NCIF Annual Development Banking Conference

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November 6-7, 2007
Chicago

Summary of Proceedings

December 21, 2007
National Community Investment Fund
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Acknowledgements

We were honored this year to have the presence of **Chairman Sheila Bair**, who has maintained a very keen focus on the underserved communities from the day she joined the FDIC. She has demonstrated leadership by nudging insured depositories to continue to level the playing field for the low-to-moderate income communities and in ‘out of the box’ thinking in times of crisis. In general, NCIF and the FDIC have had a close working relationship and we want to thank other members of the FDIC – **Bob Mooney, Jesse Villareal, Barbara Ryan, Rich Brown, Andrew Stirling, Vice Chairman Marty Gruenberg and Director Tom Curry** – who have supported the NCIF mission over the years.

The CDFI Fund has been a strong partner for NCIF and we were delighted to have **Director Kim Reed** address the conference demonstrating alignment of objectives to increase the number of depository CDFIs. We would like to thank **Linda Davenport** for her ongoing support and look forward to working closely together with **Donna Gambrell** in the future. **Barry Wides** of the OCC is another key supporter of the industry and supports community reinvestment; and he does it all with a quiet demeanor typical to him.

The NCIF Conference is organized primarily to support the **CDBI Industry** and is as useful as the participants make it to be. We are delighted to have hosted about 160 participants including about 40 Chief Executives and Executive Officers of CDBIs for these two days. Industry leaders flew in from all over the country –Arkadelphia, Durham, New Orleans, St. Paul, Nashville, New York, San Diego, San Luis Obispo – and actively contributed in the sessions. We believe that this participation helps in strengthening the industry and in serving the ultimate client -- the underprivileged.

We are privileged to have the leadership of **Ron Grzywinski** and **Mary Houghton** at ShoreBank and guidance and support from NCIF Trustees – **David McGrady (Chair), Carlton Jenkins, Mary Tingerthal, and Charles Van Loan**. They have been deliberate in taking forward the NCIF mission over the last several years.

NCIF is grateful to the **Federal Reserve Bank of Chicago as Lead Sponsor** for this event. Over the years, the Chicago Fed has provided mind-share and logistical support for the Conference and in convening the Community Development Banking Institutions (CDBI) industry. In particular, we want to thank **Michael Berry** and his team for their encouragement and support. NCIF also wants to thank its **Event Sponsors** whose generous support makes this conference possible - **JP Morgan Chase** as the Gold Sponsor and **Bank of America, Deutsche Bank, Fannie Mae, Merrill Lynch, Nasdaq, PNC Bank, Sandler O’Neill, Sonnenschein Nath and Rosenthal LLP and West Monroe Partners** as Silver Sponsors.

Finally, we would like to acknowledge support of a few key individuals at NCIF – **George Surgeon, Joe Schmidt, and Rosetta Walls** – who worked assiduously to make the conference successful with meaningful content and design. We also want to acknowledge **Alexandra Aquino-Fike, Sonya Bearden and Nitika Nautiyal** who took copious notes at the conference.

Saurabh Narain
and the NCIF Fund Advisor Team
December 21, 2007

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This is the premier event for Executives of Community Development Banking Institutions (CDBIs) -- banks, thrifts and credit unions that are both sound financial performers and superior generators of community development impact. The conference is packed with presentations on Actionable Strategies that have been or can be used to enhance this double bottom-line focus of CDBIs.

