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RAIN

Journal of the Center for Urban Education

SPECIAL ISSUE

Socially Responsible Investing

AN INTRODUCTION

Rob Baird

EDITOR

A Message from the RAIN Editor

Well, RAIN has, so to speak, weathered its most recent change. We've received both applause and criticism. One reviewer went so far as to say "RAIN dries up." Another person thought that RAIN no longer looked like a comic book, and "felt like a real magazine." The "Northwest Information Economy" article generated several responses, including one person who felt it didn't go far enough in defining the next economic period, and another, representing a post-industrial company, who ironically, couldn't earn a living. Steve McCurley's article was welcomed as good, solid, and timely, advice. A national church organization may reprint it for distribution to its membership.

Because the last issue was delayed, and because we were frank about RAIN's economic situation, the rumor mill generated some exaggerated stories. A woman arrived from Boston studying the state of the environmental movement, and immediately voiced her sympathy for our "plight"—making me feel as though I had not noticed the death of a

close friend. A book distributor had heard from someone in Eugene that RAIN was no longer published. I suppose we spread some of this ourselves by an editorial that said the old RAIN had not enough supporters to continue, but it always amazes me how quickly people spread a rumor, and what the rumor becomes from fairly humble origins.

What is normal? RAIN has never been a rich enterprise. Nobody, considering the number of hours logged, has received above minimum wage for doing it—ever! The circulation has always been small. Probably most people would be shocked by the working conditions and the circulation of well known and supposedly well supported periodicals. There are two secrets behind the successful ones: (1) one or more fanatic true believers who live and breathe the magazine, and (2) inherited wealth or other form of outside subsidy. Maybe I'm just jaded but I can't remember an easy time for RAIN (or for most anything I've chosen to work on). There have been dull and exciting times, but never easy. Some things are not meant to be easy—if art were easy it would probably be worthless.

Our own attitude toward the new RAIN is that the first issue was a dress rehearsal. If we had had more time we would have worked out more small details of design and sought a better balance of material that would reflect our perspective. But the show must go on. We hope you will give us a couple of issues to find ourselves and our niche.

This issue grew out of a series of activities of the last couple of years. Rob Baird, formerly a RAIN employee, became interested in ethical investment issues and has developed the interest into a career. RAIN has always tried to provide its readers with ways to act on their values. Socially responsible investing fits the bill perfectly, helping you to put your money where your mouth is.

For librarians: this is Volume XIII, Number 1. Volume XII, Number 4 was a combined Fall/Winter issue. This issue has no seasonal indication, and the next issue Volume XIII, Number 2 will be the spring issue. It will be a late spring, just as spring usually arrives late in the maritime northwest—after a false spring such as this issue.

Steve Johnson

RAIN

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Editor

Steve Johnson

Designer

Susan Applegate

Circulation Manager

Alan Lockler

Intern

Andris Wollam

Printing

Argus Printing

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Socially Responsible Investing



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Center for Urban Education
Portland, Oregon

Rob Baird has worked for a variety of nonprofit community organizations, including RAIN magazine and the Center for Urban Education. He is a graduate of Oberlin College and Duke University (M.Div.).

Rob is now an account executive, specializing in socially responsible investing, with the Anderson Financial Group, in Portland, Oregon. He is a member of the Social Investment Forum.

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Center for Urban Education
1135 S.E. Salmon
Portland, Oregon 97214
503-231-1285

Production Editor: Steve Johnson
Designer: Susan Applegate

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Introduction

Awareness of socially responsible investing (SRI), applying social as well as financial criteria to investments, is on the rise. Major financial publications and TV news programs have carried stories on the subject, stockbrokers and financial planners now recognize the concept, and press coverage of divestment in South Africa has brought the issue to the public's attention.

The Social Investment Forum, the field's national trade association, found that by April, 1985, \$40 billion of investments had been screened using social criteria. Now over \$300 billion has been socially screened and the number is growing fast.

The purpose of this publication is to help novice investors (or investors new to SRI) manage their financial resources according to their values. Interviews and articles by experts cover the full range of socially responsible investment opportunities.

The first article is an interview with three of the best known experts in the area of socially responsible investing: Joan Bavaria, Amy Domini, and Chuck Matthei. They answer some of the basic questions about SRI and examine its direction.

Jerome Dodson, president of the Parnassus Fund, explains how a mutual fund works and what is involved in using social criteria to make investment decisions. The "Socially Responsible Investment Funds Guide" provides an overview of the social and financial performances of socially-screened money market and mutual funds.

Many people do not have the time or interest to manage their investments and prefer to work with a

financial advisor. Kathleen Kendziorski, a registered investment advisor in Seattle, Washington, discusses the basics of financial planning and how to choose a financial planner.

Community investing has the potential for a more direct impact on society than traditional investments. Chuck Matthei, a leading advocate of community investing, explains the value of directing investments into underfunded programs such as low-income housing and worker-owned businesses.

The South Shore Bank of Chicago has become profitable by making loans in the low-income area in which it is located. In "Socially Responsible Banking" we look at the national model of a community development bank.

Churches, primarily at the national level, have been active in SRI. Darrell Reeck looks at that activity and explains how churches can get involved.

Finally, there is a list of resources—directories, newsletters, and research organizations—for those seeking more specific information.

The underlying theme of the socially responsible investment movement is the demand for ways to invest money consistent with one's values. Baby boomers, whose values were crystalized in the 1960s and early 1970s, are now advancing in their professions and have money to invest. As this generation, as well as those in other age groups, looks at how its money is invested, including pension funds, and college and church endowment funds, there will be the potential for a dramatic change in the way capital is used in the U.S. economy. 🍏

Glossary

Bond: Debt in which a government agency or corporation agrees to pay a specified interest and repay the principal over a designated period of time.

Capital Gain: Profit from the sale of a stock (or other asset) at a higher price than for which it was purchased.

Commission: A broker's fee for buying or selling securities. A mutual fund commission is often called a load.

Dividend: Payment from the profits of a corporation to its shareholders.

Mutual Fund: An investment company that offers shares of its portfolio of stocks and bonds with gains

or losses distributed to shareholders. The individual investor gets the advantages of diversified investments and professional management.

Prospectus: A legal document that must be given to every investor who purchases registered securities.

Revolving Loan Fund: A nonprofit organization that takes loans from investors and makes loans to community programs, such as low-income housing or worker-owned businesses.

Securities and Exchange Commission (SEC): Organization created by Congress to enforce securities laws and protect investors.

Stock: Ownership (equity) shares of a corporation.

Socially Responsible Investing

What It Is, Where Is It Going?

The following interview provides a look at socially responsible investing (SRI) from the perspective of three of its best known practitioners. The McKenzie River Gathering Foundation, based in Eugene, Oregon, sponsored the 1986 Socially Responsible Investors Conference. Rob Baird had the opportunity to interview: Joan Bavaria, founding president of the Social Investment Forum, the field's trade association, and president of Franklin Research and Development Corporation (Franklin), an investment management firm in Boston; Amy Domini, author of Ethical Investing and an investment counselor and vice president of Franklin; and Chuck Matthei, director of the Institute for Community Economics (ICE), which operates the largest community-based revolving loan fund in the country.

CUE: What is socially responsible investing (SRI)?

MATTHEI: The most basic definition is the application of social as well as financial criteria in making an investment decision. In practice it means different things to different investors. Social values and priorities differ from case to case. The one issue that has clearly drawn the greatest attention and investor response is divestment in South Africa. At latest count, \$80 billion has been ordered divested from companies doing business in South Africa. The volume of capital managed with more extensive social screens is much smaller, but still significant—in the hundreds of millions—and growing quite rapidly. Social investing ranges from the application of social screens to conventional stocks and bonds to, at the other end of the spectrum, loans for investments in community development.

CUE: Why is there a growing interest in SRI?

DOMINI: What usually gets people interested is this kind of realization: I work three afternoons a week for Physicians for Social Responsibility and I'm getting dividends from General Electric. This doesn't make sense. If I looked at your checkbook, I'd know you pay \$110 for a pair of shoes and give \$10 to the Girl Scouts. I'd have an idea of your priorities. If I looked at your stock portfolio, you would be a rare person if I could get any idea of what you cared about. Money is very personal. The last thing you

will tell anyone is how much money you make or how much is in your stock portfolio. It's that intimate, yet you haven't integrated it into your life.

CUE: Rather than SRI, why not make as much money as possible and then decide where to give charitable donations?

BAVARIA: We are a total system. In the end there is no way to divorce the ethical decisions from your investment portfolio. At some level people are making decisions on a social basis anyway. It becomes a question of whether you can have the same results in an ethically integrated portfolio. We think that question will be resolved irrefutably with a resounding yes. You can definitely have the same performance, so why not integrate your social values?

