SCALING U.S. COMMUNITY INVESTING
THE INVESTOR-PRODUCT INTERFACE
ACKNOWLEDGMENTS

This report was made possible by the generous contributions of time and expert knowledge from many individuals and organizations. We would like to thank all individuals who took part in interviews and surveys. Through these interviews and surveys, we obtained a wealth of experience, understanding, and data on the U.S. Community Investing landscape and activities. A list of individuals who participated in interviews and focus group convenings is included in the Appendix.

We would also like to thank the Ford Foundation and the MacArthur Foundation, whose generous financial support and advice were invaluable to this report. In particular, we would like to thank Christine Looney and Lisa Davis from the Ford Foundation and Debra Schwartz from the MacArthur Foundation for their guidance.

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October 2015
DEAR READERS,

The Global Impact Investing Network (GIIN) is pleased to publish *Scaling U.S. Community Investing: The Investor-Product Interface*, in partnership with the Carsey School of Public Policy and with support from the Ford Foundation and the MacArthur Foundation. This report is designed to facilitate greater awareness and alignment of the needs of investors, product managers, and intermediaries in the U.S. Community Investing (USCI) field. Through this research, the GIIN aims to accelerate the flow of impact capital into USCI, which can ultimately help address a range of issues such as education, affordable housing, and financial inclusion.

Many impact investors have an interest in community investing, which has a strong history of multiple decades in the United States. To date, institutional investors such as banks have played a substantial role in USCI, with participation historically having been driven by federal regulation and legislation. However, the space continues to evolve and include a wider variety of investment opportunities (both in terms of financial returns and social impact targets) that could be attractive to additional types of investors. This report builds on an already existing body of research, with the goal of diving deep into gaps in the product-investor interface to identify opportunities to scale capital flows.

Through our partnership with the Carsey School, we were able to conduct detailed analysis of the USCI product landscape, which includes fixed-income investments such as debt in nonprofit loan funds, cash investments such as deposits in community development banks, and equity investments in both real estate and impact investing funds. The report also profiles a range of investor types, including banks, foundations, insurance firms, and individuals across the income spectrum, from low-income retail investors to high-net-worth. Overall, the research identifies and describes the major types of USCI investment products currently available, the parameters used by different types of investors to evaluate investment opportunities in the space, and the barriers to and opportunities for increasing investment.

Ultimately, there is a clear need for more coordinated efforts around broader ecosystem challenges, such as platform development and standardization, as well as the general marketing of USCI. We hope this research will open the door to more direct conversations between investors and USCI product managers to enable the development of products that meet both their needs—and, more importantly, the needs of those marginalized communities that U.S. Community Investing intends to serve.

We look forward to continued work with our network in future impact investing industry reports, and thank readers of this report for their interest and support.

Sincerely,

Amit Bouri

CEO, The Global Impact Investing Network
# TABLE OF CONTENTS

ACKNOWLEDGMENTS ........................................................................................................... i

FOREWORD ........................................................................................................................... ii

EXECUTIVE SUMMARY ......................................................................................................... 1
  - The existing product landscape ...................................................................................... 1
  - The existing investor landscape ..................................................................................... 4
  - The product-investor interface: major barriers and opportunities for scaling investment ........................................................................................................... 7
  - Ways forward .................................................................................................................. 10

STUDY INTRODUCTION, MOTIVATION, AND METHODS .................................................. 13

OVERVIEW OF THE U.S. COMMUNITY INVESTING SPACE ............................................ 15
  - What it is .......................................................................................................................... 15
  - Why it is needed ................................................................................................................ 15
  - Who participates in USCI and how .................................................................................. 17
    - Investees in which community investments are made ................................................. 17
    - Investors placing money into community investments .............................................. 17

EXISTING PRODUCT LANDSCAPE FOR U.S. COMMUNITY INVESTMENTS .................. 19
  - Community Development Financial Institutions (CDFIs) ........................................... 21
  - Nonprofit loan funds (including CDFI loan funds) ....................................................... 23
  - Community Development Banks (CDFI banks) ............................................................ 29
  - Community Development Credit Unions (including CDFI credit unions) .................. 31
  - Business Impact Investing Funds .................................................................................. 35
  - Tax credit equity investments ......................................................................................... 38
  - Community Development Corporations ....................................................................... 40
  - Real estate impact investment funds ............................................................................ 43
  - Social Impact Bonds ....................................................................................................... 43
  - Other investment opportunities ...................................................................................... 45

THE EXISTING INVESTOR LANDSCAPE .............................................................................. 46
  - Banks ............................................................................................................................... 46
  - Foundations .................................................................................................................... 48
  - Insurance companies ...................................................................................................... 50
  - Donor-advised funds ........................................................................................................ 52
  - Family offices / High-net-worth individuals ................................................................. 52
  - Retail investors ............................................................................................................... 53
  - Pension funds .................................................................................................................. 54
  - Other investors ............................................................................................................... 55
THE PRODUCT-INVESTOR INTERFACE: KEY THEMES, GAPS, AND OPPORTUNITIES

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.

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.

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.

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.

WAYS FORWARD

A top priority for the field should be coordinated, comprehensive efforts for marketing, communications, and investor engagement.

Investment platforms could play a critical role in scaling USCI, but practitioners have experienced a variety of challenges in constructing these platforms.

APPENDIX I: INVESTOR SURVEY RESULTS

Overview of the respondents and their investments.

APPENDIX II: GLOSSARY OF ACRONYMS AND TERMS USED IN REPORT

APPENDIX III: RESEARCH PARTICIPANTS

Interviewees

Convening Participants
EXECUTIVE SUMMARY

“Community investing” is investment that seeks to deliver social benefits to low-income or marginalized communities while also generating a financial return. This report provides an overview of the U.S. Community Investing (USCI) field: the types of intermediary organizations raising investments and deploying them in underserved communities, the range of investment products that are available, and the types of investors active in the space. In so doing, this study surfaces several key barriers and opportunities for scaling private investment in the USCI space.

The existing product landscape

Investors can access a wide variety of asset classes in the USCI product landscape, including fixed-income investments such as debt in nonprofit loan funds, cash investments such as deposits in community development banks and credit unions, and equity investments in real estate—often accompanied by government tax credits—and in private equity impact funds. Investors can get the best sense of their opportunities by understanding the range of intermediary organizations offering investment products (hereinafter referred to as “investees”).

Many USCI investees pursue formal certification as Community Development Financial Institutions (CDFIs). This designation is conferred by the U.S. Department of the Treasury. The CDFI field includes nonprofit loan funds, regulated banks and credit unions, and venture capital funds, and comprises a substantial but incomplete portion of the greater USCI field. We summarize USCI investee types, many of which are also certified as CDFIs, below:

COMMUNITY DEVELOPMENT LOAN FUNDS. Community development loan funds enjoy considerable flexibility to pursue their community development missions and can make loans that often would be seen as too risky by banks or credit unions and their regulators, thus enhancing their impact. Loan fund assets include home mortgages, small business loans, consumer loans to low-income households, and loans to affordable housing projects, commercial real estate, and community facilities. There are 508 CDFI loan funds in the U.S. holding USD 6.9 billion in loans. Despite their flexibility, the available data suggests that CDFI loan funds have achieved strong portfolio performance—for example, loan loss rates of reporting loan funds in 2012 were actually slightly below that of commercial banks.¹

CDFI loan funds raise equity (net assets) chiefly through grants or retained earnings, or equity-like investments of deeply subordinated debt. As a result, the main USCI opportunities in loan funds are through debt instruments, purchase of loan participations, or whole loan purchases. Banks have been a leading source of investment for loan funds, followed by government and philanthropic sources. Most

debt investments in CDFI loan funds are for terms of 5 years or less, with some debt going out to 10 years. In 2012, the median interest rate of debt investments in CDFI loan funds was 2.9 percent.\(^2\)

Challenges to increasing USCI in loan funds include:

- The need to reduce transaction costs by better standardizing financial reporting and especially loan-level performance data to provide investors with clearer information;
- Mismatch between loan fund needs and investor goals, especially around term;
- The lack of secondary markets for the sale of loan assets, which is driven in large part by the diverse, unstandardized loan products that loan funds originate; and
- Gaining investor comfort with the fact that many CDFI loan funds are at least partially supported by grant funding.

COMMUNITY DEVELOPMENT BANKS (CDBs). Community Development Banks (CDBs) are community banks and thrifts that have a primary mission of promoting community development in underserved communities. All CDBs are certified CDFIs. They are also all regulated financial institutions and are insured by the FDIC, which can constrain the types of lending activity in which they engage. As of December 2014, there were 109 certified CDBs,\(^3\) holding USD 31.3 billion in assets.\(^4\)

The two ways in which U.S. community investors can place money with CDBs are through insured deposits and through equity (capital) investments. As of February 2015, the interest rate on an insured, 5-year certificate of deposit at a sample of CDBs was in the neighborhood of 1.40-1.45 percent APY.\(^5\) Bank investor relations departments may offer higher rates for large investments.\(^6\) Equity capital investments in CDBs can generate high impact, as banks generally will leverage their capital at ratios ranging from 8:1 up to nearly 10:1. These investments also pay dividends averaging 1.5 percent annually and sometimes higher, in addition to increasing in value as the bank grows.\(^7\) A principal challenge for increasing USCI in CDBs is the lack of liquidity of equity investments, as CDB stocks are generally not publicly traded.

COMMUNITY DEVELOPMENT CREDIT UNIONS (CDCUs). Community Development Credit Unions (CDCUs) are credit unions “with a mission of serving low- and

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\(^2\) CDFI Fund CIIS-ILR data.

\(^3\) CDFI Fund data. It should be noted that there are also over 400 banks that are not certified as CDFIs, but that have substantial home lending and branch locations in low- and moderate-income communities. The National Community Investment Fund has labeled these banks “Community Development Banking Institutions” and sees them as potential candidates for CDFI certification in the future. See the NCIF report, “A Probable Future for the CDFI Banking Sector: Insights from Strategic Planning,” available online at: http://ncif.org/sites/default/files/free-publications/AProbableFuture-NCIF.pdf.

\(^4\) NCIF CDFI Banking industry Quarterly Profile, Q3 2014.

\(^5\) Internet research of Community Development Bank websites with advertised deposit rates.

\(^6\) Internet research of Community Development Bank websites with advertised deposit rates.

\(^7\) Data from analysis of Uniform Bank Performance Reports conducted by the Carsey School for its CDFI Industry Analysis report, published Spring 2012.
moderate-income people and communities. CDCUs specialize in serving populations with limited access to safe financial services,” such as low-income, minority, and immigrant populations as well as people with disabilities. Most (but not all) CDCUs are also certified CDFIs. Currently, some 250 CDCUs provide credit, savings, transaction services and financial education to more than four million people, and hold over USD 36.9 billion in assets.

The two ways in which community investors can place money with CDCUs are through insured share deposits and through secondary capital investments. As of February 2015, the interest rate on an insured, 5-year certificate of deposit at a sample of CDCUs was in the neighborhood of 1.10—2.10 percent APY. Secondary capital investments are subordinated, long-term debt available to credit unions recognized by their regulator, the National Credit Union Administration (NCUA), as “low-income” credit unions. While a loan, secondary capital is treated as net worth by regulators due to its subordinated position. As with CDBs, raising this equity-like piece of funding has been the major challenge for CDCUs, but also presents a major opportunity for investors to create leveraged impact.

**BUSINESS IMPACT INVESTING FUNDS.** A range of organizations make investments in businesses in underserved communities. These include Community Development Venture Capital Funds and Impact Small Business Investing Companies (SBICs). The Community Development Venture Capital Alliance (CDVCA) lists 46 U.S. funds on its website with USD 2.1 billion in capital under management. There are also three licensed Impact SBICs with potential for USD 412 million under management, and more licenses on the way. Several large funds, including private equity, venture, and mezzanine funds, do not hold either of these two designations, but manage several hundred million dollars of assets in the aggregate. Investor opportunities are primarily in the form of equity—meaning patient risk capital. Generally, these funds seek market-rate returns; private equity and venture funds typically take in money for terms of 10 years. A common challenge for funds in this space is the perception by investors that because the funds focus on a double bottom line, they must generate poor returns—or conversely, that since they generate market returns, they have diminished impact. For some funds, fund size has also been an issue, in that it has created challenges to listing the funds on major industry platforms.

**COMMUNITY DEVELOPMENT CORPORATIONS (CDCs).** Community Development Corporations (CDCs) are community-based nonprofit organizations focusing on the development of underserved communities, with activities including affordable housing development, commercial real estate and economic development, and other neighborhood improvement efforts. An estimated 4,600 CDCs are operating across the United States, with average annual housing production of 96,000 units and average annual commercial space production of 7.41 million square feet as of 2010.
Common forms of investment in CDCs include permanent mortgages on real estate from banks, as well as acquisition and construction financing from banks and CDFIs specializing in real estate lending. Increasingly, larger CDCs are also looking to raise enterprise-level debt that they can use for real estate acquisition and development. Requested returns are typically below market and terms may be for periods of around 10 years.

While project-level financing is not seen as seriously constrained in the field, enterprise-level financing has been more challenging for CDCs to raise, principally because of CDCs’ needs for longer terms and below-market rates.

**OTHER INVESTMENT OPPORTUNITIES.** The body of the report also reviews a number of other USCI investment opportunities, such as:

- Tax credit purchases, including both Low Income Housing Tax Credits and New Markets Tax Credits. In many cases (but not always) these investment opportunities are generated by CDCs and CDFIs. The tax credit equity markets are large and mature relative to many other USCI opportunities.

- Real estate impact investment funds including some REITs and real estate private equity funds investing in underserved communities and/or in affordable housing.

- Social impact bonds (also known as Pay for Success), in which investors provide up-front funds for a program aimed at improving a social outcome (for example programs to reduce recidivism among ex-offenders). These investments are relatively new and still a very small space, but promise to grow considerably.

- Some funds and online marketplaces are emerging that attempt to give investors broad exposure to a range of the investment opportunities described above.

## The existing investor landscape

Several different types of investors are active in the USCI space.

**Banks** are a dominant force, in large part due to regulatory pressures from the Community Reinvestment Act (CRA), which encourages depository institutions to help meet the credit needs of the communities in which they operate. They tend to be more risk-averse than other USCI investors and focus on shorter-term debt investments and tax credit equity purchases, although their involvement can take a wide variety of other forms as well.

**Foundations** have incorporated program- and mission-related investing as a way to extend impact beyond the grant programs they already run. While they place a high priority on generating impact, they are also sensitive to financial considerations when making these investments, especially when they are made out of their endowment budgets.

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13 We describe both Program-Related Investing (PRIs) and Mission-Related Investing (MRIs) in more detail in the body of this report.
Insurance firms have also played a significant role in USCI, especially in states where regulatory moves have incentivized them, although their investment activity does not appear to be as large as that of banks or foundations. Insurance firms are constrained in their investment activity by regulators seeking to ensure their safety and soundness. Nonetheless, like larger banks, a number of large national insurance firms have dedicated community development staffing and investment operations, and/or foundations engaging in USCI (examples include Prudential, TIAA-CREF, MetLife, and State Farm).

(Government agencies are also a major USCI investor, although this report focuses on the scaling of private investment in the space.)

Beyond these players, one of the largest—but often overlooked—investor sectors consists of low- and moderate-income individuals who are placing their deposits in community development banks and credit unions. In other words, the same people that USCI is intended to help are one of its largest investor segments. As of 2012, deposits from individuals made up 57 percent of the balance sheet at CDFI credit unions, and 38 percent at CDFI banks.14

Hopes for growing USCI activity have focused on donor-advised funds, family offices and high-net-worth individuals, pension funds, and retail investors. All of these investor segments have organizations and individuals who are deeply involved in USCI, but also many who are not, which suggests the potential to greatly expand the space if players currently on the sidelines can be engaged—a goal that will require addressing unique barriers faced by each of these groups.

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In our survey of USCI investors, one thing we sought to understand is their investment goals when selecting among USCI opportunities. Table 1 shows the scoring of 10 investment criteria by survey respondents—a score of 10 would indicate that all respondents ranked the criterion as their most important out of the 10, while a score of 0 would indicate that all respondents ranked it as their least important.

It is notable that for foundations, there is a clear emphasis on measuring and reporting on social impact. While information on financial performance is also considered important, aspects such as strong returns and high liquidity are not considered to be very important at all. For non-foundation investors, on the other hand, attractive risk-adjusted returns as well as reliable and meaningful social impact are both given high importance. Low loss rates and information on both social and financial performance are other aspects that scored highly.

### TABLE 1. FACTORS CITED BY INVESTOR SURVEY RESPONDENTS AS IMPORTANT TO USCI INVESTMENT DECISIONS

<table>
<thead>
<tr>
<th>Factor</th>
<th>All Investors (n=26)</th>
<th>Foundation Investors (n=11)</th>
<th>Other Investors (n=15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliable and meaningful social impact</td>
<td>7.15</td>
<td>7.82</td>
<td>6.67</td>
</tr>
<tr>
<td>Clear information concerning the social impact</td>
<td>5.08</td>
<td>6.73</td>
<td>3.87</td>
</tr>
<tr>
<td>Clear information concerning the financial performance of the investment</td>
<td>4.77</td>
<td>5.73</td>
<td>4.07</td>
</tr>
<tr>
<td>Attractive risk-adjusted returns</td>
<td>4.00</td>
<td>0.18</td>
<td>6.80</td>
</tr>
<tr>
<td>Low loss rates</td>
<td>3.62</td>
<td>2.18</td>
<td>4.67</td>
</tr>
<tr>
<td>Liquidity/ability to exit investment</td>
<td>1.65</td>
<td>0.82</td>
<td>2.27</td>
</tr>
<tr>
<td>Compliance of the investment with external regulations on your organization</td>
<td>1.54</td>
<td>2.27</td>
<td>1.00</td>
</tr>
<tr>
<td>Low transaction costs</td>
<td>0.85</td>
<td>0.27</td>
<td>1.27</td>
</tr>
<tr>
<td>Investment ratings from third parties</td>
<td>0.36</td>
<td>0.00</td>
<td>0.60</td>
</tr>
<tr>
<td>Other factors</td>
<td>1.40</td>
<td>2.09</td>
<td>0.90</td>
</tr>
</tbody>
</table>

A score of 10 indicates that all respondents ranked the criterion as their most important of the 10 investment criteria, while a score of 0 indicates that all respondents ranked it as their least important.
The product-investor interface: major barriers and opportunities for scaling investment

Our exploration of the product and investor landscapes highlights several key challenges and opportunities to grow the USCI field.

DEMONSTRATING IMPACT AND MEETING IMPACT NEEDS. The need to demonstrate 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.

Our data indicate that investors place a high importance on understanding the impact of their investments, and that USCI product managers may need to more clearly communicate impact. On the other hand, when we put leading USCI product managers together with investors at our convenings, investors were pleased with the impact of the investment opportunities presented—even when impact was measured with relatively simple information such as the numbers of borrowers and the types of communities the organization was serving.

The greater challenge, therefore, may not lie in proving impact to investors, but in providing prospective investors with the particular kinds of impact in the specific geographies that they demand. The wide variety of impacts that different investors wish to document, as well as the variety of reporting methods that they demand for their investments, is a considerable cause of frustration for product managers in the space.

PRODUCT-INVESTOR MATCHING AND THE ROLE OF SUBSIDY. 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.

The funding need most frequently identified by most USCI product managers in our conversations with them is for patient, lower cost, flexible capital that is commonly perceived as risky (although many managers actually experience low loss levels). Investors, meanwhile, would generally like liquid investments that generate risk-adjusted returns alongside impact. In many cases, there is a resulting mismatch between what investors want and what the field can provide—such that some kind of subsidy from philanthropic or government sources would be needed to substantially increase investment activity (for example, a credit or liquidity enhancement, or a tax credit or other subsidy to boost returns).

However, we also find cause for optimism that USCI activity could grow even in an environment with scarce subsidy:

- First, many of the USCI products presented at our convenings appear to be investable, based on the investor feedback received. At least half of the investors present indicated that they would be “interested” or “very interested” in investing in six out of 11 products presented at the USCI convenings.
Second, perceived “below market” returns to some USCI products—such as debt investments in loan funds—may not actually be below market, or at least less so than has been thought in the past. Moreover, perceptions around what exactly is a “market rate” for these investments may be starting to change. Several investment advisors we spoke to commented that in the current environment, debt investments in CDFIs at a 3 to 4 percent return are attractive, especially given the positive repayment track record at many CDFIs.

Third, there is substantial differentiation of appetites within the investor landscape—not only between different categories of investors but also within them, especially within the individual investor category. If certain investors are willing to allocate even a small percentage of their investment capital to high-impact investments on concessionary terms, in the aggregate these investments could amount to a large investment flow.

**THE LIQUIDITY CHALLENGE.** 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.

U.S. community investments offer very limited liquidity because of the lack of established secondary markets in which to buy and sell such investments (and the fact that the underlying assets, such as real estate investments, are generally not liquid either). Thus, once investors have made an investment (for example, in a CDFI loan fund) they usually must hold on to that investment until it matures. This liquidity limitation thus causes investors to seek shorter terms, creating a mismatch with many product needs. Practitioners acutely feel the liquidity challenge in their efforts to raise capital, although often as a function of term as opposed to ability to exit the investment via liquidation per se.

**THE LACK OF EQUITY AND, HENCE, LEVERAGE.** 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.

While mainstream financial institutions and corporations are often much more leveraged, many USCI product managers find themselves at the limits of what investors (and in the case of banks and credit unions, their regulators) will accept. In turn, both practitioners and many investors see this issue as a key barrier to creating scale in the USCI industry.

**PERFORMANCE BENCHMARKING.** The USCI field has struggled to benchmark investment performance on risk and return, although some leading practitioners have been able to obtain investment ratings.