Tuesday, November 06, 2007

Time	
7:45 AM — 8:45 AM	*Continental Breakfast and Registrations*
8:45 AM — 9:15 AM	**Introduction to Conference and Thoughts on the CDFI Banking Industry** The CDFI industry has grown rapidly since the formation of the CDFI Fund and has delivered superior economic and community development impact in the distressed parts of the country. NCIF is focused on growing the CDFI industry among the larger universe of depository financial institutions by identifying and commemorating their social impact and bringing in resources and best practices from mainstream and social investors. **Saurabh Narain, Chief Fund Advisor, NCIF**
9:15 AM — 10:30 AM	**Investor Panel** CDBIs will hear about specific strategies that can be used to access deposits, debt (including NMTC debt) and/or equity from mainstream and social investors. Focused on investor expectations from CDBIs in accessing these forms of funding. **Carlton Jenkins, Trustee NCIF and Partner Yucaipa Funds** and moderator **Ed Powers, Co-founder, Banc of America Capital Access Funds** **Dan Letendre, Director, Merrill Lynch CDC** **Eliza Webb, Sr. Business Planning & Analytics Manager, Fannie Mae's Community Lending Group** **Matthew Hickey, Vice President, National City Bank, IL**
10:30 AM — 10:45 AM	*Break*
10:45 AM — 12:00 PM	**Growth through acquisitions or organic; integrating and managing scale** Panelists will present on challenges and opportunities faced by CDFIs achieving scale, integrating bank charters into a bank holding company and growing through acquisitions. **Michael Berry, Managing Editor, Profit Wise, Federal Reserve Bank of Chicago** and moderator **Debbie Wright, Chairman and CEO, Carver FSB, NY** **Phil Baldwin, Chairman and CEO, Southern Bancorp, AR** **David Reiling, CEO, Sunrise Banks, MN**
12:00 PM — 1:30 PM	**Lunch Keynote Speech** **Honorable Sheila Bair, Chairman, Federal Deposit Insurance Corporation** With Comments and Introduction by **Ron Grzywinski, Chairman and Co-Founder, ShoreBank Corporation**
1:30 PM — 2:45 PM	**Development Impact at and through CDFI Banks and Credit Unions** Hear perspectives on the measurement of development impact at depository financial institutions; hear a large bank perspective on its expectations on impact generation through CDFIs; NCIF Social Performance Metrics and how they can be used to allocate funds **Joe Schmidt, Fund Advisor, NCIF on NCIF Social Performance Metrics** and moderator **Bob McGill, CEO, Neighborhood National Bank, CA** **Randy Chambers, CFO, Latino Community Credit Union, NC** **Kathryn Clay, Vice President, PNC Bank NA**
2:45 PM — 3:00 PM	*Break*
3:00 PM — 4:00 PM	**Products to Combat the Foreclosure Crisis associated with Sub Prime Loans** Panelists will discuss successful initiatives to combat foreclosures associated with the sub prime loan crisis **Matthew Roth, Fund Advisor, NCIF** and moderator **Alden J. McDonald, CEO, Liberty Bank and Trust, LA** **Bruce Gottschall, Executive Director, Neighborhood Housing Services, Chicago** **Angela Kelcher, Senior Business Manager, Fannie Mae's Community Lending Group**
4:00 PM — 5:15 PM	**Public private partnerships, community investing** Panelists will discuss ways in which they can attract public dollars through CDFI Fund programs, Banking Development Districts and through potential clarifications in the CRA Qs and As. **David J. McGrady, Chairman, NCIF** and moderator **Scott Lindquist, Partner, Sonnenschein, Nath and Rosenthal LLP on "Winning Strategies for NMTC Programs"** **Dee Sims, CEO, Legacy Bank, WI on using NMTC for banks** **Denise Pease, Assistant Comptroller, City of New York on Banking Development Districts** **Barry Wides, Deputy Comptroller, Community Affairs, Office of Comptroller of Currency on changes in CRA**
5:15 PM — 6:45 PM	*Networking reception in the evening*

