

## An Introduction to Community Development Financial Institutions

Community Development Financial Institutions (CDFIs) are private-sector, specialized financial institutions that target markets underserved by traditional financial institutions. CDFIs are a dynamic element of the broader community development finance industry and are growing in numbers, scope of services, and impact. It is estimated that approximately 1,000 CDFIs currently exist in the U.S. They are represented in all 50 states and the District of Columbia. A 2009 research project found 172 CDFIs operating in the Southeast with combined total assets worth approximately \$7.5 billion. According to the 2007 CDFI Data Project report, CDFIs in the U.S. represent total assets worth \$25.5 billion.

CDFIs provide loans and equity to finance affordable housing, businesses, community facilities, nonprofit organizations and individuals. They also provide technical assistance and training (e.g., financial education, housing counseling, etc.) to their customers. There are four major categories or sectors of CDFIs; each is characterized by a different business model and legal structure.

### Regulated institutions:

- **Community Development Banks** provide capital to rebuild lower-income communities through targeted lending and investment.
- **Community Development Credit Unions** provide affordable credit card and retail financial services to lower-income people with special outreach to minority communities; and offer deposit and loan services only to members.

### Non-regulated institutions:

- **Community Development Loan Funds** aggregate capital from individuals and institutional investors at below-market rates and re-lend this money to nonprofit housing developers, small businesses, microenterprises, nonprofits, and homebuyers in low-income communities.
- **Community Development Venture Capital Funds** provide equity and debt for small and medium-sized businesses in low-income communities.

The CDFI industry began taking shape in the late 1960s and early 1970s. In the 1990s, the CDFI industry expanded dramatically, in large part because of the creation in 1994 of a federal program specifically targeted at supporting CDFIs, the CDFI Fund, and revisions to the Community Reinvestment Act (CRA). The Act explicitly recognizes loans provided for and investments in CDFIs as qualified CRA activities. CDFIs raise capital from a diverse set of private and public sources that include banks and other financial institutions, corporations, individuals, and government and philanthropic sources. According to the CDFI Coalition, the top four investors in CDFIs are individuals (depositors in regulated financial institutions), banks and



thrifts, non-depository financial institutions, and corporations. CDFIs often work in partnership with banks to serve their communities.

## **Supporting Organizations**

*The CDFI Fund* was established under the U.S. Treasury Department by the Riegle Community Development and Regulatory Improvement Act of 1994 to use federal funds to build the capacity of CDFIs. Through its CDFI program, the Fund has awarded over \$500 million to CDFIs, community development organizations and financial institutions.

The Fund is also responsible for the CDFI certification program. As defined by the Fund, certification requires the organization to meet the following criteria: (1) be a legal entity; (2) have a primary mission of promoting community development; (3) be a financing entity; (4) provide development services in conjunction with its financing activities; (5) primarily serve one or more target markets; (6) be accountable to the target markets served; and (7) not be either a government entity or controlled by a government entity (with the exception of tribal governments).

Most, but not all, CDFIs choose to be certified. Certification gives CDFIs access to Fund programs, which include financial and technical assistance. Currently, there are 859 certified CDFIs in the United States. A list of certified CDFIs by state can be found at [www.cdfifund.gov/docs/certification/cdfi/CDFIbyState.pdf](http://www.cdfifund.gov/docs/certification/cdfi/CDFIbyState.pdf).

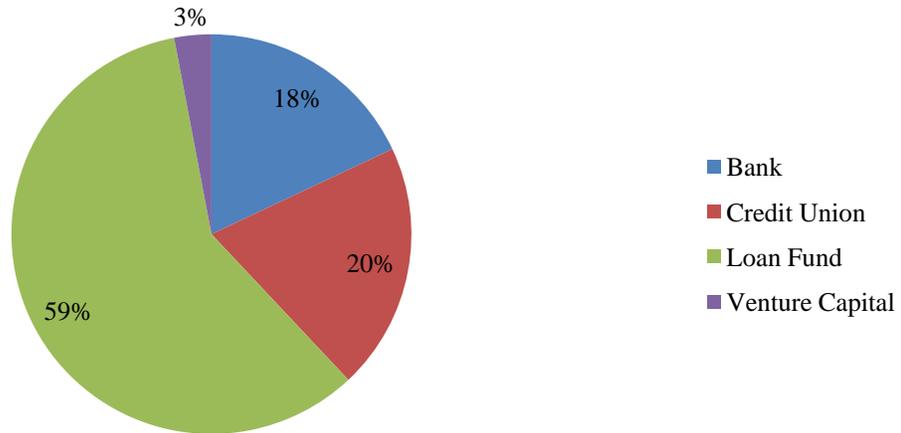
*Opportunity Finance Network (OFN)* was established in 1985 as the National Association of Community Development Loan Funds and was later known as the National Community Capital Association. OFN is a nonprofit network of more than 170 CDFIs. It provides financing to CDFIs, knowledge sharing opportunities including regional meetings and the industry's largest annual conference attracting more than 700 attendees from the finance industry, and policy leadership on the core issues and programs that advance economic development resources for CDFIs at the federal level. As part of their financial services, OFN created a comprehensive rating system, the CDFI Assessment and Ratings System (CARSTM), to help investors and donors in their investment decision making. Additional information can be found at [www.opportunityfinance.net/](http://www.opportunityfinance.net/).

*The CDFI Coalition* also advocates on behalf of the CDFI industry and educates the public about CDFIs and community development finance in general. It was created in 1992 as an ad-hoc policy initiative. Additional information can be found on their website, [www.cdfi.org/](http://www.cdfi.org/).

*Source: Blizzard, Jennie and Campbell, Angelyque. "Community Development Finance: Innovative Paths to Capital during the Credit Squeeze." MARKETWISE. Fall/Winter 2008. Federal Reserve Bank of Richmond.*

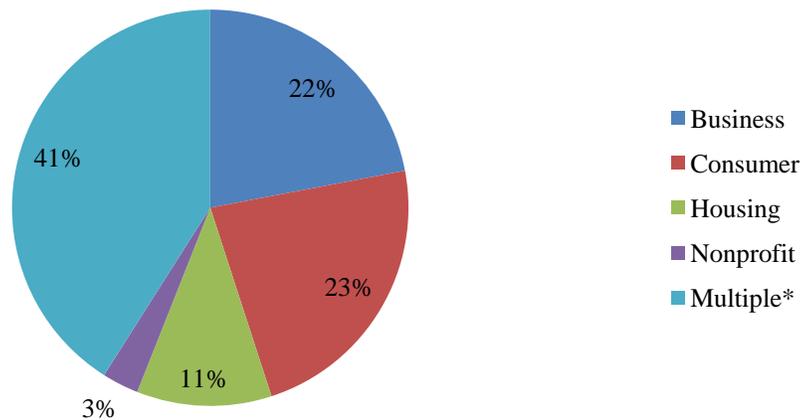


## Organization Type of CDFIs in the Southeast Fall 2009 CDFI Research Project<sup>1</sup>



<sup>1</sup>Data compiled by Federal Reserve Bank of Richmond staff from phone interviews and e-mails during August - September 2009.

## Target Market of CDFIs in the Southeast Fall 2009 CDFI Research Project<sup>1</sup>



\*Multiple includes some combination of business, consumer, housing and nonprofit.

<sup>1</sup>Data compiled by Federal Reserve Bank of Richmond staff from phone interviews and e-mails during August - September 2009.

