

Justice, justice shall you pursue
Deut. 16:20

CHIP: The Chai Investment Program

A Congregational
Guide to Socially
Responsible
Investing

The Commission on Social Action
of Reform Judaism
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INTRODUCTION

Investing in economically distressed communities provides the best opportunity in recent years to move those communities from dependence to self-sufficiency, and so bring the repair of the world one step closer. Recognizing this, at its 1997 General Assembly, the Union of American Hebrew Congregations committed itself to establishing CHIP, the Chai Investment Program. Under CHIP, 1.8% of the Union's invested funds will be invested in community development; so, too, will 1.8% of the assets of the Reform Pension Board, a joint instrumentality of the UAHC and the Central Conference of American Rabbis. The Biennial resolution also encourages all UAHC member congregations to participate in CHIP.

This guide to congregational participation in CHIP is designed to set out why and how congregations can prudently and effectively invest in community development vehicles. The options are many—some more direct, some less so, some absolutely safe, some slightly riskier—but all promise the same reward: the opportunity to make a difference in the world, to follow the command of the prophet Micah: Do justly, love mercy, and walk humbly with your God.

THE UAHC RESOLUTION ON SOCIALLY RESPONSIBLE INVESTMENT

Approved in Dallas, Texas, November 1997

Socially responsible investment practice means the adoption of a “double bottom line.” The first is rate of return; the second is the accord between the values of the investing organization and the entities in which it invests. Religious organizations, organized as they are around values both explicit and implicit, are bound to seek correspondence between the values they profess and their investment policies and practices. For the Reform Jewish Movement, devoted as it is to *tikkun olam*, socially responsible investment policies and practices are not an optional commitment: They are an organic expression of our core beliefs.

Broadly, socially responsible investment falls into three categories: First, the investor can assert “screens” that will rule out investment in entities that conflict with the investor’s beliefs and values (e.g., tobacco companies, polluters); second, the investor, as a stockholder in a corporation, can seek to press that corporation to bring its policies into agreement with the investor’s values; third, the investor can allocate some or all invested dollars to agencies that themselves have an active socially responsible agenda, ranging, for example, from low-income housing projects to community development banks.

Jewish legal tradition supports the position that Jews should not participate in projects that violate Jewish values, and we encourage all UAHC entities that engage in investment to develop appropriate policies that reflect that position. Here our concern is specifically with proactive investment, which is equally supported by our religious and historic tradition.

In recent years, exciting opportunities for what has come to be known as “community investing” have proliferated across the country. These investments provide urgently needed resources to benefit depressed communities and their people, communities that lack adequate access to the credit that is required if they are to be lifted out of their disabling poverty.

Indeed, lack of credit creates a cycle of disinvestment that perpetuates poverty. Community investment programs range from support for micro-enterprises to the development of affordable housing to the establishment of credit unions. There are by now thousands of such efforts.

The National Association of Community Development Loan Funds estimates that twenty percent of the capital of their member funds comes from religious sources. That is not an accident: Loans to those who work to build decent communities are an especially appealing and effective method for mending the world.

Even modest funds devoted to community investing can have significant impact, since they often help leverage substantial additional funds. Rates of return on such investments may vary, depending on market circumstances; in general, if they are carefully chosen, they need not deviate from conventional investments. And when, as here proposed, such funds are part of a balanced investment program and represent a small fraction of that portfolio, even a lower rate of return on funds invested in community development institutions will have a negligible impact on the total income earned from all investments.

The importance of investing in community development has been recognized by the Rabbinical Pension Board. The Rabbinical Pension Board was the first Jewish organization to join the Interfaith Center for Corporate Responsibility, and the Rabbinical Pension Board has made significant deposits in community banks. So too, the Central Conference of American Rabbis, at its 108th Annual Convention in June 1997, adopted a resolution on socially responsible investing that is, in its operative clauses, similar to this resolution. Were our entire movement to follow suit and were our action to serve as a precedent for all Jewish communal agencies, federations, foundations, and institutions, vast new resources would be available for the urgent task of rebuilding North America's desolate communities. (A rough estimate of the funds that would be generated were the entire institutional Jewish community to adopt the program here proposed comes to — including leveraging — one billion dollars. And were other faith communities to adopt a similar program, the result would change the face of America.)

Recognizing the immense potential of community development programs, as well as the fiduciary responsibilities of those who manage our endowment and pension funds, we hereby propose, in keeping with the religious imperatives of our tradition, that the UAHC take an active leadership role in promoting such investment.

THEREFORE, the Union of American Hebrew Congregations resolves to:

1. Commend the Rabbinical Pension Board and the CCAR for their pioneering actions;
2. Hereby establish the Chai Investment Program (CHIP), with the goal of investing 1.8% of the UAHC endowment investment pool in community development vehicles, with due regard for the fiduciary responsibilities that govern the investment of such funds;
3. Urge the Rabbinical Pension Board, the American Conference of Cantors, the Hebrew Union College, our congregations, and all other elements of the Reform movement, to join in this program;
4. Urge all elements of our movement to ensure that Jewish values and our commitment to social responsibility are reflected in their investment policies; and
5. Undertake, upon the successful establishment of the CHIP initiative, to encourage other Jewish communal agencies, Federations, foundations, and institutions to develop similar programs.

