



# Exploring Equity Considerations in Childcare Lending at CDFIs

## Introduction

Typical discussions about the importance of early care and education (ECE) for children focus on child development and academic preparation. The effects of the COVID-19 pandemic have broadened this conversation as pandemic-related shutdowns illuminated the critical role of childcare for families, as well as many of the strains on the existing early education system in the U.S.

For low-income families, in particular, affordable and reliable childcare is necessary for parents and guardians to maintain full-time employment to support their households. However, despite the demand, childcare seats have been in short supply. According to a recent report by Child Care Aware of America, 9% of licensed centers and 10% of family care, or home-based, centers closed between December 2019 and March 2021 in 37 states. These closures added to a decline that was already occurring pre-pandemic due to workforce shortages and funding challenges.<sup>1</sup>

For more than 30 years, community development financial institutions (CDFIs) have engaged in the childcare sector as lenders, technical assistance providers, grant makers, and policy advocates not only to support this under-resourced sector access capital, but also to increase the number of high-quality childcare seats in low-income communities through facilities investments. Most CDFIs describe ECE as an important

---

<sup>1</sup> Child Care Aware. (March 2022) "Demanding Change: Repairing Our Childcare System." Available: <https://www.childcareaware.org/demanding-change-repairing-our-child-care-system/>

area of their work and mission because it is a critical component of any healthy, thriving community. There is great need for quality options in low-income communities—particularly low-income communities of color—to both support school readiness and help close the education achievement gap, and to allow parents and guardians to work to support their family’s well-being.



Figure 1: Photos provided courtesy of Self-Help.

CDFIs’ focus on facilities and increasing the number of high-quality childcare seats means that attention to outcomes for providers has often taken a backseat. Even in broader policy discussions of the role of childcare in communities and families, our team found that providers’ voices are often missing from the conversation. As CDFIs aim to advance racial equity in the sector, the experience and impact of their work on providers is becoming a more central part of the discussion, which is vital given the demographic make-up of the industry. According to a 2021 Urban Institute report, nearly all of the early care and education workforce is women with nearly 40% of the more than three million workers identifying as Black or Hispanic.<sup>2</sup> The same report explains that “ECE educators are among the lowest-paid

---

<sup>2</sup> Diane Schilder and Stephanie M. Curenton. (January 2021) “Policymakers Can Redesign the Early Childhood and Education System to Root Out Structural Racism.” Urban Institute. Available: <https://www.urban.org/urban-wire/policymakers-can-redesign-early-childhood-and-education-system-root-out-structural-racism>

workers in every state, despite their important role in enabling parents with young children to work.”<sup>3</sup>

In addition to these positions being under-paid, research shows that systemic racism exists in the sector as white teachers are more likely to receive higher pay and benefits than Black teachers,<sup>4</sup> maintaining a history of women of color in low-wage care roles. Even still, many childcare operators are women of color who continue to support children, their families, and communities under high pressure, narrow margins, and insufficient funding, creating real barriers to accessing CDFI or other financing.

While many CDFIs have become more aware of systemic racism over recent years, most have turned their racial equity efforts to internal culture and practices, such as hiring and promotions or anti-racism training for staff. More recently the COVID-19 pandemic and 2020 racial uprisings led many to build on equity learning and discussions by developing tangible commitments at the programmatic level, some of which are documented in this report. Ultimately, we find that the manner and degree to which these equity commitments, specifically in ECE, have been made and implemented varies across each organization.

---

<sup>3</sup> Ibid.

