

Mission-driven Lenders

Yaming Gong - Temple University, Fox School of Business
Samuel Rosen - Temple University, Fox School of Business
Tilan Tang - Wake Forest University, School of Business

2025 Community Banking Research Conference

Motivation

- U.S. government created the Community Development Financial Institution (CDFI) certification in 1994 to aid underbanked communities
- CDFIs can access government grants and subsidized funds
- 2023: $\approx 1,500$ CDFIs that manage loan portfolios $\approx \$300$ billion
- FY 2026 “skinny budget” would cut CDFI Fund discretionary awards
- No systematic analysis of CDFIs in academic literature

This paper

- Specific questions we address through empirical analysis:
 - How and where are CDFIs growing?
 - Why do depository institutions become certified as CDFIs?
 - How are depository CDFIs affected by certification and awards?

This paper

- Specific questions we address through empirical analysis:
 - How and where are CDFIs growing?
 - Why do depository institutions become certified as CDFIs?
 - How are depository CDFIs affected by certification and awards?
- New data: historical CDFI lists and loan-level database

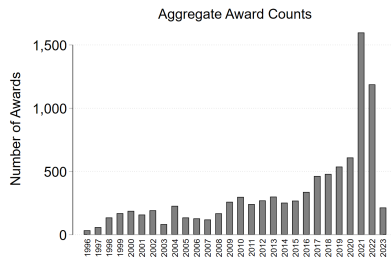
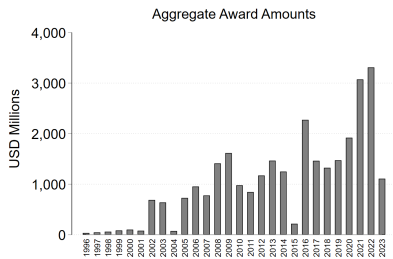
This paper

- Specific questions we address through empirical analysis:
 - How and where are CDFIs growing?
 - Why do depository institutions become certified as CDFIs?
 - How are depository CDFIs affected by certification and awards?
- New data: historical CDFI lists and loan-level database
- Key new insights:
 - Loan fund CDFIs complement SBA lending
 - CDFI program relaxes financial constraints for credit unions, not banks

CDFI Program in a Nutshell

- Established in 1994 and managed by CDFI Fund (U.S. Treasury)
- CDFI Fund serves “mission-driven financial institutions that take a market-based approach to supporting economically disadvantaged communities”
- CDFI Certification requirements:
 - Legal financing entity
 - Primary mission of promoting community development
 - Primarily serves one or more target markets
 - Provides development services in conjunction with financing
 - Maintains accountability to its defined target market
- Certified CDFIs can access to government-provided financial resources

CDFI Fund Awards Over Time

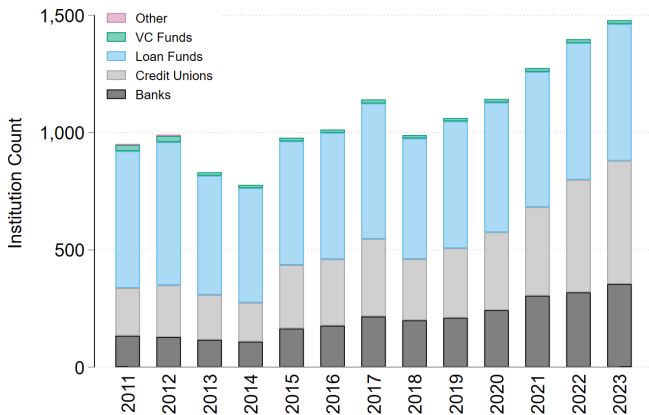


- 2000–2019: 5,000 awards totaling \approx \$20 billion
- 2021–2022: 2,500 pandemic-recovery-related awards totaling \approx \$6 billion

Empirical Analysis of CDFI Growth

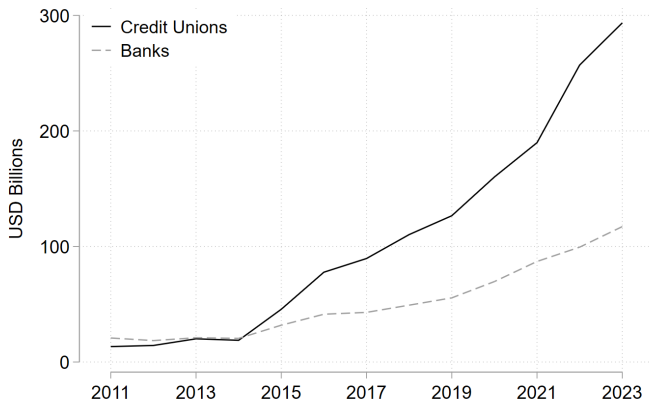
- Aggregate growth of CDFIs by type
 - ↪ CDFIs have grown by 50% since 2011
 - ↪ Credit unions (CUs) are fastest growing type (Scott et al., 2023)
- County-level analysis of where CDFIs expanding by type
 - ↪ Loan funds expanded in counties with greater reliance on government-subsidized business lending \implies complement SBA
 - ↪ Depository CDFIs expanded in counties with more poverty/unemployment

