Research Brief: Leveraging CDFI Advisory Boards for CDFI Certification and Beyond

November 2023

Fund Community Institute (FUND CI) is undertaking a series of research briefs and industry profiles to explore how anticipated changes to the CDFI Certification guidelines are likely to affect CDFIs and the industry overall. This research brief explores one of the core criteria for certification: accountability. CDFI certification statutes require that CDFIs must maintain accountability to residents of its Target Market(s), either through governing boards or advisory boards. These advisory bodies can be an important part of maintaining certification and many CDFIs also leverage their advisory boards to support the capacity of the organization. FUND CI's research finds that many CDFI's advisory boards are under prepared for certification changes and likely can further leverage the expertise and knowledge of their assembled advisory boards.

Key Take Aways

- **Composition and Structure**: Surveyed CDFIs provide a profile of how advisory boards are commonly structured and how they operate. Their structures can serve as examples for organizations that are considering adding an advisory board or updating their existing board, though ultimately an advisory board should be structured with the organization's specific needs in mind. Changes included in draft certification application updates provide additional guidance on how advisory boards should be structured.
- **Preparedness of Certification Changes**: On the whole, surveyed CDFIs are underprepared for certification changes. It is anticipated that there will be time for CDFIs to accommodate changes before needing to reapply, but CDFIs should be mindful of accountability related changes and begin preparing where possible.
- **Use of Advisory Boards**: Surveyed CDFIs use their advisory boards in a range of ways beyond providing accountability, such as sourcing deals, supporting partnerships and providing insight on product design.
- **Further Leveraging and Building Capacity**: While surveyed CDFIs use their advisory boards for capacity building purposes, not all do and there may be opportunities for boards to take on additional roles to support the organization. Additionally, some survey respondents noted dissatisfaction with their advisory boards, suggesting a need for board development and training.

Introduction

With the prosed updates to the certification process, there is additional clarity on what characteristics the CDFI Fund looks for in advisory board members and the board's activities. As part of this research effort, FUND CI has compiled updates to the accountability test and surveyed the industry to evaluate how prepared, or not, CDFIs may be for the accountability criteria portions of the overall certification changes. On the whole, surveyed CDFIs are underprepared for the changes as outlined in the remainder of this research brief.

By definition, advisory boards should be composed of some percent of individuals that have connections to the communities that the CDFI serves, with knowledge of the needs and conditions of the Target Market; of financial products and services; of strategic planning and policies of financial institutions; and/or an ability to solicit feedback from the Target Market. Given this knowledge base, the advisory board can boost the capacity of the CDFI.

In practice, however, how CDFIs have assembled and utilized advisory boards diverges greatly. Our research finds that among CDFIs with advisory boards, the boards vary in terms of composition and use, as well as how well-positioned the boards are for the certification changes.

Methodology and Sample Characteristics

In the summer 2023, FUND CI distributed a survey on advisory boards in multiple channels, including on LinkedIn, to FUND Consulting's client base, and through the OFN Connect listservs. Survey efforts resulted in 17 respondents. Given the volume of respondents, survey findings do not constitute a comprehensive sample of the overall CDFI population and should be interpreted as trends rather than representative of the population.

The majority of respondents (86.7%) represent nonprofit loan fund CDFIs, with the remainder representing CDFI banks. CDFIs surveyed range from 3 to 120 years old, with an average age of 37.2 years. For most, certification has been held for more than 15 years (40.0%), and 86.6% of respondent CDFIs have been certified for more than 5 years. Respondents CDFIs serve a range of Target Market types. Respondents most commonly serve local Investment Area (53.3%), local Low Income Targeted Population (40.0%) and local Other Targeted Population Target Markets (40.0%). Several also serve larger, statewide or multistate geographies. Respondent CDFIs serve a mixture of urban areas (42.9%), mixed urban and rural (35.7%) and rural areas (14.3%). On average, the survey respondents have an asset size of $151.4 million. when bank respondents were excluded, the average asset size dropped to $89.9 million.

