Access Capital: Bridging the Divide Between Wall Street and Main Street
Introduction

Impact investing is a relatively new concept that has gained traction over the last decade as investors aim to marry the goals of financial returns and social or environmental benefit. Impact investing is a subset of socially responsible investing, but differs in that instead of avoiding harm, it seeks to make a positive impact on society, the environment or both. The field of impact investing is rich with creativity and enthusiasm and its potential is unlimited as investors seek to align their investments with their personal values and/or institutional missions. These investments could be in agriculture, education, energy efficiency, housing, community development or any other area deemed to be in need of advancement.

A pioneer in the field of impact investing, Access Capital was one of the first to introduce an investment offering both social and financial benefits. The Access Capital Community Investment Strategy is a geographically and demographically targeted high credit quality fixed income discipline. The Strategy supports the flow of capital in and among low and moderate income communities and individuals. The Strategy seeks to provide the “double bottom line” benefit of aiding underserved communities while earning a market rate of return. Access Capital embodies the idea that social purpose and investment success can work together to improve communities.
Brief History of How It Began

The genesis for the Access Capital Community Investment Strategy came from the Community Reinvestment Act ("CRA").

CRA was established to encourage banks and other lenders to support their communities, including low- and moderate-income neighborhoods, by providing credit and other banking services to these underserved consumers.

Prior to the law's passage, the banking industry had been accused of a practice called "red-lining," meaning loan applications were being denied based on the characteristics of a neighborhood rather than an applicant’s ability to meet loan payments. Many of these localities, given the lack of financial support, suffered accelerating deterioration. In response, Congress enacted the Home Mortgage Disclosure Act in 1975 and the Community Reinvestment Act in 1977 to promote fair and full service to all constituencies in all communities.

To ensure compliance with CRA standards, banks are evaluated by regulators on their lending, service and investment patterns in low- to moderate-income areas. The results of these evaluations are considered when banks apply for mergers and consolidations or an expansion of certain other corporate activities, making it in the banks’ best interests to participate and comply with CRA.

Opportunity Knocks

"While the lending and services aspects of the evaluation are often deemed most important, the investment test provides a bank with an opportunity to supplement these activities and really differentiate itself from being a satisfactory bank to being an outstanding bank," explains Access Capital's Ron Homer, an expert and pioneer in CRA investing.

From that investment test arose an opportunity - one that in 1996, would put a new face on the mortgage-backed security (MBS) market. Homer and his colleagues set out to supplement what the banks were doing on the lending side by giving them another opportunity to pick up CRA credit through a vehicle that would allow them to invest in low- to moderate-income loans.

According to Homer, “Our idea was to create specialized mortgage-backed securities that would be guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae, thereby removing the credit risk.” The difference between these securities and traditional MBS is that they would be targeted by income and region.

Access Capital had embarked on virtually uncharted territory, and the potential rewards were great. What started out as a regulatory requirement had transformed into a viable investment alternative with social, political and financial benefits. CRA, they discovered, provides fertile ground for investors to participate in and help develop the broader community in which they live.

The Geographically and Demographically Targeted MBS Investment Is Born

“We wrote up a business plan, went to Fannie Mae and said, 'We’d like to create a vehicle that will invest in mortgage-backed securities that Fannie Mae and others would guarantee, made up of mortgage loans from originators who are making these loans.' Our objective was to securitize the loans, get them guaranteed and sell them to banks who wanted CRA credit,” Homer explains. Fannie Mae agreed, and with that, the Access Capital Community Investment Strategy was launched.

Exhibit 1
Communities Throughout the Country Benefit from Access Capital Investments

As of 6.30.14, the strategy has provided financing to 14,422 low- and moderate-income homebuyers for the purchase of 49,313 affordable rental units in communities in 48 states and Washington D.C. designated by investors. The strategy can support the purchase of affordable housing in any state, city, county or census tract designated by investors.
Since then, the appeal of a targeted, but diversified MBS investment has extended beyond banks to a broad base of investors including corporations, pension funds, and foundations. Investors can commit a certain amount of assets and designate a specific geographic region. Investors receive customized reporting on their economic and geographic impact at the individual loan level.

The Value-Add Process

An MBS Vehicle That Stands Apart
Investing in the mortgage market can be complex in terms of accounting, high prepayment and high reinvestment risk. By investing in the Access Capital Community Investment Strategy, investors are spared these complexities and the costs of management. An investment in the Strategy allows investors to own bundles of securities that are diversified without the cost of administering them. Finally, credit risk is mitigated because the Strategy holds a minimum of 75% AAA-rated securities.

Moreover, because investments are geographically and demographically targeted, the Strategy offers several additional advantages over a traditional MBS investment. Not only has there been more product availability simply because the lower-income markets have been underserved, but traditionally underwritten low- and moderate-income mortgages actually can perform slightly better than higher-balance mortgages because they pay at more predictable rates. Because lower-balance mortgages have less price compression (the inability of a security to rise in value as interest rates fall due to the higher likelihood of being prepaid), they can be a more valuable product.

