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COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS IN NORTH CAROLINA:

Creating Jobs and Community Economic Development

November 2012

3120 Highwoods Blvd, Suite 350 ● Raleigh, NC 27604 ● 919.803.1437 phone ● 919.896.8612 fax ● www.thesupportcenter-nc.org

Executive Summary

Community Development Financial Institutions (CDFIs) are community-based financial service providers that focus their resources on the most distressed and underserved communities in the nation. Individuals and families in these communities are often unable to access personal and business financial services – savings and checking accounts, home loans, business loans, etc.—from traditional, mainstream banks. As the large banks consolidate, many communities have lost local bank branches. At the same time, banks have both tightened their lending standards and pulled back from small business lending. Thus, the barriers to accessing financial services and capital have become much more formidable, particularly in the past four years, as the state and the nation have struggled to recover from the Great Recession.

For the past 18 years, CDFIs have been stepping in to fill this gap, and their services are more important now than ever before. Established in 1994 under the Community Development and Regulatory Improvement Act, CDFIs provide loans, make investments, and offer financial resources to individuals and communities that are not served by the mainstream financial sector. CDFIs are a vital link to financial services, capital, and financial literacy that help lift families and communities out of distress and onto the road to economic health. This paper examines the important role of CDFIs in North Carolina. The work of CDFIs enhances the efforts of government and private sector stakeholders in generating economic growth. Working together, supported by sound policies and strategic investments, CDFIs, banks, and the State of North Carolina can spur much-needed economic development in underserved communities, and ultimately the state as a whole.

Key Findings

- In Fiscal Year 2011 alone, the 999 CDFIs nation-wide made 16,000 loans and investments, worth $1.2 billion, that supported 5,000 small businesses, 17,000 affordable housing units, and 25,000 jobs.
- In North Carolina there are 17 CDFIs. As of 2010, they hold $1.17 billion in assets, and nearly 33,000 outstanding business, microenterprise, home purchase, consumer, and residential and commercial construction loans. The projects that CDFIs supported created over 3,100 jobs.
- CDFIs are healthy and financially sound institutions. They perform better on key performance ratios than standards established by the CDFI Fund as well as industry comparisons.
- CDFI credit unions and loan funds in the state also provide financial education and technical assistance services to help their members and borrowers, as well as to members of their broader community, increase their financial management skills.
- CDFIs can be a strategic partner to the State of North Carolina and to private institutions, such as banks, in revitalizing the state's economy. As such, they need additional affordable capital and investments to meet the increased demand for capital and financial services.

History of the CDFI Movement

From their earliest roots, Community Development Financial Institutions (CDFIs) have been a part of a movement to generate economic growth and revitalization for people and places that have historically been left out of the financial mainstream. These roots can be traced back to the formation of the community development movement in 1960s and the establishment of Community Development Corporations (CDCs). While other agencies, such as Community Action Agencies focused on social services, CDCs engaged in economic development projects and investments aimed at revitalizing communities. As Alan Okagaki states in a publication by the Federal Reserve Bank of Boston and The Aspen Institute:

> …community development emerged as a place-based complement to the original people-based programs of the Economic Opportunity Act. The practice of community development, as embodied in the CDCs, assumes that poverty is a function of place and environment rather than just the "shortcomings" of particular individuals…. Unlike social service interventions, community development deploys market-related tools such as real estate development and business development to address the economic roots of poverty. [1]

It is through this market- and investment-oriented approach that the notion of community-based financial service providers—and ultimately, CDFIs—began to take shape. Community development credit unions serving low-income and minority populations had already emerged in the 1950s, which extended financial services and credit to people outside the financial mainstream.[2] During the 1960s and 1970s, CDCs took on economic development, and non-profit loan funds grew during the 1980s.[3] These loan funds raised capital from philanthropic resources and federal agencies, such as the Department of Housing and Urban Development, the Department of Agriculture, and the Economic Development Administration, to provide business and development loans in underserved communities.[4]

The CDFI industry was formally established and funded under the U.S. Department of Treasury through the Community Development and Regulatory Improvement Act of 1994, which created the CDFI Fund. The purpose of the CDFI Fund is to advance "economic revitalization and community development through investment in and assistance to community development financial institutions," with the mission of increasing economic opportunity in underserved and distressed communities.[5] The establishment of the Fund, along with revisions to the Community Reinvestment Act (CRA) regulations in 1995 specifying CDFIs as qualified CRA investments for banks, catalyzed the nascent CDFI industry.

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[1] Okagaki, Alan. "Community Development and Federal Subsidies: A View from 40,000 Feet." Smart Subsidy for Community Development. Federal Reserve Bank of Boston and The Aspen Institute. July 2011. Pg 37.

