Invest in What Matters: Perspectives of a Social Investor

Mission-Oriented Financial Institutions

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Abstract

In this paper, the National Community Investment Fund ("NCIF") explains the importance of Mission-Oriented Financial Institutions as an investment class that generates attractive social and financial returns for investors. They also play a key public policy goal of providing private capital to undeserved communities and entrepreneurs nationally.

The first section of this paper provides a brief description of the sector and its various segments with a discussion of their financial and social characteristics using regulatory and privately reported data. Community Development Financial Institution Banks and Minority Depository Institutions are the largest and most important cohorts of this sector. In addition, NCIF has identified many more institutions using its proprietary Social Performance Metrics and BankImpact suite of tools that rely on publicly available data. Additional impact intentionality (as measured by "Mission Intensity") is analyzed using privately reported data.

The second part of this paper discusses NCIF's proprietary investment methodology to create impact portfolios. NCIF believes that a disciplined application of this methodology can help identify investible opportunities and create asset-allocation strategies that meet investors' double bottom-line return expectations. As evidence of this methodology's success, over the last 20-years NCIF has generated an unrealized IRR of 6.7% per annum. NCIF also constructed a forward looking mock portfolio using this methodology that generates attractive financial returns despite the financial crisis.

In conclusion, the combination of leveraged impact and reasonable returns makes investing in such institutions an attractive investment opportunity.

A. Mission-Oriented Financial Institutions in the Context of the US Banking Sector

1. Segmentation – Numbers, Financial Characteristics and Regional Distribution

Mission-oriented financial institutions ("MOFIs") are defined by NCIF to include certified Community Development Financial Institution ("CDFI") banks[1], Minority Depository Institutions ("MDIs")[2] and other banks that have a mission of operating in low- and moderate-income ("LMI") communities and populations. Throughout the U.S. community banking landscape, MOFIs serve a mix of urban and rural market areas. As of September 30, 2017, there were 895 banks that meet the NCIF definition of a MOFI. Of the 895 MOFIs, 571, or 63.8%, are located and operate in non-urban areas. Included in the universe of MOFIs are 136 CDFI Banks, 148 MDIs and another 738 banks that are defined as Quadrant 1[3] based on NCIF social performance metrics with some banks falling under more than one category.

MOFIs and CDFI Banks meet or exceed the financial performance of Other Banks as set forth in Table 1 below. Median asset size of MOFIs ($233.7 million) exceed Other Banks ($201.0 million), return on average assets and equity for both groups are at or around 1.0% and 9.0%, respectively, and leverage ratios for both groups are at 10.6%. In addition, as set forth in Table 2 below, MOFIs are distributed across the United States with concentrations in the southern region. The Southeast and Southwest regions comprise over 58%, or 524, of the total number of MOFIs and 48%, or $228.2 billion in total industry assets. In terms of profitability, all regions with the exception of the New England and Mid-Atlantic, have a median return on average assets of around 1.0%. In terms of impact as measured by NCIF's social performance metrics, each region exceeds a median Development Deposit Intensity of 65%, with the exception of the West. Since CDFI banks are on the forefront of providing double bottom line returns, they are a key component of the MOFI industry.

They comprise 15.2% of all MOFIs and are distributed in a similar manner to MOFIs across the United States. CDFI banks are also concentrated in the southern region with 66.9%, or 91, of the total number of CDFI banks located in the Southeast and Southwest regions. In addition, total assets of the southern CDFI banks represent 65%, or $31.6 billion of CDFI industry assets. The profitability trends of CDFI banks mirror the MOFI trends above where all regions with the exception of the New England and Mid-Atlantic, have median return on average assets of around 1.0%. However, in terms of market presence as measured by Development Deposit Intensity, with the exception of the West region, CDFI banks exceed their MOFI cohorts with a median value greater than 75%. Key financial highlights and distribution by regions are set forth in Tables 1 and 2 below.

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[1] Community Development Financial Institutions are mission-driven financial institutions that create economic opportunity for individuals and small businesses, quality affordable housing, and essential community services throughout the United States.

[2] A minority depository institution is depository institution where 51 percent or more of the voting stock is owned by minority individuals as defined by Section 308 of FIRREA. In addition, institutions are considered minority depository institutions if a majority of the Board of Directors is minority and the community that the institution serves is predominantly minority.

[3] Quadrant 1 banks must have above 50% in Development Deposit Intensity and above 40% in Development Lending Intensity (HMDA). The quadrant divisions are set such that only higher performing banks are ranked as Quadrant 1 banks. For definitions of NCIF's social performance metrics, please visit www.ncif.org.

