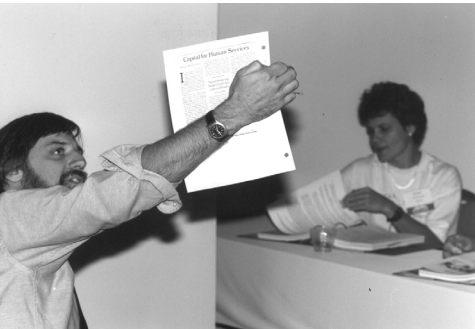


CDFI 101: History of the CDFI Industry

February 2023



Citi Foundation



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We've come from the civil rights movement that learned that civil rights are not adequate or complete without economic opportunity. We've come from a peace movement that came to understand that there never can be a stable peace as long as there are extraordinary disparities of wealth and economic opportunity. Likewise we've come from an environmental movement that learned that our efforts to preserve the natural environment will not succeed on a broad scale unless we address legitimate concerns regarding development — unless we distinguish inappropriate from appropriate development, for housing, for jobs and muster the resources necessary to support that development.”¹

**CHUCK MATTHEI, DIRECTOR OF INSTITUTE FOR COMMUNITY ECONOMICS (ICE)'S
OPENING REMARKS AT THE FIRST NATIONAL CONFERENCE FOR COMMUNITY LOAN
FUNDS IN 1985**

1960s: Civil Rights Movement, War on Poverty, and the First Community Development Corporation

While the post-World War II era led to a housing and credit boom that improved quality of life for a rising middle class of Americans, it also led to dramatic demographic changes resulting in the rise of the suburbs, uneven economic growth, and inequitable housing development that deepened poverty in low-income communities, particularly those that were urban and predominantly people of color.

It was not until the early 1960s that American society was broadly awakened to the fact that mass poverty persisted: at the time, approximately 19% of the population — almost one in every five Americans — was considered to be below the federal poverty line,² but the prevailing assumption was that America was prospering.

Three publications are credited with making poverty in America visible and influencing federal policymakers to formulate anti-poverty agendas. The first was Michael Harrington’s “[The Other America](#)” and the second, a New Yorker essay by Dwight MacDonalD entitled “[Our Invisible Poor](#).” Third was “[The Poor Pay More](#)” by David Caplovitz. These authors shed light on the social forces shaping the “invisible land” the poor inhabited and that were rarely recognized by the majority of their fellow Americans.

At the same time, the civil rights movement had raised awareness of economic inequality, particularly as it related

Unfortunately, many Americans live on the outskirts of hope – some because of their poverty, and some because of their color, and all too many because of both... This administration today, here and now, declares unconditional war on poverty in America.⁷

PRESIDENT JOHNSON, 1964 STATE OF THE UNION ADDRESS

to the nation’s pervasive patterns of racial discrimination and prominent civil rights organizations, such as the NAACP and Urban League, were allies of the Johnson administration.³

As a result of these forces, President Johnson noted “we must open our eyes and minds to the poverty in our midst”⁴ and declared a War on Poverty in his [1964 State of the Union address](#), through which he committed his administration to “not only...relieve the symptoms of poverty, but to cure it and, above all, to prevent it.”⁵ Soon after, Congress passed the bipartisan Economic Opportunity Act of 1964, which established the Office of Economic Opportunity (OEO) and created the legislative framework to expand economic opportunity through anti-poverty, health, education, and employment policies.⁶



THE ECONOMIC OPPORTUNITY ACT INFLUENCED COMMUNITY ECONOMIC DEVELOPMENT IN TWO NOTABLE WAYS:

1 First, the development of community action agencies (CAAs), also known as community action programs (CAPs), to deliver and coordinate services to low-income communities, which included the establishment of over 300 new OEO credit unions to provide financial education and access to credit.

As Clifford Rosenthal notes in “Democratizing Finance,” while most of the credit unions established by the OEO ultimately failed, it resulted in important lessons learned that enabled the success of future initiatives. For example, while OEO credit unions received operating subsidies from the federal government, they were unable to access sufficient capital to build reserves and leverage additional deposits, which is one of the reasons so many failed. Policymakers and advocates were able to implement this lesson learned during the creation of the CDFI Fund in the 1990s to ensure the CDFI Fund provided equity capital that CDFIs could use for leverage and growth.⁸

2 Second, it established funding for Community Development Corporations (CDCs), the first of which – the Bedford Stuyvesant Restoration Corporation – was launched in 1967.

CDCs are nonprofit, community-based organizations focused on revitalizing the areas in which they are located. The CDC model was forged in the mid-1960s by Robert F. Kennedy, his team, and local Brooklyn community members to demonstrate a new way forward for community development⁹ that would “combine the best of [government] community action with the best of the private enterprise system.”¹⁰ Robert F. Kennedy noted that this was because “neither by itself is enough, but in their combination lies our hope for the future.”¹¹ CDCs began to scale through the 1970s and 1980s, seeding the groundwork for the modern CDFI industry.

Late 1960s – 1970s: Community Reinvestment Act and Fair Lending Laws

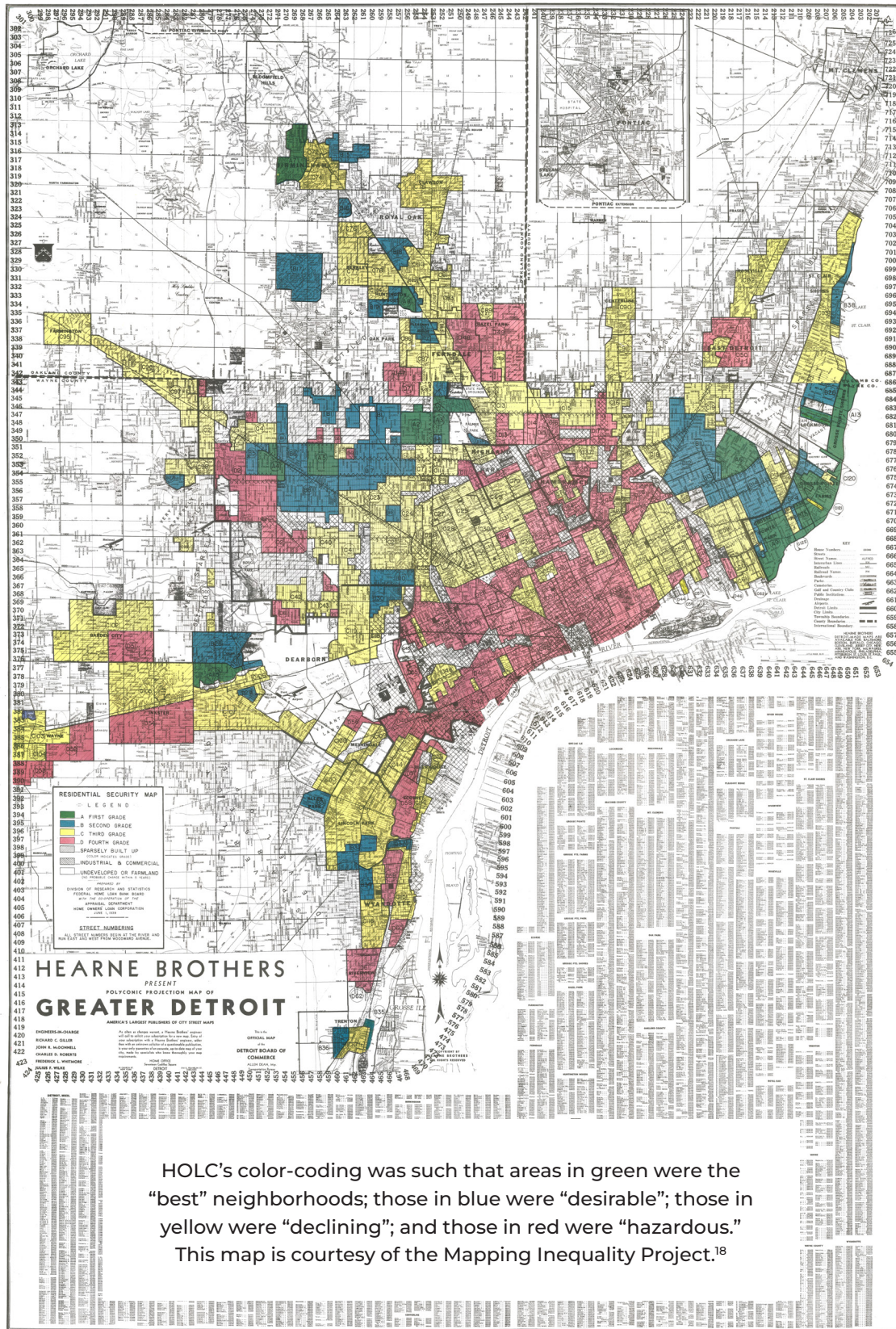
Prior to the 1970s, many banks would not provide lending products and financial services to low- and moderate-income (LMI) neighborhoods, in a practice known as redlining. The roots of redlining can be attributed to federal housing policies devised in the 1930s during the Great Depression, when the federal Home Owners Loan Corporation (HOLC) established a color-coded, neighborhood-based risk rating system for its lending activities.¹²

Red neighborhoods were considered “hazardous” areas and to be the highest risk due to concentrations of residents of color, lower household incomes, and older housing stock. Banks – as well as savings and loan institutions – obtained these maps and avoided lending to red neighborhoods.¹³

Other federal policies enacted during the 1930s further entrenched redlining. For example, the Federal Housing Administration (FHA) was created in 1934 to provide government-funded insurance on mortgages originated by banks. However, since the FHA would not insure loans for homes associated with racial or ethnic groups it considered “incompatible” or “undesirable,” banks were disincentivized to lend to communities of color.¹⁴

Redlining and other discriminatory lending practices created disparities in access to capital, opportunity, economic development, and wealth across the country for decades. Federal Reserve researchers have credibly linked redlining to long-term negative impacts, with residents of redlined neighborhoods less likely to own a home¹⁵ and more likely to experience adverse labor market outcomes, incarceration, and lower credit scores.¹⁶

To address growing calls from community advocacy organizations for solutions to 1) combat these disparities and 2) create accountability, the federal government passed the Housing and Community Development Act of 1977, which included the Community Reinvestment Act, commonly known as the CRA. The CRA requires federal banking regulators to encourage financial depository institutions, defined as banks and thrifts, to help meet the credit needs of the communities in which they do business, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound operations.¹⁷



HOLC's color-coding was such that areas in green were the "best" neighborhoods; those in blue were "desirable"; those in yellow were "declining"; and those in red were "hazardous." This map is courtesy of the Mapping Inequality Project.¹⁸

Alongside the CRA, a series of what became known as the fair lending laws also passed during the late 1960s and 1970s and were intended to expand access to credit by prohibiting certain racial, gender, and other forms of discrimination in residential real estate, banking services, and credit transactions.¹⁹ These laws, described in more detail in Figure 1 below, include the Fair Housing Act, Equal Credit Opportunity Act, and the Home Mortgage Disclosure Act.

