Show Me the Money:

Promises and Pitfalls of Asset Growth in
Community Development Credit Unions and Loan Funds

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Abstract

As private non-profit, locally based organizations, community development financial institutions (CDFIs) are increasingly important supporters of community development policies and programs designed to alleviate poverty. In the face of declining federal funds and political support for social programs, deregulation in banking, and capital market failure, CDFIs provide a range of financial services that encourage economic self-sufficiency and wealth in low-income communities. In order to expand their impact, some CDFIs have increased their assets to serve more customers and offer more products and services. This thesis seeks to answer the question: which factors and practices do large CDFIs employ to increase their total assets that other small CDFIs do not?

This thesis uses two research methodologies: web surveys and case study interviews. Surveys of low-income credit unions (LICUs) and community development loan funds (CDLFs) indicate that large CDFIs grow through geographic expansion, customer and product diversification, more debt and equity funding sources, and a focus on fundraising. Two case studies of prominent CDFIs—Opportunities Credit Union in Burlington, VT and The Reinvestment Fund in Philadelphia, PA—reveal how leadership and creative partnerships drive change that results in organizational scale and asset growth. The thesis concludes with recommendations for CDFIs, investors, and policymakers that are interested in supporting the growth of individual CDFIs and CDFIs as an industry.

For Danielle

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Finally, to my family, friends, and colleagues that have come and gone, live far and near. You challenge me to be my best; and take me at my worst.

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List of Community Development Acronyms

CBO	Community-Based Organization
CDB	Community Development Bank
CDC	Community Development Corporation
CDCU	Community Development Credit Union
CDFI	Community Development Financial Institution
CDFI Fund	Community Development Financial Institutions Fund
CDLF	Community Development Loan Fund
CDP	CDFI Data Project
CDVC	Community Development Venture Capital
CRA	Community Reinvestment Act
LICU	Low-Income Credit Union
NCUA	National Credit Union Administration
NFCDCU	National Federation of Community Development Credit Unions
OFN	Opportunity Finance Network (formerly National Community Capital Association)
Opportunities	Opportunities Credit Union (formerly Vermont Development Credit Union)
SBA	Small Business Administration
TRF	The Reinvestment Fund (formerly Delaware Valley Community Reinvestment Fund)

Chapter 1.

Institutions Financing Development in Low-Income Communities

Introduction

Non-profit community development credit unions (CDCUs) and loan funds (CDLFs) are amassing financial resources and mobilizing money in unique ways that extend capital to low-income communities traditionally ignored by banks and other conventional financial institutions. Their programs and policies are designed to alleviate poverty by increasing the flow of capital that creates and sustains decent housing, small businesses, and job opportunities for people in urban and rural places. Part of a larger community development system of locally-controlled, community-based organizations (CBOs) and community development financial institutions (CDFIs) in the United States (US), CDCUs and CDLFs promise to strengthen local communities, build individual and family assets, foster regional economies, and develop more efficient and more equitable capital markets. Specifically, they provide a range of financial services: business financing for job creation, construction financing for development of affordable housing and community facilities (e.g., schools and day care centers), and consumer banking services and financial education that encourage economic self-sufficiency and wealth. Even though they are a small fraction of global financial systems, CDCUs and CDLFs are important because they are local private market, or non-governmental, financial institutions that advance wealth and asset creation for low-income people and communities where few choices and few assets otherwise exist.

Federal Policy Context

Today, CBOs and CDFIs operate in an era of banking deregulation and federal cutbacks in social welfare programs designed to alleviate poverty. National political support for federal social programs, such as housing provision and job creation and training, has declined significantly since Lyndon Johnson's War on Poverty legislation of the1960s. Federal spending on community development and other social programs is contracting. However, in 1994, legislation created the CDFI Fund, a department of the US Treasury that granted funds to locally

controlled private non-profit organizations to provide consumer banking, credit and lending services to low-income communities. A market-based model to alleviate poverty, CDFIs leverage almost 20 times the federal contribution with private market debt financing and other equity contributions (CDFI Fund 2005). Conventional government social programs have mainly focused on grants funding for income payments or subsidies for basic needs, including housing, food and medical benefits; however, the recent deregulatory trend in federal social policy (i.e., welfare and housing) policy promotes self-sufficiency and employment. The CDFI Fund, and other market-based and tax credit policies, encourage private investment in low-income communities in lieu of direct federal funding for asset family and community development.

By many accounts, New Deal and Great Society policies that focus on poverty have either failed or are too small to significantly affect the overall population of poor people. For instance, public housing was deemed a failed experiment to fill a need for affordable housing among low-income citizens, especially in urban areas, because it concentrated poverty.[1] The social problems associated with concentrated poverty have been well documented in the popular media, public policy circles, and academic literature. Since the 1960s, a free market ideology of capitalistic individualism has spawned government deregulation in banking and federal cutbacks in social welfare programs (Immergluck, 2004).[2] Discussion of poverty and how to combat it effectively has all but dropped from the current national political agenda. It is beyond the scope of this study to look at the political and social causes in this shift; however, the history and public policies around poverty, and in particular, those focused on community development organizations provide an important backdrop for this research into CDFI growth.

Community Based Organizations and Community Development Finance

Community development corporations (CDCs) and other non-profit, private agencies come in all shapes and sizes because they are locally controlled organizations—or community-

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[1] While it is less discussed, rural poverty has different spatial dimensions, which might make it harder to combat because there are few economies of scale for the provision of in person social and financial services.

[2] Aside from Immergluck's academic account, popular media often sensationalizes poverty problems rather than highlighting policy solutions, which if discussed at all, are framed as contributing to poverty rather than alleviating it. Simultaneously, public policy makers are wrapped in an ideological debate as to the root causes of poverty: whether poverty is an individual problem—poor people are poor because they put themselves into poverty—or a structural problem—poor people are poor because political policies and the capitalist economic system create poverty. No matter where one stands on the ideological spectrum from pure individualism on one hand to pure structural determinism on the other, the fact remains that the federal government is in the midst of moving away from *public* policies and programs that seek to counter poverty to *private* ones.

based organizations (CBOs). Each has a local history of community struggle in pursuit of social and economic rights of poor people and other marginalized racial and ethnic communities. Community development programs often center on the construction and management of affordable housing as well as supportive services that train low-income people for jobs, help them start small businesses, and perform community outreach to organize, mobilize, and build political support for their programs (as well as other issues of neighborhood concern). In addition, some CBOs have assumed management of social programs from local or state governments. For example, in Massachusetts, many more CBOs (and other private training organizations) train more workers than federal agencies.[3] In short, federal funding has moved away from direct program management to funding private sector organizations. Core financing for CBOs comes from federal, state, and local governments as well as private philanthropies, charities, and wealthy individuals. Banks and other financial institutions provide working capital, loans for construction, and real estate mortgages. Private non-profit community development intermediaries, like CDFIs, provide financing, often in partnership with banks, and technical assistance to CBOs. Two of the most well known national examples of community development financial and technical assistance intermediaries are the Local Initiatives Support Corporation (LISC) and Neighborworks America. "LISC [was] organized by the Ford Foundation [in 1979] to identify and support 50 to 100 community groups worthy of financial support. By 2004, LISC had served more than 2,800 community development corporations (CDCs) nationwide."[4] Founded as a non-profit organization by Congress in 1978, Neighborworks America currently works with 245 partner CDCs and CBOs for housing and community development.[5]

As direct public funding decreases for CBOs, private sector financing through local intermediaries becomes more important for the development and maintenance of organizations requiring some sort of subsidy or technical support. In other words, community development service provision can be costly to administer, especially if low-income clients pay no fees for service and public funds provide less operational support. For many CBOs, especially community development corporations (CDCs), residential real estate provides revenue streams to

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[3] White, Gene, and Ulvin, Johan. (May 2004.) "Training Providers in the Commonwealth." *Research and Evaluation Brief.* Vol. 1, Issue 3. Commonwealth Corporation, available at http://www.commcorp.org/researchandevaluation/documents/ResearchBrief1-13.pdf

[4] Retrieved by author, May 14, 2006 from http://www.lisc.org/section/aboutus/history/

[5] Retrieved by author, May 14, 2006 from http://www.nw.org/network/nwdata/NeighborWorksOrganizations.asp

cover operating costs. But as a non-profit organization, there are limits to the amount of income an organization can derive from its investments in low-income housing. Regardless, CBO and CDC real estate portfolios are often small with significant regulatory and accounting requirements due in part to the large number of public and private funding sources involved in financing each project. If they grow at all, CBOs can take a long time to reach a sustainable level of new housing production, to say nothing about maintaining its existing assets. Other services, such as job training and small business consulting, require grants and other contributions to sustain, unless an organization can earn enough on revenue generated from other programs like housing provision.

What has been little documented is the growth and development of a unique brand of private sector CBO—community development financial institutions (CDFIs)—which fills the local financial gaps left by private capital market failures and by declining federal government support in building affordable housing, providing technical assistance and support to small businesses, and offering affordable consumer banking services and credit. Some CDFIs, like banks and credit unions, for instance, are regulated, federally-insured depository institutions that target low-income people and communities. Other CDFIs are non-profit loan funds, offering debt financing to CBOs and businesses. Some CDFIs are stand-alone, for-profit ventures in low-income geographic areas. Regardless of the type, CDFIs are part of a national, private market system of community development finance intermediaries for low-income people and places. They are mission-driven and place-based, but function like conventional financial businesses, offer consumer banking services and business and real estate financing. Instead of spurning low-income communities, CDFIs embrace them.

Capital Market Failure

A simple model of perfect competition in microeconomic theory dictates a business has the potential to grow if it operates in a frictionless market with low barriers to entry. However, capital markets are not perfectly competitive or frictionless; they have market inefficiencies, including asymmetric information and adverse selection, which leads to market failure (Dymski 2005; Benjamin, Rubin, and Zeilenbach 2004; Scorsone and Weiler 2004; Immergluck 2002; Moy and Okagaki 2001; and Parzen and Kieschnick 1994). Debt and equity capital markets suffer from information failure that results in thin investment or a shortage of affordable financial services in low-income neighborhoods and communities, giving rise to the need for

development banks, including a variety of CDFIs. Parzen and Kieschnick (1992) maintain capital market failure creates the need for development banking by state and local governments as well as alternative private market institutions such as credit unions and loan funds.[6] While the lack of information is one critical issue facing development finance institutions, Dymski (2005) observes two other reasons why operating in "new markets" are problematic.

> First, all development projects are subject to problems of Keynesian uncertainty and asymmetric information; second, wealth levels in lower-income and majority non-white communities are typically far lower than elsewhere; third, financial dynamics in lower-income and majority non-white communities often encourage wealth decumulation. Over time, the spatially-fixed assets that do exist in areas with all three development problems often decline due to inadequate maintenance and to low levels of local asset turnover and investment. Of course, this underinvestment in physical and business assets is often paralleled by underinvestment in social assets.

Dymski raises valid critical social issues, yet offers many more questions than answers. One critical question he asks of CDFIs is, "Are you creating dedicated assets for a community with fixed needs, locked into non-mainstream markets; or are you facilitating the inclusion of marginal populations and areas in mainstream asset-building processes?" The answer is often not one or the other, rather variations on both, according to the nature of a project, program, organization, and market opportunities embedded in local and regional economies. But how this looks in practice is elusive for economists or other academics, which have paid little attention to CDFIs (Dymnski 2005; Benjamin, Rubin, and Zeilenbach 2004).

Building off of capital market theories of asymmetrical information and adverse selection, Scorsone and Weiler (2004) conclude "these [economic] ideas point to a potential role for the public sector, such as through government specialists and universities, in overcoming information failures as a cause of economic stagnation and decline." However, because they lend in low-income markets, CDFIs must overcome the lack of information and small profit margins in the markets in which they operate. Yet, CDFIs are neither government specialists nor

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[6] This is not to say that for-profit banks and venture capital, which are often affiliated with non-profit CDLFs, are not important models of community development finance. CDFI Fund legislation corralled multiple organizational models under one definitional umbrella (i.e., CDFI). However, Parzen and Kieschnick (1992) favored commercial banks as the best organizational type through which to finance community development. By far, the CDFI Fund has certified more loan funds as CDFIs than any other model. Many nonprofit CDFIs have for-profit subsidiaries or affiliates that support the nonprofit business. Off-balance sheet financing is an emerging field with secondary markets, loan pooling, venture capital, and New Markets Tax Credits (NMTC) as some promising subsidiaries to fuel nonprofit growth. Though critical of the Small Businesses Administration's New Markets Venture Capital Program, Bates (2002) indicates that community development venture capital is best when funds are capitalized with most or all equity contributions.

universities, which begs the question: can they fill this function alone without significant input from the public and academic sectors? They are actively creating transactional information in low-income markets; however, evaluation of economic and social outcomes is limited to organizational and industry levels rather than to geography and the dynamics of spatial economies. Regardless of the response to Dymnski's questions, CDFIs strive to fill both information and capital gaps across a broad range of markets—they are bridging organizations with highly customized economic and social interactions. While there are presumed to be many potential synergies between government, higher education, and CDFIs, a large capital *and* spatial mismatch between client and investor markets can prove difficult for a small, one-person CDFI to overcome, especially if the regional business and banking economy is stagnating and there is little individual or institutional wealth willing to make social investments with a below market rate of return.

If capital market failure exists, CDFIs will be the only market competition because no profit maximizing enterprises will operate in the market because it is not worth it for them to be there. In other words, they feel investment in research and development would not yield significant economic returns. Yet, CDFIs focus on social and economic benefits to bridge this capital gap between borrowers, investors, and government. Nowak (2001) argues that CDFIs function as regional civic intermediaries, bridging many audiences for a common public purpose. Early CDFIs were thought to be a parallel system for low-income communities borne out of civil rights and federal community development policies in the 1960s[7] and bolstered by Clinton Administration urban policies: CDFI Fund and New Market Tax Credits (NMTC) (Dymnski 2005). While the CDFI Fund has extended matching equity and debt funds to CDFIs, NMTC leverage private investment capital for for-profit commercial development enterprises (mostly, real estate projects) in low-income census tracts. Therefore, CDFIs are embedded in regional economies and competing with a wider array of community development entities at the national level. However, community economic development still retains and often demands a neighborhood orientation, spanning low-income communities and national policies.

CDFIs have not restructured financial and accounting infrastructure nor standardized to the degree of conventional banking, which has undergone significant industry consolidation

[7] Credit unions had federal enabling legislation passed during the Depression; however the total number of credit unions peaked in the 1960s at over 20,000 organizations. Today there are approximately 9,000 credit unions.

along with information technology innovation and risk standardization (i.e., credit scoring). Banks have fundamentally altered the level of transactional information, which bolsters secondary markets that feed into global financial investment and capital markets (Benjamin, Rubin, and Zeilenback 2004; Stanton 2003; Yago, Zeidman, and Schmidt 2003; and Moy and Okagaki 2001). By their very nature, CDFIs are not standard. While secondary markets have not proved to be the panacea some industry advocates had hoped for, over 20 CDFIs have developed secondary markets, loan pooling, and securitization for the CDFI industry (OFN 2006), most notably Self-Help Ventures Fund through a secondary mortgage product, and Community Reinvestment Fund through buying and reselling loans from CDFI portfolios. However, these secondary market products are targeting CDFIs and other below market lenders (e.g., state industrial development authorities, banks, credit unions, and other mortgage lenders that cannot resell mortgages) rather than attracting market-rate investments.

CDFIs address capital market failures with two growth strategies: raising and managing capital from social investors and earning interest and fees from borrowers that will allow them to increase organizational assets, sustain self-sufficient operations, and increase community impact.[8] If a CDFI increases the number and dollar amounts of equity and debt capital it raises, it can deploy more financing and enhance its ability to earn—and compound—economic and social returns in the future. CDFIs must maintain a long-term financial and community perspective that is unlike other investment vehicles that are driven by short-term gains. Additionally, if a CDFI can increase its ongoing earnings, it can do the same as well as make it attractive to more social investors as CDFI investment products approach a market rate of return.[9] These two potential outcomes—more raised capital and more earned income—require CDFIs to adopt a dual focus on customer and investor markets. Moy and Ratliffe (2004) recognize the need for CDFIs to focus on customer niches to scale products. What is little understood is how CDFIs lever human capital and partnerships into product, organizational, and industry innovations to achieve positive returns to social and economic scale. Models offer opportunities for organizational reflection; however, they do not detail how to obtain accurate market information, achieve organizational efficiency and sustainability through responsible risk management and financial stewardship.

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[8] This thesis contains an underlying bias that CDFIs have had and will continue to have positive social and economic impacts on local and regional economies.

[9] Daniels and Nixon (2004) argue that CDFIs are first wave urban investment vehicles and that market rate urban development with social returns and market rate economic returns.

More Policy Context: Community Reinvestment Act and the CDFI Fund[10]

Since the original Community Reinvestment Act (CRA) in 1977, banks are required to make mortgages and small business loans in places (i.e., geographic areas) where they take deposits. The rationale for this legislation included the history of discriminatory practices (e.g., mortgage discrimination through "redlining" a neighborhood, usually non-white, white ethnic, and poor communities). CRA and companion legislation, the Home Mortgage Disclosure Act, require banks to disclose mortgage and small business lending information, which increases the transparency about the lending market, for public and governmental review. Simply put, a bank can earn CRA credits for investing in businesses, real estate projects, and consumer mortgage lending in low-income communities. Despite the CRA's impacts, there are still financing services and banking markets that many banks do not service. Moreover, they do not use credit and banking services to advance community development goals, such as individual and community asset building.

Federal policies in the 1990s fused government investment in social welfare with private market economic logic. In 1994, the Reigle Community Development and Regulatory Improvement Act created the CDFI Fund to provide financial support and technical assistance to CDFIs as well as run the Bank Enterprise Awards, which award grants to banks for investment in community development projects. Since 1996, the CDFI Fund has invested over $700 million cumulatively in hundreds of CDFIs. A 2005 CDFI report on FY 2003 data for 223 CDFIs indicates that

> information collected through [the Community Investment Impact System (CIIS)] suggests that CDFIs are dynamic institutions, building their assets and becoming financially stronger over time. The data suggests that the more mature CDFIs are, the more access they have to capital, the larger their staffs, the more they diversify and grow their portfolios, and the more self-sufficient they are.[11]

Moreover,

> the CDFI Fund estimates that CDFI Program awardees leverage each Financial Assistance Component award dollar with $19.63 in private and non-CDFI Fund public dollars, thereby providing the federal government a much greater return in community development outcomes than the government's investment dollars could provide on their own.[12]

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[10] Due to the limited scope of the research, this thesis omits other federal programs that benefit CDFIs, including those offered by the Small Business Administration and other federal, state, and local agencies.

