UNIVERSITY OF TORONTO | SCHOOL OF CITIES HOUSING JUSTICE LAB

A Pilot Study on CDFIs and Real Estate Expansion Practices in Fresno, California*

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*This paper summarizes a pilot study carried out by the Housing Justice Lab within the School of Cities at the University of Toronto. The study and report involve several nonprofit organizations; however, all information here reflects that of the research conducted by the Lab and not of participating organizations. Any questions regarding the report should be directed to the Director of the Housing Justice Lab, Dr. Prentiss A. Dantzler, via email at p.dantzler@utoronto.ca.

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Abstract

Community Development Financial Institutions (CDFIs) provide crucial financial services to underserved communities, ranging from small business development to commercial lending. Real estate development remains an area of salient concern for both funding agencies and marginalized communities. Using semi-structured interviews with industry partners, this research examines the opportunities and challenges facing CDFIs as they expand their services within the realm of real estate development. Four key themes emerged: the need for specialized real estate lending expertise, the importance of relationship building within the CDFI ecosystem, the growth of regulatory concerns, and the reifying of social impact considerations. Real estate lending requires rigorous borrower vetting, ongoing oversight, and specialized knowledge. Collaboration with other CDFIs, private banks, and government agencies is essential for identifying market gaps. Practical concerns include regulatory compliance, risk tolerance, and maintaining reserves. Social impact goals focus on addressing wealth gaps and transitioning clients to conventional lenders. Recommendations include developing in-house expertise, fostering relationships, ensuring compliance, clarifying risk tolerance, maintaining reserves, designing and measuring social impact. Despite some limitations, the study offers valuable insights for policy and practice.

Executive Summary

CDFIs are pivotal in providing financial services to underserved communities, focusing on small business lending and, increasingly, real estate lending. Their unique capacity to offer flexible, relationship-based loans and comprehensive support to minoritized entrepreneurs has driven significant local economic growth across urban and rural areas. Expanding into real estate lending allows CDFIs to further community revitalization through commercial real estate, affordable housing and essential services development. However, this shift poses challenges such as increased regulatory complexity, higher capital requirements, and additional market risks. Addressing these barriers requires specialized expertise, robust risk management, and strong stakeholder collaboration to ensure sustainable impact and community alignment.

Access Plus Capital partnered with the Housing Justice Lab within the School of Cities at the University of Toronto to conduct a preliminary study of industry partners. This qualitative research design involved semi-structured interviews with representatives from five diverse CDFIs to understand the opportunities and barriers in expanding from small business to real estate lending. The five organizations involved in this study included AmPac Business Capital (Ontario, CA), Business and Community Lenders of Texas (Dallas, TX), Community Vision Capital & Consulting (San Francisco, CA), Detroit Development Fund (Detroit, MI), Momentus Capital (San Diego, CA). The interviews explored institutional capacity, regulatory challenges, risk management, and community impact. With data analyzed through thematic coding, this approach provides in-depth, nuanced insights and captures the unique experiences of each organization, contributing to a comprehensive understanding of CDFI operations. Despite some limitations regarding generalizability and selection bias, the study offers valuable perspectives that can inform policy recommendations and best practices for enhancing CDFI effectiveness.

The interviews revealed four key themes: niche real estate lending expertise, relationship building within the CDFI ecosystem, practical regulatory concerns, and social impact considerations. Real estate lending requires specialized knowledge due to its complexity, long-term nature, and high valuations. Successful lending necessitates rigorous borrower vetting and ongoing oversight, underscoring the need for in-house real estate expertise. Interviewees emphasized the importance of relationship building with other CDFIs, private banks, and government agencies to identify market gaps and collaborate on loans. Practical concerns include regulatory compliance, risk tolerance, and maintaining adequate risk reserves. Social impact goals focus on addressing social wealth gaps, particularly for underserved communities, and shifting clients to conventional lenders. Interviewees highlighted the need for CDFIs to balance financial risk with potential public benefits, aiming to foster long-term client success and community impact.

Based on these results, we provide several recommendations: 1) Develop in-house real estate expertise, 2) Establish rigorous borrower vetting and oversight procedures, 3) Foster relationships within the CDFI ecosystem, 4) Ensure regulatory compliance and update internal policies, 5) Clarify risk tolerance and maintain adequate reserves, and 6) measure and communicate social impact.

