

Affordable and Sustainable Homeownership Through **CDFIs**

CREATING PATHWAYS TO BUILDING WEALTH





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Introduction

Homeownership is a key pathway to building and preserving wealth, improving health outcomes, and strengthening communities. For lower- and middle-income households across the nation, homeownership remains a powerful wealth-building tool as a household's home equity is often its most substantial asset.

Now more than ever, community development financial institutions (CDFIs) are needed to help lower- and middle-income households access homeownership pathways. As market conditions make homeownership increasingly unaffordable for those households, CDFIs have a proven track record of bridging affordability gaps that would otherwise shut potential buyers out of homeownership and deter generational wealth-building.

CDFIs are financial institutions with a mission to expand access to capital and advance economic prosperity in low-income urban and rural communities across the nation. They use a combination of public and private resources to remedy historic disinvestment by designing affordable homeownership opportunities in today's housing market and helping people with low and moderate incomes purchase homes affordably and sustainably. CDFIs engaged in affordable homeownership work have a transformative effect on the people and communities they serve.

Philanthropy, corporate partners, and financial institutions share CDFIs' priority of advancing homeownership and economic equity. Despite that alignment, affordable homeownership remains underfunded by philanthropy compared to other CDFI activities. Philanthropy, along with corporate partners and financial institutions, can disrupt the status quo by expanding support for CDFI homeownership approaches through grants and direct and indirect investments. Buttressing the network enables the creation of more pathways to homeownership and greater economic equity.

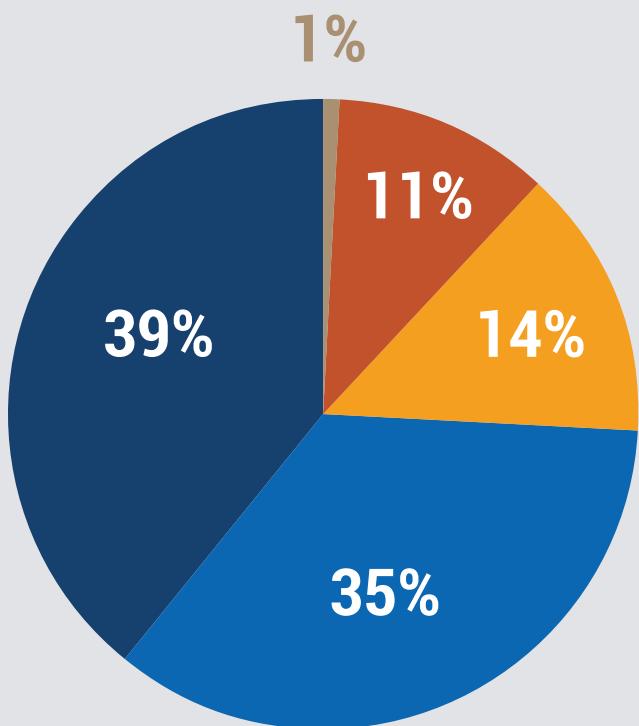
Thriving communities need economic opportunities. A thriving economy requires a financial system in which access to homeownership and wealth are determined not by race, income, gender, or zip code but by aspiration and opportunity. CDFIs with homeownership initiatives have a proven track record in catalyzing economic opportunities and fostering economic mobility. Reinforcing those institutions with adequate resources will strengthen the economic fabric of specific communities and the overall nation and ensure that homeownership and prosperity are attainable for all.

This brief illustrates the range of ways philanthropy can support CDFIs in their efforts to catalyze affordable homeownership opportunities in communities nationwide. Examples of funder investments and CDFI initiatives offer practical information about affordable homeownership approaches and how they have been resourced. After some background information on CDFIs, the brief explains different CDFI homeownership approaches and then offers recommendations for funders to support the creation of pathways to wealth-building and homeownership.

What Are CDFIs?

CDFIs are mission-driven, chartered financial institutions that serve economically disadvantaged communities. They specialize in providing financial services—including loans, grants, training, and technical assistance—to individuals, organizations, and small businesses that are underserved by the mainstream financial sector.

As of 2023, 1,427 CDFIs were certified by the U.S. Department of Treasury's CDFI Fund, which provides direct financial and technical assistance to build the capacity of CDFIs and support their investment initiatives. Not all CDFIs are certified by the CDFI Fund; only certified CDFIs are eligible for CDFI Fund support.¹ CDFIs generally fall into five different types of financial institution; each type is distinct in how it is funded and operates.



Share of Certified CDFIs, by Institution Type

- **Loan funds**, which provide financing and development services to clients using debt capital, grants, or layered financing.
- **Credit unions**, which are nonprofit depository institutions that provide financial services using debt capital, grants, or layered financing.
- **Community development banks**, which are for-profit companies that invest in low-income communities using debt capital.
- **Holding companies**, which are parent companies that control the interest of other companies. *Note: holding companies do not directly support affordable homeownership clients but can influence the actions of companies they control to change or expand their work in the affordable homeownership space.*
- **Venture capital funds**, which provide equity capital to businesses. *Note: venture capital funds do not work with homebuyers and homeowners directly.*

Source: CDFI Fund, 2023 Annual Certification and Data Collection Report (ACR)

Note: While some CDFIs consist of a single entity, others include multiple, complementary entities.

2 Creating Homeownership Opportunities in Underserved Communities

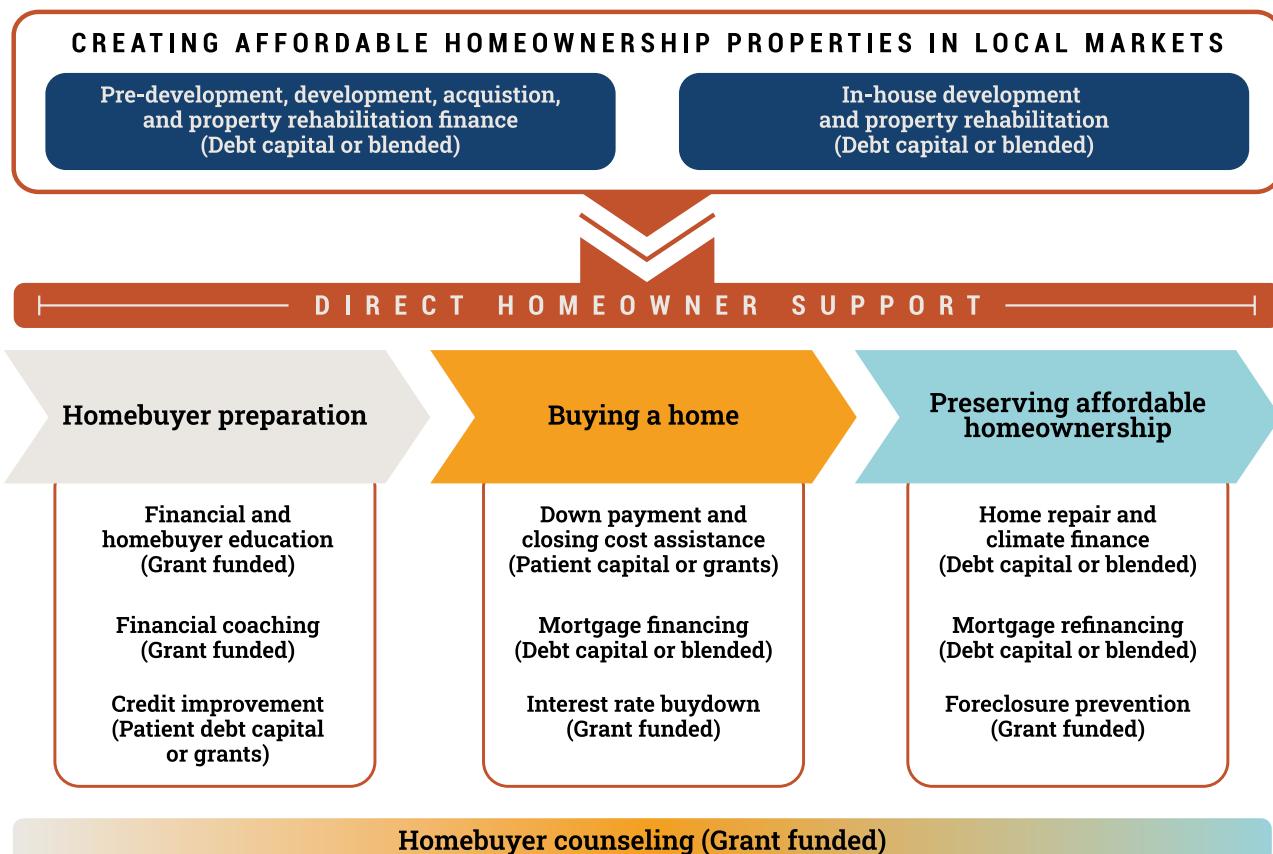
CDFIs engaged in affordable homeownership work transform the people and communities they serve by bringing creativity and dedication together with financial expertise and lived experience. CDFIs leverage resources to design effective, sustainable affordable homeownership strategies using community-specific knowledge and trust-based relationships to serve households and communities that have been overlooked by conventional mortgage

lenders. As a result of those efforts, new homeowners can build generational wealth while building housing security. Moreover, CDFIs' affordable homeownership clients also improve their financial stability, as evidenced by their low mortgage default rates compared to traditional banks.²

In general, CDFIs offer affordable homeownership services along a continuum, depending on community need and available resources. Services

could include financing for buyers and owners, ongoing coaching and education for clients, and property development. Some CDFIs are equipped to work with clients through multiple stages of the affordable homeownership process; others focus on a specific step. The most comprehensive programs include mortgage financing and homebuilding alongside ongoing coaching relationships and opportunities for financial and homeowner education.

Continuum of CDFI Homeownership Services



Communities Served

From formerly redlined urban communities to rural counties struggling with persistent poverty,³ communities with large shares of people of color have historically been marginalized when it comes to homeownership and access to financial services more broadly. This history contributes to stubborn homeownership and wealth gaps.

But CDFIs are champions of communities and eliminating financial barriers. For example, Native American Community Development Corporation (NACDC) Financial Services, Inc. Financial Services originates home loans both on and off tribal trust land throughout Montana. Located on the Blackfeet Reservation and predominantly staffed and led by Native Americans, NACDC Financial Services closed 74 home loans in 2022, proving that mortgage lending on Indian reservations is possible. NACDC Financial Services, like other CDFIs, is filling capital gaps left by mainstream banks - hopefully paving the way for conventional mortgage lenders to follow.

Taking the time to deeply understand the communities they serve enables CDFIs to establish culturally competent engagement practices. For example, CDFIs working in immigrant communities provide in-language resources and leverage established community networks to build trust. Thomas Yu, Executive Director of Asian Americans for Equality (AAFE) in New York City, considers educating clients on the U.S. financial system and homebuying process as the first step toward homeownership, because it protects AAFE's clients from falling victim to predatory entities. Immigrants are eager to gain knowledge they can use to achieve homeownership; according to Yu, AAFE's homebuyer seminars (which have been expanded to include virtual options) are always oversubscribed.



