AltruShare
SECURITIES

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Community Development Loan Funds

Financing and supportive services for housing, small business, and community facilities in economically disadvantaged communities.

Structure: Community Development Loan Funds (CDLF) are private loan funds dedicated to delivering responsible, affordable lending to help economically and otherwise disadvantaged people and communities. Over 90% of CDLF's are nonprofit organizations, governed by a board of directors.

Mission: CDLF's lending and related services increase job creation and retention in low-income communities; spur growth in women- and minority-owned businesses; support development of affordable housing and community facilities such as child care centers, charter schools, and public health clinics in underserved markets.

Regulation: CDLFs are generally unregulated, unlike federally regulated community development banks and credit unions. CDLFs that receive funding from the CDFI Fund submit data to the Treasury through the Community Investment Impact System (CIIS).

Impact: CIIS data for 2010 show that among the 136 CDLFs reporting transaction level data, 81 reported the creation of more than 33,000 jobs during that year, and 48 financed the development of nearly 85,000 affordable housing units.

Investment Options: Investments in CDLFs are made either directly or through an investment consortium that shares risk among the investors. Typical debt investments in a CDLF carry a fixed rate of interest between 1% to 4.5% with a term of three to ten years.

CARS™

The CDFI Assessment and Ratings System

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Key Statistics:
as of Jan. 2012

972 CDFIs operating in the U.S.
601 of these are CDLFs managing approximately $10 Bln in total assets

2006-10 - CIIS reporting CDLFs

Total Assets +32%
Total Loan Growth +54%

About the Report

Funds for the research for this report were provided by AltruShare Securities, LLC. AltruShare was launched in 2006 as an independent, comprehensive brokerage firm for institutional investors. AltruShare is also a type of social enterprise called "Community Investment Enterprises" which are for-profit companies owned by nonprofit organizations that benefit low-income communities. AltruShare helps institutional investors understand the opportunities to support underserved communities with investments that address the needs of these communities. Many of AltruShare's clients are interested in having a social return on their investments without compromising their financial return.

The report was independently produced by the CDFI Assessment and Ratings System (CARS™). This report introduces the legal and organizational structure of CDLFs and explains how they promote economic opportunities in underserved communities.

The CDFI Assessment and Ratings System

CARS™ was established in 2004 and launched as an independent corporation in 2012. It offers in-depth analysis of impact performance and financial strength of CDLFs for socially-motivated investors. CARS™ services include due diligence reports and ratings; customized analytic services and financial trend analysis; and training on CDLF underwriting.

About the Authors

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Community Development Loan Funds:

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What Are Community Development Loan Funds?

Community Development Loan Funds (CDLF) are private, generally unregulated financial institutions dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people and communities join the economic mainstream. Over 90% of loan funds are nonprofit organizations, governed by boards of directors that include experienced professionals and community representatives.[1]

CDLFs' lending and related services increase job creation and retention in low-income areas; spur growth in women- and minority-owned businesses; support development of affordable housing and community facilities such as child care centers, charter schools, and public health clinics in underserved markets; and promote lending that positively impacts the economy, the environment, and lives of low-income and low-wealth individuals.

Loan funds have worked in close partnership with mainstream financial institutions, facilitating bank investment in markets previously avoided by regulated entities. Because of their unique understanding of low-income markets and the government programs that target disadvantaged populations, CDLFs have been able to reduce risk exposure for their mainstream partners through a combination of subordinated or early-stage lending, leveraged public subsidy, and close working relationships with borrowers.

The largest CDLFs in the U.S. manage more than $500 million dollars in assets (both on- and off-balance sheet); the smallest retain less than $1 million in assets. CDLFs typically generate an annual operating surplus - but their focus is on impact-maximization rather than profit maximization. They provide safe investment opportunities with returns comparable to or better than other fixed-income instruments in the current market environment.

CDLFs as CDFIs

A community development financial institution (CDFI) provides credit and financial services to underserved markets and populations, linking these markets to the economic mainstream, and vice-versa. CDFIs fall into four broad categories: community development banks and community development credit unions (regulated depositories), community development loan funds, and community development venture capital funds.[2] These CDFIs finance small business start-ups and expansions, including micro-enterprises; housing, both rental and home-ownership; and community facilities for childcare, healthcare, charter schools, arts, and youth and elderly programming.

CDFIs are certified by the Community Development Financial Institutions Fund (CDFI Fund), part of the U.S. Department of the Treasury. The CDFI Fund and the legal concept of CDFIs were established by the bipartisan Reigle Community Development and Regulatory Improvement Act of 1994. The CDFI Fund's mission is "to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States."[3]

According to the CDFI Fund, as of January 2012 there were 972 CDFIs operating in the United States.[4] Of those 601 were loan funds serving all 50 states plus the District of Columbia and Puerto Rico and managing approximately $10 billion in total assets.

Loan funds certified by the CDFI Fund gain access, through a competitive process, to a variety of grants, loans, and tax credit allocations that have played a critical role in growing and strengthening CDLFs' capital base and impact over the last 15 years.