SOCIAL RESPONSIBILITY: A JEWISH TRADITION

Leviticus 19:9–10 commands: “When you reap the harvest of your land, you shall not reap all the way to the edges of the field, or gather the gleanings of your harvest. . . . You shall leave them for the poor and the stranger: I the Eternal am your God.” This commandment to leave part of our wealth for the needy is repeated three more times in the Torah (Lev. 23:22; Deut. 24:19–21; Ex. 23:11). Why? The answer starts to become clear when we look at Lev. 25:23, where God tells the Israelites: “the land is Mine; you are but strangers resident with Me.”

From here, it was but a brief step to Judaism’s basic assumption about money: All wealth belongs to God. As Meir Tamari has written in *With All Your Possessions: Jewish Ethics and Economic Life*:

The Divine origin of wealth is the central principle of Jewish economic philosophy. All wealth belongs to God, who has given it temporarily to [humanity], on a basis of stewardship, for [our] physical well being. Since Judaism is a community oriented rather than an individual oriented religion, this means that the group at all levels, communally, nationally, and internationally, is thereby made a partner in each individual’s wealth.

This obligation of *tzedakah*, of distributing the wealth with which we have been temporarily entrusted, was as central to the rabbis as it was to the Bible. The rabbis, many of whom lived in times of terrible oppression, understood the burdens of poverty:

Nothing is harder to bear than poverty; for the one who is crushed by poverty is like one to whom all the troubles of the world cling. . . . Our teachers have said: If all troubles were assembled on one side and poverty on the other, poverty would outweigh them all.

—*Exodus Rabbah* 31:14.

In turn, the Jewish obligation to alleviate poverty was clear: “Rabbi Joshua ben Qorkha said: Anyone who shuts his eyes to the obligation of *tzedakah* is like one who worships idols.” (Ketubot 68a).

Judaism has recognized lending money, as well as outright gifts, as a *mitzvah*, an obligation. Already, the Book of Deuteronomy commanded: “If there be among you a needy person, one of your brothers, within any of your gates, in the land which the Eternal your God gives you, you shall not shut your hand from your needy brother; but you shall surely open your hand to him and shall surely lend him sufficient for his need, as to that which he is lacking.” (Deut. 15:7–8)

Subsequent generations of Jews realized that lending could give the poor not just temporary assistance, but the opportunity to move out of poverty for good. For Maimonides, such lending was at the highest level of *tzedakah*:

There are eight levels of *tzedakah*, one above the other. The greatest level, than which nothing is higher, is to strengthen the hand of the poor by means of a gift or a loan or by going into partnership with him, so that he can become self-sufficient. And as to this it is written: “You should hold [your fellow] as a resident alien, letting him live by your side.” (Lev. 25:35). That means: Hold him up so that he will no longer fall and be needy.

Maimonides, Mishneh Torah, Gifts to the Poor 10:7.

Judaism recognized not merely the value of lending, but also the value of leveraging our money to aid the needy. The Talmud provides the following insight:

The sages said in the name of Rabbi Eleazar: What is the meaning of ‘And he put on *tzedakah* as a coat of mail’ (Isa. 59:17)? It tells us that, just as in a coat of mail each and every scale joins the others to form one large piece of armor, so every small coin given to *tzedakah* combines with the rest to form a large sum. Hence, Rabbi Hanina said: The same lesson can be learned from ‘All of our acts of *tzedakah* [together] are as a resplendent garment’ (Isa. 64:5). Just as in a garment each and every thread unites with the others to form a whole garment, so every small coin given to *tzedakah* unites with the rest to form a large sum.

— *Baba Batra 9b.*

While Jews have a special obligation to assist other Jews, our responsibility does not end there. In its manual *Mitzvot for the Contemporary Marketplace*, the Jewish Council on Urban Affairs of Chicago quotes and interprets a passage from the Talmud (Gittin 61a) concerning Jewish obligations to humanity at large:

In a city where there are both Jews and Gentiles, the collectors of alms collect both from the Jews and from the Gentiles; they feed the poor of both, visit the sick of both, bury both, comfort the mourners whether Jews or Gentiles, and they restore the lost goods of both; for the sake of peace.

Over the years, this passage has been interpreted in several ways. Some understand it to mean simply that peace between Jews and non-Jews is better than conflict. To others, it has also been indicative of the *chesed* (loving kindness) and *rachamim* (compassion) within Jewish tradition.

Another interpretation understands ‘for the sake of peace’ to refer to the peace of our souls. According to this tradition, poverty destroys the inner peace of the poor and the affluent alike. Everyone’s soul is affected, and, as everyone knows, the inner agony of poverty can explode in horrible physical violence.

One of the ways to avoid this violence and create a peaceful society for all is to nurture economic development that benefits those living in poverty. Socially responsible investment in general, and community reinvestment in particular, are concrete ways we can make this happen.

COMMUNITY INVESTMENT: THE NEED

The UAHC resolution notes that socially responsible investing falls into three categories, of which the more familiar are investor screens and shareholder resolutions. These efforts to influence corporate behavior can be effective, but they do not directly address the problem of the distressed neighborhoods and communities that exist all across America. CHIP does.

In our economy, credit is the necessary fuel that enables the engine of economic growth to run. Without credit, businesses cannot be opened or expanded, homes cannot be built or purchased. In much of our nation, credit is readily available. But it is no secret that many communities have only a limited access to credit, this for a number of reasons. Few banks have either the desire or the capacity to lend small amounts of money to poor people with limited collateral. In many impoverished neighborhoods, traditional financial institutions have long-since been closed or moved away. Nor can we discount the lingering malignancies of racial and class bias.

