Providing Capital
Building Communities
Creating Impact

Community Development Financial Institutions

Fiscal Year 2004
Fourth Edition
This report is a product of the CDFI Data Project (CDP)—an industry collaborative that produces data about community development financial institutions (CDFIs).

The goal of the CDP is to ensure access to and use of data to improve practice and attract resources to the CDFI field. Community Development Financial Institutions: Providing Capital, Building Communities, Creating Impact analyzes fiscal year 2004 data collected through the CDP from 517 CDFIs.

Written by the CDP Publication Committee

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Community Development Venture Capital Alliance
National Community Investment Fund

Opportunity Finance Network

The writers would like to thank the CDP Advisory Committee for its assistance and editorial guidance in this publication.

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Contents

Executive Summary 2-3
CDFI Industry Overview 4-6
Size and Scope of CDFI Field 7-8
CDFI Outcomes, Impacts, and Clients 9-11
CDFI Products, Services, and Performance 12-18
Appendix A: Methodology 19
Appendix B: Glossary of Terms 20

This industry overview report is complemented by five supplemental brochures, also produced by the CDP, that provide in-depth analysis of the following institution types: community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise funds.
CDFIs invested $3.5 billion in FY 2004 to create economic opportunity in the form of new high-quality jobs, affordable housing units, community facilities, and financial services to low-income people.

In FY 2004, CDFIs:
- Financed and assisted 6,887 businesses that created or maintained 28,330 jobs;
- Facilitated the construction or renovation of 43,160 units of affordable housing;
- Built or renovated 470 community facilities in economically disadvantaged communities; and
- Provided 20,563 alternatives to payday loans and helped 122,755 low-income individuals open their first bank account.¹

CDFIs serve niche domestic markets throughout the United States that are not adequately served by conventional financial markets. CDFI customers were 53% female, 58% minority, and 70% low income, all much higher proportions than in mainstream financial institutions. Such customers typically have been turned down by conventional financial institutions because they do not have sufficient collateral or capacity and resources to borrow from banks.

CDFIs finance transactions in low-income communities in a prudent and effective way. CDFIs are adept at managing risks through a combination of solid capital structures and loan loss reserves, close monitoring of portfolios, and technical assistance. In 2004, CDFIs in this study had a net charge-off ratio of 0.55%, which rivals the net charge-off ratio of 0.56%² for all financial institutions. Delinquency ratios are also relatively low. Banks and loan funds had delinquency rates greater than 90 days of 1.4% and 3.2%, respectively, and credit unions, which measure delinquency by a different metric, had a delinquency rate greater than 60 days of 1.6%.

CDFIs continue to grow and change in response to changes in the market. The 517 CDFIs in this study held $18.3 billion in assets and $12.2 billion in financing outstanding. For CDFIs for which we have five years of data (242 CDFIs), financing outstanding grew at a compound annual growth rate (CAGR) of 17% per year. CDFIs are growing at a time of decreasing subsidy available to CDFIs from government sources and financial institutions. CDFIs are finding new ways to use market rate or near market rate capital; are using off-balance-sheet financing transactions to grow their financing and impact; and are increasing earned income and the use of partnerships to improve business models and sustainability.

CDFIs have emerged as critical players responding to disasters such as Hurricane Katrina because of their unique role as intermediaries and civic institutions. CDFIs capitalize on their relationships with banks, foundations, and government officials to respond quickly and with tailored products to focus on opportunities that other disaster recovery efforts miss.

¹ The numbers would be 4,361 payday loan alternatives and 14,478 unbanked customers helped based on the community development credit unions (CDCUs) that responded to the survey; the National Federation of Community Development Credit Unions estimated these figures to be 20,563 payday loan alternatives and 122,755 new accounts to unbanked customers in FY 2004 for the entire universe of CDCUs.

² Federal Deposit Insurance Corporation, December 2004.
Figure 1: Summary of FY 2004 CDFI Data

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Bank</th>
<th>Credit Union</th>
<th>Loan Fund</th>
<th>Venture Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of CDFIs</td>
<td>517</td>
<td>53</td>
<td>284</td>
<td>161</td>
<td>19</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$18,322,322,477</td>
<td>$9,771,422,000</td>
<td>$5,102,487,005</td>
<td>$3,271,918,862</td>
<td>$176,494,610</td>
</tr>
<tr>
<td>Average Assets</td>
<td>$35,439,695</td>
<td>$184,366,453</td>
<td>$17,966,504</td>
<td>$20,322,477</td>
<td>$9,289,190</td>
</tr>
<tr>
<td>Total FTEs</td>
<td>7,082</td>
<td>3,488</td>
<td>1,205</td>
<td>2,265</td>
<td>122</td>
</tr>
<tr>
<td></td>
<td>n = 335</td>
<td>n = 53</td>
<td>n = 115</td>
<td>n = 149</td>
<td>n = 18</td>
</tr>
<tr>
<td>Total Direct Financing Outstanding</td>
<td>$12,163,288,507</td>
<td>$6,222,968,831</td>
<td>$3,800,920,822</td>
<td>$2,024,642,496</td>
<td>$114,756,359</td>
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<tr>
<td>Average Direct Financing Outstanding</td>
<td>$24,229,658</td>
<td>$117,414,506</td>
<td>$13,430,816</td>
<td>$13,773,078</td>
<td>$6,039,808</td>
</tr>
<tr>
<td>% of Direct Financing Outstanding ($) (a)</td>
<td>n = 282</td>
<td>n = 3</td>
<td>n = 115</td>
<td>n = 145</td>
<td>n = 18</td>
</tr>
<tr>
<td></td>
<td>17%</td>
<td>37%</td>
<td>6%</td>
<td>15%</td>
<td>97%</td>
</tr>
<tr>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Service</td>
<td>8%</td>
<td>2%</td>
<td>1%</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>Consumer</td>
<td>15%</td>
<td>1%</td>
<td>49%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Housing</td>
<td>56%</td>
<td>60%</td>
<td>40%</td>
<td>67%</td>
<td>0%</td>
</tr>
<tr>
<td>Micro</td>
<td>2%</td>
<td>0%</td>
<td>1%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>0%</td>
<td>4%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>% of Direct Financing Outstanding (#) (a)</td>
<td>n = 276</td>
<td>n = 2</td>
<td>n = 114</td>
<td>n = 141</td>
<td>n = 18</td>
</tr>
<tr>
<td></td>
<td>3%</td>
<td>9%</td>
<td>1%</td>
<td>12%</td>
<td>69%</td>
</tr>
<tr>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Service</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Consumer</td>
<td>70%</td>
<td>80%</td>
<td>86%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Housing</td>
<td>15%</td>
<td>10%</td>
<td>7%</td>
<td>52%</td>
<td>0%</td>
</tr>
<tr>
<td>Micro</td>
<td>6%</td>
<td>1%</td>
<td>1%</td>
<td>30%</td>
<td>27%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>0%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Net Charge-Off Ratio</td>
<td>0.5%</td>
<td>0.3%</td>
<td>0.8%</td>
<td>0.9%</td>
<td>NA</td>
</tr>
<tr>
<td>Delinquency Rate &gt; 90 Days</td>
<td>NA</td>
<td>1.4%</td>
<td>NA</td>
<td>3.2%</td>
<td>NA</td>
</tr>
<tr>
<td>Delinquency Rate &gt; 2 Months</td>
<td>NA</td>
<td>NA</td>
<td>1.6%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Total Capital (b)</td>
<td>$17,548,230,488</td>
<td>$9,516,152,000</td>
<td>$5,065,944,111</td>
<td>$2,691,575,024</td>
<td>$274,559,353</td>
</tr>
<tr>
<td>Average Capital</td>
<td>$34,008,199</td>
<td>$179,550,038</td>
<td>$17,837,831</td>
<td>$16,822,344</td>
<td>$14,450,492</td>
</tr>
<tr>
<td>% of Debt Capital from: (a) (c)</td>
<td>n = 260</td>
<td>NA</td>
<td>n = 113</td>
<td>n = 140</td>
<td>n = 7</td>
</tr>
<tr>
<td>Banks Thrifts and Credit Unions</td>
<td>37%</td>
<td>NA</td>
<td>7%</td>
<td>56%</td>
<td>25%</td>
</tr>
<tr>
<td>Corporations</td>
<td>7%</td>
<td>NA</td>
<td>3%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>4%</td>
<td>NA</td>
<td>0%</td>
<td>7%</td>
<td>21%</td>
</tr>
<tr>
<td>Foundations</td>
<td>6%</td>
<td>NA</td>
<td>1%</td>
<td>9%</td>
<td>45%</td>
</tr>
<tr>
<td>Individuals</td>
<td>30%</td>
<td>NA</td>
<td>73%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>National Intermediaries</td>
<td>2%</td>
<td>NA</td>
<td>1%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Nondepository Financial Institutions</td>
<td>3%</td>
<td>NA</td>
<td>2%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
<td>NA</td>
<td>10%</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Religious Institutions</td>
<td>3%</td>
<td>NA</td>
<td>2%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>State Government</td>
<td>2%</td>
<td>NA</td>
<td>1%</td>
<td>3%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Notes: (a) The number of institutions (n) and breakout data are for the CDFIs that provided the breakout data for each category.
(b) Total capital for VC funds includes capital committed (and not drawn down).
(c) Debt capital includes borrowed funds, EQ2, secondary capital, and shares and deposits.
Debt capital breakout does not include credit union borrowings.
CDFIs are specialized financial institutions that create economic opportunity for individuals and small businesses, quality affordable housing, and essential community services throughout the United States. Currently, approximately 1,000 CDFIs operate in low-wealth communities in all 50 states, the District of Columbia, and Puerto Rico. CDFIs provide affordable banking services to individuals and finance small businesses, affordable housing, and community services that, in turn, help stabilize neighborhoods and alleviate poverty. In addition, CDFIs provide credit counseling to consumers and technical assistance to small business owners and housing developers to help them use their financing effectively.

