


Introduction to CDFIs


NATIONAL
COMMUNITY CAPITAL
ASSOCIATION

Introduction to CDFIs: Bridges Between Capital and Communities

Rehabilitation Engineering and Assistive
Technology Association of North America

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Agenda

- ✓What is a CDFI?
- ✓Why do we need CDFIs?
- ✓What are the different types of CDFIs?
- ✓What products and services to CDFIs offer?
- ✓Who are CDFIs' customers?
- ✓What is the federal CDFI Fund?

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What is a CDFI?

- ✓Community
- ✓Development
- ✓Financial
- ✓Institution

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Introduction to CDFIs

"C" and "D"

Community Development

- ✓ **Mission** must be Community Development
 - Serving distressed and economically disadvantaged people and communities
- ✓ **Combines development services with financing**
- ✓ **Types of financing include:** Housing, Business, Community Facilities, and Individuals

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"F" -- Financial

- ✓ Primary activity of a CDFI is lending, investing, or providing other financial services.
- ✓ CDFIs develop financial products to meet the needs of their markets
- ✓ Make loans that are riskier, often to unconventional borrowers
- ✓ CDFIs also provide Technical Assistance

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"I" -- Institution

- ✓ CDFIs strive to become a permanent capital resource in their communities
- ✓ CDFIs are private-sector institutions
- ✓ Capital access is part of a long term solution to poverty alleviation
- ✓ This means CDFIs expect to be repaid!
 - Can't avoid risk, but learn to manage risk

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Introduction to CDFIs

Why Do We Need CDFIs?

- ✓ Changes in the Financial Services Industry caused disinvestment:
 - Mergers
 - Automation
 - Growth of "parallel banking system"



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Differences from Traditional Financial Institutions



- ✓ CDFIs take more risk
 - May be more lenient on collateral
 - Different way of evaluating credit problems than a bank because of mission and the type of capital they utilize
- ✓ CDFIs are more likely to provide personal attention to borrower and in analyzing the loan
 - CDFIs create new borrowers and new markets
 - TA to strengthen their applications and capacity

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Differences from Traditional CD or Non-Profit Organizations

- ✓ Disciplined lenders
 - Manage capital of mostly private investors
 - Expect to be repaid
 - Learn to manage risk
- ✓ Market-Driven
 - Respond to market demand as well as market need

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Introduction to CDFIs

CDFIs as Niche Players

- ✓ Work at the intersection of community development and finance
- ✓ Strong market knowledge
- ✓ Long-term relationships with customers
- ✓ More patient than conventional financial institutions
- ✓ Technical assistance a critical component of relationship

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What is the Scope of the CDFI Industry?

- ✓ There are approximately 800-1000 CDFIs in the US under the non-technical definition.
- ✓ Approximate breakdown:
 - 100 Community Development Banks
 - 250 Community Development Credit Unions
 - 50 Community Development Venture Capital Funds
 - 400-600 Community Development Loan Funds

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CDFI Institution Types

▸ Depositories/Regulated

1. Community Development Banks
2. Community Development Credit Unions

▸ Non-Depositories/Unregulated

3. Community Development Loan Funds
4. Community Development Venture Capital Funds

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Community Development Credit Unions

- ✓ Regulated and insured by National Credit Union Administration (NCUA)
- ✓ Non-profit cooperatives owned by their members
- ✓ Promote ownership of assets and savings to low-income individuals with special outreach to low-income communities
- ✓ Provide affordable credit and retail financial services to low-income people, with special outreach to minorities.

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Community Development Banks

- ✓ Regulated and insured by FDIC, OCC, Federal Reserve and state banking agencies
- ✓ For-profit, with community representation on Board
- ✓ Provide capital to rebuild economically distressed communities through targeted lending to non-profits, entrepreneurs, housing developers, etc.
- ✓ Provide depository services, such as checking and savings accounts.

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Community Development Loan Funds

- 4 primary types:
- ✓ Microenterprise Fund
 - Very small businesses & substantial TA
 - ✓ Business Loan Funds
 - Small and mid-sized businesses
 - ✓ Community Services Loan Funds
 - Social Service agencies, charter schools, childcare centers, etc.
 - ✓ Housing Loans Fund
 - Affordable housing developers
- ✓ Unregulated; primarily non-profits
 - ✓ Primary products are loans and Technical Assistance

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Community Development Venture Capital Funds

- ✓ Typically not regulated; can be for-profit or nonprofit
- ✓ Provide equity and debt with equity features for medium-sized businesses in distressed communities
- ✓ Most recent type of CDFI to develop
- ✓ Venture capital funds are interested in businesses with high growth potential as well as a social mission (i.e. job creation potential).

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Types of CDFIs

	All	Bank	Credit Union	Loan Fund	Venture Capital
Number of CDFIs in Sample	442	17	239	165	21
For Profit	31	17	0	2	12
Nonprofit	166	0	0	159	7
Cooperative	241	0	239	2	0
Government	2	0	0	0	2
Quasi-Government	2	0	0	2	0
Average year began financing	1978	1964	1971	1990	1995
Total Capital	\$9,221,790,765	\$3,214,230,247	\$3,062,881,807	\$2,682,281,742	\$262,396,969
n=	436	17	239	159	21

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What do CDFIs do?

