Providing Capital
Building Communities
Creating Impact

Community Development
Financial Institutions

A Publication of the CDFI Data Project
This report is a product of the CDFI Data Project (CDP)—an industry collaborative that produces data about community development financial institutions (CDFIs).

The goal of the CDP is to ensure access to and use of data to improve practice and attract resources to the CDFI field. This issue of *Community Development Financial Institutions: Providing Capital, Building Communities, Creating Impact* analyzes fiscal year 2007 data collected through the CDP from 508 CDFIs.

Written by the CDP Publication Committee

Aspen Institute

National Federation of Community Development Credit Unions

National Community Investment Fund

Opportunity Finance Network

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Complementing this publication are individual brochures that provide in-depth analysis of the following institution types: community development banks, community development credit unions, community development loan funds, and microenterprise funds.
In mid 2007, delinquencies in the subprime mortgage market suddenly spiked. This event quickly led to a tightening in mortgage credit, followed by a general credit crunch and an eventual economic downturn.

CDFIs began to see some signs of weakening in their real estate portfolios as real estate values declined and takeout financing dried up. On the whole, however, CDFIs ended the year in a strong position, with growth in assets and portfolios; delinquencies and charge-offs were only slightly higher than the previous year.

This study, which includes fiscal year (FY) 2007 data from 508 CDFIs, demonstrates the following:

CDFIs invested $5.3 billion in FY 2007 to create economic opportunity in the form of new jobs, affordable housing units, community services, and financial services for low-income and low-wealth people.

In FY 2007, CDFIs
- financed and assisted 8,954 businesses and microenterprises, which created or maintained 34,276 jobs;
- financed the construction or renovation of 57,274 units of affordable housing;
- financed the construction or renovation of 687 community facilities in economically disadvantaged communities;
- provided 15,546 responsible mortgages to first-time and other homebuyers;
- provided 14,480 alternatives to payday loans; and
- helped 7,706 low-income individuals open their first bank account.¹

CDFIs serve markets throughout the United States that are not adequately served by conventional financial markets. 70% of CDFI customers are low-income, 60% are minority and 52% are female—all much higher proportions than in mainstream financial institutions. Such customers often cannot meet conventional financial institutions’ strict collateral or other underwriting requirements.

CDFIs help their customers build credit and join the economic mainstream. CDFIs have an impressive track record of prudently financing what conventional financial institutions consider to be high-risk individuals and communities. CDFIs are adept at managing risks through a combination of solid capital structures and loan loss reserves, close monitoring of portfolios, and provision of technical assistance. In 2007, CDFIs in this study had a net charge-off rate of 0.55%, which compares favorably to the net charge-off rate of 0.59%² for all insured financial institutions. Delinquency rates are also relatively low: CDFI banks and loan funds had 90 day plus delinquency rates of 0.3% and 3.3%, respectively; CDFI credit unions, which measure delinquency at 60 days rather than 90 days, had a 60 day plus delinquency rate greater of 2.0%.

CDFIs continued to grow individually and as an industry in spite of changes in the market. The 508 CDFIs in this study held more than $25.5 billion in assets and $17.6 billion in financing outstanding as of fiscal year-end 2007. For the 324 CDFIs for which we have five years of data, financing outstanding grew at a compound annual growth rate (CAGR) of 12% per year.³

Financial leaders, such as Treasury Secretary Timothy Geithner have stressed the importance of the CDFI industry. In his confirmation hearings before the Senate Finance Committee in January 2009 Geithner said, “A major thrust of our efforts to stabilize the U.S. financial system is to ensure that credit begins to flow again to qualified small business borrowers and others whose access to credit has been unfairly curtailed or seized up. Community banks, including many CDFI participants, are a vital lifeblood to credit for many small businesses.”

¹ The numbers of payday loan alternatives and unbanked customers were reported by the credit unions and banks that responded to the survey. The National Federation of Community Development Credit Unions and the National Community Investment Fund estimate that the figures for the entire universe of community development credit unions and community development banks is 20,738 payday loan alternatives and 78,744 new accounts to the unbanked.

² Federal Deposit Insurance Corporation, December 2007.

³ The CAGR is the rate at which an investment would have grown annually if it grew at a steady rate. We use the CAGR rather than the actual annual growth rates to demonstrate trends in the data.
### Figure 1: Summary of FY 2007 CDP Data

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Bank</th>
<th>Credit Union</th>
<th>Loan Fund (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of CDFIs</td>
<td>508</td>
<td>58</td>
<td>294</td>
<td>156</td>
</tr>
<tr>
<td>Total assets</td>
<td>$25,479,567,691</td>
<td>$13,762,668,000</td>
<td>$7,074,641,575</td>
<td>$4,642,258,116</td>
</tr>
<tr>
<td>Average assets</td>
<td>$50,156,629</td>
<td>$237,287,379</td>
<td>$24,063,407</td>
<td>$29,758,065</td>
</tr>
<tr>
<td>Total FTEs</td>
<td>8,598</td>
<td>3,936</td>
<td>1,961</td>
<td>2,701</td>
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<tr>
<td>Average FTEs</td>
<td>27.1</td>
<td>67.9</td>
<td>16.8</td>
<td>19.0</td>
</tr>
<tr>
<td>n</td>
<td>317</td>
<td>58</td>
<td>117</td>
<td>142</td>
</tr>
</tbody>
</table>

| Total direct financing outstanding | $17,373,507,041 | $9,133,017,913 | $5,358,036,758 | $2,882,452,370 |
| Average direct financing outstanding | $34,267,272 | $157,465,826 | $18,224,615  | $18,596,467  |
| n                     | 507       | 58         | 294          | 155           |

<table>
<thead>
<tr>
<th>% of direct financing outstanding ($) (b)(c)</th>
<th>n=322</th>
<th>n=58</th>
<th>n=119</th>
<th>n=145</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>44%</td>
<td>64%</td>
<td>4%</td>
<td>14%</td>
</tr>
<tr>
<td>Community Services</td>
<td>3%</td>
<td>0.5%</td>
<td>0.4%</td>
<td>16%</td>
</tr>
<tr>
<td>Consumer</td>
<td>12%</td>
<td>3%</td>
<td>57%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Housing</td>
<td>38%</td>
<td>31%</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td>Micro</td>
<td>1%</td>
<td>0.1%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>1%</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% of direct financing outstanding (#)(b)(c)</th>
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<th>n=15</th>
<th>n=119</th>
<th>n=138</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>3%</td>
<td>33%</td>
<td>1%</td>
<td>11%</td>
</tr>
<tr>
<td>Community Services</td>
<td>1%</td>
<td>1%</td>
<td>0.3%</td>
<td>5%</td>
</tr>
<tr>
<td>Consumer</td>
<td>75%</td>
<td>41%</td>
<td>86%</td>
<td>3%</td>
</tr>
<tr>
<td>Housing</td>
<td>13%</td>
<td>21%</td>
<td>7%</td>
<td>56%</td>
</tr>
<tr>
<td>Micro</td>
<td>3%</td>
<td>4%</td>
<td>1%</td>
<td>25%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>0%</td>
<td>5%</td>
<td>1%</td>
</tr>
</tbody>
</table>

| Net charge-off rate                         | 0.55%| 0.37%| 0.71%| 0.84%|
| Delinquency rate > 90 days                  | NA   | 0.3%| NA   | 3.3% |
| Delinquency rate > 2 months                 | NA   | NA  | 2.0% | NA   |

| Total capital                                | $24,530,850,064 | $13,681,198,000 | $6,990,445,799 | $3,859,206,265 |
| Average capital                              | $48,289,075     | $235,882,724    | $23,777,027    | $24,738,502    |

Notes:  
(a) The loan funds include one CDFI that provides loans and equity investments and considers itself a venture capital fund.  
(b) The number of institutions (n) and breakout data are for the CDFIs that provided the breakout data for each category.  
(c) The direct financing outstanding data are presented as weighted averages.
CDFIs are specialized, mission-driven financial institutions that create economic opportunity for individuals and small businesses, quality affordable housing, and essential community services throughout the United States.

An estimated 1,235 CDFIs operate in low-wealth communities in all 50 states, the District of Columbia, and Puerto Rico. These organizations provide affordable banking services to individuals and finance small businesses, affordable housing development, and community services providers that, in turn, help stabilize neighborhoods and alleviate poverty. In addition, CDFIs provide credit counseling to consumers and technical assistance to small business owners and housing developers to help them use their financing effectively.

CDFI customers include a range of individuals and organizations:

- **Small business owners**, who bring quality employment opportunities and needed services to economically disadvantaged communities
- **Affordable housing developers**, who construct and rehabilitate homes that are affordable to low-income families
- **Community service providers**, which provide child care, health care, education, training, arts, and social services in underserved communities
- **Individuals**, who require affordable banking services and responsible alternatives to predatory loan products.

**Why Are CDFIs Needed?**
A gap exists between the financial services available to the economic mainstream and those offered to low-income people and communities. As mainstream lenders have increasingly consolidated, grown in size, streamlined their operations,—and most recently, tightened credit for even the most qualified borrowers—theyir connections to local communities have diminished. This has exacerbated long-standing difficulties that low-income families, and the businesses and nonprofit institutions that serve them, have had in accessing credit and financial services.

CDFIs use flexible financing products, coupled with critical technical assistance, to serve these markets while also managing their risks. CDFI activities fit into two broad categories. First, all CDFIs provide one or more products or financial services, including loans, equity investments, checking accounts, savings accounts, and consumer loans. Second, virtually all CDFIs provide *nonfinancial services*. For some organizations, these services represent fairly moderate complements to their larger financial services activities; for others, they represent a substantial portion of the organization’s work. Such activities include entrepreneurial education, organizational development, homeownership counseling, savings programs, and financial literacy training.

**The Four Sectors of the CDFI Industry**
As with mainstream lenders, a variety of institutions have evolved to serve the broad range of needs in emerging domestic markets. Although these institutions share a common vision of expanding economic opportunity and improving the quality of life for low-income people and communities, the four types of CDFIs—banks, credit unions, loan funds, and venture capital (VC) funds—are characterized by different business models and legal structures.

- **Community development banks** provide capital to rebuild economically distressed communities through targeted lending and investing. They are for-profit corporations with community representation on their boards of directors. Depending on their individual charters, such banks are regulated by some combination of the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and state banking agencies. Their deposits are insured by the FDIC.
- **Community development credit unions (CDCUs)** promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people, often with special outreach to minority communities. They are nonprofit financial cooperatives owned by their members. Credit unions are regulated by the National Credit Union Administration (NCUA), an independent federal agency, or by a state agency, or both. In most institutions, deposits are insured by NCUA.
• Community development loan funds (CDFIs) provide financing and development services to businesses, organizations, and individuals in low-income communities. There are four main types of loan funds: credit unions, banks, loan funds, and community development venture capital (CDVC) funds. CDFIs are nonregulated entities. Nearly all (98%) CDFIs are nonprofit. CDFIs are governed by boards of directors with community representation.

• Community development venture capital (CDVC) funds provide equity and debt-with-equity features for small and medium-sized businesses in distressed communities. CDVCs are nonregulated entities. Two-thirds of CDVCs are for-profit, 27% are nonprofit, and the remainder are quasi-governmental. The for-profit category includes limited liability companies (LLCs), limited partnerships (LPs), and C corporations among its corporate structures.

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

In the 1990s, the industry grew significantly: 31% of the CDFIs in the sample were established after 1990. In the past few years, growth in the number of CDFIs appears to have slowed. From 2003 to 2007, eighteen new CDFIs were established (from our sample), compared with 42 established in the prior three years (2000, 2001, and 2002). In addition, the industry has experienced a number of mergers. While growth in the number of CDFIs has slowed, the area covered by individual CDFIs has grown.

The four institution types have distinct histories and growth trajectories (see Figure 2). Community development banks and credit unions are the most mature, with institutions dating back to the turn of the 20th century. They have had slow and steady growth for the past several decades. Loan funds are much newer, with 78% of this sector established in the 1980s and 1990s and 12% established after 2000.

