A Qualitative Model for the Evaluation of Community Development Financial Institutions

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Abstract

This paper addresses a gap in evaluation research of Community Development Financial Institutions (CDFIs) in the United States and models a qualitative interview process that CDFIs can employ to develop a better understanding of how their lending affects borrowers and communities. The CDFI industry was established to deliver capital and technical assistance to borrowers, projects, and communities that lack access to credit due to historic structural inequities and uneven development patterns. CDFIs represent a broad array of institution types, providing financial products and services across a diverse set of asset classes in communities throughout the United States. The complexity of the CDFI industry thus precludes a standardized approach to evaluation of its social outcomes and impacts. The model presented focuses on the small business lending activities of Impact Seven, a statewide CDFI serving Wisconsin. By conducting one-on-one interviews of borrowers and analyzing responses for recurring themes, CDFIs like Impact Seven can develop a nuanced understanding of the ways in which their lending activities affect small business borrowers and the communities in which they work. Qualitative analysis can additionally serve to identify quantitative outcome and impact metrics for further study.

Introduction

Community Development Financial Institution (CDFI) is a U.S. Treasury designation covering a range of financial institutions engaged in the promotion of "economic revitalization and community development" that may include FDIC-insured banks, credit unions, loan funds and venture capital funds (U.S. GPO, 2015). CDFIs are engaged in the provision of financial products and services, as well as technical assistance to enhance the ability of borrowers to utilize their financial products, while claiming a double bottom line emphasizing both financial and social returns on investment. The financial performance of CDFIs is measured and evaluated in ways similar to banks, such as financial ratios and CAMELS analyses examining Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to risk. However, the measurement of social returns produced by CDFI activities is typically limited to counting outputs, such as the number and dollar amount of loans closed, the number of jobs created or retained at loan closing, or the number of housing units constructed utilizing financial products obtained from CDFIs. In-depth evaluations often focus on economic outcomes. As a result, social objectives and appropriate evaluation tools may be missing or misaligned for many CDFIs.

I posit that CDFIs would more efficiently and effectively allocate their resources within the communities they serve by aligning social objectives with outcome or impact identifiers, facilitating a deeper and more nuanced understanding of how CDFI lending activities affect the borrowers and the social fabric of the communities they serve. In addition, CDFIs would be better positioned to build the case for funders and investors concerned with social return on investment. However, a review of the existing literature reveals that there has been little academic attention paid to the matter.

The question is complicated by the fact that CDFIs represent a diverse array of institution types and offer many different products and services. CDFIs may be regulated banking institutions including depository banks or credit unions, or unregulated non-profit loan or venture capital funds. Within these institution types, CDFIs provide different financial products for a range of asset classes, from microenterprise and small business to affordable multi-family rental housing, single-family homeowner mortgages, commercial real estate, consumer credit, and more (Benjamin, Sass Rubin, & Zielenbach, 2004, 177-178). Further, CDFIs define their target markets differently and may include a specific population and/or a geographic area ranging from a single neighborhood to the nation as a whole. Even within individual CDFIs, there is often a mix of discrete product types such as consumer credit, lines of credit, term loans or mortgages, matched with specific asset classes and target markets. A review of literature on evaluation methodologies makes clear that the diversity of institution types and activities precludes the development of a monolithic standard for the evaluation of CDFIs. Further, determining attribution is challenging, if not impossible. For example, a CDFI loan might be a small piece of a larger capital stack; attributing a discrete piece or a percentage of a project to each lender or investor involved is both difficult and illogical because the project functions as a whole, not in parts. There are likely many external factors influencing outcome and impact identifiers, further complicating the matter of attribution (Swack, Hangren, & Northrup, 2014, 7). Finally, community-level social outcomes and impacts are likely too diffuse to measure when activities are spread scatter-shot across a wide geographic area.

A full accounting of CDFI outcomes and impacts thus lies beyond the scope of this paper. Instead, I explore a qualitative model for self-evaluation that will allow CDFIs to develop and implement methods to track and better understand their own performance. I summarize the history of the CDFI industry, the criteria for CDFI designation, published academic, public, and industry evaluation reports, as well as a theoretical framework for an approach to CDFI evaluation to establish realistic expectations of outcomes and impacts. I present a qualitative model that CDFIs can employ to enhance their understanding of how their products and services affect borrowers, businesses, and communities, in addition to identifying possible quantitative social outcomes or impact indicators using the individual borrower as the unit of study. After conducting interviews of CDFI borrowers, I identify recurring themes to recommend additional variables for further study as well as the risks and limitations of such an approach. Finally, I share the results of my implementation of this methodology at a CDFI, including potential quantitative metrics that I identified and recommendations for implementation and further action .

History of CDFIs

Community-based solutions for increasing access to financial capital have existed for as long as the conventional finance industry has excluded disadvantaged populations and communities. The CDFI Coalition (n.d.) cites the establishment of African American-owned credit unions in the early twentieth-century Jim Crow South as a successful community-based response to systemic discrimination by mainstream financial institutions. However, post-World War II economic restructuring ushered in an era of chronic disinvestment in America's cities as "white flight" contributed to the growth of ring suburbs and the rapid decline of inner cities (Benjamin, Sass Rubin, & Zielenbach, 2004, 178). Mainstream lenders, including government-sponsored housing mortgage programs, actively practiced "redlining" whereby red lines were drawn around low-income or minority areas labeling them as higher risk, further exacerbating urban decline and uneven development patterns (Ardalan, 2006, 115).

In response, Lyndon Johnson's War on Poverty was carried out through a series of legislation known collectively as the Great Society programs that established a network of thousands of Community Action Agencies, funding local efforts to organize low-income people to change the conditions contributing to poverty (Orleck & Hazirjian, 2011, 11-12). A 1966 amendment to the Economic Opportunity Act also created Community Development Corporations (CDCs), a network of community-based organizations that implemented local responses to housing needs (ibid, 441). Many CDCs started their own loan funds for small business or affordable housing development in the 1970s with funding from federal agencies (CDFI Coalition, n.d.). In 1977, the Community Reinvestment Act (CRA) was passed to curtail the redlining practices of banks that withheld credit from poor and minority areas and invested bank assets in non-minority areas, exacerbating inner-city decline by essentially transferring wealth to suburbs (Orleck & Hazirjian, 2011, 444). However, CRA compliance was largely measured by banks' outreach efforts to underserved populations rather than actual lending activities, leading to criticism of its effectiveness to incentivize lending in low-income areas (Teitelbaum, 1994).

Bill Clinton's first presidential campaign in the early 1990s, inspired by his experience with the Arkansas-based Southern Development Bank Corp., advocated for strengthening enforcement of the CRA and "the creation of a national network of community oriented financial institutions dedicated to the revitalization of distressed urban neighborhoods, and as well, depressed rural communities" (U.S. GPO, 1993, 1). This network of community-based lenders would provide small business loans to catalyze entrepreneurship, invest in homeownership and affordable rental housing in distressed neighborhoods and leverage private capital for community development purposes (ibid, 3).