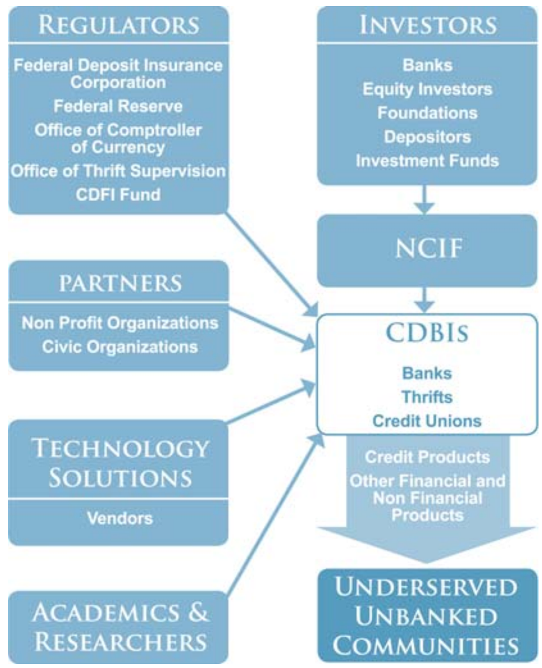
Wednesday, November 07, 2007

Time	
7:45 AM — 8:30 AM	*Continental Breakfast and Registrations*
8:30 AM — 9:00 AM	**Keynote Speech** **Honorable Kim Reed, Director, CDFI Fund**
9:00 AM — 10:15 AM	**Mergers, Acquisitions, Liquidity for Investors - Raising Capital from Public Markets** Providing liquidity to common stock investors is critical as banks tap the mainstream investor markets. CDFI Banks grapple with the pros of more capital with the cons of volatility, liquidity and information needs of mainstream investors. Hear experiences of a large CDFI bank as it contemplates raising capital; from an investment bank on the state of the markets and investor expectations and from Nasdaq about its PORTAL that can be used by issuers of private capital. **George Surgeon, EVP and CFO, ShoreBank -** moderator and panelist **Fred Price, Managing Principal, Sandler O'Neill** **John Jacobs, Executive Vice President, NASDAQ**
10:15 AM — 11:30 AM	**Retail Financial Service Strategies to Serve Underserved Communities** CDBIs struggle to provide financial services the underserved communities given the high cost of delivery. This panel will discuss successful strategies for low cost branching strategies, new retail strategies that banks can use and on using demand segmentation to hone in on 'Need States' of customers. **Saurabh Narain, Chief Fund Advisor, NCIF** and moderator **Dr. Bala Venkatesh, Director, Economic Center for Excellence, The Cambridge Group on Demand Strategies** **Bill Dana, CEO Central Bank of Kansas City, MO on Stored Value and Debit Cards** **Steve Reider, CEO, Bancography on Successful Branching Strategies for Underserved Communities** **Kevin Downs, Strategy Executive, West Monroe Partners on Retail Strategies for CDFIs**
11:30 AM — 11:45 AM	*Break*
11:45 AM — 1:00 PM	**Ethnic Populations, Rural Poor and the FDIC Small Dollar Loan Program** Hear about holistic development banking in rural America, alternatives to pay day lending, focus on banking to the Hispanic populations and about the Small Dollar Loan Program which is being piloted by the FDIC. **Ellen Seidman, EVP, ShoreBank and Former Director, Office of Thrift Supervision** **Angela Duran, President, Southern Good Faith Fund, AR on Development Banking in Rural Markets** **David Flores, CEO, Nuestro Banco, NC on banking to Hispanic Markets** **Ed Jacob, CEO, Northside FCU, IL on Alternatives to Pay Day Lending** **Andrew Stirling, FDIC, Program Manager, Small Dollar Loan Program**
1:00 PM — 1:05 PM	**Closing Remarks**
1:05 PM	**Grab and Go Lunches -** Lunch Boxes available for all participants

Overall Summary

NCIF organized its 2007 Annual Development Banking Conference with the following 3 objectives.

Share business strategies for enhancing profitability and effectiveness and creating new product lines by replicating successful experiences from one geography and business environment into another. This year, NCIF brought in industry experts to discuss branching, retail financial services strategies and demand segmentation to assist Community Development Banking Institutions (CDBI1) expand their business. Finally, experts from the Wall Street and NASDAQ spoke to the availability of public equity markets for CDBIs.



Measure and commemorate the development impact that is created by the CDBI sector, including institutions that are not currently certified CDFIs. Sharing and commemorating this impact in a measureable manner is key in garnering support from the major stakeholders. NCIF also discussed its Social Performance Metrics.

Foster peer-to-peer networking which is key for ongoing business and growth. We are delighted that total registrations this year exceeded 160, including about 40 CDBI CEOs and Executives.

To achieve these objectives, NCIF brings together key stakeholders – as per the diagram above -- that all need to work together to grow this industry. Following are session summaries of the individual panels and the presentations are available on the NCIF website (www.ncif.org).

We walked away with optimism that we can grow the asset class of CDBIs and attract exponentially larger investments and support from key stakeholders.

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[1] Community Development *Banking* Institution or CDBI is a term coined by National Community Investment Fund to identify banks, thrifts and credit unions that have a mission of community development whether or not they are certified as Community Development *Financial* Institutions or CDFIs. NCIF believes that there are between 348 and 1072 banks and thrifts that pass initial screening of the NCIF Social Performance Metrics and can get certified, if they so wanted.

