Mission-Related Deposits

Social Investments

The Annie E. Casey Foundation

About the Annie E. Casey Foundation

The Annie E. Casey Foundation is a private charitable organization dedicated to helping build futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of UPS, and his siblings, who named the Foundation in honor of their mother. The primary mission of the Foundation is to foster public policies, human-service reforms and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs. For more information about the Foundation, visit www.aecf.org.

INTRODUCTION

For foundations, returns on endowment investments are critical to sustained grant-making capacity. However, the foundation community has the option to choose investments that respond more effectively to social and economic challenges in their program areas and decrease what Gandhi called "the dissonance between creed and deed."[1] Known as **Social Investing**, this is the set of practices in which foundations utilize capital instruments such as loans, deposits, and equity as philanthropic tools to enhance grant making and fulfill programmatic goals. A subset of social investing, community investing targets specific neighborhoods or communities with a combination of grants and investments structured to improve the livelihood of residents in low- and moderate-income communities.

Like many of its philanthropic counterparts, the Annie E. Casey Foundation is particularly interested in merging its programmatic and investment objectives. In pursuit of this goal, the Foundation also sought to identify a type of social investment that would specifically enable its program staff to build upon their work and go even further to support family neighborhood strengthening.

A recently implemented aspect of this work is the Foundation's approach to social investing, with a focus on Mission-Related Deposits (MRDs). The goal of the MRDs is to tap the unique capacity of depository institutions to build and strengthen communities.

MRDs have the potential to generate great returns financially and socially. They enable us to align our dual objectives, and serve as an excellent catalyst for program staff to develop fruitful partnerships with financial institutions that can benefit the communities in which we work.

Christa Velasquez, Director of Social Investments, Annie E. Casey Foundation

A NOTE ON LANGUAGE

This document uses several investment terms. Readers may be intimately familiar with some and not at all aware of others. We acknowledge that language and meaning change over time and want to take a moment to share our view of some of the language used here.

Socially responsible investing (SRI) serves as an overarching term, as well as a practice that can be adopted by virtually anyone from institutions to individuals. Mission-related investing (MRI) is a subset of SRI that captures a variety of approaches foundations use to merge their missions with their investments. Philanthropies vary in their use of this term. Some use it to refer to any investments that generate a return and are also aligned with their social mission. Others refer to investments that generate returns at or very near market rate. Staff at the Annie E. Casey Foundation, as well as many others, refer to "social investing," a term that captures mission-related deposits, program-related investments, and market-rate investments that support the social mission.

This document focuses on an important component of the Annie E. Casey Foundation's social investing practice—specifically, the Mission-Related Deposit (MRD). Put simply, these are deposits made to federally insured depository institutions including traditional banks, community development financial institutions, credit unions, etc. Typically structured as insured certificates of deposit, many of these deposits add to an institution's capital base, often allowing it to develop products and services that benefit communities. While emphasis is placed on community development financial institutions (for purposes discussed later), all depository financial institutions that serve the Foundation's target neighborhoods are eligible to receive MRDs.

Economics… can and should become the source of an awareness of ways by which a capitalist structure can broaden its motivations, increase its flexibility and develop its social morale.

The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers[2]

THE CASE FOR MISSION-RELATED DEPOSITS

Research has shown that children do better when their families are strong, and families achieve better outcomes when they live in neighborhoods that promote success. For this reason, the Foundation's work is targeted in neighborhoods that demonstrate consistent gaps in child and family well being as compared to other communities in the same cities and counties. Residents in these neighborhoods are disproportionately unbanked, often lack access to financial services, suffer from a lack of financial literacy, and are especially targeted by predatory lenders.

MRDs are intended to address these gaps in well being, both directly and indirectly. In many cases, deposits have had a direct impact, providing necessary capital for financial institutions to strengthen the services (lending, retail banking, etc.) available to low-income communities. MRDs also offer a powerful opportunity for the Foundation's neighborhood-based staff and their community partners to generate credibility and build relationships with local financial institutions, bringing much-needed products and services to the neighborhoods they serve.

