Development Banking Conference

The Impact We Make

November 19 – 20, 2015

A summary of the innovative, strategic ideas, along with the collaborative and insightful discussions that took place over two days at the 2015 NCIF Development Banking Conference

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The Impact We Make

PREFACE

We are pleased to provide a summary of the deliberations held at the 2015 NCIF Development Banking Conference. Over two days the participants tackled some of the key challenges and opportunities faced by the industry as it looks ahead. Mission-oriented banks (CDFI, minority and others) and others in the community development finance industry need to:

1. **Grow and build more sustainable business models:** The CDFI industry has made very significant strides in growing by taking government subsidy, philanthropic, CRA and mainstream investments to build solid organizations. Yet in a commercial sense, the industry is still relatively small. The single biggest imperative for the sector over the next few years is to grow by an order of magnitude — organically, via acquisitions and/or by entering into partnerships with financial technology companies.
2. **Enhance impact, measure impact, and bring impact in asset allocation decisions:** The mission-oriented banking sector creates unparalleled impact despite its small size and limited resources. It needs to create shared industry-wide platforms to measure and bring impact into asset allocation decisions, to not only benchmark internally, but to communicate to investors and the public sector so it can receive a lot more financial support. We have to strive to be on a first-name basis with our Congress people; advocate for your bank and advocate for our industry. The work done by NCIF under the Social Performance Metrics umbrella (BankImpact.org, Dashboards and BankImpactMaps.org) help in the above.
3. **Explore and engage financial technology, but practice caution:** Recent advancements in financial technology and data analytics are a significant opportunity to create new channels for delivery of financial products and services. They need to be embraced boldly to grow the business. Yet caution needs to be exercised both from the perspective of risk management and generation of impact.

We are optimistic and excited about the potential to continue to make a significant impact in society by creating a more level playing field and creating a more equitable society in terms of opportunity.

We were deeply honored by the participation and guidance from our keynote speakers: Charles Evans, President and CEO of the Federal Reserve Bank of Chicago; Maria Contreras-Sweet, Administrator, U.S. Small Business Administration; Annie Donovan, Director, CDFI Fund; Doreen Eberley, Director in the Division of Risk Management Supervision, FDIC; Kurt Summers, City Treasurer, City of Chicago; Sandra Thompson, Deputy Director FHFA and Lesley Milovic, EVP, Wells Fargo.

We want to thank all the participants who attend this conference each year, representing mission-oriented banks, investors, government agencies, as well as those organizations supporting the industry's work with innovative developmental services. Their participation multiplies the positive impacts of the conference. Finally, my thanks to our staff and Board for their tireless efforts to make these events possible. We look forward to seeing you again at our next Development Banking Conference.

Saurabh Narain
President & CEO, National Community Investment Fund

Excerpts from Remarks of Charles Evans, CEO of the Federal Reserve Bank of Chicago (FRBC)

Opening the annual development banking conference of the National Community Investment Fund, November 19, 2015 at FRBC

Charles Evans
President and CEO, Federal Reserve Bank of Chicago

"The Fed recognizes and supports NCIF's mission to advocate for, invest in, and assist community development banking institutions. Those include Community Development Financial Institutions (CDFI), minority-owned banks, and depository institutions that serve lower-wealth populations across the nation."

"NCIF coined the phrase 'community development banking institution' or 'C-D-B-I' some time ago. That term is intended to capture the array of depositories serving LMI areas, including ones that have not – or have not yet – applied for Treasury certification as CDFIs, or FDIC designation as Minority Depository Institutions."

"In the universe of CDFIs, banking charters give your institutions an advantage in the form of deposits. As a result, a relatively small number of depository institutions hold an outsized proportion of CDFI capital. Obviously, a bank charter carries a heavy responsibility and regulatory regimen to which other types of CDFIs are not subject. I think we can agree, however, that there places where people experience a degree of isolation – sometimes a high degree of isolation–from the mainstream economy. Banking institutions with a physical presence, local ownership, and a shared interest in social and economic success of residents, can be assets."

"Our dual banking system in the United States of federally and state chartered banks is a legacy of one of the nation's founding principles – decentralized power and control over important matters. Local ownership and control offers key benefits – and risks – but the dual system has served us well. An FDIC study from 2012 showed that between 1984 and 2011, community banks on average held about 14% of assets in all banks nationwide. However, they accounted for over 45% of lending to small businesses. That is critical to labor force participation and – no stretch at all here – our economic future. The study also showed that approximately 20% of all counties, again nationwide, had no other type of banking institution."

"In the current, more constrained lending environment, CDBIs …serve as local economic engines while keeping the social impact bar very high. As local actors, with informed local market knowledge, community banks are well positioned to invest in local development and local businesses. They are also well situated to take part in redevelopment efforts, sometimes in partnership with local coalitions or outside public and private investors, or both."

"Even when the economy is strong, balancing profit and mission goals is challenging. So NCIF's work to raise capital for institutions serving economically stressed places to facilitate redevelopment and investment is a critical, value-added service to the industry."

Learning from CDFIs in 2015 and Looking Toward the Future of the CDFI Fund

Annie Donovan
Director, Community Development Financial Institutions Fund

The CDFI Fund recognizes the work NCIF does to expand the reach and impact of CDFI banks, Minority Depository Institutions, and other mission-oriented financial institutions. The CDFI Fund, of course, recognizes and encourages the community-level contributions of community development banks. They offer an economic lifeline to underserved communities by providing aligned, appropriate financial products and services that keep the community's assets in the local community and enable people to build wealth and generate opportunity.

As 2015 closes, let us take the time to review the year's highlights at the CDFI Fund. Through the 2015 round of the Community Development Financial Institutions Program (CDFI Program), Native American CDFI Assistance Program, and Healthy Food Financing Initiative, the CDFI Fund awarded $202.3 million to 195 CDFIs. At the 20th-round mark, the CDFI Program — the flagship program of the CDFI Fund — has awarded more than $1.5 billion in Financial Assistance and Technical Assistance awards.

83 financial institutions were awarded $18.1 million through the 2015 round of the Bank Enterprise Award Program (BEA Program). The Fund has now awarded more than $429 million through the BEA Program, which is seeing an increased number of applicants. Banks working in low-income communities are seeing the BEA Program as a good fit and readily accessible.

New Markets Tax Credit (NMTC) allocations totaled $3.5 billion to 76 organizations in the 2015 round, stimulating incredible investment and economic growth in low-income urban neighborhoods and rural communities. Additionally, the CDFI Fund's CDFI Bond Guarantee Program guaranteed $327 million in nine new CDFI bond loans.

> *"The CDFI Fund is committed to supporting community development banks and Minority Depository Institutions, and expanding their impact. Your work is indispensable."*
> –Annie Donovan

2016 is approaching and will be informed by the CDFI Fund's upcoming *Framework for the Future.* When topics for inclusion were presented on a five-city national listening tour this year, more than 300 people participated, representing CDFIs, funders, investors, local and state government officials, researchers, and other community development practitioners. Those who engaged with the tour had the following feedback, which is under consideration and integration into the CDFI Fund's *Framework:*

- **Program Effectiveness:** CDFI Fund mechanisms and program offerings are effective and very much needed. CDFIs appreciate the flexibility of CDFI Fund programs, especially financial assistance awards. Enterprise-level funding is still the hardest funding to source.
- **Innovation and Scale:** Many CDFIs see a tension between building scale and serving their target markets. CDFI business models require "high-touch" approaches, which are not easily scaled. Still, the problems we seek to solve are much bigger than our solutions, so we have to consider how we can scale our impact.
- **Access:** Individuals, families, and small business owners in low-income communities are still experiencing barriers to accessing retail financial products and services.
- **Data:** CDFIs would like the CDFI Fund to enable the CDFIs to tell their stories in more compelling ways by tapping into the CDFI Fund's aggregate data potential.
- **Customer Service:** Generally, CDFIs are satisfied with the information options and speed of communication of the CDFI Fund.
- **Blind Spots:** Over the listening tour, participants noted the NMTC Program and the Bond Guarantee Program are well suited to real estate development, and that, therefore, the CDFI Program should place greater emphasis on supporting access to affordable financial products for consumers and small businesses. The CDFI Fund has also heard and understood participants' stated need to pay greater attention to the struggles of minority-run CDFIs and CDEs.

