20 YEARS OF OPPORTUNITY FINANCE

1994–2013: An Analysis of Trends and Growth
Final Report
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20 Years of Opportunity Finance
1994-2013: An Analysis of Trends and Growth

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# TABLE OF CONTENTS

## Executive Summary

## I. Introduction

## II. Background: The Evolution of OFN and the CDFI Industry

- A Brief History of OFN ................................................................. II–1
- Defining Moments in CDFI Industry History ............................ II–5
- Continuing to Make History ..................................................... II–6
- Recognizing Impact and Performance ..................................... II–6

## III. Twenty-Year Trends Among OFN Member CDFIs

- OFN Member Dataset ............................................................... III–1
- Characteristics of OFN Member CDFIs ................................. III–2
- Sources of Borrowed Capital ................................................ III–10
- Financial and Portfolio Performance ................................. III–15
- Geographic Focus ................................................................... III–18
- Racial, Ethnic, and Gender Diversity ................................ III–19

## IV. Characteristics of High Growth OFN Member CDFIs—Longitudinal Analysis of Long-Time Members

- Measures of Growth ............................................................... IV–2
- Characteristics of Growth ..................................................... IV–4

## V. Key Findings and Opportunities for Future Research

- Key Findings from the Trend Analysis (Section III) .............. V–1
- Key Findings from the Growth Analysis (Section IV) .............. V–2
- Opportunities for Future Research ........................................ V–3

### Appendix A. Additional Figures and Analyses

### Appendix B. Definitions
EXECUTIVE SUMMARY.

20 Years of Opportunity Finance
1994–2013: An Analysis of Trends and Growth
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1994–2013: An Analysis of Trends and Growth

Community development financial institutions (CDFIs) provide much needed capital in areas underserved by conventional banks—particularly during periods of weak economic growth. They often take on what appear to be riskier loans, yet their financial and portfolio performance are on par with conventional banks: CDFIs’ operating margins and net charge off rates track very closely with FDIC-insured institutions over the 20-year period of our study and various economic cycles.

These are the findings of an unprecedented analysis of CDFI performance, impact, and growth over 20 years. Based on Opportunity Finance Network (OFN) Member data, the study covers the period beginning in 1994, two years before the US Department of the Treasury’s CDFI Fund issued its first awards, and ending in 2013, when the nation was still recovering from the Great Recession of 2008.1

OFN Member CDFIs demonstrated strong community impact and performance consistently throughout the 20-year period, even during the Great Recession.

- CDFIs had healthy growth rates throughout the entire 20-year study period, with loans outstanding growing on average by 15 percent per year.2

- CDFIs maintained their ability to provide capital in underserved communities, even during recessionary periods when conventional banks retrenched. CDFIs’ average loans outstanding increased slightly in the wake of the Great Recession (from $28.2 to $28.6 million), helping to create jobs, housing, and community services during the downturn. In contrast, conventional banks experienced one of the largest lending contractions in the post-war era—outstanding loans declined by as much as 16 percent between late 2008 and early 2012.3

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1 The number of CDFIs in the dataset ranges from 42 in 1994 to 209 in 2013, including 26 long-time OFN Members who provided data in all or nearly all years.

2 Compound annual growth rate. Based on trend sample of 26 CDFIs.

3 http://www.federalreserve.gov/releases/h8/
- CDFIs' annual loan loss rates are on par with FDIC-insured institutions and their cumulative net loan loss rate is just 1.5 percent.
- In each of the past 10 years, CDFIs' net operating margins were above or very close to those of FDIC-insured institutions.

**Figure ES-1.**
**Cumulative Community Impact Since Inception**

OFN Member CDFIs have a significant impact in the communities they serve. Current OFN Members are responsible for over $35 billion in cumulative financing since their inception.

This investment has led to the development and/or rehabilitation of 1.5 million housing units—more than the total number of homes in 22 states; the financing of 120,000 businesses and microenterprises; creation of 721,000 jobs—more than total jobs in many states; and the financing of 9,500 community services organizations that have expanded or maintained childcare, education, and healthcare services for thousands of individuals.\(^4\)

On average, 75 percent of a CDFI’s clients are low-income, 52 percent are minority, and 48 percent are female.\(^5\) While comparable figures are not available for all conventional bank clients, they are available for conventional and nonconventional lenders’ home mortgage borrowers: in 2013, 28 percent of home purchase loans went to low-income borrowers, and 28 percent went to minorities.\(^6\)

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\(^4\) OFN Members report their impacts using OFN’s standard data definitions. Some CDFIs use different definitions and calculations in their own publications.

\(^5\) FY2013 OFN Member Data defines low-income as less than or equal to 80 percent of area median family income (AMI).

SECTION I.

Introduction
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Introduction

This report provides an analysis of 20 years of OFN Member survey data. The purpose of the report is to provide CDFIs, their partners, and other interested parties with an understanding of:

- A brief history of Opportunity Finance Network (OFN) and the CDFI industry;
- The evolution of the CDFI industry over 20 years (1994–2013), with a focus on CDFI asset size, sectors served, sources of borrowed funds, financial performance, and portfolio performance; and
- The characteristics of high growth, moderate growth, and low growth CDFIs.

The OFN history section is based on OFN historical documents that can be found on CDFIs Making History (cdfihistory.ofn.org), OFN’s web-based history of the CDFI industry. The data analysis is based on proprietary OFN Member survey data. This report offers key findings and suggestions for future research on topics raised in the report.

Section II provides context through a brief history of OFN and key moments in the CDFI industry’s evolution. Section III offers an analysis of 20 years of OFN Member data, from 1994 through 2013, with an emphasis on CDFIs’ asset sizes, financing sectors, sources of borrowed funds, and financial and portfolio performance. Section IV details a trend analysis of 26 CDFIs that have participated in the OFN Member survey for all, or nearly all, 20 years. Section V offers key findings and suggestions for future research.
SECTION II.

Background: The Evolution of OFN and the CDFI Industry
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A Brief History of OFN

In October 1985, 47 loan funds holding $27 million in assets attended the first conference of the National Association of Community Development Loan Funds (NACDLF)—now OFN—in Waltham, Massachusetts. This small group seeded the CDFI movement of the mid-1980s. Thirty years later, the CDFI industry comprises almost 1,000 organizations managing more than $90 billion in assets. Nearly 250 of those CDFIs holding more than $11 billion in assets (as of year-end 2013) are OFN Members.

Many of the early CDFI leaders and supporters attending the 1985 Conference had been involved in the civil rights, worker rights, and social justice movements. These pioneers recognized that access to capital and wealth-building opportunities were a critical missing piece in marginalized communities. They set out to make capitalism and financial institutions work for these communities by creating what would become known as CDFIs. While the CDFI pioneers were focusing on equitable access to capital, conventional financial institutions were exploring profitable new areas of lending away from CDFI markets, notably commercial real estate lending. According to the FDIC, during the 1980s, real estate loans overall more than tripled and commercial real estate loans alone nearly quadrupled.²

“As far as I know almost every loan fund in the country that looks for capital from multiple sources and provides loans to multiple community development groups—almost every one of those groups is represented in this room.”

Chuck Matthei, Director, Institute for Community Economics, 1985 National Conference for Community Loan Funds opening remarks.

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¹ Limited access to capital for low income communities has been the subject of numerous academic articles. The prevailing literature identifies multiple factors contributing to the issue including historical racial/ethnic discrimination, traditional financial institutions’ concerns about profitability, suburbanization of capital and the restructuring of the financial industry. (Benjamin, Lehn; Rubin, Julia Sass; and Zielenbach, Sean. 2002. Community Development Financial Institutions: Current Issues and Future Prospects. Federal Reserve.)

CDFIs are private financial institutions dedicated to delivering responsible, affordable lending that benefits low-income, low-wealth, and other disadvantaged people and communities. They finance small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing development that spark job growth and retention, create quality housing, and provide critical services in underserved markets across the nation. CDFIs also provide consumer financing, such as mortgages and credit builder loans, as well as technical assistance and training to build their clients’ business and financial literacy skills.

There are four CDFI institution types—banks, credit unions, loan funds, and venture funds—characterized by different business models and legal structures.

**Community development loan funds** provide financing and development services to businesses, organizations, and individuals in low-income communities. There are four main types of loan funds: microenterprise, small business, housing, and community service organizations. Each is defined by the client served, though many loan funds serve more than one type of client in a single institution. CDLFs tend to be nonprofit and governed by boards of directors with community representation.

**Community development credit unions** promote ownership of assets and savings and provide affordable credit and retail financial services to low-income people, often with special outreach to communities of color. They are nonprofit financial cooperatives owned by their members. Credit unions are regulated by the National Credit Union Administration (NCUA), an independent federal agency, by state agencies, or both. In most institutions, deposits are also insured by NCUA.

**Community development banks** provide capital to rebuild economically distressed communities through targeted lending and investing. They are for-profit corporations with community representation on their boards of directors. Depending on their individual charter, such banks are regulated by some combination of the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, the Office of the Comptroller of the Currency, and state banking agencies. Their deposits are insured by the FDIC.

**Community development venture funds** provide equity and debt-with-equity-features for small and medium-sized businesses in distressed communities. They can be either for-profit or nonprofit and include community representation.
Attendees at that first Conference in 1985 included some of today’s largest and best-known CDFIs, including Boston Community Loan Fund (BCLF), The Reinvestment Fund (then known as the Delaware Valley Community Reinvestment Fund), and the Low Income Investment Fund (then known as Low Income Housing Fund). All were new loan funds: In 1985, BCLF had a total of $40,000 in capital, TRF had $107,000, and LIIF had $975,000. Among older loan funds at the Conference—those started in the 1970s—there was a predominant focus on providing financing to cooperatives: Cooperative Fund of New England and Northcountry Cooperative Development Fund (then known as North Country Development Fund) were then (and continue to be) focused solely on this financing sector. In 1985, each held $160,000 in capital.

