white-owned businesses.[38]

Figure 6. Share of Small Businesses Receiving All Requested Funding by Gender, Race, and Ethnicity



Source: U.S. Federal Reserve, Availability of Credit to Small Businesses, 2022.

Business owners surveyed by the HR&A Team report a lack of trust in banking and government institutions, including fear of being rejected and reluctance to carry debt in general. These concerns often keep business owners from applying for the credit they need to grow, perpetuating a dynamic of inequality that entrenches racial wealth disparities.

Though CDFIs play an important role in filling these gaps, their capacity to grow is constrained. Most CDFIs finance their operations through a combination of grants, donations, and commercial bank loans; however, the financial resources at their disposal are insufficient to meet market demand.

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[37] Joint Committee on Financial Services, "Testimony of Massachusetts Public Banking in support of S.665/H.1223 An Act to Establish a Massachusetts Public Bank," 2021. http://masspublicbanking.org/wp-content/uploads/2021/11/Mass-Public-Banking-Financial-Services-Committee-Hearing-Testimony-.pdf

[38] Reimagine Main Street, "Back to Business: Are Small Businesses Rebounding from COVID-19?" 2021. https://www.reimaginemainstreet.org/back-to-business-are-small-businesses-rebounding-from-covid-19

Additionally, existing providers have gaps in various products and services, particularly in growth capital, lines of credit, and credit enhancements for CFIs that serve small businesses. These include, but are not limited to, the following:

- Banks do not offer loans and revolving credit products at or below $150,000, especially for sole proprietors and very small businesses.
- Small businesses need bridge loans to cover the period between contract award and first payment received.
- More flexible underwriting rules are needed that recognize that different businesses' potential ability to repay is not tied to financial history, current assets, or other factors that have historically been used by the financial industry. Underwriting criteria at traditional banking institutions may include credit scores, financial statements and/or projections, loan-to-value ratios, and personal equity, some of which may disadvantage worker cooperatives, lower-income borrowers, and borrowers of color. See the Lending Criteria subsection within Section III.B.2. of the business plan.
- Lack of products that can serve the needs of worker cooperatives, either as newly created businesses or as a conversion from a previous ownership structure.

Proposed Products and Services

In light of these gaps, this business plan recommends that the MFC proposes to provide the following products and services to meet market demand:

Table 2. Local Enterprise Products and Services

Need	Solution
Growth capital between CDFI cap and commercial bank minimum*	Provide sufficient capital to enable CDFIs and CFIs to issue loans between $350,000 and $1 million, which can support businesses that are growing but still too small to receive adequate support from traditional banks. To help borrowers improve their internal capacity and loan preparedness, the MFC will provide referrals to technical assistance programs administered by both the City and its lending partners.
Startup capital*	Provide smaller-sized loans between $50,000 and $100,000 for entrepreneurs and business owners in early stages. Loans can be used for startup purposes, supplies and inventory, lease improvements, vehicles, and working capital, among other purposes.
Lines of credit	Provide a line of credit servicing for businesses, especially those whose accounts receivable are on longer terms and whose accounts payable are on shorter terms (for example, construction businesses) to provide liquidity for immediate needs.

Credit enhancement to serve customers perceived as riskier**	Establish a loan loss reserve fund for CDFIs to extend more loans to nontraditional borrowers who may lack standard credit indicators. Note that credit enhancements may be operationally complex.
Marketing funds	Design a line of credit for brands that want to subsidize the cost of local marketing for their local partners.

** The HR&A Team's research and engagement with local organizations highlighted the importance of technical assistance for small business borrowers to increase their success and repayment rates. The MFC will not have the resources—either financial or in terms of staff—to provide this technical assistance directly, but it will partner with others so that business owners that receive MFC funds have access to support. The City should ensure that it provides technical assistance directly and makes grants to CFI/CDFIs to support their technical assistance programs.*

*** Note: The MFC is unlikely to support these products in its initial years of operation due to their complexity and constraints on repayment and/or revenue generation. In the future, when the MFC has established sufficient revenue and financial self-sustainability, management should also consider these additional products.*

A product that MFC management should explore in the future is to support business owners to purchase mixed-use buildings where they currently operate (e.g., a building with a storefront and a few apartments on higher floors). This mortgage product would allow the business owner to count both the retail and residential revenue as income to service the debt, which existing products do not allow.

MFC management will develop terms (interest, duration, other conditions, etc.) for each product based on CFI and CDFI partnerships, MFC financial needs, product risk, prevailing economic conditions, and other factors deemed material at time of issuance.

c. Green Investments and Environmental Justice

Lending Needs

San Francisco has a long history of climate action, having reduced local greenhouse gas ("GHG") emissions by 41% since 1990. Despite these advances, more work is needed. As of 2019, GHG sources within San Francisco emitted nearly 5 million metric tons of carbon dioxide, of which 47% were from transportation-related activities and 41% were from building operations.[39] The City has taken a bold step forward in committing to net-zero emissions by 2040 through its policy-setting 2021 Climate Action Plan, specifically highlighting five primary emitting activities to prioritize (see Figure 7).

[39] City & County of San Francisco, "San Francisco Climate Action Plan, 2021,"2022. https://sfenvironment.org/sites/default/files/events/cap_fulldocument_wappendix_web_220124.pdf

Figure 7. Pillars of the San Francisco Climate Action Plan

Source: City of San Francisco Climate Action Plan, 2021.

The 2021 Climate Action Plan advances several strategies in support of these ambitious goals; however, their implementation will require significant funds. In April 2021, the City's Budget and Legislative Analyst's Office estimated the full electrification of the city's housing stock to cost between $3.5 and $5.9 billion. Meanwhile, the San Francisco Metropolitan Transportation Agency estimated planned transit system expansion to cost $10 billion. Summarizing these and other costs, CLEE estimated in November 2022 that implementing the Climate Action Plan could require up to $21.9 billion. To help implement the ambitious goals of the CAP, the CLEE report proposes the establishment of a green bank that could "[commit] public funds to one or more financing mechanisms […] to attract private capital to clean energy technologies and upgrades." The report identifies the Inflation Reduction Act's Greenhouse Gas Reduction Fund —which offers $27 billion in competitive grant funding for projects that reduce or avoid greenhouse gas emissions—as a potential source of seed funding for this entity.

The United States is on the verge of a watershed moment in which the Inflation Reduction Act and Greenhouse Gas Reduction Fund could catalyze green lending in an unprecedented way. The Greenhouse Gas Reduction Fund is especially focused on projects that reduce greenhouse gas emissions in low-income communities. CFIs and CDFIs are poised to play a significant role in making sure these communities are not left behind in the transition to a cleaner economy with the potential household and business savings and cleaner air it can bring. The Bank seeks to position itself to support these efforts in this historic moment.

As communities of color and low-income communities tend to have a higher energy cost burden and worse air quality, supporting borrowers in making their homes more energy efficient or in purchasing more energy-efficient appliances that result in lower utility bills and cleaner indoor air quality would be especially beneficial because of these programs.

While federal, state, and private funds will be committed to build a net-zero future, the magnitude of the demand indicates a significant need that the MFC could address. Although several City, CFI, and CDFI programs exist, individual loan amounts and annual volumes are low in the context of a growing appetite for implementing green solutions for businesses, building- and homeowners, and individuals. Challenges related to green financing include, but are not limited to, the following:

- Climate change solutions require long-term financing; many public infrastructure projects are operating "hand-to-mouth" and receiving one-year grants or receiving funding from the City's annual budget, but most desired solutions and change would require long-term financing.
- Zero-emission appliances rules and even larger decarbonization efforts focused on green energy generation will require large financial investments.
- Short-term loans, smaller loans, and credit lines are needed to help finance initial project costs.
- While the structure of federally funded green finance in San Francisco has yet to be defined, there will likely be a need for co-financing for programs supported by the federal Greenhouse Gas Reduction Fund program created by the Inflation Reduction Act.

Green Bank Function

This business plan proposes that the MFC serve as the City's green bank through which to administer green investments and environmental justice services and products and seek federal funding to amplify lending in this area. The MFC should be eligible to receive federal funding through the Greenhouse Gas Reduction Fund to expand its lending capacity. Structuring the MFC to also serve as San Francisco's green bank is consistent with the City's policy objectives to meet climate targets and reduce greenhouse gas emissions. This structure would enable the City to pursue these objectives through a single entity that consolidates operations and funding, avoiding the inefficiencies (e.g., administrative costs and burdens, additional staffing needs, etc.) that would result from creating a separate MFC and green bank.

To fulfill the green bank function, the MFC should plan for its products and services, including participation loans, to conform with the City's climate goals and Climate Action Plan, including by meaningfully involving impacted communities where possible.

Proposed Products and Services

In light of these gaps, this business plan proposes that the MFC provide the products and services shown in Table 3 to meet market demand:

Table 3. Green Investments and Environmental Justice Products and Services

Need	Solution
Short-term loans for residential and commercial building upgrades	Provide affordable, short-term financing for building-owners, homeowners, and renters to fill unmet needs in building electrification. This could include financing to address deferral issues by making necessary pre-retrofit health, safety, or

	structural upgrades; for electrification work, water heaters, furnaces, stoves, industrial refrigerators; promoting energy efficiency (i.e., weatherization); updating electrical systems (e.g., electrical wiring and panelboard upgrades) and insulation; and installing distributed photovoltaic, electric vehicle (“EV”) charging, and xeriscaping specifically in support of lower-income communities. The MFC should explore products that are compatible with available local, state, and federal grants and rebates.
Lines of credit for contractors and property-owners	Provide lines of credit to contractors and property owners performing work as described above.
Subsidy and finance for electric vehicle infrastructure	Harness federal funding and private financing to meet rapidly accelerating demand for EV charging infrastructure, including for public transit and public fleets.

In the future, when the MFC has established sufficient revenue and financial self-sustainability, management should also consider additional products such as loans for public investments (e.g., decarbonizing public buildings, generating renewable energy on public buildings and property, retrofitting and weatherizing public buildings); loans for organizations undertaking pollution cleanup and remediation efforts; and helping to intermediate tax credits for solar, storage, and other green infrastructure for projects that benefit local communities and the public.

The HR&A Team’s research indicates that there are fewer existing products (such as the ones described above) and less lending activity in green investments from CFIs and CDFIs than in the other two priority areas. As a result, it will be the MFC’s goal to signal to partner institutions that it will make funding available in this area and that it will look to support partners offering new types of products that fulfill the needs identified in the CLEE report and in this business plan. The MFC’s role will be to help partners create a larger market and provide new, necessary solutions to ensure that San Francisco’s needs are met in this area as well.

MFC management will develop terms (interest, duration, other conditions, etc.) for each product based on CFI and CDFI partnerships, MFC financial needs, product risk, prevailing economic conditions, and other factors deemed material at time of issuance.

B. Organizational Structure and Legal Form

The organizational structure for the MFC must be determined by the City and CAT. Options for consideration could include a corporation, limited liability company (“LLC”), a nonprofit mutual benefit corporation (“NMBC”), or a nonprofit public benefit corporation (“NPBC”) organized under California law. The cost of creating any of these organizations would likely be similar.

One of the considerations for the City and CAT would be whether the MFC, once in operation, could convert into a public bank permitted under AB 857 and chartered by the California Department of Financial Protection and Innovation (“CDFPI”) with insurance of accounts by the Federal Deposit Insurance

Corporation. AB 857 requires a public bank to be either a NMBC or NPBC. Structuring the MFC as a NMBC or NPBC would make it easier to convert the MFC to a public bank at a later time. However, it may also be possible to create the public bank as a new NMBC or NPBC and transfer assets and liabilities to the public bank from an MFC with a different organizational structure, subject to the approval of all required regulatory agencies. Note that an MFC that is either a NMBC or NPBC could not distribute its capital except upon dissolution of the corporation, meaning that the City would have no ability to obtain return of its capital absent dissolution of the entity. Provisions could be made such that all MFC assets revert to the City in case of dissolution. As the HR&A Team understands that the City does not expect for the MFC to distribute earnings, this may not be significant.

For purposes of this business plan, the HR&A Team assumes that the MFC will be some type of stand-alone corporate form and will not be a division of another entity. While we have used the term MFC in this business plan to describe a non-depository entity, the MFC will be a lender and the City and CAT will need to determine whether the MFC will require licenses from the CDFPI or other state or federal regulators to be able to make loans under California and federal law. Operating through loan participations and syndications may reduce the need for the MFC to require such licenses.

It appears that a lending entity (not a banking entity) that is owned or controlled by a city or county is exempt from some types of licensing by the CDFPI. However, that needs to be determined by the City and CAT through consultation with the CDFPI.

The HR&A Team understands that the MFC may need to be affiliated with an existing City department during its start-up period. We recommend that the host department be "neutral" to all lending areas (i.e., not have existing specific responsibilities in any one lending area at the expense of the others), have an existing role in City financial management and oversight, and be independent of the mayor. This is to enable the MFC to operate without conflicts across lending areas, supported by existing financial expertise, and insulated from political affairs.

Note: The City should identify legally permissible form for the MFC.

C. Affiliate Entities and Transactions

Since the MFC will be capitalized by the City, entities owned or controlled by the City would be considered as affiliated entities. This business plan proposes that loans would be made to non-affiliated CFIs and CDFIs and residents and businesses within the aforementioned geography.

In the event that the City determines to proceed with the creation of a public bank, the FDIC and CDFPI have rules and regulations on how a bank will deal with affiliated parties. The MFC may not be subject to those requirements of state and federal banking law. However, the MFC may be subject to certain restrictions related to dealing with the City and any person or entity that may be considered an affiliate. That determination will need to be made by the CAT and will determine whether the MFC will provide any form of financing to those affiliated entities within the first three years of existence.

Initially, this business plan proposes that the MFC will not form any subsidiaries or service corporations. However, if the MFC identifies a business segment that it would like to pursue as subsidiary or service corporation under the MFC during its first three years of operation, the MFC Oversight Commission, Board of Directors, and management will jointly evaluate such an option in consultation with the City to decide whether and how to establish such subsidiary or service corporation.

D. Present Condition

The MFC is not yet an operating entity. The resources needed to organize the MFC have not yet been contributed by, or their source identified by, the City. There are currently no operating entities, no office networks, staff, or customer base. Based upon the research of the HR&A Team and based upon this business plan, the following is a list of potential strengths and weaknesses of the proposed MFC.

Strengths

- Board and Management: Experienced Board and Management with backgrounds in finance working with CFIs, CDFIs and other local financial entities. The Board and Management will be supported by the MFC Oversight Commission, which will provide advisory services to the MFC Board and Management and assist in marketing the MFC within the market area.
- Marketing and Business Plan Implementation: The MFC will be focused in only a few areas of lending and will concentrate on working with CFIs and CDFIS to expand the marketing efforts to the targeted clientele.
- Market Opportunity: The focus of the lending products is designed to provide financing to businesses and residents of San Francisco that do not have easy access to credit and will enhance the economic growth of the city.
- Competitive Opportunity: The MFC will work with local CFIs and CDFIs to expand credit within the market. While the major banks will continue to provide financial products in the market, the major banks are not looking at long term partnerships or advancing credit to support a significant percentage of businesses and residents within the market. The San Francisco market can support The MFC as well as other financial entities.
- Capital: The MFC will be capitalized with a minimum of $2020 million in initial capital. This level of capital is deemed to be sufficient to support the growth of The MFC to achieve acceptable operations with positive net revenue within the three-year initial period.

Weaknesses

Note: the weaknesses of the proposed MFC are typical to any business startup and particularly for any *de novo* financial institution:

- No prior operating history and the expectation of initial operating losses in the first two years of operation amounting to around $1 million prior to achieving profitability.
- Adverse changes in local economic conditions may negatively affect profitability. For example, a recession could cause borrowers to default on their loans, reducing revenue and causing losses for the MFC. Even without a national recession, downturns in economic sectors clustered in San Francisco and in the region (like technology companies) could negatively affect the local economy and lead to loan defaults.
- Competition from other financial institutions and from non-bank entities could adversely impact the performance of the MFC.
- Fluctuations in interest rates may impact earnings.
- Loss of senior executive officers could adversely impact the MFC. MFC management will establish a succession plan to mitigate this risk.
- Inability to raise funds through other sources could negatively impact liquidity or raise the MFC's funding costs. The MFC will need to explore charitable donations, grants and low-cost loans from

government entities, foundations, CFIs and CDFIs to support the growth of the MFC and to provide the loans identified in this business plan. Those sources have not been identified at this time.