FIGURE 1
CRA and Fair Lending Laws

Legislation	Year	Description
Fair Housing Act (FHA)	1968	Part of the Civil Rights Act of 1968. The FHA makes it unlawful for any lender to discriminate in housing-related lending activities against any persons because of their race, color, religion, national origin, disability, family status, or sex.
Equal Opportunity Credit Act (EOCA)	1974	Prohibits discrimination based on race, color, religion, national origin, sex, marital status, age, source of income, or whether a person exercises rights granted under the Consumer Credit Protection Act for any credit transaction and through the life of the loan.
Home Mortgage Disclosure Act (HMDA)	1975	Provides the public with loan data that can be used to assist: <ul style="list-style-type: none"> • In determining whether financial institutions are serving the housing needs of their communities. • Public officials in distributing public-sector investments so as to attract private investment to areas where it is needed. • In identifying possible discriminatory lending patterns.
Community Reinvestment Act (CRA)	1977	Intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations.

While the CRA and fair lending laws passed in the 1970s, inequities persisted for decades to come. For example, an analysis by FiveThirtyEight based on data obtained from the University of Richmond’s Mapping Inequality project and 2020 Census found that of the 138 areas with HOLC maps, “nearly all formerly redlined zones in the country are still disproportionately Black, Latino or Asian compared with their surrounding metropolitan area, while two-thirds of green-lined zones — neighborhoods that HOLC deemed “best” for mortgage lending — are still overwhelmingly white.”²⁰

Many have thought that a primary reason for the persistence of these inequities was that these laws did not provide an adequate enforcement mechanism to prevent continued discriminatory lending patterns. For example, Richard Rothstein, the author of “The Color of Law,” noted in an NPR interview, “All the Fair Housing Act could do was prohibit future discrimination. But by the time the Fair Housing Act was passed, the patterns of segregation had been firmly established. Simply passing a Fair Housing Act did not enable

DIVE DEEPER INTO THE HISTORY OF HOW PUBLIC POLICIES LED TO RESIDENTIAL SEGREGATION IN AMERICA:



EXPLORE your city/region’s redlined maps at [Mapping Inequality](#), which provides interactive maps of HOLC’s risk rating system.



READ [The Color of Law](#) by Richard Rothstein.



WATCH [Segregated by Design](#), a 20-minute short film.

African Americans who were previously living in urban areas to relocate to the suburbs from which they'd been excluded."²¹ The continued inequities witnessed by civil rights leaders and social justice activists would eventually lead to some advocates seeking a way to develop alternative solutions – such as CDFIs – to create access to credit for communities that were being left out of the financial mainstream.

1970s: Laying the Foundation for the CDFI Movement

The 1970s ushered in the launch of the first Community Development Bank – South Shore Bank (“ShoreBank”) – in Chicago in 1973, which is considered the nation’s first CDFI. A new generation of CDCUs emerged as well, such as those serving rural and faith-based communities, as well as others rooted in alternative and cooperative culture. One such example is the Santa Cruz Community Credit Union, founded in 1977 and which focused on supporting local businesses, housing, and cooperatives with less emphasis on solely addressing consumer credit and household poverty as previous low-income credit unions had.²²

In October 1970, the Federal Credit Union Act was amended to provide deposit insurance similar to what the FDIC did for banks, but for credit unions. The legislation also established a new independent agency, the National Credit Union Administration (NCUA), to administer the insurance fund. These changes had a significant impact on the sustainability for credit unions serving low-income communities; one of the primary reasons low-income OEO credit unions – the precursors to CDCUs - struggled in the 1960s was due to a lack of capital.²³

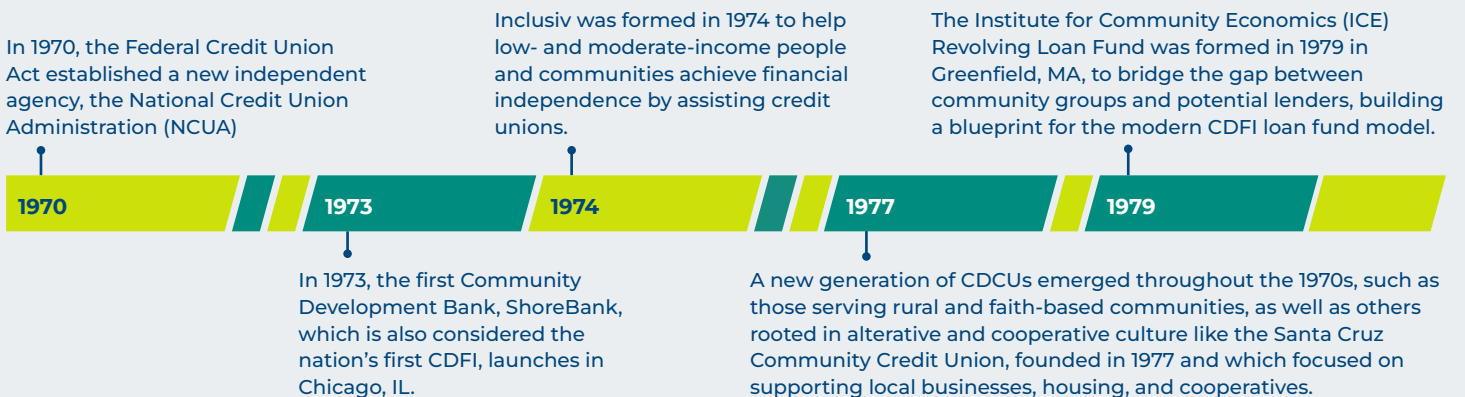
Federal deposit insurance made it easier for low-income credit unions to attract institutional investors and members, as deposit funds could now be insured against loss, effectively

mitigating any perceived risk associated with operating in low-income communities. By growing its deposits, a low-income credit union would have more lending capital, allowing it to build its loan volume, and in turn, earned income. However, the tradeoff CDCUs encountered was increased federal government regulation.²⁴

Following the establishment of the NCUA, the National Federation of Community Development Credit Unions (CDCUs), now known as Inclusiv (and referred to as Inclusiv throughout the rest of this guide), was formed in 1974 to help low- and moderate-income people and communities achieve financial independence by assisting credit unions.²⁵

Last, but not least, one of the first CDFI loan funds – the Institute for Community Economics (ICE) Revolving Loan Fund – was formed in 1979 in Greenfield, MA, and led by Chuck Matthei. ICE pioneered the community land trust model in the late 1960s to help build and preserve equity for communities.²⁶ ICE subsequently transitioned to focusing on bridging gaps between community groups and potential lenders by the late 1970s, aggregating capital through its revolving loan fund and then using that capital to provide seed capital to community groups to advance various projects,²⁷ building a blueprint for the modern CDFI loan fund model.

LAYING THE FOUNDATION FOR THE CDFI MOVEMENT



SPOTLIGHT

The Nation’s First CDFI: ShoreBank

President Clinton once described ShoreBank as “the most important bank in America.” During its 37 years of operations, ShoreBank inspired a national movement of CDFIs, seeding what would become an over \$151 billion dollar industry; shaped federal community development legislation; and catalyzed the concepts of double-and-triple bottom line businesses.

ShoreBank was founded in 1973 in Chicago by Ronald Grzywinski, Milton Davis, Jim Fletcher, and Mary Houghton with the motto – and rallying cry – “Let’s Change the World.”

The founders purchased an existing bank, South Shore National Bank, which was on the brink of failure. The bank had originally been slated for sale to a group of investors that had wanted to close operations in the South Shore neighborhood and relocate to downtown Chicago: their argument was that the neighborhood’s racial transformation – from a predominantly white neighborhood to predominantly black – had caused the bank to deteriorate economically and that it could not viably continue operations in South Shore. Community members organized against these investors and won, which meant the bank was not permitted to abandon its service area in the South Shore.²⁸

The founders of ShoreBank stepped in to replace the original investor group, becoming the new managers of the bank in August 1973. They sought to rebuild the South Shore neighborhood by empowering the community and investing in its economic development. At the time, it was a radical idea: those were the days of redlining, and South Shore had been redlined by every bank in Chicago, including the one originally chartered to serve it. The prevailing wisdom was that it would be an impossible task to revive either the bank or its community, let alone both.²⁹

Against all perceived odds, ShoreBank succeeded: the bank developed a business model that allowed it to become moderately profitable while generating strong social impact, and the neighborhood, as well as quality of life for its residents, improved. Through its success, ShoreBank changed perceptions about what was possible: people could no longer say that investing in disinvested, formerly redlined communities was bad business, too high-risk, or a recipe for failure. Its success cannot be understated – while the CRA and other fair lending laws passed throughout the 1970s, there were few examples at the time of how banks could engage in equitable lending and community development in LMI neighborhoods.³⁰

YEARS ACTIVE
1973–2010

HEADQUARTERS
Chicago, IL

CO-FOUNDERS
Ronald Grzywinski,
Milton Davis,
Jim Fletcher,
and Mary Houghton

MISSION
Provide financing
to low-income
communities and
people left behind by
mainstream finance.



SPOTLIGHT

The Nation’s First CDFI: ShoreBank *(continued)*

ShoreBank became that example as it pioneered the concept of a community-focused lender, as well as the traits that we now consider to be the hallmarks of CDFIs: responsible lenders that are a part of their communities, with deep knowledge of their local markets; provide a range of services alongside their financial products; create partnerships and leverage public, private, and philanthropic resources for the greatest possible impact; and most importantly, mission-oriented. ShoreBank’s priority was to maximize opportunities for improving economic development of its neighborhood, not on maximizing profits. As a result, its loan officers were asked to go the extra mile to find ways to structure deals that were both good for the community and financially sound – an ethos that continues to be embedded in CDFIs today.