Meanwhile, banks and credit unions face saturated suburban markets with ever-shrinking prospects to reach new customers. Many distressed neighborhoods offer relatively untapped sources of opportunity for financial institutions. Whether increasing mortgage and small-business lending or opening new branches, institutions can benefit by accessing these "new" markets. The potential impact of these opportunities can be enhanced by tapping into the local know-how and community trust the Foundation's community-based staff bring to the table.

The Foundation's experience working in its targeted neighborhoods, coupled with in-depth analyses of residents' most pressing needs, led to the conclusion that social investments would be critical to family strengthening. Social investments, including MRDs, jumpstart relationships with financial institutions and can catalyze broader community investment in jobs, housing, services, and community facilities.

MRDs serve as a starting point. They encourage institutions to offer services that immediately benefit the community and serve as a catalyst for collaborations that will ultimately increase assets and wealth in the communities that need it most.

At first glance it may be difficult to see how a deposit as small as $100,000 can make a difference in a heavily populated area, but the experiences in Seattle, San Antonio, Louisville, Indianapolis, and Milwaukee tell another story altogether. These examples illustrate how a deposit can go beyond its initial purpose, opening the door to a partnership that results in the provision of new financial products and services in tough neighborhoods.

The relationships that have come out of that [the deposit] have been priceless …I don't know how you could put a price tag on that.

Sammy Moon, Louisville Team Leader[3]

COMMUNITY INVESTING AT THE ANNIE E. CASEY FOUNDATION

Mission-Related Deposits (MRDs) as a Core Strategy in Five Cities

Since its first deposit to Legacy Bank in Milwaukee in 2000, the Foundation has made 14 more investments of certificates of deposit (CDs) in sites around the United States. The deposits act as a lever for change as they are used by the financial institutions to help struggling families and entrepreneurs build economic assets such as jobs, small businesses, and houses.

All depository institutions located or active in the Foundation's targeted neighborhoods are eligible for mission-related deposits. The Foundation places particular emphasis on insured depository community development financial institutions (CDFIs) because they are uniquely suited to support credit and financial services that mobilize individual, organizational, and business potential to participate in and contribute to the vitality of their communities.

Community Development Banks and Community Development Credit Unions—two types of CDFIs—often make ideal recipients of Foundation MRDs. In addition to being insured depository institutions, which minimizes risk on the part of the Foundation, these institutions also:

- Provide a range of credit products suitable to make them the lenders of choice for individuals seeking to purchase or improve homes, expand or start a business, or invest in education.
- Offer a range of savings and transaction accounts that allow individuals to build savings and execute transactions such as check cashing in a wealth-building manner.
- Provide an alternative to unregulated financial services that often exploit customers with high-cost uninsured products and services.
- Attract deposits from traditional investors, including commercial banks who can satisfy Community Reinvestment Act requirements through such deposits.
- Use their deposits as fuel for community lending practices, providing financial and credit education, and technical assistance that help rebuild local economies.

The pages that follow include just a few examples of the Foundation's MRDs. They illustrate the impact of deposits on the local community from opening the door for a new site team in Milwaukee to fostering a partnership that would lead to the opening of a branch in a Seattle neighborhood that lacked access to financial services.

MILWAUKEE, WISCONSIN LEGACY BANK

Creating Positive Outcomes for the Community

Established in 1999, Legacy Bank is the first minority- and woman-owned bank in the state of Wisconsin, operating in Milwaukee's inner city, in an area which had lost commercial banks and retailers and is home to a 97 percent African American population with more than 40 percent living below the poverty line. The bank's mission is to provide critical capital and services to area businesses and individuals unable to access credit elsewhere.

In addition to the Foundation's MRD, Legacy raised $7 million in initial investments, $2 million above what was required by the state. The bank now holds $72.2 million in assets. Legacy has 1) provided credit education and technical assistance to business employees and business owners; 2) held home ownership and financial management courses for neighborhood residents; and 3) made loans to an award-winning charter school, restaurant franchisers, community developers, and homebuyers. Many of these services and loans have been provided in *Making Connections* neighborhoods.

