

New England Community Developments

Emerging Issues in Community Development and Consumer Affairs

An Overview of the CDFI Industry

by Brandy Curtis

There are an estimated 1,000 community development financial institutions (CDFIs) operating in the United States, including approximately 70 CDFIs in the six New England states. These institutions provide financial services and technical assistance to create economic opportunity for low- and moderate-income (LMI) people, often where these constituencies are not being served by mainstream financial institutions.

CDFIs are financial institutions that have a primary mission of promoting economic growth and stability in LMI communities.

This article, part of ongoing efforts of the Federal Reserve Bank of Boston to help raise awareness of CDFIs and to be a resource for this sector, presents an overview of the CDFI industries in the United States and New England. We identify the size of the industry and the services and products offered, and we highlight some of the effects these institutions have on LMI communities. We also take a look at the changes and challenges facing CDFIs and what they indicate for the sector's future. We conclude with exhibits that highlight the work of a CDFI in each of the New England states.

While the CDFI industry has had strong growth in recent years, it still repre-

sents a very small portion of the overall financial services sector in the United States. Moreover, the industry is at a crossroads in terms of identifying strategies for increasing overall sustainability and scale, and ultimately, impact.

What are CDFIs?

The term CDFI can be defined in several ways. Some refer to CDFIs as specialized financial institutions that receive certification by the U.S. Department of Treasury's CDFI Fund. The CDFI Fund is a public fund created for the purpose of promoting economic revitalization and community development through investment and assistance to CDFIs. In order to be certified by the Fund, a CDFI must have community development as a primary mission; must serve an eligible target market; must be predominantly a financing entity; must provide development services (technical assistance); must be accountable to the target market; and must be a nongovernmental entity. Currently, there are 748 certified CDFIs nationwide and 64 in New England.

CDFIs can also be defined more broadly as financial institutions that have a primary mission of promoting economic growth and stability in LMI communities. In certain cases, financial institutions have not found it necessary to apply for CDFI

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Figure 1 **Number and Asset Size of CDFIs**

U.S.	All	Banks	Loan Funds	Credit Unions	Venture Capital
Number	517	53	161	284	19
Total Assets	\$18,322,322,477	\$9,771,422,000	\$3,271,918,862	\$5,102,487,005	\$176,494,610
Average Assets	\$35,439,695	\$184,366,453	\$20,322,477	\$17,966,504	\$9,289,190
New England					
Number	30	2	19	8	1
Total Assets	\$944,467,699	\$525,143,000	\$200,432,701	\$213,495,160	\$5,396,838
Average Assets	\$305,204,323	\$262,571,500	\$10,549,090	\$26,686,895	\$5,396,838

Source: CDP

Fund certification to carry out their community development mission.

The total number of financial institutions that have community development as their primary mission is more difficult to estimate than the number of CDFIs that are certified. According to the CDFI Data Project (CDP), an industry collaborative, there are approximately 1,000 CDFIs, certified and uncertified, operating in all 50 states, the District of Columbia, and Puerto Rico.¹ In 2004, the CDP collected data—including over 150 data points on operations, financing, capitalization, and impact—on 517 CDFIs nationwide and 30 CDFIs in New England.² Unless otherwise noted, the CDFI data cited in this article refer to the 2004 CDP survey data.

There are about 1,000 community development financial institutions operating in the United States, including approximately 70 CDFIs in the six New England states.

CDFIs can take on a wide variety of institutional forms, and some organizations use more than one. The industry classifies these different forms into four broad groups: 1) federally regulated community development banks (CDBs), which take deposits and lend to and invest in individuals and organizations, 2) federally regulated credit unions (CDCUs), which take deposits and provide retail financial services, 3) nonprofit or for-profit community loan funds (CDLFs), which aggregate and lend funds, and 4) community development venture capital funds (CDVCs), which make debt and equity investments in growing businesses.

The asset size of individual CDFIs also varies widely. Currently U.S. CDFIs range in asset size from \$29,000 to more than \$1.5 billion. In New England, they range from \$90,000 to \$479 million. While it is hard to generalize about how the average asset size varies across organizational forms, the CDP data suggest that on average community development banks represent the largest institutions and community development venture capital funds the smallest (see Figure 1). Although the size of certain CDFIs might appear quite large, the total asset size for the surveyed institutions equals just \$18 billion, a small portion of the U.S. financial-services sector as a whole.³

The History of Community Development Finance

Community development finance has appeared in many different forms. In the late 1880s, some minority-owned banks targeted their lending to low-income areas. At the turn of the century, credit unions began to emerge, offering customers the ability to pool their money, which has had broad appeal for low-income individuals. In the 1960s and 1970s, some community development corporations (CDCs) offered financial assistance, usually to support the community development projects of other groups. In the 1980s, a series of nonprofit loan funds began providing financial support for the development of affordable housing and small businesses. As the overall number of venture capital funds multiplied in the 1990s, several were established for the specific purpose of promoting community development.

