COMMUNITY CAPITAL MANAGEMENT
Revitalizing America

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INVESTING IN RURAL COMMUNITY DEVELOPMENT

COMMUNITY CAPITAL MANAGEMENT (CCM) TO INVEST $100 MILLION IN BONDS FINANCING RURAL COMMUNITY DEVELOPMENT

Introduction

The Office of the Comptroller of the Currency noted in a November 2013 report that rural areas comprise nearly 75 percent of the land area of the United States but were home to only 51 million people, or about 17 percent of the U.S. population in 2010. Most rural towns have fewer than 2,500 residents.[1]

Rural communities face unique challenges, and generally face different opportunities and limitations to achieving prosperity relative to their urban and suburban counterparts. For rural areas, natural resources from agriculture, mining, or recreational activities often have a greater role in local economic development. In contrast, rural areas often lack human capital due to their low population density and outmigration as a result of limited employment and economic opportunities.

Secretary of Agriculture Thomas Vilsack argues that the U.S. Department of Agriculture "must help rural communities create wealth so they are self-sustaining, re-populating and thriving economically." Recreation, technology, infrastructure, education and agriculture provide rural communities opportunities to overcome challenges and sustain long-term prosperity.

Challenges

One of the greatest challenges to rural communities is that they suffer from poverty disproportionately than urban or suburban areas. According to the Housing Assistance Council, about 17.2% of rural residents lived below the poverty line in 2012 versus 14.9% nationwide.[2] Further, more than 35% of the people living in completely rural counties live in high-poverty counties and more than 26% live in persistent-poverty counties.

A county is classified as persistent poverty if 20% or more of its residents were poor over 30 years, as measured by the 1980, 1990, and 2000 decennial censuses and the American Community Survey 5-year estimates from 2007-2011. There are currently 353 persistently poor counties in the U.S. comprising 11.2% of all U.S. counties and 301 of the 353 are non-metropolitan. Further, nearly 84% of persistent-poverty counties are

[1] http://www.occ.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/rural-development-nov-2013/rural-development-ezine-article-1-look-inside.html
[2] http://www.ruraldataportal.org/search.aspx

located in the South, comprising more than 20% of all counties in the region.[3] Concentrated poverty, whether urban or rural, contributes to poor housing and health conditions, higher crime and school dropout rates, as well as employment dislocations. As a result, economic conditions in very poor areas limit opportunities for poor residents contributing to a self-perpetuating cycle of poverty. Rural areas are further challenged by population loss due to outmigration. Loss of population exacerbates economic opportunities, and investments in housing and education.

Employment growth has rebounded since the Great Recession for most urban and suburban communities. Urban employment rose by 5.0% between the second quarters of 2010 and 2014, but just 1.1% in rural America, and it remained more than 3% below pre-recession levels as of mid-2014. Employment losses persisted in many rural areas, including much of the South, Appalachia, Northwest, and Mountain West. With lack of employment prospects, young workers in rural areas leave home to seek prevailing opportunities available in cities. As a result, the population of rural America is aging more rapidly than the nation as a whole, thanks in part to the exodus of young people.[4]

With the loss of residents, rural communities are challenged by investing in human capital such as education and job training. While human capital investment strategies are key ingredients in the promotion of sustainable development at the local level, economic returns to education for rural areas continue to lag those for urban areas. Without economic or job opportunities at the local level, these communities often suffer from rural "brain drain", as the educated or trained workforce leaves the area in search of greater opportunities in cities or suburbs. Rural "brain drain" not only deprives employers of an educated workforce, but also depletes local resources because communities that have invested in these workers' education reap little return on that investment. Rural leaders may be reluctant to invest in education and workforce development because of the uncertainty in the return on investment, but rural counties with high educational levels saw more rapid earnings and income growth over the past two decades than counties with lower education levels.

Opportunities

For rural areas, promoting natural resources may offer a greater role in local economic development. The outdoor economy is the economic output that results from the protection and sustainable use of America's lands and waters. Public opinion research commissioned by The Colorado College in 2013 found that more than 9 in 10 Westerners see national parks, national forest, wildlife refuges, and other public lands are essential to the economic prosperity of their state.[5]

The outdoor economy includes both the spending and jobs that result from tourism and outdoor recreation and the quality of life benefits that attract workers and businesses and the health benefits associated with outdoor activities.

