



BANK ON DC

**GW Investment in Community
Development Banks Will Revitalize DC**

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GW Impact Investment in Community Development Banks Will Revitalize DC

Proposed by the George Washington University Roosevelt Institute

As an institution that seeks to promote civic engagement with the local community, George Washington University should invest at least \$250,000 of its \$224 million in cash or cash equivalent holdings in community development banks in Washington, DC.

EXECUTIVE SUMMARY

As the George Washington University (GW) seeks to further strengthen its impact on the District of Columbia as part of its 20-year Strategic Plan and Campus Plan, a cash deposit in a secure and stable Community Development Bank (CDB) would provide strong financial and public returns, while expanding the university's impact investments in our city's low-income neighborhoods. CDBs are insured by the Federal Deposit Insurance Corporation (FDIC) and regulated by the Department of Treasury, while having comparable and oftentimes higher interest rates than traditional commercial banks. With CDBs on average leveraging every \$1 in deposit with \$9.20 in other sources, a cash deposit would provide maximal impact community investment. This opportunity would allow GW to join several of its market basket schools, such as Duke, Georgetown, and Tufts, who have all invested in CDBs or other community development financial institutions (CDFIs).

BACKGROUND

Despite being our nation's capital, the District of Columbia continues to remain one of the nation's poorest cities. One in five residents lives below the poverty line, with several neighborhoods in the District having high concentrations of unemployment and economic challenges.¹ A strong contributor to the lack of community investment in low-income neighborhoods is the lack of access to financial capital. 24.1% of D.C. residents live in "underbanked" areas that banks do not serve, compared with the national average of 7.7%.² Traditional financial service institutions reduce risk by seeking borrowers that have stable collateral, such as homes, automobiles, savings, businesses, and financial assets, that can be acquired if borrowers default. Many low-income families, without financial assets, have difficulty getting the lending needed to start small businesses, purchase a home, and send their children to college. Nonprofit organizations in economically distressed communities also have difficulty finding sources of revenue for affordable housing projects, community facilities, and other programs that main mainstream financial institutions deem risky and without large fiscal returns.

¹ U.S. Census. "State and County QuickFacts." 2012.

² Federal Deposit Insurance Corporation. "National Survey of Unbanked and Underbanked Households." 2011.

Community Development Banks help fulfill the capital accessibility gap that remains unmet by mainstream financial institutions. Certified as Community Development Financial Institutions by the Department of Treasury, CDBs must demonstrate that at least 60% of their total lending and other services benefit low-income communities. In 2012, these financial institutions provided \$17.8 billion in loans across the country, locating nearly four times as many of their branches in economically distressed communities compared with other banks.³ In 2012, City First Bank of D.C. and Industrial Bank, the two CDBs serving the Washington, DC area, provided \$396.8 million in critical financing for the redevelopment of low-income communities in the District's poorest neighborhoods.⁴

With increased attention to the importance of impact investing since the Great Recession, colleges and universities across the country have begun recognizing their roles as “anchor institutions” that can support the revitalization of low-income communities. According to the 2010 College Sustainability Report Card, 14% of American colleges and universities currently support community development funds in their portfolios, either through cash or endowment investments.⁵ Several GW peer institutions, including Duke University, Georgetown University, and Tufts University, have all supported local development banks to promote their missions for social responsibility. In fact, Georgetown University provided part of the initial \$9.4 million seed capital that created City First Bank, demonstrating the possibility of the potential benefits of a GW investment in community development banks that serve low-income communities.

Our university should invest in DC's future by depositing at least \$250,000 in cash or equivalent holdings into one of the District's secure community development banks.

A larger insurable deposit could be accepted through the Community Development Bankers Association's Banking on Communities initiative, in which a maximum of \$30 million of FDIC insurance is diversified among the nation's CDBs. The program is made possible through Promontory's Certificate of Deposit Account Registry Service (CDARS). With \$224 million in cash and cash equivalent assets, shifting a small percentage of this portfolio towards CDB impact investments would have a dramatic influence on community development in the District.

BENEFITS TO THE UNIVERSITY

Deposits in community development banks not only provide social returns to the metropolitan area, but can also satisfy key needs of our own university.

Consistent with mission and Vision 2121 Strategic Plan: The George Washington University's mission statement includes that its primary institutional purpose is to “dedicate itself to further human well-being.” Consistent with this a core responsibility, our university places strong focus on finding ways to support the surrounding Washington, DC community. With an active Center for Civic Engagement and Public Service, two university-wide annual Days of Service, legal

³ National Community Investment Fund. “The CDFI Banking Sector: 2012 Annual Report.” 2012.

⁴ National Community Investment Fund. “The CDFI Banking Sector: 2012 Annual Report.” 2012.

