Annual Development Banking Conference

Responsible Banks, Strong Communities

October 31 – November 2, 2012

A summary of the innovative ideas and collaborative discussion generated at this year's Development Banking Conference.

NCIF℠ National Community Investment Fund

Leveraging Capital for Change℠

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Responsible Banks, Strong Communities

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SUMMARY OF KEY THEMES FROM THE 2012 CONFERENCE

A Way Forward: CDFI Bank 2.0 and The Four C's

Saurabh Narain
Chief Executive, NCIF

The Great Recession continues to challenge the CDFI Banking industry. In addition, communities and banks in the Mid-Atlantic and Northeastern regions were affected this year by Hurricane Sandy. These crises, while testing the limits of banks' endurance, underscore the absolute necessity of this industry. CDFIs have maintained their incredible impact in distressed communities, just as those communities most need financial resources. The 2012 Annual Developing Banking Conference was a celebration of the industry's great worth, as well as an opportunity for insight, discussion, and innovative new ideas. The attached summary highlights the evolution of a new model of mission-oriented banking – CDFI Bank 2.0 – and the "Four C's" of critical success factors that this model entails.

Collaboration and CDFI Bank 2.0

Conference participants called for radical new ideas outside the realm of the traditional banking model and services. From collaboratively developed product lines sold locally by different banks, to regional consolidation of smaller institutions, ideas reflected a move toward increased collaboration and the creation of networks.

A network of banks could take advantage of opportunities of scale in small business lending, spreading out compliance and operational costs while preserving and capitalizing upon CDFI Banks' deep connection to their communities. Shared ownership structures may be implemented to ensure that each bank has the right incentives to be diligent in making quality loans to quality small businesses. At the same time, banks would retain absolute freedom to work individually at a local level. This is the evolution of CDFI Bank 2.0.

The NCIF Network of Mission-Oriented Banks will promote collaboration among banks in 2013 by developing shared product and business models around our three-way New Markets Tax Credits partnership and Small Business Lending.

Capital

CDFI and Minority Banks need more capital in order to achieve scale by increasing their customers and revenues while reducing costs. It is paramount that CDFI Bank 2.0 generate liquidity for its investors, on an individual bank level or collectively on an industry level. NCIF will be working with industry leaders to identify opportunities for achieving this. In addition, the use of capital can be maximized via securitizations and collaborative structures for sharing risk.

Creative Communities

In today's highly connected world, CDFI Banks can use technology to maximize their inherent strength by building "communities," "groups" or "circles" with others working toward the same mission. The NCIF Network of Mission-Oriented Banks will explore a program of online communities, bringing together Impact Measurement specialists to discuss strategies to better "tell the story" of the bank and the industry.

Compelling Communication

CDFI Banks have driven transformative impact in low- and moderate-income communities for decades, but their work too often goes underappreciated. In order to change this, it is imperative that CDFI Banks come together to describe their impact in quantitative and qualitative ways that fulfill the need of impact investors. Improved measurement will also raise the bar in terms of performance. The industry rallied behind NCIF's Social Performance Metrics and Development Impact Dashboards as the standard for "telling the story." Industry leaders should continue the ongoing process of refining and enhancing these metrics.

We look forward to strengthening and growing the industry together. See you November 12-14 for our 2013 Annual Development Banking Conference.

Saurabh Narain
Chief Executive, NCIF

IMAGINING OUR FUTURE

A Probable Future of Mission-Oriented Banking

Eugene Ludwig
Founder and CEO of Promontory Financial Group and former Comptroller of the Currency

Throughout its short history, the community development banking industry has proven itself to be a powerful and necessary driver of economic growth. President Bill Clinton was impressed by the work of community development banks, particularly ShoreBank in Chicago, and wanted to create another 100 such banks that would work in impoverished areas of the country. Today there are close to 100 CDFI Banks. The focus of CDFIs is shifting from housing finance to job creation and small business lending, and this change calls for different tools and a different approach. With constant evolution and innovation, the CDFI Banking industry can continue to grow in terms of both number of institutions and level of community impact.

The power of the community development banking industry has shown that it is possible to truly change lives with the right financial tools. While the industry has had challenges, it is imperative to focus the lens on all that has gone right. CDFI Banks have proven to be the most important kind of community development institution in terms of local impact, due to their ability to leverage capital to maximize much-needed lending. In doing so, these banks are revitalizing distressed communities, providing families and businesses with opportunities that they would not have otherwise had.

