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Recently certified CDFI banks and the CDFI banking sector

by Robin Newberger and Susan Longworth

Introduction

The Community Development Financial Institutions (CDFI) Fund came into existence in 1995 with the mission to "expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States." Since the recent economic crisis, CDFIs have been a vehicle for the implementation of several new policy initiatives designed to direct capital to the nation's underserved communities, businesses, and home owners.[1] Though few in number, CDFI banks hold the majority of capital among certified CDFIs.

The CDFI banking sector grew by over 35 percent from 2009 to 2010 with the addition of more than 30 newly certified banks. The substantial increase in newly certified CDFI banks would suggest that the sector is doing well, but the situation is more nuanced. The majority of this growth took place following the launch of the U.S. Department of the Treasury's Community Development Capital Initiative (CDCI), which required CDFI status in order to be eligible.[2] This expansion would also suggest greater awareness on the part of community banks about the CDFI designation, and the possibility that more institutions may consider seeking certification. On the other hand, the financial crisis and ensuing recession have taken a toll on community banks, and CDFI banks are no exception. CDFI bank closures as well as anecdotal accounts indicate that CDFI banks face many challenges in the current environment.[3] Many of the neighborhoods where CDFIs work have been particularly hard hit by the economic downturn. Many CDFI banks are restraining lending growth to maintain or improve capital ratios, as is true of many banks large and small across the country.

Thus the CDFI banking sector is currently in the midst of two divergent trends. One is banks with generally healthy balance sheets joining the sector; the other is weakening local economies in the places where CDFIs (and other community banks) lend and invest, impacting earnings and capital. Through an analysis of Uniform Bank Performance Reports (UBPR) and interviews with CDFI bankers, this article explores what recent certifications – those occurring since the CDCI money was made available in 2010 – mean for the strength, purpose, and stability of the CDFI banking sector. It reviews how sector growth affects lending capacity and bank strategies, and explores some of the new challenges that have arisen with the addition of many new banks to the sector. We conclude with some suggestions for what can be done to ensure that the sector continues to grow and address financial services needs in distressed communities.

Location of CDFI banks and branches

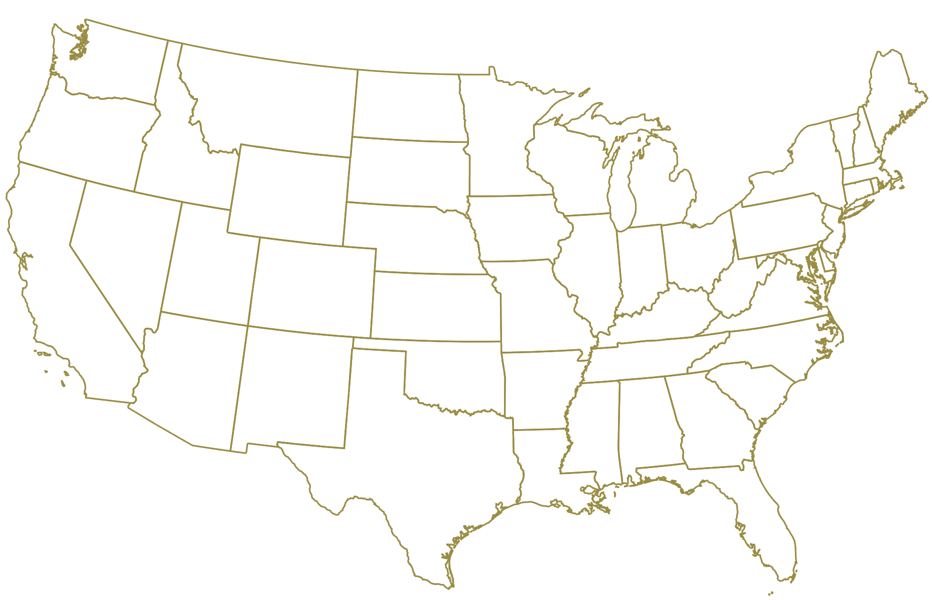
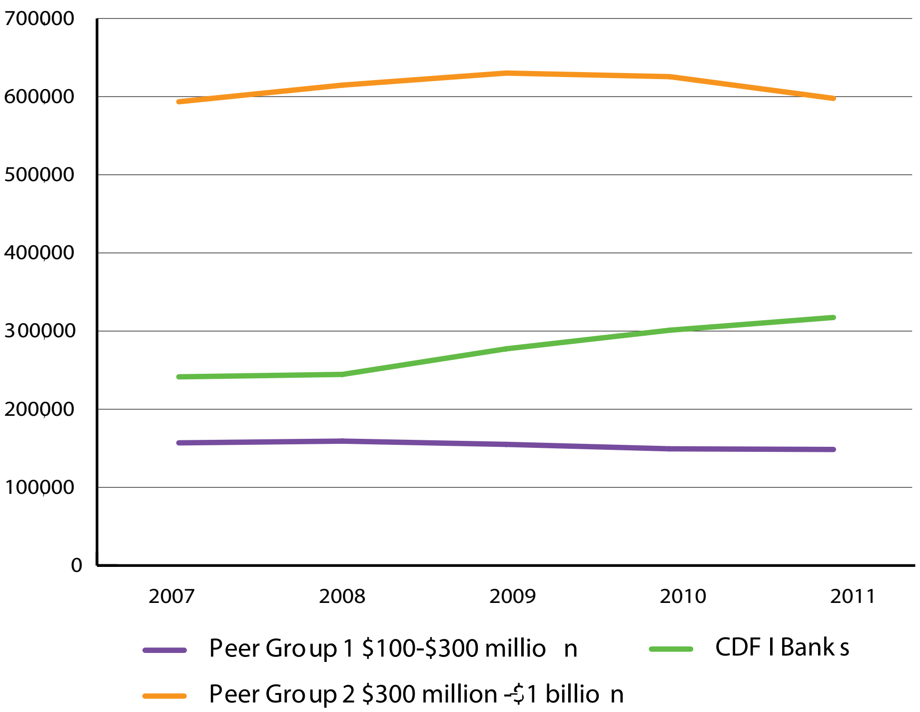


Table 1: Number of CDFI banks

	2007	2008	2009	2010	2011
Total	55	63	62	85	84
Banks	51	57	56	78	77
Thrifts	4	6	6	7	7
Gain		15	2	27	4
Loss		7	3	4	5
Net Change		8	-1	23	-1
Change %		14.5%	-1.6%	37.1%	-1.2%

Source: NCIF, CDFI Fund and authors' calculations.
Note: Loss includes closings, renamings, and consolidations.