Overview

CDFIs exist as specialized financial entities dedicated to providing financial services and support to underserved and low-income communities, including minority populations. These institutions play a crucial role in promoting economic development and financial inclusion by offering affordable loans, credit, and financial services to individuals and businesses that might otherwise lack access to traditional banking resources (Mayer et al., 2008; Wolff and Ratcliffe, 2008; Greer et al., 2017). CDFIs focus on a range of activities, including housing finance, small business lending, and community development projects, aiming to bridge the gap in credit availability for minoritized communities. By fostering entrepreneurship, homeownership, and local economic growth, CDFIs contribute significantly to reducing economic disparities while promoting equitable development (Prochaska, 2022).

CDFIs possess a unique capacity to lend to small business owners, particularly those from underserved communities, by offering flexible and tailored financial products that traditional banks often do not provide. These institutions prioritize relationship-based lending and take a more personalized approach to assessing creditworthiness, often considering factors beyond conventional credit scores. CDFIs provide not only capital but also technical assistance, financial education, and business development services, helping entrepreneurs navigate challenges and build sustainable enterprises (Mayer et al., 2008; Wolff and Ratcliffe, 2008; Greer et al., 2017). By focusing on the specific needs of small business owners, including minority and women-owned businesses, CDFIs play a pivotal role in fostering inclusive economic growth, creating jobs, and stimulating local economies (Swack, 2014). Their commitment to mission-driven lending enables them to take calculated risks that spur innovation and economic opportunity in communities that need it most (Prochaska, 2022).

CDFIs are increasingly expanding their lending practices from small business lending to real estate lending, recognizing the vital role that real estate development plays in community revitalization and economic stability (Rubin, 2008). By financing affordable housing projects, community facilities, and mixed-use developments, CDFIs support the creation of spaces that serve the needs of low-income and minority communities. This expansion into real estate lending allows CDFIs to address broader community needs, such as housing affordability, access to essential services, and neighborhood revitalization. By providing loans for property acquisition, development, and rehabilitation, CDFIs help ensure that real estate projects align with community priorities and promote inclusive growth (Rubin, 2008; Prochaska, 2022). This comprehensive approach enables CDFIs to leverage their expertise in community development, furthering their mission to build vibrant, sustainable communities.

Transitioning from small business lending to real estate lending presents several potential barriers for CDFIs, including increased regulatory complexity, higher capital requirements, and greater exposure to market risks (Lowry, 2014; Prochaska, 2022). Real estate projects often involve lengthy development timelines and substantial upfront costs, which can strain the financial resources of CDFIs and require them to seek additional funding sources. Additionally, the intricate nature of real estate transactions demands specialized knowledge and expertise, posing a challenge for institutions traditionally focused on small business support. Market volatility and economic downturns can further exacerbate these challenges, as fluctuations in property values and rental incomes impact loan performance (Prochaska, 2022). Research highlights that effective risk management strategies and robust stakeholder collaboration are essential for CDFIs to successfully navigate these barriers and expand their impact in the real estate sector (Swack et al., 2012; Nails, 2012).

Data and Methods

Given extant work on CDFIs, this study employs a qualitative approach to ascertain the potential opportunities and barriers facing these organizations within the context of real estate lending practices. This qualitative study involved semi-structured interviews with representatives from five diverse CDFIs, selected for their varying sizes, geographic locations, and levels of experience in real estate lending. The interviews explored topics such as institutional capacity, regulatory challenges, risk management practices, and the impact of lending on community development. Data were analyzed using thematic coding to identify common patterns and unique insights. This approach allowed for a comprehensive understanding of how CDFIs navigate the complexities of expanding their lending practices, the strategies they employ to overcome obstacles, and the potential for scaling successful models across different contexts. The findings aim to inform policy recommendations and best practices for CDFIs as they develops new lending products in addition to enhancing the role of CDFIs in promoting inclusive economic development.

The qualitative approach of conducting semi-structured interviews with representatives from diverse CDFIs offers several benefits, including in-depth insights into the nuanced challenges and strategies unique to each organization. It also allows for the capture of rich, detailed data that can reveal contextual factors influencing CDFI operations, providing a comprehensive understanding of their experiences. However, the limitations of this approach include potential biases in self-reporting and the non-generalizability of findings due to the small sample size. Additionally, the qualitative nature of the study may not capture the broader statistical trends and quantifiable impacts of CDFI activities. Despite these limitations, the study's findings can significantly contribute to the discourse on enhancing CDFI effectiveness and scaling successful lending models.

