POVERTY SOLUTIONS
UNIVERSITY OF MICHIGAN

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Re: Community Capital Key Models (CLTs and CITs) and Best Practices

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Community Capital Key Models (CLTs and CITs) and Best Practices

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A. Introduction

Across the country, many Americans continue to face structural barriers to property ownership, significantly restricting their ability to accumulate wealth or even the minimum savings necessary to withstand an unexpected financial blow.[1] In fact, as of January 2019, 25% of Americans were asset poor and 40% were liquid asset poor.[2] Put differently, 132.6 million Americans do not have access to enough liquid savings—cash or assets that can easily be exchanged for cash—to survive a three month income interruption.[3]

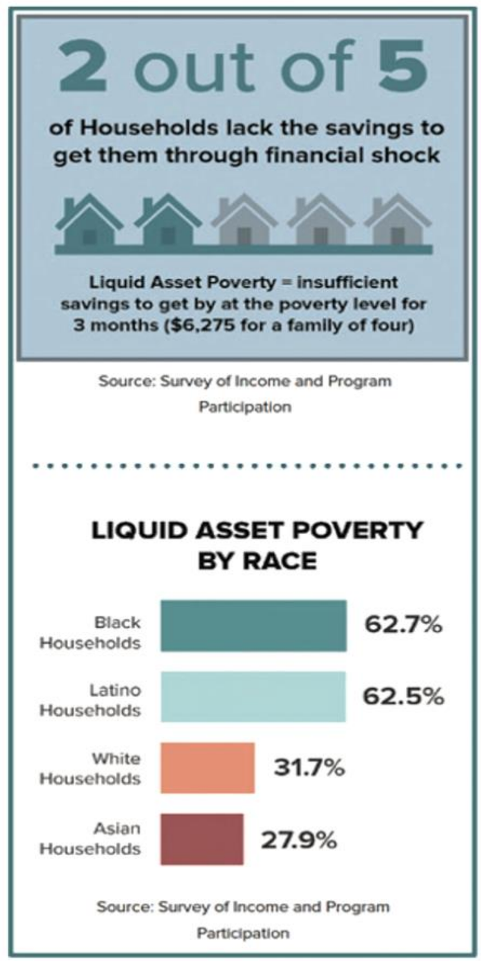
What's more, this financial precarity does not fall evenly along racial or ethnic lines, with Black and Latino households experiencing liquid asset poverty at twice the rate of their white counterparts (see **Figure 1**). Given that property ownership is strongly connected to wealth accumulation, it is perhaps unsurprising, then, that a 2019 report from the Institute for Policy Studies finds that "the median White family has 41 times more wealth than the median Black family and 22 times more wealth the median Latino family."[4] There are many factors underpinning this racial wealth gap, most notably the enduring ties between American property ownership and our nation's legacy of systemic racism.[5]

While these structural inequities have had a disproportionate impact on communities in urban centers across the country, particularly in Midwestern and Mid-Atlantic industrial cities, nowhere have the effects been more severe than in the City of Detroit.[6] After decades of racially discriminatory policies, chronic disinvestment, and externally-imposed development strategies, Detroit neighborhoods have witnessed declining populations, property values, tax revenues, social welfare, property ownership, and economic opportunity.[7] These factors have

Figure 1

U.S. Liquid Poverty Rate

(Total, by Race/Ethnicity)



Note. From "Vulnerability in the Face of Economic Uncertainty: Key Findings from the 2019 Prosperity Now Scorecard," by *Prosperity Now*, 2019, p. 4. Copyright 2019 by Prosperity Now.

perpetuated gentrification and "distress in the city's housing market for Black households."[8] For example, according to a 2021 report from the Urban Institute, throughout Metropolitan Detroit, relative to Asian, Latino, and White households, Black households have lower homeownership rates, live in lower-price homes, are more likely to be housing cost burdened (i.e., relegating 30% or more of their income to housing), and are more likely to be denied a mortgage.[9]

Figure 2

Principles of Community Capital Investing

1. Community capital is inclusive. Community capital builds enduring wealth by providing opportunities for people, regardless of wealth, to participate fully in the local economy as investors.

2. Community capital is fair and equitable. Community capital practices redress financial inequity by establishing wealth-building opportunities for all.

3. Community capital empowers and serves all stakeholders. Community capital projects work to incorporate the perspectives and interests of a diverse set of local stakeholders in their design and management, intentionally balancing the needs of many stakeholders equitably and ensuring that none are harmed by the venture's activities.

4. Community capital facilitates shared prosperity. Community capital projects strive to grow wealth and well-being for local individuals and communities.

Note. Adapted from "Principles of Community Capital," (n.d.), National Coalition for Community Capital.