The Legacy deposit was made just as the *Making Connections* Milwaukee site was getting off the ground. Because a wide variety of foundations and community organizations were also investing in Legacy, it provided the site team with a unique opportunity to quickly establish connections that would come to serve the MC target area over the years. As Bob Giloth, Milwaukee site team leader and Director of Family Economic Success for the Annie E. Casey Foundation puts it, "The deposit really functioned like we hoped it would. It bought us credibility, helped us to join in local efforts, and made a statement of goodwill." [1]

SEATTLE, WASHINGTON BOEING EMPLOYEES CREDIT UNION (BECU)

A Small Deposit Makes a Big Difference

BECU is the largest financial cooperative in the state of Washington and among the top five credit unions in the U.S. Begun in 1935 as a member-owned nonprofit financial cooperative, BECU now serves more than 330,000 members around the globe and has assets above $4.5 billion. All Washington State residents are eligible to join.

The Foundation's deposit in BECU in 2004 became a tool to help support a growing partnership between the Foundation and BECU that is having a favorable impact in Seattle.

In a neighborhood where nearly 23 percent of residents used high-cost check-cashing/payday lender services last year, the accomplishments of BECU and the Seattle site team are formidable.

Some of the outcomes include 1) a collaborative homeownership strategy; 2) the opening of a BECU Express Service Center (ESC) in White Center, a low-income community whose residents are largely unbanked. The ESC provides free ATM, online, and phone banking and has record numbers of accounts and account growth; 3) a partnership with United Way providing account and deposit services to Earned Income Tax Credit participants; and 4) developing implementation for future services, marketing, and community involvement.

Importantly, a major outcome is the committed relationship with BECU as a partner who wants to serve low-income customers and communities. Mai Nguyen, Project Manager for the Seattle site says, "There is a huge commitment on their part. They want a plan for how they can better serve the low-income community. It's in line with their mission…"[2]

SOCIALLY RESPONSIBLE INVESTING – THE OVERALL CONTEXT

In order to understand the function, risks, and benefits of these MRDs, it is first necessary to look at them in the overall context of socially responsible investing, an umbrella term for a range of evolving investment practices that take into account a broad sense of value in seeking financial return. The field of SRI employs many terms to describe various approaches both practical and theoretical, such as blended value, the double bottom line, social investments, and so forth.

The modern impetus for SRI in the United States grew out of the anti-apartheid movement, beginning in the 1960s with American college students who pressured their universities to "divest" from corporations doing business in apartheid South Africa. The momentum spread until, between 1985 and 1990, more than 209 U.S. corporations closed operations in South Africa, and more than 30 states, 400 universities, and scores of cities divested their funds in companies and banks doing business there. Investors' Circle calls this "the 20th century's first mass movement of international capital in response to a non-financial, social issue."[4] The success of the anti-apartheid divestiture movement created an environment in which the consideration of social and financial outcomes began to be an accepted approach, known succinctly as SRI.

THE COMMUNITY REINVESTMENT ACT

In 1977 the Community Reinvestment Act (CRA) opened the door to legislation and regulations that require the commercial financial industry, particularly depository institutions with assets in excess of $250 million, to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Every five years, federal agencies evaluate each depository institution's record and assign a CRA rating. That rating is taken into account in considering an institution's application for deposit facilities and approving or denying mergers and acquisitions. The CRA has provided the impetus for

1) direct lending and investing by commercial depository institutions and 2) the creation of depository institutions or Community Development Financial Institutions, specifically chartered to invest in the financial health of low-income communities.