Keynote Addresses

Honorable Sheila Bair
Chairman, Federal Deposit Insurance Corporation, November 6, 2007

Chairman Sheila Bair was introduced by **Ron Grzywinski, Chairman, ShoreBank Corporation**. In his opening remarks, Ron praised Chairman Bair for her strong personal and professional leadership in supporting low to moderate income communities and people through several forward looking initiatives.

Chairman Sheila Bair highlighted the critical role played by CDFIs in building economies, increasing jobs and building hope among low to moderate income communities. Accordingly, she has supported them through technical assistance – FDIC is proposing technical assistance to smaller CDFIs to access the CDFI programs, promoting partnerships with the larger banks (direct investment, deposits, establishing a two-way referral process, providing training, and accounting or operational services) and direct intervention in times of crisis.

FDIC has built the *Alliance for Economic Inclusion (AEI)* with the objective of increasing access to financial services within underserved communities. Chairman Bair also described the *Small Dollar Loan Program*, another priority initiative of the FDIC being promoted to encourage banks to launch alternatives to pay day and predatory lending. The FDIC is concerned with the explosive growth of pay day lenders, who charge incredibly high interest rates, and is also concerned with the prevalence of high cost overdraft protection programs. The FDIC's pilot program with 60 banks hopes to develop lower-cost products for consumers in need of short-term loans. The data generated from this pilot will greatly serve the banking community, especially banks with a mission of community development.

Finally, Chairman Bair reported on the mortgage crisis. She discussed that these mortgages will have to be modified in the long-run and that she recommends freezing rates for people who are vulnerable to foreclosures (**editorial note**: the measures recommended by her were substantially implemented by the Bush Administration recently). In Washington D.C., there is a recognition of the need for minimum mortgage lending standards that apply to both the banking and non-banking sector.

Chairman Bair appreciated the work being done by National Community Investment Fund in building the CDFI sector and especially in providing quantitative and qualitative metrics for social performance.

In his closing remarks, **Saurabh Narain** thanked Chairman Bair for her leadership in promoting the community development banking sector that provides incisive impact in distressed communities around the country. He also thanked her for supporting the relationship between NCIF and the FDIC.

Honorable Kim Reed
Director, CDFI Fund

Director Kim Reed, thanked NCIF for the invitation and also for the leadership in helping grow the CDFI industry in the US. As Director of the CDFI Fund, she is very focused on commemorating the impact created by this sector in developing distressed communities around the country. Coming from a small town in West Virginia where 29% of children live in poverty, Director Reed is very interested in community development and has especially been active in programs providing alternatives to predatory lending.

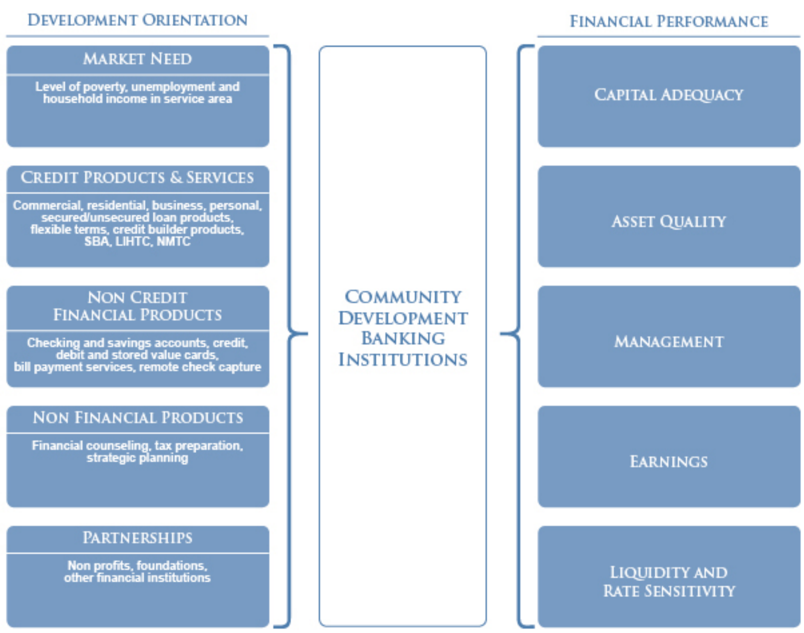
The CDFI fund, which is part of the U.S. Treasury Department, focuses on economic development, affordable housing and community development financial services through four programs: the Bank Enterprise Award (BEA) Program, CDFI Program, New Markets Tax Credit (NMTC) Program, and the Native Initiatives (NACA) Program. In 2007, $3.9 billion was dispersed in tax credits and $55 million was funded to more than 200 organizations, with $11 million being disbursed through the BEA Program. She recognized that the BEA program is of special relevance to the bank and thrift sector.