Geographically and demographically targeted mortgage-backed securities have continually outperformed traditional MBS. “We’ve found that the mortgages to lower income borrowers tend to have better prepayment characteristics. In general, they are more predictable in that they are less apt to refinance. In the long run, this makes for a higher total return.” Scott Kirby, Vice President, Senior Portfolio Manager.

Perhaps the defining advantage of the Access Capital Community Investment Strategy is the social and community benefit. According to Homer, “Investors receive these benefits when they invest with us because they’re targeting constituencies that are important to them. They are not just investing in mortgages; they may be investing in mortgages in a revitalized Harlem in New York City, or to benefit police officers and teachers in high-cost areas such as San Jose, California, for example. There are few investments that can make such specifically targeted claims.”
Benefits To Specific Investors

When it comes to investing via CRA and the Access Capital Community Investment Strategy, the rewards are far-reaching.

**Institutions and Individuals win.** “In this day and age, it is a clear social advantage for a business or pension to say it is supporting mortgages in those constituent communities where housing affordability is a major issue. And if that investment will perform as well or better than other mortgage-backed securities, that’s a double bottom-line advantage,” says Homer.

Both institutional investors and individuals that are interested in supporting wealth creation and improving the quality of life for lower-income individuals also are attracted to these kinds of investments. “We’re hopeful that this type of investment will appeal to corporations, state and local pension funds, foundations, hospitals, institutional investors as well as high net worth individuals and family offices who are interested in serving their constituencies,” Homer adds.

**Banks win.** Banks have an appealing new way to meet their CRA obligations. Rather than solely making loans to low- and moderate-income families, perhaps impractical for smaller banks or large wholesale or special-purpose banks, they can invest in these bundled products and still support their local constituencies and earn CRA credit. Like other investors, banks also have come to realize the investment viability of a geographically targeted MBS vehicle.

“The banks have started to view this low- and moderate-income homebuyer market as a growth opportunity. Originally, they were forced to address the market because of the CRA requirement. At the same time, the banks understand that the mortgage business is a volume-oriented business, and these communities are good places for banks to increase their volume,” Homer explains.

**Homebuyers win.** Home ownership in the United States is approximately 65%, but for certain demographics in low- and moderate-income areas, the figure is closer to 50%. Therefore, a large part of the growth in the mortgage business could come from the ability to penetrate and expand in this market. The dedicated market that has been created for targeted mortgage-backed securities promotes the expansion and lowers the cost of these loans for consumers, thus enabling more Americans to take part in the pride and stability that can come from home ownership. (Source: U.S. Census Bureau 2Q2014)

**Communities win.** For many years, the perception was that low and moderate income areas were not profitable. As the banking industry began expanding nationally in the nineties, these communities were identified as “emerging markets” in their own right. However, during the run up to the mortgage meltdown, these previously underserved markets were often exploited through the use of inappropriate subprime loan products and predatory lending practices deployed by some in the mortgage industry. Nevertheless, the traditional CRA qualified 30 year mortgages held by the Access Capital Investment Strategy performed at their best in the aftermath of the 2008 crises. We believe this performance should help to reinforce the concept that responsible lending to low and moderate income individuals can be profitable and should be part of the American Way.
Why Is It Unique

The benefits of the Access Capital Community Investment Strategy to both investor and community are far reaching. An investment in the strategy represents an impact investment: one that provides the double bottom line benefit of aiding underserved communities while seeking to earn a market rate of return.

Aside from the social responsibility aspect of this investment, clients also value the high level of quality and liquidity of the strategy’s holdings. Investments are primarily guaranteed by the U.S. government or its agencies or by high credit-rated municipalities and support low and moderate-income home buyers, affordable rental housing units, small business administration loans and economic development projects.

Further, it is not often that an investor has the opportunity to designate a specific geographic region for their investment. Investments may be targeted by geographic location and income level in order to support each investor’s interests and communities. Through the Strategy, investors may obtain the ability to meet mission-related goals, direct economically targeted investment strategies, and meet Community Reinvestment Act (“CRA”) regulatory requirements and other socially responsible investment goals.

Lastly, our team is made up of investment professionals dedicated and experienced in the impact investing space and includes Ron Homer, a pioneer in this field. Ron Homer launched the first community development institutional mutual fund in 1997. As an industry veteran, Ron is often sought to consult with leading government officials on a variety of community impact issues. He has held several leadership positions for industry trade associations and served on the boards of numerous organizations. Ron is vice chair and a founding board member for the Initiative for a Competitive Inner City, a research organization founded to promote private sector investment in America’s inner cities. Ron has chaired the board of Massachusetts Housing since the height of the housing crisis in 2009.

How To Take the Next Step

The Access Capital Community Investment Strategy is a compelling opportunity for those investors interested in the double bottom line: earning a competitive return on their investment while stimulating economic development in underserved areas.

For information on how you may be able to invest in your community through Access Capital, contact Ron Homer at 617.722.7314 or Catherine Banat at 212.703.6229.