A striking difference in these loan funds today, compared to their early stages, is their sources of capital: individuals and religious institutions provided the vast majority of capital in the early days. For many loan funds, these were their only capital sources. For the loan funds focused on cooperatives, much of their funding came from well-established cooperatives and the National Cooperative Bank. Conventional bank capital and even foundation capital were scarce: if a loan fund had capital from these types of institutions, it was usually from a single bank or a single foundation.

Still, the loan funds of the 1980s look surprisingly similar to today’s funds in two important ways. First, the early loan funds participated in the breadth of the CDFI industry’s financing as we know it today. They focused heavily on financing community-based and community-controlled projects; worker-owned and worker-managed businesses or cooperatives; community land trusts; and other nonprofits. They sought to address issues such as affordable housing, jobs, education, healthcare, and energy conservation. One, the Lakota Fund, provided financing on an Indian reservation and at least one other financed tribally-owned, worker-managed businesses.

Second, in 1985, this young CDFI movement was already focused on performance as well as community impact. The net loan loss rate of the operating loan funds was 0.7 percent at the time of that 1985 gathering. Presciently, NACDLF founding Board Chair Chuck Matthei said, “We have to be prepared in some measure, I think, to insure and monitor our own

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3 1985 National Association of Community Development Loan Funds Conference documents.

4 Ibid. Data is for the 35 operating loan funds.

The CDFI story begins even before 1985. Some credit unions dedicated to serving low-income communities have operated since the 1930s, and real momentum began building in the early 1970s with the creation of South Shore Bank, the first community development bank in the country. (Its slogan was “Let’s Change the World.”)

For a complete industry timeline, digital archives, photographs, and interviews with industry leaders, visit CDFI History at http://cdfihistory.ofn.org/.
performance. If we can work together from this point forward to improve our performance, then there are going to be tremendous new opportunities, much greater, I’m convinced, than anything we’ve seen so far.⁵

One year after that first gathering of community loan funds, NACDLF incorporated. Following an initial name change to National Community Capital Association (NCCA), in 2005 this growing organization rebranded as Opportunity Finance Network (OFN).

Figure II-1 shows the year OFN Member CDFIs were established. CDFIs are long standing; most have been in business for nearly three decades. They range in age from three years old (established in 2012) to 80 years old (established in 1935) with an average age of 26 (established in 1989). OFN Member loan funds are typically younger than OFN Member credit unions with an average age of 23 years compared to 46. The large number of CDFIs established in the mid- to late-1990s is likely tied to the passage of the Riegle Community Development and Regulatory Improvement Act (described below).

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⁵ Chuck Matthei, Director, Institute for Community Economics, 1985 National Association of Community Development Loan Funds Conference opening remarks.
Throughout its lifetime, OFN has stayed focused on performance. Today, the OFN Membership has grown to 240 CDFIs and has provided $35 billion in financing over time to low-income, low-wealth, and other disadvantaged communities and people.\(^6\) OFN Members’ portfolio performance is strong: the Network achieved a net loan loss rate of 0.7 percent in 2013 (the same as 1985) and its 30-year, cumulative net loan loss rate is just 1.5 percent.

**Defining Moments in CDFI Industry History**

This section identifies some of the defining moments in CDFI industry history.

- **1977:** Congress passed the Community Reinvestment Act (CRA) to require depository institutions to meet the credit needs of the communities in which they operate, including low-income communities. Two years later, the Institute for Community Economics Revolving Loan Fund (ICE) formed. ICE, where Chuck Matthei worked, was instrumental in helping many loan funds form, including the New Hampshire Community Loan Fund in 1983, Boston Community Loan Fund in 1984, and The Reinvestment Fund in 1984. It was ICE that convened the 1985 gathering that led to the creation of OFN.

- **1992:** To the surprise of the still-nascent CDFI industry, presidential candidate Bill Clinton announced his intention to create 100 community development banks and 1,000 microenterprise loan funds. The following year, relying heavily on input from OFN and the CDFI industry, President Clinton proposed legislation to create the CDFI Fund.

- **1994:** Congress approved and President Clinton signed the Riegel Community Development and Regulatory Improvement Act. It created the CDFI Fund to “promote economic revitalization and community development through investment in and assistance to community development financial institutions, including enhancing the liquidity of community development financial institutions.”\(^7\) The CDFI Fund represented a radical change in how federal programs work. Instead of providing funding for specific projects, the CDFI Fund invested in skilled intermediaries—CDFIs—that, in turn, invested in specific projects as they saw fit. The CDFI Fund underwrote CDFIs with a focus on strategy, business plans, and management capacity. No federal program had done this before the CDFI Fund, and the model has proved to work well.\(^8\)

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\(^6\) As of June 30, 2015, there were 958 CDFIs certified by the CDFI Fund. About one-quarter of these are OFN Members. There are an unknown number of institutions that meet the definition of a CDFI but are neither CDFI Fund certified nor OFN Members. OFN estimates there could be close to 1,000 such institutions today, primarily community development credit unions and community development banks, with others in formation.

\(^7\) Riegel Community Development and Regulatory Improvement Act, Sec 102 (b).

\(^8\) In 2014, the CDFI Fund celebrated its twentieth anniversary. Learn about the CDFI Fund’s two decades of impact at http://www.cdfifund.gov/news_events/CFDI-2014-43-Celebrating_20_Years_of_the_CDFI_Fund.asp.
- **1995**: The Federal Financial Institution Examination Council, made up of all the bank regulators, approved changes the President had requested to the Community Reinvestment Act. The changes made it easier for banks to invest in and lend to CDFIs. The same year, OFN opened its membership to performance-based community development credit unions, community development banks, and community development venture funds.

- **1996**: The CDFI Fund announced its first round of CDFI Program awards—$35 million to 31 CDFIs. Most of the awards were equity grants, providing CDFIs with critical net worth they would use for financial leverage to build their lending capital.

- **2000**: President Clinton signed the New Markets Tax Credit Program (NMTC) into law to attract investment capital to low-income communities by permitting individual and corporate investors to receive a federal income tax credit in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). Many CDFIs became or created CDEs to be eligible to use this tax credit program, but the program was open to conventional banks as well, despite being housed at the CDFI Fund.

**Continuing to Make History**

Throughout its history, the CDFI industry has stayed on the leading edge of financing low-income and low-wealth communities, developing new products, and even creating new financing markets. In the early 2000s, CDFIs helped create the healthy foods and charter school financing markets. They are doing the same now in healthcare with financing for federally qualified health centers. CDFI financing has also helped to increase the supply of supportive housing services, grow entrepreneurship and businesses in Native communities, finance housing and assistive technology for persons with disabilities, and put solar panels on affordable housing buildings. In addition, CDFIs have become experts in disaster response, having provided emergency loans and other assistance to affected businesses and families in natural and manmade disasters including 9/11 in 2001, Hurricanes Katrina and Rita in 2005, and Superstorm Sandy in 2012.

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9 The CDFI Fund also awarded $13 million in Bank Enterprise Awards to 38 banks for their investments in CDFIs or direct investments in eligible underserved markets.

10 For more information on the New Markets Tax Credit Program see [http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5](http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5).

11 To be eligible, a non-mission driven institution such as conventional bank had to create a mission driven CDE.
Recognizing Impact and Performance

Today, policymakers and others recognize CDFIs as credible vehicles for investing in economically distressed communities and as a critical component of the nation’s financial system. Former Federal Reserve Board Chairman Ben Bernanke referred to CDFIs in numerous speeches and the federal government integrated CDFIs into its response to the Great Recession.\(^{12}\) \(^{13}\) Most recently, Federal Reserve Bank of New York President and CEO William Dudley recognized the role CDFIs play in today’s tight small business finance market.\(^{14}\) In early 2015, two CDFIs were rated by Standard & Poor’s. The Bond Guarantee Program and the Standard & Poor’s ratings could lead to untold new access to the capital markets and future CDFI industry growth rates that exceed those of the past 30 years.

The remainder of this report examines the data behind the CDFI industry’s evolution using OFN Member data. It looks at the 20-year period beginning in 1994 and ending in 2013, examining growth and performance of primarily loan funds. The data show how the industry has changed over time and the analysis is a first step in understanding those changes.

\(^{12}\) June 17, 2009 speech at the Global Financial Literacy Summit in Washington, DC; November 1, 2006 speech at the 2006 OFN Conference in Washington, DC.

\(^{13}\) The Small Business Jobs Act of 2010 created the Small Business Lending Fund to provide capital to community banks and CDFI loan funds, as well as the CDFI Bond Guarantee Program.

SECTION III.

Twenty-Year Trends Among OFN Member CDFIs
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Twenty-Year Trends Among OFN Member CDFIs

OFN Member Dataset

OFN maintains financial and organizational data on Member CDFIs through the administration of the Annual Member survey, which is supplemented with publicly available financial data for regulated institutions. The Annual Member survey has evolved and expanded over time, and the data collected serve as a rich resource of historical information on OFN Member CDFIs. In its current form, the Annual Member survey includes information on CDFI staffing, capitalization, lending, investing, and outcomes. OFN manages data quality by providing technical assistance to CDFIs completing the survey, cross-checking financial fields against audited financial statements after surveys have been submitted, and checking non-financial data for reasonableness.