- Existing and future increasingly complex and extensive compliance and regulatory requirements may add to overhead costs and reduce profit, especially in the early years of operation.
- Earthquakes or other natural disasters could adversely affect the MFC's operations and those if its clients.
- Terrorist attacks, cyber threats, and public health emergencies may affect the economy and the MFC's operations.
- Failure of the bank in which the MFC holds its cash could lead to losses beyond the deposits insured by the FDIC. The MFC will select banking partner(s) that offer greater security and stability.

E. Location

To efficiently serve the intended businesses and individual customers, this business plan proposes that the MFC operate from a single office in San Francisco. To reduce operating costs, the plan does not anticipate the MFC opening branches.

The MFC will explore the ability to use existing City real estate to reduce its costs. If possible, the MFC should locate the office within a neighborhood that has experienced historic underinvestment to be closer to the communities that would most benefit from its programs.

III. Marketing Plan

A. Overview

Based on the current overall economic, local market, and competitive data, the MFC has reasonable prospects to achieve its financial objectives.

The Market Analysis section of the business plan presents data in support of the conclusion that the MFC's proposed target market presents a considerable opportunity for the MFC to generate its contemplated volume of loans.

The Economic Component section of the business plan examines the national and local economic outlook, demonstrating the economic environment in which the MFC plans to start its operation.

The Competitive Analysis section of the business plan analyzes the MFC trends in San Francisco, evidencing the need for a local institution to offer the level of service lacking at the large out of area institutions currently dominating the local banking industry.

B. Business Development Strategy

1. Partnership Strategy

One of the MFC's principles is cooperation with CFIs and CDFIs that operate in San Francisco and the Bay Area. These community-embedded lending organizations develop the trusted, long-term relationships with local residents, small business owners, and aspiring small business owners that make it possible to do character-based lending and achieve high repayment rates over time while also offering flexibility in difficult times to support the borrower's success. The MFC seeks to support their community-oriented activities by establishing lending partnerships that expand the local impact of CFIs and CDFIs. The MFC will establish these partnerships through an open and transparent process informed by the MFC's Mission and Principles.

The MFC will solicit partnership proposals from CFIs and CDFIs through an initial Request for Qualifications ("RFQ"). The RFQ process will help ensure transparency and lay the basis for compliance with AB 857, which prohibits competition with existing banking institutions. The RFQ establishes a mechanism for CFIs and CDFIs to express their interest and capacity in collaborating with the MFC and to inform its activities.

The MFC will issue the RFQ to all CFIs and CDFIs in the region and will publicize this opportunity through online and print media, as appropriate. MFC management will also consider webinars, individual meetings, and/or a "roadshow" to present the MFC to regional CFIs and CDFIs and solicit their participation in the process. The RFQ will request that respondents provide a description of their organization's mission and values, existing investment activities and products, target communities, track record, alignment with MFC funding priorities, and recommended areas of collaboration with the MFC. Because of the importance of providing technical assistance to borrowers to help their success and loan repayment, the MFC will also factor whether potential partners offer such programs directly or through other providers and their track record in providing technical assistance to borrowers. The MFC will structure the RFQ to gather the necessary information without creating a process that is burdensome and time-consuming for potential participants.

Through the RFQ process, the MFC will identify CFIs and CDFIs that best align with its goals and confirm their expertise in serving the populations and sectors targeted for investment. MFC management will use information gathered through the RFQ to identify an initial list of CFIs and CDFIs with which to develop partnership agreements on lending, loan participations, loan syndications, and other mechanisms of supporting their activities through MFC funds. These agreements will set the initial parameters for the selected CFIs and CDFIs to use MFC funds, and should be designed in a way to enable nimble adaptation through learning and iteration and scaling as the model is proven out.

The MFC will evaluate these partnerships regularly based on alignment with its mission and desired impact. Management will consider whether to expand the list of partners through the original RFQ respondent list or through subsequent RFQs or other solicitation structures. At the same time, the MFC should establish an "open door" for CFIs, CDFIs, and other local organizations to pitch investment and partnership opportunities. MFC management will evaluate those pitches on a rolling, case-by-case basis. The goal is to maintain a list of partners that help the MFC fulfill its mission and is open to new ideas and partnerships, especially as the MFC seeks to scale its lending volume and impact over time and to expand the types of products and services that it provides. It will also create mechanisms for partners to provide feedback to the MFC to strengthen its operations.

The MFC will work with selected CFIs and CDFIs to establish consistent data collection and reporting based on the approach described in Section IV.C. Impact Tracking. While all CFIs and CDFIs collect data on their activities and customers, they may collect slightly different data, so the MFC will coordinate with them to ensure that data collection is as consistent as possible while not being burdensome for its partners.

The HR&A Team anticipates that CFIs and CDFIs will want some level of certainty around the MFC's capacity and ability to make loans before committing resources to partnerships (in other words, they will likely want to know that the MFC is "real" and has meaningful funds at its disposal). The more guarantees, certainty, and clarity that the City can provide on the MFC in its initial phases, the better off the MFC will be in establishing relationships with local lending partners that allow it to begin to deploy capital and achieve impact more rapidly.

2. Product Strategy

a. Products and Services

The MFC will initially operate through loan participations and syndications with CFIs and CDFIs. Participation and syndication are two strategies deployed by lenders to manage risk, increase loan size, and improve operations and performance. This section and Appendix A describe how participation and syndication operations would work and how the MFC would prioritize various product types and potential direct loans.

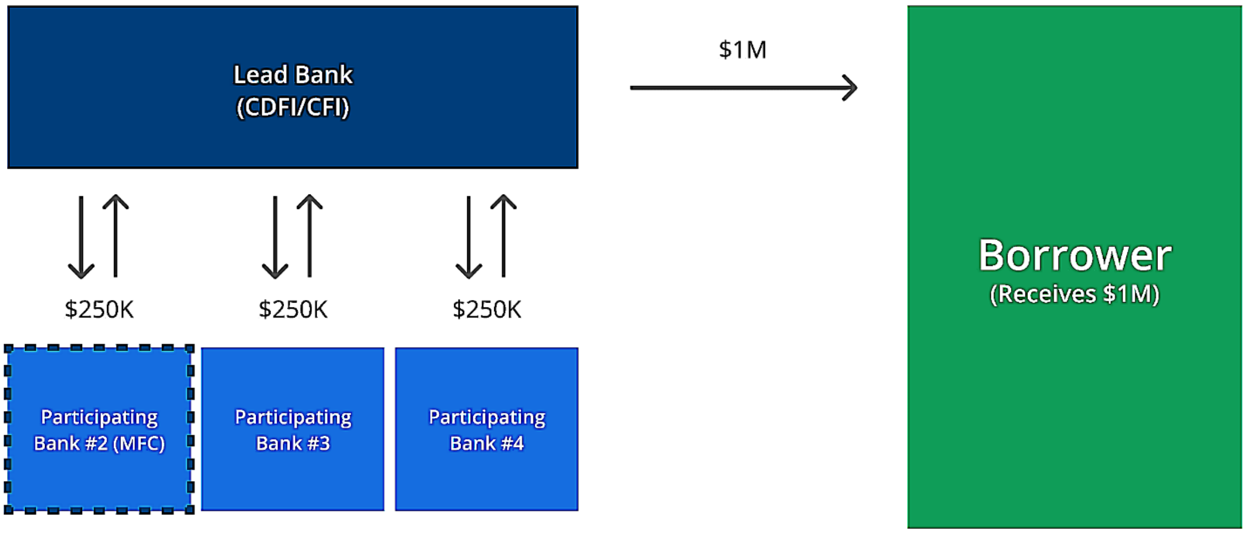
With this strategy, the MFC will work with institutions that already have relationships with local communities and a potential pipeline of deals in the target lending areas and will deploy capital to and through them. This enables the MFC to deploy capital more quickly while upholding a collaborative approach. All participation and syndication operations will be in the three target lending areas. Over the long term the MFC will seek to maintain a roughly equal share of participation and syndication loans across the three lending areas, but loan shares may fluctuate—especially initially—based on existing deal pipelines and opportunities, the partners the MFC selects to work with, and the size of any individual deal.

What this means is that the MFC will make limited direct loans that are not part of a participation or syndication deal. However, if there are borrowers or projects where no other CFI or CDFI is willing to make a loan—indicating a need that is not being met by existing institutions—the MFC will consider making a direct loan based on its internal evaluation and due diligence process. Based on this approach, the HR&A Team has modeled that the MFC will make 70% of its loans to/through CFIs and CDFIs and that it will make 10% of its loans directly in each of the three target lending areas. These assumptions reflect the priority for loan participations and syndications with the option of pursuing direct loans if relevant.

A participation loan is an arrangement in which a lender (or several lenders) purchases a portion of an outstanding loan from a lead lender, from which it can collect principal and interest payments. A lender may choose to sell portions of an outstanding loan to reduce credit risk and/or increase liquidity, which can free up additional capital that can deployed to other prospective borrowers.

In the example below, a lead bank (a CFI or CDFI) makes a $1 million loan to a borrower. The lead bank participates its loan to three other banks who provide the lead bank with $250,000 each. The primary relationship is between the borrower and the lead bank; the borrower pays interest to the lead bank, which in turn pays interest to the participating banks.

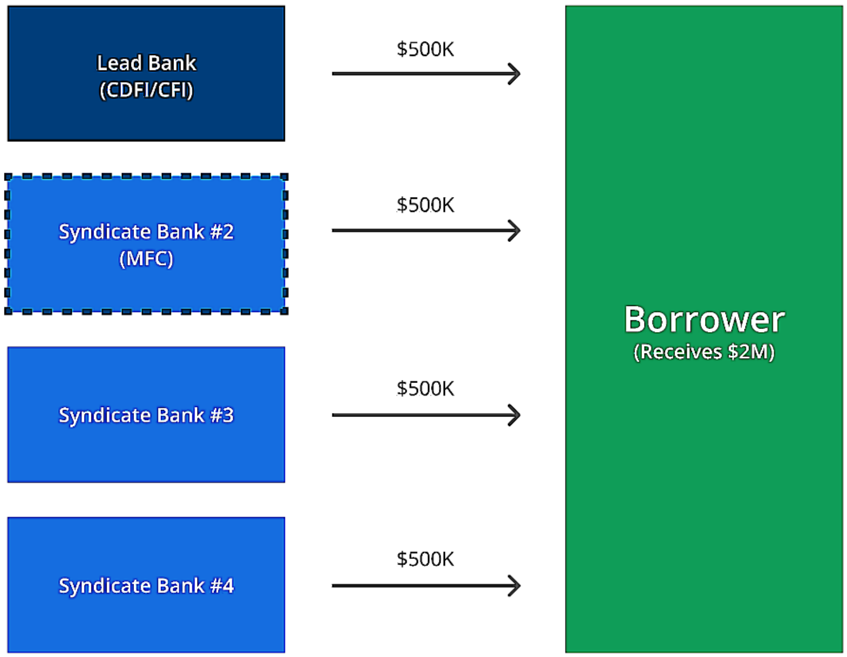
Figure 8. Loan Participation Process



A syndicated loan is a type of financing offered by a group of lenders that pool together their capital to fund a large loan for a single borrower. This type of financing may occur when a borrower seeks a loan that is either too large or too risky for one lender to issue alone, thus requiring the recruitment of additional lenders to fill gaps.

In the example below, a lead bank identifies a borrower who needs a $2 million loan. The lead bank does not have the resources to make a loan of that size, so it arranges for loans totaling $2 million from itself and three participating syndicate banks, each of which lends $500,000. In this case, the borrower maintains a relationship with each bank and pays interest back to each.

Figure 9. Loan Syndication Process



While this business plan highlights multiple products and services that can help meet community needs, the HR&A Team recommends that the MFC focus on a select few in its initial operating years. Specifically, the MFC should prioritize product offerings that are most feasible to operationalize in the near term, including those that:

- Help scale existing products offered by CFIs and CDFIs for which there is additional demand;
- Have potential to generate revenue within the first 2-3 years of MFC operations;
- Can be easily issued due to small- and/or medium-sized loan size; and/or
- Do not require significant staff time for issuance and ongoing management.[40]

Product prioritization will enable the MFC to maximize impact given current administrative and funding constraints. Each tool recommended in this business plan was analyzed based on implementation feasibility, the results of which can be viewed in Appendix A of this business plan. The most feasible products and services the MFC should prioritize are as follows:

[40] This does not include the need to address credit or other issues but rather the expected daily/weekly/monthly effort reasonably required to manage a loan for this product.

Table 4. MFC Prioritized Lending Products

Lending Area	Need	Potential Demonstration Project Supported by Partner CFI/CDFI
Affordable Housing Development and Homeownership	**Gap financing**	Provide a short-term loan to an affordable housing developer to cover immediate expenses (e.g., mortgage, payroll) as they await long-term loans.
	Short-term financing	Provide a short-term loan to an affordable housing developer to cover various pre-development expenses, which may include architectural fees, engineering fees, and acquisition costs, among others.
Local Enterprises	**Startup capital**	Provide a loan of up to $100,000 to a first-time entrepreneur to cover startup expenses, including (but not limited to) rent and/or lease improvements, payroll, equipment, and working capital.
	Growth capital between CDFI cap and commercial bank minimum	Provide a loan of $500,000 to an existing small business to cover expenses that will help them grow and/or scale operations (e.g., staff hires, rent and/or lease improvements, equipment, etc.).
Green Investments & Environmental Justice	**Short-term debt for building electrification**	Provide a short-term loan to a property owner to perform energy efficiency upgrades and/or electrification for appliances.

This list may change following conversations and partnerships with CFIs and CDFIs that inform MFC management on the types of loans that are most suitable to deploy rapidly while fulfilling both the MFC and its partners' objectives.

The MFC will set rates and terms for the above products based on MFC funding conditions (see section V. Financial Management Plan), general market conditions, CFI and CDFI partnerships, and conditions that would allow the entity to fulfill its business plan and fulfill its Mission and Principles.

Lending Criteria

The MFC acknowledges the long-standing inequities in traditional credit scoring models and underwriting criteria that have denied financial opportunities to many individuals and communities. To address these systemic barriers, the MFC is committed to implementing a more equitable lending framework that will extend financing to underserved communities in San Francisco.

To ensure the MFC fulfills its mission of promoting financial inclusion, most of the lending using MFC funds will occur through partner institutions, such as CFIs and CDFIs. The MFC will select partner institutions that have a successful track record of serving communities that are often overlooked by traditional lenders. The MFC will also actively seek opportunities to leverage the expertise and insight of CFIs and CDFIs to create innovative and equitable lending criteria for its different products and services, including credit-blind evaluation and other alternatives.

The MFC will collaborate with existing initiatives such as Underwriting for Racial Justice and the California Small Business Coalition for Racial Justice. These initiatives are working to address systemic racism in the lending industry by developing more equitable underwriting standards that have expanded access to capital in California and the U.S. By joining these initiatives, the MFC will leverage their expertise and insights to ensure that its products are accessible to a broad community of business owners, innovators, and social organizations. This collaboration will promote financial inclusion and reduce systemic barriers, ultimately contributing to sustained equitable economic development in the region.

This could include the MFC adopting approaches like the Small Business Coalition for Racial Justice's "New Cs of Credit," which are being tested by several institutions. The "New Cs of Credit" shift how lenders assess borrowers' Character, Capacity, Capital, Conditions, and Community to provide more holistic assessment of their capacity to repay and avoid using measures (like credit scores) that lead to inequitable lending outcomes.

The MFC is also committed to prioritizing language accessibility to overcome language barriers in credit access. The MFC will collaborate with partners serving diverse ethnic and linguistic communities to provide programs and information in the major languages spoken in the San Francisco region. The MFC will also focus on improving its own accessibility in various languages to reach a broader audience.

The MFC will apply standards to its loans to ensure that they are consistent with its Mission and Principles and that loans do not support areas prohibited under the Overview of Lending Areas subsection of Section II.A. MFC management will set requirements on compliance with labor, environmental, and other standards.

The management will report to the Board of Directors on compliance with lending criteria. The Board of Directors will regularly report to the MFC Oversight Commission to assess compliance with the lending criteria and consider potential changes to these criteria.

b. Product Offering Methods

The following will serve as the MFC's primary distribution channels:

- The MFC will establish partnerships with CFIs and CDFIs that operate in San Francisco to identify customers. This network of local organizations, in addition to programs managed by City departments, will provide referrals for loans and other products. Additionally, the MFC will work directly through this network to purchase assets from CFI and CDFI balance sheets, make loan participations and syndications with them, and make loans and offer other financial products directly to them. The MFC will invest time and research capacity prior to opening to ensure that it has a robust network of partner financial institutions to generate the required loan volume from the MFC's commencement of operations, as described in Section III.B.1. The pre-opening budget for the MFC is included in the financial projections of this business plan.

