



# Community Development Financial Institutions (CDFIs)

---

- Private financial institutions focused on serving low-income communities
- Combine financial & development services
- Raise capital with interest bearing loans or deposits
- Two primary models:
  - Community Development Loan Funds
  - Community Development Credit Unions
- Emergence of large multifaceted CDFIs
- Certified/funded by US Treasury CDFI Fund



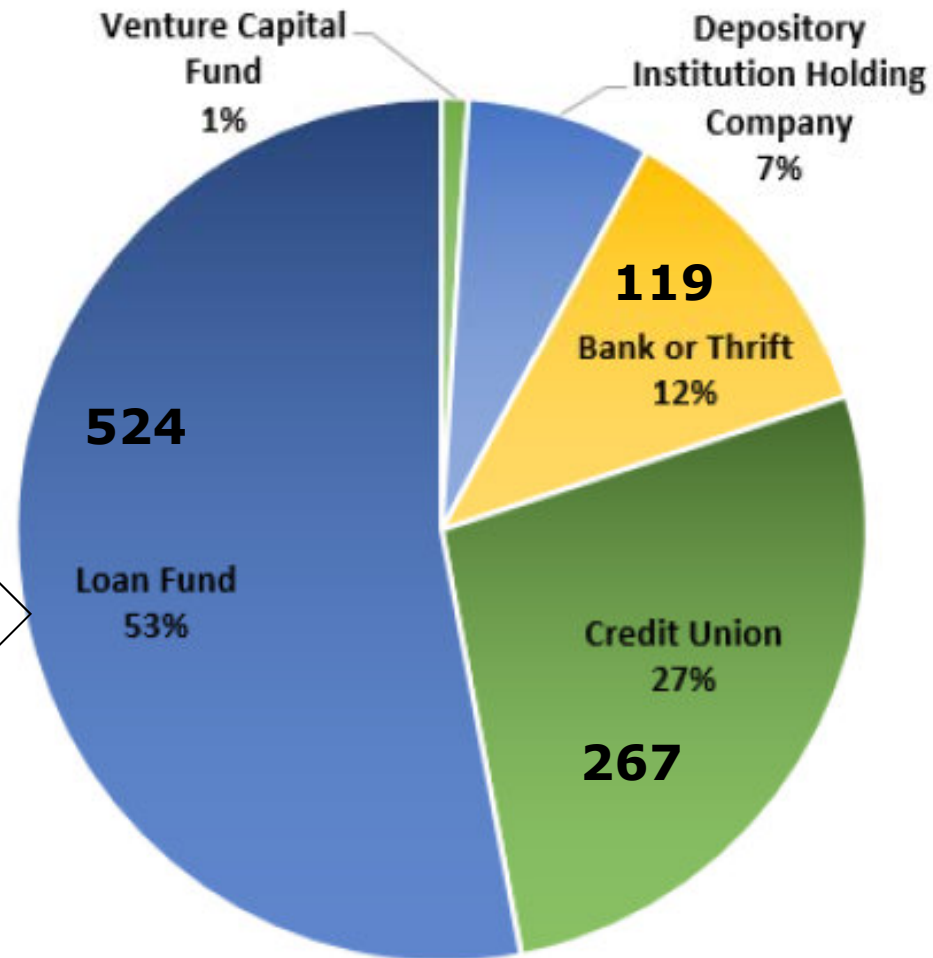
# Financing + : CDFI Non-financing Roles

---

- Policy research, analysis, and advocacy
- Data tools and market analysis
- Real estate development
- Business TA assistance and training
- Household financial counseling and training
- Business sector/cluster development
- Planning
- Convening

# Certified CDFIs by Type Jan 2016

- \$14.2 billion total assets
- Average fund: \$27 million
- Median fund: \$7 million



Via the [U.S. Department of the Treasury](#). This image is in the public domain.



# Community Development Loan Funds (CDLFs)

---

- New model that used capital from "social investors" to raise funds for community development lending
- CDLFs: 53% of certified CDFIs
- Most are non-profit organizations organized and controlled at the local or regional level
- Large and more diverse capital allows CDLFs to grow larger than RLFs: \$7 million median assets
- Risk profile is between that of banks and RLFs
- Spread between cost of funds and loan rates covers operating costs=>requires more assets to fund operating costs than grant-based RLFs



## CDLF Data for 2012

---

- 279 CDLFs with \$7.9 billion in assets
  - Average fund \$28 million; median \$8 mm
  - 66% of capital from debt
  - Largest capital sources: banks (35%); government (17%); foundations (10%)
- \$6.9 billion in outstanding loans
  - Average portfolio: 339 loans with average loan size of \$80,511
  - 1% loan charge offs; 2.7% > 90 days
- Loan purpose 2010 data:
  - 42% housing; 23% small business; 19% commercial/community facilities



# Financing Roles Suited to CDLFs

---

- Loan products must fit reliance on debt
  - Interest rates, amortization and losses must meet cash flow obligations to investors
- Short to medium term debt with moderate risk
  - Predevelopment financing for real estate projects
  - Construction and bridge financing for housing, commercial real estate, and non-profit facilities
  - Small business working capital & equipment loans
  - WC & equipment financing for non-profits
- Permanent real estate debt when long-term sources of capital exist
- Larger CDLFs taking on expanded roles
  - NMTC intermediaries
  - Real estate development
  - Venture capital



