The Future of Consolidation in the CDFI Sector: A Proactive Strategy for Scale and Impact

Working Paper

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Introduction and Background

Community Development Financial Institutions (CDFIs) play a crucial role in providing capital to communities throughout the United States, with a specific focus on underserved areas, yet the sector faces persistent challenges of scale and sustainability. Close to 1,500 certified CDFIs manage over $450 billion in assets, but demand for their services continues to outpace what many individual CDFIs can supply (*Source*. *fedcommunities.org*). Fragmentation in the industry—with many small, under-resourced lenders—has prompted calls to consider consolidation or integration, through mergers, acquisitions, or strategic alliances, to strengthen the sector's impact. This proposal frames CDFI consolidation and integration as a proactive strategy to amplify mission and capacity, rather than a reactive measure of last resort, with a focus on nonprofit loan funds which represent the majority of CDFIs by number. It lays out the goals of consolidation and integration, industry-wide constraints that make such strategies compelling, and specific recommendations for funders, investors, and policymakers to support a thoughtful integration process. Structural barriers that slow the adoption of mergers are examined—including awareness, urgency, and capacity issues—along with strategies to address them. Finally, we present anonymized case studies of CDFIs that have explored or executed consolidation, demonstrating the potential benefits of integration. The ultimate aim is to persuade funders and policy stakeholders that facilitating strategic CDFI integrations can unlock greater scale, efficiency, and innovation in community development finance.

The Case for CDFI Consolidation: Goals and Industry Constraints

Goal of Consolidation – Impact, Scale, and Sustainability

The primary goal of encouraging consolidation or deeper integration among CDFIs is to create stronger, more responsive institutions that can expand their community impact while achieving greater scale and financial sustainability and resilience. Rather than viewing mergers as a bailout for failing organizations, this proposal emphasizes proactive consolidation as a way for healthy CDFIs to combine strengths, reduce redundancies, and tackle larger challenges together. When executed well, nonprofit mergers have been shown to deliver more and better services at lower cost; for example, one nonprofit saw cost reductions up to 40 percent and doubled beneficiaries served after a series of acquisitions (*Source.* *ssir.org*). In the non-profit CDFI context, greater scale can improve self-sufficiency and efficiency. Industry research finds "significant scale effects exist in all sectors of the CDFI industry," with larger CDFIs generally achieving better financial performance (*Source.* *cdfifund.gov*). Consolidation can enable a merged CDFI to support more lending in underserved areas, develop new financial products, and attract bigger investments, all while maintaining mission focus.

Industry Constraints Driving Interest in Integration

Several structural constraints in the CDFI industry are making merger and acquisition (M&A) and other integration strategies increasingly compelling:

Limited Operating Capital and Sustainability Challenges

Many CDFIs, especially nonprofit loan funds, struggle to cover their operating costs with earned revenue alone. They provide high-touch, relationship-based lending (e.g., intensive borrower coaching and flexible underwriting) which drives up operating expenses (*Source.* *cdfifund.gov*). Studies show operating expenses often account for the vast majority of CDFI loan fund costs. In one analysis, 21 of 34 loan funds had operating costs exceeding 70 percent of total expenses, making them reliant on grants and subsidies (*Source.* *cdfifund.gov*). Only a few in that study achieved even 50 percent self-sufficiency *(Source.* *cdfifund.gov)*. In short, "operating expenses play the driving role in determining whether CDFIs achieve self-sufficiency" *(Source.* *cdfifund.gov)*. Consolidation offers a path to streamline duplicative back-office functions, spread overhead across a larger asset base, and improve efficiency. By merging, two CDFIs might reduce per-dollar operating costs and enhance the sustainability of their combined entity. Additionally, limited operational funding has been cited by CDFIs themselves as a top barrier to growth: a 2021 industry survey found 76 percent of CDFIs wanted to expand services but could not sustain it, primarily due to limited staffing (a proxy for operating capacity) and only secondarily due to lack of lending capital *(Source.* *fedcommunities.org)*. This underscores that organizational capacity, which mergers can bolster, is a key constraint.

Undiversified Capital Stacks and Funding Constraints

CDFIs, particularly CDFI loan funds, have historically relied on a narrow range of funding sources—such as federal programs, bank Community Reinvestment Act (CRA)-motivated capital, and philanthropy—leading to undiversified "capital stacks" that can limit growth *(Source. kresge.org)*. Many CDFI loan funds are under-leveraged (carrying little debt) because affordable debt capital is hard to obtain. The median CDFI loan fund carries only $1.10 of liabilities per $1 of equity, versus 9:1 leverage for the median CDFI bank *(Source. cdfifund.gov)*. This conservative capital structure can be traced to the high relative cost of debt for CDFIs and risk concerns when operating at small scale *(Source. cdfifund.gov)*. The result is that CDFI loan funds often cannot fully leverage their balance sheets or must turn away opportunities for lack of capital. "CDFI Loan Funds are generally not well leveraged," and large pools of undeployed capital exist that, if strategically deployed, could unlock unmet potential *(Source. cdfifund.gov)*. By consolidating, CDFIs can create larger balance sheets that appeal to a broader array of investors. A merged CDFI with a more diversified capital base (grants, debt, equity, and even secondary market funding) is more resilient. Indeed, regulators have noted that to meet future funding shortfalls, "CDFIs will need to explore capital from other sources such as secondary markets and other private investors" *(Source. consumercomplianceoutlook.org)*. A larger institution is better positioned to tap into capital markets (e.g., issuing bonds or securitizing loan portfolios) and to absorb investment from sources that demand scale. In short, consolidation can help overcome undiversified and insufficient capital by making CDFIs more attractive to a wider investor pool, thereby expanding the capital stack available for community lending.

