

Inside Out

2008

The State of Community Development Finance



Foreword

Inside Out, the **cdfa**'s yearly report on the state of community finance, is the sole publication to draw upon primary data collected from community development finance institutions (CDFIs) across the UK. It gives an overview of the size and nature of the sector and monitors the sector's growth and development.

The prime source of data for this latest *Inside Out* report is our survey of **cdfa** members' economic outputs in 2007/08. It scarcely needs pointing out that the economic climate was very different then. The reporting period for the survey, which runs from 1 April 2007 to 31 March 2008, includes the collapse of Northern Rock and the beginnings of the credit squeeze in the UK.

But it predates the series of global market meltdowns triggered in September 2008 and the UK's official entry into recession. The funding environment has also changed since then, with the closure last year of the Government's Phoenix Fund, a key source of finance for many CDFIs.

Accordingly, this report is briefer than usual. It presents the findings of our *Inside Out* survey 07/08, but not our customary extensive analysis of the figures, given that the landscape has changed so much recently. While we do provide a brief overview of the pressures our members have experienced since the data collection point, a fuller analysis of CDFI performance as the UK entered recession will be included in our next *Inside Out* report, which we will publish by the end of the year.



Bernie Morgan
Chief Executive
cdfa

About the **cdfa**

The Community Development Finance Association (**cdfa**) is the UK trade association for Community Development Finance Institutions (CDFIs). CDFIs are independent financial institutions that provide finance and support to help individuals and organisations develop and create wealth in disadvantaged communities or under-served markets.

Community development finance delivers innovative financial products primarily aimed at entrepreneurs in disadvantaged areas, but also addressing increasing personal debt in poorer communities. The **cdfa**'s mission is to support the development of a thriving and sustainable community development finance sector.



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1

Methodology

Key impacts

Introduction

Methodology

The survey was carried out between August and December 2008 when 65 surveys were distributed to the **cdfa**'s members and associates. There was a response rate of 83% (or 54 responses). The **cdfa** members (who are all lending or investing) were asked to complete the full survey which included sections on size and type of organisation, products, portfolio performance, accounts, partners, impact measures and future issues.

All the information returned in the survey relates to the period April 2007 to March 2008 or, in the case of accounts information, the last financial year. The majority of the members made almost complete returns although the ability of some CDFIs to produce information or to produce it in the format or definitions that the survey requires remains variable.

The **cdfa** recognises this and is working with its members to improve their ability to report data through the delivery of training and *Change Matters* – the CDFI performance framework. This includes agreeing common definitions and ways of calculating key information such as write-off and delinquency rates, interest rates and target markets.

Not all CDFIs report on all questions, either because they do not collect this information or the questions are not relevant to their operations (such as questions about business turnover for personal lenders or levels of external capital for start-up CDFIs). As a result some of the analysis is taken from a subset of respondents, and where relevant this is noted in the text.

Key impacts 2008

For most, finance was more easily accessible in the pre-recession period covered by the 07/08 survey. But CDFIs have historically catered for those who have found accessing affordable credit anything but easy.

Table 1 CDFI impacts since 2003*

	2007	2008	Cumulative
Number of individuals financed	3,726	6,869	17,038 *
Number of businesses financed	1,599	1,379	7,005 *
Number of jobs sustained	1,964	2,321	70,944
Number of jobs created	2,601	1,567	15,829
Total value of loans made	£104,776,646	£76,150,681	£358,889,348 *
Total value of funds levered	£46,544,580	£35,607,006	£365,936,215

The sector's key impacts in 2007/08, summarised in the table above, show that by 2008 CDFIs had helped to create or sustain 86,000 jobs, and loaned and leveraged £34bn into disadvantaged communities. Despite a slight decline on the previous year in the value of loans made and number of businesses financed (but a dramatic increase in personal lending), the impacts highlighted above have made a real difference to the lives of thousands of people in the UK's most disadvantaged communities.

Our survey has also found that:

- CDFIs continue to serve markets that have difficulty accessing finance, including start-up businesses, female and BME businesses, and individuals on low incomes
- Investment and loan portfolios grew by 15.3% to £331m in 2008
- 35% of CDFIs are operating with fund sizes of £1-3m
- CDFIs have reported 9.2% growth in income from fees, portfolios and funds under management

Our next section will outline the pressures our members are currently facing as they seek to maintain this level of performance through the recession.

2

Demand

Money on deposit

Interest rates

Strength of loan books

Current challenges

Since the start of the downturn, CDFIs have reported a substantial increase in demand, placing increased pressure on loan books and revenue costs. Successive interest rate cuts have led to a drop in CDFIs' income, and they are also at risk of rising delinquencies. The sector is diverse, so challenges vary depending on the business model and the markets each CDFI serves. However, common themes have emerged from the **cdfa's** discussions with its members.

Increase in demand

There has been a significant increase in demand from businesses which would have been served by banks less than a year ago. This demand, which is generally for larger amounts than CDFIs have loaned historically, places a pressure on loan books. Firstly, CDFIs' capital sources will be used up more quickly if the trajectory continues and no further capital is sourced. Secondly, larger loans could raise the risk level of a loan book (for instance, a £50k loan defaulting as part of a £150k loan portfolio is riskier than a £10k loan defaulting in a loan book of the same size). The **cdfa** expects that some of these issues will be addressed by the changes to the Enterprise Finance Guarantee scheme introduced in May 2009.

This increase in demand does not necessarily translate into an increase in loans. The applicants may not fit the CDFIs' criteria or they may not have viable business plans. However, it inevitably translates into more pressure on already stretched resources, which creates a potential reputational risk for CDFIs if they cannot service the greater level of enquiries, need for due diligence, and so on.

Money on deposit

Some CDFIs have monies on deposit in banks and use the income to cover revenue costs. With interest rates dropping significantly, revenue income has also dropped, putting pressure on the business model. It is not clear when interest rates will rise, so this challenge may be long term and will adversely impact on the sustainability of those CDFIs using this model.

Interest rates tied to base

Some CDFIs have existing loan books which are tied to interest rates. The income from these loans has dropped along with the drop in interest rates. This again, impacts on the sustainability of the CDFIs in question.

Weakening of loan books

With small businesses across the country facing pressures, some of the stronger CDFI loans are going into delinquency, putting pressure on their portfolios. This trend is likely to increase as the recession continues. This clearly demonstrates that CDFIs, like the mainstream banking sector, need critical support to help them continue to serve the poorest communities and underserved markets, particularly through the economic crisis.

The **cdfa's** Action Plan, launched in the House of Commons in May 2009, looks to address the short and long term issues faced by CDFIs. It makes three key requests:

- That banks, the FSA and government departments sign up to a formal agreement to work together to improve access to credit for disadvantaged communities and underserved markets. This agreement will be called the Community Finance Charter.
- That two levels of financial support are made available for CDFIs: £20m of critical funds for both capital and revenue costs and a further £200m for long term support of both capital and revenue costs. The capital costs, which will form the majority of both funds, will be recycled again and again into CDFI markets, thereby rebuilding communities and not draining them of their resources.
- That the public policy framework enables the growth of the sector, through appropriate, scalable and proportional interventions. The **cdfa** has a wealth of experience and data with which to support the work of policy makers.

3

Age

Regional coverage

Customers

Markets

Loan purposes

Operations

- * CDFIs continue to serve markets that have difficulty accessing finance, including start up businesses, female and BME businesses, and individuals on low incomes
- * The sector is now well into its consolidation phase. Around 65% of respondents have more than five years' lending experience, with no new entrants to the sector in 2007/08
- * CDFIs are serving larger geographical markets, with an increase in the CDFIs operating on regional and multi-regional levels