The stark reality of the racial wealth divide and its impact on Black Detroit residents and families underscores the importance and urgency of creating opportunities for local community capital investment through the use models that, in contrast to traditional economic development models, restore community control of said investments. Fortunately, communities across the country are pioneering efforts to redirect power and capital back to local residents, initiatives, and businesses. Collectively, these emerging initiatives have come to be known as ***community capital investing*** or ***community ownership models (COMs)***.

This report begins by providing an overview of key community capital models that have become increasingly popular over the past decade. We, then, explore two of these models in greater detail– ***community land trusts (CLTs)*** *and* ***community investment trusts (CITs)*** *–highlighting best practices for the design, implementation, and stewardship of each. We conclude with suggestions for further reading.*

B. Community Capital: A Restorative Investing Model

Community capital investing refers to a broad set of practices designed to subvert systemic inequities by "democratizing capital" and demanding racial economic justice.[i] While traditional development models have restricted power to external, accredited investors, the community capital approach seeks to empower local residents and organizations by making capital investments and governance accessible to all, regardless of accreditation status (see **Figure 2**).[10]

As Figure 3 illustrates, community capital models are inherently localized, resulting in significant variation across models as leaders situate the principles within the unique context of their respective communities. That is, while these models are driven by the same general principles, they are used to meet a variety of objectives based on the needs and desires of their communities and in adherence with state and local regulations. In Table 1, we provide an overview of some of the most common models, noting the differences between them.

The remainder of the report will examine two of these models more closely: *community land trusts* and *community investment trusts*. In our discussion, we outline the distinguishing features of these models as well as recommended practices and strategies for design and implementation based on a review of case studies and the literature on community capital models more broadly.

Figure 3

Three Essential Characteristics of Community Capital Models

1. Local sourcing: While relying on a mix of accredited and "unaccredited" investors is common, most of the capital should come from community residents and grassroots organizations.

2. Local investment: Capital should be reinvested into people, businesses, and initiatives within the neighborhood(s), with the aim of generating not only economic gains but also financial returns and, more importantly, social and political change. Investments should seek to provide the greatest benefit to those most impacted by the systemic inequities these models seek to subvert.

3. Local decision-making: Community residents and leaders should also have substantive authority over the direction of the investment. Board governance should be representative of community and barriers to access and inclusion minimized, especially for those unable/unwilling to invest but still likely to be impacted.

Note. Adapted from "Community Investment Funds: A How-to Guide for Building Local Wealth, Equity, and Justice," by B. Beckon, A. Cortese, J. Shade, and M.H. Shuman, (n.d.), National Coalition for Community Capital

[i] *Note*. Community capital, community capital investing, community investment funds, and, perhaps most commonly, **community-ownership models** are used interchangeably in much of the place-based economic development literature.

Note. Some investing firms and philanthropists use the term community capital in reference to capital investing models that, unlike the models featured in our report, are designed and governed by non-local accredited investors and/or do not align to the other key characteristics of community capital as discussed in this section.

Table 1

Common Community Capital Models

Model	Description
Real estate investment trust (REIT)	Allow numerous individuals to invest in income-producing real estate properties. Rather than largescale capital returns, REITs generate a steady source of income which they distribute among shareholders in the form of dividends.[11]
Community investment trust (CIT)	Place-based, wealth building adaptation of REIT model owned by Mercy Corps but designed for replication; provides training and low-dollar, loss protected investing opportunities to local, unaccredited residents.[12]
Charitable loan fund	Qualified non-profit leveraging the charitable exemption in accreditation law to offer flexible, often low-interest loans to individuals or small businesses within the community.[13]
Pooled income fund	Trust maintained by a qualified nonprofit organization. Donors provide a tax-deductible contribution to the fund and receive dividends throughout their lifetime. After they have passed, the fund distributes remaining assets to a designated charitable cause.[14]
Community land trust (CLT)	Local non-profit acquires and maintains ownership of land permanently, leasing rather than selling land to developers; designed to maintain community stewardship of land and lasting housing affordability.[15]
Mixed-income neighborhood trust (MINT)	Proprietary CLT-derived framework designed by Trust Neighborhoods specialized for communities at risk for gentrification and displacement; leverages a mixed portfolio of rental units, the majority of which are stabilized at current rental prices while a minority are floated at market levels to subsidize other units.[16]
Real estate investment cooperative	Member-owned, democratically controlled enterprise to purchase and utilize real estate holdings to accomplish a variety of benefits including member wealth-building and community development.[17]

Note. Adapted from a variety of sources noted in the endnotes. See Appendix A for case studies of each model.