Part of the investor-product mismatch dynamic discussed above may be due to the lack of commonly accepted benchmarks or proxies for return and especially for risk. After liquidity, risk was the investment parameter that most appeared to challenge investors evaluating the presentations at the convenings. The main difficulty that most investors appear to have with risk in the USCI space is simply understanding it, as they lack the quality and amount of performance data that they can find for mainstream investments.
GREATER COMPETITION FOR USCI DOLLARS. A variety of external forces, including waning bank involvement in the space and rising competition from other spaces such as international development and crowd funding, have created a shifting landscape and new challenges for scaling USCI.

Concern among practitioners is mounting that banks are unlikely to scale up their community investing activity, and that their involvement may in fact be on the wane, due to both bank consolidation and regulatory trends. Practitioners also expressed concern about competition from investing opportunities in other spaces—particularly international microfinance and crowd funding opportunities that do not go through traditional USCI investee types. These forces may point to a need for USCI product managers to re-position their investment opportunities and find new investor markets.

TAPPING INDIVIDUAL INVESTORS. Individual investors are a potential game-changer in the space, but reaching them involves solving unique challenges.

Interest in socially beneficial investing (from negative screening to ESG to impact investing) is growing in the United States, with the potential to drive more individuals to supporting USCI. Convincing individual investors to direct even a small share of what one convening participant termed a “giant pool of money” into USCI vehicles could drive vast increases in scale. However, a variety of challenges must be overcome to increase involvement from individual investors. Interestingly, most of these challenges apply to both retail and high-net-worth investors, at least in broad strokes:

- Investment advisors are the gateway to most individual investors. They must be able to honor their fiduciary duties to the client, which impacts their ability to facilitate investment into (perceived) below-market vehicles. They also need to earn fees for their work that further diminish investor returns.

- Most USCI vehicles are not registered securities and do not carry CUSIP15 numbers, which can make both investment advisors and custodians reluctant to handle them.

- Individual investors can have widely varied interests around the geography and type of impact they wish to support, which creates logistical and marketing challenges for product managers.

- A substantial marketing effort is needed to gain the interest not only of clients but also of investment advisors and educate them about USCI opportunities.

Additional challenges apply to efforts to engage with retail investors, such as setting up infrastructure to handle small investment amounts and potentially needing to handle heightened concerns over investment liquidity.

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15 CUSIP stands for Committee on Uniform Securities Identification Procedures. CUSIP numbers are an identification number for registered securities.
Options exist, and many are being implemented, to address some of the challenges described above. For example:

- Standardized reporting metrics—such as those in the IRIS catalogue\(^\text{16}\), managed by the GIIN—that have been developed could help could help the USCI field to communicate a more cogent and compelling picture of the impacts it is creating, while lessening reporting burdens to multiple investors.

- The use of the Aeris (formerly CARS) rating system for CDFIs has been growing. Some CDFIs have also obtained Standard and Poors ratings. These ratings provide a degree of confidence for investors with limited ability to conduct an exhaustive underwriting of the investee organization on their own.

- Product managers have formed special-purpose vehicles or other off-balance-sheet structures to increase their ability to raise equity or increase leverage. Others have utilized tranched structures to create market returns for a portion of their investment needs.

- A community development bank is exploring how to use Employee Stock Ownership Plans as a way of providing liquidity to bank equity investors.

- Online investment marketplaces—such as CapNexus, ImpactUS and Mission Markets—are forming to facilitate the matching process between investors and products.

- Online funding platforms, notably the Calvert Foundation’s vested.org website, are creating opportunities for small investors to engage in USCI in new ways.

In addition to the above, additional data collection and research could better document the performance of USCI products and help to clarify which products truly operate with market returns, and how far below market concessionary products fall.

Ways forward

We recommend that the USCI field focus on two major strategies to grow investment: a coordinated marketing and investor engagement effort, and further initiatives to develop investment platforms.

A top priority for the field should be coordinated, comprehensive efforts for marketing, communications, and investor engagement.

Interactions with close to 100 stakeholders in the USCI space support the impression that USCI is currently a small and fairly closed community in which the major players know one another well, but are not well known outside their circles. Increasing the number of investors placing money in USCI appears to be a classic social marketing or “diffusion of innovation” problem, in which a group of early adopters have become

\(^{16}\) IRIS is a catalog of generally-accepted social, environmental and financial performance metrics. Learn more at www.iris.thegiin.org.
engaged in the space, and the question is now about how to persuade other members of the investment community to adopt the innovation.\textsuperscript{17} We believe that to grow investment in the field practitioners must:

- Work to provide USCI products with more of the “look and feel” of mainstream investment opportunities, so that investors see USCI investing as the same, in fundamental ways, as any other investing. For example, many mainstream investment opportunities are rated, have CUSIP numbers, and can be purchased on major exchanges.

- Gather and communicate benchmarked data on both fund and asset performance, as well as improve the reportability of investments on financial statements produced by custodians, to make USCI investment results more visible to investors.

- Communicate a fresh story about impact, making the connection to rising issues like income inequality, health, environmental sustainability, and economic recovery. These marketing messages should be crafted and delivered in targeted ways to appeal to different investor segments, including different demographics of the individual investor market.

- Utilize tools such as liquidity and credit enhancements to enhance the “trialability” of USCI for new investors—that is, the ability to experiment with such investments on a limited or less risky basis.

- Work with government and philanthropic sources to develop financial incentives, such as scaled credit enhancement or risk capital.

\textit{Investment platforms could play a critical role in scaling USCI, but practitioners have experienced a variety of challenges in constructing these platforms.}

Conventional assets are bought and sold easily on widely used trading platforms, but USCI practitioners report that it is difficult to gain access to these platforms due to small volume. A trading platform for USCI products could package various products into securities, obtain CUSIP numbers so that they are easier to buy, sell and report on, reduce the transaction costs for investors to participate in the market, open up more USCI opportunities to retail investors, get mainstream wirehouses involved in selling USCI products, provide a more conventional “look and feel” for investors, and ultimately help the market get to a scale where secondary markets evolve and liquidity constraints are eased.

The needs to create such a trading platform are substantial and expensive, including:

- Standardized practices and documentation among lenders and products
- A trading conduit with a trustee and custodian
- Administrative and reporting protocols
- A process for marketing and distribution of community investment assets
- Compliance with securities regulations

Some steps are already underway towards the development of platforms. A notable initiative is the ImpactUS Marketplace (www.impactusinfo.com), a platform being developed by Enterprise Community Partners and City First Enterprises that is expected to launch in Q1 2016.

Nonetheless, practitioners and investors have expressed concerns about whether the space has enough products to offer, and whether there would be demand for secondary market purchases of USCI investments. These concerns need to be addressed as part of a research scope to better analyze the feasibility of an investment platform.
The GIIN contracted the Carsey School of Public Policy at the University of New Hampshire to perform this landscaping study of U.S. Community Investing in order to provide its members, and other potentially interested investors, with an overview of the space and to identify possible routes forward to scaling this type of investing activity. This study seeks to identify and describe the major types of USCI investment products that are currently available to investors, the parameters that different types of investors are using to evaluate investment opportunities in the space, and the barriers and opportunities to increasing investment.

Data collection methods for this report included:

- In-depth interviews with 34 stakeholders in the USCI space concerning perceived challenges and opportunities to scaling USCI, including 17 investors and investment advisors (such as banks, foundations, pension funds, investment advisors to high-net-worth individuals, family offices, and other professionals facilitating investment in community development funds) and 17 product managers (such as private equity funds, community development banks and credit unions, and CDFI loan funds).

- A survey of investors concerning their investment parameters and perceived barriers and challenges to USCI. The survey received 33 responses, 42 percent of which were from foundations (see Figure 1).

![Figure 1. Types of Investors Surveyed, N=33](image-url)
Two research convenings, one held in San Francisco on March 17, 2015 and one held in New York City on April 2, 2015, were attended by a total of 29 investors and 11 fund managers. Investors included foundations, banks, investment advisors, insurance firms, pension funds, and others. The purpose of these convenings was to identify and explore matches and mismatches between a number of scaled community investment opportunities and investment parameters of different investor types. Eleven organizations, comprising a mix of community development loan funds, credit unions, banks and venture funds, presented to investors about the products they are developing and the types of investments they are seeking. The convenings were structured in a research focus group format, with surveys distributed to the participating investors to provide feedback on each of the different investment opportunities that were described. Group discussions followed to define and explore themes and cross-cutting challenges and opportunities for growing investment in the USCI space.

Literature review and desk research on current investment opportunities in the space.
OVERVIEW OF THE U.S. COMMUNITY INVESTING SPACE

What it is

“Community investing” is a subset of the broader field of impact investing—“investments made in companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.”

U.S. SIF defines a “community investment” as having the following three core characteristics:

1. A focus on marginalized areas or communities that conventional market activity does not reach (in practice, low-income neighborhoods or regions, communities of color, and underserved geographic regions such as rural communities);

2. A focus on enabling the delivery of explicit social benefits (affordable housing, economic development, provision of needed goods and services at affordable rates, healthier outcomes) to those areas or communities; and

3. A financial product available for investment that can be managed in terms of risk and return.

The space is also commonly understood to include a focus on improving the lives of low-income or marginalized people regardless of where they live—for example, investing in the construction of affordable housing in higher-income communities.

Why it is needed

A broad range of community development needs exist in the United States that the provision of investment capital could help to address. To provide a few examples:

- Nationally, there is a waiting list of one million children to go to a charter school. The annual demand for facilities financing of charter schools was about USD 1.3 billion in 2008 and appears to be growing.

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Bank loans to small businesses plummeted from 13.4 million in 2007 to 5 million in 2012, and the percentage of small businesses receiving loans dropped from 62 percent to 16 percent, suggesting the need for other mechanisms to help serve this vital engine of employment growth.

A survey of Federally Qualified Health Centers estimated a national need of USD 5.1 billion over the next five years to support renovation, replacement, improvement, and expansion of health facilities serving low-income communities.

An Urban Institute study estimates that tightened credit standards led to 4.2 million fewer borrowers qualifying for a home mortgage between 2009 and 2013, even when using the pre-bubble credit standards of 2001.

About 23.5 million Americans live in food deserts—low-income areas that are more than a mile from the nearest grocery store. Of all households in the United States, 2.3 million (or 2.2 percent) live more than a mile from a supermarket and do not have access to a vehicle.

Census data show that across the country, 28 percent of renter households are severely cost-burdened, paying over half of their incomes for housing. The National Low-Income Housing Coalition finds that there are only 30 affordable rental units for every 100 extremely low-income renters. It further estimates that 7 million new units of affordable housing are needed for these renters; a study by The National Housing Trust estimates that over the next 5 years more than 650,000 units of existing affordable housing will lose their project-based Section 8 contracts. The U.S. National Advisory Board on Impact Investing also suggests that with additional resources for creative financing, the affordable housing industry could likely expand production beyond the 100,000 units produced in 2012 by federal programs such as the Low-Income Housing Tax Credit and HOME Investment Partnerships.

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27 Staff of the National Housing Trust, “Project Based Rental Assistance,” in the National Low Income Housing Coalition, Advocates’ Guide (2014). Section 8 (more formally, the Housing Choice Voucher Program) provides rental subsidies to assist very low-income families, the elderly and the disabled to afford housing in the private market.
Community investing is not a silver-bullet solution to these and the many other community development challenges faced in the U.S., but it can be helpful in meeting these needs. As we explore in more detail below, a wide variety of community investing funds are working on precisely these challenges and are seeking investment capital to grow their work.

Who participates in USCI and how

INVESTEES IN WHICH COMMUNITY INVESTMENTS ARE MADE

Opportunities exist for community investors to place money in a wide range of asset classes, including cash, fixed-income (including bond purchases and debt investments), private equity, tax credit equity instruments, and real estate.

Community investments in the U.S. flow to a wide range of different entities, including small businesses, community health care facilities, human services nonprofits, affordable housing projects, commercial real estate projects, charter schools, community development corporations, and even individual households in low-income or marginalized communities. While it is possible for investors to invest directly in a particular housing project, health care facility, school or small business in an underserved community, most investor dollars first pass through one of several intermediary organizations, including:

- CDFI loan funds
- CDFI banks and credit unions
- Impact investing funds such as Impact SBICs, Community Development Venture Capital funds, and other private equity funds
- Tax Credit investments, such as Low-Income Housing Tax Credits and New Markets Tax Credits
- Real estate impact investing funds such as REITs and real estate private equity funds

In this report, we focus on these intermediaries and the investment opportunities ("products") they provide for investors who would like to place money in the USCI space.

INVESTORS PLACING MONEY INTO COMMUNITY INVESTMENTS

Banks motivated by the Community Reinvestment Act have been a dominant player in USCI. Banks reported just over USD 50 billion in community development lending in 2012.31 Insurers have also made significant community investments, at least in part due to regulatory pressures. For example, the California Organized Investment

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31 www.ffc.gov. The Community Reinvestment Act is a federal law intended to encourage deposito-
ry institutions to help meet the credit needs of the communities in which they operate. See: http://
www.federalreserve.gov/communitydev/cra_about.htm.
Network (COIN) is an insurance industry partnership established in 1996 as an alternative to state legislation that would have imposed CRA-like requirements on insurers in the state. In 2012, insurers held about USD 9 billion in COIN qualified investments. However, a number of different investor types have been active in U.S. community investing, to varying degrees. These investors include:

- High-net-worth individuals and family offices;
- Donor-advised funds sponsored by community foundations and other charities;
- Community foundations and private foundations;
- Institutional asset owners such as corporations, college endowments, and pension funds (including both government pension funds and religious pension funds); and
- Retail investors placing deposits in community development banks and credit unions, or purchasing notes from some nonprofit loan funds.

Practitioners are now focused on how to engage these investors and deepen their involvement in the space. As noted in the U.S. SIF study, one of the major challenges to doing so is that these different investor types operate at different scales and on different time horizons, engage in community investment for different reasons, have different risk tolerances and return expectations, use different channels through which they identify and make community investments, and are subject to different investment regulations and conventions.

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32 Source: State of California Department of Insurance data.
33 Donor-advised funds are philanthropic vehicles in which a donor makes a charitable contribution, receives an immediate tax benefit, and then recommends grants from the fund over time. The National Philanthropic Trust estimates in its 2013 Donor Advised Fund Report that donor-advised funds received USD 13.7 billion of charitable giving in 2012, although it does not further break out the volume of USCI activity by donor-advised funds.
EXISTING PRODUCT LANDSCAPE FOR U.S. COMMUNITY INVESTMENTS

In this section, we review the various USC1 products that exist today. For convenience we organize the discussion by the major types of investee organizations into which USC1 investors can place their money.

Figure 2 below provides a rough estimate of the size of the investment opportunities by investee type, using assets under management as the indicator. Note that we were unable to compile data on the collective assets under management at Community Development Corporations (CDCs), which we believe may be quite substantial.

![Figure 2: Product Landscape for U.S. Community Investments, Approximate Assets Under Management (Millions)](image)

Before we proceed with a detailed discussion of each investee type, we present the following summary table, which reviews the major investees in the space including the types of assets held, the types of debt and equity investment each investee seeks, the barriers to investment these investees commonly face, and the investment advantages they offer.
<table>
<thead>
<tr>
<th>Types of Assets Held</th>
<th>CD Banks and Credit Unions (CU)</th>
<th>Nonprofit Loan funds</th>
<th>Business Impact Investing Funds*</th>
<th>CDCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages, small business loans, consumer loans to low-income households, businesses, and communities</td>
<td>Housing, business, real estate and consumer loans to low-income households, businesses, and neighborhoods</td>
<td>Equity investments in businesses in low-income communities; some Impact SBICs make debt investments</td>
<td>Real estate investments in low-income communities and/or serving low-income households</td>
<td></td>
</tr>
</tbody>
</table>

| Types of Debt Investment Sought | Deposits (banks) and Share Memberships (CUs), interest rates similar to deposits at mainstream banks | Short-term (3-5 years) and long-term debt (as much as 10+ years), interest rates generally ranging from roughly 1 to 4% (median 2.9%) | These funds primarily seek equity investments, although Impact SBICs will leverage this with debt including SBA leverage commitments | Predevelopment and acquisition loans; Construction loans; permanent mortgages on real estate; enterprise-level financing at 7-10 year terms and below-market rates |

| Types of Equity Investment Sought | Preferred and common stock (banks) and Secondary Capital loans (CUs) | Grants; NMTC Equity; Equity equivalent investments of subordinated debt | Private equity investments at fully risk-adjusted returns, generally at 10 year terms | Grants; LIHTC and NMTC equity; first REIT structure has been implemented offering slightly below-market returns |

| Significant Barriers to Investment | Lack of liquidity in equity investments; below-market return on equity; lack of secondary markets for some loan assets; some CUs are very small; regulatory constraints prevent banks and CUs from making some high-impact loans | High transaction costs due to lack of standardized financials or loan assets; mismatch between investor vs. loan fund desired term and return; lack of secondary markets for many loan assets and for investments in loan funds; equity raise constrained by nonprofit status | Investor perception that returns must be below market if social mission is prioritized; fund size often smaller than for leaders in the private equity space; requirement for patient risk capital | Mismatch between investor vs. CDC desired terms and rates; significant investor knowledge required to do project-level investment; deal sizes are often small for enterprise—level financing of individual CDCs; lack of secondary markets for investments other than permanent mortgages and tax credit equity; equity raise constrained by nonprofit status |

| Significant Advantages to Investment | Highly effective mechanism to raise insured deposits from individuals; regulated institutions with standardized financials; high levels of leverage increase impact to equity investment | Flexibility in use of funds allows the allocation towards higher-risk loans in pursuit of high-impact | Generates market-rate returns; Structure is identical to non-social-interest private equity funds, so better investor understanding | Tax credit investments and permanent mortgages in real estate are well-understood, high volume asset classes |

* (Private equity, CD venture capital, Impact SBICs)


Community Development Financial Institutions (CDFIs)

Community Development Financial Institutions (CDFIs) provide credit and other financial services to underserved borrowers and communities. CDFIs are formally certified by the U.S. Department of the Treasury. The CDFI field consists of a range of investor types, including nonprofit loan funds, regulated banks and credit unions, and venture capital funds. As of December 2014, there were 933 certified CDFIs in the United States.\textsuperscript{36} CDFIs provide financial services to communities who have historically had limited access to credit and financial services.

To be certified as a CDFI, an entity must direct at least 60 percent of its financial products and services (on both a dollar and number basis) to qualifying end-users such as low-income or minority households, businesses operating in low-income communities, or nonprofits such as health centers, schools, or affordable housing developers serving low-income clientele. CDFIs must also be governed and managed in a way that is accountable to the underserved communities they assist.\textsuperscript{37} CDFI certification is a requirement to access financial and technical award assistance from the CDFI Fund.

As seen in Figure 3, a variety of financial institutions have been certified as CDFIs. Slightly over half of CDFIs are nonprofit loan funds, while most of the remainder consists of regulated depository institutions including banks or thrifts, credit unions, and depository institution holding companies. Finally, 14 certified CDFIs are venture capital funds making equity investments in businesses.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{Number of Certified CDFIs as of December 2014}
\end{figure}

\textsuperscript{35} Technical assistance programs accessed through the CDFI Fund include the CDFI Program, Native American CDFI Assistance Program, and certain benefits from the Bank Enterprise Award (BEA) Program. Available at: http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=9.

\textsuperscript{36} CDFI Fund Certification Data for December 2014.

\textsuperscript{37} The Housing Partnership Network launched a REIT in 2012 called the Housing Partnership Equity Trust (HPET) that is owned by 12 of its members. The REIT has raised USD 100 million in a mix of debt and equity, which it then uses to acquire existing rental properties whose future affordability is at risk. To date, HPET has purchased 880 units through 5 acquisitions.
Unfortunately, a standardized financial reporting system for all CDFI loan and investment assets does not exist. However, the U.S. Department of Treasury CDFI Fund does collect loan-level data on CDFIs who have received grant funding from the agency. In 2012, just the 333 CDFIs reporting data to the CDFI Fund made USD 1.9 billion of loans and investments to low-income households and communities across the United States. Notably, a recent impact evaluation of the CDFI industry, conducted by the Carsey School of Public Policy, documented that in response to the national housing crisis and subsequent recession, CDFIs grew their lending activity substantially from 2005 to 2012, even as mainstream financial institutions substantially curtailed their lending. The same research documented that CDFIs devote a much larger portion of their lending and investment activity than do mainstream financial institutions to traditionally underserved communities and borrowers such as high-poverty census tracts, minority borrowers, and low-income borrowers.

38 Analysis of CDFI Fund Transaction-Level Report (TLR) data.
In Table 3 below, we summarize common terms of loan assets held by CDFIs, again from loan data provided by 333 CDFIs (predominantly loan funds, but also some banks and credit unions) reporting data to the CDFI Fund in 2012. While loan terms vary across CDFIs, the Carsey report concluded that in general CDFIs are providing “plain vanilla” financing to borrowers at competitive interest rates.