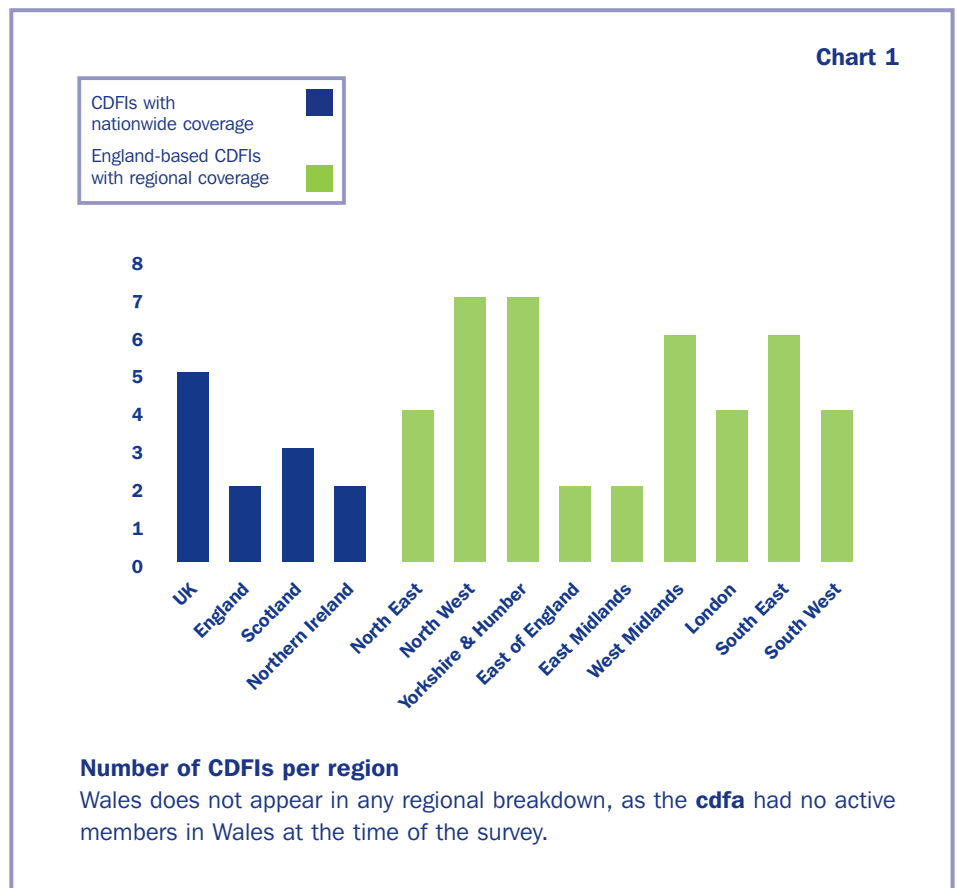
This section provides an overview of the age, location, type and structure of CDFIs across the UK, as well as the customers they serve.

Age

This year's data confirms the trend of consolidation across the CDFI sector identified in previous *Inside Out* reports, with no start-up CDFIs emerging in this data point and just 4% of respondents with less than two years' lending experience. But the results also demonstrate the sector's growing maturity. Last year's *Inside Out* marked the first year that a significant proportion of CDFIs reached maturity, with 47% of CDFIs reporting that they had been financing for more than five years. In this year's survey the figure has grown to 65%, while just over a quarter have more than 10 years' lending experience.

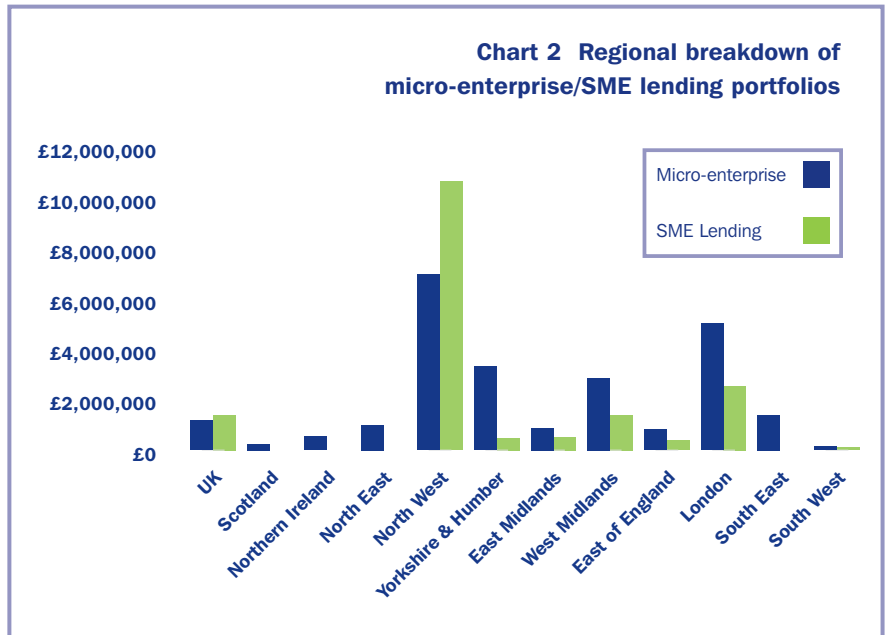
Regional coverage

As shown below, the survey indicates that the North West and Yorkshire and Humberside are the two strongest regions for community development finance in terms of number of CDFIs, closely followed by the South East and West Midlands. The regional picture of portfolios outstanding by market, shown in the charts opposite, also show the high value of lending in the North West. However there is lack of geographical coverage in all markets.



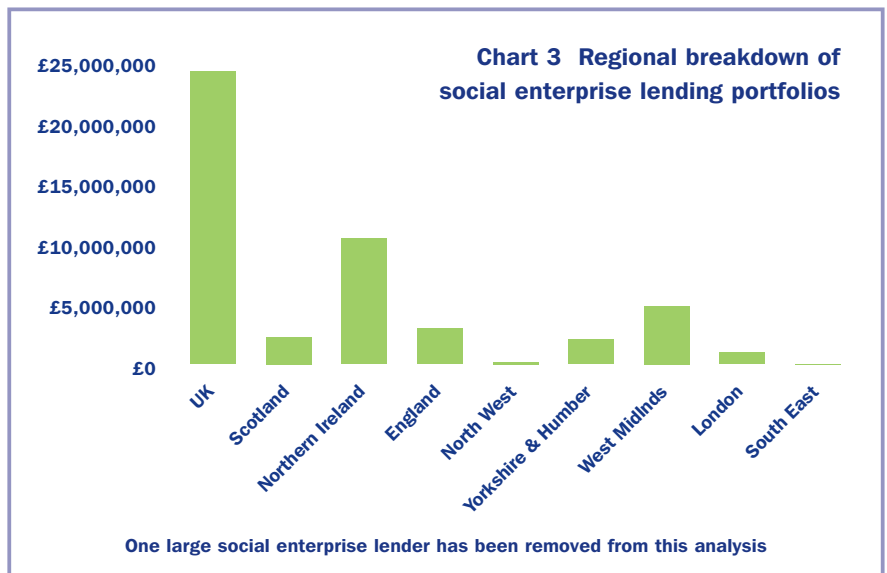
Enterprise CDFIs

Among enterprise lending CDFIs, micro-enterprise loans (to firms with less than 10 employees) dominate activity across the country. In the North West high SME lending in 2007/08 by one CDFI pushed the portfolio above the £10m mark, although micro-enterprise lending is also higher in this region than in other regions.



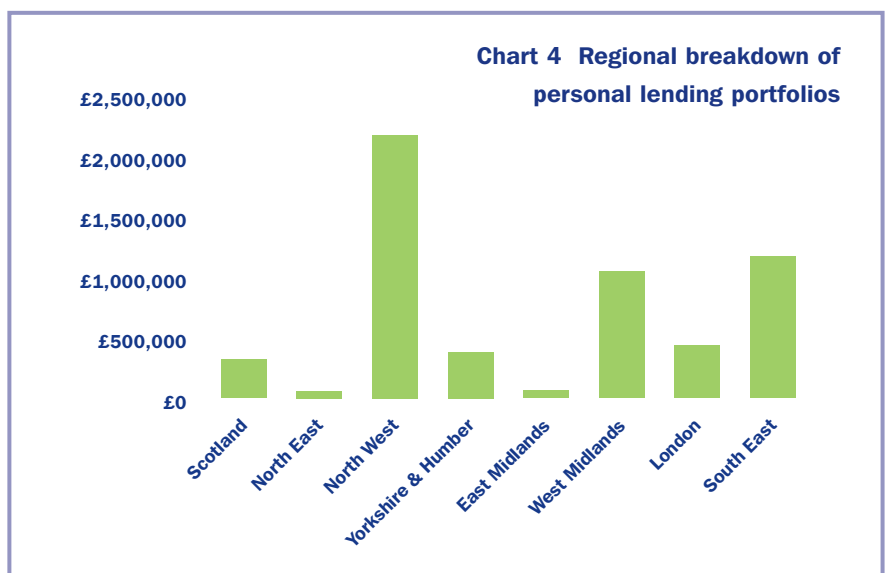
Social enterprise CDFIs

Unlike the enterprise and personal lending sectors, the social enterprise market is dominated by large and national CDFIs, with regional social enterprise lenders dealing in much smaller loans but, nonetheless, making a critical difference to the customers they serve.



