



RESPONSIBLE ENDOWMENTS COALITION

Community Investment

Our Schools and Wall Street

Big banks take our universities' money and use it to finance mountaintop removal coal mining, risky investments in derivatives, high fees on credit cards, lobbying to bend and break regulations, and predatory loans to low-income people. Around the country, students and other stakeholders are already taking action to say that their schools do not support the practices of the national banks whose irresponsible and exploitive practices contributed to the financial crisis, and are demanding their schools divest from Wall Street.

The Alternative: Community Finance

Community development financial institutions, like credit unions and community banks, have missions to lend to local individuals and businesses who want to improve their communities in socially positive and sustainable ways. By focusing on affordable housing, small business creation, environmental issues, empowerment of women and people of color, and providing financial services to marginalized populations, community investment addresses many economic and environmental challenges.

Furthermore, credit unions specifically, are community owned institutions, meaning that all members have varying degrees of decision-making power such as voting on the board, meaning that not only does money stay in the community, but the power to call the shots stays in the community as well.



art by Monica Mendoza Castrejon from the University of Washington

A First Step Towards a Responsible Endowment

Endowments are huge amounts of money, and figuring out where to start can be overwhelming. Before moving money to environmental funds, engaging with major corporations, or divesting from the worst of the worst -- yes, your school could do all of these things! -- you have to make your decision maker realize that responsible investment is a credible possibility. This is the first, simplest, and safest step towards showing your administration that a responsibly invested endowment can be a reality.

Over the past decade, while the big banks have been faltering, defrauding, and getting bailed out, community investment has grown from a \$4 billion dollar industry to a \$25 billion industry. Some universities have taken notice, but most have not - simply because nobody has yet stood up and demanded that it be so.

What is Community Investment?

Community investing is the process of directing capital from investors to communities underserved by traditional financial services. **It provides access to credit, equity, capital, and basic banking products that many communities would otherwise not have.**

In the U.S. and around the world, community investing makes it possible to provide financial services to low-income individuals, and to **supply capital for small businesses and vital community services, such as child care, affordable housing, and health care.** Major banking institutions like Bank of America, JPMorgan Chase, and Citigroup are not interested in providing fair services to poor and working-class people, as witnessed by the foreclosure crisis and their predatory lending practices.

What's the point?

Community investing seeks to **keep money in poor and working-class communities.** Often, people assume that poverty is caused simply by a lack of income, but low-income alone does not explain the insidious nature of poverty in many American communities. The problem is not simply a lack of income, but rather who owns and controls the basic resources that are crucial to any community's wellbeing, i.e. who owns and controls the land, housing, businesses, and necessary capital to purchase land, housing, or businesses.

In almost all poor communities—whether they are Appalachian mining towns, withering farm communities in the Midwest, rural towns in Eastern Maine, or urban areas reeling from the loss of industry—a **very high percentage of real estate and businesses are owned by people who do not live in these communities.** When businesses are owned by people who do not live in the community (or by corporations that “live” in no community), the business' profits do not accrue to local people and are not reinvested in the community. Furthermore, outside owners have little incentive to value the wellbeing or health of the natural environment of the community and will quickly relocate their businesses as soon as it appears that they can make higher profits elsewhere.

Lack of ownership and control over resources forces many people in low-income communities to become entrenched in a cycle that is difficult to break: “they cannot build wealth (accumulate capital) because they do not own and control the means of doing so, [but] they cannot acquire the means of building wealth because they lack the capital needed to acquire those means.” Community investing allows community members to own and control the basic resources that are crucial to the community's well being, thereby **breaking that cycle.**

What are CDFIs and how are they different from mainstream financial institutions?

Individuals and institutions can invest their capital into *Community Development Financial Institutions* (CDFIs). There are different types of CDFIs, which offer varying types of investments

and services. All CDFIs use the investments they receive toward fulfilling their mission statements, which include an **explicit commitment to community economic development**.

This is an important distinction to make between CDFIs and mainstream financial institutions. Whereas the Bank of America down the block may be lending to some local businesses, it is also distributing its investors' capital (a.k.a. money) across the globe to multinational corporations, governments, and other financial institutions. Investors in CDFIs, meanwhile, are guaranteed that their capital will primarily circulate within the CDFIs designated community, making community investment much more **transparent** than conventional investment.

These are three types of CDFIs we think are most relevant:

1. **Community Development Banks** are depository institutions which aim at providing financial services like any other bank (lending, credit, etc) to low- income communities, investing their capital directly back into the community, often in large community projects in order to rebuild the area economically.
2. **Community Development Credit Unions** are member-owned depository financial cooperatives with the specific goal of providing financial services, like a Community Development Bank, however all the holdings of a credit union are collectively owned by all individuals invested. CDCUs specialize in making small loans to their members who could not get them from the big banks.
3. **Community Development Loan Funds** are not depository institutions but collect capital investments from individuals and institutional investors (like universities) at below market-rates and then re-lend to non-profit housing and business developers in low-income communities. They are not federally insured.

There are also other types of CDFIs—including **community development venture capital funds, microenterprise development loan funds, and community development corporations**— but you will probably only be dealing with one or two of the ones that we describe here.

How is community investment different from a community development project?

When you propose the idea of community investment to your administration, you may be told that your university already invests in the community through community development projects, such as building up certain neighborhoods or revamping the downtown area. Though these projects may be done out of a legitimate interest to serve the community, it is important to consider who is in control of them – community members or your university? Consider talking to community members about your university's community-development efforts. Are they the ones demanding this change, or is your college imposing itself on the community to better its own image? Is this change something the community needs? Are community members benefitting through employment opportunities from these development projects, or are outside developers coming into their community? Does the community view your university's efforts as paternalistic or intrusive?

Investing in a CDFI does not run these risks. **Rather, investing in a CDFI funds projects demanded and controlled by community members themselves rather than by your university.**