Chart 1: Average assets CDFI banks (000s)



Source: UBPR 2007-2011.
Note: We refer to CDFI banks certified since January 1, 2010, as "recently certified" CDFI banks. We refer to those that had been certified prior to that date as "veteran" CDFI banks.

Financial overview of CDFI banks

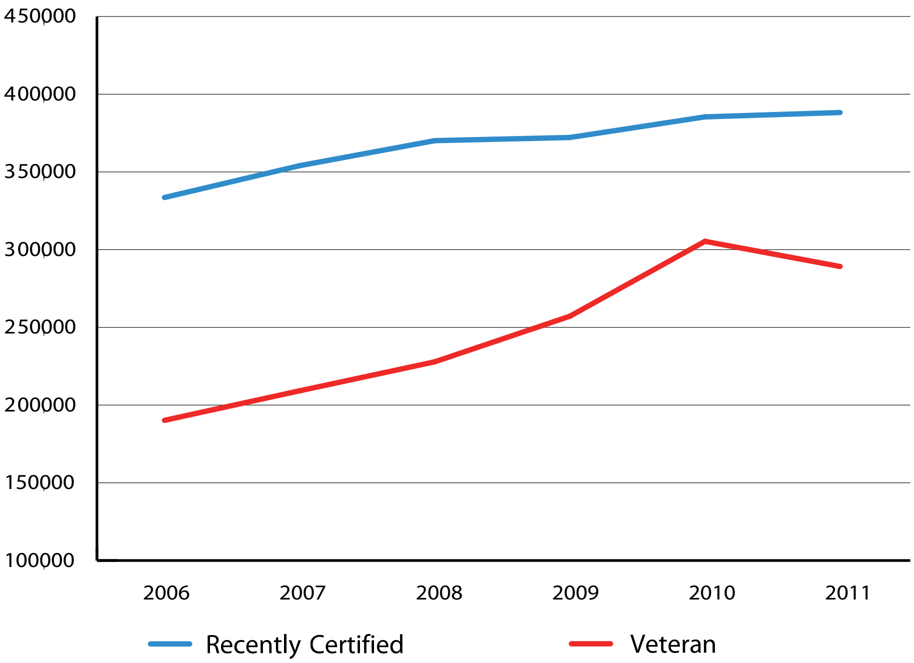
CDFI banks are federally insured depositories that provide both credit and noncredit financial products and services. Products at CDFI banks include home mortgages, small business loans, construction loans to small developers, and various loans to nonprofit community organizations and community facilities. Community development banks also specialize in consumer banking services, credit counseling, and business planning for low- and moderate-income (LMI) borrowers, as part of the CDFI Fund mandated requirement to provide "development services." While these products are also common to mainstream banks, they typically comprise a greater proportion, if not the entirety, of a CDFI bank's business lines, and manifest a mission focus of serving a lower income consumer. CDFI banks are also required to maintain accountability to their target market, usually through their governing or advisory boards.

As table 1 shows, there were 84 banks certified by the Community Development Financial Institutions Fund as of October 2011. Despite the recent expansion, the CDFI banking sector is very small. CDFI Banks account for little more than 1 percent of all FDIC-insured depositories. Prior to the jump in certifications in 2010, the sector had moderate annual growth.[4]

The picture that emerges of the sector from UBPR reports from the analysis of assets and loans is one of greater average volume and growth in lending among CDFI banks than prior to the CDCI program, a rebound in profitability since 2010, and higher capitalization levels with the addition of institutions in 2010.[5] Total assets of the CDFI banking sector have grown significantly with the new certifications. As of June 2011, total assets of the sector were about $24 billion, an increase of more than 50 percent since 2009. While average asset size has trended upwards for both veteran and recently certified CDFI banks, average assets were about $100,000 higher for recently certified banks compared to veteran banks (see charts 1 and 2). The lending portfolio of the CDFI banking sector has similarly increased. The average loans and leases across banks increased by more than 20 percent between 2007 and 2011.

