

The CDFI Data Project

Fiscal Year 2007

Providing
Capital
Building
Communities
Creating Impact



Community
Development
Loan Funds

Community Development Loan Funds

Community development loan funds (CDLFs) offer economic opportunity to low-income individuals and communities throughout the United States by providing financing needed to create businesses and jobs, expand the availability of vital community services, and develop affordable housing.

The 156 loan funds in the CDFI Data Project (CDP) sample represent all four types of loan funds—housing, community service, microenterprise, and small business—and had a wide range of outcomes in FY 2007 (see Figure 1).¹

The CDLFs in the sample represent one-third of the approximately 500 CDLFs in existence today. The 156 CDLFs had \$4.64 billion in assets at the end of FY 2007. As with the CDFI industry as a whole, a few large organizations dominated the sector. The six loan funds with more than \$100 million in assets accounted for \$2.2 billion (48%) of the sector's assets. Overall, the loan fund sector comprises primarily small and mid-sized organizations, with a median asset size of \$8.5 mil-

lion in FY 2007. More than 98% of CDLFs are structured as nonprofit organizations, although a growing number are becoming more complex, creating, for example, for-profit subsidiaries to develop housing or run a New Markets Tax Credit (NMTC) Program. These off-balance sheet activities help CDLFs maximize the resources they can deliver to the communities they serve.

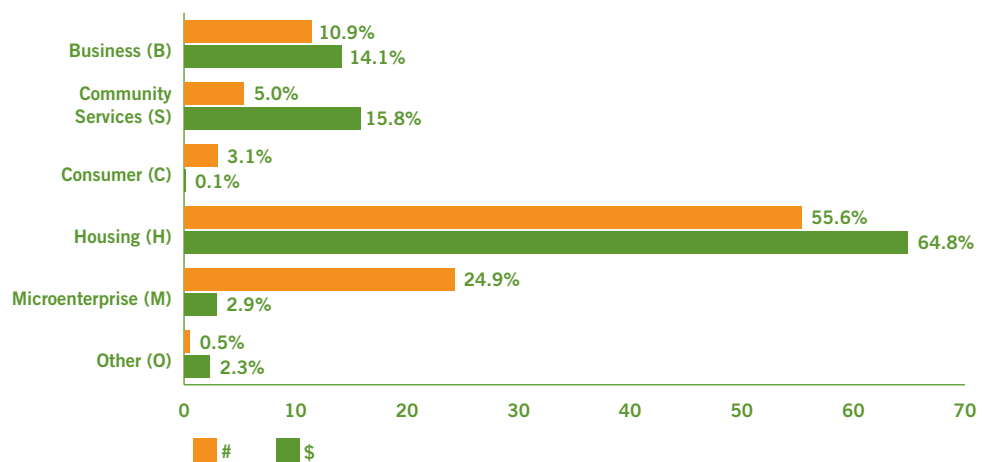
Financing Activity and Performance

Loan funds provided \$1.34 billion in total financing in FY 2007 and had more than \$3.07 billion in total financing outstanding at year end. The average amount outstanding was \$20.0 million and the median was \$4.7 million. Most loan funds began as either housing or business funds, but the two most prevalent sectors in terms

Figure 1: CDLF Key Outcomes in FY 2007

Total financing closed (\$)	\$ 1,341,234,963
Housing units assisted (#)	50,140
Businesses assisted (#)	6,181
Jobs created and maintained (#)	23,432
Community services organizations financed (#)	504

Figure 2: Composition of CDLF Direct Financing Outstanding, n = 145



¹ The loan funds include one CDFI that provides loan and equity investment and considers itself a venture capital fund.

Manufactured Housing Financing Belmont, NH

Featuring New Hampshire
Community Loan Fund



of dollars of financing outstanding were housing followed by community services (see Figure 2).

A majority (66%) of the loan fund sector's direct financing outstanding is in the housing sector. Housing loans to nonprofit and for-profit developers for affordable rental housing, for-sale homes, and transitional housing make up a core niche of loan funds. Loan funds provide financing where banks will not or, in some cases, assume a subordinate position that enables a bank to participate in what would otherwise be a too risky deal. Some CDLFs make million dollar loans to affordable housing developers, while others make small predevelopment or other loans of under \$100,000. In FY 2007, the median loan size CDLFs made to housing organizations was \$242,412. More CDLFs that in the past primarily did microenterprise or small business lending are starting to make small housing loans to organizations. In addition, an increasing number of loan

When the owners of the 111-site Lakes Region Cooperative manufactured housing park refused—for a second time—their tenants' offer to purchase the property, the tenants in the co-op feared the worst.