<sup>4</sup> Leah J.E. Austin, Bethany Edwards, & Marcy Whitebook. (December 2019) “Racial Wage Gaps in Early Education Employment.” Center for the Study of Child Care Employment. Available: <https://cscce.berkeley.edu/publications/brief/racial-wage-gaps-in-early-education-employment/>

# Project Overview

BennettWeston Consulting LLC was hired by NCFN to investigate the ways in which CDFIs consider racial equity when lending to ECE or childcare operators. The ensuing project document current practices and provides suggestions for strengthening the racial equity focus in the sector. The project consisted of the following components:

## 1. Project Kickoff

- Planned with Self-Help on project scope, workplan, and timeline; Self-Help led this project on behalf of NCFN
- Hosted kickoff meeting with NCFN members

## 2. Background research and literature review

- Explored relevant academic and industry reports
- Developed interview and survey questions based on research

## 3. Interviews and Surveys

- Conducted interviews with representatives from the five CDFIs on NCFN's executive committee: IFF, Low-Income Investment Fund, Local Initiatives Support Corporation (LISC), Reinvestment Fund, and Self-Help
- Sent survey to the 29 CDFI members of NCFN of which 12 CDFIs responded (non-CDFI members did not participate)

- Facilitated a debrief conversation for NCFN members who attended the racial equity workshop with Crossroads Anti-Racism Organizing and Training

#### **4. Data Analysis and Findings**

- Identified trends from the interviews, surveys, and background research
- Created a summary memo for Self-Help to discuss initial findings and recommendations; used feedback from that memo to finalize recommendations included in this report



*Figure 2: Photos provided courtesy of Self-Help.*

## Findings

The project scope requested identification and documentation of current equity practices and frameworks used by CDFIs in ECE, and this project confirmed that each organization's approach to equity varies based on internal culture, staff diversity, location, and other factors. We analyzed the CDFIs' self-assessed organizational equity commitment and practices alongside their lending processes to understand how barriers created by systemic racism are considered within their organizations and ECE programs. We recognized in our analysis that equity considerations could show up even if they are not named as such.

ECE leaders and staff at CDFIs believe that real and perceived barriers exist and inhibit their ability to center equity even as CDFIs exist to make access to capital possible for low-income and other people typically left out of traditional banking services. Some of the barriers to racial equity identified in the project survey include readiness and creditworthiness of potential borrowers, lack of culturally appropriate and relevant marketing, lack of organizational buy-in, unaffordable loan products with onerous terms and credit standards, misaligned funder requirements, and potential legal or regulatory challenges. Despite these barriers, CDFIs continue to meet the needs of many people who would not otherwise access the capital they need for their businesses and communities. The following sections document practices that support racial equity, as well as areas for growth.

## **Practices to Continue**

Six promising findings emerged during this project that demonstrate CDFIs' commitment and intention to be more anti-racist.

- At the organizational level, nearly all responding CDFIs explicitly and/or publicly state a commitment to racial equity. Along with stating a commitment to equity, most affirmed that their organizations have set goals toward those commitments.
- CDFIs are engaging in collective learning about the history of structural and systemic racism in the United States, leading some to review their internal practices more closely than before at the organizational or program levels as the first steps in their equity journey.
- CDFI staff share a strong desire to be more intentionally equitable in their work in the ECE space and recognize the importance of such efforts, especially in a sector that has such an important impact on families and communities, and that is dominated by women of color employees and employers.
- The CDFIs' approach to the ECE sector is locally focused and collaborative with on-the-ground partners and government and



philanthropic funders, allowing them to have a deeper understanding of community need.

- Many CDFIs have pivoted to focus their ECE programs on technical assistance and grantmaking to support capacity-building and improved childcare quality. While technical assistance has long been incorporated into CDFIs' lending programs in childcare and beyond, grantmaking by nonprofit lenders is largely a response to the challenges that underfunding and tight margins have on childcare businesses' ability to be approved for financing. While most only make a handful of childcare loans per year, as discussed later, some of the CDFIs with grant programs deploy capital to a few hundred businesses in the same year.
- CDFIs are creative and flexible in their underwriting, often developing needed solutions to meet immediate, critical needs faced by childcare businesses. An example of this flexibility is multiple CDFIs making bridge loans to state funding so that ECE providers can operate smoothly between funding disbursements. Interviewees name this tactic as a product that traditional lenders would not offer.

## Areas for Growth

A few additional findings demonstrate areas that, with attention and appropriate resources, CDFIs could see additional growth in their equity practices.

