



## 2016-2020 Strategic Plan



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## History and Purpose

Incorporated in March 2014, Ventana Fund is a relatively young organization. However, strategic planning began in 2012 when founding board members began to discuss ways to address the dearth of affordable rental housing in New Mexico. The challenge of investing in affordable housing in New Mexico is challenging for many reasons. New Mexico is the fifth largest state in the U.S. but ranks only 36<sup>th</sup> in population (2,085,572 in 2014). The state’s vast rural areas are in decline and historical poverty has been exacerbated by a slow statewide recovery from the Great Recession. This forms the backdrop of a complex, multi-faceted problem that Ventana Fund seeks to address:

- New Mexico’s economic challenges leave many communities underserved.** A slow recovery from the Great Recession has exacerbated New Mexico’s historical poverty. New Mexico’s growth rate of 1.3% is well behind the national rate of 3.3%, as is its median household income of \$44,968 compared to \$53,482 in the U.S. New Mexico ranks among the top five states in the nation with the lowest median household incomes, and is second in the nation in poverty, at 21.3% compared to 14.8% in the U.S. As shown in the table below, incomes are substantially lower and poverty substantially higher in the state’s rural counties, although similar statistics can be found in urban Investment Areas.

### Mission Statement

*Ventana Fund provides early stage financing for affordable housing in New Mexico’s underserved communities, with an emphasis on rental projects.*

### Target Markets

*New Mexico’s underserved areas and communities, which include:*

- Low-Income Populations earning 80 percent Area Median Income or less
- CDFI Investment Areas
- Tribal communities
- Rural communities

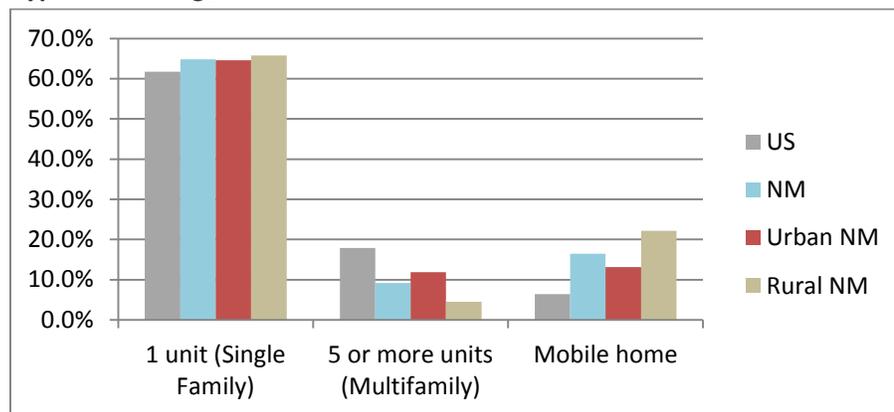
*Ventana Fund also focuses on hard-to-finance projects, such as older rental projects needing rehabilitation*

Economic Indicators	United States	New Mexico	NM Urban Counties	NM Rural Counties
Population Change, 2010-2014	3.3%	1.3%	1.5%	1.1%
Median Household Income	53,482	44,968	47,428	40,959
Per Capita Income	28,555	23,948	25,461	20,875
Poverty Rate	14.8%	21.3%	19.8%	22.5%

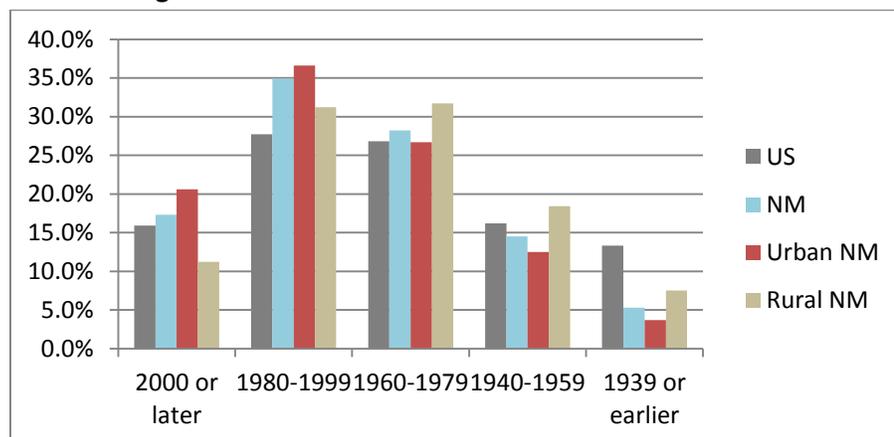
Data used in this strategic plan is from American Community Survey 2010-2014 5-Year Estimates, with exception of population change, which measures the difference between 2010 US Census Data and the 2014 American Community Survey 1-Year Estimates. Urban percentages are derived from a weighted average of the population of counties within the state’s four Metropolitan Statistical Areas (MSAs). Rural percentages are derived from a weighted average of the population of counties outside of the state’s MSAs.