Table 1

Key Financial Highlights	Mission-Oriented Financial Institutions				
	CDFI Banks [(a)]	Minority Depository Institutions [(b)]	Quadrant 1 Banks [(c)]	Total	Other Banks [(d)]
Number (#)	136	148	738	895	4,808
Total Assets ($000)	$ 48,120,548	$ 155,832,736	$ 328,118,529	$ 470,947,788	$ 16,646,958,836
Median Assets ($000)	$ 236,904	$ 266,267	$ 234,252	$ 233,737	$ 200,955
Median Loans ($000)	$ 159,198	$ 190,700	$ 154,964	$ 154,841	$ 130,448
Median Return on Average Assets (%)	0.96	0.91	1.00	1.01	1.02
Median Return on Average Equity (%)	8.82	7.90	9.13	9.07	8.98
Median Leverage Ratio (%)	10.31	11.39	10.59	10.67	10.62

**Data as of September 30, 2017.*

Sources: SNL Financial, CDFI Fund, and FDIC.

a *Excludes any CDFI banks that are merger targets.*

b *Includes CDFI banks that are also minority depository institutions. Minority depository institutions in Puerto Rico and Guam have been removed due to bank asset size. Additionally, NCIF has not historically invested in these areas.*

c *Quadrant 1 banks are defined as banks with a Development Deposit Intensity (DDI) of 50% or above, and a Development Lending Intensity-HMDA (DLI-HMDA) of 40% or above (data as of 2016). Includes CDFI banks and minority depository institutions that also meet the definition of a Quadrant 1 bank.*

d *Defined as commercial banks, savings banks, and savings & loan associations as of January 8, 2018. Banks that are located in Puerto Rico or Guam were removed from this group.*

Table 2

Regional Distribution of Mission-Oriented Financial Institutions

Region	Number (#)	Total Assets ($000)	Median Assets ($000)	Median Loans ($000)	Median ROAA (%)	Median DDI (%)	Median DLI-HMDA (%)
New England (a)	10	$ 11,337,402	$ 728,349	$ 581,405	0.69	69.44	44.59
Mid-Atlantic (b)	49	$ 28,839,899	$ 268,126	$ 197,785	0.61	87.50	55.69
Mid-West (c)	221	$ 82,996,006	$ 204,100	$ 142,869	1.02	66.67	55.73
Southeast (d)	338	$ 161,941,312	$ 241,193	$ 153,223	0.95	75.00	58.28
Southwest (e)	186	$ 66,256,736	$ 215,795	$ 133,750	1.12	75.00	57.36
West (f)	91	$ 119,576,433	$ 331,098	$ 245,370	1.09	57.14	50.39
Total	895	$ 470,947,788					

Regional Distribution of Certified CDFI Banks

Region	Number (#)	Total Assets ($000)	Median Assets ($000)	Median Loans ($000)	Median ROAA (%)	Median DDI (%)	Median DLI-HMDA (%)
New England (a)	2	$ 792,495	$ 396,248	$ 307,369	0.11	90.00	52.04
Mid-Atlantic (b)	11	$ 3,930,977	$ 297,319	$ 233,523	0.52	87.50	57.73
Mid-West (c)	17	$ 4,382,524	$ 174,787	$ 146,290	1.14	90.00	56.56
Southeast (d)	66	$ 25,033,902	$ 229,026	$ 139,884	0.93	77.12	62.28
Southwest (e)	25	$ 6,615,672	$ 225,589	$ 173,856	1.09	77.78	53.90
West (f)	15	$ 7,364,978	$ 316,867	$ 245,370	0.96	50.00	34.08
Total	136	$ 48,120,548					

