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CDFI ECOSYSTEMS AND ALTERNATE FORMS OF LENDING

Westminster Economic Development Initiative

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WHAT IS THE CDFI ECOSYSTEM LIKE IN DIFFERENT MARKETS?

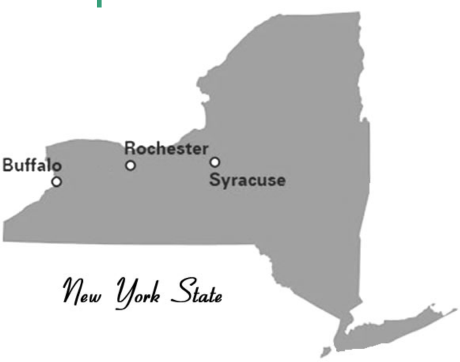
The following information comes from interviews with representatives of CDFIs in Detroit, Michigan, and several from across New York State. The names of the organizations and individuals spoken with are kept private for confidentiality.

In Detroit, the representative reported having informal partnerships with other CDFIs in the city. If a potential client comes to them with needs outside of what they can offer, they'd refer the client to a CDFI better tailored to their needs.

In Buffalo, representatives report a very collaborative ecosystem. working with partners in the area. One representative even mentioned meeting with partners on a monthly basis to submit grants together.

In Syracuse, representatives also report a tight knit CDFI ecosystem.

While **Rochester** was reported to need some more work to become more collaborative, the general trend across New York State is that CDFIs work together to achieve common goals.



DO PEOPLE KNOW ABOUT CDFIs?

In an interview with a Detroit CDFI representative, they stated that people **generally are not aware of the specific CDFI designation**, nor do they look for it when researching lenders. Instead, they **look for lenders that are well known or easy to find online**. A NY representative backed this view, saying that knowledge of the term or designation is not as important as the services a CDFI is able to provide. Both agreed that CDFI **outreach within local communities** is the best way to make services known.

HOW CAN CDFIs INCREASE AWARENESS AND IMPACT?

Training and workshops to at-risk communities: one representative noted that CDFIs are in a unique position due to their non-profit status to offer these training programs to increase education and awareness of funding alternatives

Partnering with banks and other financial institutions: partnerships can increase CDFI credibility and exposure. While there is broad collaboration among CDFIs, including different institutions can be beneficial. One representative noted that if the goal of CDFI funding is to get small businesses to a point where they can become eligible for traditional bank loans, it should be in the banks' interests as well to have the relationship go the other way.

INTERVIEWS WITH CDFIs: WHAT MAIN CHALLENGES DO THEY SEE WITH PREDATORY LENDING?

- Speed
- Convenience
- Lax Requirements

1) Speed:

Predatory lenders attract people with their quick and easy loan applications, and are often able to give results in a matter of minutes. In contrast, CDFIs take more time processing loan applications, which can be difficult for cash-strapped indiviuals or businesses that need capital quickly.

2) Convenience:

Many predatory lenders have online applications, which people in need of capital can apply for in a matter of minutes. One CDFI representative noted that the lack of in-person contact can also make it more approachable for people who have been denied traditional loans before, as a possible rejection would be quicker and more painless online.

3) Lax Requirements:

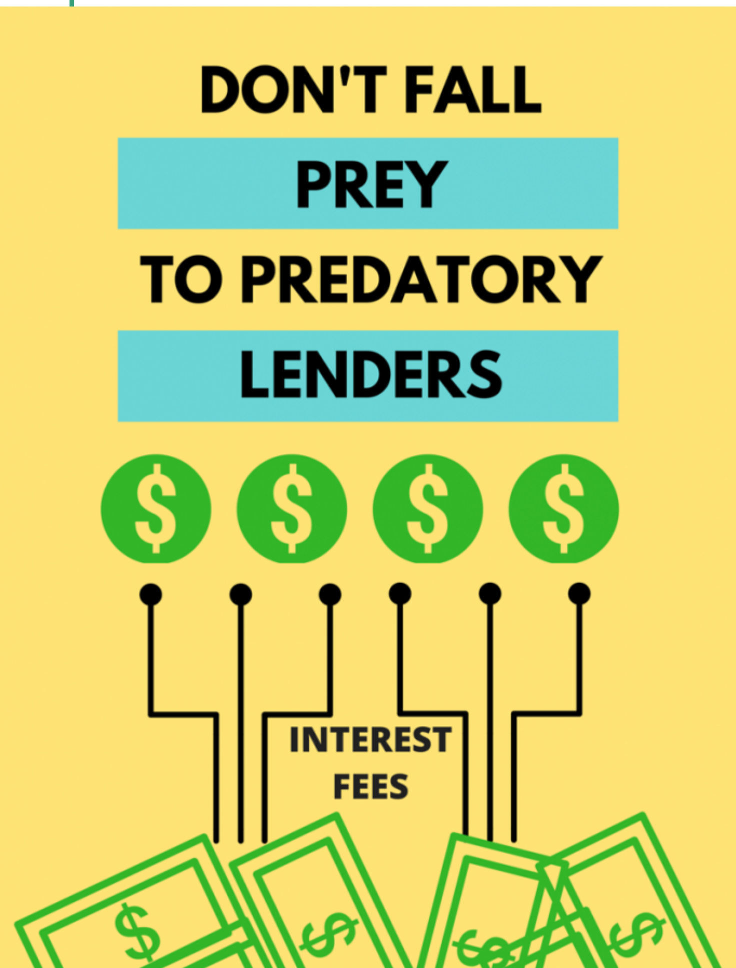
In contrast to CDFIs, which require business plans, financial statements, tax returns, and other supporting documentation for loan applications (1), predatory lenders require very little documentation to be able to apply for a loan. According to one payday loan application, requirements beyond proof of identity only include proof of income and an active checking account (2).

