Community Development Financial Institutions Fund

By Olivia Barrow, Policy Manager, Low Income Investment Fund

Administering Agency: U.S. Department of the Treasury

Year Started: 1994

Funding: $270 million in FY 2021; $330 million proposed in FY 2022

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

CDFIs are specialized private sector financial institutions that serve economically disadvantaged communities and consumers. As of December 2020, there were more than 1,100 CDFIs according to the CDFI Fund. CDFIs assume different forms, including banks (147), credit unions (321), depository institutions (104), loan funds (556), and venture capital funds (16). CDFI customers include small business owners, nonprofits, affordable housing developers, and low-income individuals. Nearly 85% of CDFI customers are low-income persons, 58% are racial minorities, and 48% 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 a target market through the acquisition of goods and services such as consulting services, technology purchases, and staff or board training. The FY21 funding level for this program was $167 million and the proposed funding level for FY22 is $211 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.

Though 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 FY21 funding level for the Native Initiatives program was $16.5 million and the proposed funding level for FY22 is $21.5 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 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 FY21 funding level for the BEA program was $26 million and the proposed funding level for FY22 is $28 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 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 seven year period equal to 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 1,254 allocation awards totaling $61 billion in NMTC allocations, which has leveraged nearly $500 billion in private investment. Between 2003 and 2015, NMTC investments created over one million jobs at a cost to the federal government of under $20,000 per job. Since its inception, the NMTC Program has supported the construction of 57 million square feet of manufacturing space, 94 million square feet of office space, and 67 million square feet of retail space.

In December 2020, Congress enacted a five-year extension of the NMTC program with an annual allocation of $5 billion. This will provide $25 billion in new NMTC authority between 2021-2025, the largest extension the program has received since it was created in 2000.

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 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 and contributions began January 1, 2015. The FY 2016 CMF round awarded $91.5 million; the FY 2017 round awarded $119.5 million; the FY 2018 round awarded $142.9 million; and the FY 2019 round awarded $130.9 million. These awards totaled more than $565 million to CDFIs and qualified organizations, and awardees anticipate more than $18.6 billion in total leverage – significantly more than the minimum of $5.65 billion required in public and private leverage.

The FY 2020 awards were the most recent round and totaled $175.35. 137 organizations applied for the FY 2020 round, requesting more than $642.2 million in CMF awards. Awardees plan to:

- Develop nearly 23,000 affordable housing units, including more than 20,300 rental units and more than 2,600 homeownership units. 97% of all housing units will be developed for low-income families.
- Leverage nearly $5.3 billion in public and

private investment, more than 81% from the private sector.

In FY 2021,146 organizations requested more than $991.8 million in CMF awards. The CDFI Fund is expected to announce awards in Spring 2022.

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 FY21 funding level for the Healthy Food Financing Initiative was $23 million and the proposed funding level for FY22 is $25 million.

CDFI Bond Guarantee Program

Enacted through the "Small Business Jobs Act of 2010," 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 was authorized through FY21 at $500 million.

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 FY21 was $270 million. The Administration's FY22 budget requested $330 million, a $60 million increase from the FY21 enacted level. Congress is expected to enact this proposed funding level.

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 208 applications for the 2020 round of the NMTC Program, representing $15.1 billion in NMTCs; three times the available funding.

In response to the COVID-19 pandemic, Congress enacted $12 billion in new funding for CDFIs and minority depository institutions (MDIs), including $9 billion for a new emergency capital investment program (ECIP) in MDIs and CDFIs that are depository institutions, as well as $3 billion in grants for CDFIs. Of the $3 billion in grants, $1.25 billion was deployed through the CDFI Rapid Response Program in 2021. Of the remaining $1.75 billion, Congress set-aside $1.2 billion for minority lending institutions, a new term referring to "those CDFIs that predominantly serve minority communities and are either MDIs or meet other standards for accountability to minority populations as determined by the CDFI Fund." The CDFI Fund continues to develop the rules surrounding the future deployment of these funds.

FORECAST FOR 2022

The Biden-Harris administration's FY 2022 budget request reflects a 22% increase in funding for the CDFI Fund but does not yet meet its stated commitment to double the funding for the CDFI Fund. The CDFI industry is requesting at least $1 billion for the CDFI Fund.

Throughout 2022, the CDFI Fund will continue to be responsible for deploying the remaining stimulus grants enacted in December 2020. This will include developing policies, procedures, and systems to structure funding through the newly created minority lending institution definition.

WHAT TO SAY TO LEGISLATORS

The importance of increasing resources for the CDFI industry has only grown as a result of the COVID-19 pandemic and increasing racial disparities. CDFIs design innovative below-market products that banks would not offer, providing homeownership and financial opportunities to underserved individuals and communities, including communities of color who have historically been denied access to critical financial products and services. Advocates play an active role in helping to communicate the positive role of CDFIs in low-wealth markets.

Advocates should contact Members of Congress, especially members of the Senate and House Financial Services and General Government Appropriations Subcommittees, to encourage enactment of at least $330 million for the CDFI Fund in FY22 and an extension of the CDFI Bond Guarantee Program to help meet the demand for financial services and capital in low-income communities.

FOR MORE INFORMATION

The CDFI Fund, 202-653-0300, https://www.cdfifund.gov/Pages/default.aspx.

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.