An Overview of the CDFI Industry

March 2019

CNote

INTRODUCTION

Throughout the country, many urban and rural communities lack access to adequate financial services. Without the necessary capital, these communities are unable to create business opportunities or generate economic growth. Consequently, they remain underdeveloped in contrast to communities that have ready access to banking resources and capital.

> ***"Community development finance seeks to counter social, economic, and political patterns and behaviors that make and keep people poor."***
> *—The Brookings Institution*

Community Development Financial Institutions, referred to as CDFIs, work to address these inequalities by investing in these underserved communities. CDFIs are local community lenders who provide loans and financial services to residents who may not qualify for, or have access to, traditional financial services. Historically, there are many reasons why mainstream banks have excluded potential borrowers, including gender, race, or a lack of previous business experience. [2]However, none of these factors are necessarily indicative of future financial performance. [3]Indeed, for decades CDFIs have succeeded in improving the economies and financial well being of communities across the nation. The mission behind the CDFI industry is:

> ***"To expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers"[4]***
> *— US Treasury CDFI Fund*

[1]Pinsky, "Taking Stock," The Brookings Institution.
[2]Mark Pinsky, "Taking Stock: CDFIs Look Ahead After 25 Years of Community Development Finance," The Brookings Institution, last modified December 1, 2001.
[3]Ibid. (Pinsky, "Taking Stock," The Brookings Institution.)
[4]"About Us," Community Development Financial Institutions Fund.

The CDFI industry began to form in the latter half of the twentieth century. In the 1950's and 1960's, there was a housing and credit boom across America. While many white Americans were prospering, low-income and minority communities were generally excluded from this economic growth because mainstream banks and institutions deemed these communities too risky for investment. There was a common practice among banks called "redlining" where the banks would draw red lines on physical maps around neighborhoods deemed too risky for investment. They refused to provide loans or financial services to those areas. Since so many parts of the country were prospering, there was a noticeable gap in opportunity, development, and wealth. [5]In terms of access to financial resources, it was clear that these communities were left behind. In effort to fight this discrimination, the government passed the Community Reinvestment Act in 1977. This act, known as the CRA, encouraged financial institutions to meet the needs of every part of the community they served. [6]

In the 1960's, as part of the War on Poverty campaign, the Johnson Administration helped launch Community Development Corporations (CDCs) to serve low-income communities. These early CDCs laid the foundation for the modern CDFI industry. In the 1970's, community development credit unions and banks, including South Shore Bank in Chicago in 1973 and Santa Cruz Credit Union in 1977, formed to serve individuals and religious institutions.[7] During the following years, the community development finance industry continued to grow, but it wasn't until the 1990's when it truly emerged as a formidable agent in the finance industry.

The modernization of the CDFI industry is largely due to the work of the Clinton administration. In 1994, Clinton enacted the Riegle Community Development and Regulatory Improvement Act. This act established the CDFI Fund and opened up interstate

[5]Ibid. (Pinsky, "Taking Stock," The Brookings Institution.)
[6]CDFI Fund, "The CDFI Fund: Empowering Underserved Communities," news release, https://www.cdfifund.gov/Documents/CDFI_Brochure%20Updated%20Mar2017.pdf#search=%22600%20affordable%20housing%20units%22.
[7]"What Are CDFIs?," CDFI Coalition, http://cdfi.org/what-are-cdfis/.

banking, which allowed financial institutions to organize and network across the nation.[8] The CDFI Fund was created within the U.S. Department of the Treasury and it is an organization that provides federal support to individual CDFIs serving low-income communities. Its establishment was critical in the development, organization, and modernization of the community finance industry. At the same time as the Riegle Act, President Clinton called for a review of the Community Reinvestment Act. In 1995, the revised act qualified loans and investments in CDFIs as fulfilling CRA requirements.

UNDERSTANDING THE CDFI MODEL

A CDFI is a local community institution that plays a similar role to that of a bank. They provide capital, loans, and financial resources to their customers. However, CDFIs go beyond the scope of a traditional bank, as they provide community outreach programs, business resources, and financial counseling. CDFIs establish relationships with their borrowers and help them navigate some of the more technical and challenging aspects of owning and operating their own businesses. This is beneficial to both parties; the borrower has guidance to help them become more successful and the CDFI gains deeper knowledge of the local market and community. Furthermore, if the CDFI provides technical assistance, then it often increases the likelihood that the borrower will be successful and able to pay back their loan:

> ***"With cumulative net charge-off rates of less than 1 percent, CDFIs lend prudently and productively in unconventional markets often overlooked by conventional financial institutions."*** [9]
>
> *—Lisa Mensah, President and CEO of the Opportunity Finance Network*

[8] Daniel C. Giedeman, "The Riegle-Neal Act and Local Banking Market Concentration," International Advances in Economic Research 10, no. 4 (November 2004): 328.

[9] *The Innovation Economy, Entrepreneurship, and Barriers to Capital Access: Hearings Before the Joint Economic Committee (2018) (statement of Lisa Mensah).*

CDFIs acquire their capital from banks, the government, foundations, and even individual investors. This capital goes on to fund the individual investment and capital demands of the CDFI and the community they serve. For decades, CDFIs have been instrumental in bringing quality financial services to underserved, low-income populations left behind by mainstream banks and institutions.

