

REINVESTMENT ALERT

Woodstock Institute

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Impacts of CDFIs in Illinois: A Case for an Improved Illinois Fund for Investment and Development

Introduction

Illinois is home to an active and established community development financial institution (CDFI) industry with a successful track record of providing financial services in economically disadvantaged markets and underserved communities. CDFIs stimulate the local economy by creating jobs, building housing, and leveraging private resources for reinvestment. CDFIs include nonprofit loan funds, credit unions, community banks, small business lenders, and venture capital funds.¹ Although diverse in corporate structure, CDFIs share the common mission of providing affordable financing options that broaden access to capital. CDFIs offer services with rates, terms, and products tailored to meet their clients' needs. While the young industry is very successful, CDFIs need new sources of capital in order to expand. In January 2003, Illinois became the fourth state in the nation to enact a law creating a comprehensive state-based program—the Illinois Fund for Investment and Development—(IFID) to support the CDFI industry. However, IFID is currently unfunded. This Alert serves to advocate for funding for IFID in order to assist the vital CDFI industry in Illinois.

CDFIs offer a range of customized and innovative financing options to businesses, individuals, nonprofits, and religious institutions facing barriers in obtaining access to traditional sources of capital. Examples of innovative financial products include venture capital funds providing start up capital in the form of equity investments to entrepreneurs desiring to create new businesses; community banks offering individuals and businesses affordable checking and savings accounts or providing commercial loans; loan funds providing financing for affordable housing development and community institutions; and small or micro business lenders providing financing for the creation or expansion of businesses.

In addition to financial services, CDFIs provide extensive training and targeted technical assistance to help clients meet their financial goals. Technical assistance services offered by CDFIs include business counseling, strategic planning, financial management, homebuyer training, asset management, and training seminars.

¹Community development banks are specially designated banks that provide capital to rebuild disinvested areas. Community development credit unions specialize in offering affordable and accessible financial services to lower-income people and minorities. Community development loan funds, which are unregulated institutions that cannot take deposits, lend to and make investments in a range of projects in economically distressed communities. The four types of loan funds are microenterprise, small business, housing, and community facilities and service organizations. Community development venture capital funds provide debt and equity for real estate projects and medium-sized businesses in distressed areas

The mission of the new public-private partnership known as IFID is to enhance the capacity of Illinois' CDFI industry through the following mechanisms:

- Creating new CDFIs throughout Illinois
- Expanding CDFI services and markets
- Attracting more public-private partnerships in community economic development

IFID was conceived and developed by the Illinois CDFI Coalition. The Coalition, initiated by the Illinois Facilities Fund, is a partnership of CDFIs and industry supporters working together to further strengthen and expand the industry to ensure that financing for community economic development is available throughout Illinois. The goal of the Coalition is to strengthen and expand the Illinois CDFI industry by:

- Sharing successful practices
- Improving and increasing communication with traditional financial institutions, government, and other resources
- Identifying and developing markets
- Advocating for public policies that support community development finance

IFID is a new public-private partnership that will allow CDFIs to expand their role in stimulating Illinois' economy by generating entrepreneurial activity, creating small business, supporting community services of nonprofit organizations, and financing affordable housing development. The Illinois CDFI Coalition is suggesting an initial funding level of \$3.5 million for FY 2004 for the IFID.

This Illinois initiative is especially important because CDFIs are not a priority of the Bush Administration. The Administration has substantially cut funding for the federal CDFI Fund from previous appropriations. Moreover, there have been attempts to cut or severely weaken the investment test portion of Community Reinvestment Act (CRA) examinations, which encourages banks and thrifts' investments in the CDFI industry and other economic development projects in lower-income areas.²

CDFI Impacts in Illinois 2001

The federal cutbacks for programs that aid the CDFI industry are a serious threat to the industry's growth potential. Data show that the CDFI industry is very effective and outcome-based. The CDFI Project or CDP, which collects data from CDFIs across the country, released fiscal year (FY) 2001 data on responding institutions in early 2003. Responding CDFIs located in the State of Illinois included

²For more information on the importance of bank investments in CDFIs, see *Reinvestment Alert 20: CRA and CDFIs Revisited: The Importance of Bank Investments for the Community Development Financial Institutions Industry and Implications for CRA Regulatory Review*. 2003: Woodstock Institute. By Katy Jacob and Malcolm Bush.

one community development bank, six community development credit unions, eleven loan funds, and one venture capital fund. Responses were combined to get an overall view of CDFI impacts in 2001.³ The Institute analyzed data for responding CDFIs (nineteen in total) in Illinois and discovered some very significant achievements.