Personal lending CDFIs

The comparatively small value of CDFI personal lending reflects not only the smaller average deal size, which is highlighted on page 9 of this report, but the small number of lenders in this market. Although it is an issue the Government is tackling through the Financial Inclusion Taskforce and the Department for Work and Pensions' Growth Fund, patchy coverage across the country remains an issue of concern.



Operations

Geographic market coverage

This year's data indicates continued growth in the number of CDFIs providing services throughout their region and also on a multi-regional level. This demonstrates that CDFIs are managing to balance the need to be place-based to serve their chosen markets and to operate at scale; although for some it comes with the added complication of managing multiple funder and stakeholder relationships.

As reported last year, for many CDFIs the growth in coverage means continuing shifts in delivery models, with CDFIs opening new branches and satellite services or partnering with other organisations to provide front office services or outreach. These approaches reduce both the cost and risk for funders in supporting service delivery in under-served areas.

Customers

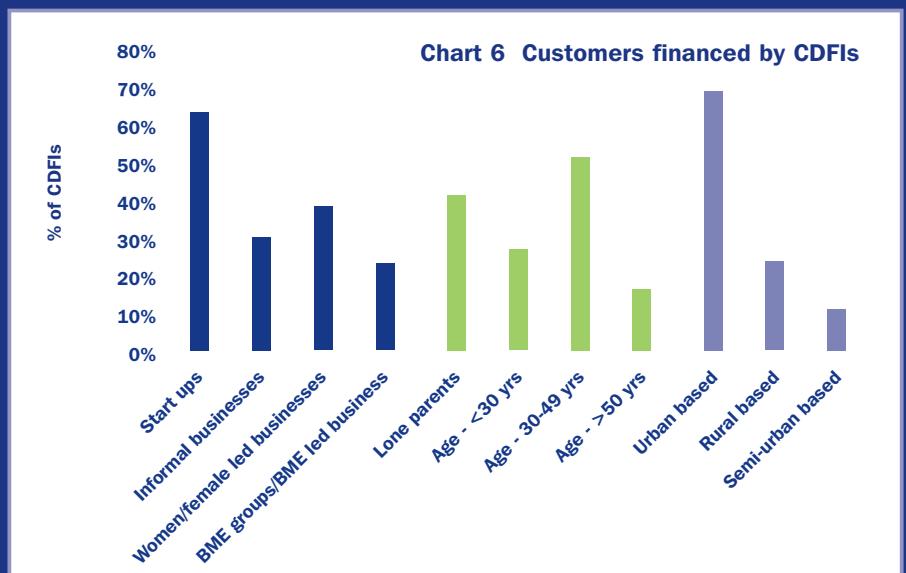
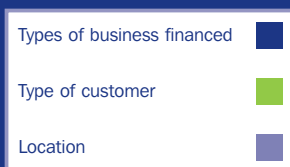
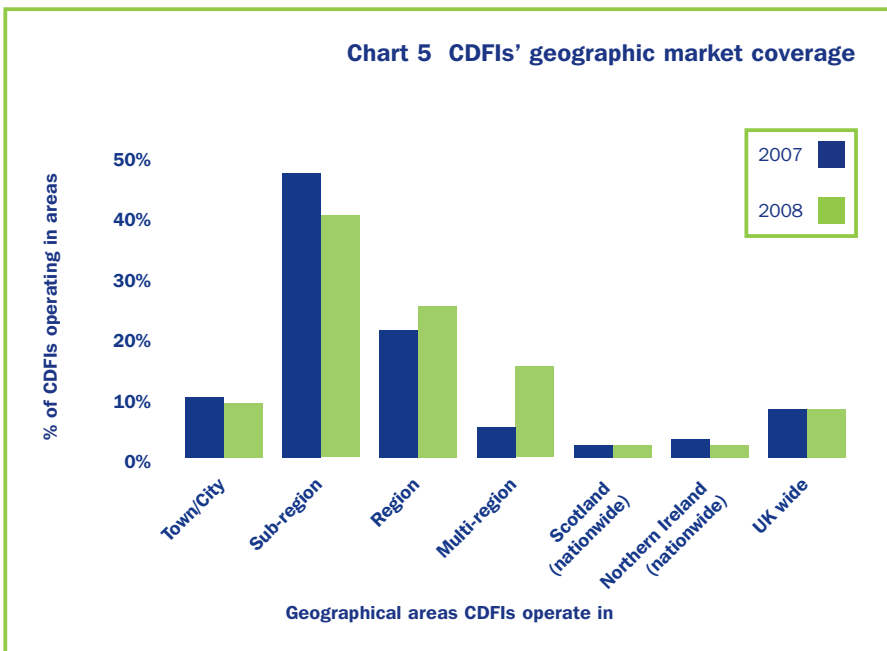
CDFIs collate a variety of client and demographic information to understand their customers better and check delivery against their mission and the targets set by funders, such as RDAs. We have asked CDFIs a number of questions about their customers including age, ethnic background, gender and the ratio of start up to established businesses.

The findings show that CDFIs continue to focus on the urban markets, and to serve customers that often have difficulties accessing finance including start ups (businesses operating less than six months), female and BME-led businesses and individuals, lone parents and young people.

Loan purposes

Charts 7 & 8 opposite show the purposes for which loans were provided, and the proportion of the portfolios they represent, by CDFIs providing business loans (including to social enterprises) and personal lenders.

CDFI loans to businesses include loans for working capital, equipment purchase, building purchase, gap financing – particularly for social enterprises waiting for grants paid in arrears or income streams to begin from activities – and marketing and advertising. "Other" includes loans to other CDFIs, general business expansion loans and business purchases. CDFI loans for individuals include purchases, home improvements and debt consolidation, with a small proportion covering back to work costs and home purchase.



Since 2005 there has been a continuing downward trend in the proportion of debt consolidation loans, from around 25% of the portfolio in 2005 to around 15% in 2007, falling to 6% in 2008.

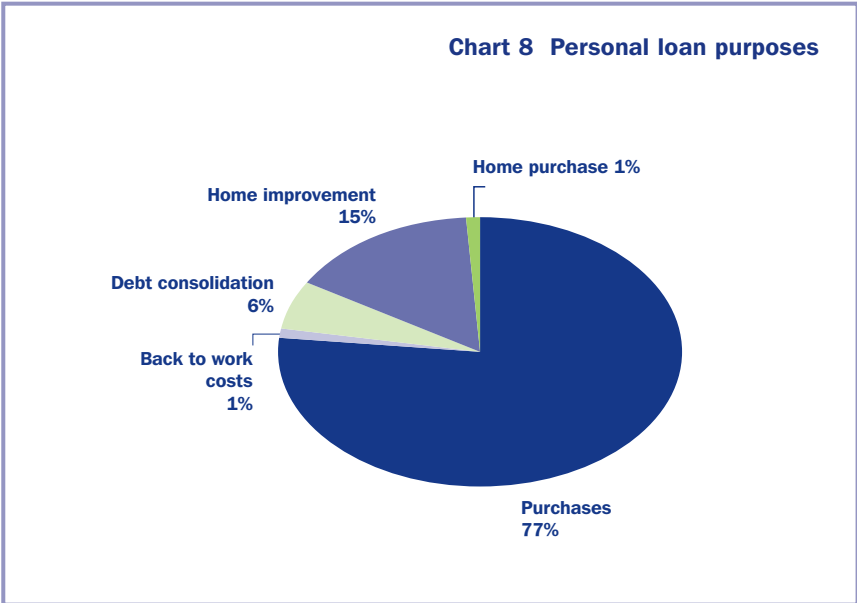
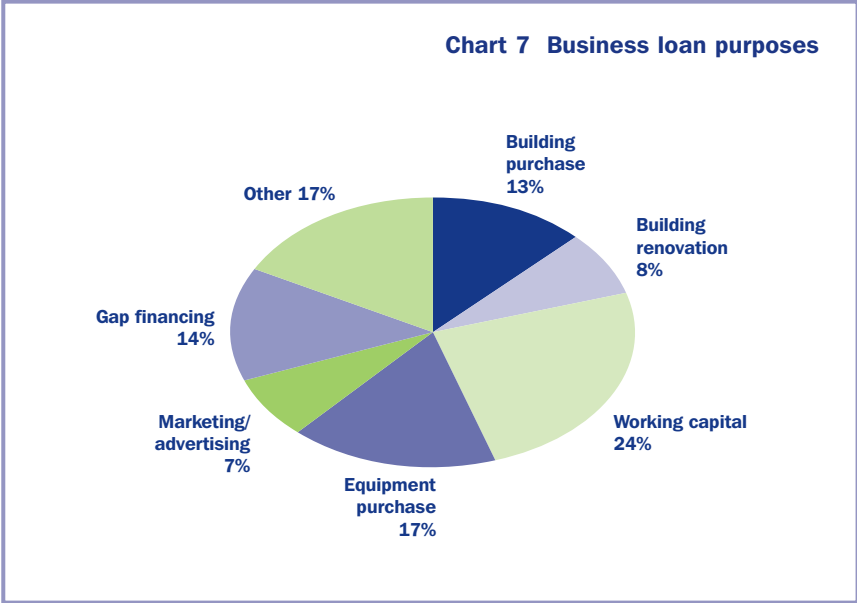
This suggests that having penetrated markets, personal-lending CDFIs are serving customers with a cheaper, fairer alternative to high interest doorstep lenders.

