Revised March 2003

III. INVESTING IN AFFORDABLE AND SOCIAL HOUSING

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Other sections in the Mobilizing Resources Kit:

INTRODUCTION

The financial situation of Toronto-area faith groups varies greatly. Some local communities of worship and other related organizations have a mortgage and a small savings account. Others may have small trust funds from the sale of property (e.g. a church manse), with the income used for specific purposes, such as to pay a housing allowance for church staff. A few congregations, parishes and other faith organizations have significant financial endowments. The income from such endowments is generally an important source of support for their programs and activities, and for the maintenance of property. In some faith groups, the local organization manages the investment of these endowments, sometimes with professional assistance. In others, local assets are pooled and handled by the regional or national church or faith group.

It is only recently that some churches and other charities and foundations have begun to apply concepts of "ethical" investment to the financial management of their assets. The term "mission-based investing" is increasingly used, however, instead of "ethical investing", as it better describes the process of incorporating an organization's mission into its investment decision-making process. Through mission-based investing, the organization ensures that its mission is not undermined; it may strengthen its mission; it responds to the obligation of social accountability; and it may even improve its financial performance.

The purpose of this section of the resource kit is to stimulate discussion of investing in affordable and social housing. Readers are urged to consult with qualified financial and legal advisors before making any investment decisions. Information and opinions provided in the resource kit should be considered background or preliminary data only and should be relied on only after independent verification and professional advice.

While some faith groups have begun to think about and practise mission-based investing, they have generally restricted it to screening their banking and investment choices in the stock market. While they often provide grants to benefit the local community — for example, in support of housing, shelters, and job opportunities for the unemployed — very few have sought investment opportunities in these areas. The concept of investing trust funds of churches and other charities or foundations in "alternative" investments such as community economic development or social housing is the least developed area in mission-based investment in Canada. We hope to change that.

This resource kit represents an effort to encourage faith groups to consider alternative community investments, and in particular, investment in social and affordable housing. When the trustees of faith group and other charitable endowments are asked to move beyond the investment options offered by conventional financial institutions, they may question the legality and financial return of alternative investment opportunities. The resource kit addresses these and other concerns:

- What are the legal issues that have to be considered in adopting an investment policy that includes social, as well as economic, goals?
- What is the role of trustee guidelines for investment in facilitating mission-based investing, and what issues should they address?
- What are the financial needs of housing projects? How and where could the investment of faith group endowments make a difference in the face of such huge financial requirements to produce the housing that is needed?
- What might be the risks and financial returns of investing in social and affordable housing?
- Are there any existing vehicles for investing in housing that meet the legal and financial requirements of trust funds? Are there new investment models that could be developed?

At the investment workshop in September 2002 and in this kit, lawyer Brian Iler (see page 7) has made it clear that while there are important limitations on trustees wanting to "do good", there is also room for them to incorporate mission values into investment. The kit also includes an overview of the stages in a housing project where faith group investment can make a difference, and some examples of how pooled investment funds have played a role in successful projects.

Establishing an investment policy is the first step for faith groups interested in investing trust funds in social housing. We hope that the case study provided in the kit (see page 11) of one church's development of such a policy will encourage more faith groups to add mission-based investing to their advocacy and Out of the Cold programs for homeless people.

MISSION-BASED INVESTMENT IN HOUSING

by Eugene Ellmen, Executive Director, Social Investment Organization (SIO) (www.socialinvestment.ca)

The issue of how faith groups can invest in social change projects is central to the mandate of the Social Investment Organization (SIO). The SIO is the national non-profit trade association for the socially responsible investment (SRI) industry. It has more than 400 members representing socially responsible mutual funds and labour funds, asset management companies, financial institutions and financial advisors with clients with an interest in SRI. We estimate that there is nearly $50 billion, or about three percent of total funds under management, invested according to SRI guidelines in Canada.

Three approaches to socially responsible investing

There are three ways that individuals and institutions can approach socially responsible investing:

Screening — positive and negative screens on particular issues, i.e. human rights, employee relations, environment and sustainability, international development, or against tobacco, etc.

Shareholder Advocacy — using your power as an investor to influence corporate behaviour on social and environmental issues.

Community Investment — using your investment to achieve social change in your own community or in other communities.

Today we're talking about the third approach. Investment in affordable housing is a type of community investment.

How do we build affordable housing?

In former social housing programs, CMHC guaranteed 100 percent of project financing for non-profit and co-op housing developments. In addition, low-income rent subsidies ensured cash flow to repay loans and keep rents affordable. In this environment, social housing financing was little different from conventional housing financing. Banks, insurance companies and trust companies bid for social housing mortgages and there was a competitive market to provide this mortgage financing.

