



Frequently Asked Questions (FAQ)

What are the objectives and principals of the Community Investment Trust (CIT)?

The objectives in creating the CIT were to provide a locally defined, long-term investment in commercial-retail real estate that is open to everyone but designed for low-income populations. The CIT targets renters, BIPOC, refugees and immigrants, first-time investors and the working poor.

See our 90 second video on the vision of the CIT in practice in Portland and for replication nationally:

<https://www.youtube.com/watch?v=iZPyq5qBWyo>

What is the Community Investment Trust or CIT?

The Community Investment Trust or CIT is our name for an investment product Mercy Corps designed with the community and experts in security law, commercial real estate and finance. The pilot CIT, East Portland CIT Corporation, is a single property investment available to approximately 300-500 investors who live within four zip codes (97216, 97233, 97230, 97236) close to the CIT property at 1427-1515 SE 122nd. The property, known as Plaza 122, is a commercial-retail office building of 29,000 square feet, of which 26,175 is leasable space for approximately 27 business and non-profit tenants at any given time.

How is the CIT different?

No other financial product or community development model has been designed like the CIT. The model's unique advantages include:

1. Low dollar investments (\$10, \$25, \$50 or \$100/ month).
2. Geographically defined investment area by zip codes.
3. Short and long-term returns for investors through an annual dividend and share price change annually.
4. Guaranteed protection from loss for investors through a direct pay letter of credit from a local bank.
5. Investors may cash out of their investment at any time and have their entire investment returned.
6. Peer-led eight-hours of education called "Moving from Owing to Owning" offered in five languages covering budgeting, goal setting and the risk and return profiles of investments.
7. Investor management and customer service communication including a website - investcit.com and an SEC compliant investment management, stock offering and transfer agent portal.

Who is eligible to invest in the East Portland CIT and how do I become an investor?

Investors must live in zip code 97216, 97230, 97233 or 97236. They must be at least 18 years old and have a taxpayer ID. They must have taken the CIT “Moving from Owing to Owning” class. In addition, they must have a bank account from which the monthly investments are made, and dividends and liquidation of the investment are distributed.

What happens if I move out of zip code after investing?

Nothing will change during the current subscription period, which is the calendar year. When the next subscription period opens, you will not be able to enroll for the new offering at the new share price. While you cannot add to your investment, you can hold it.

Can I cash-out part of my investment?

No, you must cash out of your entire investment. You may restart your investment at any time.

Can I take the Owing to Owning class online?

Yes. Due to COVID-19, the class was only offered online in a zoom class. We may return to in-person classes when health conditions are safe. It is a high interactive class – participants benefit greatly from the discussions with each other. We have learned that many people have time constraints and appreciate having the classes online.

What are the risks to my investment?

Your investment is protected from loss, and you are guaranteed to get your investment returned at any time you choose.

Can both my spouse and I invest?

Yes.

How do I make money on the investment?

Investors will make a return on their investment in two ways: 1) In the short-term, investors will receive a dividend annually on income after taxes produced by the property. 2) In the long-term, investors will gain on the value of their shares annually but will receive that cash when shares are liquidated. The share price is changed annually based upon the full amount of debt reduction on the property from the primary mortgage and up to 50% of the change in the appraised property value from an annual appraisal.

How are investors protected from loss?

With a direct pay letter of credit from a bank (see more below), all investors are assured that both their investment is liquid (they can get their money out at any time) and their investment is secure from loss (even if the property value drops). This is one of the key elements that makes the CIT investment product unique to anything like it except a deposit at a bank. The CIT investment, unlike a bank deposit, has a long-term upside in the value of the real estate, both because of the amortization of debt, which is entirely predictable, and the increase in value, which should be largely predictable if the property generates income at its current and projected levels over time.

How is the building managed and by who?

East Portland CIT Corporation’s (EPCIT) property, Plaza 122, is managed by a professional property management firm, Norris & Stevens. Investors and the lead organization, Mercy Corps, do not engage in property management but hire and

manage the property management firm. A Mercy Corps entity, CIT Services, LLC acts as advisors to the board of directors of East Portland CIT Corporation, an Oregon C-corporation that is owned entirely by the neighborhood shareholders.

