Carry Your Cash:
Supporting Community Finance
With Cash Deposits
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Support Communities by Carrying Your Cash to Alternative Banks

One of the simplest steps a foundation can take to leverage its assets in service of its mission is to invest cash locally through community-based financing. Community banking increases access to capital for low-income borrowers and businesses. Cash deposits of $250,000 or less in community financial institutions, credit unions, and regional banks are low-risk FDIC-insured investments that can further a foundation’s philanthropic mission while offering competitive rates of return. Many nonprofit loan programs offer alternative financing to targeted populations, thematic initiatives, and geographic regions. There are thousands of community-focused institutions across the country. A foundation, by the simple act of moving its working capital into one of these, can ensure that its cash assets are daily servicing the very same issues it chooses to focus on when making grants.

Why You Should Carry Your Cash

We at Confluence believe that moving your foundation’s money to community financial institutions is a great way to further your mission while, at the same time, strategically and prudently placing your capital. Locally owned banks typically offer the same features and benefits as big banks. They also usually impose fewer fees and provide better interest rates. Community financial institutions understand their local economies and are committed to meeting the needs of the clients in their communities. Building a close relationship with a community financial institution can create opportunities to better support your foundation’s mission. Moving your cash deposits is relatively cost- and risk-free, will provide comparable or better returns, and will more closely align your money with your foundation’s values. For all of these reasons, Confluence believes that carrying your cash is a fundamental step in the practice of mission-related investing.
Where to Carry the Cash

When choosing a mission-related banking institution to work with, it's important to take into account the characteristics both of your foundation and of the financial entity itself. Below we have provided a list of the main kinds of community banks, thrifts, and credit unions that support local and socially responsible endeavors.

Types of Depositories

Community Development Financial Institution (CDFI)

A CDFI is a financial institution whose primary mission is to promote community development by providing credit and financial services to underserved markets and populations in low- and moderate-income areas. CDFIs can be banks, credit unions, loan funds, venture funds, or microenterprise funds that are entitled to government financial or technical assistance. CDFIs are certified by and funded through a variety of programs of the Community Development Financial Institutions Fund (CDFI Fund) at the US Department of the Treasury. CDFIs may be subject to oversight by federal financial institution regulators, or may be unregulated at the federal level and subject only to the laws of the states in which they operate. Research of CDFIs has been greatly simplified by the development of the CDFI Assessment and Ratings System (CARS®), a proprietary system of the Opportunity Finance Network.

Community Development Banking Institution (CDBI)

Community Development Banking Institution (CDBI) A CDBI is any bank that provides banking products and services in distressed communities, regardless of whether or not the bank is certified by the US government as a CDFI. Most community development banking institutions are regulated insured depositories that offer investors risk-free investment opportunities, including certificates of deposit, savings accounts, and money market funds. These typically small- and mid-sized banks focus on low-income urban and rural markets that larger banks may find difficult to serve. Many community development banks have developed specific techniques for managing risk. They use their in-depth market knowledge to inform customized outreach and lending strategies, technical assistance, risk management protocols, extensive community partnerships, and other support mechanisms.

Minority Depository Institution (MDI)

Minority Depository Institution (MDI) The FDIC’s Minority Depository Institutions Program promotes and encourages minority ownership of insured financial institutions. To qualify as an MDI, an insured institution must be majority owned by members of socially or economically disadvantaged populations, or primarily serving minority populations.
Low-Income Designated Credit Union

Because credit unions are owned by and chartered to serve members who are either located in specific regions or are employees of certain firms, they are especially well-suited for targeted economic development programs. Many credit unions have taken a lead in outreach to the unbanked: this has included the provision of emergency loans; used car loans needed for transition work; microloans for small businesses; and appropriate mortgages for unconventional homeowners, such as those lacking traditional documentation or in manufactured housing. The low-income designation is given by the National Credit Union Administration (NCUA) to credit unions demonstrating that a majority of their membership qualifies as low-income. Low-income credit unions are specifically designed to provide lending and saving options for underserved communities or geographies and receive dispensation for non-member deposits, among other benefits.

Environmental Banks

There currently exist only a small number of environmental banks, though many banks and credit unions incorporate green lending strategies into their practices. A bank can play an environmental role by leveraging its ability to lend to environmentally beneficial projects and programs. An environmental bank may specialize in green home improvement lending, loans tailored to green businesses, and—at the largest scale—lending for green infrastructure.

Commercial Banks with a targeted geographic focus

A foundation may choose to place its money in a local commercial bank that services geographies of importance to the foundation’s mission and programmatic objectives. Mission-driven institutional investors can negotiate deposits with commercial banks on the condition that the institution maintains or locates branches in underserved neighborhoods. Sending an RFP to a mainstream bank can communicate a preference for mission-investing products, such as loan programs for underserved areas and communities. Similarly, endowments can use the direct nature of banking relationships to engage banks on their environmental lending and operations, and to let them know that the sustainability of institutional lending practices will be reviewed, monitored, and taken into account when investment decisions are made.

