

THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

United States Department of the Treasury



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Research Projects to be Undertaken Through the CDFI Fund's Policy Research Initiative

The Role of CDFIs in Addressing the Subprime Mortgage Market: A Case Analysis of New England

This project will investigate a diverse group of New England CDFIs and other nonprofit mortgage lenders in both urban and rural contexts to determine how they are responding to the subprime mortgage crisis. The project will also examine to what extent have CDFIs been able to refinance distressed sub-prime loans and/or assist borrowers who were subject to predatory lending.

Principle Investigator: Carla Dickstein
Coastal Enterprises, Inc.

Research Team: Brandeis University: Hannah Thomas
University of Massachusetts – Boston: Jim Campen
New America Foundation: Ellen Seidman
Independent Consultants: Kathy Crossman and Laura Buxbaum

The Role of CDFIs in Home Ownership Finance

Using loan level data for mortgages originated by CDFIs, and other mortgage lenders, we plan to evaluate the role of CDFIs in the direct home lending market and the performance of these mortgages in comparison to those made by other lenders. CDFIs offer one gateway to a home loan for those previously unable to obtain mortgage financing, and for some of those targeted by high-priced or predatory loans. The CDFI Common Data Project estimates CDFIs provided 15,109 mortgages in 2005. However, other lenders also market their products to this same population. Self-Help expects that the gateway through which low and moderate home

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buyers obtain a home loan effects the borrower and the home mortgage market. We will use this research grant to better understand the terms and performance of mortgages originated by CDFIs (including mortgage products designed specifically to refinance current at-risk sub-prime mortgage borrowers into a sustainable mortgage product), conventional lenders and sub-prime lenders operating the same markets.

Principle Investigator: Sarah Wolff
Self-Help/Center for Responsible Lending

Research Team: Self-Help/Center for Responsible Lending: Keith Ernst
University of North Carolina, Center for Community
Capitalism: Roberto Quercia, Janneke Ratcliffe, and Lei Ding

An Analysis of Successful CDFI Mortgage Lending Strategies in Up to 10 Cities

This study will analyze quantitatively the extent to which CDFIs have successfully promoted increased levels of home purchase mortgage lending in lower income neighborhoods and for groups who have traditionally had lesser access to home purchase loans. It will also assess qualitatively the extent to which CDFIs affected traditional commercial lenders' service to previously underserved homebuyers and communities. To the extent that quantitative or case-study oriented data exist, the study will include mortgage products designed specifically to refinance current at-risk sub-prime mortgage borrowers into a sustainable mortgage product. The quantitative analysis will compare the geographic and socio-economic reach of CDFIs, as exhibited in transaction-level data from CIIS, with that of traditional commercial lenders as reported in HMDA data. Interviews with both sets of lenders will address the adoption of CDFI products and services by traditional commercial lenders and the collaboration/leverage between the two.

Principle Investigator: Neil Mayer
Neil Mayer and Associates

Research Team: Temkin Associates: Kenneth Temkin

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Mainstreaming Acquisition Loans for Cooperative Manufactured Housing Communities

This proposed study will examine the process by which the New Hampshire Community Loan Fund introduced a new financial product – manufactured housing community acquisition loans – to an underserved affordable housing market, mostly located in rural New Hampshire. It also intends to study the extent to which the new product was adopted by mainstream financial institutions, and how the underserved market was affected by this.

Principle Investigators: Michael Swack and Jolan Rivera
School of Community Economic Development
Southern New Hampshire University

Evaluating the CDFI Fund's Investment in Native CDFIs

The project seeks to study the impact of the CDFI Fund's investment in Native communities by using a mix of qualitative and quantitative analysis to produce a research report that achieves the following: (1) generate timely and accurate descriptive data on the size, scope, and dimensions of the universe of Native financial institutions, (2) generate data on whether or not the Fund's granting efforts and its Native initiatives program has had an impact on Native CDFIs, 3. Introduce a theoretical framework for discussing the growth and development of Native CDFIs that will help facilitate future discussions about Native CDFIs, and 4. Provide qualitative case studies illustrating the impact of CDFI funds on Native CDFI development and Native communities broadly.

Principle Investigator: Stewart Sarkozy-Banoczy
First Nations Oweesta Corporation

Research Team: First Nations Oweesta Corporation: William Guevara, Joanna Donohoe, and Staci Lacroix

First Nations Development, Inc.: Sarah Dewees

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Emerging Trends in CDFI Sustainability

While investors in CDFIs have long prized these institutions for their capacity to reach unserved- and under-served markets, the field has struggled with scaling up to meet the needs of more of the millions who require these services. Research into the issue of scale has found that it is so closely intertwined with the issue of sustainability that it is impossible to identify strategies for the first without confronting the need for solutions for the second. Through this research, we plan to develop a framework that will provide the basis for a more widely shared understanding of sustainability, its characteristics, stages and/or pathways; describe the state of the field in moving toward sustainability; and document innovative approaches to sustainability that can offer guideposts for other CDFIs attempting to navigate change and grow their programs.

