The Benefits of a Maturing CDFI Industry

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For the first time, in the summer of 2004, awardees of the CDFI Program and allocatees of the NMTC Program reported their annual performance data through the CDFI Fund's web-based Community Investment Impact System (CIIS). At this time, the Fund is pleased to present some initial findings. The following analysis is based on 223 CDFI Program awardees that submitted reports on their fiscal year (FY) 2003 activities. The majority of these respondents are certified CDFIs with Financial Assistance or Technical Assistance awards, the only CDFIs required to submit such reports. A few CDFIs volunteered their data when they were not otherwise required to do so and they have also been included in the Fund's analysis.

While CDFIs have been at work in communities since the early part of the 20th century, there was a rapid increase in the number of CDFIs since the Fund was established in 1994. For the 223 CDFIs that reported on their FY 2003 activities, the median number of years of financing is just 10 years. Notwithstanding the relatively short period of financing, in FY 2003 these CDFIs controlled over $5.1 billion in total assets, including nearly $4.2 billion in capital under management. They held loan portfolios that totaled over $3.3 billion and originated nearly $1.7 billion in loans and investments. CDFIs bring substantial benefits to the communities they serve. In FY 2003, the 223 CDFIs report providing over 6,500 business loans to businesses that employed over 67,000 people at the time the loans were made. These businesses along with the other businesses in the CDFIs' portfolios created or maintained nearly 7,900[1] jobs in FY 2003. These CDFIs financed over 39,000 housing units throughout the country, over 85 percent of these affordable housing units. CDFIs also provided technical assistance and training to thousands of businesses and individuals.

Analysis of the information collected through 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.

A few examples illustrate these points. For this analysis, we separated the 223 CDFIs into four categories based on years of financing: 4 years or less, 5 to 9 years, 10 to 17 years, and 18 years or more. Each category includes roughly the same number of CDFIs and includes all financial institution types. (See Table 1.)

[1] The CDFI Fund's FY 2004 Performance and Accountability Report (PAR) reports 7,179 jobs created or maintained. The difference is due to jobs created or maintained by CDFIs that reported their FY 2003 performance data to the Fund after the FY 2004 PAR was printed.

Table 1: CDFIs by Years of Financing

Financial Institution Type	4 Years or Less	5 to 9 Years	10 to 17 Years	18 Years or More	Total
Banks	1	1	2	4	8
Credit Unions	4	2	3	19	28
Loan Funds	51	44	48	35	178
Venture Funds	3	3	2	1	9
Total	55	50	55	59	223

Table 2 summarizes these data by employment, total assets, and equity. The findings are consistent: CDFIs with fewer years of financing activity had fewer employees, smaller total assets, and lower levels of equity. Total assets is a good example: the youngest CDFIs together have just over $205 million in total assets while the next age group collectively has over double that amount. The CDFIs with the longest history of financing have over $3.5 billion in total assets.

Table 2: Total Employment, Assets, and Equity of CDFIs by Years of Financing, FY 2003

	4 Years or Less	5 to 9 Years	10 to 17 Years	18 Years or More
Number of CDFIs	55	50	55	59
FTEs	269	389	848	1,664
Total Assets	$205,817,016	$534,773,051	$909,009,372	$3,507,462,072
Equity	$59,773,361	$189,976,901	$366,186,503	$802,057,277

Those CDFIs with the longest history of financing have more revenues and are more efficient. As shown in the following table, total operating revenues increase from just over $13.6 million for CDFIs with shorter financing histories, to $36.4 million and $72.4 million for CDFIs that have been financing 5 to 9 and 10 to 17 years, respectively, and, finally, to over $126.1 million for the CDFIs with the longest financing histories. On average, the less experienced CDFIs have only $231.1 thousand in operating revenue compared to over $2.1 million for the most experienced CDFIs. Meanwhile, average revenue per full-time equivalent (FTE) employee starts at $50.7

thousand per FTE for the least experienced CDFIs, nearly doubles to $93.7 thousand per FTE for those showing slightly longer periods of financing, then gradually declines for the CDFIs with the longest histories of financing. Although further analysis is needed, a possible explanation for this pattern is that less experienced CDFIs operate with insufficient resources, pass through a stage of larger resource availability during which they make capital and/or research and development investments, and then begin to enjoy more efficient operations once these investments are made.

