

# Scaling U.S. Community Investing (USCI): The Investor-Product Interface

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*Organized by the Federal Reserve Board*

The **Connecting Communities**<sup>®</sup> audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

# Welcome

Thank you for attending today's session. How to join (remember, this session is being recorded)

- Call-in number: 888-625-5230
- Conference code: 94092356
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/11489>

You have two options to ask questions today:

*\*These questions may be part of the recorded archive for this session.*

- Email us at: [communities@stls.frb.org](mailto:communities@stls.frb.org).
- Type your question into the chat box of the webinar.

An archived recording of this session will be available on the **Connecting Communities**<sup>®</sup> web site shortly after the session ends. Please visit [www.stlouisfed.org/connectingcommunities/](http://www.stlouisfed.org/connectingcommunities/)

In connection with this session, you can find a variety of additional resources on this topic , available at [www.fedcommunities.org](http://www.fedcommunities.org). We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

# Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

# Community Development

- The Community Development function within the Federal Reserve System, consisting of individual departments at each of the 12 Federal Reserve Banks and at the Board of Governors, promotes economic growth and financial stability for low- and moderate-income communities and individuals through a range of activities, including:
  - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
  - **Conducting and sharing research** to examine economic challenges facing low- and moderate-income communities and attendant policy implications
  - **Identifying emerging issues**



# Today's Presenters

- **Amit Bouri**, Global Impact Investing Network
- **Michael Swack**, Carsey School of Public Policy at the University of New Hampshire
- **Justin Conway**, Calvert Foundation
- **Will Belongia**, Vermont Community Loan Fund

# USCI Report Overview

**Amit Bouri**

**CEO, The Global Impact Investing Network**

**New York, NY**

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**[Abhilash Mudaliar, Research Manager]**



# USCI Report Overview

**Michael Swack**

Carsey School, University of New Hampshire

Durham, NH

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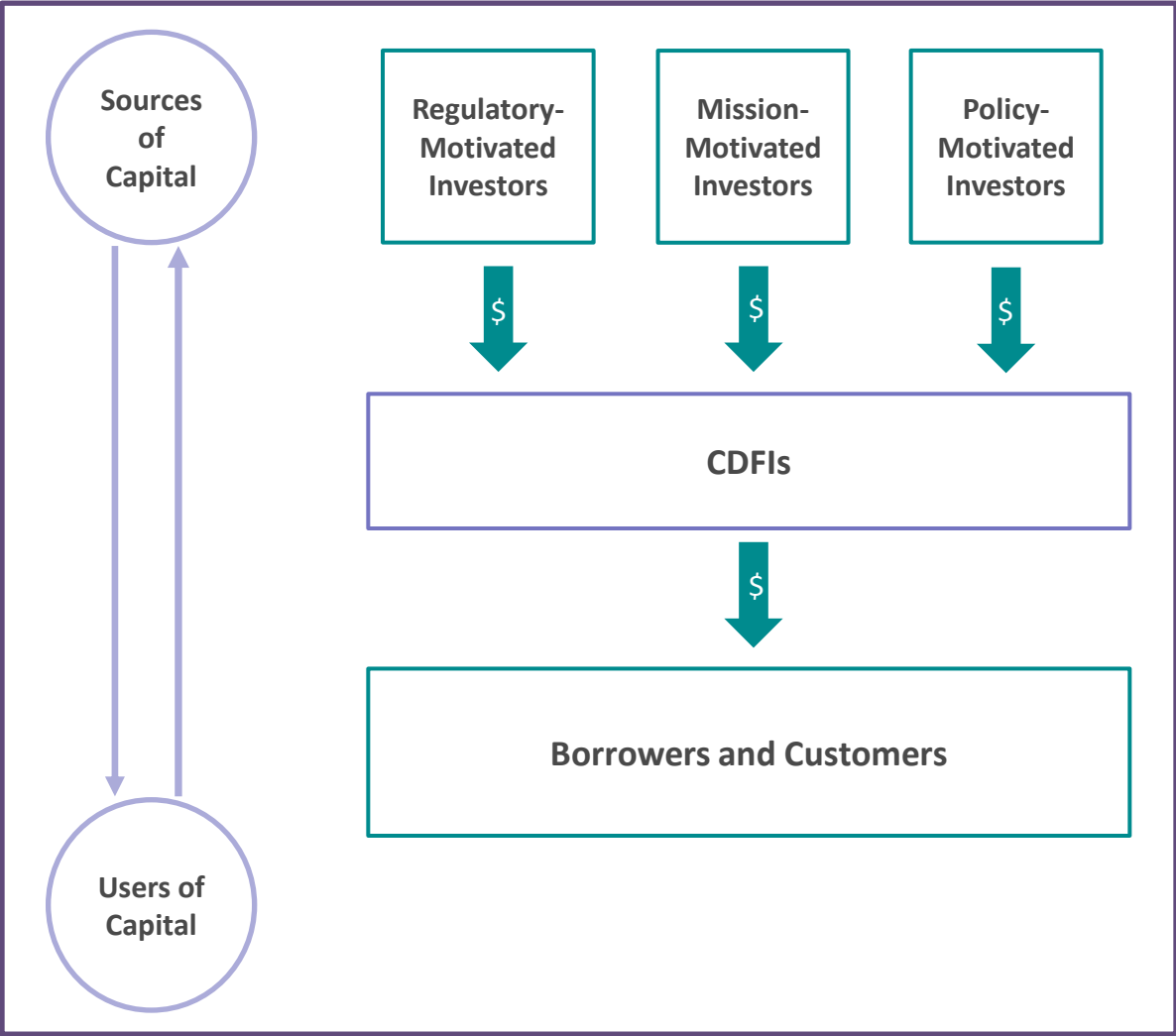