[11] Retrieved by author May 14, 2006 from http://www.cdfifund.gov/news/2006/maturingCDFIbenefits.pdf

[12] Retrieved by author May 14, 2006 from http://www.cdfifund.gov/impact_we_make/Leverage.pdf

Clearly, the federal government is attempting to leverage small amounts of government dollars for community development projects and programs through CDFIs, using economic financing mechanisms. However, it is not clear whether mature CDFIs offer greater government dollar leverage opportunities than younger CDFIs. More importantly, the CDFI Fund does not compare leverage opportunities between large and small CDFIs.

CDFIs promote a bridge between capital markets and low-income communities. While the CDFI Fund does not report the impact of CRA credits on bank investments in CDFIs, many CDFIs collaborate with banks by participating in loans for community development projects or by using below-market rate financing from banks to finance CDFI lending at a higher rate. In other words, banks receive CRA credits on their investment in exchange for a lower economic return on investment, subsidizing a CDFI, which lends the money out at a higher rate. Federal CRA and CDFI Fund legislation encourages CDFIs to function as intermediaries between low-income borrowers, CBOs, and businesses on one hand, and banks and other public and private investors on the other.

CRA and CDFI legislation is fueled in large part by political activism concerning how banks receive financial resources from consumers and make investment decisions. As profit-motivated corporations, banks seek to maximize the amount of money they make on each loan; therefore, they make loans to people based on the prospective borrower's assets and/or credit. Of course, low-income people have few assets and often little or bad credit. This leads banks to deny them loans—a process of discrimination and wealth decumulation. If a bank does lend to low-income individuals and families, they often adjust their interest rates or fees to account for the higher risk associated with loan default. Unfortunately, the result is that low-income people, even with fair and equal access to capital, pay a steep price for that capital, which puts them at risk of bankruptcy and may actually decrease—or deacumulate—their net wealth rather than contributing to asset accumulation through what some activists call predatory or abusive lending. In other words, those who can least afford debt pay the most for it. Moreover, the lack of bank investment in low-income areas is often blamed for contributing to neighborhood deterioration, by compounding already poor economic opportunities for low-wealth communities.

Thesis Rationale

CDFIs attempt to alleviate the negative affects of poverty by filling a niche intermediary function between low-income consumers, grassroots CBOs that work in low-income communities, the public sector—including national, state and local governments—and private sector banks, foundations, and corporations. As CDFIs mediate and engage each of these stakeholders, they face the pitfalls of 1) attracting capital to advance social goals that are difficult to quantify economically; and 2) using market-based financial mechanisms that test the revenue generating potential of non-profit organizational models. This thesis explores both themes as they relate to asset growth and organizational scale. In order to increase their impact, some CDCUs and CDLFs continue to attract new assets to increase their lending capacity in pursuit of their mission. Only a small number of CDCUs and CDLFs have grown to exceed $20 million in assets. Asset growth is linked to an organization's geographic area or membership market for community development financing and services, its capacity to earn revenue in that market and raise funds that support operational sustainability and growth. However, organizational limits to asset accumulation may exist. Many CDCUs are cooperatives started for residents of one neighborhood or people that attend a certain church or work at a certain place of employment. CDLFs are sometimes embedded in neighborhood community development corporations or focus on lending to non-profits in a city with few non-profits. These organizations might follow a limited strategy of growth. Moreover, it can take a long time for an organization to grow through profits, or retained earnings. Yet, if the goal is to achieve wider social benefits for low-income communities by expanding financing products and services, asset growth is a good way to serve more customers and lead change in business, politics, and society.

By accident or design, fortune or folly, a small number of CDFIs control a large share of total industry assets. In 2003, the five largest CDFIs (of 477) controlled 31% of almost $9 billion in assets—the 25 largest CDFIs controlled 62%. Clearly, CDFI industry assets are concentrated in only a handful of organizations. While industry groups indicate that there are approximately 1,000 CDFIs nationally, relatively few have amassed a significant asset base. With total assets around $1 billion, the largest CDFIs are no larger than a mid-sized community bank or a small corporation. In stark contrast, 70% of CDFIs had less than $10 million in assets; median credit union assets were $2 million and median loan fund assets were $6 million (CDP 2004).

Research Question and Methodology

This thesis seeks to answer the question: which factors and practices do large CDFIs employ to increase their total assets that other small CDFIs do not? Clearly, there are only a few large CDFIs and many fewer small ones. A large CDFI reflects the extent it has been able to expose its financing products and community development services to more customers *and* attract new funding sources to support the growth of existing products and the development of new products. A small CDFI is either growing really slowly or losing money over time if it cannot attract new sources of equity through fundraising. Similar to any bank or for-profit businesses, CDFIs grow through internally generated revenues or through external investment made possible by equity grants and debt financing. However, unlike for-profit businesses, they are non-profit financial organizations that support CBOs and businesses, many of which require subsidy to sustain their operations. While the private markets for investment and finance might deem these organizations too risky, CDFIs balance earning revenue from these customers and raising enough subsidy to sustain their own operations. With few assets, survival becomes difficult and growth is even more so. More net equity assets after accounting for operating costs and debt service enable a CDFI to borrow more money in the future to expand its financing products and services. With declining public and private equity investments, for which many CBOs and CDFIs are clamoring, CDFIs must manage their capital resources to sustain their operations and grow. It is this internally generated growth that many CDFIs have yet to master.

To answer to the main research question, this study uses two research methods for different, but related, purposes. First, a web survey was conducted to understand the characteristics of LICUs and CDLFs and make distinctions between large and small organizations. Survey results appear in Chapter 2. The surveys are snapshots in time that attempt to approximate *change over time*. For example, questions about total assets, geography and population, number of employees, and sources and types of capital appeared on each survey. Each question was asked about two time periods—the first year of the organization's operation and it's most recent fiscal year. (See Appendix 1 for response summary, Appendix 2 for LICU survey questions and responses, and Appendix 3 for CDLF survey questions and responses.) While this is an imperfect methodology, it strives to measure relative change in credit unions and loan funds in the first year of operation and today to describe how CDFIs grow over time. The advantage is that the results are easily compiled to show changes in organizations from the year

they started to more recent time. The disadvantage is that the respondent may not have accurate knowledge of year 1, especially if the organization is older (many credit unions, for instance) and records were not kept.[13]

Second, narrative case studies of two large CDFIs were conducted. Opportunities Credit Union (Opportunities), a rural CDCU in Burlington, Vermont, and The Reinvestment Fund (TRF), an urban CDLF in Philadelphia, Pennsylvania provide detailed windows into organizational change and asset growth at two prominent CDFIs, which offers room for comparison with the organizational profiles of large and small organizations developed through the LICU and CDLF surveys in Chapter 2. Opportunities and TRF are unique among most of their CDFI peers because of their asset growth since their founding in 1989 and 1985, respectively. Moreover, they have received attention from national foundations and intermediaries as examples of organizations with best practices for community development finance. Rather than focus on product innovation, the case narratives are organizational studies of the different paths that Opportunities and TRF have taken to grow to scale. Importantly, they have increased their community development outcomes, including number of banking customers or number of mortgages, and number of housing units financed and jobs created, respectively. These outcomes are associated with asset growth; however, like any business, each organization believes that asset growth and scale stems from meeting the organizational mission and vision to help alleviate poverty though financial products and services to low-income people and communities. This study does not focus on community development outcomes, but seeks to build a snapshot of each organization based on financial reports, marketing materials, and interviews with staff and board members. In other words, growth in total assets is the outcome of organizational change that is marked by internal organizational changes and external factors, including government policies, the private sector banking and financial markets, and the market for social investments from individual and institutional sources.

More about CDFI Organizational Models

Although the most numerous form of community development financial institution (CDFI), CDCUs and CDLFs are just two of several organizational models that fall into the CDFI category, which became embedded in federal legislation. There is no one CDFI model, but

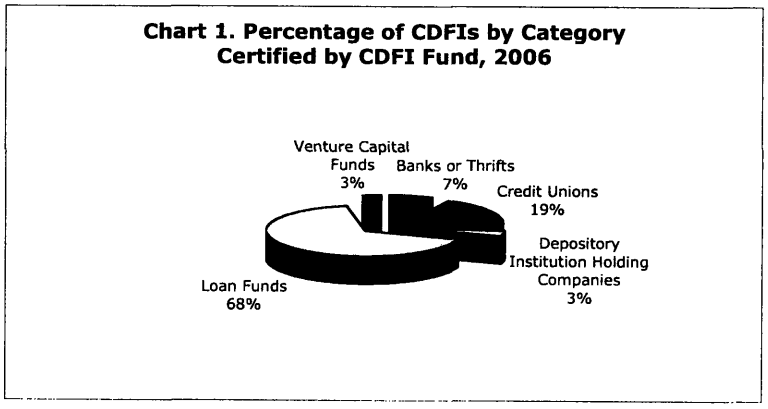
[13] In order to show changes over time, longitudinal data is ideal, but only results summaries are available publicly without charge.

several development bank typologies that differentiate CDFIs by financial products, organizational and legal structures, and capital sources. CDFIs are diffuse, unique, and often small organizations. According to the CDFI Coalition, a national non-profit organization created in 1992 that lobbied for the creation of the CDFI Fund,

> Community Development Financial Institutions (CDFIs) are private-sector, financial intermediaries with community development as their primary mission. 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.

CDFIs are distinctly non-governmental, community development organizations. In reality, these six basic types are not mutually exclusive—organizations can incorporate variations of each type into the work that they do. Some of the largest CDFIs have developed multi-functional affiliate structures, which are critical to their growth and scale over time (e.g., ShoreBank in the Midwest and Pacific and Self-Help Credit Union in North Carolina).

Governmental and private data sources of CDFI information differ considerably in their CDFI counts. As of January 1, 2006, the CDFI Fund certified 752 CDFIs, 86% of which include credit unions (146) and loan funds (505), a large majority of certified organizations. CDFI Fund certification is a requirement if a CDFI wants to participate in the federal government's technical and financial assistance programs. However, federal certification does not a CDFI make. The CDFI Data Project (CDP) is a longitudinal data set collected and published by a consortium of eight industry organizations and associations.[14] According to a 2004 publication, "the 477 CDFIs in this study [of fiscal year 2003 data] held $13.1 billion in assets and $8.4 billion in financing outstanding. For CDFIs for which we have four years of data (263 CDFIs),

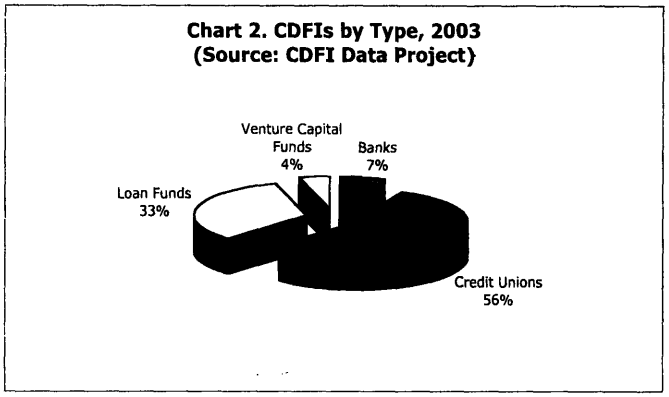


[14] Aspen Institute, Association for Enterprise Opportunity, CDFI Coalition, Community Development Venture Capital Alliance, Corporation for Enterprise Development, National Community Investment Fund, NFCDCU, and OFN.

financing outstanding grew at a compound annual growth rate (CAGR) or 18%" (CDP 2003). In this sample, 89% of CDFIs are credit unions (55%) and loan funds (33%). Clearly, the CDFI Fund and CDP samples vary dramatically in their relative proportions of credit unions and loan funds. The CDFI Fund is counting credit unions that have applied for and received their certification while the CDP sample includes credit unions that are members of the National Federation of Community Development Credit Unions (NFCDCU). The CDP sample counts members of Opportunities Finance Network (OFN), which represent 31% of the 505 loan funds in the CDFI Fund sample.

Why focus on CDCUs and CDLFs instead of all CDFIs?

This thesis focuses on non-profit credit unions and loan funds in order to limit the scope of research and concentrate on organizational models that represent most CDFIs. According to the CDFI Fund and the CDFI Data Project, credit unions and loan funds account for 86% or 89% of surveyed CDFIs, the vast majority of CDFIs, respectively. However, since government and private data sources account for half of the estimated number of CDFIs operating in the United States, they may overestimate the amount of CDCUs and CDLFs among all CDFIs.



CDCU and CDLF Basics

CDCUs and CDLFs have distinct community orientations, which are embedded in their private non-profit tax status as well as their mission statements, to provide affordable financial services to low- and moderate-income consumers and communities. Some explicitly target one or more demographic groups—for example, women, immigrant, or racial and ethnic communities—for social justice and economic empowerment. Generally, credit unions target consumer depositors and businesses operating in an area while loan funds, generally, target organizations, including businesses, community non-profit organizations, or affordable housing and other real estate developers. Credit unions targeting geographically can range from the neighborhood to the state while loan funds tend to focus on larger geographical areas. Many credit unions are formed through an associational bond that includes the workplace,

congregation, or community. They take member deposits and lend for personal, auto and mortgages. On the other hand, loan funds are 501(c)3 non-profit organizations that rely on grant and borrowed funds. Both credit unions and loan funds rely on social investors; however, credit unions offer market rate returns on savings and certificates of deposits while loan funds often offer an illiquid product that returns a below market rate and requires more on the social value placed on the investment by social investors.

CDCUs and CDLFs have different organizational structures, but share the non-profit tax status.[15] CDCUs and CDLFs are structured in fundamentally unique ways that are unlike conventional banks and loan funds: they pay no taxes and in exchange, they focus on low- and moderate-income people and places. However, they differ from each other because CDCUs are federally regulated depository institutions and CDLFs are not. Regulations limit the degree to which depository CDFIs can grow (Benjamin, Rubin, and Zeilenbach 2004). Credit unions were established with a cooperative, community structure built into the organization: a credit union's members are its owners. Loan funds can be public, quasi-public, public-private or private loan funds that have a mission that focuses on community development. Regardless of whether they are public or private entities, all credit unions and loan funds have a unique public or community mission, which varies widely in its breadth and depth depending on how and by whom the organization was founded. However, like all non-profit organizations, they pay no income taxes and are subject to some degree of public or community control, which is often through board representation or through an advisory committee.

Community Development Versus Low-Income Credit Unions

There is no strict definition of a community development credit union (CDCU), but it is important to understand the distinct nuances between them and the low-income credit unions designated by National Credit Union Administration (NCUA). The National Federation of Community Development Credit Unions (NFCDCU), an advocacy and membership organization founded in 1974, states that a CDCU is a credit union that meets the following criteria. First, similar to all credit unions, CDCUs are non-profit and tax exempt, cooperatively owned and governed, and government-insured. Second, they make fairly priced loans and products to members with "imperfect, limited, or no credit history," member financial education, and a

[15] All credit unions are non-profit organizations; however, CDCUs and CDLFs operate under different 501(c)3 sections.

"commitment to serve the broader community, which it demonstrates through community outreach, participation in government programs, partnerships with the private-sector in community revitalization efforts, and/or collaboration with other CDCUs."[16] As of December 31, 2005, the NFCDCUs counts 220 members that together control $3.4 billion in assets and have aggregate members numbering 896,000, approximately one percent of membership in all 9,000 plus credit unions throughout the United States.[17]

The NCUA has designated over 1,000 credit unions, or one out of nine credit unions, as low-income credit unions (LICU). As of January 2006, 1,035 LICUs controlled almost $20 billion in total assets and had over 4 million members or 5% of all credit union membership nationally. LICU average assets were over $19 million and median assets were slightly over $4.6 million. The designation enables credit unions to accept non-member deposits, a major tool that enables credit unions to increase their asset base. According to the Pennsylvania Credit Union Association,

> The NCUA's definition states a low-income credit union is defined as one where a majority of its members either earns less than 80 percent of the average for all wage earners or whose annual household income falls below or at 80 percent of the median household income for the nation ($33,595). The term low income also includes members who are full-time or part-time students in a college, university, high school, or vocational school.... To obtain a low-income designation from the NCUA, an existing Federal credit union must establish that a majority of its members meet the low-income definition. Majority in this definition means at least 50.1 percent of the members.[18]

Low-income people do not generally maintain a high average savings balance, so accepting non-member deposits can expand the capital on hand to increase a credit union's assets and support more loan activity.[19] Community development advocates argue that a low-income designation does not necessarily reflect a strong commitment to community development in the sense that NFCDCU defines a CDCU, especially with respect to student membership. (While students may earn a modest, or low, income, they have greater future, high-income earning potential than low-income people, who do not have significant amounts of wealth or are not pursuing education.) Moreover, LICUs may not offer the community development services targeted to low-income people that CDCUs offer even though many credit unions offer

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[16] http://www.cdcu.coop/i4a/pages/index.cfm?pageid=261, retrieved by author April 2, 2006.
[17] http://www.cdcu.coop/i4a/pages/index.cfm?pageid=256, Retrieved April 2, 2006
[18] http://www.pcua.coop/cudevelop/lowincome2.htm
[19] Author interview, March 2006.

assistance with personal budgeting and credit or home buying and homeownership counseling. Regardless of what category a credit union falls into, credit unions focus on servicing their members—in this respect they are people-based and focus only on specific groups of people that work together, live near one another, or pray in the same church. With respect to assets, they might focus on either expanding or maintaining their membership, which limits their asset size. Relative to a bank, which can serve anyone who chooses its services, a credit union provides services to a group with a common bond. In recent years, regulators have relaxed the rules and more credit unions are creating multiple common bonds to expand their field of membership.[20]

Thesis Chapter Overview

The introductory chapter sorts out the differences between non-profit CDFIs—with a focus on LICUs, CDCUs and CDLFs—and offers a brief overview of how CDFIs are related to the overall community development system, which was created by federal policies and justified by economic theories of capital market failure. Given these public and private rationales. CDFIs are financial intermediaries between low-income people and communities, non-profit CBOs, for-profit businesses, and public sector policies and programs.