Since the middle of 1990s it's been harder to find money. CMHC will still provide mortgage insurance, but the project must pay premiums (typically 5.5 percent on an 85 percent mortgage). CMHC and other lenders use a formula called the loan-to-value ratio, which is based on the project's income potential. In some cases this means that the mortgage will only cover 60 percent of the project's total cash requirements, creating a "financing gap" that needs to be filled.

How does one fill this financing gap?

Sometimes the financing gap can be filled by grants or contributions — for example, by a faith group or a municipality providing land for a social housing purpose.

Another possibility is a second mortgage from sympathetic investors. A second mortgage is defined as "a mortgage on real estate which has already been pledged as collateral for an earlier mortgage." The second mortgage carries rights which are subordinate to those of the first. This means that if the project goes into default, the project assets will be sold and the proceeds will be used to pay the first mortgage first. Since second mortgages carry a higher risk, lenders charge a high interest rate, making a proposed project cost so much that it would not be able to offer the units at affordable rents.

Filling this financing gap requires a patient, long-term investor with a social interest in the project. The investor needs to agree to moderate interest rates, a long-term commitment and little security, although if the first mortgage is low enough there may be sufficient value in the building to cover the second mortgage. Interesting work on the problem of financing gaps has been done in the United States by the Institute for Community Economics, which supports the development of community land trusts and loan funds to meet the capital needs of land trusts (www.iceclt.org).

An example of social investment in housing

St. Clare's Multifaith Housing Society project at 25 Leonard Avenue: Former doctors' offices were converted to small apartments. The federal government, the city and St. Clare's raised money for equity, and CAIC (Canadian Alternative Investment Cooperative) provided the second mortgage. (For more information, see www3.sympatico.ca/lloydalter/ahcl/25leonard.htm)

This project shows that when determined social housing developers work to bring the players together, willing socially motivated investors can help fill in the final missing pieces.

The demand for socially responsible investment in housing is clear. The cancellation of Canada's public housing programs, the decline in rental construction and the growing homeless population have resulted in a huge demand for affordable quality housing. The annual survey by CMHC of vacancy rates in Canada's metropolitan centres last October shows that the vacancy rate in Toronto fell from 1.6 percent in October 2000 to 1.1 percent in October 2001.

Canada's faith communities have a historic interest in social housing. They also have resources at their command through endowments and pension funds. Reasonable risk tied to a social conscience can help to create new affordable housing projects.

This won't solve the problem in total, but it can help to make a difference in particular communities.

WHERE ARE INVESTMENTS NEEDED IN HOUSING?

by Paul Dowling, Housing Consultant (pdowling@rogers.com)

At the feasibility stage

Significant costs can be incurred in developing a housing proposal up to the point where mortgage funds or funds from other sources can be accessed. CMHC provides Proposal Development Funding to eligible project sponsors**.**

The CMHC funds to develop the housing proposal are recovered if the project proceeds; if not, the funds are not recovered. Any funds invested in this development stage can be quite risky and should not be seen as a prudent investment because they are unlikely to be recovered if the project doesn't go ahead.

Second or third mortgage

In general, the value of a housing project is determined by its future sales value, not by its cost. If a building is built for $4 million, what would a prudent investor pay? The difference between what it costs to build and what it's worth is vast. For instance, NUC-TUCT's (Newtonbrook United Church and Taiwanese United Church in Toronto) project is valued at $2.5 million but cost $4 million to build (see the Property section of this resource kit). Second mortgages can fill that gap. Is the second mortgage a good risk for an investor? CMHC and financial institutions say it's not a good risk. If the project owner fails to meet its payments on the mortgage , the second mortgage lender will likely lose its money. (CMHC's mortgage insurance is only given up to the appraised lending value.)

Private institutions have a higher rate for second mortgages — greater return, greater risk. What we're seeing/hearing is that for affordable housing to happen, a second mortgage is necessary. Trellis's second mortgage is a non-performing (no interest) mortgage.

The biggest risk in developing housing is that people won't pay enough rent to cover the costs. Some people can't afford the rent. To pay the rent of $1,289 for a three-bedroom apartment, a family needs $52,000 income (calculating rent at 30 percent of income).

"Affordable" housing as determined by CMHC (average market rent in the community) doesn't serve the poorest. Rent supplements have to fill in the affordable rent part.

There are two alternatives for churches:

1) If you have the funds that allow you to take a significant risk — such as investing in affordable housing — then consider that you're giving it almost as a donation;

2) If it is possible to create a large size investment vehicle, then a mixed portfolio of housing projects — where the risk of all going under is less — is possible; one needs to be able to assess the complex risk and to sustain a loss and survive that risk. Such a vehicle would have to have charitable status so it's seen as a donation.

