

NAAHL POLICY BRIEF

Community Lending: Leveraging Private Capital for Public Good

How CDFIs invest in housing, small businesses,
and economic opportunity

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COMMUNITY LENDING BRIEF

Executive Summary

Community Development Financial Institutions (CDFIs) are essential partners in the American financial system, bridging the gap between traditional lending and community needs. Operating across all 50 states, CDFIs transform limited public investment into substantial flows of private capital for affordable housing, small business development, and critical community infrastructure. This market leverage is their superpower: CDFIs make possible investments that would otherwise never happen, creating economic opportunity in places the conventional market cannot profitably reach.

For banks and communities alike, the CDFI model works. Banks gain access to underserved markets and meet regulatory obligations through partnerships with institutions that possess deep local knowledge and specialized expertise. Communities gain pathways to homeownership, jobs, and essential services. By channeling private capital through mission-driven intermediaries, CDFIs demonstrate that economic inclusion and sound investment are not competing goals but instead are complementary strategies for building stronger, more resilient local economies.

Background

All communities need access to capital to fuel their economies. This is especially true for financing the production and preservation of affordable housing. But in many places – especially rural, Tribal, and low-income neighborhoods – there are fewer local investors and financial institutions with the tools or appetite to take on this work. The result is a persistent gap between what communities need and what the traditional market can provide.

Community development financial institutions (CDFIs) close that gap. They operate as local economic engines, bridging deep community knowledge with private and public capital. They help create and sustain markets that would not otherwise exist. As NAAHL CEO Sarah Brundage notes, “It’s a business model that channels private investments into what communities need – whether that be rebuilding from a natural disaster, health care facilities, a robust small business economy, or more affordable homes for seniors, families, veterans, and hard-working community members. It’s a partnership that works.”

While many CDFIs rely solely on private and philanthropic capital, the congressionally created CDFI Fund provides critical support for the sector. For over thirty years, the CDFI Fund, which is a part of the Department of the Treasury, has served a role in facilitating private community investment, providing CDFI certification to financial institutions whose work meets the thresholds established by the Fund and administering flexible financing programs and tax credits that make otherwise impossible projects viable. Since its inception, awards made by the Fund have been leveraged by CDFIs to catalyze hundreds of billions of dollars in private capital in low- and moderate-income areas. These dollars expand the supply of affordable housing and fuel job creation in communities too often not reached by federal policy and the traditional finance sector. The CDFI Fund’s ability to carry out its statutory obligations is essential to sustaining this pipeline of investment. Proposals to eliminate or diminish its role would weaken local economies nationwide.

Through partnerships and collaborations, CDFIs create win-win opportunities for the communities they serve and other sources of private capital. Just as CDFIs are essential engines to local economies, they also serve as indispensable intermediaries for banks. They extend reach into hard-to-serve markets, allowing lenders and investors to meet community credit needs responsibly and at scale. CDFI certification itself is a critical part of the financial and philanthropic infrastructure to allow the efficient flow of investments into communities that would otherwise not be possible to reach. Both banks and foundations use CDFI certification as a signal that a financial institution has a track record of mission-driven lending.

Together, CDFIs and their funders have driven hundreds of billions of dollars into projects that strengthen local economies: new homes, revitalized commercial corridors, expanded businesses, and long-term recovery efforts. These outcomes underscore a core principle of this brief: CDFIs are the vehicle, not the destination. What matters are the outcomes they unlock: stable jobs and economic opportunity. This policy brief is designed to ground newer audiences in how CDFIs function, their role as essential drivers of economic outcomes, and the nonpartisan importance of the CDFI Fund.



The Nuts and Bolts of CDFIs

CDFIs are mission-driven lenders that fill financing gaps in places that traditional capital does not reach consistently. CDFIs balance financial sustainability with a commitment to serving underserved communities and people.

CDFIs are community lenders in the truest sense. They are rooted locally, understand the unique challenges and opportunities in the markets they serve, maintain flexibility in their lending terms, and have earned the trust of residents, businesses, and local governments. CDFIs take several organizational forms, although all work to increase opportunities for people and places, including:

- Loan funds: Nonprofit or for-profit entities that provide financing for housing, businesses, consumers, and community facilities
- Community development credit unions: Member-owned cooperatives providing financial services
- Community development banks: For-profit community banks providing financial services
- Community development venture capital funds: Equity investors in small businesses

These institutions leverage both private and public capital to support projects that strengthen communities.

