

## Dream Weaver

By providing grants and loans to community improvement efforts, Finance Fund CEO James Klein hopes to change the world—one project at a time.

By Jennifer Wray  
Columbus C.E.O. | March 22, 2011



**Finance Fund CEO James Klein in the Heritage Square Save-A-Lot**

Back in 2009, Wood Companies found itself in a quandary. Executives saw an opportunity to add three stories of residential and office space to a building in the popular Short North, but lenders weren't keen on funding the project. "With new apartments, many banks call them speculative—even though the market was there," says Wood Companies President Mark Wood.

Ultimately, the business found success with Finance Fund, a statewide nonprofit financial intermediary dedicated to improving the quality of life in Ohio's low-income urban and rural communities.

After Finance Fund signed on, Wood convinced Heartland Bank to extend a \$3.9 million loan. In turn, Finance Fund itself loaned \$800,000 for the project. As it often does, Finance Fund acted as the second-position lender, giving the bank the first right of repayment in the event of a default. "The positive relationship, I think, between Finance Fund and Heartland has been wonderful," says Wood.

The Wood Companies' building expansion will take about a year. When complete, it will include 10,000 square feet of new office space—including the developer's own headquarters—and 24 residences.

The project is just one of many that Finance Fund has supported in its nearly 25-year history. The nonprofit does everything from startup financing for entrepreneurs to helping low-income people purchase transportation. "We want to do something very simple, but probably more complex than anybody ever imagines: We simply want to change the world, and we can do that only by changing the little pieces of the world we can," says CEO James Klein.

### Products & Programs

The organization's origins date back to 1985, when the Ohio Department of Development and the Ohio Community Development Corporations Association gathered a group of community organizations to exchange advice and advocate for their areas. Participants wanted an entity that could help local projects secure financing. And so Finance Fund—formally known as Ohio Community Development Finance Fund—was established in 1987. Since its inception, the 501(c)3 organization has provided millions of dollars to Ohio communities and neighborhoods. Its funding comes from a mix of public and private organizations, individuals and investments proceeds.

Reginald Johnson, vice president of asset management for the Columbus Metropolitan Housing Authority, first became acquainted with Finance Fund while representing Huntington National Bank on the nonprofit's board. "They just have a great team, and have been able to take a lot of financial products and place them in underserved markets in the state of Ohio," says Johnson, who left Huntington in January.

In the beginning, Finance Fund's sole offering was its linked deposit program, through which local lenders provided low-interest-rate loans for housing and economic development projects. "As the state became more comfortable, we added more, most within about 10 years ago," says Klein.

Those additions include:

- The PreDevelopment Program: From 1992 to 2010, the program leveraged \$70 million on an investment of \$6.3 million, funding 484 projects that provided 7,421 housing units and 4,349 full-time jobs. The initial investment money comes from the Ohio Housing Trust Fund, which then incites further investment from a mix of state, federal, nonprofit, foundation and other funders.
- The Finance Fund Capital Corp.: The Finance Fund's lending arm made its first loan in 2006. Over the next four years, it leveraged \$44 million on \$16.9 million worth of investments. Loans made to 21 borrowers helped to create or retain 531 full-time jobs.
- The Cars for Jobs and Diplomas Program: Also known as ByCar, it provides a matching grant or guarantee to low-income individuals who need a vehicle in order to go to school or work. In its first two years, the program leveraged \$341,790 on an investment of \$195,197.

"For us, it's all about innovative ways to find capital and point capital toward distressed communities," says Klein.

The CEO describes Finance Fund's evolution over the last two decades with one word: dramatic. "We've gone from managing \$50,000 in assets 20 years ago to, in 2010, managing \$160 million. That has been sort of a managed metamorphosis. We've always tried to stay connected to our mission." The goal "is always about supplementing, not circumventing, other sources of support. We want to add value to others' work, rather than reinvent the wheel. We want to think about ways we might be able to make the wheel better," Klein says.



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## **New Markets Tax Credits**

In its 2006 annual report, Finance Fund called its first New Markets Tax Credit (NMTC) award "a turning point" for the organization. That \$15 million federal allocation "enabled growth in private investment, need for staff, ability to work on different project types and flexibility to work with other community groups."

Since 2004, Finance Fund has nabbed \$160 million in NMTC awards from the U.S. Department of the Treasury. The credit "seems almost as if it was made for us, because it provides the resources to allow the market to do what the market wants to do," says Klein.