[2] National Federation of Community Development Credit Unions. http://www.natfed.org/i4a/pages/index.cfm?pageid=256#What_is_a_CDCU

[3] Ratcliffe, Janneke and Sarah Wolff. The Role of Community Development Financial Institutions in Home Ownership Finance. CDFI Fund. October 2008. Pg 3. http://www.cdfifund.gov/impact_we_make/research/subprime-mortgage-market/reports/The%20Role%20of%20Community%20Development%20Financial.pdf.

[4] Okagaki, Pg 38.

[5] CDFI Fund. "About the CDFI Fund." http://www.cdfifund.gov/who_we_are/about_us.asp.

What Does The CDFI Fund Do?

It is important to distinguish between the CDFI Fund, which is a part of the U.S. Department of Treasury, and CDFIs, which are the local organizations that receive certification and funding through the CDFI Fund. Over the past 23 years, CDFI Fund has awarded $1.4 billion to community development organizations and financial institutions.[6] Through financial and technical assistance awards, CDFIs are the primary vehicle of the CDFI Fund for implementing the Fund's programs and achieving its mission of economic revitalization of low-income communities. In addition to the CDFI Program, the CDFI Fund allocates monetary awards and tax credits through a variety of programs centered on economic development, commercial real estate development, affordable housing and homeownership, and community development financial services:[7]

- **Bank Enterprise Award Program:** aimed at complementing community development activities of FDIC-insured entities by providing incentives to increase investments in CDFIs and increase lending, investment, and other activities in economically distressed communities.

- **Capital Magnet Fund Program:** provides financial awards to CDFIs and other qualified non-profit housing organizations for the purpose of developing affordable housing and community service facilities, as well as financing other economic development activities.

- **Financial Education and Counseling Program:** provides grants to organizations to provide financial education and counseling to homebuyers to increase their financial skills and knowledge, as well as to identify successful methods to influence behavior leading to financial empowerment.

- **New Markets Tax Credits Program:** aimed at spurring economic investments in low-income communities by providing tax credits to individual and corporate investors making equity investments in certified Community Development Entities.

- **Native Initiatives:** aimed at overcoming barriers to accessing capital, credit, and financial services in Native communities by encouraging the development of Native CDFIs, as well as increasing the capacity of existing Native CDFIs.

- **CDFI Bond Guarantee Program:** guarantees bonds or notes to CDFIs making investments for community or economic development purposes, including commercial facilities that promote revitalization, community stability, and job creation; community facilities; financial services; affordable housing; and businesses providing jobs to or owned by low-income people. This program was enacted by the Small Business Jobs Act of 2010, but has not yet been implemented.

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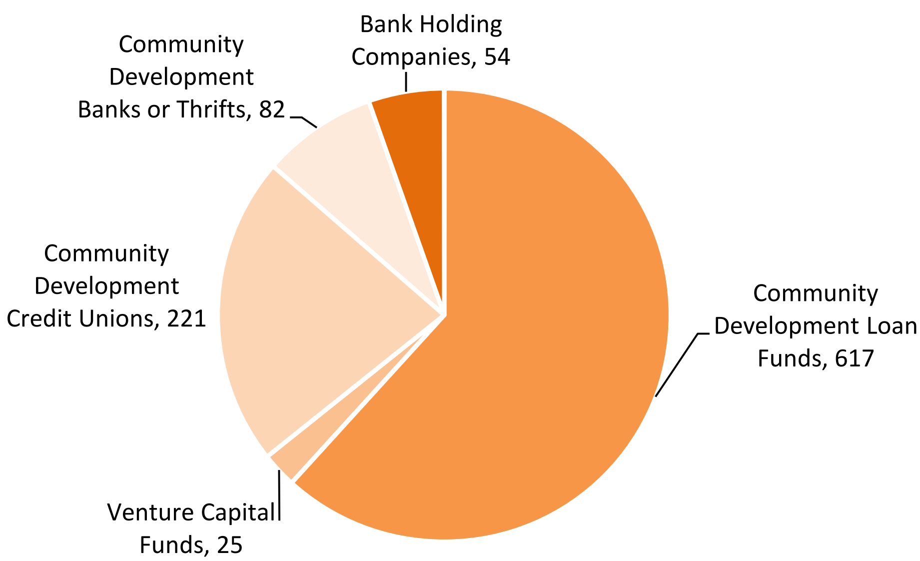
[6] Ibid.

[7] CDFI Fund. "Overview of What We Do." http://www.cdfifund.gov/what_we_do/overview.asp.

National Overview of CDFIs

In June 2012, there were 999 CDFIs across the country, representing non-profit loan funds, credit unions, banks, bank holding companies, and venture funds.[8] In addition to funding from the CDFI Fund, CDFIs leverage investments from the private sector, other state and federal government agencies, foundations, and other sources.

