So, What is a CDFI?

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Opportunity Finance Network (OFN)
# Community Development Financial Institutions

## Mission-driven financial service providers
- Benefit low-income & low-wealth people and places
- Provide capital + development services

## U.S. Treasury certifies CDFIs and provides capital
- >1,000 certified CDFIs
- >$180 billion in assets

## Institution types
- **Non-regulated**
  - Loan funds
  - Venture funds
- **Regulated**
  - Banks
  - Credit unions

## Financing sectors
- Consumer (mortgages, credit builder, payday alternative)
- Microenterprise and Small Business
- Real Estate (affordable housing, community facilities, commercial)
What is a Community Development Financial Institution (CDFI)?

- Private, mission-driven financial institution benefitting low-income, low-wealth, and other disadvantaged people & communities
- Serves customers that cannot meet conventional collateral or underwriting requirements
- Provides innovative financing products and/or services as well as technical assistance
- Creates economic opportunity in the form of:
  - Jobs
  - Affordable housing units
  - Community services
  - Financial services for the under-banked and unbanked
About CDFIs

- CDFIs lend to:
  - Community Businesses—including small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing
  - Individuals

- CDFIs deliver responsible, affordable financial products and services that benefit individuals and communities

- CDFIs are profitable but not profit-maximizing. They put community first, not the shareholder
How CDFIs Work

- Access to capital is part of the long-term solution to alleviate poverty and build healthy communities

- CDFIs strive to become a permanent capital resource in their communities
  - Not a “program” that comes and goes at the whims of funders, government, and others

- This means CDFIs expect to be repaid!

- CDFIs cannot avoid risk, but must learn to manage it
How CDFIs Finance Opportunity

Investors

- Regulatory Motivated
- Mission Motivated
- Policy Motivated

Community Development Financial Institutions (CDFIs)

Borrowers and Customers

Small businesses, microenterprises, community service providers, housing developers, commercial real estate developers, and individuals
Types of Financing

- Small Business and Micro-enterprise
- Commercial Real Estate
- Affordable Housing
- Nonprofit Organizations
- Education: Charter School Financing
- Healthcare: Community Health Centers
- Health Food Financing: Food Deserts
- Residential Mortgages & Home Repairs
- Consumer Finance: Alternative to Pay-Day Loans
- Venture Capital
Technical Assistance & Training

- Depends on needs of target market
- CDFI borrowers generally need some form of TA
- TA both before and after making a loan
- Examples:
  - **Housing & Facilities** – developing project budgets and plan; identifying and packaging other funding
  - **Micro & Business** – business plan; marketing; bookkeeping
  - **Individual** – financial literacy; credit counseling; homebuyer education
Niche Players

- Strong market knowledge
- Market driven
  - New products and models
- Long-term relationships with customers
- More patient than conventional financial institutions
- Technical assistance is a critical component of the relationship
Regulated Bank and Credit Union Industry Size

5,436 Credit Unions
- 2,544 Low Income Credit Unions
- 289 CDFI Credit Unions

5,406 FDIC Insured Banks
- 152 Minority Depository Institutions (MDIs)
- 131 CDFI Banks
- 39 MDI CDFIs

Sources: CDFI Fund list of certified CDFIs February 25, 2019; FDIC, NCUA, 2018.
CDFI Asset Growth

Total Assets of Certified CDFIs (Billions)

## CDFI Institution Types

<table>
<thead>
<tr>
<th>Community Development Institution</th>
<th>CD Banks</th>
<th>CD Credit Unions</th>
<th>CD Loan Funds</th>
<th>CD Venture Capital Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Structure</strong></td>
<td>For-profit</td>
<td>Non-profit, Cooperative</td>
<td>Primarily nonprofit; some for-profit</td>
<td>Typically for-profit</td>
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<tr>
<td><strong>Regulation</strong></td>
<td>FDIC, Federal Reserve, OCC, OTS, and state banking agencies</td>
<td>National Credit Union Administration</td>
<td>Unregulated</td>
<td>Unregulated</td>
</tr>
<tr>
<td><strong>Capitalization Structure</strong></td>
<td>Insured deposits and equity</td>
<td>Insured deposits, secondary capital, and equity</td>
<td>Unsecured and secured debt, EQ2, and equity (grants)</td>
<td>Equity (and potentially debt)</td>
</tr>
<tr>
<td><strong>Sectors Served</strong></td>
<td>Loans and depository services for housing, business, commercial real estate, and consumer</td>
<td>Promote ownership of assets and savings for individuals; affordable credit and retail financial services</td>
<td>Loans for housing, microenterprise, small business, community facilities, and commercial real estate</td>
<td>Equity and debt with equity features to mid-sized businesses with high growth potential and social impact</td>
</tr>
</tbody>
</table>
Key Moments for the CDFI Industry