Talent, Staffing, and Operational Capacity Limits

As mission-driven organizations, many CDFIs face recruitment and retention challenges, especially in a competitive labor market. Smaller CDFIs often cannot offer the salaries or advancement opportunities to retain top talent such as experienced loan officers, underwriters, or financial managers. In recent surveys, CDFIs report that hiring and retaining qualified staff is a significant issue hindering their growth *(Source. fedcommunities.org)*. This is compounded by the fact that CDFI staff must wear many hats—stretching thin to manage compliance, fundraising, and community engagement on top of lending. A consolidation can combine human resources, allowing for more specialization and career development within a larger entity. Rather than each small CDFI struggling to maintain a robust finance or technology team, for example, a merged organization can pool talent and offer better support systems for employees. Funders have recognized the need to support CDFI human capital development, and facilitating integrations is one way to address chronic staffing shortages *(Source. cdfifund.gov)*. By reframing M&A as an opportunity for staff growth and mission advancement (rather than a loss of jobs or identity), CDFIs might better retain talent through the transition. The end goal is to create institutions with the operational capacity to meet the scale of economic need—something a patchwork of many tiny CDFIs may struggle to do individually. Many CDFI staff positions are underleveraged (e.g., Finance and HR) and do not contribute to what loan funds do well, i.e., be hyper-local, specialists in a particular sector. Scaling expenses of stronger finance departments and human resource departments over more CDFIs can be done through mergers, but also through creating networked operating systems across CDFIs.

Inability to Meet the Scale of Economic Need

Ultimately, the fragmentation of the sector means that CDFIs cannot fully meet the vast financing gaps in low-income communities. For example, in the small business sector alone, there is an estimated $87 billion annual gap in loans under $100,000 for Main Street entrepreneurs *(Source. fintechnexus.com)*. No single CDFI can bridge that gap, but a more integrated network of stronger CDFIs can make a larger dent. During the COVID-19 pandemic, larger and more technologically sophisticated CDFIs were able to deploy relief funds (e.g., Paycheck Protection Program loans) much faster than their smaller peers, highlighting the importance of scale and infrastructure *(Source. frbsf.org)*. Funders and policymakers have poured unprecedented resources into CDFIs in recent years (e.g., the CDFI Rapid Response Program and state small business funds), yet many CDFIs say they "wanted to expand their offerings but could not on a sustained basis" because of internal limitations *(Source. fedcommunities.org)*. If consolidation can help create CDFIs that are "right-sized" to meet burgeoning demand, then pursuing strategic mergers becomes a matter of effectiveness and impact, not just efficiency *(Source. fedcommunities.org)*. In short, larger, stronger CDFIs are needed to rise to the scale of economic challenges—from racial wealth gaps to climate resilience in communities—and proactive integration is a path to get there.

By addressing these constraints—inadequate operating scale, narrow funding bases, limited staffing, and inability to serve market demand—consolidation is a means to an end: healthier CDFIs that can drive greater community development outcomes. The goal is not consolidation for its own sake, but rather mission-driven integration that enables CDFIs to do more for underserved communities.

The Case Against CDFI Consolidation

While consolidation offers many potential benefits, it is not without its critics or risks. Opponents argue that mergers can result in the loss of local relevance, which is a defining strength of many community-based CDFIs. When institutions grow larger or are absorbed into regional or national entities, they may become more distant from the neighborhoods they serve. This could lead to diminished responsiveness to local needs, less community trust, and less cultural competency among staff. For many, the value of a CDFI lies in its embeddedness in community life and its ability to operate with agility and relationships at the center. These qualities can be difficult to preserve in a merged or more bureaucratic institution.

Critics also note that consolidation could reduce the diversity of strategies and innovation in the field. Smaller CDFIs often specialize in unique lending models or serve niche markets—roles that may be sidelined or lost in a more centralized organization. Furthermore, mergers involve transaction costs and cultural integration challenges that, if not managed carefully, can seem disjointed or misaligned, which could distract from the core work or weaken morale.

Ultimately, there is a philosophical concern: that mission should not be compromised for scale. However, many of the risks of consolidation can be overcome with intentionality and design. Ultimately, while consolidation may benefit some CDFIs, others may choose to preserve a smaller scale by design.

Overcoming Barriers to Adoption of M&A Strategies

If consolidation is so promising, why haven't we seen more of it in the CDFI sector to date? This question acknowledges a set of structural and cultural barriers that make CDFI mergers complex. We focus on three categories: (1) awareness and attention, (2) sense of urgency, and (3) internal capacity. For each, we analyze the issue and propose strategies to accelerate the adoption of consolidation strategies.