C. Model #1: Community Land Trust (CLTs)

CLTs are a form of community capital investing that ensures local stewardship of land. Shareholders may use CLTs for commercial and retail developments, though they are primarily used to create lasting affordable housing and homeownership opportunities for local residents.[18] They guarantee permanently affordable homes, reduce foreclosure rates, and mitigate some of the negative consequences that stem from gentrification.[19]

1 Operations

1.1 Prioritize community engagement in planning processes.

The establishment and operation of a CLT is near impossible without participation by community members in planning, designing, and governance. To that end, the board and leadership team should clearly reflect the community the land trust is serving. This can be achieved through the usage of a tripartite board[20]. In this structure, two thirds of the board is comprised of members who lease land from the trust or other residents in the surrounding areas who do not.[21] This structure could benefit the project by increasing diversity and community input. This may lead to greater buy-in from community members who are already skeptical of new projects and development in their areas.

1.2 Operate a mixed portfolio of property ownership.

Despite the association of CLTs with single home development, organizations creating, designing, and operating CLTs should try to use and operate a mixed portfolio of property ownership (mostly encompassing mixed income and rental housing).[22] This strategy is not uncommon, with 45% of CLTs containing rental properties in their housing portfolio.[23] The financial benefits from this strategy are large. It may allow cross subsidization and the dispersal of financial risk across several projects and can provide a useful cushion in case of another housing market collapse and tightening mortgage. A mixed portfolio also allows for further density and scale, both which are needed to address affordable housing shortages in low-income neighborhoods.[24]

1.3 Aim for a diverse funding stream.

Most CLTs receive the bulk of their revenue through resident fees, which cover a large portion of operational costs.[25] However, a diversified funding base that helps shield organizations from financial risk is both common and desirable. Revenue streams should incorporate a combination of government and philanthropic funding, along with developer fees in the case of new construction.[26] Some CLTs have moved towards additional earned revenue through community businesses in the neighborhoods surrounding their land trusts.[27]

1.4 Require a homebuyer education program before purchase.

Almost all CLTs operate comprehensive homebuyer education for prospective buyers, with 96% requiring a form of educational program before purchase.[28] Running an educational program of this type not only provides critical information about home buying and how the CLT will function to the client, but it also reduces delinquency and foreclosure rates.[29]

2 Administration

Successful administration of CLTs requires clearly laid out ethics and values, staff retention and planning, and a written administrative document that keeps records for the organization.

2.1 Determine hiring processes, skills, and values.

Early on in planning, leadership should determine ethics and values around pay, equity, and benefits for employees, as well as determining hiring best practices for the organization.[30] In addition to hiring the CEO, program planning should incorporate (at a minimum) filling out the roles of a Housing/Lending coordinator, a Property Manager/Leasing Manager if operating rental properties, and a bookkeeper or Administrative Assistant. Legal advice for the establishment of the trust should also be solicited.[31] Larger organizations will require additional staffers, while the opposite is true for smaller ones. Collectively, staff need to be able to usher clients through the purchasing process through initial inquiry to closing and explain how CLTs work in comprehensible terms.[32] Best practices for staffing include having clear position descriptions, cross training among employees, and opportunities for professional development within the organization.[33]

2.2 Create a written administrative manual.

Organizations should maintain a written administrative manual covering broad administrative practices that will be implemented through the trust.[34] This should clearly outline goals and objectives of the trust, funding sources, marketing strategies, conflict resolution, pricing, and any relevant issues that may arise during the trust's operation.[35] The manual should be a living document, subject to regular edits from paid staff or volunteers. Keeping an administrative manual not only allows for a record of accountability, but it also aids in clearly defining an organization's administrative structure.

3 Marketing and Communications

3.1 Utilize continuous advertising and conduct proactive outreach.

Advertising a CLT is a challenging process. Most prospective members will not be actively looking at home buying or will have been let down by their local housing market. Many will have tried and failed to achieve homeownership before and be skeptical of their ability to attain it.[36] Television, radio, internet can be useful strategies for mass reach. More traditional methods like posting listings in newspapers and where people often move through (laundromats, apartment complexes, childcare centers) can also be utilized. Most importantly, outreach to institutions who have a preexisting relationship to possible income eligible participants should be contacted.[37] This is a directly proactive way to recruit CLTs members.

3.2 Create a visually appealing website that clearly explains the trust and how it functions.

Due to modern trends in informational technology, many people will encounter the CLT through the internet after hearing about it through targeted advertising or being proactively contacted by the CLT administrators. For that reason, a poorly designed website can spell doom for marketing and advertising efforts by confusing clients or reducing the perceived legitimacy of the program.[38] Many of these tasks can be utilized through short videos that can communicate information effectively. A website should also incorporate a form for further questions to be followed up with on a later date.

