

# CDFI Bank 2.0: Innovation for Impact

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# Outline

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- The Criticality of Mission-Oriented Banks
- Historical Financial Performance and Condition
- CDFI Bank 2.0
- NCIF Priorities for 2014
  - The NCIF Network – Key Characteristics of Participants
- Themes of the Conference
- Acknowledgments

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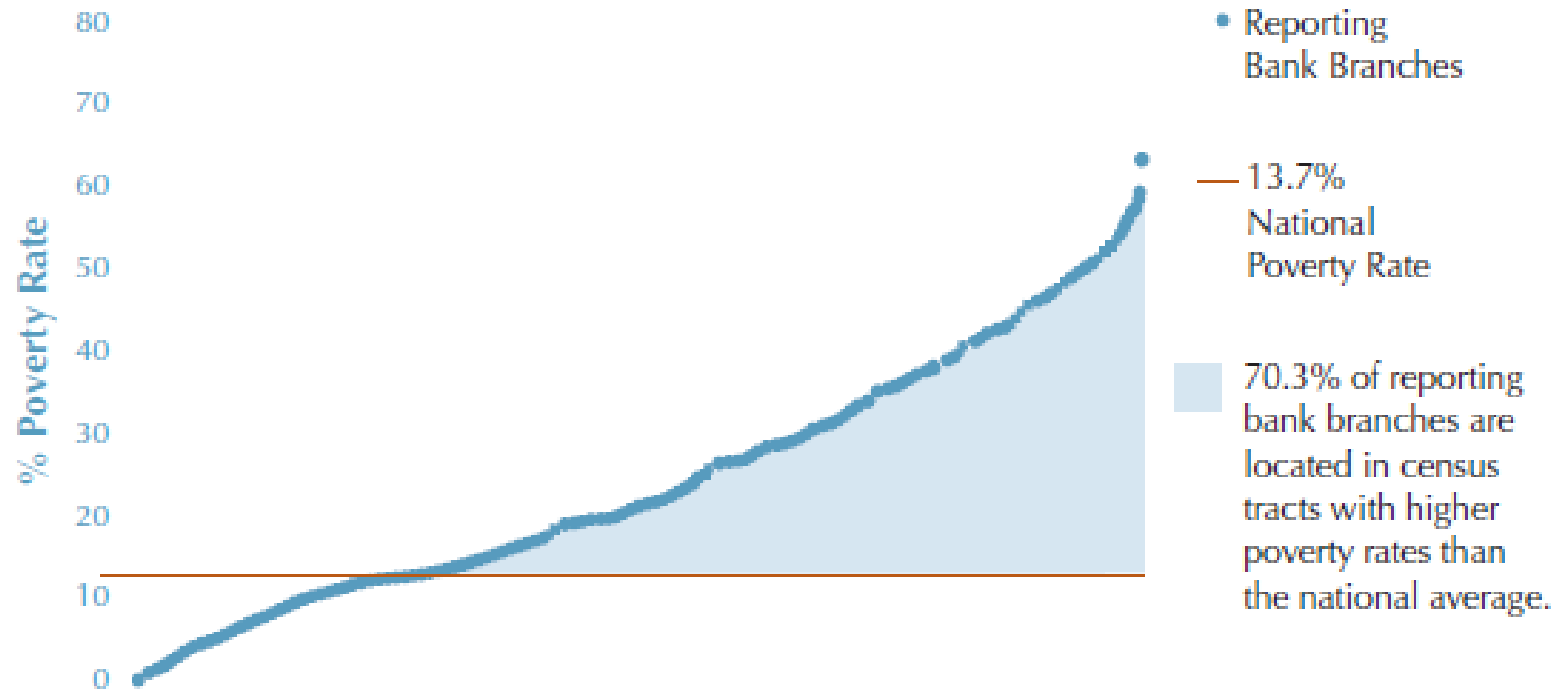
There is a need for an integrated analysis of economic, social and political activities involving a variety of institutions and many interactive agencies. It concentrates on the roles and interconnections between certain crucial instrumental freedoms including *economic opportunities, political freedoms, social facilities, transparency guarantees and protective security...*

...development requires the removal of major sources of *unfreedoms: poverty* as well as tyranny, *poor economic opportunity* as well as systematic social deprivation, *neglect of public facilities* as well as intolerance or overactivity of repressive states...