Contextualizing CDFIs and Homeownership Opportunities

Creating affordable homeownership opportunities primarily serves CDFIs' mission of helping people and communities to build wealth and expanding financial inclusion. Racial and geographic inequity is multifaceted, with root causes and persistent effects related to social, economic, and environmental disparities. CDFIs bring deep and often personal knowledge of the history and culture of the communities they serve to every aspect of their work.

For this reason, they are well equipped to address clients' concerns, develop solutions that build on cultural assets, and counteract historic economic injustice. CDFIs supporting residential real-estate finance operate in every state in the nation, indicating their availability to support the communities that funders serve through new partnerships.

Historical Context of CDFIs and Homeownership

Building on the foundation of Civil Rights Era laws and advocacy, CDFIs emerged to meet the needs of communities that have struggled with disinvestment due to redlining, displacement, and loss of wealth due to forced removal.

Disinvestment in communities affected by these forces contributed to deteriorating housing stock and infrastructure, depressing property values. This trend, paired with lack of access to mortgage lending, effectively and systemically prevented residents from accumulating generational wealth. To this day, formerly redlined communities continue to have elevated levels of deteriorating housing stock and infrastructure, low homeownership rates, lower property values, and a lack of access to credit and banking services.

Since the 1970s, CDFIs have provided financial services and capital to communities that are not served by conventional financial institutions, helping to improve credit access and wealth-building. From its beginnings, the industry focused on small business lending and community stabilization,

including investment in affordable rental housing, mortgage lending, and financing to preserve homeownership preservation.⁴ CDFIs later developed to meet the needs of communities that have struggled with disinvestment, displacement, and loss of wealth for reasons other than redlining, such as forced removal, urban renewal, and gentrification.

More recently, in the aftermath of the 2008 subprime mortgage crisis, CDFIs have deployed resources to support Black and Latine households and segregated communities, which were disproportionately targeted by subprime lenders in the years leading up to the crisis⁵ and subsequently experienced higher rates of foreclosure.⁶ The crisis had wide-ranging effects on targeted communities. In addition to displacing and causing financial hardship for families that lost their homes, high rates of foreclosure also depressed home values in affected communities, eroding home equity for those homeowners who remained.⁷

The Role of Affordable Homeownership in the CDFI Mission

Affordable homeownership programs provide viable opportunities for households with low incomes and people of color to purchase a home, establish or strengthen their relationship with a financial service provider in the process, and start building wealth through home equity. In addition to improving clients' financial trajectory, these programs help close the homeownership and wealth gaps in aggregate.

CDFIs serve clients for whom buying a home would otherwise be challenging or impossible. CDFI clients often face interconnected financial barriers that make qualifying for an affordable, conventional mortgage difficult, at best. These obstacles may include limited income, low levels of generational wealth, low or no credit, or high debt. CDFI clients also come from communities that have been disadvantaged for generations by structural racism and disinvestment, which, in addition to exacerbating economic challenges, contributes to clients' lack of trust in or experience with financial institutions. These difficulties are exacerbated by the shift to online banking, which has prompted bank branch closures and created a growing number of banking deserts—places without easily accessible physical banks.⁸

Drawing on their expertise in designing community-driven solutions, CDFIs have developed an approach to affordable homeownership that addresses the root causes of current economic conditions and social outcomes.

"We're dealing with populations that are at the intersection of race, place, and poverty. They are experiencing persistent poverty or they're experiencing deep, deep financial exclusion. So that's how we frame our work: we meet our communities where they are with products that they need to enter into the financial inclusion and economic mobility space."

KIYADH BURT

Director of the HOPE Policy Institute

Rural and majority Black communities in the Deep South (Alabama, Arkansas, Louisiana, and Mississippi)

Other CDFIs working in communities facing multiple sources of vulnerability echo Burt's sentiment, demonstrating the importance of understanding where aspiring homeowners in these communities are coming from in order to meet them where they are.

From this foundation of knowledge, CDFIs build trust and develop client-driven strategies to help people achieve their financial goals. They draw from multiple programs to get clients mortgage-ready, prepare them for homeownership, and layer home-purchase financing products to suit the client's needs and ensure their long-term financial stability. Together, the individualized approach and ability to tap into diverse financial resources enable CDFIs to better serve their clients.

The CDFI Landscape in Residential Real-Estate Finance

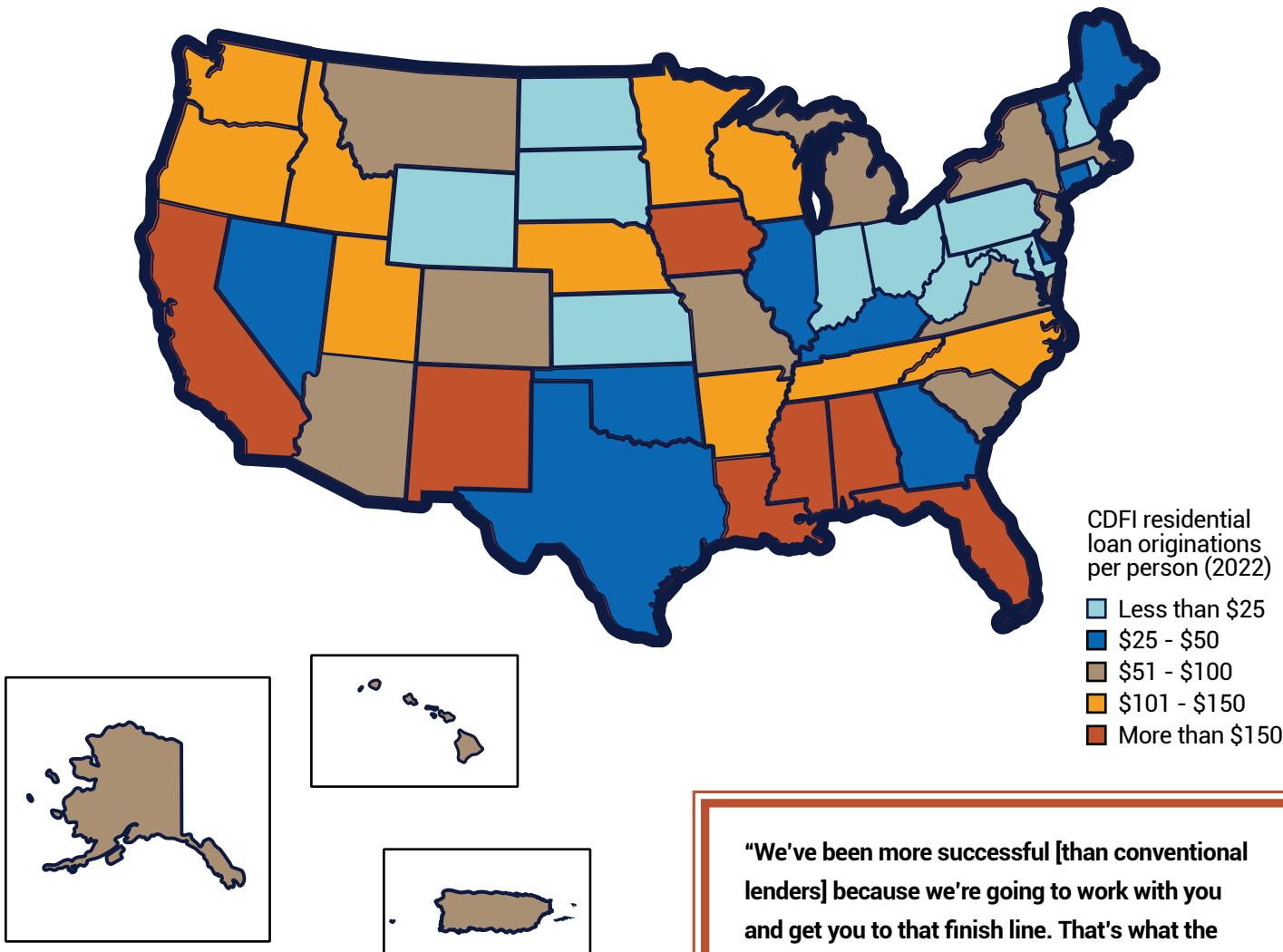
A significant share of CDFIs nationwide either actively work in affordable homeownership or are well positioned to do so. In 2023, nearly half of all certified CDFIs identified residential real estate finance as either their primary or secondary line of business.⁹ Mortgages on single-family homes usually account for the majority of loans originated by CDFIs across all business lines.¹⁰ **Funders can create opportunities to partner with CDFIs that can bring affordable homeownership resources to their communities, even in places where CDFIs are not currently doing affordable homeownership work.**

Affordable homeownership is one component of CDFIs' residential real-estate finance activity. This business line also includes residential development finance for both ownership and rental properties, which mitigates housing price growth by increasing the supply of homes on the market. Some CDFIs have in-house development teams that directly produce homes for rent or purchase at prices that their clients can afford.

CDFIs originate residential loans in every U.S. state and Puerto Rico, as illustrated in the map on the following page. In 2022 data, CDFIs originated the greatest total value of residential loans in California (\$7.47 billion), and the greatest value of residential loan originations per capita (\$470 per person) in Mississippi.¹¹ Although CDFIs issue mortgages in every state, they do not issue mortgages in every community nationwide.

2022 CDFI residential loan originations per person, by state

Source: Scott, Recto, & Kivell (2024).



Funders may use this map to get a sense of how prevalent CDFI-originated mortgages are in their state to inform their CDFI partnership strategy.

While mortgage lending is an important aspect of many CDFIs' affordable homeownership work, their strategies often include additional mechanisms for addressing both homebuyer and homeowner needs. In some cases, CDFIs consider consumer financial products to be part of their affordable homeownership work. For example, homebuyers may benefit from a savings program or credit building loan that helps them become mortgage ready.

"We've been more successful [than conventional lenders] because we're going to work with you and get you to that finish line. That's what the word is about NACDC Financial Services. We're a one-stop shop where we're able to help you with your credit builder loans; we're able to help you with the mortgage loan. We do have all those options under our umbrella, which has a huge impact in our community."

PAULA CRAWFORD
Home Loan Specialist
NACDC Financial Services, Montana

In addition to the home loans NACDC Financial Services closed in 2022, the organization also worked with more than 200 additional families at earlier stages in their homeownership journey, providing consumer financial products to support their progress toward homeownership.¹²

Current Political and Economic Headwinds

CDFIs face daunting economic and political challenges. Housing, mortgage, and insurance market conditions continue to eat away at homeownership affordability, while the federal funding sources that CDFIs rely on to offset unaffordable market conditions are either uncertain or vanishing altogether.

Furthermore, all markets have a limited supply of affordable homes suitable for CDFIs' homeownership clients. The challenges that constrain the supply of affordable homes and available financing vary across communities, but may include:

- **Rising home prices.** The increased costs of construction materials, labor, insurance, and interest push prices beyond what low- and moderate-income families can afford.
- **High housing demand.** Home price growth most strongly affects affordability in high-demand housing markets. Low- and moderate-income homebuyers in these markets often compete with buyers who can make offers with more equity, which are more attractive to sellers.
- **Aging housing stock.** Older homes are more likely to have significant immediate or imminent repair needs that present growing financial risks to homebuyers, risks that are exacerbated by inflation.
- **Inadequate residential development.** In places with a lack of buildable sites or developer interest, developers may not provide enough new, affordable homes to satisfy demand.
- **High interest rates.** CDFIs that finance their mortgage products using debt capital are limited in their ability to provide affordable rates to low-income borrowers by their need to pay their own interest expenses. In a high-price, high-interest environment, CDFIs that buy down interest rates using other funding sources, such as grants, need to dedicate a greater amount of funding to each loan.
- **Increasing homeowners' insurance premiums.** Insurance rates have increased sharply over the last several years, adding to the cost of homeownership and contributing to diminishing homeownership affordability.¹³ Premiums are especially elevated in markets with relatively high climate risk. High insurance premiums may tempt homebuyers to underinsure their homes or forgo hazard-specific insurance, exposing them to greater risk.