The five organizations involved in this study included AmPac Business Capital (Ontario, CA), Business and Community Lenders of Texas (Dallas, TX), Community Vision Capital & Consulting (San Francisco, CA), Detroit Development Fund (Detroit, MI), Momentus Capital (San Diego, CA). Further information on each organization is provided below:

AmPac Business Capital (AmPac) is a mission-driven nonprofit lender focused on providing financing solutions to small businesses. They offer various loan programs, including SBA 504 loans, community lending, and small business relief options. AmPac supports entrepreneurs through its Entrepreneur Ecosystem, providing resources, networking opportunities, and co-working spaces. The organization aims to uplift communities, strengthen families, and advance entrepreneurial dreams by making access to business capital straightforward and efficient. For more information, visit www.ampac.com.

Business and Community Lenders (BCL) of Texas is a nonprofit organization dedicated to fostering economic development through financial and educational services. They offer small business loans, real estate development, homeownership counseling, and community impact lending. BCL of Texas supports entrepreneurs and families with programs designed to build financial stability and generational wealth. Their services include technical assistance, coaching, and access to capital, aiming to strengthen communities across Texas. For more information, visit www.bcloftexas.org.

Community Vision Capital and Consulting (Community Vision) is a nonprofit organization dedicated to promoting social justice and financial equity by providing strategic investments and guidance to nonprofits, small businesses, and social enterprises. They offer a range of services, including capital solutions, real estate solutions, and new markets tax credits. Their initiatives focus on supporting community-owned real estate, rapid response technical assistance, and various funds aimed at sustaining nonprofit and arts communities. Community Vision aims to enhance financial growth and stability for marginalized communities through collaborative and locally invested partnerships. For more information, visit www.communityvisionca.org.

The Detroit Development Fund (DDF) is a nonprofit organization dedicated to driving economic growth and opportunity in Detroit, MI through targeted lending and support services. They provide small business loans, micro loans, contractor lines of credit, real estate development loans, and specialized funds like the Entrepreneurs of Color Fund. DDF focuses on empowering minority-owned businesses, fostering job creation, and enhancing community development. Their efforts have resulted in significant job creation and retention, primarily benefiting companies owned by entrepreneurs of color. For more information, visit www.detroitdevelopmentfund.com.

Momentus Capital (Momentus) is a nonprofit organization dedicated to expanding equitable capital and opportunities for communities. They provide a continuum of capital, including debt and equity products, business advising, training, and network connections. Their mission is to support small business owners, social enterprise leaders, and community developers by addressing systemic issues and creating impactful investments. Momentus leverages digital platforms to scale community lending and has facilitated over $75 billion in capital transactions, supporting economic mobility and wealth creation nationwide. For more information, visit www.momentuscap.org.

Interviews were conducted with representatives from AmPac, BCL, Community Vision, DDF, and Momentus over Zoom. Each interview lasted approximately one hour. The Zoom interviews with representatives from the selected organizations were transcribed using automated transcription software, followed by a thorough manual review for accuracy. The discussions focused on the organizations' lending practices, specific financial products, community impact, and strategies for supporting minority-owned businesses and underserved communities.[1] The transcripts were then coded based on the research study objectives. Coding involved identifying patterns and categorizing data into relevant themes, which facilitated a systematic analysis aligned with the study's goals of understanding the operational strategies and community development efforts of these organizations. The qualitative data gathered from these interviews provided in-depth insights into the operational frameworks and objectives of these CDFIs. It also illuminated potential areas of concern and opportunity for CDFIs as they further its own lending practices. We summarize those themes within the next section.

[1] The full interview guide is available in Appendix A.

Results

Several key themes emerged from interviews related to 1) the niche expertise of real estate lending; 2) the importance of relationship building within the CDFI ecosystem; 3) practical concerns related to regulations and risk; and 4) social impact commitments and considerations. We expand upon these areas below in greater detail drawing from interviewee quotes to substantiate our findings.

Niche Real Estate Lending Expertise

Interviewees consistently emphasized that real estate lending is rigorous and relatively complex. Real estate lending requires specific processes and expertise that are not required or necessarily involved in other forms of lending. Further, it requires specific expertise and knowledge of real estate processes in general. For instance, one interviewee stated that "real estate lending is very different than small business lending, very different than working capital lending, very different than equipment." In turn, this real estate expertise is required because of the length of repayment terms and valuation that are often associated with real estate loans.

Often, real estate loans are of longer length and higher valuation, necessitating a more rigorous risk assessment and vetting of potential borrowers. As another interviewee elaborated, "There's no short-term relationships here. Everything is a long-term relationship. And before we make that loan, we have to assess if we want to get into bed, literally, with that business owner, with that business for the term of that loan." Other forms of participation in real estate lending are also possible, such as loan participations that involve several creditors, but the same rigorous evaluation of borrowers is required.