Recently, the Federal Deposit Insurance Corporation has proposed easing CRA requirements and applying the regulation only to those financial institutions with assets greater than $1 billion. If implemented, it is estimated that 90 percent of institutions currently required would no longer be obligated to comply with CRA regulations. While these proposals have yet to be realized, the potential relaxation of the CRA underscores the importance of building productive relationships with financial institutions that benefit low- and moderate-income communities with or without the support of public policy.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

After the passage of the CRA, the community development industry expanded significantly, creating a new market for financial goods and services to serve low-income communities and individuals. In 1994, the federal government created the CDFI Fund, an agency providing funding to individual CDFIs and their partners through competitive applications. CDFIs serve customers and communities with little access to traditional financial services and are a critical vehicle for targeted funds and services to low-income communities and their residents. Given this focus, it makes sense that a foundation seeking to make investments with social benefits would pay close attention to CDFIs.

A recent study, *CDFIs: Bridges Between Capital and Communities*, reported that CDFIs have a better payback rate by their low-income customers than commercial banks have overall. The loan default rate for CDFIs is 0.5 percent, compared with commercial banks at 0.9. CDFIs also protect their investors from losses. "Investors in CDFIs have never lost a penny of investment capital…CDFIs had sufficient equity capital bases and loan loss reserves to absorb any losses in their portfolios."[5]

INDIANAPOLIS, INDIANA COMMUNITY CHOICE FEDERAL CREDIT UNION (CCFCU)

Capital Helps a Community Development Credit Union Grow

Founded in 1981, CCFCU (formerly the Near Eastside Community Federal Credit Union) is the only community development credit union in Indianapolis. It serves a vital role in protecting members from predatory lending and financial institutions by providing access to affordable loans and financial services, promoting savings, and helping low-income families build assets. Its array of products and services include: savings and share-draft checking accounts; Individual Development Accounts that help account holders match savings with state funds to pursue home ownership, continuing education, or small business ownership; personal loans to build and repair credit; vehicle loans for work-related travel; and loans for home purchase and renovation. CCFCU has more than 3,000 active members, $5.5 million in assets, has made more than 5,500 loans totaling $20 million, and has assisted 200 low-income families in becoming homeowners.

In 2004, the Foundation made an insured deposit in CCFCU. The Credit Union provides personal and home loans to the city of Indianapolis. The partnership with the credit union helped lead to it expanding its membership area to include some of the Foundation's targeted communities.

SAN ANTONIO, TEXAS J.P. MORGAN CHASE NATIONAL (FORMERLY BANK ONE), LAREDO NATIONAL BANK

Multiple Deposits Serve a Variety of Needs

The Foundation's *Making Connections* team in San Antonio has facilitated deposits in two financial institutions serving the low-income Latino population on San Antonio's West Side.

Bank One — now J.P. Morgan Chase National — works to rebuild, revitalize and renew neighborhoods through a comprehensive approach to community revitalization. The bank helps expand individuals' access to banking services and financial opportunity, offers flexible loan products and technical assistance to small business, and its community real estate lending and investment activities are designed to increase the supply of affordable housing and to promote neighborhood stability through homeownership and economic activity. In 2003 the bank made more than $895 million in Community Reinvestment Act-qualified community development loans and investments. The Foundation's deposit and relationship-building with the bank has resulted in the possibility of the bank locating a new branch in the target *Making Connections* area.

Dedicated to addressing the needs of the Hispanic community, Laredo National Bank and its bilingual staff operate thirteen full service branches in distressed communities. The bank offers checking and savings accounts, CDs, credit cards, money transfers between the U.S. and Mexico, and insurance and brokerage services through subsidiaries.

Based on its work with the San Antonio site team, Laredo's management has been eager to increase its presence in the community. For example, in the last four years, Laredo has opened two branches in the heart of *Making Connections* neighborhoods. George Pedraza, Family Economic Success coach for the San Antonio site, also notes that, "Laredo National Bank has begun doing commercial loans for small business owners in our target area. That's a direct result of the deposit." [3]

SOCIALLY RESPONSIBLE INVESTING AMONG FOUNDATIONS – THE CONTEXT

SOCIAL INVESTMENTS

Social investing is the area of SRI that describes the practices and involvement of the foundation world. It comprises the same activities of SRI — screening, shareholder advocacy, and community investing — but describes the practices from the point of view of grant-making philanthropies.