In closing, we touch on the CDFI Fund's new training program for Minority CDEs. The CDFI Fund awarded the contract to design and implement this training program to NCIF. NCIF was selected based on the strength of its experienced staff, as well as the involvement of subject matter experts who will bring extensive NMTC experience and needs assessment capabilities to the training. The Minority CDEs that participate will be able to talk to experienced practitioners about the various ways they can participate in the NMTC Program. CDEs that complete the training curriculum may be provided the follow-on opportunity to receive customized technical assistance based upon their operational priorities.

Utilizing Valuable Resources in Community Banking

Maria Contreras-Sweet
Administrator, U.S. Small Business Administration

The SBA has been busy implementing reforms — particularly those targeted to make SBA more innovative, efficient, and accessible. These innovations have the objective of creating and strengthening SBA's relationship with financial institutions. In the past, some SBA rules did not make much sense, particularly:

- *The 9 month rule:* if an underwriting process lasted more than 9 months, it had to start all over again.
- *The collateral rule:* very strict collateral requirements, independent of the value of the loan.
- *The wealth test:* individuals sometimes do not qualify for a loan because they were wealthier than the requirements dictated.

All of this has changed to become more flexible and give more latitude to loan requirements.

Smart technology has allowed CDFIs to interact with SBA in a more efficient, user-friendly, and seamless way. The following are some example of the reforms SBA is undertaking:

- A new system, LINC, in which SBA matches clients and lenders in a simple way (like match.com!), generating free foot traffic to CDFIs.
- During the downturn, prospective customers experienced a loss in their FICO score, and they were automatically denied a loan. This changed and the SBA is now measuring business scores with a "Liquid FICO," in which Crisis performance is analyzed and weighted more so than the regular FICO.
- 95% of the world's consumers are outside the U.S., so U.S. small businesses are left out of the game. SBA is incentivizing and cross-training banks who have a SBA division to learn more about export loans, and SBA has eased rules to use that product. Moreover, SBA now has a program (TTP) to train small businesses and CDFIs on how to grow internationally by exporting businesses, beyond Canada and Mexico.
- For the first time, SBA will publish a document on how small businesses can protect their patents beyond the U.S., and how to protect and grow a business as a whole internationally.
- In order to economically empower, SBA wants to increase its accessibility to everyone:
  a. Offering a specialized toolkit for millennials
  b. Connecting to the deaf community with video and other special assistance
  c. Targeting the *Boots to Business Program* to veterans who are lender ready. SBA now has over 100 military installations and works to expose men and women who are transitioning to entrepreneurship. "Reboot" is a similar program for those that had previously been entrepreneurs.
  d. Translating the SBA website for Spanish-speaking clients.

> *"I've been in your chair and I know your struggle…I know all you have done to serve your communities, and I know your communities are better for it."*
> –Maria Contreras-Sweet

Understanding data and outcomes:

- African Americans have been the most positively impacted population, with year-on-year growth in engagement with the SBA of 32 percent, followed by Hispanics at 30 percent, women at 25 percent, and finally the Asian population at 20 percent.
- We managed to pass a bill in a short period of time that provides additional funding to the SBA. This is due largely to CDFIs calling on Congress and applying the necessary pressure.

I call on attendee CDFIs to share their experience of working with the improved SBA. Those CDFI representatives who speak up are pleased with their budding relationships and experiences with the SBA. I encourage CDFI banks to go to Washington and advocate your industry's growth and the underserved borrowers that you serve.

I can amplify your voice, but I need your voice.

Entrepreneurship is the most powerful source to lift people out of poverty; and it starts with microlenders.

Risk and Prevention in Community Banking

Managing Risks in Community Banking
The leaders here at the NCIF Development Banking Conference provide banking services to some of the most economically challenged communities in our nation. You play a vital role in helping these communities recover from the recent recession, build wealth, and reach their full potential.

> *"Not only do [mission-oriented banks] provide banking services to some of the most economically-challenged communities in our nation, you also play a vital role in helping these communities recover from the recent recession and reach their full potential."*
> – Doreen Eberly

Industry Trends
Overall, the banking industry showed gradual but steady improvement during the second quarter. Revenue, earnings, and loan balances were up and there was further improvement in asset quality. For the 111 CDFI banks, the first half of 2015 also showed improvement, with net income expanding 5 percent from the second quarter of 2014 and loan balances increasing nearly 8 percent year-over-year. Nearly 94 percent of CDFI banks are consider well capitalized, and 85 percent are profitable.

Supervisory Risks
In response to low interest rates and reduced loan demand coming out of the recession, some banks may have increased long-term assets to bolster interest income and narrow margins. And this re-balancing may expose them to increased interest risk, credit risk, and liquidity risk in a rising rate environment. Rising loan demand and a recent pickup in the pace of economic activity create new opportunities for community banks, including CDFI banks. However, with these opportunities come new risk management challenges. Our supervisory focus now encompasses three key areas: interest rate risk; credit risk; and cyber security.

Interest Rate Risk
Examiners continue to find weaknesses in interest rate risk management. Broadly, these involve policy effectiveness, measurement and management procedures, modeling assumptions and validation work, and Board involvement and monitoring. We want banks to prepare for volatility, or sustained increases in interest rates, which could impact earnings or capital. We offer a variety of resources to help bankers manage interest rate risk. The FDIC's "Technical Assistance Video Program" is available on our website and on YouTube. Many bankers have commented on how this has helped them to inform their staff and prepare their banks. Another good resource is the Winter 2014 *Supervisory Insights* journal; the entire issue is devoted to managing interest rate risk.

Credit Concentrations
By definition, every community bank is concentrated. Community banks generally specialize in a type of lending, and thus have an asset concentration. They are also concentrated geographically. It is how you manage that concentration that really matters. One lesson learned from the crisis is the importance of good underwriting and credit administration. A large number of community banks – even those with concentrations – were able to weather the crisis because they had well-informed and active Boards, strong management, sound credit administration and underwriting, and adequate capital. And, they listened to their regulators and responded to what the examiners said to them.

Cybersecurity
Cybersecurity has become an issue of the highest importance not only at the FDIC, but also for the Federal government as a whole. Technology risks may affect a bank's safety and soundness, as well as public confidence in the banking system. Cybersecurity has moved from the server room to the board room. There are many steps that banks can take, and the FDIC has provided many resources to assist bankers (see side box). One of the tools is "Cyber Challenge," a guided table-top exercise that uses video vignettes with actors to enact scenarios designed to promote discussion among your employees about what they could do in a real life event.

Concluding Note
We know that many of you serve communities where the pace of recovery is lagging and that you may continue to face challenges with asset quality and access to capital. Many of you, including the Community Development Bankers Association, National Bankers Association, and NCIF are paving the way for industry-led collaboration, discussing ways to develop business models to share or reduce costs in technology, capital raising, asset management and compliance, as well as development of affordable but profitable products, services and delivery systems. Last year in April the FDIC published "Strategies for Community Banks to Develop Partnerships with CDFIs," a resource guide providing information to help community banks collaborate with CDFIs, including CDFI banks. I encourage you to continue your discussions to come together with industry solutions. We are committed to working with you to ensure that you are even better-positioned to serve your customers and fulfill your missions.

Doreen Eberley
Director, Division of Risk Management Supervision, FDIC

FIVE KEY ACTIONS BANKERS SHOULD TAKE TO ADDRESS CYBER SECURITY:

1. Bookmark and review resources on the FFIEC's Cybersecurity Awareness website. The site includes guidance on preparedness, including a new Cybersecurity Awareness Tool to help banks identify risks and determine preparedness.
2. Know who to call. Maintain regular contact with your regulator and the FBI so when an incident occurs, they will know you and you will know them, and you both can figure out what to do. Get ahead of the game.
3. Consider joining the Financial Services Information Sharing and Analysis Center (FS-ISAC). There are low-cost memberships for community banks. You get real time access to threat intelligence and information on new vulnerabilities that banks can use to check systems. The FFIEC website also provides a list of other free information resources.
4. Practice your response to possible cyber incidents using the FDIC's Cyber Challenge exercises. Develop incident management procedures and role-play your response under various scenarios. Employees will then be able to respond to incidents quickly and with "know how" and confidence.
5. Talk with your employees about good "Cyber Hygiene." People are responsible for 90% of cyber incidents and the failure to patch known vulnerabilities is a close runner up. The FFIEC has a brochure useful for discussions with staff and customers, and the FDIC has many other resources for managing cyber risks on its website. Remember people and patches; good cyber hygiene can help prevent incidents.

