

PROGRAM-RELATED INVESTMENTS



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**GRANTS**

Grants reside on the charitable distribution side of the MRI continuum. Take the work of the **Neighborhood Development Center (NDC)** in St. Paul, MN, a community-based nonprofit that works with “emerging entrepreneurs to develop successful businesses that serve their community, and build a stronger neighborhood economy.” Heron provides general support to NDC that allows it to provide technical assistance, real estate services, and patient financing to entrepreneurs located in low-income communities to deliver impact in the form of: job creation for neighborhood residents (1,320) with average wages above minimum wage (\$10/hour); dollars returned to the community from payroll, taxes, and sales (\$25.1MM annually); business expansions (13% opened additional locations; 30% increased number of employees by an average of eight); increases in monthly revenues (67%, average \$3,000); business longevity (average five years); and those occupying formerly vacant or rehabbed buildings (125 businesses). These numbers give an indication of NDC’s success in the difficult work of creating markets in underserved communities in order to connect them to the wider, local economy

**EQUITY**

As the holding company of a community development bank, **Native American Bancorporation** addresses one of the fundamental developmental tasks in Indian Country—to establish the financial infrastructure and market mechanisms that support wealth creation for Native Americans. Heron invests in Native American Bank (NAB) through preferred stock to provide the capital needed to maintain regulatory capital adequacy, to provide an equity and equity-like platform to leverage growth of its commercial lending to unbanked and underserved Native American tribes and tribal businesses, and to promote and support the development of tribal economies. Its core banking activities provide Indian Country with a commercial bank that is expert in the unique cultural and financial aspects of doing business in Indian Country. Over the last three years, NAB has doubled its assets to \$100 million and grown its loan portfolio by over 100% while increasing profitability and maintaining asset quality. NAB’s success not only allows it to pay dividends to its equity holders, but represents the unprecedented pooling of resources from a broad coalition of tribes to create the first and largest wholesale bank owned and controlled solely by Native Americans.

**SUBORDINATED LOANS**

Since its inception in 1989, the **Community Reinvestment Fund (CRF)**, located in Minneapolis, MN, has purchased more than 2,100 loans worth almost \$1 billion from community development corporations and other community development lenders whose portfolios are not large enough to attract institutional investors directly. Using subordinated debt as credit enhancement, it has packaged and pledged those loans as collateral for nineteen separate private placements that are sold to institutional investors at market rates of return with the three most recent issuances rated “investment grade” by Standard and Poor’s. Heron chose to make a subordinated loan structured with equity-like features in order to help build CRF’s balance sheet, allowing it to attract additional debt capital needed to increase its activities. CRF’s securitization activity provided liquidity for loans that have generated or retained over 35,000 jobs, financed almost 600 women or minority-owned businesses, and built over 16,000 housing units.

**SENIOR LOANS**

**Self-Help Enterprises (SHE)**, working in the San Joaquin Valley of California, brings the idea of “helping people and communities to help themselves” to life. SHE provides technical assistance, financing and support to hardworking, low-income families as they contribute “sweat equity” in building their own homes. Heron’s senior loan to SHE provides capital for its Washburn Fund. The Fund provides families with low-interest construction loans to build their homes, with the takeout being a traditional mortgage at closing. Over the last 23 years, SHE has helped 5,600 families build homes, another 5,600 improve their homes, and another 1,200 reach home ownership through its homebuyer counseling program. With a current loan portfolio of over 1,500 loans, SHE reports that less than 1% of families have lost their homes to foreclosure.

**DEPOSITS**

Credit unions play an important role in the financial services sector providing members with ownership opportunities and consumer-driven products and services. Often, the over 1,000 low-income designated credit unions across the country are the only alternative to check cashers and pawn shops. To secure a low-income designation from the National Credit Union Administration (NCUA), the majority of a credit union’s membership must be from households earning less than 80% of the area’s median household income. To support their work, the **National Federation of Community Development Credit Unions (the Federation)** acts as an intermediary to deliver below-market deposits to small or emerging community development credit unions. Heron works through the Federation’s Nominee Deposit program to provide lending capital to credit unions that are building their mortgage lending capacity.

MARKET-RATE INVESTMENTS

**DEPOSITS**

**ShoreBank** is the oldest and largest community development bank in the country with assets of \$2.2 billion and full-service banking centers in Chicago, Cleveland and Detroit. The bank’s affiliates include an SBA-licensed small business investment company, a real estate development company that builds and rehabilitates for-resale residential properties for low- and moderate-income families, a consulting practice that promotes development strategies in distressed communities worldwide, and an environmentally focused bank in the Pacific Northwest. Supported by market-rate, FDIC-insured deposits, ShoreBank has outstanding loans of more than \$1.3 billion, and over three-fourths are loans to residents, businesses, and non-profit organizations in low- and moderate-income communities. The bank’s management operates ShoreBank with the philosophy that its financial success demonstrates that it is good business to provide financial and information services to underinvested communities in ways that create wealth for customers, strengthen neighborhoods and preserve natural resources. Through the Certificate of Deposit Account Registry Service® (CDARS), FDIC insurance covers deposits up to \$30 million.

**FIXED INCOME**

Not all manufacturing jobs are moving overseas. In 2007, Toyota announced that it would build a \$1.3 billion facility near Tupelo, Mississippi. The plant will be the first in the U.S. to produce the Prius hybrid. At full production, the plant will create 2,000 jobs at \$20/hour plus benefits and generate another 8,000 jobs at supporting companies. The **Mississippi Development Bank** issued an insured AAA-rated Taxable Special Obligation Bond to finance the acquisition and development of the property. In exchange, Toyota agreed to set aside 15% of the construction budget to work with local, minority-owned firms and to donate \$50 million to local school districts. These bonds, at first glance, may seem like a traditional economic development financing vehicle. The scale of the job creation in an underinvested region of the country along with the investment in local minority companies and school systems, however, made these bonds attractive for Heron’s market-rate fixed income portfolio.

**PUBLIC EQUITY**

As Heron built up its mission-related investment portfolio, the one asset class in which it initially remained uninvested was public equity. Socially responsible screens existed for many other issues, but none fit Heron’s commitment to community development in low-income communities. So, we set out to create one. Working with Innovest Strategic Advisors as a research partner, Heron developed a methodology for screening, in a positive way, companies in the S&P 900. Those with “best-in-class” performance on three fundamentals of community investment—strategic intent, workforce development and wealth creation, and philanthropic engagement—became part of the **U.S. Community Investing Index (CII)**. After a two-year beta test using \$10MM of Heron’s large-cap equity allocation, the CII has delivered competitive results and is now available to other investors through investment products being marketed by Lehman Brothers and Neuberger Berman.

**PRIVATE EQUITY**

**UrbanAmerica, L.P.**, a private real estate investment partnership, has built a nationwide portfolio of urban retail and office properties. Its strategy is to provide investors with risk-adjusted, market-rate returns while also creating jobs and fueling economic and community redevelopment efforts, a “double-bottom line.” According to company President and Chief Executive Officer Richmond McCoy, “We recognized that low-income communities have a critical need for equity investments to stimulate economic development.” The company raised \$450 million for investment in urban communities, creating over 2,000 new jobs for low-income community residents in the Detroit, Atlanta, Kansas City, Washington, DC, Las Vegas, and New York City areas and in several Florida cities. In addition, UrbanAmerica attracts national retailers to inner city shopping centers and office buildings, increasing each property’s value and improving the choices for neighborhood residents. Local and minority company vendor contracts for janitorial, landscaping, security and other services at 70% of Urban America’s properties create local wealth.