Two important initiatives in the 1990s helped to stimulate growth of the community development financing industry. The first initiative involved the establishment of the Community Development Financial Institutions Fund in 1994. The Fund is the single largest funding source for certified CDFIs and also provides technical assistance. The most significant contribution of the Fund to the CDFI industry has been equity financing, which helps CDFIs to leverage additional funding from donors and private sources. The Fund also provides a fair amount of flexibility in how the financial awards can be used, which has allowed some CDFIs to develop new products.

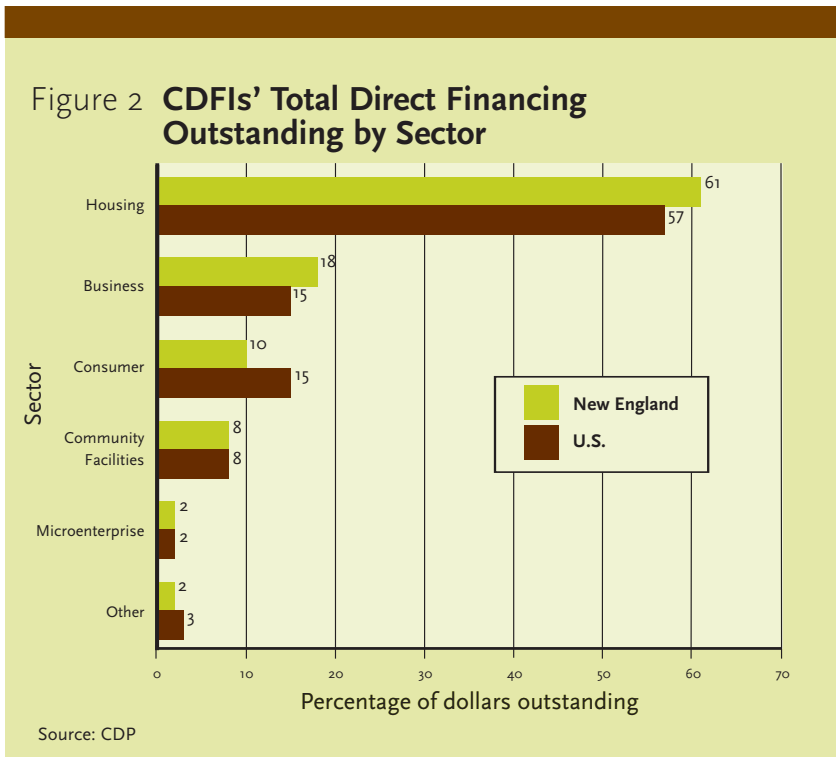
Second, federal regulators revised the Community Reinvestment Act in 1995 to judge banks and thrifts more on their actual lending than on their marketing and outreach strategies in LMI and minority communities. This change helped stimulate additional community investments from banks and thrifts.

The industry continues to change rapidly because of economic and demographic changes in the communities where CDFIs serve and because of shifts in private and public funding sources. In the last three years, fewer new CDFIs have appeared, while some existing CDFIs have consolidated. According to the Social Investment Forum, CDFIs exhibited a 19 percent increase in total asset size from 2003 to 2005.

What Products and Services Do CDFIs Offer?

CDFIs provide financial and nonfinancial services to six categories: housing, small- and medium-sized businesses, microenterprise, community facilities, consumer financial services, and “other.” For New England and the nation as a whole, housing is by far the primary sector that CDFIs finance, constituting 61 percent and 57 percent of CDFIs’ direct financing outstanding in New England and the United States, respectively (see Figure 2). This is followed by financing for small- and medium-sized businesses, consumer financial services, and community facilities. Microenterprise and “other” are the smallest categories. Below we discuss the particular financing needs of each sector and how CDFIs work to meet these needs.

One of the unique features of CDFIs is the way they supplement their financing with a range of counseling and educational services that increase borrowers’ capacity to build wealth. Indeed, it is



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required that a CDFI provide this type of technical assistance in order to receive certification from the CDFI Fund. CDP data show that in 2004, New England CDFIs provided training to more than 700 organizations and more than 18,000 individuals through group-based training and one-on-one technical assistance.

Technical Assistance Provided by New England CDFIs

	# People or organizations	# New England CDFIs reporting [†]
People receiving group-based training	3,214	9
People receiving one-on-one technical assistance	15,244	16
Organizations receiving training	718	13

Housing

The stability of a neighborhood depends partially on the availability of housing finance. Such credit has historically been difficult to obtain in LMI and minority neighborhoods because of redlining and the real and perceived higher risk of lending in these neighborhoods. Some CDFIs provide loans to housing developers for acquisition, construction, renovation, working capital, and mortgage loans. CDFIs also help to reduce mainstream lenders' uncertainty by funding some of the more-risky project financing, such as land acquisition and architectural, engineering, or other predevelopment costs. Housing finance provided by CDFIs also supports the development of rental housing, transitional housing, and residential housing. Among CDFIs, community development loan funds are the primary financing source for housing development.