- Data gathered by CDFIs on their lending and programmatic work is rarely contextualized by feedback from clients or borrowers.
- CDFIs are not regularly evaluating the effectiveness of their programs and loan products. Some continue to use products for years without changing them or formally assessing how well they meet current market needs.
- Instead of being codified and documented, equity considerations are often held by one or a small number of CDFI staff who push for and prioritize specific needs. To paraphrase one interviewee, CDFIs are often making loans with equity considerations that are exceptions to their normal lending policies, but a potential client would not find that information on a product sheet. In the childcare sector more than other sectors, CDFIs seem to rely on the prevalence of women- and BIPOC-owned businesses to reach more diverse clients. There is not much attention given to rooting out potential bias, creating culturally responsive processes, or establishing processes to receive regular feedback directly from

clients about their experiences of seeking loans, grants, or technical assistance.

## Examples to Learn From

### *IFF loan policy changes*

IFF has long been an income-based lender as opposed to a collateral-based lender, meaning they do not require property appraisals to decide how much they are willing to lend, instead relying on a business' cash flow.<sup>5</sup> This practice goes against traditional lending standards but has growing legitimacy as more people become aware of the legacy of redlining and its contributions to the racial wealth gap depressing the property values of BIPOC owners. In recent years, racist appraisal practices tied to redlining in Black communities, particularly in housing, have been well-documented by national news outlets in recent years.<sup>6</sup>

In 2021, IFF added to its equitable lending considerations by updating target market criteria to make their loans and investments more accessible to BIPOC-owned nonprofits and others that often struggle to be approved for debt. The IFF team used three levers to update their target market criteria:

---

<sup>5</sup> Joe Neri (May 2019) "The Appraisal Bias: How More Equitable Underwriting Can Increase Capital in Communities of Color." IFF. Available: <https://iff.org/the-appraisal-bias/>

<sup>6</sup> Debra Kamin, "Black Homeowners Face Discrimination in Appraisals," *New York Times*, August 25, 2020, <https://www.nytimes.com/2020/08/25/realestate/blacks-minorities-appraisals-discrimination.html>

1. IFF removed the \$500,000 minimum revenue target which allows them to reach smaller organizations and more that are BIPOC led. There is no longer a minimum revenue requirement for nonprofits seeking financing from IFF.
2. IFF changed the requirement of three years of audited financial statements to: a) two years for larger nonprofits (more than \$500,000 in revenues); and b) no audit requirement for smaller nonprofits (less than \$500,000 in revenues). This change reflects an understanding that smaller nonprofits often do not need audits due to simple operations, making the costly financial documents unnecessarily burdensome.
3. IFF adjusted the number of years in business needed for financing from five to three years in alignment with their goal to provide access to capital to younger organizations.

A blog post about the changes written by IFF's chief lending and chief credit officers acknowledges that these changes are essentially a test for the organization because they are not certain about the impact, however, they also recognize that a willingness to try new methods is an important part of advancing equity.<sup>7</sup> Further, IFF's leaders are codifying the removal of targets that have been identified as barriers and ones that they often make exceptions to. Making formal policy changes allows these barriers

---

<sup>7</sup> Dana Lieberman and Terry Young. (November 2021) "Want to Make Capital Access More Equitable? Reconsider Your Target Market Criteria." IFF. Available: <https://iff.org/want-to-make-capital-access-more-equitable-reconsider-your-target-market-criteria/>

to be removed consistently and eliminates places where bias can creep into decision making.

### *Self-Help's Targeted Small Business Loan Product*

Like the other interviewed CDFIs, Self-Help has childcare specific lending products via their Child Care Revolving Loan Fund, a state of North Carolina supported program that has been in existence since 1990, and their Childcare Building Fund, a loan loss reserve for childcare facilities that mitigates risk for the lender. However, they are unlike most in that Self-Help is also a credit union and has a more robust small business lending program that provides additional financing tools that can be used for ECE lending.