The CDFI Fund
The main factor that contributed significantly to the CDFI growth of the 1990s was the creation of the CDFI Fund. In 1994, the federal government established the CDFI Fund as a new program within the U.S. Department of Treasury. The CDFI Fund is now one of the largest single sources of funding for CDFIs and the largest source of hard-to-get equity capital. It plays an important role in attracting and securing private dollars for CDFIs by requiring them to match their award with nonfederal funds. The CDFI Fund operates four funding programs: the CDFI Program, the Bank Enterprise Award (BEA) Program, the New Markets Tax Credit Program, and the Native American CDFI Assistance (NACA) Program.

The CDFI Fund reports that in FY 2005 alone, CDFIs leveraged each appropriated financial assistance (FA) dollar from the CDFI Fund with $27 in private and other non-CDFI Fund dollars, in effect using $51 million in FA disbursements to leverage $1.4 billion private and non-CDFI Fund dollars. Since 1995, its first year of funding, the Fund has made more than $947 million in awards to CDFIs and financial institutions through the CDFI, BEA, and Native Initiatives Programs. It has also awarded allocations of New Markets Tax Credits, which will attract private-sector investments totaling $16 billion. Although the CDFI Fund’s funding decreased under the Bush administration, in recent years the CDFI industry has garnered bipartisan support in Congress resulting in a FY 2008 CDFI Fund appropriation of $94 million and $107 million for FY 2009, as compared to $54 million in FY 2007. The importance of the CDFI Fund and CDFIs was further recognized when the CDFI Fund received $100 million in the American Recovery and Reinvestment Act funding. President Obama’s budget for FY 2010 “expands lending in underserved neighborhoods by doubling funding” for the Community Development Financial Institutions (CDFI) Fund”. This support and recognition for the CDFI Fund by the new administration is a positive sign for the CDFI industry.

**Figure 2: Number of CDFIs Established by Decade**

Note: Year is year of charter for credit unions and year the institution started financing for other sectors.
Community Reinvestment Act
In addition to the CDFI Fund, the federal government strengthened provisions and enforcement of the Community Reinvestment Act (CRA) during the 1990s. In particular, the 1995 CRA regulations, which classified loans and investments in CDFIs as qualifying CRA activity, helped increase those activities. These regulations have led to the growth of banks as a critical source of capital for CDFIs. While some have incorrectly implied that the thirty-year-old CRA is responsible for the 2007 mortgage meltdown, there has been a great deal of high level support for the act. Federal Reserve Governor Elizabeth A. Duke said on February 24, 2009, “One widely held misperception is that CRA is only about mortgage lending to low- and moderate-income borrowers in lower-income neighborhoods. As a former community banker, I know that CRA’s impact is just as important in meeting the needs of small farms and businesses and, as such, it serves as a valuable catalyst for job creation in both urban and rural areas across the country.”

Native CDFIs
A range of CDFIs has emerged to serve the needs of Native populations. Serving these communities entails unique challenges because of the concentration of poverty in reservation-based economies and the existence of independent tribal governments, among other reasons. There are currently 48 certified Native CDFIs, up from nine in 2001. Of those CDFIs, 34 are loan funds, seven are credit unions, six are banks, and one is an intermediary. There are also many emerging Native CDFIs that are not yet certified. Unlike the growth of the CDFI industry, in which the first CDFIs began with mostly loan funds, followed by the growth of Native credit unions.

The CDFI Fund has helped this segment of the industry grow by providing targeted funding for Native CDFIs. Since 2002, the CDFI Fund has made 177 awards totaling $31.3 million to benefit Native communities. In addition, the CDFI Fund has awarded over $7.5 million in contracts to organizations that provide capacity-building and financial services training programs to Native communities.

Although it is home to an apartment complex that houses 10,000 people, the Ivy Hill neighborhood of Newark’s Vailsburg section lacked even a single child care facility for its preschool children. That was a situation the Unified Vailsburg Services Organization (UVSO) was determined to change. When UVSO decided to build a new child care facility in Ivy Hill—and realized it would need a lender that would finance almost 100 percent of the project’s costs—it turned to three local CDFIs with a longtime commitment to economic development in Vailsburg.

Since the early 1990s, the three CDFIs—Leviticus 25:23 Alternative Fund Inc., Local Support Initiatives Corporation, and New Jersey Community Capital—had financed several community development projects for UVSO, including a six-classroom child care facility in another part of Vailsburg. For the Ivy Hill project, the three partnered to provide $4.8 million in construction financing. Prudential is providing permanent financing.

With 14 classrooms for preschool and infant/toddler care, the new Ivy Hill facility is providing an invaluable service to the neighborhood—and enabling apartment owners to attract new tenants who need a preschool nearby. “Leviticus, New Jersey Community Capital, and Local Support Initiatives Corporation have been critical to UVSO’s success,” says Michael Farley, UVSO’s Executive Director.

The Leviticus 25:23 Alternative Fund, Inc. is a not-for-profit financial intermediary, motivated by faith, that offers investors a socially-responsive means to serve low-income neighborhoods. The Fund provides flexible capital and financial services for the development of affordable housing and community facilities, especially child care centers, throughout New York, New Jersey and Connecticut.

New Jersey Community was founded in 1987 to provide financing for the development of affordable housing. Since then, the organization has grown from a $125,000 loan fund to a full-service financial intermediary offering a wide range of community development financing programs, as well as technical assistance, training, and research and consulting services.

Local Initiatives Support Corporation (LISC) provides loans, grants, equity investments, and technical assistance to urban and rural community development organizations across the country through its network of urban offices and rural program. Since 1980, LISC has invested more than $9.0 billion in grants, loans, and equity, which has leveraged $28.2 billion in total development.

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

5 Data provided by the First Nations Oweesta Corporation. Oweesta provides training, technical assistance, investments, research, and advocacy for the development of Native CDFIs and other support organizations in Native communities; www.oweesta.org.
The FY 2007 CDP data set represents 508 of the approximately 1,235 CDFIs operating in the United States.

The CDP estimates that there are approximately 360 community development banks, 295 CDCUs, 500 CDLFs, and 80 CDVC funds in existence today. With the exception of CDVCs, the CDP sample (Figure 3) represents between 16% (banks) and 99% (CDCUs) of each CDFI sector.

### Asset Size of CDFIs

The CDFIs in this study managed $25.5 billion in assets at the end of FY 2007 (see Figure 4 for a breakout by institution type). Although that number represents a significant amount of capital for emerging domestic communities, it is quite modest compared with the mainstream financial sector. As of December 31, 2007, FDIC insured institutions controlled more than $13.0 trillion in assets. Thus, although the growth of the CDFI industry over the past decade is significant in relative terms, it remains a specialized, niche player in the wider financial services industry.

Institution size varies substantially across and within the three institution types: the median community development bank holds more than $142 million in assets, while the median CDCU holds only $3.4 million and the median CDLF holds $8.5 million.

### Distribution of Assets

A small number of CDFIs holds a substantial portion of the field’s total assets. The largest five CDFIs control 27% of the sample’s assets and the largest 10 control 37% (see Figure 5). The largest five CDFIs include three banks, one loan fund, and one credit union.