- The MFC will establish strategic alliances and a referral program with third parties to assist its customers in obtaining comprehensive solutions to their banking needs. The MFC will create a Vendor Management Policy that will serve as a guide in the evaluation, selection, and management of third-party vendors.
- The MFC will collaborate with San Francisco's designated cultural districts, CleanPowerSF, and other local government agencies and nonprofits to identify customers. It will do so while ensuring that it avoids conflicts of interest and retains complete independence in decision-making around loans.
- The MFC will have an appropriate operating infrastructure and control mechanism in place prior to the rollout of products and services. The costs of rolling out products and services are tied to the infrastructure, core data processing requirements and capabilities, furniture, fixtures, and equipment, as well as staff costs. These costs are captured in the pre-opening costs, which represent the expense of establishing the MFC and introducing the MFC's products and services.

Initially, the MFC does not plan to have any subsidiary operations.

c. Secondary Market Activity

This business plan proposes that the MFC will buy and sell loan participations with CDFIs and CFIs but at this time there will be no hedging or loan securitization activity. It proposes that the MFC not use forward take-outs and will look at loans on a case-by-case basis.[41]

It also proposes that the MFC sell loans to other parties on the secondary market, which would free up additional funds for additional lending. (By selling loans on the secondary market, the MFC instead of holding loans as assets on its balance sheet would sell loans it has made for cash that it can then use to make more mission-aligned loans. The MFC would only sell the portion of the loan in which it is participating directly.) Conducting such operations on the secondary market would also allow the MFC to reduce the risks inherent in holding loans on its balance sheet. The goal for the MFC would be to sell these loans at par value, potentially by establishing a reliable group of loan purchasers who obtain CRA credit for buying these loans.

To protect the MFC from reputational and financial risks, the MFC management will develop a list of permitted and prohibited institutions to which the MFC can sell loans on the secondary market. This will avoid the MFC selling loans to entities that do not operate according to its Mission and Principles and will protect the MFC, partner CFIs and CDFIs, and borrowers from those entities.

This business plan proposes that the MFC will work with CDFIs and CFIs related to servicing of the various loans that are on the books of the MFC. The goal is for the originating entity to maintain the primary relationship with borrowers whose loans are participated out such that, for example, a CDFI would remain the point of contact and relationship for a small business owner who has taken a loan from it. This ensures continuity of service with a community-based and -serving institution rather than shifting borrowers to

[41] A forward take-out is a guarantee by a lender to provide permanent financing to replace a short-term loan at a future date if a project has reached a pre-determined stage.

other entities with whom they do not have a relationship. This would preserve a positive repayment experience and ongoing close relationship for business technical assistance.

d. Primary Sources

Marketing/Promotional Activities

The MFC's marketing and promotional activities will include building a reputation for the provision of relevant products and services and responsive support to the identified target markets and working closely with CFIs and CDFIs within the market.

Because communities of color harbor mistrust of financial institutions due to pervasive discriminatory lending, the MFC and its partners (i.e., CFIs and CDFIs) should perform targeted outreach to communities of color and LGBTQIA+ and women entrepreneurs in partnership with non-financial community-based organizations to rebuild confidence and encourage participation.

Advertisement

In addition to a web presence, to augment its business development efforts, the MFC may, on a limited basis, run occasional print and digital ads in local media outlets including print and digital news organizations featuring its products, partnerships with local CFIs and CDFIs, and testimonials.

e. e-Commerce

The MFC will have an online presence to market its activities and provide information on its offerings for partner institutions and the public. This online presence will serve as the MFC's "open door" for organizations that seek to work on projects together.

This business plan proposes that the MFC not initially enter any arrangements with e-commerce financial product platforms to market or deliver its services through the Internet. The plan is to coordinate with local CFIs and CDFIs who offer their own online portals.

MFC management will explore whether to establish direct access to loan services online in the future, while ensuring that these services are not duplicative or competitive to those of the CFIs and CDFIs with which the MFC partners.

3. Market Analysis

a. Target Market

The MFC will target three specific markets: affordable housing development and homeownership; local enterprises (small business); and green investments and environmental justice. As described in "A. Product Strategy," these markets have hundreds of millions if not billions of dollars in annual unmet demand.

The geographic focus of the MFC will be on the region defined by the boundaries of the City and County of San Francisco and the San Francisco International Airport. The MFC will serve projects or businesses located within, and persons residing in, the City and County boundaries.

b. Target Market Demographics

Table 5. City and County of San Francisco Demographics

Demographic Statistics	San Francisco County, California	
Total Population	**865,933**	
Age		
0–- 14 Years	100,691	11.6%
15–- 24 Years	76,273	8.8%
25–- 64 Years	551,016	63.6%
65 and Older	137,953	15.9%
Race		
White Alone	376,056	43.4%
Asian Alone	297,680	34.4%
Two or More Races	72,602	8.4%
Some Other Race Alone	67,137	7.8%
Black or African American Alone	45,135	5.2%
American Indian and Alaska Native Alone	4,212	0.5%
Native Hawaiian and Other Pacific Islander Alone	3,111	0.4%
Hispanic or Latino by Race		
Not Hispanic or Latino:	732,692	84.6%
White Alone	339,050	46.3%
Asian Alone	295,385	40.3%
Other Races	98,257	13.4%
Hispanic or Latino:	133,241	15.4%
Other Races	93,940	70.5%
White Alone	37,006	27.8%
Asian Alone	2,295	1.7%

Household Income (In 2021 Inflation Adjusted Dollars)		
Households:	361,222	
Less than $10,000	16,285	4.5%
$10,000 to 49,999	72,570	20.1%
$50,000 to 99,999	62,678	17.4%
$100,000 to 149,999	53,873	14.9%
$150,000 or More	155,816	43.1%
Educational Attainment for Population 25 Years and Over		
Population 25 Years and Over:	688,969	
Less than High School	77,300	11.2%
High School Graduate (Includes Equivalency)	78,359	11.4%
Some College	123,258	17.9%
Bachelor's Degree	243,795	35.4%
Master's Degree	110,417	16.0%
Professional School Degree	35,420	5.1%
Doctorate Degree	20,420	3.0%

Source: U.S. Census Bureau. (2022). 2017-2021 American Community Survey 5-year Estimates.

Table 6. City and County of San Francisco Employment by Industry

Total Employment by Industry Sector		
Professional, Scientific, and Technical Services	143,123	18.6%
Health Care and Social Assistance	92,724	12.0%
Accommodation and Food Services	82,620	10.7%
Educational Services	55,754	7.2%
Information	50,615	6.6%
Finance and Insurance	48,555	6.3%
Retail Trade	44,277	5.7%
Administration & Support, Waste Management and Remediation	43,102	5.6%
Other Services (excluding Public Administration)	31,380	4.1%
Transportation and Warehousing	30,349	3.9%
Public Administration	28,833	3.7%
Construction	24,574	3.2%
Management of Companies and Enterprises	21,334	2.8%
Arts, Entertainment, and Recreation	18,083	2.3%
Real Estate and Rental and Leasing	16,182	2.1%
Wholesale Trade	14,801	1.9%
Manufacturing	12,365	1.6%
Utilities	11,960	1.6%
Agriculture, Forestry, Fishing and Hunting	256	0.0%
Mining, Quarrying, and Oil and Gas Extraction	7	0.0%

Source: U.S. Census Bureau. (2021). Longitudinal Employment-Household Dynamics.

See Appendices B and C for additional information on City and County of San Francisco demographics and employment statistics.

4. Economic Component

a. Economic Forecast

Note: To be completed by the City.

b. Implications for Lending

Refer to the Executive Summary and Product Strategy section for a detailed overview of needs for the MFC's products and services that will form the baseline demand in future economic scenarios.

5. Competitive Analysis

a. Potential Competition

The MFC will face competition from various financial institutions including national, regional, and community banks operating within the MFC's market area, as well as non-bank institutions including savings associations, credit unions and other financial intermediaries. The MFC could also face competition from fintech companies as those companies offer products and services traditionally provided by banks either directly or through partnerships with other banks. The MFC will focus efforts on working with local CDFIs and CFIs and that the products and services are to be designed to coordinate with CFIs and CDFIs and fill existing lending gaps within the city of San Francisco.

IV. Management Plan

A. Introduction

The governance structure outlined within this business plan seeks to establish an entity that is accountable to the goals, values, and communities of the City and County of San Francisco and that will uphold those goals through effective and independent corporate and financial management. This governance structure seeks to ensure that the MFC is held accountable to its Mission and Principles.

1. Mission and Principles

Mission

The MFC will promote an economy that upholds equity, social justice, and ecological sustainability.

Principles

- Public Ownership: Remain a publicly owned entity that reinvests profits in support of its mission.
- Local Control: Operate for the benefit and on behalf of the communities of San Francisco and with meaningful representation and input from community stakeholders, especially those from underinvested communities and partner financial institutions that operate at the local level.
- Community Wealth Building: Promote community ownership and community wealth building.
- Public Welfare and Restorative Finance: Invest to enhance the welfare of all the people of San Francisco, especially communities underserved by mainstream commercial banks and that have suffered from the historical legacy of wealth disparities and harmful social, economic, and environmental practices.
- Cooperation: Cooperate with existing community institutions and organizations, strengthening the lending capacity of credit unions, community development financial institutions, and community financial institutions by partnering with them on financial products and services.
- Accountability and Transparency: Ensure democratic oversight, accountability, and transparency in MFC operations.
- Integrity and Independence: Prevent corruption, self-dealing, and conflicts of interest by maintaining rigorous oversight of governance, operational, and lending activities and professional decision-making and management that is independent of elected officials.
- Professionalism: Operate based on overall financial expertise, subject-matter expertise in selected lending areas, and prudent financial standards and requirements.

- Indigenous Rights: Act within a reparations framework to honor its presence on Ohlone land, protect sacred sites, support Indigenous land trusts, and uphold Indigenous people's right to Free, Prior, and Informed Consent.
- Harm Avoidance: Refrain from investing in sectors that exacerbate negative socioeconomic and environmental outcomes, including predatory lending, fossil fuels and related energy generation, tobacco, firearms, other weapons, prisons and detention centers, and businesses holding a record of labor law violations.

B. Governance Model

The HR&A Team has evaluated various public bank governance models from around the world. Based upon this research and global best practices (see case study below) and discussions with RWG members and other local stakeholders, the HR&A Team proposes a two-tier governance model. The top tier of MFC governance is the nine-member MFC Oversight Commission ("MOC") and the second tier is a five-member Board of Directors ("Board").

The MOC advises the Board but does not make any decisions related to the operation of the MFC except for the election of the Board, serving in a traditional shareholder role.

The Board oversees the MFC's operations, selects the initial management team, and oversees the execution of the business plans. The current plan seeks to give MFC management discretion in pursuing business development and loan-making activities as management will be best positioned to identify the lending areas where there is demand and partnerships to generate more loans and impact more quickly, and to adapt the MFC's approach as needed in its first three years to help it succeed.

We recommend an MOC that is advisory—i.e., an MOC that does not have binding authority over Board decisions—as it is our current understanding that this structure may facilitate regulatory review and approval if the City applies for the MFC to become a depository public bank. This is because of two primary reasons. First, the FDIC and CDFPI will seek a Board that is independent of influence from City elected officials and decision makers. Creating the MOC as a layer between the Board and the City without binding power over Board decisions should help create the insulation that regulators seek. Second, it may be possible that an MOC with binding authority could be seen by the Federal Reserve as a "bank holding company," requiring an additional regulatory application for this structure. The HR&A Team believes that the structure we propose anticipates and addresses potential regulatory concerns and could demonstrate a track record of effective governance. This may be especially helpful as the two-tiered structure is likely to be unfamiliar to federal and state regulators. The City should further explore these considerations with regulators directly.

To fulfill the principle of local control, MOC and Board members will be required to be residents of or conduct business within San Francisco. Waivers on this requirement will be made available in exceptional circumstances.

Case Study: Banco Popular y de Desarrollo Comunal, Costa Rica

- Year established: 1969
- Total assets: $6.24 billion (in 2020)
- Return on assets: 1.35%
- Net profit (after tax): $62 million (in 2020)

The Popular and Community Development Bank ("Banco Popular") is a public bank in Costa Rica that combines retail and development functions. It is known for its bottom-up approach to corporate governance, which enables it to internalize popular demands and operational oversight in legally binding and public-interest ways. This approach contributes to the bank's credibility and effectiveness within Costa Rica's society and economy.

Despite not being conceived initially as a public bank with a governance structure in which Costa Rica's constituents could have direct say, the Banco Popular underwent a democratization process in the early 1980s to become more representative and connected to citizens in the working class. The most notable effort was the formation of the Bank's Assembly of Working Men and Women as the highest representative decision-making body.

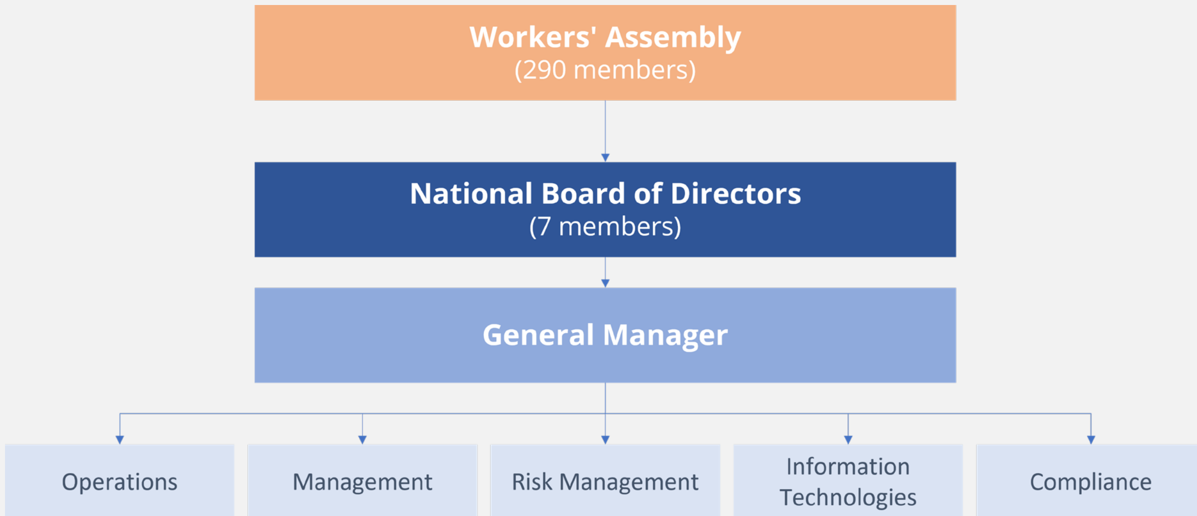
The Workers' Assembly was created to be legally responsible for giving general direction to the Bank's activities. It is responsible for appointing representatives to the Bank's National Board of Directors, reviewing audit reports, integrating recommendations against discrimination, and providing democratic direction and accountable oversight to the bank. The Workers' Assembly comprises 290 representatives from various social and economic sectors, including artisans, cooperatives, and trade unions, elected every four years from a pool of social organizations registered with the Ministry of Labor. This selection process allows the assembly to represent about 1.2 million account holders within the Bank, equal to about 20% of Costa Rica's population.[42]

In addition to this decision-making body, the Bank also has a National Board of Directors ("NBD") as the highest administrative unit in charge of its day-to-day operations. It is composed of 7 members, 4 of which are designated by the Workers' Assembly (at least two must be women), and three are appointed by the Government Executive of Costa Rica (at least one must be a woman). The NBD is subordinate to the Workers' Assembly.

The Bank's commitment to democratic governance goes beyond creating decision-making and management bodies and strives to listen to public demands to guide banking operations. For example, in 2008, Banco Popular conducted a nationwide consultative process, which resulted in the creation of five new guidelines for the Workers' Assembly. These guidelines reflected the Bank's competitive market operations and social development role, including promoting a social economy driven by values of solidarity and the primacy of people over capital, offering quality services, competitive management operations, regional and local development, and being an entity for national development.

[42] Marois, T. (2021). *Public banks: Decarbonisation, definancialisation and democratisation*. Cambridge University Press.

Figure 10. Governance Structure of the Banco Popular



1. The MOC Structure and Committees

The MOC will be composed of an inclusive and diverse mix of San Franciscan stakeholders, reflecting the racial, ethnic, economic, and gender diversity of San Francisco, and include individuals with adequate financial and business expertise. The MOC will act as the MFC's shareholder body.