3.3 Marketing should center around benefits to the homebuyer.

Specific advertising messaging should center around benefits to the homebuyer and successfully explain why a CLT is advantageous over their current housing situation.[39] Emphasized benefits should include appeals to the ability to obtain quality homes for affordable prices, stable monthly payments, and complete control over the look of your home. Broader rhetorical strategies can include appeals to building generational wealth for future generations of family and benefits to neighbors by creating affordable housing for community members.[40]

D. Model #2: Mercy Corps Community Investment Trust (CIT)

The CIT is a place-based investing model that seeks to promote equitable economic development by helping residents accumulate wealth in the form of assets, specifically commercial real estate assets in their neighborhoods or nearby neighborhoods.[41] The shared ownership model is designed not only to create financially accessible, loss-protected investing opportunities for low- to middle-income residents, but also to restore control of local economic development efforts.[42]

The CIT model (see **Figure 4**) is a proprietary investing product designed for replication and was first launched by Mercy Corps, a global humanitarian non-governmental organization whose domestic efforts center on asset building in low-income communities and communities of color.[43] To begin their community ownership project, Mercy Corps and two impact investors took out a $450,000 loan, which they used to purchase Plaza 122, a local commercial-retail building.[44] Their aim was for the project to create long-term investment opportunities for 300-500 families by allowing them to incrementally purchase shares of the initial equity used to purchase and improve Plaza 122.[45] In just over two years, Mercy Corps found that the neighborhood in which they launched the CIT became "safer, more equitable, and more economically viable with higher quality of life, and more engaged citizens."[46] Mercy

Figure 4

Advantages of Mercy Corps' CIT Model

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.

Note. Adapted from "Case Study: The Community Investment Trust," by *Community Investment Trust, Mercy Corps*, 2019, p. 2. Copyright 2019 by Mercy Corps.

Corps' goal is that the CIT model 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."[47]

In this section, we will pull primarily from the CIT model but also draw on lessons learned and advice from community ownership models (COMs) more broadly. The latter is informed in large by a recent Local Initiatives Support Corporation (LISC) report published in November 2022. The report highlights commercial community ownership strategies and shares lessons and recommendations gleaned from interviews and case studies of five groups, including Mercy Corps, "working to preserve community-serving businesses, build community wealth, and promote community-led economic development."[48] As the success of any community capital strategy hinges upon local leaders' ability to adapt existing models to their community's unique context, it is beneficial to consider a range of approaches in the development process.

1 *Human-Centered Design*

1.1 Establish clear goals and values to ensure meaningful CIT.

Each of the five groups interviewed in LISC's report emphasized that developing clear objectives and values at the outset can help ensure the success of COMs.[49] These goals and values can anchor organizations in their connections with community members, other community ownership groups, and, importantly, "broader movements for racial, economic, and environmental justice."[50] For Mercy Corps, the core values driving the CIT model include: innovation, influence, impact, and stewardship (see **Figure 5**).

Figure 5

Mercy Corps CIT Core Values

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

2. 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.

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

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

Note. From "Case Study: The Community Investment Trust," by *Community Investment Trust, Mercy Corps*, 2019, p. 2. Copyright 2019 by Mercy Corps.

1.2 Determine community goals and needs.

Prior to finalizing a vision for a CIT project, Mercy Corps leaders encourage organizations to survey residents to determine their investment objectives and needs as well as their beliefs about the needs of their community.[51] Resident and stakeholder feedback is paramount to designing investment opportunities that are "realistic and appealing" to community investors.[52] Community input is also crucial to identifying and managing risks and challenges to successful investment uptake.[53] Furthermore, as the influential CLT practitioner John Emmeus Davis notes, COMs are about more than just generating profit for investors; they are about "common ground," which he defines as putting "property and power into the hands of people historically deprived of both. [They are] also a bulwark against loss, protecting hard-won gains . . . far into the future."[54] This common ground requires continuously engaging the community in planning and organizing efforts.[55]

1.3 Apply a behavioral economic lens to meaningfully impact residents' financial practices.
The CIT model encourages organizations to adopt a behavioral economics lens when designing how best to support residents throughout the investment process. Where traditional economic interventions and literacy programs are rooted in theoretical ideals, behavioral economics affirms the "real social, economics, and behavioral" contexts that may prevent individuals from making "ideal" financial choices.[56] Put differently, adopting this economic approach means meeting people where they are and working together to identify a path to a more prosperous future for all stakeholders (see **Appendix B.2** for more information on behavioral economics).

2 Project Feasibility

Before moving forward with the CIT, a rigorous evaluation process should be employed to determine if and how the envisioned CIT can be realized. In their recommendations, researchers and leaders of the CIT and related models emphasize the importance of assessing internal capacity and the needed external expertise to assess property viability and legal considerations.[57]

Figure 6

Recommended Expertise and Community Contacts for CIT

Areas of Expertise

- Real estate (appraisal, management, leasing sales)
- Project finance/banking
- Legal
- Economic development
- Public relations
- Academics/researchers

Community Contacts

- Schools
- Churches
- Affordable housing agencies
- Funders
- Potential public and philanthropic funders
- People of influence in a range of neighborhoods

Note. Adapted from "Case Study: The Community Investment Trust," by *Community Investment Trust, Mercy Corps*, 2019, p. 5. Copyright 2019 by Mercy Corps.

