LISC Rhode Island

Released August 1, 2017

LISC News

Morgan Stanley

July 26, 2017
Institute for Sustainable Investing

A New Asset Class in Making

Here's a familiar tale of two developments. In a fast-gentrifying neighborhood of a booming urban center, real-estate moguls quickly stitch together a 10-year syndicated loan valued at several hundred million dollars to build a high-rise condo, complete with mixed-used retail and some office space.

On the other side of town, along a tract of abandoned buildings and vacant lots, local leaders work with a community development financial institution (CDFI) to stitch together a financing package for low-income housing from public sector funding sources, foundation grants, and short-term loans from banks. The former is considered a sure bet, while the latter is perceived as a high-risk investment with small odds of success. They epitomize the uneven playing field in the quest for development dollars.

A recent bond deal that raised $100 million for the Local Initiatives Support Corporation (LISC), a highly regarded CDFI with an equally high S&P 'AA' investment-grade credit rating, may change all that. Once relegated to a specialized pool of public sector, bank and philanthropic funding, LISC, a nonprofit with an impressive track record bringing public/private investments to local needs, is the first to prove that CDFIs can tap the ocean of longer-term general investment capital available through the public bond markets.

Nonprofits tap bonds for the first time to spur economic opportunity in low-income neighborhoods.

"This is a complete game-changer for us and for CDFIs more broadly," says Maurice Jones, CEO of LISC, which has invested more than $17 billion since 1980 to spur economic opportunity and revitalize disinvested communities. "With better access to capital markets, we can assemble flexible financing to fuel new businesses, jobs and large-scale redevelopment efforts."

For Morgan Stanley, the initial public offering of LISC's bond also represents a milestone. "This is a ground-breaking deal for the community development lending sector and for sustainable investing broadly," says Tom Nides, Vice Chairman of Morgan Stanley. "It's an introduction of a brand new asset class, and an indication that sustainable investing demand is reaching a critical mass in the markets."

For CDFIs, funding through the bond market allows for greater freedom and longer timeframes to

(Continue Reading on the Back)

realize bold visionary planning and development, says Jones. At the same time, the deal opens the doors for community investment opportunities to ordinary investors, both institutional and retail, who have made sustainable investment a growing priority, Nides notes.

"It's this kind of investment, in collaboration with residents and partners, that helps LISC forge resilient and inclusive communities of opportunity across America—great places to live, work, visit, do business and raise families," adds Jones.

> "It's an introduction of a brand new asset class, and an indication that sustainable investing demand is reaching a critical mass in the markets."
>
> **Tom Nides** | Vice Chairman, Morgan Stanley

A Natural Evolution

Robert Rubin, Secretary of the Treasury in the Clinton Administration, oversaw the first federal programs to accelerate the work of CDFIs. He has continued that effort as chairman of LISC's board for the past 18 years.

"When I was at Treasury, there were members of Congress who questioned why a federal agency focused on the economy would get involved in community development programs," he recalls. "But it was clear to me then, as it is now, that poverty is as much an economic imperative as it is a moral one. The lack of skill development and jobs that we see in both urban and rural areas has a profound effect on the entire country. It is in our national interest to address it."

In the intervening years, CDFIs have proven their effectiveness by generating solid financial returns and community impact, Rubin says. "This bond deal is the next step in the evolution of community development financing. Now, institutions like LISC have the scale and track record they need to become public bond issuers."

Bringing the Whole Firm

The Global Sustainable Finance and Public Finance divisions pulled together a team with LISC to extensively engage with prospective investors on how LISC earned its high credit rating and how projects that build new businesses, child-care centers, charter schools and other much-needed services in low-income communities can be done in a way that provides both financial and social returns.

Although the deal was priced off the municipal bond desk in the Public Finance division, sales teams in corporate investment grade, wealth management capital markets and the firm's Investing with Impact Financial Advisor group were all used to build the order book.

Others CDFIs are already following suit, with one having raised $50 million recently in a similar bond market offering.

"A New Asset Class in the Making." Morgan Stanley, 26 July 2017, www.morganstanley.com/ideas/lisc-debt-ipo-community-development-bond-issue.html.

LISC Rhode Island

Since 1991 LISC Rhode Island has invested over $300 million to help build strong neighborhoods and healthy communities where individuals, families and businesses can thrive. Learn more at www.rilisc.org or email us at rilisc@lisc.org

LISC Rhode Island | 146 Clifford Street | Providence, RI 02903 | riccelff@lisc.org | riccelff.org