CED lenders rely on multiple federal programs that offer grants, loans, guarantees, and other support to help fund lending activities. Some of these lenders have expressed an interest in finding alternative sources of funding, including securitizing the loans that they make. However, the volume of CED loans potentially available for securitization is not known. In addition, the community economic development industry is characterized by nonstandard underwriting, loan documentation and loan performance information, and limited mechanisms for securitizing loans. Without greater understanding of available loan volume, the capital markets have little interest in developing standards or mechanisms for securitizing CED loans.

CED lenders also face barriers to securitizing their loans. Some of these barriers are unique to CED lending, including: limited lender capacity to manage a securitized portfolio of loans; the external legal and regulatory limitations and requirements governing the use of the funds that these lenders receive; and the high cost of originating and servicing CED loans. This report describes options that the federal government might exercise to address the identified barriers. This report also describes the implications that implementing each option might have, including the potential for increased federal costs and changes in lenders' missions. Ultimately, securitization may not be a significant alternative for CED lenders until the volume of loans available for securitization is better known and lenders are convinced of the benefits of participating.