THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
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CDFIs Leverage CDFI Program Awards Nearly $27 to $1

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For the second year in a row, CDFIs report leveraging their Financial Assistance awards nearly $27 to $1 with private and non-CDFI Fund public dollars. This is up from $20 to $1 reported for fiscal years 2003 and 2004. In FY 2005 alone, the most recent year for which data are available, CDFI Fund awardees leveraged a total of $1.4 billion. This leveraging provides the federal government a much greater return in community development outcomes than the government's investment dollars could provide on their own.

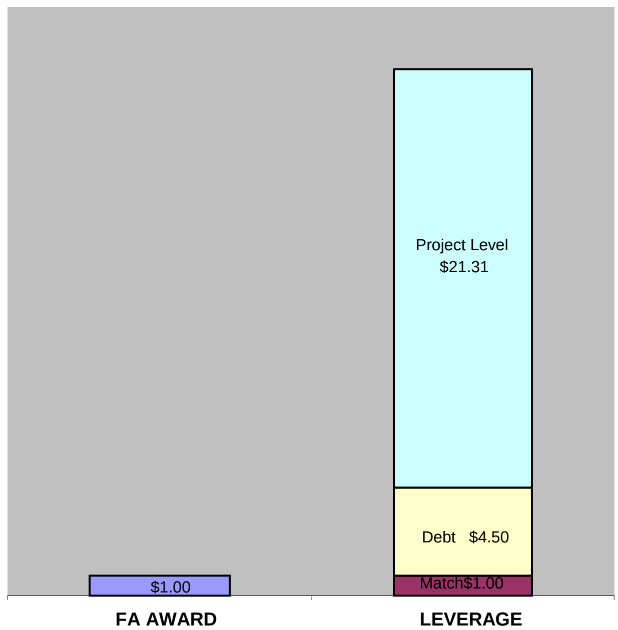
CDFIs are very efficient at leveraging and do it in three ways.

First, the CDFI Fund requires CDFIs to match their Financial Assistance Component awards one-to-one with non-federal funds. Second, CDFIs leverage their net assets (or equity) by borrowing against them, providing CDFIs with larger amounts of capital to invest in communities. Third, CDFIs leverage other funds at the project level. Many of the loans that CDFIs make finance a portion of a project's total cost. For example, a real estate construction project typically has multiple sources of debt and equity financing to cover the cost of the entire project. These other sources may include banks, local or state governments, private investors and the borrower's equity. Project leverage is the amount of non-CDFI Program awardee dollars that go into the projects financed by the awardee.

Of the three leverage components, the highest amount of leverage occurs at the project level. As shown in the figure on the next page, CDFIs leverage each dollar of Financial Assistance with $1 in required matching funds, $4.50 in debt, and $21.31 in debt and equity financing provided by other lenders and investors to the project being financed.

In the purest form, leverage means using a dollar to obtain more dollars. There is a cause and effect relationship: if the first dollar was not available, the additional dollars would not become available. When calculating the leverage of Financial Assistance awards, the CDFI Fund does not assume this cause and effect relationship, because it is very difficult to verify. For example, matching funds may or may not be a direct result of the CDFI getting a CDFI Fund award. Even if a private donor sent a CDFI a "conditional approval letter" stating that a donation is approved contingent upon the CDFI receiving a CDFI Fund award, it is not possible to definitively prove that the donor would not have made the donation even if the CDFI Fund did not provide the full award amount.

Composition of $27:$1 Leverage



Likewise, at the project level, it is not always possible to verify that the CDFI's financing in a project led to the participation of other lenders and investors. For example, a CDFI provides subordinate financing in a deal. This lowers the risk of other lenders' senior position loans. However, absent interviews with the other lenders and a careful analysis of the history of the deal, one cannot conclude that the senior loans would not have been made if the CDFI had not provided the subordinate financing. For both matching funds and project level leverage, the CDFI Fund's methodology may therefore overestimate actual leverage.

On the other hand, the leverage calculation may underestimate debt leverage. If a CDFI receives a CDFI Fund grant or equity investment in the final months of its fiscal year, it may not be able to raise additional debt against these net assets before the end of the fiscal year. In this case, the debt leverage figure will be underestimated: several months into the new fiscal year, it could jump significantly if the CDFI secured new debt. The underestimation may be relatively large depending on the amount of the CDFI Fund award.

The chart on the following pages explains the CDFI Fund's leverage calculation for FY 2005.

FY 2005 Leverage Calculation		
Matching Funds Leverage		
FY 2005 Financial Assistance (FA) Disbursements	$	1,000,000
Matching Funds Required per FA Dollar Disbursed	$	1.00
Matching Funds Leveraged	**$**	**1,000,000**
Matching Funds Leverage Ratio	***$***	***1.00***
Debt Leverage		
FA Equity & Grant Disbursements	$	859,521
Corresponding Matching Funds	$	859,521
Total Dollars Available to be Leveraged = FA Equity & Grant Disbursements + Corresponding Matching Funds	$	1,719,043
Average (Liabilities / Net Assets) Ratio		2.62
Debt Leveraged = (Total Dollars Available to be Leveraged) x Average (Liabilities / Net Assets) Ratio	**$**	**4,503,892**
Debt Leverage Ratio = Debt Leveraged / FA Disbursements	***$***	***4.50***
Project Leverage		
FA Disbursements	$	1,000,000
FA Match	$	1,000,000
Debt Leverage	$	4,503,892
Total Dollars Available to be Leveraged	$	6,503,892
Average (Total Project Cost - Awardee Project Financing) / Awardee Project Financing		3.28
Project Dollars Leveraged = (Total Dollars Available to be Leveraged) x Average (Total Project Cost - Awardee Project Financing) / Awardee Project Financing)	**$**	**21,312,620**
Project Leverage Ratio = Project Dollars Leveraged / FA Disbursements	***$***	***21.31***
TOTAL LEVERAGE		
Total Dollars Leveraged = Matching Funds Leveraged + Debt Leveraged + Project Dollars Leveraged	**$**	**26,816,512**
Leverage Ratio = Total Dollars Leveraged / FA Disbursements*	***$***	***26.82***

* A portion of the Fund's FA disbursements are not appropriated dollars. Approximately 10 percent of each Financial Assistance award is made up of dollars the CDFI Fund borrows from the Federal government through its borrowing authority. If this is taken into account, the leverage ratio on appropriated FA disbursements is $29.50:$1.