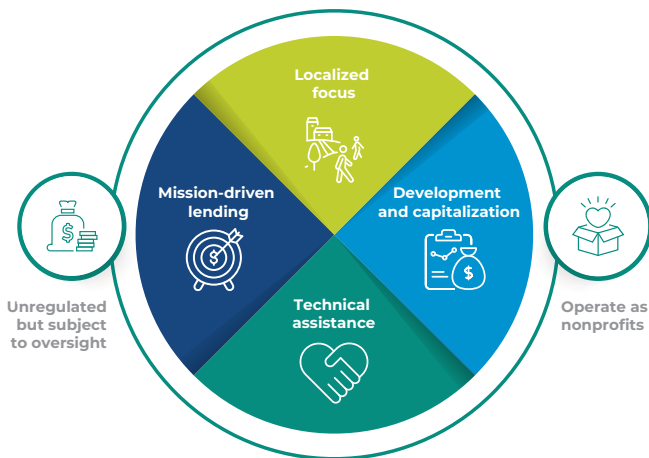


Business Model

Community development financial institution (CDFI) loan funds are specialized lenders that offer fair, responsible financing in underinvested U.S. rural, urban, and Native communities. With financing and coaching they support affordable housing, community facilities, small businesses, and energy efficient projects, among other elements of thriving communities. This financing enables wealth building and creates jobs that help boost local economies. The CDFI loan business model is a transformative approach to lending that prioritizes community impact over profit.

Key Components of the Loan Fund Business Model



Mission-driven lending: Loan funds provide access to capital through flexible loans with a mission to advance economic prosperity and community transformation.



Localized focus: Loan funds are place-based lenders that seek to catalyze change, build trust and relationships, and support and grow local economies.



Development and capitalization: Loan funds raise and aggregate grants and debt capital from various public and private sources.



Technical assistance: Loan funds offer high-touch services at different touchpoints to build client capacity, mitigate loss risk, and achieve community development outcomes.

Benefits of the CDFI Loan Fund Model:

- Invests across varied sectors.
- Catalyzes change and supports recovery for communities impacted by economic shifts.
- Provides capital to historically underinvested rural, urban, and Native communities.
- Takes a place-based approach to community development.
- Builds trust with communities, funders, investors, policymakers, and other stakeholders.
- Enables agile and swift responses to natural disasters and other crises impacting communities and economies.

These common features of loan funds support and strengthen their business model:

- **Unregulated, subject to oversight.** While unregulated, CDFI loan funds must comply with local, state, and federal policies, such as lending laws, usury laws, truth-in-lending laws, and other consumer protection laws. Because they are unregulated, loan funds can make loans that mainstream financial institutions might perceive as risky. The lack of regulation enables the lender to accept more risk in communities that have been historically underinvested.
- **Nonprofits.** Most loan funds are nonprofit and focused on making loans that are mission-driven rather than profit-maximizing. Loan funds measure success not solely by financial return but also by the positive social and economic impact on communities.

A Deeper Look

Flexibility in Financing

Core to the business model, loan funds implement flexible approaches to underwriting, structuring terms, and servicing loans.



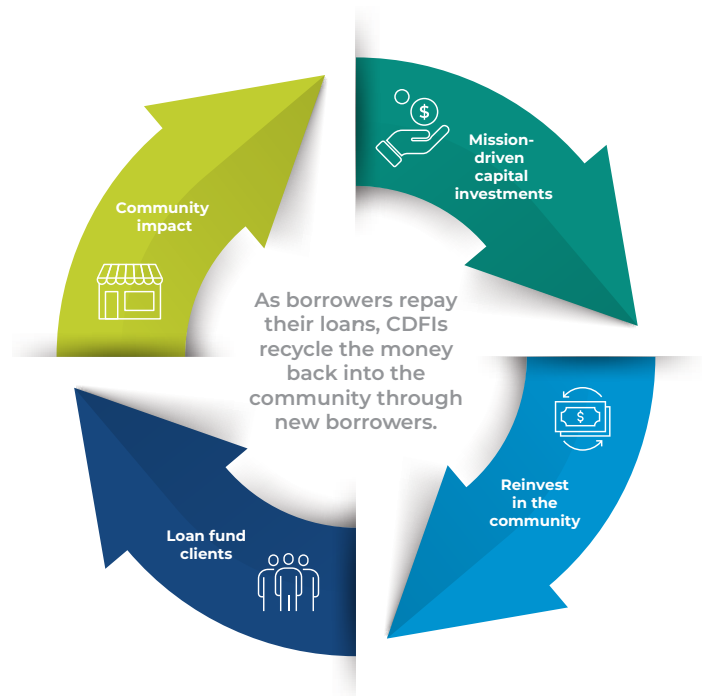
Loan funds are flexible lenders, adapting underwriting, structuring, and servicing to meet borrower needs, expand capital access, and maximize impact. They tailor loans, provide patient capital, and adjust repayment terms, ensuring borrower support throughout the loan's life cycle.

Components of Development and Capitalization



Loan fund strategies to raise and aggregate grant and debt capital foster strong relationships with funders and investors and demonstrate success through solid financial performance and reliable repayment.

CDFIs Recycle Capital



Loan funds recycle capital. They lend money, get paid back, and then reinvest the capital back into communities.