# CDLF Challenges & Best Practices

---

- Defining target markets and products to match community needs, repay debt and reach scale
  - **Trend toward larger markets (geography & customer) and more diverse financial roles**
- Manage lending process to reduce loan losses
  - Sound underwriting standards/due diligence process
  - Expand technical assistance and partnerships
  - Fund expanded loss reserve
- Cultivate a stable and large investor base
  - Financial institutions, foundation PRIs, CDFI Fund
  - Cultivate individual and social investors:
    - Boston Community Capital has over 300 sources
    - CEI Investment Notes targeted to high net worth investors
- Financial management of assets and liabilities
  - Balance loan terms with debt obligations



# Community Development Credit Unions

---

- Supplies banking services and loans to members with a common affiliation (“field of membership”)
- A financial cooperative: member controlled with one member-one vote governance
- Insured depository institution (via NCUA) that serve low income individuals and communities
- 2,017 NCUA-designated credit unions with low-income memberships: 23.6 million members & total assets of \$218 billion (2014);
- 267 (27%) of certified CDFIs in 2016 are CUs
  - CDFI CU Total assets of \$56 billion; \$53 million median
- Credit unions adapted to serve low-income communities during the civil rights movement and war on poverty





# CDCU Characteristics

---

- Mission-driven vs. membership driven
  - Membership-driven based on NCUA Definition: 50%+ of members have income below greater of 80% of US or metro area median income
  - Mission-driven: proactive products and services to improve LI well being: CDFIs; NFCDCU members
- Banking, credit and development services
- CDCU: median asset size: \$53 million; 67% of assets in loans. Return on Assets: .65%
- Focus on development loans and services :
  - 59% provide credit builder loans; 38% supply micro-business and micro-consumer loans
  - >70% provide financial education and counseling



## Development Roles of CDCUs: Banking Services to the Poor

---

- Alternative to predatory and high-cost financial service firms
- Tailor services to unique needs of non-banked consumers
  - Convenient bundling of services
  - Wire transfers and affordable pay day loans
  - Partnerships to expand services and attract more members
- Financial literacy and asset development
  - Financial education and counseling
  - Credit building products and loans for low-income needs
  - Individual development accounts to promote savings



# Development Roles of CDCUs: Small Business Lending

---

- CDCUs are more active small business lenders than conventional CUs
- Potential CDCU business credit roles:
  - Personal loans for business purposes
  - Small business loans to independent businesses with more emphasis on character lending
  - Specialized/niche business markets
    - Alternative business types
    - Minority or immigrant-owned enterprises
- Affiliate entity to supply high-risk debt, conduct training & technical assistance, develop new products & services



# CDCU Challenges and Best Practice

---

- Building a large membership to start and sustain the credit union
  - Define a field of membership with capacity for several thousand members and several million dollars in deposits
  - Sponsorship and partnerships to recruit members
- Creating a service model tailored to banking, credit and development needs of target market
  - Market research to understand customer needs and obstacles
  - Partnerships & affiliates to reach and understand market, supply more diverse services, and help fund development service costs
  - Credit union service organizations to share costs
- Involve members in policy, services and operations to advance the mission and reduce costs
- Capital to facilitate growth and support specialized lending roles
  - Secondary capital, grants, non-member deposits



# CDFIs as a System: LA Case

---

- Thinking beyond individual CDFIs to system
  - How do networks of CDFIs in a city/region function?
  - Relationship to broader economic and community development system
- What are the systems components?
  - Number, size, type, focus of CDFIs
  - Other key parts of ecosystem?
- System strengths, weakness, gaps?
  - Housing vs. small business
- OFN proposals to improve systems?



# CDFIs in Detroit

---

- Historically weak CDFI capacity
  - Limited activity by national CDFIs
  - Small local CDFIs with limited capacity
  - Lack of capable city government partner
- Significant shifts in past 5 years
  - Entrance of national CDFIs: Capital Impact Partners (\$24 mm in 2014), IFF, others
  - Invest Detroit: certified as CDFI, NMTC allocatee, taking on new roles
  - Detroit Development Fund growth
- Increasing bank investment in CDFIs
- CDFIs meet regularly to discuss deals



# Invest Detroit 2015

---

- 20 year old “civic” finance entity
  - Historically focused on downtown
  - CDFI certification in 2011
  - Recent growth and broader financing roles
- Now: 9 funds finance housing, mixed-use and commercial real estate, small business, high growth ventures
  - Over \$100 million in assets
  - \$34.6 million in 2015 loans, grant and investments
  - Focus on City of Detroit; region for VC

Source: [Invest Detroit Managed Funds](#)



# Cleveland CDFI Case

---

- How would you describe Cleveland's CDFIs?
  - Types, scale, markets served, services
- How does Cleveland compare to LA?
  - Each city's strengths and weaknesses when considered collectively?
  - What LA proposals seem relevant to Cleveland?
- How do CDFIs' capacities align with the city and foundation's ED priorities?
- What are critical system wide gaps and needs to address?



MIT OpenCourseWare  
<https://ocw.mit.edu>

11.437 Financing Economic Development  
Fall 2016

For information about citing these materials or our Terms of Use, visit: <https://ocw.mit.edu/terms>.