**CDFI customers include a range of individuals and organizations:**

- Small business owners, who bring quality employment opportunities and needed services to economically disadvantaged communities
- Affordable housing developers, who construct and rehabilitate homes that are affordable to low-income families
- Community service providers that provide child care, health care, education, training, arts, and social services in underserved communities
- Individuals who require affordable banking services, including basic checking and savings accounts, responsible alternatives to predatory financial companies, mortgages, and other kinds of loans

**Why Are CDFIs Needed?**

A growing gap exists between the financial services available to the economic mainstream and those offered to low-income people and communities. CDFIs help bridge that gap by bringing capital and financial services to the latter, affording them access to capital to start and expand businesses, build and purchase homes, and develop needed community facilities.

As mainstream lenders have increasingly consolidated, grown in size, and streamlined their operations, their connections to local communities have diminished. Millions of families today either have no relationship with mainstream lenders or depend on fringe financial institutions. This exacerbates long-standing difficulties that low-income families, and the nonprofit institutions that serve them, have had in accessing credit and financial services.

In the absence of conventional financial service providers, high-cost check-cashing services and payday lenders have moved into low-income communities. They prey on unsophisticated borrowers, draining wealth from these distressed neighborhoods and contributing to the growing economic inequality in the United States. Payday lenders offer quick cash but charge exorbitant interest rates. Check-cashing companies are increasingly becoming the financial service institutions of choice for low-income people, creating a dual system for delivery of financial services. CDFIs offer responsible alternatives to these predatory lenders, providing necessary products and services at a fraction of the costs to consumers.

Mainstream financial institutions also do not sufficiently meet the capital needs of nonprofit institutions that provide critical community services and of small businesses that employ people and provide services in emerging domestic markets. Such organizations often do not have either enough collateral to meet conventional banking standards or the capacity and resources to borrow from banks. CDFIs are able to use their flexible capital products, coupled with critical technical assistance, to serve these markets and at the same time manage their risks.

CDFIs respond to market needs for affordable housing, small business development and job creation, the creation of community facilities, financial literacy, and consumer education. They also provide safe and fair mechanisms for low-income customers to do such simple things as open a checking account or obtain a mortgage.

CDFI activities fit into two broad categories. First, all CDFIs provide financial services, which include activities such as loans, equity investments, deposits, and consumer financial products.

Second, virtually all CDFIs also provide nonfinancial services. For some organizations, these represent fairly modest complements to their larger financial service activities; for others, they represent the majority of the organization’s work. Such activities include entrepreneurial education, organizational development, homeownership counseling, savings programs, and financial literacy training.

**The Four Sectors of the CDFI Industry**

As with mainstream lenders, a variety of institutions has emerged to serve the broad range of needs in emerging domestic markets. Although they share a common vision of expanding economic opportunity and improving the quality of life for low-income people and communities, the four CDFI sectors—banks, credit unions, loan funds, and venture capital (VC) funds—are characterized by different business models and legal structures:

- **Community development banks** provide capital to rebuild economically distressed communities through targeted lending and investing. They are for-profit corporations with community representation on their boards of directors. Depending on their individual charter, such banks are regulated by some combination of the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and state banking agencies. Their deposits are insured by FDIC.
• Community development credit unions (CDCUs) promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people, often with special outreach to minority communities. They are nonprofit financial cooperatives owned by their members. Credit unions are regulated by the National Credit Union Administration (NCUA), an independent federal agency, by state agencies, or both. In most institutions, deposits are also insured by NCUA.

• Community development loan funds (CDLFs) provide financing and development services to businesses, organizations, and individuals in low-income communities. There are four main types of loan funds: microenterprise, small business, housing, and community service organizations. Each is defined by the client served, though many loan funds serve more than one type of client in a single institution. CDLFs tend to be nonprofit and governed by boards of directors with community representation.

• Community development venture capital (CDVC) funds provide equity and debt-with-equity-features for small and medium-sized businesses in distressed communities. They can be either for-profit or nonprofit and include community representation.

Within certain constraints, CDFIs choose the legal structure that maximizes value and resources to the people and communities they serve. The different corporate structures allow for different capitalization products, financing products, and regulations.

Community development banks are all for-profit entities, and CDCUs are nonprofit cooperatives with members (and customers) as shareholders. Nearly all of the depositories—credit unions and banks—are regulated by state or federal agencies (or both) and use insured deposits and shares to capitalize their organizations.

The vast majority of CDLFs (96%) are nonprofit. The CDVC field is the most varied, with 74% structured as for profit, 21% as nonprofit, and the remaining as quasi-government. The for-profit category includes limited liability companies (LLCs), limited partnerships (LPs), and C corporations among its corporate structures. The loan funds and venture funds are unregulated institutions.

Timeline of CDFIs
The roots of the CDFI industry go back to the early 1900s. Some of the first CDFIs were depository institutions that collected savings from the communities they served in order to make capital for loans available to those communities. Credit unions and banks dominated the field until the 1960s and 1970s, when community development corporations and CDLFs emerged to make capital available for small businesses and affordable housing developers.

In the 1990s, the CDFI industry grew significantly. Thirty-four percent of the CDFIs in our sample were established after 1990. Several factors contributed significantly to this growth, most notably the creation and subsequent growth of the CDFI Fund. In 1994, the federal government established the CDFI Fund as a new program within the U.S. Department of Treasury. The CDFI Fund is now one of the largest single sources of funding for CDFIs and the largest source of hard-to-get equity capital. It plays an important role in attracting and securing private dollars for CDFIs by requiring them to match their award with nonfederal funds; the Fund reports that $1 of its investment leverages $20 of private-sector investments. It has made more than $775 million in awards to banks, CDLFs, and emerging CDFIs since 1996. The CDFI Fund operates four principal programs: the CDFI Program, the Bank Enterprise Award (BEA) Program, the New Markets Tax Credit Program, and the Native American CDFI Assistance (NACA) Program.

The federal government also strengthened provisions and enforcement of the Community Reinvestment Act (CRA) during the 1990s. In particular, the 1995 CRA regulations, which classified loans and investments in CDFIs as qualifying CRA activity, increased those activities. National trade associations and intermediary organizations played a crucial role, emerging as important players dedicated to organizing and professionalizing the CDFI industry. A range of CDFIs has also emerged to serve the needs of Native American populations in the last couple of years. Most important, by the mid-1990s, the industry had established a successful track record in making effective, prudent use of capital in communities throughout the United States.

In the last three years, the industry appears to be slowing down the growth of new CDFIs, while consolidating and growing existing CDFIs. In 2003 and 2004, 12 new CDFIs were established (from our sample) compared with 37 established in the prior three years (2000, 2001, and 2002). In addition, the industry is just beginning to experience its first mergers, but we expect that trend to continue during the next couple of years. At least 20 CDFIs in the sample were involved in mergers and/or merger discussions in the last year.