[3]http://www.ers.usda.gov/topics/rural-economy-population/rural-poverty-well-being/geography-of-poverty.aspx
[4]"Rural America At A Glance" http://www.ers.usda.gov/media/1697681/eb26.pdf
[5]"The Colorado College State of the Rockies Project Conservation in the West Poll"

Proximity to parks, trails, and outdoor spaces is among the most prominent factors businesses and workers consider when choosing where to locate.[6] The outdoor recreation industry currently supports 6.1 million jobs in the United States[7].

A 2012 Headwaters Economic study found that areas in the West with protected public lands have higher rates of job growth and that proximity to the protected land is "correlated with higher levels of per capita income."[8] According to Ray Rasker, the study's lead author, areas with national parks, wilderness, and other recreational assets are succeeding in attracting high-wage, high-skill jobs more rapidly than similar communities without such amenities.

Local food systems also present rural areas with unique opportunities to address a growing demand for local, healthy food choices. Sustainable agriculture's goals include environmental health, economic profitability, and social and economic equity. This includes stewardship on both natural resources and human resources. According to the Agricultural Sustainability Institute at the University of California, Davis, stewardship of human resources includes consideration of social responsibilities such as working and living conditions of laborers, the needs of rural communities, and consumer health and safety both in the present and the future. Stewardship of land and natural resources involves maintaining or enhancing this vital resource base for the long term.

Sustainable approaches are those that are the least toxic and least energy intensive that maintain productivity and profitability. Local food provides one solution to lowering the carbon footprint of food production. Local food systems reduce the transportation and energy costs of food production. It links consumers and local farmers, contributing to individual and community health. In addition, food dollars are more likely to stay within the local economies.

[6]The Trust for Public Land, "Business Relocation: Bibliography"
[7]Outdoor Industry Association, "The Outdoor Recreation Economy" (2012)
[8]Ray Rasker, "West is Best: How Public Lands in the West Create a Competitive Economic Advantage"

CRA Implications

In March 2014, Comptroller Curry spoke before the National Community Reinvestment Coalition regarding the challenging financial needs of rural communities. He stated that it is his belief that the Community Reinvestment Act (CRA) should play as an important role in addressing the credit needs of rural areas as it does metropolitan areas. Over the years, the regulatory agencies have amended CRA regulations and guidance to encourage community development activities in rural areas.

In 2005, the bank regulatory agencies expanded the types of activities that could receive CRA consideration. The agencies amended the definition of community development to include loans, investments, and services that revitalize or stabilize non-metropolitan middle-income geographies designated as distressed or underserved.

Many rural counties are defined as middle-income (based on the way median family income is calculated) even though they may lack access to essential community services or are economically distressed. The 2005 regulatory revision acknowledged that loans, investments, or services that revitalize or stabilize a designated distressed or underserved nonmetropolitan middle-income geography should receive consideration as a community development activity. Underserved middle-income, non-metropolitan census tracts are those that meet specific criteria for population size, density, and dispersion. They indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

A non-metropolitan middle-income geography is designated as distressed if it is in a county that meets one or more of the following conditions:
*An unemployment rate of at least 1.5 times the national average.
*A poverty rate of 20 percent or more.
*A population loss of 10 percent or more between the previous and most recent decennial U.S. census.
*A net migration loss of 5 percent or more of the population over the five-year period preceding the most U.S. census.

With the updates to the Interagency Questions &Answers, final guidance clarified that an institution can receive CRA consideration for community development activities in a broader statewide or regional area that includes an institution's assessment area, provided that the bank or thrift has been responsive to needs and opportunities in its assessment area. The hope by the regulators is that the more flexible approach for evaluating CRA consideration for community development activities in rural areas will alleviate the imbalance in community development activities between metropolitan and rural non-metropolitan areas.

An activity revitalizes or stabilizes a distressed non-metropolitan middle-income geography if it helps to attract new, or retain existing, businesses or residents. An activity will be presumed to revitalize or stabilize the area if the activity is consistent with a bona fide government revitalization or stabilization plan. The Agencies generally will consider all activities that revitalize or stabilize a distressed non-metropolitan middle-income geography, but will give greater weight to those activities that are most responsive to community needs, including the needs of low- or moderate- income individuals or neighborhoods.

Qualifying activities may include: providing financing to attract a major new employer that will create long-term job opportunities, including for low- and moderate-income individuals; and activities that provide financing or other assistance for essential infrastructure or facilities necessary to attract or retain businesses or residents. Job creation and training, affordable housing construction and preservation, and infrastructure improvements in areas with demonstrated need of economic revitalization are all consistent with the themes of community development under the CRA.