⁵ College Sustainability Report Card. “Report Card 2010.” 2010.

clinics, and hundreds of student organizations that participate in community service every year, social responsibility is strong value among our campus community.

Administrators recognize that we, as a university, can do even more to help alleviate the many complex economic challenges facing DC residents, including as one of the thirteen goals in the university's Vision 2021 Strategic Plan as the expansion of "GW's role as a model institutional citizen for the greater Washington, D.C. area."⁶ The Center for Civic Engagement and Public Service's 2014-2018 Strategic Plan, which assists in the implementation of the larger Vision 2021 plan, includes a goal of "advanc[ing] GW's role as a civic institution by working with GW business operations to identify and implement institutional practices that can support the local economy, diversity hiring and purchasing, sustainability, and economic development for underrepresented groups."⁷ An investment in CDBs would further our university's positive footprint and strengthen our core institutional values.

Public identity advantages: Supporting community investment can also publicly demonstrate the university's commitment to community development. Stakeholders such as prospective students, alumni, the DC government, surrounding residents, and the higher education community would see that social impact is a high priority for GW's investment decisions. In addition, as Community Development Financial Institutions (CDFI) investment, of which CDBs are an entity, are a major component of the university ranking system, the Sustainability Tracking, Assessment, and Rating System (STARS). In Section PAE-18, the Positive Sustainable Investments category, GW has only achieved a score of 0.7 out of 9.00.⁸ A deposit in a community development bank would increase the score in this section, as well as the overall rating. A higher ranking on STARS will communicate the university's public commitment to environmental and social sustainability. As the university prepares to launch its \$1 billion fundraising campaign, many potential donors will appreciate that the university's short and long-term investments are supporting DC.

Improves community-university relations: Support for small businesses and affordable housing that qualify for CDB support can improve the surrounding Foggy Bottom and the Mount Vernon Campus' Palisades neighborhoods, developing stronger ties with residents that have undergone challenges in recent years. The most recent Campus Plan has noted that that "The University values the Foggy Bottom and West End neighborhoods of which it is a part and recognizes that a thriving community is a key component of the GW experience for those who study, teach, research, live, and work there."⁹ As the university expands as part of its 20-year Campus Plan, and with many proposed changes requiring approval from Advisory Neighborhood Commission 2A and other neighborhood groups, this investment will further demonstrate the university's strong commitment to revitalizing our surrounding communities.

⁶ George Washington University. "Vision 2021: A Strategic Plan for the Third Century of the George Washington University." 2012.

⁷ GW Center for Civic Engagement and Public Service. "2014-2018 Strategic Plan." 2014.

⁸ Sustainability Tracking, Assessment, and Rating System. "PAE-18: Positive Sustainability Investments." 2014.

⁹ GW Office of Government and Community Relations. "A Vision for the Future: Foggy Bottom Campus Plan." 2007.

Financial returns: These liquid investments will not only support create social returns for our local DC community, but deposits in local CDBs provide similar financial returns as mainstream banks. In comparison with other depository institutions, CDBs generally have comparable and often times higher interest rates due to lower costs and focus on mission.¹⁰ As Figure 1 shows using jumbo certificate deposits as an example, both community development banks in DC have the same or higher annual percentage yields as most large national banks in the Washington Area.

Figure 1. Publically Available Jumbo Certificates of Deposit (CD) Rates for Large Washington Area Banks

Bank	Minimum Amount	Time	Annual Percentage Yield (APY)
City First Bank*	\$100000	5 Years	1.11%
Industrial Bank*	\$100000	4 Years	1.10%
Chase Bank	\$100000	5 Years	1.05%
Capital One Bank	\$100000	5 Years	0.6%
BB&T Bank	\$100000	5 Years	0.5%
Citibank	\$100000	5 Years	0.5%
Suntrust Bank	\$100000	5 Years	0.4%
Wells Fargo Bank	\$100000	5 Years	0.35%
Bank of America	\$100000	5 Years	0.13%

**Denotes a Community Development Bank (CDB) certified by U.S. Department of Treasury. All above financial institutions are insured by the Federal Deposit Insurance Corporation. Source: Bankrate.com*

Secure investments: Like traditional banks, CDBs are regulated by the Federal Reserve and the FDIC, which provides up to \$250,000 in deposit insurance by the federal government for each deposit. Additional insurance for up to \$30 million is available through the CDARS program through the Community Development Bankers Association, which uses unique leverage available CDBs through the FDIC.

Counterparty risk: In addition, diversifying the university's banks of deposit can help insulate the risk of a large impact from a potential shock affecting the national banking industry. For a long time, the National Association of College and University Banking Officers has recognized the importance of diversification for the stability of educational finances.¹¹

¹⁰ Michael Swack, et al. "CDFI Industry Analysis." Carsey Institute. 2012.

