Community Development Financial Institutions Fund

By Jonathan Harwitz, Director of Federal Policy, Low Income Investment Fund

Administering Agency: U.S. Department of the Treasury

Year Started: 1994

Funding: $250 million in FY18

See Also: For related information, refer to the *Capital Magnet Fund* section of this guide.

The Community Development Financial Institutions (CDFI) Fund comprises seven programs designed to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities.

HISTORY

The CDFI Fund was created by the "Riegle Community Development Banking and Financial Institutions Act of 1994."

OVERVIEW

To understand the CDFI Fund, it is first necessary to describe CDFIs and what they do. CDFIs are specialized private sector financial institutions that serve economically disadvantaged communities and consumers. As of November 30, 2018, there were 1066 CDFIs according to the CDFI Fund. CDFIs assume different forms, including banks (165), credit unions (285), depository institutions (56), loan funds (544), and venture capital funds (16). CDFI customers include small business owners, nonprofits, affordable housing developers, and low-income individuals. Nearly 70% of CDFI customers are low-income persons, 59% are racial minorities, and 52% are women. CDFIs operate in all 50 states and the District of Columbia.

United by a primary mission of community development, CDFIs work where conventional financial institutions do not by providing financial services, coupled with financial education and technical assistance, to help alleviate poverty for economically disadvantaged people and communities. CDFIs offer innovative financing that banks would not typically offer. CDFIs also provide basic financial services to people who are unbanked, offering alternatives to predatory lenders. CDFIs implement capital-led strategies to fight poverty and to tackle economic infrastructure issues such as quality affordable housing, job creation, wealth building, financial literacy and education, community facility financing, and small business development and training.

PROGRAM SUMMARIES

The CDFI Fund operates seven primary programs designed to both build the capacity of CDFIs and increase private investment in distressed communities nationwide. These programs are: the CDFI program, the Native Initiatives program, the Bank Enterprise Award program, the New Markets Tax Credit program, the Capital Magnet Fund (CMF) program, the Healthy Food Financing Initiative, and the CDFI Bond Guarantee program. The CDFI Fund is the largest single source of funding for CDFIs and plays an important role in attracting and securing non-federal funds for CDFIs.

The CDFI Fund is unique among federal programs because it aims to strengthen institutions rather than fund specific projects. CDFIs match the federal investment from the CDFI Fund multiple times over with private money, using these funds to help revitalize communities through investment in affordable housing, small businesses, and community facilities, and by providing retail financial services to low-income populations.

CDFI Program

The CDFI Program has two components: Financial Assistance (FA) and Technical Assistance (TA). Through these two components, the CDFI Program provides loans and grants to CDFIs to support their capitalization and capacity building, enhancing their ability to create community development opportunities in underserved markets. CDFIs compete for federal support based on their business plans, market analyses, and performance goals.

FA awards are for established, certified CDFIs and may be used for economic development, affordable housing, and community development financial services. FA awards must be matched at least one-to-one with non-federal funds. TA awards are for startup or existing CDFIs and are used to build capacity to serve their target markets through the acquisition of goods and services such as consulting services, technology purchases, and staff or board training. The FY18 funding level for this program was $160 million.

Native Initiatives Program

The CDFI Fund's Native Initiatives are designed to overcome identified barriers to financial services in Native communities (including Native American, Native Alaskan, and Native Hawaiian populations). Through TA and FA, the CDFI Fund seeks to foster the development of new Native CDFIs and strengthen the capacity of existing Native CDFIs. Financial education and asset building programs, such as matched savings accounts, are particularly important to Native communities.

Despite being founded in 1994, the first TA grants were not made until 2002 after a comprehensive study of the capital and credit needs of Native communities had been performed. FA followed in 2004. The CDFI Fund continues to collaborate with tribal governments and tribal community organizations through ongoing research and analysis that informs the recommendations for Native CDFIs. The FY18 funding level for the Native Initiatives program was $16 million.