MATTHEI: Many people are skeptical of the results. What is happening now is that all the funds of all different types are building a track record that will overcome that skepticism. The fact is that the Franklins, the Calverts, and the Working Assets are posting returns comparable to unscreened portfolios.

CUE: In your experience, are you seeing that companies that have a more progressive approach outperform others?

You can definitely have the same performance, so why not integrate your social values?

BAVARIA: It would be presumptuous to draw that correlation. What you can say is that they are smart companies. They aren't ignoring the bottom line, but they are sensitive to what's going on around them and sometimes they are survivors because of that.

CUE: It is often difficult to cite relationships of cause and effect. Can you cite instances where a company has been motivated by the SRI movement to change some of its policies?

BAVARIA: One of the more recent and most outstanding is that AT&T has divested from South Africa and is offering its employees a South-Africa-

free pension alternative. They have a very broad employee base and the employees and shareholders gave them a lot of trouble.

There are a lot of other small anecdotes. One of the funnier ones is that we at *Insight* [Franklin's newsletter] write up companies and recommend buying or selling a stock. We wrote up Pitney-Bowes [maker of office equipment] at one point as a buy. Then it became very expensive and faded away. Pitney-Bowes called us up and said, "What did we do?" We have a lot of interchanges like that.

CUE: What would you suggest for the small individual investor?

BAVARIA: When you are just starting to save money you naturally start at a bank, and it gradually becomes big enough until you think of more creative investments. You might think about credit unions rather than the international bank. Credit unions are by definition neighborhood organizations that keep capital in the same neighborhood. There are some banks that are neighborhood-oriented. When you have several thousand dollars, the next step is a mutual fund. Unless you have \$100,000 or closer to a quarter of a million it's very difficult to be an investor in the stock market.

CUE: How can people dealing with a board of trustees convince them to shift investments for which they are responsible?

BAVARIA: If they are trying to convince a board or individual trustee, one of the first parameters is to remember that the money doesn't belong to the trustees—it belongs to you or to a church or to a pension. The ownership is really not with the board, the board is to serve the owner. If you're convinced of that, you will go a long way. They are usually concerned that they will be sued for negligence by some-

one down the line or that they aren't going to meet their income requirements. You need to show them the records of existing social investment funds, and say this isn't true. We can prove that you can do just as well with social screens applied to a portfolio. You need to provide them with the data that they need to feel that they are not taking undue risk, and let them know that you are the owner and you have rights, too.

We are beginning to see mainstream interest. It's not just on the fringes.

CUE: Another option for socially responsible investors are community loan funds. How do they work?

MATTHEI: Over the last six years almost 200 investors, individual and institutional, have committed a total of almost \$4 million to our loan fund on a variety of terms. We have taken that money and made about 150 loans to community development projects in 20 states, and wonder of wonders, we haven't had a single loan loss yet and we've never been a day late in payment to a lender. The social performance has been just as exciting. We did a brief survey of our housing loans. We found that in \$500,000 of housing loans, we've leveraged at a rate of five to one. That means that for every dollar that we put directly into those projects more than \$5 comes from conventional sources that would not have flowed unless we came up with the missing piece of the financing package. Who benefits from that housing? Look at the complexion of deep poverty in the United States; we are



Amy Domini



Joan Bavaria

building houses for those people and successfully financing them.

CUE: What can be done to keep capital in the local area?

MATTHEI: What's needed is both public and private activity. We've spent most of the day talking about what investors can do in the private sector. The social investment movement is also in some sense a grassroots political movement. This movement can help build a constituency that can build more effective public policy. We ought to be looking at how public agencies dispose of publicly held property. We should insist that every public agency give first consideration to economic institutions that have the greatest benefit for the community over the long term. We should be willing to take even more aggressive action if that's what required. In New Bedford, Massachusetts, the mayor threatened to use eminent domain power to seize a factory to protect it from becoming a runaway shop to Taiwan, leaving the community in shambles. We need to recognize where the community has created value and assert our legitimate interests as a public body.

What would a just economy look like and how will we get there?

Finally, I think we need to hold the private institutions more accountable. In Massachusetts we have an organization called the Massachusetts Urban Reinvestment Advisory Group. It monitors bank compliance with the Community Reinvestment Act [CRA]. CRA doesn't go far enough, but it at least says that banks have some responsibility to the communities in which they are taking all that money. A CRA challenge in Chicago resulted in a \$135 million settlement from the major banks and a commitment to mortgage money to neighborhood housing development.

It's a movement on several levels. It's a movement on the grassroots level wherever it's conducted. It's a movement of accountability to private institutions. It's a movement to change the focus and priorities of public policy.

DOMINI: If you want a prediction, community investment is going to be the area you are going to hear most about in the next few years. This is what people are looking at at the national level. The Episcopal Church nationally divested from South Africa. The next area of study is community development, not divesting weapons.

CUE: Are institutions willing to accept a lower return that may result from community investments?

DOMINI: Institutions are created for some social purpose. South Africa made them aware that they have money and that it was working in conflict with their social values. Now they are interested in a positive step. They are studying community investing as one positive step.

CUE: What directions are emerging in the SRI movement?

BAVARIA: We are beginning to see a mainstream interest in what we are doing. I don't think anything gets done in this country unless it reaches the mainstream. We are a middle class society. Any invention is started by "mad artists" and then others pick up the idea. I think that's what's happening now. Union and public pension funds are beginning to get interested. It's hitting people it never hit before. It's not just on the fringes.

CUE: What efforts are being made to expand interest in SRI?

BAVARIA: The Social Investment Forum has engaged in a public relations effort where we are appearing on television programs. The media have been very kind to us and written good things about us. Some less than good things, too, but that's just part of public debate. There are various kinds of educational seminars. Amy wrote a book; there are some of us who are publishing. There is a lot of outreach, networking, and public relations involved. Last, but not least, we are striving to achieve excellent performance and be wonderful professionals.

Money is power. The investment of money can become the exercise of power.

MATTHEI: I think this movement is moving out of its infancy, but is still a very small child. We've achieved the goal of putting the concept before the public—at least there is initial recognition in quite a number of quarters. Clearly the next step is a lot of promotional activity—spread the word and debunk the myths. Over time, there are going to be some legislative issues, particularly regarding pension fund investments. Pension funds, in the foreseeable future, will account for about half the value of the American economy. There is the potential to redirect the economy in fundamental ways. It's important for us to grow as a movement, not simply to look outward but to look

inward. There are a lot of difficult and challenging questions about the nature of wealth, where it comes from, and how it is used. What would a just economy look like and how will we get there? We need to look outward and publicize the very credible record we've assembled, but we also need to look inward and be willing to challenge ourselves and one another.

CUE: Has the Social Investment Forum considered setting up guidelines, so that as the SRI movement grows it has a credible reference?

BAVARIA: Yes, the Social Investment Forum does have a code of ethics that is reasonably broad, and asks members to subscribe to certain disclosure and honesty requirements. What the forum does not do is evaluate members. The only mechanism we have now is the reports of other members. Certainly over time we hope to refine those processes. I think it is very important.

CUE: Will SRI have an impact beyond an individual's investments being "clean"? Will it have a social impact?

BAVARIA: The South Africa situation has been impacted by the divestiture movement. There is not much question that it surprised us. These things have a natural energy, and at some point they take off. I think that what has happened because of South Africa is that people are much more aware of the way

corporate America acts in other countries. You can see the research beginning to broaden to the Third World. Are corporations abusing or taking advantage or are they supporting the local economy?

DOMINI: Money is power. The investment of money can become the exercise of power. The first woman who chained herself to the courthouse door didn't get the vote. She didn't get the respect of her family. She didn't get anything. It takes a lot of people to make a major social change. It takes people doing it from all directions. It takes people who are willing to chain themselves to the courthouse door, build shanty towns on campuses, work through the court system, a shareholder action group, a divestiture group, direct investment—whatever it takes—a multi-pronged approach is needed to create social change. ♣

Socially Responsible Credit Card

Would you like to help stop the arms race and feed the hungry every time you say, "Charge it"? It's now possible. The managers of Working Assets Money Fund have established the Working Assets VISA card.

When someone signs up for a card, \$2 of the \$22 annual fee goes to nonprofit organizations such as Sierra Club, Oxfam, and Amnesty International. Each time you use your card, 5¢ goes to the same groups. The interest rate is 17.5 percent.

The Working Assets Money Fund is a money market account that avoids investing in firms that manufacture weapons or pollute the environment. Shareholders were surveyed to find out what other financial services were desired. The number one response was a credit card. Although some of the Working Assets board members felt that they should be creating ways to save money rather than spend it, the shareholders got what they wanted.

For more information, contact: Working Assets, 230 California St., San Francisco, CA 94111; 415/989-3200 (collect).