¹¹ National Association of College and University Banking Officers. "The Holistic Endowment." 2007.

Financial services efficiency: Supporting banks located in the surrounding area will provide unique opportunities for better customer service and communication than might be possible with larger financial institutions without local branches or support staff based in DC that assist in large cash deposits.

Local cost-saving procurement relationships: GW financing that supports small business development could assist in development of strong relationships with local enterprises, which could lead to better quotes for bulk procurements of goods, reduced transportation costs, and support of low-income areas. Promotions, outreach event

Service learning opportunities for students: The deposit has the opportunity to include a service-learning component that can enhance the university's academic offerings to students. The Center for Civic Engagement and Public Service, the Career Center, the GW Business School, or another appropriate entity, could work with Banks to offer field trips for classes, presentations on campus, or perhaps internships to help connect students to the community investment the university has decided to make.

Supports university alumni and employees that live, work, and play in the DC community: Providing financing to low and moderate income residents in the community can support institutions used by university employees and their families. At an institution that is one of the largest private employers in the District of Columbia, many of our university's 6,780 employees choose to live in the District and would be supported by the city's greater economic revitalization.¹² Alumni with higher incomes and better understanding of the university's social investing priorities may be more willing to support annual giving campaigns, while employees with better access to finance, stable housing, and revitalized neighborhoods will be healthier and more productive.

BENEFITS TO THE COMMUNITY

With great poverty and underbanked residents in many distressed neighborhoods in our nation's capital city, there exists a great need for cash-on-hand deposits to increase community investment. As it is now, many mainstream commercial banks refuse to serve low and moderate neighborhoods because of high finance costs and concerns that having too many poor people taking loans on bank balance sheets is too financially risky. Many underbanked low-income residents turn to predatory check-cashing services, payday loans, rent-to-own agreements and pawn shops to finance everyday expenses. Without access to stable financial services, it is often excessively difficult for residents buy homes, start businesses or invest in their children's education.

Community development banks help lift important needs left unmet by traditional financial institutions. Neighborhoods that fit this criteria include having a population poverty rate of at least 20 percent, an unemployment rate 1.5 times the national average, or an area with median family income at or below 80% of the median family income of the metropolitan area or the

¹² GW Office of Institutional Research and Planning. "Fall 2013 Paid Personnel." 2013.

United States.¹³ Compared with traditional banks, CDBs have nearly 2.5 times more of their home mortgage lending and locate nearly twice as many of their branches in low and moderate income neighborhoods.¹⁴ While CDBs are only 0.01% of the banking industry, these entities are critical to the support of community development programs throughout the District of Columbia and beyond.¹⁵

For every \$1 put into in CDBs, \$9.20 is leveraged by public and private dollars to support the impact investment.¹⁶ Support from GW cash-on-hand could assist in the financing of:

Affordable housing options: With the DC metropolitan area expected to add 857,334 net new jobs between 2012-2032, many community members and economists remain concerned about gentrification and the decline of affordable housing stock in the city.¹⁷ In the last decade, the median rent in DC for a one-bedroom apartment has risen 50% beyond inflation, continuing to rise despite the recent recession.¹⁸ These price changes have led to the city losing more than half of its low-cost rental units over the last decade.¹⁹ The majority of lending activity by community development banks in the District relates to solving the affordable housing crisis, whether by the financing of developments that support single-family homes or multi-family apartments.

Small businesses and family-supporting jobs: In areas without access to mainstream financial institutions, CDBs make secure investments to support local entrepreneurs in low-income areas. With great poverty and unemployment in many areas in the city, Washington, DC has an unemployment rate of 7.4%, with the black unemployment reaching 5.1 times higher than whites.²⁰ Providing capital to local businesses can create startups and help bring to scale existing small businesses to create family-supporting employment and reduce poverty.

Nonprofit organizations and health centers: Many traditional financial institutions choose not to assist in the development of nonprofit organizations that are critical to the livelihood of low-income communities. Flexible loan products can assist in the expansion of educational facilities, health clinics, and community centers that support low-income communities.

¹³ CDFI Fund. "Frequently Asked Questions." 2014.

¹⁴ National Community Investment Fund. "The CDFI Banking Sector: 2012 Annual Report." 2012.

¹⁵ Michael Swack, et al. "CDFI Industry Analysis." Carsey Institute. 2012.

¹⁶ Michael Swack, et al. "CDFI Industry Analysis." Carsey Institute. 2012.

¹⁷ George Mason University Center for Regional Analysis. "Housing the Region's Future Workforce: 2012-2032." 2013.