**TABLE 3. COMMON TERMS OF CDFI LOAN ASSETS**

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Loan Structure</th>
<th>Security</th>
<th>Median Term</th>
<th>Median Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>Usually a term loan</td>
<td>Usually a first lien</td>
<td>3 years</td>
<td>8.50%</td>
</tr>
<tr>
<td>Microfinance</td>
<td>Usually a term loan</td>
<td>Usually a first lien</td>
<td>2.5 years</td>
<td>11.00%</td>
</tr>
<tr>
<td>Home loans to individuals</td>
<td>Term loan</td>
<td>Mix of first and second liens</td>
<td>20 years</td>
<td>5.25%</td>
</tr>
<tr>
<td>Housing loans to organizations</td>
<td>Mix of term loans and lines of credit; half have non-amortizing structures</td>
<td>Secured</td>
<td>2 years</td>
<td>6.00%</td>
</tr>
<tr>
<td>Commercial real estate loans (includes loans for nonprofit facilities)</td>
<td>Half of loans are amortizing and half are non- or partially-amortizing</td>
<td>Secured</td>
<td>5 years</td>
<td>6.00%</td>
</tr>
<tr>
<td>Consumer loans</td>
<td>Usually a term loan</td>
<td>Secured</td>
<td>2 years</td>
<td>10.25%</td>
</tr>
</tbody>
</table>

Below, we discuss opportunities for community investors to place money into CDFI loan funds, banks and credit unions. (Investment opportunities in CDFI Venture Capital Funds will be discussed together with opportunities in non-CDFI venture funds and private equity funds.)

**NONPROFIT LOAN FUNDS (INCLUDING CDFI LOAN FUNDS)**

The 508 certified CDFI loan funds in the U.S. are nonprofit entities that, while subject to a multitude of state and federal lending regulations, are not overseen by any of the major federal financial institution regulators—such as FDIC, OCC (Office of the Comptroller of the Currency), or the Federal Reserve. They thus enjoy considerable flexibility to pursue their community development missions, and can make loans that often would be seen as too risky by banks or credit unions and their regulators. For

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41 Analysis of CDFI Fund Transaction-Level Report (TLR) data.
example, a CDFI loan fund might provide a high Loan-to-Value second mortgage to assist a low-income household to make needed home repairs, cover the non-guaranteed portion of an SBA small business loan, or make a predevelopment loan to assist a nonprofit seeking to develop a charter school.

Note that nonprofit community loan funds that have not been certified by the CDFI Fund also exist. In most cases these other loan funds have relatively small portfolios; in some cases lending may simply be a small program in a larger organization that focuses mainly on other activities such as real estate development in underserved communities. In other cases, loan funds that are not certified as CDFIs may be government-controlled entities. Because data is very limited on these non-CDFI loan funds, we focus our discussion on certified CDFI loan funds.

Financial Performance of CDFI Loan Funds

The CDFI Fund received “Institutional Level Reports” (ILRs) providing summary data on the financial performance of 253 CDFI Loan funds in 2012 with a combined portfolio of USD 6.9 billion in loans. The average loan assets of about USD 27.4 million was substantially higher than the median of USD 8.3 million, as loan funds vary greatly in size and there are a few very large loan funds.43

Despite their flexibility in lending policies, the available ILR data suggests that CDFI loan funds have achieved strong portfolio performance. In 2012, the reporting loan funds had a 90-day delinquency rate of 2.7 percent, and a loan loss of 1.0 percent of portfolio. The loan loss rate compares favorably to mainstream commercial banks, which had an average loan loss of 1.1 percent of portfolio in 2012 across all loan types.44 A recent CDFI industry analysis also found that charge-off and delinquency rates for CDFI loan funds engaged in home mortgage lending and small business lending were lower than related industry-wide benchmarks from the Mortgage Bankers Association and Small Business Administration.45 Many CDFI loan funds attribute strong loan portfolio performance to the technical assistance and education they provide their borrowers (for example, financial fitness education for consumer borrowers and homeownership counseling for mortgage borrowers). On the other hand, data on delinquency and charge-offs of a subset of CDFIs responding to the Opportunity Finance Network’s 2013 Market Conditions Survey show that these CDFIs had higher charge-offs and delinquencies than FDIC-insured institutions. This data includes CDFI banks and credit unions as well as loan funds.46


46 Opportunity Finance Network (2014). “CDFI Market Conditions, Fourth Quarter 2013.” Results may differ from the Carsey Institute’s findings for a number of reasons—first of all, the subset of organizations providing data for each study is different, even though all of the organizations are CDFIs. Also, the comparative benchmarks used in each study differ; for example, not all home mortgage lending reported by the Mortgage Bankers Association is done by FDIC-insured institutions.
Some other key aspects of CDFI loan fund financial performance are that:

- Loan funds tend to have much lower levels of leverage than mainstream or even CDFI banks and credit unions. In 2012, the average CDFI loan fund had USD 1.40 in notes payable for every USD 1 in net assets (equity) on its balance sheet, compared to ratios of over USD 8: USD 1 for banks and credit unions. Even the most leveraged loan funds generally do not exceed USD 4 in debt per USD 1 in net assets. This financing structure thus provides a substantial cushion to debt investors in the event of loan losses.

- Like other nonprofits, most loan funds (although not all) use some amount of grant funding—whether from foundations, corporate and individual donations, or government programs—to cover some of their operating costs. Among the loan funds reporting 2012 ILR data, earned income (from loan interest and fees, for example) covered 65 percent of all operating costs.

**Structure of USCI Investments in Loan funds**

As nonprofits, loan funds do not take in equity investments or pay out returns to equity shareholders. The only form of “equity” that nonprofit loan funds can receive is grants, which may come from foundations, individual donations, the U.S. Department of Treasury CDFI Fund, or other government programs but are not considered investments since they produce no financial return. Furthermore, as unregulated financial institutions, loan funds do not take in deposits from customers. As a result, the main options for USCI Investors interested in getting exposure to loan funds are:

- Debt investments—either directly in the CDFI or in special-purpose vehicles established by the CDFI;

- Participations in loans made by loan funds; and

- Purchases of loans made by loan funds—and in some instances purchases of securities of loans made by loan funds.

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As shown in the Figure 4 below, depository institutions (especially banks) comprise the largest external source of investment in CDFI loan funds, followed by government and philanthropy.49

FIGURE 4. SOURCES OF INVESTMENT IN CDFI LOAN FUNDS, 2012

As the types of loan assets held by CDFI loan funds vary widely, so do the terms that they seek from their investors. That said, the median cost of debt investment for CDFI loan funds ran at about 2.9 percent in 2012,50 providing some indication of the pricing that the typical loan fund seeks from its investors. Anecdotally, as well as from a review of CDFI loan fund financial statements, most CDFI loan fund practitioners report that their debt is for terms of less than 10 years, and most often for 5 years or less.51 However, the same research suggests that many CDFI loan funds are seeking debt for longer terms, and in fact have had to constrain their product offerings to match the shorter terms of investment that are available to them. As one of our interviewees (a CDFI loan fund executive) put it, “the tail of what capital is available wags the dog of what loan products CDFIs are able to provide.”

50 CDFI Fund CIIS-ILR data.
Challenges for CDFI loan fund investment

Some challenges for investing in CDFI loan funds have included:

- **MISMATCH BETWEEN PRICING SOUGHT BY THE INVESTOR AND THE LOAN FUND.** In particular, perceived risk appears to lead investors to demand pricing in excess of what many CDFI loan funds are willing to pay. Pinsky (2012) conducted research in which investors were presented with an investment opportunity in a CDFI. While the investors initially perceived that the opportunity was market-rate investment grade, if “community development” was added to the description of the opportunity, the investors raised their pricing by 600 basis points, an amount that Pinsky labels the “community development premium.” An Executive Director of one well-regarded loan fund commiserated that “our below-market capital [that CDFIs are purportedly raising] is actually above market.”

- **LIQUIDITY CONCERNS FOR THE INVESTOR, PARTICULARLY WHEN LOAN TERMS ARE LONGER.** As no formalized secondary market exists for CDFI loan fund assets, investors must either hold investments to term or incur substantial transaction costs in finding a buyer for their investment.

- **HIGH TRANSACTION COSTS, AS CDFI LOAN FUNDS ARE UNREGULATED AND AS SUCH DO NOT HAVE STANDARDIZED FINANCIAL STATEMENTS.** However, in recent years, the Aeris rating system (formerly known as CARS) has emerged as a way of providing an investor rating for loan funds—on both financial health and impact. The rating system was launched under the name of CARS (CDFI Assessment and Ratings System) in 2004. As of February 2015, 84 loan funds have a published, current Aeris rating, including many of the largest and most sophisticated loan funds in the industry. Over 50 investors are utilizing the Aeris system for investment decisions, including banks, insurers, family offices, foundations, and CDFI intermediaries who lend to other CDFIs.

- **VARIABILITY OF TERMS OF LOANS (LACK OF STANDARDIZATION) WHEN SEEKING TO SELL LOAN ASSETS.** One industry stakeholder commented that CDFI loan portfolios are “so small, so hand crafted and specific—kind of artisanal in nature—that trying to find buyers on the other end has been difficult. There is always something about how the loan has been done that will not meet an investor threshold.”

- **GAINING INVESTOR COMFORT WITH THE FACT THAT MANY CDFI LOAN FUNDS ARE PARTIALLY SUPPORTED BY GRANT FUNDING.** While some loan funds can cover all of their operating expenses through earned income from interest and fees, many rely at least partially on operating grants, for example to cover the costs of services such as counseling or education for their borrowers. Investors who are unfamiliar with nonprofit operations need to become comfortable with this reality.

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A SAMPLING OF INNOVATIVE PRODUCTS AND INVESTING INITIATIVES IN THE CDFI LOAN FUND SPACE

**Self-Help Notes**
Self-Help Ventures Fund operates four community development finance verticals: Commercial Lending, a national Home Loan Secondary Market program, a Community Real Estate Development program, and Self-Help’s affiliated community development credit unions. Investors may place money in the Self-Help Ventures Fund through a Notes program. Investments may be made in variable-rate notes, currently offered for terms of 5 to 15 years at the 3-month LIBOR plus 1.5 percent, or in fixed-rate notes, currently offered for terms of 5 to 15 years at the relevant swap rate plus 1.5 percent. The debt is unsecured, although Self-Help provides full recourse to Note holders.

**Community Reinvestment Fund Securitizations**
Community Reinvestment Fund (CRF) has issued rated securitizations of small business loans, and is working on a structure to securitize the unguaranteed portion of SBA loans which will be issued in 7-10 months. CRF issued over USD 300 million of these securities; it backed off from this activity during the financial crisis but is now working towards a new round of securitized sales. These securities would be tranched with both rated and unrated tranches.

**Calvert Community Investment Notes**
The Calvert Foundation Community Investment Notes program offers U.S. community investors a debt instrument with terms of 1 to 10 years and a return that varies with term, between 0.5 percent and 3 percent. In some instances, investors may target their investment towards a range of particular issues and geographies that Calvert offers, including education, small business, affordable housing, and investments in local nonprofits and community development organizations.

Calvert Community Investment Notes are notable in that they are registered securities with a CUSIP number, so that they may be purchased by retail investors as well as institutional and accredited investors. Individual investors may invest in increments as small as USD 20 via an online platform, www.vested.org. The CUSIP number facilitates reporting, settlement and clearing of securities. In theory, the fact that these notes are registered securities with CUSIP numbers should also make them more tradeable, but to date no secondary market exists and most investors hold their notes for their full term.

**ROC Capital LLC**
ROC Capital sells senior loan participations in individual loans to manufactured home parks to assist the homeowners in purchasing the park land. It is also establishing a national senior loan participation pool. Investors would place this debt at terms of 10 years with a spread of 225 to 275 basis points over the 10-year Treasury Bill.
COMMUNITY DEVELOPMENT BANKS (CDFI BANKS)

Community Development Banks (CDBs) are community banks and thrifts that have a primary mission of promoting community development in underserved communities. All CDBs are certified CDFIs: they are also all regulated financial institutions and are insured by the FDIC. As of December 2014, there were 109 CDFI banks. The NCIF CDFI Banking Industry Quarterly Profile for Q3 2014 provides financial information on 107 of these banks. Some highlights from that report are:

- CDBs hold USD 31.3 billion in assets, including loans of USD 19.9 billion—both all-time highs for this industry.
- Total income through the end of the quarter was USD 145 million, and 85 of the banks had profitable operations.
- Charge-offs have decreased considerably since the recession, down to 0.43 percent from 1.05 percent in 2009.
- The median return on equity was 7.04 percent—the highest recorded for CDFI banks since 2004.

The Carsey School studied financial reports of CDFI banks for the years 2005 through 2010 as part of an industry analysis it conducted for the CDFI Fund, using Uniform Bank Performance Report (UBPR) data. It made a detailed analysis of financial ratios for these banks as well as for a comparison group of non-CDFI banks with less than USD 10 billion in assets. Table 4 below presents some key ratios, calculated by averaging the median bank performance per year across all of these years. In general the median CDFI bank appears to be slightly more leveraged, slightly less profitable, and to pay a slightly lower dividend; also, CDFI banks appear to take on slightly greater risk in their loan portfolios, for which they compensate through pricing:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>CDFI banks</th>
<th>Comparison group bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>All common and preferred capital, as % of average assets</td>
<td>9.39%</td>
<td>10.01%</td>
</tr>
<tr>
<td>Loan yield, as % of average assets</td>
<td>7.50%</td>
<td>7.10%</td>
</tr>
<tr>
<td>Provision for loss, as % of average assets</td>
<td>0.51%</td>
<td>0.26%</td>
</tr>
<tr>
<td>Net income, as % of average assets</td>
<td>0.52%</td>
<td>0.83%</td>
</tr>
<tr>
<td>Dividend, as % of net income</td>
<td>1.50%</td>
<td>2.70%</td>
</tr>
</tbody>
</table>

54 CDFI Fund data. It should be noted that there are also over 400 banks that are not certified as CDFIs, but that have substantial home lending and branch locations in low- and moderate-income communities. The National Community Investment Fund has labeled these banks “Community Development Banking Institutions” and sees them as potential candidates for CDFI certification in the future. See the NCIF report, “A Probable Future for the CDFI Banking Sector: Insights from Strategic Planning,” available online at: http://ncif.org/sites/default/files/free-publications/AProbableFuture-NCIF.pdf.

The NCIF also publishes impact assessments of CDBs, including measures of how much of a bank’s lending and deposits are targeted in low- and moderate-income areas. Twenty-four banks provided detailed impact information to NCIF related to their activities in 2012. They reported that 88 percent of their customers were minorities or had previously been excluded from mainstream financial services; they also reported creating over 10,000 jobs through their lending activity.

The two ways in which U.S. community investors can place money with CDBs are through insured deposits and through equity (capital) investments. As of February 2015, the interest rate on an insured, 5-year certificate of deposit at a sample of CDBs was in the neighborhood of 1.40—1.45 percent APY. Bank investor relations departments may offer higher rates available for large investments.

Equity capital investments in CDBs can generate high impact, as banks generally will leverage their capital at ratios ranging from 8:1 up to nearly 10:1. These investments also pay dividends averaging 1.5 percent annually and sometimes higher, in addition to increasing in value as the bank grows.

Challenges for Community Development Bank Investment

The principal challenge for scaling investment in CDBs is the lack of liquidity of equity investments in these banks. CDB stocks are generally not publicly traded; anecdotally, few mission-driven banks who have publicly offered stock have been able to continue as independent entities. As a result, however, investors must generally hold on to their equity investments for long time frames. As one industry stakeholder commented, “If an investor puts their money in, getting it out is almost impossible because other investors are not standing there waiting to buy these shares. All small banks have this issue, not just CDFI banks, but it is more acute for CDFIs.” Recent increases in regulatory capital requirements have exacerbated the problem. This challenge has led industry stakeholders to consider whether new platforms or mechanisms are needed to achieve critical mass in capital raising and thus provide greater liquidity to investors, possibly including the creation of financial holding companies.

An additional challenge for CDBs is that some, although not all, equity investors in banks are seeking a market rate of return, which industry stakeholders do not feel is realistic. One stakeholder observed, “it is a myth that you can get a 15 percent IRR and save the world at the same time.”


57 Internet research of Community Development Bank websites with advertised deposit rates.

58 Data from analysis of Uniform Bank Performance Reports conducted by the Carsey School for its CDFI Industry Analysis report, published Spring 2012.

Lack of investor knowledge about the CDFI bank industry may also be an issue. While Shore Bank\textsuperscript{60} was well known, industry stakeholders perceive that many investors seem to be unaware of the many other community development banks in the United States, and the robust growth of this sector.

CDBs currently do not report significant challenges raising debt investment through deposits. However, access to deposits from impact investors is still important to these banks and may become more so if interest rates rise in the future.

A SAMPLING OF INNOVATIVE PRODUCTS AND INVESTING INITIATIVES IN THE COMMUNITY DEVELOPMENT BANKING SPACE

- The National Community Investment Fund (NCIF) is a 5011(4) nonprofit investment fund that invests capital in mission-oriented banks.\textsuperscript{61}
- Southern Bancorp is exploring an equity raise in which it would use its Employee Stock Ownership Plan to provide a takeout mechanism for shareholders.
- In February 2012, the U.S. Department of Treasury created the Community Development Capital Initiative, which placed investments of capital in CDFI banks, thrifts, and credit unions to help them weather the recession. Eighty-four institutions received investments totaling approximately USD 570 million.\textsuperscript{62} Takeout of these Treasury investments could provide an opportunity for impact investors in the future.

COMMUNITY DEVELOPMENT CREDIT UNIONS (INCLUDING CDFI CREDIT UNIONS)

Community Development Credit Unions (CDCUs) are credit unions “with a mission of serving low- and moderate-income people and communities. CDCUs specialize in serving populations with limited access to safe financial services,” such as low-income, minority, and immigrant populations as well as people with disabilities.\textsuperscript{63} While most CDCUs are also certified CDFIs, the CDCU designation actually goes back earlier, to when the National Federation of Community Development Credit Unions was formed in 1974. CDCUs are nonprofit organizations that are cooperatively owned and governed by their members. The National Credit Union Administration (NCUA) regulates CDCUs and insures member deposits (“shares”). Currently, some 250 CDCUs provide credit, savings, transaction services and financial education to more than four million people, and hold over USD 36.9 billion in assets.\textsuperscript{64}

\textsuperscript{60} Shore Bank was one of the first Community Development Banks in the nation, founded in 1973. It closed in 2010.

\textsuperscript{61} See http://www.ncif.org/invest.


\textsuperscript{63} National Federation of Community Development Credit Unions website, www.cdcu.coop.

\textsuperscript{64} National Federation of Community Development Credit Unions website, www.cdcu.coop; see: http://www.cdcu.coop/about-us/member-directory/.
As of December 2014, there were 243 certified CDFI credit unions, according to CDFI Fund data, with a strong overlap between CDFI credit unions and CDCUs. However, credit unions may also have a designation from NCUA as a Low-Income Credit Union. As of December 2013, according to a report by the Credit Union National Association, there were 1,992 low-income designated credit unions holding USD 178 billion in total assets. Of these, 283 credit unions were estimated to be “immediately certifiable” based on the geographies and customers they served but were not currently certified as CDFIs.65

A recent white paper prepared for the Credit Union National Association provides some financial performance information for 173 CDFI credit unions, concluding that “CDFI credit unions focus most of their loans and services in the nation’s most economically disadvantaged communities, yet the financial growth and performance of CDFI credit unions meets or exceeds that of their mainstream peers.”66 The median CDFI credit union generated a return on assets of 0.27 percent, compared to 0.18 percent for mainstream credit unions, and maintained a loans-to-assets ratio of 62 percent, compared to 50 percent for mainstream credit unions.

The Carsey School studied financial reports of CDFI credit unions for the years 2005 through 2010 as a part of an industry analysis it conducted for the CDFI Fund. It made a detailed analysis of financial ratios for these credit unions as well as for the credit union industry as a whole, using NCUA Financial Performance Reports data. The study found that CDFI credit unions grew considerably over this period, increasing their assets by a median of 38.2 percent and their loan portfolios by 47 percent. Table 5 below presents some key ratios for 2010:

<table>
<thead>
<tr>
<th>Indicator (2010)</th>
<th>CDFI credit unions</th>
<th>Comparison credit union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net worth / total assets</td>
<td>10.91%</td>
<td>10.06%</td>
</tr>
<tr>
<td>Yield on average loans</td>
<td>6.70%</td>
<td>6.06%</td>
</tr>
<tr>
<td>Delinquent loans / total loans</td>
<td>2.87%</td>
<td>1.04%</td>
</tr>
<tr>
<td>Net charge-offs / average loans</td>
<td>0.93%</td>
<td>0.85%</td>
</tr>
<tr>
<td>Net margin / average assets</td>
<td>5.44%</td>
<td>4.58%</td>
</tr>
</tbody>
</table>

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The two ways in which community investors can place money with Community Development Credit Unions are through insured share deposits and through secondary capital investments. As of February 2015, the interest rate on an insured, 5-year certificate of deposit at a sample of CDCUs was in the neighborhood of 1.10—2.10 percent APY. Credit union investor relations departments may offer higher rates available for large investments.

Secondary capital investments are subordinated, long-term debt available to credit unions with the NCUA low-income designation. While a loan, secondary capital is treated as net worth by regulators due to its subordinated position. Impact investors can achieve significant leveraged impact when they make secondary capital investments, since these investments allow credit unions to expand their deposit base. The median CDFI credit union has a net worth ratio of 10.4 percent, meaning that a dollar of secondary capital investment should be expected to leverage nine dollars in additional asset growth.67

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**A SAMPLING OF INNOVATIVE PRODUCTS AND INVESTING INITIATIVES IN THE CDCU SPACE**

Two online efforts seek to facilitate the flow of investment dollars to CDFI loan funds, banks, and credit unions.

- The National Federation of Community Development Credit Unions makes secondary capital loans to member CDCUs, and in turn raises investments from impact investors to fund these loans. The Federation is restructuring its loan product to an amortizing product (it had been a balloon loan), which will provide faster return of principal to investors.

- The National Federation of Community Development Credit Unions also operates the CDCU Mortgage Center, which purchases mortgage loans from member credit unions. The Federation is working to establish loan pools of these mortgages, in which impact investors will be able to invest.