Counts of CDFIs Over Time



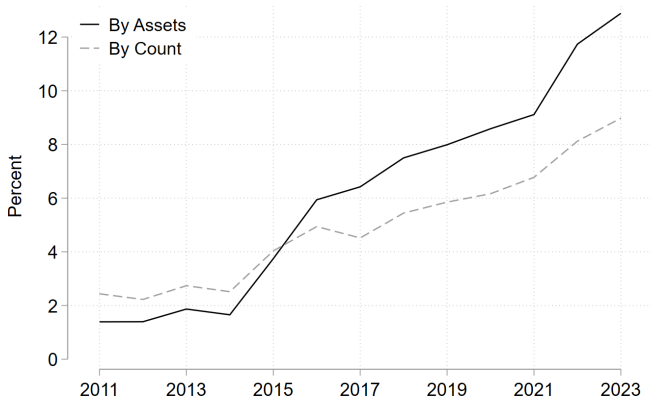
- Two main types of CDFIs: depository and loan fund

Assets of Depository CDFIs Over Time



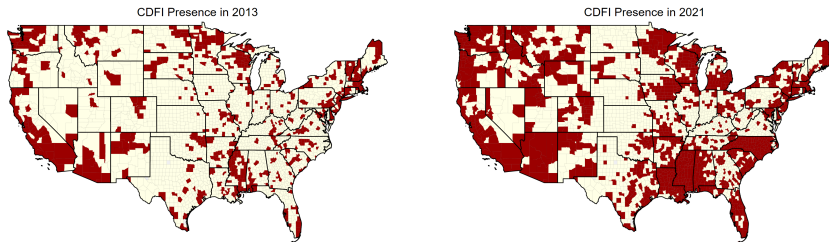
- Assets in depository CDFIs growing, especially credit unions (CUs)

Relative Size of Credit Union CDFIs Over Time



- Over 10% of CU assets are in CU CDFIs

Geographic Footprints of CDFIs



CDFI presence expanding due to (1) creation of loan funds and (2) depository institutions becoming certified CDFIs

Factors Associated with CDFI Expansion

$$\text{New CDFI Presence}_c = \beta' X_{c,2012} + \nu_{state} + \epsilon_c$$

	Depository CDFIs			Loan Fund CDFIs		
	(1)	(2)	(3)	(4)	(5)	(6)
SBA/CRA Ratio	-0.006 (0.478)	0.020 (0.484)	0.022 (0.480)	1.560** (0.652)	1.691** (0.684)	1.675** (0.680)
Fraction Non-white	0.122** (0.053)			0.376*** (0.081)		
Fraction Poverty		0.227** (0.091)			-0.083 (0.163)	
Unemployment Rate			0.500* (0.281)			0.418 (0.438)
Deposit-based HHI	-0.085*** (0.018)	-0.094*** (0.018)	-0.088*** (0.018)	-0.589*** (0.037)	-0.577*** (0.037)	-0.586*** (0.038)
State FE	Yes	Yes	Yes	Yes	Yes	Yes
R ²	0.131	0.130	0.129	0.362	0.356	0.356
N Counties in Sample	2,426	2,426	2,426	2,426	2,426	2,426
N Counties With CDFI Entry	126	126	126	764	764	764

- Depository CDFIs expanded in counties with more poverty/unemployment
- Loan fund CDFIs expanded in counties with greater reliance on government-subsidized business lending ⇒ complement SBA

Factors Associated with CDFI Growth

$$\frac{\text{TLR Business Loans}_{c,2021} - \text{TLR Business Loans}_{c,2013}}{\text{CRA Loans}_{c,2012}} = \beta' X_{c,2012} + \nu_{state} + \epsilon_c$$

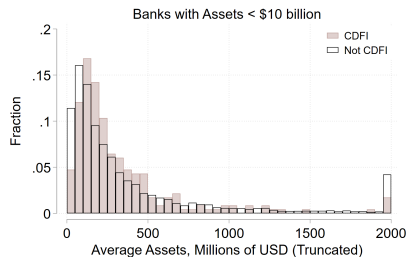
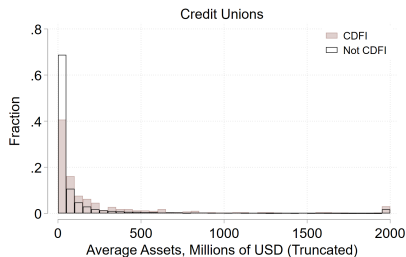
	(1)	(2)	(3)
SBA/CRA Ratio	0.379* (0.196)	0.343* (0.190)	0.355* (0.195)
Fraction Non-white	0.043*** (0.015)		
Fraction Poverty		0.099*** (0.035)	
Unemployment Rate			0.215** (0.089)
Deposit-based HHI	0.015 (0.016)	0.010 (0.015)	0.016 (0.018)
State FE	Yes	Yes	Yes
R ²	0.595	0.592	0.588
N Counties in Sample	508	508	508