SRI Around the World

SRI is not confined to the United States. Canada has two SRI mutual funds. The Solidarity Fund of the Quebec Federation of Labore invests in Quebec companies with good labor records. Vancouver City Savings Credit Union, Canada's largest credit union, opened its Ethical Growth Fund in January, 1986, using five social criteria. The Canadian Social Study Group (246 Queen St., Ottawa, Canada, K1P 5E4) has a directory of Canadian organizations involved in social investing.

Great Britain has an array of mutual funds, community lending banks, and a venture capital fund for social investors. The Stewardship Unit Trust was the first mutual fund and excludes companies in South Africa or those involved in arms, tobacco, alcohol and gambling. It was started in 1984 by the Friends' Provident Society Insurance Company in Dorking, Surrey.

The Financial Initiative in Salisbury, Wiltshire, is for investors wanting to support the start up of "humanely and ecologically worthwhile" ventures. The Ethical Investment Research and Information Center (9 Poland St., London, W1V 3D6) publishes a quarterly newsletter on ethical investing in Great Britain.

Australian investors can participate in August Investments in Sydney, the first company there to use ethical criteria. The Southern Cross Capital Exchange was modeled after community banks in Germany and Great Britain and lends to a variety of "ethical projects."

Socially Responsible Investment Funds Guide

This brief guide includes a chart of financial information and a description of investment guidelines for funds that screen their investments based on social as well as financial criteria. Note that the term "socially responsible" is relative. Each fund applies a very different set of criteria.

The New Alternatives Fund, South Shore Bank,

and the Parnassus Fund seek out a particular type of positive investment (such as solar energy), which tends to exclude negative investments (such as weapons or nuclear power production, operations in South Africa). Other funds also seek positive investments, but are more specific on what they exclude. An example of how different these funds can be is that

	Minimum Investment	Date Started	Ave. Annual Total Return 1983-86*	12 Month Total Annual Return**	Sales Fee	Total Assets (millions)
Mutual Funds:						
Calvert Social Investment Fund	\$1,000	1982	15.8%	21.16%	4.5%	104.3
Dreyfus Third Century Fund	\$2,500 (IRA-750)	1972	14.0%	12.61%	0.0%	152.7
New Alternatives	\$2,650 (No IRA)	1982	14.9%	30.26%	6.0%	2.0
Parnassus Fund	\$5,000 (IRA-2000)	1985	10.6%	23.82%	3.0%	3.3
Pax World Fund	\$250	1970	16.5%	15.14%	0.0%	53.8
Lipper General Equity Fund Average (Lipper Analytical Services)	—	—	—	22.22%	—	—
Money Market Funds:			Current Yield			
Calvert Social Investment Fund	\$1,000	1982	5.24%	6.16%	0.0%	61.1
Working Assets Money Fund	\$1,000	1983	5.14%	6.06%	0.0%	105.5
South Shore Bank "Development Deposits"	\$2,500	1973	5.40%	6.34%	0.0%	48.0***
Donoghue's Money Fund Average (Donoghue's Money Fund Report)	—	—	5.30%	6.19%	—	—
<p>This information has been obtained from sources we believe reliable, but cannot be guaranteed. In addition to the above information, an investor should examine a fund's social screen and a fund prospectus.</p> <p>*Ave. Annual Total Return: calculated for four years (two for Parnassus Fund) ending 12-31-86.</p>			<p>**Mutual fund 12 month total returns, through 2-26-87, from Lipper Analytical Services. Money market 12 month yield and current 30 day (except South Shore Bank) yield from Donoghue's Money Fund Report.</p> <p>***Development Deposits program includes \$14 million in money market and \$34 million in certificates of deposit.</p>			

Pax World Fund is the most thorough of all in excluding military and weapons-related products, while Dreyfus Third Century Fund does not specifically screen this area. Calvert Social Investment Fund and Working Assets have the most comprehensive social screens.

There are also some mutual funds that have a partial screen or do not have a specific social screen, but are often used by socially responsible investors. The Pioneer Group (60 State Street, Boston, MA 02109) has five funds and an unwritten policy not to invest in alcohol, tobacco, gambling, or South African companies. A number of mutual funds invest primarily in certificates of the Government National Mortgage Association. Known as "Ginnie Maes," this investment represents partial ownership in a pool of mortgage loans. This type of fund is used since, at present, there are no socially screened bond funds.

Municipal bond funds are also used. Municipal bonds are issued by local governments (e.g., state, county, city) and the interest earned is not subject to federal income taxes. Money from the bond sales is used by government agencies to support schools, housing—or nuclear power plants. When using a partially screened or unscreened fund, it is advisable to review a list of the fund's holdings to be sure you know in what enterprises you are investing.

A summary of the financial information for the socially responsible funds is on the previous page. The minimum investment varies quite a bit among funds. Two of the funds have lower minimums for Individual Retirement Accounts (IRAs). The "Average Annual Total Return" column compares the return of the funds from 1983 through 1986. The next column, "12 Month Total Annual Return," indicates the return for 12 months ending February 26, 1987. The Lipper General Equity Fund Average and Donoghue Money Fund Average are averages of money market and mutual funds in general and are included for comparison purposes. The mutual funds should not be compared directly because they have varying investment objectives as indicated at the end of each social criteria summary.

SRI Funds Social Criteria

Calvert Social Investment Fund, 1700 Pennsylvania Avenue, NW, Washington, D.C. 20006; 800/368-2748

The fund invests in companies that: deliver safe products and services in ways that sustain our environment; are managed with participation throughout the organization; negotiate fairly with workers, provide a good work environment and opportunities for women and minorities; and foster human goals such as creativity and responsibility. It excludes companies primarily engaged in nuclear energy,

business activities in South Africa, and the manufacture of weapons systems. Investment objective: growth and income.

Dreyfus Third Century Fund, 666 Old Country Road, Garden City, NY 11530; 800/645-6561

This fund invests in companies that show evidence in the conduct of their business, relative to other companies in the same industry, of contributing to the enhancement of the quality of life in America. A company's record is considered in the areas of protection of the environment, occupational health and safety, consumer protection, and equal employment opportunity. In 1986, Dreyfus decided to exclude companies operating in South Africa. There is no screen for the military industry. Investment objective: growth.

New Alternatives Fund, 295 Northern Boulevard, Great Neck, NY 11021; 516/466-0808

The fund invests in companies that have an interest in solar and alternative energy development. The fund states that alternative energy by its nature is an affirmative investment that tends to exclude atomic weapons, South African investments, and environmental polluters. Investment objective: long-term growth.

Parnassus Fund, 244 California St., San Francisco, CA 94111; 415/362-3505

The fund takes a "contrarian" approach by buying stocks that are out of favor with the investment community. This is done when a company is financially sound and also has a good record in these five qualitative "renaissance" factors: 1) the quality of products and services; 2) market orientation, staying close to the consumer; 3) sensitivity to the community where it operates; 4) treatment of its employees; and 5) ability to innovate and respond well to change. Investment objective: long-term growth.

Pax World Fund, 224 State Street, Portsmouth, NH 03801; 603/431-8022

The fund invests in companies that are not engaged in manufacturing military or weapons-related products, or in liquor, tobacco, or gambling industries. Seeks out companies with fair employment and pollution control policies. Excludes companies operating in South Africa with the exception of those providing food and medicines. Investment objective: income and, secondarily, growth.

South Shore Bank, 71st & Jeffery Blvd., Chicago, IL 60649; 312/288-7017

South Shore Bank has a "Development Deposits" program that seeks deposits from all over the country to support its innovative lending program in low-income Chicago neighborhoods (see "Socially Responsible Banking," page 18). Accounts available include savings, checking, money markets, and certificates of deposit at competitive rates. Every depositor is insured up to \$100,000 by FDIC. Investment objective: income.

Working Assets Money Fund, 230 California Street, San Francisco, CA 94111; 415/989-3200 (collect).

The fund seeks investments that create jobs and develop the American economy, such as housing and small business, promote the advancement of women and minorities, and bargain fairly with employees. It avoids firms that pollute the environment, manufacture weapons as a principal business activity, generate electricity from nuclear power, or have a substantial presence in a foreign nation controlled by a repressive regime such as South Africa. Investment objective: income.

How a (SRI) Mutual Fund Works

An Interview with Jerome Dodson

Jerome Dodson is president of the Parnassus Fund. He was formerly president and co-founder of Working Assets Money Fund. He was interviewed for CUE by Rob Baird.

CUE: What is a mutual fund?

DODSON: A mutual fund is a registered investment company. The term "mutual fund" is just a nickname. It is registered with the Securities Exchange Commission (SEC). It is a way for investors to pool their resources to get professional management. If you buy shares in the investment company, that entitles you to a percentage of its profits or income. The mutual fund invests the proceeds from the sale of its shares in shares of other securities, whether it's stocks or bonds.

