

## Community Investments Vol 16, Issue 1 W<sup>3</sup> Wall Street Without Walls: Preparing Community Development Organizations for the Capital Markets

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The objective of Wall Street Without Walls (W<sup>3</sup>) is to connect the traditional institutions and financial products of the capital markets with community-based development organizations (CBDOs) engaged in the diverse work of community economic development in low- and moderate-wealth communities both urban and rural. Wall Street Without Walls was created to encourage, organize and facilitate the provision of volunteer investment banking and ultimately capital markets services that improve economic conditions in low-wealth communities and the nonprofits that serve them. The mission of W<sup>3</sup> is to encourage bankers' volunteer involvement and advance the profession's responsibility to serve the needs of the nonprofit, economic and community development industry.

Similar to "Doctors Without Borders," this program is an opportunity for finance professionals to give of their expertise in addressing pressing social concerns by partnering with local economic development organizations that serve emerging small businesses, individuals, and families. This much-needed technical assistance capacity harnesses Wall Street expertise in real estate, structured, public and nonprofit bond finance, with demand for our intervention growing dramatically over the past year.

## **Who Benefits**

Under the initial leadership of former Wall Streeter Greg Stanton, The Wall Street Without Walls Program (W<sup>3</sup>) has successfully provided financial technical assistance to medium and large nonprofits seeking advice on how they can more efficiently finance their assets and operations using the capital markets. The program matches community-based organizations with teams of volunteer bankers and finance professionals who provide help on a pro bono basis. Small business loan funds, housing developments, commercial sites, mixed-use projects, and factory/industrial sites are some of the projects that have benefited from the technical assistance of W<sup>3</sup> professionals.

## **How It Works**

Participating nonprofit organizations seeking financial technical assistance submit their specific financing needs or transaction questions for deals over \$3m through trade associations serving the field such as the National Congress for Community Economic Development, LISC, the Enterprise Foundation, National Community Capital, and the Neighborhood Reinvestment Corporation. The Securities Industry Association (SIA) works with W<sup>3</sup> to manage, track and assist the volunteer process to be productive for both the volunteers and the nonprofits. To get the word out, a series of outreach and training programs were conducted in 2003 in partnership with the Federal Reserve Bank system and underwritten by the Fannie Mae Foundation.

## **Understanding the Obstacles**

Capital to finance various community assets such as single and multifamily affordable housing, small business loans, consumer loans and community facilities is currently provided by a host of mission-driven financial intermediaries, such as community development financial institutions, community development corporations, revolving loan funds, community development credit unions, and micro-lending financial intermediaries. Yet,

the increasing demand for capital to support these mission areas, is not able to be met by the current supply of traditional philanthropic, government, and concessionary rate capital, including loans from banks often provided under the aegis of the Community Reinvestment Act. And while there have been a few CBDOs successful in achieving limited access to financing from institutional investors, according to specialists in the field, such as Kevin Smith, executive vice president of the Fannie Mae Foundation, "...there is an inadequate flow of capital into the community development finance system to fulfill the supply needs for affordable housing and build healthy, vibrant communities nationwide."

Some of the problem areas and systemic blockages to the capital markets may be caused by inadequate infrastructure, lack of preparedness, or unwillingness by CBDOs to adopt market standards. These are the problem areas that need to be addressed collectively by the entire field, including government agency partners, trade associations, foundations, and practitioners themselves. The major activities which require collaboration are:

- 1.) conforming assets,
- 2.) improving systems,
- 3.) finding credit enhancement, and
- 4.) adopting common standards.

Our discussion of the major obstacles such as scale or performance augments other important current research and pilot projects, which are dedicated to finding solutions to the capital shortage for this nation's most depressed communities, minority businesses and aging infrastructure. The premise of W<sup>3</sup>'s effort is that access to sustained capital markets is a function of increased scale, standardization of practices, documents and processes, and improved skills in managing capital markets.

## **Identifying Solutions**

Improvements or innovations which may be helpful in improving capital markets access for the community development finance industry include providing CBDO managers with advanced financial skills. These skills can enhance an organization's lending practices to ensure profitability and long-term sustainability. The efforts to close the 'capital gap' will be based on the success of CBDOs accessing mainstream markets by achieving scale by partnering with other CBDOs and using the market's customary structures. The collaborative efforts must meet and pass institutional investors' due diligence and appetite for various security types. This includes engineering financial products, using the New Markets Tax Credit (NMTC) to appeal to institutional investors; accurately documenting asset performance; quantifying mission liquidity needs and market size; and designing innovations necessary to isolate perceived and actual risks related to CED investments.

## **The innovations from W<sup>3</sup> include:**

- forming community development financial guarantees and financial wraps custom-tailored for CED products but shaped by generic investment grade institutional investor demand
- using 'dead' and underused government assets, such as the assets of HUD auctions, to provide additional collateral to raise CED transaction credit quality and reduce financial guarantee and transaction costs;
- developing financial products for funding programs that use the New Markets Tax Credit
- modernizing the community-based organizations' approach to financing and asset management – from the Portfolio Method of Financing (PMF) to a Capital Markets Financing (CMF) method of asset management. The CMF method originates, packages and sells assets to increase capital and liquidity, rather than just originating assets and managing them through maturity.

The W<sup>3</sup> program calls for bold action and leadership from CBDO practitioners and finance professionals. The shared goal is to stand on common ground and identify methods to efficiently finance pools of non-conforming assets. Bold action calls for substantively improving systems of tracking and servicing assets, finding more cost-effective means of credit enhancement, and adopting standards which are accepted by capital markets. Bold action requires strong debate and analysis on how communities can access capital. Bold action must address an widening capital gap and move it to a priority position on the national agenda. Financial leadership will be required to make the hard decisions that need to be made, such as closing down failing or inefficient CDFIs. But, financial leadership may also stimulate new ideas for developing practical measures for rewarding excellence and achieving higher levels of social impact.

How we view these obstacles and what we do to overcome them profoundly influences society. With a heightened sense of urgency, we must investigate how to integrate mission needs into viable and investment grade capital markets instruments. There are other ideas and innovations being discussed in the field. W<sup>3</sup> has been developing innovative concepts and recommendations to the CED field. The top four include:

- 1.) establishing a financial guarantee corporation or capability to provide a financial guarantee by credit enhancing or wrapping CED transactions to investment grade credit quality;
- 2.) establishing a CED financial product task force for HNW and Institutional Investors;
- 3.) developing peer-to-peer lending capacity for CBDOS in the form of a capital exchange system;

4.) and establishing an intensive Capital Markets training program alongside the Federal Reserve Bank's community affairs programs.

All of these efforts are in place thanks to the ongoing support of the Fannie Mae, F.B. Herron, and Kellogg Foundations and the cooperative efforts of the Federal Reserve Banks. W<sup>3</sup> has conducted its one-day Orientation to the Capital Markets program for CBDO practitioners with the Federal Reserve Banks in Boston, Richmond, Atlanta, San Francisco, and New York with others scheduled in 2004. W<sup>3</sup> has also held a follow-up more intensive three-day Capital Markets Training Institute at Southern New Hampshire University's School of Community Economic Development. These sessions were supported by industry partners including Impact Community Capital, Fleet Community Investment Group, and BB&T.

W<sup>3</sup> seeks other partners and sponsors to support further distribution of these innovations in different regions of the country to nonprofit community-based development organizations like CDCs and CDFIs. We also seek financial companies and individuals wishing to participate as pro bono financial technical assistance providers. For further information contact our web site: [www.WallStreetWithoutWalls.com](http://www.WallStreetWithoutWalls.com).

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