Why Banks Partner with CDFIs

From banks' perspective, partnering with CDFIs is a sound business strategy. Investing in CDFIs helps banks meet regulatory obligations and strengthen the communities in which they do business. The performance record is strong: CDFI loan loss rates for small businesses have typically been under 1%,¹ while generating significant community benefit. Many CDFIs are rated by credit rating agencies and have ratings on par with many banks, giving them credibility as part of the financial services system.

While banks are committed to community investment, CDFIs provide the specialized infrastructure necessary to reach 'the last mile' of community development. Banks often rely on CDFIs to handle volume and scale in ways their internal teams are not structured to do, particularly for microloans or complex pre-development deals that require intensive technical assistance.

Major banks have publicly documented their CDFI engagement: for example, Bank of America reports it has invested over \$2 billion with more than 250 CDFI partners across the country.² Similarly, Wells Fargo has lent over \$2 billion in capital to the CDFI sector since 2011 and supported the industry via initiatives like its Open for Business Fund.³ Capital One's \$265 billion Community Benefits Plan, launched after its 2025 acquisition of Discover, includes a commitment of \$600 million in support of CDFIs, beyond its overall \$44 billion community development commitment.⁴ And it's not just large banks – smaller and regional banks also partner with CDFIs.

Banks partner with CDFIs for several strategic reasons:

Market Access

CDFIs enable banks to serve additional markets and customer segments. A bank may lack the specialized expertise, physical presence, or risk appetite to finance certain transactions, but by investing in a CDFI that specializes in those markets or participating in the loan, the bank extends its impact without building new infrastructure.

Community Reinvestment Act (CRA) Obligations

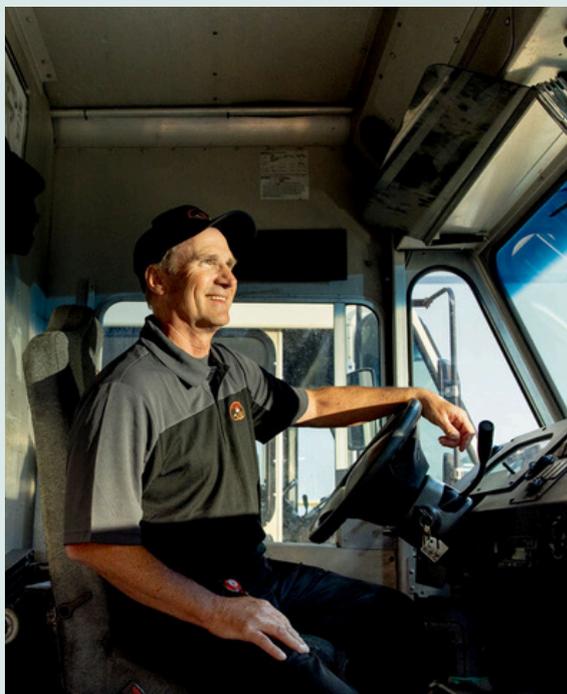
The Community Reinvestment Act (CRA) encourages banks to help meet the credit needs of the communities in which they do business, including low-and-moderate-income (LMI) areas, through loans, investments, and services. Banks can expand their lending and investment in LMI areas through CDFI partnerships, helping them meet CRA obligations while supporting community economic development.

Risk Management

CDFIs often provide subordinate capital or credit enhancements that enable banks to make senior loans they otherwise could not make. This risk-sharing allows projects to move forward while maintaining prudent underwriting standards for the bank's direct lending.

Mission Alignment

CDFIs enable banks to live out their values of serving all segments of their communities and demonstrate concrete impact. For example, CDFIs help banks execute their strategic plans and priorities, such as investing in small businesses or supporting homeownership.



Family-owned companies like Turano Baking Company show what's possible when long-term lending, including support through CDFIs and partners like JPMorgan Chase, helps businesses scale while staying rooted locally. Since 2019 alone, JPMorgan Chase has provided over \$23 million to help Chicago entrepreneurs grow, proving that access to capital strengthens both businesses and communities.

