

# Supporting the MDI Sector through an Intermediated Approach



Investors unfamiliar with the MDI sector may come up against obstacles that seem to prevent efficient capital deployment. For this reason, investing through an intermediated approach such as an impact fund may provide a suitable alternative that addresses these challenges. Investing via an intermediated approach may, however, present a certain set of pros and cons that each investor will have to consider, notably:

**Outsourced investment due diligence:** Financial intermediaries, such as impact investing funds, provide professional management and expertise that can be particularly beneficial for investors who lack the time or sectoral/technical knowledge to actively manage their investments.

**Diversification:** Investment funds pool capital from investors, allowing for the creation of a portfolio of multiple investments, which provides investors with greater diversification. This helps spread risk across a wider range of assets, which reduces the impact of any single investment's poor performance.

**Enhanced impact:** Funds offer critical mass, including the necessary expertise and customized providers to support portfolio companies growth and operations as well as help in times of need.

**Reduced administrative burden:** Funds handle the administrative aspects of investing on behalf of their LP base. This can include financial accounting and reporting while also ensuring that all investments meet compliance and regulatory requirements. Impact funds also provide periodic (e.g., quarterly/annual) financial and impact performance for investors.

**Additional layer of fees decreases investment performance:** Investment fund managers charge investors a management/advisory fee, generally a fixed fee linked to commitments, to fund their operations. This additional layer of fees is paid by investors and thus creates a negative impact on their returns. By eliminating intermediary fees and expenses, direct investors can potentially achieve higher returns.

**Loss of investment control:** By not investing directly, investors will no longer have full control over their investment decisions. Pursuing an

## Interviews Included:

- **Craig Cimoroni** – MDBF Fundraising, Elizabeth Park Capital
- **Justin Conway** – MDBF Fundraising, Calvert Impact
- **Paul Hodermarsky** – MDBF Fundraising, Elizabeth Park Capital
- **Eric Heisner** – MDBF Relationship Manager and Investment Committee Member, Calvert Impact

## Highlights

- Represents an integrated approach for investors looking to support the MDI sector in a fund structure
- Features investment that may be PRI-eligible for foundations
- Offers diversified mission-driven MDI and CDFI investment portfolios
- Builds more resilient banks for sustainable change through ongoing technical services support
- Provides comprehensive impact reporting for investors
- Raises capital from institutional impact investors with anticipated final close in May



intermediated approach will not provide investors with the ability to tailor their portfolio to their specific preferences and risk tolerance.

For impact investors seeking an intermediated approach to support the MDI sector, the Mission-Driven Bank Fund (MDBF) is ideal. This case study has been prepared to provide a summary of an intermediated fund approach through the MDBF for impact investors. It highlights how this opportunity provides impact investors with an innovative intermediated approach to support the MDI sector, discusses the details of the MDBF product, and describes how investors may participate in the fund.

## Background

The MDBF seeks to provide investors with a mission-first private capital impact fund option that supports MDIs and CDFIs through an integrated solution of below-market-rate financial investments and subsidized technical services. Through its investments in such institutions, the MDBF aims to drive significant growth and financial resiliency in the mission-driven bank sector that will ultimately translate into demonstrated progress in closing the racial wealth gap.

In 2021, the Federal Deposit Insurance Corp (FDIC) encouraged the development of a private investment vehicle to support insured MDIs and CDFIs. Responding to the FDIC's call, Microsoft and Truist anchored the MDBF along with the lead investor Warner Brothers Discovery, bringing a combined initial commitment of over \$120 million. The core of the MDBF mandate was intended to support MDI and CDFI banks with flexible capital and technical services through innovative approaches aimed at helping portfolio companies to become more sustainable with greater size, scale, and capacity to amplify their impact in their communities.

After a competitive RFP and comprehensive due diligence process, Elizabeth Park Capital Management and Calvert Impact were selected and awarded co-management of the fund. Since then, MDBF has held the fund's first closing in November 2023 and, as of Q4 2024, executed seven portfolio bank investments and achieved full portfolio bank participation in the technical services program of over 25 providers.