CDFIs that receive funding from the CDFI Fund submit data to Treasury through the Community Investment Impact System (CIIS). In December 2011 the CDFI Fund released seven years of data gathered through CIIS, for fiscal years 2004 through 2010. Between 207 and 273 CDFIs reported data during each of those years, with CDLFs comprising about three-quarters of those respondents. In 2010, 172 CDLFs—approximately one-quarter of all CDFI

Fund-certified CDLFs—reported total assets of $5.3 billion (see Table 1), representing over 50% of total CDLF assets. Among reporting CDLFs, the largest 10% represented 57% of all CDLF assets in the database. This report uses CIIS data as a proxy for all CDLF activity.

Table 1. CDLF Growth from 2006 through 2010

	2006	2010	% Change
Number of Reporting CDLFs *	198	172	-13%
Total Assets ($000)	$ 4,028,140	$ 5,297,426	32%
Total Equity (Net Assets) ($000)	$ 1,363,814	$ 2,009,758	47%
Working Capital Ratio (Total Equity/Total Assets)	34%	38%	12%

* Represents the number of CDLFs that reported to CDFI Fund in that year out of a total of approximately 600.

Source: CIIS Data, CDFI Fund, US Treasury Department

CDLF Lending Sectors

The earliest CDLFs emerged in the 1960s in response to the inner-city economic upheaval that accompanied the population exodus to the suburbs and the emerging focus on rural poverty. During the late 1960s and early 1970s, a handful of community-based organizations in the Northeast and Appalachia formed revolving loan funds to promote economic development in low-income communities through business finance. Shortly after, in the late 1970s, the Institute for Community Economics (ICE)[5] launched a loan fund to help low-income individuals become homeowners.[6] The majority of loan funds in operation today were established in the subsequent decades, with 73% launched in the 1980s and 1990s, and 14% after 2000.[7]

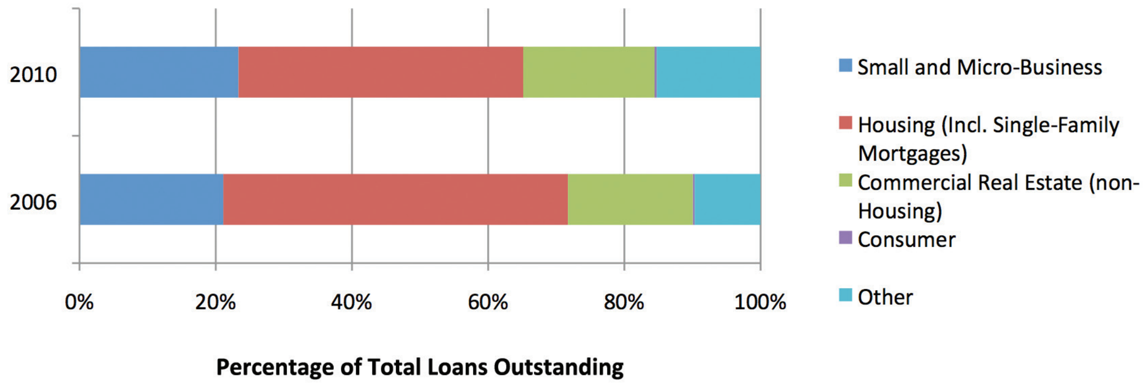
Table 2. CDLF Lending by Sector ($000), 2006 and 2010

	2006	2010
Number of Reporting CDLFs	177	160
Small and Micro-Business	$ 544,843	$ 928,952
Housing (including Single-Family Mortgages)	1,306,192	1,664,515
Commercial Real Estate (Non-Housing)	473,555	767,681
Consumer	6,581	12,856
Other	249,802	607,030
TOTAL LOANS OUTSTANDING	**$ 2,580,973**	**$ 3,981,033**

Source: CIIS Data, CDFI Fund, US Treasury Department

Housing and business lending continue to comprise the majority of CDLF financing activities. As the CIIS data in Table 2 shows, housing and small business loans (including home mortgages and micro loans) accounted for 65% of CDLF loans receivable in FY 2010. Lending activity shifted between 2006 and 2010 as Figure 1 shows. During late 2008 through 2010, the market for Low-Income Housing Tax Credit (LIHTC) syndications shut down in response to the financial crisis. LIHTC is a major source of subsidy for affordable housing development. In its absence, CDLFs were unable to close on loans in their pipelines as evidenced by the decline in housing loans as a percentage of total loans receivable in 2010. During the last decade, many CDLFs diversified their lending, providing financing for child care providers, health care facilities, charter schools, and arts programming. These commercial real estate loans accounted for approximately 19% of CDLF loans outstanding in 2010.

