

Community Investments Vol 15, Issue 2 Sounding Off About Investment Instruments

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Variable Rate Demand Notes and Auction Rate Securities offer investors the opportunity to invest in short duration assets that have community development as their primary purpose. These securities are an attractive alternative for investors that help satisfy CRA requirements, while mitigating interest rate risk. Given the current market environment, investors have an opportunity to take advantage of the spread between taxable and tax-exempt floating rate securities with only a small yield. Investors can maximize support for their community development by capitalizing on these highly rated, liquid securities.

Multifamily mortgage-backed securities issued by Ginnie Mae offer investors the opportunity to purchase AAA-rated securities that provide prepayment protection in times of falling interest rates. Ginnie Mae multifamily MBS increase the supply of mortgage credit available for housing by channeling funds from the capital markets into the mortgage market. Ginnie Mae guarantees the timely payment of principal and interest on the securities. Ginnie Mae securities are full faith and credit obligations of the U.S. Government and carry zero percent risk-based capital weightings.

Barbara VanScoy describes these instruments in detail in two articles, including an analysis of the size of the market for these instruments, how they work, and how they can be used for community development for CRA Investment Test credit.

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Want to know more? See *Investing in CRA-qualified Municipal Securities* by Barbara VanScoy and *Mortgage-backed securities and Collateralized Mortgage Obligation: Prudent CRA Investment Opportunities in Community Investments*, March 2002.

Special feature: excerpts of an interview with community development professionals about the future of the Investment Test.