One such tool is the Small Business Guarantee Program, which is internally funded and provides an 80% guarantee up to \$200,000 for Black-owned businesses. This product is used to fill collateral gaps caused by low property appraisals or low borrower equity contributions, a symptom of the racial wealth gap. Internally funding this targeted resource allows Self-Help to set the standards for the product based on what its small business lenders know to be true from their experience and without the influence of funders who might have competing priorities.

## *LISC's Project 10X<sup>8</sup>*

In response to the 2020 racial reckoning, LISC developed an organization-wide framework to advance racial equity across all areas of their work with a focus on Black communities and closing the racial wealth gap. The 10X framework is managed by the CDFI's National Strategy and Innovation team, which created a strategic plan and goals for the initiative. They are also developing metrics to track progress against their goals. While still in early stages of development, this framework could be a model for creating a centralized racial equity strategy across decentralized structure and work. If done according to the espoused vision, staff across LISC's 37 offices would use shared language and have shared criteria for what it means to advance racial equity in service to narrowing the racial wealth gap.

## *Grantmaking to increase access to capital at Low-Income Investment Fund and Reinvestment Fund*

While CDFIs intentionally target low-income communities and sectors like childcare that are not served by traditional banks, their loan products often have higher interest rates and less flexible terms than traditional lenders'. Reinvestment Fund and LIIF both have pivoted their childcare programs away from their CDFIs' lending functions to focus on grantmaking and technical assistance as a way to support the sector

---

<sup>8</sup> "Welcome to Project 10X," LISC, accessed March 29, 2022, <https://www.lisc.org/project-10x/>.

beyond the challenges of lending. At Reinvestment Fund, the childcare team was recently moved out of the lending function of the organization to be its own program. In 2021, this resulted in a handful of loans, but around 400 grants, increasing the CDFI's reach in the Philadelphia ECE market. At LIIF, the focus on grantmaking is described as an equity approach because it increases access to capital without the burden of repayment at underfunded childcare businesses in the very expensive San Francisco market. LIIF also continues to provide financing to ECE when appropriate or requested.



*Figure 3: Photos provided courtesy of Self-Help.*

# Key Equity Pillars

At BennettWeston Consulting our priority is the “how” and “why” of your work, particularly when embarking on a process to adopt an equity lens for your organization or project. We believe that equity must be rooted in organizational culture for any targeted efforts to work against the status quo that is systemic racism, inequity, and white supremacy. To shift culture in alignment with equity, we prioritize six “pillars” that advance equity in a team.

- 1. Clarity of purpose** - *Collective understanding of why you do what you do or why change is necessary*
- 2. Leadership support and commitment** - *Active support from people with formal and informal power*
- 3. Dedicated resources and time** - *Appropriate allocation of human capital, resources, and time to focus on implementation*
- 4. Curiosity and iteration** - *Willingness to try new ways of being and working; often we try, fail, and try again until we find a feasible solution*
- 5. Community wisdom** - *The people closest to the issue have the experience and wisdom needed to develop innovative solutions*
- 6. Data collection and storytelling** - *Are you doing what you set out to do? Who benefits and who is harmed?*

These pillars are used to analyze the project findings and to develop the recommendations found in the next section of this report.



## Recommendations

Childcare businesses have specific needs, and their owners and operators exist within gendered, economic, and racial experiences that affect their ability to access capital and wealth-building opportunities. For CDFIs working within communities where systemic inequities persist, there is a need for flexible financing terms, affordable debt, more use of non-loan capital, and a human-centered loan monitoring process. It is not enough to loosely understand systemic racism or to lean on a few benevolent ECE staff at CDFIs. Equitable values must be codified, formalized, and used to guide decision-making.

The following recommendations reflect steps that CDFIs can take to strengthen their espoused commitment to equity in ways that are substantive and resilient. The recommendations are organized using the six equity pillars described above.

- **Clarity of purpose**

- Establish collective understanding of what it means to advance racial equity within the childcare sector at your CDFI. What will your work achieve when equity is at the center?
- Develop a values or commitment statement as the foundation to your efforts. Regularly refer back to it.

- **Leadership support and commitment**

- For organizations where this is not the case, actively engage CDFI leadership and decision makers in diversity, equity, and

inclusion efforts through regular touch points for lasting structural change to occur.