CUE: Mutual funds are very popular. What advantages do they have over other investments?

DODSON: The advantage is for smaller investors. By that I mean under \$100,000. The reason people like them is that first of all you get diversification. Say you had \$10,000 to invest and you wanted to spread it out over 20 different stocks. If you divide 20 into \$10,000 you have \$500. You generally can't get a round lot, it's just too small. A round lot is 100 shares, and it is difficult to buy fewer than 100 shares, and you would be charged a higher commission. You have more safety in a mutual fund because it is diversified.

Professional management is the second advantage. Most people don't enjoy making investment decisions about specific companies. They would like to turn it over to a third party who has enough information.

CUE: What actually happens to my money when I send it to a mutual fund?

DODSON: You make out your check to the fund, and it goes to the transfer agent. In the case of the Parnassus Fund, we are small so we are our own transfer agent. In a lot of cases they will have a bank or computer company as the servicing agent.

They open the envelope and deposit your check at a custodian bank. Every mutual fund has to have a custodian bank to hold its securities and cash. The fund never actually has your money, it really goes to

the custodian bank, which handles everything. The fund provides the management. The fund manager gives instructions to the bank to put the money in stocks, bonds, money market instruments, or keep it in cash.

CUE: How do you receive earnings from the fund?

DODSON: Usually they are paid out once or twice a year. You get capital gains and income dividends. They are usually automatically reinvested to buy more shares in the fund or you can take it out in cash.

CUE: There are many different types of funds. What are the different funds trying to accomplish?

DODSON: The three major types are a stock mutual fund, a bond mutual fund, and a money market mutual fund. Originally they were all stock funds or equity; you were a part owner in the companies you invested in. If you invested in a mutual fund and it invested in 20 companies, then the mutual fund shareholder was part owner of all 20 companies. They are the most aggressive investors. They take a reasonable amount of risk to get a much higher return.

Another type is the bond fund. This is for people who just want income. They don't want capital gains or to take many risks. This fund will invest in corporate bonds, U.S. government bonds, or Ginnie Maes, the Government National Mortgage Association, which supports housing. In essence you are lending money to the corporation or the government.

The third type is the money market fund. It is similar to putting money in the bank—you can take it out any time. The interest varies. A couple of years ago it was 15 to 16 percent and now it is down to 5 or 6 percent. They just buy short-term money market instruments like certificates of deposits in banks or commercial paper [short-term loans] from corporations.

CUE: There are a lot of mutual funds now; what would convince me to choose one over another?

DODSON: The three reasons are past performance, the investment philosophy, and the manager. For past performance you look at how the fund has done in the past few years, up to five years.

The investment philosophy is another way. You might want to look at a fund that specializes in small companies or one that invests in larger, more stable companies, or ones that are contrarian, that look for companies that are out of favor. It depends on what philosophy you are most comfortable with. The third reason is that you like the fund manager.

CUE: What is the minimum investment?

DODSON: Minimums vary. In some you can start with as little as \$100 or \$200. Most require \$1,000 to several thousand, some as high as \$25,000. Typically they are below \$5,000.

CUE: Do mutual funds charge fees?

DODSON: It depends on the type. There used to be pretty clearly two types: a load fund and a no-load fund. A load fund was sold by a broker. The load was compensation for the broker's time looking for a fund, explaining it to you, or giving you service. Typically the load was 8-1/2 percent. The no-load fund didn't have any sales charge. The fund was sold through ads in the paper and things like that.

More recently, this has been breaking down and they have what they call low-load funds, which is 3 percent or less. They also have what is called a 12b-1 charge in which the fund takes a percentage of the assets each year. You may say that's not so bad, but one-half of a percent per year begins to add up for the long-term investor. There is also what they call a redemption charge or back end load. To redeem your shares you have to pay a fee. It's hard to say which is the best, but you should be aware of all the different kinds.

CUE: What's involved in adding the use of social criteria to a mutual fund?

DODSON: It does create a lot of work. You have to investigate things like a company's environmental protection policy, if they are defense department contractors, if they discriminate against minorities. You get some of that from government reports. Investor newsletters like *Insight* have good information. Most of the funds do the research themselves.

CUE: At Working Assets you said you excluded certain things such as weapons manufacturers. At Parnassus, you take the other approach and look for positive attributes.

DODSON: Right. At Working Assets they don't go out and visit companies. They use government reports. I am more interested in the intangible qualities, like how a company treats its employees, than the negative one of whether they violated the National Labor Relations Act. Just because a company hasn't violated that act, doesn't mean it's a good company as far as labor relations go.

CUE: How do you feel about the view that using

social criteria automatically reduces your return?

DODSON: In theory it does, because if you exclude certain investments, you don't have as many investment opportunities. There are still enough investments around to be able to get a return as good as any other fund.

CUE: Are socially responsible investment funds doing just as well financially as other funds?

DODSON: Over the past couple of years they have been doing just as well.

CUE: Do you think that over time they may do better because they use a social criteria?

DODSON: That's quite controversial. I think it is true myself, but I wouldn't want to push it too far. If you take an example, say Delta Airlines versus United. Both are successful and quite large. United treats people like automatons. They are not a very enlightened employer, they are very hierarchical. Delta treats their employees very well. At the Christmas rush you will see executives moving baggage. You would never see that at United. I would invest in Delta. In the long run I think Delta will do better because of the support of its employees. They are going to work harder and there will be good labor relations. It's going to be a much better operation. Now you look at United; it's large and they have done very well, but over time Delta has been more profitable. When the executives and management are more enlightened, they are going to do better. I don't have a study to back it up, that's my opinion. I want to see if in the long run—three or four years—I will be able to get a return better than the market averages by using this social investment philosophy. 🍏



Jerome Dodson. Photo by Janet Fries.

Finding a Financial Planner

An Interview with Kathleen Kendziorski

Kathleen Kendziorski is a registered investment advisor with Financial Network Investment Corporation in Seattle, Washington. She was interviewed for CUE by Rob Baird.

CUE: What is financial planning?

KENDZIORSKI: Financial planning is looking at all aspects of a financial picture: where is your money, where is it going, taxes, cash flow, insurance, and emergency situations that may arise. Then trying to identify goals. I always ask, "What do you want to accomplish?" And finally, working toward those goals in a way that is comfortable; be it levels of risk or a concern for socially responsible investing (SRI).

Financial planning is an ongoing process. Some of it may be very specific issues such as where to put my Individual Retirement Account (IRA). Nothing is cast in concrete; things change, you change. A financial plan is flexible.

CUE: Why do people need a financial planner?

KENDZIORSKI: We put more time into planning our vacation than we do into our financial plan. We also don't have information about investment options. Particularly for women, we have been left out of discussions about money. The goal of a financial planner is to give you more information so you can make a better decision.

CUE: How do you find a financial planner?

KENDZIORSKI: You're looking for a professional just like any other. So what do you do first? You talk to people that have financial planners. You ask your friends or family, "Are you working with someone you like?" Second, if you have access to other advisors: an attorney, a certified public accountant (CPA), ask them. If you know people who have money and are investing, and they may not necessarily be friends or family, ask them. Shop around. Don't just talk to one, talk to five. Usually financial planners give a first interview free.

CUE: Are there specific questions you should ask financial planners?

KENDZIORSKI: Definitely. You want to know if they have other clients in your situation; whether you are just starting out or have a \$5 million portfo-

lio. You want to know about the planner's experience and background and how they approach financial planning. In that conversation you should get to: What are my goals? What am I trying to accomplish? The idea is that they are working toward my goals, not their goals. They are not trying to get me into a certain kind of approach because all their clients use that approach.

Another question to ask is, "How do you make your money?" I explain the three ways that financial planners make money. The final thing is to ask for a referral. Talk to one of their clients. Ask the client what their goals are, do they feel they have been serviced well, is their planner accessible?

CUE: What is the most important thing to find in a financial planner?

KENDZIORSKI: You are looking for a couple of things. A sense of communication; what you are saying as a client is being heard by the advisor. You want someone who can communicate back to you in a way that you can understand. Not, "I'll take care of it for you, dearie, don't worry about it." Nor the other side, where they give you so much detail that you walk out of the place spinning from too much information. Ultimately, you are looking for someone that you can trust. Do they show genuine concern about you?

You know what happens? After talking with two or three planners you come out of it thinking: I'm most comfortable with this person or that person.

Ultimately, you are looking for someone that you can trust.

CUE: What are the three ways that financial planners make money?

KENDZIORSKI: One is that they charge a fee and they do a comprehensive financial plan. That fee ranges anywhere from \$500 to thousands depending on how complex it is. Some will give you a plan for

you to carry out on your own. Others will facilitate your carrying it out, but will not take a commission. They use products with no load. Some of them will monitor these plans on an ongoing basis for a retainer or on an hourly basis.