Awareness Barrier: Mainstreaming the Conversation on CDFI Mergers

The Issue – Competing Priorities and Lack of Bandwidth

CDFI leaders are often consumed by day-to-day operational pressures—managing loan pipelines, compliance reporting, fundraising, and community relationships. Proactively exploring a merger or acquisition can easily fall to the bottom of a long to-do list, especially if it's perceived as a distraction from serving clients. There may also be a knowledge gap: boards and management may not be aware of successful precedents or the potential benefits of consolidation, leading to a default assumption that "if we're not in crisis, we don't need to merge." In the nonprofit sector broadly, many organizations "look at mergers reactively, as a route out of financial distress or leadership vacuums, instead of proactively as an effective growth strategy"*(Source. ssir.org)*. This reactive mindset is partly due to lack of awareness—boards might only consider a merger when faced with an existential threat, not as a strategic opportunity during stability. In the CDFI arena, the conversation around mergers is not yet commonplace; industry conferences and publications have only lightly touched on the topic. As a result, CDFI stakeholders may simply not be thinking about consolidation as a tool in their strategic toolkit. Additionally, when a CEO is running day to day, without precedent of a clear exit strategy, and most board members are not deeply familiar with nonprofit structures, then no one raises the possibility of merger.

Strategies to Raise Awareness and Build Readiness

To overcome this barrier, the sector needs a deliberate effort to educate and engage CDFI stakeholders on M&A opportunities. Key strategies include the following.

Publish White Papers and Research on CDFI Consolidation

There is a need for more knowledge products that analyze when and how CDFI mergers or integrations have worked. Funders or industry associations could commission white papers and case studies that document the process, outcomes, and lessons learned from past CDFI mergers (including those described later in this proposal). By disseminating these findings, we normalize the idea that combining institutions can be mission-enhancing. Such research can reframe consolidation as "creating more cost-efficient operations and broadening reach" in the social sector, rather than as a failure *(Source. ssir.org)*. Importantly, publications should highlight proactive success stories—e.g., CDFIs that merged not because of insolvency, but to seize an opportunity—to plant the seed in readers' minds that merger can be a savvy strategic move.

White papers might also provide checklists for boards considering M&A, demystifying the due diligence process.

Hold Public Events and Panels on the Future of CDFI Integration

Conferences such as the Opportunity Finance Network annual meeting or regional CDFI convenings should include sessions on consolidation—and not simply the “how to,” but the earlier and very important consideration of “why.” By putting the topic on the agenda, these events signal that it’s an important, timely, and normal discussion. Panels could include CEOs who have led or considered mergers, funders who supported consolidations, and technical experts, allowing candid dialogue about challenges and rewards. Hearing peers discuss their merger experiences—both the considerations for whether to engage or not, the difficulties and the positive outcomes at every stage, including the decision to not proceed, or not proceed with the initial partner, or to consider different sequencing (i.e., the timing was not correct)—can be one of the most effective ways to overcome psychological barriers. Additionally, stand-alone webinars or roundtables can be hosted for CDFI board members, who play a critical, but different role in merger decisions from their for-profit counterparts. These events create a forum to ask questions and counter misconceptions (e.g., that a merger necessarily means loss of an organization’s mission—which successful cases disprove).

Convene Peer Cohorts and Confidential Exploratory Groups

Another strategy is to organize small cohorts of CDFI executives who are interested in exploring integration to learn together in a facilitated setting. For instance, a foundation might convene a “CDFI strategic partnership cohort” where five to seven CDFIs meet periodically with an expert facilitator to discuss their strategic challenges, learn about collaboration models (from back-office integrations to full mergers), and even identify potential partners among each other. The cohort model builds trust and allows busy leaders to dedicate structured time to this topic. Likewise, regional CDFI alliances could host confidential matchmaking dialogues: behind closed doors, a neutral facilitator can introduce the idea that, say, two small CDFIs in adjacent states might achieve more together and gauge interest. The confidentiality is key to allow frank exploration without public commitment. Over time, these micro-convenings can yield actual merger negotiations. Even when they don’t, they raise the comfort level of participants in considering consolidation. The goal is to move the notion of M&A from the taboo or unknown, into a familiar and even anticipated option for growth.

By increasing the visibility of consolidation as a strategy, the CDFI sector can combat inertia. When more practitioners “see themselves” in the case studies and hear leaders they respect talking about mergers, awareness builds that this is not about giving up on one’s mission—it’s about amplifying impact. In short, the sector must talk openly about M&A so that CDFI boards and management have the knowledge—and inspiration—to consider it before a crisis forces the issue.

Urgency Barrier: Overcoming Hesitation, Legacy Concerns, and Risk Aversion

The Issue – Emotional and Governance Hurdles

Even when CDFI leaders are aware of consolidation as an option, there can be a lack of urgency or will to pursue it. Several factors contribute to hesitation: governance dynamics, legacy identity, and fear of the unknown financial outcomes. Nonprofit mergers are "emotionally charged" because they involve sensitive issues of organizational identity and control *(Source. ssir.org)*. CDFIs often have proud local brands and deep community relationships that boards and stakeholders are loath to alter. A merger may be seen as an erosion of an organization's legacy—its name, its unique story—especially if one entity's identity is subsumed into another's. Board members, who are fiduciaries, might also worry about losing their governance role or influence in a combined organization. Indeed, research shows that "getting the boards aligned" is a top challenge in nonprofit mergers *(Source. ssir.org)*. Questions arise: *Who will sit on the combined board? Which CEO will lead, and will the other step aside? How do we honor donor intent and promises made under each organization's banner?* These governance and leadership concerns can put a damper on urgency; it feels safer to stick with the status quo.