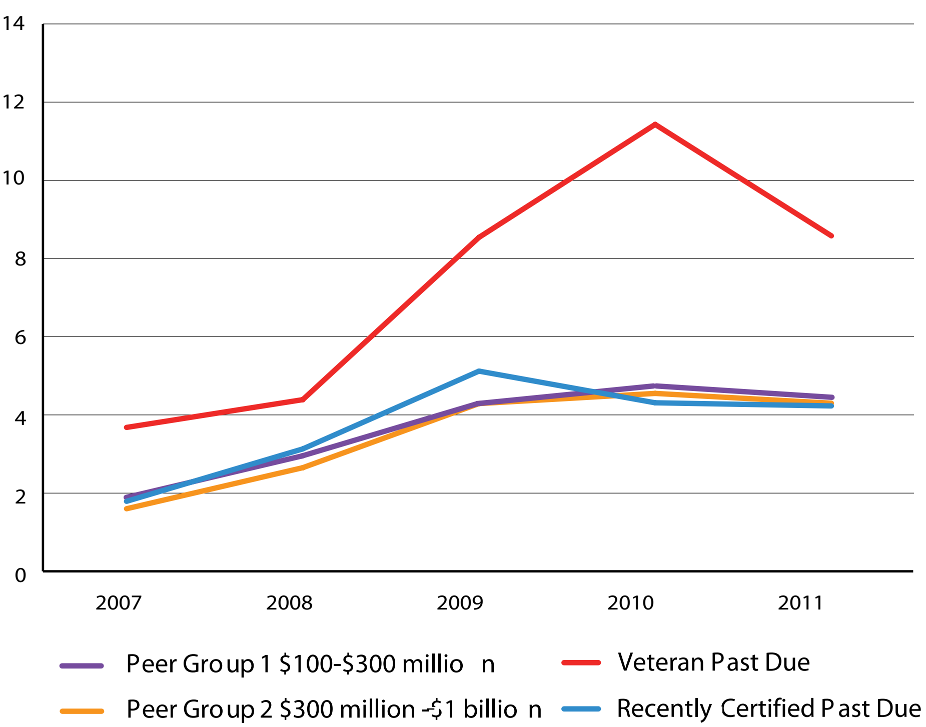
In addition, the past-due rate for recently certified banks has trended similarly to peer groups – including both smaller ($100 to $300 million) and larger ($300 million to $1 billion) peer banks. (Data from the recently certified

Chart 2: Average assets veteran vs. recent (000s)



Source: UBPR 2007-2011.

Chart 3: Percent loans past due (weighted by assets)



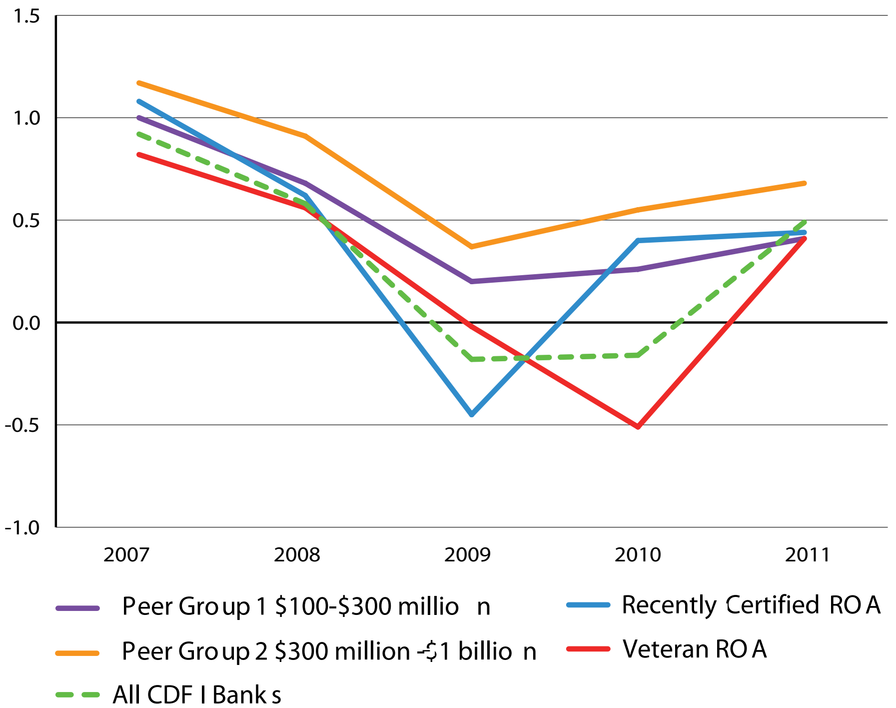
Source: UBPR 2007-2011.

banks includes information from years before they were CDFI-certified.) Although the weighted past-due rate for the entire CDFI bank sector has been consistently above peers, this overall rate was skewed by loan performance at two relatively large institutions. Removing these two institutions would have improved the past-due rate at veteran institutions by 4 percentage points. In addition, the weighted ROA for both veteran and recently certified CDFIs returned to a level approaching that of peer groups in 2011, suggesting that the profitability of the sector has not been irrevocably compromised by the economic downturn (see charts 3 and 4).

Average capitalization ratios similarly show rising levels, despite general recognition among CDFI banks that asset quality has not fully recovered from the economic downturn. CDFI bank capitalization rates exceeded the 5 percent Tier 1 capital requirement throughout the crisis, boosted by intensive capital-raising efforts at some institutions prior to certification (see charts 5 and 6).[6] Thirty-seven percent of recently certified banks had sought Troubled Asset Relief Program (TARP) funds in 2008 in anticipation of liquidity problems, and all of these ended up refinancing the TARP money with Community Development Capital Initiative funds. Of the 20 CDFI banks that were certified during 2010, 18 received CDCI funds. (Indeed, this was a motivation for many recently certified banks to seek certification.) Over $500 million in CDCI funds was directed to 36 CDFI banks, and 61 percent of the money for CDFI banks went to recently certified banks. This money was treated as Tier 1 capital. Overall, average equity among CDFI banks increased by 30 percent between 2008 and 2009, and by another 16 percent between 2009 and 2010.

With respect to the sector's social mission and purpose, the entire CDFI banking sector, including the recently certified banks, has a strong presence in

Chart 4: Percent ROA (weighted by assets)



Source: UBPR 2007-2011.

Table 2: NCIF Social Performance Metrics℠, 2009

	2009 HMDA Development Lending Intensity (median)	2009 Development Deposit Intensity (median)
Veteran	54.2	75.0
Recently Certified	40.8	58.8
All Domestic Banks	16.4	14.6

Source: NCIF and authors' calculations based on NCIF data.
Note: HMDA DLI is the percentage of an institution's HMDA reported loan originations and purchases, in dollars, that are located in low- and moderate-income census tracts. DDI is the percentage of an institution's physical branch locations that are located in low- and moderate-income census

low- and moderate-income areas. According to the National Community Investment Fund's (NCIF) social performance metrics, both veteran and recently certified CDFI banks do substantially more deposit-taking and home mortgage lending in LMI areas (as a percent of their portfolios) compared to a benchmark of all domestic banks.