Types of CDFIs, 2012



According to the CDFI Coalition, in FY 2011, CDFIs made 16,000 loans and investments, worth $1.2 billion, that supported 5,000 small businesses, 17,000 affordable housing units, and created 25,000 jobs.[9] The CDFI Fund also estimates that $33 billion in private sector investment will be attracted through the New Markets Tax Credit Program awards.[10]

A study by the Carsey Institute and the CDFI Fund points out that through these investments, CDFIs fill a gap in financing and financial services left by traditional or mainstream banks and other institutions, particularly in response to the recession:

> Further analysis of selected CDFI business plans confirms that CDFIs are willing to take risks and serve customers with financial products that traditional capital markets are unlikely to provide. As described by their business plans, business lending CDFIs are making start-up loans, micro-enterprise loans and providing gap financing, or focusing their lending on minority and/or low income borrowers in distressed areas…. In

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[8] The Federal Reserve Bank of Minneapolis. http://www.minneapolisfed.org/community_education/cdfi/.

[9] CDFI Coalition. "The CDFI Fund: Promoting Economic and Community Development through CDFIs." https://org2.democracyinaction.org/o/5172/images/CDFI%20General%20Fact%20Sheet.pdf.

[10] CDFI Fund. "About the CDFI Fund."

short, true to their mission, CDFIs appear to be "stepping into the breach" to attempt to close gaps faced by constituents who cannot access traditional market capital.[11]

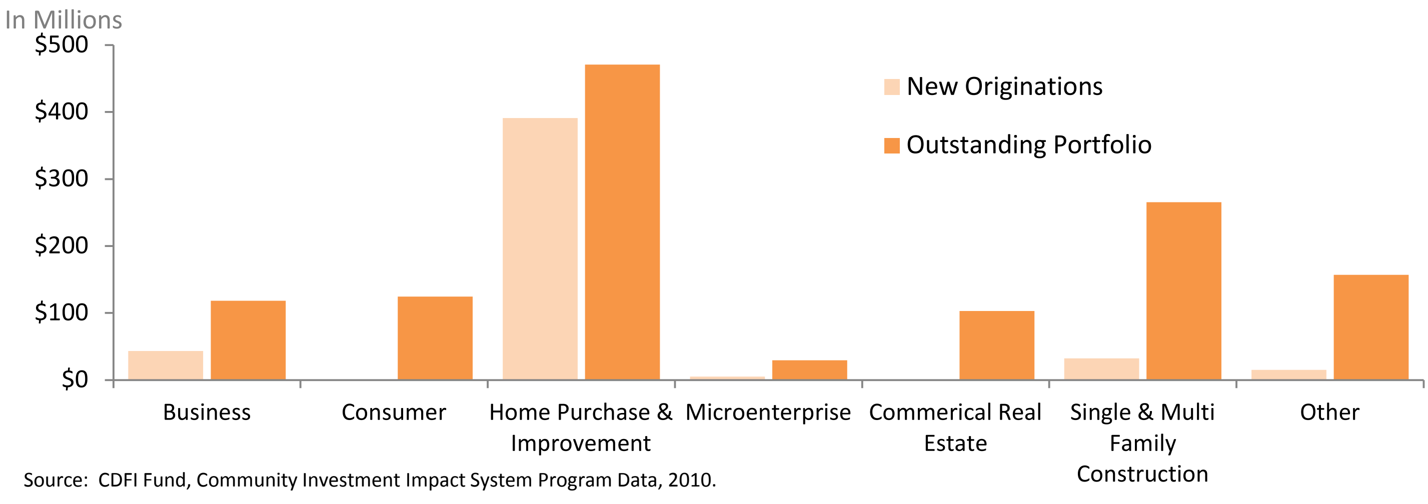
This makes an important distinction about the role of CDFIs in the economy: they serve individuals that are unable to access financial services through mainstream institutions. As the next section will illustrate, CDFIs in North Carolina have been working to fill this gap, providing essential community- and wealth-building financial services in the state's urban and rural underserved communities. CDFIs are thus a complement to, rather than in competition with, mainstream banks, lenders, and other institutions.

CDFIs in North Carolina: Portfolio Analysis

The CDFI Fund captures information on CDFIs through a data collection system called the Community Investment Impact System (CIIS). Currently, data on a range of indicators, such as assets, loan portfolios, organizational profiles, capital sources, etc. is available for CDFIs between Fiscal Years 2004 and 2010. There are 17 CDFIs in North Carolina, located across the state and serving urban, rural, and Native communities. These include nine loan funds, five credit unions, one venture capital fund, one bank, and one newly-certified CDFI housed within the Greensboro Chamber of Commerce. Analysis of the portfolios and performance of North Carolina's CDFIs shows that they are by and large safe and sound financial institutions.