ELIZABETH  
PARK CAPITAL  
MANAGEMENT

## Partners

The Mission-Driven Bank Fund is a collaborative effort between U.S. Bank specialist Elizabeth Park Capital Management and impact investing pioneer Calvert Impact as members of the General Partner (GP).

**Elizabeth ParkCapital Management** (EPCM), General Partner & Lead Fund Manager for the MDBF, is an institutional-focused, independent, and privately held alternative asset manager managing long/short equity, long-only, and bespoke products focusing on U.S. banks.

**Calvert Impact**, General Partner and Sub-Advisor for the MDBF, is a global nonprofit investment firm that helps investors and financial professionals invest in solutions that people and the planet need, mobilizing over \$5 billion of capital over its 25+ year history.

**Strategic Value Bank Partners**, Sub-Advisor for the MDBF, is an investment firm focused exclusively on the community banking industry with over 80 collective years of bank-investing and industry-operating experience.

## Investment Strategy

MDBF's investment strategy is to make direct growth capital investments into mission-aligned MDIs and CDFI banks that have historically lacked efficient access to capital and financial support.

As highlighted in Section 2, impact investors have a multitude of options in terms of investing impact capital into MDIs. MDBF's investment strategy has been designed to reflect these options while also catering to the various needs of MDIs/CDFIs, providing potential investees with multiple types of capital, including:

1. Common equity
2. Preferred equity
3. Subordinated debt
4. Purchase of AFS and HTM securities
5. Deposits

Capital invested by MDBF into MDIs/CDFIs can often be leveraged ~8-10x into new loans within the bank's communities via the bank capital structure, providing a significant opportunity to leverage MDBF capital. Access to bank lending in these communities should support small business growth, quality jobs, savings rates, and home ownership. Recycled capital in the community is estimated to have an additional 2x leverage. The result is a potential 20x impact leverage on the fund's capital, which results in catalytic community impact. The ultimate goal is that MDBF's financial and operational support will result in portfolio banks becoming more resilient, inclusive, and able to scale lending to increase access to wealth-building opportunities in minority communities that have historically lacked access to banking services.

## Technical Assistance

In addition to providing MDIs with capital to scale their lending and impact, the MDBF offers portfolio banks with technical services programs to build organizational capacity. This highly collaborative program is tailored to help MDBF portfolio banks improve operational efficiency and financial performance, expanding their customer base, product offerings, service areas, and community impact. Based on an MDBF survey of a subset of banks within the MDI/CDFI universe, feedback indicates that:



- Most common bank needs (>35% of surveyed banks) center on technology, new product development, marketing and customer engagement, and deposit gathering strategies.
- ~20% of banks seek assistance in talent recruitment and impact measurement.
- Other identified areas of need were in compliance and credit underwriting capabilities.

To provide such services, the MDBF team has established a network of over 25 technical service providers in these areas with experience addressing the specific needs of the MDIs and CDFIs.

## Impact Metrics

Central to the MBDF's work is its impact measurement and management (IMM) framework, designed to develop sustainable mission-driven banks that seek to contribute to closing the racial wealth gap.

MDBF's IMM process spans screening and due diligence throughout the investment lifecycle, ongoing monitoring and data collection, quarterly and annual reporting, and evaluation to inform future strategies and opportunities. The MDBF team developed a tailored impact scorecard to assess the Fund's impact on the banks and their impact on their communities.

### Key metrics that may be tracked include:

- Percentage increase in dollars lent
- Number of loans executed
- Number of mortgages originated
- Small business revenues in communities of color

Target Size	\$500M
Fund term	10-year life + 2 one-year extensions
Minimum Investment	\$5M with GP exceptions
Fund Qualifications	Public welfare investment, CRA Consideration
Impact Allocation	Starting, after year five, up to .50% of committed capital. Independent Mission Advisory Committee comprised of industry experts will evaluate the Fund's impact performance based on defined metrics.
Initial Close	November 2023
Investments	As of Q4 2024 <ul style="list-style-type: none"> <li>• Seven portfolio bank investments</li> </ul>
Final close target	May 2025

To learn more about the fund, please visit [missiondrivenbankfund.org](https://missiondrivenbankfund.org).

For disclaimer and other important information please see page 91.