Four members of the MOC shall be appointed by the Board of Supervisors, two shall be appointed by the Mayor, one shall be appointed by the Treasurer, one shall be appointed by the Controller, and one shall be appointed by the City Attorney. (The Mayor, Treasurer, Controller, and City Attorney are the "appointing authority" individually or "appointing authorities" collectively.) This will ensure that no one person or body can appoint a majority of MOC members and provides insulation against political interference. MOC members will neither represent nor owe a duty of loyalty to the person or organization that appointed them. MOC members will use their independent judgment about what is in the best interest of the MFC based on its Mission and Principles.

MOC members will be appointed for a four-year term with a staggered approach. The initial MOC will have two MOC members appointed for a one-year term, two appointed for a two-year term, two appointed for a three-year term and three appointed for a four-year term. This staggered approach will provide for consistency in the MOC and each member of the MOC will be entitled to serve two terms before being termed out. A member will continue to serve in their seat until their replacement is duly appointed to avoid vacancies causing issues. However, the MFC Oversight Commission and appointing authorities may determine a maximum amount of time that a member can remain in their seat pending their replacement to avoid members exceeding their terms by excessive durations when an appointment does not occur in a timely manner. Any delay in appointment does not affect the effective date of appointment for the purpose of determining when terms formally begin and end.

All nine initial members of the MOC shall be subject to a public hearing as part of their appointment process. All future appointees to the MOC shall also be subject to an initial public hearing. The appointing authorities should develop shared and public qualification requirements for MOC appointees. No person who currently is an elected public official, has held elected office in the last 10 years, has pursued elected office in the last 10 years, or is currently pursuing elected office will be eligible for appointment to the MOC. MOC members will be subject to the MFC's conflict of interest policy and should be people whose background provides them with expertise on community-serving financial services or the needs of San Francisco's diverse communities. The MOC can vote to remove a member for gross violations of its policies and code of conduct. MOC members cannot be recalled by their appointing authority.

Under this structure, the City would select the MOC, which would then select a Board, which would then hire MFC management. The City, MOC, or Board could choose to hire an executive search consultant to identify and screen candidates for roles on the MOC, Board, and/or management. The MFC could retain an executive search consultant to fill critical vacancies rapidly in the future if any were to arise. In selecting the MFC Board, the MOC should strive to reflect the diversity of San Francisco and its communities.

The MOC shall focus its work into three committees that will provide advice to the MFC Board: Lending & Sustainability, Ethics & Equity, and Community Outreach. These are advisory roles to the MFC and will assist the MFC Board in modifying the business plan.

The MOC will initially meet monthly and reconsider the frequency of meetings once the MFC has been operating for one year. The MOC will meet publicly and provide the opportunity for public comment.

The MFC Board is ultimately responsible for managing the activities of the MFC and has fiduciary duties including answering to the City, MOC, and any identified regulators. However, as a means of providing communication and transparency, two members of the MOC will be able to attend meetings of the MFC Board. One of the two MOC members required to attend Board meetings will be charged with carrying one vote for all Board votes. Both of these MOC members will be able to attend both public and non-public meetings of the Board, and will execute any required confidentiality agreements needed to do so.

Members of the MOC will be paid monthly on a per-meeting basis for meetings attended, with MOC meetings being compensated at $500.00 per meeting with a maximum compensation per month of $500.00. The exception to this applies to the MOC member who has a voting seat on the MFC Board, who will receive compensation under the Board member structure (see below) to account for potential additional meetings and time spent on governance and oversight duties.

The MOC Committees and Responsibilities are as follows:

Lending and sustainability

- Advise the MFC Board on the framework for the MFC's loan policy, consistent with the MFC's lending priorities and prohibitions, as well as applicable regulatory requirements. This framework shall be further evaluated and finalized by the MFC Board. The intended framework should reflect the Mission and Principles described above.

Ethics and equity

- Identify a set of equity outcomes that can serve as benchmarks for Bank impact and success (e.g., eliminate displacement, ensure equitable access to small business finance, reduce GHG emissions, etc.).
- Monitor that the operations of the Bank are conducted in accordance with the governance documents.

- The Chair of the Ethics & Equity Committee accepts information on MOC members' and Directors' conflicts of interest.

MFC Board of Directors Selection

- Conduct selection and election of MFC Board. The MOC will not be able to remove Board members unless in cases of dereliction of duty that will be defined in the MFC's bylaws.
- Advise Board on search, hire, salary, and performance evaluation of chief executive officer.

Community Outreach

- Publish and share an annual report in an accessible, visual, multilingual format.
- Hold annual town hall events to present MFC key lending and investment areas alongside equity metrics, for example, race/ethnicity, gender, migration status, neighborhoods and communities served, and community impact. Provide space for the public to comment and advise the MOC on how to fulfill the MFC's mission to serve local communities.
- Organize focus group sessions every two years around specific priority themes, such as lending and investment areas, that convene community experts to help comment, problem solve, provide analysis, and make recommendations.
- Hold informational recruitment events to recruit potential members of the MOC.

MOC members will be required to execute a Job Description and Qualifications that describe their position and responsibilities clearly. In addition, MOC members will be subject to MFC's Code of Conduct Policy.

a. Interfacing with City and County of San Francisco

The MOC will serve as the body that liaises between the MFC and the City and County of San Francisco government, reporting on the MFC's performance and impact and maintaining open communications with City agencies and entities that may be involved in activities complementary to the MFC's. The MFC will remain independent of City agencies but will work to share data and information where doing so supports the MFC's Mission and Principles.

The MOC will work with City agencies to establish a green and just lending policy and lifecycle greenhouse gas emissions standard. The goal of this standard will be to ensure that the projects that the MFC finances are consistent with San Francisco's climate goals or, where not consistent, are able to provide alternative community benefits that justify the project's desirability.

The MOC will also work with City agencies to establish a labor policy for the projects that the MFC finances that is consistent with the City's current labor standards and promotion of a skilled and trained workforce.

2. The MFC Board of Directors, Board Committees and Management Structure

The MFC Board will initially consist of five directors, the President and Chief Executive Officer ("CEO"), three outside directors, and one member of the MOC. The outside directors will include individuals with banking/bank directorship, CDFI experience and/or professional/business experience, primarily in the MFC's lending areas. The MOC member should ensure representation of San Francisco's communities and be a community member. The executive management team will include individuals that possess significant experience in CFIs, CDFIs, community engagement, and managing business lines.

a. Governance

Outside directors will include individuals with prior board experience or subject matter expertise in a lending focus of the MFC. The proposed outside Board members will all be experienced professional managers and will have sat or sit on corporate or non-profit boards.

MFC Directors will be required to execute a Job Description and Qualifications that describe their position and responsibilities clearly. In addition, MFC Directors will be subject to the MFC's Code of Conduct policy.

MFC Board members (not including the President and CEO, who is a regularly salaried employee) will be paid monthly on a per-meeting basis for meetings attended. MFC Board meetings will be compensated at $500.00 per meeting and any of the MFC Board committee meetings will be compensated at $250.00 per meeting. There will be a cap of $1,000.000 per month in MFC Board fees per member.

Proposed Directors

The following table lists the desired and expected experience of the proposed directors.

Role	Qualifications
Chief Executive Officer	Experienced CEO of a CFI, CDFI, or regional bank C-suite officer.
Outside Director 1	Experienced CFI or CDFI director, C-suite officer, or CDFI officer with financial expertise.
Outside Director 2	Experienced CFI or CDFI director, C-suite officer, or CDFI officer with financial expertise.
Outside Director 3	Experienced CFI or CDFI director, C-suite officer, or CDFI officer with financial expertise.
MOC Member	Member of the MOC appointed by majority vote of the MOC.

b. Board Committees

The following table provides a list of Board committees with their core functions and proposed composition. An outside independent director will serve as the Board's Chairperson.

Committee	Core Function	Proposed Membership*
Audit/Risk Committee	Oversee the audit function. Monitor and set policy around operational, information security, market, and financial and credit risks. Oversee compliance and ERM areas.	2 Outside Directors CEO is management liaison
Loan Committee	Set credit policy and monitor management of credit risk.	CEO/CCO and 2 outside directors

Committee	Core Function	Proposed Membership*
HR/Governance Committee	Oversee HR/Compensation policies and procedures; Ensure appropriate corporate governance.	2 outside directors CEO is management liaison

** The executive officers will participate in all committees as needed.*

The following section provides summaries of duties and meeting frequency of each committee. In the initial period of the MFC's operations, the Board-level committees are likely to meet more frequently than the meeting frequency detailed in the following descriptions. Initially the committees will meet to review and refine the initial sets of policies and procedures, as recommended by management. The committees will evaluate and recommend monitoring systems and reports as a way of ensuring that systems are in place and are closely monitored to review reports and schedules associated with the relevant committee duties.

Audit/Risk Committee

(Meets at least quarterly)

Audit Duties

- Fulfill duties delineated in the MFC's Audit Policy.
- Auditfinancial statements prepared annually by outside auditors, selected and appointed by the Board will select and appoint with advice from the Audit Committee.
- Serve as an independent body reporting to the full Board.
- Monitor management performance in the correction of deficiencies noted in an audit or regulatory examination.
- Ensure financial risk management functions are independent and communicate risk management concerns to the full Board.
- Review all operations, accounting, and administration policies prior to submission to the full Board.

Risk Duties

- Formulate compliance and enterprise risk management plans. This may include developing policies and systems pertaining to Bank Secrecy Act, anti-money-laundering, Office of Foreign Assets Control, and Financial Crimes Enforcement Network regulations and compliance. Monitor systems to ensure compliance.
- Establish overall risk tolerance for the MFC.
- Establish risk management process for liquidity and interest rate risks.
- Ensure operational risk management functions are independent and communicate risk management concerns to the full Board.
- Determine frequency of employee and Board training.
- Review all operations and administration policies prior to submission to the full Board.

Loan Committee

(Meets at least monthly)

<u>Duties</u>

- Establish credit risk tolerances and ensure that an adequate reserve has been provided against potential losses in the credit portfolio.
- Require that management report on the handling of credit risk and their compliance with Board decisions regarding acceptable levels of risk.
- Review and recommend changes to Credit Policies and Procedures.
- Review and approve the delegation of loan approval authorities, as appropriate, if such approval is consistent with the Credit Policy and deemed a non-material change by the Committee.
- Require that management report on the monitoring of loan officer compliance with lending policies consistent with the MFC's lending criteria and impact tracking described in this business plan.
- Verify that management follows proper procedures to recognize adverse trends, identify problems in the loan portfolio and maintain an adequate allowance for loan and lease losses.
- Meet as needed to review loan request and make credit decision on loans requiring Board Approval in accordance with the MFC's Credit Policy.

The above shall include the MFC's secondary market operations.

Human Resources/Governance Committee

(Meets at least quarterly)

<u>Human Resources Duties</u>

- Review and approve management's recommendations for title, promotion, salary, and bonus for the MFC's executive officers and allocations for other employees of the MFC.
- Establish, review, and monitor personnel policies of the MFC.
- Review and approve incentive compensation plans and other employee benefits and similar plans.
- Review performance evaluations of executive officers.
- Review and oversee total compensation and personnel practices to ensure that the MFC is competitive and meets all regulatory requirements.

<u>Governance Duties</u>

- Review and advise with respect to issues and policies affecting the governance of the MFC in coordination with the MOC.
- Conduct the process of director independence, evaluation, self-assessment, and selection for recommendation for appointment to the Board and its committees.
- Conduct succession planning in accordance with the MFC's Succession Plan for the role of the Chief Executive Officer, and in consultation with the Chief Executive Officer concerning other appointed executive officers.
- Review and recommend director candidates for review and approval of the MOC.
- Report regularly to MOC on metrics regarding lending criteria and impact, racial equity goals, and priority lending areas.

- The CEO will be responsible for reporting on MFC operations to the Board, MOC, and City, as required.
- The CEO will be responsible for interfacing with state and federal regulators if necessary, though we do not anticipate that this will be required.

3. Organizational Structure and Officers

This business plan proposes that the MFC's organizational structure be relatively flat with the Controller and the Chief Credit Officer ("CCO") reporting directly to the CEO. Additional personnel can be added inclusive of a chief compliance officer/Bank Secrecy Act ("BSA") officer, but the financial models do not contemplate such personnel at this time.

a. Proposed Executive Officers

The MFC will be managed by a qualified Executive Management team comprising experienced bankers with extensive commercial banking experience and proven skills in credit analysis and administration, financial analysis and risk management, regulatory compliance, personnel management, and public service experience.

The Executive Management team includes the CEO, CCO, and Controller. These individuals will be experienced lenders or financial parties.

Compliance functions will be the shared responsibility of the CEO, CCO, and Controller, in partnership with their counterparts at CFIs and CDFIs as appropriate. These officers will also manage audit functions, which we anticipate being performed by an external independent auditor hired by the MFC. The CEO will be responsible for marketing and business development. Given the small number of initial employees, the MFC will not have a dedicated human resources person; the CEO will oversee this area with further support potentially provided by third-party service providers.

The following is a table listing the summary biographies of the proposed executive officers, followed by a more detailed biography of each officer.

Note: To be completed by the City once management has been identified. The job descriptions should be modified to the talent level and expertise of the management.

PROPOSED EXECUTIVE OFFICERS SUMMARY BIOGRAPHIES

Name	Position	Experience
To be confirmed at a later stage.	CEO	Experienced CEO of a CFI, CDFI, or regional bank C-suite officer
To be confirmed at a later stage.	CCO	Formerly CCO of a CFI or Regional Bank
To be confirmed at a later stage.	Controller	Formerly Controller or CFO of a CFI, CDFI, or Regional Bank

b. Duties of the Executive Officers

The following are the primary duties of the Executive Management team:

Duties of the Chief Executive Officer

- Responsible for the day to day and overall management of the MFC to adhere to the MFC's Business Plan.
- Coordinate with city agencies that are overseeing environmental justice, renewable energy, local enterprise, and affordable housing activities to ensure that the bank is playing a strategic role to assist the city in continuing to achieve its stated objectives in these areas.
- Ensure the overall safety, soundness, and security of the MFC.
- Maintain the overall adequacy and soundness of the organization's financial structure, especially relating to operational issues.
- Participate in strategic planning and provide advice on the effective ways to meet the growth and earnings goals and objectives of the MFC.
- Provide leadership in establishing current and long-range objectives, policies, and plans, subject to the approval of the Board.
- Coordinate the Board's responsibility to monitor adherence to the business plan, including review of performance to budget and an annual strategic review.
- Direct the overall marketing and business development activities of the MFC.
- Responsible, with the Chief Credit Officer, for overseeing the loan portfolio and credit quality.
- Coordinate communication throughout the organization.
- Act as the principal representative of the MFC with the press, major customers, community and industry associations and other businesses.
- Meet with major customers, MOC, City and County of San Francisco, the financial community, and the public.
- Keep abreast of changes in the market, legislative issues, and the current competitive practices with the financial industry.
- Directly supervise senior officers.
- Serve as a member of the Board and as a member of Board committees as determined.
- Provide coordinating role between directors and management for all Board and Board committee activities as well as any other director-related matters.
- Provide on-going employee training to business development and customer-facing staff to ensure that the customer banking experience meets the vision and expectation of the MFC, its directors and management.
- Participate in community and business-related organizations and attend major civic events to maintain visibility throughout the community and develop new customer relationships.
- Help establish company brand and image.
- Participate in the development of new products and services for each business line of the MFC.
- Identify target markets that will be receptive to the products and services offered by the MFC.
- Guide development of marketing campaigns and associated collateral materials and track results of the marketing campaigns.
- Perform any other duties specified by the Board.
- Liaise with city agencies overseeing environmental justice, local enterprise, and affordable housing activities.

Duties of the Chief Credit Officer

- Responsible for the overall quality and diversity of the loan portfolio.
- Develop and monitor loan policies and loan concentration limits.
- Make decisions on both administrative and operational matters pertaining to lending.
- Serve on the Loan Committee and act as a principal spokesperson for the lending function.
- Supervise the collection of non-performing and charged-off loans and manage other real estate owned (“OREO”) properties to disposition.
- Work closely with legal counsel to resolve litigation expeditiously while minimizing legal and collection expenses.
- Prepare monthly and quarterly lending activity and portfolio condition reports for Board of Directors, MOC and city and county agencies.
- Prepare the quarterly allowance for loan and lease loss analysis and work closely with the Controller to ensure compliance with currently promulgated GAAP.
- Oversee the credit staff and implement training programs on credit administration and the approval process.

