



Becoming a CDFI

IOWA CENTER FOR
ECONOMIC SUCCESS

Iowa Center for Economic Success

Mission

Our mission is to empower Iowans with the potential to succeed as they pursue opportunities for financial success.

Priorities

Education · Capital · Networking

Our Why

The Iowa Center is committed to empowering people to strengthen and stabilize their financial futures through business ownership and investment. It is our belief that to be successful in small business, one needs support in three core areas: education, capital, and networking. We have built key programs that support those core areas and empower individuals to succeed, families to prosper, and communities to thrive. Success to us is people supporting themselves and their families through the execution of their own ideas.

Outline

- What is a CDFI?
- The steps required to become a CDFI
- The benefits of becoming a CDFI
- The disadvantages of becoming a CDFI
- Requirements for The Iowa Center to become a CDFI
- Similar organizations that are already CDFIs
- Important Docs and Links
- Additional questions

What is CDFI?

Community Development Financial Institution (CDFI)

The vision of the CDFI Fund is to economically empower America's underserved and distressed communities.

The CDFI Fund was created for the purpose of promoting economic revitalization and community development through investment in and assistance to CDFIs. The CDFI Fund was established by the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative.

The CDFI Fund is overseen by the US Department of Treasury which also oversees all organizations certified as CDFIs; maintaining consistent operational guidelines, compliance, and reporting.

Requirements for CDFI Certification

1. Be a legal entity;
2. Have a primary mission of promoting community development;
3. Be a financing entity;
4. Primarily serve one or more Target Markets;
5. Provide Development Services in conjunction with its financing activities;
6. Maintain accountability to its defined target market;
7. Be a non-government entity and not be under control of any government entity (tribal governments typically excluded).

1. Requirements - Be A Legal Entity

To satisfy the legal entity test, the CDFI Fund requires evidence of an applicant's incorporation/organization/establishment, such as:

- IRS documentation (need EIN)
- establishing documents filed with appropriate authorities

2. Requirements - Have a primary mission of promoting community development

The CDFI Fund currently allows applicants for certification to meet this test by:

- providing board-approved organizational documents that demonstrate that the applicant has a primary mission of promoting community development
- a narrative statement describing how the applicant's mission is consistent with the CDFI Fund's
- a brief description of Financial Products offered.

The applicant must demonstrate that it has a primary mission of community development:

- activities directed towards improving the social or economic conditions of underserved people or residents of distressed communities
- primary mission should evidence a mission of serving low-income individuals; individuals that lack adequate access to capital and/or financial services; distressed communities; or underserved people or communities
- primary missions that are directed solely toward moderate income, handicapped, single sex, or minority populations must be corroborated by activities in an eligible Target Market.

3. Requirements - Be a financing entity

Non-Regulated CDFIs must demonstrate that they engage in direct financial activity (e.g., the provision of Financial Products, Financial Services, and Development Services) as reflected on financial statements and executed notes, and must dedicate a predominance of their assets to Financial Products, Development Services, and/or similar financing.

At all times a minimum of 34% of the organization's accounts receivable must come from loan payments. Any deviation below this percent, revokes the CDFI certification. The recommendation is to maintain an average above 50-60%.

4. Requirements - Primarily serve one or more Target Markets

Applicants for certification must identify the Investment Area(s) and/or Targeted Population(s) they intend to serve as their Target Market.

CDFI Fund policy requires that an organization must serve at least one eligible Target Market (outlined in next slide) and must direct at least 60 percent of all of its Financial Product activities to one or more eligible Target Market to qualify for certification.

If the Organization does not meet the 60% benchmark, the organization must provide a compelling argument as to why one of the two figures is less than the 60% benchmark. The CDFI Fund reserves the right, in its sole discretion, to accept or reject such explanation.

4a. Types of Target Markets

Investment Areas – meet at least one of the following economic distress criteria and has significant unmet needs for Financial Products and Services or are wholly located within an Empowerment Zone or Enterprise Community (as designated under section 1391 of the Internal Revenue Code of 1986 (26 U.S.C. 1391)).

Economic Distress Criteria

- Poverty Rate greater than 20%
- Median Family Income (MFI) at 80% or below specific MFI Benchmarks
- Unemployment Rate 1.5 time the national average

4a. Types of Target Markets {continued}

Targeted Populations

Low Income Targeted Populations – for a specified geographic unit, individuals whose family income (adjusted for family size) is:

- For Metropolitan Areas, 80% of the area median family income; and
- For non-Metropolitan Areas, the greater of:
 - 80% of the area median family income or 80% of the statewide non-Metropolitan Area median family income

4a. Types of Target Markets {continued}

Other Targeted Populations - for a specified geographic unit:

- African-American
- Hispanic
- Native American
- Native Alaskan, residing in Alaska Native
- Hawaiian, residing in Hawaii
- Other Pacific Islander, residing in Other Pacific Islands
- Other (reviewed and approved on a case-by-case basis)

5. Requirements - Provide Development Services in conjunction with its financing activities

A CDFI directly, must have a track record of providing Development Services in conjunction with its Financial Products and/or Financial Services.

For example, such activities include, but are not limited to, financial or credit counseling; homeownership counseling; and business planning and management assistance.

6. Requirements - Maintain accountability to its defined target market

The CDFI Fund currently requires that a CDFI maintain accountability to its Target Market through representation on its governing board and/or advisory boards.

7. Requirements - Be a non-government entity and not be under control of any government entity

By statute, a CDFI shall not be an agency or instrumentality of the United States, or any State or political subdivision thereof. An entity that is created by, or that receives substantial assistance from, one or more government entities may be a CDFI provided it is not controlled by such entities and maintains independent decision-making power over its activities.

Benefits/Advantages to Becoming a CDFI

Financial Assistance (FA) Awards

- Awards of up to \$2 million allow CDFIs to sustain and expand their products and services as outlined in their funding applications.
- Financial Assistance awards can be used for lending capital, loan loss reserves, capital reserves, operations, and development services.
- CDFIs must match this award with funds from a non-federal source.
- Up to three years to spend the award funds
- No time limit wait to reapply for an award after winning

Benefits/Advantages {Continued}

Technical Assistance (TA) Awards

- TA grants allow certified CDFIs and established entities seeking to become certified to build their capacity to provide affordable financial products and services to low-income communities and families.
- Technical Assistance awards up to \$125,000
- Can use TA funds to purchase equipment; for consulting or contracting services; to pay the salaries and benefits of certain personnel; and/or to train staff or board members.
- Both certified and emerging CDFIs (those on the path to certification) are eligible to apply for TA awards.
- Up to two years to spend the award fund
- No time limit wait to reapply for an award after winning it

Disadvantages of Becoming a CDFI

- Annual Report (Due in in October)
- Having to maintain the 60% Target Market
- Can take up to 90 days from submitting of CDFI application to decision on CDFI status
- Must maintain/exceed the 34% threshold of accounts receivable coming from loan payments

What would The Iowa Center have to do additionally to become a CDFI

This section will be coming in a second proposal to the executive committee and once reviewed by us, will be incorporated into this document.

Additional Information

Organizations that are CDFIs and serving a similar mission to The Iowa Center:

WWBIC (wwbic.com)

Accion (accion.org)

Relevant statistics regarding those we currently serve:

- 22% of clients non-white
- 80% of clients women
- 20% of clients that are none of above (white men)
- 87% of clients at or below 80% LMI
- 5% Persons with Disabilities
- 2% Service Members/Veterans

Links and Docs for Application

About CDFI Fund: [Link](#)

Research and Data: [Link](#)

Awards: [Link](#)

News & Events: [Link](#)