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COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS: RESOURCES FOR BUSINESSES AND COMMUNITIES

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Editor's Note: Publication of the following article does not advocate the use of the CDFIs nor express an opinion on their creditworthiness.

Defining CDFIs

Community Development Financial Institutions (CDFIs) are private sector financial intermediaries that provide financial products and services to people and communities underserved by traditional financial institutions. CDFIs can be banks, credit unions, loan funds, venture capital funds, community development corporations or micro-enterprise loan funds. There are 665 federally certified CDFIs operating in all 50 states and the District of Columbia, including 50 in California.[1]

While the current CDFI industry began taking shape in the late 1960s and early 1970s, it wasn't until the 1990s that this financial sector began to expand. The major cause for this expansion was the enactment of the Riegle Community Development and Regulatory Improvement Act of 1994 (the CDFI Act), signed into law by President Clinton.

The CDFI Act created the CDFI Fund within the U.S. Department of the Treasury to promote economic revitalization and community development by investing in and assisting CDFIs through equity investments, capital grants, loans and technical assistance support. Since its first round of funding in 1996, the CDFI Fund has made more than $613 million in awards to community development organizations and financial institutions.[2]

Services and Clientele

CDFIs provide a wide range of financial products and services, including mortgage financing for first time homebuyers, financial services for low income households and local businesses, financing for community facilities, commercial loans and investments to start or expand small businesses, and loans to rehabilitate rental housing. In addition, these institutions provide services, such as credit counseling to consumers and technical assistance to small businesses, which help ensure that credit is used effectively.

CDFIs often work in conjunction with traditional community lenders to develop innovative ways to deliver loans, investments, and financial services. They may jointly fund community projects, with the CDFI assuming the more risky subordinated debt. In this way, CDFIs complement conventional financial institutions, rather than supplant them, and seek to extend financial services to sectors traditional lenders find too risky or inaccessible.

Sources of Funding

CDFIs attract capital from both public and private sources. The federal CDFI Fund provides CDFIs with crucial support and provide monetary and technical assistance to CDFIs through three programs: the Financial Assistance program, the Technical Assistance program, and the Native American CDFI Development program. CDFIs compete annually for CDFI Fund awards that require, in most cases, at least a 1:1 match of non-federal funds. The CDFI Fund calculates that every dollar it invests in a CDFI leverages 12 non-federal or private sector dollars.

The CDFI Fund also administers two programs that promote private sector investment. The Bank Enterprise Award Program provides incentives for bank and thrift investments in distressed communities and the New Markets Tax Credit Program encourages private sector investments in communities with persistent poverty.

Each of the CDFI Fund's programs provides assistance to different types of organizations and each has its own set of eligibility criteria. For example, some programs require CDFI or CDE (Community Development Entity) certification, both administered through the CDFI Fund as described below.

Private investment may come from a variety of sources, including individuals, religious institutions, foundations, corporations, banks and thrifts, non-depository financial institutions, national intermediaries, and credit unions. Private sector investors are encouraged to support CDFIs through

[1] US Department of the Treasury, *Certified CDFIs by State*, http://www.cdfifund.gov/programs/cert/cert_cdfi.asp, accessed 4/10/04
[2] US Department of the Treasury, *CDFI Fund Annual Report 2002*, http://www.cdfifund.gov/overview/index.asp, accessed 4/10/04.

various federal and state tax credit programs such as the CDFI Fund's New Markets Tax Credit Program and the California CDFI Tax Credit Program.

Certification

To become a certified CDFI, an organization must be accepted via an application process to the CDFI Fund. Certification expires three years following initial acceptance. Recertification may be requested every three years. Certified CDFIs automatically qualify for CDE certification, which lasts for the life of the organization. For more information on CDFI/CDE certification, see **www.cdfifund.gov**.

California CDFIs can be certified further by the California Organized Investment Network (COIN). This status allows individuals and corporations to receive a state tax credit on qualified investments they make in a California CDFI. For more information on California CDFI certification and qualified investments, visit **www.insurance.ca.gov/COIN/Cdfi.htm**.

CDFIs in California

There are approximately 59 CDFIs in California that are certified by the State (a CDFI can be both federally and California certified). CDFIs exist in almost every geographic region of California and usually specialize in providing specific services such as personal banking services, housing and rehabilitation loans, small business loans, and non-profit small business loans. For a list of California certified CDFIs, including contact information, visit **www.insurance.ca.gov/COIN/Cdfi.htm**. For a list of federally certified CDFIs organized by state, visit **www.cdfifund.gov/docs/2003_certification_byorgstate.pdf**.

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