S
tages in housing and disparities in economic opportunity continue to be major problems in many countries, including in highly developed economies like the US and UK. In the US, addressing these sorts of challenges has come to encompass more than state assistance, with the private sector also playing an important role. Banks, in particular, provide capital in underserved areas through the Community Reinvestment Act of 1977 and in the process facilitate investment that balances social impact with financial return.

Further to this point, in recent years there has been something of a shift in sentiment in financial markets, as individuals and institutions increasingly recognize the importance of environmental, social and governance factors in their investment decisions, and companies become more aware of their own social responsibilities and the potential that their programmes have for helping to transform lives in those areas that are understated.  

Community Opportunity

According to the Federal Reserve, low- and moderate-income households in the US, as Deutsche Bank's Community Development Finance Group explains to Neil Jensen, have been something of a shift in sentiment in financial markets, as individuals and institutions increasingly recognize the importance of environmental, social and governance factors in their investment decisions, and companies become more aware of their own social responsibilities and the potential that their programmes have for helping to transform lives in those areas that are understated.

Bail initiative

In New York City, which is the primary focus of Deutsche Bank’s CDFG, there is a chronic housing shortage, so much so that Mayor Bill de Blasio launched an ambitious initiative to create 300,000 units of affordable housing by 2026. It has yet to solve the problem. In September 2018, New York City Comptroller Scott M. Stringer noted that between 2005 and 2017, rising rents led to the disappearance of more than 425,000 affordable apartments – those renting for US$900 or less per month in 2017 dollars – from the city’s housing inventory. And 55% of them – 238,000 apartments – saw their rents increase to between US$1,061 and US$1,650. On the other end of the affordability spectrum, apartments renting at above US$2,700 a month more than doubled. Many people are therefore being priced out of the market.

No wonder then that much of the CDFG’s nearly US$600m (by commitment) loan and investment portfolio focuses on the city’s affordable housing stock. One such commitment is a US$10m loan to the New York City Acquisition Fund, which helps non-profit developers compete for viable sites with commercial developers.

Driving inclusion

The CDFG’s portfolio also includes an array of impact loans and investments with non-housing social enterprises, not-for-profit organizations and fund managers that seek to generate a social good while providing an economic return for the bank.

One such example is the US$500,000 debt investment in Sixup, a US Treasury-certified Community Development Financial Institution (CDFI). It uses technology and an innovative approach to credit risk underwriting to provide affordable gap financing to enable high-achieving, low- and moderate-income students to graduate from quality four-year colleges and achieve pathways to meaningful careers. Many of the student borrowers are the first in their families to attend college.

“Our impact-first New Initiatives Fund (NIF), which is part of the Deutsche Bank Americas Foundation, we were able to provide catalytic capital to Sixup to help it grow from US$34 to almost 1,800 loans in less than two years,” explains Jim Baer, Director of the CDFG.

Similarly, a US$500,000 debt investment as part of the foundation’s NIF was made to Pigeonly, an early-stage social enterprise, to expand its marketing capabilities. Pigeonly provides low-cost communications services to the families and friends of people in prison. It can provide 40-60% savings on telephone calls compared to typical prison charges, which can be upwards of US$19 for a 15-minute call. Pigeonly was founded by Frederick Hunter, who spent 23 years in prison for trafficking marijuana. He launched and honed the business with backing from highly competitive accelerator programs, including Y Combinator. The company’s customers, who are mostly low-income families, benefit from financial programs. In addition, various studies have shown that regular contact with family during time served can improve recidivism rates.

Opportunity Fund

Opportunity Fund has just launched a bold five-year strategic plan. This will include a fourfold increase in the number of loans made over the past 24 years. Between 2018 and 2023 we plan to originate US$1.2bn in loans to small businesses and invest US$174m in New Markets Tax Credit, says Urrutia. “This will help nearly 30,000 small businesses and sustain 100,000 jobs. Some 90% will be businesses run by minorities and more than 70% will be run by low-income people.”

The tax credits will finance: 12 new community real estate projects, providing services such as healthcare, youth development and shelter to 60,000 people in need.

In order to meet its ambitious targets, Opportunity Fund will raise US$100m in new debt capital from banks, foundations and other impact investors. “We will also sell loans to interested parties and raise US$47m in philanthropic support over the five-year period. The market need is so significant that we cannot do this alone; we need to bring in partners,” says Urrutia.

One of those new partners is LendingClub, an online lender that refers small business borrowers to Opportunity Fund through an integrated technology platform. “Our other non-profit and for-profit partners include community partners, CDFIs, truck dealerships and food truck fabricators. These entities help us reach borrowers that Opportunity Fund couldn’t reach on its own,” Urrutia adds.

“Deutsche Bank is also a terrific partner and is helping in creating a more inclusive financial system. We cannot do our work without our partners and we are certainly strengthened by aligning ourselves with the bank to access its global reach, its expertise and its culture of philanthropy.”

Neil Jensen is a freelance writer, author and consultant and former Editorial Director at Deutsche Bank.