Invest in Chicago and it Invests in You

Kurt Summers
City Treasurer, City of Chicago

Chicago is a great investment. I grew up in Chicago. I was educated in its public schools. I love this city for its neighborhoods, languages, diversity and cultural richness. With so much to offer, it is no surprise that an influx of companies are choosing Chicago as their headquarters.

Though Chicago provides many advantages from an investment standpoint, there are still challenges. Upon taking office as the City Treasurer, I visited all of Chicago's 77 neighborhoods and met with many community members across our diverse neighborhoods. Many of them expressed similar challenges – gaining access to capital for small business owners or entrepreneurs, and encouraging investment in community projects.

We are working on this. The City's Municipal Depository Ordinance presents an opportunity to increase bank investment in our neighborhoods and we are continuing to work with the City Council to achieve this goal. Our "77 Proud" events brought important financial empowerment resources to neighborhoods throughout the City – helping provide new opportunities for both business owners and community members to take control of their financial outlook. We are in the process of kicking off a tour of the city's neighborhood chambers of commerce to empower small business owners by putting them in front of advisors that can help them solve problems and find new ways to grow their businesses.

"We are all in this together. No matter our lane or our role, we should be working together and collaborating to increase our common impact to help people and their communities."
– Kurt Summers

Beyond the City of Chicago's investments this year, and looking ahead to next, the city benefits from additional programs and financing models like the NMTC Program which the Treasurer is directly involved through the Chicago Development Fund CDE. NCIF is active in the NMTC Program, with its unique "Three-Way Partnership" model, which helps individuals and their greater communities. In every community, there exists great opportunities for growth and through NCIF's NMTC work, there are success stories to point out.

Take a look at the development of Erie Elementary Charter School in Chicago's Humboldt Park neighborhood. In a neighborhood where far too many are dropping out of the education system before earning a high school diploma – and more than a third are living in poverty – the development of Erie Elementary brings to this community a brand-new computer lab, library, gymnasium, and adult education courses such as job training and English as a Second Language. This important contribution to Chicago's educational offerings was supported through NMTC by First Eagle Bank, JPMorgan Chase Bank, and NCIF. IFF, another Chicago-based CDFI, helped fund the project.

There's also a transitional youth home, UCAN's Chicagoland Institute for Transforming Youth, in Chicago's North Lawndale neighborhood, where Urban Partnership Bank, US Bank, and NCIF tapped into NMTC for the development of the Institute.

Urban Partnership Bank and NCIF teamed up again with the help of PNC Bank and Chicago Community Loan Fund on the New Markets Project of XS Tennis Village, developing a bright new future on the site of the city's old Robert Taylor Homes in the Washington Park neighborhood.

These are just a few incredible examples of our partners stepping up to the plate and having a stake in the future of our Chicago. NMTC has been vital to supporting neighborhood development and attracting additional capital to communities that need it most.

We in this room understand the impact that having reliable financial services can have on an individual over the course of his or her lifetime. In the spirit of NCIF's mission to increase access to responsible financial products and services in underserved communities, the City Treasurer's Office asks Chicago's mission-oriented banks to partner with the city to help bring these critical financial resources to our communities that need them most. My office intends to host community resource events throughout Chicago's neighborhoods, where residents can sign up for products and services such as free checking and savings accounts.

Please collaborate and partner in the effort to provide resources to all communities in Chicago.

NCIF's 3-Way Partnership at work in Chicago

Treasurer Kurt Summers with NCIF, First Eagle Bank, Illinois Facilities Fund and JPMorgan Chase Bank and Erie Charter School representatives

Erie Charter School

Treasurer Kurt Summers with NCIF, Urban Partnership Bank, PNC Bank, Chicago Community Loan Fund, Illinois Facilities Fund and XS Tennis Village representatives

XS Tennis Village

Treasurer Kurt Summers with NCIF, Urban Partnership Bank, Wells Fargo, US Bank and UCAN CITY Campus and XS Tennis Village representatives

UCAN CITY

Fireside Chat

left to right

Sandra Thompson
Deputy Director of the Division of Housing Mission and Goals, Federal Housing Finance Agency

Saurabh Narain
President & CEO, National Community Investment Fund

Lesley Milovich
Executive Vice President & Group Head of Community Lending and Investment, Wells Fargo

In an intimate conversation, Sandra Thompson of the Federal Housing Finance Agency, Lesley Milovich of Wells Fargo, and Saurabh Narain of NCIF sat down together to discuss investment programs, potential, and how to understand sources of liquidity.

When asked about challenges and opportunities approaching, Milovich discussed the value to Wells Fargo of investing into smaller lending institutions for their reach and understanding at the community level, which Wells may not be able to do. Still, as a mainstream investor, Wells is not in a position to subsidize; instead, it is mindful of capital considerations, profitability, and returns. There is an opportunity for smaller institutions to deliver on the needs of investors.

When delving deeper into investments in the sector from a strategic partnership perspective, Milovich took some time to introduce Wells Fargo's Diverse Community Capital program. Leveraging results of a Wells Fargo-Gallup crafted survey, which revealed small minority business owners' heightened financial needs, the three-year program is investing millions in grants and working capital via CDFIs' refined ability to help sustain local businesses owned by underserved groups. Much like this new initiative, Wells Fargo is open to more new efforts, ideas, and creative partnerships to strengthen the space.

Thompson of the Federal Housing Finance Agency (FHFA) particularly pointed audience members to the potential of Fannie Mae and Freddie Mac. While the Crisis hit institutions with fines and orders, making it a challenge to rebuild their lending processes, today, these institutions are lending again, but conservatively. FHFA is seeing an uneven recovery as these institutions seek out lending opportunities for those with the most stellar credit characteristics, leaving little lending to LMI and minority areas, comparatively. In this environment, FHFA is proposing Duty to Serve provisions of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, which would bring legislative mandate to ensure broad access to lending, bringing investment of a different kind into communities. Additionally, Fannie Mae's HomeReady reworks conceptions of risk. For example, previously only the borrower's income was counted, but in recognition of many people living together (millennials, multigenerational families) and contributing, this program will count non-borrower income toward debt-to-income ratio. There is a need for financial programs and standards to adjust to changing demographics.

> *"What would compel us to invest in small community institutions? Are they satisfying a business imperative that we ourselves cannot do? Mission-oriented community banks know their customers, know their markets, and they can oftentimes do it better than we can. So there is a value for Wells to support that."*
> – Lesley Milovich

> *"We've asked Fannie and Freddie to focus on lending to small and rural communities, low- and moderate-income borrowers."*
> – Sandra Thompson

Milovich rounded out the conversation with more suggestions to strengthen community banking, increasing access to funding as well as refining strategy. She imagines the value of building a network of referrals between large and small financial institutions. Identify those organizations that may be more specialized and knowledgeable about particular topics; big banks can send referrals to smaller institutions for certain lending projects, for example. Within a similar vein, Milovich talked about shared services. Given a changing landscape of industry mergers and the increased speed of technology, the space is ripe for shared services to increase efficiencies, growth plans, and profitability.

The IRR of Mission-Oriented Banking

IRR – Impact, Risk, Return

"Most people in finance would say that IRR stands for "internal rate of return." I decided to turn it around and upside down to say that IRR is actually the three-way axis of impact, risk, and return. It identifies the foundation of what we are seeking in our world of community development banking."

Impact

Impact is often overlooked; it needs to become a part of the everyday language on mission-oriented banking. Professor Angus Deaton won a Nobel Prize for his work on measuring poverty and income inequality. Now Darren Walker of the Ford Foundation is examining inequality broadly, identifying five main drivers of inequality:

1. Cultural narratives that undermine fairness, tolerance, and inclusion;
2. Unequal access to government decision-making and resources;
3. Persistent prejudice and discrimination against women as well as racial, ethnic, and caste minorities;
4. Rules of the economy that magnify unequal opportunity and outcomes; and
5. The failure to invest in and protect vital public goods, such as education and natural resources.

Poverty and inequality are important dimensions for thinking about the work of CDFIs. CDFI banks are most often working in areas that are distressed – 2 times the poverty rate of the median community, 1.5 times the unemployment rate of the median community. These CDFI banks are anchors, important resources for distressed communities. As of December 2014, there were 110 CDFI banks, 169 minority banks, and 811 Quadrant 1 banks as designated by NCIF. These Quadrant 1 banks are not always formal CDFIs, but do similarly important work in distressed communities.