Duties of the Controller

- Manage and ensure the quality of the MFC’s financial and accounting functions, including:
    - General accounting and financial reporting
    - Internal controls and risk management
    - Budgeting and forecasting
    - Prepare reports for monthly director meetings.
    - With the CEO, present and interpret the major financial reports for directors, the MOC and the city and county.
    - Prepare material for MFC’s financial audit firm and respond to all audits.
- Recommend and prepare policies and procedures for proper financial control of the MFC.
- Oversee the MFC's vendor management program.
- Interact with other senior officers on personnel policies and practices.
- Working closely with the CCO, reviewing the allowance for loan and lease loss analysis to ensure compliance with currently promulgated generally accepted accounting principles (“GAAP”).
- Provide a consulting and analytic resource on a wide variety of financial and planning matters, including the structuring of proposed transactions, product development, and business opportunities.

c. MFC Board and MOC Member Training

Training will be scheduled at regular MFC Board meetings, with appropriate subjects such as board governance, operational regulations, and related topics of importance to general board education. Training will be conducted by management and other qualified professionals. This will include training on diversity, equity, inclusion, and access. Other training will be opportunistic and dependent upon the timing of appropriate training offered by trade associations, and other groups. MOC members will also be able to attend training sessions.

<u>Compliance Program:</u> Training will be conducted to address MFC compliance issues, such as the general laws and regulations impacting the industry, as well as discussions on the responsibilities of management, the Board, and Board committees.

Lending Regulations: Sessions will be scheduled to focus on lending regulations, including disclosure requirements and the avoidance of common violations. This program will cover consumer laws, analysis of credit risk, loan approval limits, and underwriting criteria.

Board Governance and Practices: Training will be conducted on the following practices: fiduciary duties and responsibilities, corporate governance and best practices, board deliberative and reporting processes, accurate and complete meeting recordation, minute preparation, review and preservation, and related matters. The collective experience on the board in terms of banking and other board experience will be an invaluable asset in the development and execution of training programs.

C. Impact Evaluation

The proposed MFC will track its impact to understand the effectiveness of its products and services in achieving its mission, upholding its principles, supporting target communities, communicating its impact, and developing transparency and accountability. Impact tracking will enable the management team to identify areas for improvement and make necessary adjustments to ensure that the MFC meets its goals and objectives. Moreover, by measuring and tracking impact, the MFC will also document its track record of successful performance in generating financial and social returns, thereby building credibility with local, state, and federal decisionmakers and stakeholders and supporting a potential future transition into a depository public bank.

The MFC will track impact using best practices from the financial industry, including impact investors and CFIs and CDFIs in particular.[43] These will include 1) collecting and analyzing metrics for each of the three lending areas (affordable housing, local enterprise, and green investments); 2) using industry-accepted frameworks to compare the MFC's operations to its peers; and 3) monitoring through qualitative research.

The MFC will monitor both **general** and **lending-area-specific** metrics.

General Metrics: These include standard indicators used by the industry to assess business expansion and client retention and could apply across lending areas. For example:

- Number of projects supported by the MFC and total dollar value of loans made with MFC support, either by the MFC directly or through partner CFIs and CDFIs;
- Share of beneficiaries by demographic and socioeconomic categories (e.g., race, ethnicity, LGBTQIA+, women, household income brackets, educational attainment);
- Decrease in customers' use of predatory lending;
- Increase in financial sustainability of borrower business(es);
- Customer savings from accessing MFC-supported loans (calculated based on the difference in interest rate between MFC-supported loans and commercial bank loans for comparable products);
- Change in number of beneficiaries who have unmet financial needs; and[44]

[43] The MFC will build upon the experience of the CDFI Fund (See: Best Practices in Impact Tracking. U.S. Department of the Treasury, Community Development Financial Institutions Fund), among others. https://www.cdfifund.gov/programs-training/training-ta/bncsii/best-practices-in-impact-tracking)

[44] Many borrowers, and small businesses especially, are distrustful of financial institutions and therefore reluctant to approach them for loans. Businesses that do seek loans often end up receiving only a part of the funds they requested. Both circumstances cause unmet financial needs, i.e., a gap between the funds that businesses would like to have and what they obtain. The MFC would seek to reduce unmet financial needs of small businesses.

- Change in the reliance on personal savings to fund capital investments.

Lending Area Metrics: The MFC will collect additional metrics on each of the priority lending areas. For example:

- Affordable housing:
    - Total dollar amount of investments and number of loans made;
    - Number of affordable rental housing units preserved or developed;
    - Number of first-time homeowners supported;
    - Share of beneficiaries who are developers or homeowners by demographic and socioeconomic categories (e.g., race, ethnicity, LGBTQIA+, women entrepreneurs, household income brackets, educational attainment); and
    - Change in beneficiaries' monthly housing costs as a percentage of household income.
- Local enterprise:
    - Total dollar amount of investments and number of loans made;
    - Number of new businesses started;
    - Total revenue of borrower businesses;
    - Tenure (years in existence) of borrower businesses;
    - Number of jobs created by borrower businesses;
    - Average wage of jobs created by borrower businesses; and
    - Share of recipients by demographic and socioeconomic categories (e.g., race, ethnicity, LGBTQIA+, women, household income brackets, educational attainment).
- Green investments:
    - Total dollar amount of investments and number of loans made;
    - Number of buildings (e.g., homes, offices, public facilities) electrified;
    - Number of infrastructure items installed (e.g., EV charging stations, solar panels, energy-efficient appliances) and energy generated or saved;
    - Reduction in GHG emissions based on investments; and
    - Change in electricity expenses for beneficiaries.

The MFC management will implement a tracking system for key metrics in its lending operations, using best practices and standards adopted by impact investors[45] and CFIs and CDFIs.[46] This system will enable the MFC to measure and compare its social impact and financial performance to peers, allowing for benchmarking and identification of areas for improvement. Impact measurement systems could include, for example:

- CDFI Assessment and Ratings System (CARS), which provides a comprehensive rating system that assesses a CDFI's impact, financial strength, and capacity.[47]

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[45] Harvard Business School, "Measuring the "Impact" in Impact Investing," 2015. https://www.hbs.edu/socialenterprise/wp-content/uploads/2021/09/MeasuringImpact-1.pdf

[46] U.S. Department of the Treasury, Community Development Financial Institutions Fund, "Portfolio Management," 2012. https://www.cdfifund.gov/programs-training/training-ta/resource-banks/portfolio-management

[47] Aeris, "Inside Aeris Ratings for CDFIs & Other Loan Funds," 2018. https://www.aerisinsight.com/wp-content/uploads/2018/10/Inside-Aeris-Ratings-2018.pdf

- Global Impact Investing Rating System (GIIRS), which is a rigorous measurement approach that evaluates the social and environmental performance of an organization, including its governance, social impact, and transparency.[48]

By leveraging these best practices, the MFC can enhance its lending operations and generate greater public good for the communities it serves.

The MFC also recognizes that ongoing and active impact evaluation is crucial to demonstrate accountability, transparency, and effectiveness. By collaborating with partner CFIs and CDFIs, the MFC will leverage their experience in assessing social impact to design effective evaluation tools and methodologies. The use of surveys and interviews by partner organizations can provide valuable feedback from borrowers and other stakeholders, shedding light on the actual outcomes of lending activities on the ground.

The MFC may also choose to engage external parties such as consultants, nonprofits, think tanks, and educational institutions for their specialized skills and expertise in impact evaluation, including the use of experimental and quasi-experimental methods.[49] These advanced methods provide a rigorous approach to evaluating the causal impact of lending activities and isolating the actual effects of MFC's interventions. This can help the MFC to identify the most effective lending strategies and programs that generate the most public good for the communities it serves.

The MFC management will develop a full impact tracking approach based on these considerations. The approach will be designed to be able to scale as the MFC grows (for instance, requiring simpler reporting in the beginning as the MFC staff focus on establishing a loan portfolio, and becoming more robust as MFC staff capacity and resources grow). It will also be designed to be compatible with impact tracking methodologies and systems used by partner CFIs and CDFIs, allowing seamless data sharing and avoiding overburdening partners with tracking requirements.

As part of its role and responsibilities, the MOC will determine the metrics that management will report on. These indicators will be central to developing the MFC's annual impact report, which will provide a comprehensive and publicly accessible overview of the organization's performance over the course of the year.

V. Financial Management Plan

A. Financial Description

The MFC will receive two categories of money to cover its operating costs and lending activities. The first category is capital, which serves as the MFC’s equity and covers pre-opening costs, operating costs, and initial lending activities. Capital for the MFC would be provided exclusively by the City. Capital serves to absorb losses from lending if losses do occur. Capital is “free” to the MFC, meaning that the MFC does not need to pay the City any interest on it. The second category is funding. These are additional funds provided by the City, foundations, or other entities to supplement capital to enable the MFC to make more loans.

[48] Global Impact Investment Network, IRIS+ and GIIRS, 2008. https://iris.thegiin.org/document/iris-and-giirs/
[49] Harvard Business School, “Measuring the “Impact” in Impact Investing,” 2015. https://www.hbs.edu/socialenterprise/wp-content/uploads/2021/09/MeasuringImpact-1.pdf

Funding typically takes the form of debt or other debt instruments. (Funding for a depository bank includes deposits, but this does not apply to the non-depository MFC.) Funding may have a cost to the MFC in the form of an interest rate it must pay to the providers of funding.

Our financial projections assume that the MFC will be capitalized by the City with $40 million in initial capital over the first three years. The City would provide $20 million in capital in Year 1, and $10 million in each of Years 2 and 3. This is a level considered more than adequate to provide for the anticipated organizational expenses and support the MFC's operation, enabling it to grow into its infrastructure and achieve profitable operations within its first three years of operation. The initial capitalization is also deemed adequate for the types and size of loans for the MFC and allow the MFC to meet the credit needs of its intended target borrowers. The MFC cannot sell stock in a way that would dilute the City's ownership, and thus cannot receive capital from other sources.

Our financial projections assume that the MFC will receive $50 million in initial funding over the first three years. This would be distributed as $6 million in Year 1, $24 million in Year 2, and $20 million in Year 3. Funding is likely to be provided by the City as an appropriation, but can also originate from other funding sources such as governmental grants, donations and grants from foundations, contributions from banks for Community Reinvestment Act ("CRA") credit, and the sale of notes to CFIs and CDFIs and other entities. All of this will be designed to permit additional lending by the MFC. The MFC cannot receive deposits.

The MFC will generate revenue by making loans at a slightly higher interest rate than it pays its funding providers. The MFC's ability to provide low-cost, concessionary loans to CFIs, CDFIs, and direct community borrowers depends on both prevailing interest rates and the interest rate it will have to pay the City—if any—for the initial funding it receives. To the extent that the City can provide funding at the lowest cost possible, or at no cost, that will increase the MFC's ability to make low-cost loans and generate sufficient revenue to become financially self-sustaining.

We have modeled a cost of funding that starts at 3.0% in Year 1 and declines to 1.5% in Year 3 (assuming that interest rates will decrease in the next three years); where the City could provide funding below these costs, that would result in a better outlook for the MFC. We have also modeled that the MFC would charge 7.13% on local enterprise and green investment loans and 6.13% on affordable housing and the average participation loan in Year 1. These numbers are based on a discount of 0.88-1.88% on prime (general market) rates, and would decline to 6.91% and 5.38%, respectively, by Year 3 as rates decrease.

These assumptions generate the pathway to financial sustainability for the MFC in its first three years of operation displayed in Figure 11. (Net interest income accounts for funding costs.)

Figure 11. MFC Income and Expenses in Years 1-3

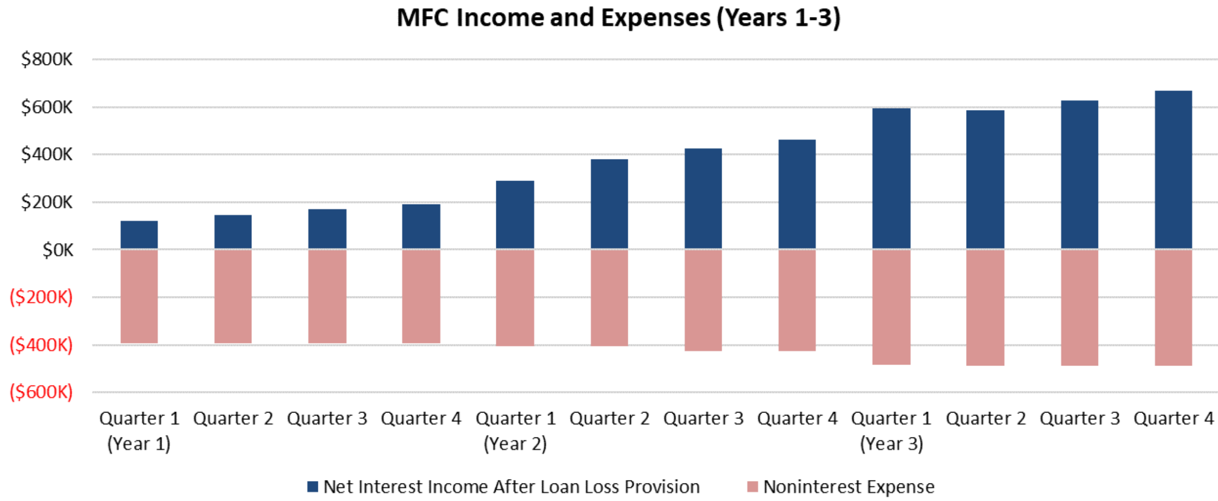
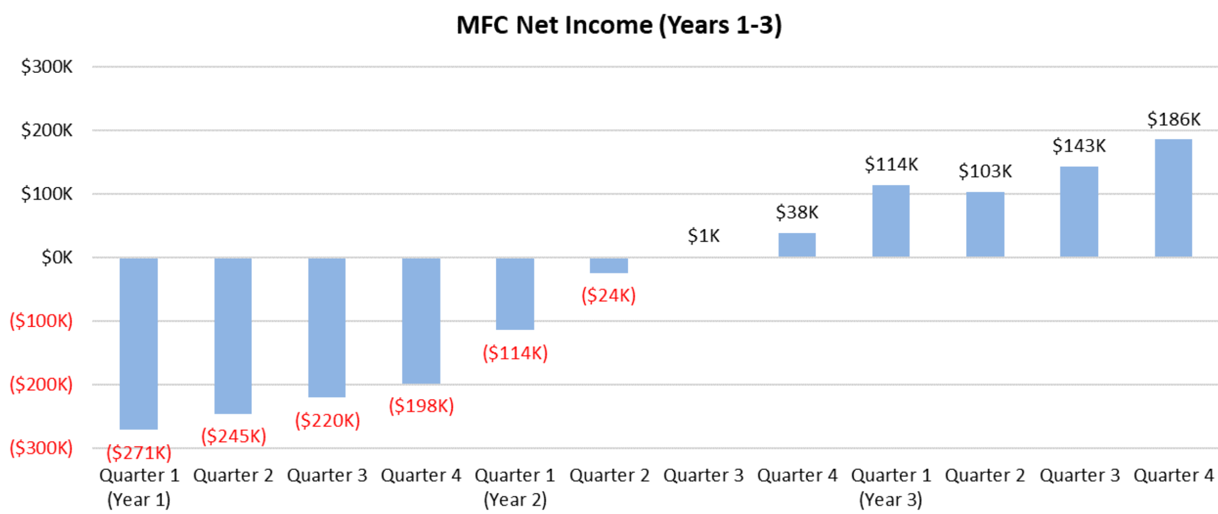


Figure 12 displays the difference between net interest income and noninterest expenses, which produces the MFC's net income (profit or loss). As the MFC generates a larger loan portfolio, revenue begins to exceed costs on a quarterly basis in Quarter 3 of Year 2, generating profits thereafter.

Figure 12. MFC Net Income in Years 1-3



1. Pre-Opening Costs

The breakdown of organizational costs and pre-opening expenditures for the MFC are projected as follows assuming a two-month organizational phase after approval by the City:

Table 7. MFC Pre-Opening Costs

Category	Amount
MOC and MFC Board Member Fees (2 full months)	$17,000
Management and Staff Compensation (CEO, Controller, CCO, and staff for 2 full months)	$173,000
Data Systems	$30,000
Legal Fees	$100,000
Other Professional Services and Consultants	$100,000
Insurance	$10,000
Miscellaneous Expenses	$50,000
Total	**$480,000**

These costs are estimates and may differ in reality. To the extent that existing City staff, facilities, equipment, and other resources can be used to support pre-opening activities, that could reduce the costs described above.[50] These costs will be paid with the capital appropriated by the City for the MFC.

2. Operating Costs

Once it opens, the MFC will incur operating costs to cover staff, Board and MOC meetings, equipment, data systems, facilities, and more. The monthly and yearly costs in Year 1 of operations are detailed below.

