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STANFORD SOCIAL INNOVATION *review*

What Works

Investing in Change: Calvert Community Investment Notes take social investing mainstream. By Vinay Jain

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Investing in Change

Calvert Community Investment Notes take social investing mainstream *by Vinay Jain*

Many Americans think making money and creating social change are two entirely different endeavors. Don't tell that to a small but growing group of investors in Calvert Community Investment (CCI) Notes, issued by the Calvert Social Investment Foundation, a nonprofit based in Bethesda, Md. CCI Notes combine the attraction of a fixed-income investment with the impact of philanthropy, allowing socially conscious investors to integrate their personal financial portfolios with their altruistic goals.

A CCI Note works a lot like a CD (certificate of deposit) from a traditional bank: Investors buy a note for a set length of time, after which they are paid back the principal plus a fixed rate of interest. Unlike a conventional CD, whose capital is mostly invested in traditional for-profit businesses, the capital raised from CCI Notes is loaned exclusively to organizations creating social change. You may not get rich investing in CCI Notes, but you will have the satisfaction of knowing that your money is being used to do good things.

CCI Notes are sold in denominations of \$1,000 or more, for one-, three-, five-, seven-, or 10-year terms. The note pays investors a below-market fixed rate of interest, which accrues annually on the anniversary of the note. Investors choose their own rate of interest – between zero and 2 percent for one- and three-year notes, and between zero and 3 percent for the longer-term notes. Keeping interest rates low allows more money to go to work for communities in need. Cur-



Francisca Coloque, a Bolivian fisherwoman on Lake Titicaca, used a microloan provided by Freedom From Hunger (a CCI Notes recipient) to buy a larger fishnet and increase her catch. The Calvert Foundation provides money from the sale of CCI Notes to Freedom From Hunger and other microcredit lenders.

what works

Strategies, Approaches, Developments



rently, about one out of every six investors chooses the zero percent option.

The Calvert Foundation has sold more than \$95 million worth of notes to about 2,400 investors, and has made loans to more than 195 organizations. All 50 states and more than two dozen other countries host CCI Note recipients, which fall into four categories – microcredit lenders, affordable housing providers, community developers, and small-business lenders.



Damien is a senior at Maya Angelou Public Charter School, a CCI Notes beneficiary.

For most of its 10-year history, the note has been sold by a small number of brokers. That is about to change. Investment firms Charles Schwab and Piper Jaffray recently began trading CCI Notes electronically, and Merrill Lynch and American Express are considering selling them as well. In all likelihood, many more investors will soon find it easy to buy and sell CCI Notes, which could mean substantially more money going to fund social change.

Using Money to Raise Money

The YouthBuild Philadelphia Charter School teaches low-income high school dropouts between the ages of 18 and 21 practical construction skills while allowing them to earn a high school diploma. Students might spend one week learning to lay floor tiles, and the next week learning how to write a college essay. Every year the students remodel one or two abandoned homes for low-income families. The students do everything – rewire the electrical system, repair the plumb-

ing, and restore the ceilings and walls – all the while receiving a traditional classroom education.

In 2005, the school awarded diplomas to 120 students, yet despite this success, YouthBuild and similar programs have had a tough time getting financing from a traditional bank. That's because banks and other for-profit financial institutions tend to view these types of programs as risky investments. Fortunately, community-lending organizations can sometimes fill the gap. In YouthBuild's case, The Reinvest-

ment Fund (TRF), a Philadelphia lender, stepped in to provide a series of annual bridge loans to YouthBuild so that it could pay off its debts while waiting for grants and other income.

TRF gets some of the money that it loans to YouthBuild from CCI Notes. The Calvert Foundation began investing in TRF in 1995 with an initial loan of \$50,000, which has since grown to about \$2 million. With Calvert money in hand, TRF is able to raise additional money from private banks. "The 2 million effectively helps raise 10 million," says Mike Crist, chief financial officer at TRF. "Calvert's investment is seed capital." Thanks in part to that seed capital, TRF now manages \$287 million, making it the largest charter school lender of its kind in the mid-

Atlantic region.