The primary source of data for this report is the data OFN has collected through its Annual Member survey and publicly available financials for regulated CDFIs. The dataset spans 20 years, from 1994 through 2013.¹ The number of CDFIs reporting varies from year-to-year and ranges from 42 in 1994 to 209 in 2013. The overwhelming majority of respondents are loan funds, but the dataset also includes community development banks, credit unions, and venture funds. Characteristics of OFN Member CDFIs are discussed in detail in the following section. Throughout this report, the OFN data are cited as the “OFN Member Dataset.”

¹ Data for 1997 are limited. Figures throughout this report exclude 1997 when no data are available.
Characteristics of OFN Member CDFIs

Over the past 20 years, the number of CDFIs included in the OFN Member Dataset quintupled from 42 in 1994 to 209 in 2013. Most of that growth has been loan funds, which account for 184 of the 209 respondents in 2013. However, in recent years the number of credit unions has also been increasing—23 of the 25 non-loan fund respondents in 2013 were credit unions. Figure III-1 displays the growing number of OFN survey respondents between 1994 and 2013 and reflects the universe of CDFIs included in the subsequent analysis.

Figure III-1.
Number of OFN Survey Respondents by Year, 1994–2013

Source:
OFN Member Dataset and BBC Research & Consulting.
OFN Member CDFIs are dispersed throughout the country and serve a wide array of clients. After the Riegle Act of 1994 and the first round of CDFI Fund awards in 1996, the industry experienced strong growth, particularly in the South and Western regions of the United States.
Community impact. OFN Member CDFIs have a significant impact in the communities they serve. Current OFN Members are responsible for more than $35 billion in cumulative financing since their inception.2

This investment has led to the development and/or rehabilitation of 1.5 million housing units—more than the total number of homes in 22 states; the financing of 120,000 businesses and microenterprises; creation of 721,000 jobs—more than total jobs in many states; and the financing of 9,500 community services organizations that have expanded or maintained childcare, education, and healthcare services for thousands of individuals.3

On average, 75 percent of a CDFI’s clients are low-income, 52 percent are people of color, and 48 percent are female.4 While comparable figures are not available for all conventional bank clients, they are available for conventional and nonconventional lenders’ home mortgage borrowers: in 2013, 28 percent of home purchase loans went to low-income borrowers, and 28 percent went to people of color.5

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2 Cumulative financing includes financing originated and funded by the CDFI, loans purchased, loan guarantees, and loans packaged and/or underwritten for other financial institutions.

3 OFN Members report their impacts using OFN’s standard data definitions. Some CDFIs use different definitions and calculations in their own publications.

4 FY2013 OFN Member Data defines low-income as less than or equal to 80 percent of area median family income (AMI).

Size. In addition to growth in terms of number of CDFIs, the OFN Membership has also experienced substantial growth in size—as measured by assets, capital available for lending and loan portfolio. As shown in Figure III-3, the average OFN Member CDFI loan portfolio increased from $1.9 million in 1994 to $30.3 million in 2013—a 649 percent gain between 1994 and 2000 and then doubling again between 2000 and 2013. Similar trends are evident for assets and capital available for lending.

Figures III-4 and III-5, on the following page, display growth in assets, capital, and loans for all OFN respondents. Figure III-4 shows the simple average for OFN Member CDFIs and Figure III-5 shows the sum of all OFN Member CDFIs.

This study focuses on OFN Member balance sheet growth. While OFN Member CDFIs are primarily balance sheet lenders that hold loans they originate or purchase in portfolio, approximately 20 percent of OFN Members expand their impact beyond their own balance sheets through non-balance sheet activities such as guaranteeing loans, selling loans, packaging and/or underwriting loans for other financial institutions, and/or managing other funds. In FY 2013, 209 OFN Members provided $3.6 billion in loans and investments originated and funded by the CDFI, loans purchased, loan guarantees, and loans packaged and/or underwritten for other financial institutions. The non-balance sheet activities comprised 20 percent ($719 million) of this financing and were provided by 37 CDFIs. Among the trend sample of 26 CDFIs, the non-balance sheet activities comprised 24 percent of FY 2013 financing and were provided by just six CDFIs.

OFN Members’ non-balance sheet activities are not analyzed in this study and are a topic for future data collection and research.

### Figure III-3.
Change in Average Assets, Capital and Loans Outstanding, 1994–2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Capital</th>
<th>Loans Outstanding</th>
<th>Number of CDFIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>n/a</td>
<td>n/a</td>
<td>$1,867,092</td>
<td>42</td>
</tr>
<tr>
<td>2000</td>
<td>$22,238,306</td>
<td>$18,807,237</td>
<td>$13,985,146</td>
<td>97</td>
</tr>
<tr>
<td>2005</td>
<td>$33,714,195</td>
<td>$29,028,470</td>
<td>$22,245,502</td>
<td>118</td>
</tr>
<tr>
<td>2010</td>
<td>$50,709,957</td>
<td>$43,175,847</td>
<td>$32,018,236</td>
<td>154</td>
</tr>
<tr>
<td>2013</td>
<td>$50,666,230</td>
<td>$43,575,932</td>
<td>$30,314,881</td>
<td>209</td>
</tr>
</tbody>
</table>

% change since 1994  
128%  
% change since 2000  
132%  
% change since 2005  
50%  
117%  
36%

Note: Does not include banks.
Source: OFN Member Dataset and BBC Research & Consulting.
Figure III-4.
Average of Assets, Capital, and Loans Outstanding, 1994–2013

Average Assets

Average Capital

Average Loans Outstanding

Figure III-5.
Sum of Assets, Capital, and Loans Outstanding, 1994–2013

Total Assets

Total Capital

Total Loans Outstanding

Note: Does not include banks. n varies across years ranging from 42 in 1994 to 209 in 2013.

Source: OFN Member Dataset and BBC Research & Consulting.
Lending sector. OFN Member CDFIs have maintained a diverse lending portfolio throughout the study period, with very little change in sectors over time. Figure III-6 shows the distribution of loans outstanding (portfolio value) by sector for the average Member CDFI from 2000 through 2013. Business and housing to organizations are the largest lending sectors followed by microenterprise, housing to individuals and community services. OFN began tracking commercial real estate lending in 2009; prior to that year, those loans may have been categorized as business financing. In 2013, 25 percent of loans for the average OFN Member CDFI were business, 24 percent were housing loans to organizations, 14 percent were microenterprise, 12 percent were housing loans to individuals, 10 percent were community services, 8 percent were commercial real estate, 4 percent were consumer financing, 1 percent were intermediary and 1 percent were “other” types of loans. For the typical OFN Member CDFI, the distribution of business and housing to organizations is similar; however, rural CDFIs tend to focus more on business lending than any other sector (See Appendix A for additional details).

Figure III-6. Distribution of Outstanding Loan Portfolio by Sector for the Average OFN Member CDFI, 2000–2013

Note: Other includes consumer financing, intermediary, and other types of financing. Commercial real estate loans were not tracked until 2009; prior to 2009 those loans may have been categorized as business financing.

n ranges from 92 in 2000 to 187 in 2013.

Does not include banks.

Source: OFN Member Dataset and BBC Research & Consulting.

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6 Prior to 1999, the OFN Member survey only asked for two sectors, business and housing, hiding the true diversity of CDFIs’ portfolios. Prior to 2000, all housing loans to both organizations and individuals were reported in a single category.

7 Commercial real estate lending is financing for the construction, rehabilitation, acquisition or expansion of non-residential property used for office, retail, or industrial purposes.
Figure III-7 displays the distribution of the number of outstanding loans by sector for the average OFN Member CDFI. The figure reveals that microenterprise loans (and to a lesser extent, housing loans to individuals, commercial real estate loans and other loans) account for a higher share of total loans by number than of total loans by dollar value (Figure III-6). In other words, those loan types—particularly microfinance and housing loans to individuals—tend to be high volume but low dollar loans.

**Figure III-7.**
**Distribution of the Number of Loans Outstanding by Sector for the Average OFN Member CDFI, 2000–2013**

<table>
<thead>
<tr>
<th>Year</th>
<th>Business</th>
<th>Housing to Organizations</th>
<th>Housing to Individuals</th>
<th>Community Services</th>
<th>Microenterprise</th>
<th>Commercial Real Estate</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>28%</td>
<td>23%</td>
<td>12%</td>
<td>13%</td>
<td>19%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>26%</td>
<td>24%</td>
<td>12%</td>
<td>12%</td>
<td>21%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>29%</td>
<td>23%</td>
<td>11%</td>
<td>10%</td>
<td>22%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>29%</td>
<td>23%</td>
<td>10%</td>
<td>10%</td>
<td>21%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>26%</td>
<td>25%</td>
<td>12%</td>
<td>10%</td>
<td>22%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>25%</td>
<td>23%</td>
<td>14%</td>
<td>11%</td>
<td>22%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>22%</td>
<td>23%</td>
<td>14%</td>
<td>11%</td>
<td>24%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>24%</td>
<td>25%</td>
<td>16%</td>
<td>11%</td>
<td>17%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>25%</td>
<td>27%</td>
<td>12%</td>
<td>11%</td>
<td>22%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>24%</td>
<td>25%</td>
<td>10%</td>
<td>10%</td>
<td>19%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>20%</td>
<td>24%</td>
<td>16%</td>
<td>8%</td>
<td>18%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>19%</td>
<td>20%</td>
<td>17%</td>
<td>9%</td>
<td>18%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>17%</td>
<td>20%</td>
<td>18%</td>
<td>8%</td>
<td>22%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>19%</td>
<td>22%</td>
<td>15%</td>
<td>9%</td>
<td>21%</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

Note:
Other includes consumer financing, intermediary, and other types of financing.
n ranges from 92 in 2000 to 187 in 2013
Does not include banks.