Lending patterns also reveal that recently certified banks share a community development focus with veteran CDFI banks. Veteran and recently certified banks do a comparable share of real estate and consumer lending. The main difference in lending focus between veteran and recently certified CDFI banks has to do with the concentration of newly certified banks, in predominantly rural states, which drives the increase in loans "secured by farmland" (see charts 7 and 8).

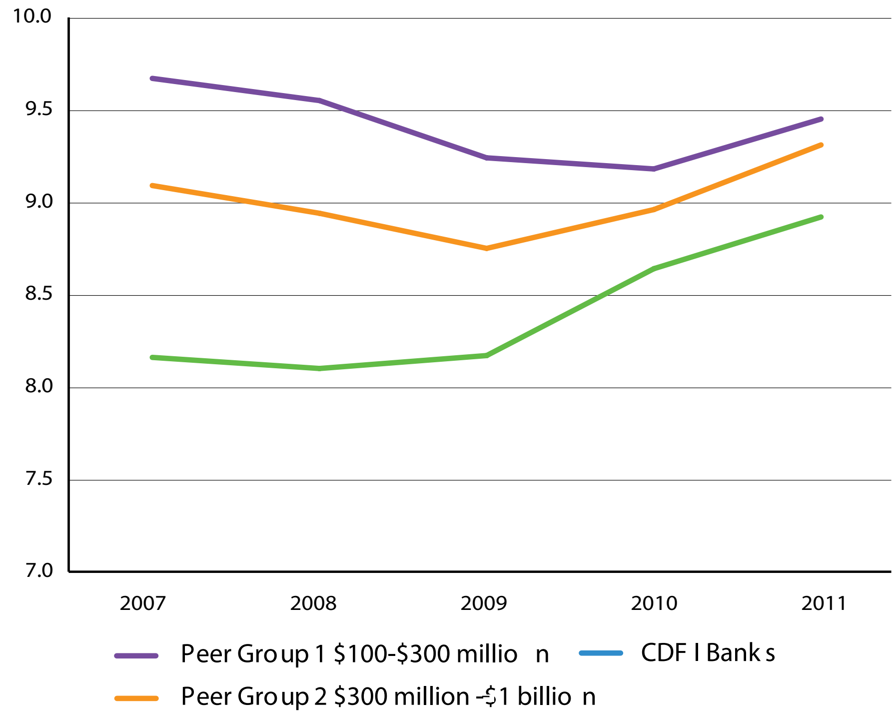
In sum, the picture that emerges from the financial data is of a sector that has gained in size and financial strength over the past couple of years. Assets and capital are growing. Institutions across the sector have increased their lending during the financial crisis – although the pace has slowed in recent years and even contracted in 2011. The recently certified banks tend to be older and larger than their veteran CDFI bank counterparts, and as a group, they enhance the quality of the sector's (collective) balance sheet.

Findings from interviews

Next we present findings from our interviews with recently certified CDFI banks to further understand the implications of new certifications for the sector. These findings are based on eight interviews that took place in August and September 2011, in Mississippi and Chicago, Illinois. The banks interviewed represent about a quarter of the recently certified banks. In each interview we met with the chief executive officer of the bank and/or other top managers. Bankers were asked about the circumstances that led their bank to seek CDFI certification, whether or not being a CDFI had changed the way they do business, where they were making investments in growth, and the CDFI programs from which they sought funding. We group the responses into four broad findings below. These are:

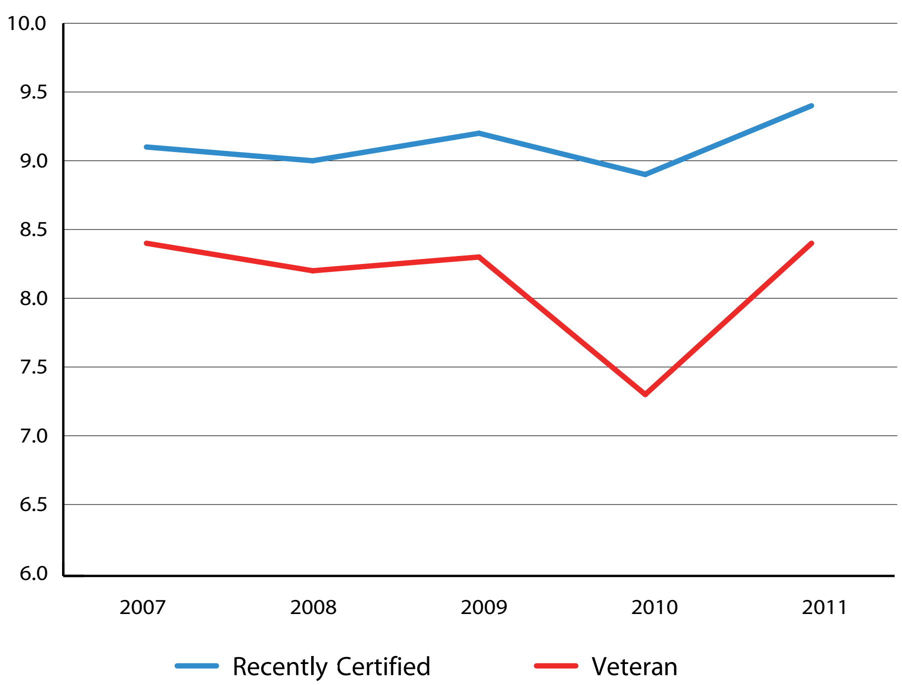
- More bank certifications translate into more community development finance;
- More bank certifications create a richer conversation around strategies that might be applicable to other institutions;
- More bank certifications underscore the need for technical assistance; and

Chart 5: Percent Tier 1 capital (weighted by assets)



Source: UBPR 2007-2011.
Note: Chart 5 includes annual data for certified banks. Chart 6 includes financial data from recently certified banks prior to their certification in 2010.

