CASE STUDY
THE COMMUNITY INVESTMENT TRUST

A New Form of Real Estate Investment Can Help Low-Income People Build Assets and Resilience

Executive Summary

ASSET POVERTY KEEPS FAMILIES VULNERABLE

Across the country, lower-income Americans face common barriers to building personal wealth. Mercy Corps'[1] domestic economic development arm examined these barriers, which include insufficient experience with money management and a lack of financial products suited to people's means and desires. These conditions prevent an ever-growing number of families from building financial resilience, which leaves them vulnerable to even small financial setbacks. Unexpected expenses can become calamities that exact a high cost upon families – and upon the resources of social safety net programs. For over a decade, one in four people in the nation are susceptible to "asset poverty,"[2] an economic and social condition that is more persistent and prevalent over the past decade than income poverty. A household is asset poor when it lacks resources sufficient to provide for its family members' basic needs for a period of three months.[3] Renters, single parents and minority populations make up a disproportionate share of asset poor households. The number of asset-poor households is increasing annually due to the intransigent challenges of intergenerational poverty, a culture of personal finance inaction, entrenched tax policies that favor debt and home ownership, and inadequate access to long-term and affordable real estate investments. With that situation in Portland and the nation, Mercy Corps took action. They used human-centered design principles to understand the motivations of low-income and renter populations and the impediments that hinder them from taking personal financial action, such as long-term investing, that would improve their lives. The Community Investment Trust (CIT) is the product that emerged from that research. It is both an inclusive wealth-building path for families and a community economic development strategy.

A NEW INVESTMENT PRODUCT

Long-term investing in real estate is a proven way to build assets – and, as they learned in community surveys, real estate is an avenue that appeals to renters and other low-income people. The CIT is a proprietary

---

[1] Mercy Corps and its domestic arm, Mercy Corps initiated the CIT. The CIT, with its founder, are in the process of evaluating a strategic partnership with another significant organization with a wide network and policy influence to enhance the CIT's acceleration to a national presence.

[2] In addition to asset poverty, 36.8% of households in the United States live in a condition of liquid asset poverty, meaning a family of four lacks savings to replace income at the poverty level for three months ($6,150 in 2017), Prosperity Now 2018 Score Card https://scorecard.prosperitynow.org/

[3] The Federal Reserve found in 2017 that 44% of Americans would struggle to meet an unexpected expense of $400 without selling something or borrowing. *The Economist, May, 2018.*

investment product owned by Mercy Corps but built for replication by other organizations. Designed to meet the needs and desires of low- to moderate-income families, the first project, East Portland CIT Corporation (and its commercial retail property, Plaza 122), will provide 300-500 families with a long-term investment opportunity in a commercial-retail building in their neighborhood. Investors will purchase, over time, the $450K in initial equity, provided as debt to purchase and improve Plaza 122 by Mercy Corps and two impact investors. Mercy Corps' CIT program tracks outcomes and impact on three mutually reinforcing levels: the individual/ family level, the property/ tenant level, and the community level. We have seen in the six years since launching the CIT that a neighborhood incorporating a CIT becomes safer, more equitable, and more economically viable with higher quality of life, and more engaged citizens. Mercy Corps believes that the CIT will be a powerful tool to inspire and enable people to improve their own financial well-being as well as their community's health and prosperity.

No other financial product or community development model in the private, public or nonprofit sector has been designed like the CIT. The model's unique advantages include:

1. Low dollar investments ($10 to $100/ month).
2. Short and long-term returns for investors through an annual dividend and share price change annually.
3. Guaranteed protection from loss for investors through a direct pay letter of credit from a bank.
4. Investor education course, called "Moving from Owing to Owning", offered in five languages covering budgeting, goal setting and the risk and return profiles of investments.
5. Investor efficient management and communication including a website - investcit.com.
6. A user-friendly and efficient investor management portal.

The CIT addresses long-standing community economic development challenges in cities, counties and states throughout the nation: financial inclusion, equitable development and inclusive growth. This case study recounts how Mercy Corps developed the CIT from its vision to launch, highlighting key legal, financial and community engagement challenges and hurdles and how the CIT team and its advisors addressed them. It concludes with a vision for the model's replication through organizations who can build upon the success of the pilot project to create a learning community of projects that leverages the unique character of each community's CIT project. The CIT team is completing capitalization models and case studies for a range of variations on its first project as a companion to this case study.

How the CIT Concept Incubated

The CIT team used behavioral economics and human-centered design principles, and options modeling to create a new and unique investment product. The core values driving the CIT include:

Innovation: Being entrepreneurial by creating and applying continually better solutions to solve economic challenges, strengthen civic engagement and close disparities.

Influence: Helping people take action to improve their own lives and the communities in which they live. Influencing people, policy and practices by example and scale.

Impact: Creating just systems and equitable access to resources for all.

Stewardship: Being good stewards of resources entrusted to us, and the people who trust us.

The CIT was incubated at Mercy Corps Northwest, a related but independent 501(c)3 non-profit of Mercy Corps, by its executive director. It moved to Mercy Corps on 2/1/18 with its former executive director, one other staff person and two-interns as part of a Global Innovations Team. Mercy Corps is an international humanitarian and development organization based in Portland and working in 43 countries experiencing conflict, crisis and economic collapse. The move of the CIT from Mercy Corps Northwest to Mercy Corps was in recognition of its innovation and potential to benefit low-income communities nationally.

Mercy Corps' domestic arm, known as Mercy Corps Northwest, has worked since 1999 in asset development with matched savings grants known as Individual Development Accounts (IDA). The IDA program is funded by the state of Oregon to incentivize people with low incomes and low assets to save over 6-24 months to earn matches to their savings goal of between 3:1 and 8:1. The state program restricts its use of matched funds to approved "asset classes" (such as starting a business, education or purchasing a home). Investments are not included in the program rules. Mercy Corps decided to research an investment option that is not dependent upon the subsidy incentive of a match, but instead used people's personal choice and access as the driver of demand. We chose local real estate because it is a tangible investment, unlike stocks, bonds or savings. Real estate is also a hedge against inflation. Most of all, however, people we talked with wanted to invest in real estate – eventually and through home ownership. Yet, most people had not been investing or saving to reach their goals. They had only a small amount of money available after expenses each month.

Meanwhile, prices of housing and rents in Portland had been increasing annually with affordability relative to median family income declining to the point where almost the entire city had become unaffordable, a dramatic shift from twenty years ago when the majority of the city had been affordable. Neighborhoods were gentrifying due to a trend of greater in-migration and an influx of new residents in higher paying technology, design, clothing and footwear sectors. These changes contributed to economic growth but priced some people out of their neighborhoods.