There are some planners who make their living by receiving a commission. Therefore all the up front time and energy and the plan they prepare for you have not been paid for. But they expect that once you begin investing that will generate a commission.

The third type of planner is one that combines the two, which is what I do. I can charge a fee from \$500 to \$2,000 and I can carry out that plan. In the process there may be investments that pay a commission, but I am no longer biased or forced to recommend an investment with a load.

CUE: Investing is more fun than insurance, but financial planning does address insurance.

KENDZIORSKI: You have to manage your risk. There is a risk that you may die and your family depends on your income. The chances are low, but possible. For an inexpensive price you can manage that risk, i.e., term insurance [the cost increases as the insured ages]. Now if you cannot save and yet you are committed to paying your bills, then maybe a universal life or variable life [combines life insurance and savings] is a better investment because it is a forced savings program.

Disability income is the same thing. Who would be hurt if you were disabled and to what degree would they be hurt? What happens to you, your mortgage, emergency fund or other investments? I approach it on every level. What would happen if your health turned bad?

I want people to think about if they are adequately covered, make a conscious decision, and then tell me, "I'm not going to do that but I thought about it." If that's the case, fine, it's your decision and your life. I'm not going to force the issue, but I don't want people to make a decision by default.

CUE: *Consumer Reports* did a cover story on financial planning with the subtitle: "What are they really selling?" Brokers sell stocks, insurance companies sell insurance, but they all call it financial planning.

KENDZIORSKI: What is the approach you take to financial planning? If someone has an insurance background and says these are the investments I use and they are all insurance products, then you know your planner is quite parochial and would have a limited outlook. You want someone who deals with all types of investment options. Ask the person: "What is your bias?" or "What is the typical portfolio for someone in my situation?"

The title of financial planner is abused. The Inter-

national Association of Financial Planners and others are trying to address that problem. I always say to people, "It's your money. You're responsible. You're going to have to make decisions. You are just asking for someone to help you make those decisions."

CUE: In talking with a planner is there a way to find out how much they know about SRI?

KENDZIORSKI: That's a good question. A lot of people say they are interested in SRI, but what do they do in regard to it? My first question is what types of investments do they tell their clients about? Are we talking about just the Calvert Money Market or Managed Growth Fund or about the whole array of options? Second question: Do they deal with individual stocks and have information about their social responsibility? Question three is more global: What types of tools and approaches do you take to help me define what is important to me in terms of ethical investing? The answers will give you a sense of their approach.

I have seen a major problem with people who say they are interested in SRI but don't have access to resources. I've been flabbergasted by some people who say they are doing SRI. It is very much a speciality. On top of reading everything else, they have to read the material on SRI. You may be better off getting a referral and talking to some of their clients for a recommendation. 🍏



Kathleen Kendziorski

Investing in Community

By Chuck Matthei

Chuck Matthei is director of the Institute for Community Economics, which provides training, technical assistance, and financing to community development organizations throughout the United States.

In the spectrum of social investment initiatives, *community investment* programs stand out for their unique ability to strike at the roots of economic injustice and express an affirmative social vision. Community investment funds encourage investors to think not only about what they are opposed to, but what they would like the world—and their neighborhood—to look like in the future.

Community investment addresses social needs and opportunities that cannot be addressed through conventional stock and bond investments. Community investment provides housing, employment, and basic human services to those who have been excluded from the real estate and job markets, and it supports the development of innovative, democratic, community-based economic institutions.

The line of demarcation between the haves and have-nots in this society is shifting, particularly in the housing markets, on the farms, and in the industrial heartland where factories and communities are neglected and abandoned and thousands of jobs are lost. Factories owned by distant conglomerates are literally "running away," leaving working-class and middle-class Americans unemployed and disenfranchised, and the plight of the poor steadily worsens—yet much of the critical financing for worker cooperatives, and micro-businesses in low-income communities is not available from conventional capital markets.

Investors who are concerned by these realities, who want to help realize these opportunities, turn to community investment. Community investment involves three basic social commitments. First, it is a commitment to places—to specific communities—and to strengthening the economic and social relationships on which they depend. Second, it is a commitment to the people in those communities who have been systematically disadvantaged or excluded by

prevailing economic forces—a commitment to social and economic justice. And third, it is a commitment to the kinds of projects—*community development* projects—that build an economic base in and for those communities, that effect a just distribution of equity and earnings.

What kinds of investments reflect these three basic commitments? Community investment typically finances businesses owned by workers, consumers, or non-profit organizations—rather than those owned by distant shareholders; it supports community land trusts, housing cooperatives, and nonprofit housing corporations, which provide affordable housing and homeownership opportunities to residents while ensuring that the properties will remain affordable for future residents and will not return to the speculative market.

For the investor, community investment offers a wide range of terms and may take a variety of forms. Investments may be negotiated directly between

Community investment addresses social needs that cannot be addressed through conventional stock and bond investments.

investors and particular community development organizations, but usually they are placed through community development credit unions, development banks, or community development loan funds.

Community development credit unions are established to serve low-income communities. They have the ability to effectively meet the consumer banking and credit needs of neighborhood residents—people who are usually served very poorly, if at all, by conventional banks. Occasionally, as in the case of the

Self-Help Credit Union of Durham, N.C., these credit unions also provide financing for cooperative businesses and community development projects, though federal regulations often make it difficult to do so. The National Federation of CDCUs in New York City serves as an information clearinghouse and also maintains a central fund that invests exclusively in its member credit unions.

In principle, neighborhood banks should serve their communities in a similar manner, but sadly, in this era of deregulation, mergers, and acquisitions, fewer and fewer do so. In fact, control of more and more local financial institutions is passing into the distant hands of people who have little concern for these communities.

One very important exception in the banking industry is the South Shore Bank of Chicago (see "Socially Responsible Banking," page 18), which has had a dramatic positive effect on a previously deteriorating neighborhood. South Shore Bank has been very successful in its own efforts, but unfortunately, few banks are following its example, although groups have organized in Austin, Texas, and Brooklyn, New York, to try to replicate the South Shore Bank model.

Perhaps the most significant, innovative, and rapidly-growing initiative in the field of community development finance is the emergence in recent years of community development loan funds. CDLFs are nonprofit corporations that typically receive loans from a variety of individual and institutional investors, on terms set by the investor (interest rates usually range from 0% to the prevailing money market rates, at the discretion of the investor). CDLFs lend these funds to community-based housing, business, and service projects—with priority given to those projects that address the needs of very low-income people, balance the immediate needs of individuals with the long-term needs of their communities, and strike at the root causes of poverty. CDLFs combine traditional financial skills with first-hand knowledge of low-income communities and development projects, low overhead, and the ability to provide or locate the technical assistance required to help their borrowers make effective use of loan funds. This combination gives them a unique ability to meet and match the needs of concerned investors and community development organizations.

In July of 1986, the National Association of Community Development Loan Funds (NACDLF) was incorporated, and currently has a membership of 28 active CDLFs, with an additional 26 associate members, seven of which are developing funds that will become full members when they commence opera-

tions. Some of these CDLFs are national lenders; most serve particular regions. Some lend exclusively to housing projects, some to cooperative businesses; most lend to a broad range of community development efforts. Together, the NACDLF member funds currently manage \$31 million—but the median growth rate of member funds is currently 40% per year, many funds have only recently begun capitalization, and the potential is tremendous.

The Revolving Loan Fund (RLF) of the Institute for Community Economics (ICE) provides a good example of the potential inherent in the CDLF movement. The RLF was established by ICE in 1979, to complement its program of technical assistance to community land trusts and other development organizations. To date, the RLF has received approximately \$5 million from approximately 200 investors. Eighty percent of these investors are individuals; the balance are religious organizations, foundations, and other nonprofit groups. With these funds, the RLF has placed 130 loans with projects in 20 states (example on page 17). Sixty percent of ICE's loans have gone to community land trusts, limited-equity cooperatives, emergency shelters, and other housing projects; 30% to cooperative businesses; and the remainder to community services such as a nonprofit health center, soup kitchens, and a cultural center in a low-income neighborhood.

The financial performance of the RLF over these past seven years has been excellent. The loan loss rate has been .05% and the RLF has built a loss reserve and endowment of permanent capital totalling



Chuck Matthei (far right)

\$330,000. Other NACDLF member funds also have fine records: any losses sustained (and these have been minimal, except for a few funds engaged in higher-risk business lending, with appropriate reserves set aside) have been amply covered by reserves. The funds have never failed to meet their obligations to lenders.