Toward that end, the Clinton Administration introduced two pieces of legislation that formalized and shaped today's CDFI industry (Metzger, 1993, 1). The Reigle Community Development and Financial Institutions Act of 1994 defined a set of characteristics for financial institutions qualifying as CDFIs and established the CDFI Fund within the U.S. Department of the Treasury with a mission "to promote economic revitalization and community

development through investment in and assistance to Community Development Financial Institutions" (Benjamin, Sass Rubin, & Zielenbach, 2004, 178; 12 CFR, Part 1805, 2015). Secondly, a piece of 1995 legislation increased enforcement of the CRA through changes in compliance measures to include actual investment volume in CRA-designated geographic areas. Importantly, this legislation also facilitates the capitalization of CDFIs by allowing banks to fulfill their CRA lending obligations by providing capital to CDFIs for re-lending in banks' CRA target areas (Benjamin, Sass Rubin, & Zielenbach, 2004, 178).

The Reigle Act and subsequent rulemaking defines the following characteristics of CDFIs:

1) CDFIs must focus on community development as their primary mission.
2) A CDFI is a private, legal entity with a primary function of providing financial products and/or services. Broadly, this includes community development banks, credit unions and loan funds.
3) CDFIs serve a defined "Target Market," wherein a minimum of 60% of their loan portfolios are comprised of loans to "Investment Areas," or geographies meeting specific distress criteria; and/or to underserved populations such as low-income people and/or minority groups known as Low-Income or Other Targeted Populations.
4) CDFIs provide "development services," or assistance that helps borrowers or beneficiaries more effectively utilize the financial products or services of the CDFI; e.g., credit counseling, business plan development, etc.
5) CDFIs must be accountable to their Target Markets through representation from their self-defined Investment Areas or Targeted Populations on their governing boards (12 CFR, Part 1805, 2015; CDFI Fund, 2014, 2-3).

The above legislated eligibility criteria are incorporated into a formal certification process by the CDFI Fund with annual monitoring for compliance. CDFIs function as financial intermediaries, attracting public and private capital to community and economic development projects through managed loan funds and leverage at the project level. The assumption underlying the establishing legislation, then, is that directing capital to borrowers in underserved markets results in community development.

Evaluation of CDFIs

There has been little academic evaluation of the extent to which CDFIs achieve outcomes and impacts in community development, likely due in part to the relatively young age of the industry as well as the inherent complexities emerging from the diversity of institution types, products, and geographies of focus. It is also likely that some CDFIs are in fact conducting evaluation activities ranging broadly in methodology and scope but they are private endeavors conducted for funders or for their own internal uses. A risk of the failure to appropriately identify impact is a misalignment of activities and desired outcomes and impacts on the part of CDFIs themselves.

Most literature on the evaluation of CDFIs assumes a level of impact beyond the economic effects brought about by the provision of financial products and services. However, CDFIs themselves almost entirely use economic output indicators as proxies for assumed community development benefits; i.e., quantitative outputs serve as proxy measures for qualitative social impacts (Kolodinsky, Stewart, & Bullard, 2006, 31-42). The challenge for the evaluation of social outcomes and impacts is how to determine the appropriate indicators beyond the typical metrics tracked by CDFIs, such as the number and dollar amount of loans closed, number of jobs created or retained, number of housing units developed, or number of childcare or healthcare slots created, etc. A review of published impact evaluations of CDFIs underscores the rarity of high-quality studies and the lack of standardization in the identification and measurement of outcome and impact indicators.

One study of the social impacts of the provision of financial services by a CDFI credit union utilized a combination of focus groups and surveys to examine the extent to which the utilization of credit union services could be associated with indicators such as behavioral changes and improved quality of life. The study found that the more services used, the higher the probability of realizing impact indicators, potentially validating the use of proxy measures for social impacts (Kolodinsky, Stewart, & Bullard, 2006, 42). Swack, Hangren, and Northrup (2014, 51) also suggest that quantitative output metrics shown to correlate with longer-term outcome or impact measures could potentially be used as proxy measures for evaluation purposes.

Smith (2005, 2) examined the extent to which a CDFI bank providing financial products and services for business and single-family home mortgages could claim to achieve several broad community development goals including improving access to capital, reducing residential segregation by economic class and increasing democratic freedoms. The author applied a standard she calls "capitalism as justice" that assigns equal weight to class, race, and political and social forces that combine to perpetuate conditions of poverty in urban areas. The author did not find a link between the CDFI's activities and "capital as justice" goals such as the "protection of individual liberties . . . and democratic freedoms," among others (ibid, 27-28). The conclusion of the thesis points to a misalignment of output indicators tracked by the subject CDFI and its desired impact as a stand-alone anti-poverty solution. The author posits that CDFI interventions at the borrower level do not attempt to address the multitudinous, complex structural and social causes of poverty, and thus cannot make the claim that broad poverty reduction and community-level impacts are a result (ibid, 53-54). Smith argues that the CDFI industry needs to establish realistic expectations for the impacts it can hope to achieve; i.e., identifying outcome and impact indicators that can be more directly associated with CDFIs' activities such as those resulting from the outputs of financial products and services provided by CDFIs. The study points to the ecological fallacy of aligning borrower-level interventions with community-level impacts.

While few academic resources are available on the topic, CDFI industry stakeholders have produced a number of documents on evaluation and impact metrics. The CDFI Fund is the largest aggregator of impact data on CDFIs and collects a tremendous amount of pri-

mary source data from CDFIs each year through the CDFI certification process, applications for financial assistance, and through the annual reporting of grantees. It has published several research briefs and evaluation reports commissioned from third-party researchers. The most comprehensive is *CDFIs Stepping Into the Breach: An Impact Evaluation Summary Report*, by researchers at the Carsey School of Public Policy's Center for Impact Finance at the University of New Hampshire which specializes in examining the role of mission-oriented financial institutions, including CDFIs, and on the implications and impacts of improving access to capital. The study utilized multiple methods including multivariate analysis comparing transaction-level data collected from CDFIs with conventional lenders, and an "exploratory" comparative analysis of selected census tracts receiving a sustained high level of CDFI investments from 2003 to 2012 against those without CDFI intervention. The primary purpose of the evaluation was to determine the extent to which CDFIs were achieving the stated purpose of the policy to promote "economic revitalization and community development through the provision credit, capital and financial services to underserved populations and communities in the United States" (Swack, Hangren, & Northrup, 2014, 4).

The study determined that CDFIs are engaged in their intended purpose across all types of lending, providing financial products and services to people and places underserved by traditional financial institutions. It also showed that growth in CDFIs' assets has led to growth in lending activity and growth in impact outputs (e.g., job creation, housing unit development, etc.), and that CDFI loans are concentrated in distressed census tracts at a higher rate than conventional lenders. The study also observed that CDFI loans tend to be "plain vanilla" loan products with features that minimize borrower risk, at near-market rates (ibid, 21-30).