As a result, the need for an inclusive financial product such as the CIT had increased while the real estate market had become more competitive and rents and properties more expensive. The collision of the need and timing were imperfect. The timing would not have been good either, most people concurred, during the last great recession in 2008-2009 because of market uncertainties induced by a housing bubble, housing market corrections and the sub-prime mortgage crisis. Mercy Corps concluded that the best time to initiate a CIT was twenty years ago; the second-best time was today.

To start, however, the CIT team began by shelving its internally generated solution envisioned to include real estate investing for renters, to ask questions and listen to the community. Additionally, the team stepped back to assess their own capabilities and capacity to initiate an ambitious project, whatever that project would ultimately look like. Mercy Corps initially referred to the project as the "Renter Equity Project" when the concept germinated in 2010.

Human-Centered Design & Designing around Doubters

Leaders of the project committed to a human-centered design approach using surveys and listening sessions with community members to design an investment product. Questions from people in the community centered on how an investment would work: how much or little could they invest, over what period, what returns could be expected, and if they could liquidate the investment.

Project leaders also approached elected officials, real estate professionals, social service providers, schools, churches, non-profits and potential funders. Doubts and challenges to the vision abounded but everyone agreed that the project was complicated but necessary.

> ***"To do something new and untested, it takes persistence and a team. Use the challenges and doubts people present as opportunities to shape your model."***
>
> — Community Investment Trust Advisor

Understand the Community

Our first challenge was to understand the community and its neighborhoods, and people's needs and desires. Mercy Corps' process of discovery and research utilized student teams from a university (see sidebar to the right) and two AmeriCorps-VISTA volunteers over a two-year period. Without funding, student teams and volunteers were essential.

The leaders of the CIT project sought and documented the skepticism and ultimately 'designed around their doubters,' because the challenges people who worked with low-income populations presented were often authentic problems to the viability of the project and the financial product Mercy Corps envisioned creating. The questions and doubts presented important hurdles to manage and risks to avoid or acknowledge.

Introduce a Behavioral Economics Lens

Among the early challenges were questions about what an appropriate financial product for people with low income and low assets would look like, and what obstacles exist to creating demand. There has been significant research in recent years in 'behavioral economics,' the study of the effects of psychological, social, cognitive, and emotional factors on economic decision-making.

SURVEYS OF TARGET COMMUNITY

Mercy Corps started their work by surveying members of Portland neighborhoods where a large percentage of people are renters. Willamette University's Atkinson Graduate School of Management students, many of whom spoke multiple languages, surveyed people at an International Farmers Market and at an affordable housing agency, ROSE CDC. They asked people if they saved or invested. If not, they asked why. They asked people about their financial family goals and if investing could help them realize those goals. They asked if people would invest in a strip mall of businesses, and if so, what businesses were missing from the neighborhood or would they support. Most people were not saving on a regular basis or investing. Why? They had little money to invest and did not understand investing. People were motivated to invest and cited goals of their children's education, purchase a home, purchase a car, retirement or for an emergency. In a range of investment options, people uniformly wanted to invest in real estate in their own neighborhood. Yet, with $10 to $100 left over every month, they asked How?

Mercy Corps' CIT team researched economic theory and wrote a policy paper that addressed relevant questions by pointing to the research of economists, psychologists and marketing professionals. This research proved timely for Mercy Corps because it highlighted differences between what the 'rational economic actors' of neoclassical economics might be predicted to do, and what people actually do in the real world. Neoclassical economics assumes that 'rational economic actors' have the information they need; can process this information correctly and completely; and have preferences that are not affected by anything other than payoffs of their decisions.

The assumption used to be that rational actors with better information are assumed to make better choices, but the reality is that ranges of *other* factors have much more impact on behavior than raw financial information. These include how choices are framed; preferring the present to the future; overestimating how well off finances will be in the future; valuing losses more than gains; having short attention spans or tendencies to forget; adhering to social norms; and preferring default options. These issues apply across all financial groups, but because poorer people have fewer resources, and less of a margin of error, there is a greater imperative to deploy strategies for engaging low-income people in the most efficient manner.

Here are five examples of the factors that research has highlighted in the last few years that influenced the design of the CIT. They demonstrate how design of interventions and financial offerings can strongly influence participants' decisions both in the short and long term:

1. Too many choices lead to inaction.
2. Vivid, concrete, and tangible investments are compelling.
3. Inertia tends to work against change.
4. It is hard to pay attention and stick to decisions.
5. What people think other people are doing is hugely influential.

The CIT team concluded that we should not be designing financial education and other interventions such as a real estate investment product solely around optimized financial instruments. Rather, we needed to design for the real social, economic and behavioral situations in which people find themselves.

Criticisms of offering community-based real-estate investment to lower income people focused on ways in which other choices might show higher effective returns on paper. Typically, critics suggested that paying down debt, building emergency funds, and diversified financial instruments are top priorities. While this advice is not bad in theory, it fails to consider that such choices are rarely followed in real life. By applying the science of behavior to changing financial practices, Mercy Corps designed an 'on-ramp' to better financial decision-making with practical and motivational education coupled with a compelling financial product to help individuals and communities take action to transform their financial futures.

Identify Organizational Skills and Gaps

When considering our own skills and gaps, we created a matrix outlining areas of expertise and community connections we had internally and would need externally, and sought subcontracted experts, volunteer advisors and MBA student teams to fill our internal gaps. The areas of expertise needed for the CIT development included real estate (appraisal, management, leasing, sales), project finance/banking, legal, economic development, public relations and community contacts at schools, churches, refugee resettlement organizations, affordable housing agencies, as well as funders and people of influence in range of neighborhoods. The need for volunteers and pro-bono professionals was critical to develop a legal structure, for research, and for community connections. Low-cost and pro-bono advisors were essential because the project in its incubation phase had no funding (Mercy Corps Northwest used unrestricted net assets and donations to fund costs such as salary allocations, appraisals, meeting costs and mileage). Based upon foundation grant rejections, we quickly discovered that the CIT project was not readily fundable while in its conceptual, vision and proof-of-concept phases. The rejections were understandable and cited the complexity of the vision and its untested nature.

"You must have a neighborhood champion."
"You need to start with the real estate."
"You should start with the investors' desires."
"You have to get the legal framework done first."

So, what to do first? After the questioning and listening sessions, Mercy Corps initiated dual legal and real estate research paths, acknowledging that either one may have found results fatal to the vision. First, attorneys from Orrick Herrington and Sutcliffe LLP[4] sought to determine if they could create a "sophisticated investment security" that was exempt from registration for unaccredited low-income investors. Simultaneously, Mercy Corps' CIT team initiated a search for commercial/retail properties using an assessment tool designed to determine factors important to the project's success.