The social impact of CDLFs has been equally dramatic. A representative sampling of 29 housing loans made by ICE showed that: the loans were directly instrumental in the development of 250 units of housing; 86% of the families housed have low or very low incomes, with the remainder being moderate-income people in mixed-income buildings; 40% of the families are white, 36% Black, 23% Hispanic; and 41% of

The social impact of community development loan funds has been dramatic.

the households are single-parent, women-headed families. This preliminary survey clearly demonstrates the ability of CDLFs to reach deep into the recesses of poverty.

CDLFs are beginning to expose a very prevalent and fundamental misunderstanding of the economics of poverty. Conventional wisdom would have us believe that low-income people are credit-starved because they have too little income and thus cannot afford to repay loans. In fact, low-income people receive, and spend, far more money than it would seem. Over their rental lifetimes, for example, they will often pay many times the market value of the housing they occupy—but they will never have enough credit to purchase their homes, find security, build equity, and leave a legacy for their descendants. The problem lies in the structure of ownership. The land and housing, the employment base, and the financial institutions in low-income communities are typically owned by outside interests, and the money flows out to the owners.

Cooperative community development projects address the problem squarely. But they, too, often find it difficult to borrow the capital they need. They, too, confront the myths of poverty, prejudice against people of color, and women, and communication barriers based on differences of class, culture, language, and style. They confront the reluctance of conventional financial institutions to make small loans, loans to

unconventional organizations, or loans to unsophisticated organizations that may need some counseling, because these loans take too much time, increasing the transaction cost and reducing the profit margin. New organizations also confront the excruciating "catch-22" of community development: they cannot get loans because they lack track records, and they cannot build track records because they cannot get loans. Often it is *only* the social investor who will make the initial loan needed to resolve this dilemma, and CDLFs provide this commitment.

CDLFs, in fact, are both a direct response and a catalyst. In its statement of purposes, the NACDLF and its member funds identify three related missions:

- To assist those who most need capital, providing capital, credit, and technical assistance to projects organized by and for them;
- To engage those who have capital, providing opportunities for socially responsible community investment, stimulating a dialogue on the social and ethical responsibilities of wealth; and
- By example to encourage and challenge those who manage capital, broadening institutional commitments and credit standards to increase the flow of capital to projects that meet community needs.

Directly and indirectly, CDLFs leverage many times the amount of capital that they themselves lend, and open new sources for future development efforts. In some instances, CDLFs provide all of the financing for a community development project, thus enabling the borrower to demonstrate capability and creditworthiness. In other cases, CDLFs provide the "missing piece" of a larger financial package, without which other lenders would not participate and the project could not go forward.

For some years, ICE was virtually the only lender for new community land trusts; now, a number of state housing finance agencies and some banks have begun to lend to these groups.

NACDLF was formed to support member funds, promote community investment, and develop new financial mechanisms to increase the flexibility and volume of CDLF lending. Its first months of operation have been very productive. Its activities include: assembling a national resource library of legal and technical materials, organizing a second national conference of CDLFs, facilitating press coverage of CDLFs, and producing a national directory of CDLFs. NACDLF has also successfully negotiated with the U.S. Treasury Department for a change in tax regulations which removed a barrier to community investment, established a task force to design a national

secondary financing mechanism for community investments, and began work on a model bank line of credit to a CDLF and a seed fund for newly-established CDLFs.

The emergence of the NACDLF is a sign that the community investment movement is coming of age. No doubt more time must pass before these are accepted as "mainstream investments" by institutional portfolio and pension fund managers—and investors will always confront some challenging choices between indiscriminate profit maximization and social commitment—but thousands of individuals and

institutions are making community investment commitments, and a successful record is building fast.

Community investment funds have repeatedly demonstrated their ability to make investment capital serve those in greatest need, while fulfilling their obligations to their investors. There should no longer be any doubt that community investment is not only an important frontier of the social investment movement—a unique response to critical social problems, and an affirmation of our best visions and values—but also a reasonable, financially responsible alternative to investment in traditional securities. ♣

South Atlanta Land Trust

In their first week of residence, the young family who purchased the first house developed by the South Atlanta Land Trust (SALT) had 49 people ring their doorbell to ask how they could get such a home. With help from the Institute for Community Economics' (ICE) Revolving Loan Fund, SALT is working to reverse a decades-long process of deterioration that changed South Atlanta from a secure neighborhood of 700 owner-occupied homes to a poorer community with fewer than 500 homes and less than 40% owner-occupancy.

ICE loans enabled SALT to acquire land and renovate houses, to move eight houses slated for demolition in an airport expansion to vacant lots in the neighborhood, and to purchase an apartment building for conversion to a cooperative. With these loans, SALT leveraged Community Development Block Grant funds and established a credit history that made commercial bank financing possible. Commitments have now been received from local banks and the Georgia Housing Finance Agency.

Cooperative Home Care Associates

Cooperative Home Care Associates (CHCA) is a home health care agency in the Bronx organized as a worker cooperative. CHCA's 100 home health care aides are predominantly women of color. Twenty aides joined the cooperative by spring of 1986, with a goal of 50 new members by fall.

CHCA is unique in many ways: (1) it provides low-income people with the chance to share in

the rights and responsibilities of cooperative ownership of their workplace; (2) its presence has helped raise wages in a poorly-paying sector of the health care business; and (3) it is committed to providing training and career opportunities.

The Industrial Cooperative Association's (ICA) Revolving Loan Fund provided assistance to the co-op in the form of a \$50,000 subordinated loan, which helped to attract an additional \$325,000 in financing. As a development lender, ICA also provides technical assistance and intensive monitoring to the cooperative on an on-going basis.



Homesteader takes turn at cinder block at housing project in New York's Lower East Side.

Socially Responsible Banking: Chicago's South Shore Bank

by Rob Baird

- How many U.S. banks seek advice from a Bangladesh banker on how to make "micro-loans" to low-income women?
- How many banks put more money into low-income neighborhoods than they take out?
- How many banks have a long term commitment to improving the low-and moderate-income neighborhoods in which they operate?

The South Shore Bank of Chicago is the only one out of approximately 14,500 commercial banks in this country that is doing all of the above. And it still turns a good profit.

Why would a U.S. bank even consider making "micro-loans" to low-income women? It started with Ronald Gryzwinski, who was president of another bank on the south side of Chicago, and three colleagues. They were concerned that government and nonprofit organizations were unable to adequately address the problem of pervasive urban decline. He left the bank in 1968 and went to the Adlai Stevenson Institute, then part of the University of Chicago, to try to find an appropriate business structure for an organization that could successfully promote urban reinvestment.

Gryzwinski fixed on the 1970 amendments to the Bank Holding Act, in which a key provision states, "Bank holding companies possess a unique combination of financial and managerial resources, making them particularly suited for remedying our social ills." Gryzwinski was convinced that a bank holding company was the model he was seeking. He and his team then needed to find a bank and a neighborhood in which to test the idea.

By the early 1970s, South Shore Bank was a declining bank in a declining neighborhood. Formerly a white affluent neighborhood, in fewer than ten years South Shore became a predominantly black low-and moderate-income community. Systematic disinvestment in such neighborhoods by banks and insurance companies precipitated the decline. The owners of the South Shore Bank had no experience or interest in

responding to this new clientele. After an unsuccessful effort to move the bank downtown, they put it up for sale.

Gryzwinski and three associates assembled 11 investors, formed a bank holding company in 1972, and purchased the South Shore National Bank in 1973. In addition to the bank, the holding company has three affiliates. City Lands Corporation is a real estate development company that is rehabilitating low- and moderate-income housing and promoting commercial development. The Neighborhood Fund is a venture capital firm that finances minority business. The Neighborhood Institute (TNI) is a nonprofit organization that seeks public and private grants



Ronald Gryzwinski



Cecil Lawrence and his children. Photo by Shlomo Krudo.

to provide assistance in job creation and housing rehabilitation with an emphasis on cooperative ownership. TNI recently organized a for-profit real estate subsidiary to expand its development capacity.

The South Shore Bank and its affiliates have developed effective mechanisms for making credit available to low- and moderate-income people. Since 1973, over \$75 million has been dispersed in "development loans." Bankers have traditionally avoided such lending, assuming they would lose their shirts. Yet the repayment rate on these loans is 98 percent. The total capital invested by the four divisions of the holding company combined exceeded \$150 million at the end of 1986.

Funding Housing Cooperatives

Genesis is an example of South Shore's success. Initiated by TNI, Genesis is a "sweat equity" project in which community members worked eight hours a week for one and a half years to renovate an abandoned 26-unit apartment building. Once completed, workers would be members of the cooperative owning the building.

Cecil Lawrence, a bus driver since 1976, was the first

to apply for membership in Genesis. He had doubts when he saw the building. "It was dirty. The place was boarded up and a section was burned out. It was a total disaster. I didn't believe anyone could transform a place that looked that bad."