Source:
OFN Member Dataset and BBC Research & Consulting.
In 2013, the average loan size for the typical OFN Member CDFI was $206,609, up from $72,936 in 2000 and $20,777 in 1994. Figure III-8 displays the average loan value by sector in 2000, 2005, 2010 and 2013. All loan sectors, except commercial real estate, experienced a substantial increase in average loan size over time with some sectors more than tripling. The average size for community service loans increased by 280 percent, from $115,649 to $439,790 between 2000 and 2013. Housing loans to organizations also increased dramatically over the period from $120,660 in 2000 to $363,465 in 2013, a 201 percent increase. The large increase in the average size of other loans is driven by CDFIs that provided loans to affiliated CDFIs and CDFIs that provided international loans.

**Figure III-8.**

Average Loan Value by Sector, 2000, 2005, 2010, and 2013

<table>
<thead>
<tr>
<th>Sector</th>
<th>2000</th>
<th>2005</th>
<th>2010</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>All loans</td>
<td>$17,236</td>
<td>$22,863</td>
<td>$72,936</td>
<td>$206,609</td>
</tr>
<tr>
<td>Business</td>
<td>$15,895</td>
<td>$133,774</td>
<td>$197,531</td>
<td>$201,065</td>
</tr>
<tr>
<td>Housing to Individuals</td>
<td>$9,977</td>
<td>$11,728</td>
<td>$14,741</td>
<td>$12,940</td>
</tr>
<tr>
<td>Commercial Real Estate</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$596,877</td>
</tr>
<tr>
<td>Housing to Organizations</td>
<td>$246,347</td>
<td>$343,274</td>
<td>$363,465</td>
<td>$363,465</td>
</tr>
<tr>
<td>Community Services</td>
<td>$180,630</td>
<td>$361,643</td>
<td>$363,465</td>
<td>$363,465</td>
</tr>
<tr>
<td>Intermediary</td>
<td>N/A</td>
<td>N/A</td>
<td>$472,116</td>
<td>$469,251</td>
</tr>
<tr>
<td>Other</td>
<td>$34,808</td>
<td>$167,765</td>
<td>$443,790</td>
<td>$468,942</td>
</tr>
<tr>
<td>Note:</td>
<td>Does not include banks.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source:</td>
<td>OFN Member Dataset and BBC Research &amp; Consulting.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Sources of Borrowed Capital

Figure III-9 displays the total borrowed and equity equivalent (EQ2) capital for all loan funds in the dataset between 1994 and 2013. The most dramatic growth for the industry as a whole has been in capital supplied by banks, thrifts, and credit unions ($12.7 million in 1994 to $1.7 billion in 2013). Foundations and the federal government show gradual but steady increases in funding, particularly in the last seven years. Changes in funding by non-depository financial institutions are driven almost entirely by a single large OFN Member CDFI. Without this CDFI, non-depository financial institutions funding would hover around the other sources, ranging from about $10 million to $200 million (see Appendix A).

It should be noted that the CDFI Fund primarily provides equity grants which are not included in this analysis of borrowed and EQ2 capital (data by source were not available for grant funding). Thus, in 2013, only 17 percent of federal debt was CDFI Fund dollars; the majority was from the US Department of Agriculture (USDA), US Small Business Administration (SBA), and the US Department of Treasury’s Small Business Lending Fund.

---

8 Equity Equivalent (EQ2) is defined as having six attributes: (1) Is carried as an investment on the investor’s balance sheet in accordance with GAAP; (2) is a general obligation of the CDFI that is not secured by any of the CDFI’s assets; (3) Is fully subordinated to the right of repayment of all of the CDFI's other creditors; (4) Does not give the investor the right to accelerate payment unless the CDFI ceases it normal operations; (5) Carries an interest rate that is not tied to any income received by the CDFI; and (6) Has a rolling term and therefore, an indeterminate maturity.
Figure III-9.
Total Borrowed and EQ2 Funds by Source for Loan Funds, 1994–2013

Note: Includes borrowed and EQ2 funds; n ranges from 42 in 1994 to 184 in 2013.
Other includes corporations, state and local governments, national intermediaries, and other.
Source: OFN Member Dataset and BBC Research & Consulting.
Figure III-10 shows sources of funding for the average loan fund in the OFN dataset. This figure differs from the previous figure in two ways: 1) It shows funding sources as a proportion of total borrowed and EQ2 funding—i.e., as a percent instead of a dollar amount; and 2) It displays the average distribution, as opposed to a combined total. The average shown is a simple average in which each CDFI is given equal weight, regardless of size.

The most notable changes are the decline in the share of a loan fund’s capital provided by individuals and religious institutions and the rise in the proportion of funding provided by banks, thrifts, and credit unions. Some contributing factors to the rise in bank funding include CDFI Fund equity awards that leveraged bank debt (starting between 2006 and 2008), the Bank Enterprise Award program, 1995 changes in CRA regulations that specifically mention CDFIs (increasing awareness among banks about CDFIs), and an increase in the number of community and regional banks investing in CDFIs.

The decline in the proportion of funding provided by religious institutions over time may reflect the limited capacity of those sources relative to other sources. Even so, as noted above, religious institutions were one of the primary sources of borrowed funds for CDFIs in the 1970s and 1980s and the total dollar amount provided by religious institutions did increase over time, just not at the same pace as other sources.

Like religious institutions, individuals’ funding increased in total but decreased sharply as a percent of the average CDFI’s total debt. While the number of CDFIs with debt from individuals fell from 81 percent in 1994 to 28 percent in 2013, there is much discussion in the industry about the potential to raise significantly more capital from socially responsible individuals in the future.

Member CDFIs lending primarily to rural beneficiaries tend to rely more heavily on federal sources of funding than do urban Member CDFIs. This is primarily a function of the relatively small number of banks with branches and CRA footprints in rural communities, as well as the large USDA lending programs such as the Intermediary Relending Program (IRP).9

Member CDFIs led by people of color typically receive a lower proportion of their funding from banks, thrifts, and credit unions than do other Member CDFIs, independent of their status as rural/urban CDFIs.10 Figure III-11 displays the average distribution of borrowed funds for CDFIs led by people of color, urban CDFIs, and rural CDFIs.

9 USDA’s Intermediary Relending Program (IRP) provides one percent loans to local intermediaries, such as CDFIs, that re-lend to businesses and for community development projects in rural communities.

10 Member CDFIs led by people of color are equally likely as other Member CDFIs to have predominantly urban clients—across the twenty-year period, about two-thirds of Member CDFIs have predominantly urban clients.
### Figure III-10.
**Average Distribution of Sources of Borrowed Funds for Loan Funds, 1994–2013**

<table>
<thead>
<tr>
<th>Year</th>
<th>Individuals</th>
<th>Religious</th>
<th>Foundations</th>
<th>NDFIs</th>
<th>Other</th>
<th>Federal</th>
<th>Banks/Thrifts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>21%</td>
<td>32%</td>
<td>16%</td>
<td>12%</td>
<td>10%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>18%</td>
<td>27%</td>
<td>16%</td>
<td>13%</td>
<td>11%</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>16%</td>
<td>20%</td>
<td>19%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>14%</td>
<td>20%</td>
<td>19%</td>
<td>4%</td>
<td>9%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>9%</td>
<td>13%</td>
<td>21%</td>
<td>4%</td>
<td>12%</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td>2000</td>
<td>8%</td>
<td>15%</td>
<td>15%</td>
<td>3%</td>
<td>14%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>2001</td>
<td>6%</td>
<td>12%</td>
<td>14%</td>
<td>5%</td>
<td>14%</td>
<td>22%</td>
<td>28%</td>
</tr>
<tr>
<td>2002</td>
<td>5%</td>
<td>9%</td>
<td>14%</td>
<td>4%</td>
<td>13%</td>
<td>26%</td>
<td>30%</td>
</tr>
<tr>
<td>2003</td>
<td>4%</td>
<td>8%</td>
<td>13%</td>
<td>5%</td>
<td>12%</td>
<td>22%</td>
<td>35%</td>
</tr>
<tr>
<td>2004</td>
<td>4%</td>
<td>9%</td>
<td>14%</td>
<td>3%</td>
<td>13%</td>
<td>22%</td>
<td>35%</td>
</tr>
<tr>
<td>2005</td>
<td>4%</td>
<td>8%</td>
<td>14%</td>
<td>4%</td>
<td>14%</td>
<td>20%</td>
<td>35%</td>
</tr>
<tr>
<td>2006</td>
<td>5%</td>
<td>8%</td>
<td>11%</td>
<td>4%</td>
<td>12%</td>
<td>20%</td>
<td>41%</td>
</tr>
<tr>
<td>2007</td>
<td>4%</td>
<td>6%</td>
<td>12%</td>
<td>4%</td>
<td>16%</td>
<td>17%</td>
<td>41%</td>
</tr>
<tr>
<td>2008</td>
<td>4%</td>
<td>6%</td>
<td>9%</td>
<td>3%</td>
<td>16%</td>
<td>19%</td>
<td>43%</td>
</tr>
<tr>
<td>2009</td>
<td>4%</td>
<td>7%</td>
<td>11%</td>
<td>5%</td>
<td>19%</td>
<td>17%</td>
<td>38%</td>
</tr>
<tr>
<td>2010</td>
<td>3%</td>
<td>4%</td>
<td>11%</td>
<td>4%</td>
<td>19%</td>
<td>17%</td>
<td>42%</td>
</tr>
<tr>
<td>2011</td>
<td>4%</td>
<td>5%</td>
<td>12%</td>
<td>4%</td>
<td>20%</td>
<td>20%</td>
<td>36%</td>
</tr>
<tr>
<td>2012</td>
<td>3%</td>
<td>5%</td>
<td>12%</td>
<td>3%</td>
<td>21%</td>
<td>21%</td>
<td>35%</td>
</tr>
<tr>
<td>2013</td>
<td>3%</td>
<td>3%</td>
<td>11%</td>
<td>3%</td>
<td>19%</td>
<td>22%</td>
<td>39%</td>
</tr>
</tbody>
</table>

**Note:** Includes borrowed and EQ2 funds; NDFIs are Non-depository financial institutions; n ranges from 42 in 1994 to 184 in 2013. Includes loan funds only.