NMTC funding is intended to stimulate job creation by offering low-interest financing to low-income community businesses. Under the program, taxpayers who make qualified equity investments in designated Community Development Entities can claim a 39 percent federal tax credit on the value of their investment over a seven-year period.

PNC's Tax Credit Investment Group has tapped Finance Fund's NMTC program for several projects around Ohio, including the 2010 addition of a new specialized printing press at Freepoint Press, Harrison County's largest employer.

Finance Fund provided \$6 million in NMTC funding via a partnership with the Ohio Department of Development and PNC. The new equipment enabled Freepoint Press to retain 150 jobs and add 40 more over a seven-year period. Given the small size of both the town and the project, "We could never find that from our offices here in Pittsburgh," says PNC group senior vice president David Gibson. "It's a wonderful company doing great work for that part of Ohio."

PNC's involvement in Finance Fund projects "has paid wonderful dividends for us," says Gibson, who declined to divulge specific dollar figures. "They're obviously well-managed, they have great and creative community-development minds at the organization, and they're deeply committed to their community development mission and have been for a number of years." The nonprofit's effectiveness "made it easy for us to get comfortable getting into a partnership with them," Gibson says.

U.S. Rep. Pat Tiberi (R-Genoa Township) is a longtime supporter of the NMTC program. "Over the course of decades now, the federal government has used tax dollars to try to help poor communities, and there have been all sorts of ways of doing that," says Tiberi. The NMTC "is one of the most effective ones, because you're taking federal tax dollars and you're leveraging private equity dollars. ... You're pumping them into communities that wouldn't otherwise see private equity."

Finance Fund considers good investor relationships essential to doing business. "We believe one of the keys is to not just rely on federal, state or local dollars to make things happen, but to work with investors, too," says Jack Laverty, chairman of the nonprofit's board of directors.

Finance Fund directs the investments of banks and other financial institutions, foundations, government agencies, corporations and even individuals in a way that produces a "social return on investment," Klein says, as well as a modest financial return.

The nonprofit accepts a range of debt and equity, such as low-interest loans, subordinated debt, recoverable/operating grants, deposits and donations. In addition to the NMTC program, investment options include the Community Investment Fund, Bank

Enterprise Award, Program Related Investments, Private Placement Offering, Equity Equivalent Investments, Bank Acquisition Initiative, loan participations, preferred stock and sponsorships.

## **Success Stories**

As of February 2010, money from Finance Fund had leveraged more than \$905 million for housing, economic development and community facility projects, helping to create more than 11,800 full-time jobs, 15,400 units of affordable housing and more than 3,000 early care and education spaces for almost 69,500 children.

Finance Fund is "bringing resources to the table that will help our fellow citizens," says Laverty. The nonprofit has relationships with individuals and organizations throughout the state, including:

### ***Franklinton Development Association***

Finance Fund "has been a good partner of ours in a few ways," says Jim Sweeney, executive director of the Franklinton Development Association (FDA), which focuses on neighborhood revitalization and affordable housing. "We wouldn't have been able to accomplish much of what we've done thus far without their help," he says.

The FDA's work is particularly challenging because of the nature of the neighborhood: homes have low appraisal values, so housing rehabilitation and new construction projects carry a lot of risk. Moreover, many of the buildings are more than a century old.

Finance Fund's predevelopment grant program "allows us to evaluate a project without taking any financial risk ourselves," says Sweeney. Grants fund the cost of environmental analysis, lead and asbestos inspection and the like. "Old houses have a lot of issues that have to be evaluated before undertaking a project," Sweeney says. "Being cautious costs money, and that's where the grant comes in."

Some predevelopment money has also gone to evaluate a mixed-use building on West Broad Street that Sweeney says has "a very good possibility for revitalization." If the FDA moves forward, the project would have first-floor commercial space, with apartments above.

### ***Homes on the Hill***

Homes on the Hill has tapped into Finance Fund's predevelopment program to rehab and construct housing on Columbus's West and Southwest sides. Three or four \$20,000 grants have helped the nonprofit community development corporation construct or renovate roughly 20 residences.

The predevelopment money funded lead and structural inspections--"all the stuff on the front end that, for an organization like mine that doesn't have a lot of cash, is a real help," says executive director Steve Torsell.

