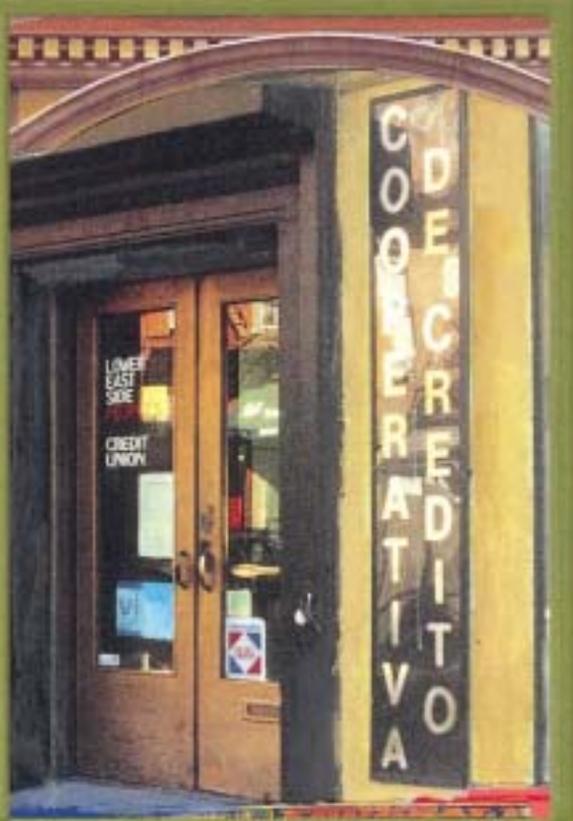


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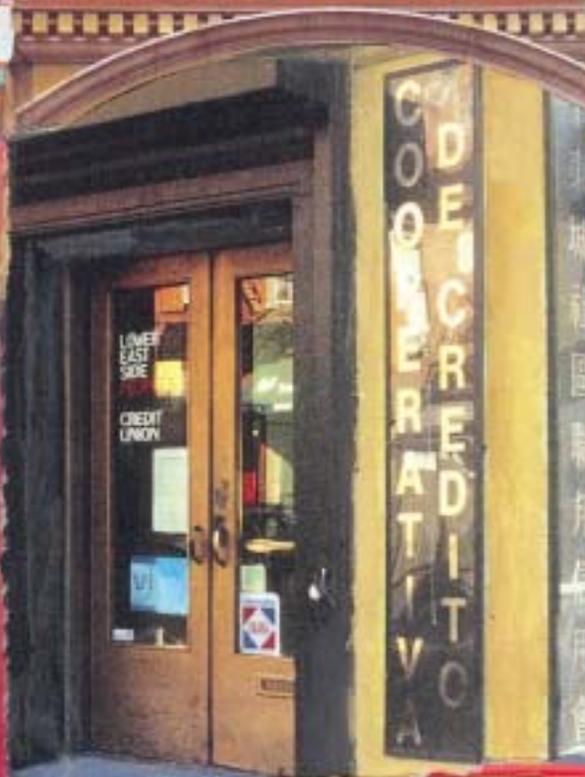


Community Development Financial Institutions



Providing Capital

Building Community



Creating Impact



This report is a product of the CDFI Data Project (CDP)—a collaborative initiative that produces high-quality, comprehensive data about CDFIs on an annual basis. The goal of the CDP is to ensure access to and use of data to improve practice and help build the CDFI field. ***Community Development Financial Institutions: Providing Capital, Building Community, Creating Impact*** presents fiscal year (FY) 2001 data collected through the CDP from 512 CDFIs.

CDP partners surveyed 828 CDFIs and compiled and cleaned data from 512 CDFIs on their activity in 2001, working together with the CDFI Fund. The 2001 data set represents a 35% increase in sample size over the first CDP set of FY2000 data, which included 379 institutions. Over the past two years of data collection, the CDP has developed a standardized and highly coordinated process for data definition, collection, quality control, and management. This partnership produced the CDP 2001 data set—the largest and most comprehensive sample of CDFI data to date in the field—which includes common data elements across all industry sectors: loan funds, venture capital funds, credit unions, and banks.

This report is intended as a snapshot of a diverse, dynamic sector as it looked in 2001. We hope to provide the reader with an overview of the CDFI industry, based on a common set of data points from a large sample of CDFIs. We also hope to provide data that readers can use to explore more specific issues or questions in further detail.

A Publication of the CDFI Data Project

Written by the Corporation for Enterprise Development, with the National Community Capital Association

CFED would like to thank all the members of the CDFI Data Project Board for their assistance and editorial guidance in this publication.

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Table of Contents

I. Executive Summary: Bridging the gap in low-income communities	3
About this study	6
II. Overview: The CDFI industry	7
What are CDFIs?	7
Why are CDFIs needed?	7
What types of CDFIs exist?	9
Where did CDFIs come from?	10
What is the CDFI Fund?	11
How big is the CDFI field?	13
How much in assets do CDFIs control?	14
How big are CDFIs?	16
Where are the CDFIs?	17
How are CDFIs governed?	19
III. What do CDFIs offer?	21
Who are the customers?	21
What types of activities are CDFIs involved in?	21
What kinds of financing products are offered?	26
Loans	
Equity investments	
Debt-with-equity-features	
Guarantees	
Linked deposits	
How much financing do CDFIs provide?	30
How well do CDFIs perform?	31
How do CDFIs manage deposits?	33
What kind of technical assistance do CDFIs provide?	35
Who does the work?	36
IV. Where does the capital come from?	39
V. What impact do CDFIs have?	43
Business and microenterprise	43
Affordable housing and community facilities	44
Construction and renovation	44
Financing	45
Community facilities	46
VI. The Road Ahead: Key trends, opportunities, and challenges facing CDFIs	47
Appendix A: Methodology	51
Appendix B: Glossary of terms	53
Appendix C: The CDFI Data Project	57
Appendix D: Additional data	59
Endnotes	65

Table of Contents

Figures and tables

FIGURE 1:	Growth of CDFIs by decade	12
FIGURE 2:	2001 sample	13
FIGURE 3:	Legal structure	13
FIGURE 4:	Total assets	15
FIGURE 5:	Five largest CDFIs in this study	15
FIGURE 6:	Distribution by size	16
FIGURE 7:	CDFIs by state	17
FIGURE 8:	CDFI assets by state	18
FIGURE 9:	Geographic markets served	18
FIGURE 10:	Geographic markets served	19
FIGURE 11:	Average board membership	20
FIGURE 12:	Customer profile	22
FIGURE 13:	Financing outstanding by sector served (%)	25
FIGURE 14:	Financing outstanding by financial product type	26
FIGURE 15:	Average loans outstanding	27
FIGURE 16:	Average equity outstanding	28
FIGURE 17:	Average debt-with-equity-features outstanding	29
FIGURE 18:	Financing closed by product type	31
FIGURE 19:	Portfolio performance	32
FIGURE 20:	Assets held by depositories	34
FIGURE 21:	Financial products and services	34
FIGURE 22:	Training offered by CDFI type	35
FIGURE 23:	Staffing	36
FIGURE 24:	Total capital	39
FIGURE 25:	Capital structure	40
FIGURE 26:	Jobs created or maintained	44
FIGURE 27:	Affordable housing	45
FIGURE 28:	Community facilities	46
FIGURE D-1:	Legal structure	59
FIGURE D-2:	Distribution by size	59
FIGURE D-3:	CDFIs by state	60
FIGURE D-4:	Median loan size outstanding by sector	60
FIGURE D-5:	Financing closed by product type	61
FIGURE D-6:	Delinquencies	61
FIGURE D-7:	Loan loss reserves	61
FIGURE D-8:	Deposit product mix	62
FIGURE D-9:	Capital types (\$)	62
FIGURE D-10:	Capital sources (\$)	63
FIGURE D-11:	Capital sources (%)	63
FIGURE D-12:	Microenterprises and businesses financed	64

Bridging the gap in low-income communities

Community development financial institutions (CDFIs) have emerged in recent years to fill critical needs not being met through mainstream financial institutions. Poor people and communities have always had a more difficult time than the rest of society in accessing **financial services**. Once the object of explicit discrimination through bank “redlining,” low-income, minority, and female citizens now face more subtle but important barriers to financial institutions. Many families do not use financial institu-

tions for **deposits**, financial products, or loans because of a complex combination of lack of information on the part of potential customers and barriers to entry and structural changes on the part of the institutions.

As the banking sector becomes more consolidated, less rooted in individual communities, and more tied into the growing electronic commerce sector, it marginalizes lower income individuals. Increasingly, these customers are turning to more costly though often more accessible services such as check cashers and payday lenders.

CDFIs respond to that gap in the marketplace. Rooted in a century-old tradition but with very rapid growth in the past two decades, the CDFI field has found effective ways to reach underserved markets. There are 800 to 1,000 CDFIs operating in all 50 states and the District of Columbia today. Of these, the CDFI Data Project (CDP) collected and analyzed detailed data from 512 individual CDFIs. The data presented here represent the most complete snapshot to date of this young and dynamic industry.

Considering the relatively recent emergence of CDFIs as a distinct field, much has been accomplished in a short time. In 2001, the CDFIs represented in this study accomplished the following:

- Managed assets totaling \$9.3 billion
- Provided \$2.9 billion in new financing
- Provided 117,000 consumer finance transactions
- Provided **training and technical assistance** to over 120,000 customers, including personal financial literacy, budgeting, and small business training

Note: throughout this book, words defined in the glossary are presented in bold—like “financial services” and “deposits” in this paragraph—the first time they appear.



I. Executive Summary

- Financed and assisted about 7,500 businesses that **created** or **maintained** almost 53,000 jobs
- Provided asset-building savings and retail financial services to over 2.1 million people via credit unions and almost half a million people via retail banks
- Facilitated the construction or renovation of over 43,000 units of affordable housing for low-income families
- Built or renovated over 500 community facilities in economically disadvantaged communities
- Provided overall financing—including loans, **equity investments**, **debt-with-equity-features**, **guarantees**, and **linked deposits**—totaling \$5.7 billion
- Reached a base of 53% female, 64% minority, and 74% low-income customers, all much higher proportions than the mainstream financial institution sector
- Maintained an overall charge-off rate of only 0.7%
- The institutions that have achieved these results are quite varied in many respects. The field includes four distinct kinds of CDFIs:
 - Community development loan funds
 - Community development venture capital funds
 - Community development credit unions
 - Community development banks

Each has a unique structure and unique advantages and disadvantages. Some are very small, rely on volunteer staff, and focus their efforts on a specific community;

others are fairly large and regional in nature. Some focus on one specific product; others pursue myriad strategies and may contain multiple types of organizational structures under one organizational umbrella.

CDFIs offer a variety of financial products, including loans, equity investments, loans with equity features, loan guarantees, and linked investments. Some institutions—banks and credit unions—take deposits and are regulated and insured

similarly to mainstream financial institutions. Others do not take deposits and are not subject to such regulation. Some are for-profit entities; most are nonprofit. All have mechanisms that make them accountable to the communities they serve.

All CDFIs have mechanisms that make them accountable to the communities they serve.

I. Executive Summary

Many institutions, especially credit unions, are fairly small, focus on the needs of specific populations, and often use volunteer labor to supplement the work of paid staff. A smaller number of CDFIs, largely but not exclusively community development banks, are quite large, serve a broader geographic area, and rely exclusively on the work of paid staff.

CDFIs offer services to individuals, companies, providers of community facilities, and developers of affordable housing. They provide both financing and nonfinancing services, both of which can be grouped into five principal categories:

- **Microenterprise development**, providing financing and technical assistance to very small businesses.
- **Small- and medium-sized business development**, providing similar services to more mature businesses.
- **Housing financing** for the construction of affordable housing and direct lending and services to low-income families.
- **Community services**, including financing and other assistance to community service organizations.
- **Consumer financial services**, including financing and nonfinancing assistance to individuals for health, education, emergency, debt consolidation, transportation, and consumer purposes.

CDFIs have built a strong track record in a short time. They have clearly demonstrated that the need for these financial services exists. They have also demonstrated that seemingly “high-risk” transactions can be made in prudent and effective ways.

In addition to their own work, many CDFIs also partner with mainstream financial institutions to help expand the mainstream institution’s lending and services to underserved markets. In many communities, the common alternatives to CDFIs are not mainstream lenders but unscrupulous, predatory lenders. To serve their communities, CDFIs work to supply responsible, fair alternatives to this costly fringe of the financial services industry, not only by providing services directly, but also by helping mainstream lenders better respond to the needs of underserved and unbanked populations.

CDFIs have built a strong track record in a short amount of time.

They have also demonstrated that seemingly “high-risk” transactions can be made in prudent and effective ways.

I. Executive Summary

The CDFIs profiled in this publication represent, in many ways, the cutting edge of current efforts to effect social and economic change. By bringing more families and communities into the financial mainstream, CDFIs are working all across the country to build strong and financially self-sufficient families and communities.

About this study

A few notes about language and assumptions may be helpful to the reader.

CDFIs reported information based on their own fiscal year (FY), which may be different from the calendar year and may vary from institution to institution. Our references to results in 2001 are shorthand for this aggregation of results from each institution's FY2001.

Of the 828 CDFIs that provided data for this project, information from 512 was deemed complete and accurate enough to include in this study with a strong level

of comfort. Appendix A describes the methodology used for collecting and interpreting data.

This is the largest such study of the industry to date.

This is the largest such study of the industry to date, but it nonetheless represents a bit more than half of the industry and, notably, leaves out at least one CDFI that is one of the largest in the nation. For ease of reading, we frequently

refer to our study sample as the result of CDFIs generally, but the reader should keep in mind that this effort clearly misses the work of many institutions. In places in which we believe this omission may be particularly important, we remind the reader with explicit references to this fact. Not all questions were relevant to all CDFIs and thus were not answered by every institution; as a result, the number of responses to individual questions may frequently be less than the total study size and is noted accordingly.

Appendix B provides definitions of terms common to the CDFI field. Appendix C gives an overview of the CDP.

Although much detail is contained in the body of this publication, additional data are available in Appendix D. References to information in Appendix D are noted, where appropriate, in the body of the publication.

The CDFI industry

What are CDFIs?

Despite enormous growth in the industry in recent years, CDFIs are still relatively unknown among the general public. CDFIs are specialized financial institutions with a core mission of providing financial products and services to people and communities underserved by traditional financial markets. Currently, 800 to 1,000 CDFIs operate in low-wealth communities in all 50 states and the District of Columbia. CDFIs provide affordable banking services to individuals and help finance **small businesses, low-cost 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 or needed services or both to economically disadvantaged communities
- **Affordable housing developers** that construct and rehabilitate homes that are affordable to low-income families
- **Community facilities** 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, and 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

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.