(Source: NAAHL Member [JPMorgan Chase](#))

From Bank Capital to Community Impact

The simplest way to understand CDFIs is to follow the path of capital through the community lending ecosystem. This ecosystem is designed to amplify private investment rather than replace it, creating a multiplier effect that benefits communities, investors, and the broader economy.

How Capital Flows to CDFIs

Banks and other investors provide capital to CDFIs through several channels:

- Direct investments: Banks make debt and equity investments in CDFIs, often structured as loans, lines of credit, or equity stakes.
- Loan participations: A bank may purchase loans originated by a CDFI. This allows the CDFI to make larger loans (for example, to affordable housing developers) while the bank retains a portion of the loan.
- Program grants: This provides operating support to CDFIs.
- Deposits: Deposits shore up CDFIs' balance sheets and liquidity to enable greater lending capacity.

How CDFIs Deploy Capital

As noted above, banks often channel capital into certified CDFIs via deposits, loans, or other investments. Those funds are then deployed as loans and investments in target communities. CDFIs typically blend this bank money with public or philanthropic subsidies (e.g., grants, tax credits, guarantees) and tailor the loan terms (for example, longer maturities, interest-only periods, or subordinate debt) to fit community development projects.

For example, PNC Bank's \$20 million commitment to the Local Initiatives Support Corporation (LISC) was structured as a 10-year equity-equivalent ("EQ2") loan plus a shorter-term loan.⁵ LISC is deploying that capital into long-term community development – such as small-business lending programs, workforce training centers, and quality affordable housing – typically stacked with local government grants or tax incentives to lower costs and risk.

The Multiplier Effect

The CDFI model creates a powerful multiplier effect. Federal CDFI Fund appropriations leverage significantly more private capital. For example, every dollar of CDFI Fund Financial Assistance historically leverages approximately \$8 of private investment, according to Treasury data.⁶ This means that federal investments catalyze far greater flows of private capital into these communities. CDFIs are often the last-mile deployers of significant public programs and provide the access point for small businesses in low- and moderate-income communities to high-impact federal and state programs.

This multiplier effect is not limited to the federal-to-private relationship; it acts as the glue for the entire public-private ecosystem. CDFI dollars are often the “first-in,” meaning that they are the predevelopment dollars that have to be invested before the project can approach traditional lenders for construction loans and then permanent financing. And once traditional lenders are involved, CDFI dollars are often the subordinated debt in a capital stack, thus allowing banks to bring additional capital to the table that would otherwise be deemed too risky by regulators.

By providing both the 'first-in' and 'gap' financing, CDFI capital can also unlock additional state and local resources, such as State Small Business Credit Initiative (SSBCI) funds, local housing trust fund grants, or municipal infrastructure bonds, for developments or businesses that require a lead private-sector lender to move forward. This coordinated capital stack flows to a range of recipients, including affordable housing developers, local entrepreneurs and micro-businesses, community health centers, and rural infrastructure cooperatives. By pairing bank-led investment with stable federal and local support, CDFIs ensure that capital doesn't just reach these borrowers, but does so at the scale and terms necessary to drive economic revitalization.

Stronger Community Lending Builds Stronger Communities

Strong community lending is the foundation of resilient, thriving neighborhoods. When residents have access to stable housing, local businesses can open their doors and entire communities gain the footing they need to grow. These outcomes require a financial system capable of reaching places and people conventional markets do not.

CDFIs make that reach possible. With adequate, reliable capital, they operate at a scale that transforms the trajectory of communities by providing long-term stability and affordability. Their work is grounded in deep relationships, specialized expertise, and a mission to ensure that economic opportunity extends to every corner of the country.

The following sections of this brief outline how CDFIs meet critical needs across five key domains of community life:

- Financing affordable homes,
- Boosting homeownership,
- Supporting entrepreneurs,
- Filling community infrastructure service gaps,
- Strengthening rural and Tribal economies, and
- Accelerating recovery when disasters strike.

Together, these investment types demonstrate that CDFIs are more than just financial intermediaries; they are the tools that ensure economic resilience is felt at every kitchen table and in every storefront in America.



