COMMUNITY CAPITAL FOR SMALL BUSINESSES:

A Study of the CDFI and CDC Ecosystem in Massachusetts

P2 Advisors

MassINC

Acknowledgments
We would like to express our gratitude to the Massachusetts Growth Capital Corporation (MGCC) for providing financial support to underwrite this study. We are also grateful to MGCC staff, including Larry Andrews and Ari Veloz. They selflessly contributed their time and knowledge to the project. This intensive research effort would not have been possible without the expertise of Matt Brewster and Meghan Phillips at P2 Advisors. We were incredibly fortunate to be able to draw on the expertise of these national community development finance experts. While all of our collaborators provided invaluable contributions, MassINC bears full responsibility for the analysis and recommendations contained in this report.

Graphic Design
Sharoline Galva

Editing
The Hired Pens

Suggested Citation
Matt Brewster, Meaghan Phillips, and Elise Rapoza.
"Community Capital for Small Businesses: A Study of the CDFI and CDC Ecosystem in Massachusetts."
(Boston, MA: MassINC, June 2024.)

TABLE OF CONTENTS

I.	Executive Summary and Introduction	4
II.	National Community Development Finance Sector	7
III.	Massachusetts Community Finance Sector	13
IV.	Massachusetts Small Business Capital Needs	17
V.	Massachusetts Small Business Community Finance Sector	18
VI.	State CDFI Support Programs	35
VII.	Strategies to Improve Massachusetts' Small Business Community Finance Sector	41
	Appendices	44
	References	54

I. EXECUTIVE SUMMARY & INTRODUCTION

Massachusetts is home to a vibrant community finance sector that strives to meet the financial needs of the Commonwealth's low-income neighborhoods and underserved populations. Across the state are nearly one hundred community finance institutions, including 31 federally certified community development financial institutions and 65 state certified community development corporations (three organizations hold both certifications). Supported by public and private funding, CDFIs and CDCs seek to fill gaps in the small business, housing, community facilities, real estate, and consumer financial services markets.

While each of these sectors is important, this report primarily focuses on the nearly 30 CDFIs and CDCs that support entrepreneurs and small businesses. With more than half of Massachusetts small businesses facing financing shortfalls and with businesses owned by members of historically underserved groups facing even greater difficulty accessing financial services, these CDFIs and CDCs play a critical role in driving inclusive economic development in communities across the Commonwealth. The burst of small businesses launched by entrepreneurs of color with federal COVID-19 pandemic recovery funds makes the community finance sector more vital than ever.

To catalog the sector's contributions and strategies to position it for even greater impact at this post-pandemic crossroads, P2 Advisors and MassINC surveyed the state's CDFIs and CDCs, and reviewed national research on how other states are supporting their small business community finance sector. Key findings include:

- **Massachusetts' small business community finance sector disproportionately serves the Commonwealth's smallest and youngest firms and those owned by members of underserved communities.** Most CDFI/CDC small business clients are microbusinesses and have either no employees (43%) or 1 to 5 employees (44%). Demographically, over two-thirds (70%) of their clients are low-income, half (50%) are people of color, and nearly half (47%) are women.

- **Massachusetts' small business community finance sector is relatively small, especially compared to the need for these services.** The rate of CDFI financing per business establishment in Massachusetts is $231, which is $12 per establishment or 5% lower than the national average of $243. Massachusetts CDFIs and CDCs serving small businesses are also relatively small measured by assets and staff. The average total assets of small business CDFIs is $18 million, about half the national small business CDFI average of $38 million. The average small business CDFI in Massachusetts has 15 staff, 40% lower than the national small business CDFI average of 25. While CDFIs have higher client satisfaction than any other type of lender, less than 5% of Massachusetts small businesses recently surveyed reported applying to a CDFI for financing.

- **The Massachusetts small business community finance sector has grown significantly in the past five years and is poised for continued growth.** Massachusetts-based CDFI and CDC small business financing has more than doubled in recent years from $17.6 million in 2019 to over $38 million in 2023, representing a compound annual growth rate of 21%. Massachusetts CDFIs and CDCs have deployed their available financing capital more successfully than their peers nationally. The average deployment ratio for Massachusetts CDFIs and CDCs in 2023 was 79%, 23 percentage points higher than the national small business CDFI average of 56%. Given the unprecedented wave of federal funding that they received in 2022 and 2023, this clearly indicates their ability to ramp up to meet strong demand for their financing. CDFI and CDC leaders are eager to continue their growth. When asked how much they could increase their financing activity in three years with unlimited funding of the type they currently have, the average Massachusetts CDFI and CDC said they could grow their financing deployment by 158%. This scenario would lead to small business CDFI and CDC financing increasing from $38 million in 2023 to nearly $100 million three years after receiving more funding.

- **Massachusetts CDFIs and CDCs face significant challenges securing funding and rely relatively heavily on borrowed capital.** All CDFIs and CDCs surveyed reported challenges securing funding; nearly one quarter (24%) said they face significant challenges. Massachusetts CDFIs rely slightly more on borrowed capital (40%) to fund their financing than the national average (38%). This limits the sector's reach and hinders its ability to best meet the needs of underserved businesses.

- **Massachusetts small businesses benefit from a relatively small portion of public funding through CDFIs and CDCs. Of the 93 CDFIs and CDCs in the state, only 21 (23%) provide financing to small businesses.** Over the last five years, only 17% of federal monetary awards from the CDFI Fund awarded to Massachusetts CDFIs has gone to Massachusetts CDFIs that primarily fund small businesses, and only 10% of the CDCs that receive Community Investment Tax Credits from the state provide small business financing. Most of the federal and state funding and tax credits go to CDFIs and CDCs engaged in the real estate sector. While Massachusetts is undoubtedly facing a housing affordability crisis and needs more funding for affordable housing, this important work is crowding out small business support that can power the economic engine of entrepreneurship in underserved communities.

- **States are increasingly establishing programs to fund CDFIs and some are specifically designed for CDFIs that support small business.** Our research identified 32 states (and Washington D.C.) that have CDFI funding programs. While most of these programs have been capitalized with pass-through federal funding, 8 states have funded one or more programs that support CDFIs with regular appropriations from state budgets ranging from $5 million to $140 million. Three states (New York, North Carolina, and Pennsylvania) have CDFI funding programs specifically for small businesses. Leaders in these states report strong outcomes, leveraging federal funding to increase the size of their states' CDFI sectors, and ultimately better serving their low-income neighborhoods and other underserved populations.

Growing the economic and community impact of CDFIs and CDCs in Massachusetts requires increased funding, greater visibility, innovative programming, and capacity building. Our specific strategy recommendations include:

- **Increase grant and loan funding for small business CDCs and CDFIs.** Increasing funding for loan capital, training and technical assistance, and administrative operations from a combination of public and private sources is required to grow the sector. The Commonwealth should create a permanent state grant CDFI/CDC program for small business financing, building on the Microlending-CDFI program and recent Lending Capital Match program. A cross-sector fund will pool investment from various sources (e.g., banks, foundations, large companies, impact investors) and make flexible, low-interest loans to CDFIs and CDCs. Foundations should increase their grantmaking to CDFIs and CDCs to sustain and grow operations as they expand.

- **Expand the reach of small business CDFIs and CDCs.** Marketing CDFIs and CDCs to small business owners as trusted and responsible financing options will help to increase the low level of awareness among the small business community. CDFIs and CDCs can cultivate and deepen partnerships with business support organizations and professional service providers to increase referrals. CDFIs can deepen partnerships with banks to increase referrals to CDFIs and meet their CRA goals. CDFIs and CDCs can expand their work geographically to fill regional gaps in financing activity and to key sectors that are strategically important to the Commonwealth's economic development plan (e.g., climate critical industries).

- **Foster innovation in capital structures and program delivery.** Growing alternative financing structures can meet additional financing needs from small businesses. Leveraging technology can streamline CDFI and CDC operations to increase speed and efficiency.

- **Strengthen CDFI and CDC capabilities and long-term capacity.** A strong talent pipeline is critical to allow CDFIs and CDCs to build capacity for continued growth. Improved impact reporting and consistency can help CDFIs and CDCs better communicate their impact.

Massachusetts' CDFIs and CDCs have an impressive legacy of impact and innovation that should be dramatically expanded to meet the Commonwealth's underserved small business community's needs. COVID pandemic funding and heightened business needs were catalysts for recent growth in CDFI and CDC small business support, but it is clear that the sector is just beginning to realize its full potential. The above strategies can more fully realize this potential and drive inclusive and sustainable economic growth across the state for decades to come.

II. NATIONAL COMMUNITY DEVELOPMENT FINANCE SECTOR

A Brief History of US Community Finance and the Origin of CDFIs

The community finance movement has a rich history of local grassroots efforts across the country, beginning in Massachusetts. In 1790, Benjamin Franklin's will established one of the first known revolving community loan funds with £1,000 sterling (approximately $500,000 in 2024) left to Boston to be lent to tradespeople for their startup costs for 10 years at 5% interest. Dozens of community finance funds were created across the country throughout the 1800s and 1900s with a focus on providing access to capital for low-income and other underserved communities.

After two centuries of innovation and impact, the community finance movement became more connected and organized nationally in the mid-1980s.

In 1985, the leaders of 47 community loan funds attended the first conference of the National Association of Community Development Loan Funds (now Opportunity Finance Network) in Waltham, Massachusetts. Two of the attendees remain active Massachusetts CDFIs, Boston Community Loan Fund (now BlueHub Capital) and Cooperative Fund of New England (now Cooperative Fund of the Northeast).

Spurred in part by the association's collective action and advocacy of these early leaders, a series of important federal laws and regulations established the foundations of the modern community finance movement. In 1977, Congress passed the Community Reinvestment Act (CRA) to require depository institutions to meet the credit needs of communities in which they operate. The CRA was a paradigm shift in holding mainstream financial institutions to serving low-income and other underserved communities. It sowed the seeds for what would grow into a tradition of bank/CDFI partnerships that have helped to fund the industry's growth. In 1994, President Bill Clinton signed into law the Community Development and Regulatory Improvement Act, which created the CDFI Fund. The Fund's purpose was 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." CDFIs can use this financial assistance to support an array of community development activities including housing for low-income people, businesses owned by low-income people, basic financial services, commercial facilities that promote job creation or retention, and technical assistance. In 1996, the CDFI Fund announced its first round of CDFI Program awards; a total of $35 million was awarded to 31 CDFIs, mostly in the form of equity grants to seed them with the capital they needed to grow. Shortly after the CDFI Fund was created, federal regulators issued guidance that banks' investments in CDFIs qualified for CRA credit.

Overview of the CDFI Fund

The CDFI Fund was created for the purpose of promoting economic revitalization and community development through investment in and assistance to CDFIs. The CDFI Fund's current mission is to expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers. The CDFI Fund is part of the US Treasury Department and is governed by a 15-member advisory board that includes a mix of government, CDFI, and community representatives.

To be eligible to apply for and receive awards from most of the CDFI Fund programs, an entity must be certified as a CDFI. To be certified, a financial institution must meet certain community development finance criteria, including:

- Establishing a primary mission of promoting community development, and specifically of serving low-income individuals and communities.
- Engaging primarily in financing activities while also providing “development services” in conjunction with financing activities; in the small business sector, this includes offering training and technical assistance to small business owners.
- Primarily serving one or more “target markets,” which can include a geographic area and/or a targeted population; at least 60% of financing activity (units and dollars) must be in the CDFI’s approved target market to maintain certification.
- Maintaining accountability to defined target market.

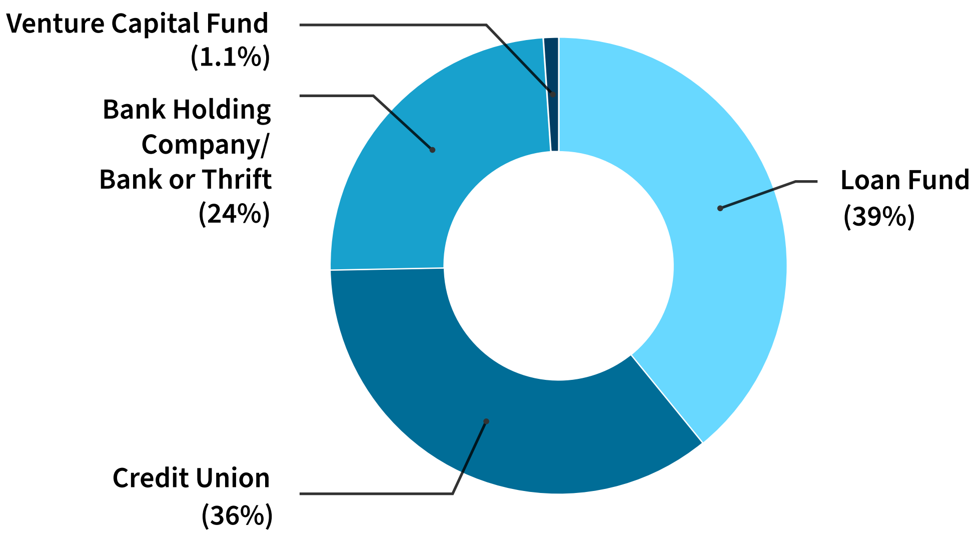
The Fund administers six flagship programs that award grants, loans, and tax credits to CDFIs and other community development organizations: the CDFI Program, the New Markets Tax Credit (NMTC) Program, the Bank Enterprise Award Program, Native Initiatives, the CDFI Bond Guarantee Program, and the Capital Magnet Fund. Since its creation, the CDFI Fund has awarded more than $5.2 billion to CDFIs, community development organizations, and financial institutions; allocated $66 billion in tax credit allocation authority to Community Development Entities; and closed guaranteed bonds for more than $1.8 billion. See appendix for more detail on the CDFI Fund’s programs and initiatives.

National CDFI Sector Snapshot

A range of types of institutions may be certified as CDFIs, including banks, credit unions, loan funds, and venture capital funds. Banks and credit unions are both depository institutions that provide a range of banking and lending services. Loan funds are nondepository entities (typically nonprofit corporations) that lend to one or more sectors using capital raised from a range of investors. Venture capital funds are nondepository entities that provide equity investments to entrepreneurs and small businesses. As of August 2023, there were nearly 1,500 certified CDFIs nationwide and 39% were loan funds, 36% were credit unions, 24% were banks and bank holding companies, and 1% were venture capital funds. The CDFI industry held at least $452 billion in total assets as of Q1 2023. While loan funds are the most common CDFI institution type, CDFI depository institutions hold most of the assets. Credit unions hold approximately $300 billion (66%), banks hold $118 billion (26%), and loan funds hold $35 billion (8%).

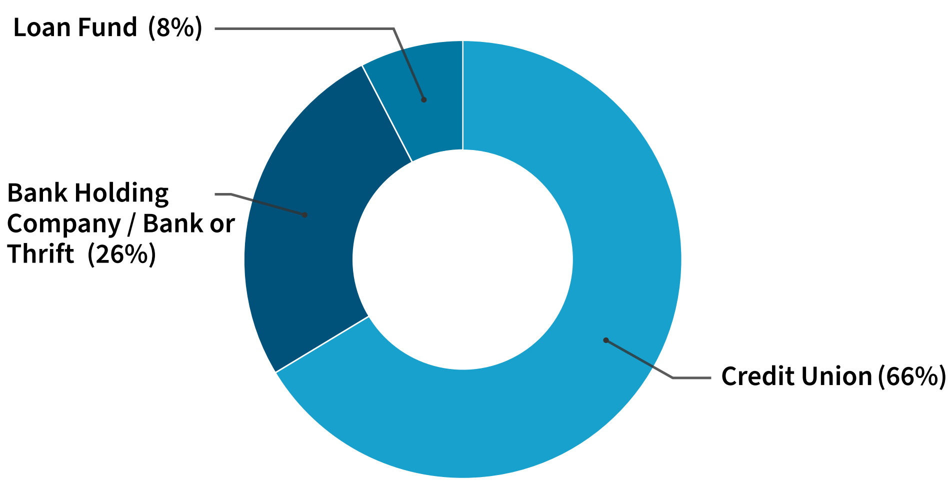
The number of CDFIs has grown significantly in the decades since the CDFI Fund was created, and this growth has increased in the last five years. Six years after the creation of the CDFI Fund in 2000, there were 430 certified CDFIs. By 2016, the count had more than doubled to 1,049. After several years of little to no growth, the number of CDFIs grew another 37% between 2019 and 2023 from 1,085 to 1,487. Geographically, this growth has been concentrated over the past five years in Puerto Rico, the Mississippi Delta, and the southeast broadly.

Figure 1: CDFI count by institution type



Source: "Sizing the CDFI Market, Understanding Industry Growth," Federal Reserve Bank of New York, August 2023

Figure 2: CDFI assets by institution type ($ billion)

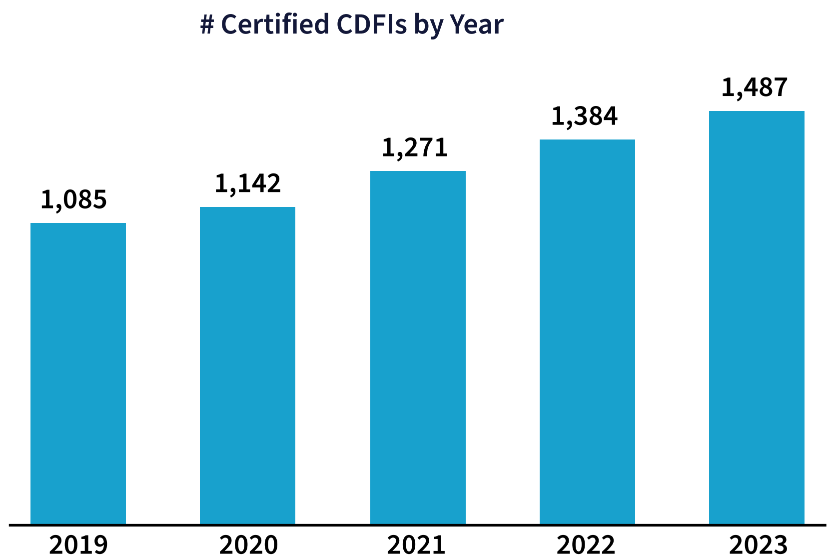


Source: "Sizing the CDFI Market, Understanding Industry Growth," Federal Reserve Bank of New York, August 2023

CDFI clients are underserved populations as defined by income level, race and ethnicity, and gender. Within CDFI investment areas as defined by the CDFI Fund, 85% of individuals are low-income, 66% are people of color, and 48% are women.

Unlike banks and credit unions, which are primarily funded through deposits, or fintech lenders, who heavily rely on private capital markets, nondepository CDFIs are typically funded through a unique mix of public, private, and philanthropic sources. Nearly one third (30%) of CDFIs' borrowed funds comes from banks, 16% comes from the federal government, and 14% from foundations. CDFIs can offer flexible capital to borrowers not served by other financial institutions by creatively blending financing from this variety of sources. On average, CDFIs significantly stretch each dollar raised: CDFIs leverage $8 in private sector investment for every $1 in public funding.