2.1 Assess internal capacity and solve for limitations.
Successful creation, implementation, and maintenance of a CIT requires expertise in a wide range of fields and a diverse set of community contacts (see **Figure 6**).[58] To ensure adequate support, leaders of commercial COMs recommend that organizations conduct an assessment of existing internal expertise, community networks, and capacity for development in order to identify the external partnerships that will be needed to address any gaps.[59] To aid in their own organizational assessment, Mercy Corps developed a "Community Wealth Builders Matrix" (see **Appendix B.5**), the results of which informed the additional support they sought (e.g., subcontracted experts, volunteer advisors, and MBA student teams).[60]

As funding may be limited in early stages, organizations should expect to draw on existing networks and creative solutions (e.g., volunteer or pro-bono services) as they work to secure more substantial funding.[61] If it is decided that a project is not feasible, community ownership initiatives could, alternatively, pursue projects that come at a lower cost (i.e., community gardens, green spaces, or using parking lots as a food truck plaza) as other models have done. Not only can these options still carry a significant impact, but they can also "create space for community members to identify priority land uses and develop a vision for spaces over time."[62]

2.2 Evaluate property and neighborhood viability systematically.

Mercy Corps recommends developing a tool, such as their CIT assessment tool, to quickly assess the feasibility of properties as they arrive on the market.[63] They recommend scoring properties based on a combination of "financial feasibility, potential social returns for target low-income renters and other investors, and business returns for potential tenants."[64] In total, their assessment tool considers eight different categories to determine the potential of a property (see **Figure 7**). They recommend that organizations interested in starting a CIT pay attention to the results of their property assessments, getting updated appraisals and performing other due diligence when selecting properties, beginning conversations with potential banks early, soliciting feedback from local schools and other public entities, and, finally, communicating with any existing tenants.[65]

Figure 7

CIT Property Evaluation Criteria

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

2. Government Support evaluates the potential for government funding (e.g., an urban renewal area, transportation corridor, or other area of public sector attention and potential support). Government support is not necessarily expected or required in each transaction, but it can have significant implications for the feasibility of a given project by influencing financial bottom line.

3. Housing lists the number of affordable housing units 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 list 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.

8. Intangibles is subjective and is the gut instinct that allows for subjective, less tangible judgment about the property such as its history, amenities, or architecture.

Note. From "Case Study: The Community Investment Trust," by *Community Investment Trust, Mercy Corps*, 2019, p. 6-7. Copyright 2019 by Mercy Corps.

2.3 Seek project finance expertise to review capitalization options.

The CIT team also recommends consulting project finance and legal experts during this stage of development to explore your options for capitalizations in compliance with federal and state securities regulation, reviewing potential sources of capital, and, finally, creating a strategy for securing the needed capital for your investment project (see **section 5.2** for a detailed description of funding/legal challenges).[66]

3 Starting a CIT: Administration & Operations

3.1 Consult experts to determine legal structure of entities.

Research finds that you will likely need to create separate legal entities, each serving different functions, to comply with both federal and state legislation to purchase and manage your CIT project. As Table 2 illustrates, Mercy Corps CIT team required three separate entities—two single member LLCs and an Oregon C Corporation—to start and maintain their CIT project. [67]

Plaza 122 Community Investment LLC was established by Mercy Corps Northwest (MCNW) to raise initial capital and complete the purchase of the commercial real-estate property, Plaza 122, after which the LLC is named.[68] Once the purchase was complete, Plaza 122 Community LLC transferred the ownership of its single member LLC in a sale to the Eastland Portland CIT Corporation (EPCIT)—which is the CIT collectively owned by community investors and led by a board of directors that the community investors selected.[69] EPCIT was established as private Oregon Corporation to allow for the possibility of becoming a private REIT (a tax status election that ensures a pass through tax advantage but requires a minimum of 100 investors).[70] Run by Mercy Corps staff, CIT Services LLC is the lead nonprofit organization responsible for the oversight of investor training, community engagement, and general management of EPCIT.[71]

Table 2

Mercy Corps CIT Legal Entities

Entity	Type	Control and Role
Plaza 122 Community Investment LLC	Oregon LLC, single member	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	Community investors, led by investor-appointed board of directors.
CIT Services LLC	Oregon LLC, single member	This LLC acts as advisor and manager to EPCIT under a services agreement for the actives of Plaza 122, financial oversight, and community engagement and training.