→ CDFI loan fund business lending grew more in counties with more poverty/unemployment ⇒ consistent with mission and complement SBA

Empirical Analysis of Depository CDFIs

- For depository institutions (banks and CUs), we have detailed financial data from FFIEC and NCUA regardless of CDFI certification status
- What factors are associated with certification and receiving awards?
- How does lending and financing change following certification and awards?

Depository CDFIs are Relatively Small



Institution-Level Averages: CDFIs vs Non-CDFIs

	Credit Unions		Banks	
	CDFI	Non-CDFI	CDFI	Non-CDFI
Assets, Millions of USD	309.8	190.3	342.6	452.6
Cash / Assets, %	13.0	14.4	9.4	10.5
Liabilities / Assets, %	89.3	86.6	89.3	88.3
Is Minority Depository Institution, %	31.7	11.1	21.1	2.5
<i>N</i>	657	6,863	232	7,259

- On average, CDFIs have less cash and higher leverage
- CDFIs are much more often a minority depository institution (MDI):
 - (1) > 51% voting stock owned by minority individuals; or
 - (2) majority of board is minority and bank serves predominantly minority community

Predicting CDFI Certification

$$\text{CDFI Certification}_{i,c,t+1} = \beta' X_{i,t} + \nu_c + \epsilon_{i,c,t}$$

	Credit Unions				Banks			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Is MDI	0.010*** (0.001)	0.009*** (0.002)			0.007*** (0.002)	0.010*** (0.003)		
Cash/Assets	-0.011*** (0.003)	-0.010*** (0.003)	-0.008 (0.005)	-0.012*** (0.004)	-0.001 (0.002)	-0.001 (0.002)	-0.005 (0.004)	-0.006 (0.004)
Liabilities/Assets	0.046*** (0.004)	0.041*** (0.005)	-0.009 (0.018)	0.011 (0.015)	0.012*** (0.003)	0.004 (0.004)	0.015 (0.015)	0.021* (0.012)
ROA	0.240*** (0.042)	0.144*** (0.046)	0.009 (0.057)	0.051 (0.050)	0.039** (0.018)	-0.000 (0.021)	0.050 (0.035)	-0.027 (0.029)
County-Year FE	No	Yes	Yes	No	No	Yes	Yes	No
County FE	No	No	No	Yes	No	No	No	Yes
Year FE	No	No	No	Yes	No	No	No	Yes
Institution FE	No	No	Yes	Yes	No	No	Yes	Yes
R ²	0.003	0.192	0.327	0.163	0.001	0.398	0.521	0.183
N	67,723	60,961	60,651	67,410	65,990	55,244	54,878	65,667

More likely to become certified if:

- A minority-owned depository institution (MDI) \implies CDFI definition
- Profitable CU with high leverage and less cash \implies financially constrained
- Bank CDFIs explained by location \implies response to local demand

Predicting CDFI Certification and Simultaneous Award

$$\text{CDFI Certification and Award}_{i,c,t+1} = \beta' X_{i,t} + \nu_c + \epsilon_{i,c,t}$$

	Credit Unions				Banks			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Is MDI	0.004*** (0.001)	0.004*** (0.001)			0.005** (0.002)	0.007** (0.003)		
Cash/Assets	-0.002 (0.002)	-0.003 (0.002)	-0.009** (0.004)	-0.009*** (0.003)	-0.002 (0.001)	-0.003** (0.001)	-0.006* (0.004)	-0.007* (0.003)
Liabilities/Assets	0.019*** (0.002)	0.017*** (0.003)	0.017 (0.012)	0.016 (0.010)	0.005** (0.002)	0.001 (0.003)	0.010 (0.014)	0.006 (0.010)
ROA	0.167*** (0.032)	0.128*** (0.035)	0.085** (0.040)	0.082** (0.032)	0.023 (0.015)	-0.007 (0.018)	0.040 (0.032)	-0.034 (0.023)
County-Year FE	No	Yes	Yes	No	No	Yes	Yes	No
County FE	No	No	No	Yes	No	No	No	Yes
Year FE	No	No	No	Yes	No	No	No	Yes
Institution FE	No	No	Yes	Yes	No	No	Yes	Yes
R ²	0.002	0.175	0.317	0.167	0.000	0.389	0.511	0.193
N	67,723	60,961	60,651	67,410	65,990	55,244	54,878	65,667

