

CDFIs and How They Address Economic Inequality

According to a recent Wall Street Journal story, the coronavirus pandemic and the heightened attention on racial injustice have thrown new light on a longstanding source of economic inequality: Black communities have less access to credit than white ones.¹ One way to address this disparity is through community development financial institutions (CDFIs) – private financial institutions that are 100 percent dedicated to delivering responsible, affordable lending to help low-income, low-wealth, and other disadvantaged people and communities join the economic mainstream.² As an impact investor with two decades of experience in community investing, CCM has always been a supporter of, and investor in, CDFIs. Our clients often ask to have some of their assets targeted to programs and investments that support CDFIs and we believe it can be a great way to support racial justice and social equality.

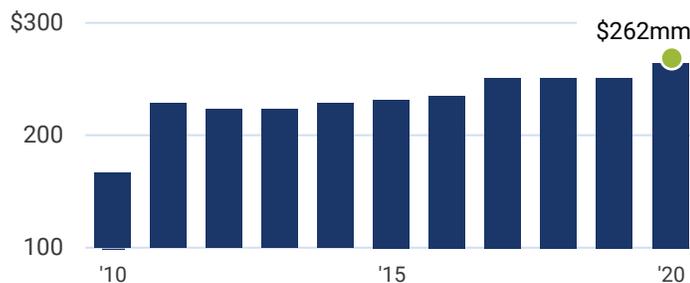
CDFIs in the Spotlight

There has been a lot of attention over the last few months on CDFIs as billions of dollars have been earmarked by Congress for CDFIs to issue Paycheck Protection Program loans to small businesses. Additionally, CDFIs have received multimillion-dollar investments from traditional lenders such as Goldman Sachs Group Inc. and Bank of America Corp., and new corporate supporters such as Netflix Inc. and Google Inc.³

In July, U.S. Sens. Mark R. Warner (D-VA), Cory Booker (D-NJ), Kamala Harris (D-CA), and Democratic Leader Chuck Schumer (D-NY) introduced the Jobs and Neighborhood Investment Act, legislation to make a new, \$17.9 billion investment in low-income and minority communities that have been especially hard-hit by the COVID-19 crisis. The legislation would provide eligible CDFIs and Minority Depository Institutions (MDIs) with capital, liquidity, and operational capacity to expand the flow of credit into underserved, minority, and historically disadvantaged communities, helping small businesses stay afloat and expand operations while providing affordable access to credit for lower-income borrowers.⁴

CDFIs have historically had bi-partisan support dating back to the CDFI Fund in 1994.

Congressional Appropriations for the CDFI Fund | In \$millions

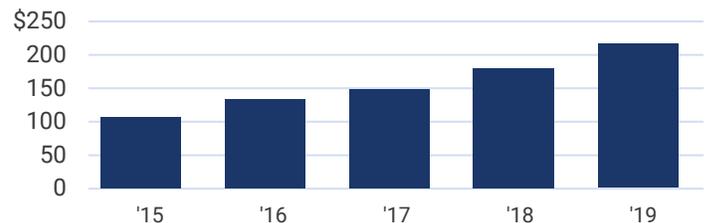


Source: CDFI Coalition

CDFI Industry

According to Opportunity Finance Network, the national association of CDFIs, there are more than 1,100 certified CDFIs at work in all 50 states with assets of more than \$222 billion helping to create jobs, affordable housing, financial health, and opportunity for underserved individuals, businesses, and communities. During the Great Recession, CDFIs joined other mission lenders to fill the void left when mainstream finance pulled back.⁵ A recent Impact Alpha story mentioned how CDFIs have long been “first responders” to small businesses in historically underinvested communities.⁶

CDFIs Total Assets | In \$billions

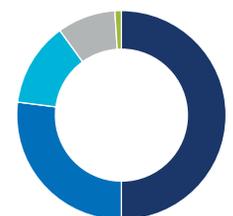


Source: U.S. Treasury/CDFI Fund via Opportunity Financial Network

There are four types of CDFIs: banks and bank holding companies, credit unions, loan funds, and venture capital funds. CDFI banks, bank holding companies, and credit unions are depository institutions regulated by federal and state agencies.

Types of Certified CDFIs | Percentage by type of 1,082 certified CDFIs as of 9/30/2019

Loan Fund	50
Credit Union	27
Bank or Thrift	13
Depository Institution Holding Company	9
Venture Capital Fund	1



Source: CDFI Annual Report 2019

CCM and CDFIs

There is an expanding menu of investments through which organizations like ours and other impact investors – whether socially-motivated individuals, religious organizations, or foundations – can use CDFIs to support underserved and economically distressed markets. These include, but are not limited to, public debt offerings, loan funds, community/impact notes, savings accounts, and certificates of deposit.

Investors looking to make an impact and learn how they can invest in CDFIs can read a blog written by CNote available [here](#).

We hope to continue to play a role by investing in CDFIs, by working with CDFIs to find new and innovative capital market solutions, and by encouraging clients to consider including support for CDFIs in their asset allocation and manager selection decisions. As the pandemic continues amid acts of racial inequality, there is ongoing need to support the CDFI industry. CDFIs can play a critical role in supporting small businesses, the backbone of our economy, and more specifically, minority- and women-led businesses that have traditionally been overlooked by conventional financial institutions.



CDFI Investing for the Impact Investor

We wrote a report last fall, CDFI Investing for the Impact Investor, that goes into more detail on the history and types of CDFIs, CDFI ratings, and share case studies of investments we have made in CDFIs. The report is available [here](#).

About CCM

Community Capital Management, Inc. (CCM) is an investment adviser registered with the Securities and Exchange Commission. Headquartered in Fort Lauderdale with employees in Boston, Charlotte, the New York City area, and Southern California, CCM was founded in 1998 and manages \$3 billion in assets. The firm believes a fully integrated portfolio – one that includes environmental, social, and governance (ESG) factors – can deliver strong financial performance while simultaneously having positive long-term economic and sustainable impact. CCM's strategies utilize an innovative approach to fixed income and equity investing by combining the positive outcomes of impact and ESG investing with rigorous financial analysis, an inherent focus on risk management, and transparent research. For more information, please visit: www.ccminvests.com.

¹ <https://www.wsj.com/articles/renewed-focus-on-race-triggers-surge-of-interest-in-community-based-lenders-11597743000> ² <https://ofn.org/what-cdfi> ³ *ibid* ⁴ <https://www.newsbreak.com/news/1604504121324/us-senators-kamala-d-harris-mark-r-warner-cory-booker-and-democratic-leader-chuck-schumer-introduce-legislation-to-help-low-income-and-minority-communities-during-economic-crisis> ⁵ <https://ofn.org/CDFIs> ⁶ <https://impactalpha.com/>

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