	Nationwide	New England	# New England CDFIs reporting
Total financing outstanding	\$1.9 billion	\$103 million	15
Housing units created or renovated	43,160	3,869	12
Mortgages closed	7,697	496	7

A growing body of evidence indicates that an absence of conventional mortgage lenders in LMI areas is increasingly filled by subprime mortgage lenders. A small number are thought to be marketing predatory loans, which have the effect of stripping borrowers' home equity. Some CDFIs work toward filling the mortgage lending gap by providing mortgages, often to those who cannot qualify for a mortgage from the mainstream financial sector. Because these borrowers are typically first-time homebuyers who need significant help with the buying process, many CDFIs offer nonfinancial services such as homebuyer education courses and counseling on how to avoid predatory lending. CDFI lending in this arena encourages involvement by conventional lenders and therefore increases the amount of available credit in underserved areas. As more conventional lenders have entered this market, CDFIs have begun focusing on supplementary financial products, such as second mortgages, loans for down payments, and home improvement loans.

Businesses

Business provides critical goods, services, and employment opportunities to residents and local economies. Business, in turn, requires access to debt and equity capital in order to finance both new and growing enterprises. Smaller businesses generally have more difficulty accessing capital than their larger counterparts because of low levels of capitalization, lack of collateral, and shorter track records. In addition, lending to these groups is often less profitable because of the technical assistance needed and the small size of the loans. Some CDFIs help meet the needs of small businesses in LMI areas by providing loans and technical assistance.

Small and Medium-Sized Businesses

Among CDFIs, financing for small- and medium-sized business generally comes from community development loan funds and venture capital funds. In addition to looking at returns, many CDFIs consider social benefits when making loans and investments to smaller businesses. These social benefits include promoting economic growth and job creation in LMI areas, providing services in disinvested locations, and ensuring business growth will not harm the surrounding environment. While both community development loan funds and community development venture capital funds lend to smaller businesses, the latter also provide equity capital.

	Nationwide	New England	# New England CDFIs reporting
Total financing outstanding	\$571 million	\$30 million	14
Businesses financed	1,821	143	13
Jobs created and maintained (including microenterprise)	28,330	1,675	11

Microenterprise

The CDP defines a microenterprise as a business with five or fewer employees and a maximum loan or investment of \$35,000. CDFIs support these businesses by providing capital for start-up or expansion of a business, working capital, or equipment purchase. Most of CDFIs' microenterprise borrowers are LMI or minority and are in the early stages of business development. CDFIs offer a wide range of technical assistance for microenterprise such as entrepreneurial training, business coaching, and net-

	Nationwide	New England	# New England CDFIs reporting
Total financing outstanding	\$82 million	\$4.2 million	9
Microenterprises financed	5,052	474	8

working opportunities. Although some community development banks and credit unions provide microenterprise financing, most of the financing for these businesses comes from community development loan funds and community development venture capital funds.

Consumer Financial Services

For a variety of reasons, many LMI customers choose not to use the retail financial services of mainstream financial institutions and turn instead to alternative financial providers such as check cashers, payday lenders, pawnshops, and rent-to-own stores. Some of the most frequently cited reasons customers choose not to use banks include the cost of bank services, “hard” barriers such as credit problems or a lack of proper ID, and “soft” barriers such as wariness of banks.⁵ Alternative financial services typically offer customers convenient locations, flexible hours, and immediate cash. However, users of alternative banking services pay high interest rates and fees two to three times more than conventional bank-account fees. In addition, few alternative financial providers offer savings accounts, which can help consumers build wealth, or checking accounts,

	Nationwide	New England	# New England CDFIs reporting
Total financing outstanding	\$512 million	\$16.5 million	3
Pay-loan alternatives	4,361	48	1

which, together with savings accounts, can help consumers build their credit histories.

Some CDFIs try to improve the accessibility and affordability of basic financial services for LMI consumers. Community development banks and credit unions in particular provide a range of basic financial services to develop personal assets at little or no cost to their members or customers. CDFIs offering consumer financial services sometimes pro-

vide personal loans for health, education, employment, debt consolidation, transportation, and other consumer purposes. Sometimes they provide financial literacy training and programs such as individual development accounts that encourage savings. The consumer financing sector is characterized by a high number of loan transactions and relatively small dollar amounts. In New England, direct financing outstanding by CDFIs for consumer finance amounts to just 15 percent of their direct financing outstanding for housing. However, these CDFIs conduct more than twice the number of transactions for consumer finance than they do for housing.

