

Mission-Driven Financing and the Importance of the Federal CDFI Fund

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Community Development Finance Institutions (“CDFIs”) provide much-needed financing and other assistance to underserved communities across the Commonwealth. Recent attempts to eliminate or reduce federal funding threaten to weaken CDFIs across the state. This brief summarizes the potential funding reductions and negative impacts such reductions would have on small business-serving CDFIs and the communities that they serve.

Overview of CDFIs

Massachusetts is home to a vibrant ecosystem of over 30 CDFIs. CDFIs are specialized financial organizations certified by the U.S. Treasury that provide affordable financial products and services to low-income communities and people who lack access to mainstream banking. CDFIs serve individuals, entrepreneurs, small businesses, real estate developers, and community facility operators. To be certified as a CDFI, a financial institution must have a primary mission of promoting community development, engage primarily in financing activities while also providing development services (e.g., technical assistance for small businesses), and primarily serve and maintain accountability to one or more target markets, which can include a geographic area and/or a targeted population.

CDFIs play a unique and critical role in the financial markets—a role made possible by the subsidies that CDFIs receive from the public and private sector. CDFIs offer more patient, affordable, and flexible financing solutions to projects and enterprises than most other financing institutions. They can take more financial risks and expect lower risk-adjusted financial returns in service of their

social impact goals. CDFIs also provide more than just financial assistance to their clients, including helping clients initially prepare to access capital and successfully manage the capital that they receive. CDFIs often help “unbankable” clients access mainstream financial services.

CDFI Fund Overview & Summary of Recent Threats

The CDFI Fund, an agency of the U.S. Treasury, is a key source of public funding for CDFIs. The CDFI Fund was created in the 1990s for the purpose of promoting economic revitalization and community development through investment in and assistance to CDFIs. Part of the U.S. Treasury, the CDFI Fund’s mission is to expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers. The Fund administers six flagship programs that award grants, loans, and tax credits to CDFIs and other community development organizations: the CDFI Program, the New Markets Tax Credit (NMTC) Program, the Bank Enterprise Award Program, Native Initiatives, the CDFI Bond Guarantee Program, and the Capital Magnet Fund.

Despite the CDFI Fund’s success and impact, the Fund has come under attack by the Trump administration. First, the Office of Management and Budget (OMB) froze the distribution of \$324 million of 2025 fiscal year awards that had already been announced. Shortly thereafter, the administration proposed a federal budget that would gut the CDFI Fund, reducing it by \$291 million from the prior fiscal year, leaving only \$33 million for administration of prior awards. The stated rationale for the move was that the CDFI Fund had inappropriately focused on racial equity and climate resilience, calling these frameworks “inherently oppressive.” Then, in October during the government shutdown, at the President’s direction the OMB laid off the entire CDFI Fund staff and again signaled an intention to dismantle the Fund.

In keeping with long-standing bipartisan history, there has been an outpouring of support for the CDFI Fund and the community development finance industry broadly. More than 100 Republican lawmakers sent a [bicameral letter](#) to Treasury Secretary Scott Bessent requesting that the administration reverse its decision to terminate the staff of the Community Development Financial Institutions (CDFI) Fund, emphasizing CDFIs’ role in promoting the “shared goal of creating economic prosperity throughout the country.”

In response to continued advocacy and court actions, these threats to the CDFI Fund have receded in recent months, though they still loom. For example, the CDFI Fund staff were reinstated after a [federal judge indefinitely blocked the administration's layoffs](#). While small amounts of 2025 CDFI Fund awards were [disbursed in October](#), the majority of them are significantly delayed. Furthermore, the CDFI Fund's Financial Assistance awards (its largest funding program) are typically released in summer or early fall but (as of the publication of this brief) it remains uncertain whether the funds will be released at all, and if so, when. Meanwhile, at the direction of the Trump administration, the CDFI Fund revised its application to remove climate-focused and amend race-based considerations in the determination of funding eligibility and required applicants for 2025 funding to revise their applications accordingly. Looking ahead to future funding, after drawn-out negotiations, federal lawmakers passed a 2026 federal budget in early February that maintains funding for the CDFI Fund at its previous level of \$324 million. While appropriations for the CDFI Fund have been restored, OMB's freeze on releasing funds remains in the near term. Longer term, the administration's clear intention of dismantling the CDFI Fund has cast a lasting shadow of uncertainty over the sector.

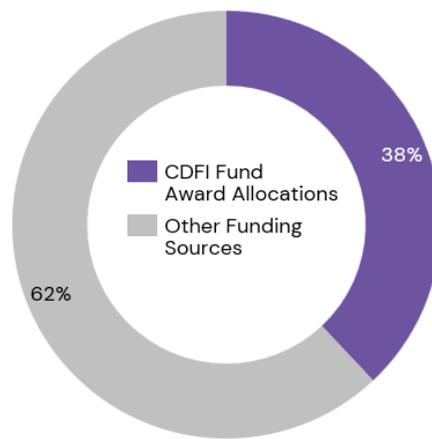
The Power of the CDFI Fund & Implications of Potential Elimination

Eliminating the CDFI Fund—or significantly curtailing it—would cause enormous harm. Nationally, CDFIs originated at least \$67 billion in loans in 2022, with most of that going to low-income communities and underserved populations. Funding from the CDFI Fund is a significant driver of this financing activity. While CDFIs get their funding from a variety of sources, monies from the CDFI Fund are particularly important for several reasons.