They suspected that the owners were about to sell the property to another buyer—a move that would certainly mean higher rents—and they turned to the New Hampshire Community Loan Fund (NHCLF) for help.

NHCLF officers learned of the threat the Lakes Region co-op faced on a Wednesday. They held an emergency meeting of the loan committee on Thursday and, within hours, approved a \$2.3 million loan for the tenants. The very next day, the owners of the park announced that they had indeed found a new buyer and gave the co-op until the following Monday to buy the property. When Monday arrived, the owners were more than a little surprised to discover that the tenants were willing and able to make the purchase.

The co-op later learned that the new buyer had promised to limit annual rent increases for current tenants to six percent per year for the first five years—a deal the buyers considered quite generous. During the eight years it has owned the

property, the co-op has increased rents only once—by \$20 per month. It has also managed to make several improvements, including replacing the well house, paving roads, and replacing septic systems.

“My favorite part of living here is the freedom of ownership,” says Lois Parris, Founding President of the Lakes Region Cooperative. “When we first bought the park, I remember my first feeling, that no one could take this away from us, not our homes, not our park. We owned it.”

Since its founding in 1983, NHCLF has been guided by the belief that low-income people can achieve long-term economic stability if they are given access to capital resources and the knowledge to use them. The organization is a leading provider of financing for manufactured housing parks and has made more than 1,400 loans totaling more than \$100 million to build housing, create jobs, and support essential services.

funds provide loans to individuals for home purchase and repair: in FY 2007, 44 of the 78 CDLFs that provided housing financing made housing loans directly to individuals, up from 31 in FY 2006.

A number of loan funds provide loans to community service organizations to enhance the services available in low-income communities. These clients, such as child care centers, social service agencies, and charter schools, often lack sources of capital, knowledge about financing, and collateral. Fifty-nine loan funds provided community service financing, with 11 providing primarily community service financing and 18 directing at least one-third of their financing to community service organizations. CDLFs had \$451 million in financing outstanding to community service organizations at FYE 2007 and closed \$206 million in loans and investments in FY 2007.

Portfolio Performance and Managing Risk

Loan funds are adept at managing risk in their markets. They do so by keeping adequate loan loss reserves and equity capital to protect investors from potential losses. Loan funds also manage their risk by knowing their clients, frequently monitoring their portfolio, and offering substantial training and technical assistance both before and after the loan closing. Even so, trouble in the credit markets began creeping into CDFI portfolios in FY 2007. Delinquencies greater than 90 days were 3.3%, up from 2.9% in FY 2006. Net charge-offs were 0.84%, up slightly from FY 2006 (see Figure 3).

Fifty-one (34%) loan funds experienced no net loan losses in FY 2007 or had net recoveries; twelve (8%) had net loan loss rates greater than 10%. Loss rates vary among different types of loan funds. The weighted average net loan loss rate for loan funds with a primary activity of business or microenterprise—relatively high-risk lending—was 2.25% (4.1% average), while the weighted average rate for loan funds with a primary focus of housing or com-

munity facilities—relatively low-risk activities—was 0.54% (1.0% average). CDFIs reserve more than adequately against losses. Figure 3 demonstrates that the weighted average loan loss reserve rate of 5.5% (12.9% average without one outlier) was more than ten times the net loan loss rate and nearly double the delinquency rate greater than 90 days for the sector as a whole. Overall, delinquencies and net charge-offs have been relatively consistent for the sector, although there is great variation among individual loan funds.

Capitalization

The total lending and investing pool, or total capital, of loan funds in our study was nearly \$3.9 billion at FYE 2007. The average capital size was \$24.7 million, and the median was \$7.2 million.

On average, 65% of CDFIs' capital is borrowed or debt capital (see Figure 4). EQ2s are highly subordinated debt instruments with features, such as a rolling term and limited right-to-accelerate payments, that enable them to function similar to equity. Banks are the primary investors in EQ2s.