Since most individual churches do not have the ability to donate large sums of money or the expertise to adequately assess risk or the ability to create portfolio pools, it is likely that investment in affordable housing will require a larger organization as an intermediary.

THE LEGAL ENVIRONMENT

by Brian Iler, Iler Campbell Barristers & Solicitors (biler@ilercampbell.com)

Introduction

This brief paper provides an overview of the legal issues to be considered when a charity is contemplating adopting an investment policy that includes social, as well as economic, goals.

Recent changes to the *Trustee Act*

From a legal point of view, churches are charitable organizations, and are bound by the legal rules governing charities. These are rather strict, as there is a legitimate pubic interest in ensuring that money that is intended for a charitable use is actually available for, and applied to, charitable purposes.

Charitable purposes include advancement of religion, of course, and extend to advancing education, relief of poverty, and a host of other purposes that judges over the years have defined as charitable — or which are arguably charitable, by analogy with those defined purposes.

Charities are permitted to invest money that is not immediately needed for charitable activities. Until recently, in Ontario, the types of investments were restricted to those set out in the *Trustee Act*, an Ontario statute, and were all reasonably secure — government guaranteed securities, GICs, deposits in financial institutions, shares in corporations with a strong history of dividends, etc. The intent was clearly to prevent risk-taking, and thereby preserve a charity's reserves until they were applied for the charity's charitable activities.

That recently changed in Ontario and in most other provinces in response to pressure from charities, and their investment advisors, who, in a climate of skyrocketing stock market prices, perceived that they could earn much more by investing in a broader range of higher-risk securities. As we now know, higher risk means not just the chance of better returns. It also means some significant likelihood of loss of some of those funds.

The change does, though, allow charities to consider investments that may more closely fit the charity's mission, even if they involve higher risk.

What, then, are the rules, as they stand now?

1. The list of acceptable investments is replaced by a duty to act prudently, in making investment decisions:

> "in investing trust property, a trustee must exercise the care, skill, diligence and judgment that a prudent investor would exercise in making investments."

That duty includes the specific obligation to take into account, at a minimum, these criteria:

- general economic conditions;
- the possible effect of inflation or deflation on the investment;
- the expected tax consequences of investment decisions or strategies;
- the role that each investment or course of action plays within the overall trust portfolio;
- the expected total return from income and the appreciation of capital;
- the needs for liquidity, regularity of income and preservation or appreciation of capital; and
- an asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries.

2. In part, this adopts what might be called "modern portfolio theory," which holds that a diversified portfolio of investments, taken as a whole, will be preferable to placing money in one, or a few, types of investment. The assumption is that losses in one area should be balanced by gains in another. Investment decisions would not then be examined in isolation, but as a whole.

3. It is suggested by some commentators that by restricting investments to safe, or low-risk, ones, the investment may be imprudent, rendering the trustees liable.

4. Trustees cannot delegate the authority to make investment decisions. They may seek advice, though, and rely on that advice, "if a prudent investor would rely on the advice under comparable circumstances." For a while, there were some who suggested that purchasing mutual funds was an improper form of delegation of authority to the fund manager. The *Trustee Act* now makes it clear that mutual funds are permitted investments.

5. Trustees will not be held liable for specific losses if they acted prudently, looking at the overall portfolio. There is a clear intent not to second-guess individual decisions.

All of this points to the need for trustees to have considered, and adopted, an investment policy that reflects the *Act*'s criteria, and obtain appropriate advice in implementing that policy.

The potential for mission-based investing

The legal obligations on trustees of charitable funds are onerous. Can we add consideration of the charity's mission to the other criteria? Would that be "prudent"?

The courts in Canada have given us very little guidance on this issue — this issue is not litigated very often, and where it is, pension funds are often the party, rather than a charity, since litigation costs money, and it is usually only where personal losses are incurred, or may be incurred, that individuals will be willing to finance the lawsuit.

For charities, losses — or potential losses — from mission-based investing don't cause personal loss to anyone, save for the possible loss of prospective beneficiaries of the charity's work. Those beneficiaries are likely themselves too remote to mount a successful challenge, leaving the only likely source of complaint as the Ontario Public Guardian and Trustee (PGT) — a government official with responsibility for overseeing charities in Ontario.

Under the *Charities Accounting Act*, the PGT may apply to a court for an order requiring a charity to account to a judge as to how it has managed the charity's affairs. If the duty on trustees to invest prudently has been breached, the court may order that the offending trustees reimburse the charity for the losses. That happens rarely, as only the most egregious cases are pursued by the PGT, given its limited resources, and the need to continue to ensure that potential trustees are not discouraged from volunteering by the potential for personal liability.

