

CDFIs: Strengthening Local Economies through Private Investment

Community development financial institutions (CDFIs) fill critical financing gaps in rural, urban, and Native communities often overlooked by traditional lenders. With over 1,400 institutions across the country, CDFIs play a vital role in fostering economic opportunity by addressing real-world challenges like rising housing costs, inflation, and limited access to capital for small businesses.

By focusing on local needs, CDFIs help create jobs, support small business growth, and finance essential services like healthcare and childcare. Through partnerships with the public sector, CDFIs effectively mobilize private capital —**leveraging \$8 in private investment for every \$1 in public funding**—to spur long-term economic growth in financially underserved communities. This market-driven approach ensures that federal investments lead to substantial private-sector engagement and stronger local economies.

Opportunity Finance Network 2025 Policy Priorities

Invest in Proven Public Models with a Track Record of Driving Economic Growth

Grants are a vital source of capital for CDFIs, which leverage federal dollars to attract private and philanthropic investment. Specifically, the U.S. Treasury's CDFI Fund provides critical organizational support, enabling CDFIs to make localized funding decisions based on community-specific needs. Unlike many federal programs, which direct project-level grants from Washington, DC, CDFI Fund programs invest directly at the institutional level, empowering local decision-making.

Maximizing appropriations for the CDFI Fund is essential to expanding opportunity in areas where traditional banks fall short. With 29% of CDFI lending directed to high-poverty areas, increased funding will spur greater private investment and help bridge critical financing gaps. Congress should allocate at least \$324 million to the CDFI Fund for Fiscal Year 2026 to continue driving private-sector-led economic growth in underserved communities.

Invest in CDFIs to Build an Inclusive Economy

CDFIs leverage \$8 in private-sector investment for every \$1 in public funding, meaning federal policies that build the capital base and capacity of CDFIs will spur additional private investments and economic progress in disinvested communities nationwide.

8:1



GREENVILLE, SOUTH CAROLINA

Founder Caitlin Clare turned her passion for homemade ice cream into a thriving business. What started as a frozen cart venture grew into a brick-and-mortar establishment, even amid the challenges of the pandemic. With CDFI-backed funding from South Carolina Community Loan Fund and Appalachian Community Capital for leasehold improvements, equipment, and fixtures, Clare's Creamery was able to launch and expand. Caitlin has since paid off her loan and continues to grow, fostering economic and social impact in her community.

Leverage CDFI's Ability to Maximize Impact of High-ROI Federal Credit Programs

Investing in proven federal programs that leverage private sector solutions and local decision-making is essential to creating lasting prosperity. With a focus on fiscal responsibility and a commitment to stimulating economic growth, CDFIs expand opportunity and help communities achieve the American Dream. Expanding CDFI access to federal credit and lending programs ensures that taxpayer resources are used efficiently and effectively.

Existing federal programs have the potential to unleash even more resources to address pressing issues like the nation's housing affordability crisis. The federal government should:

- **Reform the Department of Treasury's CDFI Bond Guarantee Program:** This program offers long-term credit at below-market rates but faces high barriers to entry. Making the program permanent and reducing the minimum bond size from \$100 million to \$25 million will allow more community lenders, particularly in rural markets, to participate.
- **Expand CDFI involvement in USDA Rural Development programs:** Programs such as the Section 502 Direct Loan Program and Rural Energy Assistance Program can benefit from CDFIs' on-the-ground expertise, increasing homeownership and energy resilience in rural areas.
- **Enhance SBA lending programs:** By partnering with CDFIs, the Small Business Administration can improve access to small dollar lending that businesses need to start, expand, and create jobs, particularly in rural and low-income areas through proven models like the Microloan program and Community Advantage program, which must be preserved and expanded.
- **Increase CDFI financing of critical community infrastructure:** Expand the role of CDFIs in the U.S. Department of Agriculture's rural development and the Department of Commerce's economic development programs.
- **Promote affordable housing through market-driven initiatives:** Partnering with HUD and FHFA to leverage private investment will expand affordable housing options and address the nation's housing crisis. In particular, the federal government must ensure Fannie Mae and Freddie Mac continue to make contributions to the Capital Magnet Fund and Housing Trust Fund. Additionally, increasing the role of CDFIs in federal programs like Opportunity Zones and aligning the program with other housing initiatives will allow CDFIs to combine these investments to amplify their impact.