FUND CI conducted related research in 2018 on the composition and use of advisory boards. This work builds on those efforts by considering how certification changes will affect CDFI's accountability and their advisory boards. For more information on the original research and other research conducted by FUND CI visit fundci.org.

Composition and Structure

Responses from the survey provide a snapshot of how CDFIs structure their advisory boards.

Of the organizations that responded to the survey, 58.8% have advisory boards. Each also has a governing board. Most CDFIs respondents have one advisory board (77.8%) though some utilize more than one. Those with more than one advisory board noted that they use separate boards to provide accountability for different Target Markets and to access expertise on different program areas. The average age of advisory boards is 10.6 years. On average, advisory boards have 7 members with a range from 6-11 individuals. The majority of CDFIs reported that their advisory board does not have term limits (75.0%) and typically board members serve for three to five years. On average, 1.6 governing board members serve on the advisory board, though half of the respondents indicated that no members currently serve on both boards.

Thirty-eight percent of advisory boards meet on a monthly basis (37.5%), 25.0% percent meet quarterly and another 25.0% meet annually. The remainder noted that the board meets as needed.

Slightly less than half of the advisory boards were established to meet the CDFI Fund accountability requirements (44.4%). Other reasons for starting an advisory board include informing the lending functions of the CDFI, providing awareness of market conditions when expanding the service area, conveying community input, and more. Respondents' boards include a range of subject matter expertise including local market knowledge; experience in loan products and asset classes; organizational expertise, such legal and credit evaluation; and community development experience.

CDFIs bring on skill sets and abilities through their advisory boards. All respondents noted that their advisory board members bring knowledge of the needs and conditions of the Target Market as well as knowledge of financial products and services. Most (75.0%) also have advisory board members with an ability to solicit feedback from the Target Market and have knowledge of strategic planning and/or policies and procedures (50.0%).

Advisory board members obtain input from the Target Markets in a variety of ways: 62.5% participate in community meetings, 50.0% have direct involvement with the Target Market, and 12.5% of utilize surveys. Feedback is provided from the advisory board to the governing board through regular meetings, written feedback, and staff participation and delivery.

Preparedness of certification changes

Updates referenced are based on the CDFI Fund's application preview and other materials released in October 2022. Visit the CDFI Fund's website for more details: https://www.cdfifund.gov/programs-training/certification/cdfi/certification-pra. Each CDFI should review all draft publications to see how their organization may be affected as well as review the final publications.

Since 2020, the CDFI Fund has been revising its CDFI certification application, annual certification reports and related data collection formats tied to the certification process. This has included several draft applications and guidance coupled with opportunities for community feedback. In 2022, the CDFI Fund released a preview application and related materials, from which FUND CI has drawn out changes that would affect CDFIs with advisory boards as detailed below. The following descriptions may not be comprehensive of the changes affecting each CDFI.

Board composition: FUND CI's research shows that among the CDFIs with advisory boards, each also had a governing board. With this type of governance, the CDFI Fund has provided greater clarity on what compositions are required to meet accountability requirements:

- At least 20% of the governing board members are accountable to at least one proposed Target Market;
- At least one advisory board member is accountable to each proposed Target Market;
- At least 60% of the advisory board is accountable to the overall proposed Target Market(s).

Organizations with only governing boards, those that are credit unions, and those with advisory boards only may provide accountability through different composition requirements as outlined in the preview application. To receive a Native CDFI designation, entities with advisory boards and governing boards must meet the following board composition and accountability thresholds:

- At least 60% of an advisory board are accountable to a Native Community population or Native Community geography;
- At least 50% of such representative board members are members of a Native Community population(s);
- At least 20% of the governing board members are accountable to a Native Community population or Native Community geography.

