

## Community Investing: Transforming the World, One Community at a Time

Andy Loving, CFP®, AIF® | Investment Advisor Representative

Community investing has been an important component of many socially responsible investment portfolios for years, but it continues to be less well-known and not as well understood as portfolio screening and shareholder advocacy. However, community investing is growing rapidly for a number of reasons, not least of which is its effectiveness in funneling investment capital to where it is needed most and can have the greatest impact.

### What Is Community Investing?

Simply put, **community investing** directs investment capital to communities ignored by traditional financial institutions. It provides access to credit, equity, capital, and basic banking products—services that most of us take for granted. Without community investing, many poor communities would lack access to some of the most basic financial services, such as savings and checking accounts and financing for vital community services such as affordable housing, childcare, and small businesses. Building vibrant community in underserved areas is at the heart of community investing.



### Catalyst for Change

The focus of community investing is on economically disadvantaged people and communities. Community investing enables people to “pull themselves up by their own bootstraps.” One prominent community investing institution says its purpose is to end poverty through investment; an ambitious goal, but a

goal with very clear intention and direction.

The purpose of community investing is fulfilled when **Shorebank**, the largest community development bank in the U.S., helps a poor, minority family in Chicago buy their first home and experience the pride of homeownership and the empowerment of building family wealth. The purpose of community investing is fulfilled when a poor woman in Bolivia gets a micro-credit loan from **Pro Mujer**, a microfinance organization, to expand a food stand in a local market, significantly increasing her family income and enabling her children to stay in school.

Can community investing continue its rapid growth in the coming years and serve as a catalyst for positive change across the globe? The possibility is very real, but realizing it will mean that more investors, both individual and institutional, will have to step up and invest more money for higher impact.

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### First Affirmative: Committed to Community Investing

First Affirmative Financial Network is strongly committed to community investing. Overall, about 3% of the assets we manage for individual and institutional clients are invested in community development financial institutions and other community investments.

These dollars are working across the country and around the world to provide education, housing, and business and infrastructure development to communities that are not well-served by “mainstream” banking institutions.

To learn more about community investing, contact your network advisor.

## Glass Half-Full or Half-Empty?

Community investing has grown tremendously in recent years. The *1995 Trends Report* published by the [Social Investment Forum](#) found only \$4 billion invested in domestic community investing institutions. By 2007, assets had grown to almost \$26 billion, more than six times the 1995 level. The glass seems half-full doesn't it?

At the same time, \$26 billion is not even 1% of the \$2.7 trillion of the professionally managed investment assets in the U.S. as reported in the *2007 Trends Report*, which includes investment assets utilizing social screens, involvement in shareholder advocacy, and community investing. Screened investment assets totaled over \$2 trillion, and assets held by shareholder activists amounted to \$723 billion; about \$135 billion participated in both screening and shareholder advocacy. From this viewpoint, the \$26 billion of community investing seems almost a pittance and the glass appears half-empty.

## A Solid Foundation: Community Development Financial Institutions

One cannot discuss community investing without talking about the 784 [Community Development Financial Institutions \(CDFIs\)](#) that hold the bulk of community investment assets and do most of the day-to-day, grassroots work of community investing nationwide. The CDFI designation is given to a group of banks, credit unions, community loan funds, and affordable housing developers that meet criteria of the U.S. Department of the Treasury. These institutions provide financial services, and in some cases, related education, mentoring, and technical support, to low income people and communities. Even in the midst of the current economic crisis, CDFIs continue to provide basic banking services along with financing for rental housing, childcare facilities, small businesses, non-profit social service



providers, charter schools, and other purposes.

## Innovations Hold the Key to the Future

Let's look for a moment at some examples of the innovations and institutions in the community investing arena that make it such a potentially important agent for positive change.

Microcredit, a new term describing small loans aimed at enabling poor people to increase their incomes, is a crucial innovation of this generation. Dr. Muhammad Yunus started making very small loans to very poor women in Bangladesh in the mid 1970s and saw his microcredit idea grow into a worldwide movement that has provided credit to more than 100 million poor people, mostly women. The global microfinance industry has grown even faster than U.S. community investing in this decade, surging 44% annually from 2001 to 2006. Dr. Yunus and the [Grameen Bank](#) were awarded the 2006 Nobel Peace Prize, and in 2009 Dr. Yunus received the Presidential Medal of Freedom—the highest civilian honor given in the United States.

In a world of increasing inequity between the rich and poor, the fast pace of growth for microfinance is being outpaced by the growing demand. Worldwide, over \$25 billion are now being loaned through microcredit, but the estimated need is almost 10 times the credit currently available. The question is whether the amalgam of government, international financial, commercial, pension fund, institutional, and individual investors will step up to provide the capital needed in the years ahead.

[Calvert Foundation](#) is another example of innovation and leadership in this arena. Spun off from the Calvert Group of socially responsible mutual funds in 1995 as a non-profit organization, Calvert Foundation provides capital to more than 250 organizations across the United States and around the globe. Groups working on affordable housing, microfinance, small business development, and non-profit facility development have received loans to rehabilitate and build over 15,000 units of affordable housing, finance over 6,000 small businesses and 20,000 non-profits,

and create more than 350,000 jobs. In recent years, they have started making loans to a wide range of social enterprises, like fair trade coffee companies.