Figure 3: Total certified CDFIs over time, 2019 - 2023

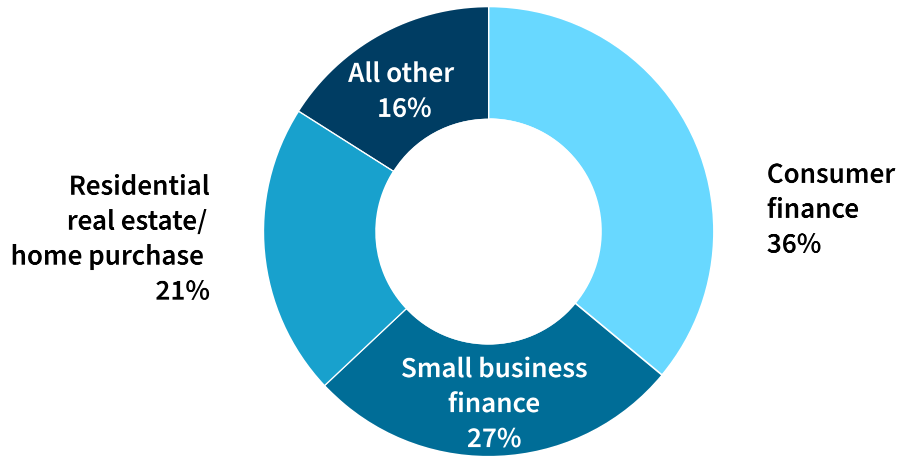


Source: "Sizing the CDFI Market, Understanding Industry Growth," Federal Reserve Bank of New York, August 2023

CDFIs finance a variety of sectors, including affordable housing, small businesses, community facilities, residential and commercial real estate, and various consumer credit needs. The top three primary business lines of CDFIs in a recent survey were consumer finance (36%), small business finance (27%), and residential real estate finance / home purchase (21%).

Loan originations by CDFIs nationally more than doubled between 2018 and 2021, from at least $29 billion to over $70 billion. Over the same period, annual loans to small businesses by CDFIs doubled from $3.7 billion to $7.4 billion. Loans to small businesses represent 12% of total dollars deployed over this four-year period.

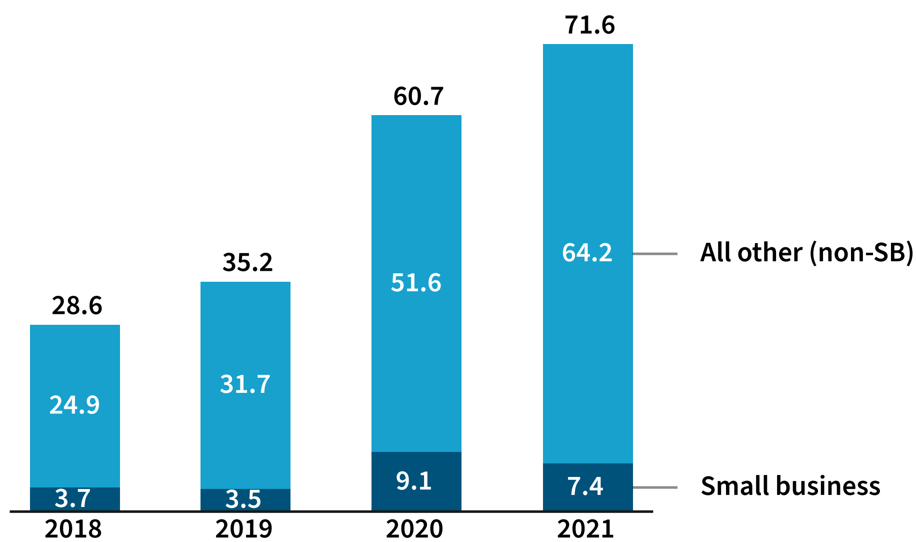
Figure 4: Major business lines of CDFIs



Source: Federal Reserve 2023 CDFI Survey

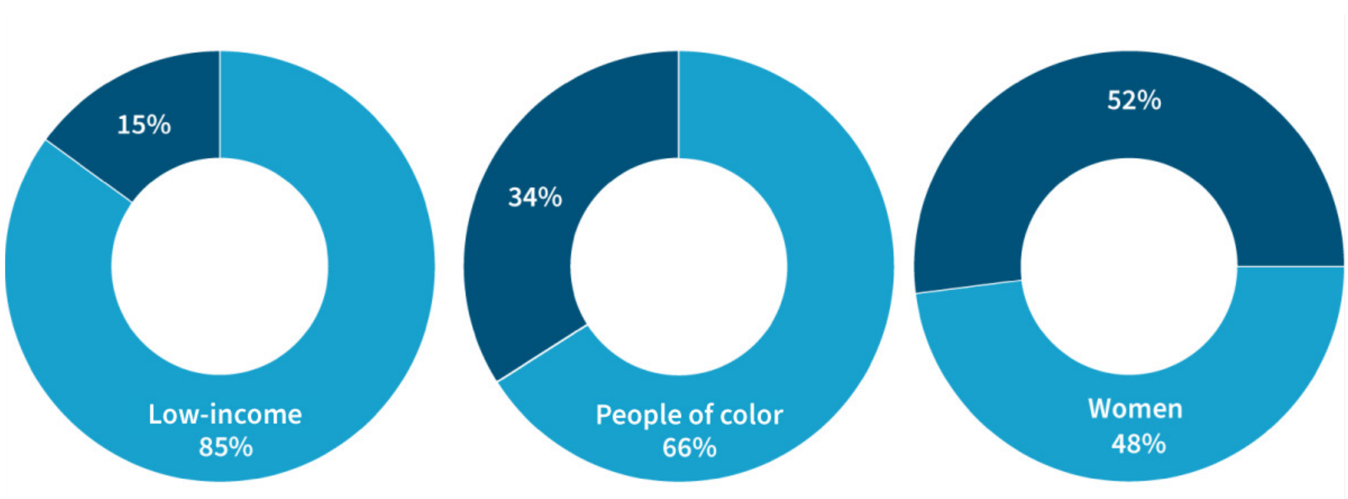
Note: "All other" includes commercial real estate finance, community facilities, and other

Figure 5: Total CDFI originations by year ($billion)



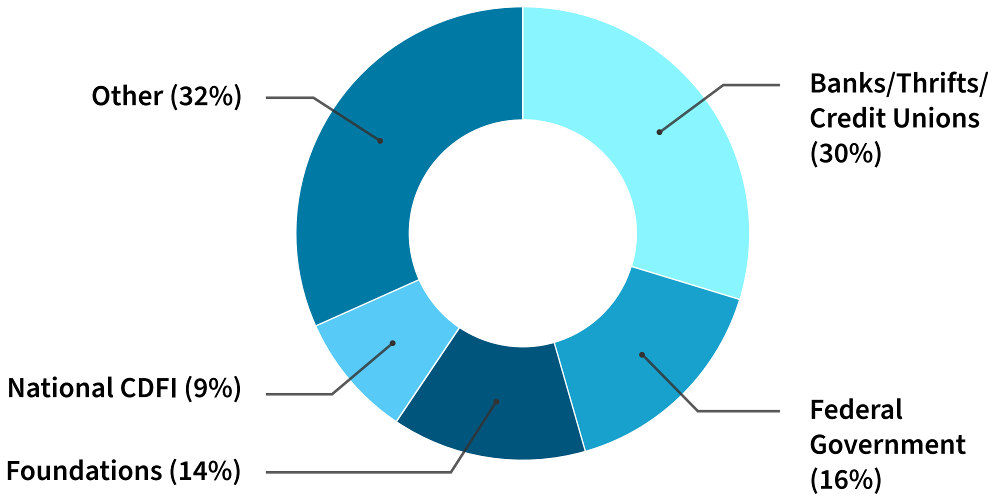
Source: "Examining the Origination and Sale of Loans by Community Development Financial Institutions," Federal Reserve Bank of New York, May 2024

Figure 6: Demographic characteristics of CDFIs' investment areas



Source: Examining the Origination and Sale of Loans by Community Development Financial Institutions," Federal Reserve Bank of New York, May 2024

Figure 7: Sources of nondepository CDFI debt capital



Source: CDFI Fund Certification List, February 2023

Nationally, the CDFI industry is organized by two membership organizations, the Opportunity Finance Network (OFN) and the CDFI Coalition. Both organizations offer a variety of member services and advocate for federal funding for the CDFI sector.

CDFIs' Unique Role in the Market

CDFIs play a unique and critical role in the financial markets that is made possible by the subsidies that CDFIs receive from the public and social sectors. First and foremost, CDFIs offer more patient, affordable, and flexible financing solutions to projects and enterprises than most other financing institutions. They can take more financial risk and expect a lower financial return in service of their social impact goals. Secondly, CDFIs all provide some form of nonfinancial assistance to their clients, which helps clients prepare to access capital initially and helps them to successfully manage the capital that they receive. CDFIs often help "unbankable" clients access mainstream financial services.

CDFIs and banks typically partner in several ways. Motivated by CRA requirements and other social impact goals, banks provide loans, equity equivalent investments, and grants to CDFIs to serve low income and other underserved communities with their banking footprint. Some banks also refer loan applicants that do not qualify for bank loans to CDFIs so that CDFIs can help to build the applicant's financial health and potentially provide financing. Many CDFIs seek to "graduate" clients to bank financing because bank financing tends to be less expensive than CDFI financing.

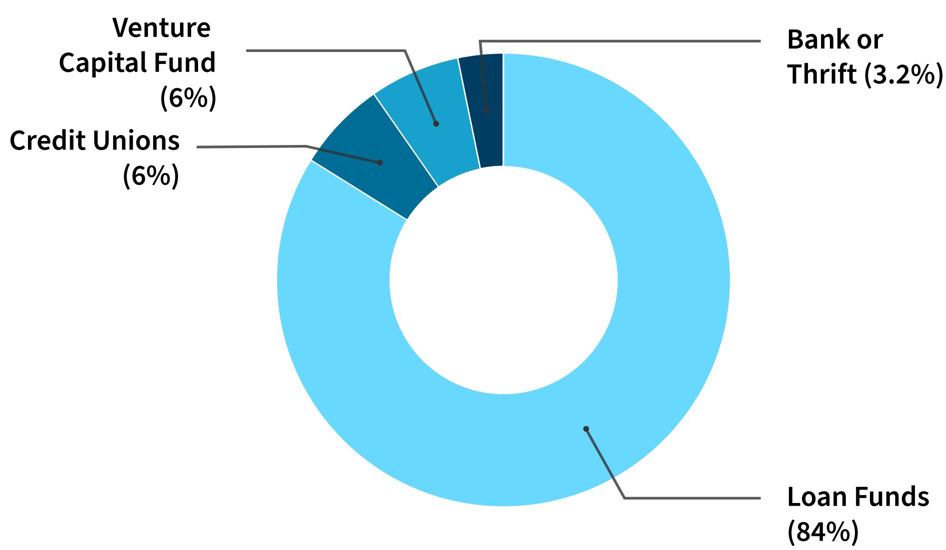
III. THE MASSACHUSETTS COMMUNITY FINANCE SECTOR

Massachusetts has a vibrant community finance sector with a long history of supporting low-income and other underserved communities. There are 93 community finance institutions headquartered in Massachusetts, including 31 certified CDFIs and 65 state-certified Community Development Corporations (3 organizations hold both certifications).

Massachusetts CDFI Sector Overview

Of the 31 Massachusetts-based CDFIs, most (26 or 84%) are loan funds. There are two credit unions (6% of total) and one bank (3%). There are two venture capital funds, but both (BCLF Ventures dba Boston Community Venture Fund and BCLF II) are no longer actively investing. Compared to the national CDFI sector, Massachusetts has far fewer depository bank and credit union CDFIs.

Figure 8: Distribution of Massachusetts CDFIs by institution type



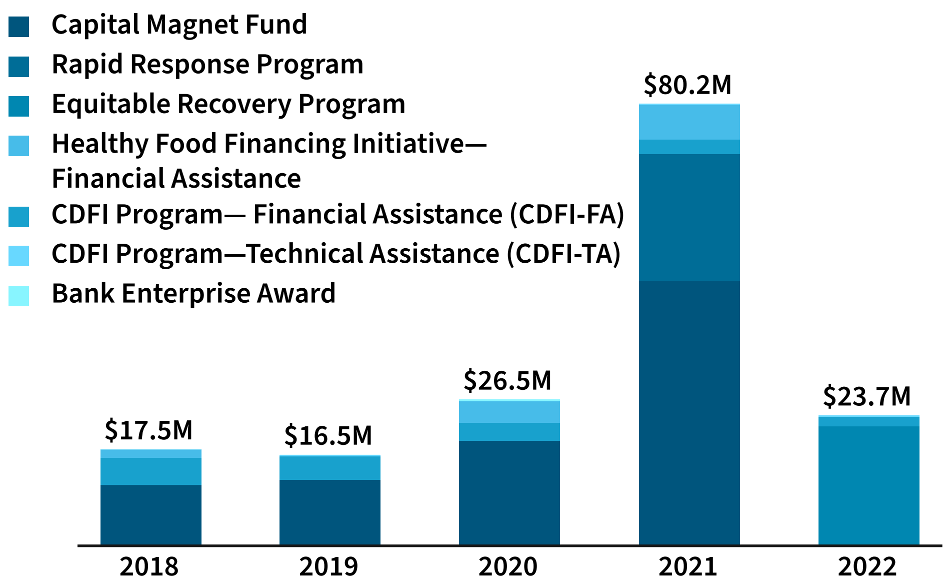
Source: CDFI Fund Certification List, February 2023

Since the creation of the CDFI Fund (1996 to 2022), 64 Massachusetts-based CDFIs have received 264 total awards from the CDFI Fund totaling $3 billion (only $255 million, or 8% of all funding, comprises monetary awards to MA CDFIs, with the other 92% received via a tax credit program). Over the five years from 2018 to 2022, CDFI Fund awards in Massachusetts totaled $634 million, including $470 million (74%) in tax credits and $164 million (26%) in monetary awards. Of the monetary awards, $90 million (55%) were from Capital Magnet Fund program, $45 million (27%) were from the two COVID-19 relief programs (RRP and ERP), and $17 million (10%) were from the Financial Assistance Program.

The level of annual CDFI Fund monetary awards to Massachusetts CDFIs averaged $20 million from 2018 to 2020. In 2021 in response to the COVID-19 pandemic, awards increased dramatically to over $80 million in 2021, a 202% increase. In 2022, awards normalized to $24 million, just under $3 million less than 2020.

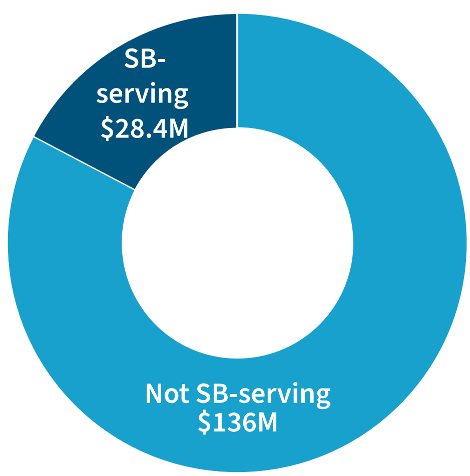
During the five-year period from 2018 to 2022, the CDFI Fund made $28.4 million in monetary awards to Massachusetts CDFIs that serve small businesses. This represents only 17% of total CDFI Fund awards to Massachusetts CDFIs over that period, largely because most of the CDFI Fund awards are restricted to the housing sector and cannot be used to fund small business financing. Looking just at CDFI Fund programs that have small business financing as an eligible use – the Financial Assistance program and the recent COVID-19 relief programs, RRP and ERP – awards to Massachusetts CDFIs serve small businesses represents only 38% of awards from 2018 to 2022.

Figure 9: CDFI Fund monetary awards to Massachusetts CDFIs ($million), 2018-2022



Source: CDFI Fund Awards Database

Figure 10: CDFI Fund monetary awards to Massachusetts CDFIs that finance small businesses ($million), 2018-2022



Source: CDFI Fund Awards Database

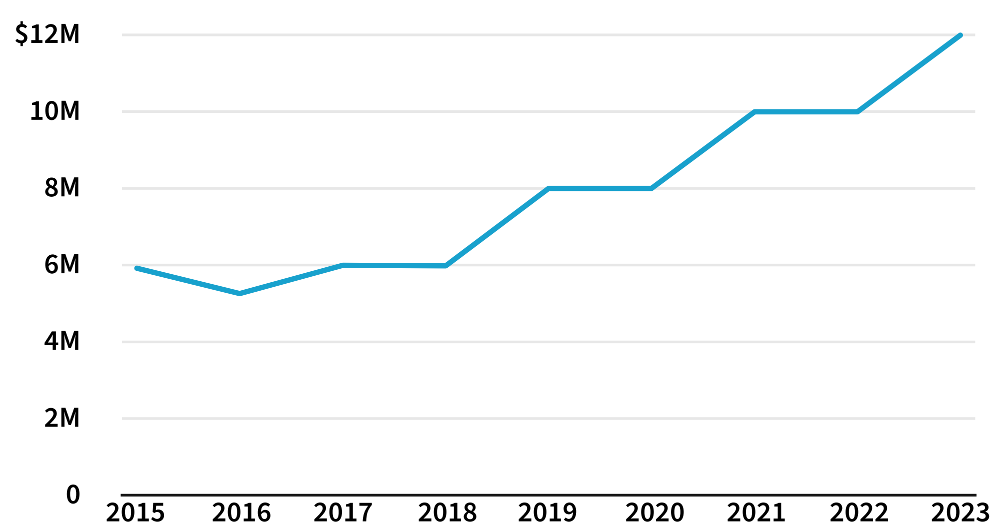
Massachusetts Community Development Corporations

Community Development Corporations (CDCs) are neighborhood-level, nonprofit organizations that engage local residents and businesses to work together to undertake projects and activities that develop and improve urban, rural, and suburban communities in sustainable ways and create and expand economic opportunities for low- and moderate-income people. CDCs seek to improve communities through real estate development, small business development, asset building, community leadership identification, and resident engagement. Professional staff operate CDCs with oversight from advisory boards that include community residents. In 2010, the Legislature passed into law Certification Standards for CDCs (M.G.L. Chapter 40H).

As of this report's publication, there are 65 certified CDCs in Massachusetts. Three (5%) are also CDFIs: Dorchester Bay Economic Development Corporation, Mill Cities Community Investments, and Quaboag Valley Community Development Corporation. CDCs primarily focus on residential and community real estate, though some have meaningful small business support programs. One quarter of all CDCs (28%) offer small business technical assistance and/or training support and ten (15% of total CDCs) provide small business financing.

The Community Investment Tax Credit (CITC) program is designed to support CDCs through a market-based approach that leverages private contributions and builds strong local partnerships. The Legislature created the CITC in 2012 as part of a larger economic development bill package. CDCs apply for a competitive application annually to be awarded tax credits that the local CDC will use to attract double the CITC allocation in private investment each year. The tax credits are equal to 50% of the donation made by a corporate or individual taxpayer. CDCs submit a Community Investment Plan the first time they apply for CITC, and every 3 years thereafter, outlining their plans for investment in the local community. Since 2015, 67 CDCs have received CITC allocations. State allocations have largely increased over time, with a few exceptions. 2016 saw the lowest allocation at $5.3 million, followed by significant jumps in allocations from 2018-2019 ($6 million to $9 million), 2020-2021 ($8 million to $10 million) and 2022-2023 ($10 million to $12 million).

Figure 11: Massachusetts Community Investment Tax Credit (CITC) allocations, 2015–2023



Source: MA Executive Office of Housing and Living Communities

In 2022, Massachusetts CDCs created or preserved nearly 1,500 homes and 6,100 jobs. They provided more than 1,800 entrepreneurs with technical or financial assistance, and helped entrepreneurs obtain nearly $21 million in loans and grants. They assisted 84,000 families with housing, jobs, or other services. Finally, CDC-backed efforts led to more than $1.6 billion in investment in local communities, including over $1 billion in real estate projects and other housing assistance, and another $600 million in programs, services, and economic opportunities.

Additional State Programs That Support Small Business CDFIs and CDCs

Beyond the CDC program, the Commonwealth of Massachusetts has several additional programs that provide some level of support to CDFIs and CDCs that serve small businesses; these programs are funded by the state budget and administered by the Executive Office of Economic Development (EOED) and Massachusetts Growth Capital Corporation (MGCC).