### Estimated Number of CDFIs in the United States by Sector

```
<table>
<thead>
<tr>
<th>Sector</th>
<th>Estimated Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>360</td>
</tr>
<tr>
<td>Credit union</td>
<td>294</td>
</tr>
<tr>
<td>Loan fund</td>
<td>155</td>
</tr>
<tr>
<td>Venture fund</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>508</td>
</tr>
</tbody>
</table>
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Although most organizations (59%) in the field have less than $10 million in assets and 44% have less than $5 million in assets, overall industry results are skewed by a handful of very large institutions. Of the 54 CDFIs with more than $100 million of assets, six are loan funds, 13 are credit unions, and 35 are banks.

### Notes

1. With the exception of one institution, CDVCs are not included in the current CDP data set. The CDP plans to publish an analysis of CDVCs once those data become available.
2. Based on the NCIF Social Performance Metrics, the National Community Investment Fund estimates that there could be between 360 and 1,301 banking institutions that are eligible for CDFI certification. These banks have surpassed thresholds indicating that 50% or more of their branches are located in low-income communities and/or 40% or more of their home lending is directed towards low-income communities.
3. As of December 31, 2007, according to the FDIC.
**Capitalization**

CDFIs managed more than $24.5 billion of capital at the end of FY 2007. The different types of CDFIs have different capital structures. Loan funds’ greatest percentage of capital is in the form of borrowed funds (66%). Depository institutions’ greatest percentage of capital is in the form of deposits: 84% for credit unions (shares are member deposits) and 79% for banks. (See Figure 6.)

**Markets Served**

CDFIs in our study are located in 49 states, the District of Columbia, Guam and Puerto Rico. The Northeast, the Upper Midwest, Texas, and California each have a high concentration of CDFIs, with New York, Pennsylvania, and Illinois joining California and Texas as the five states with the greatest number of CDFIs. Financing is concentrated in some but not all of these states: 55% of new financing activity in FY 2007 was originated by CDFIs located in Texas, New York, California, Illinois and North Carolina.9

CDFIs serve a mix of rural and urban markets across the country. Overall, the average CDFI’s clients are split fairly evenly among major urban10 (37%), minor urban11 (30%), and rural areas (33%) (see Figure 7). Credit Unions serve more minor urban clients (36%) than major urban (32%) or rural (32%). Loan funds serve the highest percentage of clients in major urban areas (42%) and rural areas (35%).

In the FY 2007 data set, 273 CDFIs reported the breakout of the geographic area they served. (See Figure 8.) Two-thirds (67%) reported serving primarily an urban market, including 37% that served primarily a major urban market and 30% that served primarily a minor urban market.

One-third (33%)12 reported serving primarily a rural market, including 31 CDFIs (13 credit unions and 18 loan funds) that serve a 100% rural market and 46 CDFIs that serve a 95% rural market.

Over time, more CDFIs have begun serving minor urban areas as CDFIs in rural and urban areas are expanding to neighboring counties and cities. Also, many parts of the country that used to be considered rural areas are now minor urban areas due to population growth. Thirty CDFIs reported serving a 100% minor urban market.

The scope of geographical markets served by CDFI type varies significantly, ranging from a city or town to a national service area (see Figure 9). In general, credit unions tend to serve smaller geographical markets, including cities, towns, and metropolitan areas,

**Figure 6: CDFI Capital Structure**

**Loan Funds**

- Equity capital, 30.3%
- Equity equivalent (EQ2), 5.3%
- Borrowed funds, 64.4%

**Credit Unions**

- Equity capital, 11.0%
- Borrowed funds, 2.4%
- Shares, 83.9%
- Nonmember deposits, 2.2%
- Secondary capital, 0.5%

**Banks**

- CDFI borrowings, 13.1%
- Equity capital (tier one), 8.2%
- Deposits, 78.7%

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8 Although 135 CDFIs in our study serve a multi-county, multi-state, or national population, all of their financing is captured in the state where the CDFI is located.
9 Major urban area is defined as a metropolitan statistical area greater than 1 million residents.
10 Minor urban area is defined as a metropolitan statistical area less than 1 million residents.
11 CDFIs that cover 50% rural and 50% urban areas are considered to serve a primarily rural area.
CDFIs are successful in reaching customer groups that others overlook. Seventy percent of CDFI clients are low income, 60% are minority, and 52% are women.

CDFI Client Characteristics
CDFIs are successful in reaching customer groups that others overlook. Seventy percent of CDFI clients are low income, 60% are minority, and 52% are women (see Figure 10). Credit unions had the highest percentages of all three populations: 76% low-income, 69% minority, and 58% female, showing their reach and accessibility to a broad spectrum of typically underserved populations.

CDFI Outcomes
CDFIs strive for—and achieve—social and economic benefits that align with their institutional missions. The benefits CDFIs bring to communities range from job creation and increased homeownership rates to helping individuals open their first bank account, to improved financial literacy and entrepreneurial skills, and to ready access to fairly priced financial services in markets not typically served by regulated financial institutions.

CDFI financing can be broken into six sectors: microenterprise, small and medium-sized business, community services, housing, consumer, and other (see Figure 11 for a breakout by sector). Each sector has its own set of outcomes.

Microenterprise
- $111 million outstanding at fiscal year-end (FYE) 2007
- 11,345 transactions outstanding at FYE 2007

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

One hundred and fifteen institutions in our sample reported microenterprise financing in FY 2007. Of these institutions, 73 were loan funds, 34 were credit unions, four were banks, and one was a venture capital fund. Microenterprise financing is characterized by a high number of transactions and relatively small dollar amounts of loans. For the loan fund sector in FY 2007, microenterprise financing accounted for only 3% of financing in dollars outstanding but 25% in terms of the number of loans. The pri-
mary outcome indicator for microenterprise financing is jobs created or maintained. These outcomes are reported under Small and Medium-Sized Businesses below.

**Small and Medium-Sized Businesses**
- $6.4 billion outstanding at FYE 2007
- 10,116 transactions outstanding at FYE 2007
- 8,954 businesses and microenterprises financed in FY 2007
- 34,276 jobs created and maintained in FY 2007

Small and medium-sized business development includes loans and equity investments to businesses that have more than five employees or that have financing needs greater than $35,000. Business financing includes financing for the purposes of expansion, working capital, equipment purchase/rental, or commercial real estate development or improvement. CDFIs consider the benefits of financing, such as how many jobs will be created, salary levels and benefits offered, whether the business is located in and provides services to a location that has limited financing options, and what the environmental impact of the business will be.

In our sample, 181 CDFIs provided business financing, including all 58 banks. The amount of reported business financing outstanding increased substantially from previous years as community development banks reported substantially more business loans. Business financing represents a substantial portion of bank financing (64%).

The CDFIs in our study that financed microenterprise and/or small and medium-sized businesses created and maintained more than 34,276 jobs.16

**Housing**
- $5.6 billion outstanding at FYE 2007
- 42,846 transactions outstanding at FYE 2007
- 57,274 housing units assisted in FY 2007

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

CDFIs make loans to housing developers for predevelopment, acquisition, construction, renovation, working capital, and mortgages. These loans support the development of rental and for-sale housing, service-enriched or supportive housing and transitional housing. With a rapidly shrinking supply of affordable housing to low-income families in both the rental and ownership markets, this effort addresses a critical need in many communities. CDFIs facilitated the construction or renovation of 57,27417 units of affordable housing in 2007, with 88% of the activity reported by loan funds. These affordable housing units typically provide for monthly payments that are less than 30% of a household's monthly income, enabling low-income individuals to own or rent quality housing while preserving sufficient income to pay for other critical needs.

CDFIs also provide loans to low-income families who cannot qualify for a mortgage from the mainstream financial sector. One hundred and sixty CDFIs reported providing 15,546 mortgages in FY 2007. Many CDFIs providing direct mortgage financing also offer homeownership counseling or other services.

Housing financing accounts for 38% of the sample's total dollar amount of financing outstanding. Banks, credit unions, and loan funds all provide substantial amounts of housing financing. Of the top 10 CDFIs to report financing outstanding for housing, five were banks, three were loan funds, and two were credit unions. Credit unions primarily provide mortgage loans to individuals and loan funds primarily provide loans to housing developers.

**Community Services**
- $506 million outstanding at FYE 2007
- 2,849 transactions outstanding at FYE 2007
- 685 community service organizations financed in FY 2007

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

Seventy-seven CDFIs in our sample provided community services financing, with a large majority (58) being loan funds. Community services financing accounted for 3% of all CDFI financing outstanding in FY 2007. In FY 2007, CDFIs financed 685 community facilities. Many CDFIs are also using the CDFI Fund’s New Markets Tax Credit Program to finance charter schools and other community facilities; this financing is not included in these numbers.

**Consumer**
- $1.8 billion outstanding at FYE 2007
- 249,361 transactions outstanding at FYE 2007
- 14,480 payday loan alternatives in FY 2007

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

Almost all of the credit unions (99%) and banks (98%) as well as eight other CDFIs provided personal development, or consumer, financing. Similar to microenterprise financing, consumer financing is characterized by a high number of transactions and relatively small dollar amounts of loans. The consumer financing sector accounts for 75% of all CDFI transactions in our sample but only 12% of the dollar amount of transactions. The median loan size of $4,661 is substantially lower than that in any of the other financing sectors and is only 40% of the median microenterprise loan. Many of these loans are to people who have not previously had a relationship with a financial institution and who do not have a credit history.

14 FY 2007 survey data asked for the number of businesses or microenterprises financed, not breaking out this number.

15 This number includes jobs created and maintained by microenterprises in FY 2007. It is significantly underestimated because it does not capture all small-employment activity of microentrepreneurs, job data from the 159 credit unions for which we have only call report data (see Appendix A), or job data from those CDFIs that do not track this information.

16 See footnote 15.

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

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

**FY 2007 Financing Totals**
At the end of FY 2007, the CDFIs in our study had 607,281 financial investments outstanding totaling $17.6 billion. These financial investments include direct financing (loans, equity investments, and debt-with-equity features) and indirect financing (loan purchases and loan guarantees that allow other financial institutions to finance additional community development loans and investments).

The amount of financing outstanding among individual CDFIs ranged widely, with an average of $34.6 million. Again, the larger institutions account for a substantial share of financing: ten CDFIs account for 38% of total financing outstanding and 20 CDFIs account for 50%.

CDFIs generated $5.3 billion of new financing activity in 2007: $5.08 billion of direct financing and $221 million in indirect financing.

In addition, many CDFIs are leveraging their core expertise to provide underwriting and loan servicing to third-parties such as banks, foundations, government entities, and even other CDFIs. These services help the third-party invest more in community development projects while providing an income stream for the CDFI. In FY 2007, 31 community development loan funds and two community development banks provided loan servicing on portfolios totaling $480 million. Twenty-four loan funds and one bank underwrote $185 million for third-parties; of these, three loan funds alone underwrote more than $30 million.

**Financing Products Offered**
CDFIs use four primary types of financing products to serve their communities: loans, equity investments, debt-with-equity features, and guarantees.

**Loans**
Loans represent nearly 99% of all financing outstanding comprising virtually all financing from loan funds, credit unions, and banks. The only exception is VC funds, which are designed primarily for equity and near-equity investments.

CDFI loans include short-term (fewer than six months) and long-term (up to 30 years) loans, amortizing and balloon loans, and small (less than $500) and large (more than $1 million) loans. Loan size varies greatly by type of CDFI, reflecting the different types of lending they do (see Figure 13). CDCUs, for example, primarily provide small consumer loans to members; as such, the average loan size at credit unions is significantly smaller than at other types of CDFIs.

As indicated in Figure 13, the median loan and investment sizes have been increasing over time for all CDFI types; however, as

<table>
<thead>
<tr>
<th>Figure 12: FY 2007 Financing</th>
<th></th>
<th># Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2007 Financing Totals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total financing outstanding in FY 2007 ($)</td>
<td>17,566,847,603</td>
<td>507</td>
</tr>
<tr>
<td>Total financing outstanding in FY 2007 (#)</td>
<td>607,281</td>
<td>448</td>
</tr>
<tr>
<td>Total financing closed in FY 2007 ($)</td>
<td>5,300,975,716</td>
<td>448</td>
</tr>
</tbody>
</table>

Note: Total financing outstanding includes loans, investments, and guarantees outstanding; total financing closed also includes loans purchased.