Whatever the cause, lack of credit has meant stagnation and decline in urban and rural communities, stagnation and decline that feed on themselves in a destructive spiral. There is less money available to rehabilitate dilapidated housing stock, to take a chance on a day care center that will allow parents to move off welfare, to create small businesses that will provide jobs and knit the community together.

It is surely not necessary to provide here a detailed account of the blight of poverty in America today. Suffice it to say that notwithstanding the extraordinary economic growth of recent years, very many Americans remain trapped; they have been left behind by the growth, they remain, as Michael Harrington called them some 40 years ago, “the other America.” On the eve of a new millennium, nearly one out of four American children under the age of six lives in poverty.

Community investing is directed to the communities of our nation where poverty is concentrated, communities from which escape is unlikely and in which transformation is exceedingly difficult. Difficult, not impossible. For notwithstanding the chronic depression that afflicts such communities, the evidence shows that once their residents are given a plausible chance, astonishing results are often achieved, genuine transformation is initiated. The experience of the organizations described in this guide has shown, time and again, that given appropriate credit, lower and moderate income communities can reverse decades of neglect and make the urban and rural deserts bloom.

But they cannot do it alone. There simply is not enough capital in many communities to enable the residents to change their lives without a helping hand. That is the problem to which the CHIP effort is addressed. With CHIP, the “helping hand” is defined as invested capital. Again: The capital involved in the CHIP program is not a gift; it is an investment. Depending on the investment vehicle chosen, CHIP may or may not earn returns comparable to conventional investments. But the CHIP principal is safe, often federally guaranteed, and the CHIP principle – that the return of ailing communities to health is in the interest of all of us – is a compelling argument for widespread participation in community investment.

Religious investors are an important source of community investment. The National Community Capital Association estimates that 23 percent of the capital of its member funds comes from religious sources. Until now, Jewish participation in community investment has been, to put the matter kindly, modest. Now that can change; the UAHC and its congregations can add significantly to the total, and thereby do our part in helping to mend America.

COMMUNITY INVESTMENT: AN EFFICIENT USE OF *TZEDAKAH*

As the following sections of this guide make clear, some community investment vehicles provide a market rate of return for investments, while many do not. Why should a congregation consider investing at less than the market rate? If the sole purpose of the investment is to maximize income, then of course there is no reason to do so. But if we bear in mind that we are here talking about 1.8% of the investment portfolio, moneys that would likely otherwise be invested in fixed instruments, we can think of the difference between the market rate and the lower rate we accept as a form of *tzedakah*.

Then why not simply give the money away directly? Why encumber an investment portfolio with “extraneous” purposes? The answer is simple – and startling. As Timothy Freundlich of the Calvert Foundation has written, “the tradeoff here is a slightly lower rate of financial return, for a higher social return.” Freundlich illustrates his point with a simple chart:

A WAY TO THINK ABOUT “BELOW-MARKET” COMMUNITY INVESTMENT	
When you make a \$20 donation:	When you invest \$1,000 in a community investment at 3%:
You give \$20	You may sacrifice \$20 in interest*
And only that \$20 goes to work helping people	While your entire \$1,000 goes to work helping people help themselves.

* Compared to a Treasury bill investment of 5%.

In other words, the cost is the same whether it is a donation or an investment – but the effects are vastly different. Imagine, for example, a congregation with a million dollar endowment. Assume that a portion of its investment portfolio is invested in Treasury bills at five percent, and that the community investment vehicle it is considering will return only three percent. The net loss to the congregation of participating in CHIP turns out to be a mere \$360 — and that \$360 makes \$18,000 available to help rebuild and transform a community.

HOW TO INVEST

1. THE SHEFA FUND

The Shefa Fund is a unique resource; it is the only national Jewish organization dedicated to community investing. Since 1995, its Tzedek/Justice Economic Development Campaign (TZEDEC) has catalyzed more than \$3.5 million from synagogues, federations, and other Jewish institutions nationwide for investment in CDFIs (community development financial institutions). The TZEDEC staff can provide congregations with assistance in deciding whether to invest in CDFIs, how to choose CDFIs, and how best to work with these institutions. It also provides matching funds in certain cities. The Shefa Fund encourages congregations that utilize its services to provide a modest contribution to the Fund and thereby become “stakeholders.” The Shefa Fund seeks to use its stakeholder list to leverage broad-based investment in CDFIs from Jewish communities nationwide.

2. COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

a. Community Development Credit Unions

A credit union is a financial cooperative. It is owned and controlled by its members. A credit union is based on the simple idea that people can pool their money and make loans to each other. Community development credit unions (CDCUs) are credit unions that serve low-income and some moderate income communities. They serve predominantly minority populations.

The first credit union in the United States was founded in New Hampshire in 1909 to provide banking services to poor French-Canadian immigrants. Others have sprung up since then whenever and wherever people were denied credit. Jews have played a central part in the development of these institutions. During the 1920s and 1930s, Edward Filene, the founder of the Filene’s Department Store chain, saw that his employees, and others like them, lacked access to loans and other banking services. He devoted himself to establishing a network of credit unions, and ultimately put \$1 million of his own money into these institutions. Filene was aware of stereotypes about Jewish money lenders, and wanted to combat those stereotypes by practical action.

At first, all credit unions were organizationally based, open to employees of a particular company or members of a particular union, for example. In the 1960s

and 1970s, minority communities began to apply the credit union model to their own needs.