a. Includes CT, MA, ME, NH, RI, VT

b. Includes DE, DC, PA, MD, NJ, NY

c. Includes IA, IL, IN, KS, KY, MI, MN, MO, ND, NE, OH, SD, WI

d. Includes AL, AR, FL, GA, MS, NC, SC, TN, VA, WV

e. Includes CO, LA, NM, OK, TX, UT

f. Includes AK, AZ, CA, HI, ID, MT, NV, OR, WA, WY

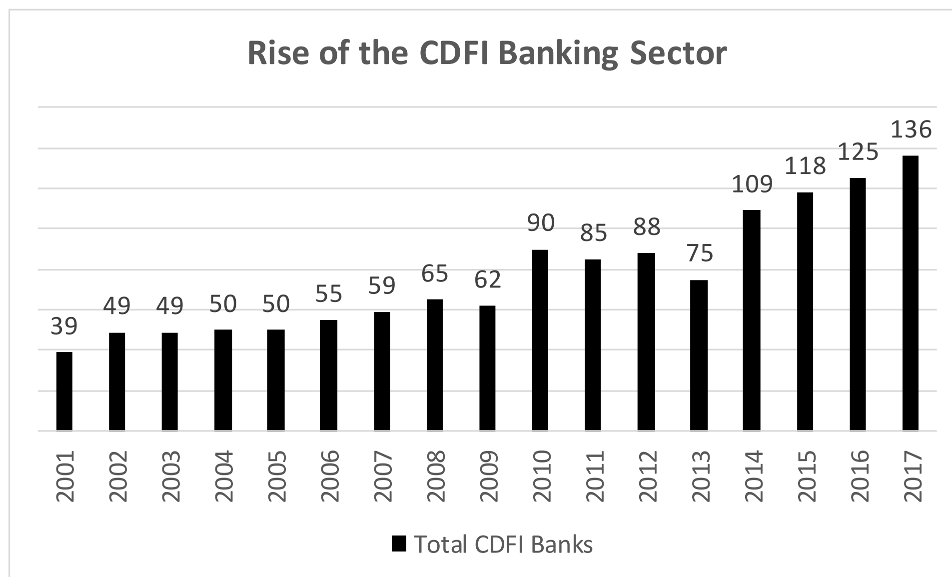
**Data as of September 30, 2017.*

Sources: SNL Financial, CDFI Fund, FDIC, and NCIF Social Performance Metrics.

2. **CDFI Banks – Their Growth**

As mentioned above, the CDFI banks are the most important sub-cohort of the MOFI sector. Since 2001 the number of certified CDFI banks has grown from 39 to 136 as of November 30, 2017. Currently, CDFI banks are located across the United States in 27 different states as well as in Washington, D.C. The growth in the number of CDFI banks only tells part of the story. Since 2001, the total assets that are controlled by CDFI banks increased from $5.2 billion to approximately $48.1 billion as of September 30, 2017 for a compound annual growth rate of 14.3%. In terms of providing access to capital for low income communities, CDFI banks have increased loans from $2.9 billion in 2001 to $33.6 billion as of September 30, 2017 for a compound annual growth rate of 15.6%. By virtue of the fact that CDFI banks have to make over 60% of their financial products and services in LMI areas, this growth trend of CDFI banks has led to equivalent growth in loans to support small businesses, individuals, commercial development and housing in various underserved communities. Growth in the CDFI banking sector was primarily driven by an increase in the number of CDFI banks located in the southern states of Alabama, Arkansas, Georgia, Louisiana, Mississippi and Tennessee which grew from nine CDFI banks in 2001 to 79 as of November 30, 2017, a compound annual growth rate of 14.5%. For more information on the southern CDFI banks, see NCIF's report entitled "*CDFI Banks in the Southern States"* at www.ncif.org.

Chart 1



3. **The Impact and Criticality of MOFIs**

In many communities, MOFIs act as vital anchor institutions and are on the front line in providing credit for affordable housing and commercial and community development to catalyze economic development in economically distressed communities. They leverage each dollar of equity up to eight to ten times with deposits that generate loanable funds and then use this institutional leverage to provide loans to LMI communities. This creates and retains jobs (reduction in poverty rates and unemployment), promotes small businesses and entrepreneurship (capital access), restores a more normal market (participation in a mainstream, inclusive economy), and catalyzes continued vitality in the communities that they serve (economic activity). In NCIF's experience, the market presence of MOFIs also provide low income populations access to affordable financial product and service alternatives to combat

predatory/payday lending. MOFIs offer traditional banking products and services as well as many financial services not offered at traditional banks, such as financial literacy programs, savings incentives, tailored loan and banking products and multilingual staff to mention a few.

To validate the above impact and NCIF's Theory of Change, NCIF conducted a study to test the correlation between the presence of bank branches and quality of life and economic activity in LMI communities. This study was conducted over a period of two years in collaboration with Carsey School of Public Policy, University of New Hampshire and the report was published in 2015, entitled "*The Impact of Financial Products and Services on Quality of Life."* The key findings of the report indicate that: (i) there is a positive correlation (23%) between a bank branch presence and quality of life[4] in the community and that such relationship remained consistent over a 10+ year period; (ii) the presence and activity of banks is associated with improvements in unemployment and poverty rates; and (iii) CDFI banks operate in tracts that are different than other tracts in terms of demographics, financial institution activity and HMDA[5] activity. For more information on or to download a copy of NCIF's "*The Impact of Financial Products and Services on Quality of Life*" report, please visit www.ncif.org.

NCIF views market presence as a key component to long term sustainable development. As noted in Table 3 below, MOFIs branch networks provide significant access to LMI customers as demonstrated by Development Lending Intensity (HMDA), which was 56.48%, and Development Deposit Intensity, which was 71.43% as of December 31, 2016. Both social performance metrics are over 2x the metrics for Other Banks.