Property Pursuits, Pitfalls and Purchase

The CIT assessment tool was used to conduct the initial evaluation of commercial properties as they arrived on the market. The purpose of the tool was to facilitate quick analysis of a given property using accompanying online resources. Based on this initial analysis, the property was either selected to move forward in the evaluation process or the property was logged in the commercial property database for future reference. The tool assigned each property a score between 1-5 (low to high) for each of the eight categories (see below) for a total score of between eight and forty. A score below eighteen was considered low, a score between eighteen and twenty-seven was considered medium, and score of twenty-eight or greater was considered high. A property typically required a high score to move forward with a deeper evaluation, but properties with a medium score were tracked for significant potential attributes (proximity to new affordable housing development, visibility, proximity to high traffic public transportation areas or low-cost relative to adjacent market prices).

1. **Property Viability** evaluates the property's price and estimate of improvement costs relative to assessed and market values.

2. **Government Support** evaluates the potential for government funding (is the property in an urban renewal area, transportation corridor or area of other public sector attention and potential support?) Governmental support can influence the financial bottom line of a project in a variety of positive ways, including subordinated debt (increasing potential transaction size) and soft cost offset programs. Government support is not necessarily expected or required in each transaction, but it can have significant implications for the feasibility of a given project.

3. **Housing** lists the number of units of affordable housing and housing agencies within a two-mile radius of the property.

4. **Partners** lists and evaluates the number and quality of potential partner groups such as neighborhood associations, non-profits, schools, churches, libraries and community-based groups. Partner organizations will play a key role in outreach, community engagement, and education in any project location.

5. **Flexibility** lists and scores the flexibility of the property through its property value, land to improvement value, lot size, building to lot size, age, condition and zoning.

6. **Location** relates to various aspects of the property's location visibility, proximity to public transportation and current or potential tenant mix.

7. **Neighborhood** lists the conditions of the neighborhood such as the poverty rate, median income, ethnic diversity and primary languages spoken.

[4] Orrick represented Mercy Corps with pro-bono legal assistance.

8. **Intangibles** is subjective and is the gut instinct that allows for subjective, less tangible judgment about the property such as it history of use, amenities, unique architecture.

In sum, the eight categories score properties with a blend of financial feasibility, potential social returns for target low-income renters and other investors, and business returns for potential tenants. An AmeriCorps-VISTA volunteer assigned to the CIT team searched the city by bus, locating properties for sale, scoring them and returning for online research for each property and a weekly review of prospective sites.

The Phoenix Pharmacy False Start (see Appendix 1)

Plaza 122 Evaluation and Purchase

Plaza 122, built in 1962 as a single story (with basement) commercial/retail zoned office space, has 28,672 sq. ft. on a 1.43 acre lot. The property was in foreclosure, leased at only 66%, with deferred maintenance needs defined in an appraisal shared by the listing agency. The scoring of Plaza 122 proved financially feasible with a mid-range score for Category One, Property Value, with a price of $1.2 million and an estimated $200K in repairs and necessary tenant improvement upgrades. Category Two, Government Support, scored low for its potential for government support. Categories Three and Four for Housing and Partners scored high with the property's proximity to many churches, a library, fire station, a large high school, significant affordable housing units (only 35% of the area homes were owner-occupied, 90% of nearby school qualified for free-reduced lunch program), significant ethnic diversity and strong neighborhood groups and associations. Categories Five, Six and Seven for Flexibility, Location and Neighborhood, which focused on property characteristics and location, scored high because of visibility, proximity to high traffic areas, multi-use possibilities and the possibility of diverse tenant use given a wide range of office sizes. Category Eight for Intangibles scored high for the curb appeal of the building as a mid-century modern building. Plaza 122 scored 34 out of a possible 40 points, with the lowest category being the potential for government support.

Plaza 122 in 2018

It appeared that Mercy Corps CIT team could - with professional property management assistance - stabilize existing leases, curate new tenants, address deferred maintenance, improve visual aspects of the property and earn the value the appraisal had quantified. Mercy Corps put an offer on the building subject to standard due diligence and purchased Plaza 122 on 12/18/14. We felt that the risk was acceptable given an appraisal performed for the seller, an insurance company, which held it in foreclosure. The appraisal reflected an income capitalization value at a 9.25% cap rate of $1,480K after deferred maintenance and tenant improvement costs.

Their plan was to capitalize the equity needed for the purchase from net assets reserve (equity) and impact investor loans. The initial equity (in the form of subordinated debt) is be paid back through the community investors who become the owners over time.

Entity	Date	Value	Financing/ Debt	Notes
Plaza 122 Community Investment LLC (single member LLC of MCNW)	12/18/14	$1,200,000	$900,000 Beneficial State Bank (interest-only loan) $115,000 Impact Investor Loan $115,000 Impact Investor Loan $122,782 Loan MCNW	See closing document for detailed reconciliation
Plaza 122 Community Investment LLC	6/6/17	$1,540,000	$920,000 Northwest Bank (included $20K cash deposit) $115,000 Impact Investor Loan $115,000 Impact Investor Loan $220,000 Loan MCNW	Loan to LLC without recourse to Mercy Corps. Loan increased due to capex on Plaza 122
Plaza 122 Community Investment LLC	7/14/17	$1,540,000	$150,000 Letter of Credit Note: LC with primary mortgage of $920,000 subject to a 75% LTV (Loan to Value) of Plaza 122 at $1,540,000	Loan to LLC without recourse after ownership transfer below
Plaza 122 Community Investment LLC (single member LLC ownership transferred to East Portland CIT Corporation)	7/31/17	$1,540,000[5]	$181,597 Capital appreciation Mercy Corps[6] $243,824 Loan MCNW	Loan to Mercy Corps increased due to asset transfers (cash, deposits) to Plaza 122 Community Investment LLC

***Table 1*: Transaction History of East Portland CIT Corporation (aka Plaza 122)**

Sources		Uses		Pro-forma (stabilized leases at 90%)		Assumptions
Commercial Loan	$900K	Acquisition	$1,200K	Lease Revenue	$290K	9.25% Cap Rate Value: $1,430K
Impact Investor Loan	$230K			Net Operating Income	$133K	Commercial real estate loan at 6.0%
Subordinated Mercy Corps Loan	$123K	Renovation	$41K	Debt Repayments (Interest only)	$66K	Subordinated loans at 4% ($230K) and 2% ($123K)
Grants	$0K	Tenant Improvements & lease commissions	$159K	Net Income (before depreciation)	$67K	
Mercy Corps (addition to original note)	$97K					
Gap funding needed	$50K					
Total	$1,400K	Total	$1,400K			

***Table 2*: Project Financial Feasibility**

The above table reflects a property that required approximately $500K or 36% of the total project costs in subordinated debt (or initial equity investment) from Mercy Corps and impact investors. Conventional bank debt, therefore, comprises the other 64% of project costs. The value of the property of $1,430K (based on the projected operating income approach) indicated prospects for limiting our risk through the increase in the value of the building created by renovation, tenant improvements and leasing costs. With a convention real estate loan of $900K and subordinated debt totaling $450K, the loan to value (LTV) would be a comfortable 63% and the cashflow on the building at 90% lease-up would exceed bank covenant of 1.25:1.0. The prospects for good investor returns were favorable.