The Fund is looking at ways in which it can make the program available to communities in rural areas and is contemplating proportional allocations under the NMTC program apart from the Targeted Populations provision. The Fund is also focused on supporting institutions that are finding ways of combating sub-prime predatory lending. Finally she has instituted provisions by which the CDFI certification window will be kept open throughout the year.

Director Kim Reed mentioned the NCIF Social Performance Metrics work that is being done and said that this can be a way of increasing the asset class of community development oriented banks and thrifts. She said that the industry should find ways of complementing some of these efforts so that measureable impact can be demonstrated to stakeholders.

Day 1: Tuesday, November 6, 2007

Opening Remarks
Saurabh Narain of NCIF talked about the 'three-leg stool' of socially responsible lending being (i) positive or negative screening, (ii) shareholder activism and (iii) community investing. Investors increasingly need product for the third leg of community investing – products that can be both transactional and institutional and that Community Development Banking Institutions (CDBIs) are prime institutional candidates for these investments. He highlighted the need for CDBIs to showcase their community focus in the form of market need in areas where they operate, credit products offered to support low income people, non-credit financial products offered to increase access to financial services and partnerships with other organizations to generate holistic impact (see NCIF Model CDBI Framework below).



He also talked about the NCIF Social Performance Metrics, which uses HMDA data and branch location data on all 8,600 banks in the country to assess the community focus of these banks. Development Lending Intensity and Development Deposit Intensity are terms used by NCIF for making these comparisons (Check www.ncif.org for more information). These metrics and tools that are available on the NCIF website have been received with enthusiasm in the investor circles. Finally he emphasized the need for CDBIs to become more effective and efficient in generating financial and social returns for the stakeholders.

Panel 1: Investor Perspectives Panel
Fernanda Lima, Fund Advisor, NCIF led the panel to explore alternatives for bringing mainstream and socially responsible deposits, debt and capital into the sector.

Ed Powers of Banc of America Capital Access Funds said that as a fund of funds they invest in economic development oriented funds that offer double digit financial returns to them. He said that they have invested in community bank oriented funds offering a similar return expectation. While they like community development banks as an investment class, it has been a challenge getting the bankers to provide a timely exit and a comparable financial return. He urged CDBI chief executives to continue to focus on this. **Dan Letendre of Merrill Lynch CDC** said that they invest only through national and regional intermediaries (like NCIF). They like the NCIF Social Performance Metrics and are likely to be part of the pilot to invest their NMTC allocation using these metrics. **Eliza Webb of Fannie Mae** talked about the Fannie Mae partnership model with CDFIs around the country wherein they provide medium term loans to banks at advantageous interest rates. They are also setting up programs to support foreclosures in the context of the subprime crisis. **Mathew Hickey of National City Bank** said that they like working with CDFI banks especially in the context of low income and new markets tax credits.

Panel 2: Growth through acquisitions or organic; integrating and managing scale
The panel discussed the opportunities and challenges faced by CDBIs on the growth path. CDBIs live the paradox of fulfilling a community development mission, while still being a for-profit institution owned by investors who want the best return on equity. Financial metrics often fail to fully account for the social impact of the institution. **Michael Berry of the Chicago Fed,** talked about a study that they are undertaking to analyze CDFIs trying to achieve sustainability.

Debbie Wright of Carver FSB, talked about the challenges of adapting to changing community dynamics for small CDBIs. Over the years demographics have changed and the community is now composed of more diverse ethnicities, a higher median income, new construction, and growth in small businesses and retail development. Accordingly Carver has to constantly adapt itself to the needs of the customer by adding new delivery channels to compete with the larger banks, buying Community Capital Bank to better offer small business and commercial lending products and to constantly think of new ways of becoming effective and competitive in the market. Carver has benefited from low cost deposits from the City under the Banking Development District Program.