¹⁸ DC Fiscal Policy Institute. "Disappearing Act: Affordable Housing in DC is Vanishing." 2012.

¹⁹ DC Fiscal Policy Institute. "Disappearing Act: Affordable Housing in DC is Vanishing." 2012.

²⁰ Bureau of Labor Statistics. "Unemployment Rates, Seasonally Adjusted, for July 2014." 2014.

²¹ Center for Enterprise Development. "Assets and Opportunities Scorecard." 2014.

BEST PRACTICES BY OTHER LARGE RESEARCH UNIVERSITIES

With the increase in awareness of anchor institution-based development, large private research universities across the country are supporting CDFIs and CDBs. Many of those universities that have investing their cash holdings in the community include market basket institutions that GW compares itself to, such as Duke University, Tufts University, and fellow DC neighbor Georgetown University. For example, Duke University invested \$4 million in the Latino Community Credit Union and \$8 million in the Self-Help Credit Union. Tufts University invested \$500,000 of its operating cash into local community banks in 2011. Additionally, Georgetown University provided seed capital funding for City First Bank in DC in 1998. The following Figure 2 demonstrates other instances of universities across the country that have invested in the future of their surrounding communities.

Figure 2. Successful Best Practices for Community Investment by Other Large Research Universities

Institution	Endowment	Cash and Cash Equivalents	Community Investments via CDFI Intermediaries
Carleton College	\$645.6 million	\$31 million	Partnered with St. Olaf College to create Northfield Community Investment Fund. Has contributed \$1.5 million to the fund.
<i>Duke University*</i>	\$5.55 billion	\$526.2 million	Invested \$4 million in the Latino Community Credit Union and \$8 million in the Self-Help Credit Union.
Fordham University	\$491 million	\$3.4 million	Made \$250,000 deposits each into both the BethEx Federal Credit Union and the Amalgamated Bank from a student-led campaign.
<i>Georgetown University*</i>	\$1.3 billion	\$69.4 million	Provided the seed capital for the creation of City First Bank in 1998.
Harvard University	\$30.4 billion	\$63.4 million	Invested \$20 million in low-interest loans through the Harvard 20/20/2000 Initiative.
Johns Hopkins University	\$3 billion	\$182.2 million	Invested \$10 million into the Homewood Community Partners Initiative in 2012. This group of non-profits, community organizations, and businesses will steer the investment to benefit Baltimore neighborhoods.
Macalester College	\$634.5 million	\$27.3 million	Macalester student coalition worked with REC to move \$600,000 into University Bank, a community bank in St. Paul, MN.

Oberlin College	\$674.6 million	\$9.7 million	Student Activity Fund invested about \$150,000 into the Ohio Educational Credit Union.
Tufts University*	\$1.35 billion	\$64.2 million	Student-led campaign led to an investment of \$500,000 into community banks in Medford, MA.
University of Chicago	\$6.57 billion	\$190.1 million	Accepted a proposal from a student committee and invested \$1 million into four community banks in Chicago, at \$250,000 each.
University of Cincinnati	\$976 million	\$65.8 million	Dedicated nearly \$150 million from its endowment to finance low-interest loans, as well as an additional \$8 million in operating grants for community redevelopment efforts.
Wesleyan University	\$600 million	\$8.9 million	Established two investments in the form of six-month \$250,000 certificates of deposit into two local community banks as a result of a student-led campaign.

**Denotes universities that are GW-identified market-basket peer schools reported to the Department of Education. Chart adapted from the Democracy Collaboratives "Raising Student Voices" report.*

CONCLUSION

While there is great economic need in the nation's capital our university calls home, a university deposit in a community development bank could create strong social returns, without reducing its own financial returns. An impact investment would align with our university's commitment to civic engagement and its strategic plan to increase its role as an anchor institution in the surrounding community. With this decision, we have an opportunity to become a leader at the forefront of the trend in higher education to align institutional capital with social impact.

The GW Roosevelt Institute (GWRI), affiliated with the national Roosevelt Institute Campus Network, is a student policy organization that engages new generations in a unique form of progressive activism that empowers young people as leaders and promotes their ideas for change. The chapter works with its membership to research local issues, draft policy proposals, and then seek their implementation through student advocacy campaigns. The national network has nearly 120 chapters across the country.

The Bank on DC campaign is part of the national network's Rethinking Communities initiative, which encourages chapters to find ways to further strengthen their home university's role as an anchor institution in its surrounding communities. GWRI began the research process in Spring 2014, speaking with a dozen faculty and administrators to better understand the university's social footprint on the DC community. This campaign was created to continue to strengthen the university's impact on community development in the nation's capital.