Additionally, branding and community perception issues create friction. For community-based CDFIs, a name change or merger can cause constituents to fear that a local touch will be lost. For example, a neighborhood credit union merging with a larger one might face member anxiety about becoming less community focused. Even staff can be protective of the organizational culture that they know, raising internal resistance. Financial uncertainty is another brake on urgency: boards might ask, *will 1 + 1 really equal 3, or do we risk ending up with 1.5?* The lack of guaranteed outcomes and the complexity of merging loan portfolios, systems, and investor covenants can make action feel daunting. In summary, psychological and practical reservations often lead CDFI stakeholders to postpone merger discussions indefinitely, unless a crisis drives them back to the table.

Strategies to Create Urgency and Encourage Proactive Action

To overcome these hurdles, the sector needs to both address the underlying concerns and incentivize a proactive mindset. Strategies include the following.

Showcase and Celebrate Success Stories

One of the most powerful ways to ease fears is to point to concrete examples where consolidation preserved and even enhanced mission impact. As part of the awareness-building mentioned above, it is crucial to publicize the results of CDFI mergers: *Did the new organization lend more in the community? Were both missions honored? Did staff retention stabilize?* For instance, if a merged CDFI was able to launch new programs for underserved entrepreneurs that neither partner could have done alone, that story should be told widely. As more success cases accumulate, the narrative shifts from "mergers are risky" to "mergers, when well-executed, can reinvigorate our mission." This also helps board members see that agreeing to a merger is part of good stewardship, not dereliction of duty. Industry networks could create awards or recognition for innovative CDFI partnerships, signaling that consolidation is viewed positively by peers and funders. The psychological effect of normalization cannot be overstated. As one nonprofit sector analysis noted, the number of nonprofits has grown despite recession pressures, partly because mergers still feel unusual *(Source. ssir.org)*. We must make them feel not just usual, but laudable, in the CDFI realm.

Address Governance Upfront with Shared Leadership Models

Many worries about "who will be in charge" can be mitigated by designing shared leadership structures in the combined entity. CDFIs considering a merger should be encouraged to adopt creative governance solutions, such as a balanced merged board with equal representation from each side, at least initially, or co-CEO arrangements during a transition period. In the banking sector, a recent merger of two CDFI banks created a board composed of members from both institutions and retained leadership roles for both CEOs (one became board chair, the other became CEO of the new entity) *(Source. fintechfutures.comfintechfutures.com)*. This kind of power-sharing can ease the personal and political tensions that block mergers. Funders can provide sample M&A term sheets or pay for facilitators to help boards negotiate these arrangements fairly. The key is to show that a merger need not mean an outright takeover; there are ways to honor the contributions of each organization. Similarly, branding can be blended or retained in creative ways (e.g., a dual brand name or keeping legacy program names under the new umbrella) so that each organization's identity is respected. If CDFI stakeholders see a pathway where their legacy will continue, albeit in evolved form, they will be more interested in pursuing talks rather than letting them stall. Every merger will eventually consolidate leadership and brand, but giving stakeholders a voice in shaping how that happens can turn fear into cautious optimism.

Emphasize the Cost of Inaction

To instill urgency, it is also important to underscore the risks of *not* consolidating in the face of industry trends. CDFIs operate in a rapidly changing environment: fintech lenders encroach on small business lending, interest rates and credit costs are rising, and large mainstream institutions are seeking to serve some markets CDFIs once had to themselves *(Source. fedcommunities.org)*. A standalone CDFI with limited capital and technology may simply not survive these competitive and economic pressures. Boards should be presented with scenario analyses: *"If we continue independently, can we achieve our five-year strategic goals? What if a recession hits—would we weather it better alone or with a partner?"* Often, this reveals that standing pat could lead to mission failure in the long run, e.g., being too small to absorb losses or invest in necessary innovation. By framing consolidation as a way to *preempt* future crises, we flip the narrative: the question becomes, *can we afford not to integrate with others?* Regulators and investors also have a role here—if they signal that they will favor well-capitalized, larger CDFIs for future opportunities (contracts, funding, etc.), that creates urgency for smaller players to team up now rather than be left behind. Essentially, the sector's message to itself should be: proactive mergers are a sign of strength and foresight, whereas clinging to fragmentation could leave communities underserved. This shift in mindset—from fear to fiduciary duty—can prompt boards to act while they still have the benefit of time and choice, instead of merging later under duress.

In implementing these strategies, sensitivity is key. Stakeholders' concerns around identity and governance come from a place of caring deeply about the mission. By acknowledging that and providing pathways to honor those concerns, we can unlock the readiness to move forward. The goal is to foster a sense of urgency that is motivated by opportunity and responsibility, not panic. CDFIs that act with urgency to consolidate when it makes strategic sense will likely be the ones that thrive and continue to serve their communities most effectively in the years ahead.