Note. East Portland CIT Corporation (EPCIT) was established as an Oregon C corporation with shareholders because EPCIT may choose to become a private REIT in the future if it reaches the 100 investors threshold required for REIT status. From "Case Study: This Community Investment Trust," by *Mercy Corps Community Investment Trust*, 2019, p. 10. Copyright 2019 by Mercy Corps

3.2 Establish equity structure and investor eligibility criteria.

Based on selected funding and legal structures, COMs must then determine the equity structure and investor eligibility. Figure 8 provides a summary of Mercy Corps' equity structure and investor eligibility requirements. Mercy Corps CIT requires that investors are East Portland residents (residing within four specified zip codes).[72] Many COMs follow similar place-based boundaries for investor eligibility, though with some variation (see **Appendix A**). Additionally, Mercy Corps requires investors to be 18 years of age and to complete their financial advising course, Moving from Owing to Owning (see **Section 3.4** for more details on training).[73]

3.3 Determine board structure and train directors for competent fiduciary oversight.

The CIT board currently has three members—including the executive director of Mercy Corps Northwest, a partnering community leader, and a real estate expert and academic—but it can have up to 12 board members and is currently in the process of adding more investor board members with the aim of diversifying the professional skills of the board in the process.[74] EPCIT works with a professional property management company, but the board final has say over leasing decisions.[75] This allows the board to approve tenants based on their community impact and ties rather than solely on their financial potential.[76]

Figure 8

Mercy Corps CIT Equity Structure

1. ***Number of investors:*** anticipated 300-500 East Portland residents; as of 2017, 300 residents have invested.
2. ***Costs of shares:*** anticipated $10-$100/month; from 2014 to 2017, shares increased from $10 to $17.10/month; calculated by the full amount of the debt paid down annually on the mortgage and a percentage of the annual change in the value of the property (determined by independent appraisal rather than market basis); performance-based share price intended to be more consistent over time and to avoid risk of market fluctuations; EPCIT board can adjust pricing rationale, guided by subcontracted firm, CIT Services LLC.
3. ***Investor protections:*** investors can liquidate shares at any time but are incentivized to invest over the long-term; guaranteed protection from loss for investors through direct pay LC.
4. ***Dividends***: designed to provide short and long-term investor returns; as of 2017, ranged from 7 to 9% annually; based on the performance of the property and a long-term return based on the change in share price.

Note. Adapted from "Commercial Community Ownership as a Strategy for Just Development: Case Studies and Implementation Lessons," by Julia Duranti-Martinez, p. 26. Copyright 2022 by Local Initiatives Support Corporation; "Case Study: The Community Investment Trust," by *Community Investment Trust*, *Mercy Corps*, 2019, p. 2. Copyright 2019 by Mercy Corps.

3.4 Equip investors with the financial training they need to invest confidently and responsibly.

Because the CIT and COMs, more broadly, aim to create asset-building opportunities for residents who have historically been shut out of investing opportunities, many of the groups leading COM projects have developed financial literacy trainings to ensure that investors have the tools they need to invest confidently. In addition to supporting investors, COM groups noted that these courses were a crucial piece of their community engagement efforts.[77] As Jeff Haines, executive director of the EPCIT and developer of their "Moving from Owning to Owing" investing course explains, "'It's time consuming and it's a bit more to manage, but it's super helpful in helping people pick the right dollar amount, trust the process, and build relationships early [with organization and building itself].'"[78] To ensure the mandatory training was accessible to all interested investors, EPCIT offered the trainings in five languages,[ii] paid for participants' food and daycare, and offered different course structures to accommodate investors' varying schedules (e.g., two four-hour sessions or four two-hour sessions).[79] Additionally features of the "Moving from Owning to Owing" investor training include: facilitation led by members of the community (paid at a stipend of $25/hour), small class sizes (no more than 12 investors per course), and topics ranging from budgeting, goal setting, and the possible risks and returns of investing.[80]

3.5 Launch and maintain community engagement and marketing efforts.

Each of the groups interviewed in LISC's report discussed the critical role community engagement played in developing and sustaining the governance and management of a COM. Summarizing the groups' reflections on this topic, the LISC report names "base building, leadership development, outreach, [investor, tenant, and community] education, and capacity building" as particularly important to successful governance and continued stewardship of the CIT model or COMs in general.[81]

To build awareness and excitement around the CIT project, Plaza 122, the Mercy Corps Northwest team maintained connections with regular patrons of the plaza and supporting the surrounding neighborhood by doing things like "arts, green scaping, health events, and distribution of masks with the CIT logo during COVID-19."[82] They found that the most effective communications and public relations strategy was word of mouth, noticing that referrals from a familiar neighbor or community leader lead to greater trust in the CIT, especially for new investors.[83] Because of this, Mercy Corps took intentional steps to invest in relationships with influential neighborhood groups in location with heavy foot traffic and strong social networks such as churches and schools.[84]