Affordable Housing Development

The Community Need

The United States faces a severe shortage of affordable housing, both for rental and for homeownership. Developing affordable rental housing often requires patient, flexible capital that can accommodate longer development timelines and the complexity of layering multiple funding sources, such as Low-Income Housing Tax Credits, HOME funds, and state programs. CDFIs provide pre-development, acquisition, and construction loans to developers, often pairing federal programs like Low-Income Housing Tax Credits with their own capital.

The Financing Gap

Traditional lenders often cannot provide the flexible terms affordable housing developers need. Construction loans for affordable housing carry higher perceived risks due to income-restricted rents. In addition, CDFIs work with nonprofit and emerging developers that may lack extensive balance sheets.

How CDFIs Fill the Gap

CDFIs specialize in affordable housing finance. They provide:

- Predevelopment and acquisition loans – generally deemed too risky by conventional lenders – that enable developers to secure sites and prepare for development
- Construction financing with terms that accommodate affordable rent levels
- Permanent financing that supports long-term affordability
- Bridge loans for Low-Income Housing Tax Credit developments
- Technical assistance on subsidy applications and project structuring

Real World Impact

CDFIs are significant facilitators of affordable housing. The CDFI Fund reported, in Fiscal Year 2022, CDFI Program Financial Assistance recipients financed over 54,000 affordable housing units in recent reporting years.⁷ These units provide stable, affordable homes for families, seniors, and individuals with disabilities, reducing housing cost burdens and preventing displacement.

A photograph showing two people from the waist up, wearing coats and scarves, moving cardboard boxes. One person is holding a box with a small potted plant on top. The background is a wooden fence.

Supporting First-Time Homeowners

The Community Need

First-time and low- to moderate-income homebuyers face significant barriers to homeownership, including limited access to affordable mortgage products, down payment assistance, and credit counseling. CDFIs offer mortgage products and often partner with banks to leverage Federal Home Loan Bank (FHLB) funding and other down payment assistance programs to make homeownership achievable for families who would otherwise be excluded from the market.

The Financing Gap

Many prospective first-time homebuyers have nontraditional credit histories or irregular income patterns that do not fit conventional underwriting criteria, even when they have demonstrated ability to pay rent and other obligations. This makes it tougher for them to get a mortgage from a traditional lender.

How CDFIs Fill the Gap

CDFIs bridge the gap between mainstream lending standards and the reality of creditworthy low- to moderate-income borrowers. They provide:

- Affordable mortgage products for first-time and low- to moderate-income homebuyers with flexible underwriting criteria
- Partnerships with banks to access Federal Home Loan Bank (FHLB) affordable housing funding and other down payment assistance programs
- Homebuyer education and credit counseling to prepare families for sustainable homeownership

Real World Impact

CDFIs are critical drivers of first-time homeownership in underserved communities. According to the Opportunity Finance Network (OFN), CDFIs nationwide finance \$2 billion annually in mortgages, helping low- to moderate-income families build wealth through homeownership.⁸ And CDFIs like HOPE have created pathways to homeownership via down payment assistance and favorable mortgage terms, enabling 4,000 households (80% of whom are first-time homebuyers) to buy a home.



Small Business Development and Job Creation

The Community Need

Small businesses are the backbone of local economies, providing jobs, essential services, and community identity. For example, small businesses have created over 70% of net new jobs since 2019.⁹ However, small businesses in low-income and rural communities often struggle to access capital for startup costs, working capital, and expansion.

The Financing Gap

Traditional underwriting often does not work for the smallest businesses. Loan amounts may be small relative to underwriting costs or may not fit within a bank's safety and soundness guidelines, collateral may be limited, and credit histories may not reflect the entrepreneur's actual capacity to succeed.

How CDFIs Fill the Gap

CDFIs serve as specialized small business lenders in communities where conventional credit is scarce. They provide:

- Microloans (typically under \$50,000) for startup and early-stage businesses
- Working capital lines of credit
- Equipment financing
- Real estate loans for business properties
- Technical assistance and business development services
- Credit enhancements to address collateral shortfalls

CDFIs often use relationship-based underwriting that considers factors beyond traditional credit scores, such as industry experience, business plans, and community ties.