Most of the leading British cases involve pension funds, and one can derive the following legal principles from them:

1. Trustees must put aside their personal views and interests, and consider only the best interests of the charity.
2. Trustees have a duty to obtain the maximum return consistent with commercial prudence. Said one judge: "Most charities need money: and the more of it there is available, the more the trustees can seek to accomplish."
3. Where a particular investment might conflict with the objects of a charity, "so long as the trustees are satisfied that course would not involve a risk of significant financial detriment," it may be avoided. In other words, as long as other investments of equivalent worth are available, one may invest in accordance with ethical principles fundamental to the charity.
4. Where the contemplated investment conflicts with the very object of a charity, the trustees are duty bound not to invest in it, even where that investment may be the most prudent financially.

These principles may assist in deciding to invest in ethical mutual funds, but won't go so far as to permit active "alternative" investment, unless that investment, considered in conjunction with other investments, in a diversified portfolio, can be shown to be financially prudent.

Program-related investment as a charitable activity

CCRA (Canada Customs and Revenue Agency), which administers the *Income Tax Act* (and therefore has to determine the rules applicable to charities registered under that *Act*) has considered how, and to what extent, community economic development activities can be undertaken by charities. It has issued a policy which is most helpful in understanding this issue. It can be found at www.ccra-adrc.gc.ca/E/pub/tg/rc4143/rc4143-e.htm.

This policy is a succinct statement of the extent to which charities may pursue community economic development, and in so doing, lend money for charitable purposes, as opposed to investing funds not currently required for charitable spending.

The law here is a bit complicated. The key points are:

1. Charities may, within their scope of charitable objectives and programs, apply their money to activities that further those objectives.
2. Providing loans for charitable purposes is treated differently than providing grants for those purposes.
3. Lending to the poor should not be at a rate in excess of the charity's costs, including a reasonable allowance for losses.
4. CCRA accepts micro-lending programs to assist low-income individuals operate micro-businesses as a charitable activity. It would have to be persuaded to allow lending programs for low-income housing.
5. Program-Related Investment programs, as described in the CCRA publication, must comply with the rules on investments by charities, set out above.
6. Alternatively, a charity may loan, or transfer, money to another registered charity that operates a loan fund acceptable to CCRA.

These illustrate how restrictive the rules in Canada are — unlike the United States, as CCRA points out, there is little flexibility to treat loans made for charitable purposes as devotion of resources to charitable purposes. The exception permitted to date, is that for micro-lending.

Internal constraints

There may also be legal constraints on investment in a charity's internal rules — its incorporating document, a statute that specifically applies to it, a trust declaration, or its bylaws. In the United Church, for example, the obligations are found in the applicable *United Church of Canada Act*, and the Trusts of Model Deed, appended to it.

IN MEMORIUM

We are sad to announce that Bill Small, former Vice-President, Finance, of York University, who contributed so much to the Mobilizing Resources investment workshop passed away in February 2003. As those who attended the workshop realize, he was a pioneer in the field of ethical investment within the United Church — only one of his many accomplishments. As a longtime member of the Board of Trustees, his role was crucial in the adoption of the new investment policy of Trinity-St. Paul's United Church, which then led to the church becoming a member of the Canadian Alternative Investment Cooperative. His warm friendship, well-considered advice, love of music, and hearty laugh will very much be missed.

DEVELOPING TRUSTEE GUIDELINES FOR INVESTMENT: A CASE STUDY

by Bill Small, Board of Trustees, Trinity St. Paul's United Church

Three masters

I recall a familiar quote from the New Testament: "No one can be a slave to two masters: he will hate one and love the other; he will be loyal to one and despise the other. You cannot serve God and money."

With such simple parameters a choice was not difficult to make. However, this is far from the case with respect to the investment of church funds in the 21st century. In fact there are "three masters" in healthy competition for the attentions of Trustees of United Church Congregations here in Ontario:

- the local Congregation,
- the Trusts of Model Deed of the United Church of Canada, and
- the *Trustee Act of Ontario*.

None of these can be ignored. Somehow, all three entities must be accommodated. At Trinity-St. Paul's United Church, such constraints were recognized as we started out on a long journey.

Motivation for developing an investment policy statement

There were several factors that got the Trustee wheels turning at Trinity-St. Paul's:

- increase in assets available for investment at a time when the *Trustee Act of Ontario* was being revised;
- growing interest of members of the Congregation in relating our mission objectives to investment opportunities; and
- volatility of capital markets and uncertainty of the Canadian economy.