# What Is a Community Development Financial Institution (CDFI)?

- Certified by the U.S. Department of the Treasury
- Mission-driven lenders and investors that primarily serve low-income and low-wealth people and places
- Capital and development services
- Create opportunities and provide support:
  - Jobs and business growth
  - Affordable housing
  - Community services/community facilities
  - Responsible consumer financial services for the underbanked



# CDFI Economic Model



# CDFI Institution Types

CDFI	Community Development Banks	Community Development Credit Unions	Community Development Loan Funds	Community Development Venture Capital Funds
Structure	For-profit depository institutions	Nonprofit cooperative depository	Primarily nonprofit; some for-profit	Typically for-profit
Regulation	FDIC, Federal Reserve, OCC, OTS, and state banking agencies	National Credit Union Administration	Unregulated	Unregulated
Capitalization Structure (sources)	Insured deposits and equity	Insured deposits, secondary capital, and equity	Unsecured and secured debt, subordinated debt, and grants	Equity and equity-like debt
Sectors Served	Loans and retail financial services for individual and commercial customers	Loans and retail financial services for individuals/members	Loans for housing, microenterprise, small business, community facilities, nonprofits, and commercial real estate	Equity and debt with equity features to businesses with high growth potential and social impact

FDIC: Federal Deposit Insurance Corporation; OCC: Office of the Comptroller of the Currency; OTS: the Office of Thrift Supervision

# Number and Total Asset Size by CDFI Type

	Smallest	Largest	Mean	Median	Number	Percent of CDFIs
Bank	\$14.6 million	\$2.5 billion	\$303.9 million	\$220.2 million	109	19%
Credit Union	\$43 thousand	\$5.99 billion	\$176.9 million	\$25 million	247	26%
Loan Fund	<\$300 thousand	\$1.2 billion	\$47.8 million	\$15.2 million	506	54%
Venture Capital Fund	\$5 million	\$150 million	\$30 million	\$24 million	14	1%

Source: CDFI Fund, February 2015

# CDFI Performance

- CDFIs have been “stepping into the breach” to address lending-related needs during and after the recession. Lending has increased over time, and portfolio performance has been good.
- CDFIs are concentrating lending activity in census tracts with high poverty or unemployment rates, much more so than conventional lenders.
- The CDFI industry has grown substantially, leveraging investment and increasing lending even during the recession and changed financial environment.

