Community Development Banks Gain Momentum as Overall Bank Count Shrinks

By **Allison Prang**
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The number of community development banks is rising at a time when the ranks of other financial institutions are shrinking.

The special-purpose banks — a subset of community development financial institutions — serve low- and moderate-income communities. By becoming CDFIs, banks — along with credit unions and other types of lenders — can apply for certain funding from the Treasury Department and other agencies.

While such institutions have existed since the 1990s, their numbers have exploded since the financial crisis. Almost three-quarters of the nation's community development banks have been certified since 2010 — reaching 123 institutions in July — as word about the program has spread and certain regulations have been relaxed.

For starters, the Treasury's Community Development Capital Initiative program provided CDFIs with low-cost capital after the crisis. In 2013, CDFIs were exempted from the ability-to-repay mortgage underwriting rule, helping spur more than 50 banks to join the program.

The ability-to-repay exemption "sparked yet another wave of interest," said Jeannine Jacokes, president of the Community Development Bankers Association. "I think it basically got the attention of folks … that were always eligible anyways."

The fact that certain Treasury programs, such as the CDFI Fund, have been around for nearly two decades — and that the pool of funds has increased — has also helped give more banks confidence to pursue certification, Jacokes said.

Some of the banks that have recently been certified have been around for years, including Bank of Rio Vista. The California bank, which applied to become a CDFI earlier this year, has been around for more than a century.

"Quite frankly, I've been at this bank for four years now, and I didn't know anything about" the program, said Dave Greiner, the $208 million-asset bank's chief executive. "A couple of banker friends … were telling me about it and it just fits us like a glove."

First Southwest Bank became a CDFI after the financial crisis, in part, to distinguish itself from other banks, said Kent Curtis, the Alamosa, Colo., bank's chief executive. The $262 million-asset bank became a CDFI several months after the Federal Reserve Board released its parent company from a written agreement.

"I really felt strongly that we needed to find a differentiator … to succeed in today's banking world — or what was going to become today's banking world," Curtis said, noting that First Southwest was already working with underserved markets.

Becoming a CDFI also allows First Southwest to tap into various Treasury grants and other assistance, along with opportunities to participate in the U.S. Department of Agriculture's rural development programs, Curtis added.

Banks aren't the only institutions taking advantage of CDFI certification.

Credit unions have been flocking to the National Credit Union Administration's low-income designation, as well as the Treasury's CDFI certification. Those institutions are eager to benefit from access to special grants, as well as relief from certain regulations — including access to secondary capital and an exemption from the cap on member-business loans.

The NCUA and Treasury signed an agreement earlier this year to streamline the application process that allows low-income credit unions to earn CDFI status. In January, the agencies said they hope to double the number of CDFI-certified credit unions by the end of this year.

Word of mouth has also spurred more interest in the CDFI certification.

Andy Anderson, chief executive at Bank of Anguilla in Mississippi, heard about the program from the chairman of another bank. "We were already a CDFI with what we were doing, we just weren't certified," Anderson said.

The $135 million-asset bank has received $710,000 from the Treasury's CDFI Fund since it qualified to become a CDFI in 2013.

Anderson, for his part, said the program hasn't been appropriately showcased. "I don't think it has been well publicized, or I don't think it has been pushed by the Treasury," he said.

The Treasury regularly engages with CDFI stakeholders, industry associations, regulators, the press and the general public to promote the program, an agency spokesman said. Program information is also emailed and is available online, he said.

Jacokes, however, said the Treasury doesn't "have a lot of resources" to promote the program. Then again, she said the program is receiving plenty of interest even with limited advertising.

"They've always been so dramatically oversubscribed," Jacokes said. "It's not like they needed to drum up demand or anything."

Lisa Freeman contributed to this report.