Considering political uncertainty surrounding federal funding for CDFIs, the need for dependable philanthropic funding is paramount.



Stabilizing Communities by Disrupting Local Market Failures

By providing access to capital in communities that conventional financial institutions have overlooked, CDFIs expand the resource capacity of both the housing market itself and the industries necessary to support it in the long term. CDFIs are committed to success in the communities they serve and benefit from patient funding partners that enable them to see their long-term affordable homeownership visions through.

Strengthening Financial Inclusion in Rural Communities

Smaller and more remote communities may have few or no local industries to support affordable homeownership, construction, or home repair. In these spaces, solving for financing only fixes part of the problem: even if the money is available, clients still need homes to buy, real estate professionals to help sell them, and skilled people to build or repair them. Without these supportive industries, even getting a sense of the scale of housing needs or assets can be difficult.

Over the past several decades, consolidation in the banking sector and bank branch closure have disproportionately hit low-income, rural communities.¹⁴ According to Jim King, CEO of Fahe in Central Appalachia (Alabama, Kentucky, Maryland, Tennessee, Virginia, and West Virginia), “particularly in rural markets, capital doesn’t flow easily . . . We don’t have a lot of national and regional bank presence in our footprint. And so, we’re solving for that sort of capital shortfall.”

In addition to reducing access to financing, losing a local community bank means losing institutional knowledge about the community. For homebuyers, this loss becomes apparent when larger banks try to appraise a rural home during the mortgage process. Communities with low sales volume have fewer comparable units, so appraisers unfamiliar with the local housing market have difficulty determining a home’s value.

In these rural communities, CDFIs think of affordable homeownership as one component of a larger community stabilization strategy. Specifically, increasing affordable homeownership opportunities among households with low and moderate incomes contributes to broader community stabilization by promoting housing stability and reducing resident turnover. CDFIs are well equipped to take community-driven approaches to developing local capacity that builds on the foundation of existing community and cultural assets. Building power in a way that is grounded in local historical and social contexts and economic strengths helps guarantee that local leadership and organizations will endure.

CDFIs that take on broader community stabilization initiatives invest in the systems and organizations needed to sustain affordable homeownership in the communities they serve. The process starts with building local capacity: developing leaders and institutions that can design and implement effective housing policy. CDFIs may also invest in the industries necessary for local housing development and preservation, depending on local need in residential real estate development, small business, and workforce development business lines.

Financing Industries to Support the Housing Market

CDFIs can grow the local housing market in a way that supports affordable homeownership by investing in industries such as:

- **Residential development.** CDFIs provide small business development funding and technical support to grow the capacity and competitiveness of local real estate development companies.
- **Construction.** CDFIs have invested in the construction trades workforce by funding training and apprenticeship programs to provide community members with the opportunity to learn a skilled trade, such as plumbing, electrical, or HVAC. They also provide financial services and technical assistance to small businesses in the construction industry, building local capacity for both homebuilding and home repair.
- **Real estate.** CDFIs have established training programs for professions that support home sales, such as appraisers. When these types of sectors are under capacity, the home sales process can be significantly delayed, which puts added stress on the homebuyer.

Funders hoping to alleviate the housing crisis may be frustrated to learn that these industries are not adequately developed to support the needs of communities they are hoping to benefit from new development. These funders can instead adjust their approach to be catalytic. Investing in a local housing ecosystem through a CDFI will establish the market foundation needed to create a sustainable housing market and stabilize the community more broadly. **Working with funders willing to provide patient capital and accept the longer lead time associated with this strategy provides CDFIs the resources to transform the communities they serve.**

Supplying Homes at the Right Price Point

As home prices remain high nationwide, CDFIs continue to develop and implement strategies to preserve affordability of single-family homes as a way to close the supply gap for their clients, either by financing residential development or through an in-house development team. Working with mission-driven developers willing to forgo high profits, layering affordable development financing to reduce debt service costs, and embracing more cost-effective, innovative design and construction techniques are some of the ways CDFIs can produce new homes at prices affordable to their clients.

Nonprofit developers tend to produce homes at lower cost because they do not incorporate profit into their pricing. CDFIs that provide residential development finance, such as HOPE Credit Union in the Deep South, work with mission-aligned



developers for this reason. "They are more concerned about the outcome of the project and developments, and not just about the profits that they could make off the projects," says Burt. These developers will prioritize social and community project goals in service to their mission, which CDFIs support by providing the patient, low-cost financing they need to break even when developing homes at affordable prices.

CDFIs also work with local government or nonprofits to attach affordability mechanisms to properties, such as deed covenants or shared-equity homeownership structures, to make them permanently affordable. For example, AAFE coordinated with the New York State Attorney General to buy a 25-unit property in Brooklyn from bankruptcy and convert it to a limited-equity cooperative. In this way, AAFE prevented the eviction of 25 long-term tenants who had purchased their units from the bankrupt developer and delivered on the homeownership promise the original developer had been unable to keep. Because the property is a limited-equity cooperative, residents own a share of the development and agree to resell their share at an affordable price, maintaining the property's affordability even when units change ownership.

Incorporating streamlined homebuilding technology into new developments may further reduce the cost of construction. In addition to investing in the local building-trade industries, CDFIs are developing and incorporating innovative homebuilding technology, such as modular and manufactured housing. For example, come dream come build's (cdcb) Dream Build developed a volumetric modular-housing technology that allows homebuilders to prefabricate components of new homes at a manufacturing site. The components are then transported and assembled onsite according to the homebuyer's custom design.¹⁵



CDFIs also finance and develop new manufactured homes, which are built in a factory and shipped to the homesite complete. Manufactured homes require even less on-site assembly than modular homes; a home is complete once it is installed on its foundation and connected to utility lines.

These approaches reduce the amount of labor and time needed to construct a new home, allowing homes to be offered at affordable prices with design flexibility.

CASE STUDY

Communities Unlimited: Investing in a Housing Ecosystem

CASE STUDY

Communities Unlimited (CU) is a CDFI based in Arkansas that serves rural communities, many facing persistent poverty, across seven states in the South. Since 2015, CU has worked with the Pine Bluffs and Dumas communities, majority Black communities in the Arkansas Delta. This region has limited federal, state, and philanthropic funds. CU has responded with a multifaceted approach to correct market failures it refers to as "building a housing ecosystem."

The first step was establishing a volunteer housing task force in the community, according to Audra Butler, Area Director of Rural Housing. "In any community we go into, we want them to have a voice in the work that we're doing, but also to identify their housing needs," she says. From the Arkansas Delta task force, CU learned that the existing housing stock was aging, but homeowners with low incomes did not have the resources to pay for needed repairs. The region was losing housing stock as homes became uninhabitable.

On top of that, there were no local developers to replace the homes or funders to finance development projects. At the time, CU was working with a partner organization to provide no-down-payment mortgages and closing cost assistance, but, according to Butler, "They had a huge pool of people who were approved, but no homes to put them in because everything was either unavailable or substandard."

Beyond a lack of local developers, the Delta also lacked a local construction workforce, notably trained carpenters, plumbers, electricians, or HVAC professionals. Bringing those workers in from urban areas would increase the cost of construction. And even if homes were built, the area also lacked building inspectors and appraisers with local knowledge to assess the value of new homes. "The entire housing ecosystem is understaffed," said Butler.

Ines Polonius, CU CEO, describes how the organization built a sustainable, impactful strategy to address the housing needs they identified in the Delta: "The strategy is twofold. One is, let's protect the housing stock we have. And two is that workforce development piece that then moves into the entrepreneurship piece over time. So, we bring some of those opportunities back into rural communities."

CU brings those opportunities back with support from a range of funders, including the Winthrop Rockefeller Foundation, Wells Fargo (specifically through the WORTH—Wealth Opportunities Realized Through Homeownership—grant program), and others. Those funds go to programs that supports homeowners and buyers through affordable mortgage and home-repair loan products, down payment and closing cost assistance products, and homebuyer education.

To operationalize the second piece of the strategy, CU supported an entrepreneur from Pine Bluff to establish We Center/We Build, a company that constructs volumetric modular housing in the Delta at affordable price points.¹⁶ CU and We Center/We Build also provide workforce training and apprenticeship in the skilled building trades, giving people hands-on experience building homes in the community. After completing the program, these skilled construction professionals have the opportunity to continue working for We Center/We Build or to support the local housing ecosystem by applying their skills elsewhere, such as in the home-repair sector. According to Butler, "It really is about supporting the economic and workforce development model first, and then as a result of that having an affordable housing model that's sustainable in rural communities."

Creating Community-Driven Programs

Taking an individualized approach, CDFIs help clients identify homeownership as a goal and develop a strategy for success. Some communities, such as Latine clients in South Texas served by cdcb, immigrants in North Carolina served by Latino Community Credit Union, or immigrants in New York served by AAFE, are highly motivated to become homeowners.

"We give opportunity to folks who would not pass a quick and simple screening by one of the big banks, but who we know are really committed to buying a home and paying their loan. Our members don't make the Herculean efforts that they make to come to this country to build a life and take out a mortgage loan just to default on that loan. So, it's up to us to set them up for success."

GABRIEL TREVES-KAGAN
Vice President of Development
Latino Community Credit Union, North Carolina

In other communities, clients may not believe homeownership is an option until they discuss the possibility with a financial coach at a CDFI. People living in communities that have been subject to disinvestment over generations are especially at risk of being discouraged about homeownership. Understanding the community context—its strengths and challenges—gives CDFIs a clear perspective on where their clients are coming from, which enables them to encourage aspirations of homeownership

and mitigate obstacles to their clients' long-term success and financial stability.

CDFIs' capacity for developing culturally competent, community-driven engagement and programming makes them more approachable for people who may be apprehensive about the homebuying process or financial institutions more broadly. By partnering with CDFIs that already have ties in a community, funders can intentionally impact the lives of low- and moderate-income community members who might otherwise be excluded from homeownership.

Building Trust through Inclusion

In response to the long-standing barriers many marginalized communities have faced with conventional financial institutions, CDFIs implement concerted strategies to establish and maintain trust with the people they serve.

Hiring team members who are representative of and active in the communities they serve contributes to CDFIs' reputation and credibility. For first-time homebuyers, seeing themselves in the team of people helping them take the steps toward becoming a homeowner builds a sense of trust and security around the process. According to Jeremy Davis, President of Southern Bancorp headquartered in Arkansas and serving multiple Southern states (Alabama, Arkansas, Georgia, Mississippi, and Tennessee), this trust allows clients to open up about the hurdles they face



in becoming mortgage-ready, which allows his team to recommend solutions. "Through that intentional building of what our internal team was going to look like, it really opened up a lot of doors for us surprisingly well with what the needs were," Davis shared. "We have gone into the communities and sought to be educated before we attempted to educate them."

