

SPOTLIGHT ON FACULTY RESEARCH

A Q&A with Assistant Professor Julia Sass Rubin on her research work regarding community development loan funds and her recent article, *Adaptation or Extinction? Community Development Loan Funds at a Crossroads*, published in the Journal of Urban Affairs [30(2): 191-220; 2008.]

Q. What are community development loan funds? What types of services do they offer communities and individuals, and why are they necessary?

Healthy communities require access to affordable capital—checking and saving accounts to keep and build asset; mortgages to purchase and maintain homes; financing to build and rehabilitate commercial properties, community facilities, and affordable housing, or to start and grow businesses. Unfortunately, low-income individuals and communities have limited access to affordable credit, investment capital, and financial services, a fact that greatly hampers efforts to improve conditions in these areas.

Community development loan funds (CDLFs) are financial intermediaries designed to provide low-income communities with access to certain kinds of capital and with technical assistance to help in utilizing that capital most effectively. They provide this financing and technical assistance to businesses; for-profit and nonprofit real estate and housing developers; nonprofit organizations looking for facility or operating capital; and, increasingly, low-income individuals looking for financing to purchase or rehabilitate their homes.

Community development loan funds make these loans in order to further various social goals, such as increasing economic growth and job creation in low-income areas; creating housing for low-income individuals; stabilizing population decline in distressed communities; improving the availability and quality of community facilities in underserved markets; increasing the number of businesses owned by women and ethnic minorities; and promoting the growth of businesses that do not harm the environment. Most of the organizations and people financed by CDLFs are not able to obtain capital from more traditional sources, such as commercial banks, or cannot obtain it on terms that they can afford.

Q. You write that over time, it has become more difficult for community development loan funds to raise the money they then relend to low-income communities. Why has this been happening?

As financial intermediaries, community development loan funds rely on subsidized capital they raise from various sources in order to lend to low-income communities. The sources that provide most of this subsidized capital are federal, state and local governments, foundations, and commercial banks. The vibrant economy of the late 1990s and the policy support that community development loan funds received from the Clinton Administration enabled them to grow in both number and size of capital under management. The Bush Administration was less welcoming to this industry and available federal funding shrank accordingly. Under the Bush administration, enforcement of the Community Reinvestment Act was also weakened. (The Act requires commercial banks to reinvestment in communities from which they take deposits.) This lessened banks' incentives to support community development loan funds. All of this coincided with declines in funding from foundations, leaving community development loan funds searching for new sources of investment capital.

Q. How does the current credit crunch impact the capacity of community development loan funds to improve the quality of life in neighborhoods across the country?

The credit crunch affects community development loan funds in two ways. First, it makes commercial banks less willing to lend money to CDLFs, especially at the subsidized rates that enable CDLFs to relend it most effectively. Second, it makes it more difficult for the small businesses and nonprofit organizations that borrow from CDLFs to repay their loans as they struggle to survive in this challenging economy.

Q. With the election of Barack Obama, what types of predictions can you make regarding the health of these funds in the future?

The Obama Administration is very supportive of community development loan funds and other types of community development financial institutions (CDFIs). The federal stimulus bill that President Obama recently signed into law doubles 2009 funding for the CDFI Fund of the U.S. Department of the Treasury, which provides grants and low-interest loans to community development financial institutions.

The stimulus bill also increased the 2009 allocation for the New Markets Tax Credit program, which many community development loan funds utilize to raise investment and operating capital. President Obama's proposed 2010 budget would also double CDFI Fund funding. The Obama Administration also is likely to support planned Congressional revisions to the Community Reinvestment Act (CRA), which in turn would encourage banks and possibly other types of financial institutions to increase their support of this industry.

Q. How does this project fit into your overall research portfolio at Rutgers? What is next for you in terms of research involving these issues?

My research examines the operations and impact of unregulated community development financial institutions such as community development loan funds and community development venture capital funds, and the federal and state policies that pertain to these organizations. Most recently, I was part of a team that included Dr. John Caskey, Dr. Carla Dickstein, and Dr. Sean Zielenbach, which received funding from the CDFI Fund of the U.S. Department of the Treasury to examine the systemic impact of community development loan funds. We conducted twenty-five case studies and wrote a paper that proposes a different way of thinking about the social impact of these organizations. I also received a CDFI Fund research grant for a study of community development venture capital. Currently, I am completing several articles that are based on this research, including one that assesses the New Markets Venture Capital program, one that focuses on rural developmental venture capital, and one that analyzes the community development venture capital industry since its inception.

ABOUT THE AUTHOR

Julia Sass Rubin joined the faculty of the Edward J. Bloustein School of Planning and Public Policy in 2003 as an Assistant Professor of Public Policy. She spent the prior year as a post-doctoral fellow at the Alfred A. Taubman Center for Public Policy at Brown University. Dr. Rubin's research is in the area of community economic development and community development finance. At present, she is looking at the formulation and likely impact of the New Markets initiatives, which President Clinton shepherded through Congress at the end of his presidency. She also is continuing her research examining various forms of developmental venture capital, and the capital needs of social enterprises. Dr. Rubin has advised a number of organizations in the area of developmental finance, including the U.S. Small Business Administration, The John D. and Catherine T. MacArthur Foundation, the Appalachian Regional Commission, the Overseas Private Investment Corporation, and the New Jersey Redevelopment Authority. Previously, she consulted for McKinsey & Company, worked in brand management for Procter & Gamble and Eastman Kodak, and taught strategic management and marketing at Assumption University in Bangkok, Thailand, as a Henry Luce Scholar.

To visit Dr. Rubin's faculty Web page, click [here](#)