Risk

Capital ratios of 8-10% higher than regulators' minimums hides that fact that, although these banks are well capitalized, there is a lot of money that needs to be refinanced. There will be significant refinancing of the CDCI/TARP and need for growth capital over the next 18-24 months. Some subordinate debt structures are coming up, but they will cause strain at the holding company. Noncurrent loan ratios at median are decreasing, but remain vulnerable.

Return

Most CDFI banks are exhibiting adequate performance, tracking with the performance of non-CDFI banks at the median. In 2014, median ROAA was 0.75% relative to 0.85% for non-CDFI banks. 79 CDFI banks had an ROAA over 0.5%. However, 19 CDFI banks have failed; there is an evident need for additional support.

CDFI banks are too important to fail. We need to do more to strengthen them without compromising standards. Finance theory needs to better account for social and environmental returns when understanding total return.

Total Return = Financial Return + Social Return + Environmental Return

In this environment, I propose four strategic focus areas for CDFIs:

1. Enhance size, scale, and profitability: Understand how to grow organically, enhance competitiveness and, get into the top quartile of performance;
2. Enhance investor friendliness: What needs to change to become more investor-friendly, generating dividends and liquidity?
3. Provide quantifiable impact: How do we come together to collect data on the impact we generate in underserved markets to advocate for the sector? How do we standardize this data to reuse it for CDFI Fund applications, CIIS reporting, and other reporting to foundations?
4. Build business models using technology: How can we use new technology models as a channel to enhance reach and reduce costs?

The key challenge for all of us is being able to adapt business models and stay flexible within the given regulatory environment.

Saurabh Narain
President & CEO, National Community Investment Fund

NCIF'S STRATEGIC RESPONSE

INVESTING

NCIF is likely to raise additional capital for making private equity and/or subordinate debt investments in the highest performing mission-oriented banks.

LENDING

- Use NMTC to strengthen our bank partners
- Small Business Lending via NMTC Program
- SBA collaborative being discussed
- Minority CDE Training contract from the CDFI Fund for NMTC Program

RESEARCH, METRICS, AND ADVOCACY

- 2015 *Telling the Story* data collection using enhanced metrics, including Mission Intensity and environmental metrics
- Data collection facilitates reuse for CIIS reporting and IRIS to reduce cost
- Data and reports used to advocate along with partners like the National Bankers Association
- Build customer-focused tools to help ease identification, such as **BankImpact Maps**

THE CEO PANEL

left to right

Chris Malehorn, Vice President, Investing, National Community Investment Fund

Roy Lindburg, President, Security Federal Corporation

Brian Argrett, President & CEO, City First Bank of D.C.

Raj Gupta, Northwestern University Kellogg School of Management (Moderator)

Michael Pugh, President & CEO, Carver Federal Savings Bank

Virgil Roberts, Chairman, Broadway Federal Bank

Executives from four top-performing CDFI banks answered questions about successful strategies they have employed to tackle challenges facing their institutions. Moderator, Raj Gupta, began the conversation broadly around understanding NCIF's mission of creating and increasing impact and then applying it directly to the CDFI banking industry, which does good and makes an impact, but nonetheless has to stay competitive to function and sustain. As an industry, we are always developing the value proposition to be most effective in garnering support and investment.

Panelists recounted their paths to become leading, effective community-level resources. Virgil Roberts of Broadway Federal Bank shared that, while the Recession had hurt the bank's portfolio, Broadway Federal Bank has steadily built itself back up again in modifying management and the Board of Directors, and honing in on its core competency: loans to LMI communities with a focus on multifamily housing. Broadway's inspiration is to understand itself less as a minority bank and more so the best small bank operating for and within the community. Michael Pugh added to this, emphasizing that Carver Federal Savings Bank is focusing on regulatory requirements, credit quality, expense management and generating new business, as well as what Roberts mentioned in management structure. Pugh pointed out that, while digitization is a strategy, Carver is thinking beyond the Millennial customer segment by understanding a product offering framework to meet customers all along their journey.

Brian Argrett of City First Bank of D.C. discussed his bank's strategy in developing value: cultivating talent is, as other banks mention, a key characteristic. Additionally, striking a balance for efficient resource management: mission vs. market factors. City First Bank of D.C. is happy to see growth of the institution and, if this trend continues, it will need additional capital. The bank has $5.7 million in Community Development Capital Initiative (CDCI) capital it will need to refinance, which has become a more immediate priority in the bank's strategic planning.

For panelist Roy Lindburg of Security Federal Corporation, the path to success has been a bit different, coming from small, rural Aiken, South Carolina. Security Federal is a newer CDFI, having been certified since 2010. It has been cautious in its growth strategy, choosing to shrink and shed high-risk loans. Forthcoming steps are to pay back CDCI capital and develop a formal growth strategy.

With the path to get here defined, panelists talked in a broader sense about organic growth. The group overlapped in their thought processes along identifying market segment niches to develop an expertise and reputation in those areas. They also emphasized the importance of mission. Banks need to demonstrate their work with the use of metrics, particularly to share with investors. Pugh mentioned that, in participating in NCIF's BankImpact Dashboard data collection, Carver learned that 80 cents of every dollar of its equity is reinvested in the communities the bank is serving; 60% of its lending activity is happening in LMI areas. The panelists also recognized capital constraints — be active in your lending given your available capital.

> "We review and consider products that would give us extended reach and better touch with customers. Many are going after the millennial customer segment, but, as we've thought about our overall product suite, we have learned it's important to meet customers wherever they might be in their journey. That may mean having entry-level banking services for those who may not want to have a traditional bank account, up to and including middle-income customers, to whom we offer a robust selection of financial products"
> – Michael Pugh

When the conversation turned to integrating technology, panelists were in agreement that having a robust online platform by which to interact with customers is important. However, there is still a need to learn more about which products and services to offer online and banks need to understand customers' online and mobile needs better before more complete technological integration.

Perspectives on Newly-Certified CDFI Banks

left to right

Max Yates, Senior Executive Vice President & Chief Risk Officer, BankPlus

Kent Curtis, CEO, First Southwest Bank

Demetris Giannoulias, Chairman & CEO, Spring Bank

Mukhtar Ali, President & CEO, Mission National Bank

Donna Gambrell, acting as CDFI Advocate and NCIF Senior Advisor (Moderator

The combination of being a banker and CDFI can be very powerful; CDFI banks commit themselves to serving underserved markets in different ways — through affordable housing, small business lending, health and education centers, as well as financial education. These institutions are most important in developing and implementing strategies that can help marginalized communities achieve economic self-sufficiency.

Panelists talked about their recent paths to CDFI certification for their banks – as local consumer- and business-focused community anchors in predominantly LMI areas, the introduction to CDFI certification was a natural addition to their work.

In terms of challenges in serving LMI communities while maintaining competitive banking performance, Mukhtar Ali described his plans with Mission National Bank less as challenges and more as future strategies. This includes strategic partnerships with nonprofits and economic development agencies in San Francisco to, together, convert underserved parts of the population into the banking system. Demetris Giannoulias of Spring Bank echoed the strategy by underscoring that the challenge is that these communities have a history of distrusting the banks, so partnerships with organizations outside the banking industry can ameliorate that. The greater group of panelists agreed that community learning to better offer and provide best-fit products and services can be a challenge, but an important one to take on.

In terms of distinguishing the bank from others in local markets, panelists expressed that collaboration over competition is the key to sustainability and success. The group also explained that, in their local, LMI markets, fringe lenders can oftentimes be their competition. In these cases, being the fair and reliable option with demonstrated community interest and investments, differentiates community banks. In today's world, technology is also helpful and increasingly necessary in highlighting the banks' track record and offerings.

> *"We opened our doors, not to compete with servicers like check cashers, but to offer an alternative for consumers who are not used to the mainstream financial system. As the bank exists now, we are effectively providing an alternative for consumers within the mainstream banking system. While we haven't changed our mission since becoming a CDFI, the certification has allowed us to do a lot more. It has helped us bolster our lending programs, particularly consumer lending."*
> –Demetris Giannoulias

The final topic of group conversation was leveraging understanding of the bank's impact. Panelists highlighted the efforts of NCIF, which is on the front lines of impact measurement. Through NCIF and bank staff, these banks calculate metrics, such as which communities are receiving lending and how lending is used, leading to comprehensive impact reports that put a formal framework around CDFI banking and its contributions. Max Yates of BankPlus added that there remains a regulatory challenge in capturing more nuanced data on customers and their interactions with the bank.