However, the authors did not find a statistically significant relationship between sustained investments by CDFIs in census tracts and later lending by mainstream lenders, or that CDFIs lend more in census tracts with disproportionately low rates of mainstream lending activity. In addition, there was no relationship observed between "concentrated and sustained" lending by CDFIs in a specific census tract and later increases in HMDA lending (single-family home mortgage loans) which was used as a proxy measure for improving quality of life (ibid, 33-36).

Another study conducted and published by Carsey School researchers for the CDFI Fund included an examination of the social and economic effects of CDFI loans to resident-owned manufactured housing communities. The mixed-methods study examined a number of quantitative variables related to the performance of a specific loan product, financing for resident-owned manufactured housing communities, and its adoption by mainstream financial institutions. In addition to secondary data sources, the study utilized focus groups and key informant interviews consisting of residents of assisted resident-owned manufactured housing communities (Swack & Rivera, 2009, 6-7). A second Carsey School study of resident-owned manufactured housing communities compared survey responses of resident-owned communities with investor-owned communities related to perceptions of economic factors such as the financial market for manufactured housing, affordability, and fee structures. The

qualitative feedback obtained via survey provided support for the hypothesis that CDFI financing of cooperative-owned manufactured housing communities reduced rents and fees for residents and revealed that many respondents had a sophisticated and detailed understanding of the financial market and economic forces involved (Ward, French, & Giraud, 2006, 3).

An example of research commissioned by two private CDFIs involves a study by Harder + Company Community Research; Accion, a network of CDFIs; and Opportunity Fund. The study was initiated in 2015, with preliminary findings presented at the 2017 Opportunity Finance Network Conference, the largest annual gathering of CDFIs. The longitudinal study is tracking economic and social outcomes of five hundred microenterprise borrowers in twenty-one states through questionnaires and a subset of individual borrower interviews. Questions are intended to capture data about the financial health of borrowers and their businesses as well as quality of life, with borrowers reporting increased financial stability, improved cash flow, better "work-life balance" related to improved time management, and increased self-efficacy related to goal achievement (Harder + Co., 2017).

Aeris, formerly known as CARS, provides information and consulting to connect mission-oriented investors with CDFIs in need of capital and is a major industry data aggregator. Prior to its establishment in 2004, investors often perceived CDFIs as high-risk investments; there was no standard for assessing the safety and soundness of CDFIs' capital structures or activities as provided for in the conventional market by ratings institutions such as Moody's Analytics and Standard & Poor's. Critically, socially-minded investors had no way of assessing the extent to which a CDFI achieved social impacts beyond the typical output measures tracked by CDFIs. These barriers prevented CDFIs from accessing the financial resources of conventional investors and capital markets to fuel growth. Aeris provides comprehensive ratings and ongoing monitoring for CDFIs to simplify investors' due diligence and underwriting. Aeris' proprietary rating system is intended to mirror those of conventional ratings systems, with a letter grade ranging from BB+ to AAA indicating a CDFI's financial performance and assigning one to four stars based on the achievement of measurable social impact. An additional plus sign indicates "policy plus" designation, signifying that the CDFI is involved in affecting policy change related to economic justice.

Due to investor interest in double- or triple-bottom line returns, Aeris works with individual CDFIs to identify an appropriate group of "impact" measures for the CDFI to track and report. Note here that Aeris uses the word *impact* to refer to any social or environmental returns rather than the long-term definition of impact used in the lexicon of evaluation (Aeris and the GIIN, 2016, 2). Aeris recognizes that reporting on accurate and measurable impact data increases the legitimacy and credibility of the CDFI industry and has the real effect of increasing the flow of capital to community development projects (ibid, 5). As a result of a meeting between Aeris, the Opportunity Finance Network (OFN), and the U.S. Treasury's CDFI Fund, Aeris and Global Impact Investing Network (GIIN) published a guidance paper for CDFIs on standardized metrics for impacts. Based on the input of a working group inclusive of CDFIs and stakeholders, the paper identifies and defines impact metrics split

into five broad categories including Economic Security, Education, Environmental Sustainability, Health and Food Access, and Housing, utilizing standardized definitions for their measurement (ibid., 8). Nearly all recommended metrics are quantitative outputs (e.g., the number and dollar amount of loans closed, the number of housing units created, etc.) while a few are quantitative short-term outcomes, such as the dollar amount difference in proprietor income over time (ibid., 9-20). However, in order to achieve a four-star rating for social impact, a CDFI must demonstrate that it tracks impact indicators in addition to outputs (Aeris, 2018). The onus is thus on individual CDFIs to develop their own methodologies and procedures for doing so.

In summary, outcome and impact evaluation varies substantially between CDFIs and measurement of long-term outcome and impact indicators and the utilization of sophisticated evaluation techniques are rare, even among top-tier CDFIs (Ward & French, 2006, 47). Additionally, the outputs and outcomes that are tracked are broad, varied, and lack standardization in their definition and measurement (ibid, 48). To overcome these challenges, industry umbrella groups, data aggregators, and membership organizations including Opportunity Finance Network, Aeris, NeighborWorks America and the CDFI Fund have attempted to standardize indicator definitions to achieve a greater degree of uniformity in data collection and reporting. However, CDFIs and stakeholders wishing to develop a deeper and more nuanced understanding of the outcomes and impacts of CDFI lending are largely on their own.

Evaluation Framework

In reviewing the literature on evaluation of CDFIs, I had hoped to find examples of social outcome and impact indicators that could be applied to a CDFI loan fund to evaluate the extent to which the organization's activities result in community-level change. While there are a handful of CDFIs with in-house research arms, the benchmarking of the evaluation capacity of CDFIs done by Swack, Hangren, and Northrup (2014) found that this is quite rare and that the evaluation done by the majority of CDFIs is largely limited to the quantitative data collection and reporting required by the CDFI Fund, Aeris, and other industry stakeholders. Given the lack of established evaluation methodologies and indicators, I elected to develop a model that CDFIs could implement on their own, with the aim of producing qualitative data that would: 1) enhance CDFIs' understanding of their own outcomes and impacts; and 2) identify potential outcomes and impact indicators for further study if desired.

In seeking a framework for evaluation, I focused on examples of research that would be low-cost and feasible for a small- to mid-sized CDFI to conduct with existing staff. Program and project evaluation commonly utilizes a logic model framework, which provides an organizational template for displaying how an activity is connected to its anticipated results. Its flow connects inputs to activities, activities to outputs, outputs to outcomes, and finally, outcomes to impacts. *Inputs* include the resources available to do the work of the program, and might include financial and human capital, knowledge resources and more. *Activities* consist of the planned intervention intended to effect change. *Outputs* are the immediate results of the activity and are typically quantifiable. *Outcomes* are individual-level changes.

Some models differentiate between short-term (1 year), mid-term (2-4 years) and long-term (5-7 years) outcomes, while *impacts* are considered to be those conditions, often difficult to measure, that emerge 8-10 years following an intervention (Stoecker, 2013, 149; Kellogg Foundation, 2006, 2).