Lawrence and 14 other members, with instruction and training from professional carpenters, hammered, painted, re-finished floors, and hung doors. With the building completed in 1982, Lawrence was elected the first president of the Genesis Cooperative. "When you become a member of a co-op, your responsibility changes. You're not just a renter any more. You have to be able to take care of your own building and its problems because nobody else is going to do it for you," says Lawrence. Lawrence's building has become one of the cornerstones of a new TNI program for improving the entire block.

Lawrence recently led training sessions for Genesis Two, a 27-unit TNI cooperative being rehabilitated. Because of the experience, he may pursue professionally the training of co-op members in building management.

Reversing the Money Drain

Gryzwinski and his associates founded the South Shore Bank with the dual goal of initiating a permanent community renewal process and making a profit. The bank has been profitable since 1975 and in 1985 had a 1.1 percent return on average assets (the industry's norm is 1 percent). This has been done by operating on an active policy of reinvestment and bringing a net inflow of capital into the South Shore area. Banks are generally considered to be doing an adequate job if 50 percent of deposits go to loans. Increasing criticism is leveled today at financial institutions because too much is loaned outside the community—often in real estate or foreign loans. Other deposits go into the securities portfolio to boost shareholder profits. South Shore's innovation is to reverse the flow of capital. By policy, 65 to 70 percent of its assets, many of them from outside Chicago through its "Development Deposit" program (see "Socially Responsible Investment Funds Guide," page 8), are in loans of which half are within its community. The remaining assets are kept liquid and are used for normal bank management.

South Shore Bank's success has made it a national model and led it to expand its operations to meet the credit needs of other deteriorating communities. A new branch recently opened in Austin, a large (138,000 people) far west side community in Chicago. The bank and its affiliates will bring their expertise to provide homeowner loans, rehabilitate large-

scale multi-family buildings, and make loans to small businesses. Expansion to a depressed rural area is under discussion.

Benevolent Banking in Bangladesh

In 1983, Gryzwinski and Mary Houghton, the president of South Shore Bank's holding company, Shorebank Corporation, were invited by Dr. Muhammed Yunus to come to Bangladesh and advise him on establishing a bank based on South Shore's experience in community development. Gryzwinski and Houghton were skeptical at first, but after a few visits they realized that the problem in both countries was the same: how to make credit available to low-income people.

Dr. Yunus was raised in an upper class Bangladeshee family. Educated in the United States, he returned to Bangladesh to teach classical economics at Chittagong University. As he walked from his classroom to the village where he lived, he saw extreme poverty. Eighty percent of the people live on a subsistence diet. The benefits of classical economic theory do not reach most Bangladeshees.

Yunus confronted local and national bankers. The vast majority of loans, with rare exceptions, went to wealthy families and industrial enterprises, and defaults were far in excess of American standards. Why not loan to small enterprises and people in villages?

The Grameen Bank was started by Yunus with the goal of creating a credit system that would meet the

needs of Bangladesh's poor people. A group loan technique was developed. To receive a loan, individuals must join a group of five unrelated villagers who "supervise" each other. This credit system, using peer pressure, has resulted in a default rate under 2 percent.

Loans are for amounts ranging from \$60 to \$200 to purchase a cow or buy materials to start a rice husking business. Through mid-year 1986, the Grameen Bank has made over \$30 million in loans through a decentralized system of 226 branches. The bank has improved economic conditions for over 180,000 borrowers. "Grameen Bank's success is a very human one. Breaking the cycle of extreme poverty for individuals creates self-confidence and self-worth," Yunus explained at a meeting in Chicago. "Again and again we have seen that every person, if motivated, can succeed. It is a question of survival and human dignity."

Now South Shore Bank has asked Yunus to assist them by applying the Grameen Bank's experience in getting credit directly to poor individuals. South Shore Bank's first effort in this direction is the Action Center for Entrepreneurial South Shore Women (ACCESS), recently started with its affiliate, The Neighborhood Institute. ACCESS will be involved in making "micro-loans" to individual low-income women that will encourage self-employment and small business development.

South Shore Bank is also seeking to apply these models to rural areas. Gryzwinski recently announced the formation of the Southern Development Bank Corporation (SDBC), which with a \$3.75 million investment from the Winthrop Rockefeller Foundation, will help small business owners, farmers, and others in rural Arkansas. The thrust of SDBC's work in Arkansas will be job creation initiatives replicable in other rural and urban areas.

Other Community Banking Models

South Shore Bank is this country's model of a community development bank. There are other types of smaller financial institutions that are successful in promoting community development.

Credit unions are socially responsible by their nature in the sense that they invest in the local community, making loans (generally consumer loans) only to their members. Small banks and savings and loans also tend to keep money in their community. Many credit unions go beyond local investing and concentrate specifically on community development lending. The National Federation of Community Development Credit Unions (NFCDCU) in New York is an



Dr. Muhammed Yunus

information clearinghouse for credit unions that serve predominantly low-income communities. NFCDCU helps start new credit unions and assists its 100 members in building their management capacity and in obtaining capital for community development loans. The Self-Help Credit Union is an excellent example of a community development credit union. It provides loans and technical assistance to worker-owned businesses and loans for low- and moderate-income housing. Accounts are federally insured and offer competitive rates.

In the last few years, revolving loan funds have sprung up around the country to address the problem of unmet credit needs. These are nonprofit organizations that take loans from investors, who often set their own terms, and provide below market rate loans to community development projects. (See "Investing in Community," page 14.)

Some traditional banks are now funding community development projects, but seldom take the initiative. A coalition of organizations in Chicago, led by the Woodstock Institute and the National Training and Information Center (NTIC), collected data on the lending practices of three of Chicago's largest banks. They found that the banks were not adequately meeting the credit needs of their community. In 1984, they negotiated with the banks to provide over \$170 million in community development loans. In the first two years of operation the banks have had no defaults and are very pleased with the results. Richard Hartnack of First National Bank, which made a large commitment, said, "We're not going to end it when we reach \$120 million."

People who really care about the way banks use their money should go to their banker and say: "I want to see the way you lend your money and where you lend it."

Since the Chicago success, NTIC and the Woodstock Institute have provided technical assistance to citizen groups in other cities around the country including St. Louis, Philadelphia, and San Antonio. Over \$200 million has been allocated by some of the major banks for community development loans.

The tool being used by community organizations is the Community Reinvestment Act (CRA) of 1977. CRA requires federal regulatory agencies to encourage financial institutions to help meet the credit

needs of their local communities and assess how well they meet those needs. If a bank or savings and loan association wants to open a branch office, relocate, or acquire or merge with another company, CRA requires regulators to consider the views of any interested party. Community groups that feel a bank is not meeting local credit need can directly participate in the review process. Banks are required to make public a CRA statement outlining its local community and the types of loans available.

Hopefully, the banks that are now committing money to community lending due to CRA challenges will continue their programs. Becoming a permanent source of urban redevelopment is difficult. According to Joan Shapiro, vice president of "Development Deposits" at South Shore Bank, "It's not easy. You need a long-term commitment. Bankers see much quicker and easier short-term profit opportunities. You need to have committed management in there for the long term and shareholders that buy into it. If your shareholders demand profit maximization and no deviation from standard commercial lending practices, this isn't going to happen. A major barrier is the lack of experience and lack of availability of loan officers sensitive to these issues."

Dozens of bankers have toured South Shore Bank and a few say they are planning to initiate similar programs. Although South Shore bank staff have been generous with their time, Shapiro says that it is not a bank priority to convince other banks to meet the credit needs of their community. She suggests, "People who really care about the way banks use their money should go to their banker and say: 'I want to see your CRA statement. I want to see the way you lend your money and where you lend it. What is the percentage of your assets in loans, rather than your securities portfolio? Of those loans, what percent are actually in our community? What kinds of loans? What percentage of your board or officer core are women or minorities?' In nine out of ten cases the answers to those questions won't be satisfactory."

If a bank is not meeting its community's credit needs, depositors can move their funds to a more responsive institution, possibly a smaller bank or savings and loan, a credit union, or a socially-screened money market account. In the long run, a commitment to community development lending by traditional institutions is needed, whether it comes as a result of a CRA challenge or by the example of successes such as South Shore Bank. Shapiro asks, "Can you imagine what would happen if the big money center banks put half of their resources back into their communities?" 🍏

Socially Responsible Investing and the Church

Dr. Darrell Reeck, C.F.A., is northwest branch manager for Franklin Companies, investment counsel specializing in socially responsible portfolio management. He teaches ethics at the University of Puget Sound in Tacoma, Washington. He was interviewed for CUE by Rob Baird.

CUE: How has the church been involved in socially responsible investing (SRI)?