CDFIs also partner with community-based organizations already working in the communities they serve. These partners may include service providers, faith-based organizations, or grassroots organizations that help shape the CDFI's client engagement strategy based on local context. Some organizations may connect potential affordable homeownership clients with the CDFI, vouching for the CDFI's trustworthiness. Others, such as local governments or nonprofit organizations that fund homeownership assistance programs, may collaborate with the CDFI to support clients through the homebuying process.

Through these mechanisms, CDFIs learn about local concerns and adapt their affordable homeownership strategies accordingly. Continuous community engagement allows them to adapt to changing conditions more effectively. For example, recent immigrants may come from countries with different financial environments. Having a limited understanding of U.S. financial institutions exposes them to greater risk of falling victim to predatory financial entities or remaining unbanked. CDFIs are equipped to address these threats by providing financial education and financial services designed to support their clients' needs. These operational strategies support the efficacy of CDFIs' work across the affordable homeownership continuum.

Expanding Financial Security through Homeownership

CDFIs continue to nurture trust by prioritizing homeowners' long-term outcomes in their client engagement strategies and product design. Ensuring that homeowners can afford mortgage payments and home-repair needs protects their housing and financial security.

Starting with the intake process, CDFIs pride themselves on meeting clients where they are. They strive to have a menu of mortgage and homebuying assistance options to meet each client's specific goals. Flexible underwriting and layered home-purchase funding products allow them to tailor their support to individual circumstances. Many CDFIs are also equipped to provide longer-term support to help clients become mortgage-ready, such as by helping clients build credit.

Preserving clients' wealth continues through the end of the affordable homeownership continuum, long after the client has moved into their home. CDFIs work directly with homeowners to ensure their long-term financial and housing security by preventing displacement that may result from challenges making mortgage payments. Low-income homeowners are more susceptible to income volatility or unexpected expenses that can stretch their budget. Through regular communication with homeowners post-purchase, CDFIs can intervene early and provide support in the event of an income or expenditure shock.

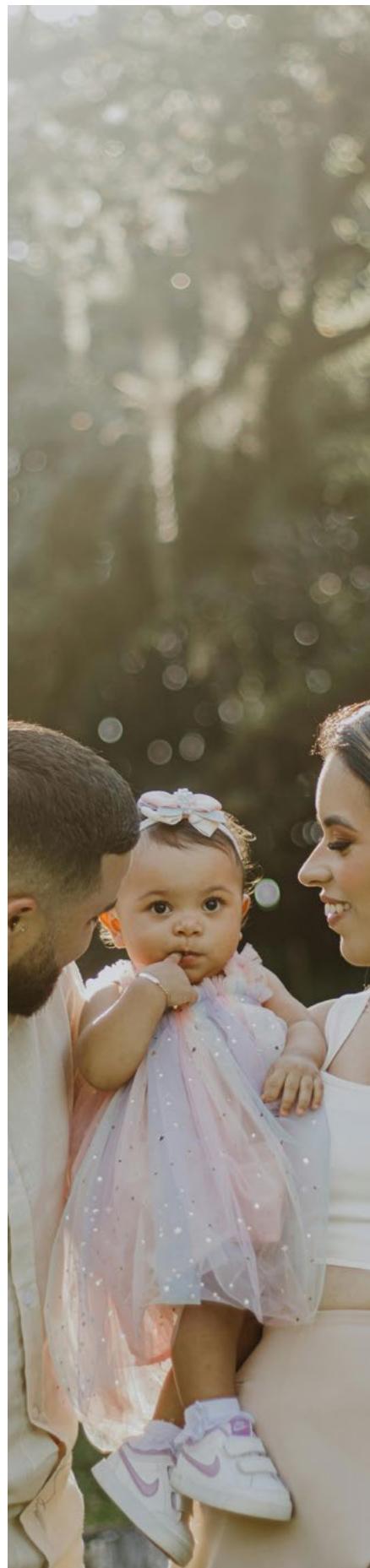
CDFIs with the capacity to work with clients as Latino Community Credit Union in North Carolina does enable homeowners to remain financially stable and avoid foreclosure. This approach also benefits the CDFI's mortgage product performance. CDFIs regularly report relatively low mortgage default rates compared to the conventional mortgage industry, even when working with clients who are considered too risky by conventional mortgage lenders.

Preserving Family and Community Wealth

In the even longer term, CDFIs preserve generational wealth in the communities they serve by developing estate management resources. In low-income communities, limited access to estate planning has resulted in tangled titles (also referred to as heirs' property), which enable multiple heirs to lay claim to a home as part of their inheritance. Homes in this condition end up in legal limbo, during which time they may go unused, fall into disrepair, and depreciate in value. In addition to eroding generational wealth, heirs' property also threatens community stability.

As Nick Mitchell-Bennett, cdcb in the Rio Grande Valley, puts it, "We know how to underwrite loans. We know how to service loans. We are very good business people who understand risk, but also understand that it's not as risky as people think." CDFIs are committed to the sustainability of their business model because it is essential to their ability to meet their mission goals.

CDFIs often help clients avoid or remedy tangled titles by partnering with legal aid organizations that provide estate management services. Others may take a more comprehensive approach based on the connection between tangled titles, home-repair needs, and community. For example, Local Initiatives Support Corporation's (LISC) housing preservation strategy, which was established in Jacksonville, Florida, and expanded to Cincinnati, Cleveland, and Detroit, is structured to address all three concerns depending on a client's individual need. More broadly, CDFIs' work supporting estate planning among homeowners in this space is in early stages and in need of dedicated funding to protect the generational wealth built over the homeowner's lifetime.



come dream come build: Empowering Homebuyers through Consumer Choice



CASE STUDY

At cdcb, a CDFI serving four majority Latinx, persistent-poverty counties in the Rio Grande Valley, taking an individualized approach allows the organization to center client choice in every aspect of the homeownership process. To Nick Mitchell-Bennett, CEO, this philosophy is both practical and a means of empowering clients: "You just can't sell something that people don't want. So, asking people what they want and continuously asking them is where we start." In Dream Build, cdcb's volumetric modular housing program, this means giving clients the power to determine how their home will be designed. When developing a new subdivision, it means asking future homeowners what infrastructure or recreational features are important to them (hiking and biking trails are increasingly popular). And it means allowing clients who own residential lots and prefer conventional homes to select a contractor from cdcb's approved list that can build a home on a lot they own, designed to their specifications as their budget allows.

The clients cdcb serves are deeply committed to homeownership, and cdcb matches their dedication by working with them through every step of the homebuying process. Altogether, it can take between nine and twelve months for a client to improve credit, reduce debt, and increase savings enough to be homebuyer-ready. During that time, the client is also working with cdcb counseling staff to improve financial capability. Next, cdcb's mortgage team works with the client to select the mortgage terms that best work for that person's budget and financial priorities from a range of products developed in-house.

From start to finish, the client's motivation drives their progress and cdcb facilitates success by providing one-on-one counseling and education and real choices. **"I think people undervalue hope in our work,"** says Mitchell-Bennett, **"and I don't undervalue it. It just permeates everybody who's coming in here. They just want to buy a house, and they're willing to do what it takes. That persistence really comes from a long understanding of what poverty is and that they're not going to take it anymore."** In aggregate, that dedication shows in cdcb's mortgage portfolio performance: in 30 years, the organization has foreclosed on only two properties.

cdcb works with thousands of clients annually across its programs. Between 2020 and 2021, cdcb graduated 128 families to homebuyer-readiness, originated loans for another 50 families, and provided 42 families with down payment and closing cost assistance loans.¹⁷ Its work has increased housing supply in the Rio Grande Valley, bringing 549 affordable single-family homes to market between 2021 and 2024 through a combination of direct and blended financing.¹⁸

Advancing Climate Resilience

Marginalized communities are disproportionately at risk from exposure to environmental hazards, both natural and built, and less prepared to recover from natural disasters. CDFIs are adapting their homeownership education and home loan products to promote climate resilience in their clients' homes. Out of necessity, CDFIs aim to stay current in their knowledge of climate-resilient building technology and the multiple risks climate change poses to low-income communities. They bring both technical knowledge and innovative approaches to climate finance, allowing them to develop viable solutions to preserve and protect affordable homeownership amidst growing climate risk.

CDFIs have increasingly incorporated climate risk into homebuyer education. Clients gain an understanding of how the natural environment interacts with their home and might affect their finances. For example, they will understand how extreme temperatures have the potential to increase their utility bills and that homes with improved insulation will not be as dramatically affected. They will also leave with the knowledge to make informed decisions regarding supplemental homeowner's insurance and plans to adapt if climate conditions shift. Even after formal education programs conclude, CDFIs help homebuyers understand differences in climate risk exposure associated with the homes they are considering.

To protect home value over the long term in the context of shifting climate conditions, CDFIs are also improving homes' climate resilience through their approaches to residential development and home-repair finance. They are adjusting their residential development products to foster green construction practices or building designs that are resilient to natural disasters. For existing homes, CDFIs are also developing new loan products to finance climate-resilient retrofits for current homeowners.



Asian Americans for Equality: Improving Climate Resiliency



CASE STUDY

For AAFE, a CDFI serving immigrants in the New York City metropolitan area, teaching clients about climate risk became imperative when their clients expanded their housing searches to the suburbs. Clients are drawn to transit-accessible communities with homes that are relatively low priced compared to New York City but may not realize that those homes have a significant risk of flooding.

AAFE is able to help clients think about climate risk by drawing on their clients' cultural background. According to Yu, immigrants already have a frame of reference for assessing risk and apply "cultural sniff tests" when looking at a home. Chinese immigrants, for instance, use principles of Feng Shui, which gives AAFE staff an angle to introduce the concept of flooding risk. Yu shared:

"There's a notion that they don't like to live on non-level ground. This has more to do with, in the old country, mudslides and things like that. So, you could tack on water damage to that. You can really piggyback off some existing cultural notions to introduce some of the things that they might not have thought of early on."

As a housing developer, AAFE is constantly exploring climate-resilient design innovations to incorporate into new and rehabbed homes. In addition to functional designs, AAFE is also focused on ways to strengthen the fabric of the community through the homes it develops. Honoring its cultural heritage, the organization draws inspiration from East Asian architecture. Yu shared:

"In Japan, they have a single-family housing design that is more aesthetically appealing. It looks a little more economical to build; they use this thing called a stilted, raised structure that allows for activation of the space underneath. For temporary uses, that helps reunify the sidewalk and the streetscape of the street, so it doesn't look blighted just because you're putting in flood resiliency measures."

In addition to protecting the value of their clients' investment, these homes will also add to the vibrancy of their neighborhoods. The next step is convincing local policymakers to support the design.

Neighborhood Partnership Housing Services: Improving Climate Resiliency



CASE STUDY

Neighborhood Partnership Housing Services, Inc. (NPHS) is incorporating climate-resilient design and finance to protect homes in the Inland Empire—the region immediately west of Los Angeles comprised of San Bernardino and Riverside Counties—from wildfire damage. Like AAFE clients in New York City, NPHS homebuyers are exploring homes farther away from central cities because prices are more affordable. But unfortunately, more remote communities in the Inland Empire tend to have greater fire risk.