Stoecker (2013, 8) asserts that intensive research–or studying a few cases with a high level of detail–will better enable researchers to understand cause rather than extensive research involving the study of a large sample of just a few quantitative variables in great detail. While qualitative research may serve to identify potential variables for study by quantitative methods, it may be sufficient to provide a rich and nuanced understanding of the topic of study (ibid, 9). Indeed, the author argues that project-based qualitative, applied research is the most effective method for organizations and community groups seeking to achieve social change and continuous improvement in the processes used rather than quantitative evaluation of predictive or cause-and-effect relationships (ibid, 13). Stoecker frames evaluation within a classic strategic planning cycle (diagnose-prescribe-implement-evaluate) and includes the following steps: choosing the question, which must be focused enough to produce the sort of data necessary to be informative; designing the research methods; collecting the data; analyzing the data; and reporting results (ibid, 17-21).

In scientific research, the emphasis on objectivity is intended to deliver unbiased results, but Stoecker argues that researchers with a deep familiarity with the subject and community of study will produce more nuanced, informed, and ultimately more helpful data (ibid, 6). Stoecker's methods are specific to project-based community or participatory action research but the underlying theory has broad applicability to interventions intended to effect community development outcomes.

Conducting interviews with individual CDFI borrowers is an effective way to operationalize this theory. An interviewer employed by a CDFI has an advantage over an unaffiliated third party in that the interviewer has some first-hand knowledge of local community, economic and social conditions, as well as the practices and products of the CDFI. Best practices in qualitative interviewing recommend developing open-ended questions designed to elicit narrative responses, and first conducting a few practice interviews to test the questions and refine as necessary. To draw out more detailed or nuanced responses, interviewers should be prepared to ask for examples or say, "tell me more about that" (Alvesson, 2011, 55).

An "interactive rationalist" approach to conducting interviews means building trust through establishing rapport, employing a structured but somewhat flexible format, repeating back insights to ensure accuracy and carries the assumption that responses are reflective of interviewee's thoughts and experiences (ibid, 12-13). Responses may certainly be biased, for interviewees may be "politically aware and politically motivated actors," or they may provide responses that they perceive are those desired (or undesirable) by the interviewer (ibid, 29). As such, in interpreting responses it should not be assumed that interviewees are always providing the pure, unvarnished truth. Additionally, interviewers must be cognizant that outside factors of which the interviewer or the interviewee are not aware may be acting on the variables of study.

In summary, the development of community involves building the overall community field comprised of networks of associations between groups and individuals that forge social connections for collective action with a positive purpose. Interactional field theory views community development as the process of building the overall community field, comprised of social interactions between groups and individuals pursuing general, cross-cutting interests (Brennan, 2008, 88). CDFIs are primarily engaged in the provision of financial products and services for projects benefitting disinvested communities and/or underserved populations. CDFI outputs capture the economic effects of lending and as such, community development outcome and impact indicators are difficult to identify and vary between different types of CDFIs. Qualitative intensive research offers a useful framework in which CDFIs may evaluate the effects of their lending activities by studying a few cases in greater detail.

Methodology

In order to evaluate the outcomes and impacts of CDFI lending, I modeled a methodology based on interviews of small business borrowers at Impact Seven, a nonprofit CDFI loan fund serving the state of Wisconsin since 1970. Impact Seven provides financial products and development services in small business, commercial real estate, and multifamily affordable housing. It has a lending staff of three full-time employees and in the past four years has closed approximately $35 million in loans, of which $11.3 million was to small business borrowers for start-up and expansion activities. Impact Seven tracks twenty-seven output and outcome indicators associated with their lending activities. Most are prescriptive data points required to fulfill reporting requirements of third-party investors and funders while a few were developed internally to add value to impact reporting for the organization's Aeris rating. Of the total, eighteen are quantitative outputs, eight are short-term outcomes, such as the number of affordable units placed in service, while one, loans made bankable, is a medium-term outcome.

Due to a lack of identified best practices around evaluating CDFIs, some scholars have utilized interviewing methodologies to collect qualitative data on the outcomes and impacts of CDFI lending. These models align with Stoecker's focus on intensive research, studying a few cases in great detail to gain a nuanced understanding of the changes in borrowers following the CDFI intervention by conducting interviews of borrowers to "extract themes" for use in conducting a qualitative evaluation of the outcomes or impacts of CDFI loans at the borrower level in addition to quantitative output and outcome indicators typically tracked.

This understanding may be sufficient for many CDFIs for their own use in evaluating their effectiveness, the extent to which they meet their mission and the needs of their borrowers, for strengthening cases for funding and obtaining third-party capital, for attracting mission-oriented "impact investors" and in individual fundraising. For CDFIs, their investors or other stakeholders wishing to conduct high-quality empirical research to establish causation or correlation between CDFI intervention and borrower outcomes, a qualitative evaluation process could point to potential quantitative indicators for further extensive study.

Rather than examining community-level outcomes, this model will assist CDFIs to assess the extent to which their products and services contribute to individual well-being and explore how their borrowers relate with community. When the borrower is the level of the intervention, the borrower must be the unit of observation for evaluation as well.

I elected to conduct individual structured interviewers with Impact Seven's small business borrowers. I selected this asset class over others in Impact Seven's portfolio because: 1) I could find no other studies examining the outcomes and impacts of CDFI loans to small businesses and thus the impacts of financial products in this asset class are less understood than those of affordable housing loans or financial services, for example; and 2) it is the largest asset class in Impact Seven's portfolio in terms of both the number and dollar amount of loans and therefore provided the largest sample frame. Impact Seven offers two products to its small business borrowers with terms and rates tailored to meet the needs of the individual borrower or project. Most are term loans for significant capital purchases for start-ups and expansions such as equipment and real estate. Lines of credit are offered less frequently and tend to be used by businesses to purchase inventory and to weather fluctuations in cash flow. Comparing similar types of borrowers is important to the evaluation process so I selected small business borrowers with original principal amounts under $1 million with owners who are substantially involved in day-to-day operations (as opposed to larger corporate borrowers with start-up and expansion projects implemented by management staff). This yielded a sample frame of twenty-nine non-duplicated borrowers. I excluded two loans pending foreclosure due to exclusive communication with these borrowers through attorneys, for a final selected sample of twenty-seven small business borrowers.

After reviewing the literature and summarizing the theoretical framework for analysis, I developed a set of eleven open-ended questions and one multi-part ranked question on borrower satisfaction with feedback from academic and industry advisors. Several questions were intended to capture the extent to which Impact Seven's financial products and services fill a gap in the market and met the needs of assisted businesses. Additional questions sought to obtain information about the services and amenities assisted businesses brought to underserved areas, to get a sense of borrowers' interactions in the community and use of community resources, and additional economic benefits such as hiring workers or increasing employee wages. Several questions were informational for internal process improvement purposes, such as which development services borrowers felt were most helpful and levels of borrower satisfaction across several categories.