How is the CIT managed and by who?

EPCIT has an independent board that has fiduciary oversight of the property and the primary oversight directive of maintaining a positive investment return for the investors and meet community objectives outlined in the corporate bylaws. The board comprised of a blend of experts and community members/investors. A Mercy Corps entity, CIT Services, LLC acts as advisors to the board of directors of East Portland CIT Corporation, an Oregon C-corporation.

Who is in on the East Portland CIT Board?

The board has the fiduciary oversight responsibility for East Portland CIT Corporation. As of January 2022, the board members began expansion and a shift to becoming community/investor led, after a start-up period of being community/expert led: Jennifer Hardnett, President; Larry W. Ettner, Secretary; and John W. Haines, Director. Jennifer is a finance and economic development professional with Clackamas County. She is an investor in EPCIT and facilitator of the CIT Owing to Owing peer learning classes; Larry has served as Professor of Management Practice: Atkinson Graduate School of Management, Willamette University in Salem, Oregon, since 2008 and was on the Board of Mercy Corps Northwest. John is the Executive Director of the Community Investment Trust for Mercy Corps.

How will the governance/ownership model be set up to encourage investor participation?

Over time, the board will grow up to twelve members, chosen by the board members and investors to reflect the technical skills needed - such as real estate finance, accounting and community development, and with knowledge of the neighborhood. Investors will also be board members. The plan during the next two years is to have the board members comprised of investors and community leaders in the four zip codes that are the investor territory. We are researching governance models and will be establishing a training system for onboarding board members to assure a continuity of competence and commitment.

How will the tenants in the building be affected by this?

They should benefit from the ownership of the property by the neighborhood and a customer base whose investment success is tied to their business success. We work with the tenants to determine if there are synergies with their customers and their desires for the building. Events at the building have created a vibrancy and visibility. These events have included health and wellness resource distribution, COVID vaccinations, grand openings, community landscaping, artist shows, and meet-and-greets with a neighbor homeless shelter.

How will investors get out of project, sell their shares, if they need/want to?

Investors can liquidate their shares at any time based upon the share price valuation from an annual value determination based, again, on the debt reduction and appraisal of the property, performed annually. The share price remains fixed for the year until it is revalued at year-end. Investors must cash out of all of their shares but may resubscribe at any time. All transactions are performed on a portal designed for the CIT by a professional stock offering and transfer agent company.

How is the price per share be determined?

The initial offering was for 45,000 shares at \$10/share. Each year, the board of directors sets the new share price that is a function of the change in appraised value of the property, the reduction in amortized loan, and the number of authorized

shares. At their discretion, the board may apply a discount factor to the appraised value of the property to ease dramatic share price changes but will release up to 50% of the appraised value change annually in the share price. For example, in the first year one each share was valued at \$10. In subsequent years, the share price increased from \$10 to \$14.57 in Year 2, \$15.86 in Year 3 and \$17.10 in Year 4 and 5 (2021-2022).

How many investors will there be in the East Portland CIT and how much can investors invest?

We will allow investments of \$10, \$25, \$50 or \$100/ month maximum until the initial equity of \$450,000 is purchased by the neighborhood investors. The initial equity is subordinated debt from impact investors and Mercy Corps that was used as a down payment, for property improvements and lease costs. We anticipated that the stock will be fully subscribed and when the initial equity of \$450K is paid down from community investors over a 5–6–year period.

Is the real estate asset class best for long-term financial health and success?

We chose real estate because the people we surveyed in high poverty area and in affordable housing were motivated by owning real estate collectively in their neighborhood. The proximity and tangibility of local commercial/retail real estate motivated their interest in investing. Real estate is a historic hedge against inflation and produces net worth regularly over long-term through the amortization of the underlying debt on the property. See [financial action](#), which details our approach using principles of human-centered design and behavioral economics.

Real estate poses both unique risks and benefits. It is subject to general market conditions, the success of the tenants and their ability to pay their rent, and to an economic downturn as we experienced in 2008-09. It consolidates the investment in one property, which is not a diversified investment. On the positive side, real estate tends to do well in an inflationary environment. Real estate is tangible - you can see the property and its condition daily through the performance of a diverse set of tenants.