NPHS is exploring ways to make the new homes it is developing more resilient to wildfires and wind. For example, it is partnering with the Insurance Institute for Business and Home Safety (IBHS), an organization commissioned by insurance companies to test building materials against natural disasters, to identify wildfire-resistant materials. It is currently in the process of developing land using factory-built homes that will have IBHS's Wildfire Preparedness Designation®. Knowing that climate resilience is a big concept for its clients to wrap their heads around, NPHS describes these design features in terms of what is important to clients. Clemente Mojica, NPHS's president and CEO, shared:

"I can't go to a family and say, 'Hey, I want to sell you a climate-resilient home.' But I can sell them a home that rises to meet the wellness and well-being of their family. For us, that equals integrated health features, energy and resource efficiency, and climate resiliency. And that is the branding of our homes."

In addition to incorporating wildfire-resistant design into new construction, NPHS provides financing for current

homeowners to invest in wildfire-preparedness retrofits through its Resilience Loan Program. Knowing clients would be reluctant to take on additional debt, NPHS incentivizes homeowners to go a step further and obtain IBHS's Wildlife Preparedness Designation® by doubling the loan limit and reducing the interest rate by half a point for homeowners willing to make that commitment. NPHS funds the program through a blended approach that leverages state funding and Community Reinvestment Act (CRA)-driven private investments from financial institutions and sustains it by selling loans on the secondary market through an aggregator.

But in California, for homeowners at risk of increasing insurance costs or, worse, losing their insurance altogether as wildfire risk rises, the need for these loans is immediate. Through its Resilience Now Program, NPHS provides income-eligible homebuyers with emergency microloans of up to \$5,000 to finance wildfire-preparedness retrofits. According to Jesse Ibarra, Chief Business Officer, "It basically helps people meet those conditions that are provided to the homeowner by their insurance company to keep their insurance or maintain a lower rate."

Taken together, incorporating climate resilience into how homes are built, maintained, and improved directly serves CDFIs' mission of financial inclusion and wealth-building. Mojica emphasized, "When we talk about the role of CDFIs and climate resiliency—when you back into our area of impact—it's about wealth creation and preservation. Our work on climate resiliency is all about moving the needle in generational wealth preservation." But to an even broader purpose, "CDFIs have to play a powerful role in creating resilience in the built environment."

Strengthening CDFIs' Homeownership Initiatives

CDFIs have demonstrated impact in expanding homeownership and building wealth in specific communities and geographies. To keep their products affordable and accessible, CDFIs operate on low margins, but they generally lack the right amount and type of funding to fully realize the potential of their affordable homeownership programs. **Both capital and operating support from a range of sources, including philanthropy, financial institutions, and corporations, are necessary to build greater impact.** Most CDFIs are unable to access private debt or equity capital due to their nonprofit status or financial constraints, and those that provide substantial programmatic support to their clients are constantly fundraising.¹⁹

Funders have the opportunity to invest, make grants, and take other actions that enable adaptive homeownership programs and products tailored to who and where CDFIs serve. Funder support and investments can allow homeownership impacts to continue and expand.

By prioritizing economic equity, emphasizing flexible and creative financing strategies responsive to local needs, centering community, and considering long-term impact, philanthropy can wield an array of tools that can play different roles in accomplishing their organizations' missions. Using varied tools that often work best when combined, philanthropy can provide a range of resources to CDFIs that leverage public and other private funding, empowering them to incorporate local solutions now and in the future. Those tools may include:

- Trust-based, flexible **grants** that can help support operations and services like financial coaching, build capacity, and allow for flexibility and expansion.
- Patient, long-term **capital and investments** that can help CDFIs reinvest in the communities they serve through housing development and lending.
- Technical assistance and other **capacity building** that can help build internal systems, hone capital strategies, or address other business needs related to homeownership programs.

Ways Philanthropy Can Invest in CDFIs

CDFIs need access to different kinds of capital to thrive, such as debt and equity capital.

DEBT CAPITAL	<ul style="list-style-type: none">CDFIs borrow debt capital through loans, lines of credit, or bonds that must be repaid over time or at a future date, usually with interest, to finance their operations, lending activity, and affordable housing development.Long-term debt capital, especially capital that could revolve funds from project to project, helps CDFIs lend money affordably (e.g., buying down interest rates) and flexibly to borrowers and develop homes.Debt capital allows CDFIs to layer funds into large-scale capital and real estate projects.
ROLE OF PHILANTHROPY	<ul style="list-style-type: none">Philanthropy can play a catalytic role in early debt capitalization for loan funds or real estate projects by absorbing the first risk, layering future funding streams, and enabling tax credits to ensure that projects move forward.Funders can lend low-cost capital on favorable terms. While debt capital comes with benefits to philanthropy, including mission alignment, leverage, and impact, some donors may perceive it as risky. If you are new to using this tool, network with philanthropic peers, consult with your advisors and investment team, educate your donors or board, or learn from training and resources like Mission Investors Exchange.When ready to extend debt capital, philanthropy generally does so through impact investments, like program-related investments (PRIs) and mission-related investments (MRIs), in the forms of short-term bridge loans, loan pools, lines of credit, and other mechanisms.
EQUITY CAPITAL	<ul style="list-style-type: none">CDFIs generally raise equity capital to leverage additional funding or fund and strengthen lending and investing activities.Alternatively, some CDFIs offer ownership interests in CDFI capital funds, stock in CDFI banks, or mission-driven deposits in CDFI credit unions.Capital grants can help CDFIs buy down risk, giving them space to be creative and community-oriented through loan loss reserves.
ROLE OF PHILANTHROPY	<ul style="list-style-type: none">Philanthropy can provide capital grants or PRIs, as well as other equity investments.Philanthropy can help CDFIs by providing an infusion of capital to increase assets and help the CDFI become an investable organization to other partners.Mainstream financial institutions can make equity investments in CDFIs to leverage lending credit under the Community Reinvestment Act (CRA).
COLLECTIVE CAPITAL	<ul style="list-style-type: none">All the capital resources from multiple sources work together as a stack to support and enhance CDFIs' affordable homeownership activities.
ROLE OF PHILANTHROPY	<ul style="list-style-type: none">Philanthropy can provide early or riskier capital to a CDFI to attract other investors and increase impact.Philanthropic grants and investments often complement other private-sector equity investments and debt capital.

Although funders often cite affordable housing and wealth-building as priorities, affordable homeownership typically receives less funding than other CDFI programs, like affordable rental development or small business lending. CDFIs have indicated that funders demonstrate misconceptions about how they operate and their need for philanthropic funding for homeownership activities. One such fallacy is that CDFIs are sufficiently funded from mainstream financial institutions seeking Community Reinvestment Act (CRA) credit. The truth is that CDFIs need reinforcement from philanthropy to ensure equitable homeownership and wealth-building.

As an example of growing a relationship over time, the Wachs Family Fund, a donor-advised fund, started with unrestricted grants to CDFI Communities Unlimited (CU) for work in the Colonias in unincorporated areas of South Texas. The Colonias, which are home to immigrants and migrant workers, lack infrastructure and have high rates of rent-to-own scams. To stabilize the community and combat predatory real estate tactics, CU wanted to increase residents' land ownership. Over the course of the grant relationship, the fund manager became personally involved with CU and deepened her knowledge of CU's work and the community. When the fund manager met with CU to discuss its redevelopment plan, she asked what the organization really needed to buy land and build affordable housing. CU asked for a loan. While the idea made sense and she trusted the organization, the fund manager was uncertain whether she could provide a loan through a donor-advised fund. With help from advisors, the Wachs Family Fund structured a \$1 million loan at 1% interest over 7 years. CU used those funds to leverage other lenders so it could control land, build housing, attract buyers, secure financing, and repay the loan. The family fund continued to make concurrent grants for operations. CU repaid the loan, and the return on investment for the fund was greater than through grantmaking alone. The Wachs Family Fund now considers loans as one of the many tools in its toolbox.²⁰

"CDFIs are designed to be lenders of last resort, which often means they end up doing a lot of extra handholding, or need to offer deep subsidies, or take on more risk for a financing to work. So although there are reliable mechanisms for CDFIs to secure the actual loan capital they deploy from banks, impact investors, and capital markets, they also need reliable grant support to cover the costs of the most mission-driven aspects of their work."

KRISTEN SCHEYDER

Director of Programs
Citi Foundation

To better understand your role as a philanthropy organization, conduct research, get to know CDFIs that are in your footprint, and grow relationships over time.

Often the relationship between a CDFI and a philanthropy organization is iterative, as it was for CU and the Wachs Family Fund. Sometimes funders will be approached by CDFIs with investment opportunities, and other times, funders may need to be more proactive to bring ideas and partnerships to CDFIs. For example, at Fairfield County's Community Foundation (FCCF) in Connecticut, a volunteer from a CDFI served on the investment committee, which helped bring CDFIs to the foundation's attention. FCCF realized that the CDFI was a practical approach to local impact investing. FCCF invested \$1 million and is sometimes approached by CDFIs with opportunities. The key is to build mutual trust and understanding over time.

Where to Start

Regardless of where a funder is located and its type, a pathway to engage is available. Megan Loeb, Senior Program Officer for Economic Vitality and Housing at the Oregon Community Foundation, which is experienced at investing with CDFIs, reminds us: "Some funders are scared to engage because it's a technical field with lots of jargon and weird structures. Some end up doing nothing. A good first step of any investment strategy is with those CDFIs. You get a diffuse program. They're regulated. People are looking over their shoulders. They are very low risk." Her advisor at Occam Advisors echoed the sentiment, adding that the foundation counsels its clients to, "Always start [investing] with local CDFIs around you. To some, it's not satisfying because they are lending to an intermediary. But that money is being put to work right away. It's diffused, being revolved."

What if you are not sure there are CDFIs in the area?²¹

1. Start with your goals related to affordable housing and wealth-building.



Mission Impacts by Affordable Housing CDFIs

2. Search for CDFIs or Native CDFIs using national databases and focusing on a city, state, or region:

- Opportunity Finance Network ofn.org/cdfi-locator
- US Department of Treasury cdfifund.gov/what_we_do/need_a_loan.asp
- AERIS aerisinsight.com
- Oweesta oweesta.org

3. Connect with prospects.

Share your affordable housing and wealth-building services goals. Learn about their specific homeownership programs. Look for alignment and opportunities to support and invest.



Revitalize a specific neighborhood



Invest locally



Empower community groups by race, income, age, gender, veteran status, etc.



Facilitate homeownership & individual asset building



Develop high quality affordable housing



Green buildings

What if there are no affordable homeownership CDFIs in the area?

If an area has no CDFI with affordable homeownership programs, consider options to bring in CDFI expertise or build it locally without having to start a new organization from scratch.

