UNITARIAN UNIVERSALIST ASSOCIATION OF CONGREGATIONS

Community Investing and the UU Common Endowment Fund

Q&A with Marva Williams, member, Committee on Socially Responsible Investing (CSRI)

Community investing means promoting safe and affordable neighborhoods, economic sustainability and family achievement.

Your congregation can help build neighborhood assets by making investments in community development financial institutions (CDFIs). CDFIs provide access to affordable financial services and credit which are often unavailable from banks. CDFIs make loans to families, organizations and firms that build affordable housing, create new businesses and jobs, develop commercial and industrial projects or construct community centers in distressed communities. Further, CDFIs provide counseling, advice and technical assistance to help ensure the success of family, business or community projects. CDFIs may include regulated banks and credit unions, as well as loan funds, community organizations, microenterprise lenders and venture capital funds.

Investments, in addition to strong business management and risk management, help to build strong permanent capital bases is for CDFIs. A strong capital base is vital for several reasons. First, it protects CDFIs by providing a cushion against loan losses in excess of loan loss reserves. Second, it allows CDFIs to better meet the needs of their markets by allowing them to engage in longer-term and riskier lending. Last, a larger permanent capital base also provides more incentive for potential investors to lend money to a CDFI.

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1. **What kinds of investments can my congregation make into CDFIs?**

Community investments are a valuable way to diversify a portfolio. But most importantly, community investing gives dividends in social returns measured in affordable housing, health clinics, day-care facilities, jobs, and other vital signs of community renewal.

There are many different types of investments that CDFIs may accept. Community investments are usually made through a savings or a checking account, certificate of deposit (CD), or an equity equivalent investment.

Regulated financial institutions such as community development credit unions and community banks can accept deposits in accounts or CDs. These deposits are often sought by banks and credit unions because they allow the financial institution to increase its loan volume.

Equity equivalent investments or EQ2s can also be made into banks, credit unions and other types of CDFIs. An EQ2 is a subordinated loan that includes interest payments from the CDFI to the investor.

However, an EQ2 is not secured by any of the CDFI's assets and is subordinated to all other creditors. The term of the EQ2 is rolling, meaning that is has an indeterminate maturity.

The best course of action is to meet with the CDFI staff to express your interest in making an investment. They can then tell you about their financial plan and the best kind of investment to make.

2. How can I identify CDFIs active in my community?

There are several associations that serve the needs to CDFIs. These trade associations maintain lists of all their members and should be able to identify CDFIs working in your area.

Type of CDFI	Trade Association	Contact Information
CDFIs	Opportunity Finance Network	opportunityfinance.net
Community Development Banks	National Community Investment Fund	ncif.org
Community Development Credit Unions (CDCUs)	National Federation of CDCUs	cdcu.coop
Community Development Venture Funds	Community Development Venture Capital Alliance	cdvca.org

3. Is community investing profitable?

CDFIs use a variety of mechanisms to protect investments, including technical assistance, careful selection of borrowers, and loan loss reserves. The staff of CDFIs provide loan recipients with the advice and guidance to make the loan work for them and repay it according to schedule. Careful selection of borrowers also helps identify those that will readily be able to repay the loan. These mechanisms work together to protect the funds of community investors, resulting in a 99 percent repayment rate by borrowers on over $700 million loaned out[i].

Deposits in community development credit unions and community development banks carry very little risk. All deposit accounts are insured by the National Credit Union Administration (NCUA), the Federal Deposit Insurance Corporation (FDIC) or another deposit insurer. The NCUA and FDIC insure each deposit account up to $250,000. In addition to low risk, interest rates can also be negotiated.

EQ2s, like investments in mutual funds or stocks, are more risky. There is a slight possibility that part or all of an investment may be lost. However, the Opportunity Finance Network (OFN) is taking steps to allow investors to gauge risk. The CDFI Assessment and Ratings System (CARS) is a detailed evaluation of CDFI portfolios. CARS provides a peer-based analysis of non-depository CDFI loan funds, providing data on their risk parameters, performance and the effectiveness of its social mission. For more information, please see carsratingsystem.net.

4. How can CSRI help my congregation make an investment in a CDFI?

The UUA has pledged up to 1% of its total investments to support CDFIs. Part of this set-aside is a matching program for investments in CDFIs by UUA congregations. The CSRI will match your investment, $1 for $1, up to $10,000.

5. **What investments has CSRI made in CDFIs?**

CSRI currently has over $1 million in investments in CDFIs. CSRI has made $585,000 in investments directly to CDFIs, and $424,345 are matching congregational investments. Twenty-four CDFIs have received investments, including a community development credit union in Jackson, MS, a community loan fund that provides affordable credit to Native Americans in South Dakota, an association that supports the development of healthy rural communities in Louisiana, and a low-interest lender to developers of affordable housing in the Washington DC area. The average rate of return for all CSRI investments is almost 2%.

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[i] http://www.socialfunds.com/page.cgi/article3.html