> ***"CDFIs are an important part of the small business lending ecosystem, providing capital to businesses that cannot access traditional financing. As mission-driven lenders, increasing access to affordable, responsible capital for business owners with limited options: women, people of color, startup firms with limited revenue and less than perfect credit, is a key component of the CDFI lending strategy."***[10] *—Lisa Mensah*

In contrast to financial institutions that focus solely on the bottom line, CDFIs also measure their success through the impact they have on the communities they serve. Along with making prudent lending decisions, CDFIs focus on creating and saving jobs, improving the financial well being of local residents, and helping their communities prosper. In fact, many CDFIs are nonprofit organizations. Indeed, some CDFIs generate revenue, but their main priority is community development, not maximizing profits. CDFIs align themselves with community needs rather than capital market demands.[11]

Since every community is diverse, there is no single CDFI model that can be replicated and copied around the country, each one must meet the needs of the community where they are located. However, that does not mean that CDFIs are unestablished, unsupported,[12] or untrustworthy. The CDFI industry is organized by the CDFI Fund, which is part of the U.S. Department of the Treasury. In order for an organization to gain certification from the CDFI fund, they must be a private, non-governmental institution whose primary mission is

[10] Ibid. *(The Innovation Economy, Entrepreneurship, and Barriers to Capital Access: Hearings Before the Joint Economic Committee(2018)* (statement of Lisa Mensah).

[11] "What Is a CDFI? Community Development Financial Institutions Explained," CNote, last modified October 17, 2017.

[12] Pinsky, "Taking Stock," The Brookings Institution.

community development. CDFIs come in four forms: banks, credit unions, loan funds, and venture capital funds. Each has a different structure, risk profile, and target lender, with majority organized as loan funds.

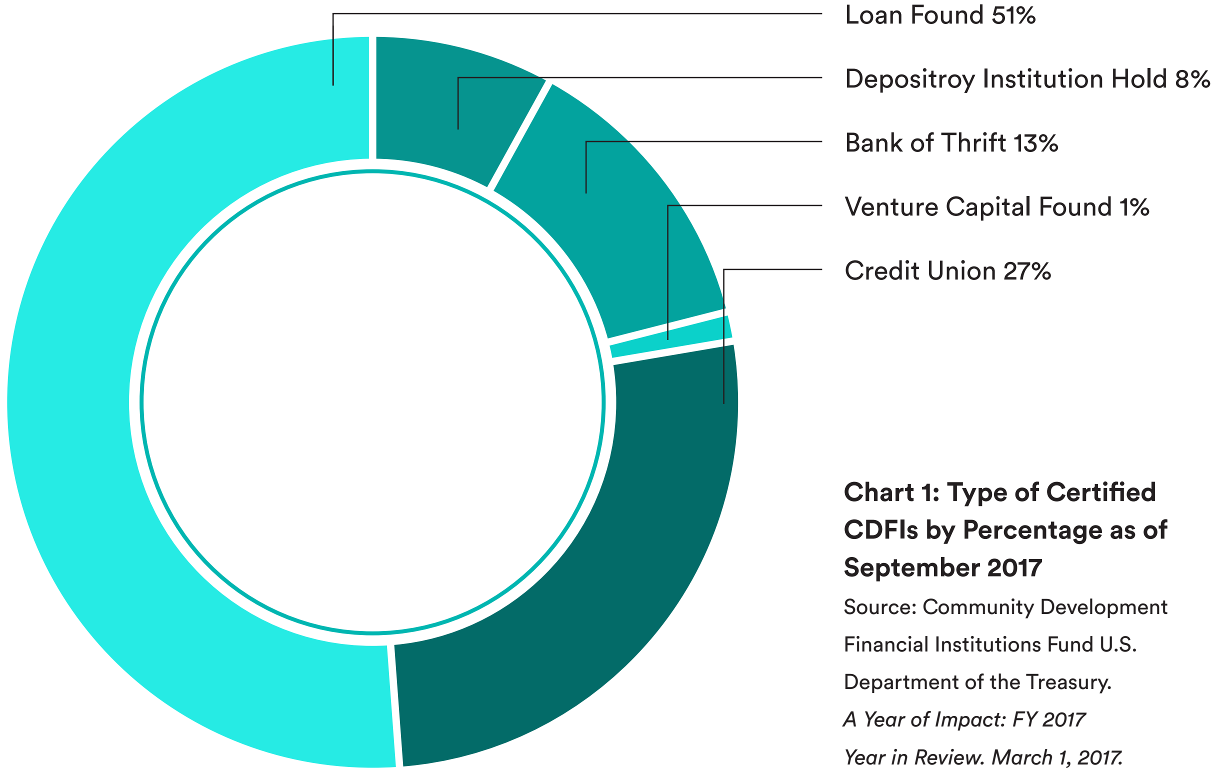


Chart 1: Type of Certified CDFIs by Percentage as of September 2017

Source: Community Development Financial Institutions Fund U.S. Department of the Treasury. *A Year of Impact: FY 2017 Year in Review. March 1, 2017.*

The CDFI industry has shown continued growth over the years. In 1996 there were 196 organizations affiliated with the CDFI Fund. In 2014 there were 316, and in January 2016 there were 991 certified CDFIs. As of January of 2016, certified CDFIs hold nearly $108 billion in assets.[13] Today, there are over 1,000 organizations with estimated total assets of $136 billion.[14]

[13] CDFI Fund U.S. Department of the Treasury, CDFI Program and NACA Program Awardees: A Snapshot in 2014, 2, July 2016.
; Oscar Gonzales, "Snap Stat: Sizing Up Certified CDFIs," CDFI Fund.
[14] Elise Balboni and Christina Travers, CDFIs and Impact Investing: An Industry Review, 4, December 2017.