- If the desire is to bring CDFI expertise into the area, a funder can connect to national CDFI organizations that have local affiliates, such as Local Initiatives Support Corporation (LISC) or NeighborWorks America, or contact CDFIs in nearby communities to ask about expansion.
- If expansion is not an option or building local capacity is important, a funder could sponsor a market analysis or community engagement process to understand community needs and assets, such as affordable housing and community development organizations with similar missions or CDFIs not focused on homeownership. If local organizations can build capacity or encourage collaboration, a funder could provide exploratory grants to support a demonstration project with grants and technical assistance.

In rural and tribal areas without CDFIs, the Oregon Community Foundation has invested in larger CDFIs that serve as a bridge for rural and tribal developers who do not have the expertise or balance sheet to support their own development.

For additional resources on expanding CDFI coverage, please visit the [CDFI Fund](#).

What about small and family foundations?

As with funders of any size, convening, capacity building, and operating grants are important tools that small and family foundations can use with CDFIs. To carry out their work effectively, CDFIs benefit from smaller foundations who engage in creative ways.

Smaller foundations can consider seeding CDFI projects to attract other public and private funding sources. A program-related investment, a type of impact investment tool that some foundations make to achieve their philanthropic goals, can range from thousands to millions, depending on the scope and size of the foundation and its tolerance for risk.

What about funder coordination and collaboration?

Funder collaboration has the potential to deepen impact, although singular investments are also meaningful. As multiple funding streams are needed by CDFIs, funders coming together facilitates fundraising and implementation processes. Examples include co-funding a pre-development loan pool for housing development projects or a loan fund for buyer financing.



How Philanthropy Can Support the Continuum of CDFIs' Homeownership Services

A range of opportunities exist for philanthropy to invest across the continuum of CDFIs' affordable homeownership services, from creating properties to direct homeownership support for homebuyer preparation, buying a home (financing), and preserving homeownership. CDFIs especially need flexible grants and capital. Following are examples of how funders can support CDFIs:

- 1) **Multiyear general operating grants for homebuyer preparation services**
- 2) **Multiyear grants and flexible capital for preserving homeownership**
- 3) **Greater flexibility in fund uses for creating properties and buying a home (financing)**

1) Multiyear general operating grants for homebuyer preparation services

Public and private grants are the primary source of funding for homebuyer preparation, but not all CDFIs qualify for funding from the federal government or banks. Scarce public funding and expensive debt capital are insufficient for CDFIs to provide vital homebuyer preparation services. Philanthropy and financial institutions can help fill the gap by providing trust-based multiyear operating grants to sustain the support buyers need to attain homeownership and build generational wealth.

The Citi Foundation's Community Progress Makers initiative supports visionary community organizations, including CDFIs, to expand their impact by connecting low-income communities with greater economic opportunity. In 2024, the fourth cohort of Community Progress Makers was announced, with each community organization set to receive \$1 million in flexible grant support over three years. The grants are accompanied by a learning community and technical assistance delivered by national experts and leading researchers. The latest cohort included CDFI Neighborhood Partnership Housing Services, Inc.

2) Multiyear grants and flexible capital for preserving home ownership

To help homeowners sustain homeownership, CDFIs provide a range of post-purchase financial products and services that call for flexible capital and grants, as with homebuyer preparation services:

- Allowing CDFIs to refinance existing mortgages to reduce clients' monthly payments to promote homeowners' financial stability and economic prosperity.
- Providing resources for home-repair or climate-resilience products to help preserve the home's health and safety, protect home equity value, and grow the homeowner's generational wealth.
- Providing foreclosure prevention services, largely grant-funded, such as individualized financial coaching or foreclosure prevention counseling that troubleshoots the financial issue and helps the homeowner get caught up.
- Providing financial assistance to help homeowners remain financially secure and avoid foreclosure after a financial setback.

Even without formal foreclosure prevention programs, CDFIs have a practice of maintaining communication with homeowners throughout and beyond the life of their mortgage.

Some CDFIs, such as the Latino Community Credit Union (LCCU) in North Carolina, deliberately choose not to sell their mortgages on the secondary market, so they can service mortgages in-house and maintain close communication with their clients. Doing so also gives LCCU greater ability to modify the terms of the loan if their clients' needs change throughout the life of the mortgage, such as by deferring mortgage payments without penalty if a client experiences a loss of income.

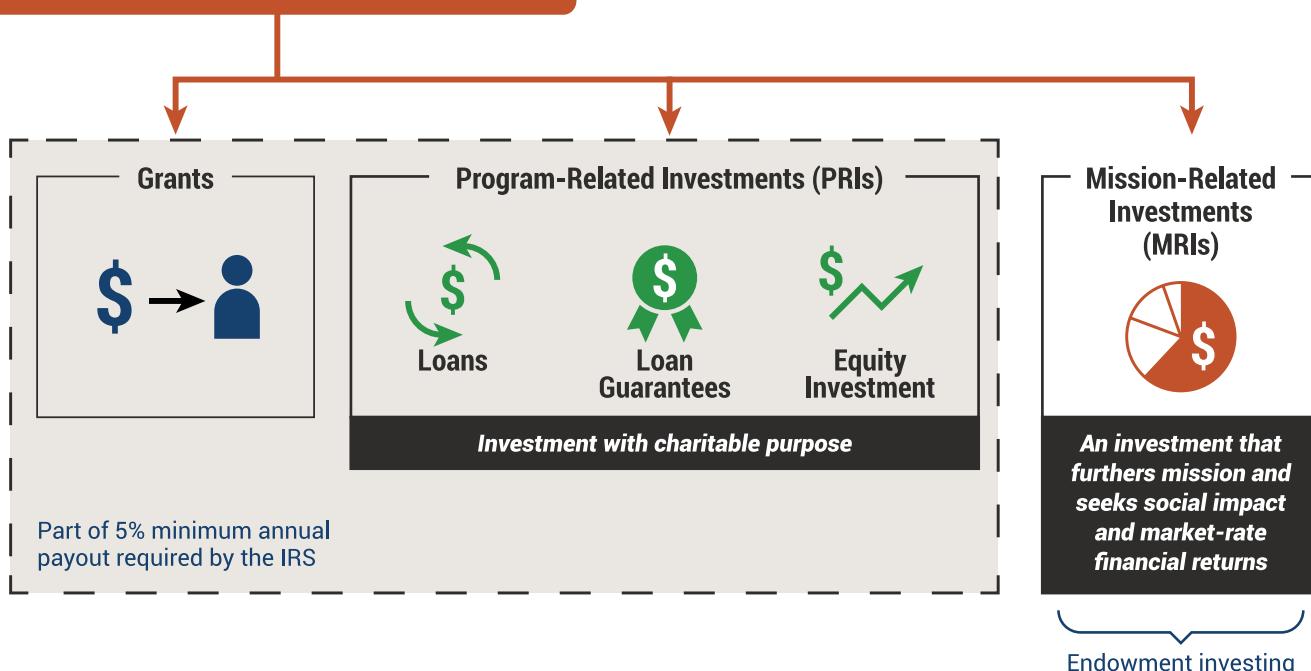
3) Greater flexibility in fund uses for creating properties and buying a home (financing)

Supporting financing, from down payment and closing cost assistance to mortgages, is largely about capital (grants and investments) that is affordable, patient, and flexible. Providing capital to increase the number of affordable mortgages or homes through CDFIs is not just a subsidy. It is an investment in a proven business model that allows low- and moderate-income homebuyers to achieve and sustain homeownership by keeping interest rates low, using flexible underwriting guidelines, and selling affordable homes. Said Garth Harries, President and CEO of The Connecticut Project, a statewide organization that brings together people, ideas, and opportunity, "CDFIs are a creative driving force for better housing option, and we encourage investment in these type of projects."

Because CDFIs take the time to build trusting relationships with their clients, prepare them to purchase and own a home, work with them to design a mortgage product that meets their needs, and maintain regular communication, many report low default rates. The median default rate of CDFIs was .036% in 2023, roughly half the rate of traditional banks.²² This fact is impressive, given that the homebuyers CDFIs typically work with would be seen as too risky by conventional underwriting standards.

Impact Investing Toolkit

Foundations



Flexible capital

Philanthropic funding is an essential source of patient and flexible capital to help CDFIs increase economic equity and opportunity in historically disadvantaged communities. To make homeownership truly affordable and sustainable for the long term, CDFIs need funds that allow for affordable home development, as well as unconventional or flexible underwriting and adjustments to loan terms on an individual basis to fit their clients' budgets. Low-cost capital allows CDFIs to reinvest in the communities they serve and create lasting impact. It also helps CDFIs leverage debt and grow their net assets.

Non-philanthropic funder-specified constraints on how capital can be used, including those from financial institutions and the federal government, hinder CDFIs' ability to accommodate the community's needs. Those limitations include requiring more conventional mortgage underwriting standards or not allowing for flexible mortgage terms, both of which create barriers for buyers accessing homeownership. Emerging CDFIs and CDFIs working in smaller markets, such as rural communities, are particularly at a disadvantage because they have fewer opportunities to diversify funding sources.

Philanthropy has a range of options for impact investing – investments made with the intention to maximize social impact alongside financial return²³ – and other capital provisions. Philanthropic capital can be catalytic, earning solid but not the highest possible returns while supporting a mission and bringing others to the table.

The Oregon Impact Fund: A Case for Flexible Capital in Community-Scale Investment



CASE STUDY

The Oregon Impact Fund deploys capital and is supported by Meyer Memorial Trust and the Oregon Community Foundation (OCF). OCF officially launched the \$10 million impact investment fund in 2018 to provide a different type of capital to CDFIs and other organizations addressing affordable housing, healthcare, and jobs. That was patient and flexible capital, often missing in the natural market, especially in rural areas. Initial investments to the Oregon Impact Fund came from OCF's donors and one-to-one matches from OCF's endowment fund for every dollar invested.

The Fund came out of conversations within and outside of OCF around how to better serve the community by deploying "new" capital from part of the endowment that did not involve any existing grant resources. It started with a several-year pilot of smaller loan amounts to test proof of concept.

"The Impact Fund was a way that we could provide a different tool in the toolbox. When people think of philanthropy, they often think of grant-related work. But we've learned that other tools are just as important as the grants: convening, advocacy, and the power of loan capital to provide flexible, larger investments and patient capital over time."

MEGAN LOEB

Senior Program Officer for Economic Vitality and Housing
Oregon Community Foundation

With support from Occam Advisors to align capital with purpose, the Oregon Impact Fund is structured to engage donors and provide flexibility to CDFIs and other nonprofits while allowing funds to be revolved from project to project. Now at \$30 million, the Fund combines donor commitments and OCF endowment funds and invests in a range of CDFI activities, including affordable homeownership. In addition to having light reporting requirements, the Fund connects borrowers to operating grants and other funders and offers technical assistance to help organizations with loan readiness and additional capital strategies. The Fund has been successful in providing patient, flexible capital to Oregon-based CDFIs and other partners, including many CDFI affordable housing initiatives in the state. CDFIs are the foundation of the investment strategy, as they can receive funds and re-lend them more rapidly across the state than direct investments.