Figure 3: CDFI Portfolio Performance, 2003–2007

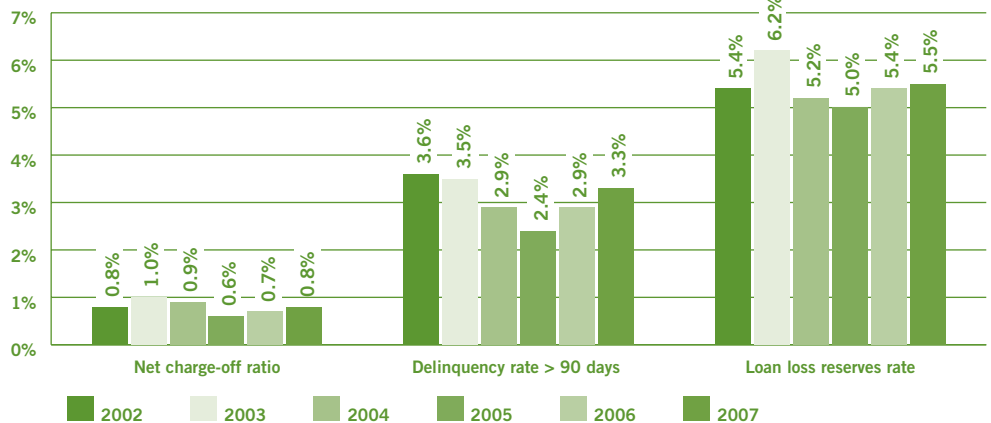
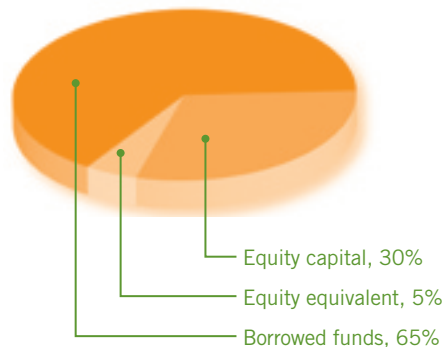


Figure 4: CDFI Capital Structure²



² Capital breakout does not include one CDFI that has NMTC activity included in consolidated financials.

Banks receive favorable Community Reinvestment Act (CRA) treatment for making EQ2s.³ Fifty CDLFs had secured EQ2s totaling more than \$130 million at the end of 2007. Although this represents only 5% of loan fund capital, it is an important source because it is typically long-term (7–15 years), has a rolling term, and allows CDFIs to leverage additional debt. Only nonprofit CDFIs use EQ2s.

Thirty percent of loan fund capital is equity. Equity capital is critical to loan funds because it enables them to leverage more debt, provides a cushion to protect debt and EQ2 investors, and allows loan funds to take more risks. This capital cushion is particularly critical for unregulated loan funds. Equity is the most difficult type of capital for CDLFs to raise. It is built from a combination of grants designated for loan capital and any net income that the loan fund chooses to designate to be used as capital. Fifty-seven percent of the loan funds have equity capital ratios greater than 30%, and only 14% have capital ratios below 10%.

A majority of investor capital—debt and EQ2—is from banks, thrifts, and credit unions, which together accounted for 54% of borrowed funds and EQ2 (see Figure 5). Financial institutions have consistently been the largest source of capital among loan funds. Loan funds are safe investment vehicles and flexible partners for banks. In addition, banks can receive CRA credit for their investments in loan funds. As fewer banks are willing to lend to CDLFs at below-market fixed rates, more CDLFs are using traditional financial products to capitalize and manage liquidity. These