Because CDFI Banks are so essential, stakeholders must do whatever it takes to preserve them. Most importantly, the industry has to come together to address the new regulatory environment for financial institutions. CDFIs likely cannot afford and cannot be held to the same standards as large banks. The rules associated with Basel III, concerning both capital and risk weighting, are highly problematic for any small organization because they were written for the most interconnected global institutions. I urge CDFIs and their supporters to actively partner with regulatory agencies to better convey the distinctive role that community development banks play and the impact that these regulations will have on their operations. A concerted effort must be made in defense of these institutions, because they are simply too important to fail.

> *"The power of the community development banking industry has shown that it is possible to truly change lives with the right financial tools."*
> – Eugene Ludwig

It is also crucial that the industry continue to evolve with innovative business ideas and with new business models tailored for this century. CDFI Banks must lead the way in taking advantage of hybrid institution types and new services outside the traditional banking model. For example, there is an enormous role for CDFI Banks to play in different lending niches. While the largest financial institutions find it difficult to deal with small loans, CDFIs have the critical advantage of local connections and the human touch. Community banks could exploit their niche in small business lending, and then in addition to traditional loans they could provide entrepreneurs with much-needed equity capital, advice, and other services.

At the same time, banks could utilize a collaborative network structure to take advantage of the savings of scale that until now have benefited only the largest banks. Organizations like NCIF play a role in this innovative process by finding real money to support these innovations. NCIF will also be instrumental in allowing such a network to come into existence, by bringing people together like it has today.

CDFI Banks have a strong history, and they should be proud of the impact they are creating in their communities. The industry will have a bright future, too, if banks are able to proactively respond to the business and regulatory changes that are on the horizon.

The Future: A Panel Discussion with Eugene Ludwig

Eugene Ludwig
Founder and CEO,
Promontory Financial Group

Don Graves
Deputy Assistant Secretary,
US Department of Treasury

Alden McDonald
President & CEO,
Liberty Bank and Trust

Mark Willis
Research Fellow, New York University
and former President,
Chase Manhattan Foundation

Moderated by Saurabh Narain
Chief Executive, NCIF

The bank model represents a powerful mechanism for creating positive change in communities. A bank can leverage funds up to eight times – thereby maximizing the impact of every dollar of capital. CDFI Banks work in economically depressed places, lending to people with poor credit, and are still able to make money. In the wake of the financial crisis, these banks continue to work in the hardest-hit communities, infusing them with capital and services just when they are most needed. For these reasons, CDFI Banks are the single most important type of institution in the community development field.

CDFI Banks must continually look to the future of community development, incorporating new business strategies and taking advantage of new opportunities as they arise. This evolution, CDFI Bank 2.0, will result in banks experimenting with new collaborative business models and innovative products and services. They must constantly evaluate the balance between mission and profitability, charging high enough rates to cover the increased costs of working in low-income areas. The industry should be proud of being financially sustainable: even if fees are high, the products offered by CDFI Banks are far better for customers and communities than alternatives such as payday loans.

CDFI Banks must reimagine their capital-raising strategy, beyond the CRA obligations of large financial institutions. The CDFI industry should appeal to a much broader community of investors, including pension funds, technological companies, high net-worth individuals, and other individuals through crowdfunding. Banks offer a stable investment that represents a worthwhile mission. By providing potential investors with liquidity and exit strategies, they can make themselves even more attractive as investment targets.

Community development banks are part of an important, successful industry that stakeholders must rally to support. Industry leaders have to attract attention to these banks and shine a light on the incredible work they do. A blue-ribbon panel of influential supporters could be effective in creating a voice for the industry on a national level. President Obama could become a backer of the cause, as the mission of CDFI Banks is very closely aligned with his priorities as President. In terms of legislative support, CDFIs can offer members of Congress incredible political returns in high priority areas: programs aimed at community banks represent an investment in the middle class, in job creation, and in revitalizing communities.

First, the industry must agree on a strategy for approaching and convincing legislators and other stakeholders. NCIF has been pioneering ways for the CDFI industry to tell the story of its impact by developing compelling social performance metrics. In addition, in-depth research to document the long-term effects of CDFIs could provide a very useful argument. Banks have to come together to effectively use these tools in marketing the industry.