# Challenges to Growth

- **THEME 1:** The need to prove impact is a challenge to raising investment in USCI, but one that sophisticated product managers may be on their way to overcoming. The greater challenge may be meeting the demand for a wide diversity of impacts that different investors desire.
- **THEME 2:** While mismatch between investor demands and product realities is a fundamental barrier to scaling USCI, investors show appetite for a substantial range of USCI products. Issue: Lack of “look and feel” products.
- **THEME 3:** One of the greatest weaknesses of USCI products appears to be their lack of liquidity, causing many investors—and in turn product managers—to focus on short-term products.
- **THEME 4:** Many of the most sophisticated USCI funds tend to be constrained by their balance sheets and need equity to continue to scale investment. In turn, liquidity limitations have greatly increased the challenge to raising equity.

# Challenges to Growth (Continued)

- **THEME 5:** The USCI field has struggled to benchmark investment performance on risk and return, although some leading practitioners have been able to obtain investment ratings (most recently The Reinvestment Fund).
- **THEME 6:** A variety of external forces, including waning bank involvement in the space (in part due to regulatory pressures around bank safety and soundness) and competition from other spaces (including international development and crowd funding), have created a shifting landscape and new challenges for scaling USCI.
- **THEME 7:** Individual investors are a potential game changer in the space but reaching them involves solving unique challenges.

# Two Major Strategies to Grow Investment

- A coordinated marketing and investor engagement effort (comparison to “green” products)
- Further initiatives to develop investment platforms

# Example of the Need and Opportunity

*Today, increasing numbers of investors want their investments to have impact, and I think most Pax World investors fall into this category. But we have been stymied in how much community investing we can do. We will continue to do one-off notes where they are available but if community investing is going to really be accessible to individual investors, a larger response to the liquidity/securitization dilemma is in order. The problem is bigger than just creating trading platforms, some of which are beginning to appear. While that's a positive development, if all they have to trade is one-off private placements and notes then I suspect there will continue to be insufficient uptake by advisors and their clients.*

– Joe Keefe, President/Chief Executive Officer, Pax World Management LLC



# Calvert Foundation's Approach to Scaling Investments into Communities

**Justin Conway**

Vice President  
Investment Partnerships  
Washington, D.C.

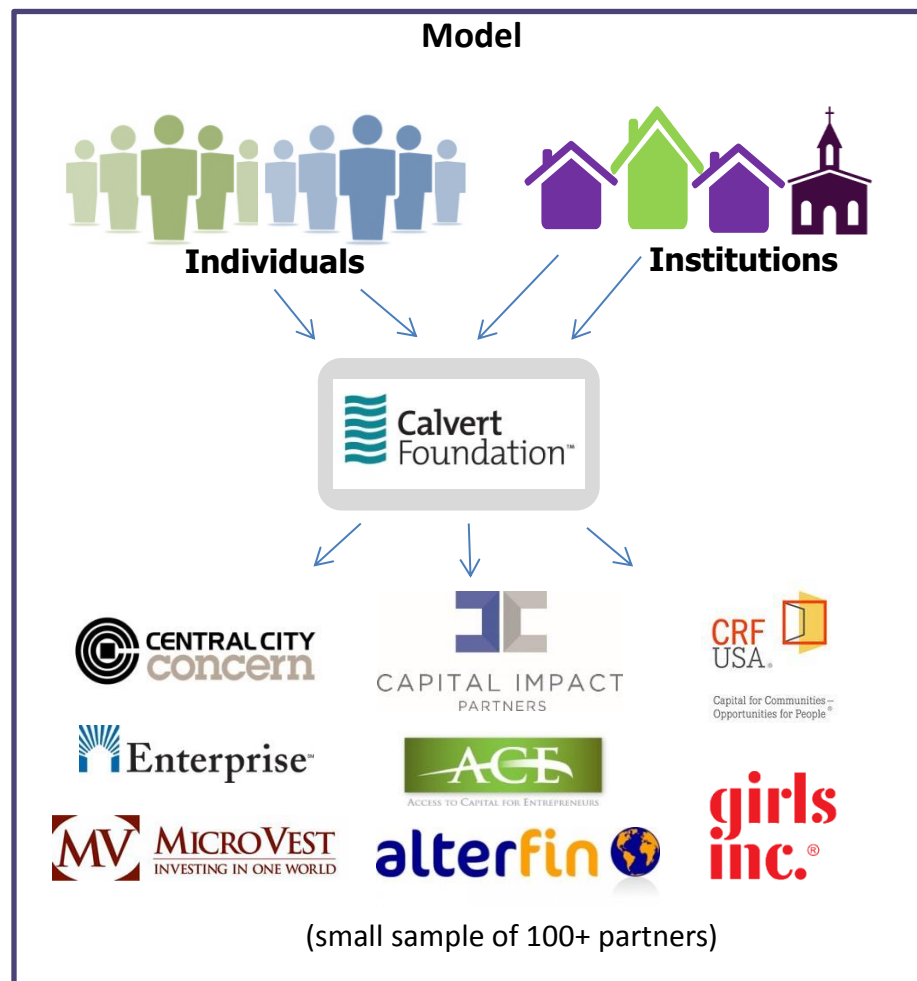
[justin.conway@calvertfoundation.org](mailto:justin.conway@calvertfoundation.org)