One borrower contacted had a loan of approximately $100,000 modified in 2017 that was considered a "troubled debt restructure," wherein Impact Seven granted a concession to the loan terms that otherwise would not have been considered but for the borrower's financial difficulties. Six additional borrowers contacted had loans totaling just over $700,000 in unpaid principal balances that had been modified from original terms. Loan modification may be indicative of sub-par loan performance but also may be completed for other reasons such as a term or interest rate adjustment, change in purpose, or revising a payment schedule to accommodate seasonal cash flow patterns, for example. In addition, six of the loans had been reviewed and renewed by Impact Seven's loan committee since closing with unpaid principal balances totaling $1.1 million.

I sent personalized emails to each borrower, introducing myself and explaining that I would be contacting them by phone to ask questions to help Impact Seven understand how our lending activities affect borrowers, businesses, and communities, and that I would use information collected for an academic paper. I attempted to contact each borrower three times over the course of two weeks via telephone and obtained complete responses from fifteen of those contacted for a 55% response rate. When all interviews had been completed, I looked for repeated themes in my notes. Results are presented in the next section, including the number of borrowers who responded positively to each theme and illustrative anecdotes shared by respondents when useful.

Results

In comparing borrower responses to eleven open-ended questions, I extracted twenty indicators structured as polar statements that could be assigned either an affirmative (1) or negative (0) response.

Figure 1. Borrower Response Summary

Theme	Indicator	Percentage affirmative response
CDFI is filling a gap left by traditional lenders; has a largely word-of-mouth referral network	Loan would not have been obtained but for Impact Seven	87%
	Previous turndowns by banks	87%
	Borrowed from Impact Seven due to relationship with loan officer/staff	20%
	Referred by bank	53%
	Referred by third-party TA provider	20%
Businesses continue to borrow to meet capital needs	Have taken out additional loans from Impact Seven	40%
	Has taken out additional business loans from other lenders	27%
	Needs additional capital	47%
CDFI provides technical assistance and development services to borrowers	Impact Seven provided services in addition to financial capital	60%
Provides amenities, products, or services not otherwise available in the area	Business provides products or services otherwise not available in the area	53%
CDFI loan capital catalyzes change in businesses	Change in business such as new product, increased sales, etc.	87%
Businesses access an array of community resources and partnerships	Member of trade group	20%
	Involved in local economic development efforts	33%
	Chamber of Commerce member	40%
	Participates in local fundraising (e.g., sponsors sports team, etc.)	73%
	Community partnerships	40%
Business provides additional benefits to workers	Employee fringe benefits provided	20%
	Other worker benefits such as additional hiring, training, etc.	67%
Increased borrower confidence and self-efficacy	Borrower confidence increased	93%
	Borrower/business better off since obtaining Impact Seven loan	100%

For the affirmative responses in each indicator category described above, I reviewed the notes I took on each response to search for common themes. A discussion of borrower responses and frequencies follows, organized by theme.

The CDFI is filling a gap left by traditional lenders

All but two borrowers agreed with the statement, "your project would not have been possible but for the loan from Impact Seven." Thirteen of these borrowers, or 87% of those contacted, also reported previous turndowns by banks. Several businesses explained that they were seeking capital during the Great Recession and the early years of the recovery when credit was tight, from 2007 to 2012. The largest business contacted, a manufacturer, was hit hard in the recession and obtained an operating line of credit from Impact Seven that was critical to the business' survival in that year after turndowns from several banks commented, "Banks are only willing to help you when you don't need it."

Several businesses described their experiences in approaching banks for credit and were turned down due to inadequate collateral to secure the requested loans. Two businesses explained that they turn profits due in large part to their reliance on purchasing used equipment for operations. However, the banks they approached either would not accept equipment as collateral or balked at the uncertainty of the collateral valuation due to its used condition. Five borrowers had existing lending relationships with banks but were turned down for the project in question for various structural reasons; e.g., inadequate collateral or a high loan-to-value ratio. In one case the borrower had reached their lending limit concentration with the bank.

Two borrowers described existing, ongoing relationships with banks wherein the banks made the referral to Impact Seven because the borrowers' requests fell outside of their underwriting guidelines but have continued to provide ongoing technical assistance to the borrowers. Importantly, this evidences the complementary role that Impact Seven plays to the banking industry; rather than taking business away from traditional banks, it fills a gap for financial products and services. Finally, Impact Seven participated out a portion of two of the loans to a bank or other lender in order to structure the deal in a manner acceptable to all parties involved, effectively finding opportunity in the deal through spreading risk between multiple lenders.

Impact Seven's referral relationships tell a compelling story about the gap its products are filling. Borrowers are referred to Impact Seven entirely through word of mouth. Fifty-three percent of borrowers were referred by a bank while 20% were referred by a third-party technical assistance provider such as SCORE or a county Economic Development Commission (EDC). The remaining three borrowers obtained loan capital from Impact Seven due to existing relationships with an Impact Seven loan officer or other staff person. The owner of a grocery store explained that Impact Seven's portfolio manager shops in her store, so it was important to her to give Impact Seven her business. The manufacturer mentioned above said that because Impact Seven was the only lender willing to help during the recession, he would continue to keep his business there. The fact that banks are overwhelmingly the top referral

source of small business loans is further indicative that Impact Seven is meeting demand for financial products unfilled by banks.

Businesses continue to borrow to meet capital needs for growth or to level out cash flow

Of the borrowers interviewed, 40% have borrowed additional funds from Impact Seven while 27% have borrowed from other lenders to fuel business growth or level out uneven cash flow patterns. Of these, two respondents borrowed from a conventional lender such as a bank which they attribute to improvements in credit and/or business performance since closing their Impact Seven loan(s), while two borrowers took out additional loans from third-party lenders with predatory terms such as usurious interest rates or monthly payments exceeding available cash flow. One of these borrowers, a manufacturer, declared bankruptcy as a result but brought on a new, more experienced partner who successfully managed the business through the process has since increased sales to achieve stability.

Nearly half, or 47%, of borrowers interviewed said they needed additional capital. Four of these borrowers stated that initial capital needs were met with their Impact Seven loan(s) but they will be seeking additional capital for expansion or capital improvement projects. One borrower who had taken out a predatory loan from an online lender would like to refinance existing debt to reduce monthly payments.

The CDFI provides technical assistance and development services to businesses

In the CDFI industry, services that enhance the ability of borrowers to utilize CDFIs' financial products are referred to as technical assistance and may include training on a broad array of topics related to operating a successful business, from advice on real estate transactions, to accounting, to marketing and more. Services may be provided by CDFI staff or by partners such as Small Business Development Centers (SBDCs) or local accountants. Development services typically refers to direct assistance with structuring deals. For example, coordinating between all lenders in the capital stack of a complex project to arrive at a structure that meets the needs of the borrower, project, and financiers involved. Sixty percent of respondents reported receiving technical assistance and other services from Impact Seven related to their business loan. Two borrowers were assisted with grant dollars for signage funded via Impact Seven's participation in the federal SBA Microloan Technical Assistance program. The largest business interviewed stated that their "management is strong in finance and operations" and thus had no need of technical assistance.