Credit unions also benefit from the U.S. Treasury Department’s Community Development Capital Initiative, described earlier. Takeout of these Treasury investments could provide an opportunity for impact investors in the future.

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Challenges for Community Development Credit Union Investment

Community Development Credit Unions share similar capitalization challenges to Community Development Banks. Generally, credit unions have been able to raise share memberships (deposits); the more difficult piece of funding is secondary capital.

ONLINE MARKETPLACES FOR CDFI INVESTMENT

Two online efforts seek to facilitate the flow of investment dollars to CDFI loan funds, banks, and credit unions.

The CapNexus Marketplace

CapNexus is an online database where community development finance organizations can post loans and loan participations for sale and seek funding partners. A searchable database allows investors to look for opportunities that match desired transaction characteristics such as pricing, loan size, geography, and asset type, and also includes economic and demographic data on the area surrounding the loan’s primary address. CapNexus also offers a CD rate finder for investors to find rates for certificates of deposits at CDFI banks and credit unions.

ImpactUS Marketplace

Enterprise Community Partners, City First Enterprises, and Folio Investing together are launching a one-stop online community impact marketplace called ImpactUS for the community development finance sector. The marketplace will facilitate investment from both retail and individual investors in a range of CDFI-related investment notes, crowdfunding deals, and additional investment opportunities by locale, type, and impact sector. ImpactUS Marketplace is expected to launch in Q4 2015.

Business Impact Investing Funds

In this section we review a variety of USCI investment funds that have been set up to invest in businesses in underserved markets. Generally these funds are structured as private equity funds or venture capital funds; some are mezzanine funds. As with mainstream private equity, investment products do not have CUSIP numbers and no secondary market exists, such that investors must hold their investments for the life of the fund, which generally ranges around 10 years.

These funds may hold designations as “Community Development Venture Capital Funds,” “Impact Small Business Investing Companies,” and even as CDFIs. A few do not have any such designation or membership, but are impact investing funds that include at least some portfolio focus on businesses in underserved communities.

According to our interviewees, a wide range of investors are currently participating in these funds including high-net-worth individuals (HNWIs), family offices, banks, insurance firms, and pension funds.

Community Development Venture Capital Funds

Community Development Venture Capital Funds are organized just like other venture capital funds in the United States. They take in equity from investors, deploy it as equity investments in growing businesses, then distribute returns to investors upon successful exits from companies in the portfolio. Like other venture capital funds, these funds also generally seek market-rate financial returns. The difference is that they serve businesses in underinvested markets and seek the creation of good jobs, wealth, and entrepreneurial capacity in these markets.69

Some Community Development Venture Capital Funds are also certified CDFIs— as of December 2014, the CDFI Fund reports that there are 14 certified CDFI Community Development Venture Capital Funds. These CDFIs must meet the Fund’s requirements for investments in underserved borrowers and communities, which ensures a rigorous focus on community development work. However, the Community Development Venture Capital Alliance (CDVCA) includes non-certified CDFIs and, thus, lists a total of 46 domestic funds on its website. CDVCA reported that there was USD 2.1 billion in capital under management in this space as of 2011. These funds make equity investments in businesses and, depending on the particular fund, may invest in different growth stages ranging from seed/start-up capital (about 15 percent of investments), early stage (34 percent), expansion (45 percent), or later stages (6 percent).70

Examples of some well-known Community Development Venture Capital Funds include (but are not limited to) Pacific Community Ventures, Murex Investments, the New York Small Business Venture Fund, and CEI Ventures.

70 http://cdvca.org/programs/research/.
**Impact SBICs**

Small Business Investment Corporations (SBICs) use privately raised capital, and leveraged funds guaranteed by the Small Business Administration, to make investments in small businesses. Impact SBICs are SBICs that have committed to investing at least 50 percent of their funds into defined “impact investments.” Investments in small businesses in low- or moderate-income areas, rural areas, and/or economically distressed areas qualify as impact investments, although so do investments in small businesses in the clean energy and education sectors, regardless of whether those businesses operate in or target their products and services towards underserved communities. For this reason, Impact SBICs may have varying levels of involvement in what we have defined as U.S. Community Investing.

The Small Business Administration has committed an initial USD one billion in funding to Impact SBICs through federal fiscal year 2016, which would then be matched by private investment into the organizations. From the inception of the program in fiscal year 2011 to September 2014, SBA reported receiving 17 applications from organizations seeking licensure as Impact SBICs and proposing to maintain USD 1.4 billion in assets under management. Three licenses had been granted with a total of USD 412 million in assets under management.71

The three licensed impact SBICs are Michigan Growth Capital Partners, SJF Ventures III, and Bridges U.S. Sustainable Growth Fund. (Note that earlier SJF Ventures funds had been certified CDFI venture capital funds). These funds are all involved in private equity and/or venture deals (although in the future other Impact SBICs might also focus on providing debt financing to businesses). The funds describe themselves as providing market-rate returns.

Note also that some Specialized Small Business Investment Companies may have a community development focus. An example is East Coast Capital Holdings, described in the “innovative products” listing in this section of the report. East Coast Capital is also a member of the CDVCA.

**Other Business Impact Investment Funds**

A number of business impact investing funds do not hold designations as Community Development Venture Capital funds, Impact SBICs, or CDFIs, but are nevertheless engaged in this space. Examples include:

- Huntington Capital, a mezzanine fund providing debt and equity financing to small and medium-sized companies in underserved communities in the Southwestern U.S.. According to ImpactAssets, the fund has between USD 100 and 250 million under management.

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72 Personal communication, Jeffrey Finkleman, SBA. Also see: https://www.sba.gov/sites/default/files/articles/SBA%20Impact%20Webinar%20%2810-09-2014%29.pdf.
Core Innovation Capital, a venture capital fund focused on financial technology and services for the “emerging middle class” (unbanked and underbanked people) in the United States. According to ImpactAssets, the fund has between USD 26 and 50 million under management.

DBL Investors, a venture fund investing in a broad range of social, environmental and economic benefits, including investments in companies that are located in underserved areas. According to ImpactAssets, the fund has between USD 100 and 250 million under management.

Challenges for Business Impact Investment Vehicles

A common challenge for funds in this space is the perception by investors that because the funds focus on a double bottom line, they must generate poor returns, despite the fact that most funds are targeting market rate returns. As one fund manager put it, “There are still lots of people who assume we are below market rate financial return... even though we do not make financial concessions, we sort of have to overcome it as if we did invest on concessionary terms. People want to bucket you as concessionary capital, but that is not what it is.”

A related challenge in this space is that investors may view funds that promise market-rate returns as not having enough of an impact. Interviewees report that institutional investors tend to demand that funds carry a specialized designation (for example as a CDFI), particularly those that need Community Reinvestment Act credit or similar credit.

Fund size is an issue that some fund managers reported to raising capital. Major industry platforms tend to list funds only when they have reached a size of several hundred million dollars. Smaller funds must thus market to investors without the aid of such platforms. Aggregation of funds can create its own difficulties because of investor interests in placing their money into particular geographies or interest areas.

Community Development Venture Capital funds appear to be experiencing greater challenges in capitalization than other vehicles in this space. One fund manager commented, “The idea that you can just sort of go out and raise a fund from 20 different places—that is not true any more except for a small handful of funds with a very positive track record over the long term of making market returns. Those funds exist out there but if you want to start a new fund it is a lot harder to raise money.” In particular, these fund managers have observed a pullback in participation from banks, which have become more interested in lower-risk and shorter-term investments. Many funds in this space also tend to be small (on the order of USD 25 million or so), and thus struggle with the capitalization barriers related to fund size that we discussed above.

Another challenge reported by fund managers in this space, but one that may be more systemic across all of the USCI field, is that while standardized impact metrics exist (such as the GIIN’s IRIS system), not all investors accept these measures. As one fund manager put it, “Everyone wants to know something different. What that means is that we do a lot of assessment, and that is a burden on our portfolio companies.”
Fund managers expressed a desire for more education for investors on standard metrics and reporting systems.

**A Sampling of Innovative Products and Investing Initiatives in the Business Impact Investing Fund Space**

SJF Ventures provides venture financing for “high-growth companies generating positive social or environmental impacts across a breadth of impact areas, including waste reduction, improved educational outcomes, natural resource conservation, health and wellness advancements, employee engagement and strengthened communities.” SJF has established three funds to date with a total of over USD 130 million in investment. It seeks “exceptional returns,” meaning full market-rate venture capital returns. It provides growth capital, funding businesses that have a track record. SJF also partners with Investors’ Circle, which is a network of investors that invest businesses that are more early-stage.

East Coast Capital Holdings, a member of the Community Development Venture Capital Alliance, is raising USD 5 million in equity through a private placement facilitated by Mission Markets (an online impact investing marketplace described later in this report). It deploys its investments to small businesses in disadvantage communities as well as to equity investments in minority-owned banks and depository institutions.

**Tax credit equity investments**

Several federal tax credit programs, as well as a number of state tax credit programs, incentivize private investments in community development projects and programs. In many cases, these tax credits are substantial enough that they provide the main source of financial return (and sometimes the only return) to the investor. Many tax credit markets are quite mature—the Low Income Housing Tax Credit program, in particular, has been in place since 1986—and are well known to mainstream USCI investors such as banks and insurers.

**Low-Income Housing Tax Credits**

Low-Income Housing Tax Credits (LIHTC) provide investors with a 10-year tax credit for placing equity in affordable rental housing projects. From 1995 through 2012, 25,300 LIHTC projects were placed in service with a total of 1.9 million rental units.

Investments are generally aggregated from individual affordable housing projects into

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large investment funds; major syndicators operating these funds include Enterprise Community Investments, the National Equity Fund, and the National Development Council Corporate Equity Fund, to name a few. An Ernst & Young study estimated that the LIHTC program generated approximately USD 75 billion in investments from banks, insurers, and other investors from 1987 to 2008.\(^{76}\)

Since 2000, after-tax yields on LIHTC equity investments have ranged from under 5 percent to over 13 percent, with the spike in yields occurring in 2009-10 during the recession.\(^{77}\) As of the fourth quarter of 2014, national multi-investor funds had returns of between 6.5 and 6.75 percent, with downward pressure on yields created by continued strong investor interest.\(^{78}\) A 2012 study by CohnReznick on the performance of LIHTC investments found that variance between forecast and actual yields was small, and that the percentage of properties experiencing foreclosure (and thus the potential for recapture of some or all tax credits) was also small, although it found that incomplete data resulted in underreporting of foreclosures.\(^{79}\)

**New Markets Tax Credits**

The New Markets Tax Credits (NMTC) program provides investors with tax credits over seven years for investing in specialized financing entities—known as Community Development Entities (CDEs)—that in turn invest in businesses and real estate projects in qualifying low-income census tracts.\(^{80}\) The credits are generally used for business financing or commercial and industrial real estate financing, although they are sometimes used to support housing-related businesses.\(^{81}\) According to CDFI Fund statistics, since its inception in 2000, the NMTC program has created or retained an estimated 358,800 jobs, and supported the construction of 17.1 million square feet of manufacturing space, 49.4 million square feet of office space, and 42.7 million square feet of retail space.

Private investments in the program (“Qualified Equity Investments”) totaled USD 5.2 billion in 2012. After-tax yields currently range from 8 to 12 percent.\(^{82}\)

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76 Novogradac & Company LLP (2011). Low-Income Housing Tax Credit: Assessment of Program Performance & Comparison to Other Federal Affordable Rental Housing Subsidies, p. 7.
77 “Low Income Housing Tax Credits: Affordable Housing Investment Opportunities for Banks.” OCC Community Development Insights, March 2014.
80 For an overview of the program see the CDFI Fund New Markets Tax Credit Program Fact Sheet, available online at: http://www.cdfifund.gov/docs/factsheets/CDFI_NMTC.pdf.
**State Tax Credit Programs**

An exhaustive listing of state tax credit programs is beyond the scope of this report, but some examples include state Low-Income Housing Tax Credits in multiple states\(^83\), the Florida Community Contribution Tax Credit Program, the New Jersey Neighborhood Revitalization Tax Credit Program, and the Massachusetts Community Investment Tax Credit Program. The latter three programs provide the credits for donations made to nonprofits (usually community development corporations).

**Community Development Corporations**

Community Development Corporations (CDCs) are community-based nonprofit organizations focusing on the development of underserved communities. Since the founding of the first CDCs in the 1960s, these organizations have engaged in affordable housing development, commercial real estate and economic development, and neighborhood improvement efforts such as community building and planning work. Many CDCs have also gotten involved in providing human services and education to residents.\(^84\) An estimated 4,600 CDCs are operating across the United States, with average annual housing production of 96,000 units and average annual commercial space production of 7.41 million square feet as of 2010.\(^85\) CDCs have been particularly successful as affordable housing developers, and the largest CDCs have portfolios of a thousand or more rental units—sometimes spanning multiple states (examples include Community Housing Partners, Mercy Housing, and Pathstone). However, the industry has increasingly sought to provide more holistic responses to the challenges faced by underserved communities, launching a wide variety of initiatives in health, safety, job training, financial education, and child and youth development and education.

Common forms of investment in CDCs include permanent mortgages on real estate from banks, as well as acquisition and construction financing from banks or CDFIs. Tax credit equity investments represent the other major flow of investment into this sector. Increasingly, however, larger CDCs are looking to raise enterprise-level debt that they can use for acquisition and development, which provides a new opportunity for investors interested in real estate-related investment in a variety of geographies. Requested returns are typically below market and terms may be for periods of around 10 years. Detailed data is not available on the aggregate amount of such investment that the industry may be seeking, although this type of financing was the topic of a recent conference held by Strength Matters, a collaborative of national nonprofit housing networks.

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\(^{84}\) A related type of nonprofit, Community Action Programs or CAP agencies, are structured similarly to CDCs but tend to focus more on human services provision.

CDCs are served by a number of national intermediaries that provide grant funding, loans, tax credit syndication services, and technical assistance. Member networks of these intermediaries overlap considerably (any given CDC may work with more than one intermediary). For purposes of U.S. Community Investing, these intermediaries provide an access point for investors wishing to invest in multiple geographies or seeking partners with deep knowledge of this field.

A SAMPLING OF USCI INTERMEDIARIES

ENTERPRISE COMMUNITY PARTNERS provides grants and technical assistance to CDCs, operates a CDFI loan fund, and syndicates tax credit investments. In 2013, Enterprise closed USD 646 million in LIHTC investments, USD 50.8 million in New Markets Tax Credit investments and USD 848 million in multifamily mortgage loans. Altogether, Enterprise deployed nearly USD 2.5 billion in capital and created or preserved more than 16,800 affordable homes in 2013.\(^{86}\) Total investment has been USD 16 billion since 1982. It held USD 497 million in assets at fiscal year-end 2013.

THE LOCAL INITIATIVES SUPPORT CORPORATION (LISC) also provides grants, loans, technical assistance, and tax credit syndication services to CDCs. Total investment has been USD 13.9 billion since 1980. LISC held USD 441 million in assets at fiscal year-end 2013.

NEIGHBORWORKS AMERICA also provides technical assistance, training and grants to member organizations and other CDCs. It does not syndicate tax credits nor does it invest debt in CDCs directly, although it does work closely with several CDFI loan funds to facilitate this financing. As of September 2013 the organization held USD 127 million in assets.

THE HOUSING PARTNERSHIP NETWORK (HPN), a membership organization of larger CDCs and CDFIs, has 99 member organizations that have developed 350,000 homes and channeled over USD 100 billion of community investment since their inception.\(^{87}\) The network created a Housing Partnership Venture Fund in 2001 that provides various forms of enterprise-level financing to members (in addition to project-level predevelopment and acquisition loans). HPN also offers the HPET REIT, described in the next section.

HABITAT FOR HUMANITY works internationally, but also has a substantial U.S. presence, working with local faith-based affiliates across the country. According to its 2014 annual report it built 3,572 new homes in the U.S. and Canada and rehabbed another 1,461. Habitat For Humanity International held USD 224 million in assets as of June 2014.

\(^{87}\) http://www.housingpartnership.net/.
Challenges to CDC Capitalization

Project-level financing—meaning construction and permanent financing of real estate projects sponsored by CDCs—is largely not seen as seriously constrained in the field, insofar as CDCs have established a successful track record in raising this financing from banks. That said, practitioners also emphasize the need for more grants or “gap financing” (soft, concessionary debt) to expand affordable housing and other types of real estate production. However, most of this sort of financing may fall outside of our definition of USCI, in that there is not a financial return for the investor.

Enterprise-level financing has been more challenging for CDCs to raise. One of the principal challenges to increasing investment in CDCs is mismatch with investor expectations—particularly in regards to investment term and rate. One interviewee from the CDC industry summarized the situation: “The thing is that real estate always needs long money, and big money—we need hundreds of millions. And in our world, it needs to be cheap because we don’t have the revenue.” CDCs have typically relied on bank financing for their money and are keen to diversify their funding sources. However, as the same interviewee put it, “I don’t know how we ever get the 10-15 percent rates of return [that investment advisors are telling us they need].”

For term, “CDCs could live with somewhere between 7 to 10 year money,” according to one interviewee from this space. “It would allow them to go in, acquire and hold properties while they put together deals, or do some refinancing—gap financing to get things to the point where they can finance the property in the market.” A different interviewee noted that private equity real estate deals (not CDC real estate deals) are able to raise seven year money, but in large part because of the “appreciation play”—the fund is pitching the investors on buying and repositioning a property, and making money not only on the rental revenues but also the resale of the property at a higher value. However, CDCs cannot provide this kind of return, both because they seek to maintain rents at affordable levels and because selling the property at an appreciated value would run counter to their mission. As a result, “we are just not finding the investors willing to stay in for longer periods.”

CDCs are also interested in raising capital for business growth—for example, money to hire new development staff that will enable an expansion of the development pipeline. Again, the problem is, as an interviewee put it, that “the market wants to see that as 3 year money, and we would argue that it may need to be as long as 7 years.”

Practitioners are interested in exploring options to solve the rate and term mismatch that might include:

- Creating “an environment where [investments in CDCs] can be papered and sold,” through building standardized platforms
- Using financial engineering techniques to borrow shorter-term money for longer-term needs and hedge the interest rate risks
- Providing some form of credit enhancement to investors as an incentive to go longer with their money
- Creating policy tools to boost returns, such as some form of tax credit
Another challenge is that, with few exceptions, most of the enterprise-level financing that CDCs have been able to access is in the form of debt. As described by one interviewee, “The challenge is that adding more debt to the balance sheet makes it hard to maintain net asset ratios. What nonprofits really need is equity, not more debt.” Direct equity investments in nonprofits cannot be made, of course, since nonprofits cannot distribute financial returns to shareholders, but equity-like debt instruments (for example with royalties) have been used.

**THE HOUSING PARTNERSHIP NETWORK (HPN)**
HPN, a membership organization of large community development corporations and CDFIs, launched a REIT called the Housing Partnership Equity Trust (HPET) that is owned by 12 of its members. The REIT has raised USD 100 million in a mix of debt and equity, which it then uses to acquire existing rental properties whose future affordability is at risk. To date, HPET has purchased 880 units through 5 acquisitions.

**Real estate impact investment funds**
A handful of funds that do not easily fit into categories described earlier in this report deploy investor equity into investments in real estate.

- The Community Development Trust is a certified CDFI, but it offers a REIT that can take in investor equity that has an expectation of financial return (unlike nonprofit loan funds that make up the bulk of CDFIs). It has made over USD 1 billion in investment across 41 states.\(^{88}\)

- Turner Impact Capital has three real estate private equity funds investing, respectively, in charter schools, workforce multifamily housing, and health care facilities in underserved communities in urban centers. As of May 2014 it planned to raise USD 250-350 million for each of the three funds, targeting full market-rate returns.\(^{89}\) The Charter School Fund has funded 39 schools with 18,000 seats for children to date.

**Social Impact Bonds**
With Social Impact Bonds (also known as Pay for Success), investors provide up-front funds for a project aimed at improving a social outcome. Based on the achievement of this outcome, government will pay back the investor, using some of the savings from reduced government costs.

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The first Social Impact Bond in the United States was the NYC ABLE Project for Incarcerated Youth, which launched in 2012 and seeks to reduce recidivism among adolescent offenders. Goldman Sachs funded project delivery with a USD 9.6 million loan to the Manpower Demonstration Research Corporation (MDRC), which was in turn backed by a USD 7.2 million guarantee from Bloomberg Philanthropies. The New York City Department of Correction agreed to pay investors based on the cost savings associated with reduced re-incarceration. An independent evaluation released in July 2015 determined that the program did not meet the outcomes targets, meaning that in this case investors will not be repaid and the ABLE program will be discontinued.

Bank of America Merrill Lynch raised a USD 13.5 million Pay for Success bond in 2014, also funding an effort to reduce recidivism among ex-offenders. The Rockefeller Foundation is providing a 10 percent backstop guarantee. Other Social Impact Bonds have been issued in Chicago, Cuyahoga County, Ohio, and Massachusetts, with programs in development in a number of other states.

Relative to other investment sectors in the USCI space, U.S. Social Impact Bonds are still a tiny space, with total investment under USD 100 million. However, they have shown fast growth in other countries, particularly in the United Kingdom, and promise to provide more opportunities to U.S. investors in the near future. Due to their newness, some early challenges to raise impact investments in this space include:

- Investor ability to perform due diligence. The Reinvestment Fund, a CDFI which served as the senior debt provider for the Cuyahoga County Pay for Success Program (which had the goal of reducing days in foster care for children of homeless parents), stepped into that role after mainstream financial institutions struggled with how to underwrite the structure.

- Uncertainty over the asset class that Pay for Success investments represent. Participants at the GIIN’s San Francisco USCI convening agreed that the asset class is “yet to be determined,” although one participant argued that the investments can be likened to small business loans in which the nonprofit service provider is the business to which investors lend, the social impact is the business product, and government agencies are the customers.