The second chapter presents the results from the LICU and CDLF surveys. LICUs and CDLFs responding experienced growth between the first year of operation and the close of their most recent fiscal year. The surveys identified four factors associate with large CDFIs: geographic expansion, customer and product diversification, more debt and equity funding sources, and a focus on fundraising. These areas help to create an industry profile useful in comparing LICUs and CDLFs, as well large and small organizations. Differences between large and small organizations contribute to understanding how organizations have pursued growth in the past.

The third chapter covers two cases: Opportunities and TRF. The two organizations are different in fundamental ways but similar in the mission-driven nature of their financial products and services. Both are recognized leaders in a small industry where asset growth is rare. They are examples of organizations that have grown successfully, using two additional growth factors: long-term leadership and creative partnerships. The CDFI industry is still growing; therefore,

[20] There is intense lobbying in Congress and regulatory agencies between credit unions and banks that see credit unions as a competitive threat because credit unions do not pay taxes. Banks favor limitations to the cooperative model over the corporate model. Credit unions generally have more affluent members than banks; however, this is only one (albeit desirous) market segment every financial services business covets.

what constitutes organizational maturity is not well understood and institution building is just beginning. Opportunities and TRF have achieved varying degrees of scale in geographic focus, customers and products, financial sources and human resources. Moreover, Opportunities and TRF offer a microcosm of successes and failures. In other words, they exhibit growth fits and spurts that mark change in any business or social endeavor.

The final chapter reviews the major findings and presents recommendations for CDFIs, investors, and policymakers.

Chapter 2. Survey Results:

Growth Factors in Large and Small LICUs and CDLFs

CDFI Asset Growth and Associated Factors

Between their first year and today, low-income credit unions and community development loan funds increased their assets and simultaneously expanded their target areas, diversified their mix of customers and investors, and used new products to expand. What is less clear is the rate at which LICUs and CDLFs are growing annually, if that rate changes in fits and spurts, and how asset changes interact with other variables. Moreover, both human resources and changes in relationships are hard to measure, even without trying to account for their interaction with assets. Counting the number of relationships or categories and number of customers and investors does not measure the intangible dollars, community economic development synergies, and social value LICUs and CDLFs promise. While the surveys do not capture every independent variable in CDFIs—and this study only deals with a few—they help identify factors that are associated differentially, with large and small LICUs and CDCUs.[21]

Summary of Findings

First and foremost, large low-income credit unions (LICUs) and community development loan funds (CDLFs) grow by diversifying their customer base and increasing their funding sources. In addition to diversifying their customer base and funding sources, larger LICUs and CDLFs target larger geographic areas and populations that enable them to offer a wider array of products to new categories of customers. LICUs did not have as strong an association between assets and customers and assets and sources as CDLFs; however, LICUs with 4 or more customer categories are associated with over 10 funding source categories.[22] LICUs pool the savings of low-income members and non-member social investors to supply consumer, business, and community non-profit loans. LICUs rely on individuals and families as both customers and

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[21] Differentiating between large and small organizations helps identify if and how these independent variables contribute to scale. To create balanced samples among large and small LICUs and CDLFs, large LICUs (have greater than $20 million in assets in the most recent fiscal year while large CDLFs have greater than $10 million in assets in the most recent fiscal year. For the purposes of this analysis, today is the most recent fiscal year and year one is the first year of operation when discussing LICUs and CDLFs.

[22] Significant at a 99% confidence level.

funding sources, reflecting the cooperative, member-owner structure of credit unions. Who qualifies for membership is an important factor because it determines the geographic market extent of a credit union. The low-income designation helps these organizations leverage the assets of non-members into lending to low-income communities. On the other hand, CDLFs redirect wealth from a more diverse group of investors—including individuals, religious institutions, other financial institutions, corporations, foundations, and governments—to businesses and organizations that operate in or serve low-income individuals and communities. LICUs are moving into more lending to businesses and non-profit organizations while CDLFs have always focused on lending to these organizations. (Few CDLFs offer products to individuals.) However, CDLF have diversified by financing more types of organizations that develop affordable housing, community facilities, and commercial real estate than LICUs choose to target.

CDLFs draw from a wider array of debt and equity funding sources than LICUs do, mostly because they need to maintain a higher level of equity than a credit union. Large CDLFs have added more customers and funding sources than small CDLFs, not in shear numbers of customers, but by category of customer and by category of funding source. CDLFs with over $10 million in assets have 4 or more customer categories and over 10 different funding source categories.[23] In other words, large CDLFs have managed to diversify either their customer base or their investor base or both simultaneously as they have increased assets. Interestingly, the large number of customer categories that a CDLF targets are not associated with a large number of funding source categories. Regardless, small CDLFs are diversified by customer category and funding source, but not to the extent of large CDFIs.

Moving away from growth through retained earnings—a slow growth model— CDLFs are tapping into a broader array of funding sources than LICUs. Some LICUs are expanding their use of fundraising, but most, unlike CDLFs, are not focused on raising equity or secondary capital to accelerate their asset accumulation. While it not clear exactly what funding sources are the largest depositors in dollar amounts, it is clear that religious institutions, banks, corporations, and state and local governments are playing a larger roll as funding sources for some LICUs, but most are continue to grow through member deposits. According to a recent publication of the NFCDCU, a reason for the expansion of funding source categories in credit unions is that some

[23] Significant at a 99.9% confidence level.

CDCUs are using affiliated non-profit organizations to fundraise and assume some of the costs for operations and management, thus making the credit union healthier from a regulatory perspective, and opening up the organization to move into new customer or product categories. The survey, however, does not question LICUs about whether they are associated with an affiliate organization, so there is room for more research into affiliate contribution to asset growth and organizational scale.

Sample LICU and CDLF Asset Growth

Not adjusted for inflation[24], all sample LICUs and CDLFs increased assets from first year of operation to the most recent fiscal year, except for 6 of 65 CDLFs that did not start nor grow to greater than $1 million in assets. In the most recent fiscal year, 85% of LICUs had more than $10 million in assets while only 42% of CDLFs exceeded $10 million in assets, which reflects a sample bias in the credit unions surveyed.[25] (See Chart 3 for distribution of assets by LICU and CDLF.)

Chart 3. Percentage of CDLFs and LICUs in Asset Category, Year One and Today

	Less than $1 million	$1 million to $2 million	$2 million to $5 million	$5 million to $10 million	$10 million to $20 million	More than $20 million
Loan Funds Year 1	80%	10%	7%	3%	0%	0%
Loan Funds Today	10%	5%	17%	25%	27%	16%
Credit Unions Year 1	88%	3%	3%	3%	3%	0%
Credit Unions Today	0%	3%	0%	11%	31%	54%

Asset Categories

LICU and CDLF Geography, Population, and Markets

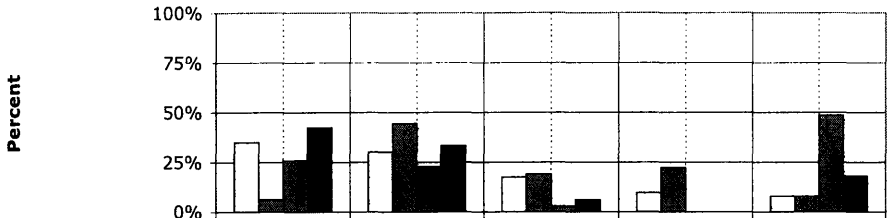
CDLFs have more flexibility to target larger and geographical markets than LICUs. In other words, the amount of assets does not restrict a loan fund from targeting larger markets, which one growth strategy dictates. LICUs are constrained from targeting larger geographies and populations by both regulators and mission. LICUs target smaller geographic areas than CDLFs, but these geographies can span one or more jurisdictions across dense and populous urban

[24] The asset amount from the first year does not take into account inflation. Using the mean age of each sample, we can create a threshold in 2005 dollars by adjusting for inflation by the Consumer Price Index. The mean and median first year of operation for loan funds was 1988, so $1 million in 1988 is inflated to $1,622,638.[24] (See figure1.) The mean first year of operation for credit unions is 1962 while the median is 1957. One million dollars in 1962 inflates to $5,958,139.

[25] This analysis does not adjust for outliers because of the categorical nature of the survey question.

centers or in rural places.[26] No LICUs survey targeted multiple states or the entire nation and few were statewide organizations. Most of these started out with a single common bond, which is less common today as field-of-membership regulations are looser than they were in the past (because credit union's can employ multiple common associational and geographic common bonds). A credit union must modify its charter and have it approved by the NCUA before it can expand its membership. Today, over 42% of LICUs focus on a single political jurisdiction (city/town, county) or one or more neighborhoods. An additional third of the sample focused on multiple jurisdictions, including metropolitan areas and multiple counties. On the other hand, less than 10% of CDLFs focused on a single jurisdiction today even though almost 35% of the sample started with that focus. Forty-four percent of the CDLF respondents targeted multiple jurisdictions and another 40% were statewide or larger organizations. Loan funds are not regulated and determine their target geography based on their mission and on their prospects for market growth.

Chart 4. Percentage by Geographic Jurisdiction, Credit Unions and Loan Funds in First and Most Recent Year (rows total 100 percent)



	Neighborhood, County, City/Town	Multiple Counties, Metro Areas	State	Nation, Multiple States	Other
Loan Fund Year 1	35%	30%	17%	10%	8%
Loan Fund Today	6%	44%	19%	22%	8%
Credit Union Year 1	26%	23%	3%	0%	49%
Credit Union Today	42%	33%	6%	0%	18%

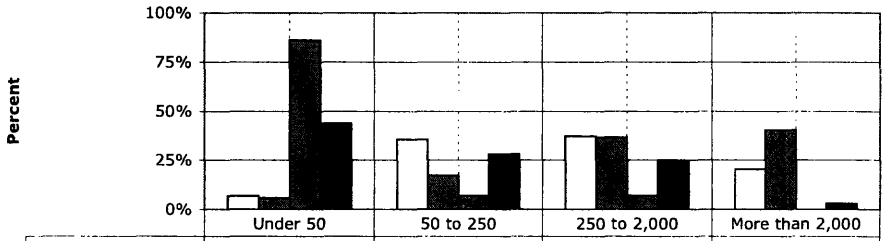
In addition to targeting narrower geographies, LICUs target smaller populations than CDLFs. Eighty-six percent of LICUs started out focusing on markets of less than 50,000 people; today that number has declined to 43% as LICUs are expanding their fields of membership. Very few LICUs focus on markets exceeding 2 million people. While CDLFs do not target consumers directly like LICUs, they focus on larger geographic markets that contain large numbers of

[26] Another factor is the urban versus rural nature. CDP data indicates that urban loan funds are generally larger, which if focused on housing in urban markets, deals can get quite large. Rural markets are thinner on capital wealth because of population dispersion. Many credit unions operate in rural communities because banks find the cost of opening a branch there prohibitive. With the advent of the Internet and phone-based banking, it remains to be seen if credit unions can leverage an alternative to brick and mortar business model that make them look like banks. (However, after visiting many credit unions in search of email addresses, I can safely say that banks have much more sophisticated web banking that many credit unions appear to offer.) The best innovation would be if technology could make it easier for credit unions to offer consumer financial services that build wealth for low- and moderate-income individuals and families. Unfortunately, credit unions cannot afford to innovate around technology without grant or subsidies.

people. CDLFs targeting markets covering less than 50,000 people accounted for 5% of the sample in year one and 6% today. The percentage of CDLFs that target markets between 50,000 and 250,000 people has dropped from 35% in year one to 17%, today while the percentage of CDLFs targeting more than 2 million people has increased from 20% in year one to 40% today.

In terms of geography and population, there is some difference between large and small LICUs and a negligible difference between large and small CDLFs. Large and small CDLFs fall into the same geographic categories in roughly the same proportions; larger LICUs tend towards multiple jurisdictions. Fifty percent of small LICUs fall into the single jurisdiction category while 55% of large LICUs fall into the multiple jurisdictions. Today, 11% of the large LICUs operate at the state level—5% operate in markets with over 2 million people. While the percentage of large and small credit unions started off targeting less than 50,000 people was 87% and 84%, respectively, 64% small credit unions are in the same population category today. Delineating the sharp range among LICUs, twenty-seven percent of large LICUs target populations of less than 50,000 people. Most large and small CDLFs target markets in multiple jurisdictions. The largest change over time was a decrease in the percentage of small CDLFs targeting a single jurisdiction from 48% in year one to 8% today. Concurrently, large loan funds dropped from 18% to 3% in the same category. Today, large loan funds operate (29%) across multiple states or the nation at twice the rate of small loan funds (14%).

Chart 5. Percentage by Population (000s), Credit Unions and Loan Funds in First and Most Recent Year (rows total 100 percent)



	Under 50	50 to 250	250 to 2,000	More than 2,000
Loan Fund Year 1	7%	36%	37%	20%
Loan Fund Today	6%	17%	37%	40%
Credit Union Year 1	86%	7%	7%	0%
Credit Union Today	44%	28%	25%	3%

LICU Customers, Products, and Sources of Funds

While all LICUs offer the same core products, larger organizations offer a wider array of products and serve more customers than just consumers and homeowners. Today, most large and small LICUs offer savings accounts and personal loans along with checking accounts (share draft accounts) and auto loans. In their first year of operation, large credit unions offered checking

accounts (share draft accounts) at a rate of 5.56% and small credit unions offered the accounts a rate of 20%. Sixty-one percent of large credit unions and 33% of small credit unions offered auto loans initially. Other products include Certificates of Deposit (CD) and Individual Retirement Accounts (IRA).

Though they started with the same number of products, large LICUs offer more products today than small LICUs do. As a credit union grows, it can add more products that require more capital. For example, residential mortgages are a significant step in expanding a credit union's capital base because they enable it to originate loans that can be sold on the secondary market.[27] A credit union can earn fees for servicing the loan—if they so choose—as well as increase their lending volume. Today, 94% of large LICUs and 60% of small LICUs offer residential mortgages. Small business loans and commercial mortgages present credit unions with another loan product, but unlike mortgages, credit unions will have to maintain the loan in their portfolio. Today, 55% of large credit unions and 26% of small LICUs offer small business loans while 44% of large and 13% of small LICUs offer commercial mortgages.

While member deposits are the largest source of capital for LICUs by far, large credit unions utilize these sources at greater rates than small credit unions. This holds true when the organization was founded through today. LICUs target institutional sources for deposits including religious institutions, foundations, banks, corporations, and local and state government. (See figure 5.) While the credit union might naturally attract institutional depositors, credit unions may choose to actively pursue these depositors as a part of a growth strategy. Large and small LICUs attracted bank depositors at virtually the same rate (23% and 22%) in their first years of operation while a greater percentage of small credit unions attracted intermediary depositors (6% versus 15%) during a comparable period.

Few LICUs are seeking out grant and secondary capital and there is a negligible distinction between large and small organizations. Technically, credit unions cannot fundraise as other non-profits can and therefore, credit unions create an affiliate structure that enables them to attract grant money (NFCDCU 2005). All LICUs can use secondary capital, but many do not use it. Secondary capital is a debt product that counts as equity when calculating the net worth ratio: the amount of equity capital to debt. While technically a mid-term loan, the credit union pays interest only for the duration and the principal at the end of a 5-7 year term. There is also an

[27] Author interview, March 2006.

equity roll down by 20% annually every year for the five years before the loan is due. Secondary capital is a double edge sword: it allows a credit union to leverage its "secondary" equity to build more debt (deposits/loans), but ultimately a credit union has to grow enough through retained earnings to return the principal and maintain a healthy net worth ratio.

LICUs that focus on community development and those that are members of the NFCDCU tend to have a larger number of sources both in their first year of operation and in their most recent fiscal year. Additionally, these organizations tend to be younger organizations. To meet a community development mission, these credit unions are reaching out to a greater number of institutions and using newer financial tools like secondary capital to accumulate assets. Credit unions that are not diversifying their sources are content to remain reliant on individual deposits while maintaining their net worth ratio in a slow growth state often advanced by NCUA regulators.[28]

CDLF Customers, Products, and Sources of Funds

Generally, CDLFs offer fewer consumer products[29] than LICUs and concentrate on lending to organizations, including small businesses, non-profit community development corporations, and other housing developers. LICUs make small business loans, but loan funds operate a variety of scales with one or many financing products, usually concentrating on small business or community non-profit or housing or some combination of both. CDLFs rely upon more sources of funds than LICUs—they are diversified with debt and equity sources, and to a lesser extent, secondary capital, which they receive primarily from banks, thrifts and other credit unions.

Between the first year of operation and today, large CDLFs experienced more growth in small business and community non-profit loans than small CDLFs. Twenty-nine percent small CDLFs started with community non-profit real estate loans to 25% of large CDLFs. However, in the most recently reported fiscal year, 74% of large CDLFs and 60% of small CDLFs offered community non-profit real estate loans. Today, over half of large CDLFs in the survey sample offer every product (over eight total products) with over 70% of large CDLFs offering small business loans, community non-profit real estate loans and community non-profit working capital loans. While allegorical information from each case study indicated that microenterprise

[28] Author interview, March 9, 2006.

[29] CDP 2004. Mostly homowner mortgage products.

lending is a line of business requiring some degree of internal or external subsidy for technical assistance, 60% of large CDLFs and almost 50% small CDLFs offer this product today. Over 60% of small CDLFs offer small business loans and non-profit real estate loans while 40% of them offer microenterprise loans, community non-profit working capital, and affordable housing construction loans.

Small CDFIs that are less than $10 million can be stretched to their capital limits with a big project that creates a less diversified portfolio. Less than 25% of small CDLFs offer commercial real estate construction and permanent loans, affordable housing permanent loans. Urban markets can be particularly expensive to enter. As they increase their assets, CDLFs can move into other products, which have greater financial risk and the potential for greater financial rewards.

Banks, thrifts, and credit unions, the federal government, and foundations are the largest depositors in both large and small CDLFs. However, in their first year of operation, large CDLFs attracted a greater percentage of all other funding sources *except for* banks, thrifts and credit unions and the federal government. Part of this may be attributed to CRA credits that banks receive when they invest in CDFIs as well as CDFI Fund matched investments since the mid-1990s.

Similar to credit unions, CDLFs accept deposits from individuals, though at significantly lesser rates than credit unions. Since they do not have depository insurance, CDLFs must attract and maintain a higher proportion of equity (or net assets) than credit unions to instill investor confidence in the organization. All CDLFs rely on a broad range of equity contributors. Foundations, and local, state, and federal governments are the largest investors in both large and small CDLFs. Though the survey did not make distinction, foundations operate at local, regional, and national scales, representing an uneven capital flow between regions. Foundations are not rationale funding sources— grant making can be fickle, supporting only short-term demonstration projects and best practices. Anecdotal evidence suggests that foundations are moving away from program-related investments[30] in individual CDFIs towards industry innovations. Today, large and small CDLFs receive grants from contributors in relatively balanced proportions. Large CDLFs attract a greater percent of federal government, foundation and individual investors while small CDLFs attract a greater proportion state/local government,

[30] Author interview, March 28, 2006.

banks, and corporations investors The percent of investors by type ranges between 40% and 65% for both large and small loan funds *except for* the percent contributions from corporations (30% large and 48% small) and from national CDFI intermediaries (19% large and 0% small).

Relative Importance of Funding Sources, Financial Mechanisms, and Strategies

Among survey respondents, there was a larger difference of opinion between large and small LICUs than large and small CDLFs about the relative importance of funding sources to expanding the organization's financial resources in the past five years. With little differentiation, all large and small CDLFs ranked all funding sources somewhat to very important to expanding the organization's financial resources in the past five years. Of course, virtually all LICUs ranked individuals very important and most other sources somewhat to very important. Smaller LICUs indicated that the federal government, credit union intermediaries, and banks were more important to expanding the organization's financial resources in the past five years than large LICUs.

Equity investments rank high with CDLFs while LICUs focus on membership for growth. CDLFs rank public and private grants as somewhat to very important to expanding the organization's financial resources in the past five years while LICUs rank these mechanisms somewhat to not important. Again, large and small CDLFs were consistent in ranking the importance of different financial mechanisms—private deposits and grants, public deposits and grants, retained earnings, and loan sales or securitization. In contrast, LICUs rank private deposits and retained earnings as somewhat to very important, reflecting a narrow investor focus.

On average, CDLFs ranked strategies important to the organization's financial resources in the past five years higher than LICUs did. Large and small CDLFs did not differ much in responding that all strategies were somewhat to very important. The top ranking strategies were employing experienced staff, applying for and receiving grants, and maintaining formal relationships with local institutions. On the other hand, large LICUs ranked offering new products, employing experienced staff, and expanding membership as somewhat to very important. Though they share a similar opinion on the first two strategies with large LICUs, small LICUs indicated that maintaining formal relationships and cultivating institutional investors was more important than expanding membership.

Limitations of Survey

While there are some statistically significant associations, it is not definitive—let alone very clear—whether or not one factor contributes to LICU and CDLF asset growth. Indeed, the categorical nature of the data limits the extent of claims. For example, new products either enable credit unions to grow or the credit unions were able to offer new products because they had grown. The interaction is likely more complicated than direct causation because of a web of factors associated with growth. LICUs are fiscally conservative organizations and must grow to a certain size before they can offer checking accounts and mortgages.

Survey data does not differentiate among the mismatches between local and regional economies across space. Nor does it reflect the quality of customers and products. If a LICU or CDLF is truly devoted to community development, they will target members that push the bounds of what might be considered a safe bet. For example, high-income people can secure a loan with their assets while many low-income people cannot. Personal assets, which can be generally small to begin with, often secure credit for new and small businesses. Non-profits face short-term cash flow issues if they rely on uneven grant funding and LICUs and CDLFs can fill a capital gap in affordable housing. In order to lend, LICUs and CDLFs will assume a higher degree of risk. This can be a tricky balancing act that many CDFIs must master—pursuing a community development mission while maintaining fiscal responsibility and investment stewardship.

Lessons Learned

Large non-profit CDFIs do the following:

Target more than one geographic jurisdiction with a large number of potential customers. All organizations are limited by the size of their target markets, which ultimately determines the extent of asset scale based on market constraints. Larger target geographies offer more pathways to scale. Credit union regulations have changed in recent years, enabling credit unions to have multiple common bonds and focus on more geographic areas rather than before. Without such regulatory restrictions, loan funds are free to target any market it defines, no matter what the size of the organization.

Branch out into new customer categories and products. In other words, growth requires customer diversification along with a large geographic market. Large non-profit CDFIs

are looking beyond individual wealth creation to business and community asset creation that is more comprehensive (broader) in its community development perspective. Perhaps these organizations are being more opportunistic. Credit unions continue to focus on low-income consumers, but they can branch out into business and non-profit lending. Loan funds started off lending to businesses and non-profit organizations for affordable housing, but can expand by lending to for-profit developers and for commercial and mixed-use development.

Attract more debt and equity funding sources. A diversification of customer categories must be balanced with a diversification of funding source categories. Because they are federally insured, credit unions do not have to retain much equity on their balance sheet—they are highly leveraged. In other words, individual and institutional deposits are their primary mechanism for growth, which is built into the cooperative structure of the credit union. The low-income designation is critical to attracting non-member deposits, which can contribute to an organization's bottom line if the organization can balance it with financial education and loans to its low-income members, businesses and community organizations. While this designation is not available to them, larger CDLFs pull almost equally from multiple debt and grant sources, which is more important than growing through retained earnings or loan sales and securitization.

Increase number of employees engaged in fundraising work. Larger credit unions have had a long time to expand their assets through retained earnings and are therefore larger than most loan funds. However, credit unions must do fundraising work through a non-profit sponsor because regulations limit the extent of credit union fundraising. Without the regulatory burdens facing a depository institution, loan funds have grow through external funding rather than retained earning—fundraising is an important and necessary activity. As CDFIs grow larger, they can devote more staff resources towards fundraising to meet the costs of cross-subsidizing different lines of business (especially community development services including technical assistance, and financial education and counseling), investing developing new loan products and financial services, and testing new customer markets. In many ways, CDFIs are investing in themselves and communities through a continuous cycle of internal and external reinvestment. CDFI scale is limited to the extent that they can encourage and build this cycle, to the benefit of the organization, low-income communities—its consumer, business, and non-profit customers, and places—and its public and private investors.

Pitfalls

Non-profit CDFIs that want to grow should be aware of the following:

One problem with expanding the geographic market of the organization is that this expansion might change the nature of CDFI-community relationships. Since credit union members are owners, losing community control is less of an issue for credit unions than for loan funds. Moreover, LICUs must retain and expand membership in order to grow. Unlike a credit union where members own the credit union, loan funds are subject to varying levels of community control. A CDLF will not grow if the staff and board of directors restrict lending to businesses and organizations in a small geographic area, especially at the neighborhood, county, or city level. Ultimately, the decision to expand an organization's target geography is based on interpretation of the organization's mission to generate wealth and assets for people in a particular place, whether defined narrowly or broadly. By increasing the geographic scale of an organization, organizations lose place-specific focus that has always been the hallmark of community development practices since its roots in the Great Society legislation of the 1960s. Larger CDFIs focus on a wider array of places than small CDFIs, but ostensibly, they all target low-income communities that can benefit from their services, but this complicates the issue of community control and accountability.

Customer and funding diversification may challenge a CDFI's connection to its low-income constituents—mission shift or creep—making them more attentive to the needs of sources of funds rather than the needs of community residents. A credit union must be careful to add new products as long as it does not jeopardize the level of service it provides to its current customers or significantly alter its mission. Attracting more funding sources to support lending to businesses and community non-profits that serves its membership should be consistent with a credit unions community development mission. By focusing on broader customer categories, a credit union can finance goods and services that improve the quality of life for low-income people. For CDLFs, the disconnect between communities and loan funds can be especially wide if an organization targets more for-profit developers and large businesses with non-community owners rather than community-based organizations and local businesses that are locally controlled. More and more, CDFIs work in conjunction with banks and other community development intermediaries to provide financing and technical assistance to businesses, and non-profit and for-profit real estate developers; all customers must have equal stake and equal access

to the financing and technical assistance a CDFI offers. However, there is little information about how loan funds balance make trade-offs between their mission-driven lending and their funding source requirements.

Fundraising is costly and industry boosters (i.e., social investors, banks, and CDFI economic and political intermediaries) are pushing for market rate investments, which may lead CDFIs to use subsidy for operating support rather research and development. If private and public sources of funding pull back from investing in CDFIs—especially in equity contributions—CDFIs will have to adjust their lending policies to reflect market rate pricing for the level of risk they assume. In other words, they must become efficient and effective managers of capital. An equity contributor is not an investor in a CDFI in the business sense, but a grantor of funds (which may come with some strings attached) in perpetuity. In other words, they are a social investor in the purest sense because they choose to forgo any economic returns on their investment. Yet CDFIs attract a wide range of social investors and can attract more by leveraging their equity with debt investments. A CDFI can always borrow against its equity to achieve a certain level of assets, but its long-term growth is stymied by the amount of equity it holds. If a loan fund offers below market rate loans or spend more money in servicing and technical assistance, they are at risk of slowly losing their capital over time. For some government-sponsored revolving loan funds, this is expected (Robinson, 2001). However, if a non-profit CDFI wants to grow, they either charge more in interest and fees or attract more funding. One funding source might be critical to short-term growth, but a diversified base may enable an organization to weather the vagaries of individual and institutional investors over time.

Chapter 3.

Asset Growth and Organizational Scale:

Opportunities Credit Union and The Reinvestment Fund

Introduction to Case CDFIs

The case studies of Opportunities Credit Union (Opportunities) and The Reinvestment Fund (TRF) enable a more detailed understanding of how one CDCU and one CDLF have achieved substantial asset growth as well as comparison of these findings with survey results. Both organizations share missions with other CDFIs because they offer financial products and services targeted to benefit low-income individuals, communities, and non-profit organizations. Both provide retail-banking services—Opportunities primarily to individuals/consumers (and to a lesser extent non-profit organizations and companies) and TRF to organizations, typical of most credit unions and loan funds. However, these organizations are not average—they are leaders among their peers with affiliate structures, more asset growth, larger target markets, greater diversity of products and investors. They have achieved a degree of industry notoriety as they push the bounds of what a scaled CDFI looks like. TRF and its affiliates have more assets, a larger target market, a different set of products, and different set of investors than Opportunities. Many of these organizational differences stem from the structure of credit unions and loan funds and each organization's respective position in different urban and rural economic geographies.

Opportunities Credit Union

Between 1989 and today, Opportunities' membership has grown significantly, while it has increased its number of consumer products, offering mortgages, microenterprise and small business loans, manufactured home and home improvement lending, and many transaction products (e.g. checking accounts ATM, ACH). The core client focus remains on banking services to low- and moderate-income individuals and families throughout Vermont. The first years were only savings accounts and personal loans; later, the organization offered residential mortgages, small business and non-profit loans. The addition of Opportunities Ventures (OV), a non-profit affiliate loan fund, has activated financing for Vermonters with disabilities and hopes

to begin lending to manufactured housing cooperatives[31]—products more typical of a loan fund than a than a credit union.

The Reinvestment Fund

Since 1986, TRF has expanded its regional client and investor bases as well as offered additional financing products for various customer markets. Original loan products for affordable housing construction and community non-profit working capital—the core loan fund—remain a large part of the organization. In the early years, TRF focused on capacity building non-profit CDCs—now there is a shift in focus to financing opportunities regardless of operator. TRF has restructured is technical assistance to community development corporations and shifted its economic development activities away from small business lending towards larger urban redevelopment projects and equity investments. Today, more of a co-mingled fund, TRF has diversified its investments across geographic markets and across industries and introduced new business financing products, including the Sustainable Development Fund, private equity funds, and New Market Tax Credits (NMTC) funds.

Summary of Findings: Overview of Factors Associated with Asset Growth

From their founding to today, consistent with other large non-profit CDFIs, Opportunities and TRF expanded their target area geography and are branching out into more customer categories and new products while retaining and enhancing their core customers and products that are economically sustainable. Similar to many community development credit unions, Opportunities will always focus on its core membership because its goal is to increase assets and wealth of low-income individuals and families. Financial education and counseling are a large part of the services that augment its ability to grow. Adding residential mortgages and financing manufactured housing cooperatives are consistent with this goal—Opportunities Ventures, an affiliated non-profit loan fund, increases the organization's ability to diversify its product mix. While Opportunities is experimenting with a new loan fund, TRF has expanded its focus from its core loan fund to include affiliated venture capital and NMTC subsidiaries, another CDFI Fund program. Some of these innovations are for-profit ventures, but they are still considered to return below market rates of return on investment. TRF's loan fund still provides (and has become self-sufficient at) construction lending and lending for charter schools, community facilities,

[31] Modeled off of a product pioneered by New Hampshire Community Loan Fund.

Chart 6. Comparison of Case Studies

	Mission	Geography	Assets	Customers	Consumer Financial Services	Loan Products	Community Development Services
Opportunities, Inc., Credit Union, and Ventures	To build wealth, community and opportunity through a fair and affordable financial system	Statewide: Vermont	$36.66 million (12/2005)	Loans: members resident in Vermont. Membership requirements: (a) Residents and business owners in the low-income area designated as the Old North End in the Burlington City Plan of 1984, (b) Residents and business owners in the City of Winooski, (c) Religious or non-profit organizations and employees, volunteers, members, or clients of said groups serving low-income Vermonters, (d) Employees of this credit union, (e) Relatives of individuals who qualify for membership under (a), (b), or (c). Deposits: members and nonmembers (primarily social investors who support Opportunities work with their patient deposits)	CDs and checking accounts to businesses and nonprofits as well as individual consumers, includign direct deposit, money orders, check cashing, electronic funds transfer, ATN, group and one-on-one financial education	Affordable mortgage, manufactured housing, home improvement and home equity, closer loans (for mortgage closing costs), small and micro business loans, auto loans, "working wheels" loans, energy efficiency loans, personal loans, education and training loans, assistive technology loans, computer loans, furniture and appliance loans, "tracker loans" (credit building and rebuilding, debt consolidation)	Group and one-on-one financial education, partnership lending
The Reinvestment Fund, Inc. and Affiliates	TRF builds wealth and opportunity for low-wealth people and places through the promotion of socially and environmentally responsible development.	PA, NJ, DE, MD, DC	$114 million (12/2005) (off-balance sheet total exceeds $250 million)	Non-profit and for-profit residential and commercial developers, community non-profit organizations, charter schools, businesses (including energy related businesses through Sustainable Development Fund)	n/a	Predevelopment, acquisition, construction, and other loans for housing, commercial real estate, and community facilities, business loans	Information services, neighborhood development/planning services, and HR/workforce services for portfolio companies

businesses, and some energy-related enterprises. The loan fund is the first source of financing and has allowed TRF to attract more bank money. In short, TRF is not just a loan fund but a co-mingled fund that offers debt and equity financing for community development projects. While staff is intimately aware of how the internal sources are used, a borrower does not necessarily need to know from what pool of money his or her financing comes.

Opportunities' stakeholder net, if you will, is small relative to TRF's. Vermont is a rural state with a small, dispersed population. The greater Philadelphia area is one of the most populous urban agglomerations in the United States. The genesis of each location was small, but the visions were broader than specific neighborhoods and projects. Opportunities began as a neighborhood cooperative in Vermont's most diverse urban area (i.e., North End of Burlington) and grew to a statewide financial organization, servicing members and loans in most Vermont towns through a CBO partner network. Only recently, it opened its second banking outpost (technically, not a branch) in Rutland to reach a wider membership market in southern Vermont. On the other hand, TRF is a multi-state organization that has recently expanded into five states located centrally between New York City, a global financial hub, and Washington D.C., a global political hub. TRF is building partnerships with multiple levels of government and expanding their development financing activities, opening new offices in Baltimore and Washington, DC.

Over the years, Opportunities and TRF have attracted a wide variety of debt and equity sources, consistent with the third factor in growth and scale. More specifically, government sources, individual and institutional social investors, and the local banking systems play important roles. Investments from the CDFI Fund account for a significant portion of Opportunities' equity and secondary capital. While TRF received substantial grant funds from the CDFI Fund, it has also attracted grants from state governments and national foundations at a greater rate than Opportunities. That TRF operates in multiple states with significant economic agglomerations and dense urban development patterns has surely enhanced its ability to attract more capital from a wider array of sources. Both organizations are proven social investments, raising their profile among public and private investors alike. Their ability to organize capital to support their community development objectives has contributed substantially to their economic and social bottom lines. Moreover, Community Reinvestment Act (CRA) regulations give all CDFIs, including TRF and Opportunities, a lever to attract and institutionalize investment commitments from banks. However, it is clear that the size and scale of local banking system

shapes a CDFI's opportunities, especially if banks have satisfied CRA requirements through other external relationships (with other CDFIs or banks) or internal mechanism (through their own community development subsidiary or corporation).

Opportunities and TRF have integrated fundraising and investment mechanisms to manage the flow of capital from investors to customers. Each organization does more than simply try to attract grants and donations through fundraising efforts. They are market-based investment vehicles, which appeal to social investors who might favor market mechanisms over philanthropic giving to put their money to work to build wealth for low-income communities. To their credit, Opportunities and TRF are willing to change their organizational and affiliate structure and use a variety of investment vehicles, creating new business opportunities that contribute to their double-bottom lines. However, these mechanisms require a more professional accounting staff, trained in regulatory compliance, and additional investment in information technology and infrastructure.

Summary of Findings: Other Factors in Growth

While TRF and Opportunities have used the four practices introduced in Chapter 3—geographic expansion, customer and product diversification, more debt and equity funding sources, and a focus on fundraising—their stories highlight how leadership and creative partnerships drive organizational change that results in more assets. The case studies highlight what the survey does not: the story behind an organization's road to scale. The CEOs at both TRF and Opportunities have led each organization from their respective origins, which offers a rare long-term leadership perspective. Moreover, these CEOs have built relationships with private and public sector organizations that give TRF and Opportunities access to more customers and a wider variety of supporters, investors, and market opportunities, which ultimately increase each organization's assets above and beyond organizations that fill smaller market niches. Staff at both organizations has extensive experience in banking and finance because there are heavy demands for financial accounting and regulatory compliance.

Each organization engages in creative partnerships to spur growth. For example, Opportunities overcomes a spatial disadvantage of having only one teller branch in a rural state by offering its services through partner CBOs. Opportunities is creating demand and generating supply for consumer banking services among low-income individuals by working through

partner community development or social service organizations throughout the state. On the other hand, TRF has used more non-profit and for-profit subsidiaries to organize new forms of capital for different kinds of community development enterprises, including venture capital investments in companies that create jobs for low-income people in urban neighborhoods throughout the Mid-Atlantic region and new markets tax credit real estate ventures. The organizations have followed two different roads: one focusing on consumers, and one focusing on big institutional investments. Yet both partnership strategies have contributed to asset growth.