Table 2: Asset Size of Certified CDFIs (By Type) as of January 2016

CDFI Type	Total Assets S	Total Assets %	Average of Total Assets	Median Assets
Bank or Thrift	$37,927,503,000	35%	$318,718,513	$215,786,600
Credit Union	$56,672,216,871	52%	$208,510,176	$52,993,128
Loan Found	$14,185,047,966	13%	$27,070,702	$7,007,023
Venture Capital Found	$208,763,372	0%	$14,911,669	$4,661,726
Total	$107,993,531,209	100%	$116,876,116	$19,731,943

Source: Gonzales, Oscar. "Snap Stat: Sizing Up Certified CDFIs." CDFI Fund.

Credit Unions make up 27% of all CDFIs but account for the majority (52%) of the assets. On the other hand, 51% of certified CDFIs are loan funds, even though loan funds only comprise 13% of total assets.

> ***"Despite a relatively small asset size, I think it's fair to say that CDFIs punch above their weight... CDFIs are an important vehicle for driving lending and investment in underserved communities and play an integral role with banks and other financing partners to spur their investment in low-income communities."***[15] *- Annie Donovan, CDFI Fund Director*

Within the CDFI Fund, there are different programs that have their own unique purpose:[16]

- CDFI Program: Provides assistance (financial and technical) awards to certified and emerging CDFIs
- Native Initiatives: Native American CDFI Assistance Program, CDFIs that work with Native communities
- Bank Enterprise Award Program: Monetary awards to Federal Deposit Insurance Corporation insured banks for increasing their investments in low-income communities and CDFIs

[15]Annie Donovan, "Keynote Address," speech, September 28, 2017, CDFI Fund.

[16]CDFI Fund, "The CDFI."

- New Market Tax Credit Program: Tax allocation authority to certified Community Development Entities (which allows investors to claim tax credits against their federal
- income taxes. The CDEs use the capital raised to make investments in low-income communities)
- Capacity Building Initiative: Provides access to free seminars, market research & analysis, tools, and one-on-one training to help CDFIs (or organizations trying to become CDFIs) diversify, expand, and develop
- CDFI Bond Guarantee Program: Issues bonds to support CDFIs, provides CDFI lending and investment with long-term, patient capital
- Capital Magnet Fund: Competitive awards that finance affordable housing solutions

PERFORMANCE

> ***"CDFIs have succeeded by all obvious measures"[17]***
> *—The Brookings Institution*

Although the CDFI industry is relatively new, as an asset class, it still has decades of performance history. When evaluating the scope, performance, and impact of the CDFI industry, most of the data is available through the CDFI Fund, the Opportunity Finance Network (OFN), and the Global Impact Investing Network (GIIN).

IA report done by the Urban Institute, found that between 2011 and 2015 CDFIs lent more than $34.3 billion. The majority of this investment (64%) went to areas that had at least one of the following characteristics:[18]

- An unemployment rate of 10 percent or higher
- A poverty rate of 20 percent or higher
- 50% or more residents earning less than 200 percent of the federal poverty level
- A population with at least half non-white residents

[17] Pinsky, "Taking Stock," The Brookings Institution.

[18] Brett Theodos and Eric Hangen, Expanding Community Development Financial Institutions: Growing Capacity Across the US, November 29, 2017.

CDFI loan funds account for two-thirds to over ninety percent of all loan volume to historically underserved borrowers.[19] The CDFI industry has continued to grow throughout the years. In 2012, certified CDFIs (through the CDFI Fund) awarded $1.92 billion in loans.[20] In 2016, the total amount of loans and investments originated by CDFI program awardees was $3.6 billion.[21] Most recently, in 2017, CDFI Fund members awarded $5.03 billion in loans.[22] This steady and consistent growth of the CDFI Fund corresponds to the growth and development of CDFI industry as a whole.

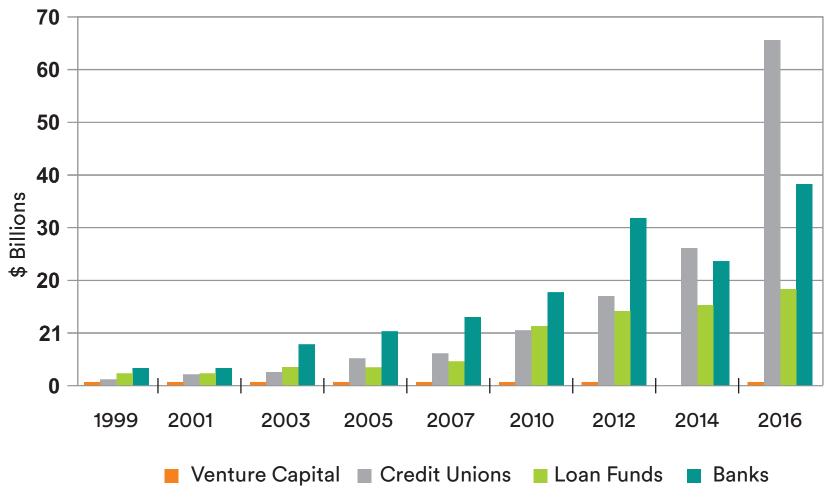


Chart 3: Community Investing Growth by Sector 1999-2016

Source: US SIF Foundation: The Forum for Sustainable and Responsible Investment, comp. *Report on US Sustainable, Responsible, and Impact Investing Trends 2016. Report no. 11. 2016*.

