The ECE Business Collaboratory

Strengthening Child Care Systems

# EXPANDING ACCESS TO CAPITAL FOR CHILD CARE THROUGH PARTNERSHIPS WITH COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIs)

### What are CDFIs and how can they support child care?

CDFIs are financial institutions certified and reviewed annually by the Department of Treasury for their work providing access to capital for low- and moderate-income borrowers. Each CDFI has a target market that may be defined geographically, by race/ethnicity, or income. CDFI's must make 60% of their loans to their target market. CDFIs can offer critical support to child care entrepreneurs who frequently experience barriers in accessing conventional lending. Here are some ways CDFI's may be able to help:

- **Technical Assistance:** Many child care businesses lack the financial records and systems needed to secure a loan. CDFIs can offer technical assistance to get businesses ready for financing.
- **Cultural Competence**: The child care sector has among the highest rates of female and minority entrepreneurship across all industries. Female and entrepreneurs of color face barriers accumulating wealth and credit and may experience discrimination during the lending process. Many CDFIs focus on lending to specific populations or neighborhoods and build trusting relationships with these entrepreneurs.
- **Community Development Focus:** Nonprofits, cooperatives, and social enterprises can also experience difficulty accessing conventional loans. CDFIs may specialize in supporting these entities.

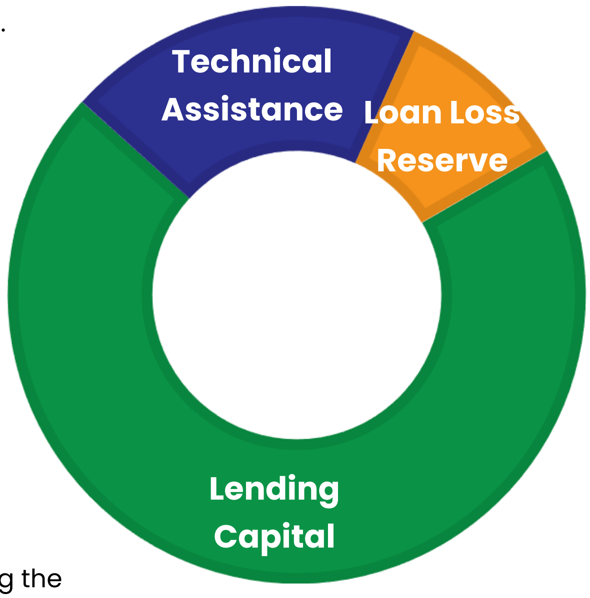
| Types of CDFI | How they can support child care |
|---|---|
| *Depository institutions like community development banks or credit unions* | Self-Help Credit Union has worked with unbanked family child care providers to help them access checking and saving accounts. |
| *Micro-enterprise and small business loan funds* | First Children's Finance pairs small business loans with intensive, child care-specific technical assistance prior to lending and throughout the loan term. |
| *Large loan funds and community development corporations* | Loan funds such as LISC, IFF, and LIIF can offer large loans and support the pre-development and construction of child care facilities. They often partner with nonprofit child care programs and philanthropy. A member of the National Children's Facilities Network may be active in your state. |

**Partnering with CDFIs**

- Before seeking a partnership, it can be valuable to define the capital gap your initiative is seeking to address: who needs capital, for what, and what type? Different partners may be appropriate for helping family child care providers access business bank accounts, small child care centers expand to a second location, or community-initiatives develop and finance multimillion-dollar facilities. Existing CDFIs may already have built relationships with entrepreneurs of color, rural entrepreneurs, or recent immigrant and refugee entrepreneurs, etc. in your state.
- As you meet with CDFIs, you may wish to ask about:
    - What is their mission? Who is in their target market?
        - Do they have trainers or loan officers who speak languages other than English?
    - What types and sizes of loans do they offer?
        - Do they offer small loans of $5,000-25,000 that might be too small to be cost efficient for conventional banks? What size are their largest loans?
        - Have they partnered with conventional banks to finance larger projects? (It may be helpful to know which conventional banks are frequent partners)
        - What type of collateral do they require?
    - What loans have they made to child care entities? What barriers have they witnessed in completing these loans?
        - Have they lent to family child care providers?
        - Have they financed a child care start-up?
    - What technical assistance do they offer?
        - Business development trainings (business plans, marketing plans, financial projections, etc.)? Credit counseling? Tax support?
        - Do they partner with a local small business development center (SBDC) or other entity to offer additional services?

**Funding CDFIs**

CDFIs require several types of funding to support their mission. Lending capital is lent out to businesses and earns interest as the loan is repaid. Investors, including banks and social impact investors, can contribute lending capital to CDFIs and expect a small return.




Most CDFIs do not charge enough interest to cover the cost of their technical assistance and underwriting activities. They must receive grants from the federal government, states, or philanthropy to support this work. Funding this TA can increase CDFIs ability to work with child care entrepreneurs.

Financial institutions must also maintain a loan loss reserve to ensure the strength of their balance sheet and ability to pay back investors.

Holistic funding that provides lending capital and covers technical assistance and reserves is most effective in expanding the capacity of CDFIs to lend to child care businesses.