The interest rates on the Fund's loans cover the costs of staff, accounting, and fund management. Organizations that have donor-advised funds that have loaned to the Oregon Impact Fund have loss mitigation done by OCF and are guaranteed liquidity when they are ready to leave the Fund. For example, if a donor-advised fund makes a five-year commitment, at the end of the term it can move its investment back to its corpus. On the borrower side, the Fund is flexible and often supports predevelopment activities for affordable housing production. One flexibility feature is to make a loan to the entity level of an organization, allowing the organization to revolve the loan from project to project over the loan period of five to seven years and avoid additional fundraising. The Fund's

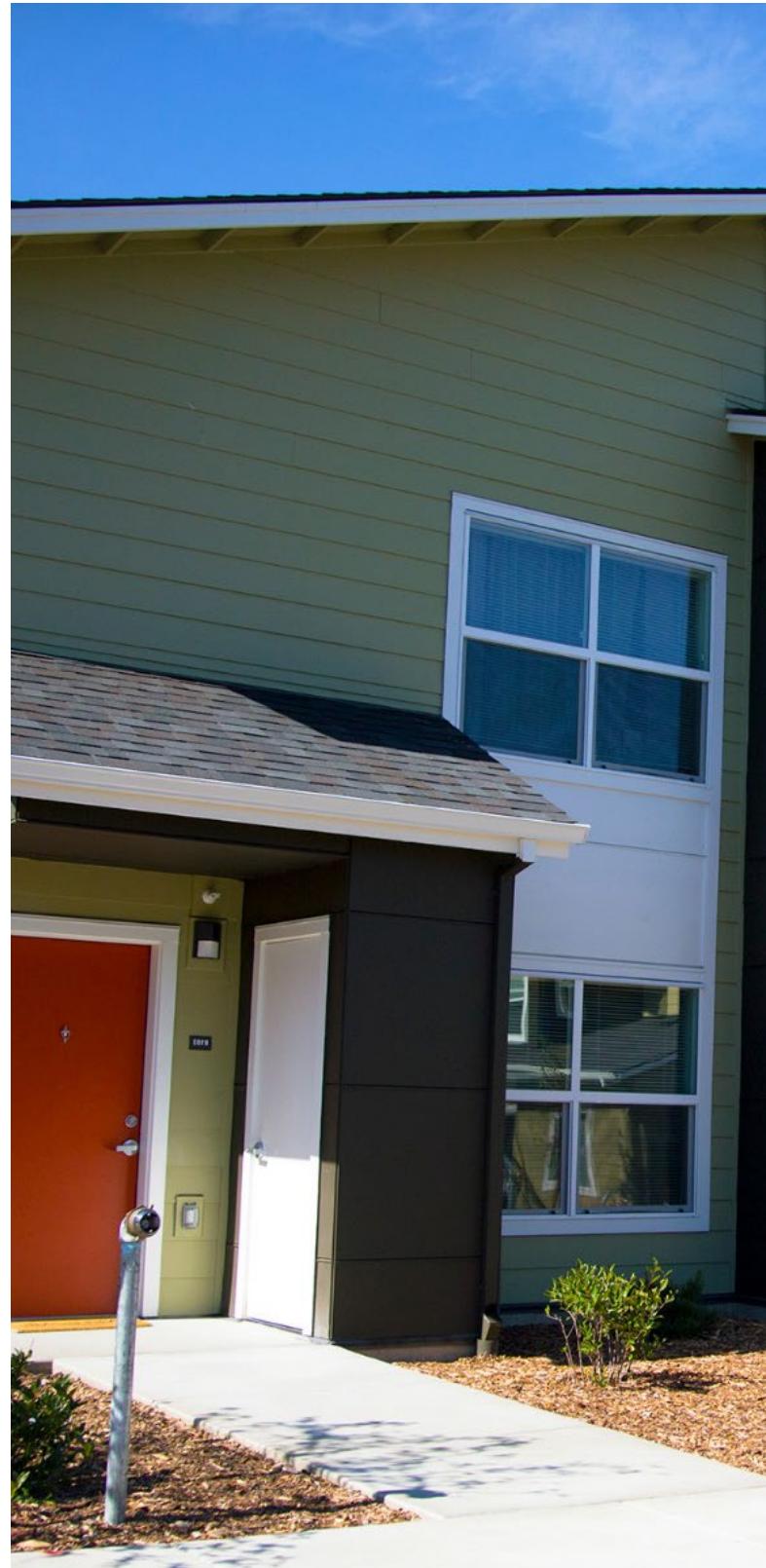
CASE STUDY



operational flexibility extends CDFIs flexibility in how they deploy the capital received.

One of OCF's CDFI partners is Community and Shelter Assistance (CASA) of Oregon, which helps people purchase their manufactured home communities and form resident-owned cooperatives. Without support from CASA of Oregon, manufactured homeowners are at risk of rising land rents, especially if the land on which their homes are located is purchased by a new owner. After the wildfires in 2020, CASA of Oregon approached OCF about private equity firms interested in acquiring the decimated land and building new communities. CASA of Oregon needed a bit more capital to outbid those firms. With a \$1 million loan from the Oregon Impact Fund, CASA of Oregon was able to acquire a parcel of land and form a resident-owned cooperative in Southern Oregon.

The Oregon Impact Fund is part of OCF's strategy to support the entire affordable housing continuum, from emergency to homeownership through grants, investments, and advocacy. The affordable homeownership component is grounded in household stability and generational wealth-building while elevating communities that have been historically and systematically shut out of homeownership opportunities over time.



Tools for providing capital

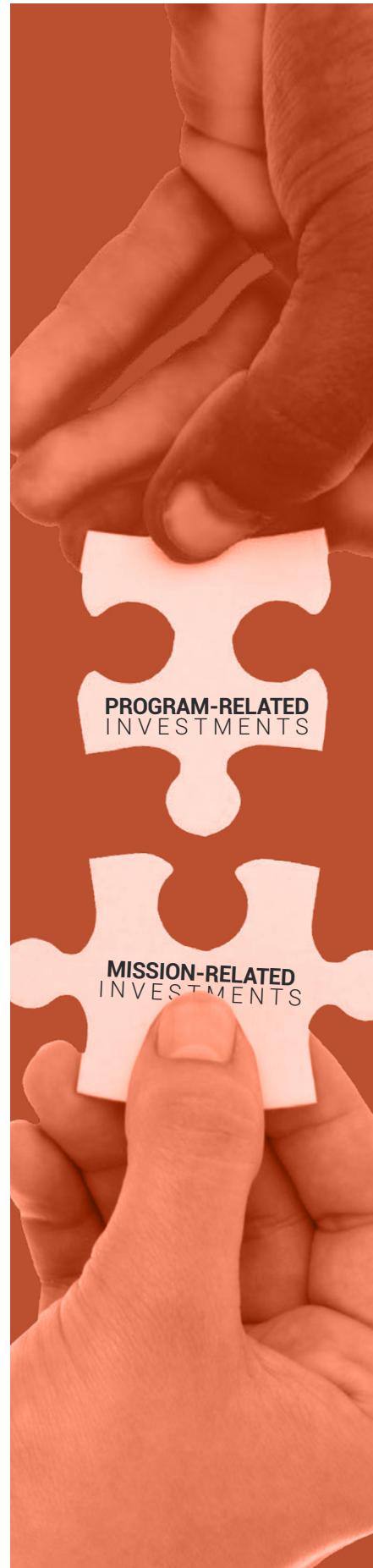
Impact investment tools are philanthropy's main vehicles for providing capital to CDFIs. Both Program-related investments (PRIs) and Mission-related investments (MRIs) can be made in the form of loans, loan guarantees, and other capital investments that enable CDFIs to purchase land, buy down the cost of other capital, and leverage public funding or tax credits.

The McKnight Foundation has made it a practice to combine grants and nimble capital to support CDFIs and other affordable housing providers in Minnesota, including the statewide Habitat for Humanity that lends to its affiliates. The foundation provided a recoverable, capital grant, regranting capital, and capacity building, which helped Habitat access state appropriations and USDA financing.

PRIs are below-market, risk-adjusted investments that generate limited or no financial return in pursuit of a foundation's mission, usually at a rate of 0–3% and a term from weeks to 10 years.²⁴ Like grants, PRIs are tools for making inexpensive capital available to CDFIs. Unlike grants, PRIs are expected to be repaid. Once repaid, PRIs are generally reused for other mission-aligned purposes. PRIs qualify as part of a private foundation's annual required payout, and foundations can use part of their endowment assets or grant budgets for PRIs. PRI forms include deposits, loans, loan guarantees, and revolving funds. Foundations and other donors make PRIs to stretch financial resources, attract other funders, and enhance impact. PRIs are often part of a larger philanthropic strategy that includes grants and other investments.

PRIs are nimble tools. One foundation might establish a revolving fund to provide short-term bridge payments that are to be repaid within a few weeks. Another might support a multiyear community development project that requires long-term, patient capital.

Meyer Memorial Trust (MMT) in Oregon maintains a PRI loan pool of \$22 million, about half of which has been lent to CDFIs. While many PRIs have been renewed, MMT is no longer seeking new investments due to an evolving investment strategy. Strong and lasting relationships with CDFIs have been key, with the loan pool building on their community roots, lending infrastructure, and ability to meet local needs.²⁵





MRIs are market-rate investments that further mission as part of an investment strategy to grow the foundation's endowment. MRIs do not qualify as part of a private foundation's required annual payout, but they do allow foundations to magnify their impact while maintaining growth in endowments.

The W.K. Kellogg Foundation, which has been working to align a portion of its endowment with the foundation's commitment to wealth equity, deployed \$152 million in investments from its MRI portfolio over 10 years, from 2009 to 2019.²⁶

Loan guarantees and loan loss reserve funds provided by PRIs or MRIs reduce risk and attract other investors. Loan guarantees are mechanisms that cover a portion of any losses for loans made by CDFIs, often from blended capital funds, and loan loss reserve funds are capital investments.

The McKnight Foundation made a PRI for a loan fund with a \$5 million unsecured, revolving line of credit to the Greater Minnesota Housing Fund (GMHF), a statewide CDFI that creates and preserves affordable housing and homeownership.

Aligned technical assistance

As important as capital funding is for CDFIs, so are capacity-building services that align with the capital sought or provided. Technical assistance, an ongoing partnership, and access to a philanthropy organization's expertise can help CDFIs increase their financial sustainability, maximize the funder's long-term investment, and attract other funders.

Ongoing capital

CDFIs need ongoing access to capital to maintain lending activities and meet clients' needs. Some CDFIs have limited their ability to redeploy mortgage funding because they do not generate enough volume to access the secondary market. Some CDFIs act as loan aggregators for other CDFIs to generate more liquidity for additional mortgage originations. In such cases, philanthropy can help the CDFI aggregator scale.

In other cases, CDFIs deliberately hold loans on their books as portfolio loans. These loans allow for more flexible underwriting guidelines for buyers and custom hardship programs. Here, philanthropy and financial institutions can invest in revolving loan funds to help support liquidity and flexibility.

Depository CDFIs can fund ongoing affordable mortgage lending using mission-driven deposits. For example, Latino Community Credit Union in North Carolina has deposits from big banks, place-based anchor institutions such as Duke University and the Cone Health System, small community foundations, and place-based nonprofits. While some individual deposits are relatively small, the aggregate mission-driven deposits represent a large share of the credit union's assets.

Inclusiv, in 2024, launched a \$100 million social impact deposit initiative to deploy funds to its network of credit unions, including some CDFIs. Initial investors included Bank of America and the Kataly Foundation.