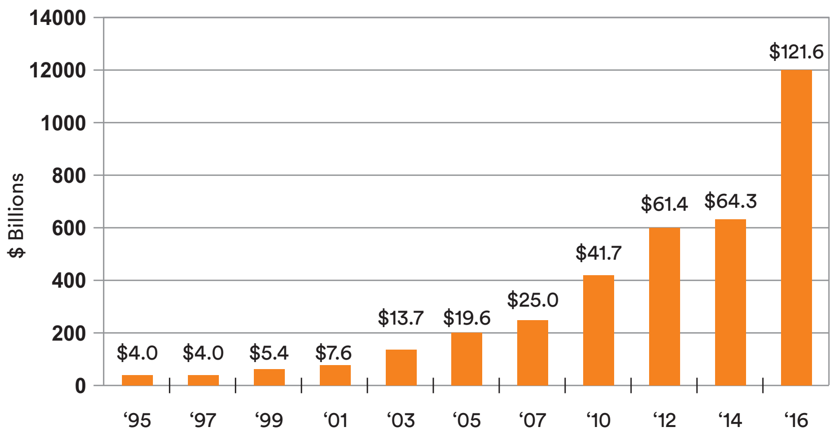


Chart 4: Community Investing Growth 1995-2016

Source: US SIF Foundation: The Forum for Sustainable and Responsible Investment, comp. *Report on US Sustainable, Responsible, and Impact Investing Trends 2016. Report no. 11. 2016.*

[19] Community Development Financial Institutions Fund U.S. Department of the Treasury, CDFIs Stepping into the Breach: An Impact Evaluation—Summary Report, by Michael Swack, Eric Hangen, and Jack Northrup, 5, August 2014.
[20] Ibid, 21. (Community Development Financial Institutions Fund U.S. Department of the Treasury, CDFIs Stepping, 21.)
[21] CDFI Fund, "The CDFI."
[22] Community Development Financial Institutions Fund U.S. Department of the Treasury, A Year, 38.

In 2017, CDFI Fund awardees were operating in all 50 states, the District of Columbia, Puerto Rico, American Samoa, Guam, and the U.S. Virgin Islands. The map below shows where the cumulative $29 billion in CDFI Fund Awardee investments have occurred geographically.