The four institution types have distinct histories and growth trajectories (see Figure 2). Community development banks and credit unions are the most mature sectors, with institutions dating back to the turn of the 20th century. They have had slow and steady growth for the past several decades. Loan funds are much newer, with 81% of this sector established in the 1980s and 1990s. VC funds are newer still: only two VC funds in this study began financing before 1990, and 79% started financing after 1996.

Figure 2: Number of CDFIs Established by Decade

Note: Year is year of charter for credit unions, and year the institution started financing for other sectors.
A growing number of CDFIs have emerged to serve Native American communities throughout the United States. Serving those communities entails unique challenges because of the concentration of poverty, reservation-based economies, and tribal governance. Despite the challenges, there are currently 36 Native American, certified CDFIs, up from only nine in 2001.

Of those 36, 26 are loan funds, five are credit unions, four are banks, and one is an intermediary. The majority of these CDFIs are business loan funds that are trying to create new jobs and provide services to local residents. The Native American CDFIs are concentrated in the Midwest and western United States, with a couple operating in Alaska and Hawaii.

The CDFI Fund has helped this field grow by providing targeted funding for Native American communities. The CDFI Fund has provided more than $15 million for Native American initiatives, including development of Native American CDFIs and financing and technical assistance for existing Native American CDFIs.

Started in 2003, Citizen Potawatomi Community Development Corporation (CPCDC), a CDFI based in Shawnee, Oklahoma, provides loans to start-up and existing Native American businesses. As of May 2005, CPCDC had financed 42 loans, totaling 2,790,000. One hundred percent of these loans are to Native Americans, 90 percent of whom are Citizen Potawatomi Nation members.

CPCDC financed an $86,000 loan for Stephen and Kristie Botkin, owners of K&M Transport located in Shawnee, Oklahoma, to purchase additional trucks for their business, which delivers horse trailers throughout the United States and Canada. With the additional trucks, K&M Transport was able to hire four additional employees.

Citizen Potawatomi members Marcie, Christy, and Linn Goldsby realized their business ownership dreams with a helping hand from CPCDC. Marcie learned baking secrets from her father and grandfather, who owned and operated a bakery in Norman, Oklahoma. The family began selling their high-quality baked goods at Portland Farmer’s Market in 2004. They needed financing to open a storefront in the newly revamped North Mississippi Avenue warehouse district in Oregon and to start and expand their business, the Blue Gardenia. The Goldsby’s received a $50,000 loan from CPCDC to purchase all of the equipment and a 30-pound coffee roaster necessary to open a full-production bakery. The Blue Gardenia is now a successful bakery and coffee shop that has 12 employees.
The FY 2004 CDP data set represents 517 CDFIs of the approximately 1,000 CDFIs operating in the United States. The CDP estimates that there are, in total, approximately 100 community development banks, 290 CDCUs, 500 CDLFs, and 80 CDVC funds. The CDP sample (Figure 3) represents a significant percentage of each CDFI sector.\footnote{There are 100 community development banks in the National Community Investment Fund’s (NCIF’s) network. NCIF estimates the total number of community development banking institutions in the country as approximately 500. These banks had 60% or more of their branches located in a low-income community. NCIF made the assumption that banks located in low-income census tracts (as defined by the CDFI Fund) will serve at least a portion of the residents and businesses in those communities.}

**Figure 3: CDP Sample, by Sector**

![Diagram showing the breakdown of CDFIs by sector, with Loan fund at 161, Credit union at 284, Venture fund at 19, and Bank at 53.]

**Estimated Number of CDFIs in the United States, by Sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Estimated Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan fund</td>
<td>500</td>
</tr>
<tr>
<td>Credit union</td>
<td>290</td>
</tr>
<tr>
<td>Venture fund</td>
<td>80</td>
</tr>
<tr>
<td>Bank</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Total number estimates are from CDFI trade associations and intermediaries.

**Asset Size of CDFIs**

The CDFIs in this study managed $18.3 billion in assets at the end of FY 2004 (see Figure 4 for a breakout by institution type). While that represents a significant amount of capital for emerging domestic communities, it is still quite modest compared with the mainstream financial sector. As of December 31, 2004, by comparison, U.S. financial institutions alone controlled more than $10 trillion in assets.\footnote{As of December 31, 2004, according to the Federal Deposit Insurance Corporation.} Thus, although the growth of the industry over the past decade is significant in relative terms, the industry remains a specialized, niche player in the wider financial services industry.

![Graph showing total assets by sector, with Loan fund at 18,322, 9,771, 5,102, and 176 million, respectively, for All, Bank, Credit union, and Loan fund.]

**Figure 4: Total Assets ($ millions)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Median Assets ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>105</td>
</tr>
<tr>
<td>Bank</td>
<td>2</td>
</tr>
<tr>
<td>Credit union</td>
<td>6</td>
</tr>
<tr>
<td>Loan fund</td>
<td>5</td>
</tr>
</tbody>
</table>

Institution size varies substantially across and within the four sectors. The CDCU sector represents a large number of small organizations, the inverse of the banking sector. For example, 53 community development banks together hold almost double the assets ($9.8 billion) of the 284 credit unions ($5.1 billion). The median bank holds approximately $105 million in assets, and the median credit union only $2.3 million. Loan funds represent 18% of our sample (or $3.3 billion) with a median size of $5.9 million. VC funds also tend to be small institutions relative to banks. Specializing in the niche products of equity and near equity, they managed 1% of total assets reported, with a median asset size of $5.4 million.
Distribution of Assets
A small number of CDFIs also hold a substantial portion of the field’s total assets. The largest five CDFIs control 26% of the sample’s assets, and the largest 10 control 37% (see Figure 5). The largest five CDFIs include institutions in three of the four sectors: three banks, one loan fund, and one credit union.

While most organizations (67%) in the field have less than $10 million in assets, overall industry results are skewed by a handful of very large institutions; of the 47 CDFIs with more than $100 million of assets, six are loan funds, 10 are credit unions, and 31 are banks.

Markets Served
CDFIs tend to concentrate in certain areas of the country. The Northeast, Upper Midwest, Texas, and California have a high concentration of CDFIs. The five states with the greatest number of CDFIs are New York, California, Texas, Pennsylvania, and Illinois. CDFI financing activity also concentrates in those areas because of the high number of CDFIs there. Five states (North Carolina, Texas, California, Michigan, and New York) are home to the CDFIs that did 62% of total financing activity in FY 2004. CDFIs in our study are located in 49 states, the District of Columbia, and Puerto Rico.

CDFIs serve a mix of rural and urban markets across the country, with 44% of CDFI clients from major urban areas, 33% from rural areas, and 23% from minor urban areas (see Figure 7). Credit unions, loan funds, and VC funds exhibit strikingly similar patterns of geographical coverage; all of those CDFI institution types averaged between 42% and 44% of clients in major urban areas, and loan funds served the highest percentage (37%) of clients in rural areas.

Geographic markets served by CDFI types vary significantly, ranging from a city or town to a national service area (see Figure 8). In general, credit unions tend to serve smaller geographic markets, including cities, towns, and metropolitan areas, because their customers are typically in close proximity to the credit union, often going to the credit union branch for services. Venture funds, however, cover larger geographic areas. Seventy-nine percent serve a state, multistate, or national service area because their specialized equity products require a larger market area to operate efficiently. Loan funds vary in their markets served, with two CDFIs serving a neighborhood and 15 serving a national service area. Many began serving a smaller area but developed niche products and expanded to a larger service area.
CDFIs reach many individuals and communities that others overlook. CDFIs strive for, and achieve, social and economic benefits that align with their institutional missions. The results of the industry’s financing and other products go well beyond easily measurable impacts.

The results include helping borrowers open their first formal bank account, improving financial literacy or entrepreneurial skills, opening bank or credit union branches in markets not typically served by financial institutions, and providing much-needed technical assistance.

**CDFI Client Characteristics**

CDFIs are successful in reaching customer groups that others overlook—low-income families, minorities, and women, in particular. Seventy percent of CDFIs’ clients are low income, 58% are minorities, and 53% are women (see Figure 9). Credit unions, with their focus on financial services to low-income individuals, had the highest percentage of clients that were low income, at 74%.