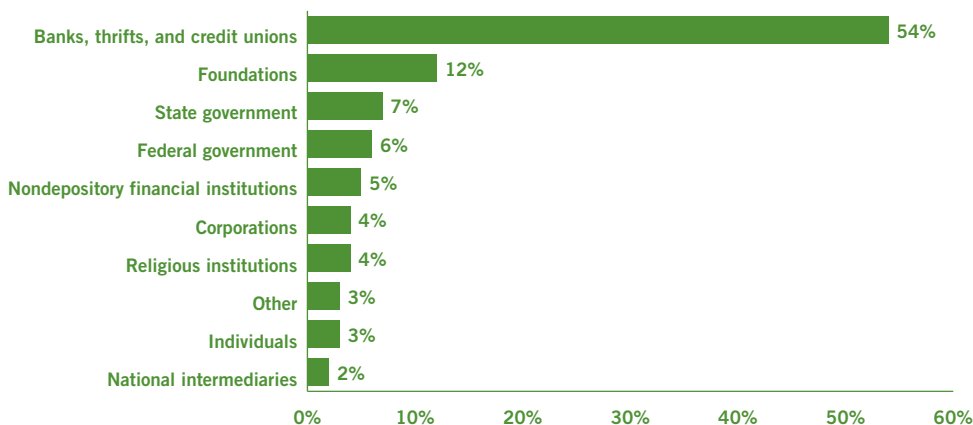
products include lines of credit at floating rates, repurchase agreements, and interest rate swaps and other derivative products.

Another key source of loan fund capital for CDLFs is foundations, which account for 12% of total investor capital. Some foundations offer below-market and long-term loans called program-related investments (PRIs). In FY 2007, 66 loan funds in our study derived \$222 million from foundations.

Public sources are also significant. Seven percent of capital is provided by state government and 6% by federal sources. CDLFs draw from several federal programs to capitalize their loan pools. Opportunity Finance Network’s 2008 publication *Attracting Federal Funds for Opportunity Finance*⁴ reports that, after the CDFI Fund’s Financial Assistance and Technical Assistance Program, the federal programs ranked most beneficial to CDFIs are the Department of Housing and Urban Development’s Community Development Block Grants, the CDFI Fund’s New Markets Tax Credit Program, the Small Business Administration’s Microloan Program, and the U.S. Department of Agriculture’s Intermediary Relending Program.

Other key sources of investor capital are nondepository financial institutions and religious institutions. Although such investors account for only 5% and 4%, respectively, of loan fund investor capital, they are important long-term sources of capital for CDLFs. Religious investors represent some of the first supporters of CDLFs and helped found many of the organizations.

Figure 5: CDLFs’ Investor Capital Sources⁵



³ Lenders can receive either enhanced lending test credit or investment test credit for making EQ2 investments in CDFIs. Banks accounted for approximately 80% of EQ2s.

⁴ http://opportunityfinance.net/store/downloads/Attracting_FedFunds_012709.pdf

⁵ One outlier is excluded from capital sources breakout.

The CDFI Data Project

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The CDFI Data Project (CDP) is an industry collaborative that produces data about CDFIs. The goal of the CDP is to ensure access and use of data to improve practice and attract resources to the CDFI field. The CDP collected FY 2007 data on 508 CDFIs. The data set includes approximately 100 data points on operations, financing, capitalization, and impact. Supported by the Annie E. Casey Foundation, the John D. and Catherine T. MacArthur Foundation and the W. K. Kellogg Foundation, this initiative convenes leading organizations in the CDFI industry.

Partner Organizations

> Aspen Institute

www.fieldus.org

National nonprofit that disseminates best practices and educates policymakers, funders, and others about microenterprise

> Association for Enterprise Opportunity

www.microenterpriseworks.org

National member-based trade association of more than 500 microenterprise development programs

> Coalition of Community Development Financial Institutions

www.cdfi.org

Lead organization in the United States that promotes the work of CDFIs

> Community Development Venture Capital Alliance

www.cdvca.org

Certified CDFI intermediary that serves community development venture capital funds through training, financing, consulting, research, and advocacy

> National Community Investment Fund

www.ncif.org

Certified CDFI that channels equity, debt, and information to locally owned banks, thrifts, and selected credit unions with a primary purpose of community development

> National Federation of Community Development Credit Unions

www.cdcu.coop

Certified CDFI intermediary that serves more than 200 low-income credit unions across the United States

> Opportunity Finance Network

www.opportunityfinance.net

The leading network of private financial intermediaries with a proven expertise in lending prudently and productively in unconventional markets often overlooked by conventional financial institutions.

For more information on the CDFI Data Project, contact any of the partner organizations or Jon Schwartz of Opportunity Finance Network at jschwartz@opportunityfinance.net (215.320.4308).