Table 3: Operating Revenues by Years of Financing, FY 2003

	4 Years or Less	**5 to 9 Years**	**10 to 17 Years**	**18 Years or More**
Total	$13,635,418	$36,415,050	$72,416,635	$126,110,863
Average	$231,109	$728,301	$1,316,666	$2,137,472
per FTE	$50,684	$93,677	$85,387	$75,811

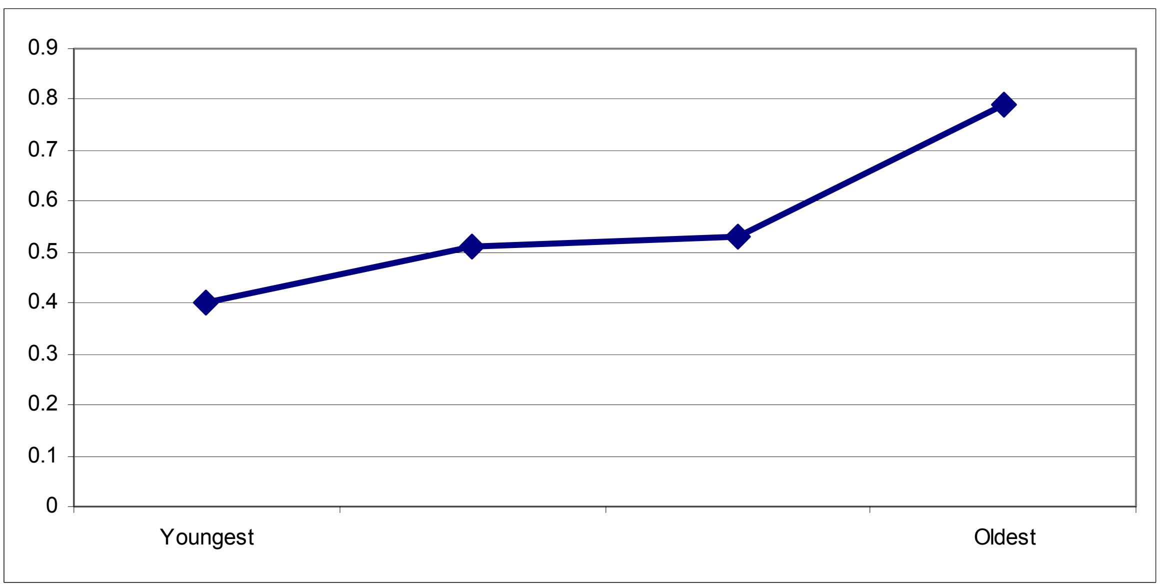
In addition to greater operating revenues, the CDFIs demonstrated more lending and investing capital as years of financing increase. Table 4 shows, for instance, that the least experienced CDFIs had on average just $2.5 million available for lending and investing in FY 2003 while the CDFIs with the longest financing histories on average had about $51.2 million in capital. Lending and investing capital per FTE also rises dramatically, from $540 thousand for the youngest CDFIs to $1.8 million for the oldest, indicating higher levels of staff productivity.

Table 4: Capital Available for Lending and Investing by Years of Financing, FY 2003

	4 Years or Less	**5 to 9 Years**	**10 to 17 Years**	**18 Years or More**
Total	$145,371,427	$404,323,022	$619,560,570	$3,019,066,244
Average	$2,463,922	$8,086,460	$11,264,738	$51,170,614
per FTE	$540,354	$1,040,113	$730,528	$1,814,888