CCM's Investment Approach

Rural community development fixed income investing takes a positive screening approach to identify bonds that finance or support initiatives in rural and underserved communities. Fixed income investing through a diversified portfolio enables investors the opportunity to meet their financial goals while helping local communities to create a more sustainable economy. Fixed income is typically seen as a safer, lower-risk asset class with lower volatility than other investment options (see Table 1: Financial Considerations).

As with any investment strategy, fixed income securities should be thoroughly evaluated and researched prior to making an investment. Given that the range of impact investment products is expanding, it is important for investors to understand and be comfortable with the portfolio managers' experience, investment process, risk/reward trade-off, and Environmental, Social and Governance (ESG)/impact reporting capabilities.

As of December 31, 2014, CCM, a leading fixed income impact investing manager, has invested over $6.7 billion in ESG/impact initiatives nationwide on behalf of its clients. This includes over $575 million in bonds financing rural community development initiatives across the country with approximately $20 million in non-metro counties with persistent poverty across 31 states.

Table 1: Financial Considerations

	Fixed Income	Equities	Private Equity	Real Estate
Capital Preservation	Good	Good	Poor to Low	Poor to Low
Time Horizon	Moderate	Moderate	Long	Long
Liquidity	High	Moderate to High	Low	Low to Moderate
Return Potential	Moderate	Moderate	High	Moderate to High
Volatility	Low	Low	High	Moderate to High

The table portrays some of the financial considerations of the major asset classes and is the opinion of CCM.

CCM Investment Examples

Arkansas Development Finance Authority

Proceeds of the Arkansas Development Finance Authority taxable bonds were used in part to finance a loan to Sage V Foods, LLC, a processor of rice and producer of rice food products. The company used taxable revenue bonds to expand its processing and warehousing facilities at the Stuttgart, Arkansas location. Sage V Foods specializes in producing rice-based ingredients and has developed the most complete line of rice products in the industry. The company contracts directly with farmers to grow specialty varieties of rice and organic rice. In addition to industrial markets, the company's line of frozen rice is also sold into the food service and retail markets.

The company was founded in 1992 as a subsidiary of American Rice/Comet Rice and was formed to create innovative new applications for rice and develop new rice products. In October 1998, management bought the company from American Rice, Inc. and renamed the company Sage V Foods. The original production facilities were in Freeport, Texas. Since that time, Sage V Foods built an additional flour milling and extrusion facility in Arkansas County, in 2006, and then expanded that same plant in 2008. Sage V Foods employs between 100 and 200 workers at the Stuttgart plant, according to the Arkansas Economic Development Commission.

State of Mississippi General Obligation Bonds

The State of Mississippi General Obligation Bonds were issued to finance economic development projects, including, but not limited to:

- The funding of grants, loans, and loan guaranties through the Mississippi Rural Impact Fund (RIF). The RIF is administered by the Mississippi Development Authority (MDA) and is designed to assist and promote businesses and economic development in rural areas by providing grants and loans to rural communities and loan guarantees to rural businesses. RIF eligible projects must have a direct connection to creating jobs. All projects funded should create a minimum of ten net new full-time jobs. From July 1, 2009 through Fiscal Year 2012, RIF awards resulted in 1,158 jobs.

- Financing costs incurred for the purpose of performing research on biomass usage in the production of renewable crude oil at Alcorn State University and the Sustainable Energy Research Center on the campus of Mississippi State University, pursuant to the provisions of the Sustainable Energy Research Act. Alcorn State University is located in a non-metropolitan, moderate-income geography. Mississippi State University is located in a non-metropolitan, middle-income geography within a census tract designated as "Distressed or Underserved".

- Provide funds to finance workforce training through State Institutions of Higher Learning and Community and Junior Colleges in the State and Workforce Investment Network job centers in the State to meet workforce training needs not met by other resources, in the amount of $2,000,000 pursuant to the Workforce Training Act. The Mississippi Workforce Training Act seeks to provide quality education and training for the citizens of Mississippi to obtain the skills needed to be more productive and have an improved quality of life.