Today, the need remains as great as ever. With the advent of automatic teller machines, banks have increasingly closed branches in lower income and minority communities. The changing economics of banking in recent decades has rendered it difficult for banks to operate profitably in many neighborhoods with high concentrations of poor people. Yet the need and demand for banking services remains, and it is credit unions that fill the gap. In the early 1980s, for example, the last commercial bank left a densely populated low-income neighborhood in New York City. The Lower East Side People's Federal Credit Union was organized to take its place. It opened in 1986, in part with a deposit from the very bank that had closed the branch. As of 1998, this credit union had \$2.7 million in assets and served 2,600 members, the majority of whom had savings accounts of less than \$650.

CDCUs contribute to the economic empowerment of communities in three ways: (1) They offer their members basic banking services, such as savings accounts, low-fee money orders, and checking accounts; (2) they provide small loans for education, medical expenses, and other family needs; (3) they provide larger loans for housing rehabilitation, home ownership, and some neighborhood businesses.

Home ownership might seem out of reach to low income minority group members with developmental disabilities. A joint program of the Self-Help Credit Union in North Carolina and the state government, however, helps carefully-selected applicants become responsible home owners. It enabled Barbara Edgerton and her disabled daughter to purchase a home in Asheville after they were forced out of their apartment to make room for commercial development. After receiving an eviction notice, she turned to a local affordable housing organization, which put her in touch with Self-Help. "Now," Edgerton says, "I don't have to worry about going back into another apartment where someone can tell you when to leave."

The communities that CDCUs seek to serve are, of course, short of capital. This means that they have less money available to lend. If, however, outside investors can place money in the credit unions, then the credit unions can make the loans that the communities need.

The CDCUs banded together in 1974 to form the National Federation of Community Development Credit Unions (NFCDCU). Today, NFCDCU has 165 member credit unions, with over \$350 million in assets. CDCUs are recognized as vital parts of the economy, as demonstrated by the support that they have received from major corporations and foundations. For example, the Ford Foundation has a \$4.5 million loan to NFCDCU, which in turn uses this money to make capital investments in individual CDCUs.

Temple Beth Or of Raleigh, North Carolina has found it easy to invest in a CDCU. For years now, it has invested \$100,000 in certificates of deposit at Self-Help Credit Union. This constitutes, in any given year, between 10 and 20 percent of the Temple's investments. The money is fully insured, and the congregation has been getting at or near market rates of return. As Debbie Warren, Vice President for Finance at Beth Or, explains, "If only others were reaching out, the deposit base would be there."

TACHLIS

How to invest: Credit unions typically offer two types of accounts: savings accounts (also called share accounts) and certificates of deposit (also called share certificates). Share accounts are the most liquid, while share certificates typically have terms ranging from six months to five years. A few credit unions can target share certificates to go to particular projects, such as the development of child care facilities. Rates of return vary from about two percent up to market rates. Philanthropic investors often accept a lower rate of return, in order to enable the CDCU to have more money available to use for community development.

Safeguards: Deposits are insured for up to \$100,000 by the National Credit Union Administration, which also regulates CDCUs.

How to find CDCUs: The Shefa Fund can work with congregations in identifying CDCUs in a particular region with good track records. In addition, the NFCDCU, the CDFI Fund, and the Calvert Foundation website all can provide useful leads. [See the **Resource Guide**.] Congregations that would like to invest through an intermediary should also be aware of the NFCDCU's capitalization program, whereby congregations invest with the national federation, which can in turn target these investments into either particular credit unions or into a diversified portfolio of CDCUs. Contact the NFCDCU for more details.

b. Community Development Loan Funds

Like CDCUs, community development loan funds (CDLFs) are a vehicle for lending capital to underserved communities. They pool investments and finance a variety of community development projects. CDLFs are not-for-profit organizations organized and run by local communities, often in consultation with mainstream financial institutions or with other people or institutions with technical and/or financial expertise. Investments in CDLFs come from institutional and individual investors. Loan funds are not insured; nevertheless, many have a strong history of successful lending, including fully repaying investors. Further, in return for the lack of insurance, loan funds have greater flexibility than do regulated financial institutions.

Like credit unions, loan funds have strong roots in the Jewish community. The Hebrew Free Loan Societies, which still function in many major American cities, were an early form of loan fund and played a key role in the heyday of Jewish immigration to America.

The modern CDLFs, like the CDCUs, are products of the 1960s and 1970s. They grew, in large part, out of efforts by the Presbyterian, Episcopal, and Roman Catholic churches to develop housing in low income minority communities. Indeed, religious investment has been crucial to the success of CDLFs, providing (as of 1993) 23% of the investments in member institutions of the NCCA.

In the early 1990s, the real estate market in New Hampshire suffered a major setback. Banks and other financial institutions in the state were in crisis. Nevertheless, the New Hampshire Community Loan Fund remained solvent, because of the actions of religious investors. The Episcopal bishop of the state chose this as precisely the moment to double his church's investment in the Fund. Other religious investors followed suit, and the New Hampshire CLF weathered the storm.

In keeping with their historical roots, most CDLFs continue to invest the majority of their loans in the area of housing. Currently, 59% of the financing activity of members of the National Community Capital Association (NCCA), the principal organization of CDLFs, goes to developing affordable housing. The remainder goes to a newer area of loan fund activity: business and community facilities development, such as child care and job training facilities.

In the 1990s, NCCA member institutions, which are only a subset of the CDLFs nationwide, provided over \$400 million in housing loans and almost \$350 million in business and community development loans. Since their inception, NCCA members have financed over 72,000 units of housing, almost all of them for low-income people, and have created or preserved over 44,000 jobs, of which almost two-thirds were targeted for low-income people.