Furthermore, all interviewees highlighted that the rigor associated with real estate lending persists past the initial vetting process. Interviewees described the importance of thorough oversight of the client throughout the life of the loan, even if it begins at the pre-development or construction stages. For instance, one interviewee described how their company "found that real estate is really a local sport more so than business lending, meaning if you're going to do real estate lending in a location, you need to have boots on the ground there, otherwise you'll probably lose money." Due to the scale of real estate development, particularly their longer repayment length and larger valuation, real estate loans require much more direct supervision of borrowers and management of projects.

Given these more demanding aspects of overseeing real estate development, interviewees underscored the need to have in-house real estate expertise before growing lending capacity.

Moreover, interviewees noted that the entirety of the small business real estate lending team members require this niche real estate expertise. For instance, one interviewee noted that their "team tends to be a real estate team first and understands real estate more so than they always understand operating entities or small businesses." Interviewees expressed a need for prioritizing core competencies for real estate processes and noted that these fundamental real estate competencies can be widely applied to any real estate deal, even beyond small business commercial real estate lending.

Our interviewees also noted the importance of these competencies for underwriters, in particular. Another interviewee communicated that their firms' "underwriters that are really successful at doing this work actually know what it means to go from project vision to, you know, into operations and the whole arc of the real estate development process." Due to the scale and complexities of real estate lending, underwriters require knowledge of real estate processes, from pre-development and construction to closing. Moreover, the added legal processes involved in commercial real estate lending require underwriters and other staff to have these legal competencies. As an interviewee noted, "The amount of legal involved in doing commercial real estate...all we do is write checks to lawyers. Like there's just a massive amount of legal." Given the salience of legal processes in commercial real estate as well as the cost of legal services, interviewees also noted the need for organizations to decide on maintaining internal or external counsel for their commercial real estate development. Nevertheless, commercial real estate lending teams ought to understand the legal element surrounding real estate lending as well.

Accordingly, interviewees stressed that developing small business real estate lending capacity involves a more intensive, hands-on relationship with borrowers as well as maintaining a staff with specific expertise and knowledge of real estate processes. While some interviewees cited institutions that offer training, such as the Independent Bankers Association of Texas, American Banker Association, and the National Association of Development Companies, all interviewees nonetheless noted that a significant amount of training occurs internally, and on the job. As one interviewee noted, "the real expertise is when you've done it a lot and when you, and when you're working with other people who have done it. Right? So, it's a lot of on-the-job training." Similarly, one interviewee noted that they were hired to support the development of their firm's real estate lending arm. Although the firm's staff had not worked on real estate loans prior to their arrival, they nonetheless developed successful training regiments and found that, for their colleagues, "it was sort of like learning, not a new language, but a new dialect. You know, I mean, it wasn't that difficult. It was tangential, it was adjacent." Although the development of small business real estate lending capacity involves niche expertise in real estate processes and legality, it is possible to develop and train talent internally.

Relationship Building within the CDFI Ecosystem

The close, intimate relationship between creditor and borrower in commercial real estate lending reflects the importance of relationship building with other stakeholders within the CDFI ecosystem. For instance, interviewees discussed the requirement of understanding the current state of the CDFI market to identify existing market gaps and develop products that meet existing demands. Stressing the importance of ensuring a triangulation between market needs, products offered, and staffing expertise, one interview elaborates on this quite clearly:

> “ I think the key is to ask, to make sure the organization understands what kind of products it wants to focus on. And does the need in the community for small businesses match up with like the products they can reasonably offer? Because if the staff doesn't have any construction lending experience and you have to hire for that, and that's what the real need is, and there's a mismatch between what the small businesses need and what the organization can offer, then you're kind of setting yourself up for failure.

Meanwhile, another interviewee described that their firm was unable to provide capital to customers due to a lack of appropriate products and services. The interviewee said that they discussed this with the board by proposing the question: “if there is a demand, why are we turning customers away?” Given the need and the lack of available products to meet market demand, the interviewee goes on to say, “we went ahead and started raising our own capital to start making a whole variety of loans, including real estate.” As they discussed, clients are an important means for identifying market gaps, but broader awareness of active CDFIs in the local area is likewise important to avoid replicating existing products and needed services, and to recognize opportunities for collaboration with other organizations.