Several respondents initially reported that Impact Seven did not provide any services outside of the provision of loan capital, but nonetheless went on to describe specific technical assistance provided by their respective loan officers. One borrower described how her Impact Seven loan officer reviewed her existing lease and pointed out a number of disadvantageous terms that were a primary driver of expenses that exceeded revenues. As a result, the borrower exited the lease and obtained a new lease with more favorable terms, which had the effect of reducing expenses and achieving positive cash flow. Three borrowers described technical assistance delivered after closing, from extensive assistance working through a bankruptcy (the

aforementioned manufacturer), to assisting a borrower with improving cash flow management, including restructuring payments to accommodate seasonal cash flow patterns.

In some cases, borrowers were clear that they did not want or need advice from their loan officer, particularly those with clear visions and/or experience in their line of business. Even in these instances, however, the assistance of Impact Seven in structuring the loan, such as reviewing assets to identify acceptable alternative collateral in cases where lack of traditional collateral precluded the involvement of a bank lender, finding additional third-party sources to close the project financing gaps, or reviewing project budgets or operating pro formas for accuracy, was an essential precondition to loan approval by Impact Seven.

The question could likely be rephrased for clarity in order to obtain more accurate responses, such as "How did the CDFI provide assistance with structuring the loan?" However, it could be that in many cases borrowers are unaware of the provision of development services related to loan structuring.

Assisted businesses provide products, services or amenities not otherwise available in their markets

Quality of life and access to amenities are often cited as preconditions for economic growth and reasons that major employers site their operations in a particular locale. All borrowers described ways in which their businesses were unique or differed from their competition, but eight, or 53%, reported that their businesses provided products, services, or amenities that would not otherwise be available in their markets. This could be due in part to a disproportionate number of borrowers (60%) interviewed located in rural areas that likely do not have the population base to support multiples of one type of retail or service business. One rural town would be a food desert but for the presence of a small grocery store carrying a full array of fresh produce, dairy and meats, financed by Impact Seven. A small healthcare facility serving elderly patients reports being the sole provider in the county able to serve seniors with complex medical needs. A local chain of fitness facilities has locations in a number of small, rural towns where larger providers would not locate due to small population concentrations. Five borrowers operate retail businesses providing unique amenities such as leisure activities or arts-related programming. Three borrowers report competition within their market but add value to their products or services that may substantially set them apart from other providers. Three borrowers contacted serve a national market. Local businesses providing a diverse array of goods and services represent assets from the perspective of place-based economic development, by differentiating the area from others. The competitive advantage realized by these locales may be attributed in part to the placemaking efforts of these borrowers.

CDFI loans catalyze revenue-positive changes in businesses

All respondents reported uses of loan proceeds consistent with the stated purpose of the loan request at the time of underwriting. When asked how their CDFI loan(s) changed their businesses, 87% of borrowers described changes primarily related to activities of either

a start-up or expansion; e.g., the acquisition of real estate, capital equipment, inventory, etc. purchased with loan proceeds. Twelve reported increased revenues resulting from higher sales (though note this does not necessarily equate to higher net profits). Four were start-ups and the remaining are existing businesses that obtained loan capital for expansions or capital improvements to increase efficiency. One borrower who obtained a loan to refinance existing debt reported no change except reduced expenses related to a lower interest rate. These responses indicate that businesses are using CDFI loans for the intended purpose, and that the CDFI loans catalyze revenue-positive changes in the assisted businesses. Revenue change and net profits could be quantified at annual loan reviews to track changes over time.

Local partnerships build businesses and communities

All borrowers reported participation in community, with two-thirds in more than one category. The most commonly reported type of community involvement (73%) is the support of local causes primarily for marketing purposes, such as sponsorship of sports teams or fundraisers for schools, public improvements, or community initiatives. One borrower serving a national market commented that although support of local needs does not serve a direct marketing purpose, the business frequently provides material and financial support to local causes because they view supporting the institutions that their forty-plus employees rely on as part of boosting employee morale and a strategy to attract and retain workers.

In addition, 20% of borrowers are members of national or regional trade groups and 40% were members of local Chambers of Commerce, but notably only one borrower specifically stated that membership was beneficial. One borrower commented, "I'm a member of the Chamber but of course they just . . . [*pause*] meet. There is no usable advice or real results." One third of respondents participate in local economic development efforts, such as membership in a county Economic Development Commission (EDC) board or group, or participation in a downtown revitalization effort. Two borrowers discussed their involvement in a local Main Street initiative, a program funded by the state of Wisconsin through local collaborative partnerships focused on grassroots revitalization of historic Main Street corridors, while one borrower described participation in an ad hoc committee for downtown revitalization in a small rural town in the absence of the state-funded Main Street program.

Notably, 40% borrowers described the formation of unique local partnerships with benefits accruing to the business, partner, and other community interests. These examples of community participation that went beyond local involvement principally focused on marketing or assistance received through the normal course of business (e.g., a local EDC or TA by a community bank) are classified as "community partnerships." Borrowers reported obtaining benefits from their informal social networks with more frequency than formal resources such as Chambers of Commerce.

For example, an owner of a start-up business commented, "One totally unexpected thing is this relationship with the police department," located next to his equipment repair and resale business. What started out as employees and police officers sharing morning coffee in the parking lot grew into a reciprocal relationship wherein the business has hosted multiple

fundraisers for the police department's K9 unit and provides free repairs for critical rescue equipment, and the department keeps a close eye on the business' building and inventory, with officers informally referring business. One business with a large facility hosts fire department training and donates supplies to schools and other local institutions. Another seasonal recreational sport business in a small town explained that low cash flow could not support staff or unexpected expenses. The owner described extensive community support of the business, trading use of the facility for various types of labor from repair carpentry to help with events. One such transaction led to the owner's active involvement in a local political campaign. The owner of a fitness facility provides space for community meetings and is passionate about helping other women succeed in business through mentoring. The owner of a grocery store in a rural area explained that because there are so few businesses in town to support local causes, they saw it as their responsibility to be a reliable source of help for community projects and causes. These borrowers view their businesses as venues for community convening; the places where locals meet, both formally and informally.

Borrowers are confident in their entrepreneurial abilities

A theme that ran throughout each interview is the confidence of the borrowers, indicating a strong sense of individual self-efficacy. All but one, or 93%, of those interviewed showed a high degree of confidence in their abilities to successfully operate their businesses, solve problems, and mitigate challenges as evidenced by statements such as: "I put everything I had into the business. That's how much I believed in it. I knew I could make it work," and "I don't really need help; I just run my business." Only one owner of a small Main Street retail business on the verge of failure expressed doubts about her ability and suitability to successfully run a business. Still, one borrower that had been through a Chapter 11 bankruptcy in the previous two years and another borrower with a small business experiencing financial trouble both expressed a high degree of confidence in their abilities to achieve success and mitigate challenges.