Regulatory policy is critically important to the success of the CDFI Banking industry. Banks need to partner with regulators, to give them a clear understanding of the inner workings and special needs of smaller institutions. Existing and proposed regulations may be modified if the industry can effectively demonstrate its work in providing necessary products and services without excessive risk. As an example of this in practice, TARP was undoubtedly essential for the banking industry as a whole, and following effective advocacy was then specifically tailored to assist CDFI certified banks. Looking forward, the Small Business Investment Company (SBIC) program has some minor rules and regulations that, if changed, could make it very attractive to put funds into the small business investment side of the industry. The most important step in realizing these goals is for CDFI Banks to communicate and partner with regulators.

"We're not asking for a handout. It's actually an investment in people who will turn the country around and create jobs."
– Don Graves

"CDFIs represent troops on the ground. With the right support, the industry can create a quick turnaround in job growth and small business in this country."
– Alden McDonald

"CDFI Banks represent the single most important institution in the community development finance field."
– Eugene Ludwig

"CDFI Banks must reimagine their capital-raising strategy beyond the CRA obligations of large financial institutions."
– Mark Willis

"The evolution, CDFI Bank 2.0, will result in banks experimenting with new collaborative business models and innovative products and services."
– Saurabh Narain

IMAGINING OUR FUTURE

"Responsible Banks, Strong Communities"

Donna Gambrell
Director of the CDFI Fund

The 2012 Annual Development Banking Conference is a wonderful opportunity for the CDFI Banking industry to plan its direction for the near future. The theme of the conference is a clear and concise statement of the mission of this industry: "Responsible Banks, Strong Communities." Communities need financial services, but those services must be responsibly priced. CDFI Banks exist to offer responsible services, as an alternative to the kind of financial entities that undermine strong communities. Responsible banks do indeed help to build strong communities.

Now more than ever, partnerships like the one between NCIF, CDFI Banks, and the CDFI Fund are necessary. Only through collaboration will the CDFI Banking industry reach new levels, and NCIF can assist in advancing this collaborative process. NCIF is already helping to use collaboration to strengthen responsible banks through the development of its Social Performance Metrics for measuring the social impact of community development lending, as well as its Development Impact Dashboard format for reporting that impact and telling the stories of individual institutions and the industry. The CDFI Fund wholeheartedly supports this initiative and will work with NCIF and the CDFI Banking industry to foster and support collaboration and new partnerships.

"This is about communicating, collaborating, and ensuring partnerships that are effective and that help CDFI Banks create impact."
– Donna Gambrell

The CDFI Fund offers a variety of programs that form the foundation for a partnership with the banking industry. This is about more than programs – it's about communicating, collaborating, and ensuring partnerships that are effective and that help CDFI Banks create impact.

I see three areas for improving partnerships:

1. CDFI certification – This is the essential first step that banks continue to overlook. As of July 2012 just a little over 80 institutions are certified, but many others could qualify. This certification opens doors to opportunities like awards and training activities.
2. The flagship CDFI Program – Since 1994 the CDFI Fund has awarded $1.4 billion in financial assistance. However, CDFI Banks made up only 5.9% of the entire pool of applications and their participation has remained consistently low.
3. The CDFI Fund's Capacity Building Initiative – This program offers technical assistance and training exclusively for CDFIs, to develop their capacity in portfolio management and other important issues. The training is offered free of charge and can be completed online. So far more than 1,700 hours of one-on-one technical assistance have been provided, although here also participation among CDFI Banks has been limited.

We are at a turning point in the CDFI industry and need to work together to determine the next steps forward. This is our chance to think big. The future may not only be about growing bigger, but also about growing deeper or wider. CDFIs should be very proud of all that they have accomplished for this country, despite the difficult circumstances of the recession. The CDFI Banking industry's business model should become an example of excellence.

The CDFI Fund exists to be a partner to CDFI Banks. While the road travelled by CDFI Banks may not be easy, it is important to remember that this industry is not alone, and that there are many others who share your vision and passion and who will always be at your side.

Working Together to Improve Performance

Sandra Thompson
Director, Division of Risk Management Supervision, FDIC

The FDIC is very interested in the future of community banking and is keenly aware of the importance of CDFI Banks serving economically distressed communities. The agency would like to be a better partner to CDFI Banks as they seek to improve earnings, diversify and stabilize funding, develop succession management plans, recruit and retain talent, adapt to regulatory changes, and leverage technology. Opportunities exist for the FDIC and CDFI Banks to work together to improve both financial and social performance.

