

cdfa Glossary of Community Development Finance

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Business finance

Business finance is the range of financial products and services that businesses use. They include current accounts, loans and overdrafts and insurance. Many CDFIs offer business loans for a variety of different uses such as buildings purchase and renovation, working capital, equipment purchase and bridge loans.

Capital

In accountancy terms the stock of financial assets which can be used to provide an income. More narrowly used in the CDFI sector to refer to the amount of money available for lending or investing.

Credit union

Credit Unions are financial co-operatives owned and controlled by their members. They offer savings and loans. Each Credit Union has a "common bond" which determines who can join it. The common bond may be for people living or working in the same area, people working for the same employer or people who belong to the same association, such as a church or trade union.

Community development finance association (cdfa)

The **cdfa** is the UK trade association for CDFIs.

Community development finance institution (CDFI)

CDFIs are a new financial tool for social, economic and physical renewal in under-invested communities. They lend and invest in deprived areas and underserved markets that cannot access mainstream finance. They are sustainable, independent organisations that provide financial services with two aims: to generate social and financial returns. Some CDFIs offer loans while other provide equity investment – a few offer both. They serve different types of customers including individuals, micro, small and social businesses.

Consumption

Spending for survival or enjoyment as opposed to current or future production. Generally "consumption" loans refer to loans for individuals to meet household or personal needs and are contrasted with enterprise loans used to support or grow business activity.

Default

Net loan losses (i.e. net of any recoveries)/Gross loans outstanding

Explanation:

Unpaid payments of principal which have been written off as bad debts by a lender. This figure is generally reported at the end of year net of any recoveries from bad debts in the previous year.

Delinquency rate greater than 90 days

Unpaid balance of principal of loans delinquent in interest or principal by greater than 90 days/Gross loans outstanding

Explanation:

Delinquency captures the percentage of loans from a CDFI's portfolio which have payments of either interest and/or principal which are more than 90 days late. It is good practice amongst CDFIs not just to measure this percentage but to track delinquencies as they age (see PAR below).

Deployment ratio

(Loans/equity investments outstanding + loans/equity investments committed) / total capital

Explanation:

The deployment ratio measures the percentage of total capital that is being deployed by the CDFI in lending and investments or commitments to lend or invest. This ratio can vary and is enormously affected by large repayment,

recent injections of capital and the age of the CDFI (younger CDFIs having had less time to build up their loan book and establish themselves in their market place). In the United States this calculation does not take into account CDFI liquidity reserves that CDFIs typically set aside and are not available for lending. However, in this first year of analysis in the UK, these figures are not available so deployment rates have been based on total capital.

Equity investment

Equity investment is medium to long-term finance provided by an investor in return for taking shares in a company. When made by an investment fund, this type of investment is also called venture capital. Financial returns are made by selling the shares for a greater value after some years of investment. Some CDFIs provide this type of finance with a community development focus by focusing on deprived areas or communities. This is called community development venture capital.

Equity Equivalent (EQ2)

EQ2 is unsecured debt that has some of the advantages as equity because EQ2 is subordinate to all other debt held by the CDFI. It carries a rolling term, the investor has a very limited right to accelerate payment, and interest rate is tied to income. It is one of the ways in which CDFIs in the US can increase their equity base and these types of investment are made by the commercial banks, charitable trust and foundations on favourable terms.

Liquidity

In broad terms the assets of an organisation that can be readily converted into cash. For lending organisations, liquidity is used to refer to the cash available to lend to or invest in customers.

Loan

A loan is money lent which has to be returned to the lender usually with interest. Many CDFIs provide this type of finance. Loans of varying sizes from £500 to £50,000 are the typical range, usually over terms from six months to ten years.

Microfinance

Microfinance is the provision of very small loans (typically less than £5,000 initial loan size) to the self-employed and microenterprises (less than nine employees).

Personal finance

Personal finance (also sometimes called consumption finance) is the range of financial products and services individuals use in their day to day lives. They include savings and current accounts, loans for individual use such as to buy a car or electrical goods or to refinance other personal debts and insurance. Some CDFIs offer loans to individuals. Credit unions offer savings and loan facilities and some offer other financial products such as overseas money transmissions and insurance.

Portfolio at risk

Unpaid balance of principal of loans delinquent in interest or principal/Gross loans outstanding. This figure is one of the most important ratios for any loan fund. It reflects the total amount of loans outstanding that have missed one or more payments.

Social enterprise

Social enterprises are businesses that trade in the market with a social purpose. They use business tools and techniques to achieve social aims and include an incredibly wide range of organisations, for example co-operatives, development trusts, community enterprises, housing associations, social firms, and leisure trusts.

Security

(When used in reference to securing loans) The creditor has a claim on some particular part of the debtor's assets in the event of default. This is contrasted with an unsecured loan, where the lender has no right to take over any particular asset if payments are not made when due.

Sustainability

All CDFIs have a focus on sustainability. There are different types of sustainability. Financial sustainability means the organisation covers all its costs from earned income on its lending activities, including paying a "market" rate for its capital. Operational sustainability means the organisation covers all its revenue costs from earned income. This can

include fee and consultancy income as well as income from lending charges. However, elements of capital raised are typically at below market rates. Market place sustainability is what most CDFIs are aiming to achieve in the short to medium term. Here, operational costs are not covered by earned income in full, but the organisation is working towards some form of operational sustainability. The organisation needs to demonstrate that it can earn grant income from identified and committed funders, or through the provision of contracted services.