CDFIs make a variety of different loans and investments, and in sum had $1.92 billion in financing capital in 2010.[12] As of 2010, the state's CDFIs held a total of $1.17 billion in assets, and nearly 33,000 outstanding loans totaling $1.29 billion. As shown in the chart below, home purchase and improvement loans comprise the largest segment of both the outstanding CDFI portfolio as well as new originations in 2010. Business loans make up the second largest portion of new originations, while single- and multi-family construction and rehabilitation loans

CDFIs New Originations and Total Outstanding Portfolio, 2010



Source: CDFI Fund, Community Investment Impact System Program Data, 2010.

[11] Swack, Michael et al. "CDFI Fund Industry Analysis, Summary Report." Carsey Institute and CDFI Fund. 2012. Pg 4.

[12] Unless otherwise stated, analysis of CDFI portfolios and performance is derived from the Community Investment Impact System data obtained from the CDFI Fund. http://www.cdfifund.gov/news_events/CDFI-2011-37-CDFI-Fund-Releases-Most-Comprehensive-CIIS-Data-to-Date-FY-2004-2010.asp

comprise significant portions of both the new originations and the total outstanding portfolio.

The table below summarizes performance ratios for the state's CDFIs, along with industry comparisons. The median percentage of portfolio at risk (the volume of loans that was more than 90 days delinquent) in 2010 for all loan types was 2.7 percent. Specifically for home purchase loans, the total portfolio at risk was 5.7 percent, which is much lower compared to the 8.57 percent reported by the Mortgage Bankers Association's National Delinquency Survey in the fourth quarter of 2010.[13] It also compares favorably to the mortgage delinquency rates in North Carolina during this time, which were 1.88 percent for prime loans and 12.53 percent for subprime loans.[14] The net charge off ratio for the total CDFI outstanding portfolio in 2010 was less than 1 percent. By comparison, the Small Business Administration's 7(a) and 504 lending programs reported net charge off ratios of 2.65 and 2.42 percent respectively.[15]

Performance Ratios for NC CDFIs and Comparisons

Ratio	NC CDFIs	Comparison	Comparison Source
Median Portfolio At Risk (all loan types)	2.7%	8.57%	Mortgage Bankers Association Delinquency Survey
		1.88% / 12.53%	Prime / Sub-prime mortgage delinquency rates for NC
Net Charge Off Ratio	<1%	2.65%	SBA 7(a) Program
		2.42%	SBA 504 Program
Net Assets Ratio	32%	≥20%	CDFI Fund Minimum Prudent Standards
Deployment Ratio	85%	≥50%	CDFI Fund Minimum Prudent Standards

The CDFI Fund has also issued Minimum Prudent Standards (MPS), which establishes benchmarks for assessing the health of CDFIs. According to these standards, the net assets ratio, which is a measure of the financial strength of the CDFIs, must be greater than or equal to 20 percent, and that the deployment ratio should be greater than or equal to 50 percent.[16] The state's CDFIs have exceeded the MPS in both of these categories; the median net assets ratio in 2010 was 32 percent, while the median deployment ratio was 85 percent.

These indicators show that CDFIs in North Carolina are in fact healthy and financially sound institutions. CDFIs are mission-driven, and although they may face unique challenges in providing services to their target markets (discussed in more detail in a later section), they are still able to meet and exceed performance standards. However, the true impact of CDFIs goes beyond the numbers. Through their variety of programs and services,

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13 Mortgage Bankers Association. National Delinquency Survey Q4 2010, Data as of December 31, 2010. http://nationalmortgageprofessional.com/sites/default/files/NDS_Q410.pdf.

14 Blackwood, Jake et al. Mortgage Performance Summary, Quarterly Update. "Housing Market and Mortgage Performance in North Carolina." The Federal Reserve Bank of Richmond. 4th Quarter, 2010. http://www.richmondfed.org/community_development/resource_centers/foreclosure/research_and_pubs/mortgage_performance_summaries/nc/pdf/mortgage_performance_nc_20104q.pdf.

15 Small Business Administration. "Table 9 – Charge Off Rates as Percent of Unpaid Principal Balance (UBP) by Program." http://www.sba.gov/sites/default/files/files/WDS_ChargeOffRates_Report.pdf.

16 Department of the Treasury. "FY 2011 CDFI Program Guide to the Combined Application for Financial Assistance or Technical Assistance." http://www.cdfifund.gov/docs/2011/cdfi/FY_2011_CDFI_Program_Application_Guidance.pdf.

CDFIs are able to meet the needs of those who are left out of the financial mainstream, but for whom access to financial services is crucial for economic empowerment and mobility.

Impact of North Carolina CDFIs

In 2010, the projects supported by CDFIs across the state created over 3,100 jobs. In addition to lending and job creation, CDFIs offer a range of programs that provide counseling, training, and technical assistance to increase their borrowers' and members' financial skills. These essential functions of CDFIs are what distinguish them from mainstream banks and financial institutions and allow them to reach markets that are otherwise not served.