CDFI Banks are a financial services lifeline for low- and moderate-income communities, and I'd like to commend our hosts at NCIF for their groundbreaking work on creating metrics to demonstrate the extent of that social impact. According to NCIF's Development Impact Dashboard, CDFI Banks have four times the number of branches in low- and moderate-income communities than the median of all banks in the country, and three times the HMDA-reported lending in those communities. CDFI Banks continue support these economically disadvantaged communities as they recover from the recession.

Although the recession has been devastating, and particularly so in low- and moderate-income communities, from a financial standpoint the country may be on its way to recovery. The results from the latest FDIC Quarterly Banking Profile indicate the economy is moving in the right direction. The number of problem banks is stabilizing, and the number of bank failures is decreasing. 2012 saw the lowest number of problem banks since 2009, and loan balances have increased in this quarter. Most banks are profitable, and two out of every three banks are improving their profitability.

> *"Earnings are up, charge-offs are declining, and capital is increasing."*
> – Sandra Thompson

CDFI Banks are experiencing the same gradual recovery as the rest of the industry, although at a slightly slower rate. The percentage of unprofitable CDFI Banks has dropped from nearly 35% in 2010 to about 26% today. In general, earnings are up, charge-offs are declining, and capital is increasing. Currently 81 institutions make up the CDFI Banking industry, and together they hold a total of $27 billion in assets. Six CDFI Banks have failed since 2008, and three of them were purchased by other CDFI institutions. It is important to the FDIC that bank purchases stay within the CDFI community, because financial services in low-income communities are high-touch and banks need specialized interest and expertise to engage that segment. For the same reasons, I hope that together we can find ways to strengthen and support this very important industry.

In its supervisory role within the CDFI Banking community, the FDIC's focus during 2012 and 2013 is on interest rate and credit risks, as well as third party relationships. These risks apply to all banks, including CDFIs. We're finding that in this unprecedented low interest rate environment, banks are focused on maintaining their net interest margins through their securities portfolio, taking on additional risk both in terms of credit quality and duration. Regulators expect banks to manage interest rate risk in a manner that is appropriate to the size of the bank and complexity of its assets and liabilities, by setting limits and establishing exit strategies. In terms of credit risks, we are concerned that banks are moving into new product lines without appropriate controls or expertise, which can lead to credit losses and contribute to bank failures. Finally, the CDFI community should be very wary of third party relationships whereby banks seeking non-interest income or cost reductions enter into agreements that they don't fully understand. For example, some banks have entered into imprudent agreements with third party payment processors whose other clients include internet gambling sites. Not only is this a reputational risk for the bank, but it also can lead to issues with consumer compliance regulations and other policies. We want to see CDFI Banks making the right kind of partnerships, with entities that share in a passion for their mission.

In March 2011, the FDIC issued a *Reminder on FDIC Examination Findings* to encourage bankers to communicate their concerns about examinations. We acknowledge the difficult challenges that banks face during this banking environment and encourage banks to provide feedback on FDIC supervisory programs.

The Chairman of the FDIC recently launched a number of Community Banking Initiatives to focus on this very important industry. The National Community Banking Conference and regional Roundtables were organized so that the FDIC can hear first-hand about the concerns of community bankers and ideas for addressing those concerns. The FDIC's research division will publish a study tracing the evolution of community banking and lessons learned. We are evaluating our own risk-management and compliance supervision practices to identify ways to improve processes that should prove helpful to CDFIs. This includes a pre-exam planning tool, technical assistance outreach, and faster examination turnaround time. In addition, the FDIC, the Federal Reserve, and the OCC recently released a Regulatory Capital Estimation Tool specifically designed to help community banking organizations evaluate the potential effects of two proposed regulations – Basel III and the Standardized Approach – which effect capital requirements and rules for calculating risk-weighted assets, respectively.

The FDIC also launched the Investor Match Program, which encourages the participation of small, minority and women-owned investors in FDIC asset sales programs. Finally, the FDIC welcomes CDFI Bankers to a series of "listening sessions" to identify and develop some meaningful and measurable goals for its CDFI program. This program was created to support community banks and CDFIs in facing important challenges, so that they can carry on with their recent progress and continue to magnify their community impact. The FDIC has a deep interest in the future of community banking, and we want to see the industry regain its standing as a major player and a driver of economic growth and job creation.

IMAGINING OUR FUTURE

State of CDFI Banking Industry

Saurabh Narain
Chief Executive, NCIF

National Community Investment Fund (NCIF) aspires to have a society in which responsibly priced financial products and services are available to all communities, and investors value social and environmental returns as well as financial returns. This vision for the future is shared by many of the industry leaders who have joined us for the 2012 Annual Development Banking Conference.