---

**Figure 9: Customer Profile by Institution Type**

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>% Minority</th>
<th>% Female</th>
<th>% Low income</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>58%</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>Bank</td>
<td>36%</td>
<td>61%</td>
<td>74%</td>
</tr>
<tr>
<td>Credit union</td>
<td>47%</td>
<td>49%</td>
<td>70%</td>
</tr>
<tr>
<td>Loan fund</td>
<td>38%</td>
<td>35%</td>
<td>52%</td>
</tr>
<tr>
<td>Venture capital</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

% Minority

% Female

% Low income
Microenterprise Financing
San Diego, California

Featuring ACCION San Diego

With his first loan from ACCION San Diego, Anthony Butts started a nonprofit business that helped low-income families find homes at affordable prices. With his second loan, Anthony began Joy Ride Limousine, using the money to purchase his first car and assist with licensing. Today, after his third loan, Anthony shows San Diegans around in style in his GMC Yukon stretch limo from weddings and parties to wine tasting trips or a night on the town. With Joy Ride’s success Anthony has also created employment for three limo drivers.

ACCION San Diego provides credit and training for low-to-moderate-income microentrepreneurs throughout San Diego, Orange, Riverside, San Bernardino, Imperial, and Los Angeles counties. Since inception in 1994, ACCION San Diego has disbursed more than 1,800 loans worth more than $8 million.

To left: Anthony Butts of Joy Ride Limousine

Figure 10: Financing Outstanding by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>17%</td>
</tr>
<tr>
<td>Community service</td>
<td>8%</td>
</tr>
<tr>
<td>Consumer</td>
<td>15%</td>
</tr>
<tr>
<td>Housing</td>
<td>15%</td>
</tr>
<tr>
<td>Micro</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
</tbody>
</table>

CDFI Sectors Served and Outcomes
CDFIs provide financial and nonfinancial services to a variety of sectors and clients. While there is substantial variation among and between sectors, CDFI activities fall into six main categories: microenterprise, small and medium-sized business, community services, housing, consumer, and other (see Figure 10 for a breakout by sector). CDFIs that finance these different strategies are looking for different outcomes and impacts.

Microenterprise
• $82 million outstanding at fiscal year-end (FYE) 2004
• 10,309 transactions at FYE 2004
• 5,052 microenterprises financed in FY 2004

Microenterprise development includes financing to businesses that have five or fewer employees with a maximum loan or investment of $35,000. This financing is typically for the start-up or expansion of a business, working capital, or equipment purchase. Clients are typically low- or moderate-income individuals in the very early stages of small business development. They have a skill or idea they want to turn into a business but may lack the capital or the technical and management expertise. Most CDFIs that assist microenterprises provide substantial technical assistance, such as entrepreneurial training, business coaching, and networking opportunities. Microenterprise loans help provide self-employment opportunities for these entrepreneurs, many of whom would not have the opportunity without this financing.

One hundred and thirteen institutions in our sample reported microenterprise financing in FY 2004, of which 88 were loan funds, 23 were credit unions, one was a venture capital fund, and one was a bank. Microenterprise financing is characterized by a high number of transactions and relatively small dollar amounts of loans. For the loan fund sector in FY 2004, microenterprise financing accounted for only 3% of financing outstanding in dollars outstanding but 30% in terms of the number of loans.

Several CDFIs cannot break out their financing outstanding into these sectors; therefore, the total figures in each sector underrepresent the total financing activity among sectors.
Small and Medium-Sized Businesses
- $571 million outstanding at FYE 2004
- 5,052 transactions outstanding at FYE 2004
- 1,821 businesses financed in FY 2004
- 28,330 jobs created and maintained in FY 2004 (includes activity from microenterprise financing)

Small and medium-sized business development includes loans and equity investments to businesses that have more than five employees or have financing needs greater than $35,000. CDFIs consider such benefits of financing as how many jobs will be created, what kind of salaries and benefits are offered, whether the business is located and provides services in a disinvested location, and what the environmental impact of the business will be.

One hundred and nineteen CDFIs in our sample provided business financing, including 17 VC funds. Business financing represents virtually all (97%) of venture funds’ financing outstanding and smaller percentages of the credit unions’ and loan funds’ financing.

The CDFIs in our study that financed both microenterprise and small and midsized businesses created and maintained more than 28,330 jobs.10

Housing
- $1.9 billion outstanding at FYE 2004
- 25,464 transactions outstanding at FYE 2004
- 43,160 housing units assisted in FY 2004
- 7,697 mortgages closed in FY 2004

Housing financing among CDFIs includes two primary subcategories: financing to housing developers and direct mortgage lending to low-income individuals.

CDFIs make loans to housing developers for predevelopment, acquisition, construction, renovation, working capital, and mortgages. These loans support the development of rental housing, service-enriched housing, transitional housing, and residential housing. With a rapidly shrinking supply of affordable housing to low-income families in both the rental and ownership markets, this effort addresses a critical need in many communities. CDFIs facilitated the construction or renovation of 43,160 units11 of affordable housing in 2004, with 97% of the activity from CDFIs. These affordable housing units typically provide for monthly payments that run less than 30% of a household’s monthly income and enable low-income individuals to own or rent quality housing while preserving sufficient income to pay for other critical products and services.

CDFIs also provide loans to low-income families who cannot qualify for a mortgage from the mainstream financial sector. Eighty-two CDFIs reported providing 7,697 mortgages to home buyers in 2004. They are typically first-time home buyers who also need significant help working through this process. Many CDFIs providing direct mortgage financing also offer homeownership counseling or other services. CDFIs provide this mortgage financing as an affordable product to home buyers and act as an alternative to predatory lenders in the community.

Housing financing is the largest sector, accounting for $1.9 billion, or 56% of the sample’s total financing outstanding that was broken out by sector. Banks, credit unions, and loan funds all provide substantial amounts of housing financing. Of the top 10 CDFIs to report financing outstanding for housing, five were loan funds, three were credit unions, and two were banks. Credit unions primarily provide mortgage loans to individuals, and loan funds primarily provide loans to housing developers, although there are a growing number of loan funds providing mortgage products as well.

Community Services
- $262 million outstanding at FYE 2004
- 1,459 transactions outstanding at FYE 2004
- 470 community service organizations financed in FY 2004
- 14,446 new and existing child care slots assisted in FY 2004
- 16,605 new and existing educational slots assisted in FY 2004

CDFIs provide financing to community service providers—human and social service agencies, advocacy organizations, cultural facilities, religious organizations, health care providers, child care centers, and education providers—that provide critical and much-needed services to low-income people and communities. Many community service providers have one or more niche markets in which they operate. This expertise enables them to provide critical advice on issues affecting the particular industry. The borrowers are primarily nonprofits, and they often require some form of technical assistance such as cash flow forecasting or securing other funds.

Sixty-three CDFIs in our sample provided community service financing, with a majority (52) being loan funds. Community service financing accounted for 8% of all CDFI financing outstanding in FY 2004. In 2004, CDFIs financed 470 community facilities and assisted 16,605 education slots and 14,446 child care slots in urban and rural areas across the country. CDFIs have an impact on a greater number of education slots yearly because of the increased lending to charter schools across the country. Many CDFIs are using the CDFI Fund’s New Markets Tax Credit Program to finance charter schools and other community facilities.

Personal Development
- $512 million outstanding at FYE 2004
- 115,362 transactions outstanding at FYE 2004
- 4,361 payday loan alternatives in FY 2004

Consumer financial services are for individuals; they include all personal loans for health, education, emergency, debt-consolidation, transportation, and other consumer purposes. CDFIs also provide nonfinancial services such as financial literacy training or programs that encourage savings. In many low-income communities, these services are provided not by mainstream lenders but by institutions that specialize in check cashing, payday lending, and wire transfers at exorbitant and predatory rates.

Almost all of the credit unions (97%), as well as eight other CDFIs, provided personal development, or consumer, financing. Similar to microenterprise financing, consumer financing is characterized by a high number of transactions and relatively small dollar amounts of loans. The consumer financing sector accounts for 70% of all CDFI transactions in our sample, but only 15% of the dollar amount of transactions. The median loan size of $4,287 is substantially lower than that in any of the other financing sectors and one-half of the median microenterprise loan. Many of these loans are to people who have not previously had a relationship with a financial institution and do not have a credit history.