From FY 2018 to 2020, the CDFI Funding Program provided $1.3 million ($125,000 to $875,000 per year) in matching grants to eligible nonprofit lenders that was used for lending and technical assistance. The program required a funding match of at least one-to-one, including federal grants and private funding. In July 2021, CDFI Funding Program became the CDFI Lending Capital Matching Grant Program and MGCC assumed program administration. The program's goal is to resource nonprofit CDFIs and CDCs that provide financing to small businesses in Massachusetts. Since 2021, MGCC has granted $17.1 million to 13 CDFIs and CDCs across two rounds of funding. The program was designed to complement existing funding for training, technical assistance, and operations while leveraging federal funds from the CDFI Fund's Rapid Response Program (2021) and Equitable Recovery Program (2022). MGCC is currently working to distribute a third round of $3.1 million in funding that will bring total awards to over $20 million (approximately $7 million per year). Data from the first two rounds indicate that the program is achieving its objectives. Awardees used the funding to provide over $24 million in financing to 448 small businesses. The businesses supported created or preserved more than 3,000 jobs. Nearly two thirds (63%) of businesses supported are located in low-to-moderate income communities and 66% are owned by people of color. Awardees also leveraged approximately $11 million in matching funds.

From FY 2016 to 2020, the Microlending Program provided $1.1 million ($100,000 to $300,000 per year) in grants to nonprofit microlender for lending or lending support activities. In 2021, MGCC assumed management of the program and the program shifted its focus to funding grants for operations to complement the CDFI Capital Matching Grant Program. From fiscal years 2021 to 2024, the Microlending Program provided $5.6 million ($800,000 to $1.8 million per year) in grants.

The Small Business Technical Assistance Grant Program (SBTA), established in 2006 and managed by MGCC, awards grants to nonprofit business support organizations to provide small business services, including technical assistance, training in business skills, and support in accessing financing, contracts and customers. The SBTA has a specific focus on organizations with missions to serve women-, minority-, and/or veteran-owned businesses, and businesses located in low- and moderate-income and Gateway Cities. The SBTA grant program has assisted organizations in serving over 26,000 small businesses since its inception in fiscal year 2014. SBTA funding has grown from less than $1 million in fiscal year 2014 to $6.2 million in fiscal year 2023.

Lastly, the Commonwealth of Massachusetts is currently working to administer its allocation from the federally funded State Small Business Credit Initiative (SSBCI). The SSBCI was reauthorized and expanded by the American Rescue Plan Act of 2021 (ARPA) to support small businesses and empower them to access the capital needed to invest in job-creating opportunities as the country emerged from the pandemic. The state received a $168.6 million allocation and used $25.1 million (15%) to create a Community Loan Fund Guarantee Program that provides guarantees (up to 50%) on loans originated by participating banks, CDFIs, and CDCs. The program will focus guarantees on loans to underserved small businesses. While this program will provide important support to CDFIs and CDCs serving small businesses, the level of Massachusetts' SSBCI funding that CDFIs can access is lower than many other states (a summary of other states' SSBCI programs that fund CDFIs is included in Chapter VI).

IV. MASSACHUSETTS SMALL BUSINESS CAPITAL NEEDS

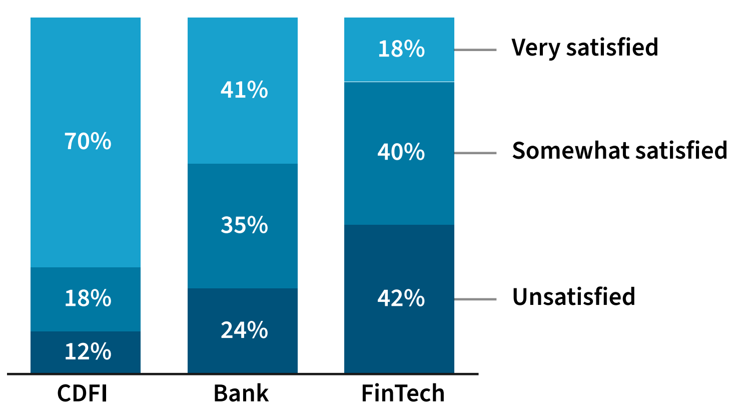
Access to capital is critical to business growth, yet it is one of the most cited barriers that business owners face and disproportionately so for historically underserved populations. In a recent survey of Massachusetts small businesses by the MassINC Polling Group (MPG), nearly two-thirds (64%) of small businesses were seeking capital. Black- and Hispanic-owned firms cited capital as more of a priority, with 85% and 83% seeking capital, respectively. Unfortunately, more than half (54%) of Massachusetts small businesses that sought capital had financing shortfalls, defined as receiving none or only some of the financing that they applied for. The rate of financing shortfalls was higher for firms owned by Black (66%), Hispanic (61%), and Asian (60%) entrepreneurs. The estimated annual unmet financing demand from Massachusetts entrepreneurs of color is at least $603 million.

Figure 12: Financing Shortfalls by Race/Ethnicity of Owners, Massachusetts Small Businesses

Source: MassINC Polling Group Survey of small business leaders, Feb-Mar 2024

While national data shows that business owner satisfaction with CDFIs is higher than any other lender type (71% compared to 18-61%), the rate at which Massachusetts small business owners apply for financing at CDFIs is surprisingly low. In the MPG survey of small business owners, only 4% of businesses reported that they had applied for financing at a CDFI. This indicates that there is likely a lack of awareness of CDFIs within the Massachusetts small business community.

Figure 13: Small Business Client Satisfaction by Lender Type

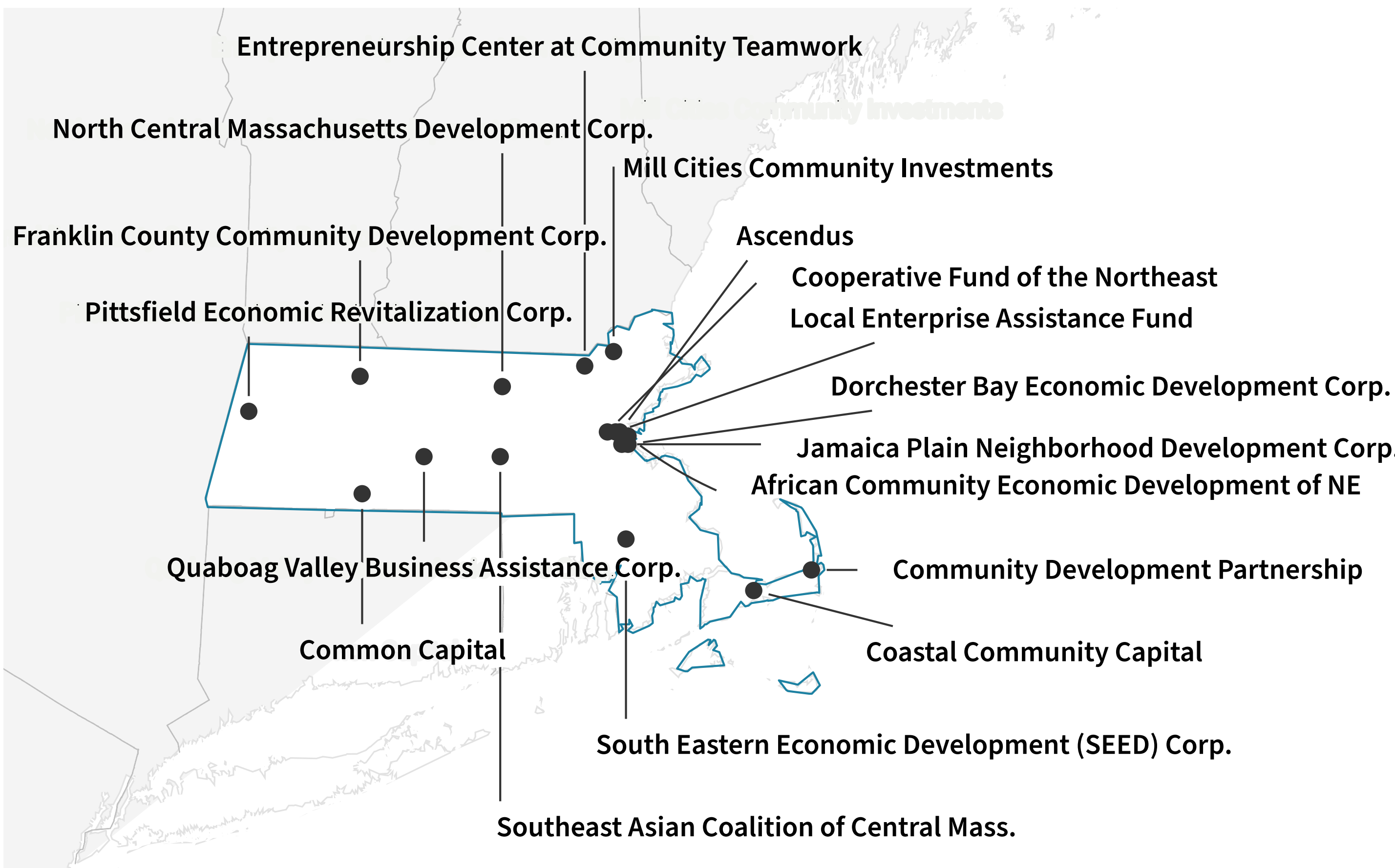


Source: Federal Reserve Small Business Credit Survey, 2021 Report on Employer Firms

V. MASSACHUSETTS SMALL BUSINESS COMMUNITY FINANCE SECTOR

Among the 31 CDFIs with locations in Massachusetts, 10 (32%) provide financing to small businesses. Three (10%) of these CDFIs are also state-certified CDCs. An additional seven CDCs that are not CDFIs also provide small business financing. While there are other impactful community finance organizations that provide financing to small businesses, this report focuses primarily on organizations that hold either CDFI and/or CDC certification.

Figure 14: Locations of CDFIs and CDCs in Massachusetts



Source: CDFI Fund Certification List, February 2023

To develop a robust understanding of the activity, impact, and needs of the small business CDFI/CDC sector in Massachusetts, we surveyed all CDFIs and CDCs that serve small businesses. We received responses from 81% overall and nearly all (91%) of the nonprofit loan fund CDFIs (a list of institutions is included in the appendix). All but one non-profit loan fund CDFI participated in the survey. None of the Massachusetts CDFI depository institutions participated in the survey.

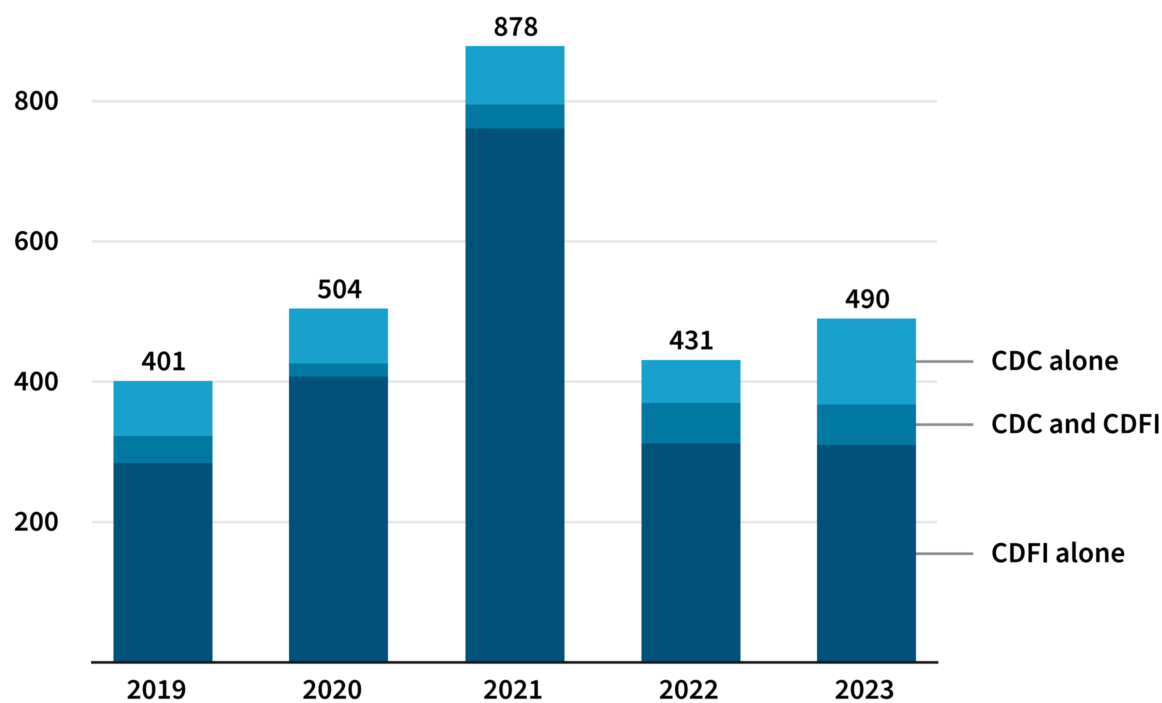
Massachusetts CDFI/CDCs provide a range of financial and nonfinancial services to entrepreneurs and small businesses. Their financial services include loans, revenue-based financing, and equity investments. Their nonfinancial services include educational programs and technical assistance covering a range of topics.

Massachusetts CDFI and CDC Small Business Financing Activity

Massachusetts CDFIs and CDCs that responded to the survey provided funding to nearly 500 small businesses in 2023. From 2019 to 2023, the number of small businesses funded increased 22% . The uptick was sizable in 2021, which was driven by deployment of COVID-19 related small business funding. This ability to quickly ramp up service delivery demonstrates the capacity of CDFIs and CDCs to respond to changing economic conditions, as well as the considerable demand for their services.

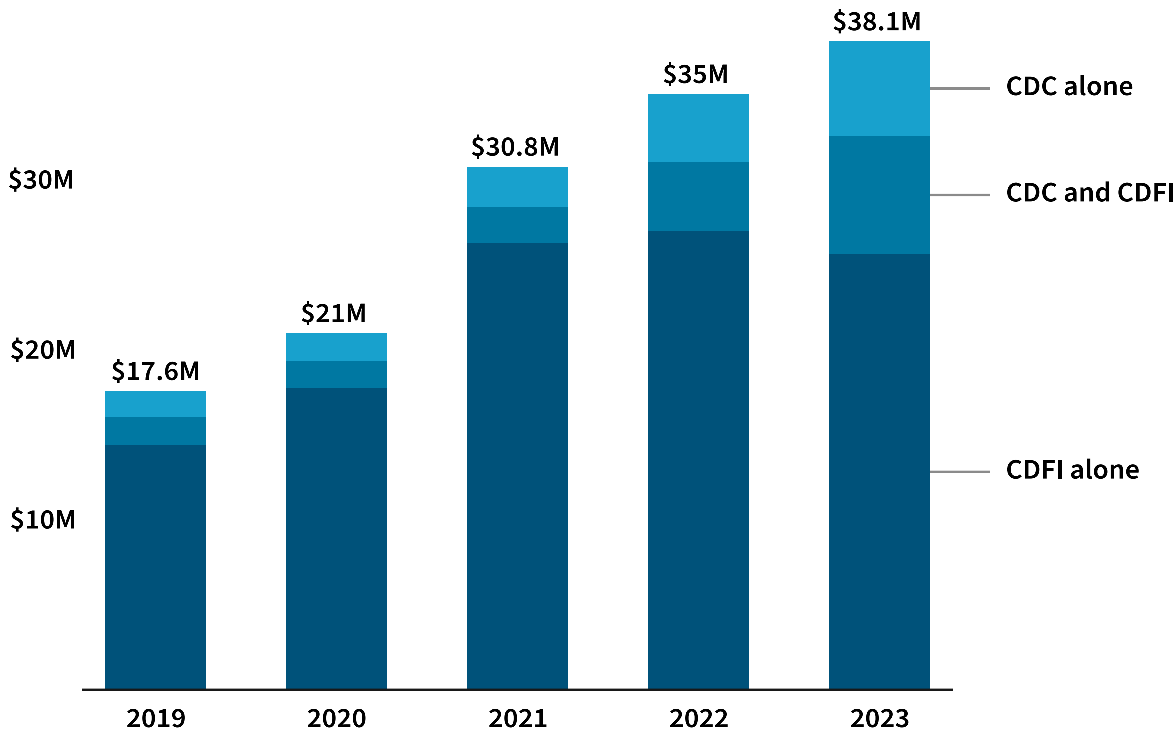
Massachusetts-based CDFIs and CDCs have grown small business financing substantially in recent years—they deployed over $38 million in small business financing in 2023, more than double (117% growth) the financing deployed in 2019, representing a five-year compound annual growth rate of 21%. On average, each organization increased their small business financing from $1.0 million to $2.3 million.

Figure 15: Number of small business financing clients by organization type, Massachusetts, 2019-2023



Source: Massachusetts Small Business Community Finance Institution Survey (n = 17 out of 22)

Figure 16: Dollar amount of small business financing by organization type, Massachusetts, 2019-2023



Source: Massachusetts Small Business Community Finance Institution Survey (n = 17 out of 22)

Despite a decrease in the number of deals from 2021 to 2022, the total dollar amount of financing continued to increase. This is because the average funding size more than doubled from 2021 to 2022, from $44,000 per client to $80,000 per client. The decrease in average financing amount per deal in 2021 was largely driven by one CDFI's high-volume deployment of a small-dollar COVID relief loan product. In 2021, 75% of all deals were below $30,000 and in 2023, 75% of all deals were below $70,000. Nationally, the average loan size by CDFIs focused on small businesses was about $76,000 which is less than the average loan size of Massachusetts' CDFIs ($86,600) but more than the loans made by Massachusetts' CDCs.

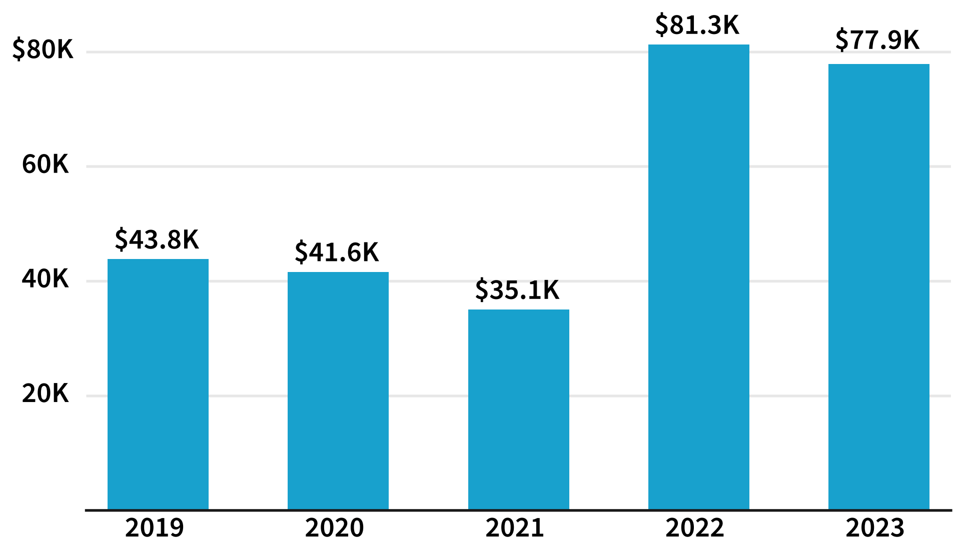
Financing deployment is fairly concentrated by CDFI/CDC. The most active CDFI/CDC in terms of financing dollars over the five-year period from 2019 to 2023 deployed 32% of the total financing, while the CDFI/CDC that had the greatest volume of originations was responsible for 47% of all deals.