Additional services

The wide range of extra services offered by many CDFIs not only demonstrates the value-added element of their work, but also illustrates the actions they take to assist customers with repayment and avoid delinquencies and write-offs.

Informal advice by telephone and email and signposting other lenders are the most common forms of support provided, followed closely by informal advice during the loan processing stage. 72% of CDFIs provide 1-to-1 mentoring and advice – a big increase on last year’s 47%.

Given the special circumstances of their customers, CDFIs often have to provide a level of support that is not available from mainstream support agencies such as Business Links. But these services are not cheap to provide and can put increasing strain on CDFIs’ revenue.



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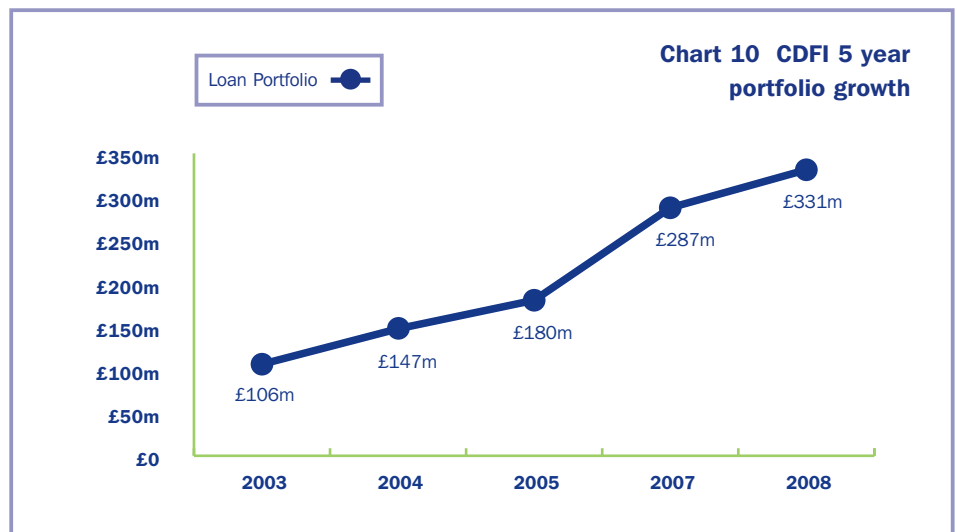
Funds and portfolios
Performance
Capital and investment

Assets and income

- * Investment and loan portfolios grew by 15.3% to £331m in 2008
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Assets and portfolios

Investment and loan portfolios grew by 15.3% to £331m in 2008. This represents a slowing in growth from previous years, from an average of 29.5% per year in 2007 and 2006, and 23% growth in 2005. Capital assets grew by 2.8% to £585m in 2008, growing at a slower rate than portfolios as CDFIs convert their existing capital into lending. This slowing of growth is unsurprising as it reflects the sector's move away from its early phase onto a more established footing.



Fund size

As with last year, the breakdown of fund sizes indicates that growth is being fuelled by the continued expansion of established CDFIs rather than a large number of newer entrants. For the first year, there are no CDFIs operating at fund sizes of under £100k. 35% of CDFIs operate between £1-3m, a 10% increase on the previous year, making this the most common fund size.

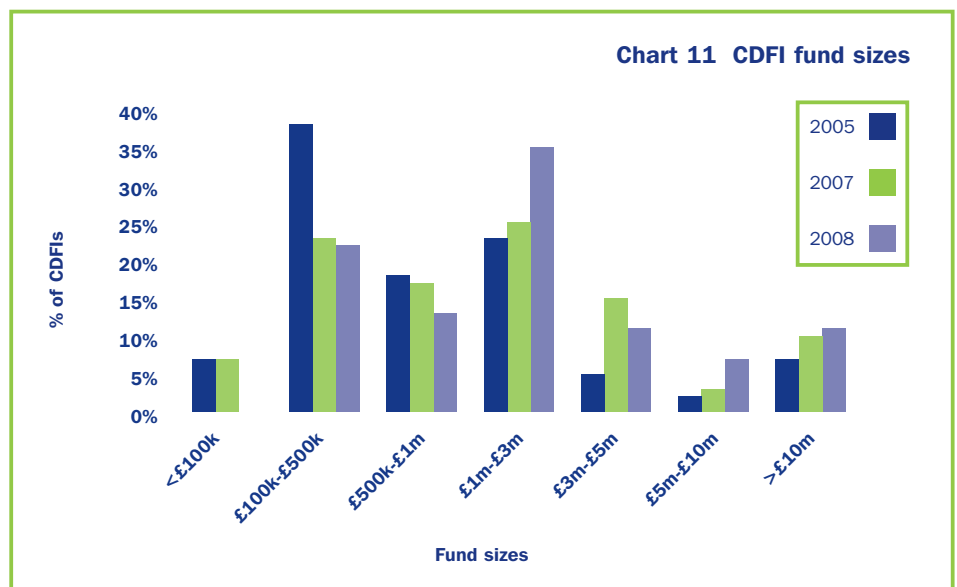


Table 2

Total value of loans outstanding

		2007		2008	
		Value	Number	Value	Number
Enterprise	Micro	£24,994,441	3,691	£23,562,630	3,498
	Small	£7,740,280	455	£8,093,921	398
	Medium	£7,994,652	41	£8,420,335	25
Social Enterprise		£204,470,036	1,309	£230,003,773	1,346
Personal	Consumption	£2,651,036	4,626	£3,025,607	7,406
	Home improvement/purchase	£506,843	463	£580,656	303
Total		£287,146,847*	10,585	£330,808,945*	12,426

*Includes respondents for whom breakdowns of loans per market are not available

Portfolios by market

The tables below show growth within different segments and markets contrasted with the same figures for 2007, alongside average deal sizes for the last three years. The figures show a trend towards larger average loan sizes in the micro and SME markets (with small business average loan sizes rising after a dip in 2007). This suggests a further shift away from the smallest, riskiest deals – also identified in last year's report – at least partly due to the

pressure to increase self-sustainability and therefore net yield from portfolios. The picture in the social enterprise sector is more varied, as average deal sizes drop back down following a large spike in 2007. In the personal lending sector there has been a surge in activity, with support from the Department for Work and Pensions' (DWP) Growth Fund contributing to a 42.5% increase in loans per year since 2007, and continued growth in home improvement and purchase loans.

Table 3

Loans made in last 12 months

		2007		2008	
		Value	Number	Value	Number
Enterprise	Micro	£10,489,315	1,231	£10,097,595	1,020
	Small	£2,106,310	75	£3,108,490	99
	Medium	£3,241,000	14	£3,850,000	15
Social Enterprise		£86,340,000	401	£55,219,388	411
Personal	Consumption	£2,257,673	3,555	£3,309,743	6,491
	Home improvement/purchase	£337,646	171	£565,465	378
Total		£104,776,646	5,447	£76,150,681	8,414

Table 4

Average deal size

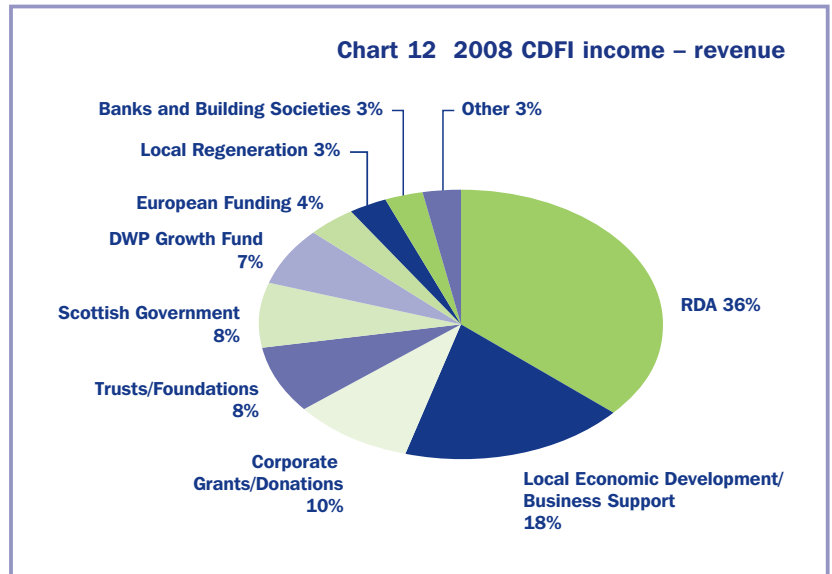
		2005	2007	2008
Enterprise	Micro	£7,250	£8,250	£9,899
	Small	£49,000	£28,000	£31,398
	Medium	£132,633	£231,500	£256,666
Social Enterprise		£143,382	£215,238	£134,354
Personal	Consumption	£610	£635	£509
	Home improvement/purchase	£1,450	£1,970	£1,495