Principle Investigator: Kirsten S. Moy
Economic Opportunities Program
The Aspen Institute

Research Team: The Aspen Institute: Elaine Edgcomb, Joyce Klein, David Black, William Myers, Tamra Thetford, and Ilgar Alisultanov

Federal Reserve Bank of Chicago: Robin Newberger and Michael Berry

Gates Foundation: Gregory A. Ratliff

Riskiness of Sector-Dependence in CDFIs

This study will apply analytical techniques that are in use in the private sector to answer the following key questions about the CDFI portfolio: (1) What is the exposure of CDFIs to capital erosion due to cycles in the real estate industry? and (2) To what extent does diversification of loan portfolios play a role in the performance of the CDFIs? The expected results include estimates of Value at Risk for a large group of CDFIs, based on volatility in the real estate sector. These measures of risk exposure will be described and related to rural-urban location, multi-state scope of the institution, and regulated or non-regulated type of CDFI. The findings of this study will contribute to the ability of CDFIs to offer financial

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services in a manner that is consistent with risk tolerances of the institutions stakeholders and will contribute to the policy goal of sustainable financial institutions for communities.

Principle Investigator: Victoria Salin
Department of Agricultural Economics
Texas A&M University

Research Team: Texas A&M University, Department of Agricultural
Economics: Yanhong Jin

Federal Reserve Bank of Dallas: Wenhua Di

CDFIs and the Segmentation of Underserved Markets

This project will stratify CDFIs into groups reflecting characteristics which affect the organizations' operations and then analyze the borrowers and loan products provided to determine the extent to which organizations within the different groups are able to serve different segments of the market. The products and services offered and populations served by each CDFI within each group will be evaluated against the group's profile. We will develop case studies on CDFIs that have been most successful in penetrating and serving historically underserved communities or populations. We will interview key informants from the CDFIs to determine the factors which most affected their ability to serve their segment of the market. We will interview representatives of mainstream financial institutions which have funded the CDFIs to determine the nature of their relationship with the CDFI and its impact on the funding institution.

Principle Investigator: Spencer Cowan
Center for Urban and Regional Studies
University of North Carolina at Chapel Hill

Research Team: University of North Carolina at Chapel Hill,
Center for Community Capitalism: Janneke Ratcliffe
Center for Urban and Regional Studies: Danielle Spurlock

Community Development Venture Capital in Rural Communities

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This project will examine how CDVC funds are meeting the capital needs of rural communities by addressing: What organizational and economic models have CDVC funds utilized to invest in rural geographies? Which models appear best suited for which environmental factors? What are the differences in types of clients served, financing offered, or investment performance for these different types of CDVC funds? How do the terms, rates and other conditions of CDVC financings in general and in rural geographies in particular, compare with those made by traditional venture capital funds? Are relatively small CDVC funds that serve a single rural region of a state or that serve rural markets in multiple states as sustainable as larger CDVC funds that serve both rural and urban markets? Have these different types of CDVC funds (in terms of size and geographic focus) been able to meet their capital and technical assistance needs?

Principle Investigator: Julia Sass Rubin
Edward J. Bloustein School of Planning and Public Policy
Rutgers University

Examining the Relationship Between the Small Business Lending Patterns of CDFIs and Mainstream Financial Institutions

This project will seek to better understand the relationship between the small business lending patterns of CDFIs and mainstream financial institutions in markets where CDFIs are substantial providers of small business loans. They will consider questions such as: How do CDFI innovations in products or practices diffuse into the mainstream market? Have the markets served by CDFI small business lenders and mainstream financial institutions changed over the years? Do efforts to grow to scale put CDFIs in more direct competition with mainstream lenders for certain types of firms in LMI markets? Have there been changes in the lending practices of mainstream financial institutions that have affected the effective demand for CDFI products? How are CDFI small business lenders resolving the tension between mission and sustainability?

Principle Investigator: Geoff Smith
Woodstock Institute

Research Team: Woodstock Institute: Jennifer Newon and Malcolm Bush

Independent Consultants: Dan Immergluck and Sean Zielenbach



Assessment of CDFI Support of Supermarket Development

Prior research has established that economically distressed communities lack full-service supermarkets, the shortage being attributed to significantly higher costs of operating stores in distressed areas. This study seeks to reaffirm this difference and more specifically, evaluate the efficiency and impact of a particular CDFI's supermarket financing program. If this program proves to be a highly efficient use of service resources, it could serve as a model for similar initiatives by other CDFIs.

Principle Investigator: Ira Goldstein
The Reinvestment Fund

Research Team: The Reinvestment Fund: Jeremy Nowak, Donald R. Hinkle-Brown, Cathy Califano, Lance Loethen, and Ed Kako

Assessing Community Development Loan Funds' Systemic Impacts

This project will study the extent to which Community Development Loan Funds (CDLFs) have affected the broader provision of financial goods and services in economically disadvantaged markets, focusing on quantifiable output measures (jobs, housing units, etc.) associated with specific loans. It will also analyze the degree to which CDLFs have increased the availability of affordable financing in economically distressed markets through product innovation, research, education, and/or policy advocacy. It will also look at the extent to which CDLFs have helped induce more "mainstream" financial institutions, public agencies, and/or philanthropies to invest in these markets.

Principle Investigator: John Caskey
Swarthmore College

Research Team: Rutgers University: Julia Sass Rubin
Coastal Enterprises, Inc.: Carla Dickstein
Independent Consultant: Sean Zielenbach