Real World Impact

A majority of CDFIs engage in workforce development activities, with much of that funding going towards businesses to create quality jobs.¹⁰ In recent years, CDFI Program awardees financed over 100,000 businesses annually, helping those borrowers create or maintain jobs.¹¹ According to OFN, its CDFI members have cumulatively provided financing to create or maintain 3.4 million jobs.¹²

For example, HOPE provided a \$129,000 loan that supported the creation of the only pharmacy in Hamburg, Arkansas (population 2,500), which now provides a reliable source of health care and anchor for jobs in the community. Since HOPE's inception, the organization has provided \$1.1 billion in direct financing to small businesses and commercial projects throughout the Deep South collectively supporting 37,445 jobs.



Community Infrastructure and Essential Services

The Community Need

Thriving communities need more than housing and jobs. They require access to health care, child care, grocery stores, and other essential services. Yet many low-income neighborhoods are healthcare deserts, food deserts, or lack adequate child care facilities. These service gaps impose real costs on families – such as transportation time and expenses to access distant services – and undermine economic opportunity, like when lack of child care prevents workforce participation.

The Financing Gap

Facilities for community services often face financing challenges similar to affordable housing. Projects may serve populations with limited ability to pay market rates, require specialized property types with which traditional lenders are unfamiliar, have complex capital structures involving grants and subsidies, and may have little collateral value outside of their original use and structure.

How CDFIs Fill the Gap

CDFIs finance a wide range of community facilities, including:

- Federally Qualified Health Centers and other healthcare facilities
- child care centers
- Workforce development facilities
- Charter schools serving low-income students
- Grocery stores and fresh food retailers in food deserts
- Community centers and cultural facilities

Real World Impact

CDFI-financed facilities expand access to essential services, improve health outcomes, support working families, and anchor neighborhood revitalization. When a CDFI helps open a health center or child care facility, the impact extends beyond the immediate users to benefit the entire community.

In Bennington, Vermont, Enterprise Community Loan Fund provided \$7 million in bridge financing to convert a vacant high school into 22 affordable and workforce homes co-located with child care, YMCA recreation space, and senior services. The project combines CDFI capital with state and local resources to support working families, expand child care access, and retain essential services in an economically distressed town. In a rural market where conventional financing is limited, this approach helped expand affordable housing options, strengthen the local labor pool, and keep community-serving infrastructure in place.



Rural and Tribal Community Development

The Community Need

Rural regions maintain a trade surplus and launch over half of the nation's small businesses.¹³ Nonetheless, rural and Tribal communities face unique economic challenges, including population decline, limited economic diversification, inadequate infrastructure, and low levels of historical investment. Native American communities also face specific challenges related to trust land status and Tribal sovereignty.

The nation's housing affordability and inextricably linked housing supply crisis have now fully spread to rural communities. Over 5.6 million – or one quarter of rural households – pay more than 30 percent of their monthly income toward housing costs and are considered cost-burdened.¹⁴ Meanwhile, between 2013 and 2023, rural areas experienced only an estimated 1 percent overall increase in their housing stock compared to a 10 percent increase for non-rural areas.¹⁵

The Financing Gap

Rural counties often qualify as “banking deserts,” especially as bank branch closures have accelerated in rural communities, and distance makes relationship-based lending difficult. Tribal communities face additional barriers, and many financial institutions lack expertise in Tribal lending.¹⁶

According to USDA Economic Research Service data, between 2000 and 2015, rural counties received smaller per capita loan amounts for small business loans than urban counties, with the gap persisting after the Great Recession.¹⁷ Because CRA evaluations of a bank's mortgage lending and community development investment also remain driven by institutional geographic footprints, this critical capital resource can be more challenging to access for rural businesses and housing or community development projects. Tribal communities face even steeper barriers, with reservation-based businesses often unable to access conventional financing at all.

And while the nominal costs of housing are often lower in rural America, addressing the dual housing affordability and supply crises is complicated by a challenging set of economic and housing market variables. Rural median incomes tend to be lower. This is coupled with a tendency towards smaller project scale than most easily accommodated by private and public sector financing sources. On the homeownership side, rural communities disproportionately suffer from a “value gap,” where the appraised value of a rehabbed or newly constructed affordable for sale home doesn't support the financing. Added to these market dynamics that make it difficult for rural transactions to “pencil out” are often project sponsors—whether local non-profits or government—that lack the balance sheets to be able to take on high cost, variable rate or short-term debt.

