Partnering With CDFIs to get More Capital into Your Middle Neighborhood for Home Improvement, Business Development and More

The purpose of a CDFI – a Community Development Financial Institution – is to provide financial services to geographical areas and specific populations that historically have unmet financial needs. Products vary but may include loans for residential or commercial real estate development, business enterprises, consumer or intermediary needs or funds for other initiatives. Ultimately, CDFIs widen the streams of capital flow through greater risk tolerance, flexible underwriting criteria and a willingness to customize products for specific unmet needs.

Middle neighborhoods often fit into this economic scenario of places with populations that do not have sufficient access to lending capital. For example, a common concern in middle neighborhoods is the need to update housing stock to meet the demands of current homebuyers. It is often the case that acquisition and improvements temporarily exceed appraised values in middle neighborhoods, making conventional lending a poor fit. Also, small businesses may need micro loans or loans that do not rely on collateral. Partnerships with CDFIs – or becoming a CDFI yourself – can be a way to address needs like these.

Most communities fall within the service area of a local or regional CDFI. To find a CDFI that serves your area, check here. Meanwhile, here is some background information on CDFIs, and tips on how to partner with them.

CDFI Basics

To become a CDFI, an organization or lending institution must have or adopt certain key features:

- Community development mission
- Formation as a legal entity
- Majority of the lending operations must be dedicated to lending
- Identified target market, for example: geographic (i.e. census tracts), income related (i.e. low or moderate income), or other specific population (i.e. Tribal lands, Hispanic populations, Black or Brown communities, people with disabilities, or any underserved group lacking access to capital)
- Development services
- Accountability
- Non-government entity

CDFIs can be brokers or may provide direct service, which could include services like homebuyer education, education related to hiring contractors before taking on a rehab project, one-on-one counseling, business plan development, technical assistance, peer coaching, down-payment assistance, as well as loan products for home acquisition and rehab lending, home improvement financing, or other niche programs like funding for ADUs (accessory dwelling units), septic system replacement and retrofit, and so on. CDFIs may also include options for auto loans, personal loans, and credit building opportunities and may help with commercial mortgages, small business, and consumer loans.

CDFI Facts: as of Spring 2023

- Almost 1400 CDFIs in the US
- Include banks, credit unions, housing organizations, etc.
- Can be for-profit or non-profit
- Include regulated and unregulated entities

The US Treasury (www.cdfifund.gov) certifies CDFIs, and each CDFI needs to be appropriately licensed to lend in its state. State laws regulating lending vary widely, and ongoing reporting and compliance with regulations governing lending usually requires a significant, specialized capacity.

Loans made by CDFIs generally have a lower default rate than mainstream options typically because of the CDFI culture of risk mitigation and one-on-one support. The relationships between CDFIs and its borrowers and partners sets them apart and is part of what creates long-term success.

CDFI Partnerships

Practitioner organizations serving middle neighborhoods do not have to become lending entities to access the unique benefits of a CDFI – they can be powerful partners in a middle neighborhood strategy. Generally speaking, CDFIs are able to support partnerships through education, creative collaborations, financing, supporting community innovations, and various levels of service delivery.

Sources of Funding

- Grants from the CDFI Fund at the US Department of the Treasury
- Foundations
- Private Investors
- USDA
- City / Municipality investment sources
- State Funds
- Retained Earnings
- SBA Funding

Models: Lending is a primary line of business for CDFIs. Models vary but may include:

Residential Real Estate	To help buyers purchase their first home, usually with a focus on increasing affordability.
Commercial Real Estate	Allowing local businesses to purchase a space for the business to operate.
Micro / Small Enterprise and Business Lending	Supporting small businesses and micro-enterprises with loans of various amounts for various purposes.
Intermediary	To serve the needs of nonprofits or other developers who need funding to develop real estate.
Consumer Lending	Providing loans directly to consumers to cover needs such as auto purchase or repair, credit building loans, home improvements, etc.
Climate Centered	Financing improvements to support sustainability and resiliency of homes and communities.

Best Practices: Here are some best practices when it comes to working with CDFIs:

Be Open to Partnerships	Consider your mission and the mission of potential partners and identify areas of overlap or gaps that exist. Connect with groups and organizations that have common goals and initiatives and discuss ways to support each other's work. Match those who hold capital to those who seek capital. Be sure to include financial institutions and municipalities as well as local nonprofits.
Evaluate Demand and Local Needs	Examine the local service area and evaluate the need for certain products and services. Identify causes that are important to the community and provide support to help stakeholders overcome challenges.
Create Flexible Loan Options	Offer loan products that are not reliant on collateral. This is especially important in circumstances involving deferred maintenance or challenged housing markets. Also, building in a period of nonpayment for business or consumer lending can help borrowers get through the initial adjustment period.
Bridge Gaps in Risk Tolerance	CDFIs are mission driven and may have to have difficult conversations with lenders or community partners about challenges and how to solve them without taking too much or too little risk.
Embrace Technology	CDFIs often serve broad geographical areas and staff members cannot be everywhere so it's important to have a solid technology strategy and tools to support remote lending opportunities.
Spread the Word	CDFIs are often misunderstood, and the public does not understand what is possible or what is offered. Take the time to engage with organizations, public entities, lenders, and the community to increase exposure and strengthen existing relationships. Write up success stories and share them!
Be Open to New Ideas	Review the needs in your community and consider new programs based on those needs, even if it is something that has not been done traditionally. For example, if a manufactured housing community in your area needs upgrades or help with environmental sustainability, providing funding could help meet an important community need.

Resources

CDFI 101 Toolkit – Opportunity Finance Initiative
https://www.ofn.org/new-cdfi-101-toolkit-and-orientations-now-available/

Find an active CDFI in your state
https://www.cdfifund.gov/awards/state-awards

CDFI Coalition
https://cdfi.org/

NCST Homeownership Alliance
https://www.stabilizationtrust.org/homeownership-alliance/