

Quarter Three 2020

CNote Quarterly Impact Report





Letter from CNote's COO

Nationwide, over 1,100 federally-certified CDFIs manage more than \$220 billion. CDFIs have always played a vital role in the economic health of communities across America, but 2020 has shown just how critical they are to communities' survival and recovery. CDFIs have a strong history of supporting economic growth by providing capital to underserved populations, empowering them to control their own destiny. With banks' limited reach and presence, and the dire need for capital, CDFIs "leaned in" to help fill that gap during the pandemic. CDFIs proved that they can be trusted by their communities to provide financial resources when there is nowhere else to go, breathing life into local economies and providing critical economic and technical assistance to navigate this crisis.

We maintain a regular dialogue with CDFIs across the country to monitor their economic health and determine what actions we can take to best support them, their mission, and their borrowers. Despite the economic fallout, as you can read in the investment update on the following pages, our portfolio of CDFIs maintain strong balance sheets and look well equipped to navigate the unknown, much like they have done for other economic and event-driven crises over the last decades.

This year we have continued to prioritize capital deployments to smaller and medium-sized CDFIs with strong histories of robust financial performance and tangible community impact. These CDFIs, which often fly under the radar, tend to have diverse leadership and are focused on the lowest-income and most vulnerable communities in the United States. We're proud to serve as a new capital source for these CDFIs.

None of this would be possible without our investors. Your investments allow CNote to deploy life-changing capital into small businesses and nonprofits across the country. Thank you for the opportunity to drive positive economic change, together.

If you have any questions for our team, or want to find out how to get involved in the work that CNote is doing, please email me at Yuliya@mycnote.com

All the best,

A handwritten signature in black ink, appearing to read 'Yuliya Tarasava', written over a white background.

Yuliya Tarasava
CNote COO

Snapshot impact this quarter

36%

Dollars in LMI communities

49%

Dollars to women-led businesses (WLB)

55%

Dollars to BIPOC-owned businesses

216

Jobs Created / Maintained

CNote Updates



CDFIs have continued to use their unique expertise to aid small businesses and communities across the country. At CNote, we are always looking for ways to fund their mission and amplify their impact. This quarter, Mastercard finalized a [partnership expansion](#) with CNote along with a commitment to deploy \$20M through our [Promise Account](#). This new partnership and capital will be used to increase access to capital in low-income communities and communities of color.

Everything that we do in CNote is guided by our north star of building a more inclusive economy. That's why we are thrilled to announce we have been chosen as the winner for the 2020 G7 – EU Women's Empowerment Principles ([WEPs](#)) [Award in the Best Women-Owned Business category](#). WEPs, established by UN Global Compact and UN Women, gave this award to signatory organizations who demonstrated an exceptional championship of gender equality within their organizations and networks. CNote's team is grateful for this recognition but we remain conscious of just how much work is left to be done to build a truly inclusive society.



CNote Portfolio Update

Despite the impact of the COVID-19 pandemic on the economy and small businesses, CDFI financial performance and underlying loan portfolio performance continue to show little to no decline. Across the CNote portfolio, CDFIs are not reflecting any uptick in delinquency rates or charge offs in their own lending portfolios.

Supporting our fundamental belief that CDFIs are good stewards of capital and make prudent lending decisions, CNote's portfolio CDFIs continue to command a sizeable amount of net assets (average NAR of 22.3%) with demonstrated capacity to meet both short-term (1.73 quick ratio) and current year (5.55 current ratio) cash obligations. We head into 2021, confident in the quality of our underwriting criteria and our ability to monitor our CDFI portfolio health.

CNote Navigating a Pandemic



Pictured, First responders wearing face shields manufactured by Kamanu Composites, a Hawaii-based small business that received a PPP loan from a CNote partner to pivot from building canoes to PPE during the pandemic.

When CNote performed some basic stress testing on underlying individual CDFI portfolio quality in July 2020, we determined that CDFIs could see, in some cases, as much as a 50% loss on its own portfolio before repayment to lenders like CNote became jeopardized. Between net assets, loan loss reserves, as well as off balance sheet guarantees, CDFIs have positioned themselves to weather a significant amount of borrower difficulty, something that may be short-lived with likely a 2nd round of federal relief funding in the next few months as well as the recent vaccine progress.

Our CDFI partners have been working overtime since the crisis started to provide critical Paycheck Protection Program (PPP) loans, deferments, and business coaching to help borrowers weather this storm. The majority of our CDFI partners have weathered financial recessions as well as natural disasters over the last few decades and are no stranger to how to operate dynamic environments of severe economic stress. We have great confidence that our partners will not only weather this storm but that they'll help the communities they support come out stronger on the other side



Meet Dr. Ira Mandel, The Retired Physician Opening Up Recovery Residences Along Maine's Midcoast

When Dr. Ira Mandel first moved to Maine in 2006, he did so to take over the Pen Bay Medical Center's hospice program. During the first week on the job, a colleague asked if he was aware of the mounting drug addiction epidemic in Mid-Coast, Maine. In a county of 40,000 residents, at least 2,000 individuals (over 5%) struggle with an opiate addiction.



Ira knew he had to do something.

In 2016, he left the medical center and retired from his private practice to start the Mid-Coast Recovery Coalition (MCRC), a nonprofit that supports individuals and families struggling with drug and alcohol addiction.



After two-years, due to a generous donation, the nonprofit was able to purchase a recovery house in Rockland. Ira knew that it had the potential to be the foundation for people struggling with addiction to get the employment, support, and sense of purpose they needed to stay sober.

Although the house was a fantastic start, it needed a lot of work. Even as the nonprofit stabilized financially, Ira still didn't have the funds necessary to begin a renovation. That's when he connected with the Genesis Fund, a CNote CDFI partner. Since 1992, the Genesis Fund has been working to develop and support affordable housing and community facilities across Maine, mainly by providing both financing and technical assistance to increase the supply of affordable housing.

The Genesis Fund provided Ira with a \$100,000 loan so that Ira could complete the house's renovations. The house was fully renovated in 2020, a 14-year journey for Ira that, according to him, is just beginning. MCRC was also able to purchase another home in Camden, Maine, to serve as a recovery house for women, and to date, MCRC has helped 20 individuals in its recovery homes. In the future, Ira wants to continue expanding operations while also shoring up the nonprofit's foundation.

"Not everyone needs recovery residences, but hundreds do," he said. "We're hardly scratching the surface, but we're making a difference for the people we're helping now. We know we need to expand our operations, but we need to get a firmer foundation first, because we're going to be an organization that's going to be around for a very long time."



Thank you for reading.

If you have any questions or would like to inquire about partnering with CNote, please email info@mycnote.com

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This update includes certain "forward-looking information" including projected financial performance of our CDFI partners. Additionally, impact data provided herein is based on unaudited data and reporting provided by our CDFI partners. These statements are not guarantees of future performance, and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties. Although such forward-looking statements are based upon what we believe are reasonable assumptions, actual results may differ materially. We undertake no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws.