Elements of the democratic economy

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION

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Cdfi

Community development financial institution

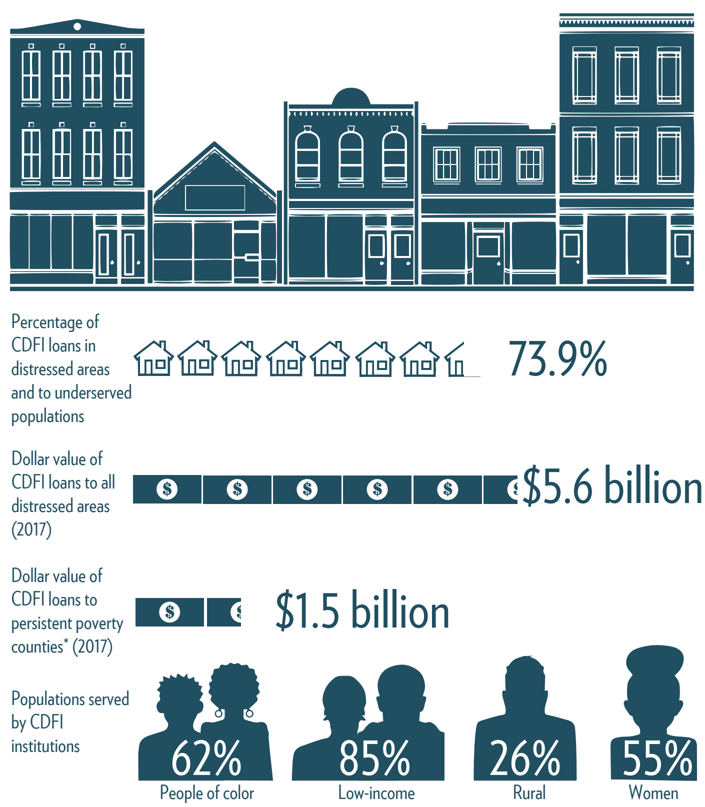
Community development financial institutions (CDFIs) are mission-driven organizations committed to providing services that create and broaden economic opportunities within their community.

Today's CDFIs trace their roots to the work of community activists in the 1970s fighting bank redlining in urban areas and seeking to redirect capital through community-controlled banks. To cover the broad range of services they provide to low- and moderate-income communities, CDFIs may be either for-profit or nonprofit organizations, and can be structured as a community development bank, credit union, loan fund, or venture capital fund. Most are certified by the federal government and are thus eligible for government support (through the federal CDFI Fund) as well as private funding. Today more than 1,100 federally certified CDFIs operate around the country.

Potential Impact

With increased investment and support, CDFIs can transform neighborhoods that have faced historical disinvestment by providing the capital needed to jumpstart and sustain new businesses; build quality, affordable homes; and develop critical community facilities such as health clinics and childcare centers. Individuals living in underserved and under-resourced communities could obtain the financing they need to ensure their long-term financial security, whether through buying their first home, opening a business, or purchasing a car in order to get to a job. More significantly, they could help pilot and scale promising community wealth building efforts like that of the New Hampshire Community Loan Fund, which in 1984 helped trailer park residents form a pioneering cooperative that contributed to the creation of resident-owned communities that now provide affordable housing to 28 million people. CDFIs are also willing, as they did during the 2008 financial crash, to provide financing to communities and individuals during economic downturns, acting as a critical countercyclical force when traditional bank lending declines.

How CDFIs measure up



*Persistent poverty counties have a poverty rate that has been 20% or greater over the past 30 years.

Sources: Community Development Financial Institutions Fund, Opportunity Finance Network

Transformative Characteristics

As CDFIs prioritize benefitting their community over extracting profit from it, they invest in places and projects that traditional lenders will often ignore. Thus, CDFIs are essential to developing and sustaining the housing, businesses, nonprofit facilities, and community infrastructure that serve as the backbone of vibrant and equitable neighborhoods. Moreover, CDFIs also empower their communities by providing technical assistance to develop the skills needed to achieve true financial independence. In 2017 alone, CDFIs helped more than 452,000 people improve their financial literacy and provided financial services to thousands more who previously had never used a bank. This is especially crucial for empowering historically marginalized communities and ensuring community control of local assets.

Challenges

The roughly $136 billion in assets held by CDFIs in 2018 represent just a fraction of the $17 trillion in assets held by all banking institutions. In a country with significant inequities between communities, it is clear that the CDFI sector's impact is severely constrained by its size. While CDFIs exist in all 50 states, an Urban Institute analysis revealed that from 2011 to 2015, the most economically vulnerable households were issued no loans in a quarter of the counties where CDFIs currently operate. Moreover, while CDFIs exist to channel resources to populations that are overlooked by traditional lenders, only 22% are owned or led by people of color.

More resources

- Community Development Financial Institutions Fund (Department of the Treasury) resources include impact reports and updated lists of certified CDFIs (cdfifund.gov).
- Opportunity Finance Network resources include a database that allows users to identify CDFIs in their community (ofn.org/cdfi-locator).

Examples

BlueHub Capital
Established 1984

BlueHub Capital (formerly known as Boston Community Capital) is considered one of the nation's most innovative and successful community development financial institutions. It embraces the concept of a "blue economy" that offers "an equitable prosperity that includes low-income people and communities." To date, it has lent more than $1 billion and leveraged $6 billion in additional investments. Its work is credited with preventing more than 800 foreclosure-related evictions, renovating 2 million square feet of real estate, building or preserving nearly 20,000 units of affordable housing, and creating 4,440 living-wage jobs. BCC is also one of the largest providers of solar power to affordable housing; it has financed more than 26.5 million kilowatts of solar capacity, saving customers millions in energy costs.

Chicago Community Loan Fund
Established 1991

The Chicago Community Loan Fund (CCLF) was created to ensure that community development organizations could access the funding needed to help launch projects and enterprises in Chicago's low and moderate-income neighborhoods. It has grown into an organization with more than $70 million in total assets. The $229 million in financing it has provided through 2019 is credited with leveraging an additional $1.4 billion, building or preserving more than 10,700 units of affordable housing, developing more than 11 million square feet of commercial and community facility space, and supporting the creation of nearly 5,700 jobs. CCLF also provides comprehensive technical assistance to new organizations and offers resources to encourage developers to rely on sustainable, green practices.

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The Next System Project's **Elements of the Democratic Economy** is an ongoing series introducing the basic institutional designs for a transformed political economy. Learn more at **thenextsystem.org/elements**