The vast majority of Massachusetts CDFI and CDC small business clients are microbusinesses. Between 2019-2023, nearly half (47%) of small businesses receiving funding from Massachusetts' CDFIs or CDCs were sole proprietorships with zero employees. Most of the remaining small businesses (42%) reported having just 1 to 5 employees.

Most CDFI and CDC clients are in the growth (49%) and established (35%) stages, while only 16% are in the start-up stage. This indicates that there may be an opportunity for CDFIs and CDCs to increase service to earlier stage companies, either with existing offerings and/or new offerings tailored to businesses in earlier stages, especially given the record increase in new business starts in recent years. Having fewer early stage company clients is also reflective of the type of financing solutions that CDFIs and CDCs offer, which are most commonly loans; while start-ups are eligible for some of their loan programs, loans are not typically a good financing solution for companies in the start-up stage.

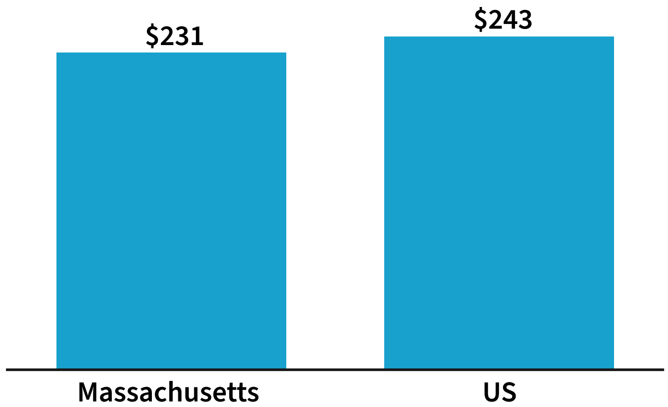
While this recent growth is encouraging, CDFI financing in Massachusetts trails the national average. In 2020 (the date of the most recent reliable data available), the rate of CDFI financing per business establishment in Massachusetts was $231, $12 or 5% less than the national average of $243. While CDFI financing in Massachusetts has grown since 2020, much of the growth has likely been mirrored by CDFIs nationally given a large driving force of this growth was the CDFI Fund's two large funding programs in 2022 and 2023, which were distributed to CDFIs nationally.

Figure 17: Small business financing per deal, Massachusetts, 2019-2023



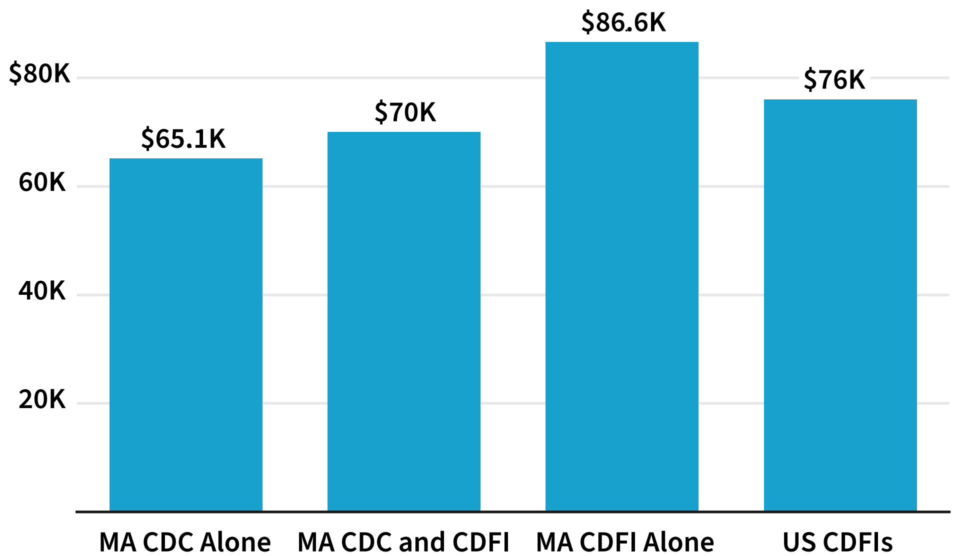
Source: Massachusetts Small Business Community Finance Institution Survey (n = 17 out of 22)

Figure 18: CDFI financing to small businesses per establishment, Massachusetts and US, 2020



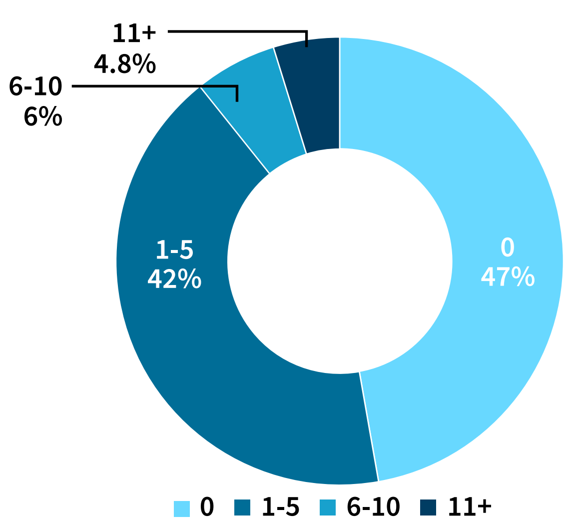
Source: CDFI Fund Transaction Level Report and US Census Bureau

Figure 19: Average loan and investment size by organization type, Massachusetts and US, 2022



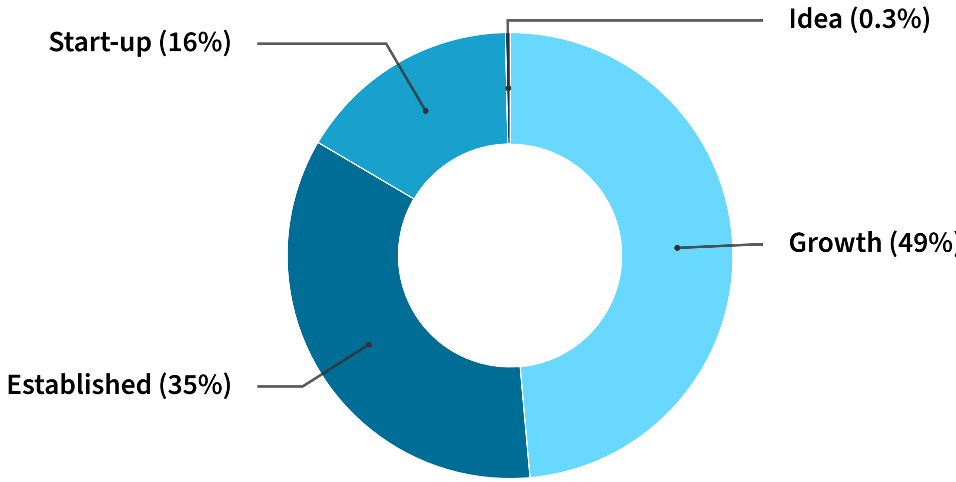
Source: Massachusetts Small Business Community Finance Institution Survey (n = 17 out of 22) and Opportunity Finance Network, Fiscal Year 2022 Member Data Analysis

Figure 20: Number of small businesses receiving funding by employee count, Massachusetts, 2019-2023



Source: Massachusetts Small Business Community Finance Institution Survey (n = 16 out of 22)

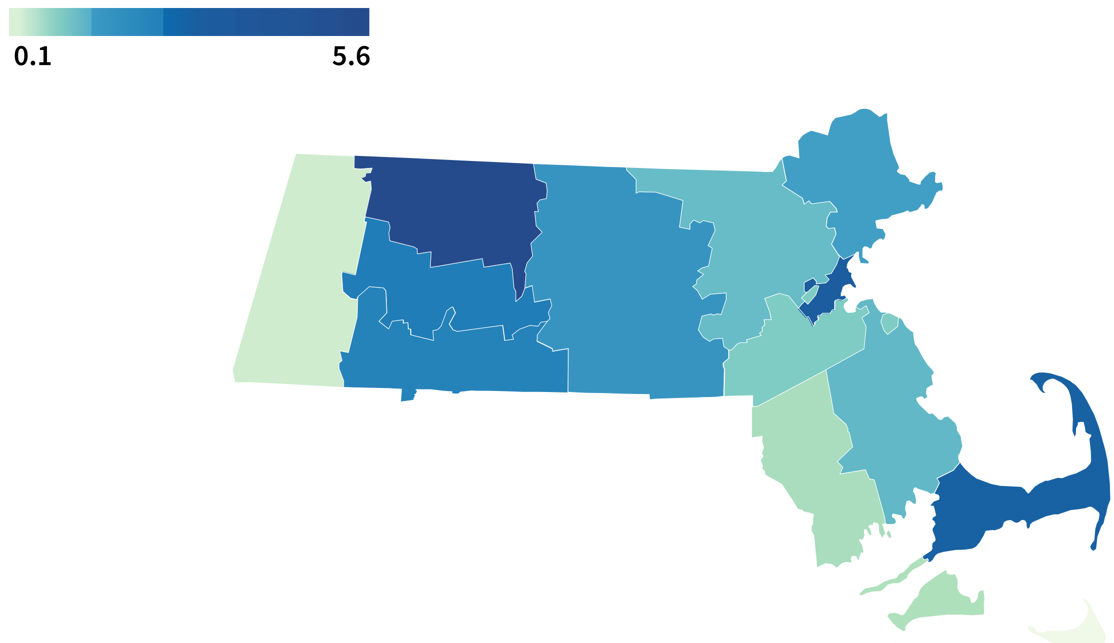
Figure 21: Small business financing by stage of development, Massachusetts CDFIs and CDCs, 2019-2023



Source: CDFI Fund Certification List, February 2023

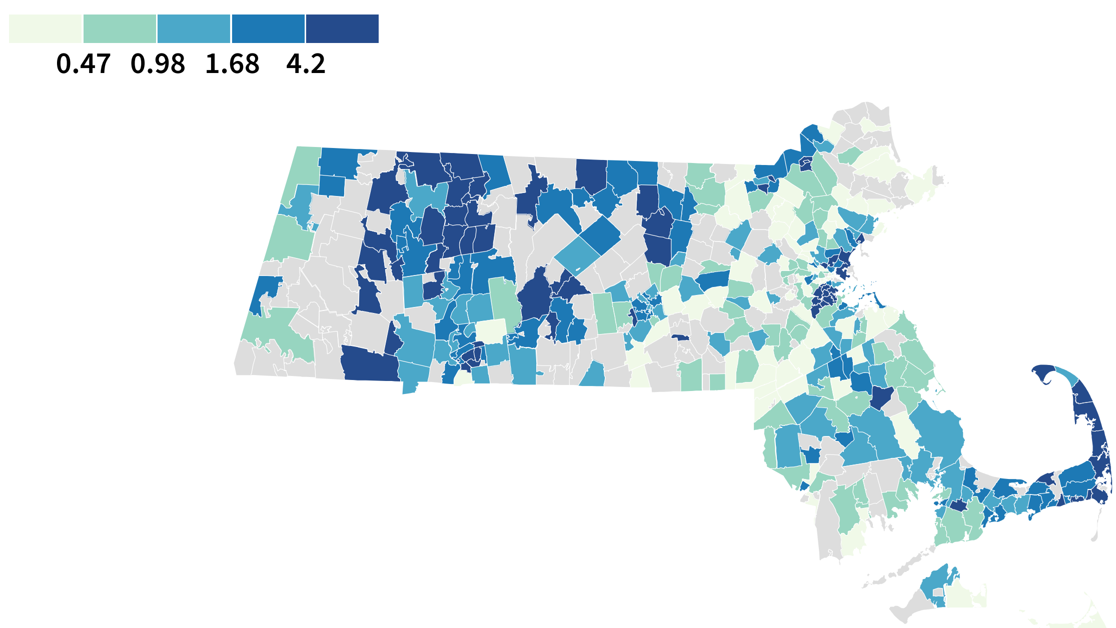
Most CDFIs and CDCs that serve small businesses in Massachusetts have geographic focus areas defined by the CDFI Fund and/or the Commonwealth of Massachusetts as part of their CDC certification. All but four (89%) of the small business financial product lines report have business location requirements. Target geographic areas of MA CDFIs/CDCs include statewide (9), multi-state (5), Western Massachusetts (4), Central Massachusetts (4), and Greater Boston (4). Financing by CDFIs and CDCs is concentrated in the Pioneer Valley, Suffolk County (Boston), and Cape Cod, where at least 2 businesses per every 100 have received funding. Franklin County stands out as having the highest amount of financing as a share of business establishments at 5.6%. Norfolk, Bristol, and Berkshire Counties, as well as the islands, have the least amount of CDFI/CDC financing, with less than one business funded per every 100 business establishments. The low amount of CDFI/CDC funding for small businesses in Bristol County stands out in particular, given the greater economic need in that part of the state in places like Attleboro, Fall River, New Bedford, and Taunton. Among CDFIs/CDCs with location requirements, none specifically target this part of the state.

Figure 22: Small business financing clients as a percent of business establishments in the local economy by county, 2019-2023



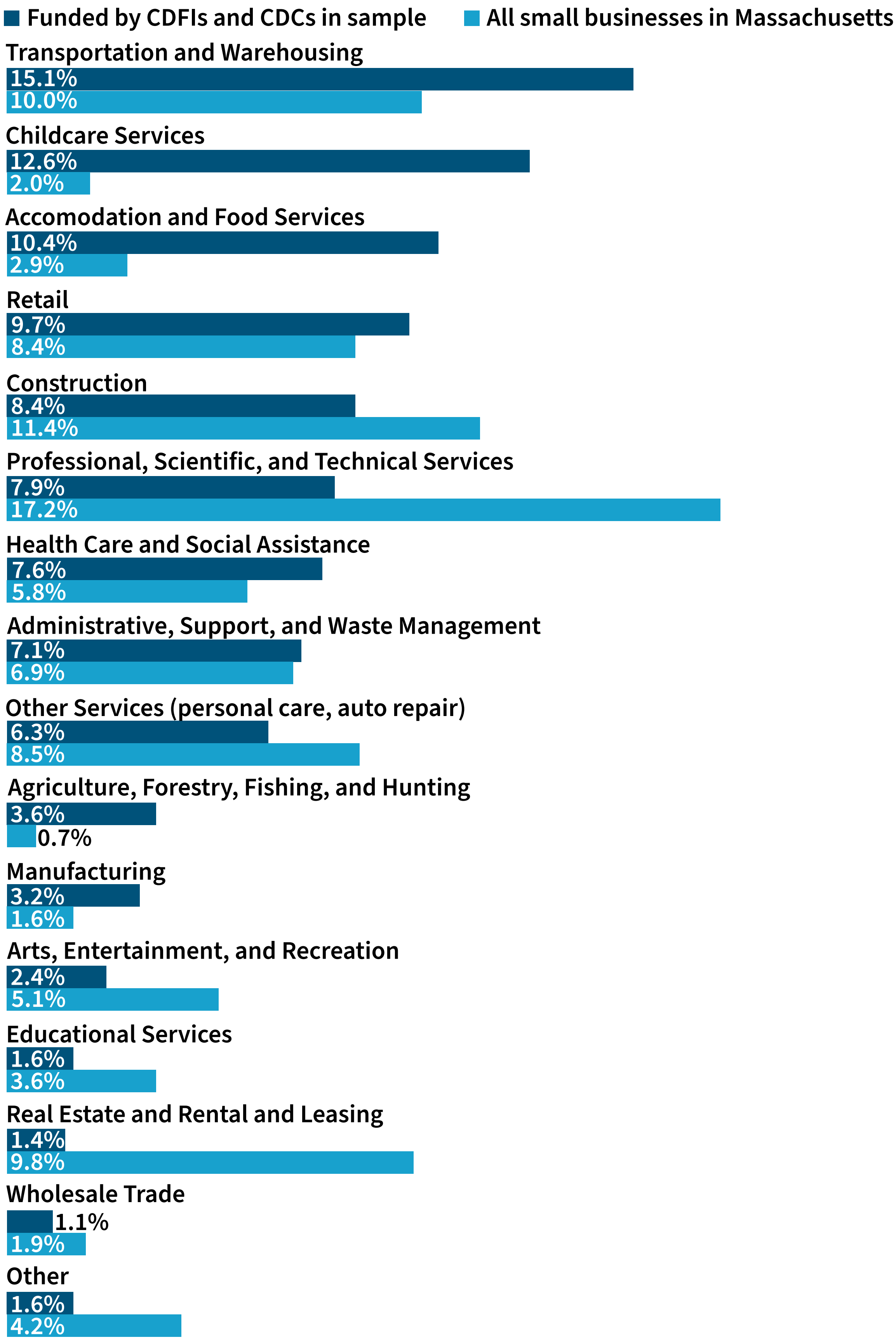
Source: Massachusetts Small Business Community Finance Institution Survey (n = 16 out of 22) and US Census Bureau, County Business Patterns

Figure 23: Percent of businesses that received funding from CDFIs and CDCs by ZIP code, 2019-2023



Source: Massachusetts Small Business Community Finance Institution Survey (n = 16 out of 22) and US Census Bureau, County Business Pattern. Map data: © Esri, TomTom North America, Inc., United States Postal Services

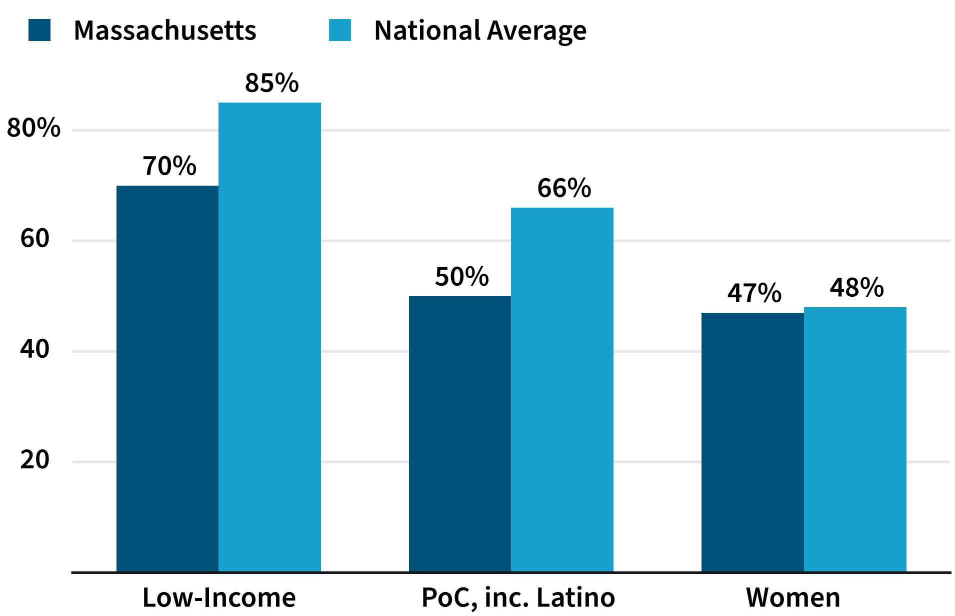
Figure 24: Distribution of small businesses by industry, businesses funded by CDFIs and CDCs in sample (2019–2023) vs. all small businesses in Massachusetts (2020)



Source: Massachusetts Small Business Community Finance Institution Survey (n = 16 out of 22), SBA analysis of 2020 Nonemployer Statistics and Statistics of US Businesses, and MA Department of Early Education and Care

By industry, Massachusetts CDFI and CDC small business clients are concentrated in transportation and warehousing (15%), childcare services (13%), accommodation and food services (10%), retail (10%), and construction (8%), which combine to account for 56% of all clients from 2019 to 2023. While CDFI and CDC financing activity is concentrated in Main Street and home care sectors, there is great diversity in the industries served. Relative to the overall small business industry distribution in Massachusetts, CDFIs and CDCs disproportionately finance businesses in childcare services, accommodation and food services, agriculture, and manufacturing. Within manufacturing, over half (54%) of the businesses served were food manufacturing businesses. However, CDFIs and CDCs finance across most industries and the only industries in which CDFI and CDC funding is meaningfully under-represented are professional, scientific, and technical services (including most technology companies), educational services, and real estate. The underweight to the technology sector is likely due in part to the lack of socioeconomic and racial diversity among entrepreneurs in that sector given many CDFIs and CDCs focus primarily on those characteristics. Most CDFIs and CDCs do not fund companies in industries on the Small Business Administration exclusion list, including nonprofit organizations, real estate investment firms, multilevel marketing schemes, gambling firms, cannabis firms, and illegal enterprises. Some go beyond this list and further exclude businesses in hazardous waste, fossil fuels, tobacco, and alcohol. Even though nonprofit organizations are usually excluded, a few organizations and product lines specialize in nonprofit enterprises, including nonprofit childcare. The exclusion of cannabis by most lenders is a barrier to the state's efforts to promote an inclusive cannabis industry that provides new business opportunities to disadvantaged communities.