Mission, Organizational Structure, and Geography

Opportunities Credit Union

In 1989, the Burlington Ecumenical Action Ministry (BEAM) founded Vermont Development Credit Union (VDCU) to support investment in affordable housing throughout the state. The credit union opened its first branch in Burlington's Old North End neighborhood, which suited the credit union's needs for a number of reasons. First, Burlington is Vermont's largest city with over almost 40,000 residents in 2000. Second, Chittenden County is the state's largest county with almost 150,000 residents. Third, the credit union was targeting the low-income residents who were concentrated in the neighborhood and the city. Fourth, many neighborhood residents were new foreign-born, brought to the state through the federal refugee relocation program. Though the credit union has truly grown into a statewide organization with members and loans in most towns across Vermont, it could not pursue a brick and mortar model of geographic expansion that many credit unions and banks follow. This path was too costly based on their limited margins.

BEAM had a twenty-year history of social service and affordable housing development when it founded the credit union. Organizers believed that the credit union was the best model to create self-sufficient homeowners by "promoting grassroots community investment and self-help among low-income people."[32] While their initial operational focus was on Burlington and Chittenden County, they always strived to be a statewide institution. According to their most recent bylaws passed (April 19, 2006) by Opportunities board of directors and pending with the Vermont Department of Banking and Insurance before they go into force,

[32] VDCU press documents, 1989.

> this credit union is a community development credit union[33] whose mission is to build wealth, community and opportunity through a fair and affordable financial system. We strive to give people of moderate and low wealth the best possible opportunity to live stable financial lives, avoid overpriced and nonproductive credit and build assets for themselves and their families. We do this through fair and affordable loans, savings and transactions delivered with our signature counseling methods, and associated development activities.

In 1999, the 10-year annual report identifies the underlying idea behind the credit union: "that low-income people and others that society sees as 'high-risk' have initiative, goals, and determination; they lack only opportunity." In 2005, VDCU picked up on this theme by changing its name to Opportunities Credit Union (Opportunities). The name change is intended to distinguish Opportunities and its mission from other Vermont credit unions (e.g. Vermont Federal Credit Union and Vermont State Employees Credit Union). Though the geographic neutrality of the name lends itself to expansion to other states, Opportunities has no plans for interstate expansion and is chartered in Vermont.[34]

In 2002, Opportunities created a new structure of dedicated affiliates with two new non-profit organizations, now called Opportunities, Inc. (OI) and Opportunities Ventures (OV). According to an internal document,

> Opportunities Credit Union shares a mission with two affiliates, both incorporated as Vermont 401(c)(3) charitable organizations: Opportunities, Inc. is the group's "umbrella" organization for planning, fundraising, and advocacy. Opportunities Ventures, Inc. is an unregulated community development financial institution that provides financial and community development services. These organizations operate in tandem with the credit union and are critical to its success.

Opportunities, Inc. performs a similar function that BEAM did, yet is much more engaged with the credit union than BEAM was because development of the Opportunities credit union and affiliates group is its sole reason for being. BEAM has a much broader mission ("seeking faith-based solutions to social problems"). OV is a non-profit loan fund that raises and deploys funds with a different risk profile or contractual requirements tied to the capital. For example, the state recently granted Opportunities a loan fund for Vermonters with disabilities that the credit union had serviced for over 12 years. While some of this money can reside on Opportunities' balance

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[33] Defined in 8 VSA Part 6, Chapter 220 §30101 as "a credit union that serves predominantly low income members...or a credit union that meets the requirements of a community development financial institution"

[34] Author correspondence, May 2, 2006.

sheet, OV raises and houses funds for additional loans to Vermonters with disabilities.[35] These affiliates buffer the credit union from the high-risk activities of OV. For its part, OI enables the organization to raise capital from a wider array of sources and dedicate financial resources towards this task while OV enables the organization to offer a wider array of products and expand its customer base. While regulations do not limit Opportunities' field of membership to one state, they limit lending to Vermont residents.

Despite an initial strategy to grow incrementally through additional branches radiating from Burlington, Opportunities has remained a single branch banking institution long before Internet banking started taking bites out of brick and mortar banks. There were two reasons for this: one, opening new branches was expensive, especially in a largely rural state like Vermont; and two, Opportunities reached customers through community partnerships with nonprofit agencies and businesses such as energy utilities and car dealerships. The organization has recently started sending mobile associates to partner organization offices to meet with new and existing customers. Opportunities' partners have direct access to Opportunities target market of low-income people and communities, which enables the organization to have multiple remote offices without cost beyond transportation. Opportunities opened their second banking outpost in Rutland in 2005, which provides a more convenient destination for members in southern Vermont.[36] A 2002 report completed for the Pew Partnership for Civic Change indicates that VDCU grew successfully because it was "quantitatively but also qualitatively different from ... traditional financial institutions" where members enjoy an "atmosphere of respect, in which members could understand the barriers they face without value judgments and each member could pursue his/her own goals at his/her own pace."[37]

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[35] Author correspondence, May 2, 2006: "the state made separate loan fund grants to Opportunities Credit Union and Ventures. The money given to Ventures was money that by federal law had to go to a 501(c)(3) organization (which the credit union is not); MOST of the fund that the credit union had serviced for 12 years went there, but part of it went as a required match to Ventures. The story demonstrates the need to have both types of organizations: the CU can better raise additional funds (because its deposits are insured), but Ventures is the right structure to receive the federal grant. We will run the fund "seamlessly" from the borrower point of view."

[36] Author correspondence, May 2, 2006: "Opportunities was able to open the Rutland office thanks to grants from the National Credit Union Foundation Callahan Fund and the Ford Foundation through the National Federation of Community Development Credit Unions. In the latter grant, we are in partnership with Heritage FCU, a mainstream credit union based in Rutland."

[37] Kolodinsky, et al. (2002). Author correspondence, May 2, 2006: "In fact, what we call "counseling-based lending" is the ESSENTIAL part of our growth story. We discovered early on that at least half of those who come to us for loans are not immediately qualified for what they want (e.g. because of excessive debt). We make them customers by supporting them in the process to become bankable through our signature counseling based lending

The Reinvestment Fund

In 1986, the Delaware Valley Community Reinvestment Fund (DVCRF) started to make loans to community non-profit organizations in neighborhoods throughout the Philadelphia region. It has since operated out of Philadelphia, but had a regional perspective as indicated by the name and focusing investment in low-income urban neighborhoods in Philadelphia, Camden, and Chester as well as eight counties surrounding Philadelphia in Pennsylvania and New Jersey. From the beginning, TRF targeted projects and investors in the same regional multi-jurisdictional level at the nexus of county and state lines (though incorporated as a 501c3 charitable organization in Pennsylvania in 1986). According to Article 3 of the 1989 Articles of Incorporation, DVCRF's mission was:

A) To create adequate and affordable housing, to promote energy conservation, to assist in the formation of worker, consumer, and community owned enterprises, to develop an expanding job base, to increase access to quality education and health care services, to support affirmative action for women and minorities, and to engage in other activities which improve conditions in and strengthen poor, low-income, and minority communities;
B) To make and provide loans, loan guarantees, mortgages, grants and other debt and equity financing and technical assistance to community controlled institutions, cooperatives and their members, and to organizations organized and operated for charitable, educational, literary, and scientific purposes similar to those of the Corporation and that qualify as exempt organizations pursuant to Section 501c3;
C) To conduct conferences, seminars, lectures, educational sessions, and other public discussions and programs on issues relating to community reinvestment, socially responsible investment, and related topics of social concern.

The original articles of incorporation mention a wide array of program areas, the mechanisms it would employ, and the information it would disseminate. The broad program agenda reflects a comprehensive assessment of market needs that TRF thought would "improve conditions and strengthen poor, low-income, and minority communities." In 2000, TRF changed its name, its mission, and introduced a new brand of organization that dropped Delaware Valley from its name. The organization rewrote Article 3 of the bylaws to state the mission for "combating community deterioration, relieving the poor and the distressed, eliminating discrimination, and lessening the burdens of government." TRF fulfills these social goals by:

A) Functioning as an intermediary between investors who support the purposes of the Corporation and borrowers whose projects and businesses reduce poverty, create economic opportunity, build

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system. There is no shortage of low-income people who need things and would like a loan: the challenge is converting them into successful paying customers. Without our counseling-based lending we could not have grown as we have."

wealth for low-income communities and low-income people and support a self-sustaining environment;

B) Functioning as a lender, investor, and grantor for housing, small business, community services, workforce development, commercial real estate, and energy conservation projects;
C) Functioning as a source of information and technical advice to public, civic, and private sector institutions; and,
D) Advancing policy ideas consistent with the mission of the Corporation.

Before the name and mission change, TRF had changed its affiliate structure, removing technical assistance programs and increasing its share of equity financing: in 1997, TRF created a for-profit subsidiary and raised $10 million in private equity funds to invest long-term in businesses that create new jobs for low- and middle-income workers. In 2002, TRF launched Urban Growth Partners, a second private equity fund, which closed with almost $50 million in commitments. The first fund is fully vested has returned 50% of its total investments.[38] TRF earns fees for managing the fund and as an investor, will receive a portion of the proceeds.

In 1999, the organization had three primary financing affiliates: the loan fund, a bank pool for construction financing, and private equity. Today, the loan fund functions as part of TRF and has four affiliates, two for-profit and two non-profit. The growth of the affiliate structure has enabled the TRF non-profit umbrella to capture fees and earned revenue from its subsidiaries as well as diversify its mix of financing. TRF no longer offers technical assistance to community development corporations, which was part of its original product mix. Future plans include starting for-profit real estate subsidiaries in Baltimore and Washington DC.

Asset Growth[39]

Since 1990, the asset growth rate at Opportunities and TRF has been uneven. The biggest growth spurts—high rates of asset growth—for TRF (at least its own core assets) were from 1995 to 2000 while Opportunities' biggest growth spurt was from 2000 to 2004. The asset growth for both organizations has not been linear, but much of absolute numerical growth occurred in the past five years. In other words, as asset size grew rates of growth were lower in the past five years than in the growth spurts during the 1990s. From a similar baseline year 1990, TRF's asset growth outpaced Opportunities by a large margin. At the end of the calendar year

[38] Retrieved by author, April 20, 2006 from http://www.trfund.com/financing/venture.capital.overview.htm.

[39] Opportunities asset data compiled by author from spreadsheets supplied by Opportunities and NCUA 5300 call reports. TRF asset data compiled by author from 1992, 1996, 1999, 2000, and 2005 annual reports, 2006 prospectus, and financial statements ending June 30 and December 31, 2005.

2005, Opportunities had $36.6 million in assets, and over $20 million in total loans. Between 1990 and 2006, Opportunities assets grew at an average annual rate close to 25% while TRF's rate averaged 29%. As of June 2005, TRF managed $93.2 million in total assets, excluding the Sustainable Development Fund and assets managed by TRF affiliates. For all TRF affiliates, total capital under management exceeded $250 million in FY 2005. Today, the core loan fund is still a significant part of the organization, accounting for 50% of the organization's non-profit total assets and approximately 20% of all holdings by TRF and its affiliates.

Opportunities has relied on non-member deposits and secondary capital as key vehicles for capital expansion while TRF has relied more on managing capital via affiliates. Opportunities has remained "well capitalized," according to the NCUA definition, through a period of fast growth by augmenting its net worth with over $4 million in secondary capital. As of December 31, 2005, secondary capital provided 60% of its net worth of 16.6%. This net worth calculation includes secondary capital investments, which if removed from the equation, Opportunities net worth would drop below 7%. Opportunities is the most aggressive user of secondary capital among all CDCUs. Management recognizes that secondary capital is not an ideal tool for permanent growth because as it nears maturity its eligibility as net worth erodes and, unless it is renewed or extended, it must be repaid. To date, Opportunities has been successful in securing extensions and renewals of secondary capital agreements to retain this vital contributor to net worth. But this requires some effort—what management calls, "chasing ourselves to keep the same amount qualifying." Recognizing this challenge, Opportunities is seeking ways to make its secondary capital "evergreen" (automatically renewing) or even converting it to permanent equity. Aside from secondary capital, credit unions must grow net assets through retained earnings, which can take a long time; however, Opportunities has increased net assets through equity grants from the CDFI Fund, HUD, and the State of Vermont, which has added to net worth and more total asset growth.[40]

Because it is an uninsured loan fund, TRF must retain a higher net worth ratio than Opportunities. A typical net worth ratio for a CDLF is 25%.[41] TRF has core financing programs that are nested in an array of non-profit and for-profit funds that contribute to its equity position. TRF's net worth ratio (excluding SDF and affiliates' assets) has increased from a low of 13% in

[40] Author interview, March 9 and Author Correspondence, May 2, 2006.
[41] Author interview, March 30, 2006.

2001 and 2002 to a high of 20% in 2005. For total capital under management and net assets, TRF and its affiliates net worth ratio was declined from a high of 42% in 2001 to a low of 17% in 2005. Ending June 20, 2005, TRF and TRF, Affiliates net assets stood at $23 million and $43 million, respectively.

Since 2000, both organizations have accumulated significantly more assets as well as changed their organizational focus through name changes, brand development, and retooling their missions. In this period, TRF has shifted its growth focus from its core non-profit financing operation, which maintains its dominant organizational position. From 2000 to 2004, Opportunities continued to grow annually between 19% and 35%. In the same period, most of TRF's growth occurred through its affiliates—TRF asset growth rates ranged between zero and 13%.

Sources of Funds: Individuals and Institutions

Spanning individuals and institutions, sources of funds at Opportunities and TRF are diverse, ranging from members and social investors to religious institutions, local governments to the U.S. government, and foundations to banks. Opportunities and TRF do not operate in a static funding environment. This forces these organizations to be opportunistic, given available funding sources and mechanisms. Opportunities' funding base relies much more heavily on organizational than individual deposits with some of the largest growth in non-member deposits. Both Opportunities and TRF target individual and institutional social investors. TRF offers promissory notes to both individuals and institutions and accepts grants, contracts, and management fees.

Members, Individual Investors, and Religious Institutions

Opportunities has simultaneously increased membership rolls as well as non-member deposits. Membership at Opportunities grew modestly in the early and mid-nineties, and began rising more dramatically in 1997, exceeding 5,000 members in 1999 and 10,000 members in 2002. Membership growth has moderated slightly, but by all indications, the credit union should break 15,000 members in 2006. Today, Opportunities has loans placed in virtually all cities and towns in Vermont. One third of its members live in Chittenden County, which accounted for over 20% of Vermont's total population in 2000.[42] Most of Opportunities recent asset growth has

[42] Author Interview, March 9, 2006 and US Census, 2000.

been in non-member certificates of deposit: almost all large depositors are institutions while banks and credit unions are the single largest source of deposits.[43] While they were an early and frequent adopter of secondary capital, this source is declining as a share of total assets. Member deposits account for 28% of total assets and nonmember certificates of deposit account for 39% of total assets.[44]

At TRF, individuals and religious institutions account for the largest number of investors, but banks and foundations comprise the majority of investment dollars. Banks are the most important investors for TRF—they account for over half 2005 current and non-current loans payable with over $30 million. Foundations account for $10 million of debt about twice the amount of individuals and religious investors. While growing in number, civic organizations, corporations, and government agencies are a small share of TRF's loans payable. TRF's 2005 noncurrent loans payable were 30% due to JP Morgan Chase (for the Collaborative Lending Initiative, a revolving loan fund of pooled bank capital for housing development), 30% due to other banks, 17% due to foundations, over 7% due each to individuals, to religious institutions, and to civic organizations, corporations, and governments.

While religious institutions' investments are a declining percentage of the total number of investors at TRF, a constant number of congregations still maintain their stamp of approval on TRF. Individuals were 73% of all investors in FY 2005. The number of banks has remained constant since 2000, while the number of foundation investments increased slightly. The largest growth in investors is from 38 organizations in FY 2000 to 57 organizations in FY 2005. Among investor markets at TRF, there is numerical growth among individuals and among organizations. Does this mean that TRF has reached its limits in stable investor segments, including religious institutions and banks? It is a plausible theory, but would require more analysis of religious institutions and banks in Pennsylvania, New Jersey, Delaware, Maryland, and Washington DC. Religious organizations are local in nature while banks are not.

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[43] Author correspondence, May 2, 2006.

[44] Opportunities addendum, May 2, 2006: "We and other depository CDFIs are somewhat frustrated by the $100,000 "glass ceiling" on deposits. Some of the high-performing RLFs have been successful in getting large investors to grow with them, increasing the amounts they invest in the RLF. Even our enthusiastic depositors tend to have institutional reasons why they will not go above the 100K insured limit. This means that as we grow we must find more and more different depositors."

CDFI Fund and Other Investors

In the late 1990s and early 2000s, both Opportunities and TRF received significant investments from the CDFI Fund, including funds for technical assistance and financial assistance from the matching fund. The CDFI Fund granted $1.5 million and awards another $1.5 million in secondary capital to Opportunities between 1997 and 2002. Technical assistance grants totaled $167,000 for capacity building. Between 1996 and 2002, TRF received substantially more grant and debt financing from the CDFI Fund than did Opportunities: $8.5 million and $1 million, respectively. TRF's net assets increased from $2 million in 1995 to $15 million in 2000 to $12 million in 2002. TRF net assets have nearly doubled since 2002 while Opportunities exhibits a near constant level of net assets, showing that the CDFI Fund capital does not determine the level of capital expansion in TRF than it did in Opportunities. From 1995 to 2002, the CDFI Fund grants accounted for 85% of the growth of net assets and seemed to have cushioned TRF from large losses ($3 million from 2000 to 2002).

Both Opportunities and TRF attract grants from national foundations, but it remains unclear how the timing and amounts of these grants has contributed to asset growth and organizational change. While there was little information available about equity contributions over time for either organization, each periodically receives grants that are either converted from debt or earmarked for specific financing programs or research studies. For example, the Department of Education has issued TRF grants for charter schools while the state of Pennsylvania is currently granting funds for supermarkets statewide. Opportunities, Inc. has received research and other grants from the Aspen Institute, Fannie Mae Foundation, Ford Foundation, Vermont Community Foundation, and John Merck Fund.[45] TRF foundation investors span local and national organizations, including Pew Charitable Trusts and William Penn, Ford, Fannie Mae Foundation, and MacArthur.[46] Unlike TRF, Opportunities does not have an extensive network of foundational investors close by, nor does Vermont contain nearly as

[45] Author correspondence, May 2, 2006: "Technically, the credit union cannot receive grants from most foundations because it is not a 501(c)(3) organization except for National Credit Union Foundation, which has funded our work in affordable mortgage lending and our statewide expansion."

