

## LENDING

### Community Development Financial Institutions (CDFI) + Others

Use these standards for community development financial institutions, multibank community development corporations, shared pool financing, lending consortiums, and other alternative forms of lending.

#### Level 1: Project Feasibility Assessment

These basic criteria determine the feasibility of a CDFI. The focus is on the organizational and financial readiness of the CDFI.

#### 1. NEED

- a. Community Need
  - i. The CDFI serves those without access to conventional financing.
- b. Market Study/Needs Analysis
  - i. The market study confirms the need for, and viability of the CDFI.
    1. There are no other CDFIs in the area that can work with the target population.
    2. There is enough demand and sources of funding to support the CDFI.
  - ii. The market study informs the organization about demographics of the area, competition, and barriers to entry.
    1. The CDFI's interest rates and terms are comparable to or better than those of the local area.
- c. Local Support
  - i. The beneficiaries of the CDFI, such as businesses within the area, support the CDFI.
  - ii. Neighbors and local community members support the CDFI.
  - iii. The CDFI is in alignment with local city, county, state and/or federal development goal(s)

#### 2. ORGANIZATIONAL READINESS

- a. The organization is willing and able to do the CDFI.
- b. The CDFI is in alignment with the mission of the organization.
- c. The Board of Directors embraces a CED strategy and/or embraces the CDFI as a part of the CED strategy.
- d. The organization and/or its partners have a track record of participating in similar CDFIs.
- e. The organization has the financial and operational capacity to undertake the proposed CDFI.
  - i. The organization can support the additional debt (if any) created by the CDFI.
  - ii. The organization has qualified staff that can undertake the CDFI.
  - iii. The organization has access to reliable, qualified vendors and service providers.
  - iv. The organization is aware of and able to dedicate time and financial resources toward applying for CDFI certification.

#### 3. FINANCIAL FEASIBILITY

- a. Program cost
  - i. The CDFI is affordable to the organization, and the projected cost is appropriate to the concept.
  - ii. The operator or staff providing the cost estimates is qualified and experienced with CDFI.
- b. Funding sources
  - i. There are enough sources of funding for the uses.
  - ii. The organization has endeavored to secure all available competitive and noncompetitive funding sources for which the CDFI qualifies.
  - iii. The actual disbursement of each source is timely and in sync with the needs of the CDFI.
  - iv. The organization is aware of the compliance implications of each source.
- c. Cash flow
  - i. The CDFI produces enough cash flow to support the proposed debt structure (if any).
    1. The CDFI minimally pays for itself over time. It has a sustainable cash flow, or the CDFI is subsidized enough to sustain itself.
    2. The CDFI can survive beyond the first year.
    3. The CDFI will be able to capitalize itself each year.

## Level 2: Practical Considerations

These criteria are essential for a successful, operating CDFI.

1. MARKET BARRIERS
  - a. The organization understands why past CDFIs have not worked and instead addresses prior issues in innovative and alternative ways.
2. DEVELOPMENT TEAM & PARTNERSHIPS
  - a. The organization has assembled the best team for the CDFI, including vendors, employees, trainers, outreach coordinators, underwriters, and management staff.
  - b. If the organization is lacking in any area (financial, experience), it has partnered with another entity to operate the CDFI.
  - c. The CDFI is supported by public sector, private sector, and community partners.
  - d. Through an open dialogue with the community, the organization has sought and incorporated community participation in the CDFI.
3. SITE CHARACTERISTICS
  - a. The area that is served by the CDFI makes sense.
  - b. The offices of the CDFI are located near or adjacent to transit.
4. PROGRAM DESIGN & OPERATION
  - a. The CDFI is run in the appropriate language(s) for the clientele in the area.
  - b. The CDFI is culturally appropriate to the clientele in the area.
  - c. The CDFI is tailored to the specific geography of the clientele in the area.
  - d. The CDFI has lending guidelines.
  - e. The CDFI has underwriting guidelines.
  - f. What types of documentations is required?
  - g. The loan committee consists of members with expertise in the industry, whether through past experience or current employment.
5. PORTFOLIO MANAGEMENT
  - a. What percentage is the loan loss reserve?
  - b. Loss tolerance: when do losses become a concern?
  - c. The organization has established key ratios that it abides by to manage the CDFI.

## Level 3: From Feasible to Exemplary

These criteria elevate a CDFI to an exemplary one.

1. FUNDING & FUNDING REQUIREMENTS
  - a. The CDFI uses a funding program or funding source that is new and innovative.
  - b. Each funding source was heavily leveraged to gain further resources.
  - c. Certain features of the CDFI were adapted to capture funding, but the CDFI was not completely changed in order to capture one particular funding source.
  - d. There are multiple stakeholders providing funding, and this mix of funding sources maximizes the feasibility of the CDFI.
    - i. Funding includes conventional funding from bank.
    - ii. Funding includes nonconventional funding, such as start up grants.
  - e. The CDFI exceeds minimum standards required by funding sources.
    - i. There is deeper low and moderate income targeting than required by funding sources.
2. FUTURE PROJECTS
  - a. The CDFI strengthens the position (financial, political, capacity, experience) of the organization.
  - b. Through the CDFI, the reputation of the organization was enhanced. Issues that the staff faced were dealt with in a diplomatic manner, enabling future programs.
  - c. The success of the CDFI will enable future funding on other programs.
  - d. The community is happy with the CDFI and will participate in more/similar programs in the future.
  - e. The community is more knowledgeable about CDFIs.
3. ECONOMIC IMPACT

- a. The CDFI attracts customers and new businesses to the area.
  - b. The CDFI helps retain existing businesses.
  - c. The CDFI stimulates long-term job creation.
  - d. The CDFI encourages development, redevelopment, and investment.
4. PORTFOLIO ANALYSIS
- a. There is a diversity of loans in sizes, terms, and types.
  - b. The CDFI funds green projects/programs and creates green jobs.
  - c. The CDFI funds food security projects.
  - d. There is a low cost per loan disbursed.
5. MISSION ADHERENCE
- a. The financial products are accessible to or benefit the local community.
  - b. The CDFI stays true to its mission during tough economic times.
  - c. The CDFI serves neighborhoods and projects that are more complicated and require more time and effort, and are generally undesired by conventional lenders.
6. COMPREHENSIVENESS
- a. The organization provides or connects to other programs that provide multiple services e.g. technical assistance.
7. DIVERSITY
- a. The CDFI serves a mixed income clientele.
  - b. The CDFI encourages mixed age, gender, ethnic, etc. participation.
  - c. The CDFI supports minority businesses.
8. PUBLIC BENEFITS
- a. The CDFI provides a service that is needed by the community but is currently lacking.
  - b. The CDFI results in other positive physical impacts.
  - c. The CDFI results in other positive economic impacts.
  - d. The CDFI results in other positive social impacts.
9. REPLICABLE/SCALABLE
- a. This CDFI can be replicated in other communities, regions, and/or states.