4 Ongoing CIT Stewardship

4.1 Monitor and measure impact.

Mercy Corps suggests tracking outcomes and impact on three mutually reinforcing levels: 1) the individual/family level, 2) property/tenant level, and 3) community level.[85] For example, on the property and tenant level, they not only measure the number of investors or the success of investors, but they do so across a number of controls to see which groups their programming is benefitting and

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[ii] While not mentioned explicitly in the literature, organizations may want to consider and solve for other potential barriers to training access, including but not limited to: literacy levels, learning styles, transportation, alternative formats (e.g., virtual sessions), etc.

which groups it is failing to reach. Among these controls included in their demographic metrics are number of first-time investors, female investors, number of investors from households making less than $40,000 a year, those born outside of the US, etc.[86]

4.2 Provide ongoing support and coaching to tenants to ensure project sustainability.

The long-term success of the CIT depends on tenant success, with even one vacancy or loss in the commercial-retail property threatening the financial health of the CIT or any COM project.[87] This underscores the importance of providing ongoing supports and technical assistance to tenants, especially given the high-risk associated with any small business. Providing such supports and technical assistance to tenants is also in alignment with the values that guide CITs: CITs are about generating profit for investors and economic growth for the community, but they are also about "preserving community-serving businesses and organizations as critical assets, and promoting community decision-making over development."[88] However, LISC notes in their report, this can also mean difficult decisions must be made, such as potentially prioritizing more established tenants with stronger business plans rather than small businesses in the early stages of development.[89]

5 Solution Cost, Time Frame, and Legal Challenges

5.1 Research and select funding model (debt, subordinated debt, equity, grant subsidy).

The CIT model raises significant capital while maintaining a low-risk, low-cost entry point for community investors, a crucial part of their "do no harm" investing approach.[90] As **Table 3** outlines, to accomplish this, Mercy Corps elected to raise funds for the initial purchase and renovation of Plaza 122 through conventional bank debt and impact investor-backed loans.[91] This debt is wholly owned by Mercy Corps and its subsidiaries, shielding individual investors from a significant measure of risk. Critically, Mercy Corps also secured a $150,000 direct pay Letter of Credit (LC) from the primary bank lender to serve as a slush fund against market fluctuations, mimicking the federal protections

Table 3

Mercy Corps Funding Sources

Plaza 122 funder types	*Plaza 122 funder roles*
Banks	• Long-term real estate loan • Letter of credit • Curriculum development and training
Foundations	• Operating support (new hires, web development, other) • Curriculum translation and training • Capacity building
Impact Investors	• PRI (initial equity, subordinated debt)
Private donors	• Operating support (investor training, capacity building)

Note. From "Case Study: The Community Investment Trust," by *Community Investment Trust, Mercy Corps*, 2019, p. 10. Copyright 2019 by Mercy Corps.

offered to accredited investors by enabling community members to liquidate their investment at any time.[92] Investor shares purchase a portion of this equity. As rental rates and occupancy increase at the renovated commercial plaza, rental income is used to pay down the overall debt while returning profits to investors as an annual dividend based on individual share price and the current income value of the property.[93]

While the CIT team did not receive public sector funding, local and state funding would have been extremely helpful in the development and funding of the CIT. To support those who want to replicate the CIT model, they have outlined a vision for funding that includes government support and encourages organizations to participate in community organizing and advocacy efforts to spread awareness and garner support for community ownership models and to galvanize support for policy reform (see **Table 4**).[94]

Table 4

Potential Government-Back Funding Model

Funder types	Risk Measures	Funder Roles
Banks	• Value and LTV • Debt service coverage • Leased % • Tenant improvement • Deferred improvement • Leasing cost/upgrades • Secondary repayment source • guarantor	• Short-term construction loan • Long-term real estate loan • Letter of credit • Community grants
Foundations		• 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
Nonprofit/Housing Agency		• Project management • Investor training • Investor outreach • Project type selection (affordable housing, ground floor commercial real estate, existing building, historic rehabilitation, new building, etc.)

Note. From "A Community Investment Trust for Portland, Ore. Residents to 'Buy Back the Block,'" by Reniva Rinkins. 2020.

5.2 Anticipate legal challenges and seek finance/legal counsel to determine capitalization options.
A crucial part of the CIT's "do no harm" investing approach is to create low-risk, low-cost investing opportunities for their community investors.[95] However, because the US Securities and Exchange Commission (SEC) strictly regulates the investment opportunities available to unaccredited lenders, Mercy Corps faced several legal hurdles along the way.[96] Fortunately, their legal partners used their expertise in credit-backed structures and bond offerings to design an unconventional solution that both protected investors and complied with federal and state law.