ShoreBank’s model inspired people across the nation and the world. ShoreBank provided consulting services in almost 60 countries, trained nearly 4,000 bankers who provided \$1 billion a year in community development loans, and worked with Muhammad Yunus to capitalize Grameen Bank.³¹

Closer to home, ShoreBank caught the attention of the Clintons when Bill Clinton was Governor of Arkansas. The partnership ShoreBank developed with the Clintons as they replicated ShoreBank’s model in rural Arkansas helped catalyze and shape legislation for the CDFI Fund, which would ultimately allow for replication and scale of CDFIs throughout the country. Without the inspiration and proof of concept ShoreBank provided, the CDFI Fund would not have come to fruition.

While ShoreBank closed in 2010, its legacy is alive and well. As the Stanford Social Innovation Review piece *Too Good to Fail* stated: “For almost four decades, [ShoreBank] stood for the proposition that neither race nor wealth nor geographic location should bar an individual from access to capital to buy a home, build a business, or develop a community.”³² Today, over 1,300 CDFIs in communities across the country stand for that same proposition.

SOCIAL IMPACT



Originated more than

\$4.1

billion in loans



Financed over

59,000

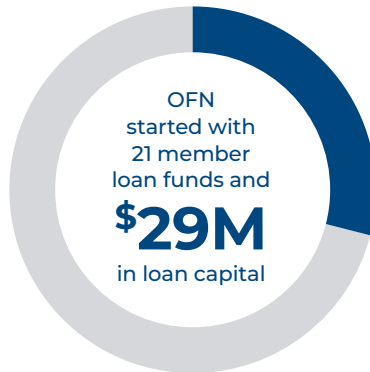
units of affordable housing

1980s: Emergence of CDFI Loan Funds, Intermediaries, and a Movement

In the early 1980s, ICE provided technical assistance to help organize dozens of CDFI loan funds, including New Hampshire Community Loan Fund, Boston Community Loan Fund (now BlueHub Capital), and Delaware Valley Community Loan Fund (now Reinvestment Fund).

These early CDFI loan funds were primarily capitalized by individuals and religious institutions (learn more about them in the “Early CDFI Investors: Women Religious” spotlight at the end of the section). Some loan funds focused on serving cooperatives were able to access capital from well-established cooperatives and the National Cooperative Bank, but for the most part, CDFIs were not able to access conventional bank capital.

By 1985, the number of loan funds in operation — or soon to be — had grown; as a result, ICE began laying the ground for a national loan fund movement by organizing the First National Conference of Community Loan Funds in Waltham, MA. The gathering attracted attendees from almost every loan fund in the country, with 47 existing and emerging funds represented.



Many of the early CDFI leaders and supporters attending the 1985 conference had been involved in the civil rights, worker rights, and social justice movements. These pioneers recognized that access to capital and wealth-building opportunities were a critical missing piece in under-resourced communities, so they set out to make capitalism and financial institutions work for overlooked communities through the CDFI model.³³ They focused on social, economic, and political justice and ensured they were delivering strong financial performance as well as community impact. In doing so, they laid the foundation for what would become the CDFI industry.

One of the key outcomes of this first conference was the formation of the National Association of Community Development Loan Funds (NACDLF) in 1986, which later became

Many CDFIs [began] around kitchen tables or in church basements, often founded by social activists rather than financial experts. With a few notable exceptions, their seed capital came from the retirement funds of communities of nuns, community organizing drives, the occasional foundation grant, and – in the case of credit unions – from the collective savings of the residents of low-income communities.³⁴

CLIFFORD ROSENTHAL, DEMOCRATIZING FINANCE

the National Community Capital Association (NCCA) in 1996, and Opportunity Finance Network (OFN) in 2005, as it is now known today. NACDLF/NCCA are referred to as OFN throughout the rest of this document.

OFN started with 21 member loan funds and \$29 million in loan capital under management in 1986, doubling in membership to 40 loan funds and \$73 million in loan capital in its first five years. The organization was incubated by and operated under ICE through the end of the decade, before transitioning to an independent organization under its first full-time executive director, Martin Trimble, in 1989.

In its early years, OFN – and its members – were very cognizant of the fact that as unregulated entities, CDFI loan funds would be under a great deal of scrutiny and required to repeatedly prove themselves as disciplined lenders with a credible business model. As a result, OFN was very focused on performance-based membership as a means of accountability. As Chuck Matthei noted in his 1985 remarks at the first convening of CDFIs, “We have to be prepared in some measure, I think, to insure and monitor our own performance... we have to understand that the performance of any one will ultimately reflect on all the others. None of us can afford serious mistakes on the part of the others. We will, in the old figure of speech, sink or swim together.”³⁵

In parallel to the rise of CDFI loan funds, CDC funders and organizers were also shifting their energy to creating intermediaries, as a means of creating scale and efficiencies, diversifying and mitigating risk, and to establish state and national associations that could help build capacity among organizations. Two key examples are noted below:

- In 1980, the Ford Foundation, along with six corporations, made a collective \$9.3 million grant to establish the Local Initiatives Support Corporation (LISC) to originate loans, make grants, and provide technical assistance to CDCs.³⁶
- In 1982, the Enterprise Foundation, now known as Enterprise Community Partners, was formed by developer and philanthropists Jim and Patty Rouse, who were inspired by Jubilee Housing, a church-based group in Washington, D.C., seeking to acquire and rehabilitate buildings to provide quality housing in their community.³⁷

In addition, community development banks and credit unions hit a milestone in the 1980s, moving beyond a single proof point in ShoreBank to replications of the model across the country:³⁸

- In 1980, Martin Eakes and Bonnie Wright co-founded the Center for Community Self-Help, later known as Self-Help, in Durham, NC, to support cooperative enterprises and convert endangered manufacturing enterprises to employee ownership. As the organization grew, it created a structure similar to ShoreBank’s, with a few key differences: it was entirely nonprofit, structured as a credit union, and focused statewide instead of on a single neighborhood.

DIVE DEEPER INTO THE EARLY DAYS OF THE CDFI MOVEMENT:



LISTEN to CDFI Making History Interviews with [Martin Trimble](#), former executive director of OFN; [Bill Bynum](#), CEO of Hope Enterprise Corporation and former OFN board member; [Juliana Eades](#), former president of New Hampshire Community Loan Fund and founding vice-chair of OFN; [Elsie Meeks](#), former executive director, The Lakota Funds (the first Native CDFI); and [Robert Schall](#), former president, Self-Help Ventures Fund.



READ the one-page transcript of [Chuck Matthei’s inspiring speech](#) at the first OFN Conference in 1985.



WATCH [CDFIs Making History – Origins](#), a 3.5- minute video with perspectives of early leaders and highlights from the first OFN Conference, then known as NACDLF, in 1985.

- ShoreBank facilitated the replication of its model in rural Arkansas by working alongside then-Arkansas governor, Bill Clinton, and his wife, Hillary Clinton, to support the launch of Southern Development Bancorporation (“Southern”) in 1986. ShoreBank’s support helped Southern raise \$10 million in grants and capital at launch and loaned Southern the first full-time president & CEO of its holding company in George Surgeon. The inspiration ShoreBank and Southern provided to the Clintons would help catalyze the creation of the CDFI Fund in the 1990s
- In 1989 in Brooklyn, NY, Lyndon Comstock [founded Community Capital Bank](#) to support development of affordable housing and local businesses.

SPOTLIGHT

Early CDFI Investors: Women Religious

Today, conventional financial institutions comprise the largest share of CDFI investors – but the industry’s earliest financial backers were congregations of Catholic nuns, also known as Women Religious, who provided seminal support to CDFIs, particularly in the 1970s and ‘80s, helping them establish a proof of concept and grow into an industry.



From the 1970s, Women Religious have been investing directly in the communities and causes that are most important to them. One of the earliest examples is Sister Corinne Florek and the Adrian Dominican Sisters, based in Adrian, MI, who made deposits in ShoreBank in 1977 and then pooled their retirement savings to create a Community Investment Fund in 1978. Since the inception of their loan fund, the Adrian Dominican Sisters have made over 500 loans totaling over \$37 million.³⁹

As investors, the Women Religious expected strong social impact – and to get their money back. Clifford Rosenthal’s “Democratizing Finance” includes a description from Juliana Eades, the founding executive director of New Hampshire Community Loan Fund, on how the CDFI’s loan transaction with the Sisters of Mercy took place: “The Sister hands me a check... she looks me square in the eye, and says ‘You’d better do something good with it. And you’d better pay it back.’⁴⁰”

The Women Religious entrusted their retirement savings to early CDFIs, which was a strong indicator of not only their belief and trust in the work of CDFIs, but also their commitment to aligning their investments with their values. In return, CDFI leaders took the responsibility of protecting the nuns’ investments seriously, understanding how important it was to return capital to the Women Religious so that they could continue supporting their retired Sisters. The motivation to return capital to investors like the Women Religious helped embed a culture of accountability and fiduciary responsibility within CDFIs.

The Women Religious and other faith-based investors helped launch CDFIs as well. One example is the Sisters of Mercy, which in addition to investing in a number of early CDFIs, also helped start and staff them.⁴¹ In 1981, the Sisters of Mercy in Omaha, NB, provided seed capital for Mercy Housing, Inc. (which evolved into Mercy Community Capital) to provide opportunities for residents to stabilize their lives and achieve their dreams.⁴² In New York, Sister Pat Wolf led the effort to launch the Leviticus 25:23 Alternative Fund in 1983 with the support of New York-based religious congregations that were part of the Tri-State Coalition for Responsible Investment.⁴³

Another example is the Christian Brothers Investment Services (CBIS), which created Partners for the Common Good (PCG) in Washington, D.C., in 1989 as a collaborative vehicle for religious institutions to help the poor and empower the marginalized. An Adrian Dominican Sister, Carol Oston helped PCG attract investments from nearly 100 religious institutions.⁴⁴

Watch Sister Corinne Florek’s Ned Gramlich Lifetime Achievement Award Speech from the 2010 OFN Conference.

1990s: Creation of the CDFI Fund and CRA Reform

In 1990, OFN, Inklusiv, and several other community development organizations assembled a group of partners that formed what became known as the CDFI Coalition in 1992, which successfully advocated for the creation of the CDFI Fund.

