



Wesleyan Committee for Investor Responsibility

CIR Community Investment Proposal

November 30, 2011

Introduction

Community investment is the fastest growing area of socially responsible investment in the United States. Over the past three years, community investment has grown from \$25.0 billion to \$41.7 billion in assets.¹ Public dissatisfaction with the practices of large, socially irresponsible banks and a desire to reinvest in local communities can be seen in recent events such as Bank Transfer Day, when thousands of Americans moved their money from large, for-profit institutions into non-profit credit unions ([more information](#)). In the month leading up to Bank Transfer Day, 650,000 people joined credit unions, adding \$4.5 billion in new savings to credit unions.²

Switching a portion of the General Operating Account into a bank or credit union that invests in the local community allows Wesleyan to capitalize on this momentum. Additionally, it would help Wesleyan build on its reputation and improve its relationship with the surrounding area. Other colleges and universities, including Williams College, Tufts University, Macalester College, and Mt. Holyoke College to name a few, engage in active community investment.³ Greater community investment could be a significant source of positive publicity for Wesleyan, allowing the school to promote socially responsible and community-oriented practices. Investing money in financial institutions that support the Middletown community would also directly support the economic vibrancy and health of the area surrounding Wesleyan.

Community investment is one of the easiest ways that Wesleyan can help support the surrounding area. Unlike direct support for the community through the funding of the Office of Community Service or the Green Street Arts Center, community investment does not require any additional financial commitments. Moving money in the General Operating Account from Wesleyan's existing accounts into banks that support the surrounding community is very low risk and does not require additional financial outlay.

All of the banks included below are insured through the Federal Deposit Insurance Corporation (FDIC). As a result, any investments would be protected in the same way that Wesleyan's current investments are protected. This proposal will not include very much information about rates of return on investments and liquidity because the Finance Office indicated a desire for guidance on how to define community and community development impact. However, the CIR researched the rates of return and liquidity offered by all of the institutions included below. Only institutions that offered rates of

¹ Socially Responsible Investing Facts: <http://ussif.org/resources/sriguide/srifacts.cfm>

² CUNA survey: 40k members, \$80M in savings on BTB: <http://www.cuna.org/newsnow/11/wash110811-2.html>

³ Conversation with Martin Bourqui, Responsible Endowments Coalition

return and liquidity similar to those that exist in current investments in the General Operating Account were included in this report.

When evaluating community investment options, there are two main factors that must be taken into consideration. First, it is necessary to determine the institution's role in Wesleyan's community. Second, an evaluation must assess how a given institution supports communities that lack access to financial resources. These two factors, which are explained in depth below, are the primary criteria used by this proposal to evaluate community investment institutions.

Defining Wesleyan's Community

The University defines its local community to be those areas within a 25-mile radius of the Wesleyan campus.⁴ The CIR takes this definition as its starting point to use as a metric of spatial evaluation, but recognizes that locality and proximity are only one aspect of Wesleyan's community. When selecting a bank, Wesleyan should also consider the degree to which the University is a part of the community that the bank serves and the degree to which the bank effectively serves that community. Wesleyan should also consider factors, such as whether the investment option services institutions that provide services within Wesleyan's community, or whether the institution services individual members of Wesleyan's community.

Defining Community Development Impact

Community development impact is best determined by using several different metrics. In order to generate a list of institutions that might have a positive social impact on under-served communities, the National Community Investment Fund (NCIF) Social Performance Metrics Database was used. The database rates institution based on two main criteria:

Development Lending Intensity-Home Mortgage Disclosure Act (DLI-HDMA) is "the percentage of a bank's single and multi-family housing loan originations and purchases that is located in Community Development Financial Institution (CDFI) Fund Investment Area census tracts." These tracts are defined as an area with a poverty rate greater than 20%, an unemployment rate that is greater than 1.5 times the national average, or areas that have a median family income that is less than 80% of the relevant statistical area. NCIF proposes that banks with DLI-HDMA scores greater than 40% have "High DLI." Banks with high DLI are likely to have a social mission by choice or virtue of their activities in low-income areas.

Development Deposit Intensity is the percentage of an institution's branches that are located in CDFI Fund Investment Area census tracts. NCIF proposes that banks with threshold levels of at least 50% have "High DDI," meaning that they are actively serving low-income communities.

⁴ Wesleyan Mortgage Program: <http://www.wesleyan.edu/finance/financeDept/mortgage/Mortgage.htm>

Finally, other metrics were used to determine community development impact. The CIR evaluated institutions based on the bank's answers to three questions:

1. Does the institution list an explicit social mission on its website?
2. Does the institution provide grants to local community groups and charities?
3. Does the institution specifically aim to serve underprivileged communities? If so, how?

Bank Information

The Community's Bank

The Community's Bank (TCB) was very receptive to Wesleyan opening an account with their institution. The bank has one branch located in Bridgeport, approximately 40 miles from Wesleyan.

Accompanying normal banking business practices, TCB has an explicit social mission. It is the only bank in all of Connecticut that is minority owned, and it is certified by the U.S. Treasury Department as a Community Development Financial Institution. On the bank's website it states its mission as this: "We have two fundamental goals for our bank. The first is to build wealth for individuals, businesses, and institutions in Connecticut's urban areas. The second is to build new and mutually profitable relationships throughout all of Connecticut." The bank mostly serves the greater Bridgeport area, but is open to all through online banking, or as it brands it: the "virtual branch." Since its inception in 2000, the bank has received a number of grants and investments to enhance its ability to serve the under-served.

TCB has the highest possible community investment scores. It is located in Quadrant 1, with DLI and DDI scores of 100%.