The attorneys determined that under ***Section 3(a)(2) of the Securities Act of 1923***, if Mercy Corps could secure a direct letter of credit (LC) from their lender for the purchase and renovation of Plaza 122, then they would not be required to register their security with the SEC or the state of Oregon.[97] Mercy Corps was ultimately able to secure the LC, which was crucial to the realization of their "do no harm" capitalization structure as it guaranteed residents' investments would be fully liquid and loss protected.[98]

While the 3(a)(2) exemption was critical for the initial development of the CIT, the attorneys determined that the marketing and sale of the common CIT shares would qualify for two additional exemptions:

1) ***Intrastate offering exemption:*** As the common shares qualified for this exemption, they would not require SEC registration. [99]
2) ***JOBS Act offering exemption and FINRA compliance:*** Mercy Corps worked with a stock offering agent to ensure that its investor platform was Financial Industry Regulatory Administration (FINRA) compliant, qualifying the CIT for an additional offering exemption under the SEC's crowdfunding rules pursuant to the JOBS Act (Jumpstarting Our Business Start-Ups). [100]

While Mercy Corps was able to overcome these legal obstacles, they recommend that any organization interested in replicating the CIT model begin consultations with legal experts and financial institutions early in the development process.[101]

Appendix A

Community Capital Case Studies

Leading Organizations	Location	Type
Boston Impact Initiative	Boston, MA	Charitable loan fund
Boston Ujima Project	Boston, MA	Charitable loan fund
The Chicago Community Trust	Chicago, IL	Charitable loan fund
Champlain Housing Trust	Burlington, VT	Community land trust
The Fund for Our Economic Future	Cleveland, OH	Real estate investment trust (REIT)
CoPeace	Denver, CO	Holding company
Iroquois Valley Farmland REIT	Evanston, IL	Real estate investment trust (REIT)
Trust Neighborhoods	Kansas City, OK	Mixed-income neighborhood trust (MINT)
Community Owned Real Estate (CORE)	Los Angeles, CA	Real estate investment cooperative
Nico Echo Park, Benefit Corp	Los Angeles, CA	Real estate investment trust (REIT)
NorthEast Investment Cooperative	Minneapolis, MN	For-profit cooperative
Goodworks Evergreen	Missoula, MT	Individual investor aiming to be holding company
East Bay Permanent Real Estate Cooperative	Oakland, CA	Real estate investment cooperative
Oakland Community Land Trust	Oakland, CA	Community land trust
Community Investment Trust	Portland, OR	Community investment trust
First Homes Land Trust	Rochester, MN	Community land trust
Market Creek Plaza	San Diego, CA	Real estate investment trust (REIT)
Northeast Kingdom Prosperity Fund	St. Johnsbury, VT	Pooled income fund (charitable)

Resources to Explore More Case Studies

A.1 *Community investment funds: A how-to guide for building wealth, equity, and justice*. (2020). National Coalition for Community Capital and The Solidago Foundation.

A.2 *Directory of local investor groups*. (2020). *Local Investing Resource Center.*

A.3 *Commercial community ownership as a strategy for just development: Case studies and implementation lessons.* (2022). Local Initiatives Support Corporation (LISC).

A.4 *Writings & case studies: Writings on shared ownership* (*n.d.*). The Purpose Foundation.

Appendix B

Recommended Resources by Community Investment Models

Mercy Corps CIT	B.1 Brookings Institute report on CIT model B.2 Building an on-ramp to a culture of fiscal literacy and financial action Policy paper (thoughtful overview of behavioral economics considerations) B.3 CIT case study B.4 CIT website B.5 Community Wealth Builders Matrix (tool for assessing internal and external roles and responsibility) B.6 East Portland CIT website B.7 Vision for Replication (Mercy Corps report outlining steps for replication and CIT consulting services available for purchase)
Mixed-Income Neighborhood Trusts (MINTs)	B.8 What's a mint? (n.d.). *Trust Neighborhoods.* B.9 Building mixed income neighborhoods. (2022, April 13). *Purpose*

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Appendix C

Legislative Resources

State of Michigan, Licensing and Regulatory Affairs (LARA) Resources

C.1 U.S. Securities and Exchange Commission (SEC) Issues Crowdfunding Rules

C.2 Michigan Invests Locally Exemption (M.I.L.E.) - Intrastate Crowdfunding

C.3 Crowdfunding - Things to Keep in Mind

C.4 House Bill 5723(MILE ACT) Senate and House Fiscal Analysis

US Securities and Exchange Commission (SEC)

C.5 Securities Act Rules

C.6 The Jargon from A to Z

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