### What Are the Risks?

The perception that low-income people are bad credit risks has been a barrier for some potential investors. However, the real-world track records of a broad range of community investments are proving this perception wrong. Microfinance repayment rates around the world are consistently above 95%. The Calvert Foundation has experienced losses of only about 1% for both domestic and international groups. In the U.S., loan default rates at 107 CDFIs surveyed in 2002



were **40% below** the default rate of large commercial banks and comparable to the default rate at small commercial banks. And, the recent rush by for-profit banks into microfinance offers ample evidence that the risk of community investments is manageable.

Community investing is not the subprime lending that contributed to the recent financial system crisis. Because of the perceived high default risk of low-income customers, many banks that “serve” this market (not CDFIs) do so by offering complicated loans with high interest and fees. As we saw in 2008–2009, the cost has been tragically steep for individuals who have lost their homes, companies that have closed for lack of financing, and broad suffering across nearly all facets of society from a severe economic downturn. Community investing can be a better way forward.

Traditional community investments tend to be fixed rate, lower yielding instruments such as CDs, savings accounts, fixed rate notes, money market accounts, and checking accounts. While some of these community investments pay market-rate returns—returns that are competitive with the wider financial arena—many community investments with the highest social impact pay below-market returns.

## Glossary of Terms

**Below-Market-Rate Investment.** An investment that provides lower returns than expected for a given level of risk, in exchange for a higher social return on investment or higher impact.

**Community Development Financial Institutions (CDFI's).** A group of banks, credit unions, loan funds, venture capital, and microfinance funds that promote economic development in struggling areas that are underserved by traditional financial institutions. These institutions are funded in part by the United States Treasury.

**Community Investing.** An investment strategy that directs capital to communities underserved by traditional financial services institutions, providing access to credit, equity, capital, and basic banking products that these communities would otherwise not have.

**Market-Rate Investment.** An investment that is expected to provide returns that are competitive with returns in the wider financial arena—the maximum return for a given level of risk.

**Microfinance (or Microcredit).** Supply of loans, savings, and other basic financial services made available to the poor, usually involving very small amounts of money. The term “microfinance” helps to differentiate these services from those which mainstream banks provide.

**Social Investment Forum.** National nonprofit membership association for professionals, firms, and organizations dedicated to advancing the practice and growth of socially responsible investing in the United States. Supports a [Community Investing Working Group](#) that works with SIF members to increase investments in communities underserved by traditional financial services.

Investors who participate in community investing often decide to soften their standard approach, as defined by maximum return for commensurate risk (market-rate returns), in exchange for positive social impact. A key determining factor in the growth of

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community investing will be whether more investors will accept lower financial returns in exchange for social impact with more of their investment assets.

### How to Invest



Lack of basic knowledge of investment opportunities and the difficulty of the investing process with many community investing instruments were barriers to participation in the past. However, increased educational efforts and new, innovative

investment opportunities like the Shorebank Online High Yield Savings Account, Calvert Foundation's electronic Community Investment notes, and CDFI CDs on brokerage platforms are making community investing much more accessible.

For example, Calvert Foundation's Community Investment Notes are available electronically to investment professionals and their clients at 75 brokerage firms, as well as to individual investors. Some CDFIs offer web-based accounts and services comparable to commercial banks, thus allowing investors to easily meet their everyday banking needs (e.g., checking accounts) while providing needed capital to community development financial institutions. Up to \$50 million covered by FDIC insurance can be deposited into certain CDFI banks through a program called CDARS (Certificate of Deposit Account Registry Service®). Individuals with as little as \$25 can participate in some on-line community investing services such as [Kiva.org](http://Kiva.org) and [Microplace.com](http://Microplace.com).

### The Evolution of Community Investing

A 2009 study published by the [Monitor Institute](http://MonitorInstitute.org) and funded by the Rockefeller Foundation discusses the potential development of what they call "impact investing," which includes environmental and clean-tech investing, along with community investing. The authors of "Investing for Social & Environmental Impact" say that "using profit-seeking investments

to generate social and environmental good is moving from a periphery of activist investors to the core of mainstream financial institutions." The authors believe that an increasing number of investors are willing to take below-market rates on more of their investments if higher social impact goes with it. The study concludes that impact investing has the potential to grow to \$500 billion in five to ten years. While many improvements in infrastructure are needed to make this kind of growth possible, there is potential for impact investing to become a transformational force for positive change.

The challenges of meeting the great needs of low-income communities and closing the rapidly enlarging gap between the rich and poor can seem overwhelming. Fortunately, community investing has already proven to be an important tool in the fight against poverty. While its effectiveness is constrained by the relatively small number of dollars invested, community investing is poised to reach out beyond its current core of activist investors and into the mainstream. As it attracts the necessary resources, community investing will continue to help transform poor neighborhoods into vibrant, self-sustaining communities around the world.



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**First Affirmative Financial Network, LLC**  
5475 Mark Dabling Boulevard, Suite 108  
Colorado Springs, Colorado 80918  
800.422.7284 • fax: 719.636.1943 • SEC File #801-56587  
[www.firstaffirmative.com](http://www.firstaffirmative.com)

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