First, the CDFI Fund has historically provided consistent, core operational funding. The average CDFI earns income that is approximately 48 percent of its expenses (known as the self-sufficiency ratio), which means that 52 percent of its operating expenses come from grants and donations *every year*. CDFI self-sufficiency is naturally low for a variety of reasons, including the delivery of free services and programs (e.g., small business technical assistance) and challenging unit economics (e.g., issuing smaller loans that banks won't, given they are hard to make profitable). Additionally, since CDFIs have a much smaller client base than conventional lending institutions, they don't benefit from economies of scale.

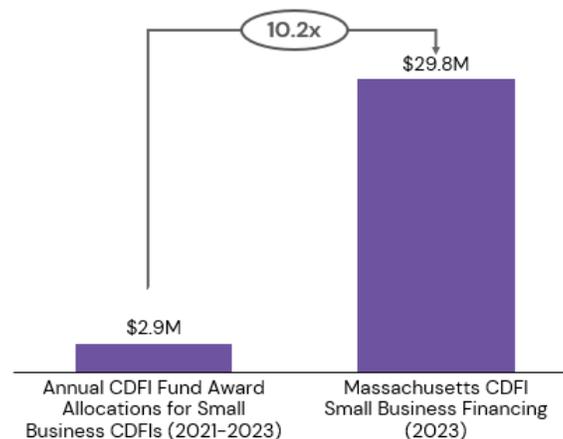
Data from a [recent study of CDFIs serving small businesses in Massachusetts](#) provides some insight into this reality for a subset of Massachusetts CDFIs. Among small business–serving CDFIs that received CDFI Fund awards from 2019 to 2023, the annual allocation of such awards represented 38 percent of their operating budgets, on average.

Portion of Small Business–Serving CDFIs’ Budgets Covered by CDFI Fund Award Annual Allocations



The second factor making CDFI Fund support so important is that its awards help leverage private capital. Most CDFI Fund program awards can be used to build net assets (aka equity), which allow CDFIs to borrow from various private sources, including banks, foundations, individuals, and others. In Massachusetts, the CDFI Fund awarded \$796 million to CDFIs over the five-year period of 2020 to 2024, an annual average of \$159 million. Small business–serving CDFIs that received CDFI Fund grants in the five-year period ending at year-end 2022 leveraged those awards by an estimated 10.2x. The estimated annual allocation from CDFI Fund awards that supported Massachusetts small business financing was \$2.9 million and their total Massachusetts small business financing in 2023 was \$29.8 million.

Leverage of CDFI Fund Award Annual Allocations for Small Business Financing in Massachusetts¹



While CDFIs' work would continue in some form without the CDFI Fund and their financing activity wouldn't drop to zero, it would surely drastically decline. As Amine Belani of Local Enterprise Assistance Fund (LEAF)—a Boston-based CDFI—puts it, “CDFIs would lose the type of capital required to support small business, pre-development loans, and maintain flexible underwriting criteria. Their growth, staffing levels, and organizational capacity would be diminished. As a result, states and cities would likely lose important partners that help them achieve their community development goals.”

Ultimately, it's underserved small businesses that would suffer. Within CDFI investment areas as defined by the CDFI Fund, 85 percent of individuals are low-income and 66 percent are people of color.² Yanique Shaw, founder of Boston Flower Co., represents one of many small businesses that receive critical financial and advisory support from a CDFI. As Shaw prepared to open her first physical location, she got crucial advice and capital from Local Enterprise Assistance Fund. She says, “LEAF helped me understand my financials and prepared me to open my first shop with confidence.” Without support from the CDFI Fund, the Commonwealth's underserved businesses would have access to fewer resources to help them expand, create jobs, and build community wealth.

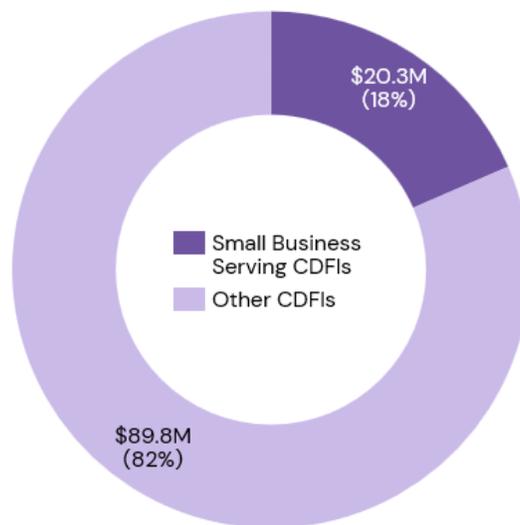
With the increased uncertainty of federal funding, CDFIs must seek to further diversify their funding sources. State governments, banks, foundations, corporations, faith-based institutions, and individuals have gradually increased the amount and portion of funding that they provide to CDFIs over the past

¹Annual awards allocations are estimated by dividing the total awards by three given each of the programs for which awards were made from have 3-year grant performance periods.

² OFN Annual Member Survey

several decades. This moment can serve to galvanize support from these sources to increase the stability of CDFIs in the years ahead. For example, the Commonwealth of Massachusetts recently created a fund to complement federal CDFI funding. The fund supported small business–serving CDFIs given the relatively low portion of federal funding that they receive. From 2020 to 2024, only 18 percent of CDFI Fund monetary awards to MA CDFIs went to Massachusetts CDFIs that serve small business (most went to those that financing affordable housing).

CDFI Fund monetary awards to Massachusetts CDFIs that finance small businesses (\$million), 2020-2025



In 2021, Massachusetts Growth Capital Corporation (now part of MassDevelopment, the state’s economic development agency) created the CDFI Lending Capital Matching Grant Program, which provided small business serving CDFIs with more than \$20 million in grants over three years before it ran out of money. This type of funding pool can serve as an inspiration for the next wave of capitalization solutions from the public and private sector to support Massachusetts CDFIs.