Table 3

	Mission Oriented Financial Institutions				
Key Impact Highlights	**CDFI Banks**	**Minority Depository Institutions**	**Quadrant 1 Banks**	**Total**	**Other Banks**
Number (#)	136	148	738	895	4,808
Total Assets ($000)	$ 48,120,548	$ 155,832,736	$ 328,118,529	$ 470,947,788	$ 16,646,958,836
Median Development Deposit Intensity (%)	77.78	58.61	74.34	71.43	33.33
Median Development Lending Intensity (HMDA) (%)	55.99	45.73	58.10	56.48	21.77

**Data as of September 30, 2017.*

Sources: SNL Financial, CDFI Fund, FDIC, and NCIF Social Performance Metrics

What is additionally noteworthy is that CDFI banks have a higher Development Deposit Intensity of 77.78% and similar Development Lending Intensity (HMDA) of 55.99%.

In addition to Development Deposit and Lending Intensity metrics, NCIF also analyzes a bank's Mission Intensity[6] which focuses on lending based on location, mission and loan category. In analyzing the impact of 12 NCIF network banks in 2015 based on self-reported data, the Mission Intensity of this group was 63% which means that 63% of the loans are focused on mission-categories[7] further

[4] Quality of life, as defined in the report, is measured by a proxy variable of HMDA single-family loan origination amount. An important relationship between HMDA single-family median loan origination and quality of life was noted in Galster et al.'s "Identifying Robust, Parsimonious Neighborhood Indicators" (2005), and as such, this metric was used as a proxy to measure quality of life. See NCIF's "*The Impact of Financial Products and Services on Quality of Life* report, p. 14 at www.ncif.org.

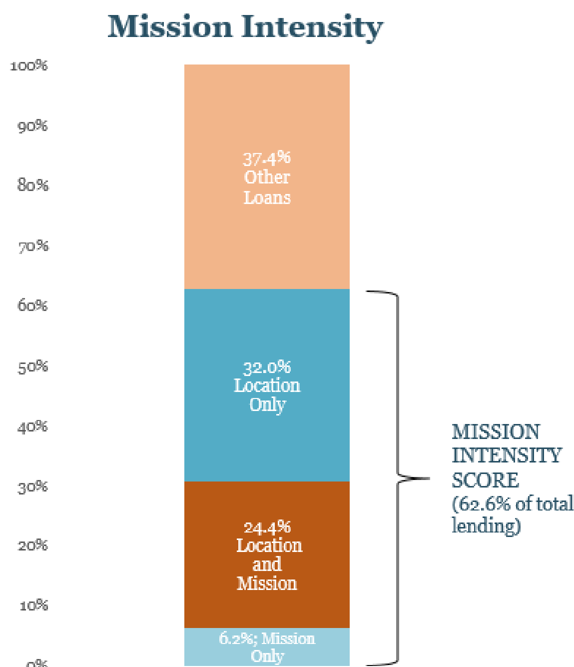
[5] The Home Mortgage Disclosure Act (HMDA) requires banks to report their home loan originations and purchases on an annual basis.

[6] Mission Intensity considers the overall impact of lending activity, capturing loans that are qualified by 1) location in a qualified census tract or 2) supporting the bank's mission, as identified by the bank.

[7] Reporting banks make loans in a range of categories to support their mission. The identified loans are very much aligned with the type of lending expected of mission-oriented banks, such as loans to nonprofits, loans to low-income borrowers, loans to minority and women-owned businesses, etc. These categories can help NCIF and other industry stakeholders understand the concerns and populations that mission-oriented banks overall have chosen to support.

underscoring the social return created by such MOFIs. The following graphic provides an overview of the Mission Intensity of the group.

Chart 2



NCIF uses its suite of Social Performance Metrics (SPM)[8] to identify institutions that meet its impact parameters, and inform various stakeholders (investors, MOFIs, regulators and consumers) for possible investment or other support. In looking at the MOFI industry as an agent of social return, we can look to the impact created by NCIF, its network banks and partners over the past 20 years to provide a glimpse of this investment class' impact capabilities:

- Provided approximately $11.1 billion of capital to LMI communities;
- Estimated creation of 120,385 jobs[9];
- Estimated service to 4.6 million people via deposit, lending and non-financial products;
- Made over 2.6x home loans in LMI communities compared to the "other banks" cohort; and,
- Have 2.1x more branches in LMI communities compared to the "other banks" cohort.