I recently spoke with a major investor, who asked me three telling questions about the CDFI Banking industry:

1. Is the customer base of CDFI Banks different from those of a major bank?
2. Are CDFI Banks filling the gap in depository services not provided by a major bank?
3. Are CDFI Banks providing reasonable financial returns and exits to investors?

The answer to the first two questions is unequivocally, 'yes.' Over the last 20 to 30 years, CDFI Banks have created transformative impact in distressed communities around the country. One way to make the case for CDFIs is to ask counterfactual questions, like what would rural Mississippi be like if Guaranty Bank had not been reaching out to underserved there since 1943? What if Carver hadn't been working in Harlem since 1948? Walking the streets of these communities tells us about the revitalization fostered by these banks.

> *"$5.18 billion in development loans have been made by NCIF reporting banks since 1998."*
> – Saurabh Narain

CDFI Banks are Too Important to Fail, as the numbers demonstrate:

CDFI Banks make up 10% of total CDFIs by numbers, but account for over 50% of total assets; their equity is leveraged 8 to 10 times. Since 1998, $5.18 billion in development loans have been made by banks reporting to NCIF. 173,231 transaction account customers were served last year by 23 reporting institutions. A branch of Citizens Trust Bank in Birmingham, for example, serves a community with a 60% unemployment rate and 60% of its members living in poverty. This continued focus on increasing impact in local communities differentiates the industry from the rest.

Yet, what does the CDFI Banking industry need to do to reinforce this message? This impact must be communicated to stakeholders in a manner that meets their financial and programmatic needs. The industry needs to utilize standard quantitative and qualitative mechanisms like NCIF's Social Performance Metrics and Development Impact Dashboards to tell the story of CDFI impact. Banks need to come together to formulate a response to public policy around bank regulation, the Bond Guarantee Program, CRA, and the CDFI Fund.

The investor's third question is the most complex. The median Return on Average Assets and the asset quality of all CDFI Banks closely mirror those of non-CDFI Banks from 1990 until 2008, when they diverge at the onset of the ongoing Great Recession. This demonstrates that CDFI Banks can and have operated in a safe and sound manner and generated reasonable returns over a long period of time. The recent divergence in performance is not surprising given that CDFIs focus on the sections of society most vulnerable to economic downturns.

CDFI Banks have a very limited history of providing liquidity to stock investors, and hence investors cannot monetize the accretion in the book value of their investments. Therefore, we need to offer exit strategies for investors, at a bank level or as an industry. In order to attract investors, we need to sell the idea of "total return" as financial returns plus social returns on investments.

So what is a probable future for this industry? We believe that "CDFI Bank 2.0" will utilize new business models involving collaboration (common back offices, a franchise model, or consolidation) and new technologies (prepaid cards, mobile banking, and crowdfunding). It will seek partnerships with large banks, and will achieve scale. We also believe that CDFI 2.0 will generate superior Total Return for its investors, combining financial returns with social returns, and will communicate this effectively to its stakeholders. This will make CDFI Banks the vehicle of choice for creating transformative change in distressed communities, for private sector investors and the public sector alike.

NCIF's priorities are to invest, inform, connect, leverage and contribute to transforming the CDFI Banking industry. We are committed to supporting mission-oriented financial institutions as they help undeserved communities, create strong social and financial returns, provide exit options for investors, and foster effective leadership.

CEO Panel: Critical Success Factors for Mission-Oriented Banks

Kat Taylor
Co-Chair and CEO
One PacificCoast Bank

Alden McDonald
President and CEO
Liberty Bank and Trust

Moderated by Professor Raj Gupta,
Kellogg School of Management

Huey Townsend
Chairman, President and CEO
Guaranty Bank and Trust Company

David Reiling
President and CEO
Sunrise Community Banks

The CEOs of four excellent institutions shared key strategies, current challenges, and opportunities for new growth and innovation for the CDFI industry.

One PacificCoast Bank takes a triple-bottom-line approach to community and environmental banking by providing fair, transparent, and sustainable banking products and services. The founders settled on the idea to open a bank after a surprisingly close presidential election in 2004 demonstrated to them that social efforts must be independent of political whims. The bank, which reinvests its profits in the community through a foundation, proved to be a powerful vehicle for attaining social justice and environmental well-being.