Bank Enterprise Award Program

The Bank Enterprise Award (BEA) program was created in 1994 to support Federal Deposit Insurance Corporation (FDIC)-insured financial institutions around the country that are dedicated to financing and supporting community and economic development activities. The BEA program complements the community development activities of insured depository institutions (i.e., banks and thrifts) by providing financial incentives to expand investments in CDFIs and to increase lending, investment, and service activities within economically distressed communities. Providing monetary awards for increasing community development activities leverages the fund's dollars and puts more capital to work in distressed communities. The FY18 funding level for the BEA program was $25 million.

New Markets Tax Credit Program

Congress established the New Markets Tax Credit (NMTC) program as part of the "Community Renewal Tax Relief Act of 2001" to encourage investors to make investments in low-income communities that traditionally lack access to capital for developing small businesses and revitalizing neighborhoods. The NMTC provides financial institutions, corporations, and other investors with a tax credit for investing in a Community Development Entity (CDE). The investor takes a tax credit over a 7-year period that equals 39% of the original amount invested. CDEs are domestic partnerships or corporations that are intermediaries that use capital derived from the tax credits to make loans to or investments in businesses and projects in low-income communities. A low-income community is one with census tracts that have a poverty rate of at least 20% or that have a median family income less than 80% of the area median income (AMI).

The NMTC program is administered by the CDFI Fund, which allocates tax credit authority, the amount of investment for which investors can claim a tax credit, to CDEs that apply for and obtain allocations. To date, the CDFI Fund has made 1,105 allocation awards totaling $54 billion in NMTC allocations. Between 2003 and 2015, NMTC investments created over one million jobs at a cost to the federal government of under $20,000 per job. Through 2015, the NMTC leveraged more than $80 billion in capital investment in communities with high rates of poverty and unemployment.

Congress extended the authorization of the NMTC program for $3.5 billion per year through 2019.

Capital Magnet Fund Program

(See the separate *Advocates' Guide* section for more detail on the Capital Magnet Fund Program). The Capital Magnet Fund (CMF) was created through the "Housing and Economic Recovery Act of 2008." Through the CMF, the CDFI Fund provides competitively awarded grants to CDFIs and qualified nonprofit housing organizations. CMF awards can be used to finance housing for low- and moderate-income households as well as related economic development activities and community service facilities. Awardees are able to utilize financing tools such as loan loss reserves, loan funds, risk-sharing loans, and loan guarantees to produce eligible activities with aggregate costs at least 10 times the size of the award amount.

A minimum of 70% of an awardee's CMF money must be used for housing. One hundred percent of housing-eligible project costs must be for units for households with income below 120% of the AMI); at least 51% of housing eligible project costs must be for units for households with income below 80% of AMI. If CMF finances rental housing, then at least 20% of the units must be occupied by households with income below 80% of AMI. Maximum rent is fixed at 30% of either 120% AMI, 80% AMI, 50% AMI, or 30% AMI, depending on the household's income. For example, if an assisted household has income at 120% AMI, their maximum rent is 30% of 120% AMI. Assisted housing must meet the above affordability requirements for at least 10 years.

As with the national Housing Trust Fund (HTF), funding for the CMF is intended to be provided in part by Fannie Mae and Freddie Mac. Because Fannie Mae and Freddie Mac went into conservatorship soon after the authorizing statute creating those programs became law and the collection of the contributions was suspended, in FY10 the Administration requested and Congress approved an initial appropriation of $80 million to capitalize the CMF. Two hundred and thirty CDFIs and nonprofit housing organizations applied, requesting more than $1 billion. Twenty-three awards were made, which leveraged at least $1.6 billion for the financing of housing within underserved communities, and helped put underserved neighborhoods on the path to recovery and revitalization. There have been no further appropriated funds for the CMF. The suspension of contributions of assessments on new business of Fannie Mae and Freddie Mac was lifted at the end of 2014; contributions began January 1, 2015, and the CMF received $91.5 million for 2016 and $119.5 million in 2017.

The FY 2017 award round was the third round in the Capital Magnet Fund's history. The inaugural round was held in F Y 2010 when the Capital Magnet Fund awarded $80 million to 23 CDFIs and qualified non-profit organizations serving 38 states. From that one award round, the Capital Magnet Fund:

- Created 13,325 affordable homes, including 11,727 affordable rental homes and 1,598 homeowner-occupied homes.
- Supported the creation of nearly 16,000 jobs.
- Generated nearly $1.8 billion in private and public leverage; $22 of investment for every $1 in Capital Magnet Fund funding.

