

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: \$295 million in FY 2022; \$324 million in FY 2023

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 2022, there were more than 1,300 CDFIs according to the CDFI Fund. CDFIs assume different forms, including banks (143), credit unions (472), depository institutions (177), loan funds (569), and venture capital funds (15). CDFI customers include small business owners, nonprofits, affordable housing developers, and low-income individuals. 84% of CDFI customers are low-income persons, 60% are borrowers of color, and 50% 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 eight 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, the CDFI Bond Guarantee program, and the Small Dollar Loan Program. In addition to these seven primary programs, the CDFI Fund has administered pandemic-related programs to support CDFIs, including the Rapid Response Program in 2021 and the Equitable Recovery Program which closed for applications in September 2022. 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 FY22 funding level for this program was \$173.3 million and the funding level for FY23 is \$196 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 FY22 funding level for the

Native Initiatives program was \$21.5 million and the funding level for FY23 is \$25 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 FY22 funding level for the BEA program was \$35 million and the funding level for FY23 is \$35 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 1,461 allocation awards totaling \$71 billion in NMTC allocations, which has leveraged nearly \$500 billion in private investment. Since its inception, the NMTC Program has created or retained 938,000 jobs, financed more than 10,800 businesses, supported the construction of 76.9 million square feet of manufacturing space, 118.3 million square feet of office space, and 77.1 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 *Capital Magnet Fund Program* section of this *Guide*).

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; the FY 2019 round awarded \$130.9 million; and the FY20 round awarded \$175.35 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 2021 awards were the most recent round and totaled \$336.4 million, reflecting the largest CMF award round to date and 23% increase in the number of awardees compared to the FY20 round. 146 organizations applied for the FY 2021 round, requesting more than \$991.8 million in CMF awards. Awardees plan to:

- Develop nearly 41,000 affordable housing units, including more than 38,700 rental

units and more than 2,400 homeownership units. 97% of all housing units will be developed for low-income families.

- Leverage nearly \$9.8 billion in public and private investment, more than 79% from the private sector.

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 FY22 funding level for the Healthy Food Financing Initiative was \$23 million and the funding level for FY23 is \$24 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 more than \$2 billion in bond loans. The Bond Guarantee Program is funded at \$500 million in FY23.

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.

SMALL DOLLAR LOAN PROGRAM

Enacted through the "Small Business Jobs Act of 2010," the Small Dollar Loan Program is intended to expand consumer access to financial institutions by providing alternatives to high-cost, small dollar lending. The program provides unbanked and underbanked populations a safe alternative to payday lenders and helps build credit, access affordable capital, and allow greater access into the financial system.

The Small Dollar Loan Program provides grants to CDFIs to support two types of eligible activities: Grants for Loan Loss Reserves to cover the losses associated with starting a new small dollar loan program or expanding an existing small dollar loan program, and Grants for Technical Assistance to support technology, staff support, and other activities to establish and maintain a small dollar loan program. Awards cannot exceed \$2,500 per loan; must be repaid in installments; cannot have prepayment penalties; must have payments that are reported to at least one of the consumer credit reporting agencies; and must be underwritten to consider the consumer's ability to repay.

The first round of funding under the Small Dollar Loan Program was awarded in 2021. The program awarded more than \$10.8 million in grants to 52 CDFIs in the FY2021 round. The FY22 round awarded \$11.4 million to 66 CDFIs.

Congress appropriated \$8.5 million to the Small Dollar Loan Program in FY22 and \$9 million for the program in FY23.

RAPID RESPONSE PROGRAM

Enacted in the "Consolidated Appropriations Act of 2021," Congress authorized the CDFI Fund to deploy \$1.25 billion in grants to deliver

immediate assistance in communities impacted by the COVID-19 pandemic. The CDFI Fund developed the CDFI Rapid Response Program (CDFI RRP) to quickly deploy capital to Certified CDFIs through a streamlined application and review process. Grant funds will be used to support eligible activities including financial products, financial services, development services, certain operational activities, and to enable CDFIs to build capital reserves and loan-loss reserves. In 2021, 863 certified CDFIs were awarded CDFI RRP grants totaling \$1.25 billion.

EQUITABLE RECOVERY PROGRAM

Enacted in the “Consolidated Appropriations Act of 2021,” Congress authorized the CDFI Fund to deploy \$1.75 billion in grants to CDFIs to respond to the economic impacts of the COVID-19 pandemic. The CDFI Fund launched the Equitable Recovery Program (ERP) in 2022 to expand lending, grant making, and investment activity in low- or moderate-income communities and to borrowers, including minorities, that have significant unmet capital or financial service needs and were disproportionately impacted by the COVID-19 pandemic. The CDFI Fund is expected to announce ERP awards in 2023.

FUNDING

The appropriation for the CDFI Fund in FY22 was \$295 million. The Administration’s FY23 budget requested \$331 million, a \$36 million increase from the FY22 enacted level. Congress enacted \$324 million for the CDFI Fund in FY23.

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 199 applications for the 2021 round of the NMTC Program, representing \$14.7 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 launched the Equitable Recovery Program in 2022 to deploy this \$1.2 billion to qualified CDFIs serving communities disproportionately impacted by the COVID-19 pandemic, and separately requested comments on proposed designation criteria for the new Minority Lending Institution definition.

FORECAST FOR 2023

The \$324 million appropriation to the CDFI Fund in FY 2023 reflects a \$29 million increase in funding over FY 2022 yet falls \$7 million short of the Biden-Harris Administration’s FY 2023 budget request and does not yet meet the Administration’s stated commitment to double the funding for the CDFI Fund. The CDFI industry is requesting at least \$1 billion for the CDFI Fund.

Throughout 2023, the CDFI Fund will continue to deploy the remaining stimulus grants enacted through COVID-19 relief legislation, including through the new Equitable Recovery Program.

WHAT TO SAY TO LEGISLATORS

Throughout the pandemic and into the recovery, CDFIs have demonstrated capacity and expertise to meet the needs of borrowers and communities left behind by traditional financial institutions. CDFIs made more than \$34 billion in Paycheck Protection Program (PPP) loans to low- and moderate-income borrowers, far exceeding the \$15 billion that Congress set aside for CDFIs within the program. 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 \$1 billion for the CDFI Fund in FY24 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>.