II. Overview

financial services to these underserved people and communities, 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. Twelve million households in the United States today either have no relationship with mainstream lenders or depend on fringe financial institutions, and one fourth of lower income families are unbanked.¹ This exacerbates longstanding difficulties that low-income families, and the nonprofit institutions that serve them, have had in accessing credit and financial services.

In the absence of these 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, for instance, offer quick cash but charge annual interest rates

between 261% and 913%.²

Specialized services develop, such as an industry focused on preparation, electronic filing, and refund anticipation loans to those who can claim the Earned Income Tax Credit, eating up \$1.8 billion annually of that credit, which is meant

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.

to help the working poor.³ Costs of predatory lending practices exceed \$9 billion every year.⁴ CDFIs offer responsible alternatives to these predatory lenders, providing necessary products and services at a fraction of the costs to consumers.

CDFIs respond to market need with a variety of approaches. They respond to the needs for affordable housing, small business development and job creation, the creation of community facilities, financial literacy and consumer education, and safe and fair mechanisms for low-income customers to do such simple things as open a checking account, save for investments in their future, and learn about and tap into ways to build equity for their families.

These efforts fit into two broad categories. First, all CDFIs provide **financial services**, which can take a variety of forms depending on the need. They include such disparate activities as loans, equity investments, deposits, branch and automatic teller machine (ATM) access, and consumer financial products.

Second, 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. In this category are such activities as entrepreneurial education, homeownership counseling, savings programs, and financial literacy training.

These activities, and the customers to which they are directed, are discussed in greater detail in the sections that follow.

What types of CDFIs exist?

CDFIs take several forms, embodying a diverse range of organizational structures and activities, while sharing a common goal of promoting community development. CDFIs can be grouped into four categories: loan funds, venture capital funds, credit unions, and banks:

- **Community development loan funds** provide financing and development services to businesses, organizations, and individuals in low-income **urban** and **rural** 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 CDFIs serve more than one type of client in a single institution. Loan funds tend to be nonprofit and governed by boards of directors with community representation.
- **Community development venture capital funds** provide equity and debt-with-equity-features for medium-sized businesses in distressed communities. They can be either for-profit or nonprofit and include community representation.
- **Community development credit unions** 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 the NCUA.
- **Community development banks** provide capital to rebuild economically distressed communities through targeted lending and investment. They are for-profit corporations with community representation on their boards of directors.

CDFIs embody a diverse range of organizational structures and activities, while sharing a common goal of promoting community development.

II. Overview

Depending on their individual charter, banks are regulated by some combination of the Federal Depository 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 the FDIC.

Where did CDFIs come from?

The roots of the CDFI industry go back to the early 1900s. Some of the first CDFIs were “depositories”—institutions that take deposits, in this case including credit unions and banks—that collected savings from the communities they served in order to make capital for loans available to those same communities. Credit unions and banks dominated the CDFI field until the 1960s and 1970s when community development corporations (CDCs) and community development loan funds emerged to make capital available for small businesses and affordable housing developers.

The CDFI industry grew significantly in the 1990s.

Half of the CDFIs in existence in 2001 started during the 1990s.

In the 1990s, the CDFI industry grew significantly. Half of the CDFIs⁵ in existence in 2001 started during the 1990s. Several factors contributed significantly to the recent growth, most notably, the creation and subsequent growth of the CDFI Fund (*see “What is the CDFI Fund?”, facing page*). Since 1994, the year the Fund was created, 149 CDFIs (38%) began financing.

Other factors have also contributed to CDFI growth. The federal government strengthened provisions and enforcement of the Community Reinvestment Act (CRA) during the 1990s.⁶ In particular, the new 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. Most importantly, by the mid-1990s, the industry had established a very successful track record in making effective, prudent use of capital in economically disadvantaged markets.

The four institution types have distinct histories and growth trajectories (*see Figure 1, page 12*). Community development banks and credit unions are the most mature sectors, with slow and steady growth for the past several decades. Loan funds are much newer, with 80% of them beginning in the 1980s and 1990s. Venture capital funds are newer still: only one venture capital fund in this study began financing before 1990.

What Is the CDFI Fund?

In 1994, the federal government established the CDFI Fund as a new program within the U.S. Department of Treasury. Its mission was to strengthen the growing network of CDFIs, using them to make capital and financial services available to the nation's underserved people and communities. The CDFI Fund operates three principal programs:

- **CDFI Support** provides loans, equity investments, and grants to CDFIs to support both capitalization and capacity building, enhancing their ability to create community development impact in underserved markets. This program is comprised of three components: Financial Assistance, Technical Assistance, and Native American CDFI Development.
- **Bank Enterprise Awards** provide financial incentives to banks and thrifts to invest in CDFIs and support other community development finance work.
- **New Markets Tax Credits** are part of a new effort to provide incentives to the private sector to make more than \$15 billion in equity investments in low-income communities.

The Fund is now the largest single source of funding for CDFIs. It plays an important role in attracting and securing private dollars for CDFIs by requiring them to match their award with nonfederal funds. Between 1995, its first year of funding, and 2003, the Fund made more than \$534 million in awards to community development organizations and financial institutions.

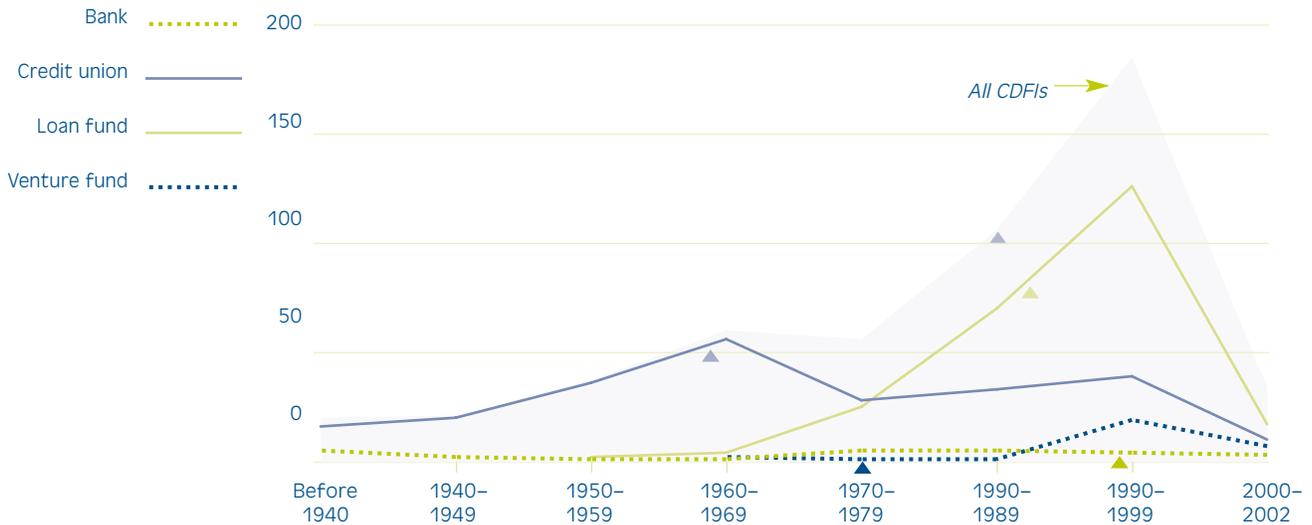
CDFI certification

CDFIs certified by the CDFI Fund must meet a number of criteria, including pursuing a primary mission of community development and providing financing as its primary line of business. A number of different types of community development organizations that provide important training and technical assistance services, for example, do not meet these criteria. Others choose, for financial or individual reasons, not to pursue certification.

FIGURE 1

Growth of CDFIs by decade

Number of new CDFIs starting up each decade. ▲ is median year begun—year of charter for credit unions, and year the institution started financing for other sectors.



Today, 800 to 1,000 CDFIs exist across the United States. The 512 CDFIs participating in this study represent a significant (though not comprehensive) glimpse of the total industry overall.

One distinction among organizations is the subset of **certified** CDFIs, a designation conferred by the CDFI Fund of the U.S. Treasury Department (*see “What is the CDFI Fund?”, preceding page*).

As of April 2003, there were 678 certified CDFIs.⁷

Sixty percent of the CDFIs in our study are certified CDFIs. However, some CDFIs—including many surveyed by the CDP—are not certified, either because they have

chosen not to apply for certification or they do not meet all the Fund’s eligibility criteria.⁸ Most banks (94%), loan funds (86%), and venture capital funds (54%) represented in the CDP 2001 study are certified CDFIs. Only a third of credit unions in this study are certified CDFIs.⁹

Today, 800 to 1,000 CDFIs exist across the United States.

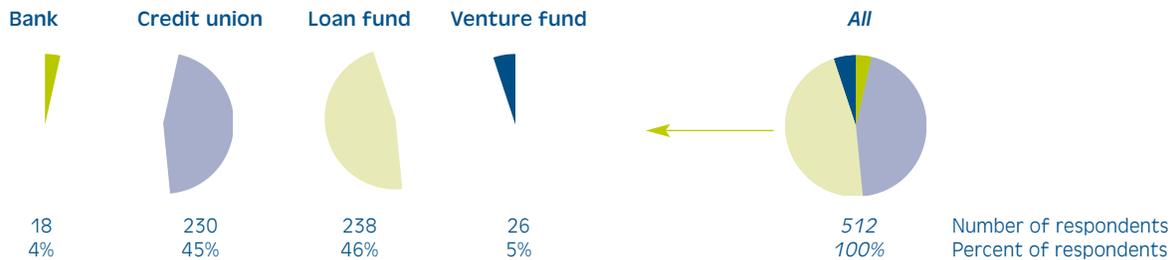
The 512 CDFIs participating in this study represent a significant—though not comprehensive—glimpse of the total industry overall.

How big is the CDFI field?

The current CDP data set from FY2001 captures operational and financial information from 512 of the 800 to 1,000 CDFIs operating in the United States, representing the most comprehensive look to date at this field (see Figure 2). The bulk of the organizations are community development loan funds or community development credit unions, together representing 92% of institutions in our study.

FIGURE 2

2001 sample



As with mainstream lenders, a variety of institutions have emerged to serve the broad range of needs in CDFI markets. While sharing a common vision of expanding economic opportunity and improving the quality of life for low-income people and communities, different business models and legal structures define the four CDFI institutional types (see Figure 3 and Appendix D, Figure D-1).

FIGURE 3

Legal structure

Number of respondents



II. Overview

For example, while the community development banks in the sample are all for-profit entities, community development credit unions are nonprofit cooperatives with members (and customers) as shareholders. The vast majority of community development loan funds (97%) are nonprofit. The community development venture capital field is the most varied, with a third (35%) structured as nonprofits, and the remainder as for-profits, the latter category including limited liability companies, limited partnerships, and C-corporations among their corporate structure. Within certain constraints, CDFIs choose the legal structure that maximizes value and resources to the people and communities they serve.

Nearly all of the depositories—credit unions and banks—are regulated by state or federal agencies (or both). The loan funds and venture funds are unregulated institutions. This distinction has enormous structural implications, as it gives these institutions different tools to leverage funding and build capitalization but also subjects them to additional constraints on the types of activities they can undertake.

How much in assets do CDFIs control?

The CDFIs in this study currently manage \$9.3 billion in assets. While this represents a significant amount of capital ready to be deployed in underserved communities, it is

still quite modest compared with the mainstream financial sector. In 2001, for comparison, the 100 largest U.S. banks alone controlled almost \$6.5 trillion in assets, with a

The CDFIs in this study currently manage \$9.3 billion in assets. While this represents a significant amount of capital ready to be deployed in underserved communities, it is still quite modest compared with the mainstream financial sector.

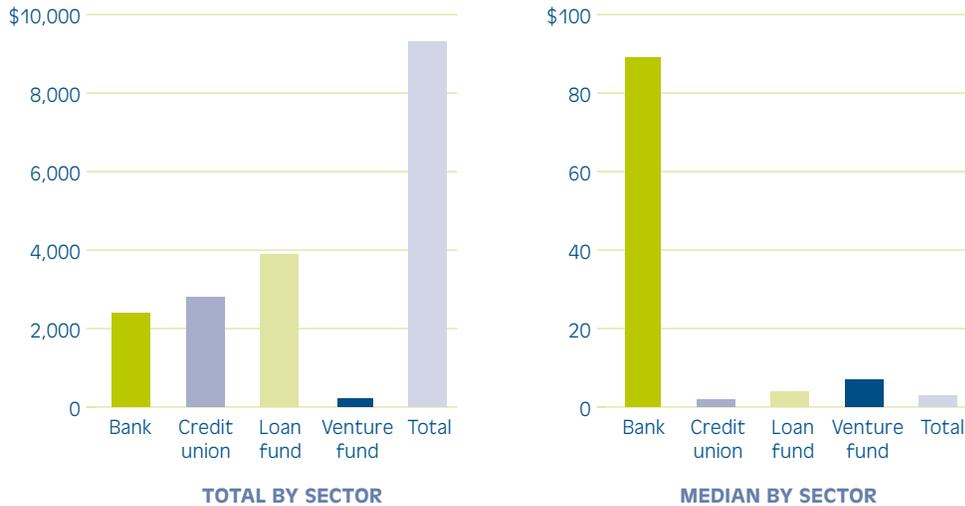
single institution holding over \$1 trillion.¹⁰ Thus, while the growth of the CDFI sector over the past decade is significant in relative terms, the industry remains a specialized, niche player in the wider financial services industry.

Institution size varies widely across the four CDFI sectors, with striking differences between the bank and credit union sectors (see Figure 4). The community development credit union sector represents a large number of small organizations, the inverse of the banking sector. For example, 18 community development banks together hold nearly as much in assets (\$2.4 billion) as do 229 credit unions (\$2.8 billion). The average bank holds nearly \$133 million in assets, and the average credit

FIGURE 4

Total assets

Millions of dollars



union only \$12 million. Loan funds command a larger portion of field assets (42%, or \$3.9 billion) but, on average, are more similar in size to the credit unions. Venture capital funds tend to be the smallest institutions and manage only 2% of total assets reported—hardly surprising considering their recent emergence within the CDFI field.

A small number of CDFIs also hold a substantial portion of the field’s total assets. For example, over one quarter of total credit union assets are held by a single institution. Similar concentrations are held in the banking, loan fund, and, to a lesser extent, venture capital sectors. The five largest CDFIs in this study, three of which are loan funds, command 30% of total assets in this study overall (*see Figure 5*).

FIGURE 5

Five largest CDFIs in this study

Sector	Total assets
Credit union	\$745.5 million
Loan fund	\$677.9 million
Loan fund	\$480.9 million
Bank	\$449.7 million
Loan fund	\$364.7 million

Together represent 29% of assets reported in this study

How big are CDFIs?