You target people who have little money to invest and do not understand how investments in general work, or how they can possibly be part of owning an entire building or strip mall. How will they learn?

We designed the CIT based upon feedback at meetings and in surveys at affordable housing buildings, an international farmers market and at community organizations. We surveyed in multiple languages to guide the human-centered design of the CIT to meet people’s desires and needs. Owning real estate was the biggest motivation of investing but almost none of the people we surveyed were investing in anything beyond periodic saving. Education on investing and budgeting was high on their list of needs but they were also risk averse. To educate potential investors, we hired a peer learning expert to create a course called “Moving from Owing to Owning”. The course explores in a peer setting people’s relationship with money. What is a want vs a need? We cover goal planning, budgeting, credit scores and the risk vs return of a range of investment options, including the CIT. We hold classes on Zoom for two hours on three successive days and have continued to offer the classes remotely in response to people’s preferences.

Why are investors required to take the financial action and investment course?

First, people wanted a course. Second, the course helps assure that the CIT investment is appropriate for them. The classes are most often facilitated by investors, who are given a stipend for their time. The course assures that investors have budgeted for the CIT investment accurately and that they understand the CIT in the context of other investment options. Investors uniformly report that they have valued the “Moving from Owing to Owning” class and appreciated meeting other potential investors. People wanted to understand what investment choices they have, and to choose one that fits their budget and financial goals. We have found that the course helps build trust and community engagement.

What are the public benefits accrued to the community in addition to the individual investors?

We track impact on three levels:

1. Family (does the investment help people meet their financial goals?)
2. Tenants (do businesses and non-profit tenants perform better from being a part of the CIT?)
3. Community (do people vote, join neighborhood groups, advocate for themselves and their neighborhoods?)

Through these three areas of impact, we have seen that the CIT addresses long-standing community economic development and policy challenges in neighborhoods of financial inclusion, equitable development and inclusive growth. We are primarily interested in addressing asset poverty and inclusion by providing access to long-term investments. We want to test the intersection of the resiliency of individuals and neighborhoods, and the behavioral changes that manifest through ownership, participation, and engagement. We also anticipate greater success of the tenants in the CIT buildings because of the imbedded market of potential customers who are owners of the property. We believe in the power of people taking advantage of opportunities to advance their financial standing. In surveys we conduct annually, investors (majority of women, renters and low-income, BIPOC/ immigrants and refugees) report a desire to invest, especially in real estate, and that they prefer to own real estate in their local neighborhood with businesses which they know and will support. 98% recommend the investment to their friends and colleagues.

Will people take financial action for themselves and without subsidy or incentives?

Yes, at 3/31/22, 4 years and 5mos. since the CIT stock offering launch on 11/1/17:

- 281 total investors: 192 actively investing, 50 holding, 14 in-process to invest, 25 have cashed-out and not reinvested (91% investor stick rate)
- Amount invested by the community of investors at 3/31/22 was \$331,083.
- 76% of investors invest @\$100/mo. 17% @\$50/mo. 4% @ \$25/mo. 3% @ \$10/mo.
- Investors collectively invest approximately \$16.4K/ mo. in shares of EPCIT Corporation.
- 45,000 were issued at \$10/share. 23,083 shares have been purchased of the 45,000 issued.
- Share valuation totals \$393,565 for 242 current investors (\$1,633 average investment value/investor).

As more people invest in the CIT, will the shares and dividends be worth less?

We distribute dividends based on the cashflow of the building and as a percentage of the total shares issued of 45,000 shares. Dividends have averaged 7.9% for four years with a high of 9.6% and a low of 4.5%.

How many shares are available to purchase and at what price?

Once the total dollar amount of the base equity of \$450K (which was for the down payment, improvements and leasing cost), the offering will cease but for when people cash-out their shares, which will be made available to current investors.

How many shares can a CIT investor purchase and can I sell them to others?

Any individual can purchase up to \$100 worth per month. Investors chose their investment for the year and can change it at year-end. All sales of shares go back into the pool and cannot be exchanged between individuals.

