Wall Street Without Walls: Introducing New Tools for Community Development Finance
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Founded in 1998, Wall Street Without Walls aims to connect the traditional institutions and financial products of capital markets with groups engaged in community economic development in low- and moderate-wealth communities. Modeled after "Doctors Without Borders," Wall Street Without Walls teams up community-based organizations with volunteer capital markets bankers and finance professionals who provide help on a pro bono basis. The group has received support from a number of foundations (Fannie Mae, Heron, Ford, Rockefeller, Kellogg) and has also worked cooperatively with the Federal Reserve regional banks and Board of Governors.

Co-Director John Nelson explained the concept of the group as follows, "[Co-Director and former Wall Streeter] Greg Stanton founded us to connect those community-based development organizations needing new sources of mission capital with financial engineers from Wall Street by providing volunteer financial technical assistance. We work as a catalyst to utilize capital markets innovations or existing tools to meet the non-profit's funding needs for transactions or refinancing over three million dollars."

"We see a tremendous demand," Nelson said. "Traditional sources of community economic development capital are being cut back, whether it is philanthropy, the private sector, or government."

Can private investment capital be raised for community development work? It depends on the type of community development project, but the answer is often "yes," provided some major hurdles can be cleared. To simplify, the hurdles exist on both the "capital markets" and "community development" sides of the equation.

Often, private investors are reluctant to invest because the perceived risk is higher than the actual risk: for instance, although many community development financial institutions (CDFIs) have a *lower* default rate than commercial banks, they still may have difficulty raising money because Wall Street firms don't understand the community development industry. Part of the role of Wall Street Without Walls, then, is to educate capital markets how to properly evaluate community development finance. On the other side, Wall Street Without Walls also assists community development groups to better communicate financial information (such as through standardization of reporting and bundling similar loans in larger blocks) in ways that private capital firms understand.

To demonstrate the viability of the business model, Wall Street Without Walls did a pilot transaction. Working with Community Reinvestment Fund, a large community development loan fund based in Minneapolis, Wall Street Without Walls helped the group get a Standard and Poors rating for $50 million issue, eventually purchased by insurance company and other socially responsible investors that needed the rated paper.

As Wall Street Without Walls Senior Project Manager Wayne Marsden explains, having a rating by an external agency can enable groups to access larger pockets of investment capital. For instance, insurance companies are limited to investing 5 percent of their capital in unrated transactions. Having a rating makes it possible to access the other 95 percent of their investment capital. It also opens up investment to pension funds, banks, and individuals.

One strategic goal of Wall Street Without Walls is to create a community development financial guarantee company that could underwrite projects, thereby lowering the cost of borrowing. The group hopes to launch this effort in 2007, but it has been a long road getting there. Wayne Marsden has started and managed financial guarantee companies and will direct this one as an independent new company.

As Marsden explains, "There's never been a financial guarantee company that has specialized in community development or affordable housing. An obstacle is that the perception of risk often overshadows reality. It's been a multi-step process. To demonstrate the need, we worked to put together one or two transactions and submit them to existing companies and see if they were interested. What we found intriguing was that none of the five firms we approached had a problem from the credit perspective. But they didn't know where to put it. It was not a 'clean fit'. Community development is the proverbial round peg in a square hole."

"So we continue to research, record values, explain why to invest here and develop resources to understand this market. We have enough expertise to understand this. We are using a pooling concept: pools of small business loans, affordable housing, senior citizen housing—anything that creates jobs and increases individual wealth in poor communities. Our aim is to make community development projects economically viable. You take the guesswork out of it. "

The impact of developing a financial guarantee company could be significant. Marsden estimates that, "Even in the first year, we expect north of $1 billion of capacity that would bring new sources of capital into the field or recirculation of existing capital." The groups that would be able to directly access this capital would be larger players in the community development finance industry. Indirectly, however, many of these larger players might serve as intermediaries that would thus be able to assist smaller groups to receive access to lower-cost financing as well.

In addition to working to develop a financial guarantee company, Wall Street Without Walls provides technical assistance in many other areas including with innovative mayors throughout the country. In Milwaukee, the group is working with the city to use "dead assets" (land held by the city due to foreclosure or other reason that it is unable to easily resell on the market) to collateralize (and hence lower the interest rate) loans for minority businesses. In Fort Wayne Wall Street Without Walls has been assisting the city with finance innovations for several new development projects. The group is also working with the City of Washington, DC, and City First Enterprises to raise new sources of investment capital for a project that, using a community land trust model, aims to develop 1,000 units of permanently affordable workforce housing for fire fighters, teachers, and others who can't afford to live in the city that employs them. With a network of Native American community development financial institutions, Wall Street Without Walls is also helping structure a Native American capital access fund with First Nations Oweesta, led by Elsie Meeks.

One other large-scale effort of the group, funded by the Ford Foundation, involves an effort to develop a secondary market for mortgages for migrants that are backed by an individual tax ID number or "ITINs". As Nelson explains, "Presently many [migrants] pay nine, ten, or eleven percent because these are non-conforming mortgages without social security numbers so there is no secondary market for the mortgages. A secondary market would lower the cost of the mortgage, lower the cost of housing and help stabilize the segment. To qualify for this program, you have to have lived in the United States for two years and paid taxes for the past two years and want to buy a home."

Nelson says the current volume of ITIN mortgages they have identified is roughly $1 billion, but that the National Association of Hispanic Real Estate Professionals has estimated that the potential market size for Hispanic migrants alone is 200,000 families with $43 billion par value. As a result, if a secondary market were formed that allows mainstream banks to feel comfortable enough to make the loans, Nelson estimates the market for these mortgages could grow as high as $50 billion in two years.

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