Putting these factors together, it was clear that we needed to have explicit guidelines with respect to the administration of investments. The practice of good management dictated that action be taken.

Process followed in developing an investment policy statement

As we appointed a drafting subcommittee, we felt it important that its members:

- respect a variety of positions within the Congregation regarding investment;
- have knowledge of investment matters and the economy;
- have the capability to listen in various church forums and draw perceptive conclusions; and
- make a commitment to working through an onerous task.

Following approval from the church's Official Board, a first draft of the investment guidelines was based on a similar document developed for the York University Pension Fund. Clearly, there were differences between the investment of general funds of a church and the duties of Trustees in the administration of a pension fund; however, there were also many similarities. Over the course of time, the original draft was reworked no less than eight times before going back to the Official Board for consideration. The Official Board approved and a recommendation was made to the Annual Congregational Meeting. Questions raised at that meeting reflected the genuine interest of the membership. Unanimous approval of the Investment Policy established a new framework for the investment of congregational assets.

The exercise was complicated by the need to reconcile the dictates of the “three masters” mentioned previously. The Congregation’s Mission Statement sets broad parameters: “to live the love, justice and freedom of Jesus Christ” and calls for partnership in mission and service for Canada and the world community.

From the outset it was clear that investment objectives would have to accommodate financial returns with factors of corporate social justice. Then came the Congregation’s linkage with the United Church of Canada through the *Dominion of Canada Act* and the more particular terms of the accompanying Trusts of Model Deed. Unfortunately, the latter document is more notable for its generalities than specifics with respect to investment. However, to the rescue came the recent statements prepared by the Division of Mission in Canada under the titles *Investment of Personal Property of United Church Congregations* and *Mission and Investing*.

These documents provide very specific guidelines and overcome the vagaries of the original Trusts of Model Deed. Then followed overriding statutory directives in the form of a revised *Trustee Act of Ontario*, which provides several additional constraints.

Comments on the content of the Trinity-St. Paul’s investment policy statement

(Sections refer to the Investment Policy Statement, which has been published in *Mission and Investing: A Guide for United Church of Canada Congregations and Organizations.* See Resources on page 20 for information on where to obtain it.)

There are some specific elements of the investment policy that generated considerable discussion in the drafting stage.

A. Investment Objectives (Section I)

Defining the objectives is perhaps the most difficult aspect of the task at hand. They must be sufficiently specific in order to set the parameters for administration and yet they must be broad enough to provide room for manoeuvre with changing circumstances. In short, the four stated objectives may be summarized in a single sentence: to achieve the highest rate of return within reasonable risk, taking into account the need for a measure of short-term liquidity and long-term viability while favouring corporations responsive to social justice issues and good governance.

We tried to follow an approach that would sustain long-term viability rather than unduly eroding capital funds doing a flurry of good deeds over a short number of years. Once again, we were reminded of the need to balance a number of objectives in developing a sound investment policy.

B. Assignment of Responsibilities (Section II)

With various entities responsible for various elements of the investment operation, it was necessary to define their duties clearly and set out the lines of accountability.

1. The Board of Trustees (Section II, 1.)

Subsection C is in keeping with the *Trustee Act*, which allows employing expert advice. The degree of outside assistance will depend on the availability of persons within the Board who are capable and willing to take on such tasks. We have been fortunate in having such support, without which it would be necessary to hire external personnel. However, now there may well be an opportunity to take advantage of newly offered arrangements through the Division of Finance of the United Church of Canada. Subject to the size of investment assets and the fees levies by the Division, such an arrangement may be the way of the future for some Congregations.

Subsection E draws attention to an extremely important Trustee duty, namely, keeping the Official Board and Congregation fully informed of its activities. Regular and clear reporting is the foundation of maintaining confidence in the system. It reflects good management as well as avoiding awkward questions and/or circulation of unfounded rumours.

2. The Subcommittee on Investment (Section II, 2.)

As the Board of Trustees, in our case numbering 12, some of whom had little or no investment experience, we decided investment duties could be dealt with more effectively by a small group. The Subcommittee's responsibilities are limited and regular reporting to the Board is an essential requirement. The five members meet at least quarterly and communicate frequently by e-mail. The arrangement places quite a burden on its members, but certainly works more effectively and efficiently than trying to involve the whole Board. Technically, this may contravene the *Trustee Act*, but as the arrangement has been endorsed by the Official Board and the Congregation and because actions are circumscribed by documentation fully disclosed to the bodies to which the Board of Trustees is accountable, we believe the intent of the legislation is being met. Our Subcommittee has taken seriously its responsibilities with respect to proxy voting and drawing the attention of the investment advisor of the undertaking to consider good corporate governance, corporate social responsibility and responsible management as determinants of investment selection. We use the OMERS and the Jantzi Social Index criteria as the basis for our own decision making.