Around the same time in 1992, then-presidential candidate Bill Clinton, inspired by the work of Muhammad Yunus and Grameen Bank, as well as his interactions with community development banks such as ShoreBank and Southern, announced that, if elected, he would establish a program to create 100 community development banks and 1,000 microenterprise loan funds to increase investment in under-resourced neighborhoods.⁴⁵ His intentions were solidified in his campaign platform via two policies that would become critical for the formation of the CDFI industry: 1) developing a national network of community development banks and 2) implementing a new, improved CRA.



Once Bill Clinton was elected President, the Clinton administration as well as Congress, particularly the Senate Banking Committee, along with the CDFI movement through the CDFI Coalition, all began working to build legislation for a CDFI Fund that would turn President Clinton’s campaign promises into reality.⁴⁷

In July 1993, the Clinton administration presented a legislative proposal to Congress based on the CDFI Coalition’s policy recommendations. The legislation called for the creation of a federal agency, the Community Development Financial Institutions (CDFI) Fund, which would have a

I think every major urban area and every poor rural area ought to have access to a bank that operates on the radical idea that they ought to make loans to people who deposit in their bank.⁴⁶

THEN-PRESIDENTIAL CANDIDATE BILL CLINTON IN A 1992 ROLLING STONE INTERVIEW

mission to increase the number and capacity of CDFIs operating in distressed communities across the nation. The CDFI Coalition mobilized a grassroots campaign spanning all 50 states to urge the passage of the legislation.⁴⁷

Subsequently, in 1994, Congress moved on the proposal by passing the bipartisan Riegle Community Development and Regulatory Improvement Act, which, among other things, established the CDFI Fund within the U.S. Department of the Treasury to “promote economic revitalization and community development through investment in and assistance to community development financial institutions, including enhancing the liquidity” of CDFIs.⁴⁹ In 1996, the CDFI Fund announced its first round of awards to 69 organizations totaling over \$48.3 million.

It should be noted that the CDFI Fund represented a radical shift in how federal programs worked: up until the formation of the CDFI Fund, federal programs disbursed funding directly to and solely for specific projects. Instead of supporting specific programs, the CDFI Fund was structured to assess and invest in skilled intermediaries – CDFIs – allowing each CDFI to use federal funding to build its balance sheet, support its operational capacity, and invest in specific projects as each CDFI saw fit. This structure recognized the importance of locally designed responses implemented at a community level for more effective economic justice. The CDFI Fund assessed CDFIs on strategy, business plans, impact, and management capacity to make funding allocation decisions.

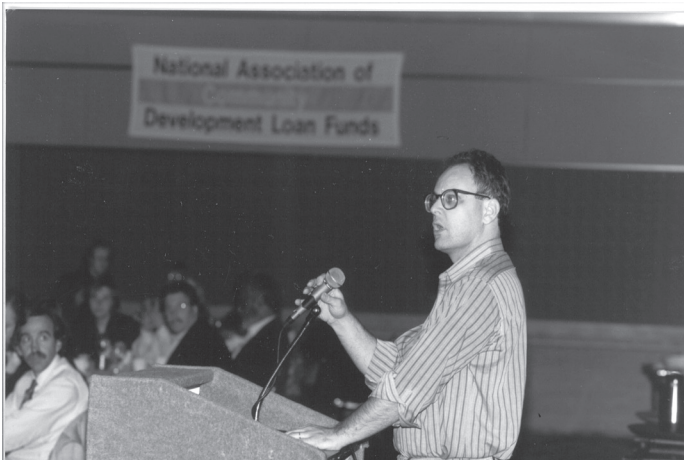
The CDFI Fund’s ability to provide equity in the form of grants and investments to assist CDFIs with building their balance sheets and leveraging other capital has played a critical role in the scaling of the CDFI industry.

Shortly after CRA revisions were enacted, OFN collaborated with Citibank to develop a new capital product for nonprofit CDFIs in 1996: the [Equity Equivalent investment, or EQ2](#), which was structured as deeply subordinated, patient debt.

Parallel to the passage of the Riegle Act, the Clinton administration also called on federal regulators to review and revise the CRA to make it easier for banks to invest in and lend to CDFIs. In 1995, the Federal Financial Institution Examination Council approved the requested changes.

The revised CRA qualified that loans and investments in CDFIs fulfilled CRA requirements, providing an incentive to banks to lend to and invest in CDFIs by explicitly mentioning CDFIs as eligible CRA investments. The 1995 revisions significantly expanded the CDFI industry; up until the mid-1990s, CDFI loan funds typically sourced capital from individual and faith-based investors, which limited the ability of loan funds to scale. As demonstrated in Figure 2 on the next page, in the two decades following the 1995 CRA reform, investments from CRA-motivated banks and lenders have become the primary source of capital and are now an integral component of CDFI loan funds' capitalization.⁵⁰

The EQ2 was designed to provide a solution to the scarcity of equity for nonprofit loan funds – and had the benefit of qualifying banks for greater CRA credit due to its subordinated nature. Today, there are more than \$700 million in EQ2 investments.



DIVE DEEPER INTO THE CREATION OF THE CDFI FUND:



LISTEN to CDFI Making History Interviews with **1) Jeannine Jacokes**, CEO of Partners for the Common Good & CDBA, and who was on the Senate Banking Committee at the time of the Riegle Act and **2) Michael Barr**, Vice Chair of the Federal Reserve for Supervision, and who worked at the U.S. Department of Treasury



READ the Riegle Community Development and Regulatory Improvement Act legislation and Bill Clinton's famous 1992 Rolling Stone interview, when, as a presidential candidate on the campaign trail, he first mentions the work of ShoreBank and the need for more community banking models like it.



WATCH CDFIs Making History - CDFI Fund, a 5-minute video highlighting the efforts and intentions behind creating the CDFI Fund, from the perspectives of early CDFI leaders and 1994: Riegle Act Bill - President Clinton Bill Signing.

LOL

FOR A LAUGH watch the Saturday Night Live (SNL) skit "President Bill Clinton at McDonald's," which references the CDFI Fund (at the 1:41 mark).

FIGURE 2
Average Distribution of Sources of Borrowed Funds for Loan Funds



Note: Prior to 2010, borrowed funds from corporations may have been included in "Other." N ranges from 42 to 231.
Source: OFN Member Dataset and BBC Research & Consulting.

SPOTLIGHT

History and Impact of Native CDFIs

[CDFIs] discover budding entrepreneurs, promising businesses and aspiring homeowners, and launch them on their journeys toward self-sufficiency and economic success in ways that help to mend the rips and tears of history. Some of the deepest slashes in the fabric of rural America have been in Native communities. [Native CDFIs] are uniquely positioned to deliver customized financial products and services that advance economic viability in underserved Native communities and reverse the trends of historic disinvestment.

TAWNEY BRUNSCH, ELSIE MEEKS & JOANNA DONOHOE,
NATIVE CDFIS: STRENGTHENING THE FABRIC OF RURAL AMERICA⁵¹

To be eligible for Native CDFI certification, at least 50% of a CDFI's activities must serve Native Americans, Alaska Natives, and/or Native Hawaiians. Today there are more than 70 certified Native CDFIs.

When the CDFI Fund was created in 1994, its authorizing statute mandated a study on the lending and investment practices in Native communities to better understand economic development needs in Indian country. The CDFI Fund published this Native American Lending Study in 2001, which identified 17 major barriers to investment in Native communities, including legal infrastructure; government operations; economic, financial, and physical infrastructure; and cultural competency. The study demonstrated how critical it was to address these needs to spur economic development in Native American communities. Combined with the U.S. government's federal trust responsibility to Indian tribes, this led to the creation of the CDFI Fund's [Native Initiatives](#) in 2001, which includes a distinct Native CDFI designation and dedicated funding stream for Native CDFIs.⁵²

What is the government's federal Indian trust responsibility?

In the 1800s, through a series of Supreme Court decisions known as the "Marshall Trilogy," the United States recognized the sovereignty of Indian tribes and their right to self-govern.⁵³ These decisions also established the roots of federal Indian trust responsibility which were solidified in later cases.⁵⁴ In its simplest form, the federal trust responsibility "means that because the federal government took Indian land, it has a responsibility to protect and provide for Indian people."⁵⁵ As a result, federal resources allocated for

the benefit of Indian tribes and their members serve to fulfill the government's federal trust responsibility.

Impact of Native CDFIs: Research published by the Federal Reserve Bank of Minneapolis in 2021 demonstrated the depth of impact Native CDFIs can have in Indian country. The findings noted that the presence of Native CDFIs in Native communities leads to significant increases in individual credit scores – and that individuals in credit distress had the biggest credit boosts. The study also found that non-Native CDFIs do not improve credit outcomes in Indian Country, and that the substantial difference in impact between Native and non-Native CDFIs can likely be attributed to the cultural competence of their teams.⁵⁶ As Northwest Area Foundation notes: "Because of their deep cultural ties and knowledge, Native CDFIs are uniquely poised to build trusted relationships...the result is a deeper impact that's building generations of sustainable wealth in Indian Country."⁵⁷



Adding one Native CDFI staff member per 1,000 residents leads, on average, to a

+45 point

increase in Equifax risk score for individuals whose initial credit score is in the lower third.

SPOTLIGHT (continued)

DIVE DEEPER INTO NATIVE CDFIs:



READ about how Native CDFIs have positively impacted the members of the Oglala Sioux Tribe on the Pine Ridge Reservation in South Dakota [here](#). You can also check out impact stories from Native CDFIs such as [Indian Land Capital Company](#), [Spruce Root](#), and [Nimiipuu Fund](#).



WATCH these 6-minute videos highlighting the work of two of OFN & Oweesta’s Native CDFI Catalyst Award winners in recent years: [Akiptan](#) and [Northwest Native Development Fund Development Fund](#).