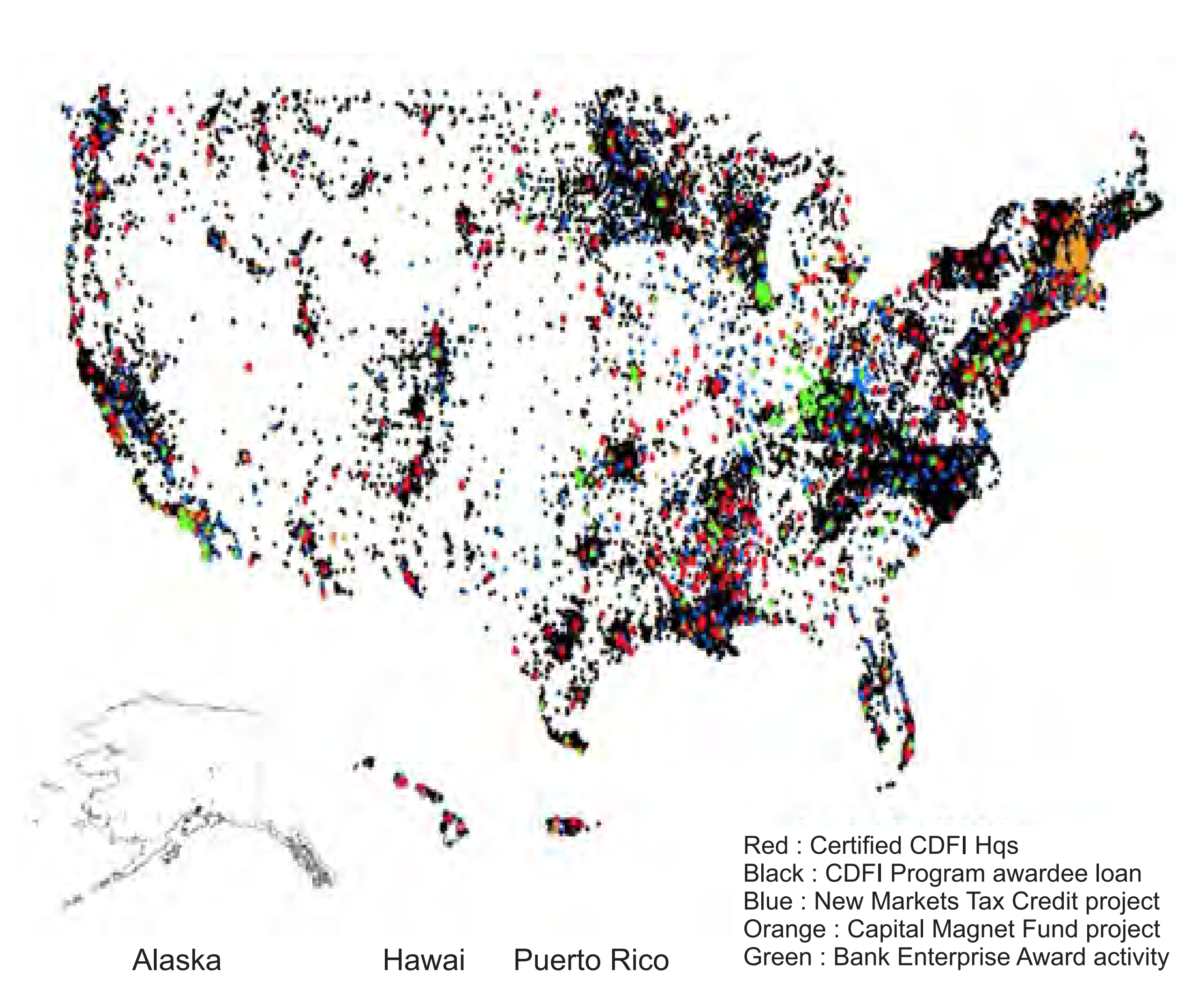


Figure 5: Map of Cumulative CDFI Fund Awardee Investments

Source: Community Development Financial Institutions Fund. (2017). CDFI Fund Awardee Investments All Programs. Retrieved from Community Development Financial Institutions Fund, U.S. Department of the Treasury: https://www.cdfifund.gov/ Documents/FINAL%20 OFN%20presentation%20 092517_all%20program%20 investments.pdf

Similar data is available from the Opportunity Finance Network, a national network of CDFIs, which suggests growth is not limited to just the CDFI Fund. From 1985 through 2014, OFN member CDFIs provided more than $42 billion in lending. These CDFIs led to the creation of 934,000 jobs, 1.5 million housing units, 143,000 community businesses and microenterprises, and 9,800 community facilities.[23] As of 2018, their cumulative lending is $54.9 billion, meaning that there was a $12.9 billion increase in financing in just four years.[24]

> ***CDFIs exist to move money to people and places missed by traditional lenders. It is our industry's view that in order to have an economy that supports innovation in all 50 states, especially in areas where growth has lagged or poverty is high, there is an urgent need to invest in the partnerships that will create more small businesses."[25]*** *–Lisa Mensah, OFN*

There are a number of reasons why the CDFI industry has continued to experience remarkable growth over the past decade. One of the biggest causes is the affordable housing crisis in the United States, which only got worse after the Great Recession. According to the National Low Income Housing Coalition, there is a shortage of more than 7.4 million affordable rental homes among extremely low-income renters. In concrete terms, this means that there are only 35 affordable and available units for every 100 extremely low income households.[26]

Since CDFIs primarily serve low-income neighborhoods, community development includes the construction of affordable housing. Thus, over the years CDFIs have financed the construction of thousands of affordable housing units, and their presence is crucial in working towards a solution to the crisis. With an increasingly high demand for affordable housing, CDFIs gain business, which in turn leads to growth.

[23] "CDFIs Provide Opportunity. For All.," infographic, OFN, https://ofn.org/sites/default/files/resources/infographic/infographic.html.

[24] The Innovation Economy, Entrepreneurship, and Barriers to Capital Access: Hearings Before the Joint Economic Committee(2018) (statement of Lisa Mensah).

[25] Ibid. (The Innovation Economy, Entrepreneurship, and Barriers to Capital Access: Hearings Before the Joint Economic Committee(2018) (statement of Lisa Mensah).)

[26] Andrew Aurand et al., The Gap: A Shortage of Affordable Homes, 3, March 2017.

CDFI FINANCIAL RECORD: RISK & RETURN

> ***"CDFIs have demonstrated that financing non-conforming customers works if it is done in a way that recognizes the market's and the customers' idiosyncrasies...that financing women and minority homeowners and business owners is not only possible but profitable, and that race and gender are not reliable indicators of financial performance"[27]***
> *—The Brookings Institution*

A research report conducted for the Office of Financial Strategies and Financial Research of the CDFI Fund found that CDFI banks and credit unions "have no more risk of financial failure than mainstream financial institutions," and despite serving predominantly low-income markets, CDFI banks and credit unions "had virtually the same level of performance" as mainstream financial institutions, and in fact CDFIs were even "more efficient that mainstream institutions." [28]

The OFN published two twenty-year studies for unregulated and regulated CDFIs (published 2015 and 2017 respectively). In the 2015 study, unregulated CDFI loan funds had weighted average delinquency rates ranging from a high of 5.8% during the height of the recession in 2009 to a low of 1.5% in 1999, with an average of 3.0%. Net write-offs ranged from a high of 2.1% in 2010 to a low of 0.4% in 2000, with an average of 0.9%. [29] More recently, according to a GIIN report published in 2018, the net-write offs for all CDFIs averaged 0.6%.[30]

