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PERSPECTIVE

Reaching the People and Places Markets Left Behind: The Role of Community Development Financial Institutions in American Public Policy

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Abstract

In the United States, private credit supports both welfare provision and economic growth, so the people and places that credit markets have left behind are excluded from both at once. Political economy has yet to develop an integrated account of this, as analyses of welfare and growth models treat the two spheres separately and assume that credit reaches all communities. This Perspective argues that community development financial institutions (CDFIs) answer that double exclusion with a double remedy, financing projects that serve welfare and development within a single transaction. CDFIs also reverse the familiar sequence of state policy design and private delivery, having developed several of the financial practices that federal policymakers later adopted. Yet the politics of CDFIs, though repeatedly contested, remains under-conceptualized. We close by asking who decides where that double remedy reaches, and whether the communities affected have sufficient influence over those decisions.

Keywords Community Development Financial Institutions · Financial Inclusion · Welfare State · Growth Models · United States

American public policy relies on private markets to deliver many services other states provide citizens directly. Community development financial institutions (CDFIs) exist where that arrangement breaks down, directing investment towards the people and places conventional financial institutions do not serve. There are 1,378 certified CDFIs in the United States holding $446bn in assets (Scott et al., 2026), and each institution generally has a specific focus. Those financing real assets concentrate on affordable housing and community facilities, providing everything from early-stage predevelopment and construction financing to permanent mortgages. Multifamily rental housing is a major activity, often combining Low-Income Housing Tax Credit equity with conventional debt, public subsidies, and Section 8 rental assistance. Other CDFIs focus on home mortgages, small-business and microenterprise lending, venture capital, arts and culture, and, increasingly, environmental sustainability and climate resilience.

The relationship between these institutions and the federal government runs in an unfamiliar direction. The sector's origins lie in President Lyndon B. Johnson's War on Poverty, the civil rights movement, and the community development movement in the 1960s and 1970s. The community development loan fund movement of the early 1980s was an outgrowth of this activist past, motivated by a desire to counter the effects of racial segregation, redlining and discriminatory lending (von Hoffman, 2012). Markets did not fail to reach these communities so much as actively withdraw from them, and for decades federal policymakers did not treat that withdrawal as a concern requiring a policy response. The private, largely non-profit CDFI sector subsequently constituted itself, initially expecting the work to be temporary. It was assumed that demonstrating

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creditworthy investments in these domains would draw mainstream lenders in, allowing CDFIs to withdraw. However, structural financing gaps prevailed, arising from real risk, high transaction costs and long development timelines, and the sector became a permanent institutional feature of American public policy.

Many early community development loan funds were small and intensely local, and over time some grew into regional and national organizations able to raise and deploy capital at far greater scale. The Local Initiatives Support Corporation (founded 1979) built a national financial platform while retaining local offices and community partners. Enterprise Community Partners (1982) developed similar infrastructure spanning finance, tax-credit investment, technical assistance, and policy. The Low Income Investment Fund (1984) grew from local community development lending into a national CDFI financing affordable housing, childcare, schools, and other community facilities with a holistic view of poverty alleviation. These national organizations did not replace local CDFIs. Instead, a more complex ecosystem emerged, in which local institutions contribute relationships and community knowledge while regional and national organizations aggregate capital, diversify risk, and connect local projects to larger capital markets.

The sector shaped the federal policies that now certify, capitalize and constrain it, through three phases of innovation, influence and adoption. CDFIs first devised financial products for people and places conventional lenders considered too risky, including predevelopment loans, recoverable grants and subordinated positions that absorbed early risk to draw in private capital (Benjamin et al., 2004). They then drew on nearly a decade of lending and experimentation to organize for federal recognition, pressing for public support that would take these products to scale and move the sector beyond its dependence on small capital pools and philanthropic investment (Rosenthal, 2018). Adoption followed in statute and regulation, beginning with the CDFI Fund, created in 1994 and housed in the Treasury from 1995 (Lowry, 2018), which unusually among federal programs provides flexible, equity-like grants that strengthen CDFIs' net worth, enabling them to leverage private capital and tailor risk-taking to local conditions. The Capital Magnet Fund (2008) followed, financed by Fannie Mae and Freddie Mac rather than by annual appropriations, with each grant, often used for loan loss reserves, required to support activity worth at least ten times its value (Lowry, 2018). The Treasury now certifies CDFIs, requiring at least 60 percent of their financial activity to reach an approved target market, defined either as a qualifying geographic area or as a targeted population of low-income people or specified racial and ethnic groups, and makes its awards ordinarily conditional on dollar-for-dollar matching from non-federal sources (Getter, 2023). This is not a welfare policy the state designed and delegated to private institutions (e.g., Morgan & Campbell, 2011). Rather, the field built itself and helped shape the policy instruments the state uses.