Capacity Barrier: Building the Infrastructure for Successful Integration

The Issue – Underestimating the Complexity and Resource Needs

Merging two CDFIs—or any organizations—is an intricate process. It not only involves legal consolidation, but also the integration of lending portfolios, management information systems, loan servicing platforms, staff teams, and organizational cultures. Many CDFIs may lack the internal expertise or bandwidth to manage such a project on top of their regular work. There is a tendency to underestimate what it takes: leaders might optimistically assume that after an initial agreement, the organizations can simply "figure it out" as they go. In reality, insufficient planning and capacity can cause integrations to falter, validating fears that mergers are messy. The capacity barrier is evident when mergers *do* happen in the nonprofit space; integration costs and challenges can strain the combined entity if not properly resourced, leading others watching from the sidelines to become wary. Moreover, smaller CDFIs often do not have in-house finance or IT teams experienced in consolidation or dedicated change management staff to align everyone around the new structure. If an attempted merger bogs down due to these capacity shortfalls, it can sour the concept for years. Thus, the lack of internal resources and realistic preparation is a critical barrier that must be overcome to make consolidation a viable strategy.

Strategies to Bolster Capacity and Ensure Integration Success

The approaches proposed to strengthen CDFIs' capacity for merger execution follow.

Embed Merger Planning into Organizational Culture

CDFIs should start cultivating a culture that is open to collaboration and change, even before any specific merger opportunity arises. This means training staff and boards in adaptive leadership skills and emphasizing mission over organization. If everyone is aligned that "we exist to serve the community, not to perpetuate our org chart," then staff are more likely to embrace a merger as a positive evolution. Organizations can do internal scenarios or tabletop exercises: e.g., ask the management team, *"How would we go about merging with a peer? What functions could we integrate easily and which would be hard?"* These discussions make the concept less foreign and identify areas to build capacity. For example, if a CDFI realizes its data systems are outdated and would complicate any integration, it can invest in upgrades now, benefiting current operations and any future merger. In essence, CDFIs should be merger-ready in culture and systems, even if they have no immediate plans, much like being prepared for a partnership opportunity if one knocks. This cultural shift also involves encouraging shared leadership internally: delegating authority, forming cross-functional teams, and possibly job rotations or exchanges with other CDFIs. Such practices break down the silo mentality and prepare staff to work with new colleagues from another organization in the event of a combination. Finally, organizations can work with partners on joint projects or joint lending opportunities to build the muscles of the team.

Leverage External Expertise and Shared Services

To fill gaps in internal capacity, CDFIs should not hesitate to bring in outside help for the merger process. As recommended earlier, funders can provide grants for technical assistance. CDFIs should take advantage of specialized consultants (legal, financial, HR, etc.) who have guided nonprofit mergers before, as well as learning from peer mentors (CDFI executives who have merged can act as advisors). Additionally, before a full merger, CDFIs can engage in partial integrations or alliances that build capacity. For instance, two CDFIs might start by sharing a back-office function—say, a joint loan servicing team or a consolidated loan fund for a specific program—as a way to test integration on a smaller scale. This can reveal operational challenges and build trust incrementally. Another idea is to form a network or federation model: multiple CDFIs come under a common holding entity or administrative umbrella (with unified finance, HR, or technology), even if their brands remain distinct. This creates a framework for capacity sharing that could later facilitate a complete merger. By developing these joint infrastructures (common loan platforms, pooled loan loss reserve funds, etc.), CDFIs essentially practice integration and develop the muscle memory to do it successfully. The sector could also establish a "Merger Integration SWAT team"—a cadre of experts funded to parachute in and assist any two CDFIs that announce an intention to merge, helping manage the project management and technical integration for twelve to eighteen months. This removes the burden from the CDFIs themselves of inventing the wheel on how to merge, ensuring that capacity constraints don't derail the effort.

Adopt Phased Integration and Continuous Communication

Building capacity also means pacing the consolidation in digestible phases and keeping stakeholders informed to maintain support. A "big bang" merger where everything changes overnight is risky. Instead, CDFIs can plan a phased approach. For example, in the first three months, integrate governance and leadership (boards meet jointly, leadership team is restructured); in six months, unify lending policies and combine fundraising efforts; in twelve months, merge technology systems; and so on. A phased plan with clear milestones allows staff to adapt gradually and make course-corrections as needed. Throughout this process, communication is paramount—with employees, community partners, borrowers, and investors. Capacity for communication is often overlooked; assigning a dedicated communications lead for the merger can ensure that messaging is consistent and concerns are heard. This helps retain the confidence of key stakeholders (e.g., a major borrower doesn't panic that their loan terms will change; a donor understands how their funds will be used post-merger). Ultimately, successful integration capacity is about both technical execution and human factors. CDFIs must invest in both: robust project plans and IT integration on one side, and change management, training, and transparent communication on the other. When both are addressed, the merger is far more likely to achieve its intended benefits.

By proactively developing capacity—internally and through external support—CDFIs can approach consolidation not as an overwhelming leap, but as a series of manageable steps. The more the sector can institutionalize the knowledge of "how to merge," the less daunting each individual case will be. This again is an area where funders and networks play a role: curating toolkits, checklists (e.g., La Piana Consulting's nonprofit merger toolkit), and perhaps establishing a knowledge hub for CDFI integrations *(Source: lapiana.org)*. Over time, as capacity grows, we can expect more CDFIs to initiate consolidation from a position of strength, confident that they have the know-how—or can get it—to make it work.