[46] FY2005 Annual Report, The Reinvestment Fund.

many high net worth individuals as live in PA, NJ, DE, MD and DC. This gives TRF a significantly larger pool of people and institutions to target than Opportunities.[47]

Uses of Funds: Customers and Products

Both Opportunities and TRF have leveraged customers and products in different ways. Opportunities has primarily expanded through depositor customers, both by expanding membership and member savings and also by bringing in nonmember deposits.[48] Opportunities has captured 15,000 members relative to their target population of Vermont's 100,000 low-income and underserved households, or 40% of the adult population (approximately those at 80% of median income or less). Opportunities is expanding its products a little while the customer/product mix has been more important to TRF. TRF is expanding into charter schools and supermarkets, and moving from small business lending to equity investing. TRF has possibly been more opportunistic than Opportunities in pursing markets where it can raise significant capital. Another alternative is that TRF is embedded in a dense urban market where there are more and different opportunities for sources and uses than in Opportunities' decentralized rural population.

Opportunities offers consumer banking products, mortgages, and personal loans. In a very real and tangible way, Opportunities' members and investors are also Opportunities' customers and owners. On the other hand, TRF investors are usually not the recipients of TRF financing products other than a promissory note. TRF investors earn a return on their investment, but it is not a market rate return, and can choose a range of returns from zero to four percent. On the other hand, TRF borrowers tend to pay market rate or above. In simple terms, TRF is borrowing at below market rates and lending at market rates to earn a margin to support its operating activity. Grants and contracts also fuel this activity, especially in terms of policy and planning. In terms of interest rate, Opportunities, as do many credit unions, offers better rates

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[47] Author correspondence, May 2, 2006 on three "differences between grant funding at Opportunities and most CDFIs:

1. Depositories have a high rate of financial self-sufficiency (circa 90%, compared with a more typical 50% at CDLFs). This means we are less expert at cultivating grant sources and that we are limited in the matching grant funds we can show to obtain CDFI awards (which require a 1-1 match).
2. The State of Vermont has a very limited budget. In larger states, CDFIs have received substantial state grants. Opportunities has never received operational funding, although we have received capital grants for specific loan programs (Working Wheels, Independence Fund).
3. There is no major local foundation in Vermont. Many other CDFIs have received major support from geographically based foundations."

[48] Author Interview, March 9, 2006.

than banks on savings accounts and certificates of deposit. However, Opportunities operates with little margin. Rather than retain more equity, Opportunities passes equity gains on to its members by providing more affordable services. To some extent, Opportunities pays for the higher cost of its counseling-based services with grants from HUD and other sources.[49] In other words, Opportunities provides more affordable financial services to low-income individuals. Some credit unions face competition from predatory lenders, which often charge rates that take equity assets from individuals rather than help individuals retain and increase equity assets.

TRF offers debt financing for affordable housing, community services, economic development, and commercial real estate and equity financing for business and real estate through for-profit venture and NMTC funds. TRF's equity financing has driven total capital under management since 2000—the loan fund remains approximately 50% of TRF's $114 million in total assets at the end of calendar year in 2005 while the total capital being managed by TRF exceeded $250 million. The loan fund concentrates on lending to organizations for affordable housing, community facilities, charter schools, and small businesses. Recently, TRF has scaled back it's lending to small businesses for one of the reasons it stopped running the community development institute: it proved too costly, especially considering its scattered impact among single entrepreneurs. Any jobs created likely went to the entrepreneur's family. Moreover, there were no multiplier effects, or synergy with other TRF investments in real estate and community. Though the supermarket initiative is still debt financing for businesses, it is larger than past TRF loans, which ranged from $25,000 to $500,000. Currently, TRF's jobs strategy lies with its equity funds and its healthy construction lending business. In its real estate lending, TRF's loan fund is financing larger deals.[50] TRF is achieving a degree of administrative scale: each transaction requires the same operating costs. In other words, in order to achieve more impact, they must do larger deals.

Organizational Culture, Leadership, and Management

Most staff, board and industry professionals pointed to organizational leadership as a leading factor that created the right synergy of depositors, products, partnerships, and other investors. Opportunities and TRF are similar in that they have had the same CEO since the

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[49] Author correspondence, May 2, 2006.
[50] Author interview, March 28, 2006.

founding of the organizations in 1989 and 1985, respectively. Retaining the same leader creates organizational continuity and institutional memory. Both Caryl Stewart and Jeremy Nowak proved capable of managing a growing organization through various stages of growth. As one TRF interviewee put it, "Jeremy is scalable"—as an Opportunities interviewee put it, "You need a visionary to start a CDFI."[51] Yet if organizational leadership is a large driver of growth, then there are few leaders in the CDFI industry that have taken their organization to a significant size. At both organizations, it is a constant struggle to attract and retain talented people to operate the business as well as maintain a culture of growth that requires "temperament, vision, passion and the ability to manage ambiguity." Jeremy Nowak goes on to say "from the beginnings of the field we carried ourselves like we were going to grow. Some people on board that were nervous, which is the problem with social justice and its focus on marginality and nothing else. Purity, substituting process for trust ... For us, growth was meeting the ambition of the mission and good stewardship. Ultimately, it's a political culture issue. Some organizations have a narrow view of loans, that they only meet certain criteria."[52] Staff manages a variety of funds in a complex structure consisting of multiple companies with each compliance requirements. This demands systems-oriented people that are versed in compliance issues. Financial and accounting staff must have the credibility to get and manage broad array of financial pools.[53] Other TRF interviewees indicated that people have to understand both the mission and business sides of the organization—those who don't, tend to move on. According to a TRF board member,

> staff takes advantage of opportunities and always looking for new opportunities... Some things they've passed on... TA portion cancelled because it was so labor intensive and we were not sure if we were making an impact. We asked ourselves: can you do more with less—instead of one staff person working on 21 units of housing, what about 100 units? Now, no involvement in direct deals, but using developers that have good track records and get things done.[54]

Opportunities recently reorganized some of its management because "money growth was ahead of its staff growth."[55] Both Opportunities and TRF have a highly professionalized staff—as non-profits they pay decent wages, but no one will get rich working for either organization. CDFIs function in two worlds that are seemingly incompatible: banking and social

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[51] Author interview, March 28, 2006.
[52] Ibid.
[53] Author interview, May 4, 2006.
[54] Author Interview, March 29, 2006.
[55] Author Interview, March 9, 2006.

justice. As the industry grows and matures it remains to be seen whether or not CDFIs will become a haven for displaced bankers or a haven for activists seeking a more market-based mechanism for asset development and wealth creation for low- and moderate-income and minority communities.

Creative Partnerships

TRF and Opportunities have formed many partnerships with many different kinds of individuals and organizations that 1) help the organization reach new customers and markets; 2) generate general loan/investment growth; and 3) supply new capital. For example, Opportunities partners with community-based organizations, which falls primarily into the first category. Opportunities maintains partnerships with community organizations and social service agencies throughout Vermont because they are in direct contact with the low-income people the credit union targets for membership. While Opportunities gains members to expand its assets and deploy its financial education and lending, the partners find that they are able to offer a wider array of support services, including, among others, money management and credit repair.

The second category includes retained earnings and more financial and other contract management fees. TRF manifests more activity in the second category relative to Opportunities, but it is unclear how market opportunities have shaped partnerships versus organizational opportunism to expand partnerships across jurisdictional borders. TRF has focused on government contracts at national, state, and local levels while Opportunities has limited government and foundational contracts for research and policy services. Not only has the support of local, regional, and national institutions have been critical to organizational growth, but also this support serves to legitimize and reinforce an organization's position as a trusted institution. Both TRF and Opportunities relate to customers, to investors, to policy makers, and to each other through national intermediaries. Because they cannot achieve rapid asset growth from within they need to leverage relationships and create partnerships that contribute directly to their asset base.

The third category includes debt and equity partnerships that bring new institutional sources of capital to projects, programs, or at the organizational level. TRF focuses on equity and debt sources of capital that are diversified among a wide array of local and national organizations. Opportunities has a similar base with growth weighted towards debt over equity because greater leverage equity brings. For example, TRF manages a pool of bank money to lend

for affordable housing. This relationship is mutually beneficial: it bolsters TRF's balance sheet and enables it to fulfill its mission, while banks receive CRA credits. Additionally, TRF has gained a fluency in markets that engenders investor trust, especially among institutions with significant resources and interests in the same markets that TRF operates in, that TRF can achieve what it says it can. Both Opportunities and TRF strive to be efficient social investments with good self-sufficiency and high reinvestment rates.[56] One challenge that Opportunities faces is that Vermont lacks foundations and a large number of wealthy social investors; therefore, it has built political relationships with Senator Patrick Leahy and Congressman Bernie Sanders, which have helped secure public funds on a national and state level. Managing the state's money in a responsible and efficient manner helped Opportunities receive granted. However, Caryl Stewart remarked, "Public dollars don't like to leave public coffers."[57] While the CDFI Fund has been important to growth for many CDFIs across the country, the current federal administration threatens its budget, which makes it difficult for small CDFIs to grow because the CDFI Fund is a large provider of equity capital (Dymnski, 2005; Benjamin, Rubin, and Zeilenbach, 2004).

Partnership categories are not mutually exclusive. For example, the very nature of its geographic market requires that TRF manage relationships with multiple states and local jurisdictions. Today, it uses information not to prove old markets, but to enter different ones (i.e. Baltimore and Washington DC).[58] While Opportunities must wait for the political relationships to mature and swing back towards investment in CDFI growth financing, TRF can take advantage of new partnerships as they present themselves. TRF operates across one of the densest urban agglomerations in the world and can participate in more transactions, whether it drives them or not. For example, if the political situation in one jurisdiction makes it difficult for TRF to achieve its goals, it can refocus its efforts on another place. Part of TRF's mission is "to lessen the burdens of government," which can become burdensome to the organization. However, TRF has positioned itself as a knowledge and information leader, winning contracts from the city of Philadelphia to construct a spatial analysis framework for Mayor John Street's Neighborhood Transformation Initiative and from the state of Pennsylvania to study mortgage foreclosures in

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[56] Author interview, March 9 and 28, 2006. While information was not available for Opportunities, TRF investors reinvest at a high rate: over time the annual rate has averaged 80% and in the past five years, it has ranged between 78% and 94%. By including reinvestment in its name, TRF may have encouraged a higher rate of reinvestment from the get go. The 1992 annual report indicates that the reinvestment rate was 95%.

[57] Author interview, March 9, 2006.

[58] Author interview, March 28, 2006. One of TRF's mottos is "leading with information."

Monroe County. TRF secured these contracts because of its ability to produce valuable information, which has raised its institutional profile where it is seeking to create institutional permanence not in terms of asset scale, but in terms of what the organization believes is socially optimal.

Case Limitations

In many ways, Opportunities and TRF today are a migration and evolution from their original foundings. What is not so clear is the extent to which their mission has changed and whether their stakeholders—community, clients, and investors—perceive this as a positive evolution. Both organizations have retained the same founding executives, so senior leadership had yet to roll over for the first time in the organization's history. Neither organization had developed specific plans for transfer of leadership should either CEO retire or suddenly pass away, which was surprising because many interviewees indicated the importance of having a visionary leader who was able to manage asset growth, build relationships, and partnerships beneficial to driving both demand for and supply of capital.

Opportunities and TRF manifest a growth perspective that is not focused on assets, but on impact and wider provision of products to a wider range of customers. Asset growth is secondary, or dependent, to their public mission and community orientation that are unique conventional financial institutions and among many other development banks. While it is clear that Opportunities and TRF have achieved scale in their own markets and in their own right, both organizations adapted non-profit and for-profit models of community development finance to expand their products and serve more customers. TRF is continuing to expand its market geography while Opportunities is maintaining its focus in Vermont. Opportunities is expanding its products a little while the customer/product mix has been more important to TRF. While both TRF and Opportunities have maintained a focus on more traditional individual social investors, TRF has built more institutional relationships with funding sources than Opportunities, perhaps because of variations in market opportunities for partnerships. TRF and Opportunities have formed many beneficial partnerships though it is not clear how TRF and Opportunities leverage human capital and partnerships to contribute to social and economic returns to scale.

Additional Lessons Learned

Opportunities and TRF demonstrate some key lessons, beyond those unveiled in the survey, for how CDFIs achieve scale:

External opportunities and creative partnerships with CBOs, customers, investors, and policy makers stimulate organizational change and growth. To achieve scale, CDFIs must be on the look out for new opportunities to change the organization—they are opportunistic and entrepreneurial. While most of the lessons learned in chapter 3 focused on what the organization can do to change policies or procedures internally, they must also look for external opportunities. This requires sound market assessment of customers and social investors as well as good relationships with governmental actors and other financial institutions (e.g., banks, insurance funds, etc.). CDFIs are institutionally embedded in regional banking and community development systems, so they must balance and satisfy the needs of all current and prospective stakeholders if they want to sustain their current loan products and community development services. If they want to grow, they have to diversify by institutionalizing more relationships with stakeholders. For example, Opportunities must pull from a wide range of social investors if they want to continue to increase non-member deposits because most investors do not exceed the $100,000 insurance limit.

Shape market economies by influencing government policy. In turn, market economies and government policy are the context in which they operate, but CDFIs are not always passive to economic or political conditions. With bigger social and economic bottom lines, a CDFI raises its institutional profile to exert pressure on policy makers for changes to the market for banking and financing in low-income communities. Unlike profit-motivated banks that would rather generate internal wealth rather than create external wealth, non-profit CDFIs have public missions to provide financial services to low-income people and places that will help build individual and community assets that are external to the organization. However, like banks, they push policy initiatives to shape their market opportunities for internal growth. In other words, TRF and Opportunities act in their own self-interest to enhance their profits like banks, but unlike banks, they direct profits towards low-income customers through community development and financial services.

More Pitfalls

Non-profit CDFIs that want to grow should be aware of the following:

Organizational change does not predict asset growth because there is a risk of failure. Success and failure are two-sides of the entrepreneurial coin, but with a diverse constituency of customers, investors and policy makers, CDFIs can hedge their bets. In other words, if one initiative fails, there are still others to fallback upon, including those sustainable and self-sufficient (usually original or core) products that enable a CDFI to diversify its constituency in the first place. For example, TRF did not maintain small business financing or CDC technical assistance programs because they were did not bring in revenue nor was it clear what the affects of these programs were. However, construction lending for affordable housing provides a sustainable base on which the organization can test new ideas and programs.

CDFIs need to balance social and financial goals as they grow, two practices that have come into conflict in the past. While CDFIs look like community development or social service agencies, advocating for the social and economic rights of low-income communities, but use the tools of capitalism. Yet the practice of bank capitalism is often blamed for contributing to neighborhood deterioration through discriminatory practices (e.g., mortgage discrimination through "redlining" a neighborhood, usually non-white, white ethnic, and poor communities) that only compounds poor economic opportunities for low-wealth communities. However, with modest public funding, market-based organizations like Opportunities and TRF can fill a niche that supports a fair and affordable financial system for low-income communities. However, in TRF's case, the organization deals with more complicated financial structures and building relationships with more state and city governments, testing the limits of what a community-based organization is. If it casts it's net over all urban, low-income communities between Northern New Jersey, Pittsburgh, and Washington DC, how can it build ties to new low-income communities as well as maintain ties to low-income neighborhoods in Philadelphia and in Camden where it made its initial investments? TRF's experience is one of organizational maturity as a non-governmental agency that financing wealth and asset creation in low-income communities that is removed from the dominant neighborhood-based model of community development. Focusing on one neighborhood, municipality or even one region has not been enough for TRF, but part of its poverty alleviation strategy.

Despite their non-profit tax status, each organization has the opportunity to grow through revenue. The more a CDFI does this, the more it looks like a business, and the less it looks like a community development agency. CDFIs are socially responsible businesses, not because they engage in charitable or philanthropic endeavors, but because the foundation of their business is helping low-income people and communities build wealth and assets. There are many organizations focused on poverty alleviation, but for CDFIs, building assets in low-income communities does not follow a welfare model (e.g., government transfers or payments like food stamps and housing vouchers), which can create dependency on transfers or payments rather than encourage economic self-sufficiency and independence. Neither are they rooted in a philanthropic or charitable model of giving. CDFIs are rooted in the belief that low-income communities are sound investments if given effective support systems (i.e., technical assistance, counseling-based lending, etc.). Community development services distinguish CDFIs from conventional banking and lending institutions; however, not all customers need these services. Theoretically, if customers no longer need these supportive services, for-profit enterprises might begin to service these customers. While some in the CDFI industry might squabble about whether to focus on the poorest of the poor or more moderate-income customers, all CDFIs are experimenting with market-based mechanisms to alleviate the individual and community effects of poverty (i.e., few individual and family assets, little access to affordable credit and financial services, physical deterioration of buildings, etc.).

Chapter 4.

Conclusion

Revisiting the Findings, Lessons, and Pitfalls

CDFIs are increasingly important private sector, market-based institutions that finance community development in lieu of diminishing public funding for poverty alleviation and bank deregulation that threatens the effectiveness of CRA. The CDFI model leverages government spending into private market initiatives, creating a new market of CDFIs, customers, and investors. Asset growth helps CDFIs diversify their products to include more categories of customers in order to reach a sustainable level of scale, which is near self-sufficient. As non-profit organizations, CDFIs are never completely self-sufficient because their ability to earn revenues is hindered by their small size and ability to create new capital relationships that achieve their mission and build the organizations assets and capacity. Despite national policies supporting CDFI development and the proliferation of CDFIs in the 1990s, few organizations have achieved a scale that manifests a high level of self-sufficiency and impact. Studying what factors and practices have contributed to the asset growth of large CDFIs can help all CDFIs shape their growth perspective and explore new alternatives to their current market geography, customer and product niches, investor focus, and capital and risk management policies. A CDFI's mission shapes how it changes in all of these areas, which impacts social outcomes along with the bottom line, measured in total assets. The challenge for CDFIs is to mediate local and national markets for financial products and services that are plagued by spatial investment mismatches, regional economic variation, and ongoing transformations in infrastructure, and delivery systems in the wider banking industry.