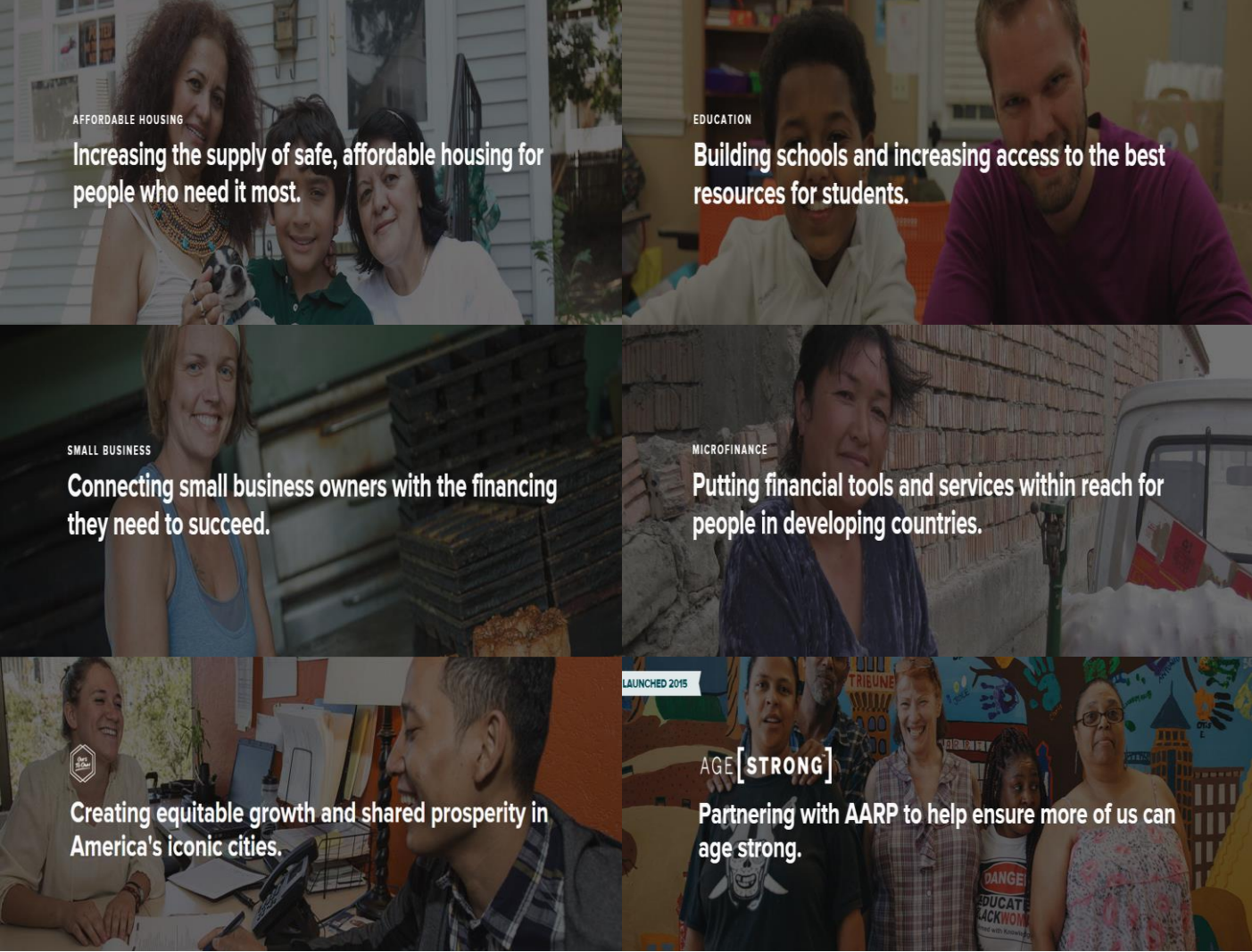
# Calvert Foundation Provides a Convenient Vehicle to Connect Investors to Local Organizations and Projects