Case Studies: Lessons from CDFI Consolidation and Integration

To illustrate the potential of consolidation and provide tangible lessons, we present three anonymized case studies drawn from recent CDFI experiences. Each highlights a different approach to integration—from full legal mergers to innovative partnerships—and demonstrates how the strategies discussed above come to life.

Case Study 1: Merging for Scale and Product Expansion

Two established national CDFIs—one focused on community facilities lending and another on small business lending—recognized that by joining forces they could greatly expand their reach and offerings. In 2022, they merged under a new unified platform, creating an organization that provides a continuum of financial products (from microloans to large-scale development loans) for communities nationwide *(Source. afro.com)*. Each entity brought distinct expertise and regional strength to the table. Importantly, they approached the merger proactively, not out of financial distress. Their goal was to build a "diversified, mission-driven financial services firm" capable of tackling systemic inequities in access to capital *(Source. afro.com)*. Post-merger, the two CDFIs initially maintained their separate local operations and brands, but they pooled resources and shared back-office functions. This allowed them to launch new joint products, such as an innovative commercial real estate loan for minority entrepreneurs that neither could have developed alone *(Source. afro.com)*. Early results were promising: the combined organization raised substantial new capital (including social investment from a major bank attracted by the larger balance sheet) and rolled out programs in multiple cities simultaneously. A key to their success was extensive communication and stakeholder engagement—they spent a year before the merger talking with community partners and funders about the vision, building buy-in. They also adopted a co-leadership model: the CEO of one CDFI became CEO of the new entity, while the other CDFI's CEO took on a President role overseeing certain mission initiatives, ensuring both legacies had a champion. This case demonstrates how proactive consolidation can amplify impact: by merging, the CDFIs achieved national scale and product innovation that neither could have accomplished independently. It also illustrates the value of preserving what works (local presence and relationships) while integrating strategically to exploit synergies—a blueprint that other CDFIs can emulate.

Case Study 2: Combining to Address a Market Gap at Scale

In 2020, a leading microfinance CDFI based on the West Coast and a national network of lending affiliates decided to integrate their operations to tackle the enormous unmet need for small-dollar business loans. The result was a new nationwide CDFI—effectively formed by the merger—that immediately became the largest nonprofit small business lender in the country *(Source. fintechnexus.com)*. The driving vision was to create a platform that could deliver responsible, affordable loans to underserved entrepreneurs across urban and rural America, leveraging technology and data. The integration was framed as creating the first truly national microlending strategy in the CDFI field *(Source. fintechnexus.com)*. By unifying, they planned to develop new loan products, establish fresh partnerships (including with fintech platforms), and invest in data analytics to reach borrowers more efficiently *(Source. fintechnexus.com)*. A startling fact underscored their urgency: prior to the merger, industry research estimated an $87 billion annual credit gap for small businesses in the United States needing loans under $100k *(Source. fintechnexus.com)*. This merged CDFI aimed squarely at that gap, bringing together the West Coast lender's capital base and the national network's distribution channels. In practice, the combination encountered challenges—aligning underwriting models and integrating different tech systems took time—but it was buoyed by significant philanthropic and corporate support who saw the value in a scaled solution. The CEO of the newly formed entity articulated the benefit of coming together: "By coming together, we can accomplish what may have seemed impossible to some. This is the first national effort that can transform the small business lending sector…building the future of American small business credit…brings our two organizations together" *(Source. fintechnexus.com)*. This bold, proactive merger showcases how consolidation can be motivated by mission-driven urgency: the partners did not wait for financial woes but merged to better meet a massive community need. They also benefited from the narrative of success—announcing the creation of a groundbreaking national fund attracted further investments and positioned the CDFI as a go-to partner for government initiatives. The lesson here is that scale itself can be a catalyst: funders and policymakers are more likely to rally behind a big, unified effort addressing a national problem than many fragmented efforts, so consolidation in this case unlocked not just internal synergies but external support on a new level.