[5] Appraisal value on 1/4/17 projected a stabilized value by 1/4/18 based on 90% lease-up at $1,640,000.

[6] This debt is owed to Mercy Corps by East Portland CIT Corporation. The intention for this gain on the sale is to: 1) Retain note to help maintain the 75% LTV covenant supporting the letter of credit (currently LTV is at 69%). 2) Release the funds to investors after the initial debt (MCNW and Impact Investor notes) are paid back, and only if investor demand continues and the property performs adequately to release more shares. 3) Sell the note with restrictive covenants, which is an unlikely event.

Lessons learned with Plaza 122:

1. Pay attention to the findings in the property assessment tool.
2. Secure property with contingencies to perform due-diligence, including getting an updated appraisal.
3. Communicate with potential banks early.
4. Seek opinions in the neighborhood (schools, fire and police departments, libraries) about the property.
5. Talk with existing tenants.

Despite what looked like a good investment property in Plaza 122, Mercy Corps still needed a legal solution to offering an investment to lower income investors.

Legal Challenges and Solution

Mercy Corps objective was to provide an investment path for low-income populations focused on renters and real estate with a form of downside risk protection for the investors - a “do no harm” approach commonly used as a guiding principle of our international work. We faced the legal challenge of how to do that given security law hurdles of offering a “sophisticated” investment to unaccredited investors. Furthermore, how could we construct and fund a backstop to protect investors from loss?

Our legal partners found a solution: Orrick’s Portland office specializes in municipal bonds and is 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. The Section 3(a)(2) exemption with the LC backstop as the appropriate “do no harm” protection for our targeted low-income investors.

While securing the LC and reliance on the 3(a)(2) exemption was determined to be the preferred path for the initial CIT, the offering and sale of the CIT common shares could also qualify for the Intrastate offering exemption from securities registration. Additionally, the CIT common shares could also potentially qualify for an offering exemption under SEC’s crowdfunding rules promulgated pursuant to the JOBS Act (Jumpstarting Our Business Start-ups) by being an offering through a Financial Industry Regulatory Administration (FINRA) qualified investor platform. Mercy Corps worked with a stock offering agent to secure the FINRA compliance for its investor platform to qualify the CIT shares also for the JOBS Act exemption.

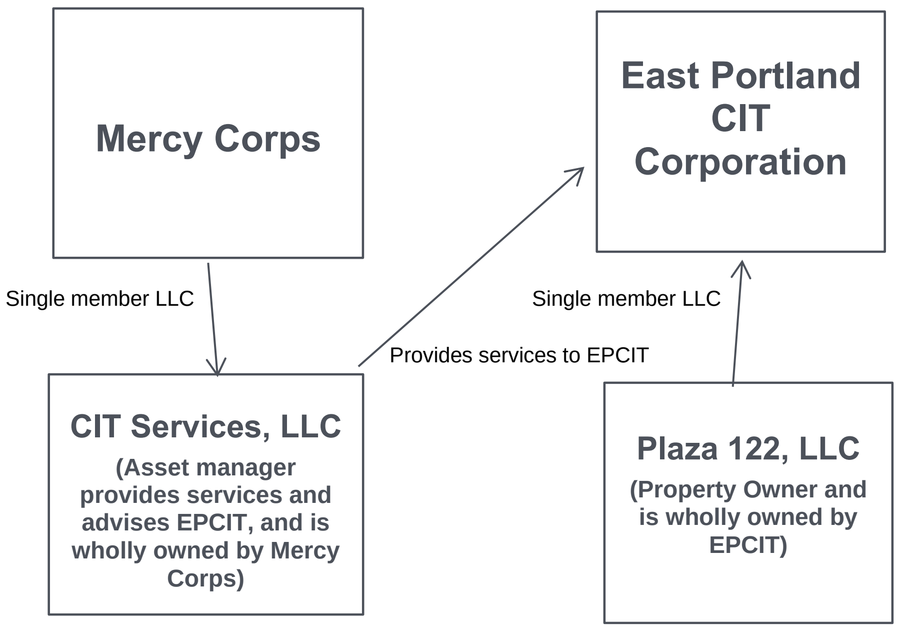
Community Investment Trust Entities and Roles

Mercy Corps led the establishment of the following entities that comprise the functional operations and oversight of the Community Investment Trust.[7] The model requires a lead organization, likely a non-profit, to coordinate classes, services to the investors and other community development aspects in implementation and ongoing management of the CIT.

[7] During the course of the investor launch of the CIT in November 2017, Mercy Enterprise Corporation dba Mercy Corps Northwest (MCNW), a wholly owned subsidiary of Mercy Corps since 1998 but a separate non-profit since 2002, merged with Mercy Corps on 3/31/18.

Entity	Type	Control and Role
Plaza 122 Community Investment LLC	Oregon LLC, single member Est: 12/18/14	Originally, this was a single member LLC of Mercy Corps Northwest (MCNW). The LLC was established to purchase Plaza 122. MCNW subsequently transferred its single membership in a sale to East Portland CIT Corporation on 7/31/17.
East Portland CIT Corporation (EPCIT)	Oregon Corporation Est: 7/10/17	Community Investors, led by investor appointed board of directors[8]
CIT Services LLC	Oregon LLC, single member Est: 6/28/17	Mercy Corps. This LLC acts as advisor and manager to EPCIT under a services agreement for the activities of Plaza 122, financial oversight and community engagement and training.

***Table 3*: Legal Entities**



East Portland CIT Corporation (EPCIT) was established as an Oregon C corporation with shareholders because EPCIT may choose to become a private REIT.[9]

EPCIT owns the single member LLC, Plaza 122 Community Investment LLC, which is the single member LLC of EPCIT that owns the commercial-retail property, Plaza 122.