Prof. Amartya Sen, Winner of 1998 Nobel Prize in Economic Science  
*Development as Freedom, 1999*

# The Criticality of Mission-Oriented Banks

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Based on the 2010 Census the poverty rate in the US increased over the last several decades. CDFI Banks provide lending, depository and non-financial services to the underserved contributing to removing this *unfreedom* and enhancing economic opportunity.

# The Criticality of Mission-Oriented Banks

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57.0% 5.84x	Development Lending Intensity – All Loans Equity multiplier	Place Based
62.1%	All HMDA lending in LMI census tracts ~ 3x All Bank Median	Place Based
88.9%	Development Deposit Intensity – Branches in LMI tracts	Place Based
36.0%	Bank accounts with balances less than \$1000	People Based
10,921	Jobs created (directly or indirectly) during 2012	People Based
12	Mission Intensity indicators including Lending to non-profits, students and ethnic groups, environmental or conservation based lending	Mission Focus
\$6.15 B	Cumulative development lending by NCIF Portfolio 1998	Portfolio Impact

# Scale of the Industry and the Need

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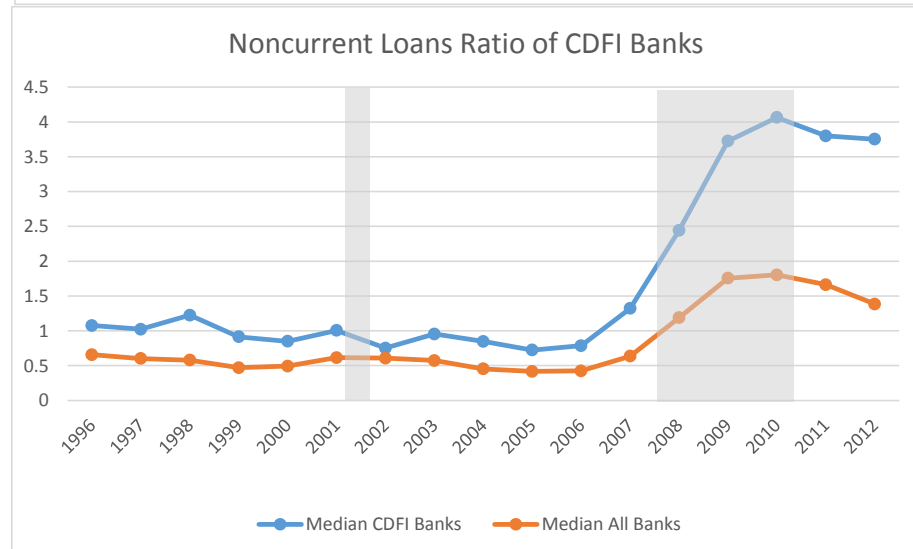
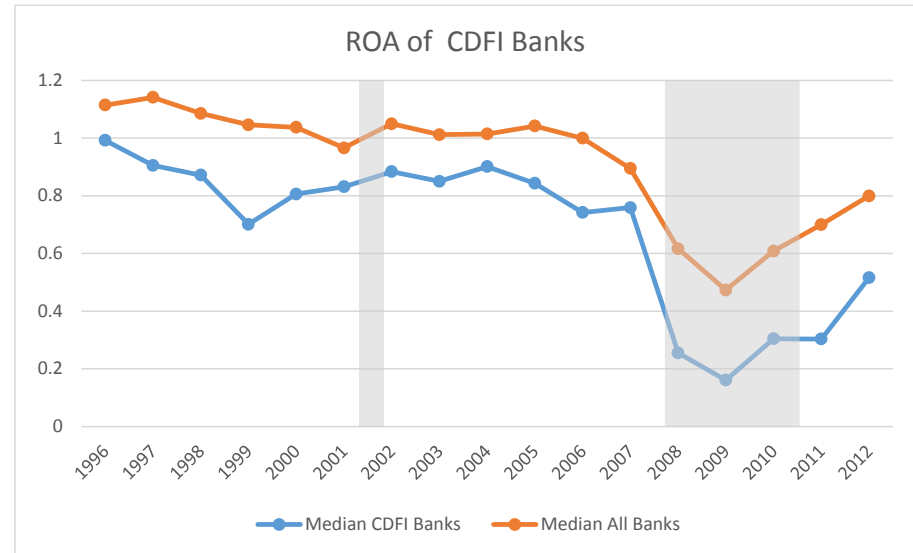
As of 12/31/2012

- 84 certified CDFI Banks with total assets of approx. \$29 billion
  - 10% of certified CDFIs yet about 50% of the total assets of CDFI sector
- 174 Minority Banks as designated by FDIC with total assets of approx. \$179 billion
- 380 Quadrant 1 CDBI Banks as designated by NCIF with total assets of approx. \$129 billion
  