Foundations typically allocate approximately five percent of their endowment revenue — the legal minimum — for grant making. Historically, investments and grants have been separated by a "firewall," and the health of the endowment has been supported by investments that brought the highest return, whether such investments contradicted the foundation's programmatic aims, or not.

In the words of Nathan Cummings Foundation president and CEO, Lance Lindblom, "The practice in foundations has typically been for the program areas to focus on mission and the investment committee to focus on financial returns, with little — if any — awareness between these silos. And yet, social and economic justice requires an integrated society. Corporations and business cannot be separated from concerns about health, the environment, the arts, about how we live our lives."[6]

Social investing has opened a new pathway for philanthropic institutions. It increases financial resources available for programmatic charitable purposes and contributes to the soundness of the foundation's endowment, while decreasing the dissonance between investments and giving.

These deposits in community banks are a win-win situation. Deposits will have a much bigger impact than grants.

Margaret Henningsen, Founder and Vice President, Legacy Bank[7]

PROGRAM-RELATED INVESTMENTS (PRIs)

In 1971, the Ford Foundation led the field by pioneering Program-Related Investments (PRIs), typically direct, below-market-rate charitable loans, but also including equity investments and loan guarantees to organizations that are a part of Ford's program focus. By 2001, the Foundation Center reported that PRI funding across all philanthropies had increased to $232.9 million by 135 funders with larger funders providing 60 percent of all PRI distribution.[8]

As PRIs have become well established in the philanthropic tool-kit, other methods have emerged in their wake. Many foundations have undertaken a thorough process of discussion, research, and collaboration to integrate social investing practices into their operations and programming. Foundations often combine various social investing approaches to fully integrate the effective management of endowment assets and achieving charitable purposes. Social investing is seen as a growing arena crucial in assisting a foundation in "better aligning investments with the values that shape its grant making."[9]

Foundations must complement their philanthropic investment strategies with financial strategies that leverage the total power of foundation resources for the greatest value creation possible.

Jed Emerson, Senior Fellow, Generation Foundation[10]

LOUISVILLE, KENTUCKY LOUISVILLE COMMUNITY DEVELOPMENT BANK (LCDB)

New Deposits Ensure Continuing Support in Key Neighborhood

The LCDB was created in 1997 to make small business, construction, remodeling, and acquisition/rehabilitation loans in designated inner-city neighborhoods. The bank's mission is to stimulate economic growth within 12 neighborhoods that are home to 80,000 residents, with 30 percent living below poverty, and a high unemployment rate. Four of LCDB's target neighborhoods overlap with *Making Connections* neighborhoods.

As of December 31, 2003, LCDB had more than $33 million in deposits. The bank has made more than $41 million in loans to 257 businesses. These loans have supported creating or sustaining 1,187 jobs. The bank is the primary source of small business loans and technical assistance in the Foundation's local targeted neighborhoods. And, the Foundation shares offices with a bank partner, the Nia Center, a one-stop shop for business development, training and workforce services, and public transportation access.

The deposit was made to encourage LCDB to continue its work in Louisville's distressed neighborhoods. Although the site team already had a well-developed relationship with LCDB, the deposit served to reinforce that bond.

SOCIAL INVESTMENTS AT FOUNDATIONS OF ALL SIZES

Foundations of all sizes and focus areas are practicing different types of social investing. For example, the Jessie Smith Noyes Foundation places its funds portfolio in screened instruments that exclude nuclear power operators, pesticides and herbicide producers, or companies that derive revenue from tobacco. And the Nathan Cummings Foundation utilizes its status as an institutional investor to file shareholder resolutions that appear on a corporation's proxy ballot when environmental violations are at issue.

The F.B. Heron Foundation commits a substantial 22 percent of its assets to social investing. Foundation strategies include PRIs, particularly to nonprofits, which have received grants from Heron; insured deposits; uninsured deposits; and market-rate investments. Heron has provided PRIs to community development financial institutions for loan funds to build childcare centers and affordable housing, and venture capital for businesses in distressed areas. It has made deposits in credit unions and made market-rate investments in bonds that finance housing, blight elimination, and land banking.