indicated in Figure 14, the median loan size decreased for some sectors. As CDFIs have increased their capital, resources, and capacity, they have been able to provide larger loans to businesses and individuals. By institution type, median loan size increased substantially from FY 2002 to FY 2006, and continued to grow from FY 2006 to FY 2007. By sector, from FY 2005 to FY 2006, the median loan and investment size grew in all sectors except community services; from FY 2006 to FY 2007, it decreased for business, consumer, and community services.

**Equity and Debt-with-Equity Investments**

Equity investments are an important tool for CDFIs that finance high growth-potential businesses that offer financial and social returns for low-income people and communities. Equity investments are made in for-profit companies that give the CDFI an ownership interest in the company in exchange for the capital. With an equity investment, the CDFI shares both the risk and the potential financial gain that the business experiences. The relatively recent emergence of equity as a tool is reflected in the comparatively modest numbers shown for this type of investing. Credit unions and banks do not use equity financing.

Debt-with-equity features are loans that allow the CDFI to receive additional payments based on the performance of the borrower’s company. Equity features include convertible debt, as well as debt with warrants, participation agreements, royalties, or any other feature that links the investment’s rate of return to the performance of the company that received the investment. Debt-with-equity is used primarily by VC funds, but a small number of loan funds use it as well. Eight loan funds reported $6.8 million of debt-with-equity outstanding at FYE 2007.

Most equity investment is concentrated in the VC sector. Some loan funds have VC programs within the same corporate structure as the lending entity.

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**Figure 13: Median Direct Loan and Investment Size by Institution Type, 2002, 2006, 2007**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>$40,030</td>
<td>$41,132</td>
<td>$45,10</td>
</tr>
<tr>
<td>CU</td>
<td>$4,510</td>
<td>$5,697</td>
<td>$6,024</td>
</tr>
<tr>
<td>LF</td>
<td>$36,338</td>
<td>$50,276</td>
<td>$54,452</td>
</tr>
</tbody>
</table>

**Figure 14: Median Direct Loan and Investment Size by Sector, 2005 - 2007**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>$85,176</td>
<td>$76,790</td>
<td>$60,935</td>
</tr>
<tr>
<td>Housing</td>
<td>$54,780</td>
<td>$54,780</td>
<td>$54,780</td>
</tr>
<tr>
<td>Micro</td>
<td>$10,200</td>
<td>$10,760</td>
<td>$11,403</td>
</tr>
<tr>
<td>Consumer</td>
<td>$6,024</td>
<td>$5,697</td>
<td>$5,674</td>
</tr>
<tr>
<td>Community services</td>
<td>$127,129</td>
<td>$127,129</td>
<td>$127,129</td>
</tr>
</tbody>
</table>

Note: The CDP collects data on average loan size per CDFI. The median loan size represents the middle (or typical) loan size of the CDFIs in that sector.

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18 Community development venture capital funds provide the majority of equity and debt-with-equity investments. These numbers are not included in this publication. The CDP plans to publish an addendum when these data become available.

19 See footnote 18.

20 Some CDFIs are classified as loan funds and have programs within their organizations that do VC investing. Some CDFIs are listed as VC funds and do a substantial amount of lending. Therefore, the VC fund and loan fund categories may under-represent lending and investing activity, respectively.
Guarantees
Guarantees include letters of credit or guarantees that enhance the creditworthiness of a borrower receiving a loan from a third-party lender. CDFIs in our sample had $193 million in guarantees at the end of 2007. Guarantees and letters of credit come in different structures, but all enable other financial institutions to participate in more community development lending activity, because a loan or a portion of the loan that the financial institution makes is guaranteed to be repaid by the CDFI in the event of default. A year later, PCV became the lodge’s largest institutional investor, providing $1 million of the $3.5 million in equity investment raised for the expansion.

“PCV was absolutely instrumental in enabling this business,” says Evergreen co-owner Lee Zimmerman. “They were the one institutional player that really understood the opportunities we were creating and that was really committed to supporting businesses that were interested in working with low-income populations.”

Today, the Evergreen is clearly succeeding in its dual financial and social missions. The lodge has earned high praise from several leading travel publications, including Fodor’s and Frommer’s. Moreover, since 2002, 60 young people from the Bay Area have received job training, one-on-one counseling from a social worker, and recreational opportunities through its youth employment program. Currently, 10 percent to 20 percent of the lodge’s seasonal hourly employees—or about 15 youth per year—participate in the employment program.

Through its offices in San Francisco, Fresno, Los Angeles, and San Diego, PCV provides capital and advisory services to California businesses with the potential to bring significant economic gains to low- and moderate-income communities.

Loan Sales
A number of CDFIs sell loans from their portfolio to create additional capital liquidity and to bring in fee income. Forty-five CDFIs, including banks, credit unions, and loan funds, report selling loans totaling $234 million. CDFIs sell loans to CDFI intermediaries, government-sponsored entities like Fannie Mae and Freddie Mac, and conventional financial institutions.

Portfolio Performance
For the industry as a whole, portfolio performance is strong, but showing signs of mild weakening. Figure 15 shows FY 2007 delinquencies and net loan losses at banks, credit unions, and loan funds. CDCUs measure delinquency rates by a different metric than loan funds and banks.

Guarantees
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Figure 15: Delinquency and Loan Loss Rates

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>Credit unions</th>
<th>Loan funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 net loan loss rate</td>
<td>0.37%</td>
<td>0.71%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Delinquency rate &gt; 90 days</td>
<td>0.26%</td>
<td>NA</td>
<td>3.34%</td>
</tr>
<tr>
<td>Delinquency rate &gt; 2 months</td>
<td>NA</td>
<td>1.97%</td>
<td>NA</td>
</tr>
</tbody>
</table>

Figure 16: Net Loan Loss Rates, 2000–2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Loss Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>0.91%</td>
</tr>
<tr>
<td>2001</td>
<td>0.71%</td>
</tr>
<tr>
<td>2002</td>
<td>0.71%</td>
</tr>
<tr>
<td>2003</td>
<td>0.70%</td>
</tr>
<tr>
<td>2004</td>
<td>0.55%</td>
</tr>
<tr>
<td>2005</td>
<td>0.44%</td>
</tr>
<tr>
<td>2006</td>
<td>0.46%</td>
</tr>
<tr>
<td>2007</td>
<td>0.55%</td>
</tr>
</tbody>
</table>

21 Net loan loss rate is the net charge-offs during FY 2007/total loans outstanding at FYE 2007.
While there is substantial variation among CDFIs, only 23 CDFIs, or 5% of the 500 banks, credit unions, and loan funds that reported these data, had net loan loss rates greater than 10%.

After years of declining or remaining somewhat steady, the delinquency rates for loan funds increased in 2006 and 2007 while credit unions remained steady in 2006 and increased in 2007 (see Figure 17). With turmoil in the economic markets a more substantial increase can be expected in FY 2008.

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

**Retail Financial Services**

Banks and credit unions mobilize savings and provide access to credit. These institutions offered a broad range of products, such as savings accounts, checking accounts, certificates of deposit, and IRAs, as well as client services, such as automated teller machine (ATM) access, check cashing, bill payment, and direct deposit. They have also crafted products unique to the field, such as individual development accounts (IDAs), which use a mix of financial education, peer support, and matching funds to promote savings among low-income customers that can be used to invest in homeownership, small business development, or education. Thirty-six CDFIs (19 credit unions and 17 loan funds) reported that the 2,587 participants in their IDA program’s held $2.98 million.

Alternatives to payday loans—exorbitantly high-interest short-term loans secured by the borrower’s next paycheck—are important products offered by CDCUs. Although many customers view these depositories as being just like any other financial institution, the difference lies in the customer base and the communities served.

**Figure 17: Credit Union and Loan Fund Delinquency Rates, 2005–2007**

<table>
<thead>
<tr>
<th>Year</th>
<th>Credit Unions</th>
<th>Loan Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>1.7%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2006</td>
<td>1.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>2007</td>
<td>2.0%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

**Figure 18: Training and Technical Assistance**

<table>
<thead>
<tr>
<th>People or Organizations</th>
<th>People Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>People receiving group-based training</td>
<td>67,544</td>
</tr>
<tr>
<td>People receiving one-on-one technical assistance</td>
<td>88,424</td>
</tr>
<tr>
<td>Organizations receiving training</td>
<td>7,269</td>
</tr>
</tbody>
</table>
Training and Technical Assistance Services

In addition to providing access to capital and retail financial services, CDFIs are distinct from mainstream lenders because they provide training, technical assistance, and other assistance to help increase their customers’ capacity and access to financing. The type and amount of training and technical assistance a CDFI offers depend on the needs in its market, and may include packaging funding for an affordable housing developer, business plan training for an entrepreneur, or credit counseling for an individual. In FY 2007, CDFIs provided 7,269 organizations and 155,968 individuals with group-based training and one-on-one technical assistance (See Figure 18). 22

CDFI Growth from 2003 to 2007

CDFIs experienced growth in each of the past five years. For the CDFIs for which we have five years of data, combined assets grew at a compound annual growth rate (CAGR)23 of 10% between 2003 and 2007 (328 CDFIs); for those for which we have five years of financing outstanding data (324 CDFIs), combined financing outstanding grew at a CAGR of 12% (See Figure 19).

Just two years after the City of Chicago employee and first-time homebuyer Rudy Villareal moved his family into their dream home on the city’s west side, he saw his dream turn into a nightmare: the interest rate on his mortgage was set to jump to 12 percent.

Realizing he could never afford such a steep increase in his monthly payment, Rudy was terrified that he might lose his home. Fortunately, his alderman advised him to speak to the people at ShoreBank.

ShoreBank was well aware that borrowers like Rudy Villareal were not rare. The bank had estimated that 10,000 homeowners in its service areas would be trapped in the subprime mortgage meltdown. In 2007, ShoreBank took action, launching its new Rescue Loan Program to assist homeowners at risk of foreclosure by refinancing their loans at more-favorable terms.

The Rescue Loan Program gave Mr. Villareal the breathing room he needed. ShoreBank offered him a 30-year, fixed-rate loan at 6.75 percent, which saved him hundreds of dollars each month while enabling him to continue building equity. “I’m just so relieved my family and I can keep the house we worked so hard to obtain,” Mr. Villareal said. “Finally, I have some peace of mind.”

ShoreBank is the first and largest community development and environmental bank holding company in the nation. Since 1973, the organization has invested more than $3 billion in underserved communities and customers to help purchase and renovate more than 52,000 units of affordable housing and create more than 12,000 new jobs.

Note: Chart includes 328 CDFIs for which we have five years of asset data and 324 for which we have financing outstanding data.

CAGRs varied significantly among CDFIs. Fifteen percent of the sample experienced CAGRs in financing outstanding from 2002 to 2006 of greater than 25% (see Figure 20). Twenty-two percent of the sample experienced declines in financing outstanding. This results from having repayments or charge-offs in their portfolio during the five-year period greater than the amount of new financing closed.

22 These numbers and the numbers in Figure 19 are only for CDFIs that completed the survey. Technical assistance numbers in the credit union brochure include estimates for CDCUs that did not complete the survey.

23 The CAGR is the rate at which an investment would have grown annually if it grew at a steady rate. We use the CAGR rather than the actual annual growth rate to demonstrate trends in the data.
As partners in the CDP, five national trade associations and intermediaries—Aspen Institute, Community Development Venture Capital Alliance (CDVCA), National Federation of Community Development Credit Unions (NFCDCU), Opportunity Finance Network, and National Community Investment Fund (NCIF)—worked together as the Data Collection and Cleaning Committee to collect data across the four types of CDFIs.

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

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

The CDP data collectors sent out 565 surveys for FY 2007 and compiled data for 508 CDFIs, a response rate of 90%—substantially increasing the 79% response rate from FY 2006.24 This data set represents one of the largest and most comprehensive samples of CDFI data; nonetheless, it represents only a subset of the CDFI industry.

Each CDFI reported information based on its own fiscal year. All banks and credit unions have December 31 fiscal year ends; many nonregulated CDFIs have different fiscal year ends.

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

Use of Public Data for Depositories

The CDP data collectors sent surveys to 293 CDCUs for FY 2007. The survey requested data on organizational characteristics, financial position, products and services, and community development outputs as of the end of FY 2007.

A total of 119 credit unions (41%) sent back completed questionnaires. For the 174 nonresponding credit unions, financial data were obtained from regulatory “call reports” prepared by all federally insured U.S. credit unions. Data on nonfinancial fields were unavailable for nonrespondents. Consequently, when a survey question sought information provided on the call report, those data were obtained for all 293 CDCUs. For requested data unique to the survey (and not available on the call report), this report presents only the numbers drawn from the respondents. The sample size in such cases is limited to the 119 institutions that responded.