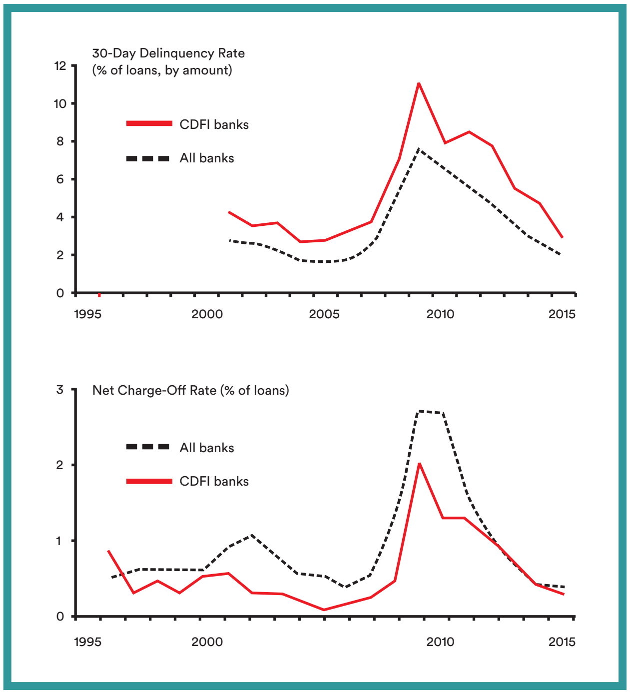
[27]Pinsky, "Taking Stock," The Brookings Institution.

[28]"What Is a CDFI?," CNote. ; Gregory B. Fairchild and Ruo Jia, Risk and Efficiency among CDFIs: A Statistical Evaluation using Multiple Methods, 89, August 2014.

[29]Opportunity Finance Network, 20 Years of Opportunity Finance 1994-2013: An Analysis of Trends and Growth, 17, November 10, 2015.

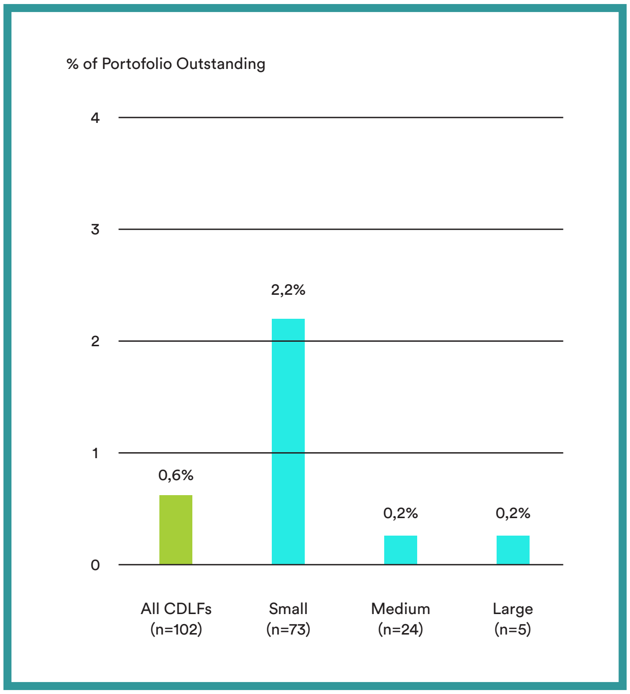
[30]Global Impact Investing Network, The Financial Performance of Impact Investing Through Private Debt, 57, April 2018.

Chart 6: Loan Delinquencies and Net



Financial Performance of Impact Investing and Growth, January 31, 2017.

Chart 7: Write-Offs by Size (2012-2015)

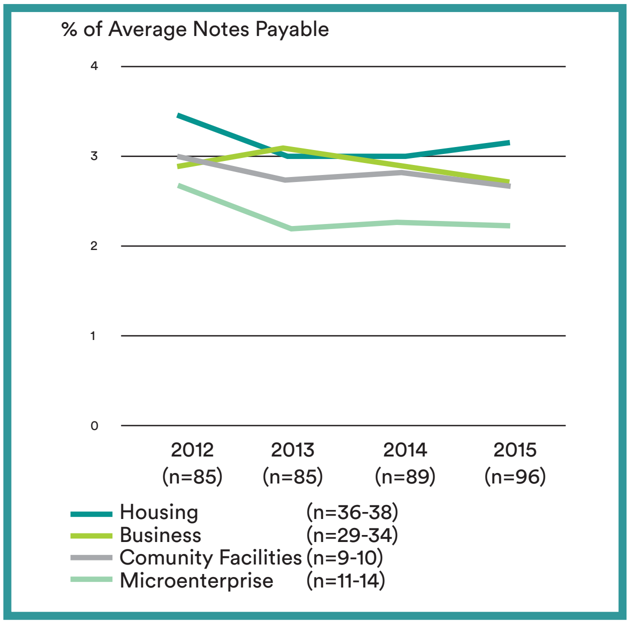


Charge-Offs for CDFI Banks (1996-2015)
Source: Opportunity Finance Network, 20 Years of Source: Global Impact Investing Network. The Opportunity Finance 1994-2013: An Analysis of Trends Through Private Debt. April 2018.