Social Investment Funds

RSF Social Finance is an example of a group which provides an investment fund that serves as an alternative to bank CDs or money market accounts. It is a great place for your savings, with a minimum investment of $1,000, a guaranteed return, and perfect record for returning capital.
How to Get Started Carrying Your Cash

Once your foundation decides to expand its philanthropic impact by leveraging its working capital, the next steps are as follows:

1. Determine your process.
2. Determine the practical and qualitative factors that are most important to your foundation.

Assess whether your foundation will use the help of a consultant or manage the process internally. The development of selection criteria may be taken up by a foundation’s board, investment committee, financial consultant, or an external consultant—or by any combination of these. Try to determine how many institutions you will need to invest in. Some foundations may only want to or be able to hold a certain percentage of an institution’s assets, thus will need to invest in multiple institutions. Others may decide that they can achieve the greatest impact by placing cash deposits at multiple institutions with different missions and constituencies. Still others may want to completely minimize transaction costs and only invest in one entity. Many organizations decide that they will invest up to the $250,000 federally insured level, so if they have $1,000,000 in operating banks they target five institutions. Participating in the CDARS network will greatly simplify the process of investing in CDs across multiple financial institutions.

This includes the importance of location, banking services offered, and mission and communities served. Evaluate the banking options that each potential provider is offering (online banking, wire transfers, payroll services, etc.) and compare that with the communities served by the institution. Determine whether the constituents of a potential financial institution are aligned with your foundation’s mission. In what geographic areas does the institution offer loans? Who are the primary borrowers? Are they small business owners or individuals? Do they screen for any particular types of business activity, such as businesses that are involved in sustainable, environmentally-friendly practices? Are the borrowers in need of low-income housing?

Important: Once the decision is made to carry the cash, do not let the extra work or the mechanics dissuade you or your board. For example, if your foundation’s financial advisor doesn’t like the extra paperwork that accompanies the due diligence and transfer process, remind them that it is usually a one-time investment.
Due diligence should include using internet tools to access rates offered for checking accounts and CDs, investigate references, and understand an institution’s customer service policies and process for opening new accounts. The US Treasury’s list of CDFIs, which is available online, is a great place to start. (Note, though, that there are many community financial institutions that may be doing work aligned with a foundation’s mission, yet do not have the CDFI designation because they do not service a sufficient percentage of low-income individuals to meet US Treasury requirements).

After receiving responses to RFPs, foundations must determine the extent to which they wish to examine each institutions’ social impacts. Some foundations simply identify banks within the CDARS insured network, or rely solely on ratings provided by various organizations. Others personally conduct interviews to learn how potential institutions impact their communities while meeting banking service requirements. Information on social and environmental impacts is often very qualitative; every effort should be made to gather actual statistics on communities served.

The next step is to send RFPs to select institutions. The RFP is a written questionnaire that acts as the backbone of a due diligence process. It outlines your foundation’s needs and goals, and, once filled out, provides you with information about the institution’s terms, services, rates, insurance coverage, etc. Confluence can offer you sample RFPs and guide you through the process.

Each financial institution has its own paperwork requirements for opening an account. Foundation accounts are typically corporate or trust structures, and therefore require a copy of the foundation’s by-laws and articles of incorporation, or its trust document. Most institutions require a resolution signed by the foundation’s secretary that authorizes the opening of the account; they often can provide resolution templates. Finally, institutions typically require copies of drivers’ licenses and signature cards for any foundation directors or trustees who have authority to sign on the account.
Case Studies

For the Swift Foundation, Carrying the Cash was an important component of their mission-investing effort.

The Swift Foundation was committed to investing a portion of its endowment in investments that were aligned with its mission. To this end, the foundation developed a policy for guiding the placement of capital in mission-related endeavors. They allocated 30% of their investments to mission-related investments and transferred approximately $1 million in cash deposits from a leading commercial bank to five different mission-related financial institutions. Their financial advisor handled the due diligence and transfer process.

The Board identified three primary mission themes: supporting biological and cultural diversity, addressing climate change, and enhancing the health of communities globally. They invested $250,000 in deposits and CDs with the following institutions, all of which support some aspect of the foundation’s mission:

**Latino Community Credit Union**
A credit union in North Carolina whose members are primarily low-income Latino individuals. LCCU’s members are 95% low-income, 95% Hispanic, and 75% unbanked.

**New Resource Bank**
This bank serves people who are leading the way to a more sustainable world. Their mission is to advance sustainability and make loans that will put deposits to work for good causes. While not categorized as a CDFI, New Resource’s green focus meshed with part of the Swift Foundation’s mission.

**Community Bank of the Bay**
CBB is a full service state-chartered commercial bank. It is a locally owned and operated member of the FDIC, with offices in Oakland, Danville, and San Jose, California. CBB invests in the communities it serves by providing loans to local businesses and consumers, thereby keeping deposits within the community. CBB boasts local market expertise and broad industry knowledge, and takes pride in getting to know each of its customers personally.