Participating firms varied in how much their products and services specialized in specific sectors or markets, but interviewees still expressed the importance of collaboration amongst CDFIs. One interviewee explained how new firms' entry into his local CDFI market caused some nerves and tension among existing firms. However, each of the firms identified and carved out niches of the market and established a collaborative coalition to define the boundaries of their lending practices and the institutional arrangements needed to deliver those products and services:

> And so, when somebody comes to me that I realize is not a great fit for one of my funds, I got a really good idea where to refer that person. Or if a person, again, comes to me with a, you know, a five-million-dollar real estate project, I don't just shrug my shoulders and tell them to go away because I can't do it...I figure out like who's coming to this party with me, and I go call them up and ask them if they're interested in...helping me figure this deal out. And nine times out of ten, they say yes.

The same interviewee described how the different CDFIs in their local market established their own respective sectors of the market yet found ways to support and collaborate with one another. CDFIs do not just operate in one ecosystem, but several cross-sector partnerships depending on the needs of the clients and the resources available from each partner. Other interviewees likewise expressed a willingness to collaborate with other CDFIs like APC, specifically. They also stressed the importance of developing relationships with other actors within and beyond the CDFI ecosystem as potential partners and collaborators, including private banks and governmental agencies. Interviewees discussed participating in loans with non-CDFI actors to operate in the commercial real estate space and secure funding. One interviewee, for instance, noted that partner banks are an important source of business development and referrals. They shared an experience where one of their firm's partner banks approached their firm with an opportunity to help fund a barber school's property purchase:

> We did a barber school and they're buying a church, but they were going to make a lot of improvements… And so, in that church, as an example, a bank said, it's a $300,000 loan. I'll do $150,000. Will you lend the remaining $150,000? So that's participation, but it's still real estate. And so, we have to share our information back and forth with our partner bank.

Partnerships such as the one described here present an example where CDFIs partner with banks to offer a loan product while sharing the risk between their two respective organizations. The shared risk allows for greater outreach while establishing strategic partnerships for current and future needs. Another interviewee relayed a similar agreement with a public, state-level loan participation program that helped to invest in a local restauranteur:

> So, I made a five hundred thousand dollar loan to this restaurateur, but the state of Michigan bought forty nine percent of the loan. So, my loan was two hundred and fifty-one thousand dollars, essentially...right or close to the limit. And the state of Michigan owns two hundred and forty-eight thousand, you know, nine hundred of that loan or whatever. And all the risk that entails. So. If that program didn't exist, I couldn't do it.

Again, partnerships allow CDFIs to create relationships with clients otherwise out of reach due to limited resources or available products. Particularly for CDFIs lacking the significant amounts of equity that is necessary to offer major commercial real estate loans, nurturing relationships with other actors in the CDFI ecosystem, including conventional lenders such as banks and government bodies, may be a means for initial entry into commercial real estate market and for the gradual growth of a firm's commercial real estate lending capacity.

Balancing Practical Concerns of Regulatory Environments and Risk Tolerance

Given the complexity associated with the development of real estate lending capacities, interviewees likewise specified practical concerns relating to regulatory environments and the establishment of a consensus surrounding risk tolerance. Interviewees communicated that state lending licenses for non-bank CDFIs tended to encompass a range of loan products, including real estate loans, and that, notwithstanding SBA lending policies, general regulation of their firms tended to be relatively lenient and minimal. Given the specificity of the regulations associated with SBA lending, non-SBA commercial real estate lending provides lenders much more flexibility in establishing the conditions of their loans. Consequently, non-SBA commercial real estate loans are much more idiosyncratic and curated, further highlighting the importance of maintaining staff with specific real estate expertise. Although operating as a non-bank CDFI offers flexibility, within the realm of commercial real estate lending, ensuring compliance with municipal, county, and/or state law, such as local zoning bylaws and state mortgage laws, remain critical. Furthermore, the development of new products and services must be accompanied by updating internal policies as well. As one interviewee noted, "you always have to look at your policies and see if your policies allow you to do these types of projects. If they don't, you have to be constantly making revisions." Meanwhile, another interviewee notes the importance of:

> “ staying on top of requirements for the CDFI Fund itself and making sure that your CDFI Fund certification falls in line with the kind of lending you're doing. So, if you're going to move to do real estate lending, let's say, and you've only ever done small businesses, you may want to consider adding another kind of criteria to your certification.