Liberty Bank has existed since 1972 and has been profitable nearly every year. Its history is rooted in the days of segregation, when almost no African Americans worked in banks. The bank had to tackle challenges, be innovative, and become tougher while maintaining its mission of reaching those traditionally underserved by mainstream banks.

> "What would a CDFI Bank look like if it were 10 times the size it is now – bigger, faster, more efficient, more connected?"
> – David Reiling

Guaranty Bank and Trust Company serves a region in need: these nine Mississippi communities have a higher rate of food stamps and assistance than anywhere else in the country, and also represent one of the largest underbanked populations. Guaranty offers small loans to customers who do not qualify for a conventional loan, providing capital that is essential for community development.

Sunrise Community Banks has two basic strategies: it is place-based and people-based; supporting small business, affordable housing development, and the creation of vital community facilities for the residents of urban Minneapolis and Saint Paul. Sunrise is a pioneer of original thinking, and is proud of both being financially strong and having a powerful social impact.

The CEOs on the panel agreed that community banks need to be proactive about finding the solutions that will carry them through the recession stronger than ever. Opportunities to grow and strengthen the CDFI Banking industry include technology-based solutions, collaborative business models, and more dynamic ways of "telling the story" of its impact, from both a marketing side and an advocacy side. The bankers on the panel were aligned in recognizing a sense of urgency to develop and implement forward-thinking changes. The future of this industry lies in CDFI Banks' innovation and ability to change. This moment of uncertainty can become an exciting opportunity for new ideas and reinvention.

A sense of urgency is needed as there are multiple threats facing mission-oriented banks. The panelists had a lively discussion around size, consolidation, and collaboration as potential solutions to the twin challenges of strict regulations and scarce capital. One possibility is that banks overcome high costs through scale. The industry can look at consolidation as a beneficial phenomenon, representing a move toward a regional control of resources as opposed to local. Working at a regional level, CDFI Banks would be able to support vibrant local communities and at the same time put pressure on the big, politically influential national corporations. CDFIs represent solidarity and should try to help and even save each other when necessary. *(continued)*

CEO Panel: Critical Success Factors for Mission-Oriented Banks *(continued)*

Kat Taylor
Co-Chair and CEO
One PacificCoast Bank

However, growth and consolidation is not the only answer. Scale issues might also be tackled using technology, which has liberated businesses from the bounds of geography and allowed them to think on a larger scale. Information technology can be used to both reduce operating costs and to leverage specific information on the communities the bank serves, so that products can be specifically designed for a certain population group. A checking account, for example, could be specially tailored to meet the needs of a particular community in rural Mississippi, using data about consumer preferences. Social media could become a powerful tool in allowing small local banks to be deeply engaged with their community members.

Another opportunity to work together is by jointly developing products that can be shared and deployed by multiple institutions, each in their own communities. CDFIs have experimented with collaboration in areas like advertising, internal audits, loan reviews, and shared back-room information, but haven't met with much success. Banks know that local knowledge is one area in which they excel, and they don't want to give up their control of customers and their competitive advantage. Shared product lines, on the other hand, play to that strength while spreading the costs of development and compliance.

Another possible direction for CDFI Banks lies in formulating policy. If today's leaders managed to invent this very industry, surely they can find a way to influence the policies that guide it. Rather than reacting to regulatory decisions after the fact, the CDFI industry needs to get on the front end of change, influencing the thinking behind regulations before they become a reality. The largest big bank lobbying group hired former former Minnesota Governor, Tim Pawlenty, as its head – as he has no banking experience, this is clearly a move to influence regulation through politics. The CDFI industry must find ways to establish the legislative credence to push back. Right now, the industry is fragmented. Leaders of CDFIs should personally reach out to their elected officials for support, but on a larger scale they need to come together and agree on an industry-wide strategy to mobilize political support.

> *"Community development banks represent solidarity."*
> – Kat Taylor

When it comes to reaching out for support, CDFI Banks have a great asset they tend to overlook: their mission. These institutions have a powerful value proposition that could be used very effectively to market the industry to the general public. CDFI Banks recognize consumers' sense of urgency on issues from US income disparity to climate change. Especially after the financial crisis, people don't want to do business with banks they feel are acting inconsistently with their values. In terms of human capital, banks should woo the many young professionals who want to unite their career with their desire to work for social good. Finally, by giving people a sense of agency and choice, banks can also give them the power to rally in support of this industry. Community development banks represent relationships, rather than mere transactions. These relationships have the potential to work both ways: banks that work passionately to serve individuals should also call upon those individuals to support the community development banking industry.