## Community Investment Note Overview

- Since 1995, over 15,000 people and institutions have invested more than \$1 billion in community needs in the United States and abroad.
- Note is high-impact, risk-mitigated, fixed-income product seeking to provide measurable social returns and consistent financial returns ranging from 0.5% on 1-year notes to 3% on 10 years
- Industry-leading diligence and monitoring on portfolio, multiple layers of investor protection
- 20-year track record, 100% investor repayment rate
- Note designed to be suitable for all types of investors
- Available at 200+ brokerages, like any bond with a CUSIP (Committee on Uniform Security Identification Procedures) in increments of \$1,000
- Available online at [Vested.org](https://vested.org), starting at \$20
- Established relationships with hundreds of financial advisors and their brokerage firms



# Investors Can Support Places and Causes They Care About



AFFORDABLE HOUSING

Increasing the supply of safe, affordable housing for people who need it most.

EDUCATION

Building schools and increasing access to the best resources for students.

SMALL BUSINESS

Connecting small business owners with the financing they need to succeed.

MICROFINANCE

Putting financial tools and services within reach for people in developing countries.



Creating equitable growth and shared prosperity in America's iconic cities.

LAUNCHED 2015

AGE [STRONG]

Partnering with AARP to help ensure more of us can age strong.

# Impact Reporting: Metrics and Stories

**3,400**  
Affordable Housing Units Financed

**3,800**  
Jobs Created/Maintained

**120,000**  
Microfinance Customers Served

**WOMEN INVESTING IN WOMEN INITIATIVE** (2014-2015)

- WOMEN HAVE INVESTED \$200
- 83% OF INVESTMENTS WENT TO WOMEN
- NEW FINANCING FOR WOMEN FINANCED 75% MORE
- ALL INVESTMENTS WENT TO 15,000 SMALL BUSINESSES
- WOMEN OWNED 1,227 BUSINESSES
- 5,091 EMPLOYED
- 19,199 EMPLOYED
- 11% OF INVESTMENTS WENT TO 185 MICROFINANCE INSTITUTIONS

STORIES PARTNERS VIEW FULL MAP

EUROPE ASIA SOUTH AMERICA AFRICA



# To Learn More

- Visit the Calvert Foundation website: [www.calvertfoundation.org](http://www.calvertfoundation.org)
- Visit the Vested website: [www.Vested.org](http://www.Vested.org)
- Contact me at [justin.conway@calvertfoundation.org](mailto:justin.conway@calvertfoundation.org)

Calvert Social Investment Foundation, a 501(c)(3) nonprofit, offers the Community Investment Note, which is subject to certain risks, is not a mutual fund, is not FDIC or SIPC (Securities Investor Protection Corporation) insured, and should not be confused with any Calvert Investments sponsored product. This is neither an offer to sell nor a solicitation of an offer to buy these securities; the offering is made only by the prospectus, which should be read before investing. Due to blue sky regulations, the current offering of the Community Investment Note may not be offered in all states.