Figure 1. Change in CDLF Lending Activity (Loans Receivable) in 2006 and 2010



Source: CIIS Data, CDFI Fund, US Treasury Department

The CIIS data indicates that new loan originations among CDLFs fell in concert with the national economic decline in 2008, rebounding in 2010. Total loans outstanding however, grew steadily over the five-year period, with $4 billion in loans receivable in 2010 for reporting CDLFs, representing a 54% increase over the FY 2006 level (see Table 2). The growth in loans outstanding—even while loan originations declined—highlights one of the characteristics that make CDLFs unique among financial institutions. Loan funds are “patient” lenders, often setting terms that assist borrowers to successfully repay their obligations with a goal of preserving the business, affordable housing development, or community facility being financed.

Sources of Capital

Nonprofit CDLF’s rely on a combination of market and below-market fixed-rate debt and grants to capitalize their financing activities. They re-lend this capital at market or near-market rates, using the spread to fund their operations. As Table 3 shows, about two-thirds of CDLF financing capital comprised debt in 2010, with the remainder being “equity.” In general, the capital structure for nonprofit and for-profit loan funds is the same. As described below, because the vast majority of CDLFs are nonprofit corporations, equity—or net assets—derives predominantly from operating surpluses and capital grants; whereas stock sales and earnings comprise equity on for-profit balance sheets. Debt typically includes unsecured, recourse obligations with a three- to seven-year term and equity equivalent (EQ2) notes, which are subordinated, low-interest debt with rolling maturities and limited rights to repayment acceleration. EQ2 notes are similar in structure to preferred stock. In 2010, CDLFs reported $221 million in EQ2s, or about 5% of total lending capital.

Table 3. CDLF Financing Capital by Type ($000), 2006 and 2010[8]

	2006		2010	
	$000	%	$000	%
Number of Reporting CDLFs	198		172	
Equity (Net Assets)	$ 855,288	26%	$ 1,360,466	34%
Debt and EQ2	$ 2,409,807	74%	$ 2,667,964	66%
TOTAL CAPITAL	**$ 3,265,095**	**100%**	**$ 4,028,430**	**100%**

Source: CIIS Data, CDFI Fund, US Treasury Department

A description follows of the primary investors in the CDLF sector. Table 4 provides a summary of debt sources used by CDLFs to finance their lending activity.

- **Banks** are the largest sources of capital for CDLFs. Under the Community Reinvestment Act (CRA)[9] regulated depositories are reviewed for their investments in disadvantaged communities, which historically has been an important consideration by regulators during bank mergers. Banks that provide debt capital to CDLFs are able to leverage their investments in CRA-targeted communities through the CDLF's lending activities. This has been a powerful incentive for banks to partner with CDLFs. During the 1990s, bank mergers, fueled by more rigorous enforcement of CRA, fueled bank investment in CDLFs in the form of below market-rate debt. Continued consolidation in the banking sector resulting from the collapse of financial markets in 2008 has contributed to a reduction in the absolute number of bank investors for many CDLFs. In response, loan funds have begun seeking debt capital from a broader range of potential investors.
- **Government**—both state and federal—have played a significant role in capitalizing CDLFs. Federal programs important to CDLFs include the CDFI Fund's Financial and Technical Assistance Programs and its New Markets Tax Credit program; the Department of Housing and Urban Development's Community Development Block Grants; the Small Business Administration's Community Advantage guaranty and Micro-loan programs; and the U.S. Department of Agriculture's Intermediary Relending Program. Loan funds with a municipal or regional market also access government programs at the state and local levels, particularly through state Housing Finance Agencies and Economic Development Departments. Government programs are sources of both below-market debt and the capital grants that CDLFs leverage to secure debt from banks and other investors.
- **Mission-oriented institutional investors**, such as foundations and religious communities, played a unique role in the early development of the CDLF field. Religious investors were some of the first supporters of CDLFs and helped found many of the older loan funds. Similarly, several foundations have deep roots among CDLFs, through a combination of capital grants and below-market, long-term loans called program-related investments (PRIs). Foundations and religious communities historically have been CDLF champions, introducing their peers to investment opportunities with a strong record of producing both financial and social impact returns. Foundations and family funds have increasingly turned to CDLFs for investment opportunities that meet their philanthropic goals and provide a reliable source of fixed income. The number of foundations that offer PRIs grew 40% between 1998 and 2007 while the amount of PRI financing grew almost 75% (to $742 million annually) during the same period.[10]
- **Individual investors** have accounted for a fraction of total investments in loan funds however, CDLFs are increasingly focused on tapping this resource. Similar to philanthropic institutions, individual investors in CDLFs are motivated by the combination of financial and social impact returns, and increasingly, the opportunity to invest locally.