Chart 6: Percent Tier 1 capital (weighted by assets)



Source: UBPR 2007-2011.

- More bank certifications highlight the need for direct communication from the regulators to help CDFI banks gain comfort with sometimes competing regulatory objectives.

More bank certifications translate into more community development finance

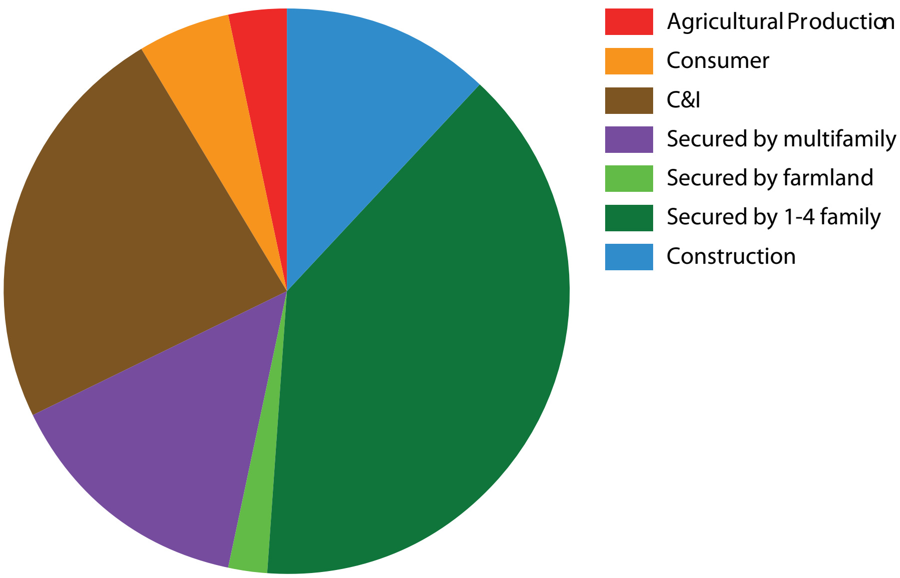
Banks already lend in distressed communities

With a couple of exceptions, the immediate incentive for many of the recently certified banks to seek CDFI certification was the one-time opportunity to apply for Community Development Capital Initiative funds. Nonetheless, the banks had to have been doing a substantial amount of lending in LMI areas in order to qualify for CDFI status.[7] They had to document a track record of serving the needs of underserved communities. Therefore, when asked how being a CDFI has affected their business. Many of the bankers responded that the "CDFI program is us," and it is what "we are already doing." They just had not identified themselves as members of the development finance field. In addition, many of the banks were already familiar with government financing programs, and were skilled at leveraging resources from Low Income Housing Tax Credits, the Federal Home Loan Banks, and the Small Business Administration.

CDFI status helps strengthen institutional capital

Recently certified banks were able to access less expensive capital by virtue of attaining certification, which has helped pave the way for more lending and investing. The CDCI awards added between $3 million and $80 million in Tier 1 capital to their balance sheets. The cost of the money, at 2 percent for eight years, was substantially less than TARP funds. This freed up millions that could then be used to support new deals and services. Even when it was a bank holding company, and not a bank,

Chart 7: Lending at veteran banks



Source: UBPR June 2011.

that received the CDCI funds (and CDFI certification), this helped strengthen an affiliated bank's balance sheet by allowing the bank to sell loans to the holding company. With substantial savings from the lower cost of capital, the banks could provide loans and services that they otherwise might not have been able to otherwise.[8]

Certification gave the banks access to other CDFI programs that augment community development work as well. The Bank Enterprise Award (BEA) program provides monetary awards to FDIC-insured banks for increasing their investment in low-income communities and/or in CDFIs, and the award calculation is as much as triple for CDFI certified banks. Although few recently certified banks have made use of these programs thus far, those that already received BEA money note that the program offsets the relatively high costs of small dollar lending and other pilot programs. Likewise, although only one of the recently certified banks had used the New Markets Tax Credit (NMTC) program at the time of the interviews, the NMTC provides tax allocation authority to certified CDEs (CDFIs can become CDEs through a one-step online process), enabling investors to claim tax credits against their federal income taxes.[9]

CDFI designation can be a strategic niche

An additional way that CDFI certification has reinforced a bank's commitment to serving low- and moderate-income communities is that certification offers a strategic niche for many banks. While most banks do not market their CDFI status to bring in customers, many of the recently certified banks spoke of CDFI certification helping realign their strategic vision with their community image. Since the financial crisis, some customers have indicated that they want to bank at locally-based institutions where they have a sense that bank staff know and care about them and their communities. To this end, some banks have used the opportunity of CDFI certification to put a new emphasis on serving local consumers. Some have restaffed their lending departments to focus on consumer rather than commercial credits. Some have leveraged the relationships with their advisory board to partner with community nonprofits. In various ways, they have taken the opportunity to highlight their connection to the community to burnish their local reputation and to give them a competitive advantage over larger, regional banks.