Community Facilities

Because public and philanthropic monies only go so far, community service providers must also turn to private-sector capital to help with the development of community facilities. CDFIs work with community groups—human- and social-service agencies, advocacy organizations, health-care providers, child-care centers, and educational providers—developing strategies to fill the gap. They help these organizations to become viable borrowers in the eyes of mainstream lenders, to develop sound financial and accounting practices, to identify and manage development issues, and generally to become more businesslike in their orientation to facilities development. In addition, many CDFIs entice mainstream lenders to commit monies to facilities projects by providing the initial, most-risky, project financing. Some CDFIs are using the CDFI Fund’s New Market Tax Credit Program to finance community facilities such as charter schools. Community facilities accounted for 8 percent of CDFI finance outstanding both regionwide and nationwide in 2004.

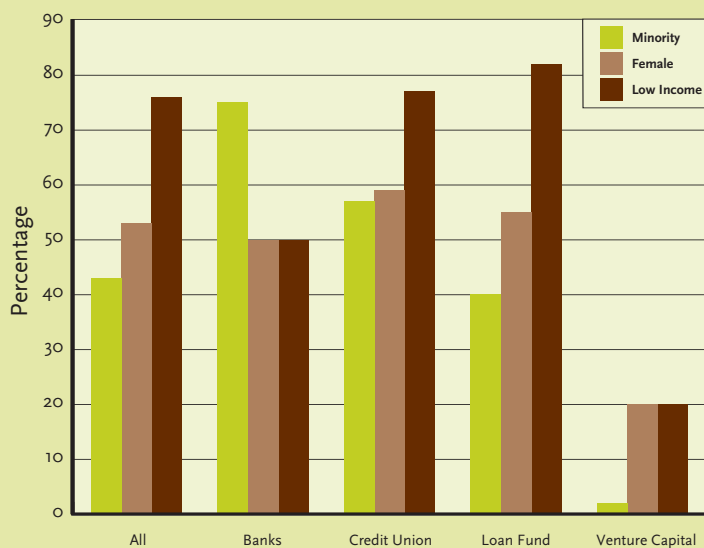
	Nationwide	New England	# New England CDFIs reporting
Total financing outstanding	\$262 million	\$13 million	9
Community organizations financed	470	35	9
Child-care slots assisted	14,446	818	3
Health-care slots assisted	245,823	1,832	4

Clients Served by CDFIs in New England

The work of CDFIs reaches many individuals and communities in the New England region, particularly those traditionally underserved by mainstream financial institutions—LMI individuals and families, minorities, and women. Seventy-six percent of CDFIs’ clients in New England are low-income, 53 percent are female, and 43 percent are minorities (see Figure 3). Loan funds and credit unions have the highest percentages of low-income clients at 82 percent and 77 percent, respectively. CDFIs in our region are helping borrowers open their first bank accounts, are improving financial literacy, are developing affordable housing, and are providing loans to markets not typically served by mainstream financial institutions.

CDFIs serve a mix of rural and urban markets in New England, with 24 percent of CDFI clients coming from major urban areas, 45 percent from minor urban areas, and 31 percent from rural areas.

Figure 3 Consumer Profile of New England CDFIs by Institution Type



Source: CDP

Looking Ahead

The CDFI industry is at a crossroads. A shift in available resources is pushing them to strengthen their business models. In addition, the industry has had to face the fact that they are not growing at a rate commensurate with demand. According to Mark Pinsky, president and CEO of Opportunity

Finance (formerly National Community Capital Alliance), CDFIs need to accept that they must “grow, change, or die.”

The industry saw rapid growth in the size of the overall sector in the 1990s; however, the subsequent slowing of the U.S. economy and a drop in government funding for community development is requiring that CDFIs adapt their business models. Pinsky says that many CDFIs are struggling to meet these challenges and not all of them will survive. He suggests that smaller CDFIs, in particular the microlenders in rural communities, will survive because they are meeting a real need and a larger-scale operation would not work for them. He adds that the big industry leaders also should not have difficulty provided they continue to make good strategic choices. This leaves the midsize CDFIs, those with roughly \$2 million to \$50 million in assets. Pinsky says that these institutions are struggling the most but that the “CDFIs with the best chance of succeeding are those that take a brutally honest look around and make hard strategic choices.”

CDFIs are responding in several ways. Some are moving away from being vertically integrated business units that raise their own capital and do their own lending and servicing. These CDFIs have chosen to specialize, contracting out the other functions. For other CDFIs, the drive to stay competitive has led to mergers and acquisitions, as well as a push for further horizontal integration, including resource sharing.

The CDFI industry also has had to confront the fact that for all its growth, its overall impact remains small relative to the mainstream financial markets and to the needs of LMI populations. In recent years there has been a lot of talk about how the industry can reach scale, including how it can improve the flow of mainstream capital into its markets.