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# Community, Invested - A CDFI Case Study

## Experience of the Vermont Community Loan Fund

**Will Belongia**

**Executive Director  
Vermont Community Loan Fund  
Montpelier, Vermont  
[will@vclf.org](mailto:will@vclf.org)**



# Mission

To create opportunities that lead to healthy communities and financial stability for all Vermonters

- U.S. Department of Treasury-certified CDFI
- Aeris/CARS – Rated for social impact and financial performance
- Finance – Affordable housing, nonprofit facilities, small and medium-sized businesses, early care and education programs
- Statewide footprint
- \$35 million in assets; \$25 million in community investments
- 17 staff

# Community Investments

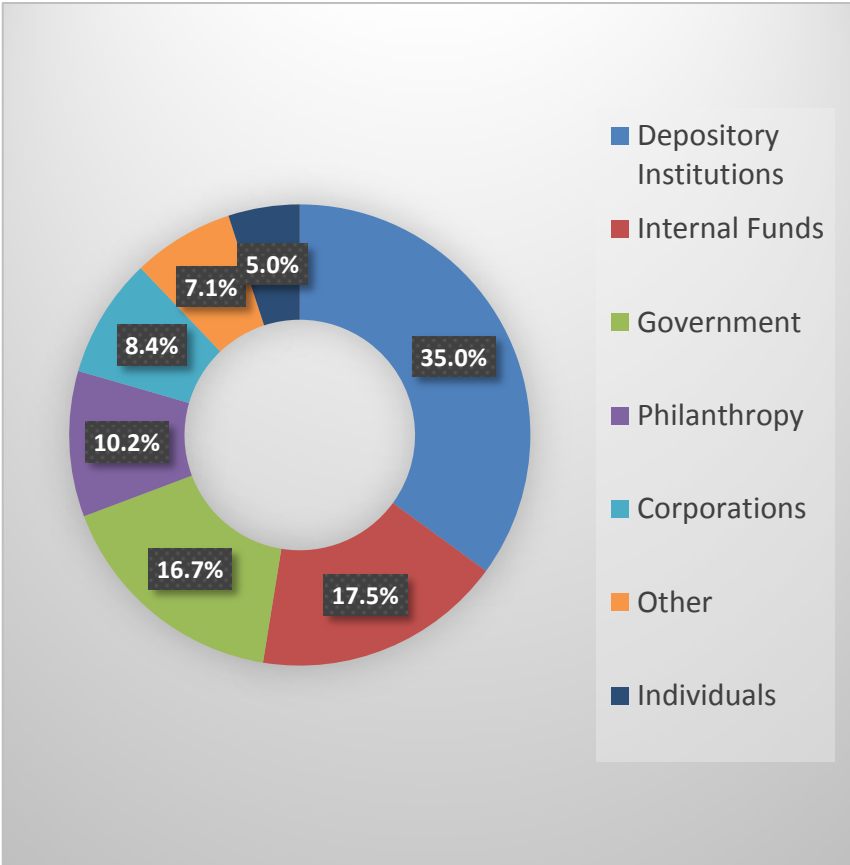
- 504 investments (\$69,622)
  - 389 from individuals (\$29,375)
    - 70 through financial advisors/asset managers (\$43,885)
  - 115 not from individuals (\$138,377)