**Source:** OFN Member Dataset and BBC Research & Consulting.

The distribution of funds borrowed from the federal government and banks, thrifts, and credit unions has seen a dramatic increase since 1994.

The distribution of funds borrowed from individuals and religious institutions has dramatically decreased since 1994.
Figure III-11.
Average Distribution of Sources of Borrowed Funds for Urban Loan Funds, Rural Loan Funds, and Loan Funds Led by People of Color, 1994–2013

Note: Includes borrowed and EO2 funds. NDFIs are Non-depository financial institutions. Includes loan funds only.
Source: OFN Member Dataset and BBG Research & Consulting.
Financial and Portfolio Performance

This section reports financial and portfolio performance trends for OFN Member CDFIs over the study period and, when possible, compares those trends to the conventional banking sector. Overall, OFN Member CDFIs have exhibited strong and stable metrics over the study period, especially considering their role in filling market gaps lending to underserved and often higher-risk beneficiaries. Figure III-12 depicts the net charge-off rate, delinquency rate (90+ days), and operating margin for OFN Member CDFIs and FDIC institutions. Figure III-13, on the following page, provides simple and weighted averages of these and additional performance metrics for OFN Members. Definitions are provided in Appendix B.

Net charge-offs. The net charge-off rate spiked following both recessions of the past 20 years but has declined dramatically since 2010, falling below 1 percent (weighted average) in 2013. FDIC institutions have a similar charge-off rate on average as OFN Members overall.

Delinquency rate. Similar to net charge-offs, delinquency rates rose in the wake of the nation’s recent recessions (this was also true for FDIC institutions). In 2013 the average OFN Member’s 90-day delinquency rate was 3 percent and the weighted average (OFN Members overall) was 2 percent—on par with FDIC institutions.

Operating margin. OFN Members had slightly lower operating margins than FDIC institutions until the housing market downturn, when bank profits from core operations declined significantly. OFN Members were generally able to maintain profitability from operations even during the recession and, in the current recovery period, are tracking closely with FDIC institutions.11,12

11 For-profits have a standard financial performance metric, return on assets (ROA). OFN hasn’t used ROA in the past because of nonprofit CDFIs’ reliance on operating grants, which are not generally considered to be returns or earnings on assets. We think it is an interesting question whether or not to use ROA for CDFIs. During his visit and comments at the 2008 OFN Conference, Jim Collins, author of Good to Great, urged OFN to include ROA analyses as a point of further discussion. OFN Member data show that, excluding the peak in 2000 and 2001, OFN Member return on assets (unrestricted net income over assets) has hovered around 2 percent, with slight increases in the recent post-recession recovery. FDIC institutions averaged 0.96 percent ROA over the same period. See Figure A-4 in Appendix A.

12 It should be noted that operating margins jumped up in several early years, notably 1998, 2000, and 2001. These jumps may have been due to the injection of CDFI Fund awards, a ramping up period for the many CDFIs formed in the years immediately following the creation of the CDFI Fund, or other causes; additional research is needed to fully understand these data.
Figure III-12.
Net Charge-Off Rate, Delinquency Rate, and Operating Margin, 1994-2013

Note:
OFN data does not include CDFI banks. The comparison of OFN Member CDFIs to FDIC institutions is imperfect given the wide variety of institution types regulated by the FDIC. FDIC Inst. Overall reflects the weighted average of all FDIC institutions; OFN Member Average reflects simple average of OFN Member CDFIs; and OFN Members Overall reflects weighted average of OFN Member CDFIs.

Source:
FDIC Quarterly Banking Profile, OFN Member Dataset and BBC Research & Consulting.
**Figure III-13.**
Financial and Portfolio Performance, 1994–2013

Note:
Does not include CDFI banks.
Blanks indicate data were not available.

Source:
OFN Member Dataset and BBC Research & Consulting.

<table>
<thead>
<tr>
<th>Simple Averages</th>
<th>Weighted Averages</th>
<th>Weighted Average Cost of Borrowed Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of CDFIs Reporting</td>
<td>Delinquency Rate 90+ Days</td>
<td>Net Charge-Off Rate</td>
</tr>
<tr>
<td>1994</td>
<td>42</td>
<td>1.9%</td>
</tr>
<tr>
<td>1995</td>
<td>44</td>
<td>2.4%</td>
</tr>
<tr>
<td>1996</td>
<td>46</td>
<td>2.1%</td>
</tr>
<tr>
<td>1998</td>
<td>48</td>
<td>4.7%</td>
</tr>
<tr>
<td>1999</td>
<td>108</td>
<td>3.9%</td>
</tr>
<tr>
<td>2000</td>
<td>86</td>
<td>4.1%</td>
</tr>
<tr>
<td>2001</td>
<td>90</td>
<td>4.1%</td>
</tr>
<tr>
<td>2002</td>
<td>110</td>
<td>4.2%</td>
</tr>
<tr>
<td>2003</td>
<td>117</td>
<td>5.1%</td>
</tr>
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<td>2004</td>
<td>109</td>
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<td>2005</td>
<td>105</td>
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</tr>
<tr>
<td>2006</td>
<td>102</td>
<td>3.8%</td>
</tr>
<tr>
<td>2007</td>
<td>114</td>
<td>3.8%</td>
</tr>
<tr>
<td>2008</td>
<td>124</td>
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</tr>
<tr>
<td>2009</td>
<td>139</td>
<td>5.6%</td>
</tr>
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<td>2010</td>
<td>154</td>
<td>4.3%</td>
</tr>
<tr>
<td>2011</td>
<td>194</td>
<td>4.1%</td>
</tr>
<tr>
<td>2012</td>
<td>197</td>
<td>2.8%</td>
</tr>
<tr>
<td>2013</td>
<td>168</td>
<td>3.2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of CDFIs Reporting</td>
<td>Delinquency Rate 90+ Days</td>
<td>Net Charge-Off Rate</td>
</tr>
</tbody>
</table>
Geographic Focus

One third of OFN Member CDFIs have a broad geographic scope, serving multi-state or national markets. Another 31 percent of Member CDFIs serve metro areas or multiple counties.

The market area distribution in 2013 reflects an increase in the proportion of Member CDFIs serving multiple states relative to 2001. Although many long-time Members have expanded their geographic markets, most of the increase is related to new Member CDFIs who serve large markets rather than those long-time Members.

In both 2001 and 2013, most Member CDFIs’ primary beneficiaries were living in urban areas (64% in 2001 and 74% in 2013). Again, the increase is primarily related to new CDFIs focusing on urban beneficiaries as opposed to existing CDFIs shifting their focus.

Figure III-14. Proportion of CDFIs by Market Area and Location of Primary Clients, 2001 and 2013

Note:
For Geographic Focus n=107 in 2001 and 184 in 2013; for Primary Beneficiaries n=105 in 2001 and 202 in 2013.
Does not include banks.

Source:
OFN Member Dataset and BBC Research & Consulting.
Racial, Ethnic, and Gender Diversity

Figure III-15 displays people of color and female representation on Member CDFIs’ staff and boards. Between 1994 and 2013, female board representation for the average OFN Member CDFI dropped as did the proportion of OFN Member CDFIs with a female majority board. The board representation of people of color for the average OFN Member CDFI also dropped slightly, but the proportion of OFN Member CDFIs with a board that was majority people of color actually increased (from 12% to 17%).

Figure III-15.
Staff and Board Composition, 1994 and 2013

Note: n=42 in 2001 and 186 in 2013. Does not include banks.
Source: OFN Member Dataset and BBC Research & Consulting.

Figure III-16 compares the racial and ethnic diversity of CDFI staff and board to the diversity of the communities the CDFI serves. The figure shows the percentage of CDFIs that are at least 50 percent as diverse as their clients.13 For example, if 50 percent of a CDFI’s clients are racially or ethnically diverse and 25 percent of that CDFI’s staff is racially or ethnically diverse, then that CDFI meets the benchmark. If 10 percent of a CDFI’s clients are diverse, only 5 percent of that CDFI’s staff needs to be diverse to meet the benchmark.

Figure III-16.
Percent of OFN Member CDFIs Meeting Diversity Benchmark

Note:
Does not include banks.
Source:
OFN Member Dataset and BBC Research & Consulting.

13 OFN is committed to racial and ethnic equity. Reflecting this commitment, OFN’s Member Performance Expectations include two that are focused on staff and board diversity relative to the diversity of the communities the CDFI serves. For a complete list of OFN Member Performance Expectations go to www.ofn.org/membership.
As Figure III-16 shows, just two-thirds of Member CDFIs meet the staff benchmark and only half meet the board benchmark. Results fluctuate from year to year and lack a strong trend, and there are no years in which more than two-thirds of Member CDFIs meet either diversity benchmark.

**CDFIs Led by People of Color.** In 2013, 34 OFN Member CDFIs were led by people of color.\(^{14}\) CDFIs led by people of color are equally likely as other CDFIs to be urban CDFIs. They are more likely to meet staff and board diversity targets.