- Rural communities face daunting challenges.** New Mexico is a geographically large but sparsely populated state. Forty-three percent of the population (905,213) lives in the Albuquerque Metropolitan Statistical Area (MSA), with an additional 24 percent in the state’s other three MSAs (Las Cruces, Santa Fe and Farmington). The remaining one-third is scattered over a large land area in small rural communities that are struggling to retain population and economic opportunities. Seventeen of New Mexico’s 26 rural counties lost population between 2010 and 2014, several at rates between six and nine percent. The viability of these rural communities literally hangs in the balance today as they struggle to improve older housing stock and revitalize declining neighborhoods with little or no outside investment.
- Dearth of multifamily rental housing,** especially in the rural areas:
  - Housing stock in New Mexico consists primarily of single family homes, especially outside of the MSAs, where single family and mobile homes represents a full 88 percent of the housing stock and only 4.5 percent of units are multifamily. The multifamily rental units that do exist are often older and in need or rehabilitation.
  - Housing stock outside of the MSAs is quite old, with 26 percent of units 55 years or older and only 11.2 percent of units built since 2000.

**Type of Housing / Number of Units in Structure**



**Year Housing Built**



- **Lack of rental development expertise for small, rural projects.** New Mexico has a small community of affordable housing developers that specialize in single-family development and lending or in Low-Income Housing Tax Credit (LIHTC) projects. Developers rarely find incentives to develop small affordable rental projects, and when they do, they apply for nine percent LIHTCs for which small projects are not always well suited.
- **No Community Development Financial Institutions (CDFIs) working statewide in affordable rental housing.** CDFIs are financial institutions certified by the U.S. Department of Treasury which provide financing to underserved markets and populations. New Mexico has a robust CDFI community. However, of the CDFIs that specialize in affordable housing, none works statewide and none except Ventana Fund specializes in rental housing. Affordable housing has become an acute need in recent years, both nationally and at the state level.
- **Lack of diverse funding sources and overreliance on LIHTCs.** Because affordable housing rental developers do not have diverse sources of funding and financing available, they are forced to compete for nine percent LIHTCs even if their projects are not well suited for the program. Of approximately 22 applications, New Mexico makes five to seven nine percent LIHTC awards each year with its \$4.8 million allocation. If a more diverse landscape of financing existed, more small rural projects could be built, some with non-LIHTC sources.

While Ventana Fund was incorporated in 2014 to meet these very needs, it cannot do so overnight. It will take time for Ventana Fund to achieve the scale and capacity to support critically needed products such as long-term loans and grant gap financing. Therefore, this strategic plan provides a road map of concrete objectives and action steps that will build Ventana Fund's resources and capacity in these early years (2016-2020).

## Production and Capital Growth

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***Goal 1: Ventana Fund will make \$11 million in loans to an estimated 22 affordable housing developments and 1,100 housing units over the next five years.***

Ventana Fund’s \$11 million capital goal is based on meeting New Mexico’s critical affordable housing needs and supporting reasonable growth for the organization. The goal assumes \$10.5 million in construction loans and \$500,000 in predevelopment loans over the next five years. In its first year (2014), Ventana Fund received a four-year grant from the New Mexico Mortgage Finance Authority (MFA) with which to launch its lending operations. With this funding, Ventana Fund has held two loan rounds in 2014 and 2015, respectively. Loan repayments from these rounds will be redeployed for new loans beginning in 2017, providing an ongoing source of capital for low-interest loans.

- **Objective 1.1:** Obtain a \$500,000 low-interest line of credit from one or more lending institutions in 2016 and grow the line of credit to \$2.3 million by 2020.
- **Objective 1.2:** Obtain a minimum of \$1.4 million in grants from the CDFI Fund between 2016 and 2020.
- **Objective 1.3:** Obtain operating grants of at least \$20,000 per year.
- **Objective 1.4:** Cultivate funding from private foundations after receiving 501(c)3 status.
- **Objective 1.5:** Explore continued funding from existing sources.

Ventana Fund is working to obtain additional capital from the following sources, which will enable the organization to increase its lending as well as introduce new products needed by its target markets:

- Lending institutions, especially banks seeking Community Reinvestment Act (CRA) credit. Ventana Fund is currently meeting with banks to establish this line of credit and will continue to do so depending on interest rates.
- The Community Development Financial Institution Fund (CDFI) in the U.S. Department of Treasury.
- Private foundations, once Ventana Fund receives its 501(c)3 status. The organization submitted its 501(c)3 application in December 2015.