Table 4. Sources of CDLF Financing Capital ($000), 2006 and 2010

	2006		2010	
	$000	%	$000	%
Number of Reporting CDLFs	198		172	
Financial Institutions	$ 1,714,627	53%	$ 1,811,728	45%
Government*	482,506	15%	542,931	13%
Philanthropic	303,097	9%	475,680	12%
Corporations	122,152	4%	85,240	2%
Individuals	26,199	1%	47,321	1%
Other**	616,515	19%	1,065,529	26%
TOTAL FINANCING CAPITAL	**$ 3,265,095**	**100%**	**$ 4,028,430**	**100%**

* Includes government sponsored entities such as FannieMae
** Includes internally generated funds and other sources
Source: CIIS Data, CDFI Fund, US Treasury Department

Investment Options

Loan funds have greater need for capital than the current field of investors can provide. During the first half of 2011 CDLFs reported a capital shortfall of nearly $290 million,[11] creating an opportunity for investors that seek a reliable financial return and demonstrated social impact. CDLFs are by design committed to serving marginalized and underserved communities, attracting investors interested in a social return. Institutions typically invest directly in CDLFs, although it is not uncommon for a number of investors to create an investment consortium that shares risk on a pari passu basis.

- **Direct Investing.** A typical debt investment in a CDLF carries fixed interest rates of 1% to 4.5% with a term of three to 10 years. Notes are recourse but generally unsecured, although some institutional and government investors have secured their debt with the CDLF's underlying loan portfolio. Debt investments in CDLFs pay interest quarterly and are structured as balloon notes with principal payable upon maturity. Because of CDLF's historically strong financial and impact performance—particularly during the recent financial crisis and recession—the vast majority of CDLF investors agree to renew their debt investments when notes mature.
- **Investment Consortia.** CDLFs and their investment partners have collaborated to form capital pools for financing the development and preservation of affordable housing and community facilities (such as charter schools) in targeted low-income and disadvantaged markets. Examples of these consortia are found in New York, Los Angeles, the Bay Area in California, and post-Hurricane Katrina New Orleans. These investment consortia often are collaborations between one or more CDLFs, a local municipality, state or federal agencies, foundations, and private investors. The CDLFs originate and manage loans for the consortia, which typically are structured as limited liability corporations. The LLC is capitalized through a combination of grant funds that serve as a first loss pool or guarantee, foundation PRIs, below-market public debt, and market-rate debt from private investors. In addition to originating loans and managing the portfolio, CDLFs may be required to share risk by retaining a portion of each loan they originate on their own balance sheet. By way of example, the New York City Acquisition Fund[12] is a $265 million investment fund that provides short-term financing for pre-development, property acquisition, and environmental remediation for new construction and preservation of at-risk affordable housing in all five boroughs of New York City. The Fund's capital base comprises
    - $8 million top loss loan from New York City;
    - $32.65 million in program-related investments (PRI) at below market rates of interest from six national foundations, which serves as a guarantee pool sufficient to support higher loan-to-value ratios on eligible housing projects;
    - $200 million in senior, market-rate debt from 16 financial institutions

  The Fund is free-standing and loans are originated by five different CDLFs.

CDLF Impact

Loan funds are committed to social impact, as are their investors, thus they have a long history of tracking, assessing, and reporting impact both for investors and other stakeholders. CDLFs tend to track impact data that is most relevant to their social impact goals. Accordingly there is little standardization that affords investors a basis for comparison. However, CDLFs almost universally track and report outcomes related to lending volume, jobs created or retained; affordable housing units built or preserved; child care slots created; and charter school students served. The CIIS data for 2010 shows that among the 136 CDLFs reporting transaction level data, 81 reported the creation of more than 33,000 jobs during that year, and 48 financed the development of nearly 85,000 affordable housing units.

CDLFs often pursue their vision through a combination of financing and other programs, such as technical assistance and workshops for small business owners, financial counseling and individual development accounts to bolster household savings, and first-time home buyer classes. While typically a small percentage of a CDLF's operating budget, these programs expand the impact of CDLFs beyond the typical borrowing base, often preparing people to become borrowers or to improve their life chances.

Table 5. Support Services Provided by CDLFs in 2010

	Number of CDLFs	Percentage of CDLFs
Total Reporting CDLFs	172	
Provide Business Technical Assistance (TA)	121	70%
Provide Housing TA	81	47%
Provide Real Estate TA	55	32%
Provide Financial Counseling	81	47%
Provide Credit Counseling	72	42%
Provide Home-Buyer Counseling	54	31%
Provide Other Training	70	41%

Source: CIIS Data, CDFI Fund, US Treasury Department

Risk Management

CDLFs are uniquely positioned to manage the risk associated with lending in under-performing and distressed markets. They leverage a combination of in-depth market knowledge, hands-on borrower assistance, and mainstream portfolio management practices. Specifically, most CDLFs specialize in targeted local markets or industries (such as affordable housing finance, community facilities finance, community-based small or micro-businesses). This focus affords them intimate knowledge of micro-economic trends and changes in public policy that can impact their borrowers. Because they are mission-driven lenders, their over-riding objective is to help their borrowers succeed. This focus along with the absence of regulatory oversight affords them greater flexibility than banks and credit unions to structure financing in ways that facilitate borrower repayment (e.g., longer repayment terms, interest deferral periods, and so on).