Accordingly, despite the flexibility afforded to non-bank CDFIs, the development of new products and services, such as commercial real estate loans, nevertheless entails maintaining compliance with a range of internal and external policies. In turn, accompanying the need to update internal documents and policies to ensure compliance, interviewees likewise expressed that firms developing real estate lending capacities must be clear about its level of risk tolerance and maintain risk reserves that equate this level of risk. One interviewee explained this process clearly:

> “ you have to reserve against the loans, which means that you have to put that through your income and expense sheet. And when they're larger dollar amounts, you have to reserve more...if you ever get a troubled borrower and it's on a real estate deal...we're often then saying...we're going to expense like 10, 20, 30, sometimes 50 percent of the loan amount through our income and expense statement, so that we've already kind of covered potential losses, and then back that...your CFO and your finance team has to know how to kind of deal with that.

Given the scale and valuations of commercial real estate loans, clarity regarding the firm’s acceptable level of risk and the maintenance of reserves that ensure the operational capacity of the firm despite a troubled borrower are crucial. Interviewees also clearly noted the substantial amounts of equity that a firm requires to offer these products as the lone lender. Nevertheless, regardless of whether the firm is involved as the lone, primary lender or as a participant of a larger loan participation agreement, interviewees emphasized the need to protect the firm by maintaining adequate risk reserves and ensuring that the firm is able to recover from situations involving troubled borrowers, including by taking first lien position and requiring the subordination of lease. For instance, one interviewee underscores the necessity for developing and maintaining standard operating procedures for these unfavorable situations involving troubled borrowers:

> “ I think that you need to be very skilled in liquidations...it does involve legal actions. And so, we follow our own internal policies, send the customer demand letter, send them another demand letter, transmit the project to an attorney for collection on your collateral. Be sure your files are all in order because the attorney is going to need them.

Supplementing the complexities associated with real estate processes, interviewees communicated important regulatory and risk concerns that accompany developing commercial real estate capacities. The firm must maintain compliance with public laws and bylaws as well as its own CDFI certification and internal lending policies. Furthermore, the firm must be clear about its level of risk tolerance and subsequently insure against situations with troubled borrowers by maintaining adequate risk reserves and developing standard operating procedures for foreclosures and liquidations.

Redefining and Assessing Social Impact Goals

Though all interview participants articulated the socially conscious nature of CDFIs, they varied in the specificity of their firm's particular social impact goals. Nevertheless, evaluations of their firm's impact tended to include specific metrics, including number of jobs created and dollars deployed to different demographic groups, particularly racialized minorities, and women. However, two broad goals encapsulated the larger aims of participating firms: addressing social wealth gaps and shifting clients to conventional lenders. For instance, one interviewee describes not only the goal of addressing the racial wealth gap, but also the larger social impact that investing in small business can have:

> " That's our mission, to bridge the racial wealth divide through business owners being financed and fostered for success from cradle to legacy and owning commercial real estate. Because if you can own a $1 million commercial real estate building for your business that you already have versus buying a house, or two houses or three houses, where are you going to make more money? On a commercial real estate property or houses?

One interviewee specified their firm's mission to address the racial wealth gap, in particular, but all interviewees expressed a goal of meeting the financing needs and demand of historically underserved communities. Oriented towards having a strong social impact, industry partners maintained a range of criteria to evaluate social impact, and as another interviewee describes, the potential public benefit of a loan informs the extent to which the firm itself is willing to accept risk:

> " And that's usually from an impact perspective, our kind of model of impact is related back to like the definition of a healthy community, which means that there's access to education, healthcare, jobs, et cetera, et cetera. And so, a lot of when we make a decision about whether or not we're going to take on a riskier loan or that sort of thing, we have to see that the loan kind of hits all that criteria.

To some extent, potential social impact influences risk evaluation and tolerance. Furthermore, some participants likewise discussed their firm's role as serving as a bridge between their clients and conventional lenders, such as traditional banks. Given the historic exclusion of, and contemporary challenges, facing particular demographics from conventional financial institutions, such as racialized minorities and women, one interviewee described how CDFIs can address this inequality and facilitate access to conventional lenders by assisting their clients in developing a stable and financially viable lending track record:

> "We think of ourselves as sort of like a triple-A ball team for banks. We want our borrowers to qualify eventually. The companies that we deal with, whether they're real estate investors or restaurants, you know, banks want to see you be profitable three years in a row...So if you haven't been in business for three years yet, then you can't show them three years consecutive increased revenue and profitability...we want to help you build that track record.

By developing the financial capacity of clients to operate within conventional lending markets, these organizations expressed a strong commitment to addressing the racial wealth gap. Furthermore, this interviewee described how CDFIs can attend to the unmet financing needs of historically underserved communities and provide a means for these clients to have access to even larger sources of capital that can help grow their businesses. Although acting as an intermediary between borrowers and conventional lenders was not a perspective shared by all participants, interviewees nonetheless shared the aim of addressing existing unmet financing needs for historically underserved communities and expressed a willingness to accept higher levels of risk to achieve greater public benefit and social impact.