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Other investment opportunities

Our research identified a number of USCI vehicles that do not fit easily into any of the above categories, or cut across them, but that operate at scale and provide important opportunities for USCI investors.

- Goldman Sachs launched a USD 250 million Social Impact Fund in 2013. This fund invests in a variety of projects including affordable housing, healthcare facilities, schools, retail space, and social and educational programming. Investments will include social impact bonds and tax credit equity deals. The fund is structured as a private LLC and takes in money from individuals, family offices, and institutional investors as well as Goldman’s own funds. Assets held by the fund will be approximately 75 percent debt and 25 percent equity. The term of the fund is 10 years, and the fund is targeting risk-adjusted returns; typically public or philanthropic money would be taking the riskier parts of the capital stack.

- Living Cities is a collaboration of major foundations and financial institutions. The Living Cities Catalyst Fund pooled capital from 10 foundation investors and invested USD 40 million in a variety of community investments including affordable housing, commercial space, small businesses, and two pay for success projects. Living Cities is now targeting a new fund of USD 35-45 million to close in 2015. The fund will blend commercial debt from financial institutions and insurers with PRI debt and a small equity tranche for loss reserves. It will have a term of 10 years.

- Mission Markets is an online marketplace for sustainable and impact investing. It currently has eight fund offerings on its website; none of the offerings are specifically limited to U.S. community investing, but some of the funds currently offered may offer some exposure to that space, and additional offerings may be forthcoming.

As noted at the beginning of this report, there also exist opportunities to invest directly in affordable housing projects, schools, health care facilities, businesses, and other impactful projects and initiatives helping underserved people and communities. We have chosen to focus on investments with at least some degree of intermediation, assuming that most asset owners prefer to invest in this way rather than at the individual deal level.

96 See: https://www.livingcities.org/work/catalyst-fund.
Finally, we should note that substantial investment flows into federal, state, and local government bond purchases, mortgage-backed securities, and debt and equity investments in government-sponsored enterprises. We do not include a detailed review of these investments in this report, first because the investments are well established in the marketplace, and second because generally speaking, these vehicles do not specifically target underserved populations or communities. Two investment vehicles that should be mentioned specifically, however, are:

- The CRA Qualified Investment Fund (CRAIX, CRANX, CRATX) offered by Community Capital Management. Initially, the fund was formed as a vehicle to help banks meet CRA requirements. However, two new share classes were established to serve other institutional investors and retail investors (the shares are among the few registered securities in the USCI space, along with Calvert Notes). 98

- The Access Capital Community Investment Fund (ACASX, ACCSX) 99 invests in a variety of debt offered by the federal government-sponsored enterprises, state housing finance agencies, SBA-backed assets, and other government bond issuances with a community development focus (such as the New York City Housing Development Corporation).

THE EXISTING INVESTOR LANDSCAPE

In this section we briefly review key segments of investors who have been involved in USCI investing. We begin with investor segments who already have a long track record of substantial engagement in the space—banks, foundations, and insurers. We then consider several investor segments where particular organizations or individuals have been involved, but as a whole there may be substantial potential for growing engagement.

Banks

Banks, including both depository institutions and large financial services firms such as Morgan Stanley and Goldman Sachs, are among the largest USCI investors. Notably, banks have made substantial direct investments in low-income communities—for example, by originating or purchasing mortgages and business loans in such communities—and are less dependent on the intermediation of USCI product managers to find and execute community investments.

The Community Reinvestment Act (CRA) has been a driving force behind bank involvement in USCI, as the act states that “regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered.” In 2012, banks made USD 218 billion in CRA-motivated loan originations and purchases. Over USD 50 billion of this activity was “community development lending,” defined as loans for affordable housing, community services, certain small business loans, and loans for activities to revitalize low-income or distressed communities. Larger banks have specialized lending groups focused on community development, and a number of them have developed community development initiatives for specialized purposes. Recent examples include the Goldman Sachs “10,000 Small Businesses” financing initiative, the Bank of America Energy Efficiency Finance Program, the JP Morgan Chase “CDFI Cluster Demonstration Project,” the Deutsche Bank “New CDFI Partners” program, and the NEXT Awards, which were created by the MacArthur Foundation but also receive grant support from Wells Fargo as well as other sources.

Banks of all sizes make investments in CDFIs and SBICs, purchase Low-Income Housing and New Markets Tax Credits, and participate in loans made by CDFIs as part of their community development investment strategy. While there are always exceptions, banks tend to prefer shorter terms for debt investments in CDFIs, with term loans usually of 5 years or less or lines of credit. Dependence on short-term deposits to fund these loans is a major reason why, and may also result in banks offering financing at variable rather than fixed rates. However, some bank foundations offer more patient money, such as program-related investments. Banks with strong CRA needs may offer equity equivalent (EQ2) investments, deeply subordinated debt instruments with rolling terms and usually below-market interest rates. However, practitioners with whom we have spoken noted that most of the large national banks appear to be pulling back from EQ2 investing; one bank even called its EQ2 investments in the aftermath of the financial crisis. Low-Income Housing Tax Credit investing activity from banks has been strong, but was also interrupted during the financial crisis as banks no longer had tax liabilities to shelter; this required the creation of special government gap-financing programs under the American Recovery and Reinvestment Act of 2009 to step in.

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100 National Community Reinvestment Coalition website, www.ncrc.org. “A Brief Description of CRA.”
103 Specifically, the Tax Credit Assistance Program (TCAP) and Section 1602 –see http://portal.hud.gov/hudportal/HUD?src=/recovery/programs/tax.
Foundations

As with banks, foundations have had a long history of supporting community development in the U.S. The Ford Foundation and MacArthur Foundation are both examples of pioneers who remain active in the space today. Initially this activity focused on grant-making, but has since grown to include both program-related investments (PRIs) and mission-related investments (MRIs) that carry a term and usually some interest rate:

- PRIs are assets held for charitable purposes. They are usually structured as debt investments. According to practitioners we interviewed, terms tend to be fairly short (generally up to 5 years); the loans are usually structured as interest only, with a bullet payment due at maturity. PRIs count towards a foundation’s minimum required payout for charitable activities.

- MRIs, by contrast, have no legal definition. MRIs are made out of the corpus of a foundation’s investments. While they help a foundation meet its philanthropic goals, such investments are usually made at a market rate of return. They may include a broad array of asset classes. In September 2015, the IRS issued new guidance to tax-exempt foundations on MRIs which states that foundations may pursue MRIs without facing a tax penalty provided that the foundation managers “exercise ordinary business care and prudence.” The new language states that MRIs, including those which produce slightly below-market returns, are consistent with the manager’s fiduciary duty and are no longer subject to an excise tax as long as they “support, and do not jeopardize, the furtherance of the private foundation’s charitable purposes.”

The Mission Investors Exchange, a network of 230 foundations and mission investing organizations, maintains a Mission Investment Database detailing both PRIs and MRIs made by its members. For 2014, the database reports USD 222 million in domestic investing activity, giving some sense of the size of this investor space. Private debt was the largest class of investment reported, comprising 64 percent of investments, followed by private equity at 15 percent.

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Our investor survey for this project received responses from 11 foundations engaged in USCI, allowing for some sense of the investment parameters they seek. As might be expected, meaningful social impacts—and clear information about them—are driving concerns for foundations, but financial considerations are still important. In Table 1 below, we show the scoring of 10 investment criteria as rated by survey respondents—a score of 10 would indicate that all respondents ranked the criterion as their most important out of the 10, while a score of 0 would indicate that all respondents ranked it as their least important. The results should be interpreted carefully given the small sample size.

| TABLE 1. FACTORS CITED BY INVESTOR SURVEY RESPONDENTS AS IMPORTANT TO USCI INVESTMENT DECISIONS* |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------|
| All Investors (n=26) | Foundation Investors (n=11) | Other Investors (n=15) |
| Reliable and meaningful social impact | 7.15 | 7.82 | 6.67 |
| Clear information concerning the social impact of the investment | 5.08 | 6.73 | 3.87 |
| Clear information concerning the financial performance of the investment | 4.77 | 5.73 | 4.07 |
| Attractive risk-adjusted returns | 4.00 | 0.18 | 6.80 |
| Low loss rates | 3.62 | 2.18 | 4.67 |
| Liquidity/ability to exit investment | 1.65 | 0.82 | 2.27 |
| Compliance of the investment with external regulations on your organization | 1.54 | 2.27 | 1.00 |
| Low transaction costs | 0.85 | 0.27 | 1.27 |
| Investment ratings from third parties | 0.36 | 0.00 | 0.60 |
| Other factors | 1.40 | 2.09 | 0.90 |

A score of 10 indicates that all respondents ranked the criterion as their most important of the 10 investment criteria, while a score of 0 indicates that all respondents ranked it as their least important.

* This table was previously cited on page 6.
Practitioners we interviewed noted that foundations can have very specific program, impact, and geographic targets—as well as hefty reporting requirements, which can create challenges from the practitioner’s perspective in raising and managing these investments.

As noted by U.S. SIF, Community Foundations represent a potential target for increasing engagement in USCI. Challenges, however, include that their narrow geographic focus may limit investment opportunities, their staff does not typically have investment experience, and their investment committees may not be familiar with community investment.107

**Insurance companies**

Insurance firms have also played a significant role in USCI, although their investment activity does not appear to be as large as banks or foundations. Table 6 below shows the largest investment sources for various types of CDFIs (the remainder comes mainly from government sources and internal funds). Insurance firms are included in the broader category of “non-depository financial institutions” that together provided 5.4 percent of the capital for CDFI Loan funds.108

<table>
<thead>
<tr>
<th>Capital Source</th>
<th>CDFI banks</th>
<th>CDFI Credit Unions</th>
<th>Loan funds</th>
<th>Venture Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depository institutions</td>
<td>13.9%</td>
<td>10.8%</td>
<td>35.0%</td>
<td>16.1%</td>
</tr>
<tr>
<td>Individuals</td>
<td>38.4%</td>
<td>57.3%</td>
<td>5.0%</td>
<td>0%</td>
</tr>
<tr>
<td>Philanthropy</td>
<td>0%</td>
<td>0.1%</td>
<td>10.2%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Non-depository financial institutes</td>
<td>0%</td>
<td>0%</td>
<td>5.4%</td>
<td>0%</td>
</tr>
<tr>
<td>All other corporations</td>
<td>0%</td>
<td>4.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Note: Additional capital comes from government sources and internal funds but is not included in this table.

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Some notable insurance industry USCI initiatives have included:

- The California Organized Investment Network (COIN) is an insurance industry partnership established in 1996 as an alternative to state legislation that would have imposed CRA-like requirements on insurers in the state.\textsuperscript{109} The California Insurance Code does require larger insurers to develop and file a policy statement including annual goals for their community development investments. As of 2012, insurers in California held USD 8.99 billion in qualified COIN investments, including USD 2.34 billion of “high impact” investments.\textsuperscript{110}

- In 1999, state legislation in Massachusetts prompted insurers to create two USCI funds. Life insurers created a USD 100 million community investment fund in 1999 that has made USD 300 million in community investments over the last 10 years.\textsuperscript{111} Property and casualty insurance companies established a statewide community loan fund, the Property and Casualty Initiative, with USD 85 million in contributions.\textsuperscript{112}

- Like larger banks, a number of large national insurance firms have dedicated community development staffing and investment operations, and/or foundations engaging in USCI (examples include Prudential, TIAA-CREF, MetLife, and State Farm).

Insurance firms are constrained in their investment activity by regulators seeking to ensure their safety and soundness. The National Association of Insurance Commissioners assesses credit quality and valuation of securities owned by state regulated insurance companies. State regulators, in turn, use these evaluations to monitor the financial condition of insurers.

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\textsuperscript{110} See: http://www.insurance.ca.gov/0250-insurers/0700-coin/upload/2012-Insurer-COIN-Holdings.pdf. “High impact” investments are defined as insurer investments that are innovative, responsive to community needs, not routinely provided by insurers, or have a high degree of positive impact on the economic welfare of low- to moderate-income households or areas in California.

\textsuperscript{111} http://www.lifeinitiative.com.

\textsuperscript{112} http://www.pcifund.com/content/about.html.
Donor-advised funds

As described by U.S. SIF, “A donor-advised fund is a private fund administered by a third party and created for the purpose of managing charitable donations on behalf of an organization, family or individual.”\textsuperscript{113} The donor receives a tax deduction upon placing money in the fund, which subsequently may donate the money over time to the end recipients. Until it reaches the charitable organization, however, the money sits in the fund, leading practitioners to look at ways to encourage impact investing activities with the balances sitting in such funds. The New York Times reported that the amount of money in donor advised funds exceeded USD 54 billion by the end of 2013.\textsuperscript{114}

Donor-advised funds are managed both by the charitable arms of major investment firms (such as Fidelity), and by community foundations. In both cases, as U.S. SIF notes, managers may be unfamiliar with community investing; investment firms may also have limited data on opportunities in the field. Finally, since many donor-advised funds are relatively small, “aggregating substantial capital across funds creates significant transaction costs.”\textsuperscript{115} Responding to these challenges, the Rockefeller Foundation has developed an impact investing toolkit for community foundations that includes models and approaches for working with donor-advised funds.\textsuperscript{116}

Family offices/High-net-worth individuals

U.S. SIF has concluded that “high-net-worth and family office investors constitute the investor group most likely to increase its community investments,” citing an uptick in interest and enthusiasm, potential flexibility around investment terms, the potential for place-based and issue-based investment to complement philanthropic strategies, and openness to new investment approaches.\textsuperscript{117} We discuss challenges to realizing this potential in our next chapter on the product-investor interface.

However, these investors have played only a small role in most USCI investee types to date. Product managers in the private equity space reported that they are garnering interest from high-net-worth individuals, although one fund manager describes such investment as “one-offs where somebody knows someone.” A few CDFI loan funds are raising investment from individual investors. However, among CDFIs reporting data to the CDFI Fund in 2012, individual investors provided only 5 percent of the capital in loan funds.\textsuperscript{118}

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\textsuperscript{114} http://dealbook.nytimes.com/2014/12/10/a-shake-up-as-the-financial-world-infiltrates-philanthropy/?_r=0.

\textsuperscript{115} Ibid.

\textsuperscript{116} See: http://www.cof.org/content/engaging-donor-advised-funds-impact-investing.


Investment parameters sought by individual investors can vary quite widely, such that it is difficult to describe the terms needed to attract them. Even investment advisors we spoke with for this project characterized their clients’ goals in very different ways—for example, one large wealth management operation stated that their clients were highly sensitive to return, while a family office and investment advisor stated that their clients were happy to accept well below-market returns in exchange for impact. However, investment advisors themselves have fiduciary duties to recommend sound investments to their clients. These duties can make them reluctant to identify USCI opportunities with low risk-adjusted returns. As we discuss in our next chapter on the product-investor interface, crafting USCI investment vehicles in such a way that they are easier for investment advisors and their account custodians to manage is an important challenge to resolve in order to increase engagement from this investor segment.

Retail investors

Retail investors have a very narrow selection of USCI vehicles that are available to them, since most USCI investments are not registered securities. As discussed earlier, they may purchase Calvert Community Investment Notes on vested.org—which reports having received over USD 1 billion in investments from over 15,000 investors, although not all of these are retail investors.119 Some smaller loan funds, such as the New Hampshire Community loan fund, have been able to utilize nonprofit exemptions from state securities regulations (nonprofits are also exempt from most federal securities regulations) to raise debt investments from individuals. These notes are generally for short terms (5 years or less) and have returns that are close to or slightly higher than bank CDs of similar tenor.

Interestingly, by far the most common way for retail investors to participate in USCI is through deposits in community development banks and credit unions. Most of these depositors are low-income households or residents of low-income communities maintaining savings accounts at these institutions—in other words, the same people that USCI is intended to help are one of its largest groups of investors. As of 2012, these deposits made up 57 percent of the balance sheet at CDFI credit unions, and 38 percent at CDFI banks.120

An intriguing aspect of the retail investor segment is that individuals are generally willing to give small amounts of money to charitable causes with no expectation of return (other than their tax deduction). USCI practitioners, including several of our convening participants, believe that retail investors should therefore also be willing to invest small amounts on terms that are well outside market parameters (such as for long terms, in higher-risk investments, and/or for zero percent returns).

119 https://www.vested.org/about.
Pension funds

Pension funds are not a large player in most USCI vehicles but have invested in private equity as well as registered securities such as the CRA Qualified Investment Fund and the Access Capital Community Investment Fund discussed earlier in this report.

Pension funds can be willing to invest for long time horizons, which makes them attractive to USCI practitioners, but will only invest at risk-adjusted market rates of return. In large part, this is due to the regulatory framework in which they operate. For example, the Employee Retirement Income Security Act (ERISA) requires accountability for pension plan fiduciaries—who may be held responsible for restoring losses to the plan if they do not follow rules of conduct—and allows plan participants the right to sue for breaches of fiduciary duty. As noted by U.S. SIF in their report, pension funds also seek to invest at large scale and through consultant channels that may be unfamiliar with or skeptical of USCI.

Religious pension funds, such as the General Board of Pension and Health Benefits of the United Methodist Church and its Positive Social Purpose (PSP) lending program, have been leaders in the space. The California Public Employees Retirement System (CalPERS) is also cited as a leader in USCI and has directed a substantial percentage of its investments to underserved communities. However, its own reports indicate that it does so purely in the pursuit of financial return.

A Harvard Law School case study on CalPERS suggests that getting additional pension funds to engage in USCI will require a board level champion to build support, and expert consultants to help staff study the investment opportunities. U.S. SIF finds cause for optimism in seeking to engage more pension funds, noting that the “financial crisis has opened the door to new investment approaches [and] motivated the public sector to explore ways to collaborate with pension funds on investments that have specified social benefits.”

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121 For more information on ERISA see: http://www.dol.gov/dol/topic/health-plans/erisa.htm.
122 See: http://www.gbophb.org/investments/sp.
123 Specifically, CalPERS states that “The proportion of CalPERS investments in LMI, High Unemployment, High Minority, and Rural Areas reflects the demand for capital in the asset classes in which CalPERS invests... the decision of CalPERS and its third-party investment managers to support a California-based company, property or project is made solely on the basis of the financial merits of the particular investment opportunity.” See: “CalPERS for California 2012: Supporting Economic Opportunity in California” at https://www.calpers.ca.gov.
Other investors

Other investors in USCI include:

- **Religious Institutions** engage in USCI beyond their pension funds. For example, Catholic Health Initiatives, a nonprofit health system, places two percent of its assets in the Direct Community Investment Program, which invests in organizations providing jobs, housing, education and health care to underserved populations.

- **Colleges and college endowments** have also engaged in USCI and are seen as a target market for expanded investing. Community investing benefits for colleges include strengthening the economies of the local communities on which they depend, improving town-gown relations, and showing alumni and other donors that their gifts are being managed in line with their values.\(^{126}\) Examples of higher education institutions engaging in USCI include:
  
  - Carleton and St. Olaf Colleges, which invested in the Northfield Community Investment Fund; and
  
  - Macalester College, which deposited money in University Bank, a local CDFI bank.

- **Certain government agencies** may participate in USCI. For example, the Vermont State Treasurer’s Office is currently implementing a local investment initiative in which it has invested capital in several nonprofit loan funds in the state.

THE PRODUCT-INVESTOR INTERFACE: KEY THEMES, GAPS, AND OPPORTUNITIES

In this section, we synthesize evidence identifying opportunities and challenges to increasing the scale of USCI investments, drawing from the full range of research activities we conducted, as described in the previous section on study methods. Detailed presentations of data from our investor survey and convening surveys are provided in the appendices.

**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.

Impact is a primary driver for USCI investors. Seventy-seven percent of respondents to our investor survey ranked “reliable and meaningful social impacts” as one of their top three concerns when deciding whether to make an investment—the highest percentage of any investment criterion. While, as one might expect, foundations ranked this criterion as their most important, non-foundation investors also ranked it highly. Table 1 shows the scoring of 10 investment criteria by survey respondents—a score of 10 would indicate that all respondents ranked the criterion as their most important out of the 10, while a score of 0 would indicate that all respondents ranked it as their least important.

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127 Recall that as the survey results included only 15 non-foundation investors, spread across a number of different investor types, we are unable to further break down these responses.
### Table 1. Factors Cited by Investor Survey Respondents as Important to USCI Investment Decisions*

<table>
<thead>
<tr>
<th>Factor</th>
<th>All Investors (n=26)</th>
<th>Foundation Investors (n=11)</th>
<th>Other Investors (n=15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliable and meaningful social impact</td>
<td>7.15</td>
<td>7.82</td>
<td>6.67</td>
</tr>
<tr>
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<td>5.08</td>
<td>6.73</td>
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<td>5.73</td>
<td>4.07</td>
</tr>
<tr>
<td>Attractive risk-adjusted returns</td>
<td>4.00</td>
<td>0.18</td>
<td>6.80</td>
</tr>
<tr>
<td>Low loss rates</td>
<td>3.62</td>
<td>2.18</td>
<td>4.67</td>
</tr>
<tr>
<td>Liquidity/ability to exit investment</td>
<td>1.65</td>
<td>0.82</td>
<td>2.27</td>
</tr>
<tr>
<td>Compliance of the investment with external regulations on your organization</td>
<td>1.54</td>
<td>2.27</td>
<td>1.00</td>
</tr>
<tr>
<td>Low transaction costs</td>
<td>0.85</td>
<td>0.27</td>
<td>1.27</td>
</tr>
<tr>
<td>Investment ratings from third parties</td>
<td>0.36</td>
<td>0.00</td>
<td>0.60</td>
</tr>
<tr>
<td>Other factors</td>
<td>1.40</td>
<td>2.09</td>
<td>0.90</td>
</tr>
</tbody>
</table>

*A score of 10 indicates that all respondents ranked the criterion as their most important of the 10 investment criteria, while a score of 0 indicates that all respondents ranked it as their least important.