For all the attention CDFIs have received across a range of fields (e.g. Benjamin et al., 2004; Cassell et al., 2023), political economy has yet to develop an integrated institutional account of their welfare, development and policy functions. This is in part due to the fragmentation of the field itself, as political economy treats welfare and economic development as distinct institutional spheres even though credit is central to both. Several analyses have highlighted how credit acts as a substitute for welfare provision in the United States, with home equity loans covering healthcare costs, pension assets standing in for public retirement provision, and consumer credit cushioning wage shocks (Hacker, 2002; Howard, 1997; Mettler, 2011; Quinn, 2019; Wiedemann, 2021). By contrast, the growth model perspective treats household debt, supported by rising house prices, as the main dynamic sustaining consumption-based growth in the United States (Baccaro & Pontusson, 2016; Reisenbichler & Wiedemann, 2022). Recent work has drawn the two spheres together, viewing welfare institutions and growth regimes as complementary and characterizing the United States as a finance-based, domestic demand-led regime in which private credit substitutes for public welfare and private assets replace government transfers (Hassel & Palier, 2021, 2025). Even this complementarity, however, assumes two separate institutional spheres.

These accounts also assume that credit reaches all communities, when CDFIs exist precisely because it does not. Where credit is absent, exclusion from it withholds welfare and growth at once, and CDFIs answer that double exclusion with a double remedy. An affordable housing development financed by a CDFI, which welfare scholarship would read as provision and growth model analysis as a contribution to domestic demand, integrates both objectives within a single institution and a single transaction, by design. Likewise, a childcare center financed by a CDFI is at once a welfare service and a local business that creates jobs and allows parents to work.

For public policy, an integrated political economy approach shows that this double remedy rests on capacity the state neither designed nor runs. It is delivered by CDFIs rather than the state, as each deal assembles capital from investors with different motives, such as banks seeking Community Reinvestment Act credit, investors seeking tax credits and Treasury seeking leverage for its awards, none of whom is pursuing the combination

of welfare and development that results (Getter, 2023). Whether a left-behind community receives that remedy therefore depends on a CDFI being there to assemble the deal, within rules the state codified from the sector's own practice, and policy that funds or evaluates CDFIs as either welfare or development programs will misjudge what is lost when it cuts them. The decisions that determine which projects are financed, where and for whom, are meanwhile made largely outside formal democratic politics, checked mainly by the requirement that CDFI boards answer to the communities they serve.

Equally under-conceptualized is the politics of CDFIs, both how the sector is contested in Congress and how the politics of financial inclusion play out electorally. The CDFI Fund was created against Republican opposition in 1994 and has faced repeated attempts at retrenchment since (Rosenthal, 2018), most recently in March 2025, when Executive Order 14238 directed it to scale back to the minimal functions required by law (Executive Office of the President, 2025). Congress nonetheless restored level funding, but the awards released in September 2026 required assessment against executive orders on grant-making oversight, discrimination and immigration, with decertification among the available remedies (CDFI Fund, 2026a). The sector's survival rests on distributive politics, since across the 117th Congress Republican-held districts received $71.6bn in CDFI investment and Democratic districts $66.0bn (CDFI Fund, 2026b), giving members of both parties constituents with substantial sums at stake and different motivations for supporting the Fund while strategically repoliticizing it (e.g. Wood, 2026). Yet research treats these federal decisions as context rather than as objects of analysis (Cassell et al., 2023), and has not asked how financial inclusion, a question organized so substantially around race that the certification regime names racial and ethnic groups among its eligible target populations, registers with voters and is translated into appropriations. Doing so means treating politics both as an arena, in Congress, and as a process, in the contestation among the constituencies CDFIs serve, and asking how the second is refracted into the first (Hay, 2002).

Developing an analytical focus on CDFIs raises questions that neither political economy nor public policy is fully equipped to answer. The sector and the Federal Reserve Bank of New York describe its work as 'making missing markets', creating markets for people and places that private capital abandoned and public policy did not reach (Erickson, 2024). Treating that as a question of public policy rather than finance alone means asking how CDFIs assemble capital from actors with different aims into projects that deliver welfare and development at once, who decides which communities receive that double remedy when those choices are made largely in deals and within rules contested in Congress, and what follows for the people living in these places. For a sector created to address inequalities of race and place, and for fields in which those inequalities are central concerns, the last question matters most, since it turns on whether accountability to the communities CDFIs serve is enough to make those choices their own.

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Declarations

Competing Interests Nancy O. Andrews is the former Chief Executive Officer of the Low Income Investment Fund, which is discussed in this article. The authors declare no other competing interests.

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