The lack of access has become particularly acute in the past four years, since the onset of the Great Recession. Over the past decade, increased bank consolidation has led to many bank branches being closed and to a decrease in smaller community banks. Nationally between 2004 and 2008, the number of banks with assets less than $500 million dropped 9.2 percent, while large banks with assets of $50 billion or more increased by one-third.[17] As discussed in another report by The Support Center, "Small Business Lending in North Carolina: The Increasing Role of Community Lenders," credit markets have also tightened in recent years as banks have receded from small business lending. More strict lending standards have made accessing capital increasingly difficult for entrepreneurs—even those who may have been able to access capital just a few years ago.[18] These trends have led to a gap in services, particularly in low-resourced and underserved communities across the state. CDFIs in North Carolina have stepped in to fill this gap by extending credit and offering services to individuals who would not have access through more traditional channels.

CFDI Credit Unions

The CDFI credit unions in the state are all Community Development Credit Unions, which means that their primary mission is to serve low-income and minority populations. As such, they offer personal and business banking services; checking and savings accounts; credit cards; and loan products including auto, home, commercial, and consumer loans. In addition to these banking services, they also provide financial literacy programs to help their members increase their financial knowledge and skills.

For example, Latino Community Credit Union (LCCU), which primarily serves the low-income immigrant Latino community in the state, offers workshops in each branch on various topics, such as "How to Save and Create a Budget," "Preparing Yourself for Home Ownership," or "How To Buy A Car." LCCU also offers one-on-one membership counseling and free credit counseling. Generations Community Credit Union (GCCU) also offers workshops and one-on-one mentoring on topics such as budgeting, investing, and homeownership. The three other CDFI credit unions—Self-Help Credit Union, First Legacy Community Credit Union, and Greater Kinston Credit Union—also offer their members financial counseling and mentorship. These programs are integral to

[17] Small Business Administration, "Small Business in Focus: Finance." July 2009. Pg 25.
[18] The Support Center. "Small Business Lending in North Carolina: The Increasing Role of Community Lenders." May 2012. Pg 4.

helping individuals and families in underserved communities achieve financial stability not only for themselves, but to help build economic stability for the future of their communities. As stated in GCCU's mission:

> We reach out to the communities we serve by offering a program of financial literacy that allows our members to achieve economic self-sufficiency. And, by creating a stable financial future, we help our members pass on wealth from this generation to the next.

This is especially important as many North Carolinians continue to struggle with the impacts of the recession. The Pew Research Center reported that between 2005 and 2009, the decrease in median net worth was particularly high among minority households. While the median net worth decreased by 16 percent during this time for white households, Hispanic and Black households experienced precipitous declines of 66 percent and 53 percent respectively.[19] In North Carolina, 48 percent of households of color are "asset poor"—meaning that they do not have enough net worth to live at the poverty level for three months without any income—compared to only 17 percent of white households.[20] Providing an affordable vehicle for underserved and minority families to access financial services, while at the same time building up their knowledge and skills base, is critical to their long-term financial and economic health, as well as that of their communities.

CDFI Loan and Venture Funds

CDFI loan funds provide an alternative, affordable source of capital for small businesses, commercial and housing real estate development, microenterprises, home ownership, and venture capital. CDFI loan funds all target underserved communities, as deemed by their missions. The Support Center, Self-Help Ventures Fund, SJF Ventures, and the North Carolina Community Development Initiative take a state-wide approach, providing services to communities across North Carolina. Others target specific populations or geographic areas:

- Charlotte-Mecklenburg Housing Partnership: low and moderate income families in the City of Charlotte and Mecklenburg County
- MAY Coalition**:** Mitchell, Avery and Yancey Counties in Western North Carolina
- Mountain BizCapital: Buncombe, Cherokee, Clay, Graham, Haywood, Henderson, Jackson, Macon, Madison, Polk, Swain, and Transylvania Counties
- Mountain Housing Opportunities Loan Fund: Asheville and Buncombe Counties
- The Sequoyah Fund: Seven western-most counties of the state and on the Qualla Boundary
- Lumbee Revitalization & Community Development Corporation: targets members of the Lumbee Tribe