*This table was previously cited on page 6.

Note that having clear information about social impact was also an important consideration for investors—which creates potential difficulties to scaling investment if practitioners cannot provide this information in a way that satisfies investor needs. In a recent study performed for the CDFI Fund, the Carsey School found a number of challenges to outcomes measurement in the USCI space, including data limitations, the difficulty of applying a set of standardized impact measures to a broad array of projects and activities, and the challenge of observing place-based impacts in communities where USCI investments may be relatively small. A complex web of many other economic and social forces is also at work in underserved communities that makes it harder to identify the impact of the USCI investment as distinct from these other factors.128

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Several of our interviewees suggested that the lack of a cohesive story about what USCI practitioners do and the community needs they address causes investors to look elsewhere for impact investing opportunities.

“A barrier exists around the perception of impact or the lack thereof—a lack of knowledge of the problem, a lack of knowledge about what causes inequality and poverty in the U.S. and how to fix it, a lack of understanding about gaps in the market and how they impact low-income communities. Investors need to understand these issues if they are going to get as excited about this as about solar arrays and microfinance in Africa.”

FOUNDATION OFFICER

“The vocabulary list and metrics in international microfinance are much sexier than the way we talk domestically. There is not a day that I don’t hear from someone with no idea what a CDFI is, or who does not see the gap needed for financing. The challenge is to open up some of those storyboards for people.”

INVESTMENT MANAGER

At the same time, the experience of the two USCI convenings conducted for this project suggests that, at least in the case of sophisticated funds with substantial track records, practitioners are able to make a case for impact that resonates with investors. In fact, out of the 11 organizations presenting at the two convenings, the average investor rating of the impact of the investment opportunities presented was “good” or better for every organization.129 Out of multiple rating criteria including return, risk, liquidity, investment size, and impact, investors consistently gave their highest ratings to impact.

The organizations presenting at each convening were selected not only for the scale and innovation of the investment opportunities they were presenting, but also for their track records. Nevertheless, investors frequently rated impact as “excellent” or “good” for presentations where the level of evidence for impact presented is within reach even for practitioners with less experience or organizational capacity to document impact. Generally, the presenters appeared able to convince investors about their impact using an approach with two key characteristics:

- First, the presenters documented a social problem accompanied by a need for financing that is not well served by mainstream markets, for example:
  - Manufactured-home owners are often taken advantage of when they must rent land from a mobile park owner, and lenders apply radically different underwriting standards for mortgages on manufactured homes, even on owned land.

129 Investors participating in the convenings were asked to rate various aspects of each practitioner presentation on a 4-point scale including “poor,” “fair,” “good,” and “excellent.”
• Venture capital investments in the United States are concentrated in a few states and business types (such as information technology in California) and overlook many other job-generating opportunities.

• Low-income households in “banking deserts” are using high-cost payday lenders when their financial needs can be affordably and sustainably met by community development banks.

Second, the presenters provided track record information that focused on production measures such as the number or dollar volume of loans provided and the types of borrowers and communities to whom they were provided. Vignettes about how individual borrowers benefited accompanied this information.

For the most part, presenters did not need to present a level of evidence for impact akin to what might be expected in a peer-reviewed academic publication (for example, the use of quasi-experimental techniques to document benefits for investees relative to a comparison group) in order to convince investors of the merits of their program.

Impact Areas
Investors responding to our survey reported interest in a broad range of impact areas, led by affordable housing, community revitalization, small business development and job creation.

![Figure 5. Percent of investor survey respondents interested in each area of impact, N=33*](image)

* Respondents may indicate interest in more than one area of impact.
Rather than challenges documenting impact, the greater issue in USCI may instead have to do with providing prospective investors with particular kinds of impact in particular geographies that they demand. The wide variety of impacts that different investors wish to document, as well as the variety of reporting methods that they demand for their investments, is a considerable cause of frustration for product managers in the space. As one product manager put it, “We get beat up by our investors who ask us are we [environmentally] sustainable, are we focused on health care, are we focused on affordable housing—everyone wants their area to be addressed.” Another product manager agreed: “The impact investors are as bad as the foundations—super specific requirements around topic area and geography—no one can make it through all of the hoops.”

The challenge is magnified because on the product end, as an investor observed, “there is a fair dollar amount of supply but it is so distributed by … impact area that it makes it a challenge to integrate it.”

**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.**

The funding need most frequently identified by most USCI product managers in our conversations with them is for patient, lower cost, flexible capital that is commonly perceived as risky (although many managers actually experience low loss levels). Investors, meanwhile, would generally like liquid investments that generate risk-adjusted returns alongside impact. In many cases, there is a resulting mismatch between what investors want and what the field can provide. This mismatch is illustrated by three comments made by respondents to our investor survey, when asked to describe the most serious challenge they have faced to making investments in the USCI sector:

- “Really [it is a] combination of reasonable risk return, clear liquidity, and high mission fit (not any one in isolation)” (Investment Advisory Service)
- “A combination of risk/return (especially return) and liquidity, coupled with impact” (Foundation)
- “[There is] often a disconnect between what nonprofits want and what the market is willing to support.” (Investment Advisory Service)

From the product manager’s viewpoint, a CDFI loan fund manager aptly described the mismatch challenge: “At the transactional, or fund level, having a clear conversation about the needs for tenor, liquidity, price and risk seems to always be avoided or a dead-end. When the answers are consistently tenor=short, liquidity=high, price=high, and risk=low, then [investors] will find that mission=none.”

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IRIS is the catalogue of generally accepted social and environmental performance metrics managed by the Global Impact Investing Network. See www.iris.thegiin.org.
Perspectives on the mismatch issue also tie back to a debate in the field over whether “impact is free” (i.e. whether it can be obtained with market-rate investments) or requires concessionary investment terms.\textsuperscript{131} Resolving this debate is not a goal of our research. We are, however, able to share several observations from our research that may contribute to a more nuanced view of the product-investor matches and mismatches that may exist in the USCI space. We find exceptions where investors and product managers have been able to overcome the mismatch, including product managers offering investment opportunities that are arguably—and sometimes explicitly—market returns, as well as investors who show a clear willingness to invest at below market returns in exchange for impact.

**DOES IMPACT REQUIRE A TRADEOFF?**

A product manager referred to the idea that investors can meet all of their ideal investment parameters plus get social impact as “the myth of impact investing.” At the same time, other product managers we spoke to—especially several of those in the private equity space—insisted that they can create positive social impacts, such as jobs in low-income communities, while matching or even beating the investment performance of mainstream market investments. That belief is not universally shared among private equity fund managers, however. One venture fund manager felt that, “\textit{It is a lot easier to do short-term, lower-risk revolving debt. But for the most part, you can’t turn short-term, low-risk debt into long-term, high-risk equity—that’s like alchemy turning lead into gold. All the fancy financial engineering in the world can’t get you around that. I think foundations, government and a lot of others have just been sort of unrealistic and have not wanted to face up to that fact}.”

Meanwhile, a wealth manager stated at one of our convenings that “we try to build our business around not needing that tradeoff.” A pension fund investor added, “\textit{There are some folks, especially those who brand as community development, who say ‘I am about social returns’ and do not put enough of a financial return floor. Who is advising these entities?”}"

Investors are similarly divided in their opinions. A foundation officer remarked that “the math doesn’t work particularly well” when you try to achieve both impact and market-rate returns on community investments like affordable housing projects. The foundation officer continued: “\textit{Even other PRI [foundation] investors have a box, aren’t willing to do the risk mitigation or provide the collateral or accept the durations or take the policy risk. I am very skeptical that we can scale [USCI] without scaling the PRI part of the puzzle. The scale of dollars is really large}.”

Most of the USCI products presented at the convenings appear to be investable, based on the investor feedback received. At least half of the investors present indicated that they would be “interested” or “very interested” in investing in six out of 11 products presented at the USCI convenings. At least one investor expressed interest in nine of the 11 products. In Table 7 below, we review the types of products in which investors expressed interest.

### Table 7. Convening Survey Results for Investment Presentation

<table>
<thead>
<tr>
<th>Investment Product Presented</th>
<th>Interested Investors*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment platform for affordable housing investments; platform included 2-10 year guaranteed debt at 150-350 bps return, 8-10 yr unguaranteed debt at 7%</td>
<td>Investment advisors, foundation, 84%</td>
</tr>
<tr>
<td>6-year senior debt at Libor + 250 bps for fund investing in renewable energy and efficiency with focus on underserved communities</td>
<td>Investment advisors, foundation, bank, 80%</td>
</tr>
<tr>
<td>Rated security of small business loans with 7-year weighted average life, interest rates at prime plus 175 bps</td>
<td>Investment advisors, foundation, 66%</td>
</tr>
<tr>
<td>10-15 year senior debt at 10-year Treasury rate plus 225-275 bps for affordable housing (financing resident purchase of manufactured home parks)</td>
<td>Foundations, insurance companies, pension fund, 61%</td>
</tr>
<tr>
<td>Equity investment in affordable housing real estate investment trust, expected returns of 8-10%</td>
<td>Bank, foundation, religious investor, 55%</td>
</tr>
<tr>
<td>Senior debt at 4-6%, 8-year term to finance a Pay for Success (Social Impact Bond) fund</td>
<td>Investment advisor, foundation, 50%</td>
</tr>
<tr>
<td>10-year full-recourse, unsecured notes at 5% interest to capitalize a loan fund making purchase mortgages to manufactured home buyers</td>
<td>Foundation, 42%</td>
</tr>
<tr>
<td>Equity investment in community development bank with 1-2% dividend, 8-10% book value growth, liquidity through ESOP plan and earnings set aside for stock buyback</td>
<td>Investment advisor, foundation, 22%</td>
</tr>
<tr>
<td>Collateralized Mortgage Obligation (CMO) with tranches paying out at matching T-bill maturity plus 175-275 basis points, loan and pool-level mortgage insurance.</td>
<td>Investment advisor, foundation, 18%</td>
</tr>
</tbody>
</table>

* Investors who stated they were “interested” or “very interested” in each investment product at the USCI convenings. Investors could express interest in multiple products. N=33.

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132 At least one investor of this type expressed interest, not necessarily that all investors surveyed of this type expressed interest. Furthermore, we did not have a complete representation of all investor types at each convening, so the fact that an investor type is not listed in the table does not necessarily mean that no investors of this type would be interested.

133 Note that percentages are not always directly comparable as the presentations happened at two separate convenings with different investors present at each.
Two products did not have any investors express that they were “interested” or “very interested,” although both did receive responses of “somewhat interested” from some investors:

- A venture capital starter fund, in which investors appeared to be mainly concerned about the below-market returns being offered (less so about term and liquidity); and

- A fund that invested in a broad variety of community investments and that sought 10-year senior debt at a 3 percent return and 10-year subordinated debt at a 1 percent return, with 10 percent first-loss coverage. Investor concerns appeared to center on return and liquidity, although some investors also questioned whether they wanted to invest in a basket of investments as opposed to being able to select more narrowly.

An important caveat here is that the convenings were research proceedings in which the presenting organizations were not actually offering the products to investors for sale (in many cases the products were simply ideas under development). We therefore do not know if most of the investors who stated that they thought a given product was investable would actually place money in it. However, these results—alongside the billions of dollars that have actually flowed into the space, as evidenced by the assets under management reviewed at the beginning of this report—certainly demonstrate that investor-product mismatches are not universally prohibitive.

Our research into investment parameters held by different investors is largely consonant with U.S. SIF’s finding that these can differ by investor type. As a result, certain investments may appear more attractive to some investor types than others. Our sample sizes from investor surveys are too small to be able to reliably match specific investment products and investor types. However, we can suggest some differences between investor types that we heard in our conversations. Some examples are briefly reviewed below:

- Banks tend to have a strong focus on investment safety, CRA compliance, and shorter investment horizons.

- Foundations are sometimes demanding on the question of return, but depending on alignment with mission may be willing to accept subordinate positions with low rates of return, higher risk and/or extended investment horizons. This is particularly true in situations where the foundation investment plays a key role in catalyzing innovations in community development finance, and the foundation is interested in helping to break that new ground.

- Pension funds can accept longer time horizons but need a risk/return profile that clearly shows they are maximizing financial performance for plan participants.

- Insurance funds can also accept longer time horizons but generally need investments that are ratable by the National Association of Insurance Commissioners (NAIC).

There is substantial differentiation of appetites within the investor landscape—not only between different categories of investors but also within them, especially within the individual investor category. If certain investors are willing to allocate even a small percentage of their investment capital to high-impact investments on concessionary terms, in the aggregate these investments could amount to a large investment flow.
Moreover, there are substantial differences within these investor categories, from investor to investor. For example, and perhaps most notably, investment advisors serving individual investors presented different characterizations of their clients’ interest in investing on concessionary terms. While some advisors identified market returns as a top concern for their clients, several other advisors we spoke with, especially those who had set up specialized practices in social investment, indicated a clear willingness among their clients to accept low returns in exchange for impact. In the words of one investment advisor, “For a lot of these clients they really don’t care about the returns and what we are comparing them to, the priority is to have their money working towards a good social impact—if they give up 100 or 200 basis points of return they do not care, many of them. Sometimes it is more up to us to push back and say you are going to need more [return] from this portfolio... or we help them set a cap on how much of this [kind of investment] they should place.”

Even among institutional investors, there is the possibility that some investors, recognizing the small amount of their overall portfolio dedicated to USCI, will be willing to expand their investment criteria. One investor wondered, “Take insurance companies. What does it take for what is a mere pittance out of several trillion dollars to be devoted to community investing? What does liquidity really mean, or that the asset is not an admitted asset, in this context? Does it really make a difference to get a 5 percent IRR instead of 6.5 percent IRR on community investments given how small they are?”

A critical challenge, however, is the process of finding such investors, which can substantially raise transaction costs for product managers. Investors may be willing to accept below-market returns, but as noted in Theme 1, they may also have very specific conditions around impact and geography that are not easy to meet.

*Perceived “below market” returns to some USCI products—such as debt investments in CDFIs—may not actually be below market, or at least less so than has been thought in the past. Moreover, perceptions around these investments may be starting to change.*

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134 The investment advisors interviewed generally attract clients who are interested in impact investing. Their views cannot necessarily be generalized to the broader population of individual investors.
Some investors may be beginning to perceive that USCI products may in fact be attractive investments in their own right—even products that have traditionally been labeled as “below market”:

- An investment advisor at a convening observed, commenting on investments in CDFI loan funds, that “A 3 percent return doesn’t sound like much, but the S&P 500 had negative returns over recent 10 year periods [specifically the 10-year periods ending in 2008 and 2009]. You can add safety to the portfolio from these [CDFI] investments.”

- Another investor at this convening recommended that product managers “stay away from the assumption that [investors] are taking reduced return. We were [recently] at a mainstream conference where the discussion was that market rate returns going forward are going to be lower than in the past—the ‘new normal.’” However, better transaction-level data and analysis is needed to prove this claim to investors.

- One of the investment advisors we interviewed compared CDFI debt to corporate bonds, noting that 5-year corporate bonds are running at 1.5 to 2.5 percent, while some of their debt in CDFIs was providing a 4 percent return, “so in that sense [those CDFIs] are providing above market returns.”

Knowledge levels about the space may also influence perceived risk, as Mark Pinsky’s research on the “community development premium” discussed earlier in this report suggests. Investors with a long history in the community development field, including some bank investors, have generally come to see the risk-adjusted returns in a more favorable light than investors without prior exposure. From the practitioner side, in the words of a CDFI loan fund manager, “Frankly, those who know our field—they price the risk lower than strangers who don’t know us.”

Further evidence for the investability of traditional USCI products comes from a recent Standard and Poors rating for Clearinghouse CDFI, the first such rating assigned to a CDFI loan fund. Standard and Poors gave Clearinghouse an investment-grade, AA rating, citing the organization’s low loss exposure, strong loan performance, consistent profitability, growth in loans and assets, and experienced management, among other factors. 135 Clearinghouse, based in California, makes both long- and short-term commercial loans and New Markets Tax Credit investments to support community facilities, affordable housing, commercial real estate projects, and small businesses in underserved communities. It is an exemplary CDFI, but not the only strong CDFI in the industry, and is in fact highly leveraged relative to peers, suggesting that other sophisticated groups might be able to obtain strong ratings as well.

**Options for addressing the issues**

Further research on investor preferences could lead to additional insights that help match particular types of products to particular investors, if investor response rates can be boosted to complete surveys and/or attend convenings to conduct this research.

- Online investment marketplaces—such as CapNexus and Mission Markets—may facilitate the matching process between investors and products. As these marketplaces develop, the data they capture on the types of matches that are being made could prove very valuable to pricing and marketing investment opportunities.

- Some CDFIs, such as Community Reinvestment Fund, have tried to deal with these challenges by tranching investments to create market returns on a portion of the investment, even getting those investments rated, while creating other tranches where socially motivated investors get clear impact—knowing that the product could not happen without their support, while earning a below-market return.

Additional data collection and research to better document the performance of USCI products could help to clarify which products truly operate with market returns, and how far below market concessionary products fall.

**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.**

U.S. community investments offer very limited liquidity because of the lack of established secondary markets in which to buy and sell such investments (and the fact that the underlying assets are generally not liquid either, such as real estate investments). Thus, once investors have made an investment (for example, in a CDFI) they usually must hold on to that investment until it matures. This limitation is problematic since, as a bank investor interviewed simply put it, “From an economic standpoint we love short-term, liquid investments.”

The liquidity limitation thus causes many investors to seek shorter terms, creating a mismatch with many product needs. Convening participants noted that most investors are not willing to invest for terms greater than 7 to 10 years maximum and many prefer much shorter terms. However, our survey results do suggest that for certain investment types, investors are willing to go longer on term. For example, commercial banks are willing to consider market-rate mortgages for affordable housing entities for 30-year terms, and several investors indicated a willingness to invest in market-rate private equity for terms of up to 12 years. Some foundation investors responding to our survey were willing to consider 15-year terms (and one
even a 25-year term) for below-market rate, subordinated debt in nonprofit loan funds, even as other foundations specified maximum terms of 5 to 10 years. This variability underscores our point from Theme 2 above: Differentiated appetites within the investor landscape provide opportunities for product managers to seek matches for investments that are out-of-bounds for many investors, albeit with some difficulty.

Investors responding to the survey did not rank liquidity high when asked to name the top factors influencing their USCI decisions. Other factors—such as impact, return, and loss rates—ranked higher, and liquidity was not a top-five consideration for either foundations or non-foundation investors. However, investors cited liquidity most frequently when asked to name top challenges to making USCI investments during the convenings and interviews. Moreover, of all the potential reasons for an investor to shy away from a USCI product, liquidity appears to be the area where USCI products perform the worst. As shown in Table 8 at the end of this section, of the 11 product presentations at the investor convenings, liquidity was the investment parameter receiving the lowest ratings on nine of them, and was the second-lowest-rated parameter on the other two. On a scale of one to five, with one meaning “poor” and five meaning “excellent,” the presentations averaged a 2.1 for investor rating of their liquidity—or only slightly better than “fair.” The highest-rated presentation for liquidity, which involved 6-year debt, rated an average of 2.6 (between “fair” and “good”) on liquidity, although it also received a rating of “good” when investors were asked to rate the term.

Convening participants commented that over time, all types of investors have begun to impose increasingly short investment time horizons, perhaps as a way of protecting themselves against being stuck in a low-return investment for an extended time, perhaps as a way of recycling funds to claim greater impacts, or perhaps because they simply want more flexibility. As one participant noted, even foundations—which do not have a liquidity problem in the sense of needing to return money to investors quickly (for example in the way that banks must manage their assets against a base of demand deposits), nevertheless frequently raise liquidity as an issue.

For debt products, the result of the liquidity challenge is that USCI fund managers shorten the terms of their loan products to be able to match-fund their debt to the duration of their loan assets. As one USCI fund manager practitioner put it, “the tail of what capital is available wags the dog of what loan products CDFIs are able to provide,” with shorter terms offered than what borrowers need.

For many equity products—for example, equity investments in community development banks, credit unions, loan funds and REITs—liquidity challenges can be even more severe, as it is difficult for investors to realize appreciation by selling the investment. As a product manager put it, “The key issue is liquidity. There is no CDFI bank or loan fund that can consistently provide liquidity on an equity instrument, so we migrate to debt instruments and try to make it look like equity.” Examples of such approaches include structuring secondary capital loans to community development credit unions, “equity-equivalent investments” (a form of soft debt) for community development loan funds, or other types of subordinated debt that allows the investor to exit after a specified term is reached.
Liquidity can also be an issue for private equity, but investor acceptance of the illiquidity of these products may be greater, in part due to the fact that mainstream private equity offerings are also relatively illiquid, and in part due to higher target returns for many USCI funds in this sector.

Practitioners acutely feel the liquidity challenge in their efforts to raise capital, although often as a function of term as opposed to liquidity per se:

> “[We have] not historically been able to raise capital at the term that most community investment projects need.”

CDFI INTERMEDIARY PRACTITIONER

> “The thing is that [community development] real estate always needs long money, and big money—we need hundreds of millions. And in our world it needs to be cheap because we don’t have the revenue.”

CDC PRACTITIONER

> “In terms of straight-up equity people want to have the 10 year payout. There is a mismatch there [that] creates all kinds of issues around exit.”

FOUNDATION INVESTOR

Options for addressing the issue

- The development of trading platforms and secondary markets for USCI products is the most robust answer to liquidity limitations, but also a substantial infrastructure challenge. The potential role of trading platforms is discussed in the “Ways forward” section below.