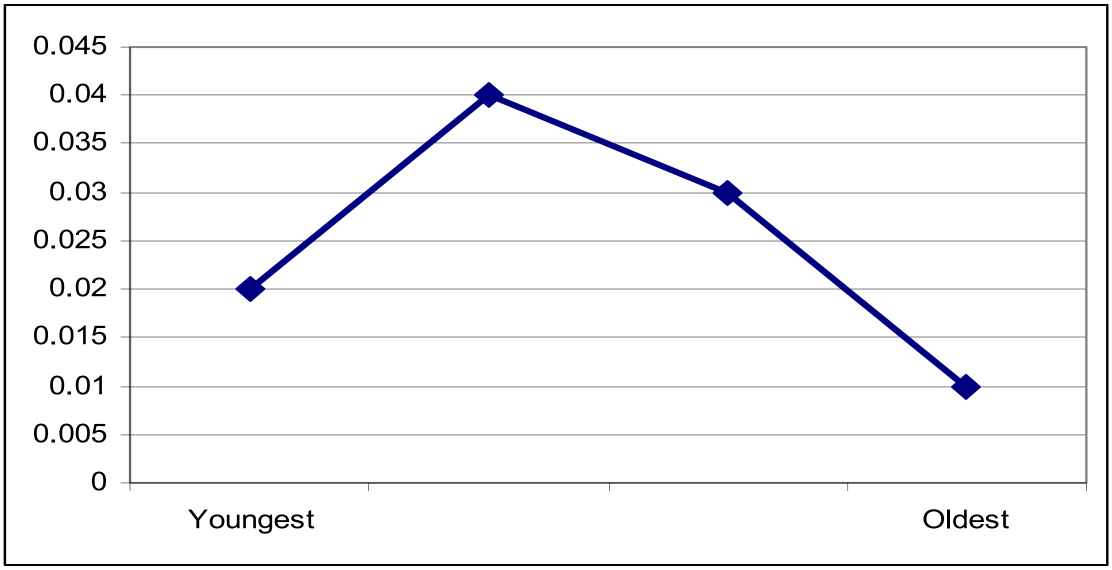
Measures of financial performance and portfolio quality also improve in relation to the length of financing operations. As the following graph shows, the self-sufficiency rate increases with the CDFI's years of financing. Self-sufficiency is defined as the percentage of operating expenses that are covered by earned income. Higher self-sufficiency rates mean an institution relies less on contributions and donations to cover its costs. Indeed, the self-sufficiency rate is 40 percent for the least experienced CDFIs, increasing to 51 percent and 53 percent respectively for CDFIs that have been financing 5 to 9 and 10 to 17 years, and is 79 percent for the CDFIs with the longest financing histories.

Chart 1: Self-Sufficiency Ratio by Years of Financing, FY 2003



In contrast, as shown in the following graph, loan losses are lower for the most experienced CDFIs. Loan loss rates are very low for both the least and most experienced CDFIs (2 percent and 1 percent, respectively). The CDFIs that have been financing between 5 and 10 years had the highest loan loss rate (4 percent), but this rate, as can be seen on the graph, then steadily declines. This pattern may be explained by the fact that less experienced institutions tend not to charge off loans early on, either because they are not making risky loans, loans with long maturity periods have not had time to become delinquent, or they do not have a charge off policy in place. As an institution matures, it tends to make riskier loans, loans with longer maturity dates may experience payment problems, and the institution develops clear policies and procedures for charge offs.

Chart 2: Loan Loss Rate by Years of Financing, FY 2003



Finally, when we look at the benefits that CDFIs bring to their communities, the picture is complex. These data are provided in Table 5. Uniformly, the 59 CDFIs with the longest histories of financing have been the most successful in bringing jobs to their communities. However, for all reporting CDFIs with less financing history, there is no clear relationship between the length of time the entity has been engaged in financing and levels of job creation. With respect to housing, it is the least and most experiences CDFIs that are reporting the greatest impact on the areas they served in FY 2003. However, it is important to note that CDFIs of all experience levels bring considerable employment and housing benefits to the communities they serve.

(continued on next page.)

Table 5: Jobs and Housing Benefits to the Community, FY 2003

	Years of Financing				
Totals	**4 Years or Less**	**5 to 9 Years**	**10 to 17 Years**	**18 Years or More**	**All CDFIs**
Net Job Growth	1,320	1,953	1,469	3,136	7,878
Housing Units Assisted	7,673	3,635	5,650	22,851	39,809
Affordable Housing Units Assisted	7,318	3,481	3,877	19,835	34,511
First Time Home Buyers	304	1,206	1,255	2,588	5,353
Average for each CDFI					
Net Job Growth	35.6	74.1	56.7	156.8	97.3
Housing Units Assisted	401.7	227.2	245.7	846.3	468.3
Affordable Housing Units Assisted	365.9	217.6	189.4	944.5	442.4
First Time Home Purchasers	27.6	100.5	83.7	92.4	81.1

The Fund looks forward to further analysis of the FY 2003 data, both as future years of data are reported, and in relation to other recognized industry studies such as the CDFI Data Project, to identify trends that offer valuable insights to CDFIs and the industry's stakeholders.