3. The Investment Manager (Section II, 3.)

Authority was given to appoint an investment advisor, an arrangement that produces an awkwardness for a fund of approximately $1 million. On the one hand, such an amount is not attractive to large players in the field. On the other hand, there is difficulty in selecting a small firm with the essential expertise and a long-term record of stability. We chose an in between position, appointing an investment advisor who is a broker with Nesbitt Burns Inc. In this way, we hoped to have the attention of a person with a limited number of clients, but with the resources and experience of a large organization at his call. He is trying determinedly to meet our expectations regarding the selection of individual assets and achieving targeted rates of return on the fund. He has been highly satisfactory with timely cash transfers for current church operations as required from time to time. This experience brings to mind again the United Church of Canada offer to provide investment management services for individual congregations as a potential alternative means of investing relatively small capital assets.

C. Performance Criteria (Section IV, D.)
Believing it is important to know not only the actual rate of return on investments, but also how it compares with the return of comparable external funds, we made a strong effort to set out commonly used, measurable criteria. In fact, this has proved to be a difficult exercise as a substantial portion of our invested assets was donated in mutual funds. However, this is a short-term phenomenon as a decision has already been made to dispose of such funds as soon as this can be done without penalty.

D. Sunset Provision (Section VII)
No matter how perceptive and diligent members have been in developing a useful Investment Policy Statement, times change; hence, the inclusion of a sunset provision to alert responsible members to evaluate experience and take the opportunity to recommend appropriate revisions.

The concrete outcome of this lengthy, but necessary, process was the investment of $50,000 in the housing envelope of the Canadian Alternative Investment Cooperative (see next page). This amounted to about five percent of the church endowment and made Trinity-St. Paul's the first Protestant congregation to become a member of CAIC.

Opportunities for faith groups to invest in affordable housing

The pioneering period is already on the wane. A groundswell of public opinion supports the inclusion of social justice projects as an extension of the mission of faith groups. Hence, the question is no longer whether Trustees of faith groups can invest in affordable housing, but rather how much and by what means.

Inevitably, there will be opposition. Isn't it beyond the bounds of good judgement? Isn't it too risky? Doesn't it contravene legislative parameters? Doesn't it put our whole operation in jeopardy?

Confronted by such facts of life, one is reminded of lines from a popular song of the 1930s: "It ain't what you do, it's the way that you do it. That's what gets results." The enthusiasts/committed must take into account the kind of reservations noted. They must cultivate their colleagues with the presentation of facts and be willing to go through a time-consuming decision-making process.

Good luck. Be persuasive; be persistent and be assured that the future is on your side.

PROPOSALS FOR SOCIAL INVESTMENT

A. Canadian Alternative Investment Cooperative (CAIC)

Excerpts from a presentation at the September 2002 workshop by Beth Coates, Financial Manager, CAIC (www.caic.ca)

CAIC is a cooperative set up in 1980 by a number of Catholic religious communities who pooled some of their financial resources in order to make investments promoting social justice. As a cooperative, it is regulated by the *Canadian Cooperative Act* and not as a charity; it is however open to other registered Canadian charities to become members.

Currently, it has assets of $7 million. Its Board of Directors is elected by the membership and presently includes a lawyer and chartered accountant; it employs financial advisors.

CAIC's mission is to invest in Canadian groups working for positive social change and/or for community economic development that lack access to traditional financing. Its priority lies with creative investments that promote alternative economic structures and serve as a catalyst for structural change. It is committed to a policy of protecting their investors' capital and requiring a fair rate of return (averaging four percent last year).

Over the past 15 years, CAIC's investments have provided first mortgages for homeless shelters, housing coops and low-income housing. There has been a good track record of repayment. Over the past five years, CAIC has been focusing more on second mortgages — that portion of housing financing that fills the gap between the market value and the construction costs. (See "Where Are Investments Needed in Housing?" on page 6.) By providing up to 15 percent of the total costs, CAIC eliminates the need to have recourse to CHMC insurance and thus reduces the costs by five percent.

CAIC presently has $300,000 invested in the first and second mortgages of various housing projects and shelters. It generally offers an interest rate equal to the bank residential mortgage rate (seven percent on first mortgage and nine percent on second), but prefers to decide on a case-by-case basis. Sometimes it has charged as little as three percent. CAIC, however, does not ensure 100 percent funding, only up to 90 percent through second mortgages. Since it offers a 15-year (rather than 25-year) amortization with a five-year term, the borrowing group actually builds up its own equity quicker, allowing it to borrow against that equity in later years and also ensuring funds to pay for the normal upkeep of the building.