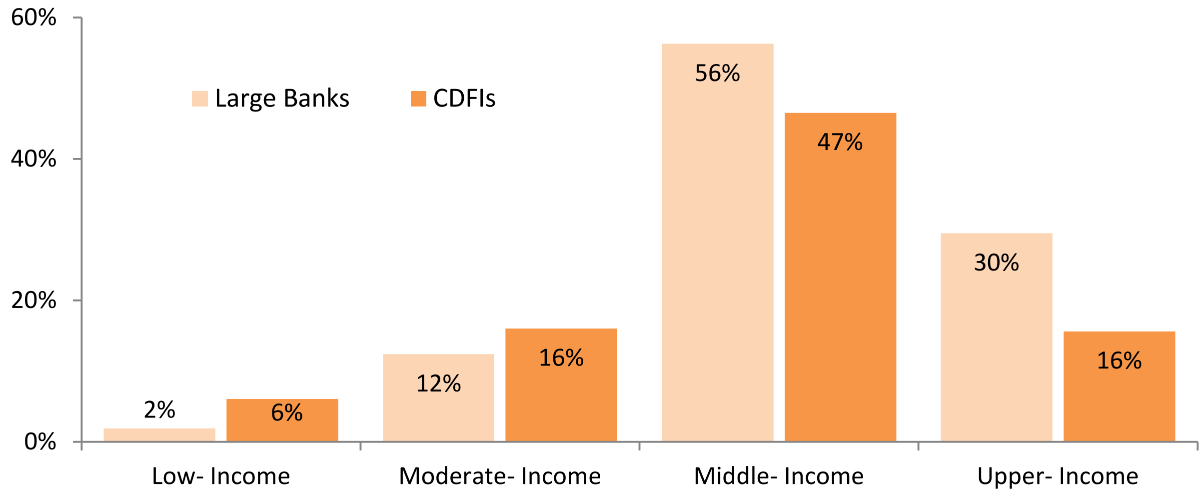
[19] Kochhar, Rakesh et al. "Wealth Gaps Rise to Record Highs Between Whites, Black and Hispanics." Pew Research Center. July 26, 2011. http://pewresearch.org/pubs/2069/housing-bubble-subprime-mortgages-hispanics-blacks-household-wealth-disparity.

[20] North Carolina Justice Center. "Prosperity Watch Issue 10, No.3: North Carolina faces enormous 'wealth gap' between households of different races." http://www.ncjustice.org/?q=prosperity-watch-issue-10.

Many CDFIs have seen demand for loans increase in the past four years as a result of the Great Recession and its impact on the availability of capital, as discussed above. In North Carolina, CDFI loan funds have occupied a niche in providing small business loans in low- and moderate-income areas. Our previous analysis on small business lending in the state found that although commercial banks hold the majority of lending capital, they spend a smaller share of their resources on low- and moderate income areas, as compared to CDFIs. The chart below shows the percentage of small business lending resources invested in census tracts of various income levels. CDFIs invest 22 percent of their lending resources in low- and moderate-income census tracts, while large banks invest 16 percent of their lending resources in those tracts. When we look at the amount of investment per census tract, the investment of large banks in upper-income tracts is 250 percent greater than their investment in low-income tracts. By contrast, the volume that CDFIs invest per low-income tract is 44 percent greater than the amount they invest per upper-income tract. [21]

CDFIs Invest Greater Resources in Low- and Moderate-income Areas

Total Lending Volume by Census Tract Income Designations



Sources: Federal financial Institutions Examination Council. CRA Aggregate Data. 2010.
CDFI Fund, Community Investment Impact System Program Data, 2010.

Unlike commercial banks, CDFIs have developed the expertise to take on the greater risk involved with lending to certain borrowers that might be turned away from banks. CDFIs are able to make these loans because of the more intensive counseling and financial literacy training they offer. As stated in The Support Center's small business lending study:

> CDFIs, credit unions, and CDCUs can evaluate borrowers on a broader range of criteria to expand access to credit for those businesses that are unable to get loans from banks. For example, CDFIs can be more willing to lend to start-ups if the business owner has management experience or previous industry experience.... CDFIs and CDCUs can extend opportunities for financing by providing training and education to increase

[21] The Support Center. Pg 6.

business owners' financial and business management skills, making them stronger businesses and more credit-worthy in the long-run.[22]

Like CDFI credit unions, CDFI loan funds also provide counseling and training to help borrowers address credit issues, develop financial management skills, develop business plans, and address challenges they may face in their businesses. Mountain BizCapital, for example, designs trainings based on the interest and needs of their members—either by choosing topics that people are interested in, or by developing a format that attracts the most participants. Mountain BizCapital also provides technical assistance and one-on-one counseling with a borrower after a loan has been closed. SJF Ventures has an affiliated non-profit, the SJF Institute, that is dedicated to providing capacity building support through workshops, mentorship opportunities, and summits for the businesses that they invest in. Likewise, The Support Center provides training for its borrowers and other small businesses through "lunch and learn" workshops, convening roundtable discussions on how to improve access to capital, and through partnering with other technical assistance providers, such as the state's Small Business Technology Development Centers.

These trainings not only help the current borrowers of CDFIs in the state, but they also reach out to other entrepreneurs and developers within the community. The benefits ripple out as CDFIs work to improve their own members' financial standing and to provide a knowledge and resource base for the community as a whole.