Loan funds range from small and new to large and established. Among the latter, for example, the Delaware Valley Community Reinvestment Fund, which serves Philadelphia and surrounding communities, has \$61 million in assets, and has lent over \$100 million. Similarly, the Boston Community Loan Fund last year alone lent over \$10 million. In both cases, these loans went to build housing, businesses and communities.

Joel and Marta Garcia emigrated from Mexico to Boston in 1986. Joel worked nights as a waiter in a hotel; Marta worked days as a health aide in a senior citizens shelter. For years, the couple and their three daughters lived in an old, cramped apartment in East Boston. In 1996, they moved into their own home in the neighborhood. This facility was rehabilitated by a not-for-profit community development corporation, which could do the work only because it received a loan from the Boston Community Loan Fund.

In 1988, the Hispanic clergy of Philadelphia incorporated Nueva Esperanza to coordinate development and economic projects for low-income communities in the area. One such community in North Philadelphia had no laundromat. Residents had to take three different buses just to get their laundry done. Not only was this a serious inconvenience; it also took them away from their neighborhood. In 1992, the Delaware Valley Community Reinvestment Fund made a loan to Nueva Esperanza to enable it to build a 2,000 square foot laundromat. The effect on the community has been profound. Not only do residents have a needed service nearby, but the laundromat has turned into an informal community center. Building a business has helped build a community.

TACHLIS

How to invest: Investments in CDLFs are typically made in unsecured term loans. Investments can be for as short as one year, but are typically for a longer term; the average term of a loan for NCCA members is seven years. Interest rates are often negotiable, with longer loans receiving higher rates. Although rates vary widely, and some loans reach market rates, a figure in the neighborhood of two to three percent is typical.

Safeguards: CDLFs are not insured. Nevertheless, as with other non-insured investments, safeguards do exist. Many loans are protected by collateral, loan loss reserves, and the net worth of the fund. Further, some funds have a particularly good history of sound investment. For example, the NCCA accepts as members only those funds that have submitted to a rigorous underwriting process and have demonstrated a commitment both to the goals of community development and to efficient operations. As a result, for 1997, the last year for which data are available, NCCA members had a cumulative collective loan loss rate of only 1.3%. More information can be obtained directly from NCCA. [See the **Resource Guide.**] It should also be noted that CDLFs are increasingly hiring professional financial managers who have been trained at leading business schools and banks.

How to find CDLFs. The Shefa Fund can work with congregations in identifying CDLFs with good track records in a particular region. In addition, the NCCA, the CDFI Fund, and the Calvert Foundation website all can provide useful leads. [See the **Resource Guide.**]

c. Community and Other Banks

Community banks are for-profit regulated entities with FDIC insurance. They target disadvantaged communities and provide banking services, loans, and community revitalization programs.

The first and most well-known community bank is South Shore Bank in Chicago. Founded in 1973, South Shore pioneered what it calls Development Deposits. These are standard, market-rate, federally insured deposits—checking accounts, time deposits, money markets, IRAs, and savings accounts. Again, though, there is a difference: these deposits are directed solely to urban development. Using them, South Shore has recaptured solid but neglected rental buildings, financed small businesses, and helped people fix up their homes and properties. It has lent over \$400 million to over 11,000 businesses and individuals.

As with all forms of community (and other) investing, community banks have limitations as well as strengths. For one thing, the number of such banks is small. Also, banks are often unable to meet some of the needs of community members. They are less flexible than are loan funds, and they typically do not make the small loans that CDCUs can provide.

In addition to community banks, commercial banks also make some investments in underserved communities. The federal Community Reinvestment Act (CRA) requires all banks to meet the credit needs of their communities, including low and moderate income areas. All banks are rated by the government as part of their CRA compliance review. The categories are Outstanding, Satisfactory, Needs Improvement, and Substantial Noncompliance. Most banks receive Satisfactory ratings.

Banks are also required to prepare a CRA statement explaining how they have complied and will comply with the law. These ratings and statements are public documents, which a bank must provide upon request. They can be useful ways of determining whether a bank lends actively in lower income communities. As part of their CRA obligations, some commercial banks will agree to target investments into community development projects. A congregation can discuss with its bank whether such targeting or other methods of community investing are available at that institution, and its interest – perhaps in concert with other congregations – can encourage such investing.

Sometimes, a congregation will have (or may develop) a relationship with a particular community development corporation (CDC), an entity that provides direct services such as housing rehabilitation to a low income community. One way for the congregation to assist that CDC while still obtaining the security of a bank investment is to enter into a linked deposit. The congregation sets aside some portion of its deposit for the particular CDC, and the bank then reviews the CDC and lends the money to the entity. The bank thereby assumes the risk of the loan. Of course, not all banks will accept linked deposits, but some will do so as part of their CRA requirements.

Reform congregations have successfully invested in community banks. Both KAM Isaiah Israel Congregation of Chicago and Temple Solel of Paradise Valley, Arizona, have made deposits at South Shore. KAM Isaiah

Israel established a fund in memory of its Rabbi Jacob J. Weinstein, z”l, a leading advocate for social justice. In light of Rabbi Weinstein’s legacy, it made sense for the congregation to deposit the principal in South Shore, and to deposit there also the rabbinic discretionary fund. Rabbi Arnold Jacob Wolf of KAM Isaiah Israel believes that Jews not only need to do “negative” socially responsible investing (such as refusing to invest in companies that have unsound environmental policies), but also need to make “positive” socially responsible investments, of the sort described in this Guide. “South Shore Bank,” he says, “is a good bridge from negative to positive socially responsible investing.”