WATCH [100 Years: One Woman’s Fight for Justice](#), featuring the trailblazing journey of [Elouise Cobell](#) as she successfully fought to win one of the [largest class-action lawsuits](#) ever filed against the U.S. Government for mismanagement of the Indian Trust Funds. During her lifetime, she co- founded what is now Native American Bank, a CD Bank and the first American bank owned by a tribe. She also created Native American Community Development Corporation (NACDC), which is now a Native CDFI.⁵⁸

2000-2012: Solidification of the CDFI Business Model

Throughout the early 2000s, aided by the creation of the CDFI Fund, the passage of additional government legislation, and the expansion of federal programs, the CDFI movement solidified into an industry: the number of certified CDFIs has grown 6.6x in just over 25 years. As Figure 3 demonstrates, in 1996 there were 196 organizations affiliated with the CDFI Fund; as of December 2022, there are now more than 1,300 certified CDFIs across the nation.⁵⁹

FIGURE 3
Number of Certified CDFIs: 1996-2022⁶⁰

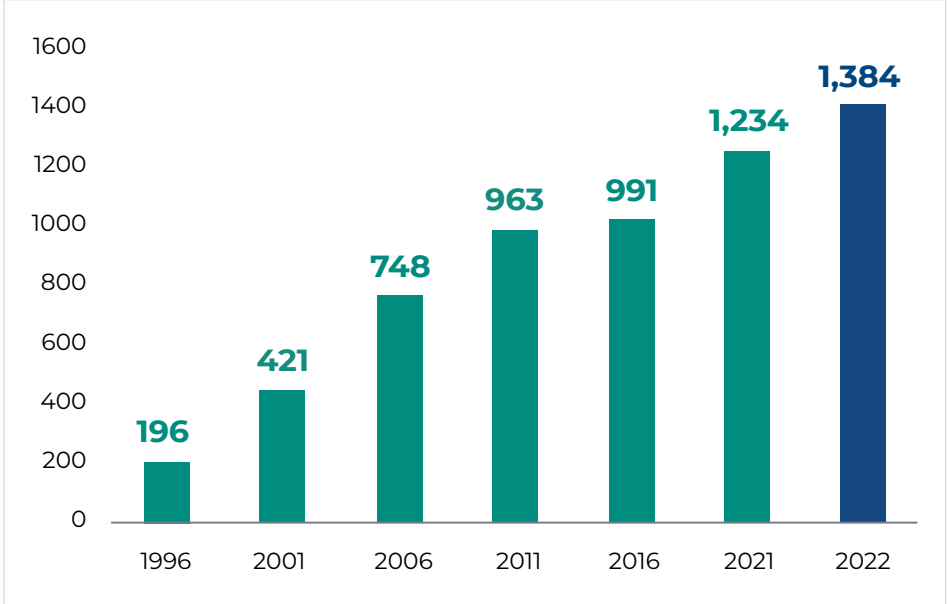


Figure 4 below notes key government legislation and programs that supported the growth of CDFIs from 2000-2012.

FIGURE 4

Key Federal Legislation and Programs Created or Expanded in Support of CDFIs From 2000–2012

Legislation/Program	Year	Description
Community Renewal Tax Relief Act	2000	Established New Markets Tax Credit (NMTC) program, which is administered by the CDFI Fund and seeks to attract investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). Also established the New Markets Venture Capital Program.
Housing and Economic Reform Act (HERA)	2008	Created the Capital Magnet Fund (CMF), which is administered by the CDFI Fund, and opened Federal Home Loan Bank membership to nonregulated CDFIs.
Small Business Jobs Act of 2010	2010	Created the Small Business Lending Fund (SBLF) and State Small Business Credit Initiative (SSBCI). Both supported, provided capital for, and encouraged lending to small businesses through state-run programs or community development banks and loan funds. The Small Business Jobs Act also amended the Riegle Act of 1994 to create the new Bond Guarantee Program at the CDFI Fund. ⁶¹
Troubled Assets Relief Program (TARP)	2010	Established the Community Development Capital Initiative (CDCI) to help CD Banks and CDCUs maintain their services to under-resourced communities in the aftermath of the 2007-2009 financial crisis.
SBA Community Advantage Program	2011	In 2011, the Small Business Administration (SBA) opened its flagship 7(a) small business lending guarantee program to non-depository CDFIs.

Throughout this growth, CDFIs continued to stay on the leading edge of financing low-income and low-wealth communities, helping create new financing markets, such as for manufactured housing, healthy foods, charter schools, and federally qualified health centers (FQHCs). These innovations not only brought more CDFI capital to underserved people and communities – they effectively challenged entrenched conventional wisdom around risk, creating proof points and de-risking markets, which opened the door for mainstream financial capital to flow into these products and markets in meaningful ways.

It also was an important proof point for the proposition of the CDFI loan fund business model; it demonstrated that loan funds could be more innovative than regulatory institutions, solve for market failures, and do so in a financially responsible way without generating increased risk to investors.



SPOTLIGHT

CDFI Financing Innovations: Manufactured Home Communities

Loan product and financing innovation has become not only a prominent component of CDFI growth, but also a key way in which CDFIs drive impact. One example is the important role CDFIs have played in developing fair, affordable solutions to help low-income homeowners in manufactured home communities cooperatively obtain ownership of their communities, allowing them to control their rents, rules, infrastructure conditions, and to lay the basis for conventional home mortgages on these houses.

In manufactured home communities, residents often own their homes – but not the land beneath them. Large, predatory private investors have taken advantage of this fact, purchasing the property under communities and then dramatically increasing rents or evicting residents to redevelop the land. In most states, manufactured homes are considered to be personal property, or chattel, as opposed to real estate. Therefore, manufactured homeowners do not qualify for conventional mortgages – which is why conventional lenders and government agencies have not traditionally served these types of homeowners.

The lack of conventional financing options has made manufactured home loans substantially more difficult and expensive to finance, with interest rates that can carry into the double digits; it has also exposed low-income manufactured

homeowners to predatory lenders, ultimately negating the benefits manufactured housing can provide as an affordable housing solution.⁶²

When CDFIs, such as New Hampshire Community Loan Fund, entered the manufactured home market in the 1980s, they provided transparent and affordable financing solutions paired with technical assistance to create better conditions that would preserve the benefits of manufactured housing for low-income homeowners. CDFIs did this by helping residents and homeowners finance the conversion of their communities to resident ownership in what became known as the Manufactured Home Communities resident ownership model. In 2008, a new CDFI, Resident Owned Communities (ROC) USA, scaled this approach across the country, often lending alongside other CDFIs and leading a transformation in the manufactured housing sector.

Watch this clip from the [John Oliver](#) show for a laugh – and to learn more about the challenges faced by manufactured homeowners. The episode also highlights the work of CDFIs like ROC, New Hampshire Community Loan Fund, NeighborWorks Montana, and PathStone in devising innovative, community-driven solutions (see 13:05 mark).

DIVE DEEPER INTO SOME OF THE FINANCING MARKETS CDFIS HELPED CREATE:



Healthy Food Financing: Reinvestment Fund- America’s Healthy Food Financing Initiative; Understanding the Role of Community Development Finance in Improving Access to Healthy Food; OFN’s Nurturing Healthy Food Financing Resources.

Charter School Financing: Charter Schools Facilities Finance: How CDFIs Created the Market, and How to Stimulate Future Growth.

Federally Qualified Health Centers (FQHCs): Better Together: How FQHCs and CDFIs Can Leverage Covid-19 Relief Funds; Lenders Coalition for Community Health Centers; CDFIs Emerge as Key Partners in Improving Community Health.



CDFI Rating System

In 2004, OFN launched the first CDFI assessment and rating system (“CARS”) for the industry to provide an objective assessment of a CDFI’s financial strength, performance, and impact. The goal of CARS is to help bring more capital into the CDFI industry by increasing transparency and helping CDFI investors focus on both CDFI financial performance and impact. CARS was spun out as an independent organization in 2012 and rebranded as AERIS in 2014 with a strategic goal of making CDFI loan funds a recognized asset sub-class in the mainstream fixed income market.⁶³

Community Development Financial Institution (CDFI) loan funds lent into [the] storm [of the Great Recession], acting as economic shock absorbers for these communities in the worst of the downturn.⁶⁴

NANCY O. ANDREWS & DAN RINZLER, LIIF

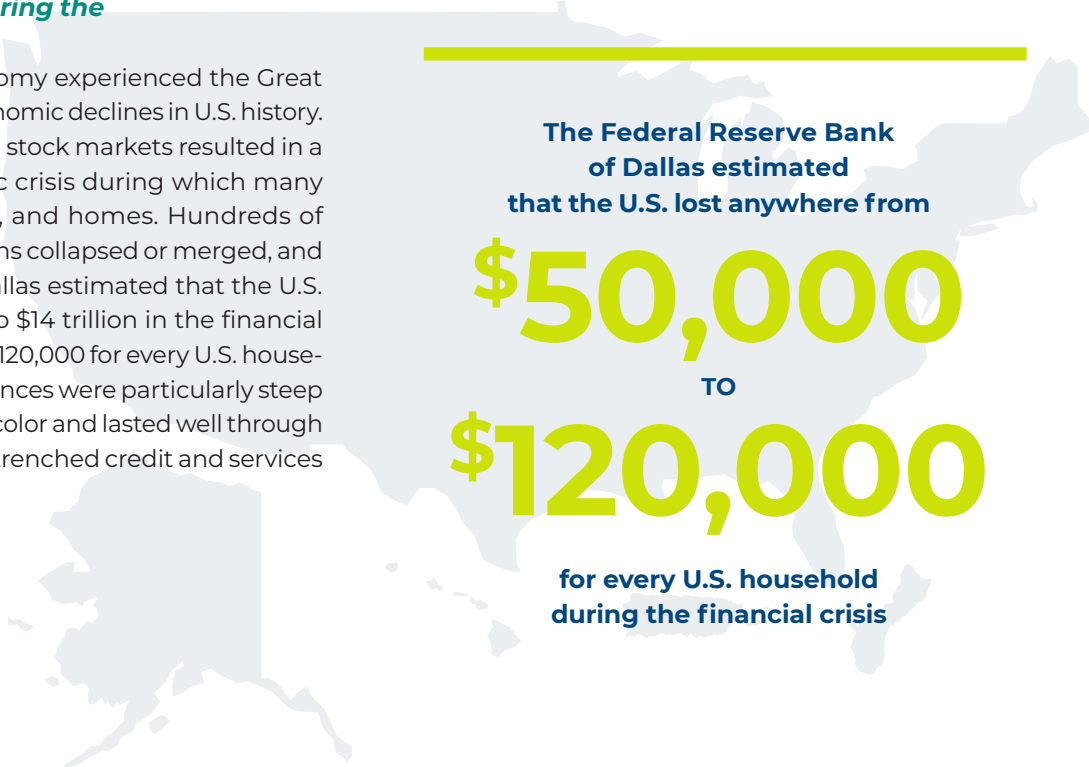
Demonstrating Resilience During the Great Recession

From 2007-2009, the U.S. economy experienced the Great Recession – one of the worst economic declines in U.S. history. The collapse of the housing and stock markets resulted in a deep and protracted economic crisis during which many people lost their jobs, savings, and homes. Hundreds of conventional financial institutions collapsed or merged, and the Federal Reserve Bank of Dallas estimated that the U.S. lost anywhere from \$6 trillion to \$14 trillion in the financial crash, equivalent to \$50,000 to \$120,000 for every U.S. household at the time.⁶⁵ The consequences were particularly steep for low-income communities of color and lasted well through 2012, as conventional lenders retrenched credit and services in these areas.