- The provision of some form of liquidity enhancements or takeout structures could provide intermediate steps on the way to development of secondary markets. For example, government or foundation money could possibly provide for some sort of takeout guarantee to other investors as products are scaled up to the point that secondary markets become viable. These types of liquidity enhancements could be integrated into investment platforms that exist or are developing. Practitioners are exploring ways of involving smaller investors as a way of generating liquidity. For example:
  
  - A community development bank is exploring how to use Employee Stock Ownership Plans as a way of providing liquidity to bank equity investors.

  - Another option would be to encourage depositors in community development banks to become small shareholders, a strategy that has been successfully implemented by CARD Bank in the Philippines, although it would need regulatory approvals in the United States.
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.

Leverage levels in the USCI space vary by the type of investee. Community development banks and credit unions are leveraged at around nine to ten dollars of debt for every one dollar of net assets. Loan funds are often far less leveraged—a recent Carsey School analysis of CDFI loan funds found that eight percent of them are not at all leveraged, and the median leverage ratio across organizations was just USD 1.10 in debt per dollar of net assets. However, larger and more sophisticated loan funds tend to be more leveraged; about 21 percent of loan funds are leveraged at greater than USD3:1. It is for this latter group of loan funds that equity is a significant constraint.

While mainstream financial institutions and corporations are often much more leveraged, many USCI product managers find themselves at the limits of what investors (and in the case of banks and credit unions, their regulators) will accept. In turn, both practitioners and many investors see this issue as a key barrier to creating scale in the USCI industry:

“The lack of an equity tranche of capital on the balance sheet is a barrier”

FOUNDATION INVESTOR

“Most CDFI products are based on ability to leverage the balance sheet to a certain point. Our capacity to grow the industry requires balance sheet growth, which requires contributions. That is the big problem from an industry perspective that will limit our ability to grow.”

LOAN FUND MANAGER

“Having true net assets is key to leverage and scale.”

CDFI INTERMEDIARY


137 Note that investors tend to apply lower leverage limits to CDFI loan funds than to banks or credit unions. The CDFI Fund, for example, has set a “minimum prudent standard” that leverage levels of loan funds should not exceed USD4:1.
### TABLE 8. DETAILED CONVENING SURVEY RESULTS (N=33)

<table>
<thead>
<tr>
<th>Description</th>
<th>Risk-Adj Return</th>
<th>Return</th>
<th>Risk</th>
<th>Impact</th>
<th>Term</th>
<th>Liquidity</th>
<th>Invest. size</th>
<th>Interested or very</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 yr senior debt at Libor+250</td>
<td>3.1</td>
<td>2.5</td>
<td>3.7</td>
<td>3.1</td>
<td>2.6</td>
<td>3.1</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>Mix. 2-10 yrs at 150-350 w/guarantee, 8-10 yr at 7% no guarantee</td>
<td>2.7</td>
<td>2.8</td>
<td>3.3</td>
<td>2.8</td>
<td>2.5</td>
<td>2.8</td>
<td>84%</td>
<td></td>
</tr>
<tr>
<td>Equity, 1-2% div. 8-10% book growth, ESPO stock buyback</td>
<td>2.8</td>
<td>3.3</td>
<td>3.6</td>
<td>2.4</td>
<td>2.1</td>
<td>2.6</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Pay for Success senior financing at 5-6% 8 yr term</td>
<td>3.0</td>
<td>2.3</td>
<td>3.7</td>
<td>3.0</td>
<td>2.2</td>
<td>2.6</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Rated Security of loans with 7 yr WAL, prime plus 175</td>
<td>3.0</td>
<td>2.8</td>
<td>3.5</td>
<td>3.0</td>
<td>2.5</td>
<td>2.6</td>
<td>66%</td>
<td></td>
</tr>
<tr>
<td>10 yr T plus 225-275, 10-15 yr term</td>
<td>3.0</td>
<td>3.0</td>
<td>3.2</td>
<td>3.4</td>
<td>2.4</td>
<td>1.7</td>
<td>3.2</td>
<td>61%</td>
</tr>
<tr>
<td>10 yr, 5% full recourse unsecured note</td>
<td>3.1</td>
<td>3.1</td>
<td>3.0</td>
<td>3.5</td>
<td>2.7</td>
<td>1.7</td>
<td>2.9</td>
<td>42%</td>
</tr>
<tr>
<td>REIT returns of 8-10%, term not firmly set</td>
<td>3.3</td>
<td>3.4</td>
<td>3.1</td>
<td>3.3</td>
<td>2.3</td>
<td>1.8</td>
<td>3.0</td>
<td>55%</td>
</tr>
<tr>
<td>Incl Detroit Fund</td>
<td>3.2</td>
<td>3.2</td>
<td>2.8</td>
<td>3.4</td>
<td>1.6</td>
<td>1.3</td>
<td>2.9</td>
<td>50%</td>
</tr>
<tr>
<td>3% 10 yr senior, 1% 10 yr sub, 10% first-loss cover</td>
<td>2.0</td>
<td>2.0</td>
<td>2.2</td>
<td>3.0</td>
<td>2.6</td>
<td>2.1</td>
<td>2.5</td>
<td>0%</td>
</tr>
<tr>
<td>CMO Trances at T plus 172-275 MI in place</td>
<td>2.6</td>
<td>2.6</td>
<td>2.4</td>
<td>3.2</td>
<td>2.9</td>
<td>2.2</td>
<td>2.7</td>
<td>18%</td>
</tr>
<tr>
<td>VC starter fund, max term 10 yrs w/possible early take out, 3-8% IRR</td>
<td>1.9</td>
<td>2.0</td>
<td>1.7</td>
<td>3.0</td>
<td>2.6</td>
<td>2.4</td>
<td>3.0</td>
<td>0%</td>
</tr>
<tr>
<td>Averages</td>
<td>2.7</td>
<td>2.8</td>
<td>2.6</td>
<td>3.4</td>
<td>2.6</td>
<td>2.1</td>
<td>2.8</td>
<td>44%</td>
</tr>
</tbody>
</table>

Investor survey respondents rated a range of factors for each product presented on a scale of one to five, with one meaning ‘poor’ and five meaning ‘excellent’. This table presents each category’s average score.
Equity challenges can play out somewhat differently for different investee types:

- For loan funds and CDCs, the need for equity financing can also be characterized as one facet of a broader problem, namely how to provide a greater level of comfort to debt investors. As a CDFI loan fund manager put it, “We’ve yet to unlock capital at scale as a result of the lack of enhancement that scales.” Equity is particularly hard to raise for most loan funds and CDCs, since as another manager observed, “As a charitable 501c3, you can’t sell equity”—equity investment means either grant investment or retained earnings.

- Community development banks and credit unions are able to leverage equity very effectively but must maintain equity ratios to satisfy regulators. Banks can pay a return on equity, but the problem for community development banks, as discussed earlier, is return of equity (liquidity).

**Options for addressing the issue**

- The options discussed earlier under Theme 3 to address liquidity challenges would also make it easier to raise equity. As a foundation investor reflected, “A lot of people are trying to think through the question of exit; can foundations become a source of artificial/temporary liquidity—or can we create market-making functions so that we can have indefinite life equity.”

- Government can play a significant role as a direct provider of equity—as it does through the CDFI Fund Financial Assistance awards program\textsuperscript{138}—or by providing tax credits to equity investors, as it does with the LIHTC and NMTC programs. A recent program evaluation of the CDFI Fund underscored the need for the fund to continue providing support in the form of equity rather than debt investments, citing both balance sheet limitations as well as issues around cost of funds.\textsuperscript{139}

- For nonprofits, the formation of special-purpose vehicles can allow them to raise equity providing a return to investors. An example is the Housing Partnership Network’s formation of the HPET REIT, discussed earlier. However, exit is still a substantial issue for equity investors in such structures. Additionally, as another CDFI loan fund manager observed, “The challenge is that it in effect carves up our balance sheet and is not the most flexible kind of equity.”

- Some convening participants suggested that one way around leverage limitations would be to create off-balance sheet structures that function as a form of investment service for investors. Investors would place money in off-balance sheet vehicles for which practitioner organizations (e.g. CDFIs) would charge a management fee. No direct discussion occurred in response about whether the investors would demand equity investment from the practitioner in the off-balance-sheet vehicle, diminishing the benefits of this structure.

\textsuperscript{138} This program provides capital investments in CDFIs. For more information, see: www.cdfifund.gov.

\textsuperscript{139} Michael Swack, Eric Hangen and Jack Northrup (2014). “CDFIs Stepping into the Breach: An Impact Evaluation.” Carsey School of Public Policy, University of New Hampshire.
However, several of the convening presentations involved off-balance sheet structures, including special-purpose for-profit and non-profit vehicles as well as asset-backed securitization. The product managers for these presentations reported significant balance sheet constraints even for these vehicles; one noted that changes in regulations require their organization to carry a much larger interest in securitized assets than previously, with significant balance sheet impacts: “In the past, only the residual interest was on-balance-sheet. We now must hold all the assets on the balance sheet—there is not an infinite amount of capacity to bring on this debt without more equity.” Moreover, investor responses to those product presentations—including one investor who raised concerns over the quality of a new form of collateral proposed for one—suggested the continued need for equity as a form of credit enhancement.

**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.**

Part of the investor-product mismatch dynamic discussed in Theme 2 may be due to the lack of commonly accepted benchmarks or proxies for return and especially for risk. After liquidity, risk was the investment parameter that most appeared to challenge investors evaluating the presentations at the convenings, receiving the lowest or second-lowest rating on 5 out of 12 presentations, and an average rating of 2.6 (in between “fair” and “good”). The particular difficulty that most investors appear to have with risk in the USCI space is simply understanding it:

- One investor expressed, “folks don’t know how to evaluate these investments—you need to be able to articulate the risk and compare it to something that is familiar.”

- Another investor explained in more detail: “Data on track record and performance is sorely lacking and very important. You go to an investor and say, we are putting together a single-asset fund and this really helps people. Then the investor asks, ‘How much of this has been done? What is the cash flow in the underlying asset? Can you show us the track record of these things—show us some data on how they are doing?’ Unless you go to five-to-seven or more entities and get them to pool their data, you can’t really answer the question. There is no repository of investment performance by type of investment.”

- Managers of a social impact investment fund at a leading investment bank cited benchmarking as a particular challenge for their fund, since there are no historical track records or other funds to compare against. Because of this, they noted, it is difficult to attract certain investors, especially institutional funds regulated by ERISA.
A product manager noted that Standard and Poors, when rating an investment opportunity, looks at how the assets have performed through two recent recessions, a track record that most CDFI investments do not have; the challenge then becomes to identify appropriate proxies.

Risk and return go together, so benchmarking returns alongside of risk is also a key need for the field to be able to scale. As one product manager put it, “I think that defining the asset class and finding a proxy for return is a challenge—and an opportunity. If we can come up with some things that are proxies for returns, and define asset classes with some clarity, we will be one step closer to being able to pitch to an investor.”

Benchmarking of risk and returns is a work in progress and the field has been advancing in this respect:

- The use of Aeris (formerly CARS) ratings of CDFIs among both investors and product managers has been growing. When asked about benchmarks they use, two respondents to the investor survey indicated they used Aeris for benchmarking; other investors interviewed also discussed the use of this system. One investment advisor commented, “I don’t think we would seriously look at adding a CDFI to our portfolio if it were not Aeris rated.” However, Aeris is not a complete solution to the systemic challenge of benchmarking investment risk and performance. Product managers note that Aeris is not intended to be comparative across CDFIs; rather, it is intended to analyze a specific CDFI and its financial and social performance. Moreover, there are limitations in comparing organization-level Aeris ratings across CDFIs that are creating “vastly different assets,” as one product manager put it. An investor observed that transaction-level data is needed to solve the challenge. This observation highlights the potential utility of the CDFI Fund’s Transaction Level Reports (TLR) data, a point the Carsey School made in its Impact Evaluation report for the CDFI Fund.  

- As regulated institutions, community development banks and credit unions can be readily compared to mainstream banks and credit unions of similar size. A recent evaluation for the CDFI Fund used the same data sets to demonstrate that regulated CDFIs show no greater risks of institutional failure than similar mainstream peer institutions, and have achieved “noteworthy” performance along metrics of efficiency and institutional stability.

- Investors in USCI private equity funds also have clear benchmarks they can use, such as Cambridge Associates private equity index and benchmark statistics. Two investors reported using such metrics to benchmark the performance of their USCI private equity investments. Very recently, the GIIN, in partnership

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with Cambridge Associates, released a global private equity impact investing benchmark, along with a research report which compares the performance of these funds against conventional PE funds.142 This type of benchmarking will hopefully over time help investors better position such investments in their portfolios. A foundation investor observed, “Part of the problem is that everyone puts [USCI] investments into ‘alternative investments’ now—funky [Mortgage-Backed Securities] are seen as ‘alternative’ but investors should think about them as ‘fixed income.’”

**Options for addressing the issues**

- Greater collection and analysis of standardized transaction-level data could go a long way toward demonstrating the performance of assets to investors. This is a challenge that practitioners are capable of solving. Recent moves by the CDFI Fund to collect additional performance information from all certified CDFIs is a good step in this direction, but development of uniform loan and investment performance reporting standards is still ultimately needed.

- The recent success of Clearinghouse CDFI in obtaining a AA rating from Standard and Poors, and the return of Community Reinvestment Fund to issuing rated asset-backed securities, represent innovations that other practitioners may be able to emulate with increasing success in coming years.

- In the absence of better risk data and broader use of investment ratings, the role of credit enhancement looms large. One convening participant highlighted the significant net assets position backing Enterprise’s Community Impact Notes as a “neon light” for investors, saying “some of our issues will be overcome by structures like that—guarantees that just minimize the question of risk.”

**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.**

**Bank involvement in USCI**

Banks have been one of the largest investors in the USCI space. As shown in Figure 6, they provide about 42 percent of the lending capital raised from external sources in CDFI loan funds, 36 percent of funds management by CDFI venture funds, and 14 and 12 percent for CDFI banks and credit unions, respectively.\(^{143}\) They are also dominant investors in low-income housing tax credits, along with insurance firms.\(^{144}\)

![Figure 6: Bank Involvement in Funding for CDFIs, Percent of Assets Funded by Depository Notes](chart)

**FIGURE 6: BANK INVOLVEMENT IN FUNDING FOR CDFIs, PERCENT OF ASSETS FUNDED BY DEPOSITORY NOTES**

<table>
<thead>
<tr>
<th>Type of Fund</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDFI Loan Funds</td>
<td>42%</td>
</tr>
<tr>
<td>CDFI Venture Funds</td>
<td>36%</td>
</tr>
<tr>
<td>CDFI Banks</td>
<td>14%</td>
</tr>
<tr>
<td>CDFI Credit Unions</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Abt Associates (2012). “What Happens to Low-Income Housing Tax Credit Properties at Year 15 and Beyond?”

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However, concern is mounting that banks are unlikely to scale up their community investing activity, and that their involvement may in fact be “on the wane,” as one interviewee put it. Bank CRA-reported community development lending was 37 percent lower during 2009-2011 than it was during 2006-2008. One interviewee predicted that “Banks will be doing less,” explaining that “the big motivator was CRA, and consolidation also creates issues.”

As suggested by the quote above, one potential driver behind waning bank involvement is bank consolidation, which has resulted in a far smaller number of institutions to approach for community investments. The number of banks and thrifts has declined by over 60 percent since 1980. A CDFI product manager observed that bank positions in their loan fund shrank as banks consolidated: “one plus one was equaling one and a half.”

Regulatory trends may be another driver. A recent research report notes that “looking ahead, as regulators remain focused on the safety and soundness of the banking system, CRA will likely diminish in importance... as well.” Indeed, product managers interviewed commented that “banks have become much more risk averse after 2008.” In particular, noted one loan fund manager, “they want to get collateral—not unsecured loans. For any group that relies on a broad array of debt for its balance sheet, you have a hard time giving a lender security because everybody wants it.”

Practitioners also observed that the way banks are budgeted and regulated does not encourage their involvement in placing patient risk capital—especially with increasing regulator emphasis on bank safety and soundness. One product manager observed, “Within CRA there has been a movement towards ‘adding up the numbers’ — providing financing that is relatively easy to do, and the harder to do stuff just does not get done. The impact and the innovativeness that CRA used to look at has been devalued and how many dollars have you gotten out the door has taken its place.” Another interviewee agreed: “For the most part, they are dabbling in investments that are so much more safe than they ever thought of—like NMTC and LIHTC—those are good and useful, but there is a lot more out there and the banks get CRA credit for the plain vanilla stuff.”

A bank respondent to the investor survey also pointed to CRA when asked to describe their single greatest impediment to scaling involvement in USCI: “Overwhelmingly, our strongest headwinds are the ambiguity around CRA and the regulators’ interpretations regarding primary benefit, geography, and ‘meeting the needs of your MSAs’ (Metropolitan Statistical Areas).”

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145 FFIEC CRA statistics.
Competition from other spaces

Practitioners expressed concern about competition from investing opportunities in other spaces—particularly international microfinance and crowd funding opportunities that do not go through traditional USCI investee types. Representative quotes include:

“We think crowdfunding will outcompete CDFIs if we don’t get out there.”

“I don’t know if crowd funding is a solution to anything. It scares me.”

“The international microfinance story is a powerful story—you can buy someone a goat for USD 1 whereas we need USD 100 million for a building. The immediacy, how cheap it is, is attractive for international microfinance.”

“We should ask investors about expectations for impact—what motivates them, especially high-net worth personal investors. Why do they throw so much money into international microfinance? It seems like the U.S. industry is not making the case in a way that attracts that investor.”

Crowd funding can be seen as an opportunity, rather than competition. For example, Calvert Foundation’s creation of vested.org is breaking new ground for approaches to small retail investors that other platforms could emulate.

THEME 7: Individual investors are a potential game-changer in the space, but reaching them involves solving unique challenges.

A recent Morgan Stanley survey conducted of 800 individual investors indicates substantial interest in the non-financial returns of their investments—over 70 percent of active individual investors describe themselves as interested in “sustainable investing,” a broad space in which U.S. SIF reports that a total of USD 6.57 trillion is now invested. Convincing individual investors to direct even a small share of what

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148 Morgan Stanley Institute for Sustainable Investing (2015). “Sustainable Signals: The Individual Investor Perspective.” Online at: http://www.morganstanley.com/sustainableinvesting/pdf/Sustainable_Signals.pdf. “Sustainable investing” was defined in the survey as “the practice of making investments in companies or funds which aim to achieve market-rate financial returns while pursuing positive social and/or environmental impact.”

one convening participant termed this “giant pool of money” into USCI vehicles could drive vast increases in scale.

USCI stakeholders interviewed outlined a variety of challenges that the field must overcome to increase involvement from individual investors. Interestingly, most of these challenges apply to both retail and high-net-worth investors, at least in broad strokes:

- **WORKING WITH INVESTMENT ADVISORS.** Investment advisors are the gateway to most individual investors, whether high-net-worth or retail. They have a fiduciary responsibility to keep their clients from losing money—as well as the need to earn fee income from the investments that they recommend. One investment advisor stated, “Much of the wealth management environment is getting the client to say yes to make my bonus, and that is so opposite about why you’d want to talk to a client about impact investing opportunities.” A mainstream investment advisor without prior exposure to USCI immediately reacted with concern to the idea of facilitating a client’s investment into a below-market vehicle.

- **PACKAGING INVESTMENTS WITH THE LOOK AND FEEL THAT INDIVIDUAL INVESTORS, AND THEIR ADVISORS, FIND FAMILIAR.** The major challenge reported by investment advisors we spoke with is that since the Bernie Madoff scandal, most broker-dealers have removed all non-SEC-registered investments from their platforms, since, in the words of one advisor, “no dealer wanted to be caught with a worthless book of business on their clients’ statements.” It is therefore very important to investment advisors that USCI vehicles carry a CUSIP number\(^\text{150}\) so that they can be reflected on brokerage statements. Otherwise, investment advisors must prepare specialized statements and perform investment tracking functions for their customers to place money into USCI investments. One investment advisor also commented on the need for investees to be more precise in their reporting, and to “send quarterly interest payments that are calculated correctly.” Another investment advisor summed it up: “packaging matters for both clients and their advisors.”

Even when dealing with high net-worth investors, the administrative costs involved in meeting these demands are substantial, and in and of themselves pose a barrier to raising investments from this sector. One investment advisor disclosed that they are intentionally seeking to build their book of business with institutional investors, more so than with individual investors, due to the fact that costs of administering an account are inefficient for smaller account holders.

- **HIGHLY SPECIFIC REQUIREMENTS AROUND GEOGRAPHY AND IMPACT.** The idiosyncratic desires of individual investors make raising dollars from this sector a challenge. As one product manager put it, working with high net-worth investors “is a tough road to travel because it is such a parochial world, with each investor having very specific interests and a very self-indulgent desire to have very narrow strikes of impact.”

\(^{150}\) CUSIP stands for Committee on Uniform Securities Identification Procedures. CUSIP numbers are an identification number for registered securities.
MARKETING AND EDUCATION. An investment advisor noted that “the challenge is educating and engaging” not just clients but investment advisors, noting that “a lot of old-school advisors” may be reluctant to talk about impact investing with clients for fear of violating fiduciary responsibilities. A practitioner noted, “there is a marketing issue with your everyday broker. We have a real stubborn block there in the broker community... brokers have not come through.”