In summary, the themes here provide further insights into the particular arena in which CDFIs like APC find themselves as they engage in the further design and implementation of real estate lending practices. In the next section, we offer some recommendations for CDFIs to consider as they look to expand their services.

Recommendations

Despite limitations such as potential self-reporting biases and the non-generalizability of findings due to the small sample size, the study offers valuable insights that can inform policy recommendations and best practices for CDFIs looking to provide capital to solve real estate challenges in the United States, particularly in California where their costs are a major barrier to real estate development.

Recommendations for CDFIs include the following:

1. ENHANCING IN-HOUSE REAL ESTATE CAPABILITIES:

Building a dedicated team with real estate finance expertise can provide CDFIs with the necessary knowledge and skills to evaluate and manage real estate loans effectively. The CDFI team should be equipped with the tools and training to understand the nuances of real estate markets and lending practices.

2. FOSTERING COLLABORATIVE RELATIONSHIPS:

Engaging in partnerships with other financial institutions, real estate professionals, and community organizations can create a supportive network that enhances a CDFI's ability to serve its clients. These collaborations can lead to shared resources, knowledge exchange, and co-lending opportunities that amplify the impact of real estate projects.

3. LEVERAGING A DIVERSITY OF CAPITAL:

Utilizing a variety of capital sources, including foundation Program-Related Investments, Department of Energy grants, Direct Pay Incentives, and Environmental Protection Agency's Greenhouse Gas Reduction Fund dollars, can provide CDFIs with the financial flexibility and resources needed to support real estate lending. This diverse capital base can help mitigate risks and ensure a steady flow of funds for various projects, enhancing their capacity to meet community needs.

4. ENSURING REGULATORY COMPLIANCE:

Keeping abreast of regulatory changes and maintaining rigorous compliance protocols are essential to mitigate legal and financial risks. CDFIs should invest in continuous training for staff and leverage technology solutions to streamline compliance processes.

5. MAINTAINING ADEQUATE RISK RESERVES:

Establishing and maintaining sufficient risk reserves is critical to safeguard against potential loan defaults and market fluctuations. A prudent risk management strategy that includes regular stress testing and scenario analysis can help CDFIs prepare for adverse conditions and maintain financial health.

6. IMPLEMENTING A MONITORING AND EVALUATION PLAN:

Developing a comprehensive monitoring and evaluation plan is crucial to track the incremental steps and measure the impact of real estate lending initiatives. This plan should include key performance indicators, regular reporting mechanisms, and feedback loops to ensure continuous improvement and alignment with strategic goals.

These insights provide a foundation for policy recommendations and best practices that can enhance CDFIs' effectiveness and community impact. By focusing on specialized expertise, collaborative efforts, diverse capital sources, regulatory adherence, risk management, and continuous monitoring, CDFIs can position themselves as a leader in real estate lending within the CDFI sector, driving sustainable development and economic growth in the communities it serves. This comprehensive approach not only strengthens their operational capabilities but also reinforces their commitment to fostering inclusive community and economic development.

Conclusion

This research underscores the pivotal role of CDFIs in transitioning from small business to real estate lending, highlighting both opportunities and challenges inherent in this shift. The journey from small business lending to real estate finance necessitates the development of specialized expertise in real estate transactions, robust borrower vetting processes, and strong relationship-building within and beyond the CDFI ecosystem.

To navigate this transition successfully, CDFIs must address practical regulatory concerns, ensuring compliance with the complex landscape of financial regulations that govern real estate lending. Additionally, balancing financial risks with social impact goals is crucial for sustainable community development, as it ensures that the mission-driven objectives of CDFIs are met without compromising financial stability.

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Appendix A: Interview Protocol

<table>
<tr><td>Interviewee(s)</td><td colspan="3"></td></tr>
<tr><td>Interviewer</td><td></td><td rowspan="2">Organization</td><td rowspan="2"></td></tr>
<tr><td>Note Taker</td><td></td></tr>
<tr><td>Date of interview</td><td></td><td>Position</td><td></td></tr>
<tr><td>CRITICAL INSIGHTS OR FINDINGS FROM THIS INTERVIEW</td><td colspan="3"></td></tr>
</table>

Introduction

- Thank you for taking the time to meet with me, we really appreciate it. My name is Chino, and I am a student in the Sociology Department at the University of Toronto working under Professor Prentiss Dantzler. We are currently working on a project with Access Plus Capital, a CDFI based in Fresno, California. With a focus on Central California, APC's mission is to utilize fair and equitable community investment to eliminate economic barriers to financial success.