1964
Johnson's War on Poverty Civil Rights Act

1977
Community Reinvestment Act

1994
Creation of CDFI Fund

2008
Financial Recession and Mortgage Crisis
The Community Reinvestment Act

- An act of Congress enacted in 1977 with the intention of encouraging depository institutions to help meet the credit needs of surrounding communities (particularly LMI neighborhoods)

- CRA requires federal regulators to assess the record of each bank or thrift in helping to fulfill its obligations to the community

- This record is used in evaluating applications for future approval of bank mergers, charters, acquisitions, branch openings and deposit facilities

- 1995: New CRA regulations
  - Key motivator of bank investment in CDFIs

- 2018-19: CRA Reform in process
40 Years of CDFI Practice

Social, Economic, and Political Justice
*Late 70s and Early 80s*

- A response to racial and economic inequities
- Formation of community development loan funds
- Change structures for how capital flows
- Tension between making mainstream work better and developing alternative forms of capital
- CDFIs as civic institutions
40 Years of CDFI Practice

Transformational Change

2005 – Current

- CARS/Aeris™

- Advocacy & Policy
  - CDFIs eligible for Federal Home Loan Bank membership
  - CDFI Bond Guarantee Program

- Brand evolution for mass market
  - Opportunity Finance
Measuring Success

- Financial and Social Returns

- Financial
  - Preserving investor capital
  - Returns

- CDFI financing has produced more than:
  - 321,000 businesses
  - 2,000,000 housing units
  - 11,000 community facility projects
  - 1,300,000 new or continuing jobs

Source: OFN’s annual member data FY 2017
Number of Certified CDFIs

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Count</td>
<td>793</td>
<td>829</td>
<td>962</td>
<td>999</td>
<td>808</td>
<td>950</td>
<td>991</td>
<td>1,131</td>
<td>1,074</td>
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</table>

Source: CDFI Fund Lists of Certified CDFIs 2008-2018
## CDFI Industry Characteristics

Selected Figures for all Certified CDFIs: FY 2018

<table>
<thead>
<tr>
<th>Category</th>
<th>Figure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets ($)</td>
<td>185,865,835,000</td>
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<tr>
<td>Number of Certified CDFIs</td>
<td>991</td>
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<tr>
<td>Net Asset Ratio</td>
<td>9.5%</td>
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<tr>
<td>Total Outstanding Loans ($)</td>
<td>162,400,731,000</td>
</tr>
<tr>
<td>% Loans Outstanding in Housing</td>
<td>34%</td>
</tr>
<tr>
<td>% Loans Outstanding in Consumer</td>
<td>29%</td>
</tr>
<tr>
<td>% Loans Outstanding in CRE/ Facilities</td>
<td>19%</td>
</tr>
<tr>
<td>% Loans Outstanding in Business/ Micro</td>
<td>14%</td>
</tr>
<tr>
<td>Net Charge Off Rate</td>
<td>1.03%</td>
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*Source: CDFI Fund, 2019; OFN, 2019.*
Industry Trade Associations and Membership Organizations

Play an important role in industry building

- Financing
- Capacity building and consulting
- Advocacy
- Data & research
- Strategic leadership
- Industry initiatives
## Industry Trade Associations and Membership Organizations

<table>
<thead>
<tr>
<th>Organization</th>
<th>Focus</th>
<th>Website</th>
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<tr>
<td>Association for Enterprise Opportunity (AEO)</td>
<td>Microbusiness</td>
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<tr>
<td>Community Development Bankers Association (CDBA)</td>
<td>CD Banks</td>
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<td>CDFI Coalition</td>
<td>Advocacy - CDFIs</td>
<td>cdfi.org</td>
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<td>Community Development Venture Capital Alliance (CDVCA)</td>
<td>CD Venture Capital Funds</td>
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<td>Inclusiv (formerly National Federation of Community Development Credit Unions)</td>
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<td>Native CDFI Network (NCN)</td>
<td>Advocacy - Native CDFIs</td>
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<tr>
<td>Opportunity Finance Network (OFN)</td>
<td>CDFIs</td>
<td>ofn.org</td>
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</table>
About Opportunity Finance Network

Our national CDFI network helps money flow across all 50 states to people and places where traditional finance doesn’t reach.