## New Products and Partnerships

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***Goal 2: Ventana Fund products will expand to better address target market needs using increased capital, added products and new partnerships.***

In its first two years of operations, Ventana Fund has offered a single product—a low-interest, interim construction loan for affordable rental projects. Ventana Fund’s target markets for this product are underserved areas, including Investment Areas, tribal and rural communities, as well as difficult to finance projects, such as older USDA properties in need of rehabilitation.

Ventana Fund acknowledges that low-interest interim construction loans do not address the full scope of affordable housing needs for our target markets in New Mexico. However, such a product is critical to Ventana Fund in its start-up phase. It provides a strong foundation for Ventana Fund by allowing the organization to remain capitalized and self-supporting through loan repayments and interest. Most importantly, this product generates maximum impact by recycling loan repayments to new borrowers.

As Ventana Fund enters its third year of operations, it has built sufficient capacity to launch a new product to address target market needs. Experience with customers to date has shown that early stage pre-development loans coupled with technical assistance are critical to building development capacity in underserved areas where there is little outside investment, development expertise, or government experience with affordable housing. Development expertise from our board of directors will be critical in this area, as several board members have direct experience with rental housing development and financing. In 2018 and beyond, as our capital grows, Ventana Fund will consider additional products for which we know demand is high. These include gap financing in the form of grants and longer-term, low-interest loans.

In all of these endeavors, Ventana Fund can greatly increase its impact by partnering with other entities, including larger CDFIs and nonprofits that work in affordable housing. In December 2015, Ventana Fund signed a Memorandum of Understanding with the Rural Community Assistance Corporation (RCAC) for mutual referrals to potential borrowers and potential tandem and participation lending. RCAC also offers technical assistance and can lend for infrastructure and community facilities, which are sometimes components of affordable housing projects. Ventana Fund is exploring similar partnerships with other regional and national affordable housing financing and support organizations that work in New Mexico.

- **Objective 2.1:** Roll out a predevelopment loan product and predevelopment technical assistance in 2016.
- **Objective 2.2:** Establish relationships with at least three target market communities as pipeline for Ventana Fund technical assistance and loans.
- **Objective 2.3:** Cultivate partnerships with developers working in or with target markets.
- **Objective 2.4:** Leverage more financing, technical assistance and referrals through partnerships with regional and national nonprofits that support affordable housing development.
- **Objective 2.5:** Participate in planning for a non-LIHTC program/product aimed at smaller, rural rental projects.

Finally, Ventana Fund is partnering with its seed funder, MFA, to develop a pilot program for smaller rural rental projects that are not well suited for use of the Low-Income Housing Tax Credit program, a federal program that provides the majority of below market-rate financing to rental projects serving low-income residents. The pilot program will likely blend financing and grants from a variety of sources, including Ventana Fund; the New Mexico Housing Trust Fund, National Housing Trust Fund and other MFA loan products; as well as contributions from local communities. Planning will take place in 2016, with a product launch in 2017 if the program is found to be feasible and useful for rural communities and developers.

### Goal 3: Operations and Financial Management

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***Goal 3: Ventana Fund will operate with maximum cost-efficiency, steadily increase its lending capital and net assets, and continue to achieve high operational standards through its policies, plans and personnel.***

In the past two years, Ventana Fund has developed a sound organizational structure through the adoption of loan policies, a loan loss reserve, a capital raising plan, a business plan and financial projections, this strategic plan and an annual report. We also applied for CDFI certification, which we received in March 2015, as well as 501(c)3 status in December 2015. Our first audit, covering one year and seven month of operations, resulted in no findings.

Ventana Fund has been fortunate to have sophisticated loan underwriting and servicing expertise from inception through contractual arrangements with MFA. These contracts have allowed us to keep our operating costs extremely low without sacrificing expertise and high standards. We have also invested in professional consultants to assist us with our capital plan, business plan/financial projections as well as organizational and product advisement.

Our current operating structure requires day-to-day involvement of our Board Chair/Executive Director, as well as other board members on an as-needed basis. The board of directors has engaged in robust discussions about hiring its own staff, starting with an Executive Director, but has determined that until our capital and loan volume increase, additional personnel costs are not warranted.

- **Objective 3.1:** Meet or exceed funding requirements by implementing a robust capital campaign.
- **Objective 3.2:** Achieve no material weaknesses in annual audits.
- **Objective 3.3:** Incorporate new best practices in Ventana Fund policies and procedures as needed.