More recently, a predevelopment grant funded a feasibility study to explore new uses for a former Meijer store on Georgesville Road. Homes on the Hill is also participating in Finance Fund's LandLOC Loan Program, which provides a line of credit to purchase and hold foreclosed and vacant properties. "First of all, there's probably not a conventional lender that would lend me that money; also the interest rate is favorable," says Torsell--2 percent to 3 percent, rather than the 8 percent to 10 percent that a bank would charge. "So they really do offer you a product that you can't find elsewhere," he says. "It saves a lot of money."

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### **Save-A-Lot**

Residents of Columbus's Near East Side used to have limited grocery choices. With no local store within walking distance, those without cars could either pay inflated food prices at convenience stores or take a taxi to supermarkets several miles away. No longer.

With Finance Fund's support, the nonprofit Columbus Compact Corp. developed Heritage Square, a \$4.1 million shopping center on 1.6 acres along East Main Street. The center is anchored by a 16,000-square-foot Save-A-Lot grocery store and discount clothier Simply Fashions, which opened in 2008.

Finance Fund's NMTC program provided Columbus Compact with \$1 million to buy the land and build the stores. Development of the project's first phase resulted in 46 full- and part-time jobs and access to affordable groceries for 25,000-plus nearby residents. Tiberi, who toured the site before and after the construction, says the project is "a perfect example" of the benefit NMTC can have on community revitalization.

### **ZenCha Tea Salon**

In late 2005, Finance Fund worked with I-Cheng Huang and Huntington National Bank so Huang could purchase the building that housed his ZenCha Tea Salon. The \$86,200 NMTC bank loan offered Huang an option that wouldn't otherwise have been possible, given the loan's size and risk.

"We were such a young and small business," says Huang. The nonprofit "pretty much took care of everything," he says. "They were one of the easiest organizations to work with, they had very good-caliber people." Further, he says, "They don't just look at you as an application, they look at your business and try to help you out."

ZenCha was set to open a second, conventionally funded location in Bexley in March. In late February, Huang closed on a second Finance Fund-enabled NMTC loan to open a third ZenCha in downtown Columbus. "Without their help, we probably wouldn't have been able to do this," he says.

### **Leadership**

Those who work with him say Klein has been instrumental in Finance Fund's successes. The South Dakota native put himself through college tuning pianos (he holds undergraduate degrees in social science and history, certifications in computer science and vocal music, and an MBA with an emphasis on technology management). He's held a variety of jobs since, including junior- and senior-high

music teacher, "parent" at a group home for court-referred youth, and convenience store manager.

Klein is well-respected among his peers, Tiberi says. "He's just a class-act guy, he knows a lot about the issues." Klein "is definitely a visionary," says former board member Johnson. "He does bring a very 'business' model--a very good business model--to the social components and financial challenges that are prevalent in underserved areas."

It was Klein's passion for his work--and a little chutzpah--that helped him land the top spot at Finance Fund in 1989.

Klein had been working at a community development corporation in northern Minnesota when he attended a national conference in Wisconsin on rural development. "I got there, and there was just this roomful of people in Gucci loafers and polo shirts talking academically about rural America," he says.

After pointing out the hypocrisy of the scene--and witnessing eye-rolling in response--Klein got creative. At the next day's formal event, held in the Frank Lloyd Wright-designed Wingspread residence, Klein topped off his tux with a pair of overalls.

Klein's memorable dress and opinionatedness served him well two years later: Two women who met him at Wingspread were serving on the Finance Fund search committee. "They said, 'You should talk to him--he's crazy,'" recalls Klein, who had already reached out to the nonprofit's leaders to learn more about the nascent organization. A phone conversation and a trip to Ohio later, Klein had the job.

Each Sept. 1, the anniversary of his first day on the job, Klein dons a tuxedo shirt, tie, shoes and bib overalls. The outlandish outfit, he says, is a testament to "faith and honor and pure chance," as well as reminder of a lesson instilled by his mother. "When I was young, my mother would stop me when I was about to leave the house and say, 'Remember who you are,'" he says. "This simple and straightforward admonition is one of the basic principles that was covertly installed in my consciousness."

"Bib Day," he says, symbolizes that. "Its observation reminds me of why we do what we do. We believe people are important. We believe people have a basic right of access to the basics of life. We believe we can help. All the capital and complexity are simply tools to pursue these goals and should not become the goal."

*Jennifer Wray is a staff writer for Columbus C.E.O.  
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