First, CDFIs in Illinois held an impressive amount of capital, with over \$328 million in total capital. In 2001, these nineteen CDFIs closed 1,806 loans worth over \$80 million. CDFIs in Illinois had another almost 3,000 loans outstanding worth more than \$270 million in the same year. The following Table showcases some of the impacts of these CDFIs in 2001 that relate more directly to quality of life issues for Illinois residents. It demonstrates that on various measures, the CDFI industry has become a crucial source of investment and mortgage finance in financially-underserved communities in Illinois.

Table 1: Impacts of Illinois CDFIs 2001

Impact Category	Number
Housing Units Assisted	3,640
Individual Development Accounts (IDAs) Offered	533
Microbusiness/Small Business Jobs Created	246
Microbusiness/Small Business Jobs Maintained	212
Microbusinesses/Small Business Financed	262
Individuals Receiving Technical Assistance	7,453
Organizations Receiving Technical Assistance	353
Community Facilities Financed	56
Individuals Served by Community Facilities Financed	161,498

Table 1 illustrates that CDFIs are providing hundreds of jobs through their services to small and micro-businesses throughout the state. Microbusinesses are very small businesses that might not be able to open or remain solvent without the types of small loans provided by CDFIs.⁴ The industry is also a major piece of the affordable housing puzzle, as CDFIs assisted in the development of thousands of affordable housing units in the state.⁵

³This data is provided by the CDFI Data Project (CDP), a collaborative initiative to create a data collection and management system that produces data about community development financial institutions (CDFIs). The data set contains fiscal year (FY) 2001 information from 512 CDFIs nationwide. This sample represents a subset of the 800-1000 CDFIs that operate across the U.S. While the CDP has several methods to ensure data quality and consistency, the CDP cannot guarantee the reliability of the data. Also, the CDP dataset of 512 CDFIs understates the size of the industry as it excludes a few large CDFIs. The Illinois CDFIs included in the data set represent only a portion of the total number of CDFIs in the state, and the largest CDFI in Illinois, Shorebank, is not included in the survey. Please contact Beth Lipson at bethl@communitycapital.org or Eliza Mahony at eliza@cfed.org for more information on the CDP.

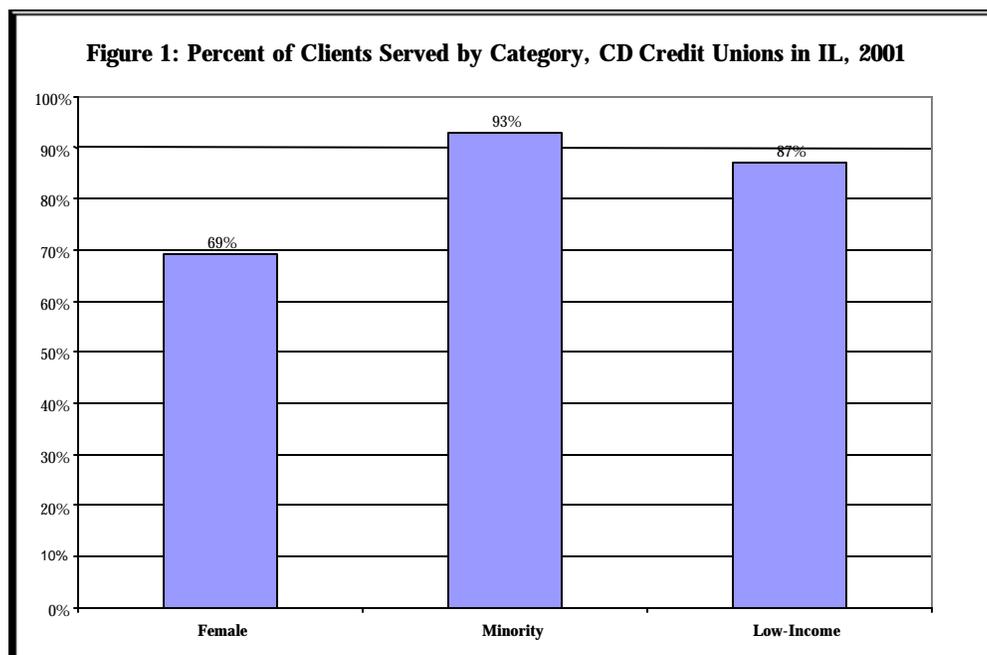
⁴Microbusinesses are distinguished from small businesses by the fact that they have five or fewer employees. Investments in and loans to these businesses would be for \$25,000 or less.