In FY 2017, over 120 organizations applied for more than $540 million in funding. The forty awardees project that the $120 million in grants will lead to:

- The development of more than 21,000 affordable housing units, including more than 18,000 rental units and nearly 2,000 homeownership units.
- Leveraging of more than $2 billion in private investment, and more than $3.2 billion total, for Capital Magnet Fund projects.

CDFI Healthy Foods Financing Initiative

The CDFI Healthy Food Financing Initiative, launched in 2011 as part of the multi-agency

Healthy Food Financing Initiative (HFFI), provides grants to CDFIs focused on developing solutions for increasing access to affordable healthy foods in low-income communities. The HFFI is an interagency initiative involving the Treasury, the U.S. Department of Agriculture, and the U.S. Department of Health and Human Services. HFFI represents the federal government's first coordinated step to eliminate "food deserts" by promoting a wide range of interventions that expand the supply of and demand for nutritious foods, including increasing the distribution of agricultural products, developing and equipping grocery stores, and strengthening producer-to-consumer relationships. The FY18 funding level for the Healthy Food Financing Initiative was $22 million.

CDFI Bond Guarantee Program

Enacted through the "Small Business Jobs Act of 2010," the Treasury may issue up to $1 billion each year in fully guaranteed bonds to support CDFI lending and investment. Long-term, patient capital such as this is difficult for CDFIs to obtain. The program experienced regulatory delays related to making it cost-neutral to the federal government. To date, the CDFI fund has guaranteed $1.1 billion in bond loans. The CDFI Bond Guarantee Program is authorized through FY18 at $500 million, but advocates are encouraging Congress to extend it to $1 billion as allowed by the statute.

Authorized uses of the loans financed may include a variety of financial activities, such as: supporting commercial facilities that promote revitalization, community stability, and job creation/retention; community facilities; the provision of basic financial services; housing that is principally affordable to low-income people; businesses that provide jobs for low-income people or are owned by low-income people; and community or economic development in low-income or underserved rural areas. Since the bonds have a minimum size of $100 million that is larger than most CDFIs can readily invest, groups of CDFIs can put in joint applications.

FUNDING

The appropriation for the CDFI Fund in FY18 was $250 million. The Administration's FY19 budget requested $14 million, a $236 million decrease from the FY18 enacted level. As of this writing, appropriations subcommittees in both the House ($223 million) and Senate ($250 million) have soundly rejected the Administration's proposed cuts. This reflects the strong bipartisan support for the Fund in Congress.

Applications for CDFI Fund awards consistently exceed the supply of funds. Since 1996, applicants to the CDFI Program have requested more than four times the amount awarded. The CDFI Fund received 230 applications for the 2017/2018 round of the NMTC Program, representing $16.2 billion in NMTCs; five times the available funding.

FORECAST FOR 2019

Given the fiscally constrained environment, it is good news that the FY18 CDFI Fund appropriation was a record level. But advocates fully expect the Trump Administration FY 2020 budget request once again to propose to cut funding dramatically.

WHAT TO SAY TO LEGISLATORS

Advocates should contact members of Congress, especially members of the Senate and House Financial Services and General Government Appropriations Subcommittees, to encourage continued support for at least $250 million in FY19 and FY20 for the CDFI Fund and an extension of the CDFI Bond Guarantee Program and New Markets Tax Credits to help meet the demand for financial services and capital in low-income communities.

Finally, CDFIs design innovative below-market products that banks would not offer, providing homeownership and financial opportunities to underserved individuals and communities. Advocates can play an active role in helping to communicate the positive role of CDFIs in low-wealth markets.

FOR MORE INFORMATION

The CDFI Fund, 202-653-0300, www.cdfifund.gov.

CDFI Coalition, 202-393-5225, www.cdfi.org.

Opportunity Finance Network, 215-923-4754, www.ofn.org.

Housing Partnership Network, 617-720-1999, http://www.housingpartnership.net.