Case Study 3: Mission-Oriented Banks Merge for Greater Impact

Two CDFI-certified community banks, each serving predominantly minority communities on opposite coasts, pursued a merger in 2020 to create a stronger institution with over $1 billion in assets. This consolidation, which created what is now the largest Black-led bank in the United States, was driven by the recognition that combining forces would increase their capacity to finance critical projects. Individually, each bank had a solid track record (decades of lending to affordable housing, Black-owned businesses, and nonprofit facilities), but size constraints limited the scale of deals they could take on. Upon merging, the combined bank dramatically expanded its commercial lending capacity for investments in multifamily affordable housing, small businesses, and nonprofit development in financially underserved areas *(Source. fintechfutures.com)*. It also created a national platform for impact investors—meaning large institutions interested in supporting economic equity could now work with a single, bigger bank rather than split funds between two smaller ones *(Source. fintechfutures.com)*. Notably, this merger was carefully structured to address governance and identity concerns: the new board of directors was drawn from both banks' boards and leadership was shared, with one CEO becoming board chair and the other serving as CEO of the combined bank *(Source. fintechfutures.com)*. Both banks' names carried significant legacy, so they retained one of the historical names for the combined entity's branding to maintain community trust. The merged bank maintained its CDFI status and accompanying mission commitment (by regulation it must continue to direct at least 60 percent of lending to low- to moderate-income communities), assuaging fears that growth might dilute its focus on marginalized borrowers *(Source. fintechfutures.com)*. Early outcomes included a stronger capital position and plans to expand into new high-need urban markets that neither bank could have entered alone *(Source. fintechfutures.com)*. The experience also highlighted the importance of regulatory and funder support: bank regulators expedited approvals, recognizing the public benefit, and several foundations created deposits and reserves to support the merged entity's larger lending pipeline. This case study reinforces that even for regulated CDFI institutions, mergers can be a powerful tool to accelerate mission by scaling up lending power and drawing in new investment. It also provides a blueprint for handling the "three Cs" (control, culture, and capital) in a merger: balancing control via joint governance, blending cultures through dual leadership and clear shared values, and raising capital to fuel the merged enterprise's growth. The end result in this example is a stronger financial institution positioned to make substantially larger community investments than either predecessor, validating the decision to integrate.

Cross-Cutting Insights from the Case Studies

Across these examples, several common themes emerge. First, each consolidation was proactively pursued with a clear strategic rationale—whether it was scaling products nationally, broadening services, or increasing lending capacity. This clarity of purpose helped secure stakeholder buy-in. Second, legacy mission and identity were preserved even as organizations combined, through tactics like balanced governance, keeping local operations, or adopting new umbrella identities that honor past brands. This shows that losing one's mission DNA is not an inevitable outcome of merging; on the contrary, a well-planned integration can strengthen mission delivery. Third, external support mattered. In all cases, the merging CDFIs received encouragement and resources from funders, investors, or regulators, confirming that an ecosystem approach (as outlined in the Calls to Funders and Investors section below) is vital. Fourth, the case studies illustrate tangible benefits: new products launched, larger loans were made, and more efficient operations were achieved. They serve to inspire other CDFIs by making the notion of consolidation concrete and by documenting that the feared negatives can be mitigated or avoided. In short, these stories are early proof points that the future of CDFIs may well lie in smart integration—combining heritage and strengths to meet the moment's challenges.

Calls to Funders and Investors: Enabling Strategic Consolidation

Achieving the promise of CDFI consolidation will require supportive action from funders, investors, and industry stakeholders. This proposal issues several specific calls to these actors, as follows.

Capacity-Building Grants for M&A Preparation

Funders (foundations, government programs, and intermediaries) should establish grant funds to help CDFIs cover the upfront costs of exploring and executing mergers or integrations. Mergers demand significant due diligence, legal and financial analysis, cultural alignment work, and integration planning—activities that overstretched CDFI management teams have little slack to undertake. "A lack of matchmakers" and facilitators in the nonprofit sector has left organizations without efficient ways to even explore mergers *(Source. ssir.org)*. Philanthropy can fill this gap by funding feasibility studies, consultants, and transition staffing for interested CDFIs. For example, a foundation could offer a "merger exploration grant" that two or more CDFIs jointly apply for, which pays for the hiring of an experienced merger consultant (including funds to access expertise in legal, financial, and HR issues) or the temporary back-fill of key staff, so leaders have time to negotiate and plan. Such grants would remove a major barrier—the lack of capacity to consider M&A due to day-to-day operational demands—which currently causes many CDFI executives to table consolidation discussions. In practice, these capacity grants represent a modest investment compared to the long-term gains of a successful merger (which can make future grant dollars for the combined entity more impactful). Funders should view this as high-leverage philanthropy, a one-time support that enables CDFIs to fundamentally restructure for greater efficiency and scale.

Creation of a CDFI "Marketplace" for Consolidation Opportunities

We recommend establishing a formal mechanism—a CDFI M&A marketplace or matchmaking platform—to connect institutions interested in exploring mergers or acquisitions. One reason mergers are infrequent in the nonprofit world is the absence of an "organizational marketplace" through which nonprofits can discreetly identify potential partners *(Source. ssir.org)*. In the private sector, companies have investment banks and brokers facilitating M&A, but mission-driven CDFIs lack an analog. A CDFI-focused marketplace could be an online portal (perhaps managed by a national association or CDFI intermediary) where organizations can signal interest in partnerships, find compatible peers (e.g., by geography, product focus, or strategic need), and access resources on consolidation. This platform might list CDFIs open to merger discussions, provide anonymized profiles of their size and focus, and allow mutual discovery in a confidential manner. It could also curate a roster of vetted technical assistance providers (legal, financial, HR experts, etc.) that specialize in nonprofit integrations. The matchmaking function is critical. As Standford Social Innovation Review researchers note, the lack of matchmakers has been a key obstacle causing promising nonprofit mergers to fail to launch *(Source. ssir.org)*. Funders and industry groups (like Opportunity Finance Network or Community Development Bankers Association) can collaborate to seed this marketplace. Additionally, policy stakeholders might support it by funding a "CDFI merger clearinghouse" or incentivizing participation. For instance, the CDFI Fund could give scoring consideration in grant programs for CDFIs that have a merger plan or use this marketplace.