CDFIs vary widely by size. Some are small institutions that focus on the needs of a specific community or sector. Others are relatively large (though small by mainstream lending standards) and serve entire states or regions.

For the purpose of analysis, we have organized the industry into five sectors by size:

very small (assets under \$1 million), small (\$1–\$10 million), medium (\$10–\$50 million), large (\$50–\$100 million), and very large (over \$100 million) (see *Figure 6*).

CDFIs vary widely by size. Some are small institutions that focus on the needs of a specific community or sector. Others are relatively large and serve entire states or regions.

On the whole, the credit union sector is made up of small or very small institutions.

Although not as small on average, most loan funds and venture capital funds tend toward this end of this spectrum as well. Most banks, on the other hand, are large or very large.

While most organizations in the field have less than \$10 million in assets, overall industry results are skewed by a relative handful of very large institutions, a category that includes banks, loan funds, and credit unions. These are unusual organizations in the credit union and loan fund world (only 2% of each sector are in this cat-

FIGURE 6

Distribution by size

Percent of sector



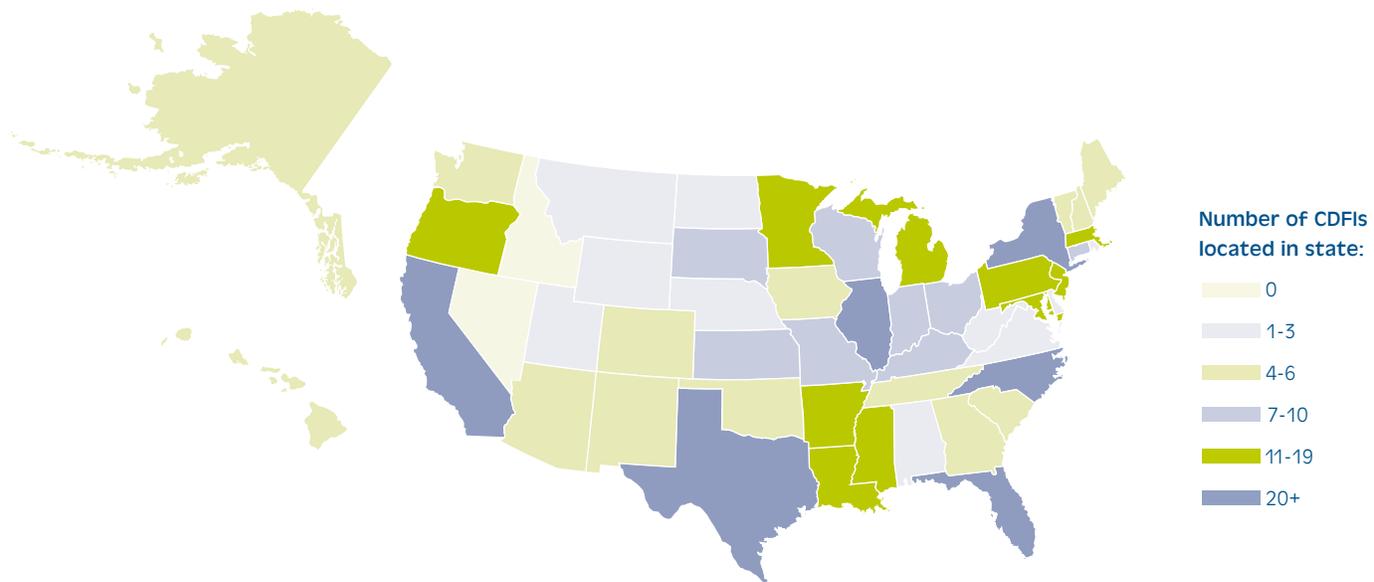
egory), but close to the norm for community development banks (44% are in this group). (See Appendix D, Figure D-2, for detailed data.)

Where are the CDFIs?

Just as capital tends to concentrate in the largest institutions, CDFI capital also concentrates in certain areas of the country (see Figure 7, below, and Figure 8, next page). Not surprisingly, the most populous states have the most CDFIs. Six states (New York, Texas, North Carolina, California, Florida, and Illinois) are home to 38% of the CDFIs and 55% of total assets counted in this study.¹¹ There are fewer CDFIs in the southern and western states than in other areas. Our study includes CDFIs located in 48 states, the District of Columbia, and Puerto Rico (see Appendix D, Figure D-3).

FIGURE 7

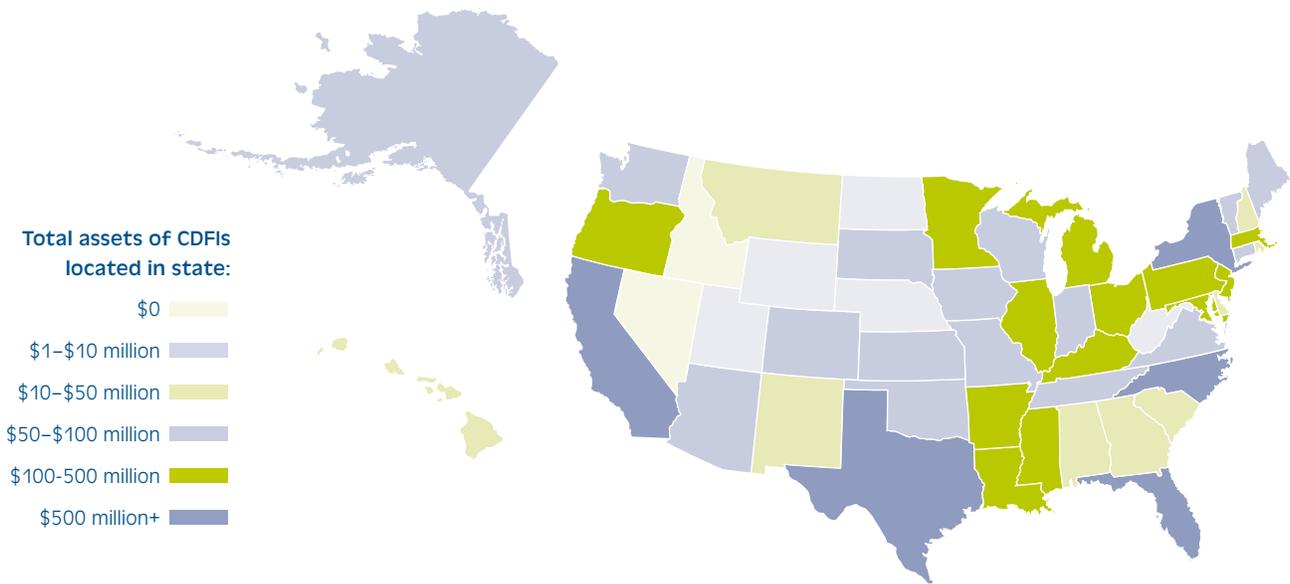
CDFIs by state



*Does not include the 4 CDFIs that did not report assets on the survey.

CDFIs serve a range of geographic markets across the country. Forty percent of CDFI clients come from large urban areas (over one million residents), one third come from rural areas, and the rest come from small urban areas (under one million

FIGURE 8
CDFI assets by state



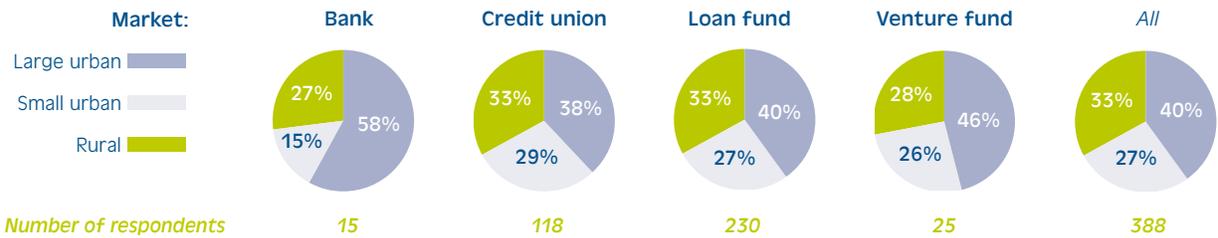
*Does not include the 4 CDFIs that did not report assets on the survey.

residents but not rural). The principal variation is with banks, which tend to concentrate more on large urban areas than other sectors. Credit unions, loan funds, and venture capital funds exhibit strikingly similar patterns of geographic coverage (see *Figure 9*).

Somewhat surprisingly, relatively few CDFIs see large percentages of their clients coming exclusively from either rural, large urban, or small urban areas. Most CDFIs

FIGURE 9
Geographic markets served

Percent of respondents



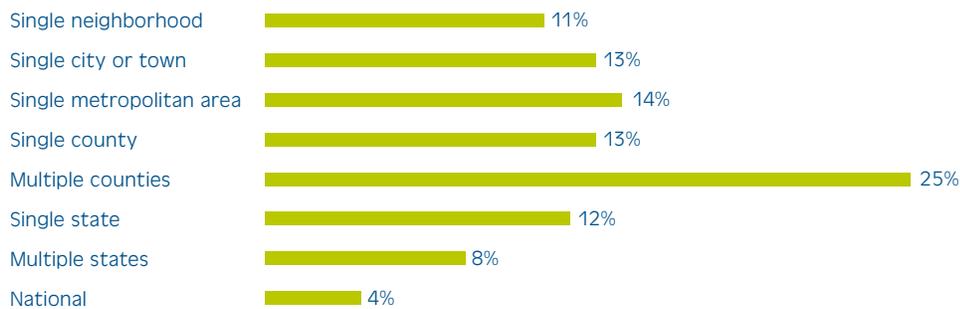
serve clients that span two or more of these geographic categories. Only banks show significant concentration (in large urban areas), but this may be skewed by the small number of these institutions.

In terms of geographic coverage, CDFIs are predominantly local institutions—51% serve a single county or smaller area. Overall, only 12% of CDFIs serve a multistate or national market (see *Figure 10*).

FIGURE 10

Geographic markets served

Percent of CDFIs responding



How are CDFIs governed?

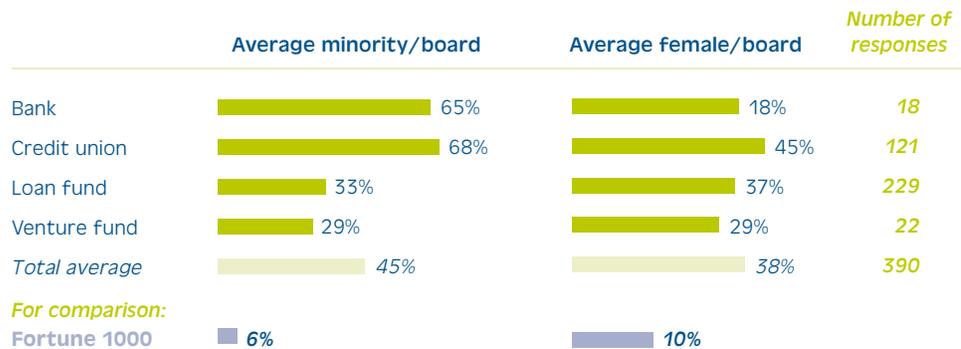
CDFIs establish representation of the communities they serve at the highest levels of senior management and governance. Because of the emphasis on underserved markets, female and minority representation in particular are typically areas of strong concern. On average, women and minorities are very well represented on boards of directors of institutions among all four CDFI institution types (see *Figure 11, next page*), especially when compared with the board representation of the nation's largest (*Fortune 1000*) firms.¹²

CDFIs represent the communities they serve at the highest levels of senior management and governance. On average, women and minorities are very well represented in the governance of all four CDFI institution types.

II. Overview

FIGURE 11

Average board membership



CDFI case study: Building community...

Tony Dolphin, an African-American entrepreneur, saw an opportunity to create his own business when Digital Equipment Corporation announced that it would close the division in which he was working. Tony had been a General Manager at Digital for more than 10 years and decided to approach the company with a proposal to buy out its hard drive repair division. Digital agreed, and Dolphin formed SpringBoard Technologies, carving out a niche in the competitive computer repair business, providing computer systems, network products and peripherals to service providers and large computer manufacturers. Despite early successes, Dolphin knew that, to stay competitive, the company would have to be able to respond rapidly to a quickly changing market. But to make the kind of investment necessary to keep his business competitive, Dolphin had to secure a substantial amount of patient capital. The company sought and obtained a \$500,000 equity investment from Boston Community Ventures Fund, a community development venture capital fund. **Financing from Boston Community Venture Fund has helped create and preserve more than 100 jobs. Springboard has brought people in from the community, given them some basic skills, and helped them to advance within the company. SpringBoard's inner-city employees have not only the opportunity for good jobs at good pay, but also potential for career advancement.** More than 60% of SpringBoard's employees live within a two-mile radius of the company, which is located in Springfield, Massachusetts. "Boston Community Ventures is different," observed Dolphin. "They go beyond the money. Once they understood our business, they identified opportunities, directed us to the person to speak with, and facilitated the discussion. That's the value-added piece. That's why their investment is so important to us."

What do CDFIs offer?

CDFIs deliver a range of products to meet the needs of their communities. CDFIs offer 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 the communities they serve.

Who are the customers?

CDFIs are successful in reaching underserved customer groups—low-income families, minorities, and women, in particular. Three quarters of CDFIs' clients are low income,¹³ the exact *inverse* of mainstream financial institutions. Minorities represented 63% of clients, *three times* the proportion of mainstream lenders. For all CDFIs, women accounted for about half of the clients served, though credit unions had a slightly higher representation within their client base.

While the CDFI field shows an overall focus on serving low-income and minority markets, these markets represent a core niche for individual institutions. Fifty-nine percent of all CDFIs report that more than three fourths of their clients are low-income. Nearly half of the CDFIs report a similar concentration of minority clients (*see Figure 12, next page*). We compared these figures with comparable numbers from the mainstream financial institution sector, which demonstrates markedly different patterns in lending.¹⁴

What types of activities are CDFIs involved in?

