

# REDF Investor QTRly

Information for the REDF Donor On Issues From the Frontline

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Happy New Year! I'm pleased to bring you the second edition of *REDF Investor QTRly* - a communication we offer exclusively to REDF donors on issues impacting our work.

In this edition, we feature the annotated remarks of **Richard M. Rosenberg**, a member of the [REDF Board of Directors](#) and retired President and Chief Executive Officer of **Bank of America**.

Mr. Rosenberg recently gave a keynote address at a forum hosted by the **Federal Reserve Bank of San Francisco** in partnership with REDF entitled "[Linking Social Enterprise and CRA](#)". The gathering drew bankers, regulators, philanthropists and nonprofit leaders to discuss how banks can invest in social enterprise to maximize Community Reinvestment Act (CRA) opportunities and objectives.

Please enjoy.

**Carla Javits**  
President, REDF



*"I believe in social enterprise and I believe it should be a bedrock program of every institution engaged in CRA activities – not to mention others interested in improving their communities through social investments of all kinds."*

**Richard M. Rosenberg**

Retired CEO, Bank of America and Member, REDF Board of Directors

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## Social Enterprise and the Community Reinvestment Act

by Richard M. Rosenberg

First, a little bit of history, which I think is important because when this financial crisis ends, and the blame and finger pointing begins big-time, CRA will be pointed to as, directly or indirectly, helping to foster this incredible, challenging, and difficult financial and economic environment in which we find ourselves.

In my opinion, there will be considerable merit in that position because at least a partial allocation of blame belongs to CRA.

However, in the interests of full disclosure, I must tell you that I was a fan of CRA in its original intentions. In fact, I was one of the few major bankers that supported CRA and I received awards from several community groups for my position.

## Rather than reviewing the past, I'd like to look ahead.

First I'd note that CRA was originally designed to eliminate the awful practice of redlining, which had the effect of denying housing loans to qualified buyers, primarily minority and low income borrowers, who were living in areas that had been redlined by banks. This was rank discrimination and it was wrong and CRA requirements helped to tear down those redlined walls.



One very good change was made after the original CRA legislation was enacted, principally because of the Morgan bank. Morgan was a commercial bank and thus, subject to CRA, but it had no branches to attract mortgage customers and since it required a \$10,000.00 opening deposit to open a checking account (mind you this was when \$10,000.00 was real money), not many of its depositors would fit the CRA profile.

To accommodate this unusual situation, it was determined that banks could also gain CRA credit by investing in and supporting organized groups who were working to achieve CRA goals and objectives. Of course, Morgan followed this path. But many other banks have also used this provision to help meet their own CRA requirements.

This leads me to social enterprise – and how these organizations are part of a CRA effort.

An example of a successful social enterprise is one of the organizations in the REDF social enterprise portfolio -- a company called [Clean City](#). I pick Clean City because it is a company most of us can relate to easily. But, more importantly, I picked this company because it represents a model of how social enterprise should work.

Its objective, like all of the REDF companies, is to create jobs through its business operations for individuals who are virtually unemployable. Clean City has a contract with a group of building owners who have created a self-imposed taxing structure to keep the streets clean around their buildings by hiring Clean City.

### Some highlights of how REDF and Clean City work together:



**1.** REDF does very **extensive due diligence** before taking on a company to determine not only if the company can run a viable business that employs those who are going to have the toughest time getting a job; but also **to determine if REDF can add value** – whether investment dollars from REDF can be put to good use given the expertise, experience, and needs of the company. In Clean City's case, one of the first things REDF helped them do was purchase a power steam washer.

**2.** REDF also **assigns experts**, both permanently and temporarily, to do and especially to teach the necessary factors in the business and to broaden the managerial skills and capabilities in the company. The REDF people assigned are even more carefully screened for the ability to add value than the company itself.

**3.** And, finally, REDF works with the company to **set absolute and clear objectives**, and to **undertake measurement** and **provide accountability** for both REDF and its partners in the social enterprise effort.

As you can guess, I believe in social enterprise and I believe it should be a bedrock program of every institution engaged in CRA activities – not to mention others interested in improving their communities through social investments of all kinds.