According to **Phil Baldwin of Southern Bancorp**, a CDBI needs the right management to grow, the right people in right spots, the right systems and the right capital and all of this needs to be in place before starting growth plans. For Southern, this required centralized policies on underwriting and quality of financial service delivery, a consistent mission and distribution of responsibilities between the non-profit and for profit arms of the institution. Southern's service area contains highly distressed areas, some of which have little or no demand for traditional loan products. As a result, the community's capacity needs to be built – oftentimes, this work is performed by different departments of the holding company. Additionally growth in rural areas requires active involvement of the entire community to develop plans for growth.

David Reiling of Sunrise Banks faces growth challenges not only from the traditional large banks but also from the non-bank sector – including from retailers lik e Wal-Mart. CDBIs need to look for unique value propositions - start with the consumer and work backwards to transform their risks into opportunities through collaboration with new partners. He stated the importance of culture over efficiency, of efficient and effective processes, standardization and consolidation of deposit services, specialization, and standardization of loan operations. CDBIs need to regularly assess the strategies that should be continued and those which should be abandoned. A CDBI cannot have the same style of operation with 500 clients as with 100,000 clients; however the key to this change is sensitivity to the culture and respect for the customer – tenets that are non-negotiable.

Panel 3: Development Impact at and through CDFI Banks and Credit Unions
Panelists addressed the direction and impact of quantified data on CDFIs.

Joe Schmidt of NCIF described NCIF's approach to quantifying development impact, including the creation of the NCIF Social Performance Metrics. These measurements utilize publicly available lending and branch location data to create a transparent measure of an institution's social performance in low to moderate income communities. NCIF Social Performance Metrics can be used to increase the asset class of CDBIs and for increasing the flow of deposits to the sector. **Bob McGill of Neighborhood National Bank** provided perspectives on the difficult operational environment that has caused community development banks to realize that the mission must be balanced with profitability. Neighborhood National has experimented with many programs and products, failed at some, and learned how to improve others, especially by partnering with other institutions. As a result the bank has been able to cater to the changing developmental needs of the community and delivering superior impact. **Randy Chambers of Latino Community Credit Union** talked about how they are focused on improving its surrounding communities which are not easily assessable by regular development measures. Traditional measures place more weight on loans to ethnic minorities than to loans that benefit ethnic communities. Moreover, impact does not solely depend on what a single organization can do, but also on how that organization can partner with and build capacity at other organizations. Latino Community Credit Union has focused on the serving the increasing size of the working Hispanic population in North Carolina. **Kathryn Clay of PNC Bank** agrees that measures must move beyond counting affordable housing units and jobs created, but focus on the greater impact, both internally and externally. Examples include tracking increases in property values, education achievements by community youth, and the improvements in service delivery. Kathryn also emphasized the importance of partnerships both with community and corporate institutions, which might be able to deliver a service more efficiently and achieve more impact.

Panel 4: Products to Combat the Foreclosure Crisis Associated with Sub Prime Loans
The panelists emphasized that CDBIs are in the business of serving customers who are excluded from the mainstream financial sector and often meet the credit characteristics

of ‘sub-prime’ borrowers. They also spoke, respectively, about strategies being used to soften the impact on those most affected by the high foreclosure rate among sub-prime borrowers. What caused this crisis are not the customers but abusive practices and irresponsible product that was sold to prime and ‘sub-prime’ customers. The major problem in sub-prime lending in recent years is the increase of *predatory* lending practices targeted towards low income borrowers. The result has been a major increase in foreclosures.

Matthew Roth of NCIF suggested that according to public sources 2.2 million borrowers were potentially subject to foreclosures and there was a $164 million loss in wealth. **Bruce Gotschall of Neighborhood Housing Services, Chicago** has worked intensively to stem the rise in foreclosures by creating partnerships between non-profit organizations, the City, the Federal Reserve and lenders to provide hotlines with counseling services, quality homeowner education, and workshops to provide financial education. The panel then presented several possible products to combat the crisis. **Angela Kelcher of Fannie Mae** discussed the importance of finding a balance between prudent risk management and sustainable homeownership opportunities. Fannie Mae advocated the use of flexible mortgage products with long term forbearance and repayment, and the possibility of loan modifications. **Alden McDonald of Liberty Bank & Trust** suggested a “fast track” program, characterized by innovative underwriting (removing some of the traditional risk factors) and lower cost processing to meet the needs of the community and maintain home ownership. Alden has created an innovative partnership with the City of New Orleans in combating foreclosures.