The CDP sent surveys to 58 community development banks for FY 2007. The survey requested data on organizational characteristics, financial position, products and services, and community development outputs as of the end of FY 2007. A total of 19 sent back completed surveys. For the 39 nonresponding community development banks, publicly available data were obtained from the FDIC Web site for a limited number of data points.

24 These data do not include venture capital fund surveys sent out and returned.
Staffing and Governance
full-time equivalents (FTEs): Includes full- and part-time employees of the organization and volunteers who fill regular staff positions. Excludes temporary staff and professional services conducted outside of the office by third parties, such as accounting, bookkeeping, and legal counsel. One FTE is at least a 35-hour workweek.

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

total lending/investing pool: Includes all capital for lending and investing held by a CDFI as of FYE 2007. This lending/investing pool includes only capital shown on the statement of financial position as received—it does not include capital commitments, grants receivable for capital, or undrawn funds, with the exception of the venture fund sector (which includes committed capital).

total lending/investing pool: borrowed funds + deposits + shares + nonmember deposits + secondary capital + equity equivalent investments + equity capital
> borrowed funds: Loans payable related to financing. Also referred to as debt capital or investor capital. Funds lent to a CDFI from a third party that the CDFI will re lend or reinvest in the communities it serves.
> deposits: Funds placed in a depository institution by individuals or organizations, typically earning interest and insured by government agencies.
> shares: A deposit made in a credit union that confers ownership rights in the credit union on the depositor.
> nonmember deposits: Funds placed in a credit union by individuals or organizations that are not members of the credit union. Nonmember deposits do not confer ownership rights in the credit union to the depositor and are typically limited to a small percentage of a credit union's total deposits.
> secondary capital: A specific type of capital used only by low-income-designated credit unions. It is defined by the NCUA as having several key characteristics: uninsured, subordinate to all other claims, minimum maturity of five years, and not redeemable prior to maturity.
> equity equivalent investments (EQ2s): Unsecured debt that has some of the same advantages as equity because it is subordinate to all other debt and carries a rolling term, the investor has a limited right to accelerate payment, and interest is not tied to income. The investing bank also receives advantageous CRA credit.
> equity capital: Also referred to as net assets dedicated to lending by nonprofit loan funds and as equity by credit unions, banks, and venture funds. It is the amount of equity at the CDFI that is available for lending or investing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Geographic Area Served
major urban area: A metropolitan statistical area of equal to or greater than 1 million. Includes both central city and surrounding suburbs.

minor urban area: A metropolitan statistical area of less than 1 million. Includes both central city and surrounding suburbs.

rural: All areas outside major urban and minor urban areas.

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

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

jobs assisted: jobs created + jobs maintained

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

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

low-income: A customer who has an annual income, adjusted for family size, of not more than 80% of the area median family income for metropolitan areas, or the greater of (1) 80% of the area median family income or (2) 80% of the statewide nonmetropolitan area median family income for nonmetropolitan areas.
The CDFI Data Project

The CDFI Data Project (CDP) is an industry collaborative that produces data about CDFIs. The goal of the CDP is to ensure access and use of data to improve practice and attract resources to the CDFI field. The CDP collected FY 2007 data on 508 CDFIs. The data set includes approximately 100 data points on operations, financing, capitalization, and impact. Supported by the Annie E. Casey Foundation, the John D. and Catherine T. MacArthur Foundation and the W. K. Kellogg Foundation, this initiative convenes leading organizations in the CDFI industry.

Partner Organizations

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

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

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

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

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

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

> Opportunity Finance Network
www.opportunityfinance.net
The leading network of private financial intermediaries with a proven expertise in lending prudently and productively in unconventional markets often overlooked by conventional financial institutions.

For more information on the CDFI Data Project, contact any of the partner organizations or Jon Schwartz of Opportunity Finance Network at jschwartz@opportunityfinance.net (215.320.4308).
Providing Capital
Building Communities
Creating Impact

Fiscal Year 2007

Community Development Banks
Community Development Banks

Like all community development financial institutions (CDFIs), community development banks provide capital to low-income borrowers and communities through targeted lending. As depository institutions, however, community development banks, along with community development credit unions, are able to offer federally insured deposits.

This depository function not only allows community development banks to meet a wider range of individual financial needs, but also enables them to leverage scarce equity capital with deposits to generate significantly higher levels of lending in their communities. Moreover, deposits allow banks to operate with relatively modest levels of subsidy, enhancing both autonomy and financial sustainability.

Fifty-eight community development banks participated in the FY 2007 CDFI Data Project (CDP) data collection. The following summary draws primarily from CDP data and is further supported with transaction level data reported by the National Community Investment Fund’s (NCIF) investee banks.

FY 2007 proved to be a profitable year for a majority of the 58 community development banks in the CDP data set. Together the bank respondents represent total assets of $13.8 billion, total deposits of $10.8 billion, and $9.1 billion in loans outstanding. With $13.7 billion in capital available for lending, of which 78.7% are deposits, the financial strength of CDFI banks has allowed them to improve low-income communities, while positively changing both local residents’ and outside investors’ perception of the communities in which they operate.

Size and Scope

As of year-end 2007, the CDFI Fund had certified 58 community development banks as CDFIs. All of these certified CDFI banks are included in the FY 2007 CDP data set. As Figure 1 illustrates, the bulk of these banks and thrifts are concentrated in the eastern half of the United States.

CDFI banks operate 71.4% of their branches in low to moderate income communities, compared to only 27.1% for all banks. This shows how important CDFI banks are in providing alternatives to predatory lending within economically distressed areas. Also, of the CDFI banks, 63.8% are defined by the FDIC as Minority Depository Institutions, indicating that these banks are minority-owned or are focused on serving the needs of a minority community.

It is commonly recognized that there are significantly more community development banks in the country than those that are certified by the CDFI Fund. The National Community Investment Fund (NCIF) has created a series of Social Performance Metrics to identify those banks which are not certified as a CDFI, but whose primary purpose is providing financial services to low to moderate income communities. Analyzing these community development banks provides additional insights into the role they play in low-income communities.

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Figure 1: Geographic Distribution of 58 Certified CDFI banks

1 Low to moderate income community is defined as a census tract with a median household income that is less than 80% of the relevant statistical area, an unemployment rate that is 1.5 times the national average or a poverty rate greater than 20%.

2 For more information on the FDIC Minority Depository Institution Program, please visit www.fdic.gov/regulations/resources/minority/index.html.

3 For more information on the NCIF Social Performance Metrics, along with a searchable database of all banks, please visit www.ncif.org.
banking institutions, or CDBIs, along with the CDFI banks will further the understanding of the community development banking field.

The 58 community development banks that participated in the CDP in FY 2007 had combined assets of $13.8 billion, with the median bank having an asset size of $142.4 million. These 58 banks constitute 54.0% of the total assets of all CDFIs in the CDP data set, despite making up only 11.4% of the total number of institutions.

Figure 2 provides the distribution of the banks according to asset size and shows that 34.5% of the banks are in the $60 million to $150 million asset range. The 58 banks also represent $10.8 billion in total deposits in FY 2007, with the median deposit size at $112.8 million.

Bank Capitalization

The 58 CDP banks reported a total of $13.7 billion in capital available for lending, averaging $235.9 million per institution; deposit volume represented 78.7% of the total capital available for lending for the CDP subset.

A community development bank typically leverages equity with federally-insured deposits (mostly from individuals and local small business) in the form of savings accounts, checking accounts, and certificates of deposit. Community development banks typically leverage every $1 in equity capital with over $10 in deposits and other borrowings, such as loans from the Federal Home Loan Bank, with some achieving much higher leverage ratios. The average leverage ratio is 9.72 for the banks in the CDP data set.

The financing allowed E. L. Haynes to:
- consolidate its teaching and administrative functions,
- increase student enrollment from 300 – 460 in the pre K – 8th grade,
- accommodate the year long academic and enrichment activities of the school, and
- save an estimated $1 million annually in operating costs.

City First Bank is the Washington DC region’s only commercial bank focused solely on community development. Located in an economically challenged community, City First is a market leader in the financing of startup and small disadvantaged businesses, affordable housing development, and community facilities. As a CDFI, the Bank provides a unique set of banking products and services designed to help people create new businesses, new jobs, schools, affordable housing and operate nonprofits that strengthen communities. Each year, between 75% - 85% of its loans serve low wealth communities.

As a three-time awardee of New Markets Tax Credit (NMTC) authority, City First has become an industry leader in financing large commercial deals that have transformed formerly neglected and underserved communities.

One such transaction was the recent $21 million permanent financing of the Euphemia L. Haynes Public Charter School in Washington, DC. The partners in the deal were Nationwide Mutual Insurance Company as the equity investor and Boston Community Loan Fund providing the leveraged loan.

E. L. Haynes opened in 2004 and has become one of the premier charter schools nationwide. The E. L Haynes project is located in the Washington community of Petworth, near historic Howard University, a struggling community that is seeing its first significant commercial and residential development in over five decades. The new facility is 46,000 square feet with 22 classrooms, a science lab, art room, music room, gym, and future roof top playground. The unique financing provided by the bank provided a 30 year, fixed rate permanent mortgage to the school.

Figure 3: Leverage at the 58 CDFI Banks

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Number of Banks</th>
<th>Average Asset Size</th>
<th>Median Asset Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15 million to $60 million</td>
<td>10</td>
<td>$34,397,400</td>
<td>$33,108,000</td>
</tr>
<tr>
<td>$60 million to $150 million</td>
<td>20</td>
<td>$93,383,250</td>
<td>$82,118,500</td>
</tr>
<tr>
<td>$150 million to $250 million</td>
<td>13</td>
<td>$184,382,769</td>
<td>$183,292,000</td>
</tr>
<tr>
<td>$250 million and above</td>
<td>15</td>
<td>$610,270,133</td>
<td>$346,661,000</td>
</tr>
</tbody>
</table>
Community development banks have a mission to provide financial products and services to low-income communities and borrowers. There is a misconception that a focus on economically distressed communities is risky or unprofitable; the track record of CDFI banks proves otherwise. The majority of the CDFI banks were profitable in FY 2007. Fifty of the 58 CDFI subset banks were profitable with an average net income of $1.8 million in FY 2007. Moreover, this solid financial return does not come at the expense of high risk. According to data available from the Federal Deposit Insurance Corporation, on average, each of the 58 community development banks in the CDP subset had a non-current loan to total loans ratio of 2.78%. The average net charge-off to average total loan ratio was 0.36%, with the median bank having a ratio of 0.17%.

**Development Impact**
NCIF conducts an annual survey of its investees to gauge the level of their development lending activities. NCIF defines a development loan as a loan that is made in a low-income community or to a low-income borrower. In FY 2007, the 12 banks reporting to NCIF originated 3,865 new development loans, for a total of $593.5 million. On average, each bank provided more than $49.4 million in financing to low-income borrowers and communities. With an average loan size of about $153,554, these banks underwrote commercial real estate, small business, housing loans, consumer loans, and agricultural and farm loans that fall outside the scope of most mainstream lenders. In dollar terms, 55.4% of all the loans originated by the investee banks in FY 2007 went to low-income communities, while 56.4% of the total number of loans originated were such development loans.

Like the CDP survey, the NCIF survey found that most of the development loans went to businesses in low-income areas, with small business loans, commercial real estate loans, and agricultural loans making up about 63.6% of the total dollar amount originated. Housing loans made up the second-largest category with 19.3% of the total lending pool. In terms of number of transactions, the NCIF survey found that 52.1% of all transactions were consumer loans.