- Introduction to the project: Professor Dantzler and I are collaborating with APC to support the firm's growth and expansion into the real estate sector. We have asked you to participate in an interview because we think that you will have important insights and knowledge that would benefit from this effort.

- (State purpose) As a part of APC's work towards developing and growing its real estate lending arm, Professor Dantzler and I have been tasked with better understanding the process of developing a real estate lending arm; identifying the requirements to do so; ascertaining the best means for having social impact; and determining the challenges and obstacles that accompany working in this space. *We will use the information from these interviews to determine common themes centered on strengths and opportunities for APC's growth and expansion into the real estate sector. This research is for internal use at APC only, and none of our findings will be published to the public. However, we will share the final draft of our report with our interviewees.*

- (Timeline) The interview will take about one hour. We will maintain a private online space that feels comfortable to you, and I will ask questions that focus on your firm's real estate lending arm and your involvement in that work.

- (Consent) This interview is entirely voluntary. You may refuse to participate, withdraw at any time, and/or decline to answer any question. Your answers and your participation in this interview are completely confidential. I will audio record this interview and transcribe it once we are finished. We will not share any information that identifies you with anyone outside of the evaluation team, but your name will be listed in the back of the report unless you do not want it there.

Please feel free to stop this interview at any time to ask questions you may have about this consent or anything else. Do I have your consent to proceed?

(Transition) Do you have any questions for me before we start?

1. How long have you worked at (organization)?
2. What roles have you played at (organization)?
    a. Have you worked in other roles in (organization)? If so, what were they?
3. In what capacity are you involved in your firm's real estate lending?
4. What kinds of real estate loans does your firm offer?
    a. How much of your lending capacity is dedicated to real estate?
5. At what point was your organization comfortable enough to develop a real estate lending arm?
6. Could you explain the development of your firm's real estate lending arm?
    a. Could you walk me through the process of developing your firm's real estate lending capacity?
    b. Were you able to leverage any existing personnel or processes/channels?
    c. Did you have to hire specific personnel, such as specialist underwriters or processors? Was there a need to develop new processes?
    d. To what extent were the availability of capital and funds influential in developing your firm's real estate lending strategy?
7. What kinds of changes and adjustments has your firm had to make since establishing your real estate lending arm?
8. What criteria has your firm used to evaluate the social impact of your real estate loans?
    a. How were areas of need identified and selected? Were areas or zip codes targeted?
    b. Are there any specific loan programs that have been particularly impactful?
9. How has your firm organized its fee structures, financing, and debt?
10. Would you be willing to share your organization's underwriter criteria?

11. How did your organization manage the regulations involved with developing community development real estate lending?
    a. What kinds of certifications were required?
    b. Do all personnel involved need to have specific certifications?
12. What kinds of problems or obstacles did your firm have when it developed its real estate lending arm?
    a. At what point in the process did these issues arise?
13. Did any of these issues cause efforts to develop or grow the firm's real estate lending to fail?
    a. Among the programs that were unsuccessful, were caused by external obstacles in the market or internal challenges in the organization?
14. Is there anything else that you would like to add?

Thank you for your time.

Appendix B: CDFI Loan Products and Shares of Overall Lending Practices

1) Types of real estate loans offered across each organization

CommunityVision:

- Pre-Development and Construction Loans
- Acquisition Loans
- Tenant Improvement Loans
- Mini-Perm Loans

AmPac: SBA lender & CDFI

- SBA 504
- SBA 7A
- Down Payment Assistance Program (often supplements the SBA 504 by funding half of the 10% down required for SBA)

DDF:

- Contractor Revolving Lines of Credit
- Pre-Construction & Late-Stage Pre-Development Loans

BCL:

- SBA 504
- Leasehold Improvements
- Pre-development loans
- Construction Loans

Momentus:

- Construction Loans
- Pre-Development loans
- Tenant Improvements
- Acquisition Loans
- SBA 504
- Impower 95 (Alternative loan product to SBA 504 or traditional loans for commercial real estate lending)

2) Firms' shares of real estate financing as a portion of overall lending practices (Estimates based on interviews and organizational documents)

CommunityVision: 74%

AmPac: 72%

DDF: 20-30%

BCL: 45-50%

Momentus: 65-70%