- 1) Financing (loans, equity, guarantees, and other)
- 2) Retail financial services
- 3) Technical assistance & training
- 4) Advocacy

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Who are CDFI Customers?

✓ Who?

- Affordable Housing Developers
- Business Owners
- Community Facilities
- Individuals

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Affordable Housing Developers

- ✓ For-profit and nonprofit developers
- ✓ Pre-construction
 - i.e. acquisition, pre-development
- ✓ Construction & renovation
- ✓ Single & Multi-family housing
- ✓ Rental and ownership, transitional housing
- ✓ Coops, land-trusts, & other innovative approaches to affordability

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Business

- ✓ Micro, small and medium-sized business
- ✓ Start-ups and existing
- ✓ Non-profit and for-profit businesses
- ✓ Working capital, equipment, acquisition

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Community Facilities

- ✓ Childcare Centers
- ✓ Charter Schools
- ✓ Community Health Facilities
- ✓ Social Service Agencies
- ✓ Cultural Organizations
- ✓ For-profit and nonprofit borrowers

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Individuals (Consumers)

- ✓ Housing: loans for mortgages or home repair
- ✓ Personal loans: health, education, emergency, debt consolidation
- ✓ Transportation (car)

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Financing Products Offered

- ✓ Loans
 - CDFI expects repayment within a specified time on certain terms and conditions
- ✓ Equity Investments
 - CDFI receives an ownership interest in the business
- ✓ Debt with equity features
 - Includes convertible debt, debt with warrants, participation agreements, royalties or other features that link the investment's return with the performance of the business
- ✓ Guarantees
 - Guarantees or letters of credit are provided to enhance the creditworthiness of a borrower receiving a loan from a third party

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Technical Assistance

- ✓ What TA a CDFI offers depends on the needs of the CDFI's target market.
- ✓ CDFI borrowers generally require TA. Conventional financial institutions do not provide this service.
- ✓ CDFIs provide TA both before and after making a loan.
- ✓ Some CDFIs contract out TA work.

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Technical Assistance

- ✓ Housing & Facilities
 - Developing project budgets and plans
 - Identifying and packaging other funding / loan sources
- ✓ Micro & Small Business
 - Business plan training
 - Marketing, bookkeeping
- ✓ Individual
 - Home ownership counseling
 - Credit counseling

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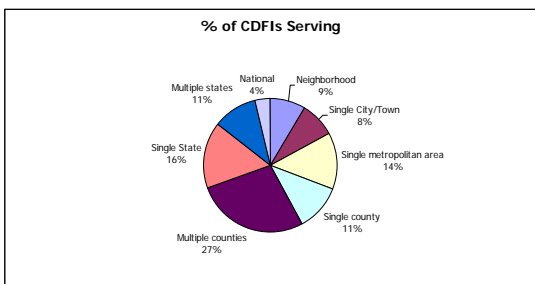
Retail Financial Services

- ✓ Savings & checking accounts
- ✓ Check cashing
- ✓ Money Orders
- ✓ ATM
- ✓ Wire Transfer
- ✓ Individual Development Accounts (IDAs)

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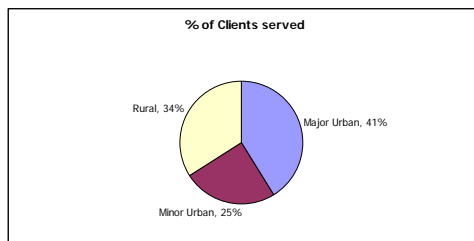
Geographic Markets



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Where CDFIs Work



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Breakdown of Customers

- ✓ 72% Low-income
- ✓ 61% Minority
- ✓ 54% Female

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Introduction to CDFIs

CDFI Fund

- ✓ Program of the federal government
- ✓ Housed within The Treasury Department
- ✓ Created in 1994
- ✓ Mission:
 - To expand the capacity of financial institutions to provide capital, credit, and financial services to underserved markets

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“Certified” CDFI

- ✓ CDFI Certification is determined by the CDFI Fund
- ✓ Can be a CDFI without CDFI Certification
- ✓ Application process is extensive
- ✓ Certification increases opportunities for access to capital from the CDFI Fund, banks and others.
 - 643 Certified CDFIs as of November 25, 2003

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The CDFI Fund Criteria Require:

6 criteria for certification:

- ✓ Primary mission
- ✓ Financing entity
- ✓ Target market
- ✓ Development services
- ✓ Accountability
- ✓ Non-government entity

www.cdfifund.gov

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CDFI Fund Programs

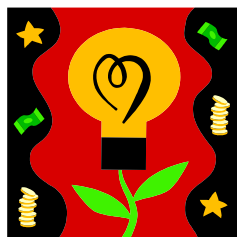
CDFI Fund has three core programs

- ✓ **CDFI Programs:**
 - Financial Assistance: provides equity, debt and grants to CDFIs
 - Technical assistance: provides funding for capacity-building
 - Native American Initiatives: provides capital and TA for the development of CDFIs serving Native American communities
- ✓ **Bank Enterprise Award Program:** provides cash incentives to banks for banks investing in CDFIs and other community development activities
- ✓ **New Markets Tax Credit:** Creates a tax incentive for equity investment in Community Development Entities (CDEs)

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Questions?



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