The following section will provide an overview of NCIF's investment methodology and how NCIF uses the foundations previously discussed to construct a MOFI portfolio that generates double bottom line winners.

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[8] NCIF's core SPM include Development Deposit Intensity, Development Lending Intensity, Mission Intensity and Quadrant Score. For more information on NCIF's social performance metrics, please visit www.ncif.org.

[9] Includes: 1) direct FTE jobs created through NMTC investments; and 2) estimated jobs created from NCIF investments into MOFIs and reporting MOFIs that are part of the NCIF network. Estimated jobs created from MOFI investments was calculated using privately reported BankImpact Survey data. To estimate the total projected jobs created, total annual loan originations from each NCIF investee from 1998 to 2015 were aggregated and divided by $93,000 (the average cost of a job created from the 2009 Estimate of Job Creation from the American Recovery and Reinvestment Act of 2009 from the White House Council of Economic Advisor).

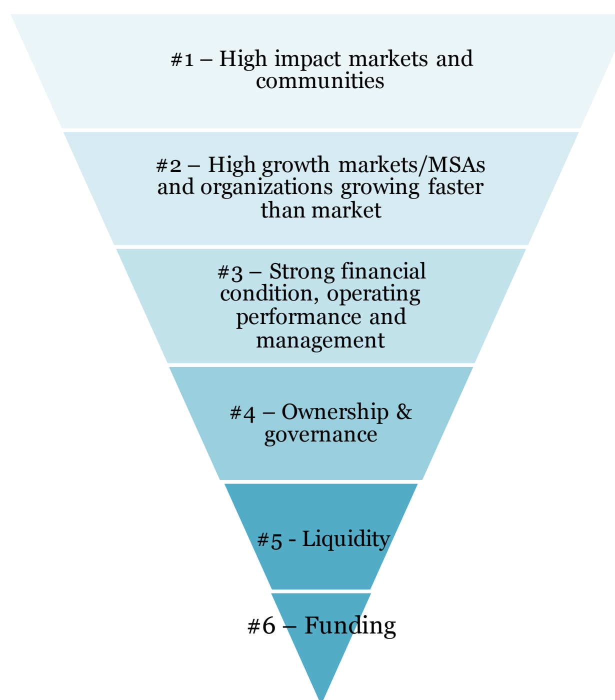
B. NCIF's Proprietary Investment Methodology

1. A Disciplined Approach to Creating Investment Portfolios

NCIF has created a proprietary investment methodology that leverages its experience over the last 20-years to identify unique institutions that generate high impact and reasonable financial returns. This methodology has generated an unrealized IRR of 6.7% per annum since December 1998 that is consistent with S&P 500 returns of 6.2%, and the benchmark returns of 9.5% for impact funds and 4.4% for market rate funds as analyzed by Cambridge Associates[10].

This methodology has the following five components.

Chart 3 – NCIF Investment Methodology



i. High Impact Markets and Communities - Commitment to creating social impact and jobs in a measurable manner

NCIF analyzes market and demographic data to identify high impact MOFIs operating in communities of high market need. NCIF uses quantitative and qualitative analysis to determine the institution's mission orientation. A strong mission orientation and a willingness to report data on a regular basis during the time when NCIF has an investment in the bank ensures minimal execution risk and that there is no mission drift or "drop-off" impact risk.

As part of NCIF's goal to provide consistent and measurable impact outputs to investors, NCIF is also committed to aligning its social performance metrics with other market metrics such as the Global Impact Investing Network (the GIIN), The Investment Integration Project (TIIP) and The Impact Measurement Project (TMP). NCIF's social performance metrics are fully aligned with the GIIN's IRIS initiative of standardized impact metrics.

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[10] Based on compound annual growth rate in value of the S&P 500 from 12/31/98 to 12/31/17 on a nominal basis; Source: https://dqydj.com/sp-500-return-calculator. Represents pooled IRR as of June 30, 2014 for Comparative funds with less than $100 million. Group of funds is based on the 2015 Cambridge Associates (CA) and Global Impact Investing Network (GIIN) report "Introducing the Impact Investing Benchmark." Comparative funds were selected in the same asset classes, sectors and geographies as the impact benchmark prepared by the CA research team which identified a list of relevant impact investment funds (36) with less than $100 million. The impact funds had a larger concentration of financial sector funds.