Aligned Investment to Support Consolidation

Social investors and banks can complement these efforts by tailoring investments to facilitate post-merger integration and growth. For example, impact investors could offer "patient capital" or equity-like loans to newly merged CDFIs, giving them runway to harmonize systems and scale up lending. Likewise, banks subject to the Community Reinvestment Act (CRA) might earmark larger investments or deposits for consolidated CDFIs that demonstrate improved capacity to deploy capital. The idea is to reward and reinforce the act of consolidation: if two CDFIs take the bold step to merge, investors should step up with flexible capital commitments to ensure the new entity succeeds. This could take the form of a CRA bank consortium creating a special facility for mergers, or a guarantee pool to de-risk the integration period. From a policy perspective, federal agencies could introduce merger incentive grants—analogous to how some public programs reward collaborations—providing extra funding to CDFIs that voluntarily combine operations. These signals from funders and investors create a virtuous cycle, making consolidation not only feasible but attractive, because CDFI leaders see that integration comes with support for greater impact.

In all these calls to action, the underlying theme is partnership with CDFI leadership. Funders and investors should engage CDFI boards and CEOs in shaping these tools, to ensure they meet real needs. For instance, capacity grants should be flexible and trust-based, since each potential merger has unique sensitivities. The creation of a marketplace must respect confidentiality and mission alignment above all, to gain CDFI buy-in. Done right, these interventions can catalyze a wave of strategic consolidation that leaves the overall CDFI field stronger and more resilient.

Conclusion: A Call to Embrace Strategic Consolidation

The community development finance field stands at an inflection point. CDFIs are faced with ever-growing demand, complex economic headwinds, reduced government support, competition for philanthropic money, and the imperative to address deep-rooted inequities. In this context, business-as-usual is not sufficient—the sector must evolve to increase its impact. Strategic consolidation or integration, when driven by mission and supported appropriately, offers a powerful pathway to that evolution. This proposal has outlined how reframing mergers as proactive and positive can unlock new opportunities for CDFIs: larger and more resilient institutions, diversified capital streams, and enhanced ability to meet community needs at scale. It has also candidly addressed the hurdles and proposed actionable solutions—because realizing the promise of consolidation will require intentional effort from CDFI leaders, boards, funders, and policymakers alike.

For funders and policy stakeholders, the message is clear: they have a pivotal role to play in enabling the next generation of CDFIs to emerge through integration. By investing in capacity-building, creating incentives, and championing success stories, they can help shift the narrative and reduce the risk of these undertakings. Every dollar spent on facilitating a thoughtful merger can yield many more dollars of community financing down the line, as more robust CDFIs are better able to leverage funds and operate efficiently. In public policy terms, supporting CDFI consolidation aligns with goals of effective use of federal funds and maximizing the reach of community development programs. For example, a single stronger CDFI can deploy a federal grant more effectively than several fragmented ones, achieving greater impact per tax dollar. Thus, encouraging consolidation is not about picking winners and losers, but about strengthening the overall ecosystem to better serve low-income communities.

Evidence shows mergers have succeeded in scaling impact. For example, the newly combined organization described in Case Study 2, has deployed over $1 billion through more than 32,000 loans since the merger, with over 90 percent of loans going to underserved entrepreneurs, including people of color, women, and low-income borrowers. In FY2023 alone, it disbursed $75 million in loans to over 2,400 small businesses. These loans helped create or retain over 66,000 jobs and generated nearly $2 billion in economic activity. The organization also expanded into forty-five states, formed partnerships with fintechs and corporations, and piloted inclusive loan products, demonstrating that consolidation enabled new scale and innovation.

It is also important to acknowledge that consolidation is not a panacea nor appropriate in all circumstances. There are over a thousand CDFIs, and their diversity in approach is a strength of the field. The aim is not to merge for merger's sake, nor to reduce the number of CDFIs arbitrarily, but rather to remove obstacles so that those for whom it *does* make sense can pursue it freely. Many CDFIs will continue to thrive independently, and collaboration short of merger (such as loan participations, networks, and alliances) will continue to be vital. This proposal's advocacy for M&A strategies sits within a broader continuum of CDFI collaboration. Ultimately, it is about fostering an environment where organizational boundaries do not stand in the way of community impact. Whether through full mergers or other integrations, CDFIs should have the flexibility to reconfigure themselves to meet the needs of the communities they serve.

In closing, the future of community development finance may well depend on bold, innovative combinations that allow mission-driven lenders to achieve what none could do alone. The trends in the sector—from scale effects in sustainability to the efficiencies gained in other nonprofit mergers—point to the potential rewards of consolidation *(Sources. cdfifund.gov; ssir.org)*. It is time for the CDFI industry to move past the stigma of the "M or A word" and instead see it as a natural step in organizational life cycles. Funders and policymakers, equipped with the insights from this research and motivated by the success of early adopters, can be the catalysts that make proactive CDFI consolidation an emerging norm. The ultimate beneficiaries will be the underserved communities and entrepreneurs who gain access to more robust and responsive financial services. Stronger together need not be just a slogan—for CDFIs, it can be the blueprint for the next decade of community development impact. By embracing strategic consolidation now, we lay the foundation for an inclusive financial system that is scaled to meet the challenges and opportunities of the future.

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