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10 This figure is significantly underreported. It does not capture all self-employment activity of microentrepreneurs, job data from the 170 credit unions for which we have only call report data (see Appendix A), or data from those CDFIs that do not track this information.

11 Because CDCUs generally do not track housing units (and these data were not reported from those that did not complete the CDCU survey), housing units are substantially underreported for credit unions.
CDFIs deliver a range of products to meet the needs of their communities, including financing products, retail and depository services (such as savings and checking accounts and individual retirement accounts), training and technical assistance, advocacy and research, and other services that benefit the communities they serve.

Most CDFIs have strong market knowledge and long-term relationships with clients, which help them develop the right mix of products for their markets.

**FY 2004 Financing Totals**

At the end of 2004, the CDFIs in our study had 503,663 financial investments outstanding (loans, equity, guarantees), totaling $12.2 billion. Financing outstanding among individual CDFIs ranged widely with an average of $23.7 million. Again, the larger institutions account for a disproportionate share of financing. Ten CDFIs accounted for more than 39% of total financing outstanding, and 20 CDFIs accounted for 53% of total financing.

CDFIs generated $3.5 billion of new financing activity in 2004: $3.2 billion of direct financing and $284 million in indirect financing. Direct financing includes loans, equity investments, and debt-with-equity-features closed during the year. Indirect financing is made by other financial institutions, in which the CDFI intervention (i.e., loan purchase\(^\text{12}\)) or guarantee) allows the financial institutions to finance additional community development loans and investments.

In addition, many more CDFIs are using their core expertise in underwriting and servicing to provide those services to third-party organizations. Such loans do not flow through the financial statements of the CDFIs but provide an important service that allows banks, foundations, government entities, and other entities to invest more in affordable housing and economic development. In FY 2004, 25 community development loan funds provided loan servicing on portfolios totaling 12,000 loans and $224 million. Nineteen CDFIs provided underwriting for third parties totaling almost $95 million, which enabled the CDFIs to finance larger deals and leverage their expertise and market knowledge.

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**Figure 11: FY 2004 Financing Totals**

<table>
<thead>
<tr>
<th></th>
<th># Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total financing outstanding in FY 2004 ($)</td>
<td>12,242,127,560</td>
</tr>
<tr>
<td>Total financing outstanding in FY 2004 (#)</td>
<td>503,663</td>
</tr>
<tr>
<td>Total financing closed in FY 2004 ($)</td>
<td>3,475,238,225</td>
</tr>
<tr>
<td>Total financing closed in FY 2004 (#)</td>
<td>268,608</td>
</tr>
</tbody>
</table>

Note: Total financing outstanding includes loans, investments, and guarantees outstanding; total financing closed includes direct investments (loans and investments) and indirect investments (guarantees and loans purchased).

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\(^{12}\) Loan purchases are not a common activity for most CDFIs. The majority of the purchases are through a single CDFI, which purchases nonconforming home mortgages as a strategy to expand the scope of mortgage lending by mainstream financial institutions to low- and moderate-income borrowers.
Financing Products Offered

CDFIs use four primary types of financing products to serve their communities: loans, equity investments, debt-with-equity-features, and guarantees (see Figure 12).

Loans

Loans are far and away the most used tool by CDFIs, representing $12.1 billion, or 98% of all financing outstanding. Loans represent virtually all financing from loan funds, credit unions, and banks. The only exception is VC funds, which are designed primarily for equity and near-equity investments.

CDFIs’ loans include short-term (less than six months) and long-term (up to 30 years) loans, amortizing and balloon loans, and small (under $500) and large (more than $1 million) loans. Loan size varies greatly by the type of CDFI, largely according to the sectors and clients that the CDFI serves (see Figure 13). CDCUs primarily provide small loans to members; as such, the average loan size at credit unions is significantly smaller than that of other CDFI types. VC funds have a larger average loan size, as they typically provide larger loans coupled with investments to businesses with high growth potential that have substantial needs for working capital, equipment, or acquisition financing.

As indicated in figures 13 and 14, the median loan and investment sizes for CDFIs have been increasing over time; as CDFIs have increased their capital, resources, and capacity, they have been able to provide some larger loans in addition to the smaller loans to businesses and individuals. The largest increase has been in the community services sector, increasing from $75,000 in 2002 to $96,000 in 2004; this in part results from several CDFIs that are involved in financing large charter school deals.
Equity Investments

Equity investments are an increasingly important tool for CDFIs as they seek to finance high-growth-potential businesses that offer financial and social returns. Equity investments are made in for-profit companies, where the CDFI receives an ownership interest in the company. With an equity investment, the CDFI shares both the risk and the potential financial gain that the business experiences. The recent emergence of equity as a tool is reflected in the relatively modest numbers, and most such investment is concentrated in the VC sector: the $85 million in 235 equity transactions outstanding represents approximately 1% of the overall CDFI financing but 57% of VC financing. Seventy-seven percent of all equity investments were made by VC funds. Thirteen loan funds made the rest, some of which have VC programs within the same corporate structure as the lending entity.13 Credit unions and banks do not use equity financing. The median investment size outstanding at venture funds was more than $400,000, and the median at loan funds was $132,000. In FY 2004, 21 CDFIs closed on $20.9 million in new equity transactions.

Debt-with-Equity-Features

Debt-with-equity-features is loans that allow the CDFI to receive additional payments based on the performance of the borrower’s company. Debt-with-equity-features includes convertible debt, as well as debt with warrants, participation agreements, royalties, or any other feature that links the investment’s rate of return to the performance of the company that received the investment. Fourteen VC funds (or 74% of VC funds) and 10 loan funds (6% of loan funds) use near-equity products. VC funds have always used these products in combination with equity to finance business growth. More recently, loan funds have begun using these products as well to offer an alternative to debt when the borrower requires more patient capital. In FY 2004, six CDFIs closed on $1.8 million in debt-with-equity-features. This financing is down from more than $5 million closed in 2003, as some CDFIs, particularly loan funds, have discontinued their debt-with-equity programs.

Debt-with-equity-features represented 0.3% of loan fund financing but 15% of VC fund financing. Twenty-four CDFIs had debt-with-equity outstanding, representing a range of less than 1% to 48% of their financing outstanding, depending on whether it was a core product or an occasional instrument supplementing other loan and investment products.

Guarantees

Guarantees include letters of credit and guarantees provided to enhance the creditworthiness of a borrower receiving a loan from a third-party lender. CDFIs in our sample had $79 million in guarantees at the end of 2004. Guarantees and letters of credit come in different structures, but all enable other financial institutions to participate in more community development lending activity because a loan or a portion of the loan that the financial institution makes is guaranteed to be repaid by the CDFI in the event of default. Some are tied to a specific program (Small Business Administration or the State of California Trust Fund) and some are part of a CDFI’s general product mix. Guarantees also serve to keep interest rates reasonable because the financial institution is not taking as great a risk because of the guarantee. Three CDFIs represent a large majority—nearly 86%—of the guarantees outstanding. In total, 25 CDFIs used guarantees, including 24 loan funds and one VC fund.

13 Some CDFIs are classified as loan funds and have programs within their organizations that do VC investing. Some CDFIs are listed as VC funds and do a substantial amount of lending. Therefore, the VC fund and loan fund categories may underestimate the lending and investing activity within that given sector.
Portfolio Performance
For the industry as a whole, portfolio performance has been strong and consistent during the past few years. Figure 15 demonstrates delinquencies and loan losses at banks, credit unions, and loan funds. CDCUs measure delinquency rates by different metrics than do loan funds and banks. Delinquency and loan losses are not reported for VC funds, as they measure portfolio performance by the overall return on the fund. Overall, the net loan loss rate for these groups of CDFIs was 0.55%, ranging from a total of 0.3% in the bank sector to 0.9% in the loan fund sector; this rivals the net loan loss ratio at conventional financial institutions of 0.61% in 2004. While there is substantial variation among CDFIs, only 12 CDFIs, or 3% of the 476 banks, credit unions, and loan funds that reported these data, had a net loan loss rate greater than 10%. Figure 16 demonstrates how the loss rate for the overall industry has been slowly declining during the last few years.