- FDIC National Survey of Unbanked/Underbanked Households, 2011
  - 20.1% of US households are considered underbanked = 24 million households or 51 million adults!!
  - 29.3% of households do not have savings accounts

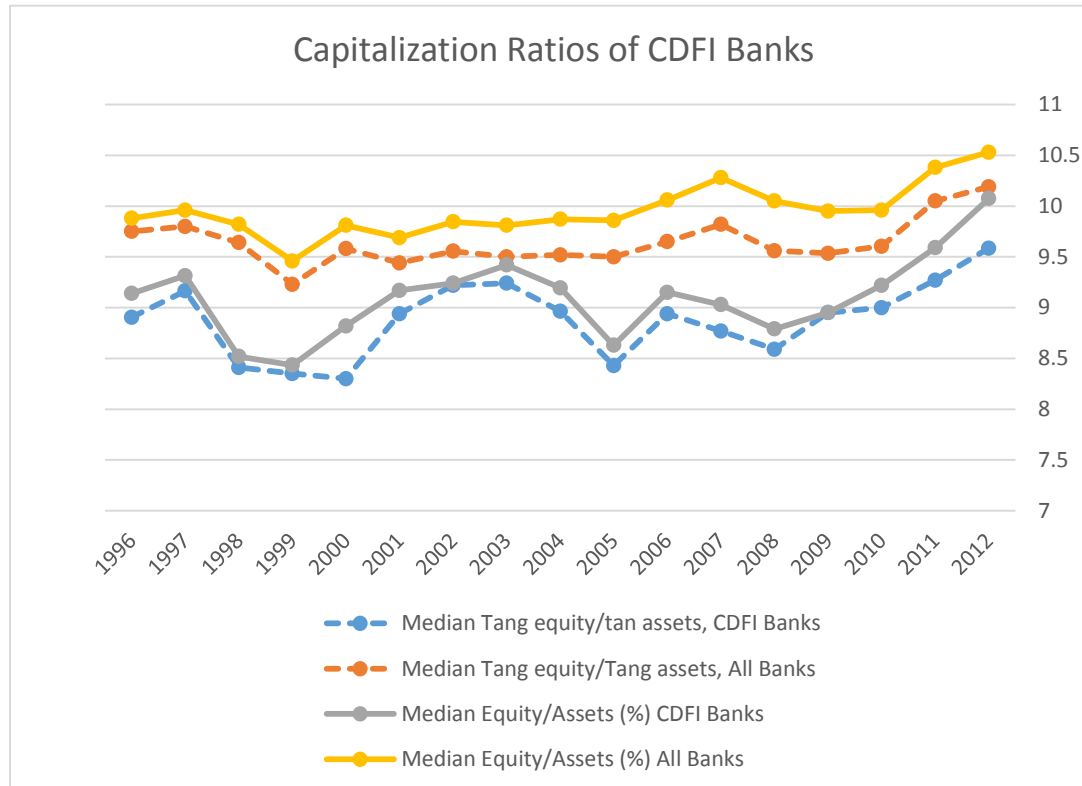
Source: CDFI Fund, FDIC, NCIF Analysis

# Historical Financial Performance and Condition

- The median CDFI Bank financial performance tracked that of non-CDFI Bank performance, at the median. The decline was larger during the Great Recession; the trend line seems to have a higher slope (rising faster) during 2012.
- Median ROA was 0.52% relative to 0.79% for non-CDFI Banks
- But remember – these are median numbers. As of 12/12 of the 84 banks:
  - 44 banks had ROA  $\geq$  0.5%
  - 18 banks had ROA  $\geq$  1%
  - .... impressive given the recession.
- Similar picture for Non-Current Loans
- Yet, the Industry is at crossroads and needs to enhance financial performance and scale.



# Historical Financial Performance and Condition



- At the Bank level the median CDFI bank capitalization levels look reasonable. However, small banks have relied on Trust Preferred Securities and TARP/CDCI for capital. While consolidated information on small banks is not easily available NCIF is aware of the significant need for capital over the next five years.