How CDFIs Fill the Gap

CDFIs are particularly well-positioned to reach rural areas of persistent poverty, and the CDFI Fund helps drive these investments through tracking CDFI investment activity into these regions. Native CDFIs, which are certified CDFIs that serve Native communities, have deep expertise in Tribal lending structures and strong relationships with Tribal governments and members. Rural CDFIs understand the economic realities of agriculture, natural resource-based economies, small-town business environments, rural housing market dynamics, and the financial needs of people in these communities. Additionally, the CDFI Fund definition of persistent poverty is integral to the deployment of other federal funds across several other programs. These CDFIs provide:

- Financing for small businesses and entrepreneurs
- Home purchase and improvement loans
- Patient, low-cost capital to support multifamily rental housing from the predevelopment phase through construction to permanent financing
- Agriculture and natural resource business financing
- Infrastructure development capital
- Access to banking services

CDFI Fund grants are especially critical for rural-serving and Native CDFIs. Given their relative lack of access to alternative sources of capital, the narrow margins typical of rural transactions, and the heightened rate and term sensitivity of rural borrowers, rural-serving and Native CDFIs rely on the core net asset base provided by CDFI Fund grants to offer needed patient, flexible low-cost capital.

Real World Impact

Native CDFIs and rural CDFIs create economic opportunity in places largely bypassed by conventional capital markets. They enable businesses to start and expand, families to purchase and improve homes, and communities to invest in affordable rental housing and infrastructure that supports long-term sustainability. For example, Wells Fargo's Community Lending and Investment (CLI) group has provided capital to Native CDFIs since 2003. Investments include patient loan capital to several nonprofit Community Development Financial Institutions (CDFIs) and an equity investment in a Native Minority Depository Institution (MDI). To complement Wells Fargo's \$20 million Invest Native philanthropic initiative (2023-2024), CLI is working to increase capital support for Native CDFIs over the next several years. As another example, the Housing Assistance Council (HAC) had investments from nine bank partners and two lending intermediaries re-lending bank capital totaling about \$26 million and about 60% of HAC's borrowed capital. This financing supported continued growth of HAC's loan fund, which had a \$71 million principal balance at the end of FY2025. In 2025, HAC made 45 new loans totaling almost \$24 million to support development and preservation of over 1,250 units of affordable housing in rural communities. HAC has a focus on lending in high-need, disinvested communities that are not reached by traditional bank capital. In 2025, the majority of HAC's loans were in high poverty areas or areas of economic distress, and 25% of HAC's closed loans were in persistent poverty counties.



Disaster Recovery and Community Resilience

The Community Need

Today, natural disasters, from hurricanes to wildfires and floods, are devastating communities with increasing frequency and severity. Low-income communities often suffer disproportionate impacts from disasters and face greater challenges in recovery. Federal disaster assistance, while essential, often arrives slowly and may not address all recovery needs. The costs of inadequate disaster recovery are substantial. Prolonged displacement, business closures, and demolished housing stock undermine local economies for years after a disaster strikes.

The Financing Gap

In the immediate aftermath of a disaster or in the wake of other emergencies like the COVID-19 pandemic, conventional lending often ceases entirely. Properties may be damaged, local economies disrupted, and uncertainty about recovery timelines makes lenders reluctant to extend credit. Small businesses and homeowners may lack adequate insurance, and disaster aid programs may not cover all reconstruction costs or may be delayed by bureaucratic processes. Given that CDFIs are already at the front lines of serving economically vulnerable communities when disaster hits, they serve as financial first responders. CDFIs help deploy capital and financial resources, ensuring people and communities are not left behind in the recovery process.

How CDFIs Fill the Gap

CDFIs provide:

- Emergency business loans to help enterprises survive immediate disruption
- Home repair and reconstruction financing
- Working capital to maintain payroll during revenue disruptions
- Bridge loans until insurance settlements or federal aid arrives
- Flexible terms that accommodate the uncertainty of post-disaster recovery
- Innovative funding models to help small towns and community facilities access recovery funds
- Financial intermediation to attract private, public, and philanthropic resources to bolster recovery efforts

CDFIs leverage relationships built before disasters to move quickly when crisis hits. They understand local conditions, can assess risk more comprehensively than distant lenders, and have mission alignment that supports recovery even when short-term financial returns are uncertain.