CDFIs’ delinquency rates are somewhat higher than their net charge-off rates. CDFIs are able to manage these delinquencies through technical assistance and frequent contact and monitoring of their borrowers. Also, CDFIs keep adequate loan loss reserves and equity bases to further protect their investors.

Financial Services
Banks and credit unions mobilize savings as well as provide access to credit. Data on deposit and transaction products were collected from 115 credit unions and six banks for FY 2004. These institutions offered a broad range of products such as savings accounts, checking accounts, certificates of deposit, and IRAs, as well as client services such as automated teller machine (ATM) access, check cashing, bill payment, and direct deposit. They have also crafted products unique to the field, such as individual development accounts (IDAs), which use a mix of financial education, peer support, and matching funds to promote savings among low-income customers that can be used to invest in homeownership, small business development, or education.

Among credit unions and banks, direct deposit is the most widely offered service, followed by electronic funds transfer and wire transfers (see Figure 17). Alternatives to payday loans, exorbitantly high-interest short-term loans secured by the borrower’s next paycheck, are also reported by 23% of credit unions. Although many customers view these depositories as being just like any other financial institution, the difference lies in the customer base and the communities that the organizations seek to serve.

Training and Technical Assistance Services
In addition to providing access to capital and retail financial services, CDFIs are distinct from mainstream lenders because they provide training, technical assistance, and other assistance to their customers to help increase their capacity and their access to financing. The type and amount of training and technical assistance that a CDFI offers depend on the needs in its market, whether those needs include packaging funding for an affordable housing developer, business plan training for an entrepreneur, or credit counseling for an individual. CDFIs provided training to more than 7,800 organizations and more than 108,000 individuals through group-based training and one-on-one technical assistance.

Figure 15: Delinquency and Loan Loss Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Banks</th>
<th>Credit unions</th>
<th>Loan funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 net loan loss ratio</td>
<td>0.3%</td>
<td>0.8%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Delinquency ratio &gt; 90 days</td>
<td>1.4%</td>
<td>NA</td>
<td>3.2%</td>
</tr>
<tr>
<td>Delinquency ratio &gt; 2 months</td>
<td>NA</td>
<td>1.6%</td>
<td>NA</td>
</tr>
</tbody>
</table>

Figure 16: Net Loan Loss Rate, 2000 to 2004

Figure 17: Financial Products and Services at Depositories

Figure 18: Training and Technical Assistance

<table>
<thead>
<tr>
<th># People or organizations</th>
<th># CDFIs reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td># People receiving group-based training</td>
<td>46,561</td>
</tr>
<tr>
<td># People receiving one-on-one technical assistance</td>
<td>61,613</td>
</tr>
<tr>
<td># Organizations receiving training</td>
<td>7,855</td>
</tr>
</tbody>
</table>

Note: Alternatives to payday loans includes only credit unions reporting.

14 Net loan loss rate is the net charge-offs during FY 2004/total loans outstanding at FYE 2004.
CDFI Growth from 2000 to 2004
CDFIs experienced growth in the past four years. For the CDFIs for whom we have four years of data (243 CDFIs), CDFI assets grew at a CAGR\(^{15}\) of 9% between 2000 and 2004, and financing outstanding for the sample grew by 17% (see Figure 19).

CAGRs at individual CDFIs varied significantly. Thirty-three percent of the sample experienced CAGRs in financing outstanding from 2000 to 2004 of greater than 25% (see Figure 20). Eighteen percent of the sample experienced declines in the financing outstanding. This results from having repayments in their portfolio during the four-year period greater than the amount of new financing closed. Also, some CDFIs sell loans or portfolios of loans, which also may result in declining financing outstanding.

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When **SJF Ventures** first invested in Ryla Teleservices in 2002, the minority-owned provider of contact center and business process outsourcing solutions was operating out of a small call center in Woodstock, Georgia.

SJF Ventures injected $500,000 into the company, which provided the boost that the firm needed to rapidly scale up operations. Today, the company employs more than 200 people, 20 of whom are in the company’s newest call center in South Providence, Rhode Island, which is located in a CDFI Fund–designated Economic Development Hot Zone.

SJF Ventures invests in and assists high growth companies with disruptive strategies in large markets. SJF specializes in supporting entrepreneurial teams whose competitive advantage includes environmental or workforce innovation. SJF Ventures provides equity financing from $500,000 to $5 million, solo or in syndicates, to companies with annual sales of $1 million to $20 million.

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\(^{15}\) CAGR is the rate of increase over a period of time that would exist if each and every year the rate of return were exactly the same.
Unfortunately, the United States has experienced a number of shocking disasters in the past several years, requiring unparalleled recovery efforts and relief. Fortunately, the response to those disasters has been overwhelming, demonstrating the generosity and power of citizens, government, and businesses working together. CDFIs have emerged as critical players in disaster recovery efforts because of their unique roles as intermediaries and civic institutions:

- CDFIs capitalized on their strong civic relationships with foundations, banks, government officials, and corporations. Such institutions and officials are all long-time investors in CDFIs and key partners that know of CDFIs’ ability to act quickly in response to community needs. Many of them contacted CDFIs in the direct aftermath of disasters to provide capital to them and partner with them on recovery efforts.

- CDFIs capitalized on their niche and capacity as flexible lenders and technical assistance providers to markets that others miss. They focused on nonprofit organizations and small businesses that were overlooked by many disaster relief efforts. In the direct aftermath of disasters, CDFIs tailored their products to the needs of the community to provide grants, low-interest loans, wage subsidies, and technical assistance.

9/11
The CDFI response after 9/11 was overwhelming. More than 15 CDFIs that served the New York City area developed specialized programs in the days and weeks after 9/11. The programs primarily focused on helping nonprofit organizations and small businesses recover from the disaster. CDFIs walked the streets looking for entrepreneurs such as taxi drivers and street vendors in need of assistance; CDFIs helped restaurants and manufacturers replenish inventory and reopen businesses; and CDFIs helped nonprofits that had lost their facilities and records relocate and rebuild.

Hurricane Katrina
CDFIs have a long track record of providing critical financial assistance after natural disasters. North Carolina CDFIs were instrumental after Hurricane Floyd in 1999, and similarly several CDFIs serving the region are playing a key role in rebuilding the Gulf after Hurricane Katrina. These efforts include providing crucial financial and banking services to people whose homes have been damaged or lost; deferring payments on loans to small businesses and nonprofits that suffered after the hurricane; providing businesses new capital to reopen, relocate, or rebuild; and directing individuals to other available financial resources.

Hurricane Katrina Assistance
St. Bernard Parish, Louisiana
Dionna Marino has been a proud member of ASI Federal Credit Union since April 1997. Dionna’s home in St. Bernard Parish was completely submerged and eventually destroyed by Hurricane Katrina. After the hurricane Dionna and her family were lucky enough to be able to stay with her in-laws. ASI staff worked it out so that Dionna would come up with as little money out of pocket as possible because her family had to replace everything. “They handled so much for me, whether it was talking to the insurance agent, speaking to the real estate agent, or any number of things they did. The process was quick and easy, and before I knew it, we were going to the act of sale. I feel like in these tumultuous times, or any time for that matter, I would have been hard pressed to find a financial institution that treated me with such care and compassion.”

Chartered in 1961, ASI Federal Credit Union’s mission is to serve the financial needs of its members; that mission continues to be the driving force of the credit union today. As of FYE 2004 ASI Federal Credit Union had financing outstanding of $146 million.

9/11 Business Financing
New York, New York
Colors is a cooperative restaurant in New York’s Greenwich Village that opened in January 2006, most of whose founders are former employees of Windows on the World, the restaurant in the top of the World Trade Center that was destroyed on 9/11. Thirty waiters, busboys, bartenders, and dishwashers, many of them immigrants who worked at Windows, have formed the cooperative that will run one of the city’s first worker-owned restaurants. Each one of them will claim a piece of the restaurant and share in any profits. A cooperative restaurant provides quality jobs as well as encourages workers’ rights. Nobody in the restaurant, not even the dishwashers, will receive less than $13.50 an hour, far higher than average restaurant wages. The employees will share tips and be eligible to receive overtime and vacations. Eventually they will be covered by health insurance and have pensions.