What would a CDFI Bank look like if it were 10 times the size it is now – bigger, faster, more efficient, more connected? CDFIs are going to have to start thinking radically different as they move forward. These institutions must survive for the sake of the greater economy and fair society.

The Governance Panel: Best Practices for Superior Performance

John Alberts
Chairman
Payan, Alberts and Thompson

H. Robert Tillman
Assistant Vice President, Supervision, Regulation & Credit
Federal Reserve Bank of Philadelphia

Michael Wooldridge
Partner
Varnum Riddering

Moderated by Charles Van Loan
Retired Chairman
Independent Bank Corporation and NCIF Trustee

Excellent board governance and talented board members can help an institution weather tough economic conditions and grow into a high performing institution. The three experts on this panel discussed ways for CDFI Banks to strengthen their governance.

Who makes a good board member? Potential board members should demonstrate a commitment to an organization's mission and a willingness to devote enough time to support that mission. Banks should consider the composition of the board, especially in relation to independence, diversity, committee structure, size, and company culture. Industry experience is very important, as is experience in executive compensation issues, in HR, or as a CPA. Board members should have good standing in the community and strong investment ability. Banks should consider implementing a board orientation that allows new members to understand the bank and its culture and mission.

Banks should also evaluate the structure of their boards. Board members should have staggered terms, with limits in place on the number of terms allowed. The organization may want to require mandatory resignation or retirement upon any change in the principal occupation of a board member. There could also be a limit on the number of boards a board member is allowed to serve on. Importantly, the Chairman and CEO functions should be separate. Committees should exist and have well-defined responsibilities, composition, and charter. Finally, there should always be stock ownership requirements of board members.

The governance process is another important factor in the effectiveness of a board. There should be coordination and input on meeting agendas. Boards need to be able to assume that everyone is prepared for the meeting so that strategic issues can be tackled. The board should be encouraged to participate actively and to be honest about their concerns. Finally, the organization should produce peer reviews of board members and board performance reviews.

It's important for a bank to keep its board informed and educated about current regulatory issues. Dodd-Frank, for example, is an exhaustive set of rules. Bank management should be proactive in reaching out to the bank's primary regulator to ask if anyone in the agency can come to address the board. Informational meetings hosted by the Fed and other agencies are intended for boards as well as management. Educational resources can be found on the websites and materials of regulatory agencies or banker associations. Bank leaders can also send out a weekly board update email to help the board stay up-to-date and involved in the bank's activities.

Governance is particularly important within the realm of insurance. Insurers, when developing a policy for a bank, look primarily for good leadership. Insurance policy applications ask for a variety of information, but all this information is designed to get at the key question of whether the bank is well-run. Each state has its own laws about insuring banks, but the most important thing when underwriting is the governance and officer-level leadership of the institution. A bank's capital position, liquidity, and management, are certainly important; however, if the bank is not well-run, it will submit endless claims to pay for lawsuits, damages, and other results of poor leadership.

Rob Tillman shared his tips for Excellence in Governance, "Tillman's Top Ten":

1. Equitable, incentive-based executive compensation
2. Proud endorsement of the bank's mission
3. Evaluation of management
4. Specialized talent, especially experience in credit risk management and asset liability management
5. Succession planning as a priority
6. Strong risk management and compliance controls
7. Effective committees and internal audit processes
8. Independent chairperson, driven but also a consensus builder
9. Full engagement in the bank's activities, as well as good relationships with regulators
10. An adequate balance of banking expertise and business development skills

"Telling the Story" Panel: Impact Metrics and Stories to Attract Investors

Moderated by Joe Schmidt
Vice President Investments and Research
NCIF

Sarah Gelfand
Director of IRIS and ImpactBase
the GIIN

B. Doyle Mitchell
President and CEO
Industrial Bank

Brian Argrett
President and CEO
City First Bank

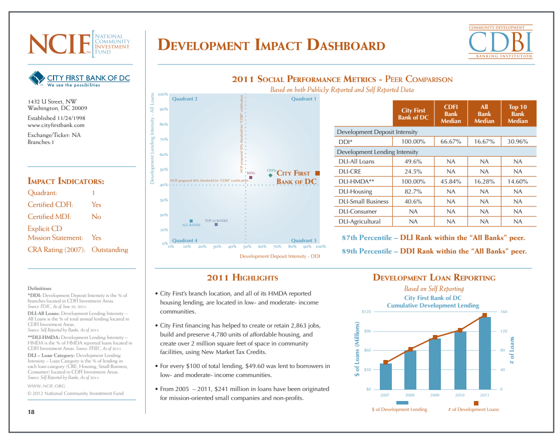
Jeff Lacey
President and Chief Banking Officer
Merchants and Farmers Bank