Challenges and Policy Implications

As the discussion above illustrates, CDFIs have been stepping in to provide important services to individuals that are not being met by other institutions. Moving forward, CDFIs can continue to play a critical role in North Carolina's economic recovery, by creating jobs and supporting the families, businesses, and infrastructure—the economic engines—of communities across the state. They serve as a complement to the economic development functions of both government and of other financial institutes. However, as they work to mitigate the challenges faced by the members of their communities, they too face challenges brought about by the recession.

Self-sufficiency

The CDFI Fund's Minimum Prudent Standards state that the self-sufficiency ratio for non-profit CDFIs (all the CDFIS in North Carolina are non-profits) must be greater than or equal to 40 percent. This ratio provides an indicator of a CDFI's sustainability by measuring how much of a CDFI's expenses can be covered by their earned revenue. In 2010, the median self-sufficiency ratio was 43 percent, which is above the MPS and indicates that the CDFIs are doing a good job of covering their expenses through earnings. However, this is a decline from the previous two years. The median self-sufficiency ratio was much higher in 2009 and 2008—64.8 percent and 74.9 percent respectively. Although the 2010 ratio has not dipped below the MPS, the declining trend warrants some attention.

[22] The Support Center, Pg 7.

One reason for the declining self-sufficiency rate is that CDFIs can have greater operating costs as compared to other financial service providers. The hands-on approach described in the previous section—counseling, one-on-one mentoring, technical assistance, etc.—is a significant cost that CDFIs bear in providing their services and programs. Although this is one of the key characteristics of a CDFI, and a necessary function to ensure the CDFIs' and their members' success, providing these services efficiently and effectively are also key to CDFIs' bottom lines and, ultimately, their self-sufficiency. Perhaps more importantly, in order preserve these important services, CDFIs will need to raise funds to cover operational costs. CDFIs must already raise funds for lending, but also need to focus on raising funds to support their programmatic and administrative functions as well. As such, investors in CDFIs, such as government agencies, foundations, financial institutions, and others, should also provide grant opportunities that support operations as well, acknowledging that these counseling and training functions of CDFIs are integral to fulfilling their missions.

Another factor could be a lag in earned income, which would reduce the overall ratio. As borrowers and other CDFI members face economic hardships, their ability to pay back loans or make deposits diminishes, which would affect CDFIs' earnings. But again this relates back to the counseling services that CDFIs provide, which allow CDFIs to work with borrowers to modify or restructure loans to help them remain current and avoid defaults.

Accessing lending capital

In order to achieve self-sufficiency, CDFIs need to have the lending capital needed to increase their lending volume and grow their earnings. But in recent years, the tightening markets after the recession has meant that raising financing capital for CDFIs has become more difficult. In North Carolina, the capital held by CDFIs for lending purposes peaked in 2006 at $2.13 billion. In 2007, it dropped sharply, to $1.15 billion. Between 2008 and 2010, it increased again, staying roughly between $1.92 and $1.96 billion during those years.

Raising adequate and affordable lending capital is one of the core priorities for a CDFI. The funding they receive from the CDFI Fund is only one part of the total amount that they raise for lending purposes. Other government agencies, state appropriations, investments from banks and other financial institutions, and foundation grants are other sources of capital for CDFIs. Having a diversity of sources is important for the sustainability of CDFIs and their ability to weather economic cycles.

One of the key barriers to raising capital, particularly for smaller CDFIs, is the cost of debt. As the CDFI Industry Analysis points out, leveraging debt can help CDFIs grow and make more loans. However:

> One reason why CDFI Loan Funds use little leverage may be that… their cost of debt can be surprisingly high…. The 31 loan funds selected for deeper analysis that reported having debt (notes payable and lines of credit) on their audited balance sheets, had a median cost of debt (interest expense/debt) of 2.7 percent. Moreover, seven of these funds had debt costing 4 percent or more annually, and seven more had debt

costing between 3 and 4 percent. This compares to banks, which may have an overall cost of funds of less than 1 percent.[23]

Mitigating the barriers for CDFIs to access capital would in turn help CDFIs provide additional capital to the communities they serve. Ensuring that the CDFI Fund remains robust and receive the necessary appropriations is an important component, but CDFIs can partner with other agencies and entities to further economic development in the state. As mentioned above, CDFIs can serve as a partner in furthering the economic development goals of the state, as well as private entities such as banks. Making strategic investments in CDFIs can be a part of a broader effort to revitalize and rebuild the state's economy.

[23] Swack et al, Pg 10.