Both Brooklyn Heights Synagogue of Brooklyn and the Community Synagogue of Rye, New York, have invested in Community Capital Bank. The Community Synagogue acted in response to the UAHC resolution authorizing the Chai Investment Program, and voted to invest 2.7% of the synagogue’s endowment fund in this community bank. Rabbi Rachel S. Mikva commented, “It is essential that we apply our religious commitment to tikkun olam to the way we conduct our own business. With our investments, our purchasing and our employment practices, synagogues can contribute to or detract from the welfare and justice of our society.”

TACHLIS

How to invest. Deposits in community banks are made in the same way as deposits in other banks. Matters such as linked deposits or more generally targeted investments should be discussed with the individual bank. Deposits in community banks range from market rates to one or two percent below that.

Safeguards. Deposits are insured for up to \$100,000 by the FDIC.

How to find community banks. The Shefa Fund can work with congregations in identifying community banks and other banks in a particular region with good track records. In addition, the CDFI Fund and the Calvert Foundation website can provide useful leads. [See the **Resource Guide**.]

d. Investment Vehicles

Some investment services offer the opportunity to invest in community development. For example, in 1995, the Calvert Social Investment Foundation created an investment vehicle for CDFIs, somewhat on the model of a mutual fund. Individuals and institutions can purchase a note for a minimum of \$1,000, for terms of one to five years. For their money, they are buying a diversified portfolio of community loan funds. The assets from these notes are placed in CDFIs. These notes are unsecured, although the Calvert Foundation does maintain a reserve fund.

These investments can be made easily, and investors can target their investments by economic sector (housing, business, etc.) and/or by location. The investor determines the rate of return it seeks, within a range that currently is from zero to four percent. Further information can be obtained directly from Calvert.

3. DIRECT INVESTMENTS

Congregations can invest directly in specific projects being conducted by CDCs. These are typically the riskiest investments, in that they are neither insured nor protected by a loan loss reserve pool. They therefore require extremely careful evaluations. As the Jewish Council on Urban Affairs of Chicago has noted, however, “[d]irect investment in a neighborhood development project can be a very appealing and satisfying type of hands-on investment . Properly made, direct investments give a significant boost to the neighborhood’s economy and have a concentrated impact.”

One way to make direct investments among CDCs that have been carefully evaluated is to invest with organizations that have a history of creating partnerships between CDCs and government, business, and philanthropic institutions. Two such organizations are the Enterprise Fund and the Local Initiatives Support Corporation (LISC). Both Enterprise and LISC have been in existence for over 15 years. They aggregate the investments they receive to produce a substantial pool of money that they can in turn invest in CDCs. These organizations tend to work with fairly large investments.

TACHLIS

How to Invest: Direct investments with CDCs are made on whatever terms the parties negotiate. Those interested in investing with Enterprise or LISC should contact these organizations directly.

Safeguards: Direct investments with CDCs are not insured, and any safeguards that exist are the result of negotiations between the CDC and the investor. Investments with Enterprise and LISC are also uninsured, but both organizations typically provide safeguards, such as reserve funds and securing investments. Further, both have very good track records of security for their investments. Again, congregations should contact Enterprise or LISC directly for more information.

How to find CDCs: Congregations wishing to invest directly in CDCs can take certain actions to reduce their risk, most significantly by ensuring that they are investing in CDCs with good records of accomplishment. Enterprise and LISC are in the business of developing relationships with CDCs and determining their effectiveness. Some governmental agencies have created “linked deposit” programs with CDCs (see “Community and Other Banks”), and are good resources for evaluating those CDCs. Information can also be obtained from the National Congress for Community Economic Development (NCCED), a membership organization for 800 CDCs. [See the **Resource Guide**.]

Whichever the vehicle your congregation selects, we urge you to register your action with the Commission on Social Action, UAHC, 633 Third Avenue, New York, NY 10017–6778. By so doing, you will enable the CSA to report to interested parties the aggregate action of the Reform Movement.

ASSESSING COMMUNITY DEVELOPMENT INVESTMENTS: SOME GENERAL GUIDELINES

As the UAHC Resolution indicates, socially responsible investing means the adoption of a “double bottom line.” Traditional investments focus on producing as high a rate of return as possible, balanced against such competing needs as liquidity and security. Socially responsible investing adds to this, in the words of the resolution, “the accord between the values of the investing organization and the entities in which it invests.”

In the case of the type of investments described in this guide, that means ensuring that the investment goes toward assisting community development. Congregations that decide to engage in active socially responsible investing will need to take a series of steps to ensure that both bottom lines are met.