According to the survey results, large CDFIs exhibit more geographic expansion, larger customer and product diversification, more debt and equity funding sources, and a greater focus on fundraising than small CDFIs. Survey results indicate that a greater number of customer categories and funding sources are associated with large CDFIs than with small CDFIs. Client and investor markets are inherently related, yet there are still complexities about how CDFIs develop and nurture these relationships, which are often built over a long period that the research only hints at in the case studies. Human capital is an important part of partnerships forged though

human contact. Industry wide data offers little insight into typical CDFI growth paths conceived of and implemented by a small universe of community development finance professionals.[59] More importantly, aggregate data and surveys do not make distinctions between market economies where CDFIs conduct business. Relative comparisons of CDFIs will always need to be adjusted based on factors shaped by location. Moreover, the CDFI industry is too small and fragmented to reliably test for statistical differentiation.

The case narratives add more contours to the story of asset growth and organizational scale that show the value of long-term leadership and creative partnerships. Both TRF and Opportunities are moving to make their institutions permanent, embedding the organizations in regional political, economic, and community development systems. A looming challenge both face is a transfer of leadership, which neither organization has experienced but both are preparing for by investing in information infrastructure and human resources. While leadership change may cause a skip in asset growth, both organizations are at a scale that virtually guarantees their continuance in some form or another because of their deposit and investment portfolios.

Recommendations for CDFIs

- **Target a large geographic area with a large population.** Even though a CDFI might start targeting local markets, this does not preclude the organization from having a broader outlook that incorporates all low- and moderate-income customer and organization markets in a state or a region. Balancing local needs with regional social and economic forces is a challenge that growing CDFIs will have to meet head on, but a CDFI asset growth and organizational is limited by the size of its target market area.
- **Diversify customers and products connected with mission.** Diversification enables CDFIs to test new community development enterprises, which will increase their organizational experience as well as expose them to new funding, government, and CBO partnership opportunities.
- **Build and develop investor and funder partnerships across multiple sectors.** This is linked to the above recommendation, but is a different starting point. What are the funding and partnership limits of each line of CDFI business in a given target market

[59] According to CDP 2004, there are over 6,000 full-time employees in the universe of 477 CDFIs surveyed.

area? For TRF, even though they invest in urban areas, their regional perspective enables them to draw funding from a regional community of investors.

- **Experiment and use affiliate structures.** The costs with starting a new affiliate can be high if your goal is to grow this economic unit. The asset balance of Opportunities Ventures fund is small relative to credit union assets, which is intentional. TRF has organized several venture capital funds that use more and more assets as they build their investment track record over a long period of time. The loan fund itself is becoming a smaller part of the organization's total capital under management.

Recommendations for Investors

- **Need for stable long-term financing that mixes grants and debt.** Every CDFI requires a large base of grant contributions to grow—this is a primary factor in limiting an organization's asset scale because they can only acquire as much debt as their net worth will allow. Therefore, investors need to provide flexible funding according to the CDFIs community development mission. CDFI investments are below market rate investments that support financing programs and enable the organization to earn more revenue to become self-sufficient. But, by their very nature, no CDFI will become completely self-sufficient if they desire to increase assets to expand social outcomes.
- **Revisit structure of secondary capital.** Secondary capital is not a good tool for credit unions because of the equity roll down, which forces organizations to add more secondary capital (or equity) or scale back its debts to maintain a healthy net worth ratio. This structure encourages asset accumulation *and* asset decumulation, a cycle of booms-busts, if the organization cannot find enough funding support.
- **Support stable leadership and technology through planning (i.e., become a partner not just an investor).** Fundamental to this recommendation is that investors have to acknowledge that CDFIs require financial, social, and human resources to grow. CDFIs do not earn enough revenues to support research and development critical to diversifying their customer bases and introducing new products. In addition to accepting higher levels of investment risk and lower returns, an investor can contribute time and technical support that will both help CDFIs grow and become more sustainable, which in turn, makes CDFIs more stable and reliable investments.

Recommendations for Policymakers

- **Maintain and expand grant funding.** The CDFI Fund financial assistance component is a much smaller program than NMTC.[60] NMTC offers opportunities for larger community development investments that can benefit an organization financially through management fees, but they are project specific investments that many CDFIs do not have the capacity to manage because of the significant resources required to apply for, deploy, and report. A small organization needs direct grant support and the CDFI Fund must be a significant investor in community development organizations rather than in projects. In reality, the CDFI Fund should do both, recognizing the need to balance for-profit project enterprises with non-profit organizational support. Beyond federal CDFI programs, states should invest in CDFIs and encourage more legislation modeled on CRA. For example, in California, "COIN was established in 1996 at the request of the insurance industry as an alternative to state legislation that would have required insurance companies to invest in underserved communities, similar to the federal Community Reinvestment Act (CRA) that applies to the banking industry."[61] This public-private initiative offers insurance companies tax credits for investments in CDFIs. Other states should follow this model for insurance as well as banking and pension sectors.
- **NCUA should revise and restructure secondary capital.** Secondary capital is debt capital that counts as net worth until a point at which it rolls down, forcing a credit union to scale back its leverage. This leads to a boom-bust cycle that is difficult for a credit union to manage if it wants to sustain assets and grow. Tax credit incentives to secondary capital investors would encourage more investment and ensure the long-term availability of the source. With the term maturity, current investors are tempted to remove their investments on which they are earning a below market rate of return. Supplemental

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[60] Since 1996, cumulative budget appropriations for direct CDFI financing by the CDFI Fund stands at over $700 million, a small economic base from which many CDFIs are expected to grow. However, the CDFI Fund is in the midst of dispersing $8 billion in tax credits to for-profit community development entities, some of which are CDFI subsidiaries (and banks and other investment institutions). The tax credits, which are awarded through a highly competitive process, can contribute significant amounts of equity to an organization; however, the legal and accounting complexities might preclude small CDFIs from using this federal program. Most projects are real estate projects (CDFI Fund, 2005; Dymnski, 2005).

[61] Retrieved by author, May 21, 2006 from http://www.insurance.ca.gov/0200-industry/0700-coin/index.cfm.

incentives from federal funding sources like the NCUA or CDFI Fund can help pay back the investment through public investments. For example, a seven-year secondary capital investment will earn interest regularly, but the equity rolls down 20% each year. Removing this equity roll down would enable credit unions to maintain a healthy net worth (and debt leverage). Currently, secondary capital principal repayment occurs at the investment's maturity. An alternative policy option would be for secondary capital investors to receive tax credits each year of the investment. Once the investment was paid down through tax credits, it would become permanent capital on the CDFIs balance sheet.

A Final Word

Because growth is important to any business, understanding CDFI growth can help CDFIs understand the business they are in. Despite their non-profit status, CDFIs are businesses that generate economic profits. Unlike a for-profit corporation that directs profits to shareholders, CDFI profits are directed towards community development programs or expansion of financing programs. However, this path to scale is slow. If an organization has reached a sufficient degree of scale, it operates at the nexus of client and investor markets, matching diverse funding sources with borrowers left out of the economic mainstream, matching capital supply with capital demand. External sources of equity and debt are critical to CDFI growth. This bridging and intermediary function does not foster a parallel system of marginalized markets, but encourages banking and financial relationships among institutions embedded in regional economies, increases the availability of consumer banking services, bolsters the effectiveness of primary and secondary financial markets, and contributes to better federal, state and local policies.

Appendix 1.

Summary of Survey Samples and Response Rates

The survey response was stronger among CDLFs than LICUs even though CDLFs constituted a smaller target population. Thirty-five of 247 LICUs responded to the survey at a rate of 14% and 65 CDLFs responded at a rate of 45%. Using the National Credit Union Administration (NCUA) asset and contact data yielded 317 websites for the 400 credit unions with the most assets. LICU websites yielded 247 total email addresses, most of which were general contact email addresses (166) rather than unique people (81). All targeted LICUs exceeded $5 million in total assets. Compiling a list of CDLFs proved easier because as of January 2006, 141 CDLF email addresses were available through Opportunity Finance Network, a membership and financing intermediary for CDLFs.

LICU Survey Response Summary

Sample from NCUA	Credit Union Survey	Number	Responses	Percent
Designated low-income	Email A-1	60	6	10.00%
Total assets in top quartile	Email A-2	49	3	6.12%
	Total	**109**	**9**	**8.26%**
		Response Rate		**15.00%**
Designated low-income	Email B-1	120	8	6.67%
Total assets in top quartile	Email B-2	100	8	8.00%
	Total	**220**	**16**	**7.27%**
		Response Rate		**13.33%**
Designated low-income	Email A-1	19	2	10.53%
Top 400 in total assets	Email A-2	16	1	6.25%
	Total	**35**	**3**	**8.57%**
		Response Rate		**15.79%**
Designated low-income	Email B-1	50	2	4.00%
Top 400 in total assets	Email B-2	46	3	6.52%
	Total	**96**	**5**	**5.21%**
		Response Rate		**10.00%**
Other (Opportunities, Alternatives)			**2**	
Grand Total - Blended Response Rate		**249**	**35**	**14.06%**

CDLF Survey Response Summary

Sample	Loan Fund Survey	Number	Responses	Percent
OFN members	Email C-1	80	22	27.50%
Total asset data	Email C-2	50	21	42.00%
	Total	**130**	**43**	**33.08%**
		Response Rate		**53.75%**
OFN members	Email C-1	64	9	14.06%
	Email C-2	55	10	18.18%
	Total	**119**	**19**	**15.97%**
		Response Rate		**29.69%**
Other (TRF, BCC, CEI)			**3**	
Grand Total - Blended Response Rate		**144**	**65**	**45.14%**

Appendix 2.

LICU Survey Questions and Selected Responses

1. What was the first full year of operation for the credit union?	
Total Respondents	**34**
(skipped this question)	1

2. What were the credit union's total assets at the end of the first year of operation?
(Check one.)

		Response Percent	Response Total
Less than $1 million		**87.9%**	**29**
$1 million to $2 million		3%	1
$2 million to $5 million		3%	1
$5 million to $10 million		3%	1
$10 million to $20 million		3%	1
More than $20 million		0%	0
	Total Respondents		**33**
	(skipped this question)		2

3. What were the credit union's total assets at the end of FY 2005 (or the most recent fiscal year)?
(Check one.)

		Response Percent	Response Total
Less than $1 million		0%	0
$1 million to $2 million		2.9%	1
$2 million to $5 million		0%	0
$5 million to $10 million		11.4%	4
$10 million to $20 million		31.4%	11
More than $20 million		**54.3%**	**19**
	Total Respondents		**35**
	(skipped this question)		0

4. Is the credit union certified as a CDFI by the US Treasury?

	Response Percent	Response Total
Yes	44.8%	13
No	55.2%	16
Total Respondents		29
(skipped this question)		6

5. Is the credit union a member of any of the following organizations?
(Check all that apply.)

	Response Percent	Response Total
CUNA	93.9%	31
NAGGL	3%	1
NFCDCU	27.3%	9
OFN (formerly NCCA)	6.1%	2
State Association of Credit Unions	45.5%	15
Other (please specify)	27.3%	9
Total Respondents		33
(skipped this question)		2

6. Does the credit union focus on community development?

	Response Percent	Response Total
Yes	72.7%	24
No	27.3%	9
Total Respondents		33
(skipped this question)		2

7. How many employees does the credit union employ today?

Total Respondents	34
(skipped this question)	1

8. Of these employees, how many are fundraising, writing grants, or doing other development work to raise capital for the credit union (and/or related affiliate)?

Total Respondents	29
(skipped this question)	6

9. What was the credit union's target geographic area in the first year of operation?
(Check one.)

	Response Percent	Response Total
Neighborhood	6.1%	2
Several neighborhoods	6.1%	2
Metropolitan area	0%	0
City/town	9.1%	3
County	15.2%	5
Multiple counties	9.1%	3
State	3%	1
Multiple states	0%	0
National	0%	0
Other (please specify)	51.5%	17
Total Respondents		33
(skipped this question)		2

10. What was the credit union's target geographic area in FY 2005 (or the most recent fiscal year)?
(Check one.)

	Response Percent	Response Total
Neighborhood	3%	1
Several neighborhoods	3%	1
Metropolitan area	6.1%	2
City/town	0%	0
County	30.3%	10
Multiple counties	**33.3%**	**11**
State	6.1%	2
Multiple states	0%	0
National	0%	0
Other (please specify)	18.2%	6
	Total Respondents	**33**
	(skipped this question)	2

11. What was the size of the population in the credit union's target geographic area in the first year of operation?
(Check one.)

	Response Percent	Response Total
Under 10,000 people	**65.5%**	**19**
10,000 to 25,000 people	13.8%	4
25,000 to 50,000 people	6.9%	2
50,000 to 100,000 people	3.4%	1
100,000 to 250,000 people	3.4%	1
250,000 to 500,000 people	3.4%	1
500,000 to 2 million people	3.4%	1
More than 2 million people	0%	0
	Total Respondents	**29**
	(skipped this question)	6

12. What is the size of the population in the credit union's target geographic area in FY 2005 (or the most recent fiscal year)?
(Check one.)

	Response Percent	Response Total
Under 10,000 people	9.4%	3
10,000 to 25,000 people	15.6%	5
25,000 to 50,000 people	18.8%	6
50,000 to 100,000 people	6.2%	2
100,000 to 250,000 people	**21.9%**	**7**
250,000 to 500,000 people	15.6%	5
500,000 to 2 million people	9.4%	3
More than 2 million people	3.1%	1
	Total Respondents	**32**
	(skipped this question)	3

13. To which of the following customers did the credit union provide loans in the first year of operation?
(Check yes or no for each row.)

	Yes	No	Response Total
Consumers	**100% (33)**	0% (0)	**33**
Homeowners/Homebuyers	32% (8)	**68% (17)**	**25**
Microenterprises	13% (3)	**87% (20)**	**23**
Small Businesses	0% (0)	**100% (23)**	**23**
Housing Developers	0% (0)	**100% (22)**	**22**
Community Non-profit Organizations	13% (3)	**87% (20)**	**23**
Commercial Developers	0% (0)	**100% (22)**	**22**
		Total Respondents	**33**
		(skipped this question)	2

14. To which of the following customers did the credit union provide loans in FY 2005 (or the most recent fiscal year)?
(Check yes or no for each row.)

	Yes	No	Response Total
Consumers	**100% (33)**	0% (0)	33
Homeowners/Homebuyers	**91% (29)**	9% (3)	32
Microenterprises	36% (8)	**64% (14)**	22
Small Businesses	**54% (14)**	46% (12)	26
Housing Developers	14% (3)	**86% (18)**	21
Community Non-Profit Organizations	**54% (13)**	46% (11)	24
Commercial Developers	27% (6)	**73% (16)**	22
		Total Respondents	33
		(skipped this question)	2

15. What financial products or services did the credit union offer in the first year of operation?
(Check all that apply.)

	Response Percent	Response Total
Checking accounts	12.1%	4
Savings accounts	**97%**	32
Residential mortgages	3%	1
Auto loans	48.5%	16
Personal loans	**97%**	32
Business loans	0%	0
Commercial mortgages	0%	0
Homebuying counseling	0%	0
Personal budgeting counseling	12.1%	4
Individual Development Accounts (IDAs)	0%	0
Other (please specify)	3%	1
	Total Respondents	33
	(skipped this question)	2

16. What financial products or services did the credit union offer in FY 2005 (or the most recent fiscal year)?
(Check all that apply.)

	Response Percent	Response Total
Checking accounts	97%	32
Savings accounts	**100%**	33
Residential mortgages	78.8%	26
Auto loans	97%	32
Personal loans	**100%**	33
Business loans	42.4%	14
Commercial mortgages	30.3%	10
Homebuying counseling	42.4%	14
Personal budgeting counseling	69.7%	23
Individual Development Accounts (IDAs)	21.2%	7
Other (please specify)	33.3%	11
	Total Respondents	33
	(skipped this question)	2

17. From which of the following sources did the credit union receive funds in the first year of operation?
(Check all that apply.)

	Deposits/Loans	Grants/Contributions	Secondary Capital/Equity Equivalents	Respondent Total
Individuals	**100% (30)**	3% (1)	0% (0)	**30**
Religious Institutions	**100% (5)**	0% (0)	0% (0)	**5**
Foundations	33% (1)	**100% (3)**	33% (1)	**3**
Corporations	**80% (4)**	20% (1)	0% (0)	**5**
Federal Government	**100% (1)**	0% (0)	0% (0)	**1**
State/Local Governments	**67% (2)**	33% (1)	0% (0)	**3**
Banks/Thrifts/Credit Unions	**100% (7)**	43% (3)	14% (1)	**7**
Non-Depository Institutions (e.g. insurance company, pension fund)	**100% (1)**	0% (0)	0% (0)	**1**
Credit Union Intermediaries	**100% (3)**	67% (2)	33% (1)	**3**
Other	**100% (1)**	0% (0)	0% (0)	**1**
			Total Respondents	**31**
			(skipped this question)	4

18. If you checked "Other" in Question 17, please describe the source(s) and investment(s).

Total Respondents	**3**
(skipped this question)	32

19. From which of the following sources did the credit union receive funds in FY 2004?
(Check all that apply.)

	Deposits/Loans	Grants/Contributions	Secondary Capital/Equity Equivalents	Respondent Total
Individuals	**100% (30)**	3% (1)	3% (1)	**30**
Religious Institutions	**100% (13)**	0% (0)	8% (1)	**13**
Foundations	22% (2)	**67% (6)**	**67% (6)**	**9**
Corporations	**78% (7)**	11% (1)	22% (2)	**9**
Federal Government	14% (1)	**86% (6)**	43% (3)	**7**
State/Local Governments	**67% (4)**	50% (3)	0% (0)	**6**
Banks/Thrifts/Credit Unions	**92% (11)**	25% (3)	33% (4)	**12**
Non-Depository Institutions (e.g. insurance company, pension fund)	**100% (3)**	0% (0)	0% (0)	**3**
Credit Union Intermediaries	**78% (7)**	44% (4)	44% (4)	**9**
Other	**100% (3)**	33% (1)	0% (0)	**3**
			Total Respondents	**30**
			(skipped this question)	5

20. If you checked "Other" in Question 19, please describe the source(s) and investment(s).

Total Respondents	**3**
(skipped this question)	32

21. Rate the importance of each source to expanding the credit union's financial resources in the past 5 years.
(Check one for each row.)