To close the conversation, Donna Gambrell echoed earlier sentiments that collaboration is important. We are living in very challenging times, with millions under-banked or unbanked; they have no established banking relationships, so these people miss out on formative credit access. In communities of color, people have lost their homes and they have not been able to regain traction. "Banks are the economic life blood" of communities and they have a special responsibility to their communities

.

The Lending Landscape Breakout Series: *Collaborative Lending*

left to right

Bill Keller, President & CEO, Community Bank of the Bay

Guillermo Diaz-Rousselot, President & CEO, Continental National Bank

Preston D. Pinkett, III, Chairman & CEO, City National Bank of New Jersey

Marina Titova, Vice President and Portfolio Manager, National Community Investment Fund

Terry Burm, Vice President, Lending and Strategic Initiatives, National Community Investment Fund (Moderator)

Panelists used this session to share broad thoughts on collaborative lending. Some the major themes covered:

Collaborative lending is required to fulfill the mission of community banks and is becoming increasingly important given regulatory pressures, margin compressions, and changes to the competitive landscape.

All of these elements can be very detrimental to the traditional business model, but they can be especially detrimental, if no one is willing to change. As an example, Preston Pinkett III, of City National Bank of New Jersey, discussed how financial technology players are disrupting the field. They have successfully entered, they are processing loans quickly, and can charge exorbitant rates of interest — similar to payday loans. To address this, community banks have a responsibility and obligation to do more to serve the community and they must do it in a collaborative way, moving away from a business model that emphasizes banks operating independently and without collaboration.

Conference attendees are already engaged in collaborative lending, to varying degrees.

Pinkett shared that City National Bank of New Jersey partners with other CDFIs on the bank's SBA loans. Bill Keller of Community Bank of the Bay (CBB) identified another Bay Area CDFI bank, Mission National Bank, as a long-standing partner to CBB. CBB identifies Mission National Bank as the expert in the area of single-family lending, while CBB provides expertise in the area of restaurant finance. CBB is currently collaborating with other lenders to the restaurant industry; when restaurants obtain quick-turn loans for business emergencies, CBB will often refinance the terms later and offer additional products (e.g., growth equity).

Build a senior lending officer network of banks.

Keller contributed that developing a network could be productive, in a broad sense. There is a tendency not to do something new, if it is hard; increased collaboration will help ensure the industry does not miss out on opportunities to improve. From a personal standpoint, Keller added it is helpful to have a network of peers to tap into when the bank considers a new product or service.

> *"The mission isn't to make the loan, it's to make the loan that makes a difference and serves the mission. If over time you have to learn something new that someone else already knows without drawing on that shared experience, you are much less effective. NCIF should be working to facilitate that knowledge sharing so the industry can increase its impact."*
> – Preston Pinkett, III

Developing product platforms at NCIF is most valuable to mission-oriented banks.

Panelists offered suggestions such as extending lending lines, warehouse lines of credit, developing engines similar to SBA's LINC, and broadly helping the industry's banks to diversify their business models and revenue streams. The group added that NCIF is already creating products of high value to the industry, such as helping to tell their story through impact metrics and narratives. Impact investors rely on the story and metrics of community banks to understand their work and invest in them over larger banks, ensuring they maximize the multiplier effect of impact.

The Lending Landscape Breakout Series: *Collaborative Lending* continued

Mission-oriented banking is changing and evolving into the future; outside factors are affecting banks' positions in the market.

Pinkett touched back on financial technology and its increased pace of offering financial products and services ("I have a horse and buggy, but they have jets."). Keller responded that, while this may be true, some things are staying the same in the community banking industry, such as the value that comes from personal relationship building with clients.

When opening up the conversation to the audience, SBA lending and innovations became a hot topic. SBA Community Advantage Program is a good example of collaboration — it is open to non-bank lenders, primarily nonprofits and most of those lenders use service providers that package, close, and service loans. Within the same vein, the group asked itself whether there is a business model to be made around a few banks working together to do SBA loans. Many believe there needs to be a shared services program that can help with speed, spread the cost out among the banks, but still allow them to be compliant with regulators.

Audience members pointed out that the collaborative idea is a sound one, but there are implementation issues, such as customer confidentiality, different goals, and difficulty in understanding who owns the relationship with the customer, which is why we see a trend toward consolidation to eliminate those redundancies. There is a significant downside to consolidation (M&A), however — that banks will get larger and may not remain community banks working on tailored community development issues.

THE LENDING LANDSCAPE BREAKOUT SERIES: *Collaborative Lending Product Workshop*

left to right

Scott Lindquist, Partner, Dentons

Wilbur Hobbs, Jr., Senior Vice President & Chief Lending Officer, Community Bank of the Bay

Douglas Dillon, Senior Vice President &Chief Lending Officer, Industrial Bank

Lee Winslett, Senior Vice President & Division Manager, Wells Fargo New Markets Tax Credit Group

Steve Rolfe, Executive Vice President & Chief Credit Officer, ProAmerica Bank

Marina Titova, Vice President and Portfolio Manager, National Community Investment Fund (Co-moderator)

Terry Burm, Vice President, Lending and Strategic Initiatives, National Community Investment Fund (Co-moderator)

NCIF's Terry Burm, along with NMTC experts, led a workshop-style discussion on NCIF's NMTC-Linked Small Business Loan Fund (SBLF). Burm briefly covered the basic aspects of the new tool and its overarching benefits to banks:

- Offers NMTC subsidized loans in much smaller amounts than the traditional NMTC structure, ranging from $1 million to $3 million;
- Ability to win new lending business by offering lower than market interest rates; and
- Increase profitability due to increased loan volume and the NMTC subsidy.

NCIF's SBLF program is well past the conceptual stage to which NCIF devoted much time and effort, and the program has become a reality with an active pipeline of deals:

- Loans would have been lost by NCIF Network Banks had they not been structured through the SBLF program;
- The Network Banks' total expected interest and fee income generated by these loans (over their 7-year terms) is $5.3 million; and
- The total estimated amount of savings to the borrowers is $1.3 million.

The group peeked inside the SBLF model, built and refined by Deloitte, which helped develop the program's accounting and legal structure. With a detailed loan example, Burm walked the audience through the structure, pointing out that, with the same amount of loan exposure as a traditional loan of this size, the bank can utilize the SBLF tool to increase interest income as well as fee income. Benefits extend to the borrower — lower origination fees, reduced periodic debt service (reducing cash flow concerns), and overall savings on receiving the same amount of financing in a traditional loan of this size.

NMTC experts on the panel responded with their thoughts on the program and its structure. Lee Winslett of Wells Fargo had big-picture comments — NMTC-linked SBLF is an efficient mechanism for communities that do not fit with the typical NMTC transaction size. NMTC is effective in increasing impact, but has room to grow in reaching minority entrepreneurs. SBLF marries big bank capital with smaller community banks so NMTC and the CDFI Fund can serve more people. Steve Rolfe of ProAmerica Bank added that, in order to be a successful community bank, the bank has to be involved in product innovation — particularly to differentiate from competition. The majority of community banks are involved in SBA 504, etc.; and the market for that business is only growing marginally each year, augmenting the need for a new competitive edge like SBLF. NCIF has been supportive, demonstrating that the bank does not need to invest much infrastructure before approaching SBLF. Rather, banks should connect with NCIF to surface an opportunity. The greatest challenge has been in training and effectively communicating the novel concepts and the innovative programming that comes along with SBLF.

Other panelists pointed out that this program allows the bank to diversify its work, allowing them to do more with their existing capital by accessing additional partner funds. The exposure to the complexity of NMTC is helpful to these banks' ongoing involvement and success with the program, as well.

Leveraging Data to Support Mission-Oriented Finance: *Data for Decision-Making*

left to right

Farah Ansari
Senior Analyst, Impact and Financial Analysis, National Community Investment Fund (Moderator)

B. Doyle Mitchell, Jr.
President & CEO, Industrial Bank

Greg Bischak
Program Manager in Financial Strategies and Research, CDFI Fund

Will Lambe
Senior Advisor, Community & Economic Development, Federal Reserve Bank of Atlanta

Robin Newberger
Senior Business Economist, Community Development and Policy Studies, Federal Reserve Bank of Chicago

The research and insights-focused panelists used this session to share broad introductions to the ways they are using data at their organizations.