Assets and income

Delinquencies and write-offs

Delinquencies are the key ratio for measuring the proportion of the portfolio that has late payments of principle. The key measure of delinquencies is portfolio at risk (or PAR) which is an internationally accepted, objective measure of portfolio quality. The definition is the amount of unpaid capital balance of loans in arrears (delinquent loans) as a percentage of the capital balance of all outstanding loans. Write-offs (also called losses and defaults) is the amount of any unpaid payments of principal which have been 'written off' as bad debts by a lender. In *Inside Out*, this figure is reported at the end of the year net of any recoveries from bad debts (as CDFIs continue to pursue repayment of loans after they have been written off). CDFIs reported both end of year and cumulative write-offs (ie all write-offs since the beginning of operations over all lending done).

However, as a result of variable capacity of CDFIs to report, the data we have captured is comparatively brief.



The tables below outline the PAR delinquencies in the key CDFI markets, and the overall write-off rate for the sector. There have been significant increases in 90+ days delinquency rates across all CDFI markets since 2007, from 16.19% to 18.36% in the micro enterprise sector; from 3.49% to 9.37% in the small enterprise sector; from 8.91% in the social enterprise sector and from 9.3% to 28.8% in the personal lending sector. However, there has not been a corresponding rise in the overall write-off rate, which at 12% in 2008 has risen just 1% on the previous year. This suggests that CDFIs have robust debt collection systems in place, although the impact on their business models will be high.

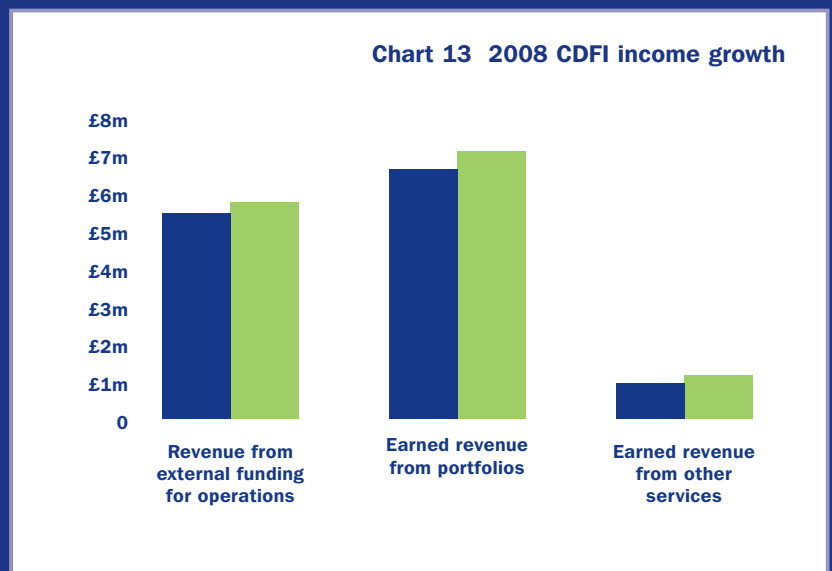
in the social enterprise sector and from 9.3% to 28.8% in the personal lending sector. However, there has not been a corresponding rise in the overall write-off rate, which at 12% in 2008 has risen just 1% on the previous year. This suggests that CDFIs have robust debt collection systems in place, although the impact on their business models will be high.

Table 5 CDFI delinquencies

Market		1-30 days	31-60 days	61-90 days	91+ days
Enterprise	Micro	5.37%	4.99%	4.84%	18.36%
	Small	2.83%	2.17%	2.36%	9.37%
Social Enterprise		1.27%	0%	0%	14.38%
Personal	Consumption	7.22%	11.98%	5.57%	28.80%

Table 6 CDFI Write-offs

	2008		Cumulative	
	Average	Range	Average	Range
Write-off rate	12.27%	0.68-37%	13.36%	0.18-44.87%



CDFI income – revenue

Collectively, Regional Development Agencies (RDAs) remain the most significant revenue funders for enterprise CDFIs (Chart 12 opposite). But respondents reported that the amount contributed dropped from £2.3m in 2007 to £2.1m in 2008, while the proportion of revenue contributed by RDAs in comparison with other external funders fell from 43% in 2007 to 36% in 2008. Increased funding from local economic development and business support schemes, such as the Local Enterprise Growth Initiative and Business Links, is helping to bridge the gap. And CDFIs themselves are more than bridging the gap by continuing to grow their earnings from their own activities, with CDFIs reporting 9.2% growth in income from fees, portfolios and funds under management since 2007, from £7.5m to £8.2m.

While the DWP Growth Fund represents a small percentage of the overall funding picture, it is a vital source of funding for many personal lending CDFIs, and contributions from this programme grew from £160k in 2007 to £402k in 2008. Investment is expected to grow still further, with the Government this year announcing that an extra £18.5m will be added to the Growth Fund between 2009 and 2011, to enable third sector lenders to provide services in the most excluded areas. Many personal lending CDFIs will be looking to tap into this income stream to open new satellite offices and expand lending activity.

Deployments and commitments

Although total fund size is a sound indicator of the potential capacity of CDFIs, it does not capture how much of the available resources CDFIs are on-lending into their chosen markets. Instead, this is shown by deployment ratios, which measure the percentage of total capital that is being used by the CDFI in lending and investments or commitments to lend or invest. This ratio can vary and is affected by large

repayments, 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).

Deployment ratios have fluctuated slightly to an average of 64% in 2008, from 68% in 2007, 62% in 2005 and 49% in 2004. There is a continuing trend of improvement in individual performance with around half the CDFIs in our analysis deploying more than 75% of their capital. This high level of deployment is fed by the increasing proportions of borrowed capital that CDFIs are using as they seek to deploy capital that is paid for promptly.

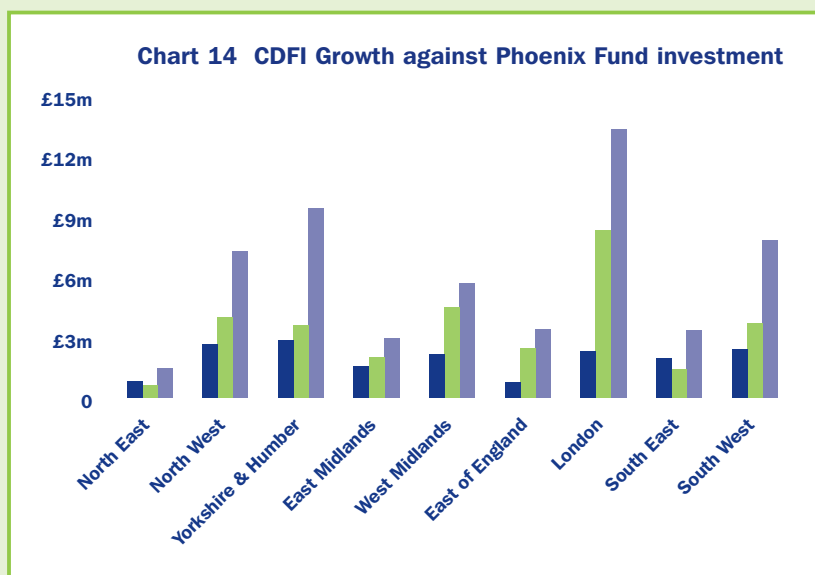
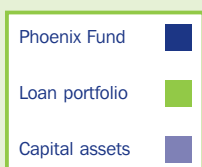
One facet of CDFI lending which is hidden by deployment rates is the proportion of funds tied up in commitments (loans agreed but not drawn). The level of commitments can also affect capital management as high commitments mean capital is tied up and while it cannot be lent elsewhere, it also cannot earn income as part of the portfolio. CDFIs as a whole have comparatively low levels of commitments at an average of 8.1% of capital available.