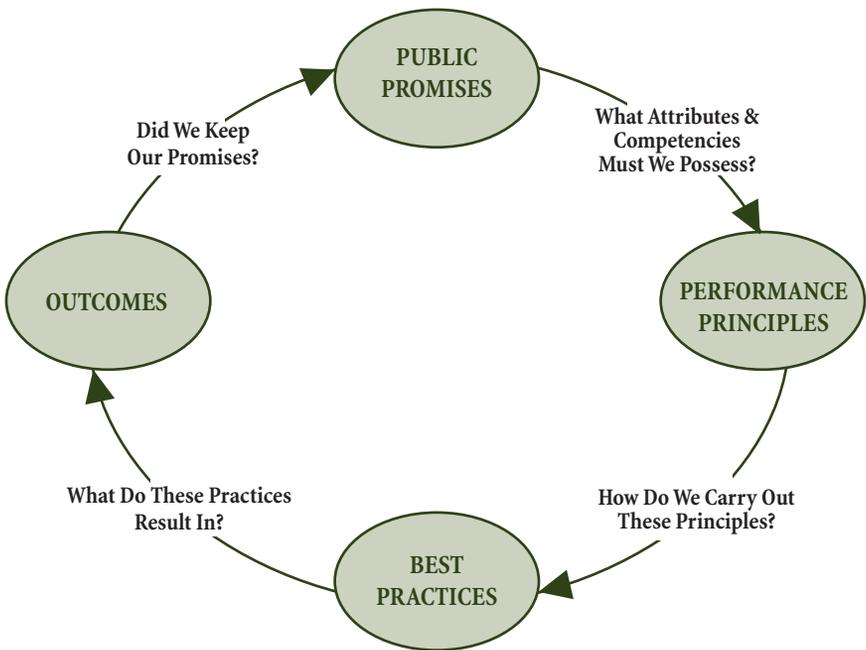
1. Determining the Synagogue’s Financial Needs.

If your congregation has a finance committee and a social action committee, the members should work together to begin to implement CHIP. The congregation should look at its entire financial portfolio (special funds as well as operating accounts, for example). It should examine how those funds are now invested, and whether a small percentage of those funds can be placed in instruments with more limited liquidity, or with a lower rate of return, or perhaps without insurance. If, for example, part of the congregation’s portfolio consists of stock investments, it might be willing to make an equally unsecured community development investment. If, however, security is paramount, the congregation should look to CDCUs and community banks. If, at the end of this assessment, your synagogue decides that it can place 1.8% of its investments in community development vehicles, it should decide whether it wants to specialize in a sector, such as housing or jobs. Presumably, your synagogue will want to invest in its local area; if no appropriate vehicles exist there, it might want to join with one or more congregations in similar circumstances and together invest in an appropriate community or neighborhood.

2. Selecting an Investment Vehicle: General Considerations

Once the synagogue has decided to make a community development investment, it must decide which type to make. This Guide should be of some assistance in beginning to make that decision, as will the resources set out in its various sections and in the Resource Guide.

After choosing the type, the synagogue must then choose the particular vehicle or vehicles in which to invest. The NCCA has developed a diagram that gives a structure for lenders to assess their own performance; the diagram can easily be adapted by congregations seeking to make investments. The diagram calls attention to the promises CDFIs make regarding what they intend to accomplish, their principles of performance for accomplishing those goals, their practices for putting those principles into application, and the outcomes that result from those practices. Each part of that chain can be assessed. Congregations should decide whether the promises seem appropriate, whether the vehicle they are considering has the ability to carry them out, whether it has carried them out in the past, and whether the results have lived up to the promises. There are no hard and fast rules for assessing performance.



Reprinted with permission from National Community Capital Association, "Best Practices for CDFIs: Key Principles of Performance."

Professor Karl Seidman of MIT suggests that before making an investment, a congregation should ask the lending institution to document the impact of its previous investments. The institution should be able to say what it has lent money for in the past and what its loan ratios are. The key ratio is loans to assets, which should typically be at least 50, and preferably closer to 60 or 70. At the same time, there are sometimes reasons for a lower percentage, and these should be carefully considered. A lender should normally be leveraging its assets; if it does not, it again should be asked to explain why. The institution should also be able to articulate a coherent and persuasive loan strategy.

Default rate is one relevant indicator, although again it should be used with care. Some CDFIs intentionally lend to more high risk ventures, and so have higher default rates. Other CDFIs should, however, have fairly low default rates, comparable to those of many commercial lenders.

As a potential investor, a congregation should look at the expertise of those who are managing the CDFI. Increasingly, these managers have extensive academic training, or experience in commercial financial institutions, or a long record of success at a CDFI, or all of the above. Where the managers lack some or all of these indicia of expertise, they should be prepared to obtain the assistance of skilled managers as needed.

Congregations should not invest in communities simply to feel good, but to make sure that their investments yield real change. Happily, most community investment institutions live up to their promises. With careful investigation, congregations can determine which those institutions are, and can invest successfully in them.

3. Selecting an Investment Vehicle: Resources

Certain organizations can be helpful to congregations that are selecting an investment vehicle. These organizations have already made an initial determination about the potential investments. Some such organizations are:

The Shefa Fund: The Shefa Fund can bring its expertise in the areas of Jewish and community investing to bear in assisting congregations in determining appropriate investment vehicles.

CDFI Fund: This federal agency was created by Congress in 1994 to expand the availability of credit, investment capital, and financial services in distressed urban and rural communities. The CDFI Fund certifies organizations that have met its regulatory requirements, which in essence means that these organizations are in fact working principally for community development. This certification expressly “does not constitute an opinion by the Fund as to the effectiveness or financial viability of the certified organization.” In addition, however, the Fund itself invests in organizations through its Community Development Financial Institutions Program. This program *is* a vetting process: “The Fund evaluates each applicant CDFI in a manner similar to a private investor determining the investment-worthiness of an institution, including assessing financial performance, management capacity, and market analysis.” A list of CDFIs in which the Fund has chosen to invest under this program is available from the Fund.

NCCA: The NCCA accepts as “members” only those loan funds and other organizations that meet the Association’s strict underwriting requirements.

Foundations: Foundations tend to have a good idea of which lending institutions have been most successful at protecting both bottom lines. Congregations seeking to invest might contact area foundations to tap into their expertise.