---

[8] East Portland CIT Corporation board is comprised of three members currently (one of whom works for Mercy Corps). The corporation can ultimately have up to twelve board members. The members will be comprised of neighborhood leaders with the expertise and relationships that are of long-term value to the corporation. Investors are eligible and are encouraged to be board members.

[9] East Portland CIT Corporation may choose to become a private REIT (a tax election) once they have a minimum of 100 investors, a rule for REIT status (we may choose to elect status after 150 investors to assure REIT compliance). We chose the REIT structure because it is transparent, scalable and creates pass-through tax treatment, which does not tax the entity (the Corporation) but taxes the distributions to shareholders. Because our target investors will be low-income families, the tax burden to investors will be nominal. Therefore, the board of East Portland CIT Corporation may choose to forego a REIT tax election because the costs of compliance relative to the corporate tax savings may not be of benefit to shareholders.

This first CIT is designed through the single member LLC structure to allow for scaling within the same geography of four zip codes with the benefit possibility of securing separate debt on new properties as separate LLC entities but owned by EPCIT. A potential next step will be the identification of a viable second property or expansion on the Plaza 122's 1.43 acre site.

Entity	Date	Value	Financing/ Debt	Notes
Plaza 122 Community Investment LLC (single member LLC of MCNW)	7/23/14	$1,200,000	$900,000 Beneficial State Bank (interest only loan) $115,000 Impact Investor Loan $115,000 Impact Investor Loan $122,782 Loan MCNW	Loan to purchase property, Plaza 122
Plaza 122 Community Investment LLC	6/6/17	$1,540,000	$920,000 Northwest Bank (included $20K cash deposit) $115,000 Impact Investor Loan $115,000 Impact Investor Loan $220,000 MCNW Loan	Loan to LLC without recourse to MCNW. Loan to MCNW increased due to capex on Plaza 122
Plaza 122 Community Investment LLC	7/14/17	$1,540,000	$150,000 Letter of Credit Note: LC with primary mortgage of $920,000 subject to a 75% LTV (Loan to Value) of Plaza 122 at $1,540,000	Loan to LLC without recourse to MCNW after ownership transfer below
Plaza 122 Community Investment LLC (single member LLC transferred to East Portland CIT Corporation)	7/31/17	$1,540,000 [10]	$181,597 Capital appreciation MCNW[11] $243,824 Loan MCNW (amount had increased from $122,782 to $220,000 to 243,824 since purchase of Plaza 122 as reflected above due to costs for property improvements and lease commissions).	Loan to MCNW increased due to asset transfers (cash, deposits) to Plaza 122 Community Investment LLC

***Table 4*: Transaction and Financing History of East Portland CIT Corporation (Plaza 122)**

Through the East Portland CIT Corporation, Mercy Corps anticipated that between 300-500 area residents would have the opportunity to invest in Plaza 122, depending on the average amount invested and the longevity of their commitment. The CIT shares, which can be purchased through monthly investments of as little as $10 and up to $100 per month, represent a unique real estate investment for neighborhood investors as they are fully liquid through the Letter of Credit issued by the primary mortgage holder, Northwest Bank. As a result, investors are incentivized to invest over the long-term, but they also have the ability to liquidate their investment anytime without risk of losing their investment or its gain in value.

To qualify as a neighborhood investor, individuals must be 18 years-old, live within the designated four zip code area and complete a financial action course called Moving from Owing to Owning. [12] The CIT is designed to provide an on-ramp to personal savings by facilitating investment in a community asset, creating a safety net for those in asset poverty and, at the same time, spreading the value of appreciating property in a gentrifying neighborhood across the larger community. Investors will receive an annual dividend based on

---

[10] A subsequent appraisal value on 1/4/17, made to transfer the assets of Plaza 122, projected a stabilized value by 1/4/18 based on 90% lease-up at $1,640,000.

[11] This debt is owed to Mercy Corps by East Portland CIT Corporation. The intention for this gain on the sale is to: 1) Retain note to help maintain the 75% LTV covenant supporting the letter of credit (currently LTV with primary real estate debt of $920K and the LC at $150K is at 69%). 2) Release the funds to investors after paying off the impact investor debt totaling $450K.

[12] Qualifying zip codes are 97216, 97230, 97233 and 97236. This area surrounding Plaza 122 has approximately 185,000 residents, 65% of whom are renters.

the performance of the property and a long-term return based on the change in share price, calculated by the full amount of the debt paid down annually on the mortgage and a percentage (currently 50%) of the annual increase or decrease in the value of the property. The property value will be determined annually by an independent appraisal based on the income basis as opposed to the market basis. This ties the share price to the performance of the property, is more consistent in the long-term, and avoids the risk of market price fluctuations. The board of the East Portland CIT Corporation can adjust the pricing rationale as they have fiduciary oversight, guided by a subcontracted firm, CIT Services LLC, the Mercy Corps entity that will serve as the asset manager and replication support entity. As a private entity under Mercy Corps, CIT Services LLC will have the ability to receive earned income and grant support.

Moving from Owing to Owning

Focus groups had identified that they needed and wanted financial literacy education to companion the CIT investment. A large part of Mercy Corps community connections efforts, therefore, solidified around a course called Moving from Owing to Owning. The eight-hour course (two 4-hour sessions, or four 2-hour sessions) covers goal planning, budgeting, investing risks and returns. The classes, designed by an adult peer learning expert, is ideally facilitated by members of the community to a class of twelve students or less. To retain the learning asset in the community, we sought community leaders to teach the course at a stipend of $25/hour. We also pay for food and daycare. The course is a prerequisite to investing and should help people stick to their investment goal.[14]

The impact the CIT team sought and designed, and which the EPCIT Corporation's board of directors now seek, started with creating a new and accessible financial product that aligns with a vision for creating new strategies that

ADVISORY ROLE OF CIT SERVICES, LLC

Mercy Corps started an entity, CIT Services LLC, to operate as advisors to EPCIT's board of directors. The board subcontracts with CIT Services LLC for various management and advisory services including the hiring of a property management firm, investor relations, education, financial oversight and reporting. The costs to EPCIT for D & O insurance, audit and bank fees total approximately $27K annually (or approximately 9% of projected rent revenue). These corporate-related costs are necessarily subsidized by grants. CIT Services LLC receives a $500/month fee from EPCIT, which was raised to $1,000/mo. in 2020

The work of CIT Services, LLC to EPCIT is defined in a Services Agreement between the EPCIT board and the Mercy Corps' owned and controlled LLC, CIT Services LLC. The LLC was formed as a for-profit because it receives services and advisory revenue.