Community development banks efficiently use their limited resources for development work on the basis of the ratio of development loans to equity capital. With combined equity capital of $469.2 million, the 12 community development banks reporting to NCIF lent 1.26 times their total equity capital in development loans during 2007 alone. Moreover, such a high level of development lending was achieved at the same time that the banks earned an average profit of $2.1 million during 2007.

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**Figure 4: Portfolio Performance CDP Respondent Banks in FY 2007**

<table>
<thead>
<tr>
<th>Sum</th>
<th>Average</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans Greater than 90 days Delinquent</td>
<td>$23,751,000</td>
<td>$402,559</td>
</tr>
<tr>
<td>Non-Current Loan Ratio</td>
<td>2.78%</td>
<td>2.27%</td>
</tr>
<tr>
<td>Net Charge-off Ratio</td>
<td>0.36%</td>
<td>0.17%</td>
</tr>
</tbody>
</table>

**Figure 5: Composition of NCIF Investee Banks’ FY 2007 Development Loans**

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Sum #</th>
<th>Average $</th>
<th>Median $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Loans</td>
<td>7.7%</td>
<td>5.7%</td>
<td>47.4%</td>
</tr>
<tr>
<td>Commercial Real Estate Loans</td>
<td>12.6%</td>
<td></td>
<td>52.1%</td>
</tr>
<tr>
<td>Consumer Loans</td>
<td>2.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Loans</td>
<td>19.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Business Loans</td>
<td>8.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Purpose Loans</td>
<td>14.5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For more information on the CDFI Data Project, contact any of the partner organizations or Jon Schwartz of Opportunity Finance Network at jschwartz@opportunityfinance.net (215.320.4308).
Community Development Credit Unions

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Fiscal Year 2007

Community Development Credit Unions
Community Development Credit Unions (CDCUs) are a major channel of the CDFI system. They are numerous and a geographically broad-based conduit of services to economically distressed communities at the grassroots level. The 294 CDCUs surveyed in 2008 were located in 45 states, as well as the District of Columbia and Puerto Rico, and comprised 58% of all CDFIs in this study.

In the aggregate CDCUs are a powerful CDFI sector (totaling $7.1 billion in assets and 1.5 million members). Although there are a few large CDCUs, they are more typically the smallest type of CDFI, with the median having $3.4 million in assets and 1,384 members.

New York had the greatest number of CDCUs (48) followed by Texas (25) and then California (21) and Pennsylvania (19). The table below shows the northeast with the greatest concentration, including a total of 76 credit unions in three neighboring states: New York, Pennsylvania, and New Jersey. There is also a great per capita CDCU presence in Montana (9) and South Dakota (6).

Eighty percent of CDCUs serve exclusively local geographies, including neighborhoods, towns, metro-areas, and counties. Thirty-two percent serve primarily rural areas. The communities CDCUs assist are some of the most economically disadvantaged and financially underserved in the country: 86% of CDCUs have received low-income designation from the National Credit Union Administration (NCUA, the Federal credit union regulatory agency), 75% are located in CDFI Fund-designated investment areas having high rates of poverty and unemployment, and 55% are in Fund-designated hot zones; areas with the most acute economic distress and housing needs in the country.

CDCUs have highly diverse demographic profiles, serving an ethnically and geographically varied membership that is typically of low-to-moderate income. As cooperative enterprises founded, owned, and controlled by the member depositors they serve, CDCUs exist to provide the basic depository, lending, and development needs of their members and the local communities in which they live.

Despite operating in challenging economic environments, the CDCU sector as a whole continues to experience dramatic growth in scale and maintains self-sufficiency and highly competitive performance indicators comparable to those of mainstream institutions. At the same time, there is significant need for outside capital and other assistance for small and emerging CDCUs; credit unions needing to quickly ramp up scale in the face of surging demand; and for those experiencing conditions of exceptional poverty and blight.

**Demographics**

The average CDCU serves an ethnically and geographically varied, typically low-to-moderate income, and majority female membership:

- 69% minority
- 76% low to moderate income
- 32% rural
- 58% female

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1 All statistics on geographic scope and demographics are an average obtained by adding the fiscal year 2007 survey round result for 119 respondents (n=119) to the result used in last year’s report, and dividing by two. Last year’s results combined survey data from five survey rounds (fye 2006-2002) and a supplementary phone survey for those credit unions that did not responded during this period (increasing respondents for certain questions from n= 129 to n=195).
Thirty-one percent of CDCUs are faith-based organizations, nearly half of which are concentrated in the northeast in New York, New Jersey, and Pennsylvania. These are typically very small institutions affiliated with African-American churches. Latinos are the fastest growing minority group served by CDCUs. Forty-eight percent of CDCU members are Latino (45% in fiscal year 2006) and 19% of CDCUs serve a predominantly Latino clientele. These numbers are virtually reversed for the generally small-sized African-American CDCUs. African-Americans make up 19% of total sector membership, but represent 40% of CDCUs. About 8% of CDCUs have a significant Native American membership and 5% a significant Asian presence.

CDCUs are cooperative enterprises founded, owned, and controlled by the member depositors they serve. The governing boards are selected solely from these member owners, who are typically reflective of the local communities in which CDCUs operate. Minorities occupy 57% of CDCU board seats.

### CDCU Capital

As of FYE 2007, CDCUs had $7.1 billion in assets, a dramatic increase of 13% over the previous year that significantly outpaced 6% growth for the credit union industry as a whole. Thirteen institutions had over $100 million in assets, including GECU in El Paso, TX, with $1.4 billion. Most CDCUs, though growing, were much smaller; the average credit union had $24 million in assets ($22 million last year) and the median, or typical, had only $3.4 million ($2.6 last year).

CDCUs were overwhelmingly capitalized with member shares: 83.9% of capital came from member deposits, while a further 11% was equity capital.

The national regulator, NCUA, recognizing the challenge of raising capital from primarily low-to-moderate income members, has given most CDCUs a special low-income designation, which allows them to accept nonmember deposits and secondary capital.

Although the $151 million in nonmember deposits accounted for only 2% of CDCU capital, these deposits have increased steadily over the years ($125 million in FY 2006), and 59% of eligible institutions took advantage of them in 2007, with 35 credit unions each having in excess of $1 million and one with over $12 million.

Secondary capital increased by 14% to $36 million, accounting for less than 1% of total CDCU capital, though 46 CDCUs, 18% of eligible institutions, did avail themselves of this product. Seven credit unions had over $1 million each in secondary capital loans.

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2 The set of CDCUs varies from year to year because of mergers and newly designated additions; thus, the sets used in comparing FY 2006 and FY 2007 results are not identical.

3 Funds placed in a credit union by individuals or organizations that are not members of the credit union. Nonmember deposits do not confer ownership rights in the credit union to the depositor and are typically limited to a small percentage of a credit union’s total deposits.

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

The low-income, economically distressed communities served by CDCUs are typically ignored or underserved by mainstream financial institutions. CDCUs are often the sole option for basic depository services—the only alternative to storing money under the pillow or paying predatory check-cashing fees. In FY 2007 CDCUs opened an estimated 52,825 new accounts to people who were previously unbanked\(^5\). But CDCU savings deposits are not just an important basic service; they are a critical means for undercapitalized communities to build wealth by retaining and investing their own capital.

At FYE 2007 CDCUs had a total of $5.9 billion in share deposits from 1.5 million members. The dollar value of shares increased by 11.7% from 2006 (all federally insured credit unions (FICUs) increased by 5.2\(^6\)). Membership increased by 6.8% over the previous year (the mainstream credit union rate was only 1.3\%). The median, or typical, CDCU had 1,384 members. The average CDCU member deposit increased from $3,789 last year to $3,962, still significantly below the mainstream credit union average of $7,315. A substantial amount of shares was in long-term savings vehicles: 37% in share certificates (CDs), 11% in money market accounts, and 7% in IRAs. The percentage of long-term CDCU savings was somewhat lower than, but comparable to, the mainstream (55% of the total dollar value of member deposits, compared to 61% for all federally insured credit unions). The average long-term savings account size was noticeably lower; $11,425, compared to $17,046 for all federally insured credit unions.

CDCUs can make thrift doubly rewarding by matching member savings held in special Individual Development Accounts (IDAs). Members can use funds saved in these accounts only for specific wealth building purposes, such as paying for education tuition or purchasing a home. At the end of 2007, 15% of CDCUs had IDA programs, encouraging an estimated 2,142 members to accumulate $1.9 million toward specific wealth building savings goals.

Lending

Just as CDCUs perform a vital depository function, they also provide critical lending services in areas poorly covered by mainstream institutions and sorely in need of reasonably-priced credit. As of FYE 2007, CDCUs had 556,301 loans outstanding worth $5.4 billion, a 12% increase over last year (all FICUs: +6.6%). Seventy-six percent of assets were deployed in loans, and loans constituted 91% of member shares (compared to 83% of shares for all FICUs). The median CDCU had 317 loans outstanding worth $2.1 million (in 2006, it had 270 loans worth $1.6 million). Despite the mortgage crisis, CDCUs granted $2.5 billion in loans in 2007, an increase of 5% from the previous year. This included loans to an estimated 17,079 people with no previous credit history.

Many, if not most, of these loans satisfied a need that may otherwise have been met by payday lenders, rent-to-own stores, pawnshops, and other predatory lenders charging interest rates as high as 700%. The table below shows that despite serving borrowers with significantly greater risk profiles, CDCUs charged interest rates comparable to those of mainstream institutions. The savings margins over the rates charged by predatory lenders are yet another way CDCUs help economically distressed communities retain and accumulate more of the capital they urgently need.

Economic conditions and market demand in low-income communities require CDCUs

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\(^5\) Figures estimated throughout the remainder of the report are estimated for the entire CDCU universe from those CDCUs that reported these data.

\(^6\) This and all subsequent FICU data is obtained from Callahan's Peer-to-Peer Credit Union Statistics.

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<table>
<thead>
<tr>
<th></th>
<th>CDCUs</th>
<th>All Federally Insured Credit Unions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unsecured</td>
<td>12.02%</td>
<td>11.99%</td>
</tr>
<tr>
<td>New Auto</td>
<td>6.90%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Used Auto</td>
<td>8.68%</td>
<td>7.20%</td>
</tr>
<tr>
<td>First Mortgage</td>
<td>7.00%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Other Real Estate</td>
<td>8.00%</td>
<td>7.25%</td>
</tr>
</tbody>
</table>
to specialize in small loans. Personal development loans constituted 49% of the number of CDCU loans outstanding, though only 11% of the dollar value.\textsuperscript{7} These loans have profit margins that mainstream financial institutions generally perceive to be too low, leaving predatory lenders as the only other option. Personal development or consumer loans, typically for essential everyday expenses such as car repair, education, and medical bills, best characterize this type of small, low-profit margin loan. The average size of a personal loan outstanding, $2,167, was miniscule by mainstream or even CDFI financial industry standards. It is also important to note that many of these personal consumer loans are used to finance microenterprise activity, and the inability to track this probably accounts for substantial underreporting of CDCU microenterprise credit.

Payday lenders target low-income people, often short of cash to cover basic expenses between paychecks, for short-term high-rate loans secured by the borrower’s next paycheck. In addition to providing basic offerings such as personal development loans, which can function like payday loans, at a much lower interest rate, CDCUs have also instituted loan programs to specifically combat predatory payday loans. As of the end of 2007, 33% of CDCUs provided payday loan alternative programs, granting an estimated 21,759 payday substitute loans worth $54 million.

Vehicle loans were 37% of the total number of loans outstanding, the next greatest share after consumer loans. Vehicle and housing loans constituted the greatest shares of the outstanding dollar value of the sector’s loan portfolio, 46% and 35%, respectively – though housing loans were only 7% of the number of loans. These loans are critical to the economic regeneration of low-income communities. Autos are often essential for local residents to find work and get to a job, while housing purchase, construction, and rehab increase local real estate values and leverage investment in the long-term economic well-being of the community. In fiscal year 2007, CDCUs had an estimated 205,585 auto-related loans outstanding worth $2.5 billion, and 39,048 housing loans worth $1.9 billion, including over $1.5 billion in first mortgage loans.

A critical service provided by CDCUs is financial counseling and training. Eighty-two percent of CDCUs provided consumer credit, business, or homebuyer counseling, assisting an estimated 27,373 members in group-based sessions and 48,164 one-on-one. In addition, 1,160 local organizations such as small businesses and other credit unions received technical assistance. The sector devotes approximately 9% of its total staff time, without compensation, to these activities.\textsuperscript{8}

Financial Performance