Table 8. MFC Operating Costs

Operating Costs (Noninterest Expenses)	Monthly Total	Yearly Total
Salaries and Benefits		
Salaries	$66,000	$792,000
Benefits (@ 40% of salaries)	$26,400	$316,800
FASB 91 Direct & Deferred Costs (@10% of salaries)	($6,600)	($79,200)
Other Employee Expense	$500	$6,000
Total Salaries and Benefits	**$86,300**	**$1,035,600**
Other Noninterest Expense		
Occupancy Expense	$3,750	$45,000
Furniture, Fixture & Equipment Expense	$625	$7,500
Business Development & Promotion	$625	$7,500
Software Contracts and IT	$3,333	$40,000
Data Processing	$10,000	$120,000
Legal Fees	$10,000	$120,000
Other Professional Services	$8,333	$100,000
Telephone & Telegraph	$313	$3,750
Other Communication & Delivery	$500	$6,000
Stationery and Supplies	$417	$5,000
Insurance Expense	$2,500	$30,000
Regulatory Assessments	$0	$0

[50] These numbers do not include fees paid to HR&A Team for the initial business plan.

Director Fees	$4,500	$54,000
Other Operating Expense	$500	$6,000
Operating Losses/(Recoveries)	$0	$0
Total Other Noninterest Expense	**$45,396**	**$544,750**
Total	**$131,696**	**$1,580,350**

To the extent that existing City facilities, equipment, and other resources can be used to support ongoing activities, that could reduce the costs described above.

The HR&A Team projects that operating costs will increase to $155,436 monthly and $1,586,341 annually in Year 3 of operations as a result of hiring additional staff and inflation.

3. Breakdown of Loans in Years 1-3

As discussed in the Product Strategy section, the MFC will operate primarily based on loan participations and syndications. Based on this approach, the HR&A Team has modeled that the MFC will make 70% of its loans to/through CFIs and CDFIs and that it will make 10% of its loans directly in each of the three target lending areas. These assumptions reflect the priority for loan participations and syndications with the option of pursuing direct loans if relevant. Based on these assumptions, we model the following amounts in each of those categories, noting that loans made to/through CFIs and CDFIs will be split across the three lending areas once those institutions lend out those funds in turn.

Table 9. Summary of Loans Made

Dollars in Thousands Totals may differ due to rounding	For the 12-Month Period Ending		
Measure	**Year 1**	**Year 2**	**Year 3**
CFIs and CDFIs	14,028	28,724	41,963
Affordable Housing	2,004	4,103	5,995
Local Enterprise	2,004	4,103	5,995
Green Investments	2,004	4,103	5,995
Total	**20,040**	**41,034**	**59,948**

This loan distribution—70% through participations and 10% to affordable housing, 10% to local enterprise, and 10% to green investments directly—is indicative and may change once the MFC begins operations. MFC management will have discretion and flexibility as to where and how to make initial loans as long as these support the MFC's Mission and Principles and support the entity's financial self-sufficiency and social impact. MFC management will be responsible for adjusting the business plan as conditions evolve, including by seizing new opportunities. Therefore the actual loan breakdowns in these different categories may vary in reality.

4. Summary of Business Plan Trends

Based on the baseline model in this plan, MFC is projected to reach total assets of nearly $70 million by the end of its third year of operation and achieve annual breakeven in the third year of operation. The following table summarizes MFC's projected operating trends for the first three years of operation.

Table 10. Summary of Business Plan Trends

Dollars in Thousands	For the 12-Month Period Ending		
Measure	**Year 1**	**Year 2**	**Year 3**
Total Assets	24,653	58,578	89,435
Gross Loans	20,040	41,034	59,948
Equity Capital	18,566	28,468	39,324
Net Income (Losses)	(934)	(98)	546
Net Interest Margin	5.47%	4.48%	3.67%

At the end of Year 1 of the MFC's operations, its total assets will be $24,653,000, which will increase to $58,578,000 at the end of Year 2, and $89,435,000 at the end of Year 3. Assets are items that the MFC owns, including but not limited to loans, securities, and reserves.

The MFC will have issued $20,040,000 in gross loans by the end of Year 1, which will increase to $41,034,000 at the end of Year 2, and to $59,948,000 at the end of Year 3. Gross loans include all outstanding principal for all outstanding loans. It excludes loans that have been written off.

The MFC's equity capital will be $18,566,000 at the end of Year 1, $28,468,000 at the end of Year 2, and $39,324,000 at the end of Year 3.

The MFC will incur $934,000 in losses in its Year 1 operations, $98,000 in losses in its Year 2 operations, and $546,000 in net income (profit) in Year 3 of operations.

The MFC's average net interest margin will be 5.47% over the course of Year 1, 4.48% over the course of Year 2, and 3.67% over the course of Year 3. Net interest margin is the difference between the rate the MFC earns on its loans and the rate it must pay to its lenders for the funding it receives.

B. Capital and Earnings

1. Capital Goals

The MFC will be initially capitalized with $20 million which is sufficient to cover the projected pre-opening organizational expenses (salaries, consulting, legal, insurance, etc.) and capitalized assets and provide a foundation to support the growth contemplated by the business plan in a safe and sound manner.

The MFC plans to have sufficient initial capital to fully support the level of anticipated balance sheet growth. This will provide the footings for the MFC to achieve monthly profitable operations by the end of the third year to generate earnings sufficient to support the future growth of the MFC.

2. Earnings

The following table summarizes the expected earnings goals of the MFC during the first three years of operation.

Table 11. Profitability Measurements

Dollars in Thousands	For the 12-Month Period Ending		
Measure	**Year 1**	**Year 2**	**Year 3**
Return on Average Assets	(4.18%)	(0.21%)	0.68%
Return on Average Equity	(4.92%)	(0.34%)	1.40%
Net Interest Income/Average Assets	5.07%	4.37%	3.69%
Non-Interest Income/Average Assets	0.07%	0.03%	0.02%
Non-Interest Expenses/Average Assets	7.07%	3.51%	2.43%
Net Interest Margin	5.47%	4.48%	3.67%
Efficiency Ratio	137.78%	79.65%	65.62%

The MFC's return on average assets will be negative 4.18% over the course of Year 1, negative 0.21% over the course of Year 2, and 0.68% over the course of Year 3. Return on average assets is equal to the MFC's net income (profit) divided by its average total assets over the course of a year, and shows how efficiently the MFC is using its assets to generate profits.

The MFC's return on average equity will be negative 4.92% over the course of Year 1, negative 0.34% over the course of Year 2, and 1.40% over the course of Year 3. Return on average equity is equal to the MFC's net income (profit) divided by its average total equity over the course of a year, and shows how efficiently the MFC is using its equity to generate profits.

The MFC's net interest income to average assets ratio will be 5.07% in Year 1, 4.37% in Year 2, and 3.69% in Year 3. Net interest income is the difference between the revenue the MFC generates from its interest-bearing assets and the expenses it incurs on its interest-bearing liabilities. The ratio of net interest income to average assets measures annualized total interest income minus total interest expense, divided by average assets. It shows the efficiency with which the MFC generates interest income.

The MFC's non-interest income to average assets ratio will be 0.07% in Year 1, 0.03% in Year 2, and 0.02% in Year 3. Non-interest income includes revenue from trading and derivatives, fees and commissions, etc. The ratio of non-interest income to average assets measures annualized total non-interest income divided by average assets. It shows the efficiency with which the MFC generates income from sources other than interest-bearing assets. The current business plan does not anticipate that the MFC will seek non-interest income as doing so would require additional staff and more complicated business activities.

The MFC's non-interest expenses to average assets ratio will be 7.07% in Year 1, 3.51% in Year 2, and 2.43% in Year 3. The ratio of non-interest expenses to average assets measures total annual expenses related to salaries and employee benefits, premises, fixed assets, and other noninterest costs divided by average assets. A lower ratio is better. This ratio shows how well the MFC controls overhead expenses.

The MFC's average net interest margin will be 5.47% over the course of Year 1, 4.48% over the course of Year 2, and 3.67% over the course of Year 3. Net interest margin is the difference between the rate the MFC earns on its loans and the rate it must pay to its lenders for the funding it receives.

The MFC's efficiency ratio will be 137.78% in Year 1, 79.65% in Year 2, and 65.62% in Year 3. The efficiency ratio is equal to non-interest expenses divided by revenue (income). A lower ratio is better. This ratio shows how well the MFC controls overhead expenses.

We anticipate that the MFC will reach monthly profitability during the end of its third year of operations. Prior to reaching monthly profitability as the MFC is developing and growing earning assets the volume of earning assets and the corresponding net interest income and other revenues will not be sufficient to cover overhead costs, including the up-front costs of putting in place the appropriate infrastructure (people, premises, and systems) that are required to support its operations in a safe and sound manner as contemplated in its business plan. Thereafter, it is expected that the MFC would generate consistently increasing profits to support the contemplated balance sheet growth. The MFC will seek to balance generating profits that it can reinvest in increased lending activities by seeking to price its products and services at rates below market to support its mission.

Business generation, services offered, and expense control will be key to reaching the MFC's earning goals. The MFC is expected to work closely with CFIs and CDFIs to build market share and generate interest income by providing the core products to its targeted clients. The MFC will utilize its experienced staff effectively to achieve its earning goals, hiring bankers and support staff who have implemented plans similar to the MFC's in its target market area.

The MFC will proactively manage expenses in order to operate within budget.

3. Capital Adequacy

The MFC's proposed capital structure is adequate for the projected internal (e.g., loss of personnel) and external (e.g., wars, climate disasters, market and economic volatility) risks, as well as the planned fixed assets expenditures, technology, organizational, and other expenses. The planned initial capitalization will also be sufficient to support the credit needs of the MFC's market. The non-risk-weighted ratio of capital to assets is 75% in Year 1, 49% in Year 2, and 44% in Year 3, indicating that the MFC has ample amounts of capital buffers to withstand potential losses incurred (while the MFC is not a depository bank, smaller, non-complex banks are considered well capitalized if their capital ratio is 10% or more).[51]

The MFC will continually measure and assess trends in risks that may adversely impact capital levels. It is the MFC's goal to address any emerging risks on a proactive and comprehensive basis, in order to avoid rapid deterioration in asset quality, profitability, and overall operations, and ultimately maintain targeted capital levels.

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[51] Office of the Comptroller of the Currency, "New Capital Rule Quick Reference Guide for Community Banks," July 2013, https://www.occ.treas.gov/publications-and-resources/publications/banker-education/files/pub-new-cap-rule-quick-ref-guide-comm-banks.pdf

4. Allowance for Loan and Lease Losses

It is the policy of the MFC to always maintain a reserve for potential loan losses that is adequate to absorb all estimated losses in the MFC's loan portfolio. The existence of an effective loan review system that identifies credit quality problems in an accurate and timely manner is key to the effectiveness of this policy. The loan review system will respond to internal and external factors affecting the MFC's credit risk and will ensure the timely charge-off of loans, or portions of loans, for which a loss has been confirmed.

The MFC will establish a systematic methodology for determining the Allowance for Loan and Lease Losses ("ALLL") based on both actual, historical loss data as well as qualitative considerations that may affect the loan portfolio and in conformity with the current expected credit loss ("CECL") methodology that has been adopted by the accounting industry and made applicative to CFIs. The MFC will document the supporting rationale employed in estimating the appropriate level of the ALLL, including the analysis of all significant factors affecting the collectability of the portfolio. It is the policy of the MFC to maintain an ALLL estimation process that is sound, well documented and based on reliable information and be of such quality that regulators, auditors, investors, and directors may rely on it.

It is noted that the de novo nature of the MFC precludes use of historical loss experience during the early stages of its existence, and so the methodology described below will be modified as necessary, and the use of peer group ALLL practices may be more prevalent in establishing an appropriate ALLL.

Specifically, the ALLL methodology will be designed to:

- Include a detailed analysis of the loan portfolio on a regular basis;
- Consider all loans (whether on an individual or group basis);
- Identify loans to be evaluated for impairment on an individual basis under Standard Financial Accounting Standards ("SFAS") No. 114 and segment the remainder of the portfolio into groups of loans with similar risk characteristics for evaluation and analysis under SFAS No. 5;
- Consider all known relevant internal and external factors that may affect loan collection;
- Be applied consistently but, when appropriate, be modified for new factors affecting collectability;
- Consider the particular risks inherent in different kinds of lending;
- Consider current collateral values (less costs to sell), where applicable;
- Require that competent and well-trained personnel perform analysis, estimates, reviews and other loan loss allowance methodology functions;
- Be based on current and reliable data;
- Be well documented, in writing, with clear explanations of the supporting analysis and rationale; and
- Include a systematic and logical method to consolidate the loss estimate and ensure the loan loss balance in accordance with GAAP.

The MFC may segment their loan and lease portfolios into as many components as practical. Each component would normally have similar characteristics, such as risk classification, past due status, type of loan, industry, or collateral. Segmentation is intended to allow for the estimation of inherent loss in pools of homogeneous loans based on historical losses.

The CCO will report to the Board of Directors on a quarterly basis. The quarterly review will include an analysis of portfolio trends, concentrations in the loan portfolio, and an evaluation of the local economy and other factors that could have an influence on the adequacy of the reserve. Upon such review, the Board of Directors will approve increases or decreases in the MFC's provision for loan losses to provide for an adequate balance in the loan loss reserve.

The review will consider the following factors:

- An evaluation of the estimated future losses in all significant problem loans.
- Levels of, and trends in, delinquencies and non-accruals.
- The results of any independent review of loan portfolio quality.
- Trends in portfolio volume and terms of loans.
- Effects of any changes in lending policies and procedures, including those for underwriting, collection, charge-off and recovery.
- Experience, ability and depth of lending management and staff.
- National and local economic conditions and trends.

There is no fixed period that should be used in determining a historical average. During periods of economic stability, a relatively long period may be appropriate. However, during periods of significant economic expansion or contraction, the MFC may use a shorter historical period in order to more accurately estimate the MFC’s inherent losses in the current economic climate. Although historical loss experience provides a good starting point, the historical loss rate must be adjusted for current conditions and recent trends when estimating future losses. Management will consider the following qualitative factors when adjusting historical loss averages:

- Changes in the experience, ability, and depth of lending personnel.
- Changes in practice relating to underwriting, collection, and the loan review system.
- Changes in national, state, and local economic conditions.
- Changes in the nature of the portfolio and levels of concentrations.
- Changes in levels of classified loans.
- Changes in levels of delinquencies and non-accruals.

The MFC will reserve for unfunded commitments. Management will periodically analyze the actual usage of un-funded commitments for various pools of loans.

Problem Loan Reports on, at minimum, Pass-Watch, Special Mention, Substandard, and Doubtful credits will be reviewed by Credit Administration on a quarterly basis. As part of this process, the CCO will review the larger classified loans for possible specific allocations. Any specific allocation will be based on either a collateral valuation or an abnormal probability of loss in accordance with the MFC’s impairment guidelines. The final level for the ALLL will be a combination of the MFC’s general reserve and specific allocations.

The MFC will follow ASC 450-20 (formerly FAS 5) and ASC 310-10 (formerly FAS 114) and accounting rules and regulations which relate to the impaired status of certain loans, leases, and other assets. Impaired loans may be measured, either individually or in aggregate with other loans with similar risk characteristics, using one of three methods:

- The present value of expected future cash flows discounted at the loan’s effective interest rate.
- The loan’s observable market price.

- The fair value of the collateral if the loan is collateral dependent.

All impaired loans are to be reported at least quarterly to the Board.

Loans are to be charged off when deemed to be un-collectible and/or when continuing to carry them as an asset of the MFC is no longer considered prudent. This will include instances where loss exposure exists due to an inability to collect, protracted repayment, or lack of collateral coverage. Charge-offs are to be taken immediately upon the occurrence of one or more of the following events:

- A classification of “Loss” by internal or external loan review or by regulatory examiners.
- When the loan is considered a statutory bad debt in that principal or interest is past due for 180 days or more unless the loan is "well secured" and "in the process of collection". Consumer installment loans shall be charged off when delinquent 120 days or more.
- The filing by the borrower of a voluntary or involuntary petition in bankruptcy of 90-day delinquent unless the loan is well secured and in the process of collection.

Credit Administration shall present a report quarterly to the Board of Directors or its delegated committee(s) concerning the adequacy of the ALLL. The CRO and CFO shall maintain an ALLL Adequacy File. This file will contain the data and analysis that supports the recommended ALLL balance. At a minimum, this file will contain:

- The calculations used to estimate the required ALLL balance;
- The summary of criticized loans;
- The analysis that supports the pool allocations;
- Qualitative factor adjustment worksheets;
- A narrative to support each qualitative factor adjustment worksheet; and
- Trend analysis for delinquencies and non-accrual loans.