In addition to flexible financing, most CDLFs offer either formal or informal technical assistance to their borrowers. This may take the form of business planning, deal structuring (for affordable housing or community facilities lending), cash flow planning, or other specialized support services. Because of the CDLF's market knowledge and close relationship with its borrowers, it can detect early warning signs that might trigger direct borrower assistance or referrals to third-party providers who can provide technical support and triage to bolster the borrower's resilience and prospects for loan repayment.

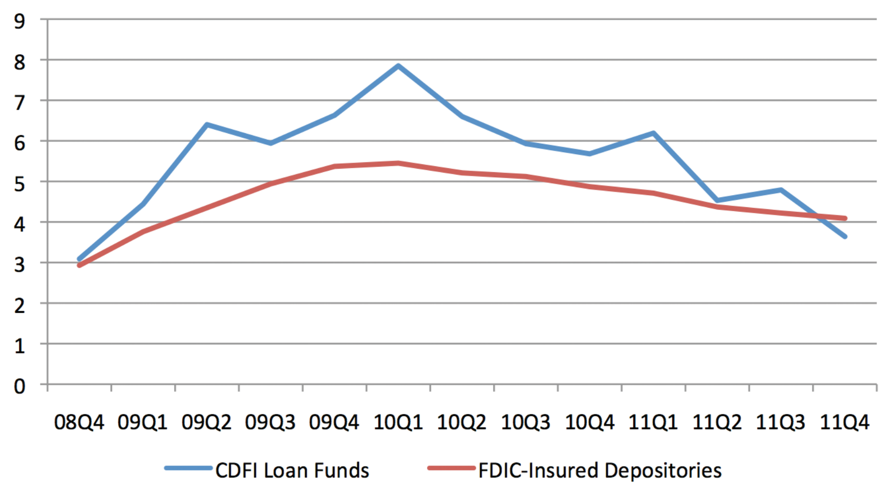
Most CDLFs offer investors deep capital protection against losses commensurate with the risk embedded in their loan portfolios. Opportunity Finance Network (OFN)—a network of more than 180 leading CDFIs, collects a number of data points on its members that provide insights into the strength of the sector. The capitalization ratio (equity or net assets as a percentage of total assets) is a good proxy for understanding the capacity of CDLFs to repay their investors. For fiscal year 2010, the weighted average capitalization ratio was 38% for OFN's CDLF members.[13] In contrast the minimum required capitalization ratio for domestic banks is 8.0%, with an 11.1% weighted average for all banks in 2010.[14] CDLFs also have adopted mainstream practices for risk rating loans in their portfolios and capitalizing loan loss reserves tied to those risk ratings. The weighted average loan loss reserve for CDLFs in 2010 was 4.6% against loan losses of 1.6%.[15] Although industry data are only a proxy for risk protection and do not replace the need for due diligence on individual CDLF investment opportunities, they underscore the strong balance-sheet protection that CDLFs (as an asset class) offer investors against loss.

CDLF Performance and the Road Ahead

Since the fourth quarter of 2008, OFN has conducted a quarterly survey of its members to assess the impact of the financial crisis on CDLF performance.[16] While CDLFs have not been immune to the effects of the financial crisis of 2008-2010, the sector demonstrated resiliency in the face of tightened capital and weaker portfolio performance. Although bank lending diminished after the market crash in 2008, demand for new loans did not. True to their mission, CDLFs continued to serve credit-worthy borrowers unable to access conventional financing. Since mid-2010 CDLFs have reported that their increase in loan originations, year over year, generally kept pace with the increase in loan applications.

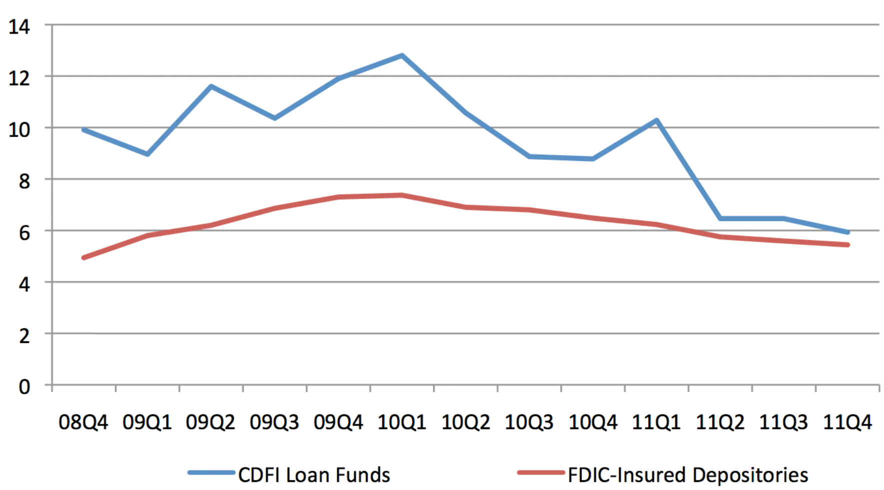
As with their regulated counterparts, CDLFs saw weakening in portfolio quality in late 2008 through 2009. Figure 2 compares the 90 day-plus and nonaccrual rates for CDLFs responding to OFN's quarterly Market Conditions survey to FDIC-insured institutions during the financial crisis and economic recession. During 2009 through the first half of 2011, CDLF delinquencies and nonaccruals increased to higher levels and were more variable than among insured depositories, but fell below bank levels by fourth quarter 2011. CDLFs' 30-day delinquencies were almost twice the level of insured depositories at fourth quarter 2008 (9.91% versus 4.94%, respectively) but grew at a much slower rate during 2010 and dropped more sharply during 2011, ending the year on par with depositories (5.93% versus 5.44%, respectively).