RESOURCE GUIDE

PUBLICATIONS

Lawrence Bush and Jeffrey Dekro, *Jews, Money & Social Responsibility: Developing a Torah of Money for Contemporary Life* (1993), 198 pp. Published by, and can be obtained from, The Shefa Fund, 805 East Willow Grove Ave., Suite 2D, Wyndmoor, PA 19038; 215-247-9704. Detailed analysis of Jewish obligations and options for socially responsible investing. The Shefa Fund also publishes *The Highest Degree of Tzedakah: A Guide to Jewish Institutional Investing in Low Income Community Development*, a useful text for congregations and other Jewish institutional investors.

Kathryn Tolin, *Lending a Hand: A Congregation's Guide to Community Investing* (1995), 28 pp. Can be obtained from Woodstock Institute, 407 S. Dearborn, Chicago, IL 60605; 312-427-8070. Valuable practical guide to community investing for churches and synagogues. The Woodstock Institute publishes a large number of studies on community development. Among its publications are:

Community Development Financial Institutions: Investing in People and Communities (1994) 20 pp.

Banking Services for the Poor: Community Development Credit Unions (1991), 45 pp.

Lenders of First Resort: Community Development Loan Funds (1991), 49 pp.

Banking on Communities: Community Development Banks (1993), 21 pp.

These publications, as well as a list of other studies that the Institute has produced, can be obtained from the Woodstock Institute.

Jewish Council on Urban Affairs (JCUA), *Mitzvot for the Contemporary Marketplace: A Jewish Guide to Socially Responsible Investment and Community Reinvestment*, 14 pp. Another practical guide from a Jewish perspective; can be obtained from JCUA, 618 S. Michigan, Suite 700, Chicago, IL 60605; 312-663-0960.

Rabbi Nilton Bonder, *The Kabbalah of Money: Insights on Livelihood, Business, and All Forms of Economic Behavior* (Boston: Shambhala Publications, 1996).

Dr. Meir Tamari, *With All Your Possessions: Jewish Ethics and Economic Life* (New York: The Free Press, 1987).

ORGANIZATIONS

Community Investing: Jewish Organizations

The Shefa Fund
805 East Willow Grove Ave. Suite 2D
Wyndmoor, PA 19038
Phone: 215-247-9704
Fax: 215-247-1015
E-mail: shefafnd@libertynet.org

Community Development Financial Institutions

Department of the Treasury
Community Development Financial Institutions Fund
601 13th St., N.W. Suite 200 South
Washington, D.C. 20005
Phone: 202-622-8662
Fax: 202-622-7754
Web: www.treas.gov/cdfi

Community Development Credit Unions

National Federation of Community Development Credit Unions
120 Wall St. 10th Floor
New York, NY 10005
Phone: 212-809-1850
Fax: 212-809-3274
Web: www.natfed.org

Community Development Loan Funds

National Community Capital Association
924 Cherry St. 2d Floor
Philadelphia, PA 19107
Phone: 215-923-4754
Fax: 215-923-47555
E-mail: NCCA@communitycapital.org
Web: www.communitycapital.org

Community Banks

There is no organization of community banks. Here are the addresses for the banks mentioned in this brochure.

South Shore Bank
7054 S. Jeffrey Boulevard
Chicago, IL 60649
Phone: 1-800-669-7725
Fax: 773-753-5699
E-mail: deposit@sbk.com
Web: www.sbk.com

Community Capital Bank
111 Livingston St.
Brooklyn, NY 11201
Phone: 718-802-1212
Fax: 718-243-0312

Investment Vehicles

Calvert Community Investments
Calvert Foundation
4550 Montgomery Avenue
Bethesda, MD 20814
Phone: 1-800-248-0337
Fax: 301-654-2960
E-mail: foundation@calvertgroup.com
Web: www.calvertgroup.com/foundation

The following is an internet based business that serves the investment needs of socially responsible investors:

SocialFunds.com
Web: www.socialfunds.com

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This guide was written and compiled by Thomas Alpert, Rabbinic Intern, with Leonard Fein, Director, Commission on Social Action.

THE COMMISSION ON SOCIAL ACTION OF REFORM JUDAISM

The Commission on Social Action of Reform Judaism assists congregations in establishing effective Social Action Committees and programs.

The Commission encourages the application of Judaic ethics to such contemporary issues as economic justice and poverty, civil rights and liberties, religious freedom, world peace, human rights, and interreligious relations.

The Commission helps synagogue members become aware of social issues and stimulates them to appropriate action through RACNEWS, an e-mail alert system, and the newsletter *Tzedek V'Shalom*. The Commission also produces books, pamphlets, audio- and videotapes, and other relevant programmatic materials.

The Commission proposes policy positions to both the UAHC and the CCAR and oversees the work of Reform Judaism's Religious Action Center (RAC) in Washington, DC. The RAC pursues social justice and religious liberty by mobilizing the American Jewish community and serving as its advocate in the capital of the United States. It keeps congregations informed about issues pending in Congress and provides guidance on a wide variety of programs that congregations implement in their local communities. The Commission is a joint instrumentality of the Union of American Hebrew Congregations, the Central Conference of American Rabbis, and affiliated organizations of Reform Judaism.

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Rabbi David Saperstein, Co-Director

Mark Pelavin, Associate Director

Rabbi Marc Israel, Director of Congregational Relations



**Central Conference
of American Rabbis**



**Union of American
Hebrew Congregations**

The Commission on Social Action of Reform Judaism is a joint instrumentality of the Union of American Hebrew Congregations, its affiliates, and the Central Conference of American Rabbis