VI. Financial Projections

A. Pro Forma Financials

The MFC’s opening day pro-forma balance sheet is presented below. The MFC’s financial projections for the first three years of operations are presented as “Base Case”.

The following is the MFC’s opening day pro-forma statement of condition. This statement takes into consideration capitalized asset purchases/investments and operating expenses incurred during the pre-opening/organization timeframe:

Table 12. Pro Forma Statement of Condition – Beginning of Business

Assets (Dollars in Thousands)	**Amount**
Cash and due from financial institutions	$19,400
Securities	$0
Loans	$0
Premises	$0
Furniture, fixtures, and equipment	$100
Other assets	$0
Total Assets	**$19,500**

Liabilities (Dollars in Thousands)	**Amount**
Deposits	$0
Other	$0
Total Liabilities	$0
Capital	
Total Capital	**$20,000**
Less pre-opening and accrued organizational exp	($500)
Total Liabilities and Capital	**$19,500**

At commencement of business, the MFC will have $19,500,000 in assets, of which $19,400,000 will be held in cash and assets due from financial institutions and of which $100,000 will be in the form of furniture, fixtures, and equipment. Cash on hand represents liquidity the MFC can use to cover costs; due from banks includes certificates of deposits from other banks that may earn the MFC some interest.

The MFC will have $19,500,000 in liabilities, the entirety of which will be in the form of capital.

See the following pages for:

- Three-year balance sheet
- Three-year profit and loss statement
- Three-year financial ratios
- Year 1 (2024) assumptions
- Year 1 (2025) assumptions
- Year 3 (2026) assumptions

1. Three-Year Balance Sheet

(Dollars in Thousands)	Year 1 (2024)	Year 2 (2025)	Year 3 (2026)
ASSETS			
Cash and Due from Banks	500	500	500
Interest-Bearing due from banks	1,096	2,531	5,056
Short Term Investments - CD/Advances	3,000	15,000	25,000
Total Liquid Assets	**4,596**	**18,031**	**30,556**
Gross Loans	20,040	41,034	59,948
Less:			
Allowance for Credit Losses	(501)	(1,026)	(1,500)
Deferred Loan Fees	(21)	(49)	(170)
Net Loans	**19,518**	**39,959**	**58,278**
FF&E	277	256	236
Accrued Interest Receivable	62	133	165
Other Assets	200	200	200
TOTAL ASSETS	**24,653**	**58,578**	**89,435**
LIABILITIES AND EQUITY			
LIABILITIES			
Funding Sources:			
Appropriations	6,000	30,000	50,000
TOTAL FUNDING SOURCES	6,000	30,000	50,000
Accrued Interest Payable	7	31	31
Other Liabilities	80	80	80
TOTAL LIABILITIES	**6,087**	**30,111**	**50,111**
EQUITY			
Contributed Capital (Less startup costs of $500,000)	19,500	29,500	39,500
Retained Earnings	-	(934)	(722)
YTD Earnings	(934)	(98)	546
TOTAL EQUITY	**18,566**	**28,468**	**39,324**
TOTAL LIABILITIES AND EQUITY	**24,653**	**58,578**	**89,435**

2. Three-Year Profit and Loss Statement

(Dollars in Thousands)	Year 1 (2024)	Year 2 (2025)	Year 3 (2026)
Interest Income on Loans	637	1,855	2,546
Interest income - due from banks	166	104	153
Short-Term Investments	419	638	892
Subtotal Interest Income	**1,222**	**2,597**	**3,592**
Loan Fee Income (Cost)	1	7	22
Total Interest and Fee Income	**1,222**	**2,604**	**3,614**
Interest Expense - Other Funding Source	90	522	664
Total Interest Expense	**90**	**522**	**664**
NET INTEREST INCOME	**1,132**	**2,082**	**2,950**
Loan Loss Provision	501	525	474
Net Interest Income after Provision	**631**	**1,557**	**2,476**
Noninterest Income	15	15	16
Noninterest Expense	1,580	1,670	1,946
Net Income GAAP	**(934)**	**(98)**	**546**

3. Three-Year Financial Ratios

Performance Ratios (Per Avg. Assets)	Year 1 (2024)	Year 2 (2025)	Year 3 (2026)
Total Interest Income	5.47%	5.47%	4.52%
Interest Expense	0.40%	1.10%	0.83%
Net Interest Income	5.07%	4.37%	3.69%
Non-Interest Income	0.07%	0.03%	0.02%
Non-Interest Expense	7.07%	3.51%	2.43%
Allowance for Credit Losses (ACL)	2.24%	1.10%	0.59%
Provision: Taxes	N/A	N/A	N/A
Return on Average Assets	-4.18%	-0.21%	0.68%
Break Even Yield	8.00%	4.69%	3.23%
Efficiency Ratio	137.78%	79.65%	65.62%
Margin Ratios:			
Avg. Earning Assets to Avg. Assets	92.68%	97.53%	100.38%
Loan Yield	6.34%	6.10%	5.05%
Cost of Funds	3.00%	2.90%	1.66%
Net Interest Margin (Avg. Earning Assets)	5.47%	4.48%	3.67%
Capital Adequacy Ratios:			
Return on Average Equity	-4.92%	-0.34%	1.40%
Equity / Assets (Tangible)	75.31%	48.60%	43.97%
Tier 1 Leverage Ratio	76.53%	50.29%	44.82%
Other Ratios			
ACL/Total Loans	2.50%	2.50%	2.50%
Total Loans / Total Borrowings	334.00%	136.78%	119.90%
Total Loans / Total Assets	81.29%	70.05%	67.03%
Liquid Assets / Total Assets	18.64%	30.78%	34.17%

4. Year 1 (2024) Assumptions

SFMFC **YEAR 2024** | Q1 | Q2 | Q3 | Q4 | *Version 6.2*

Federal Fund Rate	5.00%	12/31/2024 Federal Fund Rate	5.00%
Prime Rate	8.00%	12/31/2024 Prime Rate	8.00%
Loan Beta (fixed rate)	50%	Funding Source Beta	100%

Key Input and Assumptions

Loans

Monthly Run-Off Rate: 0.00%

Loan Types	Amount Distribution Current	Amount Distribution Last Yr	Current Loan Interest Rate Last Yr	Q1	Q2	Q3	Q4	New Loan Interest Rate Last Yr	Q1	Q2	Q3	Q4
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Affordable Housing	10.00%	0.00%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%
Green Energy	10.00%	0.00%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%
Small Business Support	10.00%	0.00%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%
CDFI/CFI	70.00%	0.00%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%	6.13%

Total Annual Loans	20,040,000
Total Monthly Loans	1,670,000

Funding Sources

Funding Source Types	Amount Distribution Current	Amount Distribution Last Yr	Interest Rate Last Yr	New-Q1	New-Q2	New-Q3	New-Q4
Other Funding Source	100.00%	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Investments

New Investment Amount	
US Agency Securities	0

Note: MBS paydown rate is based on the assumption 1-X% of the previous month balance

Investment Types			Current Investment Interest Rate Last Yr	Q1	Q2	Q3	Q4	New Investment Interest Rate Last Yr	Q1	Q2	Q3	Q4
Deposit in Banks	-		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Federal Reserve Interest Bearin	-		5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Interest-Bearing due from banks	-		5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
US Agency Securities	-		5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
Municipal												
CD/Term Advances	-		5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%

Forecast Annual Non-Interest Income

Other Loan Income	5,000
Mortgage Loan Fee Income	0
Other Income	5,000
International Operating Income	0
Life Insurance CSV Earning	0
Sublease Income	0
Gain (Loss) on Sale of Securities	0
Gain (Loss) on Sale of OREO	0
OREO Income	0
Misc. Income	5,000

Non-Interest Expense

ITEM DESCRIPTION	Rate
Benefits	40.00%
	0.00%
FASB 91 Direct & Deferred Costs % of Salary	10.00%
Occupancy Expense Increase Rate %	0.00%
Data Processing Increase Rate %	0.00%
Regulatory Assessments Increase Rate %	0.00%
Director Fees Increase Rate %	0.00%
Other Operating Expense Increase Rate	0.00%
Salary (Fixed Amount $)*	66,000
Incentive/Bonus (Fixed Amoubt $)	0
Legal Fee (Fixed Amount $)	10,000

Balance Sheet & Income Statement

Unrealized Gain (Loss) on Mkt Sec., net of taxes	0
Unrealized Gain (Loss) on Mkt Sec., gross	0
Accrued Interest Payable- Adjust Rate	0.00%
Bank Premises and Equipment, Net Depreciation Rate	0.67%
Tax Provision Rate	0.00%
Monthly Salary for CEO/CCO	25,000
Monthly Salary for Financial Controller	15,000
Monthly Salary for junior lender	10,000
Monthly Salary for three (3) staff	16,000
Total Base Salary	66,000
FASB 91 Loan Fees	0.50%
Average monthly FASB 91 Capitalization	$ 6,600

5. Year 2 (2025) Assumptions

SFMFC	YEAR 2025		Q1	Q2	Q3	Q4				Version 6.2
1/1/2025 Federal Fund Rate	5.00%	Decrease in rates:			0.25%	0.50%	12/31/2025 Federal Fund Rate	4.25%	Loan Beta (fixed rate)	50%
1/1/2025 Prime Rate	8.00%	Decrease in rates:			0.25%	0.50%	12/31/2025 Prime Rate	7.25%	Funding Source Beta	100%

Key Input and Assumptions

Loans

Annual Growth Rate											
Monthly Run-Off Rate	1.25%										
Loan Types	Amount Distribution		Current Loan Interest Rate					New Loan Interest Rate				
	Current	Last Yr	Last Yr	Q1	Q2	Q3	Q4	Last Yr	Q1	Q2	Q3	Q4
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Affordable Housing	10.00%	0.00%	6.13%	6.13%	6.13%	5.88%	5.38%	6.13%	6.13%	6.13%	5.88%	5.38%
Green Energy	10.00%	0.00%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.00%	6.75%
Small Business Support	10.00%	0.00%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.13%	7.00%	6.75%
CDFI/CFI	70.00%	0.00%	6.13%	6.13%	6.13%	5.88%	5.38%	6.13%	6.13%	6.13%	5.88%	5.38%

Total Annual Loans	24,000,000
Total Monthly Loans	2,000,000

Funding Sources

Target Loan to Deposit Ratio							
Funding Source Types	Amount Distribution		Interest Rate				
	Current	Last Yr	Last Yr	New-Q1	New-Q2	New-Q3	New-Q4
Other Funding Sources	100.00%	0.00%	3.00%	3.25%	3.25%	3.00%	2.50%

Investments

New Investment Amount	
US Agency Securities	-

Note: MBS paydown rate is based on the assumption 1-X% of the previous month balance

Investment Types			Current Investment Interest Rate					New Investment Interest Rate				
			Last Yr	Q1	Q2	Q3	Q4	Last Yr	Q1	Q2	Q3	Q4
Deposit in Banks	-		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Federal Reserve Interest Bearing	-		4.75%	4.75%	4.75%	4.50%	4.00%	4.75%	4.75%	4.75%	4.50%	4.00%
Interest-Bearing due from banks	-		4.75%	4.75%	4.75%	4.50%	4.00%	4.75%	4.75%	4.75%	4.50%	4.00%
US Agency Securities	-		5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	4.75%	4.25%
Municipal												
CD/Term Advances	-		5.00%	5.00%	5.00%	4.75%	4.25%	5.00%	5.00%	5.00%	4.75%	4.25%

Forecast Annual Non-Interest Income

Other Loan Income	5,150
Mortgage Loan Fee Income	0
Deposit Service Charge and Other Income	5,150
International Operating Income	0
Life Insurance CSV Earning	0
Sublease Income	0
Gain (Loss) on Sale of Securities	0
Gain (Loss) on Sale of OREO	0
OREO Income	0
Misc. Income	5,150
Other Operating Expense Increase Rate	3.00%

Non-Interest Expense

ITEM DESCRIPTION	Rate
Benefits	40.00%
	0.00%
FASB 91 Direct & Deferred Costs % of Salary	10.00%
Occupancy Expense Increase Rate %	3.00%
Data Processing Increase Rate %	3.00%
Regulatory Assessments Increase Rate %	3.00%
Director Fees Increase Rate %	0.00%
Other Operating Related Expense Increase Rate	3.00%
Salary (Fixed Amount $)*	67,980
Incentive/Bonus (Fixed Amount $)	
Legal Fee (Fixed Amount $)	10,000

Balance Sheet & Income Statement

Unrealized Gain (Loss) on Mkt Sec., net of taxes	0
Unrealized Gain (Loss) on Mkt Sec., gross	0
Accrued Interest Payable- Adjust Rate	0.00%
Bank Premises and Equipment, Net Depreciation Rate	0.67%
Tax Provision Rate	0.00%
Monthly Salary for CEO/CCO	25,750
Monthly Salary for CFO	15,450
Monthly Salary for Junior Lender	10,300
Monthly Salary for three (3) staff	16,480
Total Base Salary	67,980
FASB 91 Loan Fees	0.50%

6. Year 3 (2026) Assumptions

SFMFC **YEAR 2026** Version 6.2

			Q1	Q2	Q3	Q4				
1/1/2026 Federal Fund Rate	4.25%	Decrease in rates:	0.50%	0.25%	0.25%		12/31/2026 Federal Fund Rate	3.25%	Loan Beta	50%
1/1/2026 Prime Rate	7.25%	Decrease in rates:	0.50%	0.25%	0.25%		12/31/2026 Prime Rate	6.25%	Funding source Beta	100%

Key Input and Assumptions

Loans

Loan Types	Amount Distribution		Current Loan Interest Rate					New Loan Interest Rate				
Monthly Run-Off Rate	1.67%											
	Current	Last Yr	Last Yr	Q1	Q2	Q3	Q4	Last Yr	Q1	Q2	Q3	Q4
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Affordable Housing	10.00%	0.00%	5.38%	5.38%	5.38%	5.38%	5.38%	5.38%	4.88%	4.63%	4.38%	4.38%
Green Energy	10.00%	0.00%	6.91%	6.91%	6.91%	6.91%	6.91%	6.75%	6.50%	6.38%	6.25%	6.25%
Small Business Support	10.00%	0.00%	6.91%	6.91%	6.91%	6.91%	6.91%	6.75%	6.50%	6.38%	6.25%	6.25%
CDFI/CFI	70.00%	0.00%	5.38%	4.88%	4.63%	4.38%	4.38%	5.38%	4.88%	4.63%	4.38%	4.38%

Total Annual Loans	27,120,000
Total Monthly Loans	2,260,000

FUNDING SOURCES

Funding Source Types	Amount Distribution		Interest Rate				
Target Loan to Deposit Ratio							
	Current	Last Yr	Last Yr	New-Q1	New-Q2	New-Q3	New-Q4
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	0.00%	0.00%	2.25%	1.75%	1.50%	1.25%	1.25%
Other Funding Source	100.00%	0.00%	2.50%	2.00%	1.75%	1.50%	1.50%

Investments

New Investment Amount			
US Agency Securities	0		
			Note: MBS paydown rate is based on the assumption 1-X% of the previous month balance

Investment Types			Current Investment Interest Rate					New Investment Interest Rate				
			Last Yr	Q1	Q2	Q3	Q4	Last Yr	Q1	Q2	Q3	Q4
Deposit in Banks	-		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Federal Reserve Interest Bear	-		4.00%	3.50%	3.25%	3.00%	3.00%	4.00%	3.50%	3.25%	3.00%	3.00%
Interest-Bearing due from banl	-		4.00%	3.50%	3.25%	3.00%	3.00%	4.00%	3.50%	3.25%	3.00%	3.00%
US Agency Securities	-		5.00%	5.00%	5.00%	5.00%	5.00%	4.25%	3.75%	3.50%	3.25%	3.25%
Municipal												
CD/Term Advances	-		4.25%	3.75%	3.50%	3.25%	3.25%	4.25%	3.75%	3.50%	3.25%	3.25%

Forecast Annual Non-Interest Income

Other Loan Income	5,305
Mortgage Loan Fee Income	0
Deposit Service Charge and Other Income	5,305
International Operating Income	0
Life Insurance CSV Earning	0
Sublease Income	0
Gain (Loss) on Sale of Securities	0
Gain (Loss) on Sale of OREO	0
OREO Income	0
Misc. Income	5,305
Other Operating Expense Increase Rate	3.00%

Non-Interest Expense

ITEM DESCRIPTION	Rate
Employee Benefits	40.00%
	0.00%
FASB 91 Direct & Deferred Costs % of Salary	10.00%
Occupancy Expense Increase Rate %	3.00%
Data Processing Increase Rate %	3.00%
Regulatory Assessments Increase Rate %	3.00%
Director Fees Increase Rate %	0.00%
Other Operating Related Expense Increase Rate	3.00%
Salary (Fixed Amount $)*	85,202
Incentive/Bonus (Fixed Amount $)	3,000
Legal Fee (Fixed Amount $)	10,000

Balance Sheet & Income Statement

Unrealized Gain (Loss) on Mkt Sec., net of taxes	0
Unrealized Gain (Loss) on Mkt Sec., gross	0
Accrued Interest Payable- Adjust Rate	0.00%
Bank Premises and Equipment, Net Depreciation Rate	0.67%
Tax Provision Rate	0.00%
Monthly Salary for CEO/CCO	26,523
Monthly Salary for Financial Controller	15,914
Monthly Salary for Junior Lender	10,609
Monthly Salary for Four (4) staff	32,157
Total Base Salary	85,202
FASB 91 Loan Fees	0.50%
Average monthly FASB 91 Capitalization	$ 8,520

Appendix A: Product Prioritization Matrices

While this business plan highlights multiple products and services that can help meet community needs, the HR&A Team recommends that the MFC focus on a select few in its initial operating years. Specifically, the MFC should prioritize product offerings that are most feasible to operationalize in the near term, including those that:

- Help scale existing products offered by CFIs and CDFIs for which there is additional demand;
- Have potential to generate revenue within the first 2-3 years of MFC operations;
- Can be easily issued due to small- and/or medium-sized loan size; and/or
- Do not require significant staff time for issuance and ongoing management.