During this time, CDFIs stepped in and scaled their services to continue meeting the needs of their communities. CDFIs’ average loans outstanding increased in the wake of the Great Recession, helping to create jobs, housing, and community services during the downturn. In contrast, conventional banks experienced one of the largest lending contractions in the post-war era: outstanding loans declined by as much as 16% between late 2008 and early 2012.⁶⁶

The federal government recognized the role of CDFIs and sought to expand support to CDFIs with the passage of the American Recovery and Reinvestment Act in 2009, which appropriated additional funding to the CDFI Fund to make awards through the CDFI and NACA programs, as well as increased allocations for the NTMC program.

Research from the Federal Reserve demonstrated how CDFIs’ patience and commitment enabled them to substantially outperform regulated conventional banks during the recession. As noted in one working paper, “One would expect that nonprofit loan funds devoted to working in low- and moderate-income communities would have been particularly at risk...yet the 500 Community Development Financial Institution (CDFI) loan funds certified [at the time] by the U.S. Treasury came through the recession not only successfully, but stronger.”⁶⁷



SPOTLIGHT

Create Jobs for USA Initiative

In 2011, OFN partnered with Starbucks to launch **Create Jobs for USA**, a unique initiative that ran through 2014 and leveraged the power of CDFIs to address the U.S. jobs crisis as the economy sought to recover from the Great Recession. The initiative combined corporate donations and crowdfunding to establish the Create Jobs for USA Fund, which was also anchored with donations from Banana Republic, Citi Foundation, and Google Offers.



OFN managed the program and used the donations to award capital grants to 120 high-performing CDFIs across the country. These CDFIs leveraged their Create Jobs for USA awards with additional loans from foundations, conventional banks, and other investors to make loans to community businesses. Anyone who donated \$5 online or at one of Starbucks' 7,000 retail locations received an American-made "Indivisible" wristband, from which 100% of the donation went to Create Jobs for USA. The program offered individuals and corporations a way of showing their support, with more than 800,000 people receiving wristbands through individual and corporate contributions. Starbucks also launched an "Indivisible" line of products: coffee, mugs, tumblers. For every purchase of one of these products, Starbucks made a donation to the program.⁶⁸

IMPACT

Raised

\$15.2M

in donations, which participating CDFIs turned into

\$105M

in financing for businesses to create or retain more than

5,000

jobs

Create Jobs for USA was meaningful for a few reasons:

- **First**, its impact. Every \$1 raised through the program supported \$7 in loans to small businesses, microenterprises, nonprofit organizations, commercial real estate developers, and housing developers. In three years, the initiative raised more than \$15.2 million in donations, which participating CDFIs turned into \$105 million in financing for businesses to create or retain more than 5,000 jobs.⁶⁹
- **Second**, it was one of the first times that Fortune 100 corporations partnered with CDFIs, seeding the trends of corporate partnerships that would later take root during the pandemic.
- **Third**, it helped build the brand of CDFIs as the go-to partners to develop solutions for crises; in this case, it was to create jobs in the wake of the Great Recession. The success of the initiative created additional proof points for the CDFI business model, validating the unique role CDFIs have in lending and investing in small businesses in communities that mainstream finance has typically deemed risky.
- **Fourth**, it raised broad public awareness of CDFIs in a way that had not happened before; for example, a commercial for the program aired during Game 7 of the World Series in 2011; the initiative was advertised in every Starbucks store across the nation; and it was featured in local and national TV spots, such as [this segment on CNN Money](#).

Learn more about the initiative here, as well as its impact and lessons learned.

2013 – Present Day: Growth of the CDFI Industry

Through a focus on collaboration, increasing efficiency, expanding coverage areas, and creating new loan products as well as business models, the CDFI industry has continued to grow in size, impact, and visibility over the past decade.

As CDFIs seek to best serve their communities and clients, they have continued to innovate, diversifying and expanding their product offerings, with more and more CDFIs exploring equity and equity-like products.

Technology has become increasingly important, particularly for small business and microlending CDFIs, as they work to meet their customers where they are – which is now often online – and to provide safe, credible alternatives to predatory online lenders. A survey conducted by JPMorgan

Chase in 2021 found that 44% of small businesses had explored online lending in the past year, and that 25% of those businesses have taken out an online loan. Along the same lines, The Federal Reserve’s 2021 Small Business Credit Survey found that entrepreneurs with lower credit scores 1) turn to online lenders more frequently than traditional CDFIs and 2) engage with online lenders at much higher rates than entrepreneurs with high credit scores.⁷⁰ These trends have led to the need for CDFIs to embrace technology.

CDFI business models have also evolved, with a growing number of CDFIs creating multiple entities, such as a credit union alongside a loan fund, or creating a for-profit entity to stand alongside its nonprofit entity. In general, there are more for-profit CDFIs entering the market.

Notably, recent years have witnessed a series of CDFI loan fund mergers across the industry, including, but not limited to:



Formation of Oweesta, NALCAB, and the Alliance

As the CDFI industry has grown, so have the number of intermediaries supporting it. CDFI leaders of color of CDFIs often face the same barriers in access to capital and resources that the communities they serve do. To better support and advocate for the unique needs of the various leaders and communities within the CDFI industry, three key CDFI intermediaries emerged, as noted in Figure 5.

FIGURE 5

Oweesta, NALCAB, and the Alliance

Organization	Year Founded	Description
Oweesta	1989	Oweesta is the longest standing Native CDFI intermediary offering financial products and development services — such as training, technical assistance, investments, research, and policy advocacy — exclusively to Native CDFIs and Native communities. The CDFI's mission is to provide opportunities for Native people to develop financial assets and create wealth by assisting in the establishment of strong, permanent institutions and programs contributing to economic independence and strengthening sovereignty for all Native communities.
National Association of Latino Asset Builders (NALCAB)	2002	NALCAB's mission is to strengthen the economy by advancing economic mobility in Latino communities. The CDFI is an intermediary and hub of a national network of 200+ nonprofit organizations that serve diverse Latino communities in 45 states, Washington, D.C., and Puerto Rico. NALCAB supports its member organizations to better serve their communities through training, public policy work, peer-to-peer collaboration, and access to funding, nonprofit resources, and professional development.
African American Alliance of CDFI CEOs (The Alliance)	2018	The Alliance empowers Black CDFI CEO members to lead and grow their institutional operations, teams, and social impact by building capacity, bridges, and power. The Alliance expands the financial capacity of its members through collective and cooperative strategies so that Black-led CDFIs are resourced with the financial capital, human capital, and technical capacity to be catalysts for economic mobility, prosperity, and wealth-building for Black communities.

Accessing the Public Capital Markets

For the last decade, the CDFI industry has worked to open doors to as many types of investors as possible – not only to diversify capital sources, but also to increase the lending capital available to CDFIs so that the industry can grow, meet the needs of the communities it serves and generate greater impact, and build stronger self-sufficiency.

As the market rebounded from the Great Recession, some CDFIs began to find that there was not enough CRA-motivated and foundation debt capital available to meet the demands they were experiencing for financing, both in terms of volume and tenor. CDFIs were seeing a need to offer longer-term, more patient products, but were unable to access that type of capital at scale.⁷¹

The public bond market — valued at \$46 trillion in the U.S. — offered a solution to this capitalization challenge for a particular subset of CDFIs. However, to access the public markets, CDFIs need to be rated by a credit ratings agency: the three most prominent ones are Standard & Poors (S&P), Moody's, and Fitch. Given the rigorous standards and resource-intensive nature of the ratings process, only large CDFIs with exceptional capital bases, and those that are real-estate based, are typically in a position to undergo such a process.

In 2015, CDFIs began to get rated: the first was Clearinghouse CDFI, based in Orange County, CA, followed by Housing Trust of Silicon Valley.

The first CDFI to enter the bond market was LISC, which was rated in September 2016 and launched an issuance of \$100 million in General Obligation (GO) bonds to raise capital for its community development work in April 2017.

To date, 12 CDFIs have been rated by an agency, and nine of those CDFIs have gone on to issue bonds and notes. Collectively, the bonds and notes sold total approximately \$1.4 billion dollars.⁷²

12

CDFIs have been rated by a credit ratings agency

CDFIs have collectively sold approximately

\$1.4B

in bonds and notes



DIVE DEEPER INTO CDFI PUBLIC MARKET BOND ISSUANCES:

FROM THE CDFI PERSPECTIVE: LISC, CDFIs and the Capital Markets

FROM THE RATINGS AGENCY PERSPECTIVE: S&P Global Ratings, Missions Possible: How U.S. CDFIs Meet Financial And Social Missions, And The Rating Implications That Follow

FROM THE BANK/ UNDERWRITER PERSPECTIVE: Morgan Stanley, Tapping the Capital Markets: A Primer for CDFIs

Recognition of CDFIs as Financial First Responders: COVID-19 Pandemic and Paycheck Protection Program (PPP)

In March 2020, the World Health Organization's declaration of the COVID-19 pandemic led to global social and economic disruption. From the very beginning of the pandemic, CDFIs worked to offset the looming economic threat to low-income communities. Many CDFIs proactively reached out to their borrowers with accommodations to help ease economic disruption. Offering principal and interest payment deferrals, emergency loans, loan modifications, and other emergency responses or new products, CDFIs helped clients survive and begin to recover from the crisis.