CDFIs serve a variety of sectors and clients with financial and nonfinancial services.¹⁵ While there is substantial variation among and between sectors, the activities of CDFIs fall into five main categories:

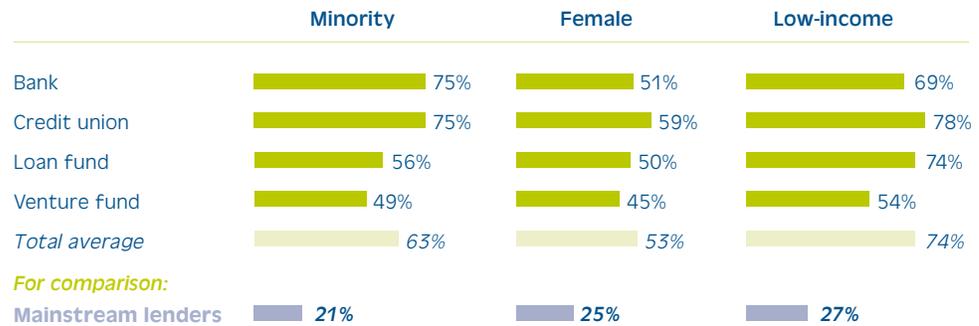
- **Microenterprise development** includes financing to for-profit and nonprofit businesses that have five or fewer employees and with a



III. What do CDFIs offer?

FIGURE 12

Customer profile



maximum loan/investment of \$25,000. This financing may be for the purpose of startup, expansion, working capital, equipment purchase/rental, or commercial real estate development or improvement. Clients are typically **low- or moderate-income** individuals in the very early stages of small business development who have a skill or idea they want to turn into a business but lack the capital, the technical and management expertise, and the role models that higher-income entrepreneurs tend to access more easily. Most CDFIs that assist microenterprises provide substantial nonfinancing services, such as entrepreneurial training, business coaching, and networking opportunities. In the early stages of business development, these skill-building services are often more critical to businesses than the infusion of capital.

■ **Small- and medium-sized business development** includes financing to for-profit and nonprofit businesses that have more employees or need more financing than microenterprises. Substantial technical assistance is also provided, though it tends

to be more specialized one-on-one assistance than for most microenterprise programs. Assistance to these businesses typically focuses on the challenges of bringing ideas to scale, investment in facilities and capacity, and the management challenges of hiring more employees. Business owners tend to be more experienced than microentrepreneurs and may be leading their enterprises through critical stages. Depending on the framework of the CDFI, loans and investments to these businesses may take into account social benefits,

CDFIs serve a variety of sectors and clients with financial and nonfinancial services, which vary considerably both among and between sectors.

ity, and the management challenges of hiring more employees. Business owners tend to be more experienced than microentrepreneurs and may be leading their enterprises through critical stages. Depending on the framework of the CDFI, loans and investments to these businesses may take into account social benefits,

III. What do CDFIs offer?

such as how many jobs will be created, what kind of salaries and benefits are offered, whether the business is located in a disinvested location, and what the environmental impact of the business will be.

■ **Housing financing** among CDFIs includes two distinct subcategories. The first is 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. With a rapidly shrinking supply of housing affordable to low-income families in both the rental and ownership markets, this effort addresses a critical need in many communities. The second is direct lending to low-income families who may find it difficult to obtain mortgage lending directly through the mainstream financial sector. Many CDFIs providing direct mortgage financing also offer homeownership counseling or other services to help first-time homebuyers. These are frequently “high touch” transactions, in which the borrowers need more assistance and may be seen more often by staff than those borrowers prepared to obtain mortgage financing from mainstream lenders.

■ **Community services** include financing to community service organizations such as human and social service agencies, advocacy organizations, cultural/religious organizations, health care providers, and child care/education providers. Uses for this financing sector include acquisition, construction, renovation, leasehold improvement, and expansion loans as well as working capital loans and lines of credit. Technical assistance may also be required by the provider of the community services. These institutions, though serving critical needs in the community, often find financing difficult to access through mainstream lenders, in part because their structure and organizational structure do not fit neatly in many lenders’ commercial lending profile. CDFIs that provide assistance to these kinds of institutions tend to be knowledgeable enough about these submarkets to more easily underwrite loans to or investments in them.

■ **Consumer financial services** include financing to individuals, including all personal (secured and unsecured) loans for health, education, emergency, debt-consolidation, transportation, and consumer purposes. CDFIs may also provide nonfinancing services such as financial literacy training or programs that encourage savings. In many low-income communities, these sorts of services are provided not by mainstream lenders, but by institutions that specialize in check cashing,

CDFIs offer financing products, retail and depository services, training and technical assistance, advocacy and research, and other services that benefit the communities they serve.

III. What do CDFIs offer?

Each category of service represents unique needs and strategies, and so suggests different approaches for the four different sectors.

payday lending, and wire transfers (an important financial service for immigrant populations) at exorbitant and predatory terms. With mainstream lenders sometimes physically absent from entire neighborhoods, having safe and trusted institutions in the community for such services is a highly valued service that has significant impact in low-income communities.

Each category represents unique needs and strategies. For example, microenterprise and consumer financing are typically sectors that have a high number of transactions and relatively small dollar amounts of loans. *(See Appendix D, Figure D-4, for more*

detailed information.) Conversely, larger business financing involves fewer transactions with larger deal sizes and often investments in businesses with higher immediate growth potential. Because different types of CDFIs tend to focus on different types of financing products, these variations are not random across categories.

Housing financing—to both developers and individuals—is the largest sector, accounting for \$2.5 billion, or 56% of the total financing outstanding *(see Figure 13)*. Banks,

CDFI case study: Creating impact...

Latino Community Credit Union (LCCU), established in 2000, has grown from 972 members to 9,655 on the strength of an intimate relationship with North Carolina's Latino community. Latino immigrants often go unbanked in the U.S. as a result of linguistic and cultural barriers that tend to inhibit their understanding and trust of mainstream financial institutions. LCCU's dedicated Spanish-language service, low fees, and appropriate products such as international remittances have helped to attract wary Latino members.

The credit union charges only \$10 to send \$1,000 abroad, compared to as much as \$200 at local wire-transfer agencies. In 2002, members of Latino Community Credit Union wired over \$1 million outside the U.S. In addition, member deposits have grown from under \$3 million to over \$11 million in the last three years on the strength of

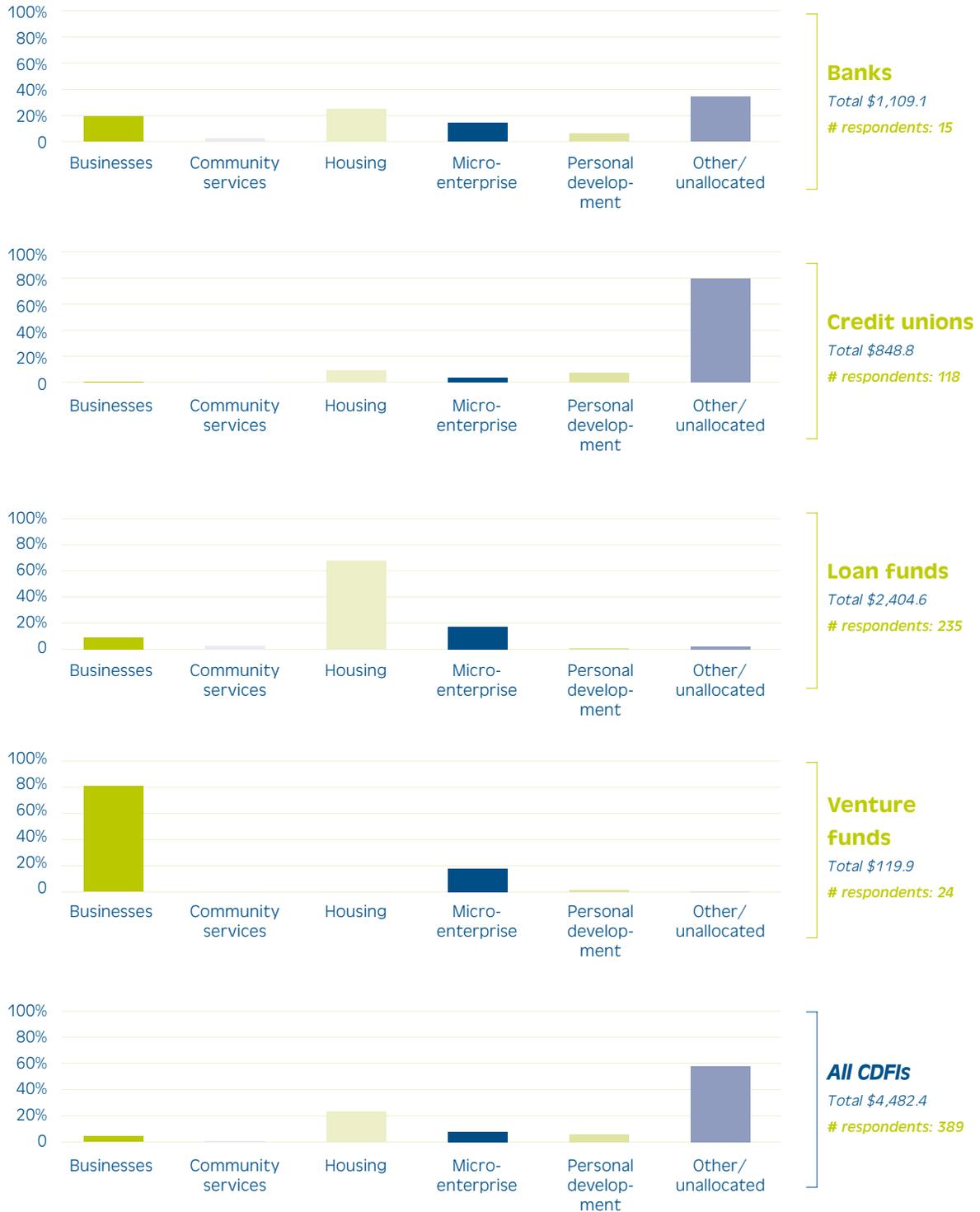
inexpensive savings and checking accounts; only \$2 per month on a minimum \$25 deposit. The credit union also holds financial literacy courses explaining check and credit card use, and has a loan officer examine vehicles before approving auto loans to make sure the borrower isn't overpaying. Inexpensive loans for basic consumer needs, such as autos, are another boon to LCCU members.

III. What do CDFIs offer?

FIGURE 13

Financing outstanding by sector served (%)

Percent of sector served



III. What do CDFIs offer?

credit unions, and loan funds all provide substantial amounts of housing financing. Consumer finance accounts for the majority of the transactions, the bulk of which are provided by credit unions.¹⁶

What kinds of financing products are offered?

CDFIs use five types of financing products to serve their communities: loans, equity investments, debt-with-equity-features, guarantees, and linked deposits (see Figure 14).

Loans

Loans are defined as an arrangement in which a lender gives money to a borrower, and the borrower agrees to repay the loan, usually with interest, at some future point(s) in time.

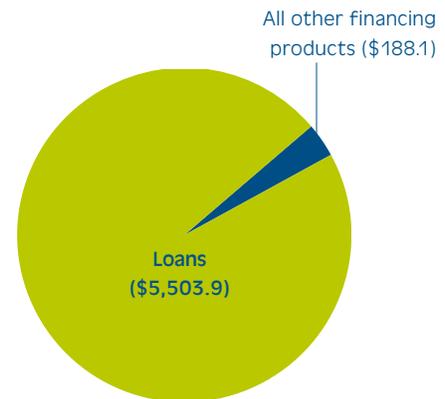
Loans are far and away the most used tool by CDFIs, representing 97% of all financing outstanding. Loans represent virtually all of the financing from loan funds, credit unions, and banks (see Figure 14). The only exceptions to the rule are venture funds, which are designed primarily for investments. Still, loans represent 41% of even venture fund financing, although that number drops to 24% when one large outlier is excluded.

CDFIs' loans include short-term (from less than 6 months) and long-term (up to 30 years) loans, amortizing and balloon loans, 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 they serve (see Figure 15). Credit unions provide primarily small loans to members, and, because of that, the average loan size at credit unions (about \$5,200) is significantly lower than that of other CDFI types (about \$69,000 at banks, \$72,000 at loan funds, and \$113,000 at venture funds). Venture capital funds have a higher average loan size as they are typically providing larger loans and investments to businesses with high-growth potential that have substantial needs for working capital, equipment, or acquisition.

FIGURE 14

Financing outstanding by financial product type

Millions of dollars



III. What do CDFIs offer?

FIGURE 15

Average loans outstanding

Thousands of dollars

	Bank	Credit union	Loan fund	Venture fund	Total
Average loan size per CDFI	\$68.6	\$5.2	\$71.9	\$112.7	\$41.7
Median loan size	\$50.1	\$4.5	\$29.9	\$118.7	\$7.9
<i>Number of CDFIs responding</i>	15	228	229	14	486

Typically, CDFIs develop loan products to address market gaps in which mainstream lenders are not yet fully meeting demand. For example, mortgages may be made to first-time homebuyers who require more technical assistance and “hand-holding” than most lenders are able to provide. Loans made to microenterprises are frequently too small to be profitable but may be critical to the development and long-term success of those businesses. Community facilities that do not fit neatly into many lenders’ commercial lending guidelines find their needs better met by specialized CDFIs. In many

Loans are far and away the most used tool by CDFIs, representing 97% of all financing outstanding.

CDFI case study: Building community...

Hercules Pitts is a hands-on developer creating affordable housing for families in the Anacostia community in southeast Washington, DC. He approached his former bank to seek financing for the acquisition and renovation of two vacant apartment buildings east of the Anacostia River. The bank, however, denied the application because it considered the project too small to finance. City First Bank of DC reviewed the loan application and saw that it fit the bank’s mission perfectly. City First underwrote the project and helped Hercules provide families in Anacostia with a decent place to live. **Established in 1998, City First has used financing like this to help bridge a market gap in the needs of low- and moderate-income neighborhoods of Washington.**

III. What do CDFIs offer?

cases, CDFIs not only fill these types of gaps in the marketplace but also promote their own successful lending approaches to mainstream lenders to encourage them to learn from the CDFI “proving ground” and expand their lending activity in these markets.

Equity investments

Equity investments are made in for-profit companies, and the CDFI receives an ownership interest in the company. In an equity investment, the CDFI shares both the risk and the potential financial gain the company experiences.

Equity investments are a newer but increasingly important tool for CDFIs, as they seek to finance high-growth potential businesses that offer financial and social

return. The recent emergence of equity as a tool is reflected in the relatively modest numbers, and most such investment is concentrated in the venture capital sector: the \$60 million in 205 separate equity investments outstanding in 2001 represents 1% of the overall financing of the field but 38% of venture capital financing. Three

quarters of equity investments are made by venture capital funds. The remainder is made by loan funds, some of which have venture capital programs within the same corporate structure as the lending entity.¹⁷ Figure 16 describes the average outstanding equity loans for CDFIs. Credit unions and banks do not use equity financing.

Equity investments are a newer but increasingly important tool for CDFIs, as they seek to finance high-growth potential businesses that offer financial and social return.

FIGURE 16

Average equity outstanding

Thousands of dollars

	Loan fund	Venture fund	Total
Average investment per CDFI	\$268.0	\$333.4	\$305.4
Median investment size	\$100.6	\$313.6	\$242.5
Number of CDFIs responding	15	20	35

III. What do CDFIs offer?

Debt-with-equity-features

Debt-with-equity-features are loans that allow the CDFI to receive additional payments based on the performance of the borrower’s company. Debt-with-equity-features include 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.

