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Community Development Financial Institutions
Quick Reference to Economic Development and Community Reinvestment Opportunities

Community Development Financial Institutions (CDFIs) are private-sector, financial intermediaries with community development as their primary mission. To obtain certification as a CDFI from the U.S. Department of the Treasury, organizations must demonstrate adequate local need, organizational capacity to fulfill the requirements of such designation and adherence to strict financial control and reporting standards. The Treasury Department must re-certify the organization at least every three years to maintain the designation.

While CDFIs share a common mission, they have a variety of structures and development lending goals. There are six basic types of CDFIs: community development banks, community development loan funds, community development credit unions, microenterprise funds, community development corporation-based lenders and investors, and community development venture funds. All are market-driven, locally-controlled, private-sector organizations.

One crucial source of support for CDFIs is the federal CDFI Fund, administered by the U.S. Department of the Treasury. The CDFI Fund ("The Fund") makes capital grants, equity investments, and awards to fund technical assistance and organizational capacity-building. CDFIs apply for limited funds through a competitive process that requires the CDFI, in most cases, to provide at least a 1:1 match of non-federal funds to receive financial assistance. The Fund also rewards banks and thrifts for making investments in CDFIs and distressed communities through its Bank Enterprise Award Program. The New Markets Tax Credits Program, initiated in 2002, encourages private sector investment by offering tax credits for qualified community development investments. CDFIs use both CRA qualified and non-qualified investments to leverage awards from The Fund to implement financial programs that expand access to capital and credit among underserved populations and within distressed communities.

Role of Funding Partners

Organized in 1996 and certified as a CDFI in 1999, FP operates revolving loan funds exclusively dedicated to the preservation or creation of housing opportunities for households qualified at, or below, 80% of the Area Median Income. Additionally, FP provides origination and loan servicing functions on a contractual basis for public and private entities wishing to enhance both community and economic development objectives. This allows other entities to implement new or reinvigorate existing programs without need for creating a new organization with greater operational efficiency and functional integrity

Such contractual relationships include: purchase assistance offered by employers to eligible workers as reward for loyalty, while greatly reducing turnover and lost productivity expenses; commercial real estate-based lending to enhance economic development strategies; and, home or business energy efficiency financing to improve the comfort and performance of existing buildings. Revolving loan funds controlled by FP offer direct investment opportunities to corporations, foundations, governmental entities and financial institutions seeking to pool resources for maximum community benefit, while targeting their investment for specific geographic, demographic or functional purposes.

Down payment and home rehabilitation assistance provides qualified households opportunity to acquire and/or improve their home through a loan product appropriate to their needs. Programs are designed to reach specific demographic or geographic markets or more broadly across the state depending upon the scope of the capital provider. In most cases, such programs target households at or below 80% of Area Median Income, require professional counseling services for the homeowner/buyer, used only in conjunction with conventional conforming mortgage products, and offer favorable terms to prevailing products within the market.

The Mammel Affordable Housing Loan Fund (MAHLF) provides short-term 'equity gap' financing to both for-profit and non-profit organizations that acquire, develop, rehabilitate or otherwise preserve both rental and ownership housing stock. Both highly flexible and cost-efficient, this loan fund is designed to support qualified projects early in the process that provides the borrower time and resources to bring the project to 'bankable' status. Utilizing extensive lending experience within FP, investment partners are able to participate in numerous and varied projects that serve their target market without assuming direct credit or collateral risk of the loan. Where investment partners look to further develop their own CRA-qualified loan portfolio, a gap loan through the MAHLF program may be used to enhance a credit offer through the bank without violating existing credit or collateral standards.

Investment Opportunities

FP offers three primary investment vehicles: grants, loans, and Equity Equivalent Investments. Additionally, FP has the ability to execute loan participations and loan sales under certain circumstances to meet specific objectives of financial institutions. Grants typically support operational needs of FP as well as fund capitalization, while loans to FP are generally geared to support specific projects and carry senior claims for repayment. Equity Equivalent Investments (EQ2), while technically unique, function in a similar fashion to a preferred stock placement: no underlying pledge of collateral, no 'voting rights' in organizational governance, and an indefinite maturity date. In exchange, however, regulated financial institutions recognize considerable benefits from EQ2 investments that may include a coupon rate of return, recurring CRA credit for the full amount of the investment for each year the investment remains intact and potential direct investment credit through the Bank Enterprise Award program administered by the US Treasury Department. Business development opportunities provide both regulatory *and* bottom-line benefit to FP investors, through blended credit structures and cross-selling of additional bank services.

Under contractual agreements with investment partners, FP is obligated to maintain a high degree of liquidity and obtain capitalization through a mix of investment types that promote sound financial management. Additionally, the bulk of FP operational expenses are carried by program income, where the use of highly efficient systems and portfolio management techniques are critical to maintaining below-market pricing to the end consumer of FP loan products. In recognition of the objectives of our investment partners, FP places great emphasis on indirect returns through support of investor programs and market development initiatives. As a community-based non-profit, FP also offers our investment partners direct interaction with their target market.

For more information, please contact:
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