Portfolio yield

The portfolio yield ratio captures the interest and fees a CDFI earns over a 12 month period as a percentage of their portfolio. This ratio gives a basic insight into the relative productivity of CDFI portfolios. While the capacity of CDFIs to report has been variable in previous years, 45 CDFIs (84% of respondents) provided data in 2008. The average yield from these CDFIs was 8%, up from the 7.2% reported by the 28 CDFIs reporting in 2007. However, the 2008 average masks a range of performances from a low of 1% to a high of 24%.

Phoenix Fund legacy

With increasing strain on public finances, the ability to demonstrate significant return on public investment is



Assets and income

becoming ever more important. Our analysis of portfolio and capital asset growth against the Phoenix Fund illustrates the successes of the scheme. The Phoenix Fund focused on supporting organisations to develop and extend financial services for businesses that were unable to access the finance they needed from the commercial banking sector.

We have analysed a subset of 30 members in receipt of monies from the national Phoenix Fund programme from 2000 to 2006, and the subsequent growth in their portfolios and capital holdings to 2008. From Phoenix investment of £17.6m, these CDFIs grew their portfolios to £30.7m – giving a leverage of £2.06 against every £1 invested – and grew their capital holdings to £54.6m.

CDFI capital

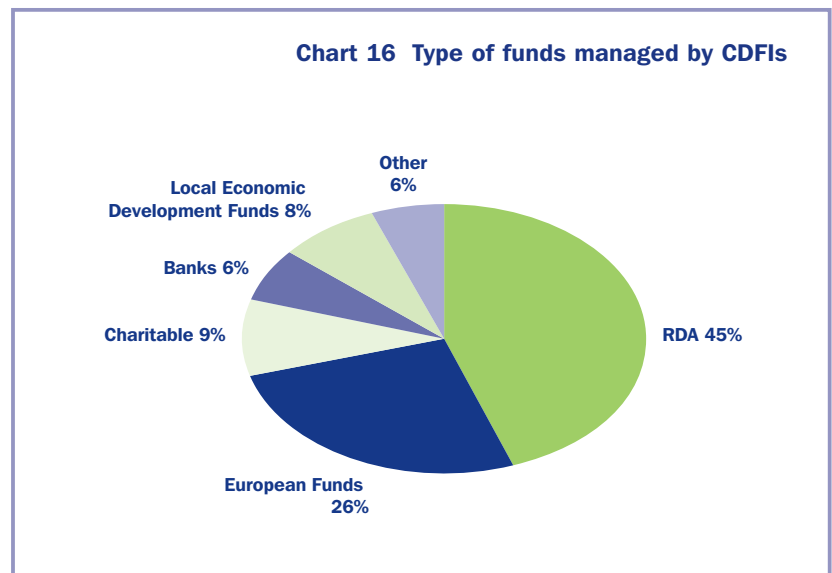
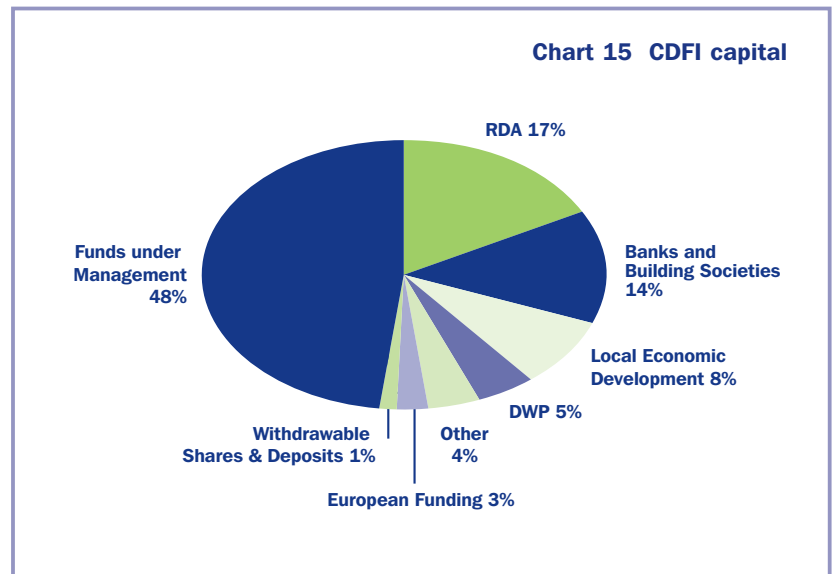
With CDFIs increasingly reliant on earned rather than contributed income as noted previously in this report, funds under management provided £15.5m in capital to CDFIs in 2008, making this the most significant source of capital for the sector, followed by RDAs which contributed £5.5m to enterprise lending CDFIs. Funds under management and RDAs were also identified as the ‘top two’ sources of capital in 2007, with identical ratios of 48% and 17% of overall capital respectively. But banks and building societies significantly increased their investment in CDFIs, from £1.3m in 2007 to £4.4m in 2008.

Community Investment Tax Relief (CITR)

Investment raised through CITR stood at £52m in 2008, up from the £41m reported by members in 2007. But this £11m growth was achieved by just nine CDFIs; out of this, £8.5m was raised by two large, national social enterprise lenders, which have the structure and capacity to exploit the scheme to its full potential. The remaining £2.5m was raised by seven smaller CDFIs.

Our members are still reporting practical and technical challenges in using CITR, and overall the scheme has failed to meet expectations. We are continuing to engage with BERR and the Treasury over improvements that can be made to the scheme. These include making CITR more attractive to investors by building guarantee funds and increasing the tax relief provided. In addition, revising onward investment requirements, and expanding the investment purpose from SME lending to other areas of CDFI activity, would make it easier for CDFIs to raise and use funds.

CITR has demonstrated that it can be an effective investment tool and **cdfa** is working with the appropriate bodies to address these issues and ensure it reaches its full potential.



5

Partnerships

Service development

CDFIs into the future

Conclusion

The future

Top three challenges

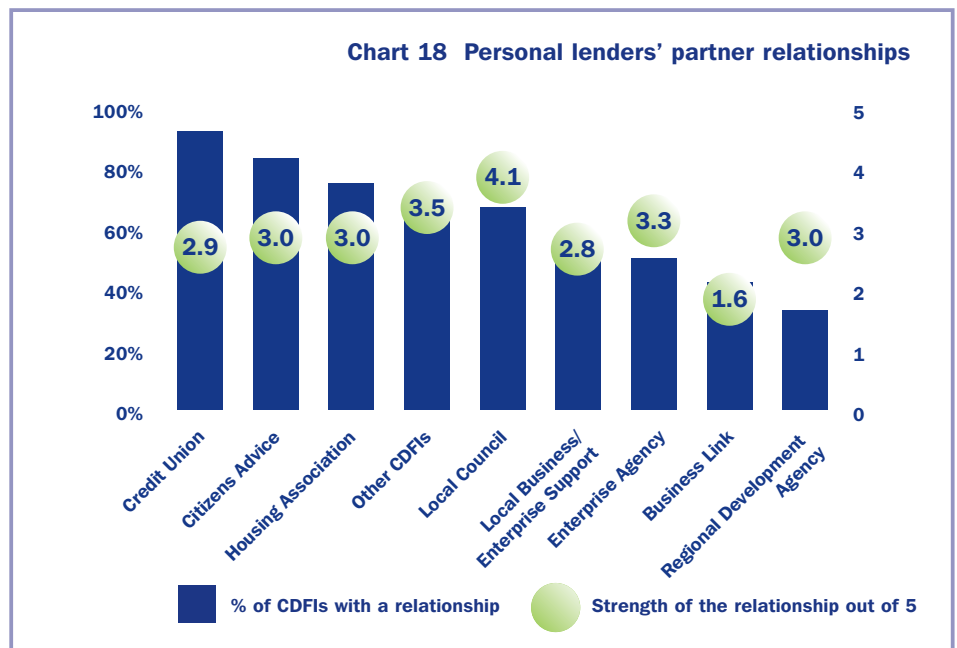
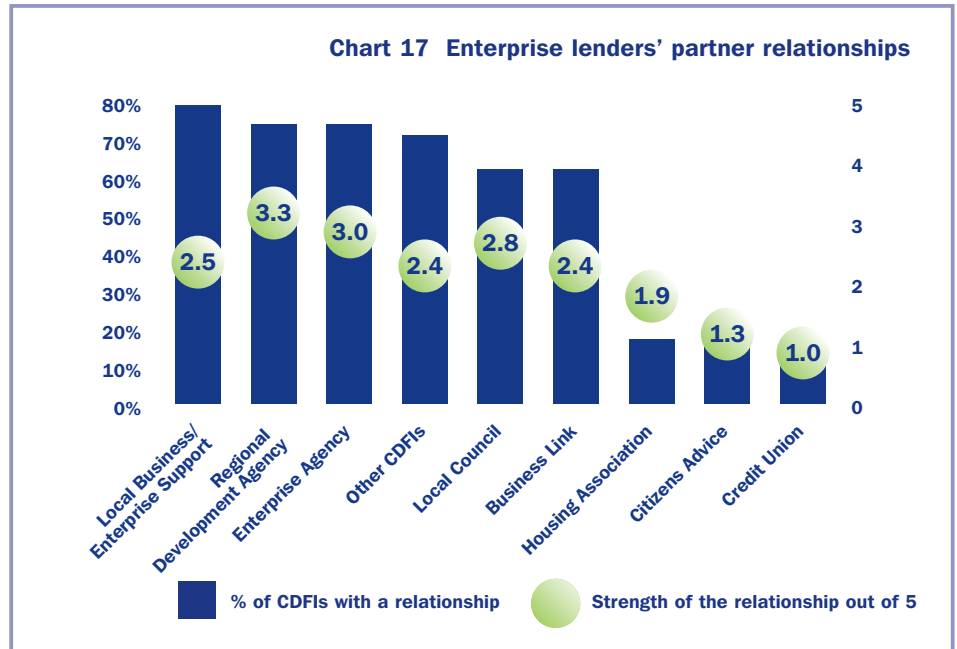
Every year we ask members to rate the top 3 challenges they face in the future. In 2008, the issues highlighted were the same as in every previous year we have collected data:

- 1 funds for lending
- 2 funds for revenue/operations
- 3 increasing the volume of deals

While the downturn may have addressed the third point, it also impacts on the other two, as we have seen in Section 1 of this report. So, although the issues remain the same, they have been thrown into relief by the recession.

Partnerships

The CDFI sector is acutely aware that it cannot achieve its mission without positive partnerships with a whole range of organisations, such as local, regional and national government, banks and charitable trusts and the voluntary sector. Charts 17 & 18 show that CDFIs have stronger partnerships with agencies relevant to their markets. It is not surprising that personal lenders (Chart 18) have more developed relations with Citizens Advice Bureaux than with Regional Development Agencies: the latter having a remit for enterprise/economic development. It is the other way around for enterprise lenders (Chart 17). Both charts demonstrate that partnerships are key to CDFI operations.



The future

The difference a strong partnership can make is shown in Chart 19. The RDA for Yorkshire and Humberside, Yorkshire Forward, developed strong relations with CDFIs serving its region over the course of the Phoenix Transitional Fund's life between 2006 and 2008. This demonstrated clearly positive use of the fund and the long term gains for the region that could be accessed through CDFIs.

During the first part of the fiscal year from April 2009, Yorkshire Forward strengthened its partnership with CDFIs in recognition of the need to provide credit to the region's underserved entrepreneurs. There is no doubt that more partnerships of this type are needed in other regions.

However, different approaches taken by key partners, such as the RDAs, have presented the sector with different challenges to its growth. CDFIs which work in more than one region also report that it is extremely challenging to partner RDAs with differing approaches.

Banks are also key partners in our work. Chart 20 shows that both Barclays and RBS/NatWest are the lead bank partners for the sector, as indeed, they always have been. This is also reflected in both banks' support for **cdfa** itself. Barclays supported the seminars **cdfa** held during May 2009 to raise the sector's profile, as well as the launch of our Action Plan.

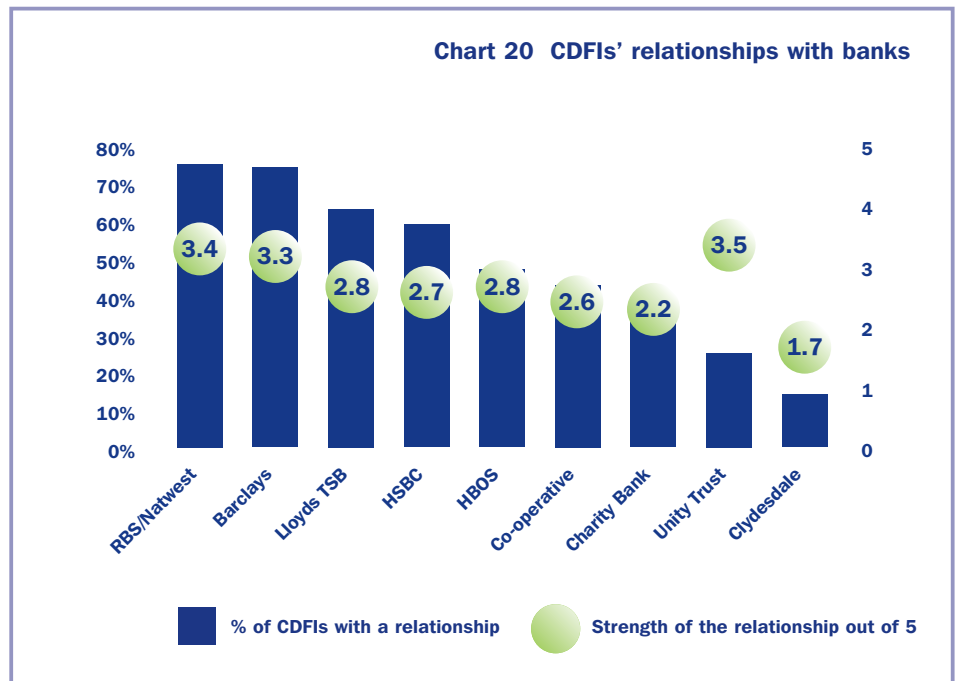
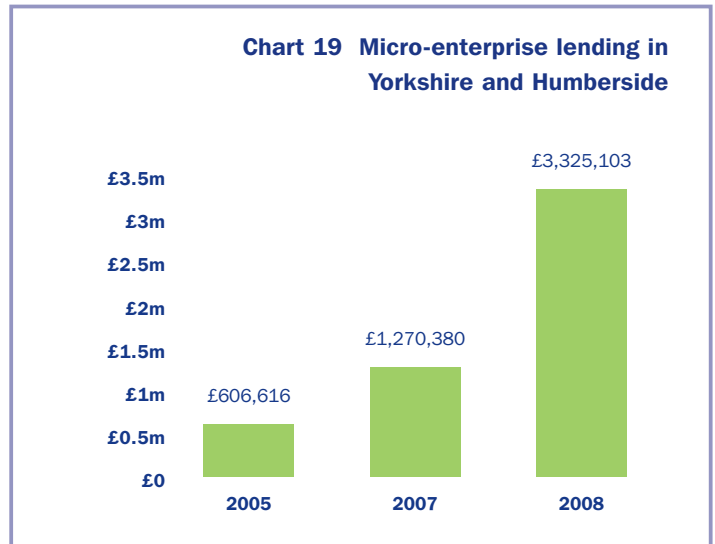
In addition it has created a £150,000 fund to support CDFIs

during the recession. RBS/NatWest is planning to support a series of dinners in the Autumn 2009 which will continue our profile raising activities. We are delighted that this work is taking place and look forward to developing it still further.

However we would welcome the involvement of more banks, especially as there is a public stake in many of them.

Changes to the Enterprise Finance Guarantee Scheme announced in May 2009 have the potential to transform the supply of lending capital to the sector. It will take strong partnerships between CDFIs, the government, RDAs and banks to ensure it reaches its potential.

Government departments also play their part, but the sector is cross-cutting and has many department leads (such as



BERR, DWP, Communities and Local Government, the Office of the Third Sector, The Treasury and HM Revenue and Customs) which is not necessarily conducive to an enabling framework. The sector needs a key policy lead or champion in Government to ensure that all its policy growth is enabled appropriately and harmoniously.