Two thirds of the venture capital funds and 4% of loan funds use these products.¹⁸ Venture 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.

Venture funds have always used these products to finance business growth. More recently, loan funds have begun using these products as well when the borrower requires more patient capital.

Debt-with-equity-features represented less than one half of 1% of loan funds’ financing but a full fifth of that of venture funds.¹⁹ Twenty-seven CDFIs provided debt-with-equity, representing a range of less than 1% to 100% of their financing outstanding, depending on whether it was a core product or an occasional instrument to supplement other loan and investment products. In two fifths of the CDFIs using debt-with-equity, it represented more than 30% of their total financing.

The average size of debt-with-equity-features investment was about \$330,000 (see [Figure 17](#)). While loan funds had a higher average than venture capital funds, the reverse is true if one outlier loan fund is excluded.²⁰

FIGURE 17

Average debt-with-equity-features outstanding

Thousands of dollars

	Loan fund	Venture fund	Total
Average size per CDFI	\$268.0	\$333.4	\$305.4
Median of CDFIs’ average size	\$100.6	\$313.6	\$242.5
<i>Number of CDFIs responding</i>	10	17	27

III. What do CDFIs offer?

Guarantees

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

CDFIs in our study had provided \$73 million in guarantees by the end of 2001. Guarantees 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. Guarantees also serve to keep interest rates reasonable because the financial institution is not taking as great a risk on account of the guarantee. Banks, loan funds, and venture funds provided guarantees in 2001. One loan fund represents a large majority—70%—of the guarantees outstanding. In total, 31 CDFIs used guarantees, including 20 loan funds, seven banks, and four venture capital funds. In six of those institutions, guarantees represented more than 30% of the CDFI's total financing.

Linked deposits

Linked deposits are below-market deposits made at conventional financial institutions that are "linked" to loans on specific projects and reduce the interest rate for the project lender.

Linked deposits were the financing instrument most rarely used by the CDFIs in our study.

Linked deposits were the financing instrument most rarely used by the CDFIs in our study. Nine loan funds had linked deposits outstanding of \$24 million in 2001, of which a single CDFI represented more than 80% of the total industry. Linked deposits serve to reduce the interest rate charged to the borrower. This financing instrument is used most often in housing and community facilities projects that are rate-sensitive.

How much financing do CDFIs provide?

The CDFIs in our study had more than 370,000 financial investments outstanding, totaling \$5.7 billion, at the end of 2001. Financing activity among individual CDFIs ranges widely, from \$2,000 to \$625 million, with an average of \$11.4 million. Again, the larger institutions account for a disproportionate share. Five large CDFIs, for instance, account for more than 37% of total financing from the field.

III. What do CDFIs offer?

CDFIs generated \$2.9 billion of *new* financing activity in 2001 (see *Figure 18 and Appendix D, Figure D-5*). This includes \$2.2 billion of direct financing and \$645 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 (through loan purchase,²¹ guarantee, or linked deposits) allows the financial institutions to finance additional community development loans and investments.

FIGURE 18

Financing closed by product type

Millions of dollars

Item	Grand total
Debt with equity closed	\$10.5
Equity closed	\$16.7
Guarantees closed	\$11.0
Linked deposits closed	\$5.0
Loans closed	\$2,196.6
Loans purchased	\$629.3
Grand total	\$2,869.0
Number of CDFIs responding	473

How well do CDFIs perform?

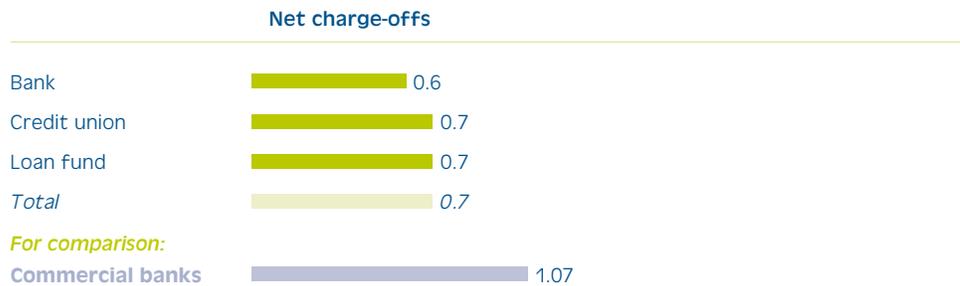
Because CDFIs serve markets underserved by traditional financial institutions, they must specialize in techniques to mitigate risk. Despite the high-risk profile of many CDFI loans, they had an overall charge-off rate (net of recoveries) of \$36.3 million, or 0.7% of their loan portfolios in 2001 (see *Figure 19*). By comparison, commercial banks had net charge-offs (in 2002) of 1.07%.²²

Because CDFIs serve markets underserved by traditional financial institutions, they must specialize in techniques to mitigate risk.

Only 15 CDFIs, less than 3% of the study, had loss ratios greater than 15%. Additionally, 144 CDFIs, a full 30% of the study, had no charge-offs whatsoever in

FIGURE 19

Portfolio performance



2001. Delinquencies, similarly, were low, averaging less than 3% at 60 or more days of delinquency. CDFIs are generally well-capitalized to withstand losses from defaults. *(See Appendix D, Figures D-6 and D-7, for more details.)*

How do CDFIs manage such strong performance while specializing in financing activities that mainstream financial institutions view as high risk? The answer appears to lie in CDFIs' unique business models. Because they tend to be grounded in their com-

How do CDFIs manage such strong performance while specializing in financing activities that mainstream financial institutions view as high risk?

The answer appears to lie in CDFIs' unique business models.

munities in many structural ways, they may have more specialized market knowledge than mainstream lenders. This enables them to have more customized products targeted at specific submarkets. For this same reason, they may be able to more reliably take into account relationships in

their financing decisions. Because most CDFIs also offer training and technical assistance, either directly or through referral networks, borrowers should be better equipped to understand and meet their financial obligations. Finally, many CDFIs have become expert in loss prevention and mitigation techniques, many of which are facilitated by the close contact that the loan officer or others at the institution maintains with the borrower.

It is worth noting that, unlike most mainstream lenders, staff at some CDFIs regard very low loss rates as a mixed report card on the industry. Because CDFIs exist to fill in the gaps in the private marketplace, some of them see their willingness to try

III. What do CDFIs offer?

riskier approaches as a key role for the sector and believe higher loss rates are a necessary price to pay for playing that role. In any case, it is clear that CDFIs have, to date, reached a different customer profile than mainstream lenders and offered a different array of products and services, and they have done so while maintaining very low loss rates.

How do CDFIs manage deposits?

Banks and credit unions mobilize savings as well as providing access to credit. Data on deposit and transaction products were collected from 229 credit unions and 11 banks for FY2001. These institutions offered a broad range of products such as savings accounts, checking accounts, certificates of deposit, and Individual Retirement Accounts, as well as client services such as ATM access, check cashing, bill payment, and direct deposit. They have also crafted products unique to the field, such as **Individual Development Accounts**, 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.

In total, these 240 CDFIs managed \$4.2 billion in deposits in 2001 (see Figure 20). The distribution of deposits was concentrated, with 82% of all deposits being held by only 10% of the institutions, although this concentration is less dramatic than that in financing. In both the credit union and banking sector, a small number of institutions controlled the bulk of the deposits.²³ Credit unions tend to be small: 41% have deposits less than \$1 million. The deposit product mix of banks and credit unions varies slightly. (For details, see Appendix D, Figure D-8.)

Among credit unions, direct deposit is the most widely offered service, followed by electronic funds transfer and money orders (see Figure 21). Banks are much more likely to offer a broader range of services, in part due to the greater capacity provided by their larger deposit base. In addition to providing direct deposit, electronic funds transfer, and money orders, banks are also very likely to offer ATMs and wire transfers. Alternatives to payday loans, which provide short-term loans at exorbitantly high rates of interest, are also reported by 10% of credit

In total, these 240 CDFIs managed

\$4.2 billion in deposits in 2001.

The distribution of deposits was concentrated,
with 82% of all deposits being held

by only 10% of the institutions.

III. What do CDFIs offer?

FIGURE 20

Assets held by depositories

Millions of dollars

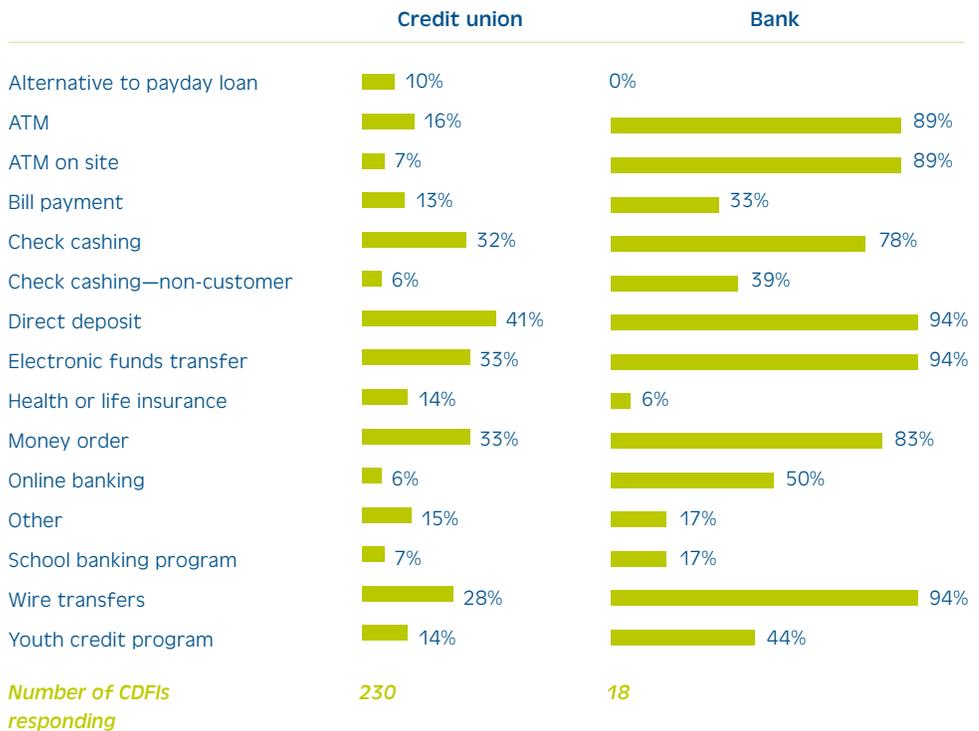


Number of CDFIs responding: 229 banks, 11 credit unions

FIGURE 21

Financial products and services

Percentage of depositories offering each service



III. What do CDFIs offer?

unions. While many customers view these depositories just like any other financial institution, the difference lies in the customer base and the communities the organizations seek to serve.

What kind of technical assistance do CDFIs provide?

In addition to providing access to capital and retail financial services, CDFIs are distinct from mainstream lenders in their focus on providing training, technical assistance, and other guidance to their customers to help increase their capacity. The type and amount of training and technical assistance that a CDFI offers depends on the needs in its market, whether packaging funding for an affordable housing developer, business plan training for an entrepreneur, or credit counseling for an individual.

Two fifths of CDFIs offered consumer counseling and financial literacy training, and one third offered business training and homebuyer education (see Figure 22).²⁴ One fourth of CDFIs also offer other training services.

Banks, credit unions, and loan funds are more likely to offer a range of training services than venture funds, though nearly all venture funds provide business counseling services. Training services to individuals are delivered by CDFIs in both one-on-one and group-based formats.²⁵ Each CDFI trained, on average, 424 clients during the year. In total, 121,356 individuals and 6,777 businesses and nonprofit organizations received training services in 2001.

In addition to providing access to capital and retail financial services, CDFIs are distinct from mainstream lenders in their focus on providing training, technical assistance, and other guidance to their customers to help increase their capacity.

FIGURE 22

Training offered by CDFI type

	Bank	Credit union	Loan fund	Venture fund
Business	28.1%	18.2%	25.9%	75.0%
Credit finance	34.4%	40.9%	25.4%	6.3%
Homebuyer	34.4%	25.0%	27.8%	0.0%
Other	3.1%	15.9%	21.0%	18.8%

III. What do CDFIs offer?

Who does the work?

CDFIs' business strategies and products drive their staffing and management structure. Collectively, the 386 CDFIs in our study that reported on staffing employ 5,401

people. One of the major challenges facing the industry is the recruitment of high-caliber staff in an industry that is growing rapidly and in which resources do not always allow generous pay or benefits packages. As shown in Figure 23, CFI staff provide a variety

of services in low-income and distressed communities, including lending and investing services, financial services, and training and technical assistance.

Banks and credit unions dedicate the largest percentage of their staff time to the delivery of retail financial services; loan funds and venture capital firms tend to lead in providing training and technical assistance.

Banks and credit unions dedicate the largest percentage of their staff time to the delivery of retail financial services, including checking and saving accounts, money orders, wire transfers, and bill payment. These depositories also spend a large percentage of time providing loans (and other financing products) to their clients. On average, staff at loan funds and venture capital firms spend more time providing training and technical assistance than do their counterparts at banks and credit unions, in part because the latter tend to use referral relationships with outside training organizations. Depositories' technical assistance may also be understated, because technical assistance related to retail financial transactions is included under the category of financial services. In many cases, they also must face lender liability issues, and so many of them refer out training and technical assistance functions rather than providing those services directly.

FIGURE 23

Staffing

Average percentage of staff time allotted to each activity

	Bank	Credit union	Loan fund	Venture fund	Total
Lending/investing	20.7%	28.7%	41.7%	65.7%	38.2%
Training & TA	5.6%	10.8%	22.0%	14.0%	17.3%
Financial services	43.3%	38.5%	0.0%	0.0%	13.9%
Other	30.4%	22.0%	36.3%	20.3%	30.6%
<i>Number of CDFIs responding</i>	15	115	214	21	365

III. What do CDFIs offer?

Credit unions are unique in their heavy use of volunteer labor. Nineteen percent of credit union work is done by volunteers. This compares with only 5% of loan fund time and 3% of venture capital fund time. None of the banks reported using volunteers.

Loan funds and venture funds dedicate a majority of staff time to financing activity. The venture fund group has the highest percentage of staff time dedicated to financing at 66%. This is partially because some venture capital funds are affiliated with other nonprofit

organizations (such as loan funds) that perform some of their administrative services for a management fee. Loan funds and venture funds also dedicate more staff to providing training and technical assistance to clients. Loan

funds have the highest percentage of staff dedicated to training. Venture capital funds also emphasize the importance of technical assistance and close monitoring of investments to ensure their success. Fund managers may sit on the boards of directors of the businesses receiving financing to provide ongoing guidance to senior management. All sectors include significant time for “other” activities, which include fundraising, finance and administration, advocacy, research, housing development, and other lines of business.