One reason mainstream financial institutions have withdrawn from economically distressed communities is that they are unfamiliar or fearful of the typical low-income borrower’s risk profile. CDCUs have to be flexible, creative, and knowledgeable about their markets to meet the challenge of serving people of modest means and often little financial experience. Yet their portfolio performance ratios are comparable to the mainstream. As of FYE 2007, the sector aggregate delinquency as a percent of aggregate loans outstanding was 1.97%, while the median, or typical, CDCU had a delinquency rate of 2.92%. The delinquency rate was higher than for all federally insured credit unions (FICUs: 0.93%), indicating the challenges faced by CDCUs in managing lending to economically distressed areas. However, the ultimate loan loss rate was actually on a par with the mainstream; a sector aggregate rate of 0.71% and an even lower 0.52% rate for the median, typical, CDCU (FICUs: 0.50%). CDCUs, and particularly faith-based institutions, have such a high rate of success in redeeming delinquent loans because they can exercise a greater level of patience and forbearance as a result of an especially close and personalized relationship with their members.

The sector’s total net worth comprised 10.89% of its total assets, while the median CDCU had a capitalization ratio of 11.53%, substantially exceeding federal statutory standards of 7% for “well-capitalized” credit unions. The primary purpose of CDCUs will always be to serve economically distressed communities and populations. That purpose, though not incompatible with the profit motive, must supersede it. CDCUs do not have the option, as mainstream institutions do, of pulling up stakes and seeking greener pastures (higher rates of return) elsewhere. They continue to operate on tight margins in areas suffering from low capital availability and underinvestment. Nevertheless, the CDCU rate of return on assets was not only comparable to the mainstream rate, but actually exceeded it. The sector rate as of FYE 2007 was 0.76%, while the median or typical CDCU had a return on assets of 0.75% (FICUs: 0.65%).

Most CDCUs were self-sufficient in generating their income. Non-operating income, generally consisting of community development grants and donations, contributed only 2.63% of total income, and the median CDCU relied solely on operating income. Nevertheless, non-operating income was a vital 24% of the sector’s total net income. Though it is again important to point out that the median CDCU does not rely on non-operating income at all, the absence of that assistance would substantially narrow the sector’s tight margin of profitability: sector profitability would be reduced to 0.56%, while the median would fall to 0.52%. Granted and donated income is especially important in sustaining newer and smaller CDCUs until they can achieve self-sufficiency; the median CDCU chartered in the last 10 years showed a profit of 0.64% with non-operating income, but a loss of 0.99% without it. New CDCUs operating in economically distressed CDFI investment area-qualifying would have their profit reduced to -1.86% without non-operating income. CDCUs with $5 million or less in assets would have their profit reduced from 0.71% with non-operating income to a razor thin 0.43% without it.

\textsuperscript{7} These calculations include vehicle loans as a separate category of loans, broken out from personal development loans. In the CDP dataset, vehicle loans are included in personal development loans.

\textsuperscript{8} Questions on staff time distribution were not asked in the FY 2006 or the FY 2007 surveys; so this percentage references the FY 2005 survey result, and is in line with results from preceding survey rounds.
The CDFI Data Project

The CDFI Data Project (CDP) is an industry collaborative that produces data about CDFIs. The goal of the CDP is to ensure access and use of data to improve practice and attract resources to the CDFI field. The CDP collected FY 2007 data on 508 CDFIs. The data set includes approximately 100 data points on operations, financing, capitalization, and impact. Supported by the Annie E. Casey Foundation, the John D. and Catherine T. MacArthur Foundation and the W. K. Kellogg Foundation, this initiative convenes leading organizations in the CDFI industry.

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

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

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

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

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For more information on the CDFI Data Project, contact any of the partner organizations or Jon Schwartz of Opportunity Finance Network at jschwartz@opportunityfinance.net (215.320.4308).
Community development loan funds (CDLFs) offer economic opportunity to low-income individuals and communities throughout the United States by providing financing needed to create businesses and jobs, expand the availability of vital community services, and develop affordable housing.

The 156 loan funds in the CDFI Data Project (CDP) sample represent all four types of loan funds—housing, community service, microenterprise, and small business—and had a wide range of outcomes in FY 2007 (see Figure 1).1

The CDLFs in the sample represent one-third of the approximately 500 CDLFs in existence today. The 156 CDLFs had $4.64 billion in assets at the end of FY 2007. As with the CDFI industry as a whole, a few large organizations dominated the sector. The six loan funds with more than $100 million in assets accounted for $2.2 billion (48%) of the sector’s assets. Overall, the loan fund sector comprises primarily small and mid-sized organizations, with a median asset size of $8.5 million in FY 2007. More than 98% of CDLFs are structured as nonprofit organizations, although a growing number are becoming more complex, creating, for example, for-profit subsidiaries to develop housing or run a New Markets Tax Credit (NMTC) Program. These off-balance sheet activities help CDFIs maximize the resources they can deliver to the communities they serve.

**Financing Activity and Performance**

Loan funds provided $1.34 billion in total financing in FY 2007 and had more than $3.07 billion in total financing outstanding at year end. The average amount outstanding was $20.0 million and the median was $4.7 million. Most loan funds began as either housing or business funds, but the two most prevalent sectors in terms

---

**Figure 1: CDLF Key Outcomes in FY 2007**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total financing closed ($)</td>
<td>$1,341,234,963</td>
</tr>
<tr>
<td>Housing units assisted (#)</td>
<td>50,140</td>
</tr>
<tr>
<td>Businesses assisted (#)</td>
<td>6,181</td>
</tr>
<tr>
<td>Jobs created and maintained (#)</td>
<td>23,432</td>
</tr>
<tr>
<td>Community services organizations financed (#)</td>
<td>504</td>
</tr>
</tbody>
</table>

**Figure 2: Composition of CDLF Direct Financing Outstanding, n = 145**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business (B)</td>
<td>14.1%</td>
</tr>
<tr>
<td>Consumer (C)</td>
<td>0.1%</td>
</tr>
<tr>
<td>Community</td>
<td>0.1%</td>
</tr>
<tr>
<td>Services (S)</td>
<td>15.8%</td>
</tr>
<tr>
<td>Housing (H)</td>
<td>55.6%</td>
</tr>
<tr>
<td>Microenterprise (M)</td>
<td>24.9%</td>
</tr>
<tr>
<td>Other (O)</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

---

1 The loan funds include one CDFI that provides loan and equity investment and considers itself a venture capital fund.
of dollars of financing outstanding were housing followed by community services (see Figure 2).

A majority (66%) of the loan fund sector’s direct financing outstanding is in the housing sector. Housing loans to nonprofit and for-profit developers for affordable rental housing, for-sale homes, and transitional housing make up a core niche of loan funds. Loan funds provide financing where banks will not or, in some cases, assume a subordinate position that enables a bank to participate in what would otherwise be a too risky deal. Some CDLFs make million dollar loans to affordable housing developers, while others make small predevelopment or other loans of under $100,000. In FY 2007, the median loan size CDFIs made to housing organizations was $242,412. More CDLFs that in the past primarily did microenterprise or small business lending are starting to make small housing loans to organizations. In addition, an increasing number of loan funds provide loans to individuals for home purchase and repair: in FY 2007, 44 of the 78 CDLFs that provided housing financing made housing loans directly to individuals, up from 31 in FY 2006.

A number of loan funds provide loans to community service organizations to enhance the services available in low-income communities. These clients, such as child care centers, social service agencies, and charter schools, often lack sources of capital, knowledge about financing, and collateral. Fifty-nine loan funds provided community service financing, with 11 providing primarily community service financing and 18 directing at least one-third of their financing to community service organizations. CDLFs had $451 million in financing outstanding to community service organizations at FYE 2007 and closed $206 million in loans and investments in FY 2007.

When the owners of the 111-site Lakes Region Cooperative manufactured housing park refused—for a second time—their tenants’ offer to purchase the property, the tenants in the co-op feared the worst.

They suspected that the owners were about to sell the property to another buyer—a move that would certainly mean higher rents—and they turned to the New Hampshire Community Loan Fund (NHCLF) for help.

NHCLF officers learned of the threat the Lakes Region co-op faced on a Wednesday. They held an emergency meeting of the loan committee on Thursday and, within hours, approved a $2.3 million loan for the tenants. The very next day, the owners of the park announced that they had indeed found a new buyer and gave the co-op until the following Monday to buy the property. When Monday arrived, the owners were more than a little surprised to discover that the tenants were willing and able to make the purchase.

The co-op later learned that the new buyer had promised to limit annual rent increases for current tenants to six percent per year for the first five years—a deal the buyers considered quite generous. During the eight years it has owned the property, the co-op has increased rents only once—by $20 per month. It has also managed to make several improvements, including replacing the well house, paving roads, and replacing septic systems.

“My favorite part of living here is the freedom of ownership,” says Lois Parris, Founding President of the Lakes Region Cooperative. “When we first bought the park, I remember my first feeling, that no one could take this away from us, not our homes, not our park. We owned it.”

Since its founding in 1983, NHCLF has been guided by the belief that low-income people can achieve long-term economic stability if they are given access to capital resources and the knowledge to use them. The organization is a leading provider of financing for manufactured housing parks and has made more than 1,400 loans totaling more than $100 million to build housing, create jobs, and support essential services.

Manufactured Housing Financing
Belmont, NH
Featuring New Hampshire Community Loan Fund
Portfolio Performance and Managing Risk

Loan funds are adept at managing risk in their markets. They do so by keeping adequate loan loss reserves and equity capital to protect investors from potential losses. Loan funds also manage their risk by knowing their clients, frequently monitoring their portfolio, and offering substantial training and technical assistance both before and after the loan closing. Even so, trouble in the credit markets began creeping into CDFI portfolios in FY 2007. Delinquencies greater than 90 days were 3.3%, up from 2.9% in FY 2006. Net charge-offs were 0.84%, up slightly from FY 2006 (see Figure 3).

Fifty-one (34%) loan funds experienced no net loan losses in FY 2007 or had net recoveries; twelve (8%) had net loan loss rates greater than 10%. Loss rates vary among different types of loan funds. The weighted average net loan loss rate for loan funds with a primary activity of business or microenterprise—relatively high-risk lending—was 2.25% (4.1% average), while the weighted average rate for loan funds with a primary focus of housing or community facilities—relatively low-risk activities—was 0.54% (1.0% average). CDLFs reserve more than adequately against losses. Figure 3 demonstrates that the weighted average loan loss reserve rate of 5.5% (12.9% average without one outlier) was more than ten times the net loan loss rate and nearly double the delinquency rate greater than 90 days for the sector as a whole. Overall, delinquencies and net charge-offs have been relatively consistent for the sector, although there is great variation among individual loan funds.

Capitalization

The total lending and investing pool, or total capital, of loan funds in our study was nearly $3.9 billion at FYE 2007. The average capital size was $24.7 million, and the median was $7.2 million.

On average, 65% of CDLFs’ capital is borrowed or debt capital (see Figure 4). EQ2s are highly subordinated debt instruments with features, such as a rolling term and limited right-to-accelerate payments, that enable them to function similar to equity. Banks are the primary investors in EQ2s.

---

**Figure 3:** CDLF Portfolio Performance, 2003–2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Net charge-off ratio</th>
<th>Delinquency rate &gt; 90 days</th>
<th>Loan loss reserves rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>0.8%</td>
<td>6.2%</td>
<td>5.4%</td>
</tr>
<tr>
<td>2003</td>
<td>1.0%</td>
<td>5.4%</td>
<td>5.4%</td>
</tr>
<tr>
<td>2004</td>
<td>0.9%</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>2005</td>
<td>0.7%</td>
<td>5.0%</td>
<td>5.1%</td>
</tr>
<tr>
<td>2006</td>
<td>0.8%</td>
<td>5.4%</td>
<td>5.5%</td>
</tr>
<tr>
<td>2007</td>
<td>0.8%</td>
<td>5.0%</td>
<td>5.4%</td>
</tr>
</tbody>
</table>

**Figure 4:** CDLF Capital Structure

- Equity capital, 30%
- Equity equivalent, 5%
- Borrowed funds, 65%

---

2 Capital breakout does not include one CDLF that has NMTC activity included in consolidated financials.
Banks receive favorable Community Reinvestment Act (CRA) treatment for making EQ2s. Fifty CDLFs had secured EQ2s totaling more than $130 million at the end of 2007. Although this represents only 5% of loan fund capital, it is an important source because it is typically long-term (7–15 years), has a rolling term, and allows CDFIs to leverage additional debt. Only nonprofit CDFIs use EQ2s.

Thirty percent of loan fund capital is equity. Equity capital is critical to loan funds because it enables them to leverage more debt, provides a cushion to protect debt and EQ2 investors, and allows loan funds to take more risks. This capital cushion is particularly critical for unregulated loan funds. Equity is the most difficult type of capital for CDLFs to raise. It is built from a combination of grants designated for loan capital and any net income that the loan fund chooses to designate to be used as capital. Fifty-seven percent of the loan funds have equity capital ratios greater than 30%, and only 14% have capital ratios below 10%.