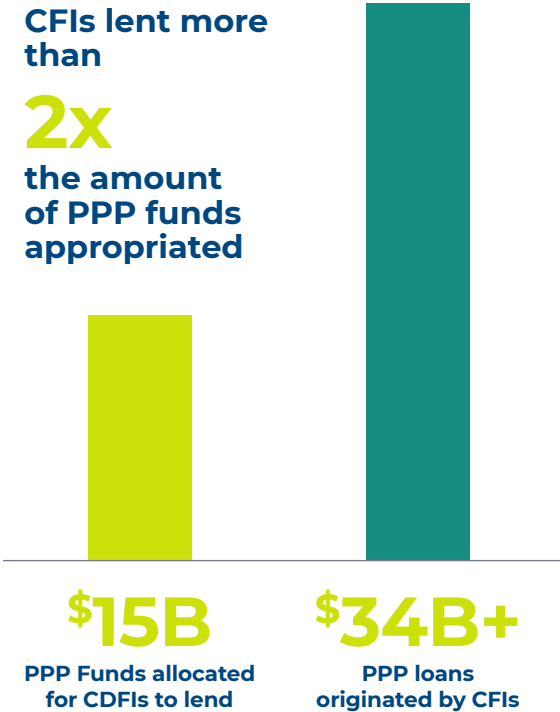
The Paycheck Protection Program (PPP) was an unprecedented effort to save the nation's small businesses as they struggled through the COVID-19 pandemic. Amid an economic and health crisis, the Small Business Administration (SBA) faced the daunting task of implementing a new program that ultimately deployed nearly \$1 trillion in assistance to businesses. At first, few CDFIs other than CDFI banks were eligible to offer PPP loans – and with most CDFI

The federal government's response to the COVID-19 pandemic catapulted a niche sector of specialized community development lenders to a new level of prominence in American finance. Now, as the industry matures into a burgeoning political force in the nation's capital, some of the sector's leaders are eyeing ambitious policy changes in coming years that could transform the sector's long-term trajectory.⁷³

AMERICAN BANKER

loan funds and credit unions excluded from offering PPP loans, many of the smallest businesses without a lending relationship with a mainstream bank could not obtain one. As it became clear that PPP was not reaching very small, minority and women-owned businesses, changes were made that expanded the role of CDFI loan funds and credit unions, including setting aside \$15 billion in PPP funds for CDFIs of all types to lend.⁷⁴

SBA data demonstrates that community financial institutions (CFIs) – which are defined as CDFIs, Minority Depository Institutions (MDIs), SBA microlenders, and Certified Development Corporations – outperformed other types of lenders in multiple ways. CFIs lent more than twice the amount appropriated – originating more than \$34 billion in total PPP loans. In addition, they reached financially underserved businesses with a higher proportion of their loans compared to every other type of PPP lender: the SBA reported that 77.9% of CFI loans were under \$150,000 (49.8% program average) and that 39.7% of CFI loans were in low- and moderate-income areas (28% program average).⁷⁵ The work of CDFIs during the pandemic illuminated their reliability and efficiency in distributing funds to communities most in need of capital.



Watch: How Community Lenders Helped Save Small Businesses During the Pandemic, a 5 ½ minute video demonstrating the important role CDFIs played in supporting small businesses during the pandemic, the impact CDFIs had, and the increased visibility they generated for the industry as a result.

Separately from PPP, the Consolidated Appropriations Act of 2021 allocated significant investments for CDFIs through three special recovery programs: (1) the Rapid Response Program (RRP), (2) Emergency Response Program (ERP), and (3) the Emergency Capital Investment Program (ECIP). In total, \$12 billion was allocated to CDFIs and Minority Depository Institutions (MDIs), with at least \$3 billion specifically allocated to CDFIs through these programs, allowing for substantial growth of the industry and highlighting the increasing spotlight on CDFIs as solution providers to support people and places that conventional finance does not reach, particularly during times of crisis.⁷⁶

Black Lives Matter Movement and Rise of Corporate Investors

The brutal murder of George Floyd in Minneapolis in the summer of 2020 sparked a resurgence of the Black Lives Matter movement and a mainstream, national conversation around the existence and impacts of systemic racism. Over the past few years, individuals and organizations have increasingly become aware of racial inequities – as well as the systems that have contributed to those injustices.

In a press release, Netflix issued a call to action to its peers and summarized the impact proposition for corporations: “We plan to redirect even more of our cash to Black-led and focused institutions as we grow, and we hope others will do the same. For example, if every company in the S&P 500 allocated a modest amount of their cash holdings into efforts like the Black Economic Development Initiative, each one percent of their cash would represent \$20-\$30 billion of new capital.”⁷⁸



“If every company in the S&P 500 allocated a modest amount of their cash holdings into [community development efforts] each 1% of their cash would represent \$20-30 billion of new capital.”

One of the results of this public awakening has been a significant increase in capital for the CDFI industry from corporations. Driven by the need to take action on racial equity, public companies such as Google, Starbucks, NextDoor, Amazon, Netflix, Nike, and PayPal all entered the community investing space starting in 2020. Many long-term financial supporters, particularly large commercial banks, also stepped up their game.

In general, a significant amount of capital has flowed into the CDFI sector from private and philanthropic institutions in response to both the pandemic and the need for racial and economic justice. Long-term CDFI investors increased the scope and scale of their commitments. Beyond corporations, another new catalytic source of capital has been philanthropist MacKenzie Scott, who has donated more than \$14 billion to approximately 1,500 mission-driven organizations; of which more than 35 CDFIs received some of her largest grants.⁷⁹

Corporations have typically structured their commitments into CDFIs and MDIs in two ways: (1) by providing deposits, and (2) through a partnership with a well-established CDFI or intermediary.⁷⁷

However, as the U.S. Impact Investing Alliance notes in a case study for the New York Federal Reserve, “while the growth of corporate support for [people of color-led] financial institutions is encouraging, the diverse motivations of these actors make it difficult to predict if [this] level of commitment can be sustained.”⁸⁰

Looking Ahead: The Next 10 Years

Over the past 50 years, CDFIs have grown from an initial proof point in a Chicago neighborhood to an industry that is over 1,300 institutions strong and in every state. The last few years in particular have brought CDFIs into the national spotlight, positioning them for a time of growth and expansion. As we think of what the next decade may bring, there are a few trends we believe the industry will experience:

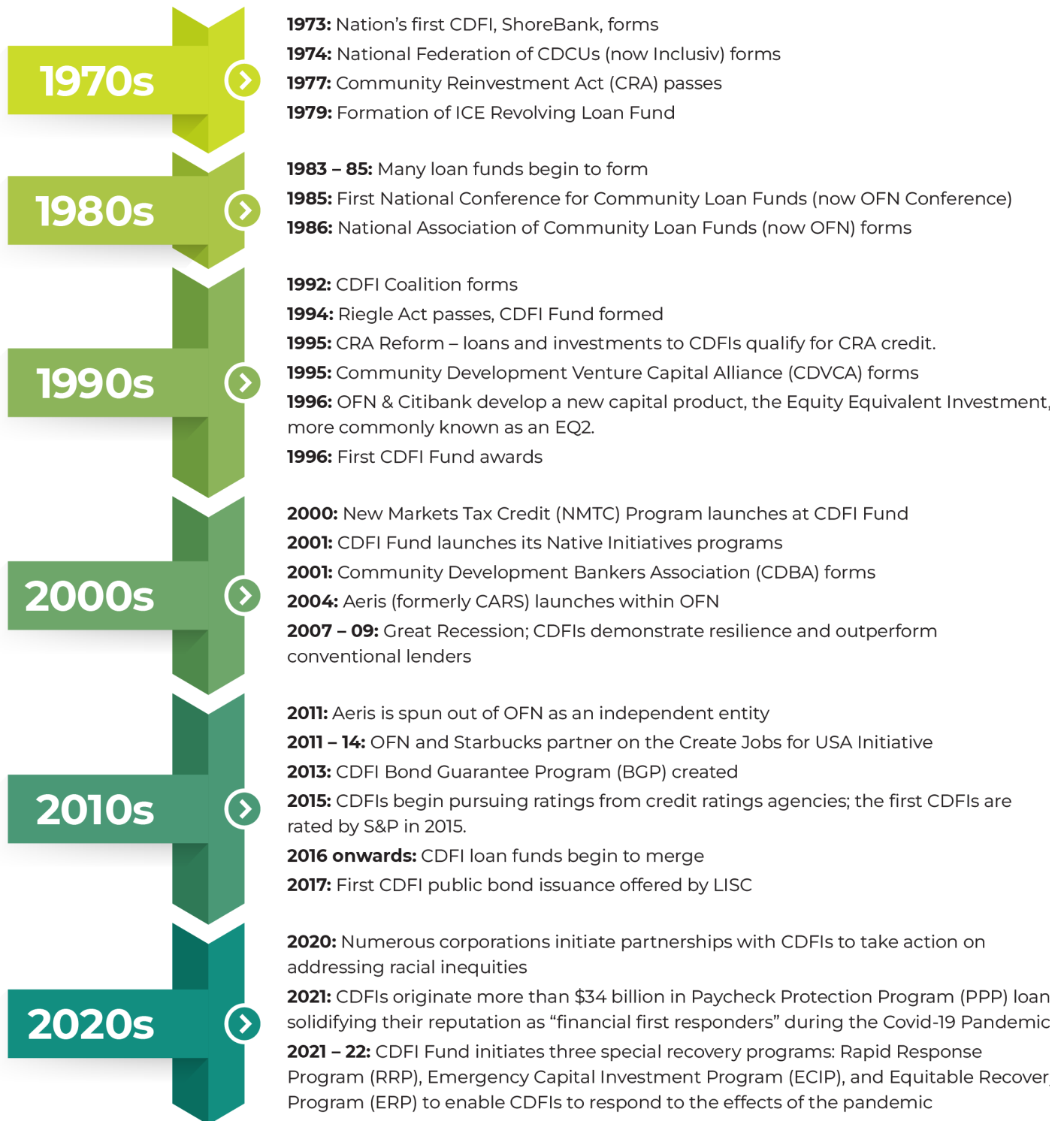
CDFIs of all sizes will continue to be seen as significant contributors to reaching low-income communities through and/or for federal programs – such as for the Greenhouse Gas Reduction Fund.

Diversification of investors: CDFIs will continue to seek new sources of capital that will enable them to scale, which will lead to shifts in how the industry is capitalized.

Growth of different loan fund business models beyond the traditional nonprofit loan fund, such as hybrid, cooperative, fintech, and/or increased loan fund mergers. CDFIs have already started evolving their business models: over the last decade, we have seen the growth of for-profit CDFIs such as Clearinghouse, Lendistry, and most recently, Momentus Capital.

CDFIs will leverage significant investments from the CDFI Fund's pandemic response programs, such as RRP, ECIP, and ERA.

Since 1973, CDFIs have worked for economic, social, and racial justice.