Real World Impact

CDFI disaster lending helps communities recover faster and more equitably. By providing capital quickly, CDFIs enable businesses to reopen, families to return home, and economic activity to resume, preventing the long-term decline that can follow disasters without adequate financing. For example, Enterprise Community Loan Fund deployed a \$1 million construction loan to support the resettlement of families from Isle de Jean Charles, Louisiana, displaced by repeated storms and coastal erosion. The financing delivered 27 energy-efficient homes affordable to households under 80% of Area Median Income (AMI), helping a hurricane-impacted community in a rural area find housing stability.



As Los Angeles rebuilds from the 2025 wildfires, Bank of America is committing \$10 million in zero-interest loans to CDFIs supporting housing, nonprofit facilities, and small businesses. The capital will flow through three West Coast CDFIs deeply involved in recovery efforts after the Eaton and Palisades fires. It's a clear example of how CDFIs turn institutional capital into on-the-ground recovery where it's needed most.

(Source: NAAHL Member [Bank of America](#))

The Role of the Federal Government in Ensuring an Impactful CDFI Network

Many elements of our financial system rely on steady partnership and access to federal public infrastructure, such as the ability to sell loans on the secondary market, the federal deposit insurance program, and access to liquidity. This is also true for CDFIs and the CDFI Fund's role in expanding community lending by leveraging private capital.

The CDFI Fund's programs reduce frictions in the community development finance market, making it easier for private capital to support community lending. These programs are designed to expand community lending by leveraging private capital. Congress has statutorily authorized and funded the CDFI Fund since 1994 and directed the Fund to operate programs like the New Markets Tax Credit (NMTC) and Capital Magnet Fund (CMF).

In addition to providing funding to CDFIs, the CDFI Fund staff ensure that the CDFI industry adheres to rigorous operational, financial, and community lending standards. Treasury's CDFI certification is not a one-time rubber stamp but instead involves annual evaluation. Certification enables CDFIs to access CDFI Fund programs and provides credibility with private investors and helps facilitate CRA credit for banks with CDFI partnerships.

Congress and regulators broadly recognize CDFIs' value. The CDFI industry and the CDFI Fund enjoy strong bipartisan support in Congress. This support reflects recognition that community lending addresses challenges faced by both urban and rural communities and benefits constituents across the political spectrum. In particular, the bipartisan Senate Community Development Finance Caucus, co-chaired by Senators Mark Warner (D-VA) and Mike Crapo (R-ID), brings together legislators committed to supporting community lending and the CDFI Fund. The Caucus educates members about CDFI impacts and works to ensure that CDFIs can access other federal programs and resources.

In 2025, more than 100 Members of Congress sent a bicameral letter to Treasury Secretary Bessent and OMB Director Vought affirming the role that the CDFI Fund plays in creating economic prosperity throughout the country and calling for the Trump Administration to continue carrying out the statutory obligations of the CDFI Fund.¹⁸ In the letter, they urged Treasury and OMB to continue carrying out "the statutory obligations of the CDFI Fund that are essential to ensuring private investments reach our states and districts. CDFIs play an important role in supporting economic development in rural, tribal and other underserved communities in our states."

Federal financial regulators encourage bank–CDFI partnerships. Guidance from the Federal Reserve Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency states that CRA credit is warranted whenever CDFIs reach and serve the needs of underserved populations or when banks provide CDFIs with capital that generates community development outcomes.

Beyond funding levels, the operational stability of the CDFI Fund itself is critical to supporting community impact. Instability, including staffing reductions and administrative delays in disbursing Congressionally approved funds, ripples through the entire community lending network. For a CDFI, a delay in federal capital isn't just a line item on a spreadsheet; it leads to a frozen pipeline of projects in communities that need the investment. A stable federal partner provides more confidence to private investors and banks that are critical components of the community investment ecosystem.

In short, a stable federal presence (through funding, tax credits, and regulatory support) is essential to ensure that private bank capital continues to flow into CDFIs and, in turn, into communities.