As shown in Figure III-17, CDFIs led by people of color had lower average Assets, Loans Outstanding, and Capital Available for lending than White-led Member CDFIs.\(^ {15}\) A determination of the reasons for such differences was beyond the scope of this study.

In terms of capitalization, CDFIs led by people of color typically receive a lower proportion of their funding from banks, thrifts, and credit unions than do White-led Member CDFIs, regardless of whether their primary clients are urban or rural (see Figure III-11 on page 14 of this section).

Figure III-18 displays the distribution of outstanding dollars loaned by sector for CDFIs led by people of color. Compared to other CDFIs, CDFIs led by people of color tend to focus more on business lending and have a smaller focus on housing to organizations and community services.

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\(^{14}\) Led by refers to the Executive Director, President, or CEO.

\(^{15}\) “White-led” refers to White, non-Hispanic Executive Director, President, or CEO.
Figure III-18. Distribution of Outstanding Loan Portfolio by Sector for Member CDFIs Led by People of Color, 2000–2013

Note:
Other includes consumer financing, intermediary and other types of financing.
Commercial real estate loans were not tracked until 2009; prior to 2009 those loans may have been categorized as business financing.
N ranges from 7 in 2000 to 30 in 2013.

Source:
OFN Member Dataset and BBC Research & Consulting.
SECTION IV.

Characteristics of High Growth OFN Member CDFIs—Longitudinal Analysis of Long-Time Members
SECTION IV.
Characteristics of High Growth OFN Member CDFIs—Longitudinal Analysis of Long-Time Members

The OFN Member Dataset includes 26 CDFIs—all loan funds—that consistently reported data between 1994 and 2013.¹ This section focuses on that subsample of Member CDFIs to evaluate the characteristics of high growth, moderate growth, and low growth Members over the past 20 years.

It is important to note that the subsample is not perfectly representative of the current OFN Membership. Since the sample is defined as CDFIs that have been OFN Members for 20 years, there are some inherent differences between the subsample and other Member institutions. For example, subsample loan funds are older than non-subsample loan funds with an average age of 30, compared to 22 for non-subsample loan funds. Subsample loan funds also have a higher proportion of rural clients (34%) than do other Member loan funds overall (26%). As shown in Figure IV-1, subsample loan funds are also larger, on average, than non-subsample loan funds.

Figure IV-1. Subsample Compared to Other Member Loan Funds

<table>
<thead>
<tr>
<th></th>
<th>Median Assets</th>
<th>Median Loans Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Subsample</td>
<td>Non-Subsample</td>
</tr>
<tr>
<td>1994</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>2004</td>
<td>$26,318,750</td>
<td>$6,590,884</td>
</tr>
<tr>
<td>2013</td>
<td>$49,784,172</td>
<td>$13,780,930</td>
</tr>
</tbody>
</table>

Source: OFN Member Dataset and BBC Research & Consulting.

This section describes the differences in growth trends among the subsample institutions. Although not representative of the entire universe of CDFIs, the analysis provides important insight into the characteristics of Member CDFIs that have exhibited strong and consistent growth and the factors influencing growth (economic and industry changes) during the past two decades.²

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¹ Specifically, these 26 loan funds reported data in at least 18 of the 20 possible years and were OFN Members in 2013.

² This section focuses on correlative characteristics of growth but does not identify conclusive determinants of growth, nor does it use regression analysis techniques due to the limited size of the dataset.
Measures of Growth

Each CDFI in the subsample was classified as high, moderate or low growth based on change in outstanding loan portfolio over the study period. In order to smooth out single-year anomalies, the percent change in portfolio was calculated from a three-year average near the beginning of the study period and a three-year average at the end of the study period. CDFIs that exhibited exceptionally high growth—compound annual growth rate (CAGR) over 18 percent—were classified as “high growth.” CDFIs with a CAGR between 13 percent and 18 percent were classified as “moderate growth” and all others were classified as “low growth.” Based on those natural breaks in the data, seven CDFIs were classified as high growth, 12 were classified as moderate growth and seven were classified as low growth.

There was one large CDFI in the high growth cohort that exhibited a substantially different growth pattern than the other high growth CDFIs. As such, for some analyses, this institution was excluded from the dataset. Two sets of data are presented for the high growth cohort—one that includes all seven high growth CDFIs (High Growth) and one that excludes that large CDFI (High Growth Alt).

Figure IV-2 displays the three-year beginning and ending loans outstanding averages along with average CAGR for various intervals across the study period. Medians for each growth cohort are also included for reference.

Figure IV-2.
Growth Summary for Subsample, 1994-2013 (Loans Outstanding)

<table>
<thead>
<tr>
<th>Summary: 1994 through 2013</th>
<th>CAGR by Time Period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average</strong></td>
<td></td>
</tr>
<tr>
<td>Entire Subsample</td>
<td>26</td>
</tr>
<tr>
<td>High Growth CDFIs</td>
<td>7</td>
</tr>
<tr>
<td>High Growth Alt CDFIs</td>
<td>6</td>
</tr>
<tr>
<td>Moderate Growth CDFIs</td>
<td>12</td>
</tr>
<tr>
<td>Low Growth CDFIs</td>
<td>7</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>26</td>
</tr>
<tr>
<td>High Growth CDFIs</td>
<td>7</td>
</tr>
<tr>
<td>High Growth Alt CDFIs</td>
<td>6</td>
</tr>
<tr>
<td>Moderate Growth CDFIs</td>
<td>12</td>
</tr>
<tr>
<td>Low Growth CDFIs</td>
<td>7</td>
</tr>
</tbody>
</table>

Notes: “Beginning 3 Yr Average” is the average of the first three years of data for each CDFI. For most CDFIs this means 1994, 1995 and 1996; for two CDFIs it is 1995, 1996 and 1998; and for two other CDFIs it is 1996, 1998 and 1999. “Ending 3 Yr Average” is the average of the last three years of data for each CDFI. For 25 of the 26 CDFIs this measure is an average of 2011, 2012 and 2013; for one CDFI this is 2010, 2011 and 2013. “Overall CAGR” is the compound annual growth rate calculated from the beginning three-year average to the ending three-year average. The “High Growth Alt” cohort excludes one large CDFI that exhibits a substantially different growth pattern than the other high growth CDFIs.

Source: OFN Member Dataset and BBC Research & Consulting.
As shown in Figure IV-2, growth for the entire subsample was strongest from 1994–1997. This seems to reflect the creation of and early round awards from the CDFI Fund; in addition to CDFI Fund awards, many foundations and banks saw the creation of the CDFI Fund as an opportunity to increase their investments in CDFIs they considered strong. Although growth slowed somewhat in the years following the 2001 recession, subsample CDFIs were able to maintain an exceptional double-digit CAGR through the Great Recession (2007–2009).

High Growth CDFIs had substantially stronger growth than other cohorts in most years, particularly during the first half of the 20-year period. The very large CDFI included in the High Growth cohort added stability to the group overall in pre-2000 years, but dampened growth somewhat after 2000. The High Growth Alt CDFIs also had higher growth than moderate and low growth CDFIs in each interval examined—except immediately prior to and during the 2001 recession.

The Low Growth cohort had the lowest CAGR throughout the last two decades, again, except during recession periods. The Moderate Growth cohort had the lowest growth during recessionary periods but otherwise maintained steady growth over the 20-year period.

In contrast to the 2000–2001 recessionary period, growth for all cohorts slowed following the recent recession (2008–2009), though the High Growth Alt CDFIs fared better than Moderate and Low Growth CDFIs.

Figure IV-3 displays size characteristics for each cohort in 1994, 2004 and 2013. The mean and median data show relatively small differences in both capital and lending between the growth cohorts in 1994 but substantial differences as their growth trajectories diverge. The min and max columns reveal meaningful size variation within each growth cohort. As such, the initial size of a CDFI does not appear to be a primary determinant of growth.

<table>
<thead>
<tr>
<th>Figure IV-3. Median Size by Growth Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="https://example.com/table.png" alt="" /></td>
</tr>
</tbody>
</table>

Source: OFN Member Dataset and BBC Research & Consulting.
Characteristics of Growth

The remainder of this section describes the differences among growth cohorts in terms of market area, typical clients, lending sector, sources of borrowed funds and financial performance. The purpose of this section is not to provide a formula for growth; further quantitative and qualitative research is needed to fully understand the drivers of these CDFIs’ growth rates.

**Market and clients.** Figure IV-4 displays the average distribution of urban and rural clients for each growth cohort. Low Growth CDFIs were more likely to serve predominantly rural clients in both 2001 and 2013. On average High Growth CDFIs had the highest proportion of urban clients (85%) in 2001 and increased that further (to 98%) in 2013. In contrast, Moderate Growth CDFIs increased their proportion of rural clients from 31 percent to 38 percent between 2001 and 2013.

There were no CDFIs in the High Growth cohort serving a majority rural client base. Five of the 12 Low Growth CDFIs (57%) and four of seven Moderate Growth CDFIs (42%) had a majority rural client base in 2013.

Over the course of the study period, High Growth CDFIs had a higher proportion of clients of color (55% of High Growth clients, 43% of Moderate Growth clients and 46% of Low Growth clients). However, Moderate and Low Growth CDFIs had higher average proportions of female clients (50% and 49% respectively) compared to High Growth CDFIs (43%) and higher proportions of low income clients (74% and 77% respectively) compared to High Growth CDFIs (69%).

