CDFIs and Resource Efficiency in Rental Properties

What is a CDFI?

Community Development Finance Institutions (CDFIs) are mission-driven entities that invest in expanding economic opportunities in low-income communities by providing access to financing within underserved areas. The certification of a financial institution as a CDFI is given by the U.S. Treasury Department. There are over 1,000 certified CDFIs operating throughout the country.[1]

There are four types of CDFIs: community development banks, credit unions, loan funds, and venture capital funds. Although they all aim to expand economic opportunity and improve the quality of life for disinvested communities, usually in a specific geographic region, each has a different business model and legal structure.[2] Collectively, CDFIs across the U.S. have over $108 billion under management. The majority of individual institutions have under $100 million under management.[3]

What do CDFIs invest in?

As mission-driven lenders, CDFIs leverage funding from private and public sources to extend financing to small businesses, microenterprises, nonprofit organizations, commercial real estate, and affordable housing in hard-to-serve U.S. markets. In addition to connecting capital to communities and people that need it, many CDFIs also provide financial education, technical assistance, and capacity-building support to organizations, businesses, and individuals. In 2015 alone, CDFIs invested $3.39 billion in the communities they serve.[4]

Where do CDFIs get their money?

One important source of funding for CDFIs is the CDFI Fund, which is a part of the U.S. Treasury Department and provides financial support to CDFIs in the form of loans, grants, equity investments, deposits, and credit union shares. CDFIs are required to match CDFI fund awards dollar-for-dollar with non-federal funds. They also get funding through grants and low-interest loans from foundations, the U.S. government, and banks looking to fulfill their Community Reinvestment Act obligations. The New Markets Tax Credits Program offers tax credits to private investors for qualified community development investments, including in CDFIs.[5]

How can CDFIs help ensure everyone has access to clean energy?

CDFIs are powerful, trusted advisors and connectors, and they are well positioned to promote efficiency and clean energy solutions for low-income communities. Those that already lend to affordable housing are especially poised to support large-scale improvement in the energy performance of multifamily affordable housing. As mission-driven entities, CDFIs are often willing to take measured risks and serve customers with financial products that traditional lenders are unlikely to provide. This includes lending to developers serving low-income populations, providing gap financing, and making energy efficiency loans.

Why would a CDFI want to finance clean energy?

Deployment of energy and water efficiency and renewable energy is growing as costs of utilities are on the rise and the price of renewables continues to decline. Globally in 2017, investors poured $333.5 billion into clean energy.[6] This wealth creation opportunity is not just for big banks. CDFIs across the country that lend to multifamily borrowers are not only financing clean energy so that its benefits are shared by people at all income levels, but also because those investments are advantageous for the CDFIs' bottom lines. This is because the cost of utilities is the largest controllable operating expense in multifamily housing.[7] Improved resource efficiency presents an opportunity to lower a property's utility expenses and maintenance costs, increasing net operating income. Efficiency improvements can also lower vacancies and mitigate exposure to escalating utility prices, which also positively affects cash flow. Healthier property economics through higher net operating income lower the risk of loan delinquency.[8] Efficiency benefits tenants, building owners, and lenders. This is an opportunity that CDFIs should be and are increasingly are taking advantage of.

[1] https://www.cdfifund.gov/Documents/CDFI_infographic_v08A.pdf
[2] https://ofn.org/CDFIs
[3] https://www.cdfifund.gov/Documents/Snap%20Stat%20June%201,%202016.pdf
[4] https://www.cdfifund.gov/Documents/Snap%20Stat%20June%201,%202016.pdf
[5] https://www.cdfifund.gov/Documents/CDFI_Brochure%20Updated%20Dec2017.pdf
[6] https://about.bnef.com/blog/runaway-53gw-solar-boom-in-china-pushed-global-clean-energy-investment-ahead-in-2017/
[7] http://www.nationalhousingtrust.org/energy-solutions
[8] http://communityp.com/wp-content/uploads/2017/05/CPC_Underwriting_Efficiency_Handbook_Full_Interactive_FINAL.pdf