Additionally, the 2017 OFN report for regulated CDFIs (1996-2015) found that despite the fact that CDFI banks had higher average delinquency rates than all banks (5.29% compared to 3.53%), CDFI banks had lower net write-offs (0.65% versus 1.05%). This can be attributed to the mission aspect of CDFIs: CDFIs main priority is community development. This naturally breeds a shared success model where CDFIs have both a financial and social interest in a borrowers success and work to provide them the resources and technical assistance to help them succeed. Furthermore, CDFI credit unions also had higher delinquency rates than all credit unions, with an average of 2.84% versus 1.01%. Still, the difference was not as sizeable when it came to net write-offs, with CDFI credit unions averaging 0.84% compared to 0.61% for all credit unions. [31]

[31]Opportunity Finance Network, *20 Years of CDFI Banks and Credit Unions 1996-2015: An Analysis of Trends and Growth, iv,* January 31, 2017.

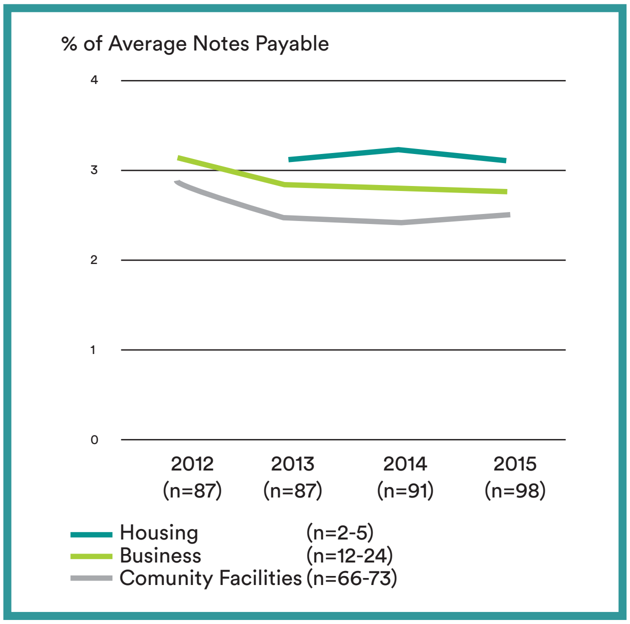
Chart 8: Interest Rates on Notes by Sector (2012-2015)



Source: Global Impact Investing Network. The Financial Performance of Impact Investing Through Private Debt. April 2018.

Investments in CDFIs also generate consistent financial returns. According to the GIIN, the overall average interest rate was 2.9%. However, interest varies based on size and sector of the community development loan fund (CDLF, a type of CDFI). Housing CDLFs paid the highest interest rates, while funds lending to microenterprises yielded the lowest return to investors.

Chart 9: Interest Rates on Notes by Size (2012-2015)



Furthermore, larger funds generated larger returns to investors compared to mid-sized or small funds. Since 2013 rates have been stable, averaging 3.2% for large CDLFs, 2.9% for mid-sized CDLFs, and 2.6% for small CDLFs.

Source: Global Impact Investing Network. *The Financial Performance of Impact Investing Through Private Debt.* April 2018.

WEATHERING RECESSIONS AND NATURAL DISASTERS

CDFIs perform well even during recessionary times. Some CDFIs are linked to the American Recovery and Reinvestment Act, which is a countercyclical stimulus government program aimed at reducing the extreme effects of the business cycle. During times of economic contraction and recession CDFIs obtain additional funds through this program which they use to stimulate economic growth. This is due to the theory that CDFIs are needed even more during times of recession to avoid low-income and financially-underserved communities from falling even farther behind. In fact, from 2005 to 2012, while CRA-reported lending decreased CDFI-loan-fund lending more than tripled, which provided a counter-cyclical boost to the economy. [32]

OFN member CDFIs experience average growth rates in business lending of 7.2% during recessionary years (2007-2009) and 13.2% during post-recessionary years (2010-2016). For comparison, the U.S. Small Business Administration (SBA) 7(a) rates averaged -13.6% during recession years and 17.3% in post-recession years. Furthermore, not only did CDFIs increase business lending from 2007-2009 while SBA 7(a) lending decreased, but they also had lower net-charge off ratios. CDFIs average a 4.1% net charge-off ratio during this time compared to SBA's 7(a) 13.9%. From 2005-2016, CDFI business lending averaged 2.9% net charge-off ratios in contrast to 6.5% for SBA 7(a) lending. [33]

According to a 2015 OFN study, while conventional bank lending decreased by 16% between 2008 and 2012, OFN members' average loans outstanding increased slightly during this same period. This activity helped to create jobs, housing, and community services, targeting that counter-cyclical boost during economic downturn. [34]

Although the delinquency rates for CDFIs may be higher than those of mainstream financial institutions, CDFIs are able to be more patient with their capital. Since they are

[32] Fairchild and Jia, Risk and Efficiency, 11.

[33] The Innovation Economy, *Entrepreneurship, and Barriers to Capital Access: Hearings Before the Joint Economic Committee(2018)* (statement of Lisa Mensah).

[34] Opportunity Finance Network, 20 Years of Opportunity Finance 1994-2013: An Analysis of Trends and Growth, 1, November 10, 2015.

structured to provide technical assistance, CDFIs work closely with their borrowers to guide them through financial downturns, which explains why CDFI write-off rates are on par with banks. [35]

However, not all recessions start with a crash in the economy. In fact, a big cause of recession is natural disaster. According to the Federal Emergency Management Agency (FEMA), nearly 40 percent of small businesses never reopen following a natural disaster, and the longer they wait to reopen the higher the chance of failure.[36]Therefore, it is crucial for small businesses to get immediate assistance following a disaster. However, in the event of a large catastrophe FEMA's resources are spread thin over many recipients and by the time aid actually comes, it could be too late.