- Leaders should clearly communicate when there are rigid barriers to change, such as legal or financial barriers.

- **Curiosity and iteration**

- Develop systems to routinely and consistently assess needs, goals, and effectiveness of programs and to pivot when necessary.
- Create spaces for reflection on questions such as:
  - What is working well in our program?
  - Are we reaching the people and communities we most want to reach?
  - How do our partners align with our values?
  - Are there needs that our products are not meeting? If so, do we have the ability to make the necessary changes?

- **Dedicated resources and time**

- Carve out the time to learn and build a shared equity analysis through annual anti-racism workshops and regular learning spaces.
- Develop a transparent system of responsibility and accountability around equity commitments.

- **Community wisdom**

- Continue grounding childcare work in communities through deep, long-standing relationships and partnerships, and responding to the community's stated needs.
- Build opportunities for providers and community members to learn and share feedback with CDFI programs.

- **Data collection and storytelling**

- Alongside assessment and evaluation of programs through an equity lens, CDFIs should commit to more robust data collection and performance measurement. For example, track business owners' assets over time during the loan/grant monitoring phase to measure wealth-building or disaggregated demographic data of loan inquiries compared to closed loans to identify gaps in the process.
- Create decision matrices or scorecards to systematize equity assessments; such tools could take the burden of equitable decision-making off the individual and better infuse such practices into culture.

## **Next Steps for NCFN**

There is power in working collaboratively in networks, particularly when creating solutions to address complex problems. The National Children's Facility Network brings together dozens of organizations representing

various parts of the childcare sector, including lenders, other funders, nonprofit service providers, and policy organizations. This network could serve as a place for shared learning and collaboration for member organizations by offering more discussion, member case studies, joint trainings, and the creation of equity standards for the sector. Moving forward, NCFN leaders and members should clarify the network's role in advancing more equitable practices at its member organizations and within its own work. Questions to consider include:

- What is the work that NCFN also must engage in to align with its expressed commitment to racial equity?
- How will the entire leadership committee support the work, rather than if being driven by one organization?
- How will the full NCFN membership be included in the conversation and future changes?
- What is the organizational structure that will best support NCFN's efforts with equity at the center?
- What is the process for ensuring that NCFN projects and policy agenda align with equity principles?
- How can members raise concerns when a project does not support racial equity?

## Conclusion

The saying goes, “if you want to go fast, go alone; if you want to go far, go together.” Collaboration is needed to maintain the vision and capacity required to transform systems and institutions. This project is an important first step in NCFN’s collaborative efforts to advance racial equity in ECE financing, so that all childcare businesses have access to the capital needed to create affirming, safe learning environments for all children. We look forward to seeing the ways in which CDFIs and other service providers, as well as BIPOC childcare operators, children, families, and communities benefit when equity is the standard.



*Figure 4: Photos provided courtesy of Self-Help.*

## **About BennettWeston Consulting LLC**

BennettWeston Consulting LLC is a thought partner for community and economic development projects and organizations. Our mission is to help clients get clear about the “why” and “how” of their work, build strong interpersonal connections, and create a collective vision for the future.

Brittany Bennett Weston is a community economic development leader based in Durham, NC. She has a diverse set of experiences in education, local government, and development finance fields that she employed to launch BennettWeston Consulting LLC because she wanted to use her experience to help others think deeply about their work and to create equitable cultures and practices that deepen impact.

## **About NCFN**

The National Children’s Facilities Network (NCFN) is a coalition of more than 70 nonprofit Community Development Financial Institutions (CDFIs), financial and technical assistance intermediaries, and early care and education (ECE) stakeholders dedicated to helping ECE providers develop high-quality physical learning environments and sustainable business models. By providing technical assistance and financing to early learning providers, we seek to address capital needs and business capacity challenges that limit working family’s ability to gain equitable access to high-quality ECE programs. NCFN is particularly focused on developing and improving child care supply in areas that have the least access to high quality ECE and the highest concentrations of poverty.