FireFly Farms

Firefly Farms is an award-winning goat cheese producer in Accident, Maryland. The cheese is produced using agriculturally sustainable, locally-sourced fresh goat's milk. Firefly Farms sources fresh goat milk from family farms all within a 30-mile radius of the creamery. The farmers have committed to humane animal husbandry and contracted to restrict the use of antibiotics, hormones, and animal feeds that have been treated with chemical or synthetic fertilizers.

Firefly Farms' leftovers are productively used to support neighbor agri-businesses. The creamery has a special second drainage system to capture the sweet-whey by-product of cheese making. This protein-rich, bio-active liquid is not dumped into public sewer or septic; it is captured, refrigerated, picked up by local farmers and fed to local livestock. Firefly Farms is located in a census tract designated as "Distressed or Underserved".

The loan to FireFly was authorized under the SBA 7(a) Loan Guaranty Program which was established to serve small business borrowers that cannot otherwise obtain private sector financing under suitable terms and conditions. The SBA 7(a) program is SBA's primary vehicle for providing small businesses with access to credit, whereby SBA provides partial guarantees of loans made by SBA-approved private sector lenders. One requirement to obtain a 7(a) loan guarantee, which is backed by the full faith and credit of the U.S. government, is that a lender must document that the prospective borrower was unable to obtain financing under reasonable terms and conditions through normal business channels.

Hargrove Estates

Hargrove Estates is an affordable housing property in Lowndes County, Mississippi, in a census tract designated as "Distressed or Underserved". The property was allocated Low Income Housing Tax Credits in 2010 by Mississippi Home Corporation and 40 of the 41 units are restricted to residents with incomes at or below 60% of area median income.

Hargrove Estates is a single family lease purchase development, which provides single family type housing for future homeownership. Owners of single family lease purchase developments are required to provide homebuyer training community services beginning three (3) years prior to the end of the initial compliance period. Training includes:

- Budget counseling;
- Credit repair;
- Foreclosure prevention;
- Home maintenance training;
- Homeownership readiness; and
- Computer skills to enhance homeownership readiness.

In addition, owners are required to provide tenants a lease purchase orientation manual prior to lease signing, that includes:

- Lease purchase requirements;
- Restrictive covenant;
- Right of first refusal option; and
- Purchase provisions.

The applicant must include a sample lease-purchase agreement in the application package. The agreement must advise tenants of the available purchase option at the end of the fifteen (15) year lease period, and may be included in the body of the lease.

Conclusion

Investing in rural community and economic development initiatives offers real capacity to significantly improve life in rural communities. At CCM, we focus upon the ultimate use of proceeds for all impact investments, rural-focused bonds included. We identify, record and track the underlying economic activity and geography that the transaction will support. We believe that impact reporting is critical and should be well-defined on use of bond proceeds. As a leader in the fixed income impact investing space with over 15 years' experience and $6.7 billion invested in ESG/impact initiatives nationwide on behalf of its clients, CCM's $100 million initiative to invest in bonds financing rural community development is just a starting point with the goal of channeling more monies to finance a rural recovery nationwide.

Additional References:
–Rural Wealth Creation, edited by John L. Pender, Bruce A. Weber, Thomas G. Johnson, and J. Matthew Fannin
–Center for American Progress, "The Government Should Begin to Measure America's Powerful Outdoor Economy"
–USDA Rural America at a Glance, 2014 Edition
White House Rural Council
U.S. Department of Agriculture

ABOUT COMMUNITY CAPITAL MANAGEMENT, INC.

Community Capital Management, Inc. (CCM) is an investment adviser registered with the SEC. Headquartered in Ft. Lauderdale, FL with offices in Charlotte, NC and Boston, MA, the firm was founded in 1998 and manages approximately $2 billion in assets (as of 12/31/14) for foundations, religious organizations, pension funds, high net worth individuals, registered and unregistered funds, financial advisers and their clients, non-profits and health organizations.

CCM specializes in managing Environmental, Social and Governance (ESG)/impact investing portfolios. Its fixed income ESG/impact investing strategy was launched in 1999 and can be customized based on specific impact themes or geographies. The strategy is available as a separate account or through a mutual fund (CRA Qualified Investment Fund). CCM also integrates ESG/impact investing into its liquid alternative income strategy (CCM Alternative Income Fund).

For more information, please visit www.ccmfixedincome.com or call 877-272-1977.

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2500 Weston Road, Suite101 ▪ Weston, Florida 33331
phone 954.217.7999 ▪ *toll-free* 877.272.1977 ▪ *fax* 954.385.9299
www.ccmfixedincome.com