***There is huge opportunity to grow in size, yet there are significant headwinds  
- need to support the highest impact CDFI Banks.***



# CDFI Bank 2.0

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Even as we advocate for ‘appropriate’ regulations for smaller banks and a more enabling environment, the sector needs to act on things within their control:

1. **Evolve the Business Model – what we have called CDFI Bank 2.0**
  - Diversify revenue streams beyond CRE; C&I, small businesses & transactional fee-based businesses
  - Build partnerships with non-banks to do higher risk lending
  - Use technology to aggressively enhance customer reach & revenues and reduce costs
  - Build collaborative approach among institutions –franchise model to financial holding companies
  - Continue to be hubs for innovation
2. **Increase Scale**
  - Grow total assets either organically or in an acquisitive manner
  - Expand client reach within service area or nationally
  - Increase efficiencies and reduce costs via collaborative back office models
3. **Raise Capital**
  - Needs an investment proposition and a product with impact, dividends and capital liquidity
4. **Raise the Bar in Catalyzing and Measuring Social and Environmental Returns**
5. **Recruit and Retain Quality Human Capital and Governance**

# NCIF Priorities for 2014

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## Support NCIF Network of Mission Oriented Banks

1. Investing
  - a) Private Equity in the highest performing mission-oriented banks to achieve scale; support TARP/CDCI redemption as appropriate
  - b) New Markets Tax Credits to strengthen our partners
  - c) New Opportunities
    - i. Small Business Lending to support using senior or subordinated debt (SBIC)
    - ii. CDFI Bond Guarantee Program – develop new sources of funding and capital
2. Research, Metrics and ‘Community’ Building
  - a) Develop Research and Social Performance Metrics and global partnerships like IRIS – important for “telling the story” and advocacy
  - b) Foster development of ‘communities’ and new business models a la CDFI Bank 2.0; adoption of new technology channels
3. Contribute to transformational goals
  - a) Continue to have a transformational goal of influencing investment theory to incorporate Social Return in asset allocation decisions.



# The NCIF Network

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## Key Characteristics of Participants

1. Organization has effective leadership;
2. It commits to substantial business in underserved communities and provides responsible products and services;
3. It expects to generate strong financial and social returns;
4. Plans to provide exits to investors within a reasonable period of time; and
5. Is a mutually reinforcing partner willing to contribute to the mission of NCIF.

# Themes of Conference

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1. Explore “measures of success” and future business models of mission-oriented banking
2. Identify ways to diversify revenue streams
  - Lending – Small business, housing, NMTC, Bond Guarantee Program
  - Fee-based revenue streams
3. Innovate for Impact – product and process innovations
4. Consider adopting technology innovations – new channels, new opportunities, new concepts
5. Raise the bar in measuring and “telling the story” of impact

***Most Importantly:***

***How do we position ourselves to succeed and to get proportionate share of funding from investors and public sector?***

# Finally

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1. Want to thank the 24 pioneering mission-oriented banks that participated in our Annual Impact Dashboard – they are featured in the publication.
2. Join the online BankImpact.org tool
3. Participate in The Network Wall to commence organizing the community of mission oriented banks
4. Try a new technology for fun – [www.ripplelabs.com](http://www.ripplelabs.com). Virtual currencies are the latest frontier in payments and eCommerce – a quantum change in thinking beyond *incrementalism*.
5. Solemnly resolve to continue to support the underserved, the underprivileged, the underbanked, with our work and connections.

# Acknowledgments

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- Honored and humbled by the support of our Keynote Speakers
  - President Charlie Evans, Comptroller Tom Curry, Director Donna Gambrell and Gene Ludwig
- The Federal Reserve Board and Feds of Atlanta, Chicago, Boston and Richmond for the NMTC Workshop
- Participants and Panelists – they bring in the network externalities, the vision, the wisdom and the leadership
- Our Trustees – they are leaders in the space and provide strategic insights
- *The Best Mission-Oriented Analytical Team on Earth:* They have worked non-stop to bring this conference to fruition – Joe Schmidt, Vickie Battle, Alice Geglio, Emily Siple, Joe Mroczek, Steve Mondozi, Susan Coleman, Cydney, the notetaker volunteers, Alexis our photographer and many more.

# Sponsors

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# A Salute to the Participating Banks in Dashboard

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Albina Community Bank  
Broadway Federal Savings Bank  
Carver State Bank  
Carver Federal Savings Bank  
Citizens Savings Bank  
Citizens Trust bank  
City First Bank of D.C.  
City National Bank of New Jersey  
Continental National Bank of Miami  
First American International Bank  
First Choice Bank  
First Eagle Bank  
First State Bank of Danville  
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Urban Partnership Bank

*Save the Date:*

*2014 NCIF Annual  
Development Banking  
Conference on Nov 5-  
7, 2014*