### Figure IV-4. Average Percent Urban and Rural Clients, 2001 and 2013

<table>
<thead>
<tr>
<th>Cohort</th>
<th>2001</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Growth CDFIs</strong></td>
<td>65%</td>
<td>98%</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Moderate Growth CDFIs</strong></td>
<td>69%</td>
<td>62%</td>
</tr>
<tr>
<td></td>
<td>31%</td>
<td>38%</td>
</tr>
<tr>
<td><strong>Low Growth CDFIs</strong></td>
<td>42%</td>
<td>41%</td>
</tr>
<tr>
<td></td>
<td>58%</td>
<td>59%</td>
</tr>
</tbody>
</table>

Note: Does not include banks.

Source: OFN Member Dataset and BBC Research & Consulting.
There were no CDFIs in the subsample that consistently served small markets, such as individual neighborhoods, counties or cities. As shown in Figure IV-5, the market area distribution of Low Growth CDFIs and High Growth CDFIs were very similar in both 2001 and 2013. In both cohorts, slightly fewer than half of Member CDFIs served metro areas or multiple counties and just over half served multiple states or national markets in 2013. Half of Moderate Growth CDFIs also served multiple states or national markets with the other half split between metro areas or multiple counties and single states. Each cohort saw a slight market area expansion between 2001 and 2013.

**Lending sector.** Figure IV-6 reveals distinct differences in the average distribution of loan sectors among the growth cohorts. Housing loans to organizations, and to a lesser extent business loans, are much more dominant among Low Growth CDFIs than among Moderate or High Growth CDFIs. High Growth CDFIs have a more diverse portfolio in which no individual loan type accounts for more than 50 percent of all loans. Both High Growth CDFIs and Moderate Growth CDFIs allocate a substantially higher proportion of loans to community services organizations relative to Low Growth CDFIs. High Growth CDFIs are more likely to make commercial real estate loans (category added in 2009) than other cohorts. See Figure IV-9.

While the figure does show some fluctuation in lending sectors across time for each growth cohort, there do not appear to be substantial changes in lending sector distribution within each cohort. As such, it is difficult to speculate how changing the loan sector distribution might impact growth for an individual CDFI.

Loan sectors can be uniquely tied to individual CDFI missions and/or a factor of the needs and opportunities within specific market areas. For example, Low Growth CDFIs tend to have a higher proportion of rural clients and may be located in areas where there are acute needs for housing and business loans. Access to capital, sources of capital (e.g., banks versus religious institutions), and terms of capital could also influence sectors served. External factors impacting loan sector distribution may also be impacting overall growth potential.
Figure IV-6. Loan Sector—Simple Average of Distribution

Note:
Other includes consumer financing, intermediary and other types of financing.

Source:
OFN Member Dataset and BBC Research & Consulting.
Sources of borrowed funds. Growth cohorts also differ in the composition of borrowed funds. Figure IV-7 displays the average distribution of sources of borrowed and EQ2 funds for each cohort.³

The most striking differences are in funds borrowed from banks, thrifts, and credit unions. High Growth CDFIs have a strong trend of increasing the proportion of dollars borrowed from banks (7% in 1994 to 51% in 2013) whereas Low Growth CDFIs only increased their share of bank-borrowed funds from 10 percent to 17 percent.

High Growth CDFIs had the smallest proportion of funds from the federal government, even in the very early years. In 1994–1996, they had by far the highest proportion of funds from foundations.

As bank financing increased for High Growth (and to a lesser extent Moderate Growth) CDFIs, the proportion of borrowed funds from individuals and religious organizations declined steadily. It should be noted that the dollar amounts provided by individuals and religious institutions did increase over time, just not at the same pace as other sources.

Trends for Low Growth CDFIs were less consistent, which may suggest some level of volatility in terms of borrowed funds among them.

³ It should be noted that this analysis does not include funds received through grants or other non-borrowed sources, including the CDFI Fund. Data were not available to examine grant sources of funding.
Figure IV-7.
Average Distribution of Sources of Borrowed Funds

Note:
Includes borrowed and EQ2 funds.

Source:
OFN Member Dataset and BBC Research & Consulting.
Cost of borrowed funds. Figure IV-8 displays the average cost of borrowed funds and the average interest rate for each growth cohort along with the margin between the two rates. Over the study period, High Growth CDFIs averaged a slightly higher cost of borrowed funds (2.9%) than Moderate (2.5%) and Low Growth CDFIs (2.3%). High and Moderate Growth CDFIs had similar average interest rates (7.0% and 7.1%) over the 20-year period—both higher than Low Growth CDFIs, which averaged 5.7 percent. Over the past five years, Moderate Growth CDFIs maintained the most favorable margin (4.1%), followed by High Growth (3.4%) and Low Growth (3.1%) CDFIs.

Financial performance. Comparisons of financial performance trends of CDFIs by growth cohort show only modest differences in performance (Figure IV-9 on the following page), mostly in earlier years. Where variances occur, these are mostly related to poor-performing loans in the early to mid-2000s.

The net charge off rate is very similar across the time period examined. Deployment levels are consistent, suggesting that the growth of the CDFIs has reacted to market demand rather than opportunistic expansions. LLR as a percent of loans outstanding and unrestricted operating margin fluctuated over the period but do not reveal substantial differences between cohorts.

Delinquency Rates were somewhat higher for Low Growth CDFIs in the first half of the study period but converged with High and Moderate Growth CDFIs in the latter half of the period. The Net Assets ratio was somewhat higher across the study period for Low Growth CDFIs (47% on average) than for Moderate and High Growth CDFIs (both averaging 35%), indicating that Low Growth are under-leveraged relative to the other cohorts. Whether this under-leveraging is caused by an inability to access needed debt capital, a preference for grants over debt to meet capital needs, or no need for additional capital is an area for future study.
Figure IV-8.
Average Cost of Borrowed Funds and Interest Rate

Note:
Data reflects the simple average within each cohort of the weighted average cost and interest rate. 2006 data are not available.

Source:
OFN Member Dataset and BBC Research & Consulting.
Figure IV-9.
Financial Performance, Simple Average by Cohort, 1994-2013

Delinquency Rate (90+ Days)

Net Charge Off Rate

LLR as a % of Loans Outstanding

Net Assets Ratio

Self Sufficiency Ratio

Deployment Ratio

Unrestricted Operating Margin

Return on Assets

Legend labels apply to all graphs

- High
- Moderate
- Low

Source: OFN Member Dataset and BBC Research & Consulting.
SECTION V.

Key Findings and Opportunities for Future Research
SECTION V.
Key Findings and Opportunities for Future Research

This section summarizes the key findings from the trend analysis and longitudinal growth analysis. It also highlights opportunities for further research in the CDFI industry.

Key Findings from the Trend Analysis (Section III)

- The average OFN Member CDFI loan portfolio increased from $1.9 million in 1994 to $30.3 million in 2013, with a 649 percent gain between 1994 and 2000 and a 100 percent gain between 2000 and 2013.

- The loan funds of the 1980s financed a wide range of sectors, including community-based and community-controlled projects, worker-owned and worker-managed businesses or cooperatives, community land trusts, and other nonprofits. They sought to address affordable housing, jobs, education, healthcare, and energy conservation. Today, CDFIs finance these sectors and others, including those they helped create, such as healthy food financing, charter school financing, and federally qualified health center financing.

- OFN Member CDFIs have a significant impact in the communities they serve. Current OFN Members are responsible for over $35 billion in cumulative financing since their inception. This investment has led to the development and/or rehabilitation of 1.5 million housing units—more than the total number of homes in 22 states; the financing of 120,000 businesses and microenterprises; creation of 721,000 jobs—more than total jobs in many states; and the financing of 9,500 community services organizations that have expanded or maintained childcare, education, and healthcare services for thousands of individuals.1

- On average, 75 percent of a CDFI’s clients are low-income, 52 percent are people of color, and 48 percent are female.2 While comparable figures are not available for all conventional bank clients, they are available for conventional and nonconventional lenders’ home mortgage borrowers: in 2013, 28 percent of home purchase loans went to low-income borrowers, and 28 percent went to people of color.3

1 OFN Members report their impacts using OFN’s standard data definitions. Some CDFIs use different definitions and calculations in their own publications.

2 FY2013 OFN Member Data defines low-income as less than or equal to 80 percent of area median family income (AMI).

OFN Member CDFIs have been focused on performance and community impact for more than 30 years. In 1985, the net charge-off rate of the CDFIs at the first National Conference for Community Loan Funds was 0.7 percent. OFN Members’ net charge-off rate has tracked closely with that of FDIC insured institutions, and was 0.7 percent in 2013.

OFN Member CDFIs have maintained their ability to provide capital in underserved communities even during recessionary periods. In the wake of the Great Recession of 2008, conventional banks experienced one of the largest lending contractions in the post-war era—outstanding loans declined by as much as 16 percent between late 2008 and early 2012, according to some estimates. In contrast, loans outstanding for the average OFN Member CDFI actually increased slightly during this period (from $28.2 to $28.6 million).

When loan funds were first being established in the 1970s and 1980s, they borrowed primarily from individuals and religious institutions, early adopters who supported their community-focused missions. By 1994, these two sources still accounted for more than 50 percent of the average CDFIs’ borrowed funds; in 2013, they accounted for only 6 percent, while conventional banks, thrifts, and credit unions accounted for nearly 40 percent.

OFN Member CDFIs in rural areas and CDFIs led by people of color receive less funding from conventional banks. Government (federal, state, and local) and foundations are larger sources of borrowed funds for these institutions.

Rural CDFIs may be more reliant on government-provided sources of loan capital due to less access to bank capital. Rural banks are smaller, community-lending focused and, as such, may not need to invest in CDFIs to meet their Community Reinvestment Act (CRA) requirements. It is unclear if these CDFIs would have grown more rapidly if they had more access to capital—or if their growth was largely a factor of lack of demand in the markets they serve.