Their work (and that of the board) is guided and defined through the Articles of Incorporation of EPCIT and its guiding and operating principles that assure investors of the parameters of decision making and guidance on B-Corporation[13] principles but without incurring the cost of B-Corp review and compliance for the time being.

[13] "B Corp and Benefit Corporation is used interchangeably. While similar in concept, there are important differences. B Corp is the term used for any for-profit entity that is certified by the non-profit B Lab as voluntarily meeting higher standards of transparency, accountability, and performance. The Benefit Corporation is a type of corporation. The Benefit Corporation sprang out of the B Corp movement. It arose because many entrepreneurs felt that the B Corp certification could not provide the kind of legal protection that a government recognized legal form could provide. Unlike a B Corp, which can be any type of for-profit legal entity, a Benefit Corporation is a type of corporation authorized in 27 states. The Benefit Corporation was created to build the B Corp mission into the DNA of the corporation. A Benefit Corporation is a for-profit corporation, but in addition to creating value for its shareholders, it has three additional legal attributes: 1) accountability, 2) transparency, and 3) purpose."

[14] Teachers must have taken the course and have basic knowledge of the topics covered, and they can be investors. The course is taught in English, Arabic, Spanish, Vietnamese, Russian, Amharic and Tigrigna (Ethiopian and Eritrean) and Karen (Burmese).

strengthen civic engagement, community ownership and democratic participation. These parallel paths should close economic disparities at a meaningful scale by changing access to ownership on an individual and community level. Through a ripple-to-wave of replication, it should catalyze changes in public policy, public perceptions of inclusion, and institutional practices of organizations that, by intention or not, may be roadblocks to new systems that can drive equitable development, financial inclusion and economic security for all.

To be a REIT or not be a REIT?

Mercy Corps Northwest originally envisioned a REIT structure because of its transparency to investors and the pass-through tax advantage of taxes on the distributions of income but not at the corporate level. The CIT name differentiates it from REITs as a new model for shared ownership in commercial real estate. Although the CIT board may choose to become a REIT for its tax advantage (REITs are not taxed at the corporate level but pass through the tax liability to shareholders), it will choose the tax election of a REIT only after it has surpassed 100 investors. Qualification for REIT status is dependent upon maintaining a minimum of 100 investors. After an evaluation of the cost vs benefit of being a REIT, the board may or may not choose to elect REIT status. Regardless, the name will remain Community Investment Trust.

Status of EPCIT Corporation, Plaza 122 and its Investors

The Plaza 122 CIT (EPCIT) was launched in November 2017. It is **90% leased** with a diverse mix of 27 tenants, including African Family Holistic Health, Ethiopian and Eritrean Cultural and Resource Center, a Latina-owned hair salon, multi-lingual tax and accounting firms, a low-cost funeral preparation company, Somali American Association of Oregon, faith-based organizations, and an array of small businesses.

The CIT has **paid out annual dividends averaging 7.6% and the share price has increased from $10.00 in 2017 to $19.02 in 2023**.
As of November 2023, the project currently has
- total outstanding common of 34,435 shares held by 299 shareholders
- total value of outstanding shares to date: $ 654,954
- total cash-outs to date (2017-2023): $134,046
- net invested amount by community investors: $538,390

2021 Impact

- 96% of the investors reported using financial planning techniques to stay on track toward their financial goals since becoming a CIT investor and graduating the Owing to Owning class.
- 65% reported becoming more involved in their community by voting regularly, participating in neighborhood organizations and events.
- 33% reported an improved credit score.
- 88% resubscribe every year
- 98% are extremely likely or already have referred a friend to the CIT.

2023 Demographics

- 58% women.
- 44% were born outside of the U.S.
- 61% of households make an income of less than $75,000 per year (average household size is 3.5 people).
- 64% had never invested before.

Resubscription rate in 2023 – 90% of 2022 investors continue their investment in 2023.
48% of investors who cashed out in 2023 continue their investment with the CIT after withdrawal.

Corporate Governance

The EPCIT's founding board of directors were comprised of three people, two of whom are related to Mercy Corps: the executive director of the CIT and former executive director of Mercy Corps Northwest, who was also the former board chair of Mercy Corps Northwest, and who is a professor in management practices and real estate at Willamette University and has had a long career in real estate in Chicago. The third board member was the executive director of a partner organization, Rosewood Initiative, which operates as a non-profit community development center in the neighborhood of Plaza 122. The board expanded in 2021 to blend professional skills with investors and community-based oversight, and now has an investor as board president. The intention of the board remains to be entirely neighborhood and investor led. The CIT team is currently developing a training system to bring on new community board members to assure competency, continuity and appropriate long-term risk mitigation.

Vision for Implementation

The CIT team envisions the implementation of our model under criteria ensuring that participating organizations possess the competence and capacity to implement a CIT successfully. To ensure success, we developed the **CIT Tool Kit**, which we will license. We are committed to assisting organizations who have variations from our pilot project with guidance on range of project types with case studies, strategies and solutions on five primary areas of project feasibility and design: 1) Property viability 2) Capitalization and financing steps and options; 3) Legal structures; 4) Operations, and 5) Community engagement.

CIT Implementation Principles and Goals:

First, **Identify Partners** who agree to the following guiding principles to support the implementation of the CIT model in places of need and with a lead organization in each location with the capacity to create and manage a CIT. These may include Non-profits / Cities / Housing Agencies / Churches / Economic Development Agencies or a collaboration of these or other appropriate stakeholders.

- **Maintain Focus on Improving Financial Decision Making** – Through engaged community leadership, fiscal literacy and financial action trainings, and shared learning, community members will improve financial planning, decision making and take affirmative long-term action for themselves through investing.

- **Increase Financial Inclusion, Equitable Development and Reduce Asset Poverty** – Among low-income communities and with renters in diverse urban and rural communities by providing investors a path to build assets by investing in a profitable CIT. Engage also with people who have an "affinity stake" in the neighborhood as potential impact investors or supporters.

- **Improve Community Health** by engaging community members in a common cause to increase safety, unity, and community engagement through making an investment in the community in which they live.

- **Maintain and Build Community Oversight to Companion Community Ownership** by fostering leadership and the skills of a board of directors in corporate and fiduciary oversight, community social responsibility and accountability, and the promotion of environment and community health.