Figure 25: Share of businesses in portfolios of CDFIs & CDCs by owner demographics, MA, 2019-2023

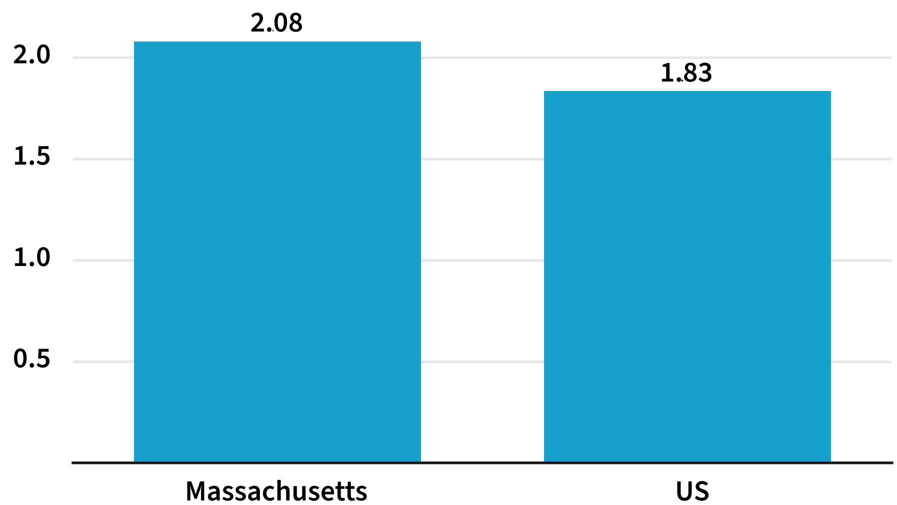


Source: MA Small Business Community Finance Institution Survey (n = 16 out of 22) and Opportunity Finance Network Annual Member Survey, FY 2022

Between 2019 and 2023, each CDFI and CDC in Massachusetts offered between 1 and 6 different types of funding for small businesses. Most small business funding solutions (70%) were loans, including some lines of credit. Revenue-based financing is a relatively new offering by Massachusetts CDFIs and CDCs; between 2022 and 2024, three CDFIs launched this product.

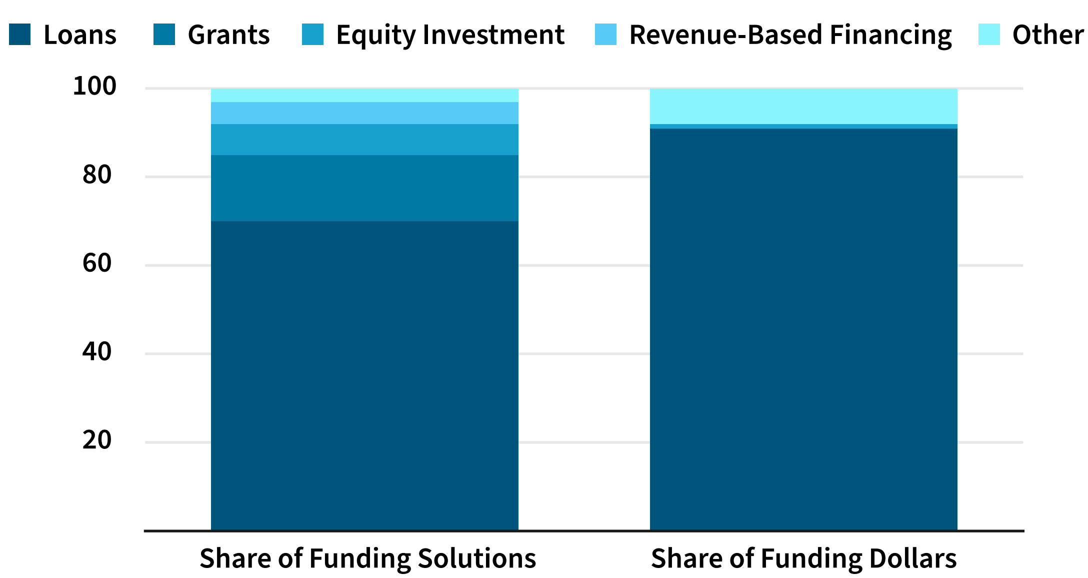
Among the small business loan products offered in 2023, most had interest rates ranging from 5% to 9%. A mix of short-term and long-term loans is available, with most loans having repayment terms as short as 6 months and as long as 10 years. The median term in 2023 was 60 months (5 years).

Figure 26: Share of minority-owned businesses in portfolios of CDFIs & CDCs relative to share of minority-owned businesses in the economy



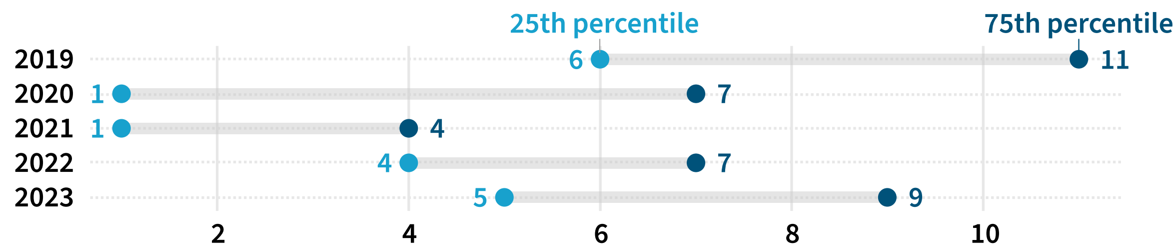
Source: Massachusetts Small Business Community Finance Institution Survey (n = 16 out of 22), Opportunity Finance Network Annual Member Survey, FY 2022, and US Census Bureau Employer and Nonemployer Statistics

Figure 27: Share of funding solutions and funding dollars in portfolios of CDFIs & CDCs, Massachusetts, 2019-2023



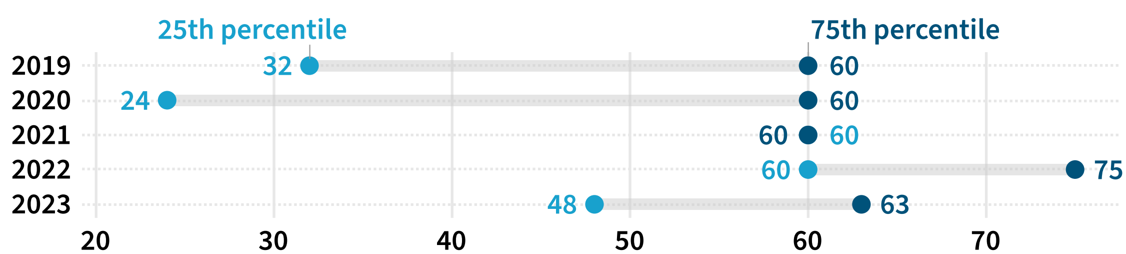
Source: Massachusetts Small Business Community Finance Institution Survey, 2019–2023 (n = 16 out of 22)

Figure 28: Loan interest rate interquartile range, Massachusetts CDFIs and CDCs, 2019-2023



Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023 (n = 16 out of 22)

Figure 29: Loan term interquartile range, Massachusetts CDFIs and CDCs, 2019-2023



Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023 (n = 16 out of 22)

Massachusetts CDFIs have underwriting criteria that are more flexible and accessible than banks and many other mainstream financial institutions. Most CDFIs typically use holistic and flexible risk assessment methods, including alternative data, financial projections, and other inputs, as opposed to relying on traditional credit scores. Only 7 of 46 CDFI/CDC financing programs (15%) had minimum credit score requirements. The minimum personal credit score requirements on the few CDFI/CDC products that require one ranges from 575 to 660. These minimum credit scores are significantly lower than typical bank small business lending minimum requirements, which tend to be approximately 680 and above. Most loan programs have a minimum debt service coverage ratio (DSCR), which measures the ability of a company to pay its debt obligations with available cash flow. In 2023, CDFI/CDC debt service coverage ratio requirements ranged from 1.0 to 2.1 with an average of 1.23. Banks' debt service coverage ratio requirements are typically at least 1. Some programs target startups, so no track record of profitability is required. Those targeting growth phase companies require 1 to 2 years of profitability. Banks typically require at least 2 years of profitability and many require at least 3 years of profitability.

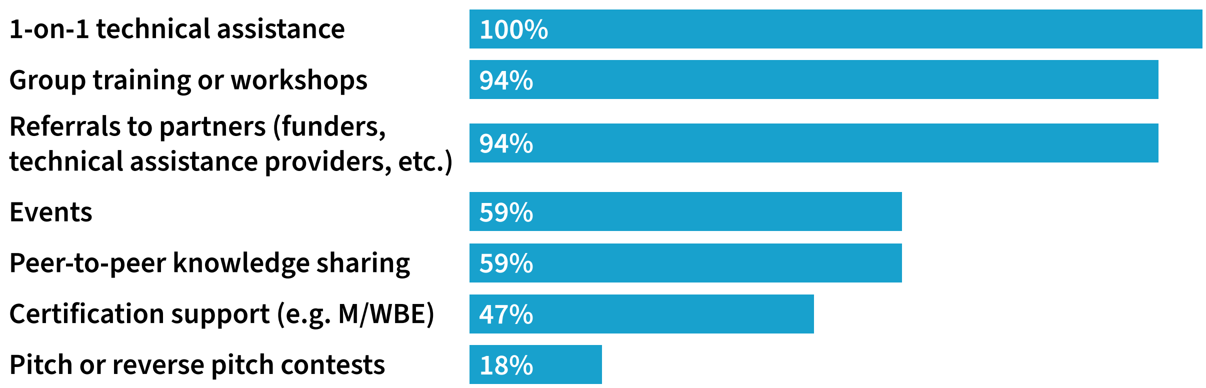
Massachusetts CDFI and CDC Small Business Training and Technical Assistance

All participating CDFI/CDCs offer technical assistance in concert with financial support. All respondents offer one-on-one technical assistance, with most organizations offering around 5 hours total per small business. Other services offered by the majority of CDFI/CDCs include group trainings and workshops and referrals to partners, such as other funders and technical assistance providers. About half of all CDFI/CDCs help women-, veteran-, and minority-owned businesses access government contracts through demographic-based ownership certification.

Topics covered in technical assistance provided by CDFIs and CDCs commonly include assistance securing financial support, accounting and financial management, marketing, and business management. Going beyond the survey options, two respondents added that they provide information about how to secure contracts with large institutions in the public and private sectors, which have difficult-to-navigate procurement practices.

Figure 30: Small business training and technical assistance provided by MA CDFIs and CDCs

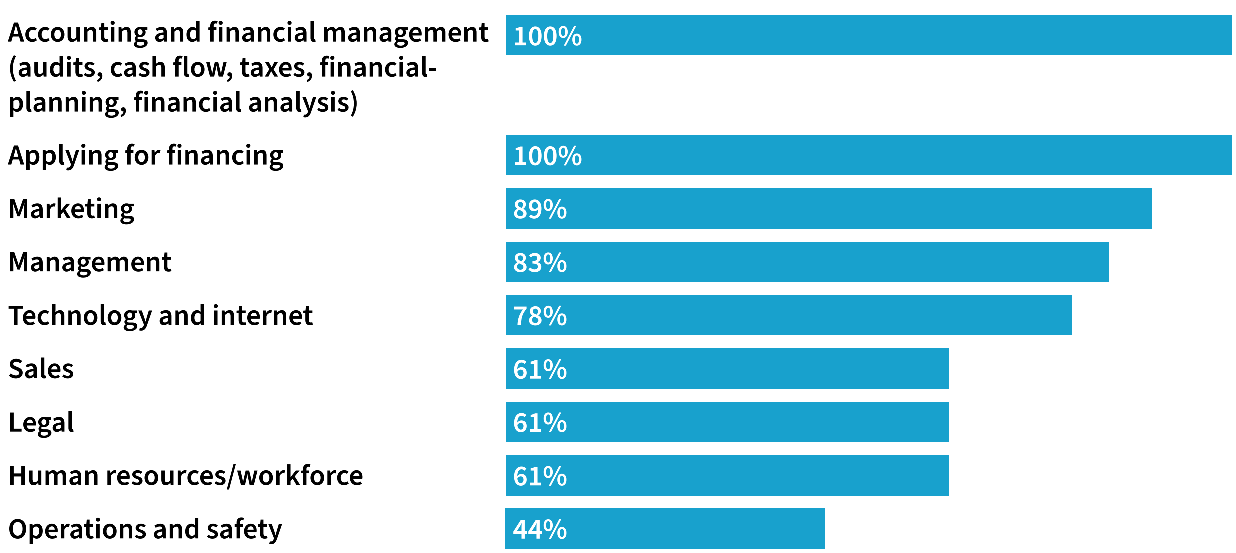
Question: Which of the following services has your organization provided?



Source: Massachusetts Small Business Community Finance Institution Survey, 2019 – 2023 (n = 17 out of 22)

Figure 31: Small business training and technical assistance topics covered by MA CDFIs and CDCs

Question: Which topics are covered by the technical assistance and training your organization provides?



Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023 (n = 17 out of 22)

Massachusetts CDFI and CDC Small Business Impact Outcomes

Each year from 2019 to 2022, between 1,200 and 1,900 jobs were created or preserved in Massachusetts by funds awarded by CDFIs and CDCs in the survey sample for a total of 7,800 jobs in the five-year period. On average, for each $18,000 deployed by CDFIs and CDCs, one job was created or preserved in direct employment, not including local supply chain and spending impacts.

Massachusetts Small Business CDFI and CDC Sector Size

The total assets of participating Massachusetts small business CDFI/CDCs were $307 million at year-end 2023, and they employed 877 staff. Massachusetts small business CDFI/CDCs are relatively small measured by assets and staff. The average total assets of participating CDFI/CDCs were $17.5 million. There is a wide variance in total asset size, ranging from $537,687 to $52 million. The median total assets of participating institutions were $11.5 million, 35% lower than the average, driven by several large outliers. The average total assets of participating CDFIs were $18 million, which is 36% lower than the national small business CDFI average of $38 million. The average staff count of participating CDFI/CDCs was 52. There is a wide variance in the staff count, ranging from 1.5 to 591. The median staff count of participating CDFIs was 15, which is 40% lower than the national small business CDFI average of 25.

Massachusetts Small Business CDFI and CDC Sector Financial Performance Metrics

While each CDFI is unique, there are several standard performance metrics that provide insight into CDFIs' financial performance. Comparing Massachusetts' small business CDFIs' performance to national averages of similar CDFIs provides additional insight on their relative performance and financial needs.

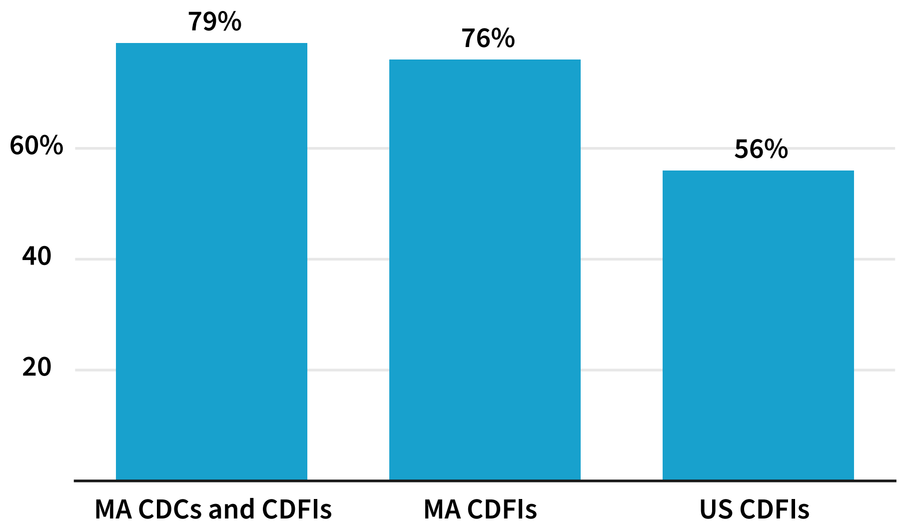
The deployment ratio is the share of total available capital that is being lent. It is calculated as the total outstanding loan portfolio divided by the total capital available for lending. A high deployment ratio typically indicates that a CDFI has had healthy demand for its loans from small businesses and that the CDFI likely needs additional capital to grow its capital deployment in the future.

The average deployment ratio for Massachusetts CDCs and CDFIs in 2023 was 79%, which is 23 percentage points higher than the national CDFI average of 56%. This indicates that Massachusetts CDFIs and CDCs have successfully deployed the capital that they have received and that they need additional capital to continue to increase the rate of financing.

The self-sufficiency ratio measures the share of a CDFI's expenses that is covered by earned revenue (as opposed to grants and donations). CDFIs' earned revenue typically comes primarily from interest and fees on loans. The self-sufficiency ratio is calculated as total earned revenue divided by total expenses. The self-sufficiency ratio measures how much a CDFI can sustain operations with income from its products and services, and conversely, how reliant it is on grants, donations, and borrowed capital. The vast majority of CDFIs have self-sufficiency ratios that are lower than 100% by design; they use philanthropic funding to effectively subsidize the cost of capital for borrowers, provide free or low-cost business assistance, and absorb loan losses. Smaller CDFIs tend to have a lower self-sufficiency ratio because they have not reached economies of scale.

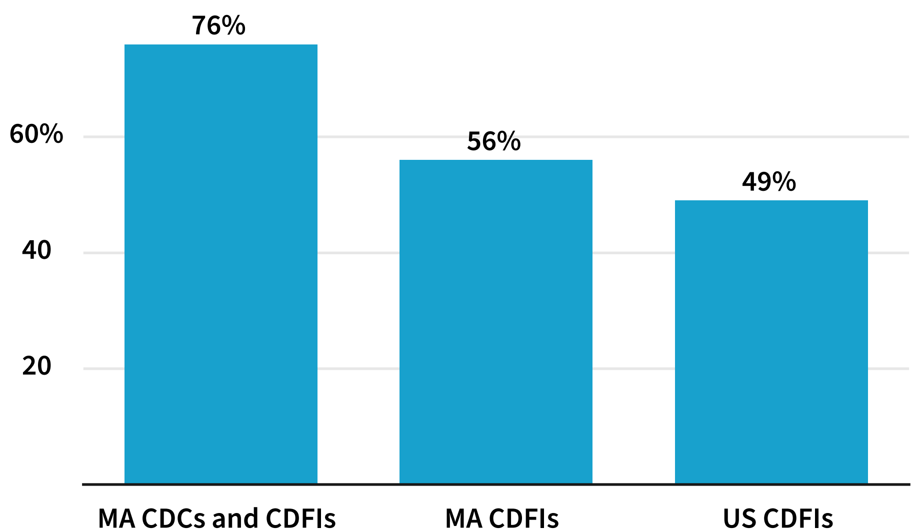
The average self-sufficiency ratio for Massachusetts CDCs and CDFIs in 2023 was 76%, which is significantly higher than the national CDFI average of 49%. Massachusetts CDFIs had self-sufficiency ratios of 56%, which is 7 percentage points higher than the national average. This indicates that Massachusetts CDFIs and CDCs are less reliant on grants and donations than other similar organizations across the country. CDCs' self-sufficiency is largely driven by their non–small business lines, namely sizable real estate programs. Nearly half (44%) of Massachusetts small business CDFIs' budgets come from grants and donations annually, which is approximately $18 million based on their 2023 operating expenses.