More bank certifications create a richer conversation around strategies that might be applicable to other institutions

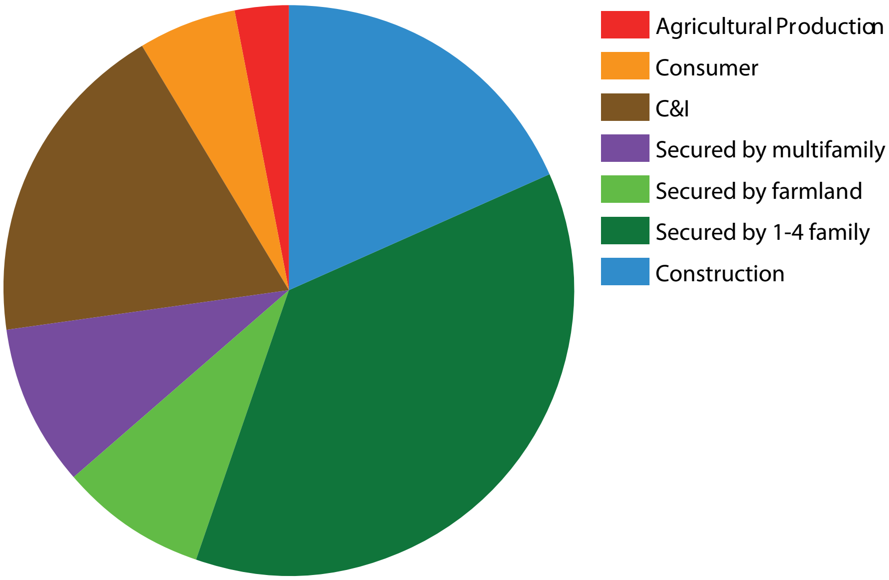
CDFI banks mix "stable" with growth markets

A number of the recently certified banks do not operate exclusively in lower-income areas. This is true for both the urban and rural banks interviewed for this study. In rural areas, banks note that there might be just a few markets experiencing growth. For the sustainability of their operations, the banks need to be present in those places as well as in the more distressed areas. Coverage over an economically diverse geography enables the banks to serve smaller or less profitable markets and provide the customers in these areas with resources and comparable products. Some of the recently certified CDFIs do not even have bank branches in low-income communities.

CDFI banks develop products customized to local needs

Interviewed banks also discussed strategies to maximize their responsiveness to local product and service needs. (Employing creative methods to stay in touch with their markets predates CDFI certification for most banks.) At one bank, responsiveness has come in the form of holding focus groups and telephone surveys. This strategy involves reaching out to CEOs and lower-income consumers alike to hear directly from bank customers about the products and

Chart 8: Lending at recently certified banks



Source: UBPR June 2011.

services they want. At other banks, the responsiveness has come in the form of developing products and infrastructure to facilitate home mortgage lending. Some banks offer portfolio mortgage products for loans that do not meet secondary market standards. Another bank is developing a rural property appraisal system to address the lack of comparables in rural areas that often stands in the way of getting financing. Nearly all banks have also invested heavily in online banking technology. In fact, when asked about their priorities for investing in their business, all banks answered that they were focusing on technology. With a diverse market of LMI and non-LMI customers, banks have concluded that having the latest technology in online banking is necessary to compete.

CDFIs market their bank through advisory board relationships

As part of the CDFI certification process, many CDFIs, and banks in particular, assemble advisory boards consisting of representatives of the CDFI bank's community to demonstrate accountability to their target market. Advisory board members can include target market business owners, elected officials, residents, and leaders of community organizations. Many of the CDFI banks have taken advantage of this board expertise to bridge relationships to the local community. This is important because many of the CDFI banks do not have a budget to market themselves to community organizations, and building the relationships from scratch is time-consuming. If a bank works in a diverse market with a diverse set of customers, the bank may be known in one area more than in another. The board members help the banks identify the most effective organizations, allowing the CDFI banks to be selective about the organizations they do business with. In turn, the community organizations can point the bank in the direction of appropriate, mission-consistent projects and initiatives. The advisory board relationships are key to helping the bank proactively search out the people, groups, and communities that represent the best fit for the bank, and ensure that the institution remains responsive to community priorities and needs.

More bank certifications underscore the need for technical assistance

Some banks lack experience as a CDFI institution

Many of the recently certified banks, their history in LMI communities notwithstanding, admit to little familiarity with CDFI programs. While there is no "one size fits all" for CDFI banks, some common areas of confusion emerge from conversations. Some have been certified for less than a year and are still figuring out what the certification means for their institution. Many are just beginning to develop a CDFI-related strategy. Some banks are testing the waters on pilot projects, such as alternatives to payday loans or bank accounts for people previously turned down from trying to open a checking account. Some have set their sights on consumer outreach and education to audiences such as school children and homebuyers – CRA "service test" activities – in addition to focusing on home mortgages and small business lending. A few of the interviewed institutions equate CDFI eligible activities with CRA qualifying activities, when in reality the programs have distinct differences.[10] In addition, some banks have designated a single person (often in the marketing department) to handle CDFI-related matters, rather than training their entire staff to look for CDFI opportunities when they are out in the community or meeting with clients. Others have spread CDFI responsibilities across several staff members, some taking charge of the reporting requirements, and others doing educational outreach, possibly limiting a coordinated CDFI perspective across the bank.

Some banks make minimal use of CDFI fund expertise

Many of the recently certified CDFIs also note that their interaction with established and trusted sources of CDFI information has been limited. Many of them initially became aware of the CDFI

Fund via an outside attorney or consultant who saw them through the certification process. Some have had informal conversations with other CDFI banks in their regions and have met with staff from the Treasury Department and the FDIC. Some have attended meetings sponsored by the Community Development Bankers Association, the CDFI Fund, the Opportunity Finance Network, and the National Community Investment Fund. But many say that they do not know who to call to ask questions because the "whole thing" is still relatively new. A number of the recently certified banks also express general suspicion about applying for government award money. They fear loan terms changing, restrictions being placed on internal corporate decisions, the reporting processes themselves, as well as how the funds will be treated by regulators. Many say that the data input systems required by the CDFI Fund are too cumbersome and incompatible with their existing tracking systems. For these reasons, some CDFI banks have not applied for CDFI Fund money. Others are still learning how to take full advantage of the support provided by the CDFI Fund. This lack of familiarity prompted one banker to ask whether their bank is a "good CDFI."