All sectors include significant time for “other” activities, which include fundraising, finance and administration, advocacy, research, housing development, and other lines of business.

CDFI case study: Providing capital...

In 1995, Aaron Zamora, an employee of Whataburger, decided to take his skills and start his own business, A/Z Refrigeration, Inc., which performs commercial installation and service of walk-in coolers, freezers, air conditioning, and heating systems. A CDFI located in Texas, BiGAUSTIN, worked with Aaron to provide both capital—an \$18,000 loan—and management assistance to help him grow his business. **Over the years, Aaron’s business grew from \$50,000 in revenue to more than \$500,000 in 2002. His business growth resulted in the creation of four new jobs**, including one for his own mother as operating partner. A/Z Refrigeration, Inc., continues to work with BiGAUSTIN to increase the business’ financial management skills and to address long-term business growth planning.

IV. Where does the capital come from?

Where does the capital come from?

CDFIs raise funds to lend and invest in the communities they serve. The total lending and investing pool, or “capital under management,” of CDFIs in our study was \$8.2 billion at the end of 2001 (see Figure 24).²⁶

Like any business, CDFIs rely on multiple types of capital, which are categorized as debt or equity. The capital structure of an individual CDFI depends on the institution type, the

requirements of investors, federal and state regulations, and the CDFI’s financing requirements. Ultimately, CDFIs must raise capital to provide the appropriate financing products in the communities they serve.

FIGURE 24

Total capital

	Capital (in billions)	Number of CDFIs
Bank	\$2.2	18
Credit union	\$2.8	229
Loan fund	\$3.1	230
Venture fund	\$0.3	25
Grand total	\$8.2	502

Capital under management falls into several categories—**borrowed funds**, **shares** and deposits, equity equivalents, **secondary capital**, and equity (see Figure 25, next page). (For more details, see Appendix D, Figures D-9, D-10, and D-11).

Borrowed funds are lent to a CDFI by a third party. Borrowed funds, or debt capital, may include secured debt or unsecured debt and senior or subordinated debt. CDFIs in the study have raised more than \$2.1 billion in borrowed funds from investors. The vast majority (97%) of borrowed funds are in community development loan funds. Loan funds rely on these funds, typically lent at below-market rates, for two thirds of their capital. Most of this loan fund capital is borrowed from banks, thrifts, credit unions, and **nondepository financial institutions**, which together accounted for 60% of borrowed funds. Foundations are also a

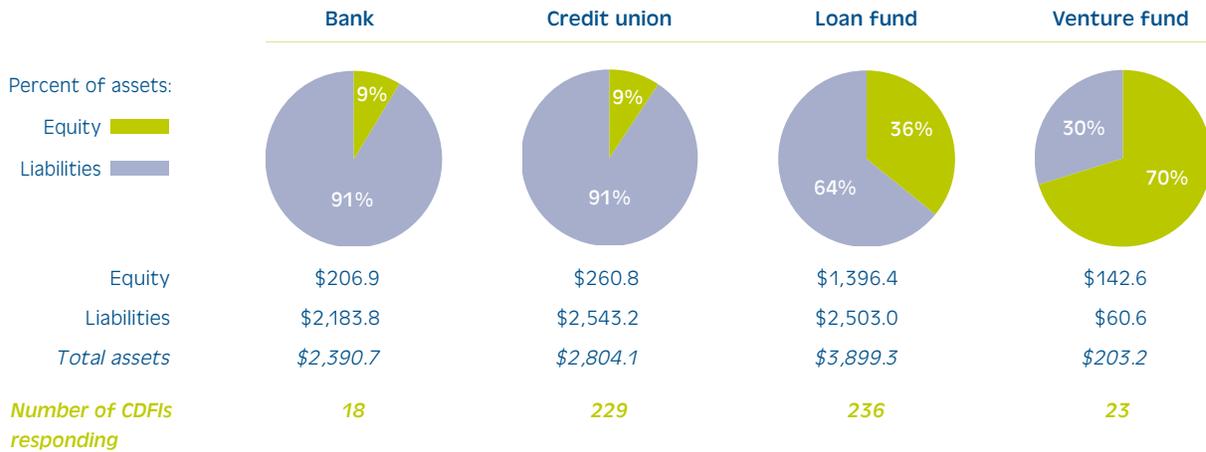


IV. Where does the capital come from?

FIGURE 25

Capital structure

Millions of dollars



significant source of borrowed funds.²⁷ Venture funds have recruited more than \$50 million in borrowed funds, of which 42% is from foundations.

Shares and deposits are raised by depositories (banks and credit unions) that then re-lend in their communities. At credit unions, 87% of their capital under management, or nearly \$2.4 billion, consists of shares, and an additional 3% comes from **nonmember deposits**. Individual members hold nearly all (91%) of credit union shares. A range of institutions invest in nonmember deposits to support credit union activities, with the largest investors being banks, thrifts, and other credit unions.²⁸ Community development banks raise funds through bank deposits, which totaled \$2 billion in 2001. Deposits at banks come from a variety of sources, including individuals (52% of deposits), corporations (21%), and government (10%).

Equity equivalent investments, or **EQ2s**, are highly subordinated debt instruments with features such as a rolling term and limited right to accelerate payments that enable them to function in a way similar to equity. Banks are the primary investors in EQ2s because of the favorable CRA treatment.²⁹ Foundations, the federal government (through the CDFI Fund), and other sources have also invested EQ2 in CDFIs, valuing the fact that EQ2s generally leverage other debt investments in the CDFI.

By the end of 2001, EQ2s in CDFIs totaled \$54 million. While this represents only 1% of total capital under management and 2% of loan funds' and venture funds' capital, it is an important and growing source of capital, because typically it is long-term

IV. Where does the capital come from?

capital (7–15 years), has a rolling term, and allows CDFIs to leverage additional debt. Only nonprofit CDFIs use EQ2s.

Secondary capital is a form of subordinate debt available only to low-income designated community development credit unions. Secondary capital is uninsured and subordinate to all other claims on the net worth of the credit union.

Secondary capital, similar to EQ2s, represents a small but important percentage of credit unions' capital, totaling nearly \$10 million in 2001. Secondary capital is attractive to credit unions because it can count toward its net worth (or equity) if it meets certain characteristics. Thus, it enables credit unions to leverage additional shares and deposits. Similar to EQ2s, secondary capital is attractive to bank investors because of the favorable CRA treatment. Nonetheless, national intermediary organizations (including the National Federation of Community Development Credit Unions and National Community Capital Association) account for 69% of secondary capital investments.

The total lending and investing pool, or "capital under management," of CDFIs in our study was \$8.2 billion at the end of 2001

Equity capital is defined differently for the different CDFI institution types, but in general it represents the amount of equity, net assets, or net worth the CDFI has accumulated that is available to lend or invest in its community. **Equity capital** totals \$1.4 billion. Equity capital provides institutional strength because it enables CDFIs to leverage more debt, shares, or deposits, and allows CDFIs to take more risks.

Venture funds have the highest ratio of equity to capital under management at 71%. This high equity base is needed to support the type of longer-term, higher-risk investments that venture funds make in high-growth-potential businesses. Equity investors in venture funds expect a return on their investments based on the performance of the portfolio companies and the performance of the overall fund.

Equity capital represents 31% of loan funds' capital under management. Equity at loan funds is built from a combination of grants to the loan fund to grow their equity capital base, as well any net income that loan funds designate to grow their **lending/investing pool**. Therefore, equity investors in loan funds do not expect a return. Equity capital is critical to loan funds because they are unregulated and need an equity cushion to protect debt investors from potential portfolio losses that may exceed the fund's **loan loss reserves**.

IV. Where does the capital come from?

Like any business, CDFIs rely on multiple types of capital, which are categorized as debt or equity.

The capital structure of an individual CDFI depends on the institution type, the requirements of investors, federal and state regulations, and the CDFI's financing requirements.

Regulated depositories need to hold less equity due to their structure and regulation, which anticipate and encourage the leveraging of equity. Equity capital is not included for community development banks because the equity is not available for re-lending. Banks and credit unions, by design,

leverage their equity significantly more than loan funds and venture capital funds.³⁰ Still, they remain well capitalized by the standards of their respective regulated industries.

CDFI case study: Providing capital...

Union Health Center (Union) in New York City provides health care to 25,000 garment workers and retirees who are predominantly very-low-income, foreign-born women. Union needed modernization, and the Primary Care Development Corporation (PCDC), a CDFI that focuses on medically underserved communities of New York, stepped up. In 1998, PCDC provided Union with \$13.6 million through a 25-year bond to undertake a full-scale modernization of its decades-old facility. With the benefit of PCDC's business management development services, Union redesigned its scheduling and visit flow in 2002 to provide faster, more satisfactory, and more productive patient visits. Union then requested and received an additional \$100,000 loan from PCDC to undertake minor physical modifications to make its process flow redesign fully sustainable.

What impact do CDFIs have?

The work of CDFIs reaches many individuals and communities, particular those traditionally underserved by mainstream financial institutions. CDFIs strive for and achieve social and economic benefits that align with their institutional missions. The community development impacts of CDFIs' financing and other products go well beyond easily measurable impacts, including, for example,

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.

Business and microenterprise

The CDFIs in our study financed almost 7,500 microenterprises and larger businesses in 2001 (*see Appendix D, Figure D-12*), which in turn created and maintained tens of thousand of jobs (*see Figure 26, next page*).³¹ Two thirds of these were microenterprises that, in many low-income communities across the country, dominate the business environment, providing much-needed employment, income, products, and services. They typically have little to no access to formal financing from mainstream sources other than predatory lenders.

All of the different types of CDFIs provide financing for both microenterprises and larger businesses. Driven by their distinct institutional structure and capitalization, banks generally make more loans than credit unions, which also have different target markets: 12 banks financed 944 small businesses, while 46 credit unions financed 204 businesses. These figures may mask additional nonloan services that credit unions provide for entrepreneurs. The majority (74%) of businesses financed by credit unions are microenterprises, which are more likely to be first-time borrowers with a range of technical assistance needs. In contrast, only 16% of bank financing was directed to microenterprises. Community development loan funds, which include at least 36 CDFIs serving only microentrepreneurs,³² focus on microenterprise and business financing, while community development venture capital funds devote most of their financing to small and medium-sized businesses. Loan funds provided financing for 4,273 microenterprises, or 84% of the microenterprises financed overall.



V. What impact do CDFIs have?

FIGURE 26

Jobs created or maintained

	Created*	Maintained**	Number of CDFIs responding
Bank	1,348	2,164	10
Credit union	563	975	58
Loan fund	11,084	27,538	212
Venture fund	2,651	6,476	41
Grand total	15,645	37,153	321

*Created = new **full time equivalent** position at end of FY for businesses and microenterprises with financing outstanding

**Maintained = full time equivalent position at point of financing

CDFIs that finance businesses strive for diverse outcomes depending on their strategies.

CDFIs that finance businesses strive for diverse outcomes depending on their strategies. Microenterprise development, for instance, focuses on building the skills of often low-income entrepreneurs, who may be looking for income stabilization. Larger business development, on the other hand, may work with owners who have higher incomes but who intend to build businesses that create or maintain jobs in distressed communities, pay a living wage, or have other positive social impacts. This complex information is unavailable to the CDP, although we are able to report more simplified job data. Those CDFIs that did report job data created at least 15,645 *new* jobs and maintained at least an additional 37,152 jobs.³³

Affordable housing and community facilities

Construction and renovation

CDFIs also provide valuable products and services by developing and financing affordable housing for low-income families. They facilitated the construction or renovation of over 43,000 units of affordable housing for low-income customers (see [Figure 27](#)).³⁴ They also acted as direct developers in 19% of the units, creating or renovating the units themselves.³⁵ Community development loan funds enabled the construction or renovation of 98% of these housing units.

V. What impact do CDFIs have?

Financing

In addition to constructing and renovating affordable housing stock, CDFIs served as an important source of mortgage financing in 2001. CDFIs closed 7,139 mortgages to homebuyers in 2001 (see Figure 27). These are typically first-time homebuyers who also need significant help working through this complicated, intimidating transaction. They also may be serial clients, as they come back to the CDFI multiple times as they work to clean up credit, build savings, and so on over time. CDFIs provide this mortgage financing as an affordable product to homebuyers and act an alternative to predatory lenders in the community. Due in part to the success of CDFIs and other housing advocates in strengthening the CRA and through other market-moving efforts, the mainstream mortgage market has become much more responsive to the needs of low-income borrowers. Increasingly, CDFIs have taken on a role of advocacy and prepurchase counseling rather than direct lending. They have also

FIGURE 27

Affordable housing

	Data	Bank	Credit union	Loan fund	Grand total		
Created	Total housing units	482	15	2,169	2,666] Construction and renovation	
	# CDFIs responding	5	6	32	43		
Renovated	Total housing units	426	3,160	2,180	5,766		
	# CDFIs responding	5	18	35	58		
	<i>Total</i>	908	3,175	4,349	8,432		
	<i>Total # responses</i>	10	24	67	101		
Created by financed entities	Total housing units	367	85	13,652	14,104] Financing
	# CDFIs responding	3	4	59	66		
Renovated by financed entities	Total housing units	76	277	12,422	12,775		
	# CDFIs responding	3	4	50	57		
Unallocated by financed entities	Total housing units			8,117	8,117		
	# CDFIs responding			2	2		
	<i>Total</i>	443	362	34,191	34,996		
	<i>Total # responses</i>	6	8	111	125		
Grand total					43,428		
Mortgages closed	Total mortgages	591	2,352	4,196	7,139] Financing	
	# CDFIs responding	12	64	59	135		

V. What impact do CDFIs have?

become engaged in moving the secondary mortgage market, which largely drives what lenders are able to offer to customers, to better meet the needs of CDFIs' target customers through mainstream lending.

Community facilities

CDFIs are often the sole source of financing for community facilities in distressed neighborhoods. These facilities provide the child care, health care, education, training, arts, and social services that form the foundations of healthy communities across the country. In 2001, CDFIs financed 501 community facilities in distressed communities across the

CDFIs are often the sole source of financing for community facilities in distressed neighborhoods.

country.³⁶ The community facilities assisted by CDFIs (that reported on this category³⁷) served 636,696 individuals in 2001, including 9,723 children who received space in a child care facility, 2,636 children who received education through a charter school or other specialized educational facility, and 110,397³⁸ individuals who received health care services (see Figure 28).