Policy Recommendations

Maintain and Expand Public and Private Capital Flows

Both public and private capital are necessary to ensure investments can reach communities that need them most. CDFI Fund appropriations leverage significantly more private investment, creating a multiplier effect that maximizes public impact. Congress should maintain consistent and adequate appropriations for CDFI Fund programs, recognizing that these investments generate measurable outcomes in communities nationwide, and advance new policy proposals to further enhance the CDFI model.

Private sector investors, particularly banks with CRA obligations, should continue to recognize CDFIs as essential partners for community development. Regulatory policies should continue to provide appropriate incentives for bank investment in CDFIs while ensuring that these partnerships meet community needs.

Preserve Stability and Predictability

The CDFI business model depends on stable, predictable policy environments. CDFIs make long-term financial commitments to borrowers and communities, and these commitments depend on confidence that their own capital sources will remain available. By design, CDFIs are built to be nimble and flexible. They are the financial first responders equipped to take on the unique risks of projects and markets that traditional financing cannot reach, particularly when filling critical gaps during economic downturns. However, this agility is strongly supported by a federal government that provides a foundational layer of stability. It is the consistent, predictable nature of the public side of the partnership through the CDFI Fund that creates the necessary security for the private side to innovate.

Policymakers should avoid disruptions to programs and funding streams that CDFIs rely upon. Changes to the CDFI Fund, the NMTC program, the Capital Magnet Fund, or CRA regulations should be carefully considered to avoid unintended consequences that could destabilize community lending.

Support a Robust CDFI Industry

The nation's unique communities require CDFIs with different specializations, geographies, and organizational structures. Some communities are best served by loan funds, others by credit unions or community banks. Some CDFIs specialize in housing, others in small business or community facilities. At their core, CDFIs are designed to be responsive to local market needs and communities.

Policymakers should support this by ensuring that CDFI Fund programs remain accessible to CDFIs of different sizes and types, that regulations accommodate different CDFI business models, and that resources are available to build capacity for emerging CDFIs in targeted markets.

Conclusion

CDFIs are indispensable to a financial system that works for every community. They operate where traditional capital does not, building markets, attracting private investment, and delivering measurable results for families, small businesses, and local economies.

The federal CDFI designation and the financial support through the CDFI Fund is modest in size but catalytic in effect. It leverages far greater volumes of private capital and equips a national network of mission-driven lenders to operate at scale. This public-private model is efficient, market-oriented, and proven: targeted federal resources unlock private investment and support durable, community-driven solutions.

For banks and other financial institutions, CDFIs extend reach, deepen impact, and help meet regulatory and mission commitments. For communities, they provide trusted capital and technical expertise that expand opportunity and support long-term prosperity.

As Congress evaluates appropriations and policy for community development, strengthening the CDFI Fund and the broader community lending ecosystem should remain a bipartisan priority. The results are clear and nationwide: businesses financed, jobs created, homes built, and communities better positioned to grow and thrive.



ABOUT THE CENTER

The Center for Affordable Housing Lending is the nonprofit, 501(c)(3) policy research partner to the National Association of Affordable Housing Lenders (NAAHL).

The Center for Affordable Housing Lending is focused on policy development and research on affordable housing and community development solutions.

The Center for Affordable Housing Lending's work is rooted in practical, proven solutions – commonsense policies and research insights that drive impact in affordable housing and community development.

Appendix

CDFI Fund Programs, Funding Sources, Recipients, and Functions*

Program	Funding Source	Primary Recipients	Core Function
CDFI Program Financial Assistance and Technical Assistance	Annual Congressional Appropriations	Certified CDFIs	Provides assistance that CDFIs use to serve their target markets and grow their impact.
New Markets Tax Credit (NMTC)	Federal Tax Credit Allocations	Community Development Entities (CDEs)	Encourages private equity investment in high-impact commercial and infrastructure projects in low-income census tracts.
Capital Magnet Fund (CMF)	Allocations made by the Government-Sponsored Enterprises Fannie Mae and Freddie Mac	CDFIs and nonprofit housing organizations	Competitively awarded grants dedicated exclusively to financing affordable housing and related community facilities.

*Note: There are important programs like Bank Enterprise Awards and Small Dollar Loan programs that can be used for housing but aren't exclusively designed for it.

End Notes

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