More bank certifications highlight the need for direct communication with regulators to help CDFI banks gain comfort with sometimes competing regulatory objectives

Some bankers speak of a tension they face between the goals of getting capital flowing to distressed communities, and regulatory procedures and policies that discourage increasing loans to these places. Interviews with recently certified CDFI banks offer various illustrations of how a one-size-fits-all approach does not always work for their banks. Although they may work in neighborhoods dominated by small commercial real estate properties (mixed use with a few residential units), their banks must comply with the same commercial real estate (CRE) concentration and capital provisioning requirements as applies to lending to large office buildings and commercial developments.[11] In addition, many of the banks fear scrutiny regarding certain manufactured housing and consumer loans given the relatively low credit scores of many of their borrowers. Faced with the choice of charging lower interest rates on loans, which they believe are more risky and less profitable, or triggering HOEPA requirements, some bankers have decided to stop making those loans.[12] Despite the good intentions of regulators to maintain supervisory consistency, bankers report frustration in their attempts to convince examiners about the unique features of their markets and customer base. The result is that some bankers have greatly curtailed their lending in certain sectors; and some have forgone "textbook" CDFI lending opportunities in order to slow the growth of their portfolios. They are reducing asset size as a way to back into the required capital ratios.

Implications of interview findings

The spate of bank failures in the past few years, particularly of community banks, is a harsh reminder that growth of the CDFI bank sector cannot be taken for granted. High-profile closures at a handful of CDFI banks have cast an additional shadow over the sector. However, the fact that the CDFI banking field was able to expand from 55 certified banks in 2007 to 84 in 2011 is a testament to the importance of purposeful interventions to support the sector, such as the creation of the CDCI program or the CDFI Bond program, which is in development and has the potential to make unprecedented amounts of capital available to all CDFIs.[13] While not all recent certifications were motivated by the CDCI program, it sparked additions to the sector that more than offset the number of institutions that closed or were consolidated. It also raised awareness about development finance among a cohort of banks that were unfamiliar with the CDFI Fund, and yet who fit the profile. The CDCI intervention was therefore important for long-term sector stability. At a time when much concern had been expressed about the future of community banks, new certifications have helped reaffirm the CDFI bank model as a strategy for positively affecting banking and capital flows in LMI and rural markets.

While new certifications have helped the CDFI Fund achieve greater coverage, there are a number of issues that still have to be addressed to get the most out of the current growth and allow for future expansion. First, new certifications have enhanced the depth of CDFI coverage more than the breadth of coverage. The number of states with CDFI banks increased by 12 percent, from 25 to 28 (see map on page 1). By comparison, the number of CDFI certifications has risen by more than 35 percent. Many of the recently certified banks are located in the South of the country, and many of the central states are still without a certified institution. Additional geographic diversity is important not only to enhance the impact of CDFI lending in communities throughout the country, but also has implications for the sustainability of the CDFI Fund itself. Given that the CDFI Fund is subject each year to the congressional appropriations process, it is also important for winning political approval and achieving a more financially secure sector embraced by legislators across parties. Legislators are more likely to be interested and motivated by the work CDFI banks do when at least one such bank is located in their home state. The presence of non-bank CDFIs in a particular state may serve this purpose to a large extent, but the CDFI Fund offers awards specifically directed to depositories, unlike loan funds (for instance), also provide credit and financial services to the general population. Wider geographic coverage would help the financial institutions both spread information about the work they do and gain more vocal support among policymakers.

As a related point, expansion of CDFI Fund resources seems a natural extension to the expansion of certifications, though the record shows otherwise. Appropriations to the CDFI Fund can vary widely from year to year, regardless of the number of CDFIs. As an example, BEA award funding fluctuated from a high of $46 million in 2000 and 2001, to a low of under $10 million in 2005, and rebounded to $25 million in 2010. Without the increase in funding, more competition among CDFI banks for the same funding stream lessens the incentives to seek certification. Although funding for the BEA program has returned to levels in the early 2000s ($22 million in 2011), the program is consistently oversubscribed by more than three to one. The CDFI Bond Guarantee Program, when implemented, will provide another significant opportunity for capital for CDFIs of all types.[14] As it currently stands, however, the CDFI Bond Guarantee Program is authorized only through fiscal year 2014.

Third, sector growth requires the CDFI Fund and other experts to re-examine the technical assistance provided to CDFI banks. Information about CDFI Fund programs themselves may be more helpful than ever to the extent that recently certified banks are looking for details about CDFI programs. They want information that is delivered in a personalized way from knowledgeable sources. More peer-to-peer learning, coordinated by the CDFI Fund or other membership associations, may also be helpful. For example, many veteran CDFIs have already experimented with outreach to the under-banked that newly certified banks are now doing. Technical assistance also needs to take into account the different challenges in the different markets served by CDFI banks. Banks operating in densely populated markets approach outreach differently than those working in areas with a dispersed population. Capital raising strategies and advice on how to increase loan volume also differ between urban and sparsely populated areas. In addition, banks need to know how to respond to regulatory inquiries about their CDFI status, awards, and activities – all issues that require a high level of expertise and familiarity with financial institutions. Addressing these diverse needs, in addition to "demystifying" the CDFI program application process, would seem to be important steps for the CDFI Fund to ensure that new CDFI banks understand the benefits of CDFI certification beyond the CDCI program.

And finally, more discussion with the regulatory community around the performance context of CDFI banks would be useful. For many CDFI banks, it has become increasingly difficult to lend to the small businesses and consumers that they have been serving for decades. Meeting complex and sometimes competing compliance goals requires the addition of specialists. The tensions that CDFI banks confront in serving their markets are not unique to being a CDFI.