FIGURE 28

Community facilities

	Bank	Credit union	Loan fund	Venture fund	Grand total
Individuals served	39,573	10,506	582,529	4,088	636,696
<i># CDFIs responding</i>	<i>7</i>	<i>10</i>	<i>41</i>	<i>5</i>	<i>63</i>
Organizations financed	107	18	368	8	501
<i># CDFIs responding</i>	<i>10</i>	<i>14</i>	<i>70</i>	<i>7</i>	<i>101</i>
Spaces in child care facilities	200	75	5,680	3,768	9,723
<i># CDFIs responding</i>	<i>8</i>	<i>9</i>	<i>44</i>	<i>3</i>	<i>64</i>
Spaces in educational facilities	235	4	2,147	250	2,636
<i># CDFIs responding</i>	<i>7</i>	<i>8</i>	<i>26</i>	<i>2</i>	<i>43</i>
Spaces in health care facilities	814	1,660	107,923	0	110,397
<i># CDFIs responding</i>	<i>7</i>	<i>10</i>	<i>27</i>	<i>1</i>	<i>45</i>

Key trends, opportunities, and challenges facing CDFIs

CDFIs exist to meet the needs of low-wealth families and distressed communities. These customers, underserved by traditional financial markets for a variety of reasons, have demonstrated a need for the kinds of financial services offered by CDFIs. This report, as part of the CDP, has set out some of the key accomplishments and challenges in the industry thus far.

CDFIs have emerged in recent years as strong, skilled, and accountable organizations responding to market gaps in our communities. They have built businesses, helped create good jobs, assisted families in building savings and other forms of equity, created affordable housing, offered needed **consumer financial services**, supported community facilities, and provided financing for homeownership.

The industry as such also displays varying degrees of market penetration, even more dispersed degrees of stability and financial strength, and an array of approaches and products. The industry faces challenges in standardizing services and achieving economies of scale. In short, despite the CDFI movement's deep historical roots, the modern CDFI movement displays the characteristics of a young and growing industry. It has come a long way in a short time and has achieved striking success; at the same time, it will be challenged in the coming period to maintain growth, performance, and financial stability.

For what is, by and large, still a fairly young industry, the CDFIs across the country had much to show for their work in FY2001. In short, CDFIs

- managed \$4.2 billion in deposits,
- provided \$2.9 billion in new financing, and
- provided training and technical assistance to almost 7,000 businesses and to over 121,000 individuals.

CDFIs provide financing, training, and financial services to families or communities that have traditionally been underserved. The customer base of the CDFIs varies significantly from that of most mainstream financial institutions:

- 74% had low incomes.
- 53% were female.
- 63% were minorities.



These are precisely the groups that have historically been underserved by mainstream financial institutions. Although that pattern is slowly changing, it is clear that CDFIs are meeting the needs of underserved borrowers and providing financing and services of the type that most lenders find difficult or costly to do.

If mainstream financial institutions do not provide these types of products and services, and if the characteristics of CDFI customers are so strikingly different from the customers that mainstream institutions serve, one might fairly presume that CDFI activity in these markets comes at the cost of performance. Hardly so.

Strategic questions of how the field grows and maintains itself will need to be sorted out in coming years for the CDFI movement to stabilize as a mature, sustainable sector of the economy.

With a charge-off rate—strikingly—of 0.7%, the field has amply demonstrated that this type of lending can be done safely, without a trade-off in quality and prudent financial management.

The successes in CDFIs' activity may reflect lessons from two decades' worth of active practice and learning. They may also demonstrate the unique hybrid nature of CDFIs, functioning as mission-driven organizations similar to typical nonprofits but employing market-based approaches more typically associated with the for-profit private sector.

There are also certainly challenges on the horizon. National economic conditions have changed dramatically since 2001, increasing demand on the field as poverty rates increase while at the same time reducing public and philanthropic sources of financial support. In addition, while the wide variety of approaches taken by CDFIs has allowed vast experimentation in the methods used to advance shared goals, it also makes it somewhat difficult to characterize the field as a whole, and it may also limit efficiencies and hamper the development of needed economies of scale.

Like the myriad approaches used, the size and capacity of the institutions also vary widely. Aggregate numbers are dominated by a handful of very large CDFIs, although even the largest among them is still quite small by mainstream lending standards. Hundreds of smaller CDFIs lack the funding, stability, and capacity to fully meet the needs of their communities. All CDFIs still grapple with issues of funding, self-sufficiency, political support, and public awareness of their efforts and the roles they play in local economies. Strategic questions of how the field grows and maintains itself will need to be sorted out in coming years for the CDFI movement to stabilize as a mature, sustainable sector of the economy.



Methodology

As partners in the CDFI Data Project (CDP), five national trade associations and intermediaries (*see Appendix C*) and the CDFI Fund came together to define common data points for definition and collection across the four types of community development financial institutions (CDFIs): 1) community development banks, 2) community development credit unions, 3) community development loan funds, and 4) community development venture capital funds. Each data collector was responsible for collecting CDP data from their member or constituent CDFIs. The Corporation for Enterprise Development (CFED) acted as project and database manager, consolidating all of the data collected by the trade associations and the CDFI Fund.

A committee on data collection and cleaning defined organizational, financial, and impact data that could be collected and analyzed from all four sectors, as well as “sector-specific” data to be collected from individual CDFI sectors. Each trade association and the CDFI Fund was responsible for designing its own survey instruments for distribution to constituent CDFIs. The instruments were based on consensus language defining cross-sectoral CDP data points, as well as language appropriate for individual CDFI sectors.

The data collection and cleaning committee defined policies and procedures for data cleaning to ensure uniform data quality across the data collectors. CFED, as database manager, applied financial formulas postcleaning to perform further quality assurance. The result is the single most comprehensive database on the CDFI field.

Overall, the CDP sent out 828 surveys for fiscal year (FY) 2001 and compiled data for 512 CDFIs, a response rate of 62%.

Use of public data for credit unions

In the summer of 2002, the CDP sent surveys to 230 community development credit unions. The survey requested data on organizational characteristics, position, products and services, and community development outputs as of FY2001.

A total of 121 credit unions (52%) sent back completed questionnaires. For nonresponding credit unions, financial data was obtained from regulatory reports³⁹ prepared by all federally insured U.S. credit unions (approximately credit unions).³⁹ Data on nonfinancial fields were unavailable for nonresponding credit unions. Financial data that call reports did not require.



Consequently, when a survey question sought the same information provided on the call report, these data were obtained for all 230 surveyed community development credit unions. Thus, it was possible to include an aggregated tally for the whole community development credit union movement (as defined by this study) for these data points. For those survey questions, the sample size was all 230 surveyed credit unions. When requested data were unique to the survey (and thus not available for nonrespondents), this report presents only the average or median numbers drawn from the respondents.⁴⁰ The sample size in these cases is limited to the 121 institutions that responded.

Glossary of terms

Staffing and governance

Full-time equivalents: Community development financial institutions (CDFIs) counted full- and part-time employees of the organization in calculating total full-time equivalents (FTEs). Volunteers who fill regular staff positions were included. Excluded were temporary 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 work week.

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 & 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

Total lending/investing pool, or capital available for financing: Includes all capital for lending and investing held by a CDFI, as of the end of fiscal year (FY) 2001. This lending/investing pool includes only capital shown on the statement of financial position as received—it does not include capital commitments, grants receivables for capital, or undrawn funds, with the exception of the venture fund sector (which includes commitments).

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.

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 investment (EQ2): EQ2 is 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 limited right to accelerate payment, and interest is not tied to income. The investing bank also receives advantageous Community Reinvestment Act (CRA) credit.

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.

Equity capital: Also referred to as *net assets dedicated to lending* by nonprofit loan funds, *net worth* by credit unions, and *equity* by venture funds. It is the amount of equity at the CDFI that is available for lending or investing.

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

Microenterprise: Financing to for-profit and nonprofit businesses with five or fewer employees (including proprietor) and with a maximum loan/investment of \$25,000. This financing may be for the purpose of startup, expansion, working capital, equipment purchase/rental, or commercial real estate development or improvement.

Business: Financing to for-profit and nonprofit businesses with more than five employees *or* in an amount greater than \$25,000 for the purpose of expansion, working capital, equipment purchase/rental, or commercial real estate development or improvement.

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 housing financing to individuals (e.g., loans) to support homeownership and home improvement. Home equity loans are not included here unless the purpose of the home equity loan is to finance housing-related activities (e.g., home repair, purchase of another home). All other home equity loans are classified based on the purpose of the loan (e.g., a home equity loan that helps the borrower start a business is classified under business, while a home equity loan used to pay for a child's college tuition is classified under consumer financial services).

Community services: Financing to community service organizations regardless of tax status, 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, and expansion loans, as well as working capital loans and lines of credit. Financing for any type of residential space is included in the category of housing.

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.

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

Financing outstanding

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.

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. Can be common or preferred stock.

Linked deposits: Below-market deposits made at conventional financial institutions that are "linked" to specific project loans and reduce the interest rate for the project lender.

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

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.

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 (it is not an expense listed on the income/expense statement).

Deposit products and services

Individual Development Accounts (IDAs): IDAs are 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

Large urban area: In a Metropolitan Statistical Area of equal to or greater than one million. Includes both central city and surrounding suburbs.

Small urban area: In a Metropolitan Statistical Area of less than one million. Includes both central city and surrounding suburbs.

Rural: All areas outside large urban and small urban areas.

Clients served

Low- to moderate-income: A customer that has an annual income, adjusted for family size, of not more than: for metropolitan areas, 80% of the area median family income, or for nonmetropolitan areas, the greater of 1) 80% of the area median family income or 2) 80% of the statewide nonmetropolitan area median family income.

Outcomes

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 microenterprise or business financed at the time a given loan or investment closed.

Jobs assisted = jobs created + jobs maintained.

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.

The CDFI Data Project

The CDFI Data Project (CDP) is a collaborative initiative to create a data collection and management system that produces high quality, comprehensive data about community development financial institutions (CDFIs). The CDP collected fiscal year (FY) 2001 data on 512 CDFIs, which represents a majority of the 800 to 1,000 CDFIs across the nation and the largest data set ever collected on the CDFI industry. The goal of the CDP is to ensure access to and use of data to improve practice and attract resources to the CDFI field. The data—and the system to collect and manage it—will bolster capacity building, policy-making, and research to strengthen CDFIs. Supported by The John D. & Catherine T. MacArthur Foundation and The Ford Foundation, this initiative convenes leading organizations in the CDFI industry.

Partner organizations

Association for Enterprise Opportunity*

1601 North Kent St, Suite 1101
Arlington, VA 22209
Ph: 703.841.7760 ■ Fax: 703.841.7748
www.microenterpriseworks.org

National member-based trade association of more than 500 microenterprise development programs

Aspen Institute*

Economic Opportunities Program

One Dupont Circle NW, Suite 700
Washington, DC 20036
Ph: 202.736.5800 ■ Fax: 202.467.0790
www.fieldus.org

National nonprofit that disseminates best practices and educates policymakers, funders, and others about microenterprise

CDFI Coalition

1601 North Kent St, Suite 803
Arlington, VA 22209
Ph: 703.894.0475 ■ Fax: 703.841.7748
www.cdfi.org

Lead organization in the United States that promotes the work of CDFIs

CDFI Fund*

601 13th Street, NW, Suite 200 South
Washington, DC 20005
Ph: 202.622.8662 ■ Fax: 202.622.7754
www.cdfifund.gov

Federal agency that provides funding and support to CDFIs nationwide.

Community Development Venture Capital Alliance*

330 Seventh Ave, 19th Floor
New York, NY 10001
Ph: 212.594.6747 ■ Fax: 212.594.6717
www.cdsvca.org

Certified CDFI intermediary that serves community development venture capital funds through training, financing, consulting, research, and advocacy

Corporation for Enterprise Development

777 North Capitol St NE, Suite 800
Washington, DC 20002
Ph: 202.408.9788 ■ Fax: 202.408.9793
www.cfed.org

National nonprofit that promotes asset-building and economic opportunity strategies, primarily in low-income and distressed communities

*Represents organizations that collected data on CDFIs in FY2001.

(continued on next page)

For more information on the CDFI Data Project, contact any of the partner organizations or Beth Lipson of National Community Capital Association at bethl@communitycapital.org (215.320.4315) or Eliza Mahony of the Corporation for Enterprise Development at eliza@cfed.org (202.408.9788).

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Additional data

FIGURE D-1

Legal structure

		Bank	Credit union	Loan fund	Venture fund	Grand total
For-profit	# CDFIs responding	18		6	17	41
	Percent of row	43.90%	0.00%	14.63%	41.46%	100.00%
	Percent of column	100.00%	0.00%	2.52%	65.38%	8.01%
Non-profit	# CDFIs responding			231	8	239
	Percent of row	0.00%	0.00%	96.65%	3.35%	100.00%
	Percent of column	0.00%	0.00%	97.06%	30.77%	46.68%
Non-profit cooperative	# CDFIs responding		230	1		231
	Percent of row	0.00%	99.57%	0.43%	0.00%	100.00%
	Percent of column	0.00%	100.00%	0.42%	0.00%	45.12%
Quasi-government	# CDFIs responding				1	1
	Percent of row	0.00%	0.00%	0.00%	100.00%	100.00%
	Percent of column	0.00%	0.00%	0.00%	3.85%	0.20%
Total # CDFIs responding		18	230	238	26	512
Total percent of row		3.52%	44.92%	46.48%	5.08%	100.00%
Total percent of column		100.00%	100.00%	100.00%	100.00%	100.00%

FIGURE D-2

Distribution by size

		Bank	Credit union	Loan fund	Venture fund	Grand total
Very small (assets <\$1 million)	# CDFIs responding	—	91	41	2	134
	Percent of row	0.00%	69.71%	28.31%	1.99%	100.00%
Small (assets \$1–10 million)	# CDFIs responding	—	105	136	14	255
	Percent of row	0.00%	39.56%	53.34%	7.10%	100.00%
Medium (assets \$10–50 million)	# CDFIs responding	3	23	51	8	85
	Percent of row	5.48%	26.89%	60.51%	7.12%	100.00%
Large (assets \$50–100 million)	# CDFIs responding	7	4	5	—	16
	Percent of row	43.15%	24.61%	32.24%	0.00%	100.00%
Very large (assets >\$100 million)	# CDFIs responding	8	6	4	—	18
	Percent of row	35.70%	30.12%	34.18%	0.00%	100.00%