A number of industry initiatives have focused on increasing the impact of CDFIs by attracting additional funding to the sector. For example, in an attempt to reduce transaction costs and increase transparency for private investors, Opportunity Finance Network launched the CDFI Rating and Assessment System (CARS) in 2001. CARS provides a comprehensive analysis of nondepository CDFIs. It aides investors by rating an institution’s impact (does the organization play a leading role in policy?) as well as its financial strength and performance. Establishing a rating system for a CDFI’s role in public policy is an acknowledgment of the importance of policy to the industry. To date, 16 CDFIs

nationwide have been rated by CARS, and 14 additional ones are either in the process of being rated or are scheduled for a rating.

Several organizations have been successful in attracting additional investors to CDFIs by leveraging the secondary markets. For example, the Community Reinvestment Fund (CRF) is a non-profit that buys loans from community lenders and then pools and resells them on the secondary market. In 2004, CRA issued an \$84.6 million pool of loans to the secondary market, \$64.5 million of which received an AAA rating from Standard & Poor's. The \$84.7 million pool of loans consisted of loans made to 45 multifamily, low-income housing tax credit properties in California, Florida, Wisconsin, and Washington State.

The industry is also seeing resources directed toward research on ways to increase scale. The CDP has made a significant contribution toward promoting quantitative analysis through administering the first comprehensive survey of the CDFI industry. In addition, the Aspen Institute and the Federal Reserve System are in the middle of a two-year joint effort to increase collaboration and research on CDFI scale and sustainability. This partnership builds on the research done by Kirsten Moy and Greg Ratliff of the Aspen Institute titled "Pathways to Scale for Community Development Finance." Moy and Ratliff argue that whereas the industry has long held that growth and expanded service delivery lead to sustainability, CDFIs must not overlook cost control and increased efficiency. Otherwise, the industry will not grow in a meaningful way. Thus, the authors contend, achieving scale for the CDFI industry means expanding volume, reach, and efficiency to reach sustainability. Once they are sustainable, CDFIs will be able to attract additional investment and deepen their impact.

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Conclusion

Self-reflection has helped the CDFI industry identify some of the challenges ahead—namely, how to make institutions sustainable in the long term and how to increase the overall scale of the industry. Individual institutions and the overall industry will have to look within themselves for ways to grow stronger, look to each other for ways to increase resource sharing, and look outward for ways to increase the flow of resources to the industry and to help shape favorable public policy. It is clear that many CDFIs improve the lives of their clients, but there is still a lot to be learned about how these institutions can effectively expand their reach.

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Notes

¹The CDP aims to ensure access and use of data to improve practice and attract resources to the CDFI field. The collaborative is composed of the following organizations: Association for Enterprise Opportunity; Aspen Institute; Coalition of Community Development Financial Institutions; Community Development Venture Capital Alliance; CFED; National Community Investment Fund; National Federation of Community Development Credit Unions; and Opportunity Finance Network (formerly known as National Community Capital Association).

²Of the 30 New England CDFIs surveyed by the CDP, nine are not certified by the CDFI Fund. Therefore, there are at least 73 CDFIs in the New England area.

³For example, the total assets of domestically chartered banks equaled \$8,180 billion at the end of May 2005 (source: Federal Reserve Board).

⁴Some CDFIs did not respond to certain questions on the CDP survey, either because they chose not to or because they could not get the data requested.

⁵See *A Financial Services Survey of Low- and Moderate-Income Households*.

Putting CDFI Fund Dollars to Work: New England CDFIs Bring Capital and Credit to Low-income Communities

Connecticut

On August 7, 2003, Mignon Williams beamed as she received a check for \$20,000 to put toward a downpayment on her first home, a condominium in the Cove area of Stamford, Connecticut. Mignon was selected by the Adopt-A-House, Inc., program of the **Housing Development Fund of Lower Fairfield County (HDF)** to participate in the federal HOME program, which pays up to \$20,000 to low-income renters toward a downpayment to purchase their first home. Homeowners pay back the loan, which has no interest and no monthly payments, when they sell their home. Adopt-A-House screens low-income residents for eligibility for the HOME downpayment program, counsels them through the

process, and helps them obtain a mortgage. Serving one of the most expensive housing markets in the country since 1989, HDF also provides below-market-rate loans for affordable housing construction, including permanent financing and short-term predevelopment loans. Since 1997, HDF has received \$403,500 in technical and financial assistance from the CDFI Fund to establish loan loss reserves, develop a web site and purchase technological upgrades, and to provide homeownership downpayment and closing-cost assistance via its Adopt-A-House program.

Source: Coalition of Community Development Financial Institutions, 2003 Data.

