Board Linkage Briefs

What is a CDFI?

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Each January at their annual retreat the MAP Board identifies a policy priority - an issue or challenge facing our industry – and over the course of the year seeks to learn more about that topic, ultimately developing a policy to guide the work of MAP, and of our members.

To that end, the board "links" with experts throughout the year, inviting leaders from planning or other industries to join the board for conversations about the topic, deepening our understanding, and informing our policy direction. What we learn is incorporated into our policies, and ultimately shared with our members through educational programming, Michigan Planner features, and advocacy. Sometimes it results in new partnerships or grants.

These board linkage conversations are so rich with content that we believe our members will find useful that we developed this series of Board Linkage Summaries to highlight the key findings of these exchanges with others – typically non-planners – who join us in the space of community building.

The objective of this series of to allow you to also better understand who the board is meeting with, the objectives of those meetings, and the takeaways that will help us all understand the interconnectedness we share with other disciplines and professions, and how we can apply this knowledge to our work as planners.

A CDFI is Community Development Financial Institution. In 1994, the CDFI Fund was authorized by the Riegle Community Development and Regulatory Improvement Act of 1994 in order to help revitalize economically distressed communities in rural and urban areas. The fund is housed in the United States Department of Treasury.

The CDFI fund and the Community Reinvestment Act (CRA) of 1977 helped insure that business loans were made in economically depressed neighborhoods and real estate loans were made without bias restrictions (red-lining).

There are four types of CDFIs:

- banks and bank holding companies
- credit unions
- loan funds
- venture capital funds

Hundreds of chartered CDFIs operate in the United States.

CDFI loan funds represent the largest percentage of CDFIs. They are non-depository financial institutions. Their borrowers are small businesses, nonprofit organizations, charter schools, individuals, and organizations involved in affordable housing and community development. CDFI loan funds often specialize in financing certain types of borrowers: housing (affordable housing developers), business, microenterprise (very small businesses), and community service organizations (nonprofits).

How Can CDFIs Help with Housing?

Traditional banks are cautious. They look at types of development, locations and individuals and assess whether or not they are worthy of a loan. Their standards often eliminate developments, locations, and individual from loan eligibility. CDFIs were designed to assist geographic areas-- zip codes and the individuals who live and work there--that had been left out of the American Dream.

And they still do that by providing financial assistance to developers building in neighborhoods that are economically distressed, and to the individuals that want to own those homes but can't qualify for a traditional mortgage.

But they also have a role in investing in places that would not be considered economically distressed, like typical single family neighborhoods. Because there are few duplexes, triplexes, townhomes in these neighborhoods, having been largely been zoned out of existence, the banks have no "comparables", or comps, to consider to determine value, marketability, or SOMETHING. Without comps, banks are skeptical of the ability of non single family detached dwellings to turn a profit.

CDFIs are valuable partners. They increase the capacity of borrowers. CDFI financing often closes structural financing gaps in deals, allowing mainstream financial institutions to participate in transactions that otherwise would not have happened. When CDFIs finance pre-development and development stages of real estate construction, it attracts banks to also participate.

Materials and labor to build, as well as the cost to purchase land, make market rate housing expensive. CDFIs can fill that financing gap by providing down payment assistance to new buyers or by providing mortgages to individuals who have not been approved by traditional banks.

And this is where a CDFI can make alternative and/or affordable housing a reality.

Community development financial institutions (CDFIs) emerged to fill gaps in financing for economically disadvantaged people and communities. They intermediate between banks and borrowers where and when direct financing is difficult or unavailable.

Most CDFI loan funds are structured as nonprofit organizations. CDFI loan funds are subject to the state laws in which they operate and operate under agreed-upon financial covenants by various funding sources, such as philanthropic funds, that impose operational safeguards and guidance.

By financing community businesses—including small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing—CDFIs spark job growth and retention in hard-to serve markets across the country.

To learn more, click on the following links:

US Department of Treasury Community Development Financial Institutions Fund
Community Development Financial Institutions Fund - CDFI Certification
What is a Community Development Financial Institution? by James Chen
What is a CDFI by Opportunity Finance Network
What are Community Development Financial Institutions by Amber Murakami-Fester
What is a Community Development Financial Institution by Emily Guy Birken and Daphne Foreman
Banker Resource Center, Community Reinvestment Act, Federal Deposit Insurance Corporation
Taking Stock: CDFIs Look Ahead after 25 Years of Community Development Finance by Mark Pinsky
CDFI Statute and History by CDFI Coalition
CDFIs in Michigan

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