Products for Initial CIT Implementation Feasibility Study (10 sessions done with the CIT team leading a local lead organization and its partners to coach, counsel and build their capacity; One-time fee of $50K, including post FS support and in-person convening in Portland, OR):

1. Organizational Self-assessment Tool and Staffing Requirements
(Helps assess an organization's requisite skills to create and manage a CIT)

2. Community Mapping Tool
(Helps scan for the assets and gaps in a project's geography)

3. Property Evaluation and Neighborhood Vitality Tool
(Helps evaluate and score eight important project categories)

4. Property Financial Spreadsheets
(Excel spreadsheet for project financial projections, analysis of capitalization and profitability)

5. Capitalization Options: Debt / Subordinated Debt / Equity / Grant Subsidy
(Augments the spreadsheets above with strategy on capitalization; see greater details below)

6. Education -Owing to Owning Peer learning classes
(Financial action or literacy courses including goal-planning, budgeting, credit scores and the risk and returns of long-term investing options)

7. Operations
(Outlines aspects of operating a CIT, position descriptions, budget and long-term funding strategies)

8. Legal Structures for the CIT entities
(Overview of the formation of entities to start and manage a CIT, including an overview of the SEC security exemption path)

9. Impact and Learning
(What and how we track performance, demographics and impact. Design, Monitoring, Evaluation, Research and Learning framework)

10. Organizational Assessment and Next Steps

These resource tools above comprise a comprehensive **Feasibility Study**, which is a capacity building training provided by the CIT Team to prospective implementers of the CIT to imbed the understanding and tools necessary to implement a multi-faceted and complex CIT project into their community. We think the focus on the steps to be helpful in building the foundation for success that is aligned with:

People and Place: Human Centered Design framework for research with target community and leaders.

a. Target an area by zip codes and census tracks with research on demographics (age, ethnicity, education, income, renter- owner, time lived there-displaced from elsewhere. Perform short survey on savings, investing, voting, attendance at community meetings, joining neighborhood groups.
b. Map institutions such as schools, churches, community spaces, parks, affordable housing, libraries and other community spaces.
c. Survey and gain feedback on pilot models, real or not.
d. Survey what businesses people feel they would like but is missing in their neighborhood.

Prospects (building on People and Place): Institutional Scan and Evaluation

a. From people above and throughout the community, identify leaders, influencers, funders.
b. List and rank to a matrix of roles, competence, longevity and commitment.
c. Gauge government, foundation, university, bank and real estate expertise and interest.

Property and Product

a. On-off market utilizing CIT property evaluation tool.
b. Fit with needs and desires from #1 above.

Plan for Required Capitalization

a. Acquisition plan
b. De-risking options
c. Debt: Equity stack (senior bank debt, PRI/impact subordinated loan, grant/equity gap
d. Community Investment Amount

Capitalization will address:

- Who takes risk in the development phase?
- Who is the patient equity capital and how long?
- Capital stack form, terms and over what time?

Analysis, Recommendations and Action Steps

- End Game – financial social returns calculation
- Rating of feasibility prospects

Products for License and Launch (single fee TBD based on project size and # of investors, at 3% of property acquisition cost):

1. Investor Training and Curriculum
(Owning to Owning class curriculum, translations into five languages and delivery strategy)

2. Legal Framework and Entity Formation
(Templates and rationale for legal structure to guide your own local legal counsel)

3. Board of Director Training
(Guides how to form, shift and maintain competent fiduciary oversight for the CIT in the community)

4. Communications, Public Relations Guidance
(Media and marketing strategy and examples)

5. Website: InvestCIT.com
(Updated with relevant information for investors, locally focused. Platform for replicator projects)

6. Access to Online Investment Management Portal and Customer Service Provider
(Site for all investor and fund flow management)

7. CIT and Investor Management
(In addition to the portal above, we have developed a project flow chart and an operations plan. We will provide guidance on project operations and finance management. and investor management for a wide range of ethnic, religious and age groups)

8. Annual Monitoring, Evaluation, Research, Learning and Impact Evaluation
(This menu of impact tracking is both a design service and a monitoring and reporting service)

9. Community of Practice Sharing and ongoing Learning with Implementers
(This tool will be built as a method of sharing replicator learning and their experiences for the betterment of the model as it is replicated and for existing CIT projects to improve management over time)

10. Products for Ongoing Operations (annual service fee, depending on project size and number of investors estimated at $18K for under 400 investors and $24K for 400-1,000 investors)

Review and Resources for Project Capitalization

Our model, which is subject to variations based on the risk factors listed above, used **conventional bank debt** for the acquisition, subject to standard underwriting criteria, notably underwriting and loan covenants of an LTV of 75% and a DSCR (debt service coverage ratio) of 1.25:1. We believe that these covenants help assure an adherence to a risk profile that is appropriate for our investors and for the LC (letter of credit) as it increases over time. This long-term real estate debt could be made by a government entity, foundation or impact investor.

The down payment (or initial equity) for the property purchase came from Mercy Corps Northwest (a dba entity of Mercy Corps) and from two related **impact investors**. Their loans at indefinite terms were unsecured at interest rates of 2% and 4%, respectively. This debt is both subordinated to the bank debt and serves as the equity that is purchased over time by the community of investors over time as they invest $10, $25, $50 or $100 per month. This patient capital could come from, as it did in our case, from the lead organization and impact investors. It could also come from a government entity, likely a city, county or state economic development agency.

A key for us obtaining an LC was that the primary lender for the real estate also provided the LC under their structured loan underwriting and covenants. We believe that the LC could be supported by a deposit or other form of guarantee from a foundation or impact investor. The capital required for the purchase and rehab of Plaza 122 and the support of programming came from the following sources:

Funder Types and Roles EPCIT (Plaza 122)

Project Type	Funder Types	Funder Roles
Purchase of existing property (Plaza 122)	Banks	Long-term RE loan Letter of Credit Curriculum development and training
	Foundations	Operating support (new hire, web development, other) Curriculum translation and training Capacity Building
	Impact Investors	PRI (initial equity, subordinated debt)
	Private Donors	Operating support (investor training, capacity building)
	City/County/State Governments	None

Banks: **Northwest Bank and Beneficial State Bank (real estate loan)**
JP Morgan Chase Bank (curriculum development and class delivery costs)

Foundations: **Meyer Memorial Trust (curriculum translations, class delivery costs)**
Collins Foundation (capacity building hire for a CIT operations manager)

Impact Investors: **Provided subordinated loan of $230K at 4% (companioned a $220K loan at 2% from Mercy Corps) as the down payment equity for the purchase. The impact investors later provided a $50K grant for operating support.**

The following outlines various roles for funders in replicating a CIT. Many roles can be interchanged by the partners in a project depending on risk appetite, project size and location.