Connecticut Bank and Trust Company

Interactions with CT Bank and Trust Company (CBT) were very positive. Lucy Casasanta, the Manager of the Rocky Hill Branch located 8 miles away, was very helpful and returned calls very quickly. The bank seemed very eager for new large depositors and indicated that it was very willing to work with Wesleyan to meet its needs. The bank has eight branches throughout Connecticut with the closest one located in Cromwell.

The CT Bank and Trust Company does not list an explicit social mission on its website and does not include any information about lending to low-income communities. It serves low-income areas by through its lending area and by offering products with no minimum balance and no minimum service charge. Finally, CBT has a foundation through which it gives grants to local charitable and community groups.

CT Bank and Trust Company has relatively high community investment scores. It is

located in Quadrant 2, with a DLI score of 40.27% and a DDI score of 25%. However, on November 1, 2011 the CT Bank and Trust Co. announced that it was being acquired by Berkshire Hills Bancorp Inc. Berkshire Bank has sup-bar community investment scores, with a DLI score of 7.55% and a DDI score of 23.81%. If CT Bank and Trust continues its current policies then it would appear to be a good community investment institution, but if its practices shift toward the current practices of Berkshire Bank, then depositing money would not be advised.

First Bank of Greenwich

FBG has a relatively high DLI score of 42.12%, but a low DDI score of 0%, placing it within Quadrant 2. The bank is very small but is open to accepting a large deposit (\$250,000) from Wesleyan, allowing for same-day liquidity and insurance. An investment with the First Bank of Greenwich would provide some returns (75 basis points). The CIR spoke on the phone with the President and CEO, John Howland, who is very accessible, honest, and willing to be the point person for future conversations about a deposit relationship with FBG. The bank's one branch is located in Greenwich, Connecticut (70 miles away), a very affluent community that may not be ideal for the goal of community investment.

Liberty Bank

Liberty Bank has the most direct connection with the Wesleyan community. It has two banks in Middletown and several more in surrounding communities. Although Liberty Bank does not appear to have a core social mission, its website has a considerable focus on support for low-income areas. Liberty Bank constructed an affordable housing complex, Uncas Condominiums, in Norwich. The website describes Liberty Bank as "one of the most progressive banks in Connecticut." In 2011 it won the Robert Haller Memorial Award for Outstanding Community Service, awarded annually by the Connecticut Commission on Children to an individual or organization that distinguishes itself through its support for the education and well being of children in the state. Since its creation in 1997, the Liberty Bank Foundation has provided nearly \$6 million in grants to nonprofit organizations in its service area. Liberty Bank is overwhelmingly the largest supporter of community organizations that Wesleyan students volunteer at. Finally, Liberty Bank has consistently provided grant money to help fund an annual scholarship for a Wesleyan student.

However, despite the variety of ways in which Liberty Bank supports the Middletown community, the NCIF gives Liberty Bank low community investment scores. It received a DLI score of 15.77% and a DDI score of 16%. Despite these low scores it would appear that Liberty Bank still makes considerable efforts to support the local community and would be a good investment option.

Alternative Community Investment Options

Finally, there are a number of larger banks throughout the United States that have explicit

social missions. Although they do not serve the Middletown community, they have a number of advantages over institutions located in Connecticut. First, their actions benefit local communities much more directly. For example, Carver Federal Savings Bank, located in low-income areas throughout New York City, allows residents to cash checks, pay bills, and purchase discounted money orders without having a bank account or a credit or check card. Additionally the banks scores much higher on NCIF metrics with a DLI score of 76.5% and a DDI score of 66.67%. Second, these institutions tend to be much more experienced with handling larger accounts from non-profit institutions. The Calvert Foundation, a large and well-respected organization that offers financial instruments to investors that help the foundation support low-income communities, spoke highly of Carver Bank, with which they have money invested, and other larger community banks, such as Urban Partnership Bank and Southern Bancorp.

Conclusion

The CIR recommends that the Finance Office deposit a total of \$500,000 split between Liberty Bank and the Community's Bank. Each CIR member was given the opportunity to vote for two of the banks mentioned in the proposal. Liberty Bank received nine votes, the Community's Bank received seven votes, and Connecticut Bank and Trust received two votes. If, for some reason, the Finance Office is unable to deposit the recommended amount in Liberty Bank or the Community's Bank, the CIR recommends that a deposit be made in Connecticut Bank and Trust or one of the alternative community investment options listed above. The CIR recommends that a letter be drafted to the abovementioned banks indicating either why Wesleyan has chosen to make a deposit or why Wesleyan has chosen other banks for its deposit. The CIR hopes that this will help signal to these institutions that community investment is important to prospective depositors.

Additionally, the CIR intends to review the performance of the two banks receiving these deposits twice annually. Performance will be evaluated using the metrics developed in this proposal. As part of this review process, the committee will also evaluate the performance of other potential community investment options. These should include banks in the Wesleyan community, as well as other institutions that seem promising. The CIR shall also review additional community investment options with the intention of potentially expanding cash deposits and identifying opportunities in other asset classes. This review process should seek to identify opportunities within both the General Operating Account and the Endowment. Finally, the committee recommends that if Wesleyan uses the Certificate of Deposit Account Registry Service (CDARS), in the future, that it look for a lead bank with strong community investment performance, as evaluated by the metrics developed in this report. Prospective lead banks should not necessarily be limited to the banks included in this report and may be identified through further analysis of NCIF data. Any questions or comments related to this report shall be directed to either the alumni or student CIR Co-Chair named on the CIR website (cir.wsa.wesleyan.edu).