Panel 5: Public-Private Partnerships, Community Investing
David McGrady, Chairman, NCIF talked about the need for bringing in many more public private partnerships to generate impact in the low to moderate income communities and people. **Scott Lindquist of Sonnenschein** provided brief facts about the program and how it has been used by CDFI banks in the country. He emphasized the need for a very focused business plan demonstrating how the applicant will deliver capital and impact in low-income communities. **Deloris Sims of Legacy Bank** presented their successful experiences with the NMTC program for which they partnered with a quasi-government agency. In 2006, Legacy Bank closed 9 transactions that utilized 67.2 million in NMTC allocation. As a result of the investments, over 2,600 jobs were created; of which 1,100 pay more than $30,000 per year. By the time the funds were fully utilized, over 40% had gone towards minority-owned businesses. The surrounding community has dramatically improved and shareholder value has increased. **Denise Pease of City of New York** discussed how New York City responded to the demand from local CDFIs for a larger capital base in order to increase their community impact. The City invests its deposits with CDFIs and is looking for ways to increase incentives for the larger banks to open more branches in low-income areas. **Barry Wides of the Office of Comptroller of Currency** talked about the recent changes in the CRA regulations as being proposed by the Qs&As. He highlighted that investments in minority banks counted for CRA credits even if they were located outside of the investor’s assessment areas. He mentioned that there were enough comments from the community (including from NCIF) seeking the same treatment to CDFIs as is being accorded to minority banks. He also talked about the changes in Part 24 investing for national banks. Overall he emphasized the need for the investor community to support the growth of minority and community development banks.

Day 2, Wednesday, November 07, 2007

Panel 6: Mergers, Acquisitions, Liquidity for Investors; Raising Capital from Public Markets

The session focused on the challenges faced by CDBIs in raising public money and the opportunities available. **George Surgeon of ShoreBank** shared his experiences in raising capital from the equity markets. He said that they have been talking to a group of investors who are interested in investing in social enterprises. Since these investors don't want to do charity high impact CDBIs rank high on their list given that the CDBIs are meant to be profit making. These investors are interested in a clear mission statement, the ability to pay dividends and to provide liquidity and exit strategy. Investors don't want to control the CDBIs and therefore voting rights are not important, however they want an independent board of directors which takes independent decisions. **Fred Price of Sandler O'Neill Partners** commented on the state of the public equity markets. According to him the equity markets in the next year or so will not be favorable for small banks to do IPOs. This however gave time to CDBIs to prepare for an eventual public listing. CDBIs should allow 16 to 24 months for 'Forward Thinking Preparation' in advance of a public offering. His tips for a successful offering were to offer a size that reflects the funding needs of the organization and not a figure based on the suggestion of an investment bank or other party. He also stressed the need to have a management team with vision and passionate leadership, to provide training to the staff, communicate good and bad news in a timely manner and to not create a lifestyle organization that is one which supports the lifestyle of the management. **Richard Fortwengler, Managing Director, NASDAQ** discussed the NASDAQ PORTAL trading platform as an alternative to IPO. The significance of raising public money is to facilitate capital formation which results in creation of jobs and wealth. NASDAQ PORTAL enables listing and trading of 144A and private stock and is growing in popularity given the regulatory burdens associated with public ownership. Additionally, while an IPO can take 24 weeks (excluding the substantial preparation time), listing on PORTAL takes 10 weeks, and the entry fess and costs are $2,000 compared to at least $200,000 in costs if one it to go public. With no limitations on size and nature of the company the PORTAL is becoming increasingly popular. NASDAQ received more than 2,700 applications received last year.

Panel 7: Retail Financial Service Strategies to Serve Underserved Communities

Panelists addressed the challenges that small banks face in developing successful retail strategies.