Discussion and Recommendations

As noted previously, there has been insufficient academic attention paid to the evaluation of social outcomes and impacts of CDFI activities, particularly related to small business lending. Although this paper proposes a model for CDFIs to conduct their own qualitative evaluations, robust academic studies would add credibility to the industry's impact claims as well as quantify potential correlative or predictive links between CDFI activities and social outcome indicators. A larger evaluation study could be done, obtaining a greater sample size of borrowers in the same asset class and possibly business type (e.g., retail, manufacturing, etc.) from the same CDFIs or samples pulled from each of several similar CDFIs as in the longitudinal evaluation by Accion and the Opportunity Fund (Harder + Company, 2017). A study of community-level changes could involve a comparison of social outcome variables between communities with a concentration of small business lending by a CDFI and a community with similar characteristics but no CDFI presence as a control.

The qualitative results of the interviews suggest that the following quantitative variables could be incorporated into existing data tracking systems at Impact Seven and other CDFIs with small business loan products. Benchmarking variables at loan closing and comparing them to annual numbers could be used to track changes over time. This data could be captured in a survey in addition to other annual data collection often collected by CDFIs such as job creation and retention, changes in revenues, and other economic and financial data.

Figure 2. Possible Quantitative Impact Variables

#	Sources of local assistance for the business
#	Community partnerships
#	Strong ties
#	Weak ties
# + $	Value of benefits provided to employees
$	Salary increases for employees
$	Economic value of third-party assistance provided to the business
$	Economic value of community benefit provided by the business
$	Economic value of transactions in the informal economy (e.g., traded labor)
# + $	Loans refinanced by a traditional bank
Y/N	Provides amenity or service otherwise not available in the area
Y/N	Borrower previously turned down by bank/conventional lender
Y/N	Increase in self-confidence of borrowers related to skills and efficacy
Y/N	Changes in borrower credit scores annually compared with baseline at underwriting

The extent to which borrowers discussed specific ways in which their businesses contributed to and/or benefitted from community partnerships and organizational networking activities was unexpected and shows promise for additional study, and further points to a mechanism by which CDFI activities may be shown to positively affect community development. Indeed, the criterion for community development is met through borrowers' descriptions of social interactions with community residents and stakeholders with the intent to positively impact local issues. A related line of potential future inquiry involves the relationship between place-based economic development strategies and CDFI lending activities. Although only one-third of borrowers reported direct involvement with local economic development efforts, their descriptions of their community activities, interactions and relationships may be construed as either a cause or effect of place-based community economic development; a relationship that could be explored further.

Loh (2019, 68) asserts that evidence of placemaking activities can be difficult to identify because they are "diffuse, resting in the hands of many individuals and agencies." Additionally, placemaking strategies are typically implemented over a relatively long period of time. However, a question could be added to specifically screen for the presence of local place-based economic development efforts, such as "Are you aware of local efforts to improve the business climate and quality of life in your community such as a Main Street program [or other recognizable placemaking program as appropriate]?" If yes, broad follow-up questions could be asked, such as "How are you or your business involved?"

When I wrote the interview questions, I included several questions about the businesses' community involvement and where borrowers access help for their business. These questions could be rephrased to obtain more specific information about borrowers' social networks and the benefits obtained therein. In addition, questions could be phrased to differentiate between bonding and bridging social capital (strong and weak ties, respectively). While there are tools that have been validated as high-quality measures of social tie strength, for CDFIs' internal evaluation purposes, a simple survey could be used to quantify borrowers' strong and weak social ties by asking borrowers to recall times that they have received assistance for their businesses or times that they, through their businesses, have assisted third parties, and then categorizing each relationship on a scale; e.g., from 1 (weakest) to 10 (strongest social ties) (Abbasi et al., 2014, 69; Wright & Miller, 2010). The survey could be given to borrowers periodically to help CDFIs understand how their borrowers' social networks affect their businesses, and how the assisted businesses interact with community.

For further academic study it would be interesting to measure the density and frequency of community connections and observe: 1) the extent to which the business obtains material assistance from the community, 2) the extent to which this translates to revenue changes, and 3) the extent to which the borrower's community involvement benefits the community, and how. Connections examined should go beyond efforts associated with marketing (e.g., sponsoring a sports team). A validated tool such as the Relational Closeness Scale could be utilized to rank the perceived level of closeness with acquaintances in order to distinguish and quantify strong- and weak-tie relationships. Borrowers could be asked to recall their community relationships, perhaps those related to a specific event or business outcome, and rank their perceived closeness with the individuals involved on a scale, with 1 being a distant or weak-tie relationship, and 10 a very close, strong-tie relationship (Wright & Miller, 2010, 507). Testing or validating alternative tools to measure the strength of community relationship ties could also be a fruitful course of further study. It would also be interesting to examine community characteristics and see whether any local conditions were predictive of increased community interaction, business success, community well-being, etc.

Several small business borrowers referenced participation in the informal economy such as paying cash "under the table" for help or trading goods and services. This points to a need for technical assistance from CDFI loan officers or referrals to third-party TA providers to assist businesses with tax compliance. Tax risk issues aside, there are likely measurable quantitative benefits for community residents that could be measured. By asking borrowers for an accounting of the dollar value of economic transactions in the informal economy, an analysis of direct and indirect economic effects could be conducted via econometric input-output modeling software such as IMPLAN.

For CDFIs wishing to conduct individual borrower interviews as suggested in this paper, consider the ethical implications of assuring borrowers' anonymity or confidentiality. CDFIs may wish to do so in order to encourage borrowers to provide more open and honest feedback but may be hamstrung if a borrower demonstrates a need for a specific type of technical assistance or shares information that could put the business or the CDFI's investment at risk.

For example, one borrower interviewed as part of the subject project shared plans to obtain third-party debt capital for a business expansion but has a signed agreement with Impact Seven to avoid taking out any additional debt based on underwriting that revealed additional debt could jeopardize the viability of the business. I encouraged this borrower to speak to her loan officer about these plans. Often, when a borrower violates this agreement it results in a loan with predatory terms because the borrower cannot obtain traditional bank financing. In most cases borrowers provided more general information that I was able to share with the Impact Seven lending team without violating the anonymity promised to interviewees.

Most CDFIs conduct periodic portfolio reviews involving the assessment of borrower financials to evaluate actual performance against projections and affirming the presence and value of collateral, at a minimum. Incorporating a structured, qualitative interview process would yield valuable information both in terms of identifying ongoing borrower needs and in evaluating outcomes and impacts. Further, it is possible that just asking questions about borrowers' roles in community plants a seed; i.e., what gets measured gets changed. Because we know that social interaction with a positive purpose is the linchpin of community development, encouraging borrowers to become involved with local purposive development efforts may spur such action. For Impact Seven, I recommend the following:

Establish a trusting relationship. Most borrowers referenced the importance of the relationship with their Impact Seven loan officer. This "right-touch" approach to outreach and technical assistance appears to be a positive practice that builds trust, business management skills, and contributes to borrower self-confidence. On a related note, over half of the borrowers interviewed had worked with a small business loan officer who resigned from Impact Seven within the last year. Most borrowers reported having built a strong, trusting relationship with the loan officer, and felt less ease in approaching other staff for assistance in their absence.