Figure 2. 90-Day Past Due and Non-Accrual Rates for CDLFs and FDIC-Insured Depositories, Q4-2008 through Q4-2011



Source: Opportunity Finance Network. "CDFI Market Conditions Third and Fourth Quarters 2011."

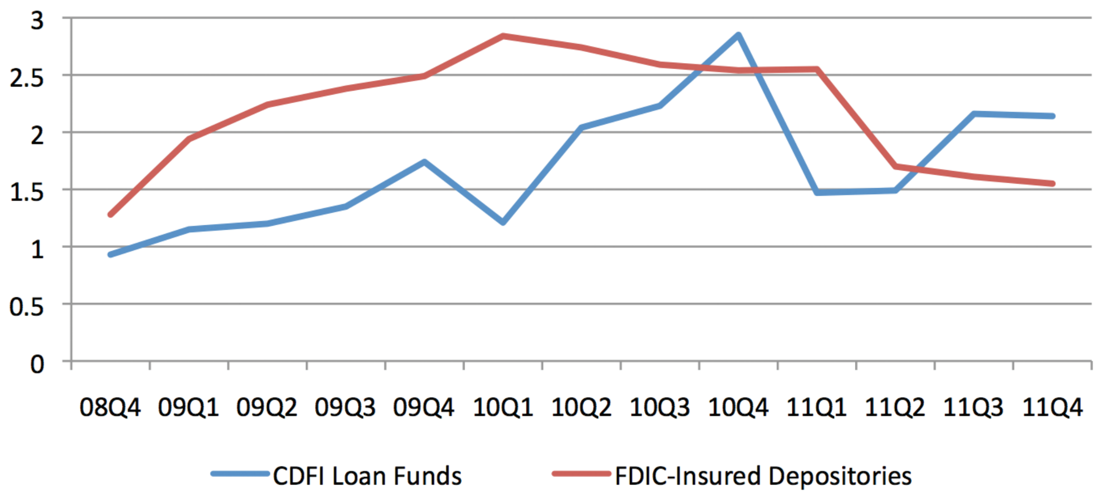
Figure 3. 30-Day Past Due and Non-Accrual Rates for CDLFs and FDIC-Insured Depositories, Q4-2008 through Q4-2011



Source: Opportunity Finance Network. "CDFI Market Conditions Third and Fourth Quarters 2011."

More telling still is the trend in net charge-offs (see Figure 4). Charge-offs among CDLFs responding to OFN's quarterly Market Conditions survey were consistently below those of insured depositories. From fourth quarter 2008 through fourth quarter 2011, CDLFs had an average net annualized charge-off of 1.69% on loans outstanding versus 2.19% for FDIC-insured institutions. Because CDLFs are mission-driven lenders, their primary objective is to help their borrowers succeed. They tend to be more flexible, patient lenders than their regulated counterparts and are more willing and able (because they are not regulated) to restructure loan terms or defer payments until borrowers return to economic health. As a result, their delinquencies climb during periods of economic stress while their charge-offs tend to be lower than mainstream lenders. Attention to loan management is a hallmark of CDLFs because of their close relationships with investors (providers of financing debt) and their institutional investment in the success of the borrowers and communities they serve.

Figure 4. Net Charge-off YTD (Annualized) for CDLFs and FDIC-Insured Depositories, Q4-2008 through Q4-2011



Source: Opportunity Finance Network. "CDFI Market Conditions Third and Fourth Quarters 2011."

As banks and other mainstream financial institutions have reduced their lending in low- and moderate-income communities, CDLFs have positioned themselves to fill the void. To expand both lending volume and geographic coverage, CDLFs are seeking new investment relationships with impact-motivated individuals and pension funds, and are preparing for entry into the capital markets.[17] A number of industry initiatives have been launched or are in development to foster new investor relationships and to build investor familiarity and comfort with the sector.