A majority of investor capital—debt and EQ2—is from banks, thrifts, and credit unions, which together accounted for 54% of borrowed funds and EQ2 (see Figure 5). Financial institutions have consistently been the largest source of capital among loan funds. Loan funds are safe investment vehicles and flexible partners for banks. In addition, banks can receive CRA credit for their investments in CDFIs at below-market fixed rates, more CDLFs are using traditional financial products to capitalize and manage liquidity. These products include lines of credit at floating rates, repurchase agreements, and interest rate swaps and other derivative products.

Another key source of loan fund capital for CDLFs is foundations, which account for 12% of total investor capital. Some foundations offer below-market and long-term loans called program-related investments (PRIs). In FY 2007, 66 loan funds in our study derived $222 million from foundations.

Public sources are also significant. Seven percent of capital is provided by state government and 6% by federal sources. CDLFs draw from several federal programs to capitalize their loan pools. Opportunity Finance Network’s 2008 publication Attracting Federal Funds for Opportunity Finance reports that, after the CDFI Fund’s Financial Assistance and Technical Assistance Program, the federal programs ranked most beneficial to CDFIs are the Department of Housing and Urban Development’s Community Development Block Grants, the CDFI Fund’s New Markets Tax Credit Program, the Small Business Administration’s Microloan Program, and the U.S. Department of Agriculture’s Intermediary Relending Program.

Other key sources of investor capital are nondepository financial institutions and religious institutions. Although such investors account for only 5% and 4%, respectively, of loan fund investor capital, they are important long-term sources of capital for CDLFs. Religious investors represent some of the first supporters of CDLFs and helped found many of the organizations.

---

**Figure 5: CDLFs’ Investor Capital Sources**

<table>
<thead>
<tr>
<th>Source</th>
<th>Capital Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks, thrifts, and credit unions</td>
<td>54%</td>
</tr>
<tr>
<td>Foundations</td>
<td>12%</td>
</tr>
<tr>
<td>State government</td>
<td>7%</td>
</tr>
<tr>
<td>Federal government</td>
<td>6%</td>
</tr>
<tr>
<td>Nondepository financial institutions</td>
<td>5%</td>
</tr>
<tr>
<td>Corporations</td>
<td>4%</td>
</tr>
<tr>
<td>Religious institutions</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
<tr>
<td>Individuals</td>
<td>3%</td>
</tr>
<tr>
<td>National intermediaries</td>
<td>2%</td>
</tr>
</tbody>
</table>

---

1. Lenders can receive either enhanced lending test credit or investment test credit for making EQ2 investments in CDFIs. Banks accounted for approximately 80% of EQ2s.
3. One outlier is excluded from capital sources breakout.
The CDFI Data Project

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Providing Capital
Building Communities
Creating Impact

Community Development
Microenterprise Financing

Fiscal Year 2007
Microenterprises are defined as businesses with five or fewer employees, with capital requirements of up to $35,000 in order to start up or expand, and whose owners do not have access to mainstream commercial banking services.\(^1\)

**What assistance do business owners receive?**

Microenterprise development programs typically offer a variety of services to help clients grow their businesses. Business training and technical assistance, used to expand managerial skills, are the most commonly offered and utilized services across the field. Virtually all microenterprise clients receive some form of training or technical assistance. Because CDFIs have a lending focus, nearly all of the organizations in the CDFI Data Project (CDP) FY 2007 dataset offered loans. However, according to an industry-wide assessment of the domestic microenterprise industry, lending is offered by two-thirds (64\%) of programs nationwide, and utilized by approximately 20\% of the clients served.\(^8\)

In FY2007, microentrepreneurs received an average microenterprise loan of $7,500, with loan amounts ranging from approximately $500 to $35,000.\(^9\) Increasingly, many CDFIs are offering services to improve financial literacy and develop household assets, including personal credit repair and IDA savings programs.

**CDFIs and Microenterprise**

Microlending is a reported activity of many CDFIs, and for some it is a significant focus of their efforts. Of the 508 CDFIs that reported to the CDP in FY 2007, 23\% (115 CDFIs) reported microenterprise financing outstanding.\(^10\) The total microenterprise portfolio in this group of 115 CDFIs was $110.9 million. A little over 3\% of outstanding transactions are microenterprise transactions (11,345 microenterprise transactions\(^11\) out of 331,368 total transactions\(^12\)). This represents the fourth largest number of transactions, behind consumer loans, housing, and other.

While the average microenterprise portfolio at the end of FY 2007 was $964,394, the range in the size of microenterprise portfolios in this group was very broad, from a low of $1,200 to a high of over $13 million. Thirty-two CDFIs held at least $1 million in microenterprise financing. The median number of microenterprise trans-

<table>
<thead>
<tr>
<th>Figure 1: Services by CDFIs with microenterprise programs in FY2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Development Training</td>
</tr>
<tr>
<td>Business Development TA</td>
</tr>
<tr>
<td>IDAs</td>
</tr>
</tbody>
</table>

---

1. Association for Enterprise Opportunity, the trade association for microenterprise in the United States.
2. The CDP authors would like to thank Ilgar Alisultanov for his assistance in analyzing the CDP FY 2007 dataset for this chapter.
4. Edgcomb, Elaine and Joyce Klein, Opening Opportunities, Building Ownership: Fulfilling the promise of Microenterprise in the United States; The Aspen Institute, February 2005.
5. Ibid; The estimate was based on FY2000 data. It is assumed that the number of entrepreneurs who receive services annually has grown since then.
6. 80\% of regional median as defined by HUD.
7. Ibid
9. MicroTest FY2007 data; MicroTest, an initiative of FIELD, is a management tool that empowers microenterprise practitioners to gauge and improve the performance of their programs and the outcomes of their clients. The MicroTest performance framework, developed through a collaborative effort with industry practitioners, has been used by more than 154 microenterprise organizations since 1997.
10. These figures are based on all CDFIs reporting at least $1 outstanding in micro-financing at the end of FY2007. Out of these 115 organizations, 7 did not report the number of outstanding transactions.
11. 108 CDFIs reported the number of outstanding microfinance transactions.
12. There were 606,786 outstanding transactions in total in FY2007. Out of these transactions, however, only 55\% (331,368) were identifiable with a particular economic sector or purpose.
As a child, Arga Bourgeois saw her father travel around Houston teaching people to improve their health by transforming their diets. Years later, inspired by his example, she used a $2,600 tax refund to open a health food store to serve Houston’s 3rd Ward, a neighborhood known for its high concentration of poverty.

At first, Sunfired Foods consisted of a single shelf of products, but Ms. Bourgeois had bigger things in mind. In 2005, after a year in business, she came to ACCIÓN Texas seeking a small loan and a chance to prove herself.

With a $13,000 loan and technical assistance from ACCIÓN Texas, Ms. Bourgeois has transformed her business and her community. Today Sunfired Foods is a full-service health food store that offers classes in healthy living and a wide selection of herbs, vitamins, and foods not usually available in low-income neighborhoods. Her company employs six, including her father.

Ms. Bourgeois is grateful for the loan—and everything else—ACCión Texas provided. “They didn’t just say, ‘Here you are; take it and you’re on your own,’” she says. “I also received education through them. It’s a lifetime of learning and resources, and that is what I appreciate most.”

One of the nation’s leading microlenders, San Antonio-based ACCIÓN Texas is dedicated to serving small business owners like Ms. Bourgeois. Since 1994, the organization has made more than 8,000 small business loans (in amounts averaging $7,900) to more than 4,500 borrowers who were unable to obtain financing from traditional sources.

Table 2 distributes the 115 CDFIs engaged in microenterprise financing according to the size of their microenterprise portfolio. Microenterprise lending can be a relatively large or small percentage of total lending in all portfolio categories. Large lenders make the bulk of microenterprise lending. Seventy-seven percent of the total microenterprise financing portfolio is held by those CDFIs with microenterprise portfolios in excess of $1 million. Some of these large microenterprise lenders focus exclusively on microenterprise lending. Others have very large, very diverse portfolios, with microloans making up a relatively small percentage of total lending.

Table 3 below shows the incidence of microenterprise financing among CDFIs. While financing microbusinesses is a part of the activities of 40% of CDFIs reporting the breakdown of the financing outstanding by a particular economic sector14, 13% of them have made microfinancing the main focus of their community development activities.

---

**Figure 2: Size of Microenterprise Portfolios within CDFIs (FY 2007 data)**

<table>
<thead>
<tr>
<th>Size of Micro Portfolio</th>
<th>Number of CDFIs</th>
<th>Average Micro Portfolio</th>
<th>Average Total Portfolio</th>
<th>Range of % of Total Portfolio in Micro</th>
<th>Total Micro Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $250,000</td>
<td>43</td>
<td>$98,209</td>
<td>$7,730,975</td>
<td>0.01% – 100%</td>
<td>$4,222,973</td>
</tr>
<tr>
<td>$250,001 to $500,000</td>
<td>22</td>
<td>$355,750</td>
<td>$6,815,840</td>
<td>0.77% – 100%</td>
<td>$7,826,500</td>
</tr>
<tr>
<td>$500,001 to $1,000,000</td>
<td>18</td>
<td>$738,814</td>
<td>$8,975,737</td>
<td>3.01% – 100%</td>
<td>$13,298,644</td>
</tr>
<tr>
<td>More than $1,000,000</td>
<td>32</td>
<td>$2,673,663</td>
<td>$60,954,273</td>
<td>0.31% – 100%</td>
<td>$85,557,210</td>
</tr>
<tr>
<td>Total</td>
<td>115</td>
<td>$964,394</td>
<td>$22,560,699</td>
<td>0.01% – 100%</td>
<td>$110,905,326</td>
</tr>
</tbody>
</table>

**Figure 3: Incidence of Microenterprise Financing**

<table>
<thead>
<tr>
<th>Microenterprise (ME) Transactions</th>
<th>Number of CDFIs</th>
<th>Percentage of All Reporting CDFIs (N=272)</th>
<th>Percent of Active Microlenders (N=108)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have at least 1 microenterprise transaction</td>
<td>108</td>
<td>40%</td>
<td>100%</td>
</tr>
<tr>
<td>At least 50% of all transactions are ME transactions</td>
<td>34</td>
<td>13%</td>
<td>31%</td>
</tr>
<tr>
<td>100% of transactions are ME loans</td>
<td>17</td>
<td>6%</td>
<td>16%</td>
</tr>
</tbody>
</table>

---

13 These figures are based on 108 CDFIs reporting the number of outstanding microfinance transactions.
14 Out of 508 CDFIs in the database, 272 reported the breakdown of the financing outstanding by a particular economic sector or purpose.
**Portfolio Risk and Sustainability**

Microenterprise loans usually carry a higher level of risk than other types of CDFI investments. Because these loans are an important element of the community strategies being implemented by CDFIs, microenterprise lending strategies need to expertly balance risks and community benefits. As can be seen in Tables 4 and 5, delinquencies are being effectively managed. Risks are maintained at a prudent level and the portfolio indicators have strengthened over time, although they have risen slightly over the most recent year.

Because of their size, risk, and pricing for charitable purpose, the income earned from microenterprise loans rarely covers the costs of origination, collection and management. In addition, many microenterprise lenders support their lending with training and technical assistance in business and financial management. Ongoing public and charitable investment is needed to serve this market. However, some programs have begun implementing innovations in program efficiency, pricing, and scale that have increased performance in rates of operational self-sufficiency\(^{10}\) over time (see Table 6).

---

### Figure 4: Delinquency Data for FY 2007

<table>
<thead>
<tr>
<th>31–60 Days Late</th>
<th>61–90 Days Late</th>
<th>91–Plus Days Late</th>
<th>Average Outstanding Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microenterprise-Focused CDFIs(^{16})</td>
<td>1.97%</td>
<td>1.11%</td>
<td>2.59%</td>
</tr>
<tr>
<td>Other Community Development Loan Funds</td>
<td>2.47%</td>
<td>0.95%</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

### Figure 5: Portfolio indicators of microenterprise-focused CDFIs (have at least 50% of their portfolio dedicated to micro)

<table>
<thead>
<tr>
<th>Portfolio Risk</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 30 days</td>
<td>15.1% (n = 43)</td>
<td>13.6% (n = 29)</td>
<td>13.6% (n = 27)</td>
<td>11.1% (n = 29)</td>
<td>7.6% (n = 33)</td>
<td>4.99% (n = 33)</td>
<td>5.67% (n = 28)</td>
</tr>
<tr>
<td>Write-offs</td>
<td>5.7% (n = 42)</td>
<td>8.8% (n = 30)</td>
<td>8.1% (n = 28)</td>
<td>6.9% (n = 25)</td>
<td>4.2% (n = 36)</td>
<td>3.45% (n = 34)</td>
<td>4.60% (n = 34)</td>
</tr>
</tbody>
</table>

### Figure 6: Microenterprise Lending Program Operational Self Sufficiency\(^{18}\)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>36%</td>
<td>36%</td>
<td>39%</td>
<td>40%</td>
<td>43%</td>
<td>46%</td>
<td>49%</td>
</tr>
<tr>
<td>Median</td>
<td>21%</td>
<td>16%</td>
<td>19%</td>
<td>20%</td>
<td>21%</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td>n</td>
<td>48</td>
<td>56</td>
<td>49</td>
<td>44</td>
<td>43</td>
<td>38</td>
<td>35</td>
</tr>
<tr>
<td>Average OSS Among Top Performers(^{19})</td>
<td>59% (n = 10)</td>
<td>52% (n = 11)</td>
<td>56% (n = 10)</td>
<td>41% (n = 8)</td>
<td>74% (n = 8)</td>
<td>81% (n = 7)</td>
<td>75% (n = 7)</td>
</tr>
</tbody>
</table>

Note: Some indicators may slightly differ from previous publications due to updated information.

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10 Operational Self Sufficiency is defined as Total Income from Loan Fund/Total Credit Program Operating Expenses. The credit program operating expenses do not include interest paid on borrowed loan capital or the amount of loans reserved or charged off in a given year.

16 At least 50% of all transactions are ME transactions.

17 Out of 34 Microenterprise-Focused CDFIs, 28 reported complete delinquency data.

18 MicroTest data

19 Top 20% of programs in OSS