How much is the building worth?

At purchase on 12/18/14, \$1.2 million; as of the last appraisal, which is done annually, was \$2.0 million.

Is the CIT like a REIT?

We initially envisioned creating a localized REIT, but found challenges from legal, local, compliance and cost perspectives. While we originally envisioned a REIT structure because of its transparency to investors and the pass-through tax advantage at the corporate level, we saw the opportunity and need to construct a new type of financial product that uses the best aspects of REITs, Coops and B- Corporations.

The Community Investment Trust is not a REIT but mimics many of its attributes. REITs require at least 100 investors and do not focus the geography of investors and does not provide for low-dollar investments and share price risk protection as the CIT does.

Laws designed to protect lower income populations also exclude them. Such laws prohibit the offering investments to unaccredited investors. Our challenge, therefore, was in constructing a stock offering to unaccredited, low-income investors. Furthermore, how could we create a backstop to protect investors from loss?

Our legal partners found a unique legal solution to creating the CIT. Orrick, a public finance law firm with an office in Portland, specializes in municipal bonds and was familiar with credit-backed structures for bond offerings. With that structure in mind for the CIT, the team pursued a novel approach based upon creating a security that was exempt from registration with the SEC and the State of Oregon. Utilizing Section 3(a)(2) of the Securities Act of 1933, the attorneys postulated (and Mercy Corps later secured) a direct pay Letter of Credit (LC) from a bank, which provides investors with both liquidity and loss protection against any decline in their principal investment over time. This LC backstop, essentially a structured guarantee under our primary loan, provides the appropriate “do no harm” protection for our targeted low-income investors. We are the first organization to use this structure. We partner with a stock offering and transfer agent as the customer service interface with investors to sign up for the investment, choose their monthly investment amount and receive dividends, resubscribe annually after the share price changes, and cash-out when they choose. We are the first to use this Section 3(a)(2) provision in the Security Act.

How does the Direct Pay LC work?

Securing the LC from a bank under the 3(a)(2) provision was a new type of ask of a bank. Essentially, they provide through the LC a guarantee of liquidity and loss for investors. They construct their LC commitment through conventional loan covenants, the most important of which is the Loan to Value (LTV). This means that their loan for the mortgage and the LC combine to be a maximum of 75% of the value of the building owned by the CIT.

Four factors generate the level of and escalation of the LC amount over the time of the investment:

1) Share price; 2) # of investors; 3) Investor aggregate monthly investment amount; 4) amount of time investors hold their investment; 5) Dollar limit of investor protection (EPCIT currently has no cap on the amount of protection for investors. We are advising replicators to cap the protection for investors at a certain dollar level)

What is Mercy Corps interest and capacity?

Mercy Corps is known globally for its agility and innovation in places in conflict, crisis and economic collapse. A project like the CIT fits in a domestic context for Mercy Corps' global interest in localizing development, health, and wellness efforts. The CIT is the first nationwide project of the 43-year-old organization. The CIT was incubated by Mercy Corps Northwest (MCNW) by its executive director (who is now the executive director of the CIT) with advisory assistance from local and national experts, several university teams and the public finance firm, [Orrick](#). MCNW had a nearly twenty-year history of innovation with national recognition in asset building models, criminal justice by working in the two state women's prisons in Oregon and Washington teaching self-employment and life skills, running a large and pioneering felon-led reentry transition center for thousands of formerly incarcerated individuals in Oregon, and building refugee farming businesses.

We have received over 130 inquiries from cities nationally in the past two years and fifteen have completed or are engaged in feasibility studies. Our goal is to work in 100 cities in the next 10 years, building a community of practice for shared learning while maintaining our developed backbone components to replicators. See our [Case Study](#) for details on the design of the CIT and the services we offer to replicators.

Can a CIT be linked to housing development?

An affordable housing project would not be an appropriate investment for a CIT because it is at counter purposes of generating income and property appreciation. Affordable housing is mandated to maintain low or affordable rents. Further, capital structures for affordable housing usually involve tax credits, bond structures or incentives and requirements that are expensive per unit and incompatible with the CIT objectives of building family net worth. The CIT does, however, target renters as investors.