**Key Findings from the Growth Analysis (Section IV)**

The longitudinal analysis provided in Section IV reveals some key differences but also key similarities between High, Moderate, and Low Growth CDFIs. As discussed previously, the differences are not intended to suggest a blueprint for growth but instead highlight certain characteristics that vary along with growth among long-time OFN Member CDFIs.

- CDFIs had healthy growth rates throughout the entire twenty-year study period. From 1994 through 2013, CDFIs’ loans outstanding grew on average by 15 percent per year (compound annual growth rate). Growth was highest in the early years of this study at 38 percent on average from 1994-

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1997, gradually slowing but maintaining an 11 percent growth rate during the Great Recession (2007-2009), and a 6 percent growth rate toward the end of the study period (2009-2013).

- The type of market area served by CDFIs is strongly correlated with growth: High Growth CDFIs are much more likely to serve urban clients, while Low Growth CDFIs predominately serve rural clients. However, geographic size of market area does not appear to have a substantial correlation to growth—High and Low Growth CDFIs are equally likely to serve multi-state or national markets.

- Over the course of the study period, High Growth CDFIs had a higher proportion of clients of color but Moderate and Low Growth CDFIs had higher average proportions of female and low-income clients.

- There are distinct differences in the average distribution of loan sectors between the growth cohorts. Housing loans are much more dominant among Low Growth CDFIs than Moderate or High Growth CDFIs. High Growth CDFIs have a more balanced portfolio in which no individual loan type accounts for more than 50 percent of all loans after the year 2000. Both High Growth CDFIs and Moderate Growth CDFIs allocate a substantially higher proportion of loans to community services organizations relative to Low Growth CDFIs.

- There are distinct differences in the average distribution of sources of borrowed capital between the growth cohorts. High Growth CDFIs, and to a lesser extent Moderate Growth CDFIs, substantially increased the proportion of dollars borrowed from banks, thrifts, and credit unions, with High Growth CDFIs sourcing more than half their debt from conventional banks in 2013, whereas Low Growth CDFIs showed only small increases in their share of bank-borrowed funds.

- Comparisons of financial performance trends of CDFIs by growth cohort show only modest differences in performance

**Opportunities for Future Research**

There still remain a number of complex questions that cannot be fully answered by the available data, or perhaps require a more qualitative approach to unpack.

The longitudinal analysis raises many complex questions that can only be answered through further analysis of the OFN Member data, analysis of additional datasets such as CDFI Program awards and NMTC allocations, and qualitative research including interviews and focus groups with CDFIs and other stakeholders.

Future research questions include:

- How do the 1994–2013 growth and performance of CDFI loan funds compare to CDFI banks and CDFI credit unions?
What accounted for the very high average growth rates for some CDFIs in 1994–1997 (68% average compound annual growth rate) and why are growth rates slowing overall?

How do growth rates and performance differ among CDFI segments (e.g., rural vs urban; big vs small; primary financing sector; CDFIs led by people of color vs White-led CDFIs)?

What explains the differences in growth and performance among CDFI segments? Do sources of capital with their particular terms and conditions impact growth and performance? What are the impacts of other factors including but not limited to capital constraints, financing sectors served, markets served (rural vs. urban), the CDFI’s risk tolerance, and management decisions?

What is the composition and volume OFN Members’ non-balance sheet activity and how has it changed over time? How has non-balance sheet activity allowed some CDFIs to grow in ways that would not have been possible with only on-balance sheet lending? What are the trend sample’s growth rates in annual financing activity, including balance sheet and non-balance sheet activity?

What explains the variations in financial performance across years (e.g., why did operating margins jump up in 1998, 2000, and 2001 historical performance; why did the cost of borrowed funds jump up in 2007)?

What was the impact of the Riegle Act of 1994 on CDFIs’ financial performance (operating margin, self-sufficiency ratio, net asset ratio), portfolio performance (delinquency and loan losses), and growth rates? For example, is there a difference between CDFIs that were established prior to the Riegle Act of 1994 and those that were established after it? What is the impact of CDFI Program awards and/or New Markets Tax Credit allocations?
APPENDIX A.

Additional Figures and Analyses
APPENDIX A.
Additional Figures and Analyses

This appendix provides additional figures to supplement the analysis presented in Section III.

Size Quartiles

Figure A-1 shows the first, second and third quartiles by year for all OFN Member CDFIs excluding banks. The fourth quartile is excluded from the graphic because it skews the presentation: fourth quartile maximums in 2013 were $704 million assets, $421 million loans outstanding and $654 million capital available for lending.
Figure A-1.
Quartiles by Year for OFN Member CDFIs

Note:
n varies across years ranging from 42 in 1994 to 209 in 2013. Does not include banks.

Source:
OFN Member Dataset and BBC Research & Consulting.
Lending Sectors

Figure A-2 displays the distribution of loan sectors for urban and rural Member CDFIs.

Figure A-2.
Loan Types by Year

Note:
Other includes commercial real estate prior to 2009, consumer financing, intermediary and other types of financing.

Source:
OFN Member Dataset and BBC Research & Consulting.
Sources of Borrowed and EQ2 Funding

Figure A-3.
Total Borrowed Funds by Source for Loan Funds, 1994-2013

Note:
Includes borrowed and EQ2 funds. Other includes corporations, state and local governments, national intermediaries, and other. \( n \) ranges from 42 in 1994 to 184 in 2013. Does not include banks.

Source:
OFN Member Dataset and BBC Research & Consulting.
Return on Assets

Excluding the peak in 2000 and 2001, OFN Member return on assets (unrestricted net income over assets) has hovered around 2 percent, with slight increases in the recent post-recession recovery. OFN Member CDFIs outperformed FDIC institutions, which averaged 0.96 percent ROA over the same period.

Figure A-4. Return on Assets (ROA), 1999–2013

Note:
OFN data does not include CDFIs that engage in consumer banking. The comparison of OFN Member CDFIs to FDIC institutions is imperfect given the wide variety of institution types regulated by the FDIC. FDIC Inst. Average reflects simple average of all FDIC institutions; OFN Member Average reflects simple average of OFN Member CDFIs; and OFN Overall reflects weighted average of OFN Member CDFIs.

Source:
OFN Member Dataset and BBC Research & Consulting.
Definitions of Financial and Performance Indicators

Financial and performance indicators were calculated for each CDFI in the dataset according to the formulas shown in Figure B-1.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quality of Loan Portfolio</strong></td>
<td></td>
</tr>
<tr>
<td>Delinquency Rate 90+ days</td>
<td>Loans 90 days delinquent / (Loans Outstanding + Equity Investments)</td>
</tr>
<tr>
<td>Net Charge-Off Rate</td>
<td>Net charge offs / (Loans Outstanding + Equity Investments)</td>
</tr>
<tr>
<td>Loan Loss Reserve as a % of Loans</td>
<td>Loan Loss Reserve / Loans Outstanding</td>
</tr>
<tr>
<td>Net Assets Ratio</td>
<td>Net Assets / Total Assets</td>
</tr>
<tr>
<td><strong>Performance Indicators</strong></td>
<td></td>
</tr>
<tr>
<td>Self Sufficiency Ratio</td>
<td>Earned revenue / Operating expenses</td>
</tr>
<tr>
<td>Deployment Ratio</td>
<td>(Loans Outstanding + Equity Investments) / Total Capital Available for Lending</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>Unrestricted Net Income / Operating Revenue</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>Unrestricted Net Income / Total Assets</td>
</tr>
<tr>
<td><strong>Revenue Strength</strong></td>
<td></td>
</tr>
<tr>
<td>Weighted Average Interest Rate</td>
<td>((Loans Outstanding @ Rate A x Rate A) + (Loans Outstanding @ Rate B x Rate B) + ...)/ Total Loans Outstanding</td>
</tr>
<tr>
<td>Weighted Average Cost of Borrowed Funds</td>
<td>((Borrowed Funds @ Rate A x Rate A) +(Borrowed Funds @ Rate B x Rate B) + ...)/Total Borrowed Funds</td>
</tr>
</tbody>
</table>
Definitions of Financing Sectors

- **Business**: Financing to for-profit and nonprofit businesses that have more than five employees OR of financing in an amount of greater than $50,000 or financing for the purpose of expansion, working capital, or equipment purchase/rental.

- **Commercial real estate**: Financing for construction, rehabilitation, acquisition or expansion of non-residential property used for office, retail, or industrial purposes.

- **Community services**: Financing to community service organizations such as human and social service agencies, advocacy organizations, cultural/religious organizations, health care providers, child care providers, and education providers, regardless of tax status. Uses include acquisition, construction, renovation, leasehold improvement, and expansion loans as well as working capital loans and lines of credit.

- **Consumer**: Credit extended for personal (secured and unsecured) loans to individuals for health, education, emergency, debt consolidation, transportation, and other consumer purposes.

- **Housing to individuals**: Financing to individuals to support homeownership and home improvement. Home equity loans are not included here unless the purpose of the home equity loan is to finance housing-related activities (e.g., home repair, purchase of another home). All other home equity loans should be classified based upon the purpose of the loan.

- **Housing to organizations**: Financing to housing organizations for purposes such as predevelopment, acquisition, construction, renovation, lines of credit, working capital, and mortgage loans to support the development of rental or for-sale housing, service-enriched housing, transitional housing, and/or residential housing.

- **Intermediary**: Financing provided to other CDFIs.

- **Microenterprise**: Financing to for-profit and nonprofit businesses that have five or fewer employees (including the proprietor) and with a maximum loan/ investment amount of $50,000. This financing may be for the purpose of start-up, expansion, working capital, or equipment purchase/rental.

- **Other**: Any financing activities not included in the sectors defined above.
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