Less than half of the applicants have been turned down, since CAIC tries very hard to work with each case to meet their need. It will lend to a leased property so long as it is secured by the property itself.

The Proposals for Social Investment outlined in the next few pages were presented at the Mobilizing Resources' workshop on investment. The inclusion of these proposals are not endorsements — we are simply sharing vehicles and models for social investment that faith groups can further explore.

B. Toronto United Church Council (TUCC)

Based on a presentation at the September 2002 workshop by Paul Dowling, President of Toronto United Church Council, and on information on the TUCC website at www.tucc.ca.

The Investing in Ministry Fund of the Toronto United Church Council (TUCC) provides one model in considering different kinds of investment vehicles.

The TUCC itself has been around for about 100 years under different names and holds $22 million of mortgages. It is a corporation under the Toronto Conference of the United Church, and provides management of assets placed in its care in support of the mission of the church.

In 2001 it set up the Investing in Ministry Fund as a new investment vehicle for congregations. Congregations can invest money in the Fund on a fixed long-term basis for the purpose of funding development initiatives of other congregations and mission units of the church.

The minimum investment is $100,000 for a fixed term of at least five years. The amount and term are pursuant to the not-for-profit exemption under the *Securities Act of Ontario*. TUCC doesn't take any administration fee — this is also a requirement of the *Securities Act*. The Fund does not provide congregations with the best interest rates available to lenders, but a reasonable rate, and a secure investment guaranteed by the TUCC, in support of the work of a neighbouring congregation or mission.

Funds are loaned at 80 percent of the Bank of Nova Scotia rate for the term selected. Loans under $50,000 are secured with a promissory note; loans over $50,000 are secured with a first mortgage in favour of TUCC.

The Investing in Ministry Fund is described here as a model for how a congregational fund in support of housing might be organized. TUCC is not itself involved directly in initiating affordable housing developments. However, TUCC has recently clarified that, in keeping with its mandate to provide capital funds to support the mission and objectives of United Churches and affiliated organizations, TUCC can support housing initiatives of congregations and other church bodies where that is determined to be the mission of that congregation or church body. While most TUCC loans in the past have been for church development, the future may see a more direct involvement of TUCC in the provision of capital funding for affordable housing.

C. Mortgage Outreach Corporation (MOC)

Excerpts from information provided at the September 2002 workshop by David Walsh (dwalsh@web.ca)

The Mortgage Outreach Corporation (MOC) receives RRSP and other investment funds from Christian and other individuals and groups. Its policies are borrower-friendly, responding to opportunities where a traditional bank has difficulty in approving mortgages. The main recipients of MOC funds have been full-time charity workers, non-profit housing groups, small building contractors, and second mortgage situations.

MOC also aims to provide a reasonable rate of return for investors. It has been in operation for the past 15 years, its assets are currently about $6 million, and to date, there have been no defaults. It has provided about a 6.5 percent to seven percent rate of return.

MOC is managed on a volunteer basis by Howard and Janet McLean. Howard McLean is president of a Calgary firm that also has offices in Toronto. He personally reviews each investment and his wife Janet oversees the accounting work for MOC.

MOC is based in Calgary, and has so far invested primarily in Alberta. But it has several investors from the Toronto area — individuals as well as groups such as the Student Christian Movement, Phoenix Community Works Foundation and Our Homes. It is interested in supporting a group in Ontario to establish a similar loan fund in this province.

D. Proposal for a Capital Funding Alternative for Small Non-Profit Housing Projects

by David Walsh, a private developer in Toronto who volunteers with non-profit housing groups (dwalsh@web.ca)

The Need: To design a financing program that offers community housing groups and faith groups a way to more easily contribute towards creating affordable housing for people with special needs.

Existing " RFP" (Request For Proposals) programs are too cumbersome and bureaucratic for small housing groups. There is a need for a program that is simple to access and is available to a wide range of groups.

With current programs, small non-profit groups have to spend inordinate amounts of time and resources in trying to raise funding for the capital side of their projects.

Non-profit housing groups traditionally have a strong volunteer base that needs to be encouraged. This volunteer component can help to substantially reduce the cost of many types of caring services.

Proposal: To provide a financing program that is easily accessible and that has finite public costs and minimal administrative work after the project is constructed.