⁵Though Shorebank was not included in the CDP survey, Woodstock found data on Shorebank's activities that show how important this CDFI is in Illinois. In 2001, the Chicago/Detroit Shorebank financed the development of over 4,000 multifamily units. That year Shorebank also created, placed, or maintained over 700 jobs.

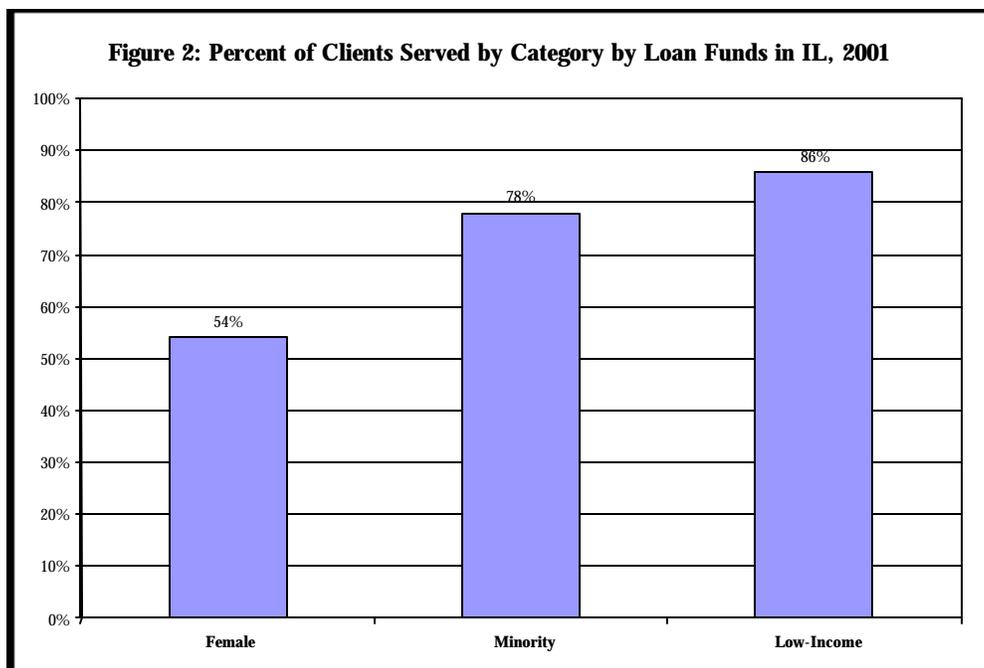
Table 1 also shows that CDFIs provide hundreds of asset-building individual development accounts (IDAs) that help individuals own a home, start a business, or continue their education. IDAs are matched savings accounts that allow lower-income families to build assets more quickly in order to realize a specific savings goal. Through the financing of community facilities, CDFIs are actively engaged in important community projects involving child care, health care, and education. These community facilities provide much-needed social services in urban and rural communities throughout the state.

CDFIs also provide an extraordinary amount of technical assistance to individuals and organizations. This assistance includes guiding people through the loan process when they need seed money to start a small business, helping individuals make a business plan, working with nonprofit organizations to organize complicated development projects, and numerous other technical assistance projects.

In addition, CDFIs are expert at serving clients who are often underserved by the traditional financial sector. Figure 1 highlights how community development credit unions are performing in serving female, minority, and low-income clients⁶ according to CDP data and Figure 2 looks at how loan funds are performing in reaching these groups. The figures demonstrate that the majority of clients served by community development banks and credit unions are traditionally underserved groups—women, racial minorities, and low-income persons in Illinois.



⁶Low-income is defined as households with incomes at or below 50 percent of area median income (AMI).