A collaborative of CDFIs and other lenders helped finance Colors in the aftermath of 9/11. Nonprofit Finance Fund (NFF) coordinated financing from 16 lenders, including community CDFIs, faith-based funds, foundations, a credit union, and others. Among the several CDFIs involved, NFF provided Colors with a $160,500 term loan; Renaissance Economic Development Corporation lent $250,000; NCB Development Corporation lent $150,000; Leviticus 25:23 Alternative Fund, Seedco, and LEAF Fund (Local Enterprise Assistance Fund) all lent $50,000; Project Enterprise lent $20,000; and Lower East Side Federal Credit Union offered a subordinated loan of $49,500. That financing and substantial technical assistance helped Colors get started after 9/11, provide jobs in the community, and use the cooperative model that has substantial benefits for employees.

Top Left: Evelyn Ramos-Santiago, loan coordinator and Walter Merkle, chief lending officer, with Stefan Mahgaman, project manager for Colors Restaurant at the restaurant opening.
Top Right: Dionna Marino, homeowner and ASI Federal Credit Union member.
As demonstrated throughout this report, the CDFI field is growing and dynamic in its efforts to serve customers and markets that others have missed. In addition to the innovations in capitalization and financing at the CDFI and project level, all the leading trade associations and intermediaries that represent the field are involved in innovative efforts to grow the field to scale and create greater impacts and efficiencies within the industry. Some examples follow:

**Association for Enterprise Opportunity**
The Association for Enterprise Opportunity (AEO) is managing a new program, The eBay Foundation Techquity Program, launched in 2005, which is sponsored by the eBay Foundation. The program provides funds to microentrepreneurs in the form of cash awards for the purchase of technology equipment. It also provides funds to microenterprise organizations for operating the project and providing technology training to their clients. Four local AEO member microenterprise development organizations in California, New York, Utah, and Nebraska serve as local partners for the program, distributing the cash technology equity (“techquity”) awards to their eligible clients. The awards provide up to 80% of the purchase price of technology with clients providing a minimum match of 20%.

**Aspen Institute**
The Aspen Institute’s FIELD program has launched and is supporting the rollout of MicroMentor, an Internet-based program that matches emerging entrepreneurs with experienced mentors who have successfully navigated business ownership or have management and industry skills relevant to the entrepreneurs’ needs. Potential protégés and mentors find each other online, using a proprietary matching software that enables them to search for each other based on industry, skill set or knowledge, gender, ethnicity, or state location. Mentoring relationships take place by phone or e-mail and address management, marketing, product development, and other business development issues. MicroMentor has already reached hundreds of entrepreneurs with its services and intends to reach thousands by using technology to expand nationally, linking previously disconnected entrepreneurs to highly specific and custom-matched expertise quickly and economically.

**National Federation of Community Development Credit Unions (the Federation)**
As 2005 drew to a close, the Federation’s secondary-market initiative, the CDCU Mortgage Center™, went live with the purchase of loans to immigrant first-time homebuyers. The loans were originated by the Federation member Self-Help Credit Union in Durham, North Carolina, to recent immigrants with Individual Taxpayer Identification Numbers (ITINs) instead of Social Security Numbers. This type of loan, although having exhibited an excellent track record over the last few years, is not readily saleable in the major secondary markets. With $2.5 million in start-up capital, the CDCU Mortgage Center™ also intends to purchase other nonconventional types of loans, including cooperative and manufactured housing loans, as well as more conventional loans in low- and moderate-income communities. This will help credit unions recycle their capital many times over, while managing their balance sheets for better asset-liability matching. With the credit union movement under pressure from community advocates and Congress to demonstrate and document its service to “people of modest means,” the CDCU secondary market comes at an important time.

**Opportunity Finance Network**
With a new name in 2006 (formerly National Community Capital) and a bold, new emphasis on high-volume and high-impact financing strategies to leverage private financial markets, Opportunity Finance Network is currently pursuing two new housing initiatives. Opportunity Finance Network is developing a $25 million national manufactured housing park preservation and improvement fund to preserve and expand the supply of the affordable housing options available to very-low-income households. Opportunity Finance Network is also developing a residential mortgage platform to help the industry achieve a competitive response to predatory and other high-cost lenders by offering alternative residential mortgage products. The proposed platform will use infrastructure available through partnership with a national mortgage banking entity to deliver competitive financing and have CDFIs as originators of the product to targeted consumer markets.
When Sandi Williams, executive director of the Alamo Area Mutual Housing Association (AAMHA) in San Antonio, found an opportunity to buy an aging 151-unit federally assisted apartment community, she turned to the National Housing Trust Community Development Fund (NHTCDF).

NHTCDF partnered with Neighborhood Capital Corporation (NCC) to provide a $150,000 predevelopment loan, and provided technical assistance through its affiliate, the National Housing Trust. AAMHA was able to preserve and improve the property, while keeping rents affordable. Today, Woodland Ridge is a thriving community, enhanced not just by property improvements, but by AAMHA’s commitment to a rich resident services and development program.

NHTCDF is the only nationwide CDFI exclusively dedicated to providing predevelopment and bridge financing to preserve and improve affordable multifamily housing properties. Since its inception in 1999, the fund has made nearly $5.5 million in loans, supporting the private investment of more than $300 million and helping to preserve more than 3,800 units of affordable housing.

NCC serves 78 nonprofit NeighborWorks Organizations in support of their efforts to increase the supply of affordable multifamily housing. NCC provides seed financing in the form of predevelopment and acquisition loans to help its members launch new housing development and preservation initiatives. To date, NCC has supported the creation or preservation of more than 3,000 homes.

To right: A resident of Woodland Ridge working on her schoolwork.

Appendix A: Methodology

As partners in the CDP, five national trade associations and intermediaries—Aspen Institute, Community Development Venture Capital Alliance (CDVCA), National Community Investment Fund (NCIF), National Federation of Community Development Credit Unions (NFCDCU), and Opportunity Finance Network—worked together as the Data Collection and Cleaning Committee to collect data across the four types of CDFIs.

Each data collector was responsible for collecting CDFI data from its member or constituent CDFIs. Opportunity Finance Network acted as project manager, consolidating all the data collected.

The Data Collection and Cleaning Committee defined common data points and definitions across the various institution types and developed data-cleaning protocols that all data collectors were required to follow. Opportunity Finance Network, as data consolidator, also applied financial formulas during data consolidation to perform further quality assurance. Each trade association was responsible for designing its own survey instruments for distribution to its constituent CDFIs. The instruments were based on consensus language that defined cross-sector CDFI data points, as well as on language appropriate for individual CDFI sectors.

Overall, the CDP sent out 609 surveys for FY 2004 and compiled data for 517 CDFIs, a response rate of 85%—an increase of 9% from 477 CDFIs in FY 2003. This data set represents one of the largest and most comprehensive samples of CDFI data to date in the field. Nonetheless, it represents only a subset of the CDFI industry.

Each CDFI reported information based on its own fiscal year, which may be different from the calendar year and may vary from institution to institution.

Not all questions were relevant to all CDFIs and thus were not answered by every institution. In addition, some CDFIs were unable to answer some of the survey questions. As a result, the number of responses to individual questions may frequently be less than the total study size and is noted accordingly.

Use of Public Data for Credit Depositories
The CDP sent surveys to 284 CDCUs for FY 2004. The survey requested data on organizational characteristics, financial position, products and services, and community development outputs as of the end of FY 2004. A total of eight sent back completed surveys. For the 45 nonresponding community development banks for which we have public data, data were obtained from the FDIC Website for a limited number of data points.

Consequently, when a survey question sought the same information provided on the call report, those data were obtained for all 284 CDCUs. Thus, it was possible to include an aggregated tally for the whole CDCU movement (as defined by this study) for those data points. For those survey questions, the sample size was all 284 credit unions. For requested data unique to the survey (and thus not available for nonrespondents), this report presents only the numbers drawn from the respondents. The sample size in such cases is limited to the 114 institutions that responded.

The CDP sent surveys to 58 community development banks for FY 2004. The survey requested data on organizational characteristics, financial position, products and services, and community development outputs as of the end of FY 2004. A total of eight sent back completed surveys. For the 45 nonresponding community development banks for which we have public data, data were obtained from the FDIC Website for a limited number of data points.
Appendix B: Glossary of Terms

Staffing and Governance
full-time equivalents (FTEs): Includes full- and part-time employees of the organization and volunteers who fill regular staff positions. Excludes temporary staff and professional services conducted outside of the office by third parties, such as accounting, bookkeeping, and legal counsel. One FTE is at least a 35-hour workweek.
specialized staff (FTEs): Staff dedicated to one or more specific functions.