**Note:** Average investment size in parenthesis

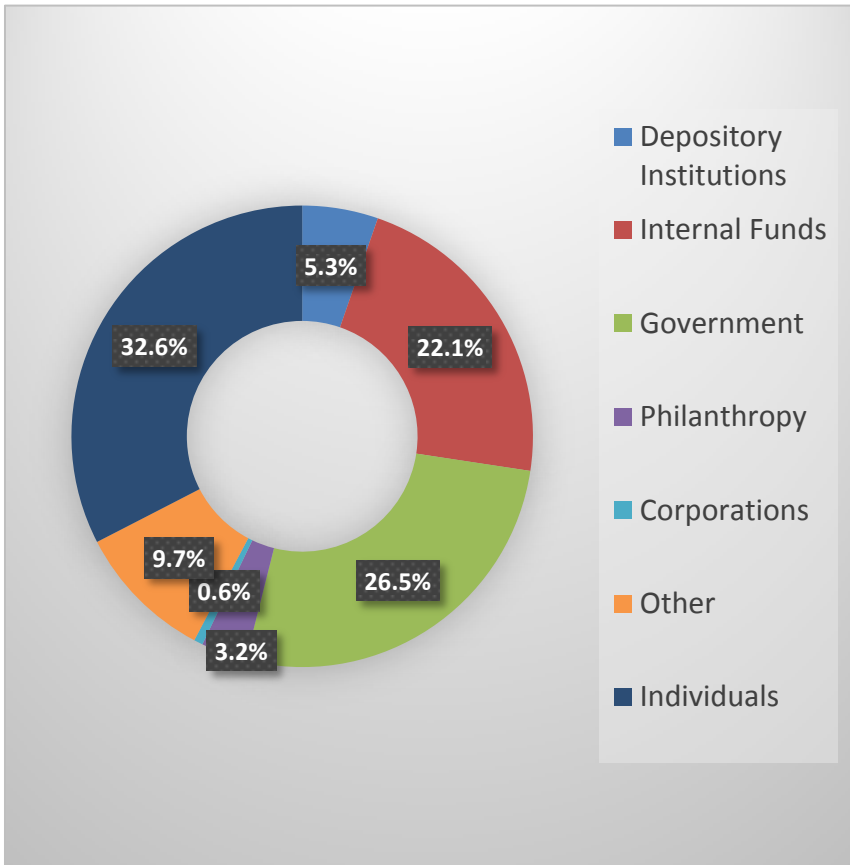


# Sources of Investment

## CDFI Loan Funds 2012



## VCLF 2015



Source: Swack – GIIN, Scaling U.S. Community Investment, page 26

# Community Investment Notes

- Social investment cash account
  - \$2,500 minimum
  - Open-ended term; withdrawals allowed up to 1/month
  - Rate of 0.5 percent
- Social investment term account
  - \$1,000 minimum
  - Terms from 1 – 10 years
  - Rates from 0.85 percent – 3 percent depending on the term
- Self-directed individual retirement accounts (IRAs)

# Staffing and Infrastructure

- Total staff: 17
- Development staff: 3, plus executive director
- Director of development, marketing and communications manager, and investment and grant coordinator
- Use Nortridge Loan System to manage investment transactions
- Use MIMOTA (contact/relationship database) to issue investment documents (promissory note and loan agreement)

# Investor Survey

Survey Results	
Social impact	1.28
Investing locally	2.05
Interest rate/financial return	3.78
Tax benefits	3.88
Term/product options	4.03

- Investor responses: 80
- Survey question: Rank these factors in order of importance (1 = most important, 5 = least important) in choosing to invest with the loan fund

# Challenges

- Paper!
- Unique documents and language
- No CUSIP
- Limited or no fee for advisors/brokers
- Much higher cost to investor or their advisor/broker
- Capacity
- Liquidity risk for both VCLF and the investor

# Benefits

- Personal relationship with investor:
  - Leverage for contributions/bequests
  - Loyalty and referral
  - Flexible and responsive to VCLF's changing needs
  - Motivated by impact not interest rate—“sticky” money
  - Lower cost than institutional money

# What's Next?

- Electronic investment process—delivery, payment, documents, etc.
- Create an easier investment registration process
- Create a community investment mutual fund/clearinghouse for USCI products
- Streamline the self-directed IRA investment process

## Questions?

You have two options to ask questions today:

1. Email us at: [communities@stls.frb.org](mailto:communities@stls.frb.org).
2. Type your question into the chat box of the webinar.



# Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

## Next steps:

- All session materials are available on our website, and, in the next few days, we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at [communities@stls.frb.org](mailto:communities@stls.frb.org).
- Information about future sessions will be posted on our website along with archived materials from past sessions:  
[www.stlouisfed.org/connectingcommunities/](http://www.stlouisfed.org/connectingcommunities/)

# Related Resources



In connection with this session, you can find a variety of additional resources on this topic, available at **[www.fedcommunities.org](http://www.fedcommunities.org)**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the practice of community development, or small business development.