Mortgage lending data supports CDP data in showing that CDFIs surpass other types of financial institutions in reaching underserved groups. Woodstock Institute research on community development (CD) bank lending in the City of Chicago showed that CD banks far outperform regular banks in providing loans to low-income and minority communities. Woodstock found that a considerably higher percentage of CD banks' home loans go to lower-income neighborhoods and borrowers than is true for all other lenders in the City of Chicago. The same pattern is repeated for loans to minority neighborhoods and borrowers⁷.

These patterns are particularly important considering the Bush Administration's recent statements regarding the importance of minority homeownership. For this Alert, the Institute replicated the methodology it had utilized in studying the City of Chicago for lending in the entire state of Illinois. Woodstock analyzed 2001 Home Mortgage Disclosure Act (HMDA) data for eight community development banks operating in Illinois⁸ and discovered that this vital industry is indeed serving communities that might have been ignored by the more traditional banking sector.

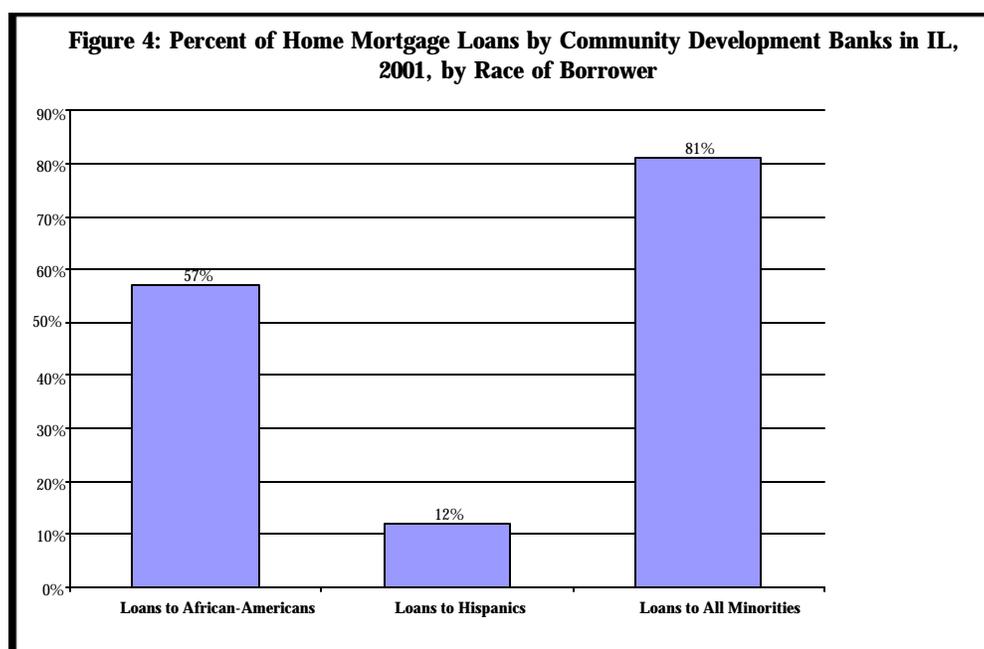
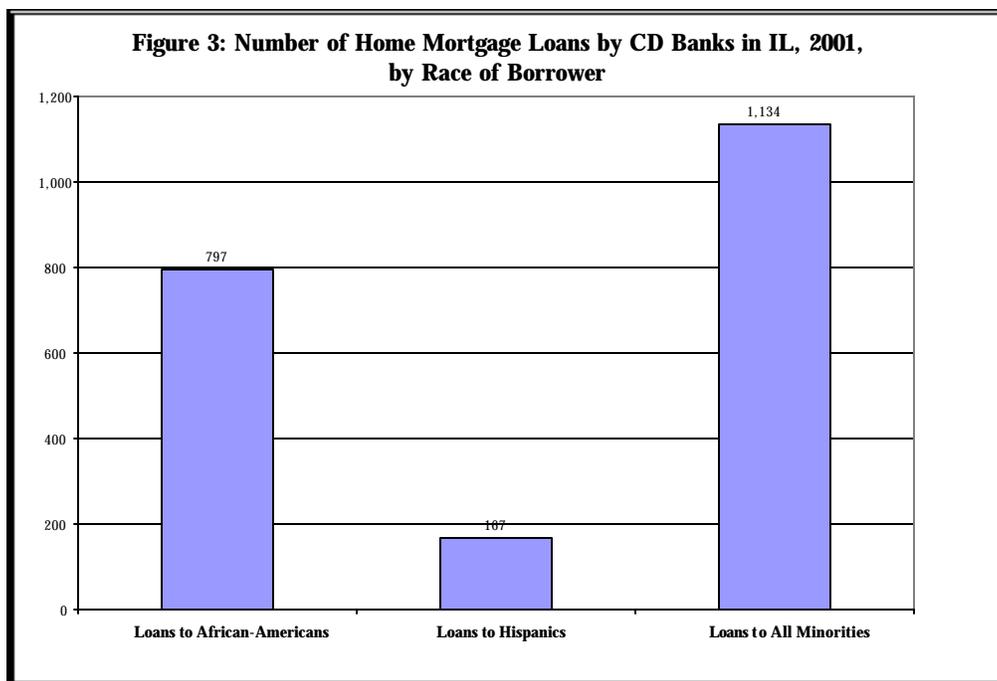
The banks analyzed are: Community Bank of Lawndale; First Bank of the Americas; Illinois Service Federal Savings and Loan; International Bank of Chicago; NAB Bank; Seaway National Bank of Chicago; Shorebank; and Universal Federal Savings Bank. In 2001 the community development bank industry made a total of 1,401 home purchase, refinance, multifamily and home improvement loans in the State of Illinois. Figures 3-6 highlight the demographics of CD bank borrowers in Illinois in 2001.