Figure 32: Deployment ratio of Massachusetts small business serving CDFIs and CDCs vs. CDFIs nationwide



Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023 (n = 17 out of 22); Opportunity Finance Network

Figure 33: Self-sufficiency ratio of Massachusetts small business serving CDFIs and CDCs vs. CDFIs nationwide

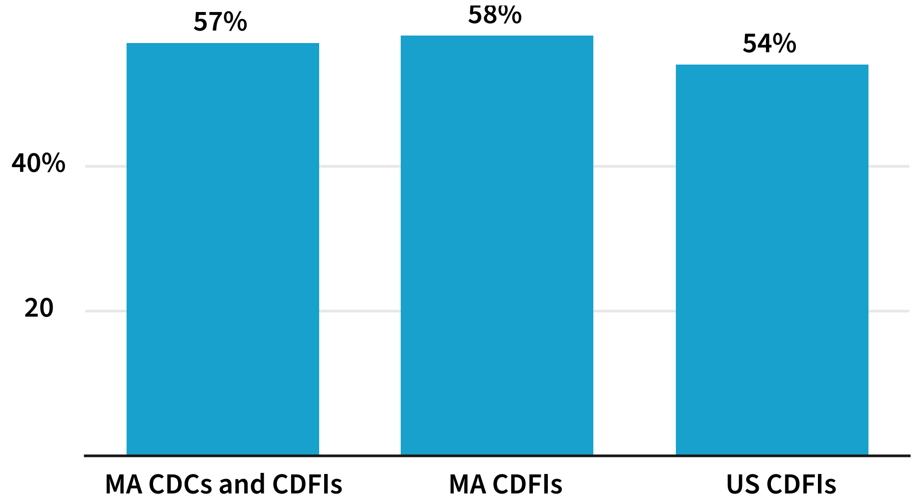


Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023 (n = 17 out of 22); Opportunity Finance Network

The net assets ratio measures the share of an organization's capital that comes from net assets (net assets is the nonprofit accounting term for equity), both unrestricted and restricted. Net assets are calculated as total assets minus total liabilities, which for CDFIs typically includes debt that has been borrowed to fund its financing activity. The net assets ratio is calculated as net assets divided by total assets. A high net assets ratio indicates that a CDFI has flexible capital available that it could use to fund capital deployment, absorb losses, and/or spend on operations. A high net assets ratio may indicate that a CDFI has received a relatively large portion of their funding as grants and/or that it has a track record of operating surpluses that it has saved. It is a measure of a CDFIs' financial stability and maturity.

The average net assets ratio for Massachusetts CDCs and CDFIs in 2023 was 57%, which is slightly higher than the national CDFI average of 54%. This indicates that Massachusetts CDFIs and CDCs have solid financial positions that can provide risk protection and some flexibility in capital deployment.

Figure 34: Average net assets ratio of Massachusetts small business serving CDFIs and CDCs vs. CDFIs nationwide



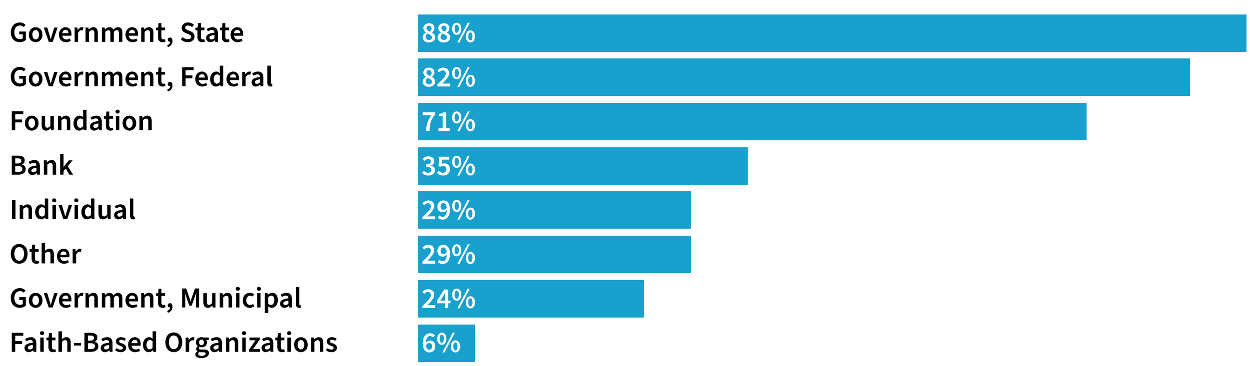
Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023 (n = 17 out of 22); Opportunity Finance Network

Massachusetts Small Business CDFI and CDC Funding Sources

Massachusetts small businesses CDFIs and CDCs receive funds from a range of sources. Government funding is the most common source of funding in 2023, with 82% and 88% of CDFIs and CDCs receiving some form of federal and state funding, respectively. Nearly three quarters (71%) of CDFIs and CDCs also receive some funding from foundations. Approximately one third of CDFIs and CDCs receive funding from banks (35%) and individuals (29%).

Figure 35: Share of Massachusetts CDFIs and CDCs that receive some funding for small business programs from various sources

Question: Which of the following sources contributed to your small business financing programs in calendar year 2023?

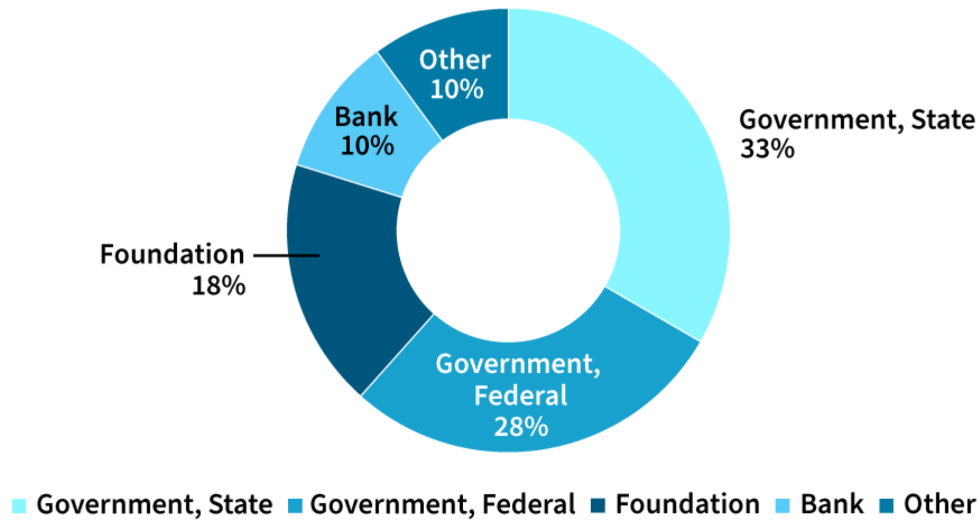


Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023 (n = 17 out of 22)

On a dollar-weighted basis, nearly two thirds of Massachusetts CDFIs and CDCs' funding on average came from government (state and federal) sources in 2023, while foundations and banks combined to contribute just over one quarter (28%). This represents a higher portion of government funding than CDFIs nationally have relied on historically. While comparable national CDFI funding data for 2023 is not yet available, this is likely mirrored nationally and due to the influx of COVID relief funding from the CDFI Fund and state programs as described above. While this funding mix may be appropriate for a period of disaster recovery, in a normal environment more of CDFIs' funding should come from nongovernmental sources if government funding is being properly leveraged.

Figure 36: Distribution of funding dollars by source, Massachusetts small business CDFIs and CDCs

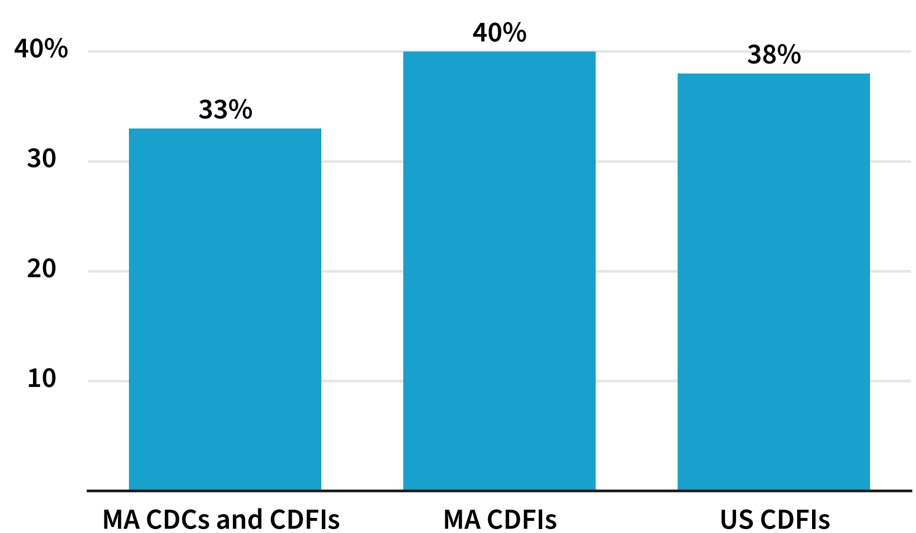
Question: Which of the following sources contributed to your small business financing programs in calendar year 2023? Please include each source as a percentage of all external funding sources for small business finance including funding for operations and financing capital.



Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023 (n = 17 out of 22)

Of external funding Massachusetts CDFIs and CDCs receive from these sources, a large portion is borrowed. The average portion of borrowed capital as a percent of total funding sources for financing deployment for Massachusetts CDFIs and CDCs was 33% in 2023. It was 40% for CDFIs, which is 2 percentage points higher than the national small business CDFI average of 38%.

Figure 37: Borrowed funding of Massachusetts CDFIs and CDCs vs. CDFIs nationwide

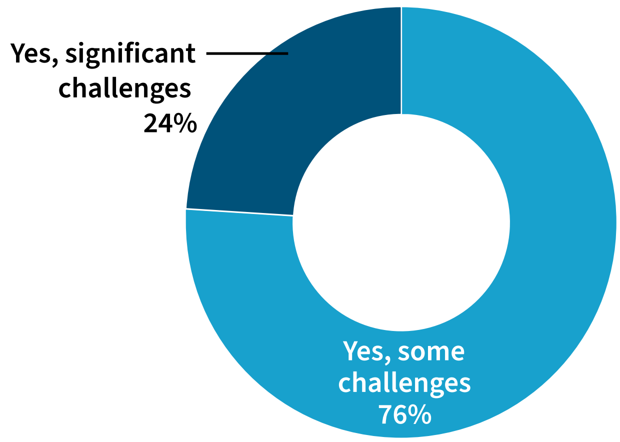


Source: CDFI Fund Certification List, February 2023

All Massachusetts CDFIs and CDCs cited challenges with securing funding for their small business programs, with nearly a quarter (24%) citing significant challenges.

Figure 38: Massachusetts CDFIs and CDCs reporting challenges securing funding

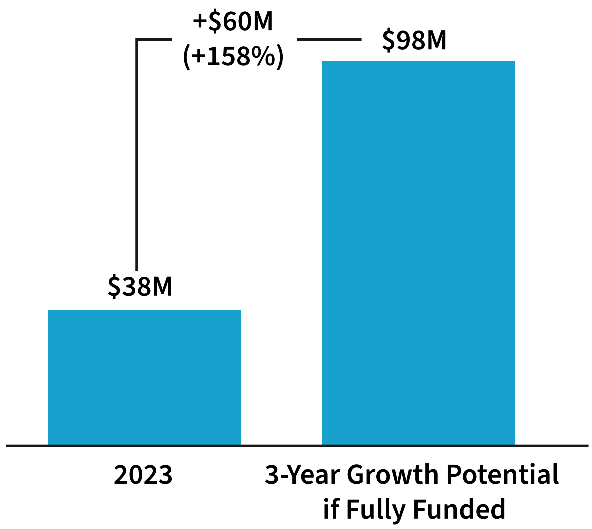
Question: In the past 12 months, has your organization experienced challenges in securing funding (including both operations and financing capital, grants, and loans)?



Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023 (n = 17 out of 22)

When asked how much they could grow their financing activity in three years with unlimited funding of the type that they currently have, the average Massachusetts CDFI and CDC said they could grow their financing deployment by 158%. Using their 2023 financing deployment as a baseline, this would translate to small business CDFI and CDC financing growing from $38 million in 2023 to nearly $100 million in 2026.

Figure 39: Massachusetts CDFIs and CDCs annual small business financing deployment, 2023 actual and fully funded growth potential ($M)



Source: Massachusetts Small Business Community Finance Institution Survey, 2019-2023

VI. STATE CDFI SUPPORT PROGRAMS

Many state governments across the country have programs that provide funding to CDFIs. These programs seek to sustain and grow the CDFI sector in their states to better serve low-income and other underserved communities. They also commonly seek to leverage federal matching dollars from the CDFI Fund and other sources.

Our research identified 32 states (and Washington D.C.) that have CDFI funding programs. All of them leverage the State Small Business Credit Initiative (SSBCI), a federally funded program managed separately from annual state budgets. Nearly one quarter of these states (8 or 24%) also have one or more programs that support CDFIs funded by appropriations from state budgets (in addition to the SSBCI-funded programs).

The SSBCI was reauthorized and expanded by the American Rescue Plan Act of 2021 (ARPA) to support small businesses and empower them to access the capital needed to invest in job-creating opportunities as the country emerged from the pandemic. SSBCI allocations were provided to states, territories, and tribal governments to promote entrepreneurship and democratize access to capital across the country, including in underserved communities. Of the 32 states (and Washington D.C.) identified with SSBCI programs that CDFIs can receive funding through, just under half (16 or 48%) are open to various capital providers (e.g., banks, credit unions, venture capital funds, and CDFIs), while just over half of programs (17 or 52%) are specifically and only designated for CDFIs. Of the CDFI-specific SSBCI-funded programs, funding ranges from $7.5 million to $65 million, representing 3-50% of states' full SSBCI allocations.

At least 8 states fund CDFIs through state budget appropriations that range in size from $5 million to $140 million, including California, New York, Michigan, Minnesota, North Carolina, Pennsylvania, Virginia, and Wisconsin. Some of these programs are sector-agnostic while some are focused on bolstering specific sectors (e.g., small business, housing). Four of the eight states—California, Michigan, New York, and Wisconsin—have sector-agnostic programs that can be used for all CDFI activity. Virginia's program started with a small business focus coming out of the pandemic but later expanded to include housing and real estate CDFIs. Programs in Pennsylvania, North Carolina, and (a second program in) New York focus on funding for small business financing and/or technical assistance (in North Carolina, a one-time budget appropriation was made to increase the capacity of CDFIs serving small businesses). And in Minnesota, $140 million was allocated to enable CDFIs to tackle the growing racial housing gap crisis in the state.

Across the country, there has been an increase in the creation of state CDFI coalitions charged with collectively bringing accessible capital and resources to CDFIs and the communities they serve. Most coalitions primarily focus on advocating for equitable access to capital for historically disinvested communities. Our research identified at least 12 state CDFI coalitions along with other coalitions focused on specific cities (e.g., Detroit, Kansas City) or regions (e.g., Mountain Plains Native CDFIs). These place-based coalitions complement the national work done by Opportunity Finance Network, the CDFI Coalition, and others.

Figure 40: State Funded CDFI Funding Programs

State	Program Name	Year Est.	Size
California	California Investment and Innovation Program (Cal IP)	2023	$50M ($15M first year, and up to $15M in subsequent years)
Michigan	Michigan CDFI Fund	2023	$75M
Minnesota	"One Minnesota" Housing Budget	2023	$140M, out of $1B housing omnibus bill ($100M for First Generation Downpayment Assistance; $40M for Homeownership Investment grants)
New York	CDFI Assistance Program	1997	$25M to date ($1.6M in 2023)
New York	NY State Community Development Institutions Fund	2021	$25M
North Carolina	CDFI Capacity Building Program	2022	$5M
Pennsylvania	Small Business Growth Program	2023	$20M
Virginia	VA CDFI Fund	2023	$10M
Wisconsin	Diverse Business Investment Grant Program	2022	$28.8M

Source: Authors' research

The following case studies describe in greater detail the programs that support CDFI small business financing and technical assistance.

Case Study: California

The State of California has several programs that support CDFIs. The California Investment and Innovation Program (CIIP) is a $50 million one-time state budget allocation (FY 2023) administered by the State Treasurer's Office. The purpose of the program is to enhance CDFIs' capacity to provide technical assistance and capital access to economically disadvantaged communities in the state. CIIP grants can be used for a wide range of purposes, including lending capital for all product types (commercial and consumer), consumer banking services, technical assistance and training, operations (including technology), and increasing net assets for leverage. CDFIs with at least 25% of their loan portfolio invested in California or who have provided at least $10 million in financing within the state over the prior three years are eligible. In addition, the legislation mandates that 20% of funds available will be for small and emerging CDFIs. The size of grant awards will be based on the total amount of loans closed by each applicant in the last fiscal year. The funds will be distributed in several rounds of grants; the first round of awards, announced in February 2024, totaled $14.2 million and went to 63 CDFIs, including 30 with the primary business line of supporting small business. The bill that created the CIIP was sponsored by the California Coalition for Community Investment

(CCCI), a coalition of California-based CDFIs that seeks to shape public policy at the state level to expand access to capital and build equitable and inclusive communities throughout California. Another prominent CDFI coalition in California is the California Small Business Coalition for Racial Justice, a collaboration of 17 community development lenders and nonprofits (largely CDFIs) throughout the state who have expertise in working with especially BIPOC-owned small businesses and those who are chronically underserved by the financial marketplace.

The California Capital Access Program for Small Business (CalCAP SB) was established by legislation in 1994 and assists small businesses in obtaining loans through participating financial lending institutions (including, but not limited to, CDFIs). CalCAP SB is a loan loss reserve program in which the state contributes a percentage of each loan amount into the enrolled lender's loan loss reserve account. CalCAP SB may provide up to 100% reimbursement on losses as a result of qualifying loan defaults. While each lender is entirely liable for its loan losses, those losses may be reimbursed from each lender's loan loss reserve account. The loss reserve accounts are built through fees paid by the borrower and lender and contributions made by the administering agency. CalCAP SB funding was significantly increased after 2010 with the addition of SSBCI funding from the state. In 2022, the state contributed over $680,000 towards lenders' loan loss reserves (over 5,500 loans enrolled for a total of $560 million). All time, CalCAP SB has supported 26,536 loans for $2.08 billion in small business lending. The state of California manages nearly $1.2 billion in SSBCI funds, of which over $980 million (83%) fund credit support programs (like CalCAP for SB), for which CDFIs are eligible.