These **lax requirements make it very appealing for those who have been historically denied traditional forms of capital** to apply for loans where they feel there is a greater chance of approval. One CDFI representative also noted that predatory lenders often don't have a limit on lowest credit scores they'll take, which can draw some people in need of money as a last resort.

Many of the challenges presented by predatory lenders overlap, so it is difficult to fight any one aspect directly.

(1) https://www.merchantmaverick.com/take-business-loan-cdfi/
(2) https://www.advanceamerica.net/loans/payday-loans/get-payday-loan

Take the time to explore other options, and if you think a loan offer is 'too good to be true,' it probably is.



WHAT ARE THE PREDATORY LENDING WARNING SIGNS?

In addition to the lax requirements previously mentioned, here are additional warning signs that your online lender may be using unethical tactics: (3)

1) Excessively expedited process: predatory lenders force people into quick decisions before they have a chance to explore other funding options or understand the loans they are offered.

2) Avoiding specific terms and pricing: this is especially important if a lender refuses to disclose their APR, or annual percentage rate.

3) Aggressive repayment terms: rather than fixed monthly payments that support planning, predatory lenders might force you into daily or weekly repayment plans.

4) Obstacles to loan repayment: payoff requirements and fees should always be stated upfront. If you have trouble getting this information, you may be dealing with a predatory lender.

5) Trapped in a debt cycle: if your business is offered a loan it cannot realistically pay off with its cash flows, or your lender doesn't respond to concerns regarding your ability to repay, a predatory lender may be baiting you to take these loans and stay in a cycle of debt.

(3) https://pursuitlending.com/resources/are-you-dealing-with-a-predatory lender-top-5-warning-signs-for-small-business-owners/

HOW CAN CDFIs HELP THOSE SUBJECT TO PREDATORY LENDING?

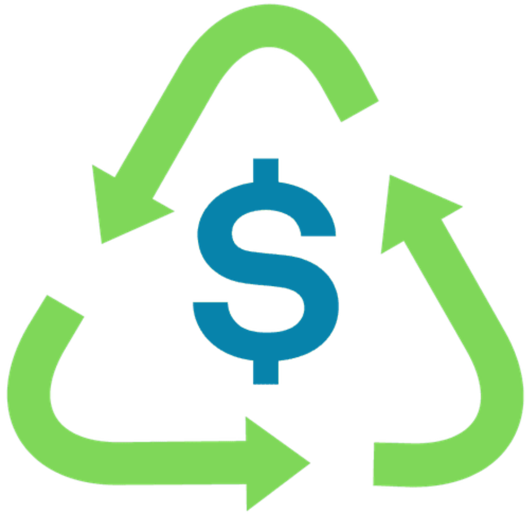
- Many CDFI representatives stated that their organizations are able to **refinance predatory business debt**, especially since a portion of their customers seek CDFI help after previous poor experiences. However, this option is only available to business owners who would be qualified to take out loans from the CDFI first.

- One representative from a CDFI with an online loan application stated that an **online application helps alleviate some of the advantages predatory lenders have over CDFIs** by offering a streamline application that minimizes anxiety over an in-person meeting. However, this particular CDFI still incorporates in-person help and support after the application is submitted, resulting in more of a hybrid model. Online applications also don't immediately draw people in, and **CDFIs should be broadly known beforehand for a transition to online applications to be most impactful.**

Refinancing loans of business previously targeted by poor lending practices, as well as altering the loan application process to be more accessible, will greatly improve CDFI impact against predatory lenders.

WHAT ALTERNATE FORMS OF LENDING EXIST?

- SBA Loans
- Cooperative Loans
- Crowdfunding



1) SBA Loans (4):

The Small Business Administration partners with banks and other lenders to offer loans to businesses who may not be able to qualify for traditional financing yet. The SBA does not provide the loans, but establishes guidelines for lenders who do. The different loan offerings include:

- SBA 7(a): offers long-term financing for small businesses meeting certain size requirements that can be used for new construction, land or building purchase, fixtures, working capital, refinancing existing debt, inventory, and starting a business
- SBA 504: offers loans with a long-term fixed rate and low down payments to businesses meeting certain profitability requirements. The lender finances 50% of the loan, the CDC finances 40%, and the borrower is responsible for the remaining 10% down payment.
- SBA Microloans: the SBA partners with non-profit lenders, including CDFIs, to provide small businesses with microloans. Funds can be used for inventory and supplies, working capital, machinery and equipment, and furniture and fixtures.

2) Cooperative Loans:

Cooperative loans can be national or regional; one CDFI representative listed the **National Cooperative Bank** as a resource, as well as the **Shared Capital Cooperative,** a CDFI lender specializing in co-ops that is structured as a co-op as well.

When financing land or buildings in a cooperative structure, the company retains ownership of the property and the borrower obtains a share loan to access the portion of property equivalent to their value of shares in the cooperative (5). This type of funding can be a bit tricky to acquire, as there are fewer lenders offering share loans.

3) Crowdfunding:

Crowdfunding is a great source of funding that can let people start businesses without debt. It may come with offering donors different types of equity, and may require filing with the SEC or state to offer investments to those not considered "accredited donors," There is also the issue that those willing to donate might not be community members the small business knows or serves.; nonetheless, it is a good option to avoid debt.

(4) https://pursuitlending.com/resources/business-owners-guide-to-alternative-financing/
(5)https://www.totalmortgage.com/mortgage-loans/co-op-home-loans