In 1998, Trustees of the Annie E. Casey Foundation allocated $20 million for social investing, endowment dollars in investments that simultaneously generate financial return and leverage grant-making activities. By 2002, the Foundation established a formal Social Investments program, and the following year Trustees increased the social investing allocation to $100 million. Today, the Foundation employs a wide range of social investments to benefit both its endowment and its programmatic activities.

Making Connections *was never just a grant-making strategy. We knew from the outset that seed grants and flexible dollars were important, but not in and of themselves enough to create sustainable change. We needed powerful ideas, good data, technical assistance, resident engagement, and dollars. Mission-related deposits are an important addition to the mix.*

Ralph Smith, Senior Vice President, Annie E. Casey Foundation[11]

CONCLUSION

Since the advent of the anti-apartheid divestiture movement a generation ago, an infrastructure of socially responsible investment tools, funds, and outcomes has evolved. The complex role played by the philanthropic community in this environment falls under the umbrella of social investing—utilizing market-based vehicles for expanding grant making to fulfill program goals.

The passage of the Community Reinvestment Act helped strengthen the investment activities of commercial financial institutions to rebuild and revitalize troubled communities. CRA revisions helped create Community Development Financial Institutions that attract public and commercial bank capital to specifically invest in low-income areas.

The range of socially responsible investing practices is wide and growing. The Annie E. Casey Foundation has focused some of its social investments on federally insured deposits in financial institutions, including commercial banks, credit unions, and depository CDFIs. These MRDs are intended to funnel financial investments, products, and services to target communities and populations.

MRDs are a tool for the Foundation and its staff to broaden program impact. They act as a lever to relationship-building in the communities, providing an opportunity to capitalize on the abilities of financial institutions to offer much needed services in tough or isolated neighborhoods. At the same time, MRDs leverage the Foundation's endowment dollars in a way that is aligned with its social mission, which in and of itself expands the impact of programmatic work. The union of the Foundation's program and financial investments continues to help families build assets, create wealth, and contributes to an improved quality of life.

MRDs are an important part of the cadre of tools we use to foster positive change in neighborhoods. When fully leveraged, the return can be far greater than the initial investment.

Burton Sonenstein, Vice President for Finance & Administration, Annie E. Casey Foundation

Main Text

[1] Viederman, Stephen and Miriam A. Ballert. "Thinking About Mission-Related Investing," *National Center Journal*, Vol. 2, NCFP, 1999.

[2] Heilbroner, Robert L. *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers*, 1953.

[3] Quoted in an interview with Laufer Green Isaac, January 5, 2005.

[4] *Mission-Related Investing: Strategies for Philanthropic Institutions,* Northwest Area Foundation, May 2001.

[5] Baue, William. "Community Investing Pays," *SocialFunds.com*, October 10, 2002.

[6] Quoted in Emerson, Jed. "Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming," *Stanford Social Innovation Review*, Summer 2003.

[7] Quoted in Cohen, Deborah L., ed. (Winter 2005). *Casey Connects*. Retrieved from http://www.aecf.org/publications/data/connects_winter_05.pdf.

[8] PRI Financing: Trends and Statistics 2000 – 2001, *The PRI Directory*, 2003 Edition, The Foundation Center.

[9] Viederman, Stephen and Miriam A. Ballert, "Thinking About Mission-Related Investing," *National Center Journal*, Vol. 2, NCFP, 1999.

[10] Emerson, Jed. "Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming," *Stanford Social Innovation Review*, Summer 2003.

[11] Quoted in Cohen, Deborah L.,ed. (Winter 2005). *Casey Connects*. Retrieved from http://www.aecf.org/publications/data connects_winter_05.pdf.

Sidebars

[1] Quoted in an interview with Laufer Green Isaac, December 28, 2004.

[2] Quoted in an interview with Laufer Green Isaac, December 21, 2004.

[3] Quoted in an interview with Laufer Green Isaac, January 12, 2005.

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