CDFIs are in a unique position to immediately assist small businesses after disaster. For example following Hurricane Sandy, the New York Business Development Corporation (NYBDC) and its nonprofit affiliate the Excelsior Growth Fund were able to help businesses recover. Before the storm, NYBDC had identified resource partners and developed a small business emergency loan program. So when the hurricane struck, NYBDC was already prepared to provide immediate assistance. Less than three weeks after the devastation NYBDC had disbursed their first loan. Over the next year, Excelsior lent $18.29 million to 800 small businesses in disaster recovery loans.[37]Without the work of NYBDC or Excelsior, these business—and their employees—may not have recovered.

CHALLENGES

> ***"The challenge is reaching capital market-oriented investors with capital-market like instruments that lack capital-market liquidity and yield. It won't be easy, but it can be done."*** [38] *—The Brookings Institution*

[35]"CDFIs Provide," infographic.

[36]"Make Your Business Resilient," infographic, Federal Emergency Management Agency.

[37]Kate Silver, "Disaster Relief: 3 Ways Businesses Help Other Businesses After A Catastrophe," American Express, last modified September 18, 2017.

[38]Pinsky, "Taking Stock," The Brookings Institution.

Despite its successes, the CDFI industry has also faced some difficulties since its inception. The main challenge CDFIs have encountered is not having a solid infrastructure to allow for widespread use and acceptance. Without easy access to investors, CDFIs can struggle with acquiring enough capital to meet funding goals to reach all of the underserved population they serve.

CDFIs receive most of their funding from three sources: banks, the federal government, and institutional investors. However, it is a misconception that these three sources completely meet the industry's demand for capital. From just the CDFI program and the Native Initiatives, there were 485 organizations that requested a cumulative $504.5 million in the 2018 fiscal year, but the federal budget was only $198 million.[39] With the main sources of funding under political threat and maxed out, it is more important than ever for CDFIs to secure new avenues of capital.

> ***"CDFIs are critical intermediaries that deliver capital to businesses and communities that need it most, building credit and financial infrastructure that provides the financing needed to improve their economic well-being. At their core, CDFIs are about partnership, innovation, and creating opportunity in those communities that are often forgotten. But the work of CDFIs is not done alone: partners like the federal government remain vital to continuing the powerful work of mission driven lenders like CDFIs."*** [40]
>
> *—Lisa Mensah*

Furthermore, since every community is diverse, there is no single CDFI model that can be replicated around the country, for each one must meet the needs of the community where they are located. The CDFIs themselves must be diverse so that they can adjust to local market needs. With these issues in mind, it is crucial for CDFIs to have a strong presence in both the capital market and local communities they serve.

[39] Dominik Mjartan, "Dear Congress: Don't Gut Funding for CDFIs," *American Banker*, June 22, 2018.
[40] *The Innovation Economy, Entrepreneurship, and Barriers to Capital Access: Hearings Before the Joint Economic Committee* (2018) (statement of Lisa Mensah).

However, the diversity of CDFIs poses challenges for investors. Since each institution is unique, it is more difficult to evaluate the risk of an individual CDFI. It requires a substantial amount of due diligence to ensure that a specific organization matches the risk-profile, impact objectives, and financial strength that a potential investor is looking for. This task would be overwhelming for an individual to undertake, so there are companies, such as Aeris and S&P, who give external ratings to help investors make sure their priorities are aligned before an investment.

CONCLUSION

> ***"CDFIs have enjoyed broad bipartisan support for decades. Now, by finding new sources of private capital, CDFIs are able to amplify their impact. The model is a proven success and will only increase reach as private money empowers CDFI investment to go further"*** [41] *–Mark Zandi, The Reinvestment Fund's Board Vice Chair, and Chief Economist, Moody Analytics*

The CDFI industry has experienced considerable growth since the early community development credit unions of the 1970's. While CDFIs have undoubtedly made positive impact in communities across the country, there are still many areas that remain underserved or struggle to secure investments that can keep up with new economic development. Over the past few decades, CDFIs have proven themselves to be prudent financial institutions that deliver measurable positive impact. While CDFIs have the tools to direct capital to the communities they serve, they need new sources of capital to do so because demand far outpaces supply. As the industry continues to mature it is likely that the CDFI industry will expand their presence in the capital markets. This organic growth is likely to be supported by the growing movement known as impact investing which has mobilized trillions of dollars in capital with a dual mandate of generating both positive social and financial returns. [42]

[41]"Reinvestment Fund Issues $50 Million in Impact Investment Bonds," Reinvestment Fund, last modified May 2, 2017.

[42]US SIF, Report on US Sustainable, Responsible and Impact Investing Trends 2018.

ABOUT CNote

Cnote is a certified B Corp that offers a suite of CDFI-enabled impact investments to both retail and institutional investors. CNote's core mission is to help close the wealth gap in the United States by increasing the supply of reasonably-priced capital to top-performing CDFIs. At CNote we believe smart investments can drive powerful social change. CNote makes it easy for investors generate competitive returns while enabling a more inclusive economy by investing in CDFIs. Learn more at mycnote.com

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