**Expand Access to Capital**
- Manages more than $660 million in financing capital
- On-balance sheet financing fund, CDFI Bond Guarantee, Off-
  balance sheet funds, NMTC

**Build Strength**
- Signature convenings – Annual Conference, Small Business
  Finance Forum, Regional Meetings
- Trainings, capacity building, research

**Amplify Voice**
- Advocates for opportunity finance industry
- Drives message that CDFI investments transform communities
About Opportunity Finance Network

Leading network of Community Development Financial Institutions (CDFIs)
- More than 270 member CDFIs
Map of Native CDFIs

Legend:
- Locations of Certified Native CDFIs
- States with Federally Recognized Tribes / Hawaiian Trust Lands and Certified Native CDFIs
- States with Federally Recognized Tribes / Hawaiian Trust Lands
- States without Federally Recognized Tribes / Hawaiian Trust Lands

Graphic by Native CDFI Network

We Believe in Opportunity. For All. OFN.ORG
Impact (All OFN Members, through FY 2017)

- $65 Billion Cumulative Financing
- 2MM Housing Units Developed or Rehabilitated
- 322,000 Business/micro enterprises financed
- 1.35MM Jobs created or retained
- 11,100 Community Service Organizations Financed
Where CDFIs Work
Rural Vs Urban

- Major Urban (MSA>1MM), 48%
- Minor Urban (MSA<1MM), 25%
- Rural (Not in MSA), 27%
Key Findings of OFN Research on Historical Trends: 1994-2017

Over 24 years OFN Member CDFIs had:

- 17% average annual growth in loans outstanding
- Increased lending during the Great Recession when bank lending contracted 16%
- Losses on par with FDIC-insured institutions
- Net Operating Margins above or close to FDIC-insured institutions
CDFI Industry Characteristics (OFN Members)

Pie Chart - Loans by Sector (most recent FY)
- Small Business
- Housing to Organizations
- Housing to Individuals
- Community Services
- Microenterprise
- Commercial Real Estate
- Other

Pie Chart - Sources of Funds (most recent FY)
- Federal 19%
- Banks 46%
- Of NDFI 9%
- Individuals 4%
- Religious 3%
- Foundations 9%
- Other 16%

Net Charge Off Rate
- OFN Members Overall
- FDIC Inst. Overall

Average Loans Outstanding
- $0
- $10,000,000
- $20,000,000
- $30,000,000
- $40,000,000
- $50,000,000
- $60,000,000
### Average Loan Portfolio by Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Small Business</th>
<th>Housing to Organizations</th>
<th>Housing to Individuals</th>
<th>Community Services</th>
<th>Microenterprise</th>
<th>Commercial Real Estate</th>
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<td>2017</td>
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We Believe in Opportunity. For All. OFN.ORG
CDFI Customers

Higher percentages than conventional financial institutions to clients that are:

- Women: 45%
- Low-income, Low-wealth or Historically Disinvested: 82%
- People of Color: 55%
Example CDFI (Rural)

National Capital Investment Fund
*Shepherdstown, WV*

**Mission:** Business and agricultural loan fund for entrepreneurs in Appalachia and the Southeast

**Assets Under Management:** $42MM

**Primary Investor Mix:** Funds (39%), Foundations 23%, Banks 20%, Government 12%

**OFN Financing:** $1MM senior unsecured term loan (5 Years; 4%)
Example CDFI (Native)

Citizen Potawatomi CDC
Shawnee, OK

**Mission:** Finance economic opportunities for Citizen Potawatomi Nation Tribal Community and other underserved Native populations

**Assets Under Management:** $36MM

**Primary Investor Mix:** Government (USDA) and UST Bond Guarantee Program.

**OFN Financing:** $16MM term financing through US Treasury Bond Guarantee Program (29.5 Years); $1MM term loan from OFN and $100M Next Award grant
Example CDFI (National)

Disability Opportunity Fund
Long Island, NY

**Mission:** Real estate financing to support projects for people with disabilities

**Assets Under Management:** $33MM

**Primary Investor Mix:** banks over 50%, foundations approximately 25%

**OFN Financing:** $2MM co-investment with HSBC Bank through Good to Grow Fund, LLC
Thank You!

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