These criteria apply primarily if the MFC were to offer these products directly to borrowers. If the MFC will operate through participation and syndication lending, then it would be dependent on the types of products that CFIs and CDFIs currently offer or those that they would be willing to create if supported with MFC funding.

The following tables show the HR&A Team's initial assessment of how the proposed products are consistent with these four criteria.

Affordable Housing

Product Name	Potential to Scale Existing Products	Ease of Issuance	Potential to Generate Near-Term Revenue	Ease of Ongoing Management
Patient and equity-like capital	Low	Medium	Low	Medium
Short-term financing	Medium	Medium	High	Medium
Gap financing	Medium	High	Medium	High
Credit enhancement to serve customers perceived as riskier	Low	High	Low	Medium
Guarantees	Medium	High	Low	High
Alternative products	Low	Low	Low	Low
Pooled operating subsidy and capitalized replacement reserves	Low	Low	Low	Low
Downpayment Assistance	Low	Low	Low	Low
Existing Homeowner Assistance	Low	Low	Low	Low

Local Enterprise

Product Name	Potential to Scale Existing Products	Ease of Issuance	Potential to Generate Near-Term Revenue	Ease of Ongoing Management
Growth capital between CDFI cap and commercial bank minimum	High	Medium	Medium	Medium
Startup capital	High	Medium	Medium	High
Lines of credit	Medium	High	Low	High
Credit enhancement to serve customers perceived as riskier	Medium	Medium	Low	Medium
Marketing funds	Low	Medium	Medium	Medium

Green Investments and Environmental Justice

Product Name	Potential to Scale Existing Products	Ease of Issuance	Potential to Generate Near-Term Revenue	Ease of Ongoing Management
Short-term loans for residential and commercial building upgrades	High	High	Medium	Medium
Subsidy and finance for EV infrastructure	Low	Medium	Medium	Medium
Lines of credit for contractors/property owners	Medium	High	Low	High

Appendix B: City and County of San Francisco Demographics

		Male								Female								Total
		White	Black	Hispanic	Asian	Pacific Islander	Native American	Other	Total Male	White	Black	Hispanic	Asian	Pacific Islander	Native American	Other	Total Female	
Total Population		166,000	20,892	67,292	134,953	1,151	516	25,794	416,598	135,508	19,989	61,163	151,226	948	523	29,040	398,397	814,995
Age	0 - 14 Years	13,924	2,822	11,811	11,851	183	-	9,735	50,326	13,454	2,272	11,161	10,241	155	-	9,082	46,365	96,691
	15 - 24 Years	9,537	3,283	8,121	11,985	270	-	1,868	35,064	9,786	3,174	7,639	11,660	102	253	3,827	36,441	71,505
	25 - 64 Years	115,528	11,363	41,519	82,962	526	367	12,713	264,978	86,248	10,486	34,512	93,283	691	229	13,565	239,014	503,992
	65 and Older	27,011	3,424	5,841	28,155	172	149	1,478	66,230	26,020	4,057	7,851	36,042	-	41	2,566	76,577	142,807
Household Income (In 2021 Inflation Adjusted Dollars)	Less than $10,000	3,552	1,480	2,046	3,250	-	-	656	10,984	2,706	772	1,070	3,417	137	93	1,120	9,315	20,299
	$10,000 to 49,999	13,218	2,157	7,052	12,606	-	67	2,064	37,164	12,340	2,762	6,149	11,961	73	81	2,065	35,431	72,595
	$50,000 to 99,999	9,571	1,744	6,271	11,015	50	24	1,500	30,175	10,407	1,690	4,703	10,577	-	184	2,738	30,299	60,474
	$100,000 to 149,999	12,075	565	3,988	7,690	113	-	2,107	26,538	10,347	1,365	3,392	8,584	35	-	1,315	25,038	51,576
	$150,000 or More	52,259	416	4,687	23,667	394	52	3,582	85,057	32,613	2,686	5,009	17,564	-	-	2,923	60,795	145,852
	Total Households	90,675	6,362	24,044	58,228	557	143	9,909	189,918	68,413	9,275	20,323	52,103	245	358	10,161	160,878	350,796
Educational Attainment for Population 25 Years and Over	Less than High School	2,192	1,619	9,515	20,048	103	104	344	33,925	1,214	1,171	7,358	25,584	107	-	1,025	36,459	70,384
	High School Graduate (Includes Equivalency)	8,636	5,114	8,871	16,678	51	57	439	39,846	5,465	3,949	8,483	14,775	43	54	805	33,574	73,420
	Some College	22,519	4,010	8,708	18,022	487	91	3,391	57,228	13,782	3,823	6,792	20,208	506	41	3,453	48,605	105,833
	Bachelor's Degree	55,683	2,121	14,009	32,153	-	221	6,277	110,464	48,915	3,786	13,646	42,895	-	81	6,027	115,350	225,814
	Master's Degree	32,112	1,461	4,111	17,113	57	43	2,755	57,652	29,555	1,618	4,162	17,358	35	94	3,846	56,668	114,320
	Professional School Degree	11,711	243	1,790	2,558	-	-	313	16,615	8,763	-	1,355	4,881	-	-	505	15,504	32,119
	Doctorate Degree	9,686	219	356	4,545	-	-	672	15,478	4,574	196	567	3,624	-	-	470	9,431	24,909
	Total Population 25 Years and Over	142,539	14,787	47,360	111,117	698	516	14,191	331,208	112,268	14,543	42,363	129,325	691	270	16,131	315,591	646,799

Source: U.S. Census Bureau; American Community Survey (ACS), One-Year Public Use Microdata Sample (PUMS), 2021.

Appendix C: City and County of San Francisco Employment by Industry

Total Employment by Industry Sector	Male	Female	Race/Ethnicity							Total
			White	Black	Hispanic	Asian	Pacific Islander	Native American	Other	
Accommodation and Food Services	31,271	27,559	20,759	2,966	16,482	16,653	299	171	1,499	58,830
Administrative and Support and Waste Management and Remediation Services	22,007	14,778	13,166	5,181	9,823	7,173	281	124	1,036	36,784
Agriculture, Forestry, Fishing and Hunting	150	102	122	12	55	52	<10	0	<10	252
Arts, Entertainment, and Recreation	5,962	5,790	6,660	685	2,081	1,776	50	27	474	11,753
Construction	18,067	4,946	9,799	972	8,128	3,459	115	88	451	23,012
Educational Services	8,810	13,326	11,787	1,331	3,712	4,382	63	38	822	22,136
Finance and Insurance	25,730	22,919	24,023	1,925	6,240	14,843	185	73	1,360	48,649
Government	51,643	63,230	43,821	8,567	34,479	21,480	370	383	5,773	114,873
Health Care and Social Assistance	26,571	55,105	22,778	8,737	13,388	34,194	545	175	1,859	81,676
Information	36,289	22,498	30,712	2,383	5,291	18,272	179	115	1,837	58,787
Management of Companies and Enterprises	5,799	8,372	6,296	796	2,254	4,318	76	27	403	14,171
Manufacturing	7,670	4,999	5,553	454	2,370	3,912	34	21	323	12,669
Mining, Quarrying, and Oil and Gas Extraction	13	<10	16	0	<10	<10	0	0	0	13
Other Services (except Public Administration)	15,485	29,784	16,429	3,038	14,890	9,017	267	135	1,493	45,269
Professional, Scientific, and Technical Services	83,376	66,731	76,575	5,743	16,763	45,766	520	286	4,455	150,107
Real Estate and Rental and Leasing	8,601	6,543	7,052	1,064	2,916	3,554	96	33	429	15,144
Retail Trade	18,594	19,384	14,897	2,282	9,533	9,784	194	109	1,180	37,979
Transportation and Warehousing	11,721	6,170	6,471	1,617	3,551	5,564	146	45	498	17,891
Unclassified Industry	20	19	15	<10	10	<10	0	0	<10	39
Utilities	3,260	1,392	2,247	294	1,051	875	23	15	145	4,651
Wholesale Trade	6,462	4,146	5,092	474	1,937	2,766	46	18	275	10,608
Total Employees	**387,500**	**377,793**	**324,271**	**48,521**	**154,954**	**207,840**	**3,488**	**1,885**	**24,313**	**765,293**

Source: U.S. Census Bureau; Annual Business Survey (ABS), 2020.

Appendix D: Definitions and Glossary

"AB 857" refers to California legislation that authorizes and regulates local authorities to apply to state regulators for a license to start and operate public banks, passed in 2019.

"**ALLL**" is the allowance for loan and lease losses whose purpose is to reflect estimated credit losses within a bank's portfolio of loans and leases.

"Anti money laundering" or **"AML"** refers to laws, regulations, and procedures to prevent illicit funds being disguised as legitimate funds.

"**Anti-Bribery and Anti-Corruption Laws**" means the FCPA and all other applicable anti-bribery and anti-corruption Laws.

"Assets" are items that the MFC owns, including but not limited to loans, securities, and reserves.

"**Bank Secrecy Act**" **/ "BSA"** means the Currency and Foreign Transaction Reporting Act (31 U.S.C. Section 5311 et seq.), as amended by the USA PATRIOT Act and their implementing regulations. The BSA sets recordkeeping and reporting requirements for banks and other financial institutions.

"**Board**" means Board of Directors.

"Capital" are funds generated by selling equity in the MFC or from retained earnings (profits) the MFC earns. Capital is sometimes referred to as "net worth" or "equity capital."

"CDFIs" means community development financial institutions.

"**CDFPI**" means the California Department of Financial Protection and Innovation, the entity that regulates banks and other financial institutions in the State of California.

"CECL" means the Current Expected Credit Loss for loans generated, a credit loss accounting standard in for estimating allowances for credit losses.

"**CFC**" means the California Financial Code.

"CFIs" means community financial institutions with FDIC insured accounts or credit unions insured through the National Credit Union Administration.

"**Code"** or **"IRC**" means the U.S. Internal Revenue Code of 1986, as amended.

"**Community Reinvestment Act"** or **"CRA**" means the Community Reinvestment Act of 1977, as amended.

"**Deposit Insurance Fund**" means the Deposit Insurance Fund administered by the FDIC.

"Efficiency ratio" is equal to non-interest expenses divided by revenue (income). A lower ratio is better. This ratio shows how well the MFC controls overhead expenses.

"**Equal Credit Opportunity Act**" means the Equal Credit Opportunity Act (15 U.S.C. Section 1691 et seq.), as amended.

"**Fair Housing Act**" means the Fair Housing Act (420 U.S.C. Section 3601 et seq.), as amended.

"**FCPA**" means the Foreign Corrupt Practices Act of 1977 (15 U.S.C. §78dd-1 et seq.), as amended.

"**FDIC**" means the Federal Deposit Insurance Corporation, which regulates depository banks.

"**Federal Reserve Act**" means the Federal Reserve Act of 1913, as amended.

"**Federal Reserve Board**" means the Board of Governors of the Federal Reserve System.

"Financial Crimes Enforcement Network" is a bureau of the U.S. Treasury that safeguards the financial system from illicit use and combats money laundering and its related crimes (e.g., terrorism).

"Funding" are the proceeds from issuing debt securities, other debt instruments, and/or deposits that are used to originate loans. Funding represents a liability on the balance sheet.

"**GAAP**" means generally accepted accounting principles in the United States, consistently applied over the period involved.

"Green Bank" means a public or quasi-public entity or program focused on providing affordable loan capital for projects that reduce greenhouse gas emissions, reduce pollution burden, or otherwise improve environmental outcomes.

"Gross loans" include all outstanding principal for all outstanding loans. It excludes loans that have been written off.

"**Home Mortgage Disclosure Act**" means the Home Mortgage Disclosure Act (12 U.S.C. Section 2801 et seq.), as amended.

"**IRS**" means the U.S. Internal Revenue Service.

"Liabilities" are items that the MFC owes to other entities, including but not limited to funding and accounts payable.

"**Lien**" means any charge, mortgage, pledge, security interest, restriction, claim, lien, equity, encumbrance or any other encumbrance or exception to title of any kind.

"Loan participation" means an arrangement in which a bank purchases a portion of an outstanding loan from another bank, from which it can collect interest and principal payments.

"Loan syndication" means an arrangement in which multiple banks pool together resources to fund a single loan, which is issued and managed by one "lead" bank.

"MFC" means the Municipal Finance Corporation.

"**MOC**" means MFC Oversight Commission.

"Net interest income" is the difference between the revenue the MFC generates from its interest-bearing assets and the expenses it incurs on its interest-bearing liabilities. The ratio of net interest income to average assets measures annualized total interest income minus total interest expense, divided by average assets. It shows the efficiency with which the MFC generates interest income.

"Net interest margin" is the difference between the rate the MFC earns on its loans and the rate it must pay to its lenders for the funding it receives.

“Net interest margin” is the difference between the rate the MFC earns on its loans and the rate it must pay to its lenders for the funding it receives.

“Non-interest expenses” includes but is not limited to salaries and employees benefits, premises, fixed assets, and other noninterest costs.

“Non-interest income” includes revenue from trading and derivatives, fees and commissions, etc. The ratio of non-interest income to average assets measures annualized total non-interest income divided by average assets. It shows the efficiency with which the MFC generates income from sources other than interest-bearing assets.

“Nonprofit mutual benefit corporation” means an incorporated organization that works to achieve a common goal for a group of people as regulated by California law. It applies to nonprofit organizations without tax-exempt status under Internal Revenue Service (IRS) code 501(c)(3).

“Nonprofit public benefit corporation” means an incorporated organization that seeks to provide benefits to the public as regulated by California law.

“**OFAC**” means the Office of Foreign Assets Control of the U.S. Department of the Treasury.

“Office of Foreign Assets Control” is an office of the U.S. Department of the Treasury that administers and enforces economic and trade sanctions based on foreign policy and national security goals.

“**OREO**” means other real estate owned.

“**Regulatory Authorities**” means any federal or state Governmental Authority charged with the supervision or regulation of financial institutions or issuers of securities or engaged in the insurance of deposits (including, without limitation, the Federal Reserve Board, the FDIC, the CDFPI or the supervision or regulation of any Party or any of its Subsidiaries.

“Return on average assets” is equal to the MFC’s net income (profit) divided by its average total assets over the course of a year, and shows how efficiently the MFC is using its assets to generate profits.

“Return on average equity” is equal to the MFC’s net income (profit) divided by its average total equity over the course of a year, and shows how efficiently the MFC is using its equity to generate profits.

“**RWG**” means The San Francisco Reinvestment Working Group created by the San Francisco Board of Supervisors.

“SFAS” means Statement of Financial Accounting Standards published by the Financial Accounting Standards Board.

“SFPBC” means the San Francisco Public Banking Coalition.

“**Subsidiary**” means, as to any Person, a corporation, limited liability company, partnership or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, limited liability company, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person.

“**the City”** or **“City**” means the City and County of San Francisco.

“**the Ordinance”** or **“Ordinance**” means Ordinance No. 87-21 to develop business, financial, and governance plans to establish a San Francisco MFC.

“**USA PATRIOT Act**” means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as amended (Pub. L. No. 107-56).