Implementer and Funder Types and Potential Roles

Funder Types	**Risk Measures**	**Funder Tools & Roles**
Banks	Value and LTV. Debt Service Coverage. Leased %. Tenant Improvement. Deferred Maintenance. /Leasing cost/upgrades. Secondary Repayment Source. Guarantor.	Short-term Construction loan. Long-term Real Estate loan. Letter of Credit. Community Grants.
Foundations		PRI - Program-related investment. Operating support. Grant for feasibility study and/or CIT license. Letter of Credit (LC) guarantee. Liquidity reserve (a fund to support the LC).
Impact Investors		PRI (initial equity, subordinated debt). Operating support (training, capacity building). Pay for CIT License. LC Guarantee Fund. Liquidity Reserve.
Private Donors		Miscellaneous Program Support.
City/County/State		Provide or subsidize Real Estate. Permitting Expedience. Equity Gap/Subordinated Debt. Grant for Operating Support. Grant for CIT license.
Non-profit/ Housing Agency		Project Management. Investor Training. Investor Outreach. Project type selection: • Affordable housing ground floor commercial retail. • Existing Building. • Historic Rehabilitation. • New Building.

The Case for a Parallel Brand

Early in the creation of the Community Investment Trust, Mercy Corps realized that the project in Portland both benefited from its association with Mercy Corps as a global non-profit of credentialed name recognition and experience. Yet, they quickly realized that it benefited also from an independent logo to connect with the community, partner organizations and our target client base. As a result, Mercy Corps' CIT team moved to create an independent brand name, the Community Investment Trust, and webpage - investcit.com, and to put the Mercy Corps logo and "powered by Mercy Corps" under or alongside the CIT logo for the pilot, Plaza 122. The logo design expresses diversity, upward mobility, action and appeal to many cultures and youth. We added a "powered by" logo of the organization leading the local project below the Community Investment Trust.

Powered by

John W. Haines
Executive Director | Community Investment Trust

(503) 679 9012

investcit.com
jhaines@mercycorps.org

jhaines1450@gmail.com

About Mercy Corps
Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within.
Now, and for the future.

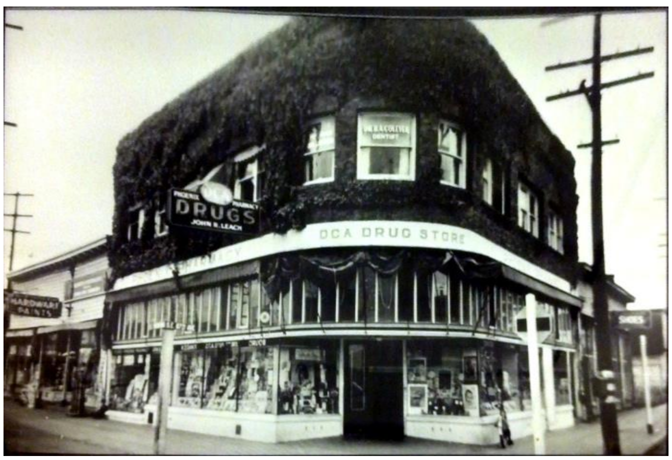
45 SW Ankeny Street
Portland, Oregon 97204
888.842.0842
mercycorps.org

Appendix 1

The Phoenix Pharmacy False Start

One iconic historical property, the Phoenix Pharmacy building, scored low on the Property Viability Category, which focused on the financial viability of price and improvement costs. The Government Support Category, however, which focused on potential for government support, scored high because the property was in an urban renewal area and qualified for various public subsidies. The score was high on the Housing and Partners Categories because of the property's visibility and proximity to affordable housing and community organizations. The Flexibility, Location and Neighborhood Categories scored strong for visibility, multi-use possibilities, strong tenant lease potential. Overall, the property scored 17 of a potential score of 40, which was low but high enough to move forward with a deeper analysis of project finance, equity subsidies, cash flow analysis and an appraisal and environmental assessment.

Once the largest and most beloved pharmacy in East Portland, the Phoenix Pharmacy was vacant and the building was for sale. The building was marked with a large red "U" sign, indicating that it was uninhabitable by the fire department. The building was used for many years as storage by an adjacent a wood stove company that owned it. The property captured the imagination of the CIT team. Was it a jewel in the rough that would catalyze neighborhood interest and revitalization efforts?



Phoenix Pharmacy in 1934

Phoenix Pharmacy in 2014

After seventeen months, including one year to empty the space of floor-to-ceiling collectables, the owner would not sell the property at the appraised price. Additionally the level of grant funds for seismic upgrades and renovation costs proved too expensive relative to the overall project cost, despite the attributes of the historic preservation of a notable building and community economic development benefits of the property as a catalyst for development. Ultimately, the property became a red herring. Nevertheless, the evaluation process informed the CIT team of the capitalization requirements and options for funding a historical property subject to significant deferred maintenance costs and seismic improvement requirements.

The Phoenix Pharmacy Project Capitalization and Pro-forma Financials

Sources		Uses		Pro-forma		Assumptions
Commercial Loan	$784K	Acquisition	$203K	Lease Revenue	$121K	7.5% Cap Rate Value: $1,386K
Subordinated Loan	$600K	Renovation	$783K	Net Operating Income	$104K	Commercial loan at 6.5%
Grants	$188K	Seismic Upgrades	$500K	Debt Repayments	$102K	Subordinated loan at 3%
In-Kind Services	$77K	Tenant Improvements	$109K	Net Income	$2K	
Rehab Tax Credit Equity	$162K	Design contingency	$128K			
Community Equity	$500K	Construction contingency	$169K			
		Soft costs	$419K			
Total	$2,311K	Total	$2,311K			

Table 5: **Project Financial Feasibility**

The table above reflects a property that requires approximately 2/3 or 66% of the total project costs in grants, tax credits and subordinated debt. Conventional bank debt, therefore, comprises the other 1/3 of project costs. The value of the property, based on the projected operating income, of $1.4 million is low relative to both the total debt (including subordinated debt) of $1.4 million. For a historical property requiring both seismic and renovation upgrades, this scenario is likely to the case. Without a margin of value over debt, this project is unfeasible for community investors, and the yield on the community investment would be low.

Other lessons learned with the Phoenix Pharmacy:

1. CIT team was too patient with a difficult seller.
2. City inspectors would accept staged seismic upgrades; banks financing the property would not.
3. Grant equity, which was necessary for a complicated rehabilitation, can enhance the yield to investors and helps rationalize an equity subsidy based on the ownership extended to a large number of low-income neighborhood investors.
4. Low cost subordinated debt, Program-related Investment (PRI) or forgivable debt could have enhanced project prospects and investor yield, which was low on this property at the above debt level.
5. Tenant interest was strong because of the neighborhood ownership model.
6. If you fall in love with a difficult property, be prepared to build the project's capital sources through multiple sources including grants.