Like many community banks, they are struggling to maintain asset quality while making loans to customers they know well. But current conditions are putting added pressures on smaller banks with fewer assets over which to spread overhead costs. The environment is encouraging more consolidations among small banks, producing larger financial institutions with less of a community focus. This trend is perhaps even more consequential for the CDFI banking sector than for community banks broadly. CDFI banks believe that they play a unique role in their communities. They are often the only banks in their areas that have a deep understanding of local real estate market dynamics, familiarity with government lending and guarantee programs, and the knowledge base to consider broader community impacts when weighing the merits of a deal.

Conclusion

Few relationships between consumers and institutions have more practical day-to-day relevance than a banking relationship. The lack of a bank account and/or credit is among the most common characteristics associated with poverty. Similarly, communities without depository institutions tend to be low-wealth, lower-income areas where businesses as well as consumers struggle with basic financial needs. Fully functional and sustainable CDFI banks represent important economic anchors. Ensuring the stability and gradual growth of these types of organizations has implications well beyond considerations of particular institutions and their investors. They offer products and services in distressed areas that few other institutions may be willing to serve.

Notes

1 The CDFI Fund also invests in loan funds, credit unions, and venture capital funds. See www.treasury.gov/initiatives/financial-stability/programs/investmentprograms/cdci/Pages/comdev.aspx.

2 Banks, savings and loan associations, bank holding companies, savings and loan holding companies, and federally insured low-income designated credit unions were eligible to apply to participate in the CDCI. See www.treasury.gov/initiatives/financial-stability/programs/investment-programs/cdci/Documents/CDCI20FAQs20Updated.pdf for information on how to have qualified for the CDCI program.

3 Of the 395 FDIC-insured institutions that have failed during the crisis, more than 300 have been community banks. See September 2011 remarks by FDIC acting chairman at www.fdic.gov/news/news/speeches/chairman/spsep1911.html.

4 Many of the new entrants before the CDCI program were minority depository institutions. MDIs are banking institutions where at least 51 percent of voting stock is owned by racial/ethnic minority shareholders whose market areas frequently include traditional CDFI target markets. For a detailed definition of MDI banks see www.fdic.gov/regulations/resources/minority/MDI_Definition.html.

5 A UBPR is produced for each commercial bank in the United States that is supervised by the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, or the Office of the Comptroller of the Currency. UBPRs are also produced for FDIC insured savings banks. Our analysis includes 85 banks during the period from 2007 to 2011; however the number of banks varied from year to year and not all 85 are represented in every year. Data for thrifts was not included. Similarly, data for CDFI certified holding companies whose subsidiary banks were not certified was also not included. See www.ffiec.gov/PDF/UBPR/08UBPRFR.pdf.

6 Capitalization ratios over time reflect survivor bias among veteran CDFIs. In addition, in order for a bank to qualify for a CDCI award, the appropriate federal banking agency had to have made a recommendation to Treasury regarding an applicant's viability. The combination of these factors has contributed to the improvement in average capitalization ratios in the sector.

7 According to the Treasury Department, to be certified as a CDFI, an organization must have a primary mission of promoting community development; be a financing entity; provide development services; principally serve one or more eligible target markets; be accountable to the target markets served; and not be either a government entity or be controlled by a government entity. See www.cdfifund.gov/what_we_do/programs_id.asp?programID=9.

8 CDCI was similar to CPP/TARP in that it carried no stipulation as to the use of the funds.

9 The CDEs in turn can use the capital raised to make investments in low-income communities. See the Performance and Accountability Report: FY 2010. Community Development Finance Institutions Fund: www.cdfifund.gov/docs/2011/cdfi/Performance-and-Accountabilty-Report-FY-2010.pdf.

10 The CDFI Fund limits its activities to those that "expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities," within an institution's CDFI target market. The CRA definition of community development includes activities that promote economic

development by financing small businesses or farms, but does not limit community development loans and services and qualified investments to those activities. Community development also includes community or tribal-based child care, educational, health, or social services targeted to low- or moderate-income persons, affordable housing for low- or moderate-income individuals and activities that revitalize or stabilize low- or moderate-income areas, designated disaster areas, or underserved or distressed nonmetropolitan middle-income geographies. See www.cdfifund.gov/who_we_are/about_us.asp and www.federalregister.gov/articles/2009/01/06/E8-31116/community-reinvestment-act-interagency-questions-and-answers-regarding-community-reinvestment-notice#h-21.

11 Also see GAO 2011 report, "Banking Regulation: Enhanced Guidance on Commercial Real Estate Risks Needed," at www.gao.gov/new.items/d11489.pdf.

12 Congress enacted the Home Ownership Equity Protection Act (HOEPA) in 1994 to respond to certain subprime lending practices.

13 The purpose of the CDFI Bond Guarantee Program is to provide a source of long-term (up to 30 years) patient capital to CDFIs to support their lending and investment activity. The program is currently in development. See www.cdfifund.gov/what_we_do/programs_id.asp?programID=14.

14 Enacted through the Small Business Jobs Act of 2010, the legislation directs the Treasury Department to guarantee the full amount of notes or bonds issued to support CDFIs that make investments for eligible community or economic development purposes. Up to 10 bonds will be issued per year, each at a minimum of $100 million.

Biography

Robin Newberger is a senior business economist in the Community Development and Policy Studies Division at the Federal Reserve Bank of Chicago. She holds a BA from Columbia University and a masters in public policy from the John F. Kennedy School of Government at Harvard University. She is a holder of the Chartered Financial Analyst designation.

Susan Longworth joined the Federal Reserve Bank of Chicago in 2011 as a business economist in the Community Development and Policy Studies Division. Ms. Longworth has over 20 years of community development experience, with a special emphasis on CDFIs and community banks. She holds an undergraduate degree in English from the University of Michigan, a master's in public service management from DePaul University, and an International MBA from the University of Chicago.

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