Case Study: Michigan

The Community Development Financial Institution Fund Program, administered by the Michigan Economic Development Corporation (MEDC), is a multiyear, $75 million grant program that provides capital to qualified CDFIs for the purpose of increasing available capital for financial products and financial services, technical assistance, and administration and operations. This program was created by Michigan's state legislature in a 2023 appropriations bill. Funding was sourced from general fund dollars (no ARPA or other federal pass-through). The application closed at the end of November 2023. Most (80%) of the grant award must be used for financial products. No more than 10% of the grant award is to be used for technical assistance activities or administration and operations. All grant funds must be disbursed within three years after receiving the award. Awards are allocated based on grantee size for both depository (based on total net assets) and nondepository (based on total qualifying commitments in prior three years) institutions. Funding is both geography- and sector-agnostic.

Separate from the CDFI Fund Program, the State of Michigan allocated SSBCI funding to the Michigan Strategic Fund, including over $119 million across collateral support and loan participation programs housed at MEDC. CDFIs and other small business lenders are eligible to apply to the Michigan Strategic Fund.

Two CDFI coalitions advocate on behalf of CDFIs in Michigan, including the Detroit CDFI Coalition (organized in 2014) and the Michigan CDFI Coalition (launched in 2023). The Michigan CDFI Coalition was instrumental in the passage of the $75 million CDFI Fund Program.

Case Study: New York

New York has multiple funding programs for CDFIs, including two programs that are state-funded (the CDFI Assistance Program and the CDFI Fund), one that is federally funded (SSBCI) and managed by the state, and one that is an externally managed loan program funded with investors' pooled capital.

Empire State Development (ESD), the state's economic development office, manages funding provided by the state for small business CDFIs. Since the program's launch in 1997, ESD has awarded more than $25 million in grants through the Community Development Financial Institution Assistance Program to CDFIs to strengthen their small business lending and technical assistance services. This funding, allocated via RFP and awards with a maximum size of $100,000, focuses on nondepository CDFIs who serve minority- and women-owned businesses in New York state. Eligible funding uses include technical assistance, capital, and loan loss reserves. $1.6 million was allocated in 2023.

In 2020, New York State created the CDFI Fund, a multi-year, $25 million program to fund CDFIs that is "modeled after the US Treasury's CDFI Fund." The fund is focused on serving the underbanked, including consumers, small businesses and nonprofits. The first tranche of $5 million was deployed to 31 CDFIs in October 2021. The New York State CDFI Coalition played an important role in advocating for and supporting this funding.

New York also received a large SSBCI 2.0 allocation of $500 million, which included $55 million carved out for a Small Business, Revolving Loan Fund Round 2, focused on providing shorter-term microloans and loans typically under $250,000. SSBCI loans are low cost (1% interest) and patient (10-year terms). CDFIs are eligible recipients of this funding.

Finally, New York Forward Loan Fund was designed to provide hands-on support and access to affordable credit to the smallest businesses across New York in response to COVID-19. The original fund was capitalized with $100 million by a range of banks and foundations and provided flexible, low-interest capital to small businesses, nonprofits, and small landlords in New York. Sixty-five percent of the original fund ($65 million) was reserved for small businesses. The fund had a unique structure in which businesses applied for a standardized loan product that was then originated by partner CDFIs based on applicants' alignment with participating CDFIs' target markets. After loans were originated, the Fund purchased the loans from the originating CDFIs at a premium, while the CDFIs retained servicing responsibilities. New York State contributed $47 million to expand the program in 2022 ("NY Forward Loan Fund 2"), along with other private funders. In its second round (announced in July 2023), the state committed $150 million with plans to recycle and lend additional funds over the life of the program through a group of New York–based CDFIs.

Case Study: Pennsylvania

In Pennsylvania, several funding sources support CDFIs. In 2022, the state budget directed $24 million in ARPA funding to small business development efforts. From this sum, CDFIs received $4 million for operations and technical assistance (the remaining funds went to small business grants and minority chambers). This funding was specific to technical assistance and capacity-building of business support organizations, as CDFIs were already well-capitalized from banks and other sources, including the GRIT fund. The GRIT Fund, focused on Greater Philadelphia, raised nearly $30 million in anonymized contributions of patient debt and could be used for CDFI loan capital, loan loss reserves, and operations.

Separately, the state of Pennsylvania carved out $45 million of its 2023 SSBCI allocation for CDFIs. The SSBCI fund, administered through the Pennsylvania Department of Community and Economic Development, is a revolving loan fund requiring a 1:1 match by the CDFI with a $1 million max total deal ($500,000 allocation). $13.4 million was distributed in just 7 months, and a second tranche is expected.

Both the ARPA and SSBCI funding programs in support of CDFIs are results of the PA CDFI Network's advocacy efforts. The network is a coalition of 18 mission-driven financial institutions working statewide to provide the small business community with access to financing and technical assistance. The coalition leverages shared resources and mobilizes its extensive local networks to ensure economic prosperity for all Pennsylvanians. The coalition is currently advocating for $20 million for small business funding focused on technical assistance and loan loss reserve, and another $100 million revolving loan fund (similar to SSBCI).

Case Study: Virginia

In 2021, the Virginia General Assembly passed a $10 million budget amendment that effectively created and funded the Virginia CDFI Fund. Administered by the Virginia Department of Housing and Community Development (DHCD), the fund supports Virginia-based CDFIs and builds their capacity to serve communities and businesses across the state. Initially, the fund targeted small businesses impacted by the COVID-19 pandemic, but it has now expanded to include housing and real estate development. A 25% matching allocation in cash or in-kind is required for grant requests. The program also has statutory provisions that ensure funds are used for their intended purpose and are returned if they are not used for small dollar lending.

The program's success is measured through factors including jobs created and retained, loan size, and industry-specific loans. The Fund is seeking an additional $10 million each fiscal year, with the aim of having $20 million in total over two years. However, the future of the program is uncertain due to changes in state administration and potential budget cuts.

A group of Virginia-based CDFIs formed a coalition and supported the Virginia CDFI Fund. The Virginia CDFI Coalition focuses on advocacy and education, especially supporting the establishment of the new fund at DHCD. Additionally, the coalition develops and supports the sharing of industry best practices and builds the CDFI brand in Virginia through storytelling work.

VII. STRATEGIES TO IMPROVE MASSACHUSETTS' SMALL BUSINESS COMMUNITY FINANCE SECTOR

While the CDFI and CDC sector has grown its small business financing activity significantly in recent years, it remains small compared to the size and breadth of the Commonwealth's small business community needs and other states' small business community finance sectors. To foster continued growth and impact, a cross-sector approach is needed to increase funding to CDFIs and CDCs for small business services, expanding their reach, fostering innovation in their programs, and building their capacity. The following strategies are meant to be guideposts to shape public and private programs and partnerships to realize the full potential of community finance in the small business community in the years ahead.

1. **Increase funding to the CDFI and CDC sector** – CDFIs and CDCs serving Massachusetts small businesses need additional funding to increase their capital deployment and supporting training and technical assistance. All CDFIs and CDCs surveyed reported that they had challenges securing funding and indicated that with more of the type of funding they have now, they could grow deployment by more than 2.6x over the next three years. Funding for financing capital from a combination of grants and loans as well as grant funding for operations are required to sustain the sector's expansion. The relatively high deployment ratios of Massachusetts CDFIs/CDCs indicates that they need more funding for financing capital to continue to grow their capital deployment. Low-cost, long-term debt would allow CDFIs and CDCs to grow their small business financing. Given their relatively high reliance on borrowed capital and the limited deployment within their alternative financing products (e.g., revenue-based financing, equity), grant funding for financing capital would foster greater flexibility and innovation by CDFIs/CDCs and better leverage federal funding (e.g., CDFI Fund, SBA, USDA) and private capital. CDFIs need grant funding for their small business training and technical assistance as well as for general operations. As indicated by the average self-sufficiency ratios described earlier, Massachusetts CDFIs and CDCs need to cover nearly half of their operating budgets with grants and donations on average because earned income from financing (interest and fees on loans, appreciation of equity investments) and other revenue streams covers only just over half of their budgets. The training and technical assistance programs that CDFIs/CDCs run are typically free for small businesses and are critical to get businesses prepared to access and successfully use financing. Based on the self-sufficiency ratios and budgets of Massachusetts CDFIs and CDCs, the grant and donation funding required annually is $155 million. Across all funding, predictable, multiyear funding is important for CDFIs/CDCs to permanently increase their capacity. Specific strategies that could be implemented include:

    - **Create a permanent CDFI/CDC program for small business financing** – The Commonwealth should create a permanent program to provide grants to CDFIs and CDCs that finance small businesses. Annual allocations of $10 to $15 million (increasing over time in line with the sector's growth) would be in line with the sector's capacity to absorb funding and with other states' comparable programs. This could be adapted from the current Microlending CDFI program and Lending Capital Matching Grant program.

    - **Create a cross-sector pooled fund for CDFIs and CDCs** – A fund should be established to aggregate loan capital from various sources (e.g., banks, foundations, impact investors, individuals, and others) and lent to CDFIs and CDCs. Similar funds nationally have demonstrated success decreasing transaction costs and attracting new sources of capital. Funders with higher minimum investment sizes are often more comfortable contributing to a larger pooled fund than to individual CDFIs. The pooling of underlying loans to CDFIs and CDCs creates diversification that reduces the risk profile to funders. Additionally, grant capital for credit enhancements (e.g., first loss reserve) can further minimize risk to certain funders' investments. Lastly, the fund could purchase loans from CDFIs and CDCs sales to increase balance sheet efficiency and speed of deployment (in addition to or instead of direct loans to CDFIs and CDCs). Such a fund could be specifically focused on small business financing, or broadly on the CDFI and CDC sector with a carve out for small business financing capital.

- **Increase foundation grantmaking to CDFIs and CDCs** – Foundations should increase their level of support to CDFIs and CDCs generally with a specific focus in part on small business financing. In 2023, only 18% of funding for CDFI and CDCs surveyed came from foundations. While several national and regional foundations have in recent years started or increased funding for CDFIs and CDCs in Massachusetts, much more funding is needed to help to sustain and grow the sector. Funder convening and collaboratives present one opportunity to spur this additional grantmaking.

2. **Expand the reach of small business CDFIs and CDCs** – Increasing awareness of CDFIs/CDCs within the small business sector, banking sector, and other sectors can help to increase the pipeline of business clients for Massachusetts CDFIs and CDCs. The following strategies can be implemented by CDFIs and CDCs via organizing and collective action with targeted funding and administrative support from government and other sources.

   - **Market CDFIs/CDCs to small businesses** – Marketing of CDFIs and CDCs to small business owners as trusted and responsible financing options can help to increase the low level of awareness among the small business community. The Commonwealth and municipal governments can play an important role by highlighting CDFIs and CDCs' "seal of approval" represented by their government certification(s).

   - **Foster partnerships with nonprofit business support organizations (BSOs) and business service providers** – CDFIs and CDCs can cultivate and deepen partnerships with BSOs (e.g., chambers of commerce, industry associations, and training and technical assistance providers) and business service providers to increase mutual referrals and grow the amount of financing applications and help their clients access trusted services.

   - **Create and deepen partnerships with banks** – Better educating banks about the CDFI and CDC sectors broadly and how to develop effective CDFI/CDC partnerships can increase the pipeline of applicants (e.g., bank loan denial referrals to CDFIs and CDCs) and funding (grants and loans) from banks to CDFIs.

   - **Expand CDFI and CDC activity in key geographic areas** – The rate of CDFI financing is particularly low in Norfolk, Bristol, and Berkshire counties, indicating an opportunity for existing CDFIs/CDCs to grow their activity in these areas (within their target market or by expanding them) or by the establishment of CDFIs and CDCs dedicated to serving these areas.

   - **Expand CDFI and CDC activity in key industries** – CDFIs and CDCs can play an increased role in implementing the state's economic development priorities by developing tailored training and technical assistance and financing solutions for key industries and sectors (e.g., climate-critical sectors like renewable energy installation, HVAC, etc.). Given their missions and client bases, this will inherently increase the diversity of small business owners within these targeted sectors.

3. **Foster innovation in capital structures and program delivery** – CDFIs and CDCs could benefit from continued innovation in capital and support services delivery to better meet the needs of their small business clients. The following strategies can be implemented by CDFIs and CDCs individually or collaboratively, all enabled by the increased funding strategies outlined above.

    - **Increase the deployment of alternative financing** – CDFIs and CDCs predominantly provide term loans to small businesses, which limits their ability to meet the needs of certain businesses that have capital needs that are better served with alternative debt structures (e.g., lines of credit, revenue-based financing). While some Massachusetts CDFIs and CDCs have alternative financing programs, the dollars deployed through them are low and leaders cite the lack of appropriate capital as a barrier to growing deployment.

    - **Increase the use of technology** – CDFIs and CDCs generally have been relatively slow to adopt technological systems and processes that can increase efficiency. Technology systems for loan origination and loan servicing can increase efficiency in financing deployment, and digital platforms for training and technical assistance can supplement or complement staff-led programs to expand reach and impact. CDFIs and CDCs should also explore opportunities for shared back-office technology and services.

4. **Strengthen CDFI and CDC capabilities and increase capacity** – To sustain the rate of growth in their financing and support activity, Massachusetts CDFIs and CDCs need to strengthen their capabilities in key areas and increase their capacity to achieve their growth objectives.

    - **Grow the talent pipeline** – Massachusetts CDFIs and CDCs need mission-aligned and qualified leadership and staff to expand their teams as they continue to grow. Increasing awareness of the community finance sector as a career path in relevant industries like banking, consulting, and related fields, as well as tailored community finance education programs, can increase the pool of qualified applicants.

    - **Improve impact reporting** – While Massachusetts CDFIs and CDCs have satisfied clients and powerful anecdotal case studies, they generally do not have strong impact data collection and reporting capabilities. CDFIs and CDCs should invest in systems and processes to more regularly collect and report on impact outcomes, including jobs created or preserved, job quality (e.g., wage levels, benefits), business financial performance (e.g., revenue, profits, equity), and other metrics relevant to their specific missions.

APPENDIX A: CDFI FUND PROGRAMS AND INITIATIVES

The CDFI Program (Financial Assistance and Technical Assistance Programs)

The purpose of the CDFI Program is to increase the capacity of CDFIs to serve low-income people and underserved communities. The program has two primary components: 1) Financial Assistance (FA) awards – monetary awards provided to support the financing activities of CDFIs and 2) Technical Assistance (TA) awards – grants provided to support the capacity-building activities of CDFIs.

There are two types of applicants for FA awards: Core (established CDFIs) and SECA (small and emerging CDFIs).

The primary FA award type is the Base Financial Assistance (Base-FA) award. Base-FA awards of up to $1.0 million allow CDFIs to sustain and expand their financial products and services. CDFIs may use Base-FA awards for a wide range of purposes—for example, to finance businesses and to develop affordable housing, commercial real estate, and community facilities; to support community-based social service organizations; and to provide mortgages, basic banking services, and financial literacy training to people in underserved communities. Base-FA awards to Core applicants (except Native CDFIs) require the award recipient to secure a dollar-for-dollar match of nonfederal funds. The form of the matching funds determines the form of the Base-FA award; the match may be in the form of loans, grants, equity investments, secondary capital, and deposits. The match requirement enables CDFIs to multiply the impact of federal investment to meet the demand for affordable financial products in the communities they serve.

The following award types are provided as a supplement to the Base-FA award and are applied to separately: 1) Healthy Food Financing Initiative (HFFI), which supports a wide range of activities that expand access to healthy foods in low-income communities, 2) Disability Funds-Financial Assistance (DF-FA) awards to provide technical and financial assistance to CDFIs that fund projects to help individuals with disabilities, 3) Persistent Poverty Counties (PPC) FA awards, with PPC defined as counties where 20% or more of the population has lived in poverty over the past 30 years.

Technical Assistance (TA) awards of up to $125,000 are made in the form of grants and do not have a matching funds requirement. Award recipients can use the awards to purchase equipment, to hire consulting or contracting services, to pay salaries and benefits, to train staff or board members, and to support other capacity-building activities. TA award recipients often use the funds to analyze their target markets, to develop lending policies and procedures, and to build staff lending capacity. More established CDFIs also use TA grants to serve current target markets in new ways or to enhance the efficiency of their operations.

Since the inception of the CDFI Program in 1994, the CDFI Fund has completed 26 rounds of the program and has awarded FA awards and TA awards totaling nearly $2.9 billion. In addition, since inception the CDFI Fund has awarded 130 HFFI-FA awards totaling nearly $246.3 million and 63 DF-FA awards totaling over $18.2 million.

Native Initiatives

The Native Initiatives was launched in 2001 to help Native communities—defined as Native American, Alaska Native, and Native Hawaiian communities—grow by increasing their access to credit, capital, and financial services.
The Native American CDFI Assistance Program (NACA Program) is similar to the CDFI Program. Like the CDFI Program, it provides Financial Assistance (Base-FA) awards, Healthy Food Financing Initiative-Financial Assistance (HFFI-FA) awards, Persistent Poverty Counties-Financial Assistance (PPC-FA) awards, Disability Funds-Financial Assistance (DF-FA) awards, and Technical Assistance (TA) awards. However, the NACA Program focuses solely on supporting Native CDFIs.

To be eligible for a Base-FA award through the NACA Program, an organization must be a Certified CDFI. It also must have a target market of a Native community and must ensure that at least 50% of its activities serve Native American, Alaska Native, and/or Native Hawaiian communities. The Indian Community Economic Enhancement Act of 2020 (P. L. 116– 261) permanently waived the Matching Funds requirement for Native American CDFIs, and, as a result, Native American CDFI FA Applicants are not required to provide matching funds.

Three types of organizations are eligible to apply for a Technical Assistance (TA) award through the NACA Program: Certified Native CDFIs, Emerging Native CDFIs, and Sponsoring Entities (organizations primarily serving Native communities that propose to create a separate Certified CDFI). Emerging Native CDFIs must demonstrate the ability to become a Certified Native CDFI within three years of receiving a TA grant. Sponsoring Entities must demonstrate the ability to create a new entity that will become a Certified Native CDFI within four years of receiving an award.

Since the inception of the NACA Program in 2001, the CDFI Fund has completed 19 rounds of the program and has provided FA and TA awards totaling nearly $221.8 million, which includes PPCFA awards totaling more than $8.2 million.

The Bank Enterprise Award Program (BEA)

The Bank Enterprise Award Program (BEA Program) provides monetary awards to FDIC-insured banks and thrifts that demonstrate increased investments and support to CDFIs or increased lending, investing, or service-related activities in the most economically distressed communities. The BEA Program defines “the most economically distressed communities” as those where at least 30% of the residents have incomes below the national poverty level and where the unemployment rate is at least 1.5 times the national unemployment rate. The program targets communities with the greatest needs and generates economic opportunity for those with the least access to financial products and services.

The BEA Program is unique among the CDFI Fund’s financial award programs in that it makes awards based on qualified investments, loans, and activities that applicants have successfully completed. The CDFI Fund’s other awards are based on an applicant’s plans and ability to fulfill those plans. To be eligible for a BEA Program award, an applicant must be an FDIC-insured depository institution and demonstrate that it has increased its Qualified Activities in distressed communities.

The amount of each award is determined by the increases in the Qualified Activities achieved by applicants over a one-year assessment period; the greater the increase, the larger the award. The applicant’s CDFI certification status and total asset size are also factored into the award amount. Since the inception of the BEA Program in 1994, the CDFI Fund has completed 26 rounds of the program and has awarded nearly $572 million.

The CDFI Bond Guarantee Program

Enacted through the Small Business Jobs Act of 2010, the Community Development Financial Institutions Bond Guarantee Program (CDFI Bond Guarantee Program) responds to the critical market demand for long-term, low-cost capital that can be used to spur economic growth in low-income communities. The CDFI Bond Guarantee Program accelerates the economic revitalization of low-income communities by giving CDFIs access to a significant source of long-term capital.