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Photo Details

Cover: Clockwise, from left - 1) President Bill Clinton signing the 1994 Riegle Act, which established the CDFI Fund. 2) Chuck Matthei, date unknown. 3) Elsie Meeks and Bob Schall, 1993. 4) 1996 OFN Conference attendees. 5) 1997-1998 OFN Board.

Page 6: HOLC map of greater Detroit region circa 1939.

Page 9: ShoreBank co-founders / Ronald Grzywinski, Milton Davis, Jim Fletcher, and Mary Houghton.

Page 13: Sister Corinne Florek delivering her Ned Gramlich Lifetime Achievement Award Speech at the 2011 OFN Conference.

Page 14: President Bill Clinton signing the 1994 Riegle Act, which established the CDFI Fund.

Page 15: Jeremy Nowak at the 1991 OFN Conference.

Page 19: Gem City Market cooperative owners in Dayton, OH; client of OFN member Finance Fund.

Page 22: Create Jobs for USA “Indivisible” wristbands, which were available for purchase at every Starbucks retail store across the nation.

Page 23: On left, OFN member Northwest Native Development Fund’s office, located in Coulee Dam, WA. On right, OFN member African Development Center’s office, located in Minneapolis, MN.

Page 25: Recycling Oudated Sewer Site Project, supported by multiple OFN members in Mount Vernon, Kentucky.

Appendix A: Reading List

A selection of books, articles, and websites referenced throughout the toolkit are listed below. OFN will continue to curate and add selections to this list – so please share your recommendations with us at developmentservices@ofn.org!

<p>General</p>	<p>Democratizing Finance, Clifford N. Rosenthal</p> <p>Opportunity Finance Institutions: Side by Side, FY 2021 24th Edition, OFN</p> <p>2021 Inside the Membership: Statistical Highlights from OFN Membership, OFN</p>
<p>1960s: Civil Rights Movement, War on Poverty & the First Community Development Corporation</p>	<p>The Other America, Michael Harrington</p> <p>Our Invisible Poor, Dwight MacDonald</p> <p>The Poor Pay More, David Caplovitz</p>
<p>Late 1960s - 1970s: Community Reinvestment Act & Fair Lending Laws</p>	<p>Mapping Inequality, University of Richmond</p> <p>The Color of Law, Richard Rothstein</p> <p>Four decades in, here's how and why the CRA keeps evolving, Federal Reserve Bank of Minneapolis</p> <p>The Lasting Legacy of Redlining, FiveThirtyEight</p>
<p>1970s: Laying the Foundation for the CDFI Movement</p>	<p>The New Old-Fashioned Banking, Ronald Grzywinski, Harvard Business Review</p> <p>Too Good To Fail, Stanford Social Innovation Review</p>
<p>1980s: Emergence of CDFI Loan Funds, Intermediaries, and a Movement</p>	<p>Chuck Matthei's 1985 Speech from the First OFN Conference</p> <p>Read and listen to CDFI Making History Interviews with Martin Trimble, former executive director of OFN; Bill Bynum, CEO of Hope Enterprise Corporation; Juliana Eades, former president and founding executive director of New Hampshire Community Loan Fund; Elsie Meeks, former executive director, The Lakota Funds (the first Native CDFI); and Robert Schall, former president, Self-Help Ventures Fund and many more!</p>
<p>1990s: Creation of the CDFI Fund & CRA Reform</p>	<p>Bill Clinton: The Rolling Stone Interview, Rolling Stone Magazine</p> <p>Riegle Community Development and Regulatory Improvement Act</p> <p>Read and listen to CDFI Making History Interviews with Jeannine Jacokes, CEO of Partners for the Common Good & CDBA, and who was on the Senate Banking Committee at the time of the Riegle Act as well as Michael Barr, Vice Chair of the Federal Reserve for Supervision, and who worked at the U.S. Department of Treasury.</p> <p>EQ2: Equity Equivalent Investments, OFN</p> <p>Investing in Rural Prosperity, Chapter 35 - Native CDFIs: Strengthening the Fabric of Rural America, Tawney Brunsch, Elsie Meeks, Joanna Donohoe</p> <p>Impact stories from Native CDFIs such as Indian Land Capital Company, Spruce Root, and Nimiipuu Fund</p>

Appendix A: Reading List *(continued)*

<p>2000-2012: Solidification of the CDFI Business Model</p>	<p>Two Years After 9/11: A Report on the Unique Role Community Development Financial Institutions Are Playing in the Rebuilding of Lower Manhattan, OFN</p> <p>America's Healthy Food Financing Initiative, Reinvestment Fund</p> <p>Understanding the Role of Community Development Finance in Improving Access to Healthy Food, The Food Trust, ChangeLabSolutions, NPLAN</p> <p>Nurturing Healthy Food Financing Resources, OFN</p> <p>Charter Schools Facilities Finance: How CDFIs Created the Market, and How to Stimulate Future Growth, Federal Reserve Bank of San Francisco</p> <p>Better Together: How FQHCs and CDFIs Can Leverage Covid-19 Relief Funds, IFF</p> <p>CDFIs Emerge as Key Partners in Improving Community Health, Federal Reserve Bank of Minneapolis</p> <p>CDFIs as Economic Shock Absorbers, Federal Reserve Bank of San Francisco</p> <p>Create Jobs for USA Initiative, OFN</p> <p>Six Lessons Learned from Create Jobs for USA, OFN</p>
<p>2013-Present Day: Growth of the CDFI Industry</p>	<p>CDFIs and the Capital Markets, LISC</p> <p>Missions Possible: How U.S. CDFIs Meet Financial And Social Missions, And The Rating Implications That Follow, S&P Global Ratings</p> <p>Tapping the Capital Markets: A Primer for CDFIs, Morgan Stanley</p> <p>Community Development Financial Institutions (CDFIs) + Supportive Policies + Capital = Responsible, Affordable Financing for Marginalized Communities: Lessons from the Paycheck Protection Program (PPP), OFN</p> <p>CDFIs are starting to flex their post-pandemic clout, American Banker</p> <p>Case Study: Corporate Support for Local Economic Development in Response to the Racial Justice Crisis, The U.S. Impact Investing Alliance, commissioned by the Federal Reserve Bank of New York</p>

Appendix B: YouTube/Video Playlist

All the videos referenced throughout the toolkit are listed below. You can also find them on [OFN's CDFI 101 YouTube Playlist](#), which OFN will continue to update with additional content.

<p>OFN Conference Speeches & Plenaries</p>	<p>2022 OFN Conference – Welcome Remarks, Beth Lipson https://www.youtube.com/watch?v=LoevdGtBlgQ</p> <p>2022 OFN Conference Plenary: The Journey from Opportunity to Justice https://www.youtube.com/watch?v=0rpoiMhj_SM</p> <p>2021 OFN Virtual Conference - Welcome Remarks, Lisa Mensah https://www.youtube.com/watch?v=7vTDFmRfWI</p> <p>2013 State of the Industry Speech, Mark Pinsky https://www.youtube.com/watch?v=nFCUaRdIRt8&list=PLB6GEc_rPCbcEWJU6uN5m-ZLfY2VOJz1p&index=16</p>
<p>CDFI Industry History</p>	<p>CDFIs Making History- Origins https://www.youtube.com/watch?v=uHe-vAzCn_Q</p> <p>Lyndon B. Johnson, 1964 State of the Union Address https://www.youtube.com/watch?v=D4LrrxIRIM</p> <p>Segregated by Design https://www.youtube.com/watch?v=F7gRGK9abCI / https://www.segregatedbydesign.com/</p> <p>Sister Corinne Florek – Ned Gramlich Lifetime Achievement Award Speech https://www.youtube.com/watch?v=RJRFiboFvwQ</p> <p>CDFIs Making History – CDFI Fund https://www.youtube.com/watch?v=sdo5d_rwSDQ</p> <p>SNL Skit: President Bill Clinton at McDonald's https://www.youtube.com/watch?v=eYt0khR_ej0</p> <p>1994: Riegle Act – President Bill Clinton Bill Signing https://www.youtube.com/watch?v=dYj9zqo_6to&t=1332s</p> <p>100 Years: One Woman's Fight for Justice (watch for free via Kanopy using your public library card) https://www.kanopy.com/en/product/3250036</p> <p>Create Jobs for USA – OFN & Starbucks https://www.youtube.com/watch?v=Muh6lITnVg4&list=PLB6GEc_rPCbdpGp5n1Q0HhXjpp5RTu9gg&index=16</p>
<p>Native CDFIs</p>	<p>Native CDFI Catalyst Award Winner (2022): Akiptan https://www.youtube.com/watch?v=azwVVuW2KBo</p> <p>Native CDFI Catalyst Award Winner (2021): Northwest Native Development Fund https://www.youtube.com/watch?v=etTFqJiAtJY</p>

Appendix B: YouTube/Video Playlist *(continued)*

CDFI Impact

How Community Lenders Helped Save Small Businesses During the Pandemic

https://www.youtube.com/watch?v=nUoBXtCOaj8&list=PLB6GEc_rPCbfoy-8e70uj2IxCieyu93sm&index=2

Meet a CDFI Borrower - Homeowner Cheryl Hampton

https://www.youtube.com/watch?v=j_Mk7So9bmQ&list=PLB6GEc_rPCbfAB1b-szHknUX1_xjV4xYg&index=9

Meet a CDFI Borrower - Barney Santos, BLVD MRKT

https://www.youtube.com/watch?v=Dx02EJC3GjA&list=PLB6GEc_rPCbcT9u7vHjJ2FezhdYm2jW68&index=26

Meet a CDFI Borrower - Kelly Upchurch, American Health Management

https://www.youtube.com/watch?v=ZdNE3jAEXug&list=PLB6GEc_rPCbcT9u7vHjJ2FezhdYm2jW68&index=29

Mobile Homes: Last Week Tonight with John Oliver

<https://www.youtube.com/watch?v=jCC8fPQOaxU&t=811s>

CNN Money Feature: Create Jobs for USA

https://www.youtube.com/watch?v=DVGew7vhWLU&list=PLB6GEc_rPCbdpGp5n1Q0HhXjpp5RTu9gg&index=18

The Power of Community Development Financial Institutions for Today's Inclusive Economic Recovery: Clinton Foundation

<https://www.youtube.com/watch?v=DxvNouVENxU&t=489s>



Have questions, suggestions for improvement, or other feedback you'd like to share related to this toolkit?

Reach out to OFN's Development Services team at developmentservices@ofn.org.

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