

CDFIS: INVESTING IN COMMUNITIES AND BUILDING STRONG FOUNDATIONS FOR THE FUTURE

Community Development Financial Institutions, or CDFIs, are mission-driven financial institutions that deliver affordable credit, development services, capital, and financial services to residents and businesses in minority and economically distressed communities.

CDFIs emerged to provide financial services in urban neighborhoods and rural areas underserved by traditional financial institutions, particularly those with high rates of poverty and unemployment. By leveraging over \$12 in private capital to every \$1 in federal support, CDFIs are filling the yawning credit gap encountered in many communities, creating jobs improving housing and community facilities and creating economic opportunity.

Throughout the last economic downturn, CDFIs served as economic shock absorbers, providing flexible and patient capital, rigorous risk management, and commitment to the projects in their communities and the sustainability of their borrowers. While traditional borrowers fled economically distressed communities, CDFIs stepped in and filled the void. Since the advent of the economic crisis prompted by the pandemic, CDFIs have been on the frontlines of providing technical and financial assistance to small and minority-owned businesses.

CDFIs fill a vital niche in the nation's financial services delivery system by serving communities and market sectors that conventional lenders cannot - with the ultimate goal of bringing CDFI customers into the mainstream economy as bank customers, home owners and/or entrepreneurs.

The Community Development Financial Institutions Fund (CDFI Fund) was established within the U.S. Department of Treasury in 1994¹ to promote community development in economically distressed urban and rural communities by investing in and growing CDFIs across the country. There are 1,170 Treasury certified CDFIs², and since 1994, the CDFI Fund has award \$3.6 billion in grand funding to CDFIs.

In addition to overseeing CDFI certification, the CDFI Fund administers a range of innovative programs designed to strengthen the ability of CDFIs to provide financial products and services in underserved communities. The CDFI Fund administers the following core programs and each program awards funds annually through an independent and competitive application process:

→ **Financial Assistance (FA)** – The CDFI Fund makes FA awards to both large and small certified CDFIs, including those financing businesses that provide healthy food options. FA awards can be used for lending capital, loan loss or capital reserves, operations or development services. A CDFI is required to match its FA award dollar-for-dollar with non-federal funds.

→ **Technical Assistance (TA) Awards** - The CDFI Fund makes TA awards of up to \$150,000 to certified CDFIs as well as emerging CDFIs, to support efforts to expand the organization's success and sustainability. There is no match requirement for TA awards and funds can be used to support a variety of capacity building activities including hiring consultants or contract services, training staff or board members.

→ **The Native American CDFI Assistance (NACA) Program** – The NACA Program was launched in 2001 to encourage investing in Native Communities by supporting the creation and expansion of Native CDFIs, which in turn help to create jobs, establish or improve affordable housing, and provide appropriate financial services and counseling to community residents. The number of Native CDFIs has increased from 14 in 2001 to 69 in 2021.

→ **The Bank Enterprise Award (BEA) Program** – The BEA Program provides monetary awards to FDIC insured banks and thrifts that have increased their investment activity in communities with high rates of poverty and unemployment. The size of a BEA award is based on how much the bank or thrift has increased its investing in

¹The CDFI Fund was authorized as part of the *Riegle Community Development and Regulatory Improvement Act (PL 103-325)*.

² To be eligible for CDFI certification an organization must be a non-governmental entities (with the exception of Tribal governmental entities); with a primary mission of promoting community development; that provides both financial and educational services to one or more defined low income target markets; and is accountable to the target market it serves. Number current as of 2/10/2020.

low income communities or in CDFIs. All BEA funds awarded must be reinvested either into a distressed community or in a CDFI. Since the program was launched in 1994 through 2020, the CDFI Fund has awarded \$546 million in BEA grants. Over the past three years, \$102.9 million in BEA awards generated \$1.4 billion in additional loans and investments and \$50.2 million in additional financial services in distressed areas.

→ The CDFI Fund also administers the **New Markets Tax Credit (NMTC) Program** which was authorized in 2000³ to stimulate private investment in low-income communities. To date, the CDFI Fund has made 1,254 allocation awards totaling \$61 billion. Between 2003 and 2015, NMTC investments created over one million jobs at a cost to the federal government of under \$20,000 per job. Through the 2nd quarter of 2020, the NMTC leveraged more than \$105 billion in capital investment in communities with high rates of poverty and unemployment. Additional information on the NMTC can be found on the NMTC Coalition's website (www.nmtccoalition.org).

→ In addition, the CDFI Fund administers the **CDFI Bond Guarantee Program**⁴ which was authorized in 2010 to empower the Treasury Department to guarantee notes or bonds issued at no cost to the federal government to support CDFI lending and investment activity. Since 2013, the CDFI Fund has guaranteed nearly \$1.6 billion in bond authority through the program.

→ **The Capital Magnet Fund (CMF)** is administered by the CDFI Fund and provides grants on a competitive basis to CDFIs and other non-profit organizations to finance the acquisition, construction, preservation, and rehabilitation of affordable housing projects and related economic development efforts for low-income families and communities. CMF is authorized under the Housing and Economic Recovery Act of 2008 and is funded by allocations from Government Sponsored Entities regulated by the Federal Housing Finance Agency. To date, the Capital Magnet Fund has generated \$20 of additional investment for every \$1 of award funding and created over 13,000 affordable homes, including more than 11,500 rental housing units and more than 1,500 homeowner-occupied units.

CDFIs - BY THE NUMBERS

- 1,170 CDFIs, including 69 Native CDFIs, had been certified to work in low-wealth communities across the country as of January 2021.
- Certified CDFIs include 555 loan funds, 343 credit unions, 108 depository institution holding companies, 148 banks or thrifts, and 16 venture capital funds, located in rural and urban areas in all 50 states as well as the District of Columbia, Puerto Rico, and Guam.
- In FY 2020, CDFI program awardees made over 1,000,000 loans or investments totaling more than \$25.4 billion. The average size of each loan or investment was under \$25,000. CDFIs also financed over 41,000 affordable housing units.⁵
- CDFI impact in 2020 through Paycheck Protection Program (PPP) includes: Over 114,000 loans totaling \$7.4 billion (as of 8/8/20). The average CDFI PPP loan was less than \$70,000. The overall average loan size for all PPP was over \$107,000. In the second round of funding, average loan size for CDFIs was even lower at \$43,000 (as of 8/8/2020). Some CDFI PPP lenders reported making loans of less than \$1,000.

³ The NMTC was authorized as part of the *Community Renewal and Tax Relief Act of 2000* (PL 106-554)

⁴ The CDFI bond Program was authorized as part of *The Small Business Jobs Act of 2010* (PL 111-240)

⁵ Audit of the CDFI Fund's 2020 financial statements by the Treasury Dept. Office of Inspector General