



# Expanding Economic Opportunity Through Community Development Financial Institutions (CDFIs)

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## Contents

What’s the Problem? .....	2
Racial Equity Gaps Addressed by the Expansion of CDFIs .....	2
CDFI Basics.....	3
What is Unbanked vs. Underbanked?.....	3
What are Community Development Financial Institutions? .....	3
What is the Difference Between Traditional Banks and CDFIs? .....	3
What Services do CDFIs Offer? .....	3
Our Approach .....	5
Impact of Our Policy Position.....	5



## What’s the Problem?

Financial inclusion has yet to be realized for Black Americans. **Black Americans lack access to affordable financial products and services.** This unfortunate reality contributes to the wealth gap between Black and White Americans.

**Of the 47 million Black Americans** living in the United States, **23 million are unbanked or underbanked<sup>1</sup>** and are often forced to use check cashing, money orders or pay day loans as their primary method of banking. These alternative financial services come at a cost; the average pay day loan term is about two weeks and for a \$300 loan average interest charged is 396% APR and more in other states (664% APR)<sup>1</sup>.

Community Development Financial Institutions (CDFIs) can significantly decrease the number of unbanked and underbanked Black Americans. CDFIs can also help to stimulate the development and growth of businesses in the Black community by providing access to affordable capital. However, these specialized institutions need more funding, and favorable legislation passed to have a long-term impact on the Black community.

## Racial Equity Gaps Addressed by the Expansion of CDFIs

Closing the Wealth Gap with CDFIs					
<b>47%</b> of Black households are either unbanked or underbanked <sup>2</sup>	White people have a net-worth of over <b>10X</b> more than Black people <sup>3</sup>	<b>1/6</b> is the amount of emergency savings Black households have compared to white households. <sup>4</sup>	<b>60%</b> of paycheck required to be deposited by banks in Black neighborhoods to avoid fees, compared with 28% in white neighborhoods <sup>5</sup>	<b>27</b> , the number of banks per 100,000 people in majority People of Color neighborhoods, compared to 41 in white neighborhoods. <sup>6</sup>	<b>28</b> points is the homeownership gap between white and Black families. <sup>7</sup>

<sup>1</sup> Center for Responsible Lending. (2021, March 23). Map of U.S. Payday interest rates. Retrieved April 12, 2021, from <https://www.responsiblelending.org/research-publication/map-us-payday-interest-rates>

<sup>2</sup> Florant, A., Julien, J., Stewart, S., III, Yancy, N., & Wright, J. (2020, December 14). The case for accelerating financial inclusion in black communities. Retrieved April 12, 2021, from <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-case-for-accelerating-financial-inclusion-in-black-communities>

<sup>3</sup> McIntosh, K., Moss, E., Nunn, R., & Shambaugh, J. (2020, February 27). Examining the black-white wealth gap. Retrieved April 14, 2021, from <https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/>

<sup>4</sup> Noel, N., Pinder, D., Stewart, S., & Wright, J. (2021, January 15). The economic impact of closing the racial wealth gap. Retrieved April 14, 2021, from <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap>

<sup>5</sup> Florant, A., Julien, J., Stewart, S., III, Yancy, N., & Wright, J. (2020, December 14). The case for accelerating financial inclusion in black communities. Retrieved April 12, 2021, from <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-case-for-accelerating-financial-inclusion-in-black-communities>

<sup>6</sup> Florant, A., Julien, J., Stewart, S., III, Yancy, N., & Wright, J. (2020, December 14). The case for accelerating financial inclusion in black communities. Retrieved April 12, 2021, from <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-case-for-accelerating-financial-inclusion-in-black-communities>

<sup>7</sup> Dettling, L. J., Hsu, J. W., Jacobs, L., Moore, K. B., Thompson, J. P., & Llanes, E. (2017, September 27). Recent trends in wealth-holding by race and ethnicity: Evidence from the survey of consumer finances. Retrieved April 14, 2021, from <https://doi.org/10.17016/2380-7172.2083>

## CDFI Basics

### What is Unbanked vs. Underbanked?

- Unbanked – People that have no bank account/no connection to financial institution
- Underbanked – People that have a checking or savings account, but still use check cashing/money orders/payday loans because of their inability to pay the fees traditional banks charge