	Very important		Somewhat important		Not important	N/A	Response Average
Individuals	**93% (28)**	7% (2)	0% (0)	0% (0)	0% (0)	0% (0)	**1.07**
Religious Institutions	4% (1)	4% (1)	26% (7)	15% (4)	19% (5)	**33% (9)**	**3.61**
Foundations	8% (2)	4% (1)	27% (7)	0% (0)	12% (3)	**50% (13)**	**3.08**
Corporations	4% (1)	4% (1)	12% (3)	21% (5)	8% (2)	**50% (12)**	**3.50**
Federal Government	30% (8)	4% (1)	4% (1)	11% (3)	11% (3)	**41% (11)**	**2.50**
State/Local Governments	12% (3)	8% (2)	8% (2)	12% (3)	16% (4)	**44% (11)**	**3.21**
Banks/Thrifts/Credit Unions	15% (4)	19% (5)	22% (6)	0% (0)	15% (4)	**30% (8)**	**2.74**
Non-Depository Institutions (e.g. insurance company, pension fund)	4% (1)	0% (0)	12% (3)	0% (0)	29% (7)	**54% (13)**	**4.09**
Credit Union Intermediaries	12% (3)	8% (2)	15% (4)	12% (3)	4% (1)	**50% (13)**	**2.77**
						Total Respondents	**30**
						(skipped this question)	5

22. Rate the importance of each financial mechanism to expanding the credit union's financial resources in the past 5 years.
(Check one for each row.)

	Very important		Somewhat important		Not important	N/A	Response Average
Public grants/donations	11% (3)	7% (2)	7% (2)	4% (1)	22% (6)	**48% (13)**	**3.36**
Public deposits/loans	15% (4)	0% (0)	19% (5)	11% (3)	11% (3)	**44% (12)**	**3.07**
Private grants/donations	11% (3)	4% (1)	4% (1)	7% (2)	19% (5)	**56% (15)**	**3.42**
Private deposits/loans	**72% (21)**	7% (2)	10% (3)	3% (1)	0% (0)	7% (2)	**1.41**
Retained earnings/fees	**69% (20)**	17% (5)	10% (3)	3% (1)	0% (0)	0% (0)	**1.48**
Loan sales/securitization	**36% (10)**	11% (3)	14% (4)	7% (2)	7% (2)	25% (7)	**2.19**
						Total Respondents	**29**
						(skipped this question)	6

23. Rate the importance of each practice in expanding the credit union's financial resources in the past 5 years.
(Check one for each row.)

	Very important		Somewhat important		Not important	N/A	Response Average
Offering new products or services to existing members	**87% (26)**	13% (4)	0% (0)	0% (0)	0% (0)	0% (0)	**1.13**
Expanding membership eligibility	**43% (12)**	11% (3)	21% (6)	7% (2)	7% (2)	11% (3)	**2.16**
Having funders on the board	0% (0)	4% (1)	4% (1)	4% (1)	37% (10)	**52% (14)**	**4.54**
Cultivating institutional depositors	21% (6)	11% (3)	18% (5)	7% (2)	11% (3)	**32% (9)**	**2.63**
Selling loans/securitization	**25% (7)**	11% (3)	11% (3)	11% (3)	21% (6)	21% (6)	**2.91**
Maintaining formal relationships with local organizations	**41% (11)**	26% (7)	22% (6)	4% (1)	7% (2)	0% (0)	**2.11**
Merging with other credit unions	4% (1)	11% (3)	18% (5)	4% (1)	25% (7)	**39% (11)**	**3.59**
Employing experienced management/staff	**77% (23)**	10% (3)	10% (3)	0% (0)	0% (0)	3% (1)	**1.31**
Applying for and recieving grants	**25% (7)**	7% (2)	11% (3)	7% (2)	**25% (7)**	**25% (7)**	**3.00**
						Total Respondents	**30**
						(skipped this question)	5

24. In your opinion, what strategies, initiatives, or policies are the most effective in expanding the credit union's financial resources? Why?	
Total Respondents	**23**
(skipped this question)	12

25. In your opinion, what are the largest barriers to expanding the credit union's financial resources? Why?	
Total Respondents	**22**
(skipped this question)	13

26. Please give your contact information below.

		Response Percent	Response Total
Organization name		**103.6%**	**29**
Name of respondent		**103.6%**	**29**
Title		**103.6%**	**29**
Phone		100%	28
Email		100%	28
Website		89.3%	25
		Total Respondents	**28**
		(skipped this question)	7

27. I give you permission to use my name, title, and quote my answers in publications resulting from this survey.

		Response Percent	Response Total
Yes		**55.2%**	**16**
No		44.8%	13
		Total Respondents	**29**
		(skipped this question)	7

Appendix 3.

CDLF Survey Questions and Selected Responses

1. What was the first full year of operation for the loan fund?	
Total Respondents	**61**
(skipped this question)	4

2. What were the loan fund's total assets at the end of the first year of operation?
(Check one.)

	Response Percent	Response Total
Less than $1 million	**80%**	**48**
$1 million to $2 million	10%	6
$2 million to $5 million	6.7%	4
$5 million to $10 million	3.3%	2
$10 million to $20 million	0%	0
More than $20 million	0%	0
Total Respondents		**60**
(skipped this question)		5

3. What were the loan fund's total assets at the end of FY 2005 (or the most recent fiscal year)?
(Check one.)

	Response Percent	Response Total
Less than $1 million	9.5%	6
$1 million to $2 million	4.8%	3
$2 million to $5 million	17.5%	11
$5 million to $10 million	25.4%	16
$10 million to $20 million	**27%**	**17**
More than $20 million	15.9%	10
Total Respondents		**63**
(skipped this question)		2

4. Is the loan fund certified as a CDFI by the US Treasury?

	Response Percent	Response Total
Yes	**96.9%**	**62**
No	3.1%	2
Total Respondents		**64**
(skipped this question)		1

5. How many employees does the loan fund employ today?	
Total Respondents	**64**
(skipped this question)	1

6. Of these employees, how many are fundraising, writing grants, or doing other development work to raise capital for the loan fund?	
Total Respondents	**62**
(skipped this question)	3

7. What was the loan fund's target geographic area in its first year of operation?
(Check one.)

	Response Percent	Response Total
Neighborhood	4.8%	3
Several neighborhoods	7.9%	5
City/town	11.1%	7
Metropolitan area	6.3%	4
County	11.1%	7
Multiple counties	**23.8%**	**15**
State	17.5%	11
Multiple states	4.8%	3
National	4.8%	3
Other (please specify)	7.9%	5
	Total Respondents	**63**
	(skipped this question)	2

8. What was the loan fund's target geographic area in FY 2005 (or the most recent fiscal year)?
(Check one.)

	Response Percent	Response Total
Neighborhood	1.6%	1
Several neighborhoods	0%	0
City/town	1.6%	1
Metropolitan area	14.3%	9
County	3.2%	2
Multiple counties	**30.2%**	**19**
State	19%	12
Multiple states	15.9%	10
National	6.3%	4
Other (please specify)	7.9%	5
	Total Respondents	**63**
	(skipped this question)	2

9. What was the size of the population in the loan fund's target geographic area in its first year of operation?
(Check one.)

	Response Percent	Response Total
Under 10,000 people	5.1%	3
10,000 to 25,000 people	0%	0
25,000 to 50,000 people	1.7%	1
50,000 to 100,000 people	10.2%	6
100,000 to 250,000 people	**25.4%**	**15**
250,000 to 500,000 people	11.9%	7
500,000 to 2 million people	**25.4%**	**15**
More than 2 million people	20.3%	12
	Total Respondents	**59**
	(skipped this question)	6

10. What was the size of the population in the credit union's target geographic area in FY 2005 (or the most recent fiscal year)?
(Check one.)

	Response Percent	Response Total
Under 10,000 people	3.8%	2
10,000 to 25,000 people	0%	0
25,000 to 50,000 people	1.9%	1
50,000 to 100,000 people	0%	0
100,000 to 250,000 people	17.3%	9
250,000 to 500,000 people	17.3%	9
500,000 to 2 million people	19.2%	10
More than 2 million people	**40.4%**	**21**
	Total Respondents	**52**
	(skipped this question)	13

11. To which of the following customers did the loan fund provide loans in its first year of operation?
(Check yes or no for each row.)

	Yes	No	Response Total
Consumers	0% (0)	**100% (47)**	**47**
Homeowners/Homebuyers	12% (6)	**88% (44)**	**50**
Microenterprises	48% (25)	**52% (27)**	**52**
Small Businesses	**58% (31)**	42% (22)	**53**
Housing Developers	39% (20)	**61% (31)**	**51**
Community Non-Profit Organizations	**55% (31)**	45% (25)	**56**
Commercial Developers	15% (7)	**85% (41)**	**48**
		Total Respondents	**62**
		(skipped this question)	3

12. To which of the following customers did the loan fund provide loans in FY 2005 (or the most recent fiscal year)?
(Check yes or no for each row.)

	Yes	No	Response Total
Consumers	9% (4)	**91% (42)**	**46**
Homeowners/Homebuyers	29% (14)	**71% (35)**	**49**
Microenterprises	**72% (39)**	28% (15)	**54**
Small Businesses	**87% (48)**	13% (7)	**55**
Housing Developers	**62% (33)**	38% (20)	**53**
Community Non-Profit Organizations	**91% (53)**	9% (5)	**58**
Commercial Developers	46% (22)	**54% (26)**	**48**
		Total Respondents	**62**
		(skipped this question)	3

13. What financial products or services did the loan fund offer in the first year of operation?
(Check all that apply.)

		Response Percent	Response Total
Microenterprise loans		39.3%	24
Small business loans		**49.2%**	**30**
Affordable housing construction loans		26.2%	16
Affordable housing permanent loans		9.8%	6
Community non-profit working capital loans		21.3%	13
Community non-profit real estate loans		27.9%	17
Commercial real estate construction loans		11.5%	7
Commercial real estate permanent loans		13.1%	8
Other (please specify)		19.7%	12
		Total Respondents	**61**
		(skipped this question)	4

14. What financial products or services did the loan fund offer in FY 2005 (or the most recent fiscal year)?
(Check all that apply.)

	Response Percent	Response Total
Microenterprise loans	56.5%	35
Small business loans	**69.4%**	**43**
Affordable housing construction loans	48.4%	30
Affordable housing permanent loans	32.3%	20
Community non-profit working capital loans	54.8%	34
Community non-profit real estate loans	66.1%	41
Commercial real estate construction loans	35.5%	22
Commercial real estate permanent loans	33.9%	21
Other (please specify)	35.5%	22
	Total Respondents	**62**
	(skipped this question)	3

15. From which of the following sources did the loan fund receive funds in the first year of operation?
(Check all that apply.)

	Deposits/Loans	Grants/Contributions	Secondary Capital/Equity Equivalents	Respondent Total
Individuals	62% (13)	**71% (15)**	0% (0)	**21**
Religious Institutions	**67% (14)**	62% (13)	0% (0)	**21**
Foundations	30% (8)	**85% (23)**	4% (1)	**27**
Corporations	32% (6)	**79% (15)**	0% (0)	**19**
Federal Government	35% (7)	**85% (17)**	0% (0)	**20**
State/Local Governments	24% (6)	**80% (20)**	4% (1)	**25**
Banks/Thrifts/Credit Unions	57% (12)	**67% (14)**	24% (5)	**21**
Non-Depository Financial Institutions (e.g. insurance company, pension fund)	**100% (1)**	0% (0)	0% (0)	**1**
National CDFI Intermediaries	0% (0)	0% (0)	0% (0)	**0**
Other	20% (1)	**60% (3)**	20% (1)	**5**
			Total Respondents	**60**
			(skipped this question)	5

16. If you checked "Other" in Question 15, please describe the source(s) and investment(s).

Total Respondents	**5**
(skipped this question)	60

17. From which of the following sources did the loan fund receive funds in FY 2005 (or the most recent fiscal year)?
(Check all that apply.)

	Deposits/Loans	Grants/Contributions	Secondary Capital/Equity Equivalents	Respondent Total
Individuals	45% (14)	**84% (26)**	0% (0)	**31**
Religious Institutions	**84% (21)**	60% (15)	0% (0)	**25**
Foundations	58% (26)	**87% (39)**	9% (4)	**45**
Corporations	39% (13)	**76% (25)**	12% (4)	**33**
Federal Government	60% (25)	**93% (39)**	2% (1)	**42**
State/Local Governments	30% (12)	**82% (33)**	5% (2)	**40**
Banks/Thrifts/Credit Unions	**76% (34)**	64% (29)	38% (17)	**45**
Non-Depository Financial Institutions (e.g. insurance company, pension fund)	**80% (8)**	10% (1)	20% (2)	**10**
National CDFI Intermediaries	**73% (8)**	45% (5)	0% (0)	**11**
Other	**50% (2)**	25% (1)	25% (1)	**4**
			Total Respondents	**61**
			(skipped this question)	4

18. If you checked "Other" in Question 17, please describe the source(s) and investment(s).

Total Respondents	**5**
(skipped this question)	60

19. Rate the importance of each source to expanding the loan fund's financial resources in the past 5 years.
(Check one for each row.)

	Very important		Somewhat important		Not important	N/A	Response Average
Individuals	19% (10)	0% (0)	**25% (13)**	13% (7)	23% (12)	19% (10)	**3.26**
Religious Institutions	13% (7)	7% (4)	22% (12)	13% (7)	20% (11)	**24% (13)**	**3.27**
Foundations	**47% (28)**	20% (12)	12% (7)	7% (4)	7% (4)	7% (4)	**1.98**
Corporations	**24% (13)**	15% (8)	16% (9)	9% (5)	20% (11)	16% (9)	**2.85**
Federal Government	**67% (39)**	9% (5)	7% (4)	5% (3)	9% (5)	3% (2)	**1.75**
State/Local Governments	**49% (28)**	9% (5)	18% (10)	7% (4)	9% (5)	9% (5)	**2.10**
Banks/Thrifts/Credit Unions	**61% (34)**	12% (7)	9% (5)	5% (3)	7% (4)	5% (3)	**1.79**
Non-Depository Institutions	10% (5)	6% (3)	12% (6)	4% (2)	25% (12)	**42% (20)**	**3.46**
National CDFI Intermediaries	12% (6)	8% (4)	18% (9)	12% (6)	16% (8)	**33% (16)**	**3.18**
						Total Respondents	**59**
						(skipped this question)	6

20. Rate the importance of each financial mechanism to expanding the loan fund's financial resources in the past 5 years.
(Check one for each row.)

	Very important		Somewhat important		Not important	N/A	Response Average
Public grants/donations	**60% (34)**	16% (9)	9% (5)	4% (2)	9% (5)	4% (2)	**1.82**
Public deposits/loans	**47% (24)**	8% (4)	16% (8)	4% (2)	4% (2)	22% (11)	**1.85**
Private grants/donations	**54% (30)**	11% (6)	12% (7)	4% (2)	9% (5)	11% (6)	**1.92**
Private deposits/loans	**36% (20)**	23% (13)	9% (5)	5% (3)	4% (2)	23% (13)	**1.93**
Retained earnings/fees	**41% (22)**	30% (16)	13% (7)	7% (4)	7% (4)	2% (1)	**2.09**
Loan sales/securitization	20% (10)	0% (0)	6% (3)	8% (4)	18% (9)	**47% (23)**	**3.08**
						Total Respondents	**58**
						(skipped this question)	7

21. Rate the importance of each practice to expanding the loan fund's financial resources in the past 5 years.
(Check one for each row.)

	Very important		Somewhat important		Not important	N/A	Response Average
Offering new products or services to existing customers	**30% (17)**	25% (14)	25% (14)	11% (6)	4% (2)	5% (3)	**2.28**
Expanding target customers	**39% (23)**	34% (20)	19% (11)	5% (3)	3% (2)	0% (0)	**2.00**
Having funders/investors on the board	**25% (15)**	15% (9)	20% (12)	12% (7)	12% (7)	15% (9)	**2.64**
Cultivating institutional investors	**38% (22)**	31% (18)	16% (9)	3% (2)	3% (2)	9% (5)	**1.94**
Selling loans/securitization	18% (10)	0% (0)	11% (6)	7% (4)	18% (10)	**47% (27)**	**3.13**
Maintaining formal relationships with local organizations	**41% (24)**	21% (12)	29% (17)	3% (2)	0% (0)	5% (3)	**1.95**
Employing experienced management/staff	**69% (41)**	15% (9)	14% (8)	0% (0)	2% (1)	0% (0)	**1.49**
Applying for and recieving grants	**63% (37)**	17% (10)	14% (8)	3% (2)	0% (0)	3% (2)	**1.56**
Leveraging Community Reinvestment Act (CRA) credits	**31% (18)**	16% (9)	22% (13)	12% (7)	3% (2)	16% (9)	**2.31**
						Total Respondents	**59**
						(skipped this question)	6

22. In your opinion, what strategies or initiatives are the most effective in expanding the loan fund's financial resources? Why?

Total Respondents	**42**
(skipped this question)	23

23. In your opinion, what are the largest barriers to expanding the loan fund's financial resources? Why?

Total Respondents	**41**
(skipped this question)	24

24. Please give your contact information below.

		Response Percent	Response Total
Organization name		98.1%	51
Name of respondent		98.1%	51
Title		96.2%	50
Phone		96.2%	50
Email		98.1%	51
Website		96.2%	50
	Total Respondents		52
	(skipped this question)		13

25. I give you permission to use my name, title, and quote my answers in publications resulting from this survey.

		Response Percent	Response Total
Yes		43.6%	24
No		56.4%	31
	Total Respondents		55
	(skipped this question)		10

Appendix 4.

List of Informants

Opportunities Credit Union

Antonia Bullard, Associate Director
Cheryl Fatnassi, Chief Operating Officer
Tim Kranz, Chief Financial Officer
Dawn Moskowitz, Director, Opportunities Ventures
John O'Kane, Board Member
Caryl Stewart, President and Chief Executive Officer

The Reinvestment Fund

Margaret Berger Bradley, Director, Communications and Investor Relations
Michael Crist, Executive Vice President and Chief Financial Officer
Don Hinkle-Brown, President, Lending and Community Investments
Jeremy Nowak, President and Chief Executive Officer
Diane-Louise Wormley, Board Member

Other CDFI Informants

Alice Greenwald, Director, Capitalization Program, National Federation of Community Development Credit Unions
William Myers, Chief Executive Officer, Alternatives Credit Union
Mark Pinsky, President and Chief Executive Officer, Opportunity Finance Network
Robert Schall, President, Self-Help Ventures Fund
Michael Swack, Professor, Southern New Hampshire University

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