

Community Development Finance: The Evolution of a Movement

Clifford N. Rosenthal

Introduction

The growth of the Community Development Financial Institutions (CDFI) movement is a uniquely important public-policy success story, made possible through the efforts of visionary community activists, foundations, congressional supporters, and key allies within the executive branch. Over its twenty-year history, the CDFI Fund of the Treasury Department has invested more than a billion dollars in community-based lenders, providing a vital source of expansion capital for non-profit and for-profit institutions that supply financial services and credit to low-income households, organizations, and development projects beyond the comfort zone of conventional banks. "CDFI" has become the leading, most sought-after brand in community development.

This book tells the story of how the CDFI movement changed approaches to public and private investment in community development, altered notions of "bankability," and incubated a new generation of poverty-fighting institutions. It documents the political history of community development finance and examines the organizational evolution of CDFIs themselves. It draws upon extensive interviews with the variety of stakeholders in the development of the CDFI movement: federal and state policymakers, CDFI Fund leadership, foundation investors, banks and social investors, leaders of the CDFI organizations, individual CDFIs, and the communities they serve.

About the Author

Clifford Rosenthal was the CEO of the National Federation of Community Development Credit Unions for more than 30 years. His concept papers and draft legislation in the 1980s provided the initial impetus for the development of the national CDFI movement, which he helped found and lead. After leaving the National Federation in 2012, he joined the new federal Consumer Financial Protection Bureau, running the Office of Financial Empowerment which is the focus for policy- and program-development that addresses the needs of low-income consumers.

Rosenthal is currently a Visiting Scholar at the Milano School of the New School for Public Engagement in New York City. He has authored various articles and monographs about credit unions and financial services for low-income consumers, including *Credit Unions, Community Development Finance, and the Great Recession*, published by the San Francisco Federal Reserve Bank in 2012. He has been recognized for his work by the Opportunity Finance Network (Ned Gramlich award), the National Credit Union Foundation (Herb Wegner Award), the Insight Center for Community Economic Development, the Lawyers Alliance of New York, and other organizations.

He was trained as a historian at Columbia University. His book, *Five Sisters: Women Against the Tsar* (with Barbara Engel) has been used in college courses for more than 30 years.

Community Development Finance: Evolution of a Movement

Part One: The Political History of the CDFI Movement

- I. The Streams that fed the CDFI Movement: CDCs, Loan Funds, Credit Unions, Minority Banks, Microenterprise, Venture Capital
 - a. Why CDFIs?
 - b. CDFIs and the Community Reinvestment Act (CRA)
- II. Building the CDFI Coalition, 1985 – 1992
 - a. Early vision: concept paper, model legislation, core principles
 - b. Key players
- III. 1992: Early Legislation and the Clinton Campaign
- IV. 1992 – 1994: The Fund Becomes a Reality
 - a. What “home” for the Fund?
 - b. The Bank Enterprise Award act
- V. 1994 – 1997: Taking Shape, Finding Trouble
- VI. 1997 – 2000: Staying Alive, Adding Programs
 - a. Capacity Building
 - b. Native American programming
- VII. 2001 – 2008: CDFI in a changed Administration
- VIII. 2008 - 2012: CDFI - New Opportunities, New Threats
 - a. New Administration, New Champions
 - b. The Great Recession
 - c. Occupy Wall Street
 - d. TARP and CDFIs: the Community Development Capital Initiative
- IX. From Treasury “step-child” to “Most Favored Program”: The CDFI Fund as a vehicle for innovation
 - o NMTC Program – and the role CDFIs played in shaping this program
 - o The Health Foods Financing Initiative
 - o The Capital Magnet Fund
 - o The CDFI Bond program
 - o “Pollenizing” other government agencies

- The initiatives that never made it: “Bank On,” Payday Alternatives

Part Two. The (Changing) Shape of Community Development Finance

- X. One Movement, Many... or None?
 - a. CDFIs today: Overview of the Sectors
 - i. Community development credit unions
 - ii. Community development banks
 - iii. Community development loan funds
 - iv. Microenterprise funds
 - v. Community development venture funds
 - vi. Native American CDFIs
 - b. “Movement” or “Industry”: Does it Matter?

- XI. “Other People’s Money”: CDFIs and their supporters
 - a. Religious investors
 - b. Foundations
 - c. Banks
 - d. Socially Responsible Investors
 - e. Those they serve: Members and Depositors
 - f. Rating CDFIs to Promote Investment: CARS® and Aeris

- XII. Evolutionary Trends: Institutional Development and Change
 - a. Adapting the tools of finance: EQ2 and Secondary Capital
 - b. Changing balance sheets: the impact of capital
 - c. Product specialization: How CDFIs have filled financing and service gaps
 - i. Mortgages, Nonprofit lending, small-business lending, charter schools, short-term small-dollar lending

- XIII. Profiles of Individual CDFIs: How they changed, the impacts they achieved , the lessons they learned

Part Three. The Movement today, its Challenges, Its Future

- XIV. CDFIs: Assessing the Movement and the Fund
 - a. CDFI Fund: Where it put its money
 - b. The Fund’s self-assessment
 - c. Review of research on CDFIs
 - d. The CDFI Brand: what does it mean, what is it worth?

- XV. Sustainability and Mission
 - a. Mission + Scale. Mission vs. Scale

- b. Sustainability, subsidy, self-sufficiency
 - c. Regulation, self-regulation, and “de facto” regulation by investors
 - d. “A Thousand Flowers?” Fragmentation, Common Platforms, Merger
- XVI. “Human Capital” and CDFIs
- a. CDFIs and minority empowerment: race, gender, and ethnic inclusion
 - b. Capacity-building and leadership development
 - c. Native American CDFIs
 - d. Generational Change: ““Economic justice doesn’t resonate with millennial”
 - e. Succession Planning
- XVII. Toward a New Financial System
- a. CDFIs in the Age of Dodd-Frank
 - b. Meeting the challenge of inequality
 - c. The Fund’s vision for permanence: from a discretionary annual appropriation, to a key piece of building infrastructure for the financial services industry
- XVIII. CDFI Fund in international context
- a. The CDFI Fund and financial inclusion
 - b. Spreading the model internationally

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