In 1990, the Ontario government implemented a small capital grants pilot housing program with about 50 projects. This program was attractive to small entrepreneurial non-profit housing groups. The experience from this program demonstrated that an efficient approach to ensuring an economical project is to provide funding to pay for the capital costs of the house, that is the purchase price and the cost of renovations. This level of funding allows a housing group sufficient scope to raise funds to cover the other costs — namely staff support and future repair costs.

A house at 63 Oakwood Avenue in Toronto is a good example of this concept. This single detached house currently provides accommodation for four single people plus two mothers with one child each. The house is classified as a six-unit "rooming house". The purchase price and renovations amounted to $500,000 or approximately $84,000 per unit. The rents pay for the operating costs and the government has provided no operating subsidies for the house.

The government secured the funding with a first mortgage on the property. The mortgage became forgivable after 10 years and was amortized over the subsequent 15-year period. The government checks every three years to confirm that the housing group is keeping its commitment to house people living on low incomes.

This would certainly seem to be the most cost-effective way for the government to return to adequate support for low-cost housing. And return it must, if the housing problem is to be solved. Faith-based projects alone can at best only contribute a small portion of the solution.

Organizations that have developed small housing projects and are capable of creating more, if such funding were available, include:

Loft Homes — an Anglican Church housing development company
Ecuhomes — a substantial inter-church housing company
Evangel Hall — a Presbyterian church project
Romero House — an organization with four buildings that provides housing for refugees
Frontiers Foundation — provides housing for Native people
YWCA — operates a number of housing projects for single mothers and others
Homes First Society — has numerous housing projects

Fifty other organizations could be listed as examples.

E. Options for Homes

From a presentation at the September 2002 workshop by Michel Labbé, President of Options for Homes (www.options.icomm.ca)

Options for Homes is the only provider of non-profit housing in Toronto that builds for owners, rather than to rent. But unlike other condo developments, Options has a unique provision for a second mortgage to be held by its companion non-profit organization, Home Ownership Alternatives. These second mortgages, referred to as 'shared appreciation mortgages', cover the difference between building costs — usually 10 to 15% below market — and market value, and need be paid only at time of resale. At resale Alternatives recovers a portion of the appreciation of the property, which then becomes its equity, invested in future housing construction. Alternatives now holds $14 million in mortgages and has an equity of $2.6 million.

Several months ago the board of directors of Alternatives voted to begin the process of establishing a charitable corporation whose charter would empower it to provide housing for the needy by providing sufficient help at the time of down payment. Funds for the charitable corporation—over and above those now held by Alternatives — would be raised by charitable donations, hopefully with the addition of government investment. Furthermore, investment dollars would be accepted from churches, cooperatives and other institutions, as well as from individuals, who are willing to accept conditions of low liquidity. The investments would be made with the specific purpose of reducing mortgage payments to levels which would accommodate very low income families.

The rate of return on such investments would be equal to the appreciation in real estate values, with a low guaranteed rate of perhaps 2%. Alternatives would insure the principal of the invested funds and would attach affordability criterion to second mortgages of a portion of housing units, made possible by this investment. Other details of this arrangement are in the process of being worked out. Enquiries at Options for Homes would allow those interested to have updated information.

Conclusion

These presentations reveal that changes in the law and subsequently in the policies of lending institutions have recently created new opportunities for faith groups to invest in social housing. CAIC is so far the only agency that has actually made low-cost housing loans, using capital from religious congregations. But TUCC, accepting institutional investments, has already made policy changes that would enable such loans when the housing project is sponsored by a United Church congregation. Options for Homes is seeking to expand its procedures to accommodate low-income families, using investments from individuals and religious institutions.

But new financial mechanisms are probably still necessary, such as the creation of a mortgage fund for social housing accepting both individual and institutional investments. Such funds do exist elsewhere, although they have seldom succeeded without substantial initial capital from some level of government. So the need for policy advocacy in this field is still very great. And in the meantime we must inform more faith communities about the investment opportunities that already exist.

RESOURCES

Suggested Reading:

Mission and Investing: A Guide for United Church of Canada Congregations and Organizations. The United Church of Canada, 2001. Call United Church Resource Distribution, 1-800-288-7365 or locally 416-253-5456, product #500 000 032; or order online at www.united-church.ca

Michael Jantzi, ***Investing in Change: Mission-Based Investing for Foundations, Endowments and NGOs.*** Canadian Council for International Cooperation, 2001. Available for downloading online at www.ccic.ca/volsect/MBI/mbi-7_handbook.pdf

Websites:

Canadian Alternative Investment Cooperative: www.caic.ca

Shareholder Association for Research and Education: www.share.ca

Social Investment Organization: www.socialinvestment.ca

Toronto United Church Council: www.tucc.ca

Options for Homes: www.options.icomm.ca