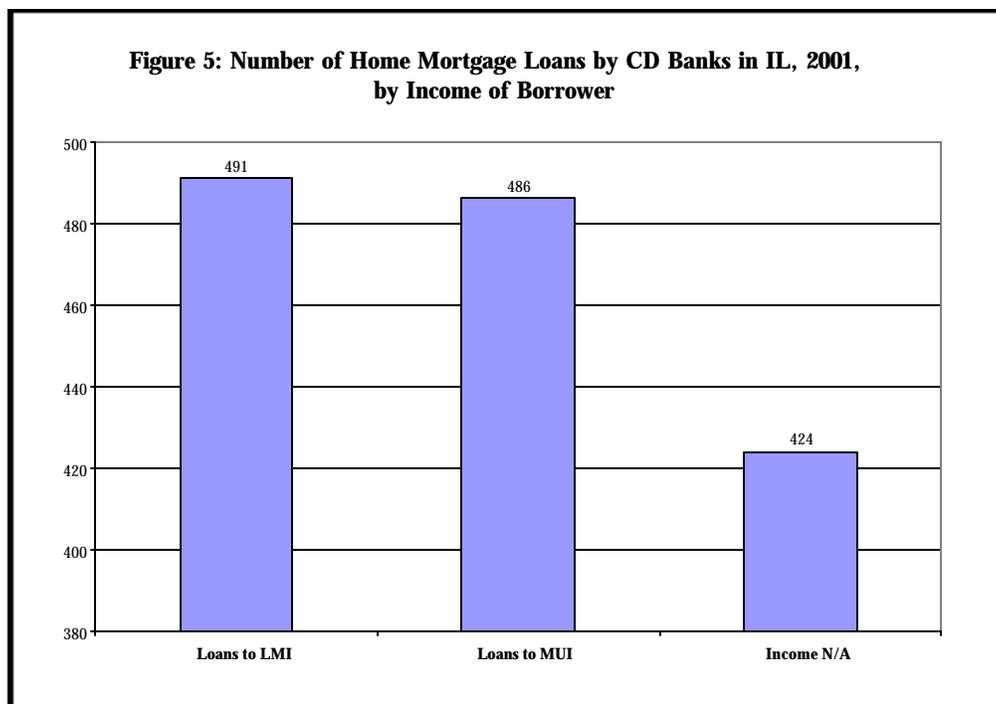
⁷See *Reinvestment Alert 19: Community Development banks Substantially Outscore Other Banks in Serving Low-Income Communities: Implications for the Federal Budget and the Community Reinvestment Act*. 2003: Woodstock Institute. By Malcolm Bush and Geoff Smith.

⁸Only one Illinois CD bank responded to the CDP survey.

Figure 3 relates the number of all home mortgage loans provided by Illinois community development banks in the year 2001. The figure breaks down the data by race of borrower and shows that CD banks made a large number of mortgage loans to minority borrowers.

