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Community Investing Attracts More Wealthy Backers

(Dow Jones) More of the wealthy are turning to community investments for some of their financial and social returns.

Community investment programs channel loans to moderate-income individuals and businesses that would not typically qualify for traditional loans. They long have been an investment staple for socially responsible investors, but they now are seeing more money come from foundations and high-net-worth individuals, according to advisers and community development financial institutions.

The demand is being driven, in part, by competitive returns on what is seen as a fairly low-risk investment and by wealthy younger investors who want to make a social impact while making money.

"These people are thinking about community investing not just with their grant dollars with but with their investment dollars," said Bruce Boyd, a principal at Arabella Philanthropic Investment Advisors in Chicago. He says that while a family's 70-year-old patriarch may be focused on his investments making money, his children are "thinking about making money while doing good."

William L. Sutton, Jr. Director of Philanthropy, Wealth Management Americas at UBS, says: "They see this and think, 'I can get a decent return and the money can do work.'"

Investments range from something as simple as a certificate of deposit in a bank or credit union that does community lending to investing in specific funds developed by these lenders, which are not tax free. "More people are looking into community lending," says Chat Reynders, a financial adviser and CEO of Reynders, McVeigh Capital Management in Boston.

Reynders notes that many community loan funds are currently providing a better return than Treasurys, which have historically low yields, and complement some traditional fixed income strategies.

For example, The Boston Community Capital's new Stabilizing Urban Neighborhoods (SUN) initiative provides a 4.25% return on a five-year commitment.

"We started raising funds in December, and folks have been very excited," says Jessica Brooks, director of development for Boston Community Capital. She says they've already raised about $30 million, mostly from individuals with investments of $25,000 to $5 million. [Individuals need to fit the definition of accredited investors to participate, meaning they need to have net assets of at least $1 million, including their home, or individual income of at least $200,000 or combined income of at least $300,000 for a couple.]

Community loan funds, unlike CDs, are not insured but they tend to have low default rates because of the typically intense scrutiny of the borrower. Also, in a fund, the risk "is diversified across many borrowers," says Steve Schueth, president of First Affirmative Financial Network LLC, an advisory firm based in Colorado Springs, Colo.

The Calvert Foundation--a nonprofit corporation in Bethesda, Md.--offers community investment notes with various terms and rates of up to 3%, according to vice president Art Stevens. He says the program, which provides cash to underserved communities, had its best quarter ever ending March 2010, with gross sales of $16 million. He attributes the growth to lower interest rates on other products, greater awareness of the program and more demand from family offices.

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