Bill Dana of Central Bank of Kansas City shared how the bank has developed products for the unique Latino market in the area. The "field of dreams" allows Latino customers to gradually progress from undocumented prepaid cards to savings accounts to a branded credit card and then to installment and ITIN loans. The plan promotes cash management and establishes a banking relationship. Challenges include making a profit on the cards and regulatory issues given the small volumes and few number of cards outstanding. **Kevin Downs of West Monroe Partners**, challenged CDFIs to rethink their retail strategies by focusing on 15 tangible improvements, including analytics and fiscal performance, simplified products, using branches as sales offices, and outsourcing unnecessary departments rather than competing on service. He also encouraged small banks to stay away from trendy niche businesses, such as investments, retirements, and private banking. **Steve Reider of Bancography**, estimates that financial institutions have invested more than $26 billion in branches on the presumption that clients will continue to prefer banking at a physical branch. However, as intense competition means that urban markets are not as profitable as suburban markets, it is especially important for small banks to expand their branch networks but in a cost effective manner. Planning for branch expansion requires 6 steps: 1. define guiding principals, 2. define submarkets, 3. build demand estimates, 4. forecast likely penetration, 5. define service model, and 6. define the financial projections. Most importantly, the key determinant in profitability of a branch rests in operating expenses not capital costs, and multiple branching alternatives exist that can reduce these costs. Similarly, **Dr. Bala Venkatesh of The Cambridge Group,** encouraged bankers to employ a demand strategy to target retail markets. A bank can not be all things to all people, and therefore it must isolate a segment of the market and then understand what is valuable and motivating to that group. The institution must then address those demands in such a way that the target market can justify paying higher fees or interest rates for that service. He also talked about 'Need States' in doing business with the underserved customers. This methodology is very similar to the Credit Path Methodology that is being used in the community development banking sector.

In Q&A Mr. Reider explained that branches and online services are complementary, not mutually exclusive. Dr. Venkatesh added that most selling is also still done in branches. In the Latino community, while the branch's atmosphere is important, trust is primarily built through partnerships with the community.

Panel 8: Ethnic Populations, Rural Poor and the FDIC Small Dollar Loan Program

Panelists explored the dynamics and challenges of banking for rural and Hispanic markets and offered best practices.

Ellen Seidman of ShoreBank talked about how CDBIs have been very successful in tackling diverse needs of ethnic, rural and/or urban poor. **Phil Baldwin of Southern Bancorp**, talked about how the Bank's non-profit arm has impacted individuals and communities in rural Arkansas to combat poverty. The unique product offerings are designed to assimilate and educate clients on banking, reduce unemployment, and enable clients to build wealth. From IDAs (Individual Development Accounts) to credit-building CDs to career pathways to homebuyer training and counseling to mortgages, the bank's programs and advocacy has resulted in more than $2 million in individual savings, an increase in the state's minimum wage, and $28 million to fund 25 Career Pathway programs throughout Arkansas. **David Flores of Nuestro Banco** (a de novo bank) talked about the substantial growth in the Latino population and its purchasing power. He described how Nuestro Banco has responded to the changing dynamics in North Carolina and is planning on meeting the needs of this growing clientele. By dividing the market into three segments (recent immigrants, semi-acculturated/acculturated, and small business), the bank plans to address the needs of each group and assimilate the clients to a banking environment, while maintaining dignity and establishing trust. David concludes that the keys to success are in understanding the client, educating, providing services, maintaining consistency, and partnering with community organizations to build trust. **Ed Jacob, CEO of Northside FCU** and **Andrew Stirling, Program Manager of FDIC Small Dollar Loan Program** provided an assessment of pay day lending and the need to provide alternatives. The Pay Day Alternative Loan (PAL) offered by Northside FCU offers a $500 loan product to clients who meet the minimum income requirement and amortizes the loan over 6 months at a 16.5% interest rate. Northside made substantial changes in its underwriting guidelines given losses made at an early stage. Accordingly it reduced delinquencies caused by cash flow mismatches, offering financial training, and managing transaction costs. **Andrew Stirling of the FDIC** reinforced that successful programs such as Northside FCU's assist clients by offering longer amortization periods, cost-responsive interest rates, and savings programs that address future cash flow problems. He also talked about the Small Dollar Loan Program Pilot that is being launched by the FDIC which has received tremendous response from large and small banks.

In Q&A, Mr. Jacob responded that they began to verify employment to improve charge-offs, and many charge-offs were absorbed by funds from a loan loss provided by larger banks such as Chase and LaSalle. In response to compliance concerns, panelists recognized the challenges for smaller institutions but assured that enough flexibility exists to allow for profitability.

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