- Receiving award reflects CDFI demand and assessed merit by CDFI Fund
- Results from certification-only analysis remain
- CU profitability more pronounced \Rightarrow further support financially constrained

Predicting Award Given CDFI Certification

$$\text{CDFI Award}_{i,c,t+1} = \beta' X_{i,t} + \nu_c + \epsilon_{i,c,t}$$

	Credit Unions		Banks	
	(1)	(2)	(3)	(4)
Is MDI	-0.036 (0.052)	-0.016 (0.051)	-0.052 (0.100)	-0.019 (0.102)
Cash/Assets	-0.004 (0.252)	-0.095 (0.237)	-0.597 (0.491)	-0.912** (0.440)
Liabilities/Assets	0.780* (0.422)	0.542 (0.400)	-1.418 (1.165)	-0.443 (1.303)
ROA	9.084*** (2.247)	6.990*** (2.080)	3.017 (2.656)	1.296 (3.003)
Year Certified FE	No	Yes	No	Yes
R ²	0.037	0.163	0.030	0.159
N	489	489	170	170

- Conditioning forecast on certification reveals award-specific factors
- CU profitability still pronounced \implies further support financially constrained

Assessing Changes Following Certification and Awards

Panel data regression approach:

$$\Delta y_{i,c,y} = \underbrace{\beta \text{FirstYearCDFI}_{i,y}}_{\text{Dummy if Certified in Year } y} + \underbrace{\gamma_0 \text{Award}_{i,y} + \gamma_1 \text{Award}_{i,y-1}}_{\text{Dummies if Award in Year } y \text{ or } y-1} + \nu_i + \nu_{c,t} + \epsilon_{i,c,t}$$

- $\Delta y_{i,c,y}$ is an outcome change for institution i in county c during year y
- β captures changes associated with certification in year y
- γ_t captures changes associated with receiving an award in year $y - t$
- ν_i controls for time-invariant institution-level characteristics
- $\nu_{c,t}$ controls for local economic conditions

Assessing Growth Rates within Credit Unions

	(1) Assets	(2) Loans	(3) Cash and Sec.	(4) Total Liab.	(5) Deposits	(6) Non-Dep Liab.
Certified CDFI This Year	0.008** (2.39)	0.006 (0.88)	0.009 (0.34)	0.010*** (2.73)	0.009** (2.34)	0.088* (1.80)
Received Award This Year	0.024*** (6.90)	0.028*** (4.68)	0.043* (1.67)	0.022*** (5.94)	0.013*** (3.98)	0.194*** (4.60)
Received Award Last Year	0.018*** (4.54)	-0.001 (-0.14)	0.056** (2.15)	0.014*** (3.24)	0.007* (1.81)	0.074* (1.77)
Institution FE	Yes	Yes	Yes	Yes	Yes	Yes
County-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
R ²	0.555	0.381	0.296	0.539	0.549	0.212
N	61,207	61,207	61,207	61,207	61,207	56,968

- CUs grow upon certification but only lend more if award too
- CUs also use awards to build up liquid assets
- Asset growth funded by both deposits and non-deposit liabilities
- Above findings consistent with relaxing financial constraints

Assessing Growth Rates within Banks

	(1) Assets	(2) Loans	(3) Cash and Sec.	(4) Total Liab.	(5) Deposits	(6) Non-Dep Liab.
Certified CDFI This Year	0.016 (1.61)	0.032** (2.42)	-0.049 (-1.48)	0.019* (1.69)	0.013 (1.18)	0.118 (0.89)
Received Award This Year	0.007 (0.98)	0.010 (1.11)	0.012 (0.56)	0.003 (0.45)	0.002 (0.20)	0.020 (0.29)
Received Award Last Year	0.009 (1.16)	0.004 (0.46)	0.020 (0.92)	0.009 (1.10)	0.012 (1.41)	-0.055 (-0.75)
Institution FE	Yes	Yes	Yes	Yes	Yes	Yes
County-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
R ²	0.550	0.536	0.415	0.535	0.534	0.350
N	63,528	63,528	63,528	63,528	63,528	63,484

- Banks grow more so and lend more after certification
- Harder to growth associated with certification vs award for banks given 90% rate of simultaneously receiving an award
- Above findings consistent with local loan demand fueling certification/awards

Conclusion

- Systematic empirical analysis of CDFIs to explore:
 - How and where are CDFIs growing?
 - Why do depository institutions become certified as CDFIs?
 - How are depository CDFIs affected by certification and awards?
- New data: historical CDFI lists and loan-level database
- Key new insights:
 - Loan fund CDFIs complement SBA lending
 - CDFI program relaxes financial constraints for credit unions, not banks