A Safe Bet

By spreading its investments across a broad range of programs, the Calvert Foundation lowers the risk of individual investors losing money, even if one of the programs tank. Essentially, the CCI Note is to individual community investments what a mutual fund is to individual stocks and bonds: CCI Note investors aren't putting all of their social investment eggs in one basket.

The Calvert Foundation also screens the organizations to which it lends money, looking at the means, management, and social impact of prospective borrowers before and after lending them money. "If someone wanted to invest in micro-finance in Bolivia, they would have to go to Bolivia and deal with all of the legal costs, and it would be very difficult," explains Shari Berenbach, executive director of the Calvert Foundation. "We put experts at the fingertips of investors to



do all of this for them.”

The foundation only lends money to programs that have been in operation for some time. It also requires borrowers to raise money from a variety of sources – investments and donations from foundations, charities, religious institutions, and private market lenders – not just from Calvert. The foundation keeps \$12 million in reserve, adding another layer of safety for CCI Notes’ investments.

“We have no ambiguity about the fact that we’re a very conservative lender,” says Berenbach. This allows the foundation to guarantee the investment even though the notes aren’t federally insured. To date, loan losses total less than 0.2 percent of the portfolio, and the program has never failed to repay an investor.

CCI Notes’ investors can also target their investments, choosing between eight different geographic regions of the United States or international. About one in four investors chooses international investments. Large investors who want to target their investments even more can get assistance from Calvert Foundation staff. Recently, Calvert gave new investors the option to contribute to hurricane relief simply by writing “Katrina” on their investment note application. Such targeting doesn’t affect investment risk, since the foundation’s overall investment portfolio remains diversified.

Identifying a Need

The Calvert Foundation’s better-known parent, Calvert Group, pioneered the field of socially responsible investing. Founded in 1976, Calvert Group offers mutual funds and other investments in companies that it screens not only for their profitability, but also for corporate governance, environmental practices, diversity, and other socially relevant criteria.

While Calvert Group has done much to establish the idea that investments have social consequences, its power to effect social change was initially limited because it invested exclusively in for-profit businesses. However, in 1990, the Calvert Group received permission from its shareholders to invest one percent of mutual fund assets directly into non-profits and other organizations that serve impoverished communities. The experience went so well that in 1995 Calvert Group teamed up with the Ford, MacArthur, and Charles Stewart Mott foundations to Calvert Foundation as a separate non-profit dedicated to popularizing community investing.

Because the notes serve philanthropic goals and offer investors more choices than other securities, the notes were originally classified as “nonstandard assets.” This meant they weren’t integrated into the Depository Trust Corporation (DTC), the electronic clearinghouse for all securities transactions, and didn’t show up on the automated paperwork and brokerage statements that went to investors. The handful of brokerages that did sell the notes had to fill out extensive paperwork.

That all changed in November of last year, when CCI Notes secured a place on the DTC. Now, brokerages can buy CCI Notes for their investors instantaneously, and investors can see CCI Notes on their statements like any other security.

The listing marks another step in the erosion of the barrier between conventional and community investing, says Kathy Leonard, a Boulder, Colo.-based broker who specializes in socially responsible investments. “The Community Investment Note is taking this very unique, high-impact way of doing social investment and packaging it into something that is familiar to the investment community,” she says.

Kelly Simpson, a 47-year old San Francisco nursery school teacher, discovered the Calvert Foundation in 1998 while surfing the Web for ways to invest in

microloans. Since then, she and her husband, a retired software developer, have invested \$30,000 in CCI Notes. The couple could afford to invest that much, Simpson says, because they knew they would eventually reclaim their investment with interest. “We can invest a lot more than we can give,” she says.

Stories like Simpson’s illustrate the potential impact that CCI Notes and other forms of community investing might have. “When you make a \$20 donation to charity, only that \$20 goes to work helping people,” says Berenbach. “But when you invest \$1,000 in a community investment at 3 percent, you sacrifice \$20 in interest [compared to an investment that pays 5 percent], while your entire \$1,000 goes to work helping people help themselves.”

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