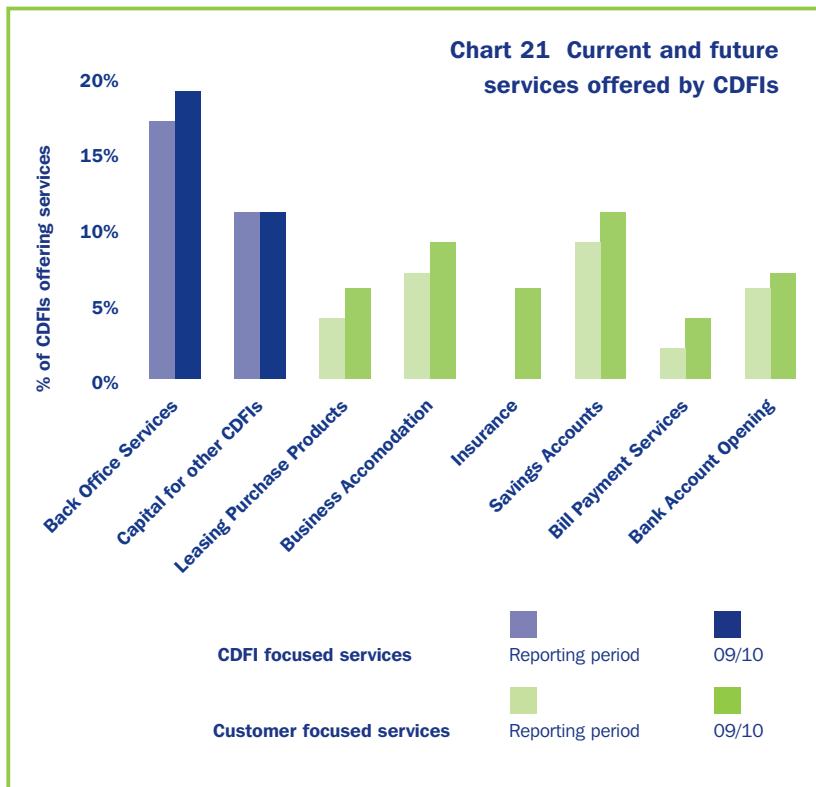
Service development

CDFIs are continuously evolving by creating new products and services. Chart 21 opposite demonstrates their plans for services to support other CDFIs, as well as those focused on customers. The ability of a number of CDFIs to supply services to others in the sector shows how the sector is enabling itself, a sign of a level of maturity. By planning new client-focused services, CDFIs are clearly recognising the need for evolution and innovation.

Surveys

CDFIs who responded to the survey

Acorn Fund
 Aspire Micro Loans for Business Limited
 Aston Reinvestment Trust (ART)
 Bees Knees
 BIGInvest
 Black Country Reinvestment Society Ltd
 Bristol Enterprise Development Fund
 Business Enterprise Fund
 Business Finance North West
 Business Finance Solutions
 Capitalise Business Support Limited
 Charity Bank Ltd
 Community Money CIC
 Co-operative and Community Finance
 Cumbria Community Asset and Reinvestment Trust Ltd (CART)
 DSL
 East Lancashire Moneyline (IPS) Ltd (ELM)
 East London Small Business Centre (ELSBC)
 First Enterprise Business Agency (FEBA)
 Fredericks Foundation
 Gloucestershire Development Loan Fund
 Goole Development Trust
 Heart of England Money
 Impetus
 Innovative Finance (Hastings Trust)
 Key Fund Yorkshire
 Leicestershire Moneyline
 London Rebuilding Society
 Merseyside Special Investment Fund Ltd
 Moneyline Greater Manchester
 Moneyline Yorkshire (IPS) Ltd
 Norfolk & Waveney Enterprise Services (NWES)
 North London Enterprise Credit Union
 North Staffordshire Risk Capital Fund plc
 oneLondon
 Preston MoneyLine
 Project North East (PNE)
 Rootstock Ltd
 Scotcash C.I.C.
 Social Investment Scotland (SIS)
 South Coast Money Line
 South West Investment Group (SWIG)
 Spirit of Enterprise Loan Fund
 Street (UK) Services Ltd
 Street NE
 The Five Lamps Organisation
 The Isle of Wight Lottery
 The Social Enterprise Loan Fund (TSELF)
 Triodos Bank
 UK Steel Enterprise
 Ulster Community Investment Trust (UCIT)
 WEETU - Full Circle Fund
 Wessex Reinvestment Trust Group
 West Yorkshire Enterprise Agency Limited



Moving forward

At the time of writing, it is not clear how long the UK's recession will last or how deeply it will affect communities. However, previous experience demonstrates that the poorest communities are affected the most adversely by recessions. Therefore, CDFI services are needed more than ever.

The sector recognises that, for it to exist into the future, it needs to develop its own internal operations and business models as well as creating the partnerships mentioned above. Many CDFIs are going through (or plan to go through) the **cdfa's** performance framework, *Change Matters*. The **cdfa** has also developed a Code of Practice, mentored by the FSA, which is binding on its members. These tools will carry the sector into the future on a bedrock of transparency and probity.

Conclusion

CDFIs have once again increased their loan activities and outputs but their sustainability is compromised by the impact of the macro economic developments and the global downturn. Yet their services are needed more than ever to protect disadvantaged communities from the worst impacts of the recession, and to provide finance to businesses, social enterprises and individuals with nowhere else to turn. The **cdfa** will continue working with CDFIs to help them to build their capacity and operate at scale, while lobbying stake-holders for the support the sector needs to perform even more effectively.

Summary of data

	2005		2007		2008	
Loan policy						
Average interest rates	+base rate	Static	+base rate	Static	+base rate	Static
Micro	5	14	5.19	17.71	6.5	13.12
Small	6	13	6.41	11.12	6.69	12.48
Social Enterprise	4	12	3.13	4.88	5.67	11.22
Personal - Consumption		22		24		26.28
Personal - Home improvement/purchase		12		16		17.5
% of CDFIs who charge fees		70%		83%		70%
% of CDFIs whose interest rate varies depending on						
Longer loan term		12%		4%		2%
Repeat customer		21%		19%		18%
Larger loan		21%		19%		11%
Pricing for risk		23%		21%		15%
Co-financing with other Lenders		4%		11%		3%
% of CDFIs that take security						
Secured by charge over property		34%		39%		39%
Debentures		29%		38%		31%
SFLG						11%
Personal Guarantee		44%		50%		50%
Peer group guarantees		9%		9%		4%
No security given		78%		75%		59%
Other						9%
Portfolio						
Value of CDFIs' portfolios	£181,001,399*		£287,146,847*		£330,808,945*	
Micro	£17,203,609		£24,994,441		£23,562,630	
Small	£4,997,351		£7,740,280		£8,093,921	
Medium	£1,220,230		£7,994,652		£8,420,335	
Social Enterprise	£137,514,539		£204,470,036		£230,003,773	
Personal - Consumption	£2,097,085		£2,651,036		£3,025,607	
Personal - Home imp./purchase	£228,063		£506,843		£580,656	
Value of CDFIs' activity						
(last 12 months)	£73,467,253		£104,771,944		£76,150,681	
Micro	£10,613,263		£10,489,315		£10,097,595	
Small	£3,239,002		£2,106,310		£3,108,490	
Medium	£795,800		£3,241,000		£3,850,000	
Social Enterprise	£56,779,619		£86,340,000		£55,219,388	
Personal - Consumption	£1,831,773		£2,257,673		£3,309,743	
Personal - Home imp./purchase	£207,796		£337,646		£565,465	
Average loan size (last 12 months)						
Micro	£7,250		£8,520		£9,899	
Small	£49,000		£28,000		£31,398	
Social Enterprise	£143,000		£215,238		£134,353	
Personal - Consumption	£610		£635		£509	
Personal - Home imp./purchase	£1,450		£1,970		£1,495	
Average loan term (in months)						
Micro	39		40		38	
Small	47		47		48	
Social Enterprise	54		58		63	
Personal - Consumption	14-20		14-26		14	
Personal - Home improvement/purchase	25		26		40	
% of business loans by value for (av. value of portfolio)						
Building purchase	12%		8%		13%	
Building renovation	9%		8%		7%	
Working capital	23%		29%		25%	
Equipment purchase	21%		25%		17%	
Marketing/advertising	8%		10%		7%	
Gap financing	13%		10%		14%	
Other	14%		10%		17%	
% of personal loans by value for						
Purchases	50%		56%		77%	
Back to work loans	3%		5%		1%	
Training and education	1%		1%		0%	
Debt consolidation	34%		16%		6%	
Home improvements	12%		17%		15%	
Home purchase	0%		5%		1%	

*Includes respondents for whom breakdowns of loans per market are not available

Inside Out – The State of Community Development Finance

is the Community Development Finance Association's (**cdfa**) annual report on the UK community development finance sector. **Inside Out** is the only publication to provide data and commentary on what's really happening in the sector.

Some of the highlights include:

- The latest figures on the changing distribution of CDFIs and the markets they serve
- Analysis of sector and individual business strategies and performance
- Information on the range of financial products and other services
- What the future holds

The **cdfa** is the UK trade association for Community Development Finance Institutions (CDFIs). Community development finance delivers innovative financial products primarily aimed at entrepreneurs in disadvantaged areas, but also addressing personal debt in poorer communities.