- **CDFI Bond Guarantee Program.**[18] Legislation was enacted through the Small Business Jobs Act of 2010 (Public Law 111-240) that directs the Treasury Department to guarantee the full amount of notes or bonds issued to support CDFIs that make investments for eligible community or economic development purposes. The bonds will support CDFI lending and investment by providing a source of long-term, patient capital to CDFIs. Treasury may guarantee up to 10 bonds per year, each at a minimum of $100 million. The total of all bonds cannot exceed $1 billion per year. The program has been stalled but Treasury anticipates issuance of the first bonds in 2013.
- **CDFI Assessment and Ratings System (CARS™).** OFN launched CARS™ in 2004 to address the need for increased transparency and standardization in the CDLF industry. CARS™ issues ratings and in-depth analyses of CDLF's financial strength and impact performance.[19] CARS™ due diligence is comparable to that found in research reports on mainstream companies. Investors use CARS™ analyses to augment their own due diligence when considering an investment in a CDLF or to support investment monitoring. As of the date of this report, CARS™ offered ratings and analyses on more than 70 loan funds that collectively manage 50% of total assets for all CDFI Fund-certified CDLFs.

  In addition to its ratings, CARS™ is developing a Web-based analytic tool for investors that will allow them to access standardized quarterly performance data on CARS™-rated CDLFs in support of industry trend analysis and peer comparisons. This will address a key information gap that currently constrains investor research on the sector.

- **Opportunity Finance Network (OFN)** is a national network of 193 CDFIs investing in opportunities that benefit low-income, low-wealth, and other disadvantaged communities across America. On behalf of its members, it is playing a leadership role in expanding public awareness of CDFIs. In 2011, it established an investment partnership with Starbucks to address the jobs crisis in the U.S. Together Starbucks and OFN launched **Create Jobs for USA**,[20] a national campaign to help jumpstart the economy by raising funds for OFN's CDLF members. Funding is used by the CDLFs to finance the job-creation efforts of small businesses and nonprofit organizations in underserved communities. The partnership was recently joined by other large corporate sponsors.

Appendix I: Types of CDFIs[21]

CDFI Type	Purpose	Governance & Ownership	Regulation
Community Development Bank	To provide capital to rebuild economically distressed communities through targeted lending and investing.	For profit corporation; stock ownership; community representation on board	Federally regulated and insured through the Federal Depository Insurance Corp., the Federal Reserve, Office of the Comptroller of the Currency, state banking agencies
Community Development Credit Union	To 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.	Nonprofit financial cooperatives owned and operated by lower-income persons who are members	Federally and state regulated and insured by the National Credit Union Administration
Community Development Loan Fund	To provide financing and development services to businesses, organizations, and individuals in low-income communities. There are four main types of loan funds: microenterprise, small business, housing, and community service organizations.	Majority are nonprofit; governed by investors, borrowers, community representatives, and technical experts	Self-regulated; except for non-profit 501(c)(3) restrictions and state securities law where applicable. CDFI Assessment and Ratings System (CARS™) is bringing transparency and standardization to rated institutions similar to regulatory agency.
Community Development Venture Capital Fund	To provide equity and debt-with-equity-features for small and medium-sized businesses in distressed communities.	For profit or nonprofit; varied community representation.	Variable; depends on funding sources

CDFI Type	Borrowers	Capital Sources	Financial Products & Services Offered	Technical Assistance Provided
Community Development Bank	Non-profit community organizations, individual entrepreneurs, small businesses, housing developers	Deposits (often below market investments) from individuals, institutions and the government	Mortgage financing; home improvement, commercial business, nonprofit and student loans; consumer banking services	Usually sub-contractors or separate subsidiaries offer credit counseling, business planning
Community Development Credit Union	Members of the credit union (usually individuals)	Member deposits and limited non-member deposits from social investors, the government	Consumer banking services (e.g. savings accounts, check cashing, personal loans , home rehabilitation loans)	Credit counseling, business planning
Community Development Loan Fund	Non-profit community organizations, social service provider facilities and small businesses	Foundations, banks, religious organizations, corporations, government agencies, insurance companies and individuals	Construction; pre-development; facilities and business start-up and expansion loans	Extensive guidance before, during, and after the loan transaction
Community Development Venture Capital Fund	Invests in small to mid-sized businesses in distressed communities that hold the promise of rapid growth	Foundations, corporations, individuals, the government	Commercial equity investments and loans with equity features	Extensive technical assistance to portfolio companies, including taking seats on their board of directors

Appendix II: Certified CDFI Loan Funds by State (as of 2/29/12)[22]

Alabama	0	Montana	8
Alaska	8	Nebraska	5
Arizona	13	Nevada	2
Arkansas	6	New Hampshire	3
California	57	New Jersey	10
Colorado	9	New Mexico	8
Connecticut	12	New York	57
Delaware	3	North Carolina	10
District of Columbia	14	North Dakota	4
Florida	21	Ohio	21
Georgia	12	Oklahoma	11
Guam	1	Oregon	12
Hawaii	6	Pennsylvania	27
Idaho	3	Puerto Rico	6
Illinois	13	Rhode Island	4
Indiana	5	South Carolina	6
Iowa	8	South Dakota	11
Kansas	1	Tennessee	10
Kentucky	11	Texas	26
Louisiana	11	Utah	5
Maine	6	Vermont	5
Maryland	12	Virgin Islands	0
Massachusetts	25	Virginia	12
Michigan	12	Washington	16
Minnesota	29	West Virginia	3
Mississippi	6	Wisconsin	12
Missouri	6	Wyoming	1