Maine

Started in 1977, **Coastal Enterprises, Inc (CEI)**, a community development corporation and community development financial institution (CDFI), has its roots in the civil rights movement. The organization initially focused on financing the untapped potential of Maine's natural resource industries and the entrepreneurial talent of rural and coastal Maine. In 1997 CEI received the first of five CDFI Fund financial assistance awards totaling \$8.5 million. These awards facilitated the growth of CEI from a capital base of \$34 million in 1997 to over \$180 million under management today. Today, CEI is a multifaceted financing and technical assistance organization with programs targeted to the

development of small, medium, and micro enterprises; affordable housing; and community facilities such as child-care centers. Over the years, CEI's financing has helped businesses retain 15,320 jobs and hire 13,009 full-time workers. CEI's housing department has created or preserved 717 units of affordable housing and its business development services have counseled 17,638 businesses or individuals. CEI is poised to create even more impact using the \$130 million in New Markets Tax Credits it was awarded in the first and second rounds of the program by the CDFI Fund.

Source: Coalition of Community Development Financial Institutions, 2003 Data.

Massachusetts

For 20 years the top floors of the Dartmouth Hotel stood vacant, causing the historic building that serves as a gateway to Boston's Dudley Square to fall into disrepair. Now, Nuestra Comunidad Development Corporation plans to rehabilitate the entire structure, restoring the façade, creating affordable housing for 66 families, and renovating 12,200 square feet of rental space. This transformation was made possible with a loan from the **Boston Community Loan Fund (BCLF)**, which provided Nuestra Comunidad with deeply subordinated debt and an interest and principal payment structure that fit the project's needs and schedule. No other organization was willing to supply that type of nontraditional financing. Formed in 1985, BCLF provides financing for the creation and preservation of affordable housing in the

Boston area and across Massachusetts. It is an affiliate of Boston Community Capital (BCC), which also runs the Boston Community Venture Fund (BCVF). BCLF provides financing to non-profit community development organizations to create affordable rental housing, homeownership opportunities, community facilities, and commercial real estate. BCVF makes equity investments in high-potential, emerging businesses that create a "double bottom line" of financial and social return. Since 1996, BCC, BCLF, and BCVF—all three certified CDFIs—have received \$7 million from the CDFI Fund, allowing them to expand their services and use the capital to leverage a significant amount of private sector resources.

Source: Coalition of Community Development Financial Institutions, 2003 Data.

New Hampshire

Imagine owning your own home, but having no control over your living conditions. This is what millions of residents of manufactured housing parks (also known as trailer parks) face everyday. Four percent of New Hampshire's residents live in trailer parks. They own their own homes and rent the land underneath. Problems arise if rents are increased dramatically, the park is not maintained, or worse, the park is closed down. Established in 1983, the **New Hampshire Community Loan Fund (NHCLF)** is the nation's first statewide community loan fund. Since 1984, NHCLF has been helping residents in manufactured housing parks to buy the land underneath

their homes by creating democratically run cooperatives. The CDFI Fund has been a partner in this initiative since 1996, awarding NHCLF \$7.5 million from 1996-2001 to capitalize their loan funds and expand their lending activities. Today there are more than 58 manufactured housing cooperatives in New Hampshire, which are home to more than 2,100 families, and NHCLF has expanded their lending activities to provide financing in the areas of affordable housing, child-care and nonprofit facilities lending, microenterprise, and micro credit.

Source: Coalition of Community Development Financial Institutions, 2003 Data.



Rhode Island

Christopher Osinaga, owner of Naga Food Products, Inc., has been manufacturing and distributing snack foods since 1996. Although primarily marketed to Hispanics and African Americans, the snacks (particularly a new line of African cookies) have been gaining popularity among a diverse set of customers. When Christopher wanted to expand, **Minority Investment Development Corporation (MIDC)** was there to help. MIDC provided funding to automate the manufacturing process and double sales volume. In addition, the technical assistance provided by MIDC improved book-keeping procedures and accounting controls,

enabling Naga Foods to attain future financing from mainstream institutions. MIDC, a multibank community development corporation based in Providence, targets its lending to minority and disadvantaged entrepreneurs throughout Rhode Island, providing needed subordinated debt and quasi-equity financing. In 1997, MIDC received a \$750,000 equity investment from the CDFI Fund to help more low-income small businesses leverage financing from banks and public sector loan funds.

Source: Coalition of Community Development Financial Institutions, 2003 Data.



Vermont

In 10 years of living in subsidized housing in Barre, Vermont, Brianna Parry never stopped dreaming of owning her own home. She wanted a place where her children could play outside and a home large enough so that her husband, who works nights delivering newspapers, would not share a bedroom with their toddler. Given the family's limited income, the Parrys found it difficult to save enough money for a downpayment. Last year, **Vermont Development Credit Union (VDCU)** helped the Parrys become homeowners through their Home Dollars program, which was capitalized with both a \$2.3 million grant from the CDFI Fund and money from the Federal Home Loan Bank of Boston. The Home

Dollars program matched the Parrys' savings 4 to 1, and VDCU helped them qualify for a mortgage that brought their ownership costs below the amount they were paying before for rent. Furthermore, the Parrys were able to convert the garage into an apartment for Brianna's parents. VDCU has been serving low-income residents of Vermont since 1989, and currently works in 205 communities helping over 10,000 people build assets and credit. In 2002, VDCU made 1,994 loans totaling \$20.8 million.