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**Move Your Cash in 6 Simple Steps**

1. **Build support internally by making your case to staff and the ultimate decision makers; explain that you can double your philanthropic impact with cash that is already on hand.**

2. **Determine what mission-related cash options are appropriate for your organization. Establish a method for selection process and implementation.**

3. **Identify the community financial institutions most in line with your mission, impact area, and geographic goals.**

4. **Evaluate the banking options each selected institution is offering. Compare that with the mission impact you would be making by investing in that particular institution.**

5. **Send a Request for Proposal (RFP) to the identified financial institutions and complete the due diligence process by confirming the claims of the top potential institutions.**

6. **Select those proposals that best fit your mission and banking needs and set up a periodic review process to insure your new bank remains in step with your mission.**
One California Bank (now One Pacific Coast Bank)
This bank is an FDIC-insured CDFI that serves businesses, nonprofit organizations, and individuals. The bank is headquartered in Oakland, California and has branches in Seattle, Washington and Portland, Oregon.

GreenChoice Bank
This is a Chicago-based local community bank, with all of the products and services of larger financial institutions. It has a value-based mission of sustainability that impacts each and every aspect of the bank’s organization, structure, products, and processes. It focuses on the nonprofit community, offering special services, limited fees, and unlimited deposit insurance.

The timing of the Chorus Foundation’s creation—amidst the 2008 financial crisis—played a pivotal role in its decision to explore mission-related investing.

As the majority of Chorus’ founding contributions were made in cash, Chorus Founder and Executive Director Farhad Ebrahimli was able to use this period of economic instability as an opportunity to learn more about investment alternatives and consider choosing investments that aligned with the organization’s mission of promoting environmental sustainability.

While Ebrahimli and the rest of Chorus’ board of directors were not unhappy with their initial decision to invest the organization’s funds with Fidelity, Ebrahimli felt that this decision had been made mostly by default, as his personal funds were also invested there. He decided to pursue one of the more compelling banking options that he had learned of, and moved about $5 million of the foundation’s money over to Wainwright Bank & Trust Company, which has since been absorbed by Eastern Bank. Wainwright was a very attractive investment target for Ebrahimli, as it supported several environmentally sustainable programs (many of which have been carried on by Eastern Bank). These programs include:

- An emphasis on paperless transactions; the use of recycled paper products and environmentally friendly inks.
- Energy conservation; the bank has two LEED-certified branches.
- Discounted home equity loans for energy efficiency retrofits and renewables, and discounted car loans for hybrid vehicles.
- Subsidizing employee use of public transportation.
- Refusal to offer drive-through banking, so as to discourage bank visits by car.

While Ebrahimli admits that the customer service offering of the alternative bank is less than that of Fidelity, he insists that the difference is nowhere near close to off-setting the benefits of knowing that his money is part of an institution that promotes the values of his nonprofit. The Chorus Foundation may even consider expanding its alternative banking investments in the future. "Moving your cash doesn’t take much," says Ebrahimli, "which is part of why it’s definitely worth doing."
Quick Links

Visit these organizations to find the financial institutions that match your mission.

www.aerisinsight.com

CARS®, the CDFI Assessment and Ratings System owned by Aeris, is the only comprehensive, third-party assessment of CDFI impact, performance, and financial strength. CARS® helps investors confidently assess CDFIs to ensure a good match in terms of social objectives and risk parameters. A CARS® assessment includes past performance, current financial position, and risk factors in the future. Ratings are based on five years of historical performance. A foundation can immediately see if a prospective institution is rated, but must subscribe to the service in order to see the actual ratings.

www.cdars.com

The CDARS Network includes more than 3,000 financial institution members nationwide who use CDARS to offer their customers a secure and convenient way to invest in large-dollar, FDIC-insured CDs.

www.cdbanks.org

Community Development Bankers Association (CDBA) is the national trade association of the community development bank sector.

www.cdfifund.gov

This fund was created by the government to promote community development through investment in and assistance to CDFIs. The website has a database tool that conducts searches of all domestic banks and thrifts based on institutions’ organizational, financial, and social performance data. Banks and thrifts are measured based on percentages of lending to low-income borrowers (Development Lending Intensity) and percentage of branches located in CDFI Fund Investments.

www.bankmonitor.com

Bank Monitor is a free web-based resource where you can look up banks by name, stock symbol, regulatory ID number, or zip code. You can also browse through a growing library of their Top 50 list of banks.

www.ncif.org

The NCIF Social Performance Metrics database tool allows you to search and compare all domestic banks and thrifts based on institutions’ organizational, financial and social performance data. Utilizing the two primary NCIF Social Performance Metrics (DLI-HMDA and DDI), NCIF proposes benchmark values for the entire universe of banks and thrifts.
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