Appendix: CDFIs in North Carolina

Charlotte-Mecklenburg Housing Partnership 4601 Charlotte Park Drive, Suite 350 Charlotte, NC 28217 www.cmhp.org **Total assets:** $135.4 million **Areas of focus:** affordable and market-rate housing development, homeownership, neighborhood revitalization, homeownership education, financial literacy	**Lumbee Revitalization & Community Development Corporation** 636 Prospect Rd. Pembroke, NC 28372 http://www.lumbee.org/lrcdc.html **Total assets:** $70,000 **Areas of focus:** microloans and financial counseling
First Legacy Community Credit Union 431 Beatties Ford Road Charlotte, NC 28216 www.firstlegacyfcu.org **Total assets:** $42 million **Areas of focus:** personal and business banking services, mortgage loans, auto loans, home equity loans, line-of-credit loans, financial education	**MAY Coalition, Inc.** 167 Locust St. Spruce Pine, NC 28777 www.maycoalition.org **Total assets:** $3.7 million **Areas of focus:** business loans and technical assistance
Generations Community Credit Union 123 W. Main St. Durham, NC 27701 www.gencomcu.org **Total assets:** $23.7 million **Areas of focus:** personal and business banking services, mortgage loans, auto loans, real estate secured loans, and share secured, partial secured, and unsecured loans, financial education	**Mechanics & Farmers Bank** 2634 Durham Chapel Hill Blvd. Durham, NC 27707 www.mfbonline.com **Total assets:** $295.2 million **Areas of focus:** personal and business banking services, commercial line of credit, term loans, commercial construction loans, commercial and residential mortgage loans
Greater Kinston Credit Union 901 N. Queen St. Kinston, NC 28501 www.greaterkcu.org **Total assets:** $11.8 million **Areas of focus:** personal banking services, consumer lending including auto and personal loans, financial education	**Mountain Biz Capital** 153 South Lexington Avenue Asheville, NC 28801 www.mountainbizworks.org **Total assets:** $5.1 million **Areas of focus:** business loans, microloans, consulting, technical assistance, financial training
Latino Community Credit Union 100 W. Morgan St. Durham, NC 27701 www.latinoccu.org **Total assets:** $113 million **Areas of Focus:** personal banking services, mortgage loans, personal loans, microloans, international remittances, member counseling and financial education	**Mountain Housing Opportunities Loan Fund** 64 Clingman Ave., Suite 101 Asheville, NC 28801 www.mtnhousing.org **Total assets:** $11.4 million **Areas of focus:** housing development and rehabilitation, homeownership, rental housing

North Carolina Community Development Initiative Capital 5800 Farrindgon Place Raleigh, NC 27609 www.ncinitiative.org **Total assets:** $10 million **Areas of focus:** permanent financing for multi- and single family residential construction, small business growth and expansion loans, bridge financing	**The Sequoyah Fund, Inc.** 810 Acquoni Rd. Cherokee, NC 28719 www.sequoyahfund.org **Total assets:** $6.8 million **Areas of focus:** business loans, healthy foods, housing rehabilitation, technical assistance, credit counseling, financial education
Self-Help Credit Union & Self-Help Ventures Fund 301 W. Main St. Durham, NC 27701 www.self-help.org **Total assets:** $564.9 million (credit union) and $815.6 million (ventures fund) **Areas of focus:** commercial lending for businesses, non-profits, public charter schools, childcare providers; community development; affordable housing developments; affordable home loans; personal banking services	**The Support Center** 3120 Highwoods Blvd., Suite 350 Raleigh, NC 27604 www.thesupportcenter-nc.org **Total assets:** $13.5 million **Areas of Focus:** business lending, farm lending, healthy foods, technical assistance, policy & research
SJF Ventures Fund 200 N. Mangum St. Durham, NC 27701 www.sjfventures.com **Areas of focus:** venture capital focusing on cleantech, sustainability, business services, and web-enhanced services	*New CDFI in North Carolina:* **Greensboro Chamber of Commerce** 342 North Elm Street Greensboro, NC 27401 www.greensboro.org

About The Support Center

Founded in 1990, The Support Center is a statewide nonprofit and certified Community Development Financial Institution that provides loans, support, and programs to help our communities grow and thrive. Our mission is to partner with credit unions and community-based organizations to provide equitable financial services and resources that foster economic development in underserved communities.

About the Author

Sadaf Knight serves as The Support Center's Policy and Research Director. She provides research and analysis on public policy issues related to community development financing and economic development. Sadaf is also the primary author of The Support Center's Blog (http://thesupportcenter.wordpress.com/). Sadaf received a Bachelor of Science degree in Conservation & Resource Studies from the University of California, Berkeley and a Master of Urban Planning from Columbia University.

The SUPPORT CENTER
Serving | Strengthening | Sustaining Our Communities

3120 Highwoods Blvd, Suite 350
Raleigh, NC 27604

Phone 919.803.1437 ● Fax 919.896.8612

www.thesupportcenter-nc.org