Greg Bischak of the CDFI Fund shared the CDFI Fund's thinking that it – as well as other stakeholders in the community development banking space – need a comprehensive picture of the CDFI industry to be able to analyze industry performance in ways that may have been prohibitively difficult in the past. Given developments, that is no longer the case. New levels of analysis, including spatially-rooted data through geocoding as well as applicant benchmarking, are being used by the CDFI Fund in its milestone advancement, Annual Certification Reports, as well as a CDFI program risk management project, which is being developed to integrate data collection systems and compliance reporting systems, improve application review processes, and offer more real-time industry-wide analytics. The CDFI Fund encourages collaborative efforts on data collection as well as publishing data online and over interactive sources to make data-driven decision-making widely accessible and actionable, much like NCIF is doing and refining through its BankImpact data offerings.

Will Lambe discussed new data-driven tools and insights from the Federal Reserve Bank of Atlanta perspective. The Federal Reserve Bank of Atlanta (FRBA) tries to use its resources to package and present data and to deploy capital in distressed markets. Much of Lambe's research and data visualizations have focused on the FRBAs district and what lies within its boundaries, particularly in terms of banks' CRA obligations and CRA-motivated banking activities. Additionally, the FRBA is beginning to identify data at the community level in an effort to evaluate community-level economic health through the development of an economic dynamism index. All of the research questions and tools Lambe covered are available for exploration on the FRBA's website.

Robin Newberger of the Federal Reserve Bank of Chicago, like Lambe, is utilizing data collection and analysis to respond to relevant industry questions. Recently, she and the Federal Reserve Bank of Chicago have been asking what are the factors related to changes in bank ownership and what is the effect on communities when banks close. Newberger found that there is no major difference in the risk of failure between mission-oriented and non-mission-oriented banks, after controlling for multiple variables. The identification of specific risk factors that can affect closures allows for the targeting of needed interventions and to mitigate negative effects on the community. She also has found that, when banks close, there are several impacts on their communities – a credit shock is not present when the bank closes in higher-income communities, but is more evident in LMI communities; higher-income communities are more resilient in the face of bank closures, while LMI neighborhoods face a more difficult recovery — the closure of their neighborhood banks oftentimes leads to slack not picked up by other banks, particularly if long-lasting community relationships are lost along the way.

Audience members reminded the panel that the data findings are important in a space oftentimes filled with stories and anecdotes on the impacts of mission-oriented banks. Instead, industry leaders should take data findings, like those described within the session, to convince regulators and policymakers of needs as NCIF did earlier this year in communicating mission-oriented banking impact metrics to members of Congress.

Leveraging Data to Support Mission-Oriented Finance: *Leveraging the Social Performance Metrics*

left to right

Farah Ansari, Senior Analyst, Impact and Financial Analysis, National Community Investment Fund (Moderator)

Michael Grant, President, National Bankers Association

Kimberly Jones, Director, Government Relations, Urban Partnership Bank

Thomas Ogaard, President & CEO, Native American Bank

Melanie Stern, CRA Officer and Director, Consumer Lending, Spring Bank

Salvador Menjivar, Executive Director, Beneficial State Foundation

NCIF devoted time to introduction, refinements, and advancements of its Social Performance Metrics and impact measurement work. NCIF's Farah Ansari discussed the work's value most relevant to different members of the mission-oriented finance industry:

- Investors can understand quantified impact when identifying which financial institutions to invest, based on aggregate financial, social, and environmental returns;
- Mission-oriented financial institutions use impact metrics to reflect on the quality of their own work, particularly in relation to peers for benchmarking; and
- Regulators and other researchers can also more scientifically understand which financial institutions are high-achieving, necessitating continued and expanded support and programming.

With compelling peer metrics from NCIF's most recent, *Telling the Story* report, workshop attendees learned about NCIF's core Social Performance Metrics, along with related impact data points such as women and minority staff and governance, jobs created, along and corporate and client sustainability efforts:

- Development Depository Intensity (DDI): The percent of the bank's branches located in Investment Area census tracts as defined by the Community Development Financial Institutions Fund (CDFI Fund).
- Development Lending Intensity (DLI): The percent of the bank's total annual lending located in CDFI Fund Investment Areas.
- Quadrant Scores: Quadrant analysis provides a simultaneous look at a bank's DDI and DLI by charting each on an X axis representing DDI and a Y axis representing DLI. To receive a Quadrant 1 designation, a bank must have at least 50% DDI and at least 40% DLI.
- Mission Intensity: Mission Intensity allows banks to self-identify those loans that fall under their own targeted mission-based categories.

> *"We have foundations that are equity investors, and, at the end of the day, they have reports they need to do and they want us to provide data."*
> – Tom Ogaard

Workshop panelists from mission-oriented banks around the country then brainstormed on the challenges and opportunities in collecting banking activity data for impact analysis and the growing landscape of reporting requirements. Panelists framed the practice of collecting and maintaining data largely as an encouraging opportunity so that data is transportable to third parties like NCIF for external analysis.

Panelists discussed best ways of cataloging banking activity throughout the year, utilizing database tools like Salesforce to both collect basic information as well as add-on impact datapoints in coordination with what NCIF and others will request (e.g., flagging mission-fulfilling loans). Beneficial State Foundation's Salvador Menjivar pointed out the use of this framework demonstrates the activity in which the bank is and is not involved (e.g. clean energy lending compared to lending related to oil, coal, or gas respectively).

Data put into an analytical context has implications as well for attracting additional staff and clients. For Spring Bank, its BankImpact Dashboard data on core deposits helps remind the bank and other clients that Spring Bank will take their deposits for CRA credit.

The panelists have also seen this data move beyond the individual bank's effort to industry-level advocacy. Ogaard of Native American Bank has taken Native American Bank's BankImpact Dashboard to testimonies with Congressional committees. The regulators are looking to understand mission-oriented banking work in the context of the story and community impacts. Social Performance Metrics and impact measurement as a practice gives researchers and regulators an immersive education on mission-oriented banking, providing a foundation from which to support the sector.

The Impact of Financial Products and Service on Quality of Life: *Data in focus*

The NCIF research team presented its own data-driven research, *The Impact of Financial Products and Service on Quality of Life,* which aimed to bring a firm foundation to the mission-oriented banking industry from which to advocate for itself. After correlating financial institution data with economic and demographic variables at a national scale and across 14 years (2000 to 2013) in an effort to cull a construction of quality of life in relation to financial indicators, NCIF and its research partner, Michael Swack of the Carsey School of Public Policy, were able to conclude:

1. There is a positive relationship between bank and credit union presence and activity, on the ground in communities, and quality of life.
2. The relationship between quality of life and the presence of banks and credit unions was relatively consistent over the entirety of the study period. Beyond economic cycles, financial institutions have maintained their position within communities' quality of life.
3. Banks and credit unions are less likely to be operating within lower income areas, suggesting that these areas have less access to the quality of life benefits associated with the increased presence of financial institutions.
4. Census tracts where CDFI banks operate behave differently than other tracts in terms of financial institution activity and HMDA activity. CDFI banks are operating in areas of lower income and higher unemployment.
5. The presence of banks and credit unions is associated with *improvements* in unemployment and poverty rates, as we learned over longitudinal analysis. This strongly suggests that financial institutions are associated with important *changes* in the health and well-being of communities.


A WORKING PAPER

THE IMPACT OF FINANCIAL PRODUCTS AND SERVICES ON QUALITY OF LIFE

Published by
National Community Investment Fund
in collaboration with the
Carsey School of Public Policy
University of New Hampshire
2015

NCIF National Community Investment Fund
Leveraging Capital for Change

In addition to strengthening the foundation of NCIF's mission, this newly completed research will inform the ongoing development of the Social Performance Metrics, expanding the ways NCIF tracks and compares the performance of financial institutions. The work is also an initial step toward the creation of a Social Return Index — a comprehensive way to quantify the returns of financial institutions, moving the needle beyond Modern Portfolio Theory to better incorporate social and environmental returns as well as financial returns to the bank and its communities. NCIF believes this to be an important way to channel additional funding to the sector.

Following the presentation of findings from *The Impact of Financial Products and Service on Quality of Life,* audience members pointed out that NCIF's findings clearly suggest action items such as the need to support and incentivize banks that go to work in areas of market void.

Data-Driven Innovations in Support of Mission – Generation of Impact

left to right

Brad Olmsted, Senior Analyst, National Community Investment Fund (Moderator)

Cathy Madden, Senior Vice President of Strategy & Planning, TransUnion

Christopher Honenberger, President & CEO, ClearPoint Credit Counseling Solutions

Thomas Ogaard, President & CEO, Native American Bank

Joel Hornstein, Managing Director, American Dream Fund

Brad Olmsted of NCIF set the tone of the panel by stating that technology seems to be a key threat to many CDFIs at this time. Financial technology (fintech) has undergone huge growth within the last 18 months, with investment activity in the sector tripling in 2014. New platforms are significantly permeating all aspects of consumer transactions and marketplace lending. Moreover, it is revolutionizing how consumers interact with financial institutions within a mobile, data-driven environment.