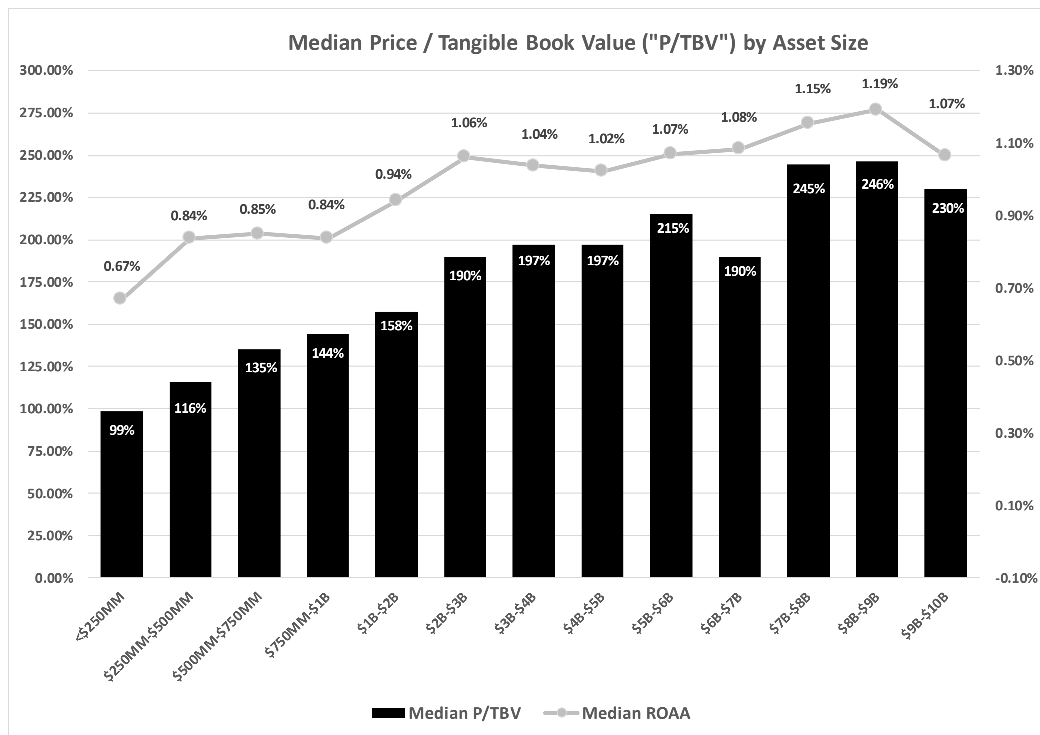
ii. High Growth Markets/MSAs and Organizations Growing Faster than the Market

NCIF is looking for organizations that are located in either high growth markets or when they are in mature markets and growing faster than the Metropolitan Statistical Area[11] ("MSA") growth rate.

NCIF analyzes various demographic market data and trends to identify high growth markets which range from communities to MSAs. NCIF reviews population growth, unemployment, poverty and household income statistics and trends to pinpoint areas that demonstrate high growth potential. In addition, NCIF reviews loan and deposit data trends of MOFIs that operate in such markets to determine if such organizations are growing faster than market.

Progression to scale is an important factor in NCIF's investment selection process since such scale enjoys a stronger operating profile, stronger earnings power, economies of scale and more diversified earnings stream. These factors translate into higher valuation levels, more price accretion and capital appreciation potential. The chart below summarizes the valuation and return on average assets performance of publicly-traded banks with less than $10 billion in total assets.

Chart 4



** Financial data as of September 30, 2017. Market data as of January 18, 2018. Source: SNL Financial*.

[11] Metropolitan Statistical Area (MSA) is a geographic region with relatively high population density and close economic ties throughout the area. MSAs are defined by the Office of Management and Budget and used by the Census Bureau and other federal government agencies for statistical purposes.

iii. Strong Financial Condition, Operating Performance and Management

NCIF will conduct an analysis of the institution using the CAMELS framework[12] to ensure robustness in financial condition and performance. It then looks at the following value drivers to identify potential winners from the rest.

Table 4

Category	What does it mean?
Scalable Platform	Can the bank grow with its current platform through economies of scale, or are major investments needed?
Desirable Demographics	Is the bank in a top growing MSA, or growing faster than its current market?
Strong Market Share	Is the bank a deposit market share leader?
Core Deposits	Does the bank have a large % of core deposits, especially noninterest bearing DDA, or mainly time deposits?
Scarcity Value	Does the bank have scarcity value or a unique niche that makes it desirable?
Core Profitability	What is the earnings trajectory?
Management Team	What is the experience and perception of management? Of the lending staff?
Earning Asset Growth	Is the loan portfolio growing? What does the pipeline look like?
Diverse Loan Portfolio	Does the bank have a well-balanced and lower risk portfolio?
Strong Asset Quality	How did the bank perform during the recession? Is there a conservative credit culture?