Focus on financial management technical assistance. Although all but one borrower reported being "better off" because of their Impact Seven loan, several borrowers shared stories indicative of insufficient business management skills. Incorporating an assessment of knowledge and skills related to financial management during underwriting and requiring borrowers to obtain training specific to any deficiencies could improve borrowers' business management skills and loan performance.

Track bank turndowns. As discussed, borrowers consistently said that they borrowed funds from Impact Seven because they had turndowns by banks and had no other source of capital. While Impact Seven tracks "loans made bankable" or payoffs of existing loans obtained by loans from a conventional lender, the number and dollar amount of loans to borrowers with prior bank turndowns is not currently tracked but could be to quantify the extent to which Impact Seven is filling a gap in the market left by traditional lenders. This metric directly relates to the legislated purpose of CDFIs.

Conduct additional outreach and marketing. Two borrowers interviewed reported having heard negative things about Impact Seven from a third-party small business technical assistance counselor that could be addressed through providing factual information to referral partners

and further explaining available services and products to align expectations with offerings. Additionally, while several borrowers were referred by banks, several others expressed frustration that they had not been referred to Impact Seven sooner and specifically recommended that Impact Seven conduct more marketing and outreach to referral partners.

Research and develop a process for incorporating community development indicators into loan underwriting. CDFIs engaged in small business lending are typically limited to providing capital for projects that have progressed to the point of being "shovel ready." However, the interviews conducted indicate that entrepreneurs and their businesses are engaged in the interactive processes of community which has been shown to contribute positively to community development. Further, research shows that community development focused on the creation of entrepreneurial ecosystems is effective in both fostering entrepreneurship and developing community. It may be worth it for CDFIs to consider: a) community readiness for entrepreneurship, b) how various readiness factors affect loan performance, and c) how the CDFI itself might fill in any essential missing support factors or enhance the important ones.

Conclusion

CDFI lending has a clear place in economic development; providing capital, assisting underserved populations with using financial products and services, and delivering services and amenities to disinvested areas and populations. These economic activities, outputs and outcomes are observable, quantifiable and have been the subject of rigorous study.

The community development argument for CDFIs is more complex and difficult to observe and measure in action. However, emphasizing economic growth to the exclusion of community development efforts can be detrimental to overall development efforts because benefits may not accrue equitably to all residents and can exacerbate community divisions and social stratification (Larson et al., 2015). The CDFI industry was established precisely to deliver capital to borrowers, projects, and communities that lacked access to credit due to historic structural inequities and uneven development patterns. The assumption in the authorizing legislation and on the part of the CDFIs themselves and other industry stakeholders is that the provision of financial products and services results in community development.

Community issues are complex and interconnected, rendering traditional categorical, siloed interventions inadequate. Rather, "flexible, integrated vehicles and methodologies" for community and economic development are necessary to achieve success (Pigg & Bradshaw, 2003, 391). It follows that CDFI interventions alone are insufficient to achieve community development. However, their borrowers are engaged in broad-based social interaction for diverse purposes related to community and economic development. Place-based economic development strategies that leverage organizational networks to achieve local goals can similarly be said to be engaged in community development. Further study of the relationships between CDFIs, their borrowers, and their borrowers' formal and informal networks may yield evidence of additional mechanisms by which community development occurs in conjunction with CDFI activities.

CDFIs represent a broad array of institution types, providing financial products and services in a diverse set of asset classes in communities throughout the United States, with markets defined in terms of geography or population characteristics. The complexity of the CDFI industry thus precludes a standardized approach to evaluation of its social outcomes and impacts. CDFIs are primarily engaged in the provision of capital, technical assistance and development services across a diverse array of asset classes. Impact Seven provides flexible capital for small business start-ups and expansions that otherwise lack access to affordable credit. Individual interviews of borrowers support Impact Seven's assertion that their products and services fill a gap in the market for small business loan products. Although most quantitative metrics of CDFI lending activities outcomes are economic, the interviews conducted in the subject project reveal that small business borrowers interact with community in important and observable ways. Borrowers see their places of business as places that build community, where people gather, or that provide valuable services and amenities that would not otherwise be available. Examined through the lens of interactional field theory, it is logical that a significant number of businesses would report complex social interactions beyond transactional contacts between proprietor and customers, and that business owners would recognize that their pursuit of locality-oriented interests is beneficial to themselves as well as their communities. With further study, the "strength of weak ties" may be observable in these interactions, and it may be argued that CDFI borrowers build the places where the dynamic processes of community take place (Wilkinson, 1991, 8-9).

Globalization and economic restructuring have brought new, complex challenges to local community and economic development. While the CRA and the CDFI industry have incentivized at least some local reinvestment of capital, the tendency of capital to seek higher returns and regulation discouraging excessive risk-taking by financial institutions present barriers by some entrepreneurs to obtain capital for small business uses (Bridger & Alter, 2008; Congressional Research Service, 2018, 19). There is ample data on the economic impacts of the role of credit in strengthening small businesses and achieving economic growth, but economic factors are not necessarily predictive of social impacts such as quality of life indicators (Codreanu, 2012, 797). As such, CDFI lending would benefit from more rigorous academic study and expertise in order to gain a deeper understanding of how their activities and interventions affect borrowers, businesses, and communities. Individual and community-level outcomes and impacts of some common CDFI loan asset classes have been well-studied, such as affordable housing and healthcare; however, other asset classes such as small business and commercial real estate warrant further study. This paper presents a model that CDFIs themselves can use to aid their own understanding of how their activities affect small business borrowers, but further academic study is necessary to assess the extent to which the suggested quantitative outcome and impact indicators may be associated with CDFI loans. A better understanding of these relationships will help funders and other stakeholders understand how their investments translate to community impact and will help CDFIs improve services to their borrowers and identify best practices. The measurement of increases in social capital among historically underserved or disadvantaged small business borrowers, such as

people of color, recent immigrants or people with low incomes, may be of particular interest to CDFIs, stakeholders, and policy makers.

Different locations have differing capacities for action. From an interactional perspective, geography matters. It is individual residents that hold the local knowledge of the competitive advantages that add value to a location to differentiate one place from another. CDFI interventions alone cannot alter the course of uneven patterns of past development but they can mitigate them, one loan at a time, particularly if the location is already participating in a place-based local development strategy. By seeking communities that have place-based strategies in place and allocating their resources strategically to align with local plans and priorities, whether rural or urban, CDFIs can purposively target locations with enhanced capacities for collective action. (Bridger & Alter, 2009, 101-103). After all, access to capital is only one piece of community development. By gaining a clear understanding of how their interventions affect borrowers and communities, CDFIs are ideally positioned to connect scholarly and technical knowledge and capital resources with community needs.

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