Appendix III: Examples of Investors in CDFI Loan Funds[23]

Banks

- Ally Bank
- Bank of America
- Bank of Tokyo Mitsubishi
- Citibank
- Deutsche Bank
- Goldman Sachs
- Harris Bank
- HSBC
- JPMorgan Chase
- Key Bank
- Northern Trust
- PNC
- SunTrust
- TD Bank
- Union Bank of California
- US Bank
- Wells Fargo

Foundations

- The Annie E. Casey Foundation
- California Endowment
- Calvert Foundation
- The Cleveland Foundation
- Ford Foundation
- The F.B. Heron Foundation
- The George Gund Foundation
- Jessie Ball DuPont Fund
- John D. and Catherine T. MacArthur Foundation
- The William & Flora Hewlett Foundation
- The Kresge Foundation
- The Mary Reynolds Babcock Foundation
- McKnight Foundation
- Meyer Memorial Trust
- Northwest Area Foundation
- The Robert Wood Johnson Foundation
- The Seattle Foundation
- The Starr Foundation
- Starbucks Foundation
- Tides Foundation

Financial Intermediaries

- Living Cities
- NeighborWorks America
- Opportunity Finance Network

Educational Institutions

- Harvard University
- Seattle University

Faith-Based Organizations

- Adrian Dominican Sisters
- Catholic Health Initiatives
- Dignity Health (Catholic Healthcare West)
- Evangelical Lutheran Church in America
- Episcopal Justice Loan Committee
- General Board of Pension and Health Benefits - United Methodist Church
- Mercy Investment Services
- Mercy Partnership Fund
- Presbyterian Church Foundation
- Religious Communities Investment Fund (various Catholic religious organizations)
- Seton Enablement Fund
- The Sisters of Notre Dame of Toledo, OH
- Tri-State Coalition for Responsible Investment (CRI)
- Bend the Arc (Jewish Funds for Justice)
- Unitarian Universalist Congregations

Insurance Companies

- COIN
- Met Life
- Prudential
- State Farm Insurance

Investment Managers

- Arabella Advisors
- Bristlecone Value Partners, LLC
- Christian Brothers Investment Services
- Impact Community Capital LLC
- Loring, Wolcott & Coolidge
- Trillium Asset Management
- Veris Wealth Managers

Government

- US Treasury Department
  - Community Development Financial Institutions Fund
  - Small Business Lending Fund
- Fannie Mae (government sponsored entity)
- Federal Home Loan Banks
- State Housing Finance Agencies
- Small Business Administration
- US Department of Agriculture

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Footnotes

[1] *Opportunity Finance Network (OFN) Website; CDFI Fund institution level CIIS data from 2010, published January 2012*

[2] *OFN Website*

[3] *CDFI Fund Website*

[4] *CDFI Fund (January 2012). Community Investment Impact System (CIIS) data for fiscal years 2004 through 2010.*

[5] *ICE's mission was to create cooperative land trusts designed to build communities and make home ownership affordable for low-income individuals. ICE pioneered both the community land trust model and community loan funds, and was ultimately involved in the creation of approximately 25 CDLFs around the country.*

[6] *Julia Sass Rubin (2009)*

[7] *CDFI Data Project, Fiscal Year 2008*

[8] *Net assets in Table 3 represent only that portion of total net assets that are available for financing activities. CDLFs typically have a mix of restricted and unrestricted net assets, with unrestricted net assets generally available for financing activities. The remaining net assets often carry program or time restrictions, and thus may not be available for financing. As a result, net assets available for financing are typically a sub-set of total assets (shown in Table 1).*

[9] *The Community Reinvestment Act, passed in 1977, is a federal law designed to encourage banks to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods. The Act was created to reduce discriminatory credit practices against low-income neighborhoods, a practice known as redlining.*

[10] *The Foundation Center. "Doing Good with Foundation Assets: An Updated Look at Program-related Investments."*

[11] *Opportunity Finance Network. "CDFI Market Conditions; Second Quarter 2011."*

[12] *Center for Transit Oriented Development. Page 35 .*

[13] *OFN Website, "FY 2010 Inside the Membership."*

[14] *The World Bank Website*

[15] *OFN Website, "FY 2010 Inside the Membership."*

[16] *The market surveys cover almost three years, from the fourth quarter of 2008 through the second quarter of 2011. On average 125 CDFIs have responded each quarter; CDLFs have comprised approximately 87% of those respondents.*

[17] *Julia Sass Rubin (2009)*

[18] *CDFI Fund Website*

[19] *CARS™ Website*

[20] *OFN Website*

[21] *Adapted from the OFN and CDFI Coalition Websites.*

[22] *CDFI Fund Website.*

[23] *CARS™ Website.*

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