iv. Ownership and Governance

NCIF desires to be a partner and "side-by-side" investor with the owners and insiders of a company so that they will protect the interests of minority and outside shareholders. In NCIF's view, higher ownership levels of the board and management team provide an incentive to grow the value of the business over the long term which aligns with NCIF's goals as a minority shareholder. In addition, greater independence of the board is critical in ensuring that typical agency-principal conflicts are minimized. These are discussed in detail below:

a. *Reasonable Insider Ownership*. Greater insider ownership generally results in a greater focus on performance, shareholder value creation and improved financial results as well as compensation structures and other benefit programs that align with a long-term focus. However, NCIF is also wary of banks that are too closely held in that the concentration of ownership can lead to management and board entrenchment and therefore a lack of focus on minority shareholders. S-Corporation banks that are an extreme case of closely held organizations (100% control by a few individuals) have generated superior financial

[12] The CAMELS framework is based on the rating system bank regulators use to evaluate and rate depository institution's overall condition. The framework reviews capital adequacy, assets, management, earnings, liquidity and sensitivity of a depository institution to evaluate performance and highlight certain risks associate with a depository institution's business.

performance due to ownership and alignment of incentives. Institutional investors cannot invest in such corporations apart from certain debt instruments.

b. *Strong Governance Framework*. In addition to ownership levels, NCIF reviews a company's corporate governance framework to resolve potential problems associated with the separation of ownership and control. Concepts include but are not limited to the presence of independent directors and typical provisions like poison pills or unreasonable compensation structures.

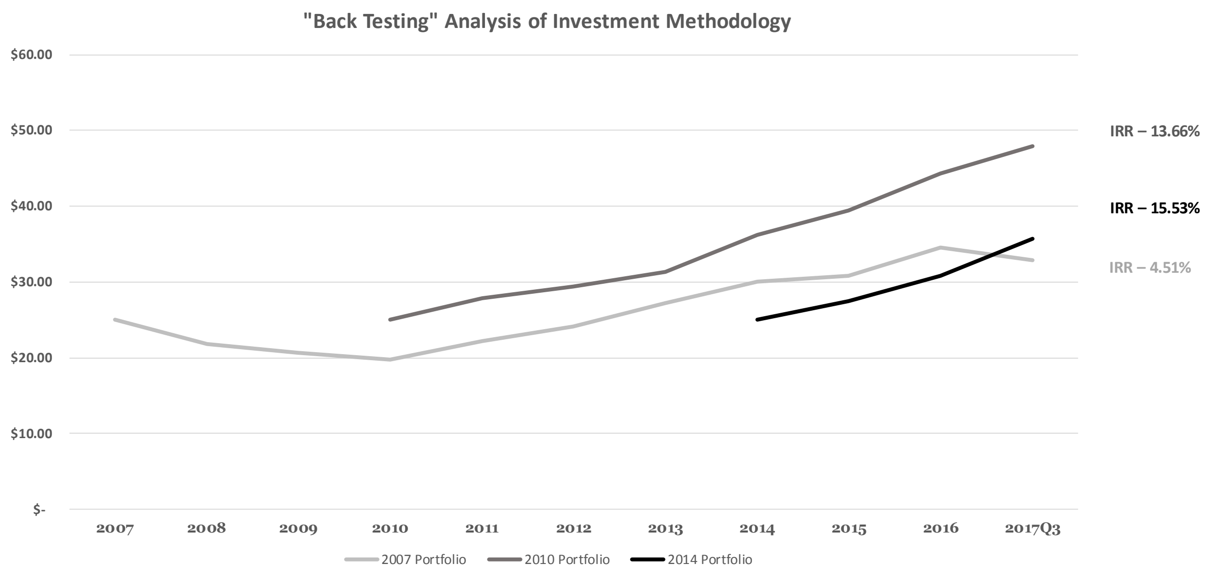
v. Liquidity - Intention to Provide Liquidity within a Reasonable Period of Time

Any financial return is only generated if there is a liquidity event within a reasonable period of time. NCIF evaluates a company's intention and ability to service debt obligations as well as management's plan for a defined exit or other liquidity event for equity investments. This may be via share buybacks, ESOPs, strategic sales or even initial public offerings.

2. Performance of Back-tested Model Portfolio and NCIF Portfolio

In support of NCIF's investment methodology, NCIF "back-tested" this methodology on a historical basis over a 10, seven and three year period. The analysis assumed the creation of three separate MOFI portfolios of $25 million each in different years (2007, 2010 and 2014) and tracked their performance up to September 30, 2017. The following table sets for the results of such analysis.

Chart 5



Source: SNL Financial

As the analysis indicates, the returns range from 4.5% to 15.5% further underscoring the return potential of a MOFI investment class. NCIF would also like to note that the NCIF portfolio of banks has

generated an unrealized IRR of 6.7% per annum – a superior financial performance relative to market indices and through the financial crisis.