Strengthen American Energy Independence by Expanding the Role of CDFIs

CDFIs are pivotal in advancing American energy independence by reducing risks for communities facing rising energy costs and natural disasters. Low-income communities are disproportionately impacted by these challenges, which not only burden local economies but also lead to rising costs for the federal government. Strategic investments in pre-disaster mitigation, resilient infrastructure, and local energy solutions can lower long-term costs while enhancing national energy security.

CDFIs also serve as financial first responders in the aftermath of disasters, providing swift support to small businesses, homeowners, and community organizations. By offering energy financing solutions, CDFIs help reduce energy costs for communities and promote local economic resilience. Additionally, CDFIs drive investment into diverse, American-made energy sources, ensuring that communities benefit from cleaner, more affordable energy options while boosting domestic energy production.

As the federal government addresses environmental challenges affecting low-income households, we recommend leveraging the proven, market-driven solutions offered by CDFIs to build more resilient communities and support economic stability.

Spur Economic Growth on Main Street through Tax Reform

CDFIs are uniquely positioned to partner with the private sector to leverage market-based solutions through the tax code, ensuring that capital flows efficiently to where it's needed most. Congress should ensure these bipartisan priorities are included in tax reform:

- Make the New Markets Tax Credit permanent and index allocations to inflation, promoting long-term private investment in low-income areas.
- Support key tax incentives, including the Community Development Investment Tax Credit Act, the Neighborhood Homes Investment Act, and the Affordable Housing Credit Improvement Act, to encourage private sector-led revitalization of local economies, expand affordable housing, and create jobs.

SAWYER COUNTY, WISCONSIN

Leveraging New Markets Tax Credits (NMTCs), the Lac Courte Oreilles Band of Lake Superior Chippewa Indians is developing a new, state-of-the-art tribal health center that will consolidate two aging facilities into one new location. Doing so will nearly double the clinic's capacity and enable the expansion of existing services and the launch of new health and wellness programming designed to more comprehensively meet the health care needs of tribal members and other residents in the rural area.



Foster a Competitive and Transparent Financial System for All Americans

A strong financial system relies on fair competition, transparency, and responsible lending. CDFIs play a key role in ensuring small businesses and consumers have access to affordable financing, offering alternative financing options to harmful predatory lenders. Predatory lending practices distort free market competition and undermine local economies by limiting access to capital. Federal policies should reinforce these free-market principles by supporting accountability and transparency in lending. Key priorities include:

- Accelerating implementation of policies that promote fairness and transparency, such as the Dodd-Frank Section 1071 rule on small business lending data collection, to ensure that capital flows efficiently to businesses in underserved areas.
- Ensuring that the Community Reinvestment Act (CRA) continues to drive significantly more private-sector investment in CDFIs, especially in rural areas with limited physical bank branches where CDFIs step in to fill the gap in financial services.
- Promoting lending policies that protect entrepreneurs from irresponsible financial products, helping to preserve a vibrant small business sector and strengthen local economies.



MONTICELLO, KENTUCKY

Financing from Kentucky Highlands Investment Corporation is powering a nearly 15,000 square-foot medical facility that brings critical health services to a rural community in coal country. In 2023, the facility lost vaccines and other refrigerated medicines during a local power failure. A solar energy system with a battery backup will ensure the continuation of services, even in the event of extreme weather and power outages.

To learn more, email OFN's Public Policy team at public.policy@ofn.org or call 202.618.6100.

ABOUT OPPORTUNITY FINANCE NETWORK (OFN)

OFN is the nation's leading network and intermediary focused on community development investment, managing over \$1 billion in total assets and a membership of over 470 community development financial institutions (CDFIs). Our network of CDFIs works to ensure communities underserved by mainstream finance have access to affordable, responsible, financial products and services, with a deep focus on serving rural, urban, and Native communities across the United States. OFN is a trusted investment partner to the public, private, and philanthropic sectors, and, for more than 40 years, has helped partners invest in communities to catalyze change and create economic opportunity for all.

WE BELIEVE IN OPPORTUNITY.
FOR ALL.

OFN.ORG

January 2025