REECK: Socially responsible investing goes back an awfully long way with the church. It's interesting that capitalism got started in the Reformation. The first capitalist stock company started in Holland in the Dutch Reformation and Jacob Arminius, Netherlands' Reformation figure, happened to invest in it. But somehow capitalism got loose from its moorings and it took the church a long time to begin to react.

In the 1880s and '90s there was great concern about child labor and the ability of labor to organize. The Pope's 1898 encyclical, *Rerum Novarum*, had to do with the right of labor to organize and was important in that movement. Interestingly, one of the founders of the social gospel movement, Walter Rauschenbusch, was concerned about social investing. He wrote in the 1910s about concerned shareholders in cotton mills that were spinning off dust that got in workers' lungs.

Then everything went underground as far as church involvement in social investing until the late 1960s and '70s when the Vietnam War came along. That's when social investing started to mature. At that point it was more universities and foundations, and then churches. University students were concerned about companies that were making products for the armed forces to spray herbicides and napalm.

CUE: What issues are socially responsible investors concerned with now?

Reeck: Now there is a whole spectrum of concerns. We are moving from issue by issue concerns to an integrated approach to financial and social concerns. Society has separated the values that pertain to people's private lives from those of finance and economics. There is a gulf between them. Social investors are trying to bridge that gulf. We're trying to say that we are human beings first and that should

have an impact on our finances. We are trying to unify the two sides of our lives that our culture split. The problem is inventing an investing discipline that really optimizes the financial and social concerns.

CUE: At the national level, is it standard practice for the church denominations to invest pensions and other investments using SRI?

REECK: It is standard. In the case of the Catholic Church, the real action is at the local level: orders and dioceses. Every major Protestant denomination has a social investing program of some sort. The approaches vary, even within particular churches. One of the best is the American Baptist Church, Valley Forge, Pennsylvania. The United Presbyterian Church has a committee of the General Assembly. They are leaders in developing the theory of social investing for churches.

CUE: Are local churches involved in SRI?

REECK: Generally speaking you will find a few local churches with a substantial portfolio, upwards from \$250,000. These churches usually split responsibility so there is a committee on church and society that is very interested in social investing, and a committee on finance or investment that runs the portfolio and is very interested in traditional investing



Dr. Darrell Reeck

and doesn't speak the social language. It is a reflection of our cultural split.

My remedy is that every single investment committee for a local church endowment should have a "token" social activist. That person needs to be able to articulate social investing so that financial people can understand it. You have to speak the financial language. That's not the whole picture because there are local churches that have taken social investing seriously.

CUE: What would you suggest for a local church interested in SRI?

REECK: First of all they have to decide what sorts of resources they have and how long they can commit them. Even a church that is saving for a building fund can invest those short term resources in a socially responsible way. If they happen to be in a denom-

ination with a foundation, for instance the United Presbyterian Church, they can invest their funds in the foundation and they will follow social guidelines in investing those funds. In other cases, they can go shopping for a [socially screened] mutual fund.

They need to go through an assessment process in terms of their social interests as well. What is it in which they want to avoid investing? Too many churches stop there. The second step is: What is it they want to positively support? It's a question of not just divestment, but investment. They can establish their social and financial goals and then they can go shopping. A variety of groups can help them find the right investments. Essentially, I think they are limited to investments in mutual funds, banks that have a particular social responsibility, or possibly credit unions. ♣

Socially Responsible Consuming?

For another angle on "social responsibility," consider two new books and two publications that help consumers (and investors) find out more about the companies from which they buy products.

Rating America's Corporate Conscience evaluates the social performance of 130 companies and their brand name products. The 500 page book is published by the Council on Economic Priorities (see Access) and is available for \$14.95, paper, and \$21.95 hardcover.

NFA's Guide to Boycotting the Nuclear Weapons Industry provides an analysis of the top 50 nuclear contractors and information on how to boycott their products. Published by Nuclear Free America (see Access), the 96 page book costs \$6.00, paperback.

A number of organizations are sponsoring boycotts of specific companies. INFACT, which ran a successful boycott against Nestle, has now targeted General Electric. GE is involved in more nuclear weapons systems than any other company. For information on a number of consumer boycotts, subscribe for \$5 a year to *The National Boycott Newsletter* (6506 28th Ave., NE, Seattle, WA 98115, 206-523-0421).

To direct your consumer dollar to cooperative or worker-owned businesses, join Co-op America (2100 M Street, NW, Suite 310, Washington D.C. 20063, 800-424-COOP), which publishes *Building Economic Alternatives*. The Summer 1986 edition lists 15 groups that import products made by Third World people.

ACCESS: Community Development Lending

Industrial Cooperative Association, 249 Elm St., Somerville, MA 02114, 617-628-7330

Institute for Community Economics, 151 Montogue City Rd., Greenfield, MA 01301, 413-774-7956

National Association of Community Development Loan Funds, 151 Montogue City Rd., Greenfield, MA 01301, 413-774-7956

National Federation of Community Development Credit Unions, 29 John St., Rm. 903, New York, NY 10038, 212-513-7191

National Training and Information Center, 954 West Washington Blvd., Chicago, IL 60607, 312-243-3035

Self-Help Credit Union, 413 East Chapel Hill St., Durham, NC 27701, 919-683-3016

South Shore Bank of Chicago, 71st and Jeffrey Blvd., Chicago, IL 60649, 312-288-7017

Woodstock Institute, 53 West Jackson Blvd., Ste. 304, Chicago, IL 60604, 312-427-8070

ACCESS: Socially Responsible Investing

Directory of Socially Responsible Investments, Funding Exchange, 666 Broadway, 5th Floor, New York, NY 10012, (212) 260-8500, \$7.00, Second Edition

This 1986 directory lists investment funds and advisors, community investment funds, and resource organizations. It includes two excellent introductory articles.

Social Investment Services, The Social Investment Forum, 711 Atlantic Avenue, Boston, MA 02111, (617) 423-6655, \$5.00

The Social Investment Forum is the national trade association for the SRI field. The directory is a listing of forum members, including investment funds and advisors, community investment funds, and resource organizations.

Ethical Investing, by Amy Domini, Addison-Wesley Publishing Co., \$17.95, hardback, \$10.95, paperback

The only comprehensive book on the subject. It discusses the basics of investing, incorporating the concerns of the ethical investor.

Catalyst, P.O. Box 364, Worcester, VT 05682, (802) 223-7943

A 12 page bi-monthly publication on alternative investments, including small business, revolving loan funds, and co-ops. Subscriptions are \$25 a year. *Catalyst's 1987 Guide to Social Change Revolving Loan Funds* provides complete descriptions of 25 funds (\$15).

Council on Economic Priorities, 30 Irving Place, New York, NY 10003, (212) 420-1133

A clearinghouse for corporate responsibility information. They publish reports and a monthly newsletter for members (\$25).

The Clean Yield, Fried and Fler Investment Services, Ltd., Box 1880, Greensboro Bend, VT 05842, (802) 533-7178

A six page monthly stock market newsletter that describes and makes recommendations on specific companies. Subscriptions are \$65 a year for individuals.

Good Money Publications, Inc., P.O. Box 363, Worcester, VT 05682, (802) 223-3911, (800) 535-3551

Produces two newsletters: *Good Money*, a 12 page bi-monthly; and *Netback*, a "bulletin board" for the social investment community. Both for \$70 a year. Social audits of specific companies are also available.

Insight, Franklin Research and Development Corp., 711 Atlantic Avenue, 5th Floor, Boston, MA 02111, (617) 423-6655

A one year subscription (\$87.50) includes a quarterly newsletter, monthly market update on 20 companies, 50 in-depth briefs on selected stocks, and quarterly reports on specific industries.

Interfaith Center on Corporate Responsibility, 475 Riverside Dr., Rm. 566, New York, NY 10115, (212) 870-2936

Focuses on corporate social responsibility and shareholder activism. Their newsletter, *Corporate Examiner*, is published ten times a year and is available for \$25. *Directory of Alternative Investments* is available for \$27.50.

NARMIC, 1501 Cherry St., Philadelphia, PA 19102, (215) 241-7175

The National Action/Research on the Military Industrial Complex was started by the American Friends Service Committee as a clearinghouse for information on U.S. military weaponry.

Nuclear Free America, 325 East 25th St., Baltimore, MD 21218, (301) 235-3575

A clearinghouse of information on companies that produce nuclear weapons and their consumer products, and on nuclear free zones. Their bi-monthly newsletter, *The New Abolitionist*, is \$10 a year.

Resource Publishing Group, Inc., 1401 Wilson Blvd., Suite 101, Arlington, VA 22209, (703) 524-0815

Publishes the *Concerned Investors Guide: Non-Financial Corporate Data*. Also provides social data reports on individual New York Stock Exchange companies.

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