FIGURE D-3

CDFIs by state

State	Total assets (in millions)	# of CDFIs in state	State	Total assets (in millions)	# of CDFIs in state
NY	\$1,637.6	68	AK	\$63.6	6
TX	\$1,035.4	30	TN	\$62.6	6
NC	\$883.3	28	ME	\$58.3	6
CA	\$662.9	27	WA	\$58.2	5
FL	\$534.2	22	CO	\$54.8	5
IL	\$365.6	20	VT	\$52.1	5
LA	\$357.8	18	SC	\$35.9	5
AR	\$335.4	16	IA	\$35.2	4
NJ	\$261.5	15	HI	\$32.3	4
PA	\$248.4	15	GA	\$30.8	4
MI	\$240.9	15	NH	\$26.5	4
MD	\$228.9	14	OK	\$25.6	4
MN	\$205.9	11	NM	\$23.6	4
MA	\$144.9	11	AL	\$22.0	3
OR	\$130.3	11	VA	\$21.4	3
MS	\$114.6	11	RI	\$18.2	3
OH	\$110.0	9	PR	\$17.8	3
DC	\$108.2	9	MT	\$13.1	2
KY	\$107.5	9	DE	\$7.6	2
CT	\$93.1	8	WV	\$6.1	2
SD	\$88.5	8	ND	\$5.9	2
KS	\$87.8	8	UT	\$3.7	2
IN	\$74.2	7	WY	\$2.5	1
WI	\$71.2	7	NE	\$0.2	1
MO	\$71.1	7	No state identified	\$374.0	12
AZ	\$64.9	6			
			<i>Grand total*</i>	\$9,316.1	

FIGURE D-4

Median loan size outstanding by sector

	Bank	Credit union	Loan fund	Venture fund
Businesses	\$116,149	\$40,042	\$54,948	\$118,698
Community services	\$198,154	\$5,612	\$66,656	NA
Housing	\$83,800	\$26,168	\$31,685	NA
Microenterprise	\$11,920	\$7,235	\$9,629	\$4,281
Personal development	\$10,328	\$3,564	\$1,059	NA

FIGURE D-5

Financing closed by product type

Item	Grand total
Debt with equity closed	\$10,543,063
Equity closed	\$16,692,252
Guarantees closed	\$11,000,002
Linked deposits closed	\$4,964,211
Loans closed	\$2,196,571,790
Loans purchased	\$629,252,226
<i>Grand total</i>	<i>\$2,869,023,545</i>
<i>Number of CDFIs responding</i>	<i>473</i>

FIGURE D-6

Delinquencies

	Bank	Credit union	Loan fund	Venture fund
Delinquencies > 61 days (in millions)	\$22.4	\$42.2	\$98.4	\$163.0
Loans outstanding (in millions)	\$1,132.7	\$2,012.3	\$2,289.9	\$5,434.9
Weighted average delinquency ratio > 61 days	2.0%	2.1%	4.3%	3.0%
Weighted average delinquency ratio > 91 days	1.3%	NA	2.9%	NA
<i>Number of CDFIs responding</i>	<i>16</i>	<i>228</i>	<i>226</i>	<i>470</i>

FIGURE D-7

Loan loss reserves

	Bank	Credit union	Loan fund	Venture fund
Loan loss reserve ratio (in millions)	\$18.6	\$27.4	\$113.8	\$159.8
Loans outstanding (in millions)	\$1,132.7	\$2,012.3	\$2,300.2	\$5,445.2
Weighted average loan loss reserve ratio	1.6%	1.4%	4.9%	2.9%
<i>Number of CDFIs responding</i>	<i>16</i>	<i>228</i>	<i>229</i>	<i>473</i>

FIGURE D-8

Deposit product mix

	Credit union	Bank	All
CD/share cert	31%	32%	32%
Checking/share draft	15%	45%	27%
IRAs (credit unions)	6%	0%	4%
Miscellaneous shares	11%	0%	7%
Savings/shares	36%	23%	31%
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

FIGURE D-9

Capital types (\$)

	Bank	Credit union	Loan fund	Venture fund	Grand total
Borrowed funds	\$112.1	\$10.1	\$2,063.5	\$50.1	\$2,113.5
Credit union shares	—	\$2,397.6	—	—	\$2,397.6
Deposits	\$2,044.3	—	—	—	\$2,044.3
Equity capital	—	\$261.1	\$940.0	\$191.5	\$1,392.6
Equity equivalent	—	—	\$48.6	\$5.2	\$53.8
Non-member deposits	—	\$90.0	—	—	\$90.0
Secondary capital	—	\$10.0	—	—	\$10.0
Unallocated capital	—	—	—	\$24.5	\$24.5
<i>Total capital</i>	<i>\$2,156.4</i>	<i>\$2,768.9</i>	<i>\$3,052.1</i>	<i>\$271.2</i>	<i>\$8,248.6</i>
<i>Number of CDFIs responding</i>	<i>18</i>	<i>229</i>	<i>230</i>	<i>25</i>	<i>502</i>

FIGURE D-10

Capital sources (\$)

Millions of dollars

	Bank	Credit union	Loan fund	Venture fund	Grand total
Banks, thrifts and credit unions	\$55.6	\$48.0	\$745.3	\$6.6	\$855.6
Corporations	\$381.4	\$14.2	\$60.3	\$3.4	\$459.2
Federal government	\$32.6	\$3.0	\$115.0	\$9.9	\$160.5
Foundations	\$15.3	\$6.9	\$176.7	\$21.7	\$220.5
Individuals	\$954.6	\$932.7	\$33.9	\$0.0	\$1,921.1
National intermediaries	\$7.0	\$10.1	\$25.8	\$1.2	\$44.1
Non-depository financial institutions	\$3.9	\$26.2	\$522.9	\$2.0	\$555.0
Religious institutions	\$40.3	\$18.3	\$61.1	\$0.0	\$119.7
State or local government	\$185.3	\$4.6	\$73.2	\$3.0	\$266.1
Other	\$174.3	\$26.5	\$298.0	\$3.9	\$502.7
Total	\$1,850.2	\$1,090.4	\$2,112.1	\$51.7	\$5,104.4

FIGURE D-11

Capital sources (%)

	Bank	Credit union	Loan fund	Venture fund	Grand total
Banks, thrifts and credit unions	3%	4%	35%	13%	17%
Corporations	21%	1%	3%	7%	9%
Federal government	2%	0%	5%	19%	3%
Foundations	1%	1%	8%	42%	4%
Individuals	52%	86%	2%	0%	38%
National intermediaries	0%	1%	1%	2%	1%
Non-depository financial institutions	0%	2%	25%	4%	11%
Religious institutions	2%	2%	3%	0%	2%
State or local government	10%	0%	3%	6%	5%
Other	9%	2%	14%	8%	10%
Total	100%	100%	100%	100%	100%

Note: Net Assets and Borrowings not broken out by source so not included in this analysis

FIGURE D-12

Microenterprises and businesses financed

		Bank	Credit union	Loan fund	Venture fund	Grand total
Businesses	Total	944	204	1075	167	2390
	# CDFIs responding	12	46	143	25	226
Microenterprises	Total	178	589	4273	54	5094
	# CDFIs responding	12	50	133	25	220
<i>Grand total</i>		1122	786	5348	221	7484

Endnotes

¹ Carr, J. H., & Schuetz, J. (August 2001). *Financial services in distressed communities: Framing the issue, finding solutions*. Washington, DC: Fannie Mae Foundation.

² See Consumer Federation of America. (August 21, 1997). *Check cashers charge high rates to cash checks, lend money*. Press Release. Washington, DC. Public Interest Research Group. (February 2000). *Show me the money! A survey of payday lenders and review of payday lender lobbying in state legislatures*. Washington, DC.

³ Interest rates on “instant refund” or refund anticipation loans amount to 97% to 1,000%. See National Consumer Law Center and Consumer Federation of America. (January 2003). *The high cost of quick money: Tax preparation, “instant refund” loans, and check cashing fees target the working poor*. Washington, DC. The Brookings Institution. (May 2002). *The price of paying taxes: How tax preparation and refund loan fees erode the benefits of the EITC*. Washington, DC.

⁴ Stein, E. (October 2001). Quantifying the economic cost of predatory lending. Durham, NC: Coalition for Responsible Lending.

⁵ 199 (51%) of the 392 CDFIs reporting.

⁶ The Community Reinvestment Act of 1977, amended from time to time, places responsibilities on depository institutions to lend to, invest in, and serve all of the communities in which they receive deposits from customers.

⁷ Sixty percent of the CDFIs included in this study were certified CDFIs, as of the most recent publication by the CDFI Fund on this topic. A number of certified CDFIs did not participate in this study. Most notably, the CDP study excludes Shorebank Corporation, the largest U.S. community development bank, which had total assets of more than \$1 billion in 2001.

⁸ To be certified by the CDFI Fund, an institution must meet six criteria. It must: 1) have a primary mission of promoting community development; 2) be a financing entity primarily; 3) serve a target market; 4) provide development services together with its financing; 5) be accountable to its target market; and 6) be a nongovernmental entity. Many microenterprise programs, for example, do not meet the second criterion—the financing entity test—because their extensive training and technical assistance programs play more important roles than financing. Many organizations that focus on community development and do very important work in the field choose not to seek CDFI Fund certification because they see the costs (a time-consuming application process) as outweighing the benefits.

⁹ Thirty-two percent. Because of the way they are reported and tracked, CDFI certification among credit unions in the study is likely to be underestimated.

¹⁰ As of December 31, 2001, according to *American Banker*.

¹¹ This represents 195 CDFIs and \$5.1 billion in assets. While 48 CDFIs in our study serve a multistate or national population, all of those assets are captured in the state where the CDFI is located.



¹² Carter, D. A., Simkins, B. J., & Simpson, W. G. (March 2002). Corporate governance, board diversity, and firm value. *The Financial Review*, vol. 83, no. 1. Almost half of the firms do not have a single minority director. Financial services firms have a slightly higher percentage than the norm in terms of minority representation, at 8.2%, although no comparable numbers are provided for female directors.

¹³ For the purposes of the CDP survey, “low-income” households are defined as those households with income at or below 80% of area median income.

¹⁴ Data are for single family mortgage lending reported nationally in 2001, as mandated by the Home Mortgage Disclosure Act. No comparable data are available for commercial lending, so these data are used as the best available approximation of overall lending. Responses of “N/A” in each category were excluded. Minority includes all nonwhite borrowers. Female borrowers include sole applicants who were female plus co-applicants in which the primary applicant was female. See National Community Reinvestment Coalition. (2003). *Home loans to minorities and low- and moderate-income borrowers increase in 1990s, but then fall in 2001*. Washington, DC. National Community Reinvestment Coalition. (2003). *America’s Best and Worst Lenders*. Washington, DC.

¹⁵ Several CDFIs can not break out their financing outstanding into these sectors, so the total figures in each sector underrepresent the total financing activity among sectors.

¹⁶ This included 117,333 transactions, or 58% of total transactions. Credit unions provided 79% of them, banks provided 34%, and loan funds provided the remaining 2%.

¹⁷ Venture funds accounted for 76% of equity investments. Investments outstanding ranged from one to 30 per CDFI. The CDP has included all CDFIs as only one institution type: bank, credit union, loan fund, or venture capital fund. For venture capital funds and loan funds, this represents the CDFI’s primary institution type. Some CDFIs are classified as loan funds and have programs within their organizations that do venture capital investing. Some CDFIs are listed as venture capital funds and do a substantial amount of lending. Therefore, the venture capital fund and loan fund categories may underrepresent the lending and investing activity within that given sector.

¹⁸ Seventeen venture capital funds and 10 loan funds.

¹⁹ Specifically, 0.3% of loan funds and 19.9% of venture capital funds.

²⁰ Venture capital funds had an average of \$323,462. Loan funds had an average of \$343,845, which dropped to \$197,285 once the outlier was dropped.

²¹ 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 lending by mainstream financial institutions to low- and moderate-income borrowers.

²² According to the FDIC, for commercial banks under its regulation, for calendar year 2002. Total loans and leases totaled \$4.16 trillion, and net charge-offs were \$44.5 billion. Commercial banks and CDFIs have different customer and product mixes but ought to be a reasonable point of comparison.

²³ Two percent of credit unions manage 51% of all credit union deposits; 18% of banks manage 56% of all bank deposits.

²⁴ Specifically, 41% and 35%, respectively.

²⁵ The survey indicated 278 institutions provided these services individually, and 259 CDFIs offered

them in a group context.

²⁶ Due to various allocations of capital, not all the assets controlled by CDFIs are considered in this capital under management section.

²⁷ Some foundations offer below-market loans, called Program Related Investments, which totaled \$176 million among the CDFIs in this study.

²⁸ Together, these make up 59% of nonmember deposits.

²⁹ Lenders can receive either enhanced lending test credit or investment test credit for making EQ2 investments in CDFIs. Banks accounted for 78% of EQ2s.

³⁰ Banks have equity to total assets of 8.7%; the equity is not included in capital under management because it is not available for re-lending. Credit unions have equity to capital under management of 9.4% (or equity to total assets of 9.3%).

³¹ Given that these data are not reported in a comparable fashion on credit union call reports, the number of businesses financed by community development credit unions is likely to be substantially underestimated here. Specifically, data from the 109 credit unions included in the CDP FY2001 data set that were analyzed exclusively through call reports are not included here. For more detail, see Appendix A.

³² There were 175 CDFIs that reported some microenterprise lending. The 36 reporting that they were lending solely to microenterprises accounted for a full quarter of that financing. In addition to this group, another 40 CDFIs reported microenterprise and other business development as their only activities. Because business development is a continuum depending on the size and maturity of the business, this distinction between “microenterprise only” and “microenterprise and larger businesses only” may be blurred in some cases.

³³ This figure may underreport jobs created, as it likely does not capture all self-employment activity of microentrepreneurs.

³⁴ Housing developers receiving financing from CDFIs created or renovated 34,996 units (81%) of the total housing units. In all, 125 CDFIs responded to this survey question.

³⁵ In all, 101 CDFIs responded to this survey question.

³⁶ In all, 101 CDFIs responded to this survey question.

³⁷ Between 43 and 64 CDFIs responded for each of the following questions.

³⁸ In all, 45 CDFIs responded to this survey question.

³⁹ At the time of the survey, call reports were prepared quarterly by larger institutions and semiannually by smaller credit unions. Subsequently, the quarterly reporting requirement was extended to all credit unions regardless of size.

⁴⁰ The average was calculated by adding the available data and dividing by the number of credit unions providing these data. A weighted average is provided for ratios by summing the numerator and denominator components of the ratio separately for all the community development credit unions providing these data, then dividing one of the resultant aggregates by the other to get the overall ratio. The median is a value exactly in the middle of a group of data values provided by surveyed credit unions, with half the credit unions having a lower value and half having a higher value.

Illustration: Jane Sterrett

Design and production: Betsy Rubinstein, InForm