3. Creating a Portfolio by Optimizing Risk and Return Consistent with Impact Goals

NCIF's investment approach can assist investors in: (i) identifying MOFIs that are meeting their geographic, people-based and thematic impact goals; and (ii) designing portfolios that meet investors' impact and financial risk/return goals. The table below sets forth an overview of such guidelines for MOFI investments.

Table 5

Impact Investment Type	Geographic	People	Thematic	Other
Description	Investments that focus on particular place	Investments that focus on particular group of people	Investments in industries, communities, products or services with social benefits	Investments in developing technology solutions with social benefits
Goal	Community development; Increased lending of MOFI; job creation	Access to reasonably priced financial products and services; Job and wealth creation	Job creation; target specific need or outcome	Provide specific market solution for underserved
Example	Rural and urban low income communities across the USA	MOFIs that provide financial services to minorities	Health care for underserved; education services for at-risk children	Fintech alternatives to combat pay day lending

			Impact		Financial	
Asset Class	**Investment type**	**Characteristics**	**Risk**	**Return**	**Risk**	**Return**
Equity	Publicly-listed MOFI common stock	Historically, the most volatile asset class but also generate on average the highest returns over longer investment period	Low/Moderate	High	High	High
	Privately-owned MOFI common stock		Low/Moderate	High	High	High
Fixed Income/Debt	MOFI Preferred Stock	Fixed coupon/interest payments that is generally stable; Lower returns than equity; Receive investment principal back at end of investment period	Low/moderate	High	Moderate	Moderate
	MOFI Subordinated Debt		Low/moderate	High	Low/moderate	Moderate
	MOFI Bank Stock Loans		Low/moderate	High	Low/moderate	Low/Moderate

4. Product Alternatives

Once the impact, risk and return parameters have been identified, NCIF identifies suitable investment products that can meet those parameters. Some of these products are summarized below in Table 6.

Table 6

	Bank Stock Loan	Subordinated Debt	Preferred Equity	Common Equity
Issuer	BHC or Bank	BHC or Bank	BHC or Bank	BHC or Bank
Treatment	Debt	Tier 2, CE Tier 1 at Bank	Tier 1, CE Tier 1 at Bank	CE Tier 1
Tangible Equity	No	No	Yes	Yes
Coupon	Fixed or Float	Fixed or Float	None	None
Dividend	None	None	Fixed or Float	Discretionary
Dividend/Coupon	Non-Deferrable	Non-Deferrable	Non-Cumulative	Non-Cumulative
Ownership Dilution	No	No	No	Yes/Pro rata
EPS Dilution	Least	More than BSL	More than sub debt	Most
Term	1-10 years	5-10 years	Perpetual	Perpetual
Collateral	Yes	Unsecured	None	None
Pricing	Less than sub debt	more than BSL	more than sub debt	Market based/Highest
Cost of Capital	Lowest	Higher than BSL	Higher than sub debt	Highest
Voting Rights	None	None	Class	Yes
Tax Benefits	Interest is deductible	Interest is deductible	None	None

** BHC = bank holding company*
*** CE = common equity*
**** BSL = bank stock loan*

In terms of product demand, given the recent increase in capital requirements and Basel III rules, common stock has become a key focus of the regulators in terms of quality of capital in a bank's capital structure. However, common stock is traditionally the most expensive and dilutive form of capital raising options and is subject to fluctuating market conditions which makes it more difficult to raise. Yet, NCIF finds that it is the banks that meet the aforementioned investment criteria who are able to raise capital, while others cannot.

Subordinated debt issues and banks stock loans have been on the rise due to the improved earnings and asset quality of the community banking industry. A Federal Reserve Board policy change in 2015 to allow banks under $1 billion in total assets to have more leverage their balance sheets with debt has supported the momentum of debt issuances over the past three to five years due to their lower cost of capital.

5. Conclusion

In conclusion, Mission-Oriented Financial Institutions offer a unique opportunity to create long term change in underserved communities nationally. It is possible to meet various investor financial risk-return goals. A laser focus on measurement of impact further achieves the programmatic and geographic impact goals.

National Community Investment Fund ("NCIF", www.ncif.org) is an Impact Investor and a nonprofit CDFI and private equity fund focused on increasing the flow of responsible capital in underserved markets nationally. It creates impact via investments in and lending with its NCIF Network of CDFI and MDI banks to generate financial and social return. Over its 20-year history of investing NCIF has achieved significant impact and an unrealized IRR of 6.7% per annum that is consistent with long term S&P 500 returns.