How can CDFIs be more efficient as technology innovations lead to greater insights?

Kathy Madden of TransUnion contributed that TransUnion is a global provider of risk and information solutions (as a credit reporting agency) with presence in 30 countries around the globe. Its core business is around risk, ideally in a transparent way, respecting the needs of institutions and clients, by "using information for good." The mission is to create alternative and more holistic credit scores by using a data-driven, technological approach.

Through CreditVision Link, TransUnion is innovating in the credit scoring space. This program combines credit trends and alternative data to expand the understanding of risk. For example, CreditVision views up to 30 months of the credit history and looks for trends to understand how stable a person is. This methodology emphasizes history instead of a credit score snapshot — allowing a deeper understanding of consumers. Given this history-based consideration, TransUnion has been able to earn more clients, as it recognizes consumers sometimes come and go from the financial system. Fannie Mae has taken advantage of this approach, recently announcing it will start taking long-term trends into consideration. Madden also weighed in on the use of newer formats of self-reported information to assess consumer risk, e.g. social media. However, as long as TransUnion is unable to differentiate between reality and fiction in the social media space, the information is not reliable nor useful. But, to further credit soundness efforts, Madden believes that, if consumers have more information on alternative financing, it is in their best interest to report it. This approach has expanded the universe of clients that can be scored.

Christopher Honenberger of Clearpoint Financial Solutions detailed that ClearPoint is a national provider of accredited and certified consumer credit counseling and financial education. The core services ClearPoint provides are financial literacy, creating financial goals, reviewing client credit scores/reports, establishing and maintaining a budget, and calculating net worth. In the counseling sessions, staff review credit reports with clients. Throughout this process, ClearPoint collects over 200 client data points, which it uses to monitor its clients going forward.

Honenberger presented a case study from ClearPoint's research in which the organization evaluates the efficacy of post-modification counseling clients. Clients attend a counseling session before making a second attempt to acquire a mortgage. Of those clients that underwent counseling, 82% of borrowers were far more successful than those who had not received counseling; those counseled also had 5 times more savings than their counterparts. Moreover, 18% of the group that had not received any counseling were in default 18 months later; they were also twice as likely to not utilize traditional lending mechanisms. Honenberger had key takeaways from the statistics presented. First, thoughtful lending programs could lower future default rates. Second, these programs can and should identify key characteristics of consumers that successfully overcome credit issues (may be able to take more risk with those that have particular characteristics). Third, by verifying the enthusiasm of underbanked and unbanked individuals for banking products, identify what individuals want and really need.

Data-Driven Innovations in Support of Mission – Generation of Impact *continued*

Joel Hornstein of American Dream Fund organized his contributions to the panel along three lines:

Why should organizations leverage technology?

Technology is faster and cheaper; however, speed is usually underappreciated as a source of value. For example, a three-week underwriting process can leave a small business out of the market as borrowers usually need funds much faster. Given this, borrowers are willing to pay for speed. Hornstein acknowledges that technology is usually high cost, but the marginal cost of additional loans on the technology platform is essentially zero. The lower the cost of evaluating the loan, the lower cost of servicing the loan — therefore, the lower the cost at which to make the loan.

Additionally, technology is able to make better lending decisions than people. At Dream Fund, the very few unsuccessful loans have been when lenders had overridden the technology platform. Furthermore, Dream Fund has several sources of data, and technology is allowing the organization to better manage this wealth of data. Dream Fund's credit technology is different from what institutions are using today and this has helped to better serve customers.

How does Dream Fund help CDFIs?

Dream Fund has prescreened platforms which institutions can take advantage. Institutions enter a small quantity of data from the customer and they get an answer from the platform. Dream Fund sees itself as a necessary intermediary in that the lending platforms do not have to manage individual institutions — rather, Dream Fund uses economies of scale to best support its range of institutional clients. Additionally, Hornstein explained that in order to connect more mission-oriented banks with Dream Fund's technology, the organization is offering to cover the underwriting process and will not charge fees for unfunded loans.

Does this online-platform approach work?

Though these lending platforms have been around for less than a decade, Dream Fund works closely with TILT Forward, which allows Dream Fund to offer a "try before you buy" option to their client institutions. Dream Fund purchases each loan at a price determined by the NPV of the loan's expected cash flows, discounted at Dream Fund applicable all-in cost. Lenders bear no ongoing risk once a loan is sold, and, lastly, Dream Fund provides a performance report to institutional clients

The Policy Panel

left to right

Saurabh Narain, President & CEO, National Community Investment Fund

Jeannine Jacokes, Chief Executive and Senior Policy Advisor, Community Development Bankers Association

B. Doyle Mitchell Jr., President & CEO, Industrial Bank

Robert Mooney, National Director for MDIs and Community Development Banking, FDIC (Moderator)

Policy-minded panelists discussed several topics all centering on if mission-oriented banks will be hampered or helped by innovations. The discussion was organized into four key areas.

The Effect of New Trends on the Industry:

Panelists began by tackling the impact of financial technology (fintech). One of the great challenges in technology is the pace of innovation. We have to identify which technologies to invest in by best understanding the needs of consumers, but we can start with a basic knowledge that the focus should be on credit technology. Temper enthusiasm for fintech, however, by understanding that many of these technologies have not been around for a full economic cycle, so it is important to monitor performance moving forward. By the same token, fintech is becoming more attractive as acquiring millennial customers becomes more attractive. Millennials have changed the way products and services are delivered — so much so that baby boomers are gravitating toward millennial behaviors (e.g., spending less time physically at the bank, increasing their email and social media usage).

Collaboration:

Organizations are increasingly working together, and this extends to the banks. The opportunity for community banks to collaborate takes shape in a couple of ways — industrywide policy action to bring greater benefits to the industry is a good example. NCIF initiated a partnership with the National Bankers Association to bring awareness to the Hill of Minority Depository Institutions (MDIs) — a peer group historically understood as an underserved community resource — as well as to advocate for MDIs' access to government programs like NMTC, BEA, and FA.

Panelists shared with the audience the reality that out of necessity, large banks and small banks must come together and find common work areas upon which they can agree, and try to affect the policies that most benefit their shared industry, as it gets increasingly expensive due to legislation.

Capital and Fund Raising:

The group briefly discussed Bill HR 4116, which would exempt reciprocal deposits from the brokered deposit definition. The bill was discussed in the context that bank representatives are increasingly participating in the visioning and drafting of bills before they are passed instead of playing catch-up.

Panelists also shared that it is important to have banks' data on paper to share as a solid foundation during the fundraising process. This is where NCIF's BankImpact Dashboard reports published for individual banks become a key tool as a comprehensive impact report with several opportunities for leverage. The panelists suggested that banks should be partnering with CDFIs when possible to increase opportunities for accessing funds and capital raising.

Vision for the Industry:

Each panelist had their own thoughts on visioning as the industry enters the new year. Saurabh Narain of NCIF contributed his thoughts that NMTC will become increasingly important to establish the presence and activities of institutions. We will also need to develop — to monetize — the CDFI brand. Let us confront the idea of collaboration and act on it, making substantial differences for our industry.

Doyle Mitchell of Industrial Bank added to this that banks see economies of scale for greater efficiency through collaboration. In addition to collaboration, more frequent communication — letting other banks know what your bank is doing — will bring the industry benefit. Mitchell's industrywide hope is that the banks will be "on a first-name basis" with their Congress people and local policymakers to make the regulatory environment work for mission-oriented banks.

The Policy Panel *continued*

Jeannine Jacokes of the Community Development Bankers Association commented that CDFIs have become a stronger industry. There have been negatively-affecting changes in the regulatory environment that sparked this interest for small banks operating in LMI areas. These banks are rethinking their strategies more so now than before and being attracted to the incentives that come with CDFI certification. While we need to be mindful of what drives banks to become CDFI certified, we now have a larger pool for collaboration within the industry.

Robert Mooney of the FDIC closed the industry visioning discussion with encouragement that we will see increased collaboration among CDFIs — particularly toward the goals of fundraising and capital raising. He will look forward to industry stakeholders collaborating in ways that are not duplicative but complementary, utilizing the offerings of the industry's advocacy organizations along the way.