Governing board member presence on advisory board: Proposed certification changes call for one governing board member to sit on the advisory board. FUND CI's recent survey found that on average, surveyed CDFIs have 1.6 governing board member on the advisory board as well. However, several organizations with high level of overlap between their boards skewed this average – more than half of respondent CDFIs do not have governing board representation on their advisory board and would need to update their board membership to meet the new guidelines.

Board size: Beyond the composition changes, the CDFI Fund's updated materials include other clarifications on how advisory boards should conduct themselves and how they will be evaluated. For example, materials indicate that advisory boards should consist of no less than five members. Surveyed boards meet this requirement with an average of seven members, with boards ranging in size from six to 11 members.

Meeting frequency: The draft application outlines that boards should meet a minimum of three times a year. Not all surveyed CDFIs meet this requirement – 62.5% meet quarterly or more frequently, while the remainder meet once annually or as needed. These boards and others from the larger CDFI community will need to increase and/or formalize the frequency of their meetings in order to meet the draft requirements.

Organizational Accountability Policy: The draft application calls for CDFIs that use an advisory board for accountability purposes to have in place an Organizational Accountability Policy. Only 25.0% of surveyed advisory boards have such a policy at this time. Those that do have a policy in place reported that it meets each of the requirements outlined in materials circulated by the CDFI Fund to date, i.e. describing the role of the advisory board, the methods by which the advisory board has the opportunity to provide feedback to the governing board, and how the CDFI informs itself on the Target Market. Given that the guidelines have not yet been formally released, the majority of respondents indicated that they do not yet have a timeline for creating their Organizational Accountability Policy.

Options for providing accountability: Previous versions of the certification materials allow individuals to provide accountability to Target Markets based on third-party board service. For example, one way advisory board members could provide accountability to an Investment Area if they were either an employee or board member of an organization that primarily provides services to residents of that Investment Area. The draft application removes the option to provide accountability through board membership, now allowing a board member in the same Investment Area example to provide accountability based on “status as an executive staff member of a third party, mission-driven organization that primarily provides services to residents of a qualified census tract”. More than half of the surveyed CDFIs have advisory board members who provide accountability based on their board membership with a third-party organization (62.5%). Under the proposed guidelines, the individuals would need to provide accountability through another manner.

Financial interest policy: Previous versions of the certification application did not allow board members to provide accountability if they have a financial conflict by being a principal or staff member of the organization, its affiliates, subsidiaries or investors. This financial conflict clause has been expanded into a financial interest policy in the new materials. The draft application details that board members cannot provide accountability if they have an active loan from the applicant CDFI or that “receive financial compensation for their board services above and beyond any reasonable cost reimbursement for travel or expenses incurred.” FUND CI’s research found that for most CDFIs, advisory board members (87.5%) do not receive financial compensation for their board service, beyond compensation of travel and other expenses incurred as part of their board service.

The below chart summarizes the surveyed CDFI’s standing on proposed certification changes.

Criteria	Preparation status
Board composition	Underprepared: Survey data found that accountability of individual members will change for most CDFIs, resulting in changes to overall standing (see options for providing accountability). Additionally, given that the portion of board members that must be accountable is clarified, organizations may need to increase their number of qualified members.
Governing board member presence on advisory board	Underprepared: On average, 1.6 governing board members serve on the advisory board, though half of the respondents indicated that no members currently serve on both boards.
Board size	Prepared: On average, advisory boards had seven members, above the five member requirement.
Meeting frequency	Underprepared: While many advisory boards do meet with sufficient frequency (62.5%), the remainder of surveyed CDFIs do not and will need to increase and/or formalize their meeting frequency.
Organizational Accountability Policy	Underprepared: Only 25% of surveyed CDFIs have a policy in place. Many indicated they are waiting for final guidance to put in place.
Options for providing accountability	Underprepared: More than half of the surveyed CDFIs have advisory board members who provide accountability based on their board membership with an unconnected organization (62.5%). Draft materials do not include this option so additional sources of accountability may be needed.
Financial interest policy	Prepared: The vast majority (87%) do not provide financial compensation as detailed in the financial interest policy.