Source: Coalition of Community Development Financial Institutions, 2003 Data.

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Additional Resources

CDFI Data Project

http://www.communitycapital.org/community_development/finance/cdfi_data_project.html

Industry collaborative that ensures access to and use of data to improve practice and attract resources to the CDFI field

CDFI Fund

<http://www.cdfifund.gov>

Program of the U.S. Treasury Department that invests in CDFIs, provides incentives to attract private funds to the industry, and offers technical assistance

Social Investment Forum

<http://socialinvest.org>

National nonprofit membership association dedicated to promoting the concept and practice of socially responsible investing

The Community Investing Center

<http://www.communityinvest.org>

National center that provides financial professionals with information and resources to help them channel more money into community investing

New England Updates

Second Quarter 2006

by Ricardo Borges

Across the Region

Health Insurance

In April, Governor Mitt Romney signed legislation intended to make health insurance available to all Massachusetts residents within three years. The law requires every resident to purchase health insurance by July 1, 2007, and offers several provisions to help those for whom health insurance is currently too expensive. First, state calculations estimate that, of the approximately 500,000 uninsured individuals in the state, about 100,000 are currently eligible for Medicaid benefits. Second, the approximately 200,000 residents who make less than 300 percent of the federal poverty level (FPL) but are not eligible for Medicaid will receive premium assistance on an income-based sliding scale. Third, another 200,000 individuals with incomes above 300 percent of the FPL will be able to purchase lower-cost policies in the private market. Premium assistance will be financed by redirecting a portion of the \$1 billion currently spent by the state on medical care for the uninsured. Finally, the legislation also aims to help consumers make informed health-care choices by collecting and publishing data on various health insurance alternatives.

In May, Governor Jim Douglas signed health-care reform legislation that launches cost containment provisions for Vermont residents with health insurance and extends affordable coverage to state residents currently without it. Low-income, uninsured Vermonters with access to employer-sponsored insurance will be given a subsidy to pay for the insurance plan available to them. Those without access to a plan will be offered a Catamount Health policy, a new, lower-cost private health insurance. Catamount Health premiums range from \$60 month for individuals with household incomes of less than 200 percent of the FPL to \$135 per month for individuals with household incomes between 275 percent and 300 percent of the FPL.

Flood Assistance

The U.S. Small Business Administration approved disaster-declaration requests from Maine, Massachusetts, and New Hampshire in response to severe storms and flooding in May. Many homes and businesses suffered. Homeowners, renters, property owners, businesses, and nonprofit organizations located in selected counties have applied for physical-damage disaster loans. Small businesses have also applied for economic-injury disaster loans. The Finance Authority of Maine (FAME) has also tailored two loan programs to meet the immediate needs of businesses affected by flooding in southern Maine.

Identity Theft Alert for Veterans

In May, the federal government announced the loss of sensitive personal information for more than 26 million U.S. veterans. Veterans were urged to check their credit report for fraudulent activity for free at www.AnnualCreditReport.com and consider placing a fraud alert on their credit files at the three national credit bureaus. The Federal Trade Commission has detailed instructions on placing fraud alerts at its web site, www.ftc.gov. In Connecticut, Governor M. Jodi Rell directed a special

Identity Theft Information Team to conduct identity theft prevention seminars for veterans. She also directed the state Veterans Affairs Commissioner, Linda S. Schwartz, to make recommendations on ways to enhance personal data security. In Maine, Governor John Baldacci signed LD2017 and LD1835, bills designed to strengthen the protection of personal data by educating residents and providing for notice of debit-card holds, the process by which financial institutions or vendors put a hold for a certain dollar value on an account to ensure that the customer has sufficient funds to pay for a pending purchase. In New Hampshire, Governor John Lynch signed Senate Bill 334, which will allow victims of identity theft to ask their credit-reporting agency for a “credit freeze.”

State Highlights

CT Connecticut

In April, the state received a \$100,000 grant to help kick off a national initiative aimed at more fully integrating economic and workforce development with education. A regional partnership in Southwestern Connecticut, convened by the Work Place, Inc., was selected to be part of a national demonstration project. The partnership’s proposal builds on the “One Coast, One Future” initiative, a consortium formed by the Bridgeport Regional Business Council and the Business Council of Fairfield County to strengthen the alliance between the region’s business centers for their mutual benefit.