2015 LEVERAGING CAPITAL FOR CHANGE AWARDS

Honoree Mary Houghton, Founder of ShoreBank

Honoree Ron Grzywinski, Founder of ShoreBank

left to right

Carlton Jenkins, Chairman of the Board, National Community Investment Fund

Honoree Alden J. McDonald, Jr., President & CEO, Liberty Bank and Trust Company

Saurabh Narain, President & CEO, National Community Investment Fund

With the unveiling of our **Leveraging Capital for Change Awards** program, NCIF aims to call out and elevate select individuals each year with the awarding of unique commemorative pieces, recognizing their individual work, the mission-oriented financial institutions (certified CDFIs, designated minority banks and other institutions) they lead, and the organizations that move the needle in creating impact in underserved markets, innovate to adapt to changes in market conditions and create business models that generate superior triple bottom-line returns.

This year, NCIF Board and staff were honored to recognize the more than 40 years of outstanding achievement in community development finance of Ron Grzywinski and Mary Houghton. The two, along with the late Milton Davis and James Fletcher, founded ShoreBank and, through the work of their formative mission-oriented financial institution, formalized an entire community-development space for finance. Their dedication and vision to bringing both financial and social returns to low- and moderate-income communities continues to inspire us all today.

NCIF also recognized extraordinary dedication and resilience through times of extraordinary distress. NCIF honored Alden McDonald, Jr. for his unwavering commitment to bringing banking opportunity to New Orleans. Leading Liberty Bank and Trust Company since 1972, Alden has helped New Orleans communities to get through the most challenging of economic times – most recently helping New Orleans through Katrina. Alden and Liberty have stood the test of time as a community anchor in New Orleans while remaining a sound banking resource that generates returns.

A selection of testimonials from 2015 conference attendees.

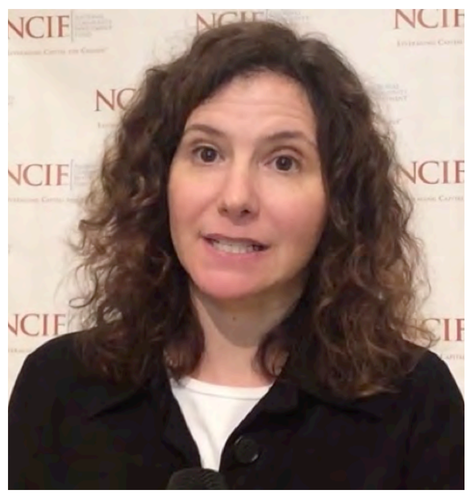
B. Doyle Mitchell, President & CEO, Industrial Bank
We make a tremendous impact in some of the hardest hit communities, because we do a lot of lending and deposit gathering activities in low- and moderate-income areas. Lending in those areas produces jobs, produces hope, and fulfills dreams.

Michael Grant, President, National Bankers Association
We represent the minority banks in the country, and the impact we are having is in trying still to bring a lot of communities out of recession. So our job and the job of our banks is to serve some of the most distressed, overlooked communities. We are looking for ways, in terms of government program development and changes to public policy that will help legislators in Washington understand that this has been an uneven recovery. To help alleviate this, our banks are working hard every day to make sure that the people in these low- to moderate-income areas have access to credit and have the ability to stimulate and grow businesses.

Darrin Williams, CEO, Southern Bancorp
The CDFI and mission-oriented banking industry makes significant impact. We are banking people who sometimes don't have access to traditional sources of capital and credit. Without these mission-oriented financial institutions, so many people would not have access to money to buy homes, to start businesses, to create jobs, and to create wealth for their families. This industry is doing a great job; we need more people to bank with us.

Roy Lindburg, President, Security Federal Corporation
It's good to work for a bank that does more than just being a bank; it gives you some purpose, you're not just a money changer, you're helping people and it impacts their lives.

Charles Van Loan, Director, Independent Bank Corporation; Board Member, NCIF
The impact I make as a Trustee on NCIF's Board is in taking advantage of the opportunity to get more involved in the CDFI industry. We support markets that are really difficult for many to serve, but our organization and its clients and programs have really done a good job in allowing me to have an impact outside of Independent Bank.



Robin Newberger, Senior Business Economist, Federal Reserve Bank of Chicago
It's important for banks to provide financial services and products to all areas where they do business.

THANK YOU

NCIF would like to thank all of the bank leaders, investors, government representatives, and stakeholders in the community development banking industry who attended our Conference and who helped make this event possible. In particular, we would like to acknowledge our lead sponsors, the Federal Reserve Bank of Chicago and the Federal Reserve Bank of Atlanta, and our wonderful keynote speakers.

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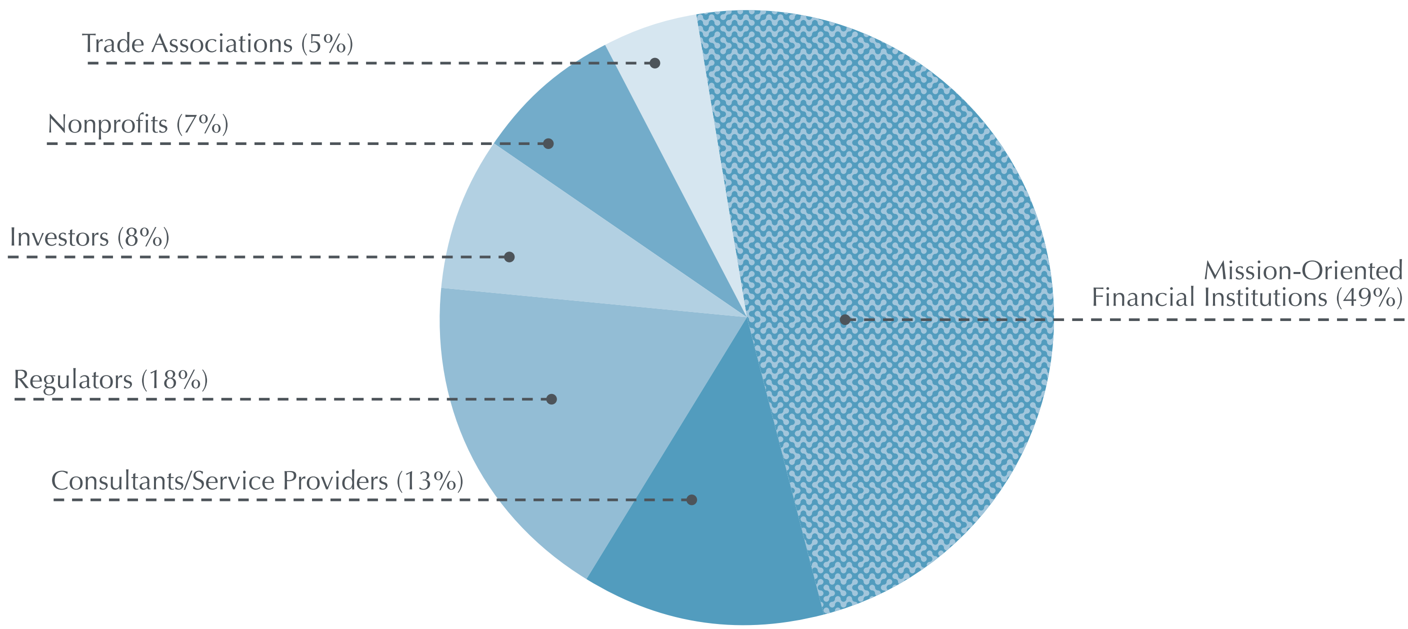

BankIMPACT an NCIF resource | *Catalyzing Investments in Underserved Communities*

We look forward to seeing you at our next gathering.

The BankImpact suite of products (available online at BankImpact.org and BankImpactMaps.org) are interactive resources offering financial data and Social Performance Metrics on all U.S. banks. NCIF offers these dynamic tools in response to feedback from industry leaders and investors as well as informed consumers who desire a way to search, evaluate, and benchmark high-performing mission-oriented banks. BankImpact allows industry stakeholders to:

- Search and compare mission-oriented banks (*now in beta*: utilizing map visualizations to identify mission-oriented banks and the proximity of their branches to you at **BankImpactMaps.org**)
- Benchmark the performance of a bank relative to standard or customized peer groups
- Create and analyze custom peer groups
- View trends in the CDFI, MDI, and greater mission-oriented banking industries

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135 South LaSalle Street, Suite 2040 · Chicago, Illinois 60603 · 312-881-5841
www.ncif.org