Use of Advisory Board

FUND CI's survey asked respondents to provide detail on the intended uses of their advisory boards, as well as on activities the board may undertake to support the capacity of the CDFI beyond providing accountability. While most responses suggest that the boards are beneficial, others indicated that the boards have not yet met expectations or take advantage of all use cases, suggesting that boards could be better leveraged at the organization. The adoption of various practices, or lack thereof, provides insights on ways that CDFIs can further leverage their boards.

The following highlights ways that boards are utilized, as well as feedback from survey respondents. Of note, 100% adoption of these practices may not be the goal, based on CDFIs particular needs or board composition. Responses from the survey illuminate how advisory boards are used and considered within the industry:

50% of boards surveyed source deals for their CDFI	"The amount is unknown but the advisory board sends us recommendations and potential partners regularly."
62.5% of boards help their CDFI to develop partnerships	"They can help us identify additional capital and referral partners in their market. In our mortgage business, advisory board members are able to suggest other referral partners in the market. In other instances, advisory board members have deep partnerships and expertise in specific asset classes and are able to provide referrals to partners and experts in those areas."
62.5% of boards play a role in developing new products	"When bringing up new products and services to the advisory board we discuss and ask for ideas, suggestions and ways to make the products/services more appealing to their market area."
75.0% of respondents believe that membership on the board is beneficial to the advisory board members	"There are multiple networking and information sharing opportunities during meetings." "Their roles allow them to be able to be more active in the community, make stronger connections with people in the market area and help to make the place where they live a better place."
87.5% of survey respondents noted that the advisory board supports their organizations DEI goals or initiatives	"We operate nearly exclusively with the DEI goals and initiatives. The diverse organizations represented on the advisory boards fulfil those goals." "By providing direct communications on serving our diverse community."

Other potential uses of the advisory board were not reported or well known. No surveyed advisory boards conduct fundraising on behalf of their CDFI. While fundraising can be a part of board activity across the larger nonprofit world and potentially among governing boards, it is not currently practiced by CDFI advisory boards. Finally, most respondents were not sure if advisory board members source deals with each other for their respective organizations.

Further Leveraging and Building Capacity

A large portion of CDFIs utilize an advisory board to provide accountability as part of their CDFI certification currently – 58% of CDFIs that respondent to this survey – and there is likely a large number of CDFIs across the industry which have already assembled such a group. This research also found that members are selected for their board involvement because of expertise on a range of topics, including market conditions of the Target Market, product structuring and fit for a group of potential clients, and organizational operations. As such, there are likely ways that CDFIs can further leverage the capacity of their advisory boards such as sourcing deals, developing partnerships, designing new products, and more.

Beyond expanding the roles that advisory board members are asked to undertake, some responses suggested that additional introduction to the role or training on how to best support the CDFI may be beneficial. For example, one respondent noted, "The AB was created to further our knowledge and resources in our Investment Area through board members active or known in that area. To date this group has not provided what we hoped for". Further coaching and training may help to draw out board members expertise to better serve the CDFI.

As CDFI certification changes move forward, many CDFIs that use advisory boards for accountability will need to update their composition and functions to meet certification requirements. FUND CI encourages CDFIs to also consider how to better leverage the assembled group to support the overall capacity of their CDFI.

FUND Community Institute (FUND CI) is a nonprofit think tank founded in March 2017, which conducts independent studies, partner projects, and commissioned research designed to encourage dialogue, share best practices, and promote innovation. The mission of FUND CI is to build thriving communities through research, training, and facilitation of opportunities for knowledge sharing. For more information, visit FUND CI's website at www.fundci.org or contact Emily Sipfle at esipfle@fundci.org.

FUND Community Institute ci