In June, Governor M. Jodi Rell announced an additional \$10 million in state funding for Connecticut’s Housing Trust Fund. Signed into law in December 2005, the Housing Trust Fund for Economic Growth and Opportunity is designed to help create housing for low- and moderate-income working families by providing critical gap financing in the form of loans and grants. The \$100 million Housing Trust Fund is funded through state General Obligation bonds, providing a maximum of \$20 million per year for five years to create additional housing throughout the state. The authorization of \$10 million in bond funding will fulfill the state’s financial commitment to the program for 2006. The State Bond Commission approved an initial \$10 million in December 2005.

ME Maine

In April, Governor John E. Baldacci signed LD235, giving everyone earning minimum wage a pay raise. The bill will raise Maine’s minimum wage to \$6.75 an hour, effective October 2006, and to \$7.00 an hour, effective October 2007.

In April, the state awarded \$315,000 in Maine Microenterprise Initiative grants from the Department of Economic and Community Development. The grants will be used by Maine’s microenterprise community to provide business skills training, coaching, and peer-to-peer learning opportunities. Approximately \$159,550 is going to the Maine Small Business Development

Centers; \$75,000 is going to the Maine Centers for Women, Work, and Community; \$34,500 is going to Waterville Main Street; and \$45,950 is going to the Sunrise County Economic Council.

MA Massachusetts

In April, State Treasurer Timothy P. Cahill and Citizens Bank of Massachusetts announced a public-private partnership that will make a \$25 million loan pool available to low- and moderate-income businesses across the state. The program was developed as part of the treasurer's Job Growth Task Force, established in February 2005 to propose strategies for creating and retaining jobs in Massachusetts. Under the program, qualified businesses can receive loans ranging from \$100,000 to \$500,000 at an interest rate below the market rate.

The Massachusetts Housing Finance Agency announced in April that low- and moderate-income residents of Martha's Vineyard, some of whom have struggled with increasingly high rents on the summer island vacation spot, will soon have a new affordable housing option, Pennywise Path. The new Edgartown housing development will consist of 60 units of mixed-income, multifamily rental housing and will be built with \$10 million in financing from MassHousing.

NH New Hampshire

In May, Governor John Lynch signed legislation that will help communities rebuild from damage caused by the October floods. The legislation, House Bill 1767, would allow the state to purchase property located in Alstead, Langdon, and Walpole that was severely damaged or destroyed by the floods. The property would be purchased at the preflood assessed value minus the total amount of financial aid the property owner received, such as federal disaster aid or insurance payments. No property owner would be required to sell.

RI Rhode Island

In April, Providence Mayor David N. Cicilline introduced a five-year housing plan called, "Create, Preserve, Revitalize," which includes streamlining the permitting process and waiving fees for developers of affordable housing, setting goals for more affordable units, allowing developers to build higher and denser in return for contributions to the city's Affordable Housing Trust, and challenging businesses to create housing-assistance programs for their employees. The plan included the launch of two initiatives on May 1, 2006. The first extended the City Home Program to middle-income families. Residents buying a home through the program can get an interest-free loan that does not have to be repaid until the house is sold. The other program created a revolving fund to help community development corporations buy land to build housing.

In April, Rhode Island Attorney General Patrick G. Lynch told state taxpayers who are eligible for income tax refunds to avoid any offers that promise instant refunds, which tax preparers call refund anticipation loans, instant money, rapid refunds, or immediate refunds. He explained that these are short-term loans that charge exorbitant interest rates. The attorney general referenced a

release by the National Consumer Law Center and the Consumer Federation of America that says that about 40 percent of those getting refund anticipation loans are filing for Earned Income Tax Credits (EITC) —payments available to some low-income workers—even when they do not owe income taxes. He added, that when fees for tax preparation, electronic filing, check cashing, and the loan are tallied, almost \$270 is subtracted from the average \$1,600 EITC refund.

VT Vermont

In May, Governor Jim Douglas signed legislation aimed at protecting consumers from paying too much for petroleum products at the pump and at home. The new law protects consumers entering into guaranteed price plans and prepaid contracts with dealers who sell home heating oil, kerosene, or liquefied petroleum gas by requiring the terms of the contract to be fully and clearly disclosed in writing.

In May, the federal Environmental Protection Agency (EPA) awarded eleven grants totaling \$3 million to Vermont communities to help revitalize former industrial and commercial sites. The funding will help pay to assess, clean, and redevelop abandoned, contaminated parcels known as brownfields. Brownfields are sites where contaminants may be impeding revitalization. The EPA also issued Vermont a Revolving Loan Fund grant to create a funding source for low-interest loans to property owners undertaking brownfield cleanups.

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This publication is available without charge at www.bos.frb.org/commdev/cdevpubs.htm. We welcome your ideas and comments; contact Anna Afshar at 617-973-3201 or Anna.Afshar@bos.frb.org. Send requests to be placed on our mailing list to:

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