Unlike other CDFI Fund programs, the CDFI Bond Guarantee Program does not offer grants. Instead, it is a federal credit program, designed to function at no cost to taxpayers. The bonds are debt instruments that must be repaid. Through the CDFI Bond Guarantee Program, the CDFI Fund enables Qualified Issuers to issue bonds that have maturity dates of up to 29.5 years and are fully guaranteed by the federal government. The Qualified Issuer then sells the bonds to the Federal Financing Bank (FFB)[20] and uses the bond proceeds to make long-term loans at affordable rates to CDFIs to finance or refinance new or existing community development projects.

Since the inception of the CDFI Bond Guarantee Program in 2010, the CDFI Fund has completed 10 rounds of the program and has guaranteed more than $2.1 billion in bonds. CDFIs have up to five years to deploy committed funds. Through September 30, 2022, participating CDFIs have deployed approximately $1.4 billion in loans and currently have $1.1 billion in outstanding loan balances with the FFB.

Capital Magnet Fund

The Capital Magnet Fund (CMF) was created in 2008 to spur investment in affordable housing and related economic development initiatives that serve low-income families and low-income communities across the nation. Congress authorized the creation of the CMF through the Housing and Economic Recovery Act of 2008 (HERA; P.L. 110-289). HERA requires two Government-Sponsored Enterprises (GSEs)— Fannie Mae and Freddie Mac—to set aside for the CMF and the Housing Trust Fund each year an amount equal to 4.2 basis points for every dollar of their unpaid principal balances of total new mortgage purchases, unless otherwise instructed by the Federal Housing Finance Agency (FHFA). Of the amount set aside by Fannie Mae and Freddie Mac each year, 35% is allocated to the CDFI Fund for the CMF. The purpose of the CMF is to attract private capital for affordable housing and economic development activities in economically distressed areas. CMF award recipients are required to finance and/or to support 10 times the grant amount in eligible project costs.

Through the CMF, the CDFI Fund provides competitively awarded grants to organizations that serve the affordable housing needs of low-income communities. To be eligible for a CMF Award, an applicant must be a Certified CDFI or a nonprofit organization with a principal purpose of developing or managing affordable housing. All applicants must demonstrate that they have been in existence as a legally formed entity for at least three years prior to the funding round application deadline and meet any other eligibility requirements outlined in the Notice of Funds Availability for the round.

CMF award recipients can use their grants to finance affordable housing activities, related economic development activities, and community service facilities. They must use at least 70% of their CMF grants to finance affordable housing and may request to use up to 30% of the funds to finance economic development activities linked to affordable housing. Award recipients use the funds to create a variety of financing tools, such as loan loss reserves, revolving loan funds, risksharing loans, and loan guarantees. Leveraging is a key component of the CMF. Award recipients are required to leverage their CMF awards at a ratio of at least 10-to-1. Sources of capital leveraged may include loans from banks; program-related investments from foundations; Low Income Housing Tax Credit investments; and funds contributed by the award recipient, state or local governments, or any number of other private or public sources.

Since the inception of the CMF in 2008, the CDFI Fund has completed seven rounds of the program and has awarded grants totaling nearly $1.1 billion.

CDFI Equitable Recovery Program

The CDFI Equitable Recovery Program (CDFI ERP) was a new program launched in 2022 that supports Certified CDFIs' lending and investment activities in low- or moderate-income communities disproportionately impacted by the COVID-19 pandemic. The program also enables CDFIs to build capacity by acquiring technology, staff, and other tools necessary to plan and execute the activities under a CDFI ERP award.

The Consolidated Appropriations Act, 2021 (P.L. 116-260) provided $1.75 billion to the CDFI Fund to award CDFIs grants to respond to the economic impacts of the COVID-19 pandemic. Awards provided to CDFIs are to expand lending, grant making, and investment activity in low- or moderate-income communities and to borrowers, including minorities, that have significant unmet capital or financial service needs and were disproportionately impacted by the COVID-19 pandemic; and to enable CDFIs to build organizational capacity and acquire technology, staff, and other tools necessary to accomplish these activities. The CDFI Fund awarded these funds through the newly established CDFI ERP.

The application round for the FY 2022 CDFI ERP opened on June 23, 2022, and closed on September 22, 2022. Following a thorough application review process, the CDFI Fund announced awards in 2023.

Rapid Response Program

The CDFI Rapid Response Program (CDFI RRP) was established in FY 2021 to help CDFIs deliver emergency support to distressed and underserved communities suffering from the economic hardships created by the COVID-19 pandemic.

The Consolidated Appropriations Act, 2021 (P.L. 116-260) provided $1.25 billion for the CDFI Fund to use to provide grants to enable Certified CDFIs "to support, prepare for, and respond to the economic impact of the coronavirus." The CDFI Fund awarded these grants to Certified CDFIs through the CDFI RRP.

The CDFI RRP differed from the CDFI Fund's other funding programs in two important ways. First, unlike the CDFI Fund's other programs, the CDFI RRP consisted of a single, short application round. The first and only application round of the CDFI RRP was conducted in FY 2021. Further CDFI RRP application rounds will not be conducted unless Congress provides additional funding for the program. Second, while the CDFI Fund's other programs are competitive award programs in which the number of organizations that receive awards is far less than the number that applies, the CDFI RRP was a formula-based grant program designed to provide awards to all eligible applicants. All CDFI RRP awards were made in the form of a grant. The minimum grant amount was $200,000, and the maximum amount was $1.8 million. The legislation authorizing the program stipulated that at least $25 million of the more than $1.2 billion awarded through the program be used to benefit Native Communities. Only organizations that the CDFI Fund had certified as CDFIs were eligible to apply.

An applicant could request the minimum award amount of $200,000 or up to 150% of its Total Financial Products Closed in an Eligible Market and/or Target Market for its most recent historic fiscal year, whichever was greater. CDFIs may use CDFI RRP grant funds for five categories of eligible activities supporting the provision of financial products and services: Financial Products, Financial Services, Loan Loss Reserves, Development Services, and Capital Reserves. In addition, CDFIs may use the greater of $200,000 or 15% of the grant for seven categories of eligible activities supporting operations: Compensation—Personal Services, Compensation— Fringe Benefits, Professional Service Costs, Travel Costs, Training and Education Costs, Equipment, and Supplies. CDFIs may use the grants to support a variety of eligible lines of business: Commercial Real Estate, Small Business, Microenterprise, Community Facilities, Consumer Financial Products, Consumer Financial Services, Commercial Financial Services, Commercial Financial Products, Affordable Housing, and Intermediary Lending to Nonprofits and CDFIs.

The FY 2021 round of the CDFI RRP was the first and only round of the program. The CDFI Fund awarded more than $1.2 billion in grants to 863 organizations.

New Markets Tax Credits

The NMTC Program is designed to attract new private investment to qualifying businesses located in low-income communities (generally defined as population census tracts with at least 20% poverty or 80% or less of the median family income) or businesses that are owned by, employ, or serve targeted populations. The NMTC Program attracts private investment by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making Qualified Equity Investments (QEIs) in specialized financial intermediaries called Community Development Entities (CDEs). The credit totals 39% of the original investment amount; the investor claims the credit over a period of seven years.

Congress authorized the NMTC Program under the Community Renewal Tax Relief Act of 2000 (P.L. 106-554), which included $15 billion in allocation authority for seven years. Since then, the NMTC Program has been reauthorized eight times. Most recently, the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (P.L. 116-260) extended authorization of the program for calendar year (CY) 2021 to CY 2025 with $5 billion in annual NMTC allocation authority.

The CDFI Fund allocates tax credits to Certified CDEs through a competitive application process. If successful, the CDE has five years to offer the tax credits to investors in exchange for QEIs. A CDE has 12 months to invest "substantially all" of the proceeds from the QEIs into Qualified Low Income Community Investments (QLICIs). The proceeds must be used to make loans or equity investments in qualified businesses or CDEs, to purchase qualifying loans originated by other CDEs, or to provide financial counseling to businesses located in Low-Income Communities. Since the inception of the NMTC Program in 2000, the CDFI Fund has completed 17 allocation rounds and has made 1,354 awards totaling $66 billion in tax allocation authority. This includes $3 billion in Recovery Act Awards and $1 billion of special allocation authority used for the recovery and redevelopment of the Gulf Opportunity Zone.

APPENDIX B: MASSACHUSETTS CDFIS AND CDCS

Community Development Financial Institutions (CDFIs) Headquartered in Massachusetts

Institution	Financial Institution Type	City
American Community Capital	Loan Fund	Boston
Aura Mortgage Advisors	Loan Fund	Boston
BQ.F Ventures II, LLC	Venture Capital Fund	Boston
BQ.F Ventures, Inc. d/b/a Boston Community Venture Fund	Venture Capital Fund	Boston
BOC Community Capital Corp.	Loan Fund	Wakefield
BlueHub Loan Fund Inc	Loan Fund	Boston
Coastal Community Capital	Loan Fund	Centerville
Children's Investment Fund, Inc.	Loan Fund	Boston
Common Capital, Inc.	Loan Fund	Springfield
Community Development and Affordable Housing Fund, LLC	Loan Fund	Brookline
Community Health Center Capital Fund, Inc.	Loan Fund	Boston
Cooperative Fund of the Northeast, Inc.	Loan Fund	Watertown
Dorchester Bay Neighborhood Loan Fund, Inc.	Loan Fund	Dorchester
Greylock Federal Credit Union	Credit Union	Pittsfield
Grow America Fund, Inc.	Loan Fund	Boston
Housing Partnership Fund, Inc.	Loan Fund	Boston
Local Enterprise Assistance Fund, Inc.	Loan Fund	Boston
Lowell Community Loan Fund	Loan Fund	Lawrence
Massachusetts Housing Investment Corporation	Loan Fund	Boston
MentorWorks Education Capital, Inc.	Loan Fund	Boston
MHIC, LLC	Loan Fund	Boston
NOC Community Impact Loan Fund	Loan Fund	Boston
New Hope Community Capital Inc.	Loan Fund	Boston
North Central Massachusetts Development Corporation	Bank or Thrift	Fitchburg
OneUnited Bank	Loan Fund	Boston
Quaboag Valley Business Assistance Corporation	Loan Fund	Ware
South Eastern Economic Development Corporation	Loan Fund	Taunton
Springfield Neighborhood Housing Services, Inc.	Loan Fund	Springfield
The Housing Partnership Network, Inc.	Loan Fund	Boston
Worcester Community Housing Resources, Inc.	Loan Fund	Worcester
Workers Credit Union	Credit Union	Fitchburg

MA Certified Development Corporations (CDCs)

Institution	CDFI	Small Business Assistance	Small Business Financing
ACT Lawrence			
African Community Economic Development of New England		Y	Y
Allston Brighton CDC			
Asian CDC			
Boston Neighborhood CLT			
Bread and Roses Housing			
Brookline Community Development Corporation			
CDC of South Berkshire		Y	
Chinatown Community Land Trust			
Coalition for a Better Acre			
Codman Square NDC		Y	
Community Development Partnership		Y	Y
Community Economic Development Center			
Community Team Work		Y	Y
Domus			
Dorchester Bay EDC	Y	Y	Y
Downtown Taunton Foundation			
Dudley Neighbors, Inc.			
Fenway Community Development Corporation			
Franklin County CDC		Y	Y
Groundwork Lawrence			
Harborlight Community Partners			
Hilltown CDC		Y	
Home City Development, Inc.			
Homeowners Rehabilitation, Inc.			
Housing Assistance Corporation			
Housing Corporation of Arlington			
Housing Nantucket			
Inquilinos Boricuas en Acción			
Island Housing Trust			
Jamaica Plain NDC		Y	Y
Just a Start			
Lawrence CommunityWorks, Inc.			
Lena Park CDC			
Main South CDC			

MA Certified Development Corporations (CDCs)

Institution	CDFI	Small Business Assistance	Small Business Financing
Madison Park Development Corporation			
Main South CDC			
Metro West Collaborative Development			
Mill Cities Community Investments	Y	Y	Y
Mission Hill NHS			
Neighborhood of Affordable Housing			
NeighborWorks Housing Solutions		Y	Y
NewVue Communities		Y	
North Shore CDC		Y	
Nuestra Comunidad			
OneHolyoke			
Pittsfield Economic Revitalization Corporation		Y	
Quaboag Valley CDC	Y	Y	Y
Revitalize CDC			
Somerville Community Corporation			
South Boston NOC			
South Middlesex Opportunity Council, Inc.			
Southeast Asian Coalition of Central MA		Y	Y
Southwest Boston CDC			
The Latino Support Network		Y	
The Neighborhood Developers			
Urban Edge Housing Corporation			
Valley CDC		Y	
VietAid			
Waltham Alliance to Create Housing			
Waterfront Historic Area League			
Way Finders			
Wellspring Cooperative			
Worcester Communtity Housing Resources			
Worcester Common Ground			
Worcester East Side CDC			

APPENDIX C: CDFI AND CDC SURVEY RESPONDENTS

Institution	CDFI	CDC
African Community Economic Development of New England		X
Ascendus, Inc.	X	
Coastal Community Capital	X	
Common Capital	X	
Community Development Partnership	X	
Cooperative Fund of the Northeast, Inc.	X	
Dorchester Bay Economic Development Corporation	X	X
Entrepreneurship Center at Community Teamwork, Inc.		X
Franklin County Community Development Corporation		X
Jamaica Plain Neighborhood Development Corporation		X
Local Enterprise Assistance Fund, Inc.	X	
Mill Cities Community Investments	X	X
North Central Massachusetts Development Corporation	X	
Pittsfield Economic Revitalization Corporation		X
Quaboag Valley Business Assistance Corporation	X	X
South Eastern Economic Development Corporation	X	
Southeast Asian Coalition of Central Massachusetts, Inc.		X

REFERENCES

"About CDFIs," The CDFI Coalition. https://cdfi.org/about-cdfis/cdfi-statute/#:~:text=The%20central%20purpose%20of%20The,loans%20and%20technical%20assistance%20support.

Butterfield, Fox, "From Ben Franklin, a Gift That's Worth Two Fights," The New York Times, April 1990. https://www.nytimes.com/1990/04/21/us/from-ben-franklin-a-gift-that-s-worth-two-fights.html.

"The California Investment and Innovation Fund: California's First CDFI Grant Program," California Coalition for Community Investment. https://calcci.org/wp-content/uploads/2022/11/CII-Fund-Slides-for-web.pdf.

"California Investment and Innovation Program (Cal IIP)," California Pollution Control Financing Authority, June 2023. https://cameonetwork.org/wp-content/uploads/2023/06/Cal-IIP-Brochure-Final-6.5.23-1.pdf.

Carpender, Surekha, Nick Haltom, Sierra Latham, Stephanie Norris, Hailey Phelps, and Kai Amado, "2023 CDFI Survey Key Findings," Fed Communities, August 2023. https://fedcommunities.org/data/2023-cdfi-survey-key-findings/#:~:text=Only%2014%25%20of%20CDFIs%20reported,of%2052%20and%2013%2C%20respectively.

"CDC (Community Development Corporation)," Build Healthy Places Network, November 2015. https://www.buildhealthyplaces.org/sharing-knowledge/jargon/cdc-community-development-corporation/#:~:text=CDCs%20are%20neighborhood%2Dlevel%2C%20nonprofit,job%20training%20and%20health%20services.

"Community Development Financial Institution Assistance Program," Empire State Development. https://esd.ny.gov/community-development-financial-institution-assistance-program#overview.

"Diverse Business Investment Grant Program Guide," Department of Administration, State of Wisconsin, March 2023. https://doa.wi.gov/DEO/Diverse%20Business%20Investment%20-%20Program%20Guide%20-%203.13.23.pdf.

"Empire State Development and the Department of Financial Services Award $5 Million in Grants to Expand Affordable Banking Services in Underserved Communities," Empire State Development, October 2021. https://esd.ny.gov/esd-media-center/press-releases/esd-dfs-award-5-million-grants-expand-affordable-banking-services-underserved-communities.

"Gov. Evers Announces More Than $86 Million for Diverse Business Investment and Diverse Business Assistance Grants," Office of the Governor, State of Wisconsin, March 2022. https://content.govdelivery.com/accounts/WIGOV/bulletins/30f46be.

"Governor Hochul Announces $150 Million New York Forward Loan Fund 2 to Provide Flexible Loans to New York State Small Businesses," New York State Governor Kathy Hochul, July 2023. https://www.governor.ny.gov/news/governor-hochul-announces-150-million-new-york-forward-loan-fund-2-provide-flexible-loans-new.

"Governor Hochul Announces More Than $500 Million Awarded to New York State from Biden Administration to

Support Small Businesses Through the American Rescue Plan," New York State Governor Kathy Hochul, August 2022. https://www.governor.ny.gov/news/governor-hochul-announces-more-500-million-awarded-new-york-state-biden-administration-support.

Hartle, Terry, "Benjamin Franklin bankrolled 200 years of small business loans," The Christian Science Monitor, June 2022. https://www.csmonitor.com/Books/Book-Reviews/2022/0602/Benjamin-Franklin-bankrolled-200-years-of-small-business-loans.

"Michigan Community Development Financial Institution Fund Program," Michigan Economic Development Corporation, 2023. https://www.michiganbusiness.org/services/access-capital/cdfi-fund/.

"Michigan Community Development Financial Institution Fund Program Guidelines," Michigan Economic Development Corporation, 2023. https://www.michiganbusiness.org/4aaa8d/globalassets/documents/cdfi/cdfi-guidelines.pdf.

"New York Forward Loan Fund 2," Empire State Development. https://nyloanfund.com/.

"One Minnesota Budget," State of Minnesota, 2024. https://lims.minneapolismn.gov/download/Agenda/5104/Housing%20Budget%20Bill%20Summary%202023.pdf/87065/4119/Housing%20Budget%20Bill%20Summary%202023.

"Opportunity Finance Network Side by Side Chartbook: Fiscal Year 2022 Member Data Analysis." https://www.ofn.org/blog/ofns-latest-member-data-now-available/#:~:text=The%20latest%20edition%20of%20Side,financing%20sector%20and%20asset%20size.

Sanchez-Moyano, Rocio, and Sara Simms, "Understanding CDFI Financial Data: A Primer for New Investors," Federal Reserve Bank of San Francisco, December 2023. https://www.frbsf.org/wp-content/uploads/understanding-cdfi-financial-data-cdrb202305.pdf.

Scott, Jacob, Maria Carmelita Recto, and Jonathan Kivell, "Examining the Origination and Sale of Loans by Community Development Financial Institutions," Federal Reserve Bank of New York, May 2024. https://www.newyorkfed.org/medialibrary/media/outreach-and-education/household-financial-stability/examining-the-origination-and-sale-of-loans-by-community-development-financial-institutions.

Scott, Jacob, Maria Carmelita Recto, and Jonathan Kivell, "Sizing the CDFI Market: Understanding Industry Growth," Federal Reserve Bank of New York, August 2023. https://www.newyorkfed.org/medialibrary/media/newsevents/news/regional_outreach/2023/sizing-the-cdfi-market-understanding-industry-growth.

"State Small Business Credit Initiative Capital Program Summaries," US Department of the Treasury.

https://home.treasury.gov/policy-issues/small-business-programs/state-small-business-credit-initiative-ssbci/capital-program-summaries#georgia.

Scott, Jacob, Maria Carmelita Recto, and Jonathan Kivell, "Examining the Origination and Sale of Loans by Community Development Financial Institutions," Federal Reserve Bank of New York, May 2024. https://www.newyorkfed.org/medialibrary/media/outreach-and-education/household-financial-stability/examining-the-origination-and-sale-of-loans-by-community-development-financial-institutions.

P2 Advisors

MassINC