Opportunities Beyond the Continuum

Beyond directly supporting aspects of the affordable homeownership services continuum, philanthropy can invest in practices and strategies that build the capacity of individual CDFIs and the broader field and advance systemic change for greater economic equity, such as:

Enhance CDFIs' visibility and mobilize additional funders.

Funders can amplify CDFIs' affordable homeownership work by sharing success stories and case studies, mobilizing other funders, and helping CDFIs leverage philanthropic dollars to attract funding from additional sources. Even in the current political climate, the CDFI industry continues to receive bipartisan support. Emphasizing the importance of state and federal funding to CDFIs' affordable homeownership work and demonstrating how public and philanthropic funding complement one another will motivate legislators to maintain CDFI funding resources in upcoming budget decisions.

Align values with institutional asset management.

In addition to grantmaking, philanthropy can take actions based on shared values in visible and influential ways. They can align institutional asset management with investment strategies reflecting the values of a just economy. This alignment could include affirmatively investing in CDFIs via managed funds and through impact investing. Philanthropy can also help CDFIs assemble mortgage paper to attract environmental, social, and governance (ESG) investors who are eager for social impact investments.

With a vision of health equity grounded in the social determinants of health, the Robert Wood Johnson Foundation (RWJF) worked to include CDFIs as part of its asset management and investment strategies.

Advance efforts that strengthen and improve CDFIs and economic equity through systemic change and policy advocacy.

Funders can strengthen CDFIs' affordable homeownership work by supporting systems change and policy advocacy at the individual CDFI level or through coalitions. Funding power-building and advocacy, especially for state and local policies, can reduce barriers to creating new affordable homeownership opportunities, engage residents in zoning and planning decisions, expand resources available for developing a sustainable housing ecosystem, and unlock new funding for affordable homeownership programs, driving systemic change over time.



Convene and invest in capacity building.

CDFIs are often eager to exchange knowledge or workshop new approaches to program design with their peers. Funders can cohere a local or regional ecosystem and build CDFIs' capacity by establishing learning community cohorts or providing other forms of technical assistance and training, including from other sectors. This approach works best when it is aligned with grants and investments.

Learning groups create opportunities to strengthen organizations' programs and operations, build a collective referral system, share or co-fund projects, advocate for additional resources, and create systemic and policy change together. Peer learning groups could be created in collaboration with peer learning and industry support initiatives led by existing nonprofits, such as NeighborWorks or LISC.

Walton Family Foundation is supporting a coalition of CDFIs across Mississippi and Arkansas in cooperation with Southern Bancorp, HOPE, and Rural LISC to develop a shared vision, learn from each other, and build a "stairstepped" collective referral system for individuals when needs cannot be met. The support includes capacity-building grants.

Fairfield County Community Foundation has a center for training Connecticut's nonprofits including CDFIs to improve their administration and convened a regional group to advance affordable housing advocacy.

At the national level, several Citi Foundation initiatives include opportunities for convening and capacity-building for nonprofits working in affordable housing, financial inclusion, and more. In Southern California, Citi is piloting a technical assistance initiative in which nonprofits including CDFIs can get support with organizational financial health, planning for uncertain times, understanding true program costs, and other financial matters.

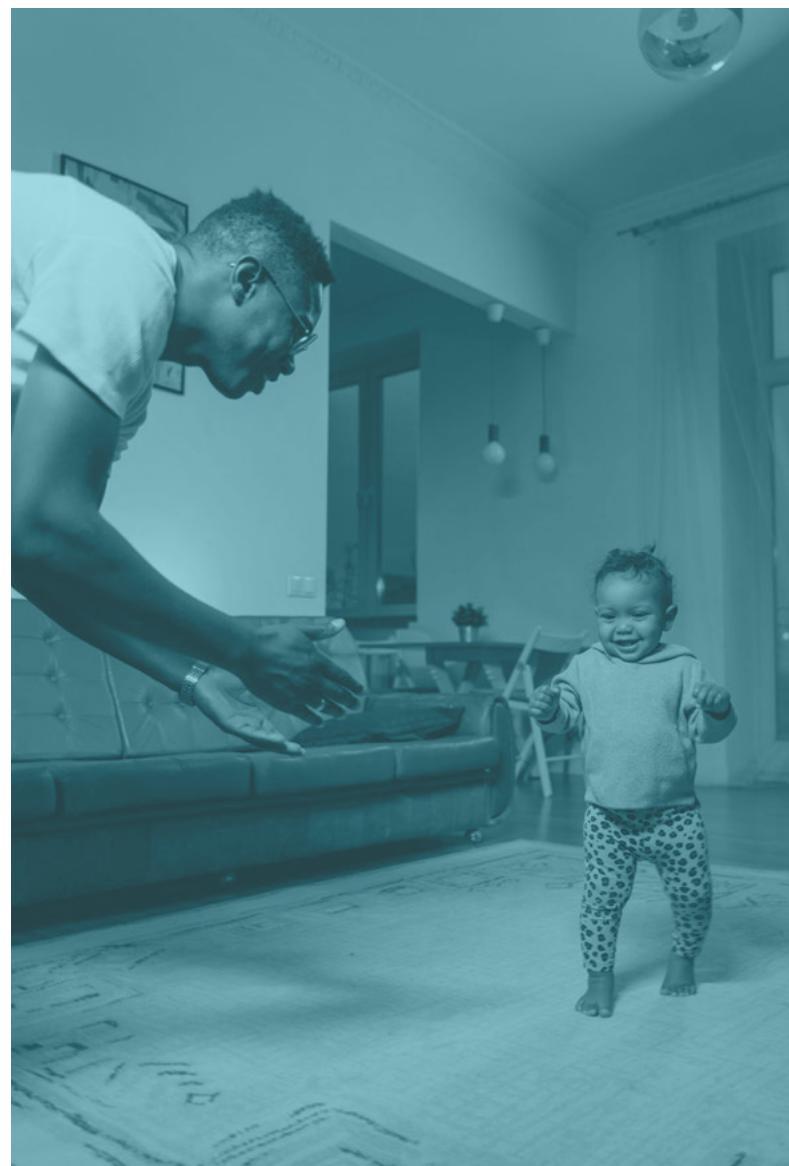


Conclusion

A home that is stable, affordable, and safe helps families build generational wealth, improve their health, increase economic security, and have more control over their destiny. It helps communities retain residents and thrive. And it helps the nation reduce racial and geographic homeownership and wealth disparities. Our long history of systemic exclusion calls for new paths of opportunity that combine philanthropic, private, and public investments and focus on local context, such as through CDFIs.

CDFIs help fulfill the promise of economic justice and housing security by bringing the dream of homeownership within reach for people and communities of color and those with low incomes on their own terms. With more resources, CDFIs can do more—innovating to serve underserved communities, generating economic opportunity, deepening impact, and facilitating lasting economic change. CDFIs deliver on a mission in which everyone has the opportunity, resources, and power to prosper, and that undertaking merits philanthropic support using all the tools in the toolbox alongside other investments.

At a time with so much political and economic uncertainty for CDFIs and the housing market, the need for sustained and expanded support for CDFI homeownership initiatives is urgent. The opportunity is advancing homeownership and economic equity.



Appendix

INTERVIEWEES

These themes were developed based on semi-structured interviews with representatives from the numerous organizations:

CDFIs

Asian Americans for Equality (AAFE)
come dream come build (cdcb)
Communities Unlimited
Fahe
HOPE Credit Union
Latino Community Credit Union
LISC
Native American Community Development Corporation (NACDC)
Financial Services, Inc.
Neighborhood Partnership Housing Services, Inc. (NPHS)
NeighborWorks America
Self-Help Credit Union
Southern Bancorp
Springboard CDFI

Funders

Citi Foundation
The Connecticut Project
Fairfield County Community Foundation
McKnight Foundation
Oregon Community Foundation (OCF)
Walton Family Foundation

Interviewees' affordable homeownership work

CDFI name	Type of CDFI	Geography	Affordable homeownership services
Asian Americans for Equality (AAFE)	Loan fund	New York City metro area	<ul style="list-style-type: none">- Homebuyer education- Mortgage and home-repair financing- New home development and rehabilitation
come dream come build (cdcb)	Community development bank	Rio Grande River Valley	<ul style="list-style-type: none">- Financial counseling- Homebuyer education- Mortgage and home-repair financing- Down payment assistance- New home development and rehabilitation- Foreclosure prevention counseling
Communities Unlimited, Inc.	Loan fund	Rural communities in the South (AL, AR, LA, MS, OK, TN, TX)	<ul style="list-style-type: none">- Mortgage and home-repair financing- New home development and rehabilitation finance- Construction and building trades workforce development funding- Development, construction, and skilled trades small business finance
Federation of Appalachian Housing Enterprises, Inc. (Fahe)	Loan fund	Central Appalachia (AL, KY, MD, TN, VA, WV)	<ul style="list-style-type: none">- Mortgage financing- Down payment assistance- Mortgage broker network- New home development- Climate finance

Appendix

CDFI name	Type of CDFI	Geography	Affordable homeownership services
HOPE Enterprise Corporation & HOPE Credit Union	Loan fund & credit union	Deep South (AL, AR, LA, MS, TN)	<ul style="list-style-type: none"> - Financial counseling - Homebuyer education - Down payment assistance - Mortgage financing - New home development and rehabilitation finance
Latino Community Credit Union	Credit union	Primarily North Carolina (plus, GA, SC, VA)	<ul style="list-style-type: none"> - Financial counseling and education - Homebuyer education - Mortgage and home repair financing - New home development finance - Foreclosure prevention
Local Initiatives Support Corporation (LISC)	Loan fund	"National" via affiliates	<ul style="list-style-type: none"> - Down payment assistance - Home repair finance - Estate planning
Native American Community Development Corporation (NACDC) Financial Services, Inc.	Loan fund	Native communities in Montana	<ul style="list-style-type: none"> - Financial counseling and education - Credit building and credit repair - Down payment assistance - Mortgage and home-repair finance - Construction finance
NeighborWorks	Loan fund	"National" via affiliates	<ul style="list-style-type: none"> - Intermediary finance for CDFIs - Peer learning network
Neighborhood Partnership Housing Services, Inc (NPHS)	Loan fund	Inland Empire, Southern California	<ul style="list-style-type: none"> - Homeownership education - Down payment assistance - Mortgage and home-repair finance - Climate lending - New home development finance
Self-Help Credit Union, Self-Help Federal Credit Union, & Self-Help Ventures Fund	Credit unions & loan fund	Branches serving NC, SC, VA, GA, FL, CA, WI, WA, & IL with some national programs	<ul style="list-style-type: none"> - Financial coaching and credit score review - Consumer mortgage finance - Commercial loans to housing developers - Single-family and multifamily real estate development
Southern Bancorp	Holding company, bank, and loan fund	AL, AR, GA, MS, TN	<ul style="list-style-type: none"> - Financial counseling - Homebuyer education - Savings matching program - Down payment assistance - Mortgage finance
Springboard CDFI	Loan fund	Greater San Diego metro area	<ul style="list-style-type: none"> - Mortgage finance

Endnotes

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