Moreover, Figure 4 shows that as a percentage of all loans made by CD banks in Illinois in 2001, loans to African-Americans represent more than half of all mortgage loans and loans to Hispanics represent a little more than a tenth of total loans made in Illinois that year.



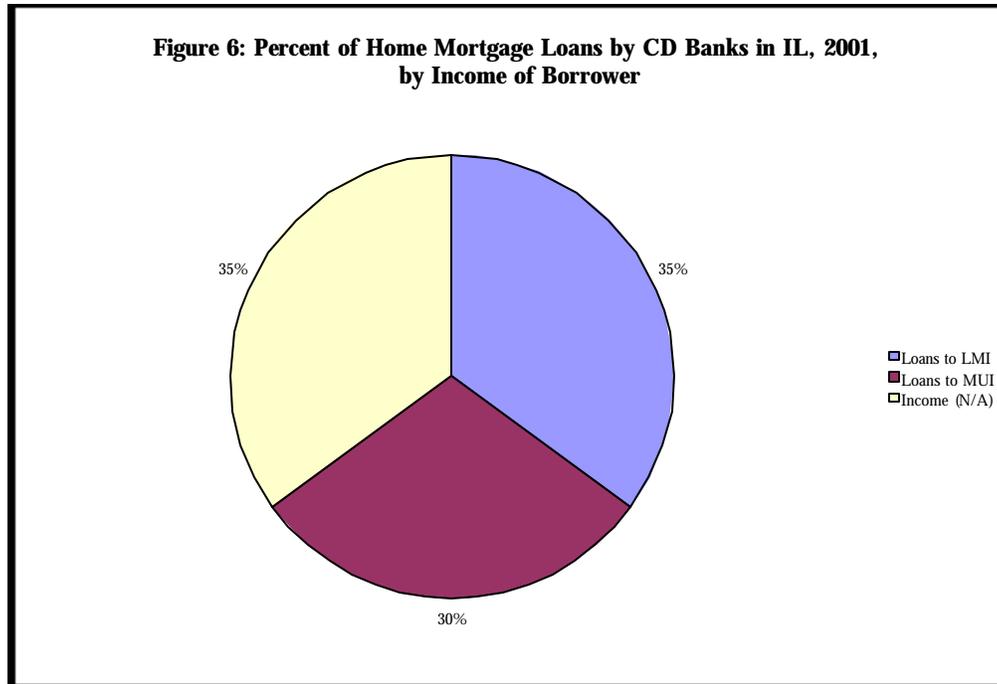


CD banks are also very astute at figuring out how to make mortgage loans to lower-income borrowers. Figure 5 highlights the number of home mortgage loans that Illinois community development banks provided to low and moderate-income (LMI) and middle and upper-income (MUI) borrowers in 2001.⁹

Further, Figure 6 on page 8 demonstrates that besides making a large number of loans to lower-income borrowers, CD banks are making equal percentages of their total loans to LMI and MUI borrowers. Figures 3-6 further the case of the importance of the CDFI industry by showing that CD banks make a majority of their mortgage loans to minorities and that these banks equally serve LMI and MUI borrowers.¹⁰

⁹LMI refers to borrowers with incomes at or below 80% of area median income (AMI); MUI refers to borrowers with incomes above 80% of AMI.

¹⁰Note that the large number of income (n/a) is most likely reflective of the fact that multifamily loans are reported by income of census tract rather than borrower. The majority of multifamily loans were made by a single lender and were therefore not examined separately. Approximately 300 of the 1,400 loans analyzed were multifamily loans.



In conclusion, data from the CDP illustrate the vital role that all CDFIs play in Illinois in creating jobs, building affordable housing, providing technical assistance to small businesses, financing community facilities, enabling IDA programs, and sustaining social services in urban and rural communities throughout the state. HMDA data show that community development banks are providing loans to lower-income and minority clients as a main segment of their mortgage lending business.

The CDFI industry should be supported in the State of Illinois as it fills an important need in communities that have historically been denied adequate access to financial services. The hard work of the groups involved in the Illinois CDFI Coalition and the policymakers who supported the creation of the Illinois Fund for Investment and Development (IFID) should be enhanced by an appropriation of at least \$3.5 million for IFID in order to ensure that the goals of the Fund are implemented.

by
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