### What are Community Development Financial Institutions?

- CDFIs are specialized financial institutions with a core mission of providing financial products and services to people and communities underserved by traditional financial institutions. Despite enormous growth in the industry in recent years, CDFIs are still relatively unknown among the public.
- Banking with a CDFI is a powerful way for individuals and organizations/businesses to guarantee their money is in a bank or credit union focused on providing services to low- income and financially underserved communities. There are approximately 1,200 certified CDFIs in the U.S. Though there is at least one CDFI in each of the 50 states, the distribution is not even. Mississippi — the state with the lowest median household income — has 103 CDFIs as of mid-August, while several states have fewer than five CDFIs.

### What is the Difference Between Traditional Banks and CDFIs? <sup>8</sup>

#### CDFIs

- Structured to optimize community development with at least 60 percent of their financing activities targeted to one or more low- and moderate-income or underserved communities<sup>9</sup>
- Provide access to low- or no cost bank accounts and other financial services
- Work with borrowers with lower credit scores or minimal credit history
- Don't only rely on FICO scores to assess creditworthiness, seek to make lending more inclusive
- Make funding more readily available to support consumers, startups, nonprofits, micro- loans, affordable housing, and commercial real estate
- Offer technical services in the form of mentoring and advisory services, and business coaching

#### Traditional Banks

- Structured to optimize profit for shareholders
- Generally, don't offer startup or micro-business loans of any kind and tend to provide funding for established small businesses
- Often rely on FICO scores to determine creditworthiness
- Seek to narrow down pool of eligible borrowers to mitigate perceived risks
- Usually don't offer technical assistance services because of liability regulations

### What Services do CDFIs Offer?

- CDFIs deliver a range of products to meet the needs of their communities. They offer financing, retail and depository services, training and technical assistance, advocacy and

<sup>8</sup> CNote. (2021, February 16). *CNote | 5 Crucial Differences Between CDFIs and Traditional Banks*. CNote. <https://www.mycnote.com/blog/5-crucial-differences-between-cdfis-and-traditional-banks/#:%7E:text=CDFI%20banks%20and%20credit%20unions%20offer%20lower%20fees%20and%20interest,help%20people%20escape%20predatory%20loans.&text=Tr additional%20banks%20offer%20higher%20fees,credit%20history%2C%20and%20minimal%20assets%E2%80%8B>

<sup>9</sup> Khanh Vuong and Dianne Goodheart, "Rating U.S. CDFI Banking Organizations," A.M. Best Company (January 8, 2009). Available at <http://www.ambest.com/ratings/methodology/RatingUSBankingOrgs.pdf>.



research and other services that benefit the communities they serve. Most CDFIs have strong market knowledge and long-term relationships with clients, which help them develop the right mix of products for individuals and organizations/businesses.



## Our Approach

A principle is defined as a basic truth or assumption. These principles are foundational to how we communicate, educate and advocate for legislative actions via existing Congressional bills and policies to reform. To enable CDFIs, specifically minority-led CDFIs, to continue their mission-driven work, reform is necessary. Regulatory modernization enables CDFIs to prioritize community development and personal finances for Black Americans. Implementation of CDFI reform will help to reduce racial disparity, increase access to capital, drive accountability, build capacity to serve the community, and expand the CDFI network.

**CEO Action for Racial Equity (CEOARE) is committed to the following Policy Position:**



### Impact of Our Policy Position

- **When we expand CDFIs, we** provide improved access to credit, capital, and affordable financial services for Black Americans. Providing approximately 23 million unbanked/underbanked Black Americans better opportunities to open banking/credit union accounts.
- **When we increase access to capital, we** help drive positive change and transformation – and more importantly, equitable and affordable financial solutions and products – for millions of Black Americans.



- **When we drive accountability, we** confirm that minority-led and owned CDFIs are adequately funded and that capital is fairly distributed to assist Black Americans via affordable financial products and services.
- **When we build CDFI capacity to serve the community, we** provide access to capital to families, business owners/entrepreneurs – including Black Americans – who are underserved by traditional institutions.
- **When we reduce racial disparity, we** help to eliminate the racial wealth gap. Across the nation, CDFIs offer critical support to businesses and individuals who have difficulty accessing affordable financial products and services.

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