> lending/investing: Includes all FTEs performing the following functions: portfolio management, loan/investment underwriting and outreach, and loan/investment administration.
> training and technical assistance: Includes all FTEs providing training and technical assistance. Training refers to a forum such as a workshop, while technical assistance is customized to an individual or specific organization.
> financial services: Includes all FTEs providing services such as savings products, checking accounts, and other services (e.g., wire transfers). Includes all work performed by tellers.

Capital Available for Financing
capital under management (venture capital, VC): Traditional VC funds, organized as limited lifespan funds, are described in terms of their capital under management, not their total assets, as are banks, credit unions, and loan funds. Capital under management is the total amount of capital that investors have committed to the fund and includes drawn and undrawn capital. The chapter on CDVC funds reports CDVC capital under management by summing the capital commitments for each of the limited lifespan CDVC funds and the total assets for each of the evergreen funds.

total lending/investing pool or capital available for financing: Includes all capital for lending and investing held by a CDFI, as of FYE 2004. This lending/investing pool includes only capital shown on the statement of financial position as received—it does not include capital commitments, grants receivable for capital, or undrawn funds, with the exception of the venture fund sector (which includes committed capital).

total lending/investing pool = borrowed funds + deposits + shares + nonmember deposits + secondary capital + equity equivalent investments + equity capital.

> borrowed funds: Loans payable related to financing. Also referred to as debt capital or investor capital. Funds lent to a CDFI from a third party that the CDFI will re lend or reinvest in the communities it serves.
> deposits: Funds placed in a depository institution by individuals or organizations, typically earning interest and insured by governmental agencies.
> shares: A deposit made in a credit union that confers ownership rights in the credit union on the depositor.
> nonmember deposits: Funds placed in a credit union by individuals or organizations that are not members of the credit union. Nonmember deposits do not confer ownership rights in the credit union to the depositor and are typically limited to a small percentage of a credit union's total deposits.

> secondary capital: A specific type of capital used only by low-income designated credit unions. It is defined by the National Credit Union Administration as having several key characteristics: uninsured, subordinate to all other claims, minimum maturity of five years, and not redeemable prior to maturity.

> equity equivalent investments (EQIs): Unsecured debt that has some of the same advantages as equity because it is subordinate to all other debt and carries a rolling term, the investor has a limited right to accelerate payment, and interest is not tied to income. The investing bank also receives advantageous Community Reinvestment Act credit.

Capital Sources
nondepository financial institutions: Includes all financial institutions that are not banks, thrifts, or credit unions, including mutual funds, insurance companies, and finance companies.

Sectors Served
business: Financing to for-profit and nonprofit businesses with more than five employees or in an amount greater than $35,000 for the purpose of start-up, expansion, working capital, equipment purchase/rental, or commercial real estate development or improvement.

community services: Financing to community service organizations such as human and social service agencies, advocacy organizations, cultural and religious organizations, health care providers, and child care and education providers. Uses include acquisition, construction, renovation, leasehold improvement, expansion loans, as well as working capital loans and lines of credit.

consumer financial services: All personal loans (secured and unsecured) to individuals for health, education, emergency, debt consolidation, and consumer purposes. Generally, personal loans for business are classified as microenterprise or business; personal loans for home improvement or repair are classified as housing.

housing: Financing to housing developers for predevelopment, acquisition, construction, renovation, lines of credit, working capital, and mortgage loans to support the development of rental housing, service-enriched housing, transitional housing, or residential housing. Includes loans to individuals to support homeownership and home improvement.

microenterprise: Financing to for-profit and nonprofit businesses with five or fewer employees (excluding proprietor) and with a maximum loan/investment of $35,000. This financing may be for the purpose of start-up, expansion, working capital, equipment purchase/rental, or commercial real estate development or improvement.

other: Any activities not covered in the sectors defined here (includes financing to other CDFIs).

Financing Outstanding
debt-with-equity-features: Includes convertible debt, as well as debt with warrants, participation agreements, royalties, or any other feature that links the investment's rate of return to the performance of the company that received the investment.

equity investments: Investments made in for-profit companies in which the CDFI receives an ownership interest in the equity (stock) of the company.

guarantees: Includes guarantees or letters of credit provided to enhance the creditworthiness of a borrower receiving a loan from a third-party lender.

loan loss reserves: Funds set aside in the form of cash reserves or through accounting-based accrual reserves that serve as a cushion to protect an organization against potential future losses. Loan loss reserves typically show up as a contra asset on the balance sheet.

total loan losses: The net amount charged off. Losses are reported after default, foreclosure, and liquidation and are the net of any recovered assets. If any amount is reclaimed in the current fiscal year on loans/investments that were written off in previous years, that amount is subtracted from the amount written off in the current fiscal year.

total loans outstanding: The number of loans for which principal was outstanding as of the last day of the fiscal year. These loans may have originated during the fiscal year or in a previous year. This number includes any loans that have been restructured, but not those loans that have been written off.

Deposit Products and Services
individual development accounts (IDAs): Matched savings accounts, similar to 401(k)s, that can be used by low-income households to purchase homes, seek postsecondary education, capitalize small businesses, or engage in other types of economic development activities.

Geographic Area Served
major urban area: In a metropolitan statistical area of equal to or greater than one million. Includes both central city and surrounding suburbs.
minor urban area: In a metropolitan statistical area of less than one million. Includes both central city and surrounding suburbs.
rural: All areas outside major urban and minor urban areas.

Clients Served and Outcomes
housing units created: Includes new construction or units projected to be constructed or complete rehabilitation of existing housing units that were previously unoccupied.

housing units renovated or preserved: Renovated includes units that have been renovated or are projected to be renovated. Preserved includes mark-to-market and similarly preserved units.

jobs assisted = jobs created + jobs maintained.

jobs created: The change in the number of jobs at a microenterprise or business financed between two fiscal years (i.e., the net job change). When calculating the number of jobs at the microenterprise or business, only permanent full-time-equivalent jobs are counted.

jobs maintained: Total number of employees at a microenterprise or business financed at the time a given loan or investment closed.

low-income: A customer who has an annual income, adjusted for family size, of not more than 80% of the area median family income for metropolitan areas, or the greater of (1) 80% of the area median family income, or (2) 80% of the statewide nonmetropolitan area median family income for nonmetropolitan areas.
Providing Capital
Building Communities
Creating Impact
The CDFI Data Project (CDP) is an industry collaborative that produces data about CDFIs. The goal of the CDP is to ensure access and use of data to improve practice and attract resources to the CDFI field. The CDP collected FY 2004 data on 517 CDFIs. The data set includes approximately 170 data points on operations, financing, capitalization, and impact. Supported by the Fannie Mae Foundation, the Ford Foundation, and the John D. and Catherine T. MacArthur Foundation, this initiative convenes leading organizations in the CDFI industry.

Partner Organizations

> Aspen Institute  
www.fieldus.org  
National nonprofit that disseminates best practices and educates policymakers, funders, and others about microenterprise

> Association for Enterprise Opportunity  
www.microenterprise.org  
National member-based trade association of more than 500 microenterprise development programs

> Coalition of Community Development Financial Institutions  
www.cdfi.org  
Lead organization in the United States that promotes the work of CDFIs

> Community Development Venture Capital Alliance  
www.cdvca.org  
Certified CDFI intermediary that serves community development venture capital funds through training, financing, consulting, research, and advocacy

> CFED  
www.cfed.org  
National nonprofit that promotes asset building and economic opportunity strategies, primarily in low-income and distressed communities

> National Community Investment Fund  
www.ncif.org  
Certified CDFI that channels equity, debt, and information to locally owned banks, thrifts, and selected credit unions with a primary purpose of community development

> National Federation of Community Development Credit Unions  
www.cdcu.coop  
Certified CDFI intermediary that serves more than 200 low-income credit unions across the United States

> Opportunity Finance Network  
www.opportunityfinance.net  
Leading national network that finances, trains, consults with, and advocates for CDFIs

For more information on the CDFI Data Project, contact any of the partner organizations or Beth Lipson or Jon Schwartz of Opportunity Finance Network at blipson@opportunityfinance.net or jschwartz@opportunityfinance.net.