RETURN. As discussed under Theme 2, return can be a barrier, but different individual investors—and their advisors—have widely diverging goals in this regard. One investment advisor stated that “return matters hugely for our clients and hitting risk-adjusted returns is a limitation for us.” Another expressed the opposite point of view: “If a client needs market rate returns they will have to give up impact. There is a tradeoff. But for a lot of people the impact is more important than the rate of return. If you put 1-2 percent of someone’s portfolio that makes nothing, it is not going to affect their portfolio rate of return.” It is important to keep in mind here that returns to the individual investor will be after the investment advisor takes a fee on the funds under management, which can shave off a percentage point or so for the investor.

For retail investors, an additional set of challenges apply, which U.S. SIF has described in its report:151

- With the exception of deposit investments in community development credit unions and banks, and a limited number of other instruments such as Calvert Community Investment Notes, many USCI opportunities have large buy-in amounts;
- Retail investors have more limited and therefore potentially less flexible capital, and may be unwilling to risk investing in assets that do not have long track records;
- Advisors to retail investors may be less knowledgeable about community investing than the boutique firms that serve high-net-worth investors;
- Retail investors may have stronger preferences to hold more liquid assets.

WAYS FORWARD

A top priority for the field should be coordinated, comprehensive efforts for marketing, communications, and investor engagement.

Many stakeholders focused on the need for better marketing of U.S. Community Investments to build investor interest and demand. Below are a few of the perspectives voiced on this issue:

- A participant in the private wealth management space concluded, “Education and engagement is what is needed. It is important to segment and understand the different investor types we want to engage; and underscore the risk/reward interplay and variation among the investor types.”

- Another knowledgeable observer of the USCI space described the need to build demand as the fundamental challenge in the field. Commenting on the work that practitioners have done to try to scale investing in this space, he noted: “Structural barriers are important, but when we focused on them it didn’t help because we did not focus enough on the demand side of the equation. We were thinking so much about the plumbing [e.g., creating secondary markets] and not enough about where the demand comes from. If you have demand the problem will solve itself.”

- A fund manager described a “Tower of Babel” situation in which there is no consistent messaging about the USCI space: “As an industry we have to get consolidated and have some consistency in how we describe ourselves, how we calculate our returns, and the way we define our investments. We have a hard time talking about just a debt investment let alone equity. One of our major barriers is our communications strategy. Everybody is out there doing this—I don’t think that is good for us.”

Interactions with close to 100 stakeholders in the USCI space support the impression that USCI is currently a small and fairly closed community in which the major players know one another well, but are not well known outside their circles. Despite significant time spent searching for investment advisors, foundations, corporations or other players who were actively and significantly involved in USCI, relatively few such organizations were discovered by this research that we were not aware of at the outset of the project.

Data from community development banks and credit unions suggest that in fact, the largest investor group in USCI is not high-net-worth individuals, foundations, or corporations, but low-income households themselves, through their deposits in those institutions. The involvement of wealthier individual investors, and of institutional investors outside the financial services and insurance sectors, appears to be growing, but is very far from scaled. The low response rate to the investor survey may be another indication of the small number of institutional investors who are truly engaged in USCI.
Increasing the number of investors placing money in USCI appears to be a classic social marketing or “diffusion of innovation” problem, in which a group of early adopters have become engaged in the space, and the question is now about how to persuade other members of the investment community to adopt the innovation.\textsuperscript{152} Diffusion theory holds that for any new practice—such as investing in USCI—to take hold, it must have:

1. **RELATIVE ADVANTAGE.** Investors must believe that USCI investing provides benefits that matter to them in particular, compared to other investing alternatives. For example, depending on the particular investor, these benefits might include greater impact, positive effects on the investment portfolio, convenience, satisfaction, image benefits, or regulatory benefits.

2. **COMPATIBILITY WITH EXISTING VALUES AND PRACTICES.** Investors must see that USCI investing is consistent with their values, past experiences as investors, and needs as investors. Thus, providing USCI products with the “look and feel” of mainstream investment opportunities is critical.

3. **SIMPLICITY AND EASE OF USE.** Ideas that are simple to understand and easy to put into practice experience must have faster uptake. By this logic, for most institutional investors and investment advisors, a USCI product with a rating from S&P and that can be purchased from a mainstream broker-dealer, both of which are well known and broadly accepted among investors, should experience faster uptake than a product rated only by Aeris and offered via private placement.

4. **TRIALABILITY.** The degree to which an innovation can be experimented with on a limited or less risky basis will increase the likelihood that people try it. Liquidity and credit enhancements are likely important for this reason.

5. **OBSERVABLE RESULTS.** Visible results lower uncertainty and increase the degree to which early adopters can communicate to their peers about success. While a given investor will know how their investment is performing, the USCI space suffers from a lack of benchmarked reporting on risk and return, and even basic reportability on financial statements produced by custodians, as described in Theme 7 on individual investors.

The section below describes the elements necessary to create a comprehensive marketing strategy for increasing investor involvement in the USCI space, using a related rubric for social marketing (the “Five F’s” of social marketing).

**Five “Fs” of social marketing as a rubric for marketing USCI:**

1. **FACTS.** Investors need information to better know the results of USCI investments and to reduce the friction in the process of finding and investing in these opportunities:

   - A substantial initiative is needed to compile and analyze both transaction- and fund-level data on investment performance and identify appropriate benchmarks and asset classes.
   - The use of ratings systems should be increased in the field, including the Aeris system for CDFI loan funds but also ideally including industry-standard ratings. In addition to greater use of ratings, simply adopting more standardized ways of talking about investment performance (and in the case of loan funds more standardized ways of presenting financial statements) can help.
   - Further development of online marketplaces for USCI investments—with better standardized information about financial parameters and impacts—is needed.
   - Aggregation of impact data, which would also require the use of standardized impact metrics, would greatly help to communicate the value of the space.

2. **FEELINGS.** Investors need to experience non-monetary returns to getting involved in USCI. Mark Pinsky has suggested that the label “community development” may in and of itself be a barrier that increases the pricing of community investments; other participants have suggested that the field is perceived as meeting “government” roles and responsibilities. The USCI field needs to communicate a fresh story about impact, making the connection to rising issues like income inequality, health, environmental sustainability, and economic recovery. These marketing messages should be crafted and delivered in targeted ways to appeal to different investor segments (for example, women and millennials were both identified as key demographics of individual investors in a recent Morgan Stanley report on sustainable investing).

3. **FACILITATION.** Even though many existing USCI investors have substantial skills and experience in underwriting and structuring complex investments to meet the needs of practitioners, investing in USCI needs to become much easier if new players are to enter the space. The possibilities for the development of investment platforms is discussed in the next section, but the good news is that most of the facilitative frameworks that need to be developed would have broad appeal to most investor types—such as structures to enable purchase of more USCI products through mainstream broker-dealers and to enable the sale of USCI assets on secondary markets.

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4. **FINANCIAL INCENTIVES.** As a number of USCI stakeholders observed, scaling the field may require the scaling of credit enhancement, or capital that takes riskier, longer-term, and/or lower-return tranches to meet USCI needs. Ultimately, as scale builds in the field, it is possible that some of these needs will be reduced. Artificial liquidity enhancements could be replaced with secondary-market saleability, for example, or perceived need for credit enhancement could be reduced as understanding of risk improves. It is instructive, however, to consider the degree of financial incentives that are involved in our mainstream financial system; bank deposits are insured, and government-sponsored enterprises provide liquidity and guarantees on home mortgages. There is likely to be a substantial and ongoing need for government and scaled philanthropic dollars in USCI.

5. **FORCE.** “Force,” in terms of this social marketing rubric, refers to the use of laws and regulatory incentives to drive behavior change (like “click it or ticket” for increasing seat belt use). CRA modernization to encourage more innovative but still responsible community investments on the part of banks - and perhaps other financial services industry players - could play a key role in unlocking capital. Other regulatory approaches could drive investment from other sectors, such as tax exemption of interest earnings on USCI products.

The most critical ingredient to pull all of these elements together is the leadership of and collaboration between key practitioners and investors to champion the field.
Investment platforms could play a critical role in scaling USCI, but practitioners have experienced a variety of challenges in constructing these platforms.

Currently, virtually all community investment deals, with the exception of deposits in community development banks and credit unions, happen in highly nonstandardized ways. Each deal must be considered individually, there are no standard products in the field, the due diligence time and transaction costs required on any deal are high, and reporting is difficult. The USCI space thus suffers from substantial inefficiencies in the capital raising process, as described in the following quotes:

“About 30 CDFIs and nonprofits have note programs. It is all paper-based, the CDFI has to have a full-time marketing person, takes a year to close the deal, totally reliant on personal relationships. Has costs that CDFIs don’t incorporate into their cost of capital but impacts overhead.”

LOAN FUND MANAGER

“We hear from our partners about how inefficient it is for them to raise these niche sources of capital and then deploy them.”

CDFI INTERMEDIARY

There is no trading platform for community development (including CDFI) assets. As a foundation investor we interviewed observed, “There is a lack of a structure to hold, warehouse, and organize projects, help them pass certain risk points and then sell them off into a market.”

Conventional assets are bought and sold easily on widely used trading platforms, but practitioners report that it is difficult to gain access to these platforms due to small volume. A trading platform for USCI products could package various products into securities, obtain CUSIP numbers so that they are easier to buy, sell and report on, reduce the transactions costs for investors to participate in the market, open up more USCI opportunities to retail investors, get mainstream wirehouses involved in selling USCI products, provide a more conventional “look and feel” for investors, and ultimately help the market get to a scale where secondary markets evolve and liquidity constraints are eased.
One option to create a trading platform that could help scale investment would be a USCI mutual fund—or perhaps several funds that fit into different asset classes such as fixed-income, real estate, or small business equity. While the needs are substantial, creating such a trading platform would be expensive and would require:

- Standardized practices and documentation among lenders and products
- A trading conduit with a trustee and custodian
- Administrative and reporting protocols
- A process for marketing and distribution of community investment assets
- Compliance with securities regulations

Convening participants were concerned about whether the space has enough products to offer and wondered whether there would be demand for secondary market USCI investments where the investor is still helping to meet a community development need but is investing well after the product was originated. These concerns need to be addressed as part of a research scope to better analyze the feasibility of an investment platform.
OPPORTUNITIES FOR A SECONDARY MARKET

“We need to standardize products such that you can covert a product into CUSIPs (Committee on Uniform Securities Identification Procedures). Without that you can never get liquidity.”

COMMUNITY DEVELOPMENT BANK STAKEHOLDER

“We need publicly traded vehicles—an evergreen fund where individuals and institutions can trade”

PRIVATE EQUITY FUND MANAGER

“Offering a security, as opposed to a high-touch idiosyncratic private placement, could help unlock money from Donor-Advised Funds.”

FOUNDATION INVESTOR

“There are two ways to think about investments in housing—directly, or creating a market for the dollars so that investments can flow and you can sell your investment without holding it the whole way. If you can sell the investment then you don’t have to be in for 15 years but the CDC can still get 15-year money. That’s what makes the mortgage market work—it’s got a guarantee, MBS to make it liquid, and CRA that makes it required/incentivized. Those three things have added up to billions and trillions dollars going into mortgages so that we can get 30-year money at 4 percent. Only a small slice of [investment] can be achieved through marketing—the rest is through getting it liquid, saleable and verified.”

COMMUNITY DEVELOPMENT INTERMEDIARY MANAGER

“Securitizing these loans could be helpful for spreading and managing the risk and would lead to more of a secondary market which would be very helpful.”

INVESTMENT ADVISOR
APPENDIX I: INVESTOR SURVEY RESULTS

The University of New Hampshire Survey Research Center sent a survey to over 100 investors including banks, foundations, investment advisors to family offices and high-net-worth individuals, pension funds, insurance companies, and other investor types in December 2014. A total of 33 responses were received, although the numbers of responses was lower to many questions due to skipped responses.

Overview of the respondents and their investments

Foundations made up 42 percent of respondents; as a result we analyze some questions by whether the respondent was a foundation or another investor type. Unfortunately, the small number of respondents does not allow for further breakdowns of the survey data.

*FIGURE 1. TYPES OF INVESTORS SURVEYED, N=33*

* This figure is previously cited on page 13.
Tax credit equity investments and below-market subordinated debt were the most popular asset classes held by respondents, followed by market rate fixed income bonds.

FIGURE 7. MEDIAN PERCENTAGE OF INVESTMENTS BY ASSET CLASS HELD BY INVESTOR SURVEY RESPONDENTS
Investors reported focusing investments in a broad variety of impact areas, led by affordable housing.

![Figure 5: Percent of investor survey respondents interested in each area of impact, N=33*†](image)

* Respondents may indicate interest in more than one area of impact.
† This figure was previously cited on page 59.

The leading investee type into which the survey respondents had placed money was nonprofit loan funds (40 percent), followed by direct investments in community health facilities (32 percent) and affordable housing project entities and commercial real estate development projects (25 percent each).
### TABLE 9. COMMON INVESTEES TYPES FOR INVESTOR SURVEY RESPONDENTS

| Nonprofit loan funds, including CDFI loan funds | 40% |
| Community health care providers or facilities | 31% |
| Affordable housing project entities | 25% |
| Commercial real estate development project entities | 25% |
| Impact investment funds (private equity or venture capital) | 20% |
| Government bonds | 20% |
| CDFI credit unions | 11% |
| Other education-related entities or facilities (as direct investees) | 11% |
| CDFI banks | 10% |
| Community Development Corporations (CDC) | 10% |
| Small businesses (as direct investees) | 10% |

### FIGURE 8. PERCENTAGE OF RESPONDENTS THAT RANK THE FOLLOWING FACTORS IN THEIR TOP THREE WHEN CHOOSING U.S. COMMUNITY INVESTMENT OPPORTUNITIES (MULTI SELECT)

- **Reliable and Meaningful Social Impact**: 77%
- **Clear Information Concerning the Social Impact of the Investment**: 46%
- **Clear Information Concerning the Financial Performance of the Investment**: 42%
- **Attractive Risk-Adjusted Returns**: 42%
- **Low Loss Rates**: 35%
- **Other Factors**: 31%
- **Liquidity/Ability to Exit Investment**: 12%
- **Compliance of the Investment with External Regulations on Your Organization**: 12%
- **Low Transaction Costs**: 4%
- **Investment Ratings from Third Parties**: 0%
APPENDIX II: GLOSSARY OF ACRONYMS AND TERMS USED IN REPORT

AERIS / CARS: Aeris (formerly CARS) provides ratings reports intended to help investors understand, underwrite, and monitor investments in CDFIs. See: http://www.aerisinsight.com

CDB (COMMUNITY DEVELOPMENT BANK): Community development banks are community banks committed to helping the underserved. All community development banks are certified as CDFIs by the U.S. Treasury, a designation which affirms their focus on mission. See: http://www.cdbanks.org

CDC (COMMUNITY DEVELOPMENT CORPORATION): nonprofit, community-based organizations that undertake projects and programs to improve low-income and underserved communities.

CDCU (COMMUNITY DEVELOPMENT CREDIT UNION): credit unions with a mission of serving low- and moderate-income people and communities. CDCUs specialize in serving populations with limited access to safe financial services, including low-income wage earners, recent immigrants, and people with disabilities. See: http://www.cdcu.coop/about-us/what-is-a-cdcu/

CDFI (COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION): financial institutions that provide credit and financial services to underserved borrowers and communities. The CDFI field includes nonprofit loan funds, regulated banks and credit unions, and venture capital funds. CDFIs are certified by the U.S. Department of Treasury CDFI Fund, and may apply for financial awards from the Fund. See: http://www.cdfifund.gov

CRA (COMMUNITY REINVESTMENT ACT): The Community Reinvestment Act is a federal law intended to encourage depository institutions to help meet the credit needs of the communities in which they operate. See: http://www.federalreserve.gov/communitydev/cra_about.htm

CUSIP (COMMITTEE ON UNIFORM SECURITY IDENTIFICATION PROCEDURES): a nine-digit code that uniquely identifies financial securities in the United States

DONOR-ADVISED FUNDS: philanthropic vehicles in which a donor makes a charitable contribution, receives an immediate tax benefit, and then recommends grants from the fund over time.

FDIC (FEDERAL DEPOSIT INSURANCE CORPORATION): A federal government agency, FDIC insures deposits in banks and thrifts. See: https://www.fdic.gov
GIIN (GLOBAL IMPACT INVESTING NETWORK): The Global Impact Investing Network is a 501(c)3 nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances. The GIIN addresses systemic barriers to effective impact investing by building critical infrastructure and developing activities, education, and research that attract more investment capital to poverty alleviation and environmental solutions. See: www.thegiin.org

IRIS (IMPACT REPORTING AND INVESTMENT STANDARDS): is a catalog of generally-accepted social, environmental and financial performance metrics. See: www.iris.thegiin.org

LIHTC (LOW-INCOME HOUSING TAX CREDIT): a tax credit available to investors for equity investments in affordable rental housing in the United States. An overview may be found at: http://www.occ.gov/topics/community-affairs/publications/insights/insights-low-income-housing-tax-credits.pdf

LTV: Loan to Value ratio. Typically calculated as the amount of a loan divided by the market value of the collateral that is pledged against that loan.

NCUA (NATIONAL CREDIT UNION ADMINISTRATION): a federal agency that charters and supervises federal credit unions, and insures savings in federal and most state-chartered credit unions. See: www.ncua.gov

NMTC (NEW MARKETS TAX CREDIT): a tax credit for investors placing qualified investments into operating businesses and real estate projects located in low-income communities. See: http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=5


REIT (REAL ESTATE INVESTMENT TRUST): a company that owns or finances income-producing real estate.

UBPR UNIFORM BANK PERFORMANCE REPORT: an analytical tool created for bank supervisory, examination and management purposes. It shows the impact of management decisions and economic decisions on a bank’s performance and balance-sheet composition. See: https://www.ffiec.gov/ubpr.htm
APPENDIX III: RESEARCH PARTICIPANTS

Interviewees

Frank Altman, Community Reinvestment Fund
Karin Chamberlain, Clean Yield
Kimberlee Cornett, Kresge Foundation
Lisa Davis, Ford Foundation
Dawn Edwards, Mission Markets
Carrie Endries, Fresh Pond Capital
Francie Ferguson, NeighborWorks America
Jeffrey Finkleman, Small Business Administration
Elizabeth Glenshaw, Clean Yield
Catherine Godschalk, Calvert Foundation
Lisa Hagerman, DBL Investors
Gary Hattem, Deutsche Bank Americas Foundation
Matt HoganBruen, Bank of America Merrill Lynch Capital Access Funds
Jeannine Jacokes, Partners for the Common Good
Gee Kim, Turner Impact Capital
Christine Looney, Ford Foundation
Dominik Mjartan, Southern Bancorp Community Partners
Maggie Moore, Goldman Sachs Urban Investment Group

Brian Nagendra, Living Cities
Saurabh Narain, National Community Investment Fund
Stephanie Nieman, SJF Ventures
Sylvia Poniecki, Wespath
Rebecca Regan, Housing Partnership Network
Bob Schall, Self Help Ventures Fund
Debra Schwartz, MacArthur Foundation
Liz Sessler, Enterprise Community Partners/ImpactUS
Eben Sheaffer, National Federation of Community Development Credit Unions
Dan Sheehy, Impact Community Capital
Kathy Stearns, First Affirmative Financial Network
Amber Randolph, Deutsche Bank
Randy Rice, Trillium Asset Management
Terry Simonette, NCB Capital Impact
Kerwin Tesdell, Community Development Venture Capital Alliance
Mary Vasys, Vasys Consulting Ltd.
Robert Zevin, Zevin Asset Management LLC
Convening Participants

CONVENING 1
March 17, 2015
Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, CA 94105

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Abhilash Mudaliar, The Global Impact Investing Network
Hannah Schiff, The Global Impact Investing Network
Michael Swack, The Carsey School of Public Policy

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John Berdes, Craft3
Pablo Bravo, Dignity Health
Tina Castro, Avivar Capital
Maggie Cutts, Mission Investors Exchange
Renee Elias, Build Healthy Places
David Erickson, Federal Reserve Bank of San Francisco
Jonathan Firestein, Ascent Private Capital Management of U.S. Bank
Ian Galloway, Federal Reserve Bank of San Francisco
Reginauld Jackson, Public Health Institute
Giselle Leung, The Global Impact Investing Network
Dominik Mjartan, Southern Bancorp Community Partners
John Moon, Federal Reserve Bank of San Francisco
Rafael Morales, Silicon Valley Community Foundation
Allan Moskowitz, Affirmative Wealth Advisors
Abhilash Mudaliar, The Global Impact Investing Network
Lisa Richter, Avivar Capital
Liz Sessler, Enterprise Community Partners
Casey Verbeck, Veris Wealth Partners
Nancy Wagner-Hislip, The Reinvestment Fund
Cynthia Wong, Morgan Stanley
CONVENING 2
April 2, 2015
The Ford Foundation
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Nathanael Berry, Sandy River Charitable Foundation
Paul Bradley, ROC USA
John Burns, KittyHawk Advisors, LLC
Lisa Davis, Ford Foundation
Julie Eades, New Hampshire Community Loan Fund
Catherine Godschalk, Calvert Foundation
Chris Herrmann, Enterprise Community Investment, Inc.
Kristin Koch, Jonathan Rose Companies
Stephen Lee, TIAA-CREF
Christine Looney, Ford Foundation
Thomas Lopez-Pierre, Harlem Real Estate Fund
Kathryn McClosey, United Church Funds
Kim Moynihan, The Global Impact Investing Network
Brian Nagendra, Living Cities
Rebecca Regan, Housing Partnership Network
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Eben Sheaffer, National Federation of Community Development Credit Unions
Michael Sloss, ROC Capital
Allison Spector, The Global Impact Investing Network
Brett Stevenson, The Global Impact Investing Network
Kerwin Tesdell, Community Development Venture Capital Alliance
Rekha Unnithan, TIAA-CREF
Megan Walsh, Ford Foundation