As CDFI Banks reach out to a broader base of supporters, it is more important than ever that they effectively communicate their impact in underserved communities. Compelling impact data is a powerful tool in conversations with investors, regulators, and other industry stakeholders. Metrics are especially important in the realm of impact investing, which includes mission-driven investments in sectors like renewables, affordable housing, emerging markets, and community banking. This group of investors is new and growing, and impact metrics are evolving alongside it to fulfill impact investors' needs.

NCIF developed its Social Performance Metrics (SPM) to "Tell the Story of CDFI Banking" using a framework of detailed impact measurements. It uses both public and self-reported data from banks to describe how each institution serves underserved people, how many of its branches are in low-income areas, how many it times it leverages its assets, and so on. Once a year this data is published in the Development Impact Dashboard, a transparent, easy-to-use social performance report designed to be most valuable to the widest set of investors and stakeholders. The Dashboard uses SPM to showcase the striking differences between community focused banks and mainstream banks.

> "The work we do in communities is second nature to us, but now we need to learn to get that story out in a way others can quickly understand and easily appreciate."
> – Brian Argrett

The three banks represented on the panel have all participated in NCIF's Dashboard Publication by submitting self-reported institutional data around their local impacts. Banks can then use the completed Dashboard to report to their board members, to inform their communities, and to convince legislators and regulators of the importance of their impact. All three CEOs spoke very positively about their engagement with NCIF, the usefulness of the Dashboard, and the necessity to continue telling the story of CDFIs' transforming work in communities. They encouraged other banks to participate so that the benchmarks can be strengthened.



In the future, the Dashboard and Social Performance Metrics will be enhanced by incorporating additional data points, for example an institution's environmental performance, the number of jobs created, or the number of housing units developed. In addition, it is important to capture the long-term impacts of services, as well as indirect impacts such as the effect of a charter school that is not located in a low-income census tract but that serves low-income students. With continued thoughtful analysis and broad cooperation, the industry can express the true impact of financial institutions.

Advanced metrics call for an effective reporting infrastructure to ensure that data is complete and accurate. On the part of banks, steps should be taken to accurately capture lending data, borrower characteristics, program details, and ways in which banks touch local churches, nonprofits, schools, and minority-owned small businesses. Some participating banks concentrate on collecting data on the front end of each loan, and then compile overall statistics later in the year. Other banks use specialized reporting software or hire outside services to help them ensure data accuracy. In the future the industry may agree to develop one standard reporting infrastructure to streamline this process.

In order to encourage investors to seriously evaluate investments based on their social performance, the industry as a whole needs to define and adopt a single set of unified metrics. For this reason, NCIF has partnered with the Global Impact Investing Network (the GIIN) to harmonize its metrics with IRIS, the GIIN's social metrics. IRIS is essentially a reference guide for impact investors, developed by the GIIN with an active advisory body and the collaboration of impact investing firms all over the world, including NCIF. With different organizations in the industry collaborating to embrace one standardized set of metrics, CDFIs will be able to provide compelling impact data to investors, regulators, and other stakeholders.

The CDFI Sector "Inside the Beltway"

Bob Rapoza
Rapoza Associates and the CDFI Coalition

Over the last two years, local economies and jobs have played an enormous role in deliberations in Congress and throughout Washington; CDFIs, on the other hand, have not been nearly as prominent., have not been discussed. Members of our divided Congress, especially in the House, have delayed political actions as a disruptive tactic. As a result, Congress hasn't debated federal CDFI-related initiatives including the CDFI Fund, hasn't launched the proposed Bond Guarantee Program, and hasn't passed tax extender legislation.

In terms of legislation for CDFIs, things may get worse before they get better. When members of Congress return to Washington after recess, they face gigantic tasks related to the budget. Politicians have decided that the deficit is simply not sustainable and will try to cut it by $4 trillion over a 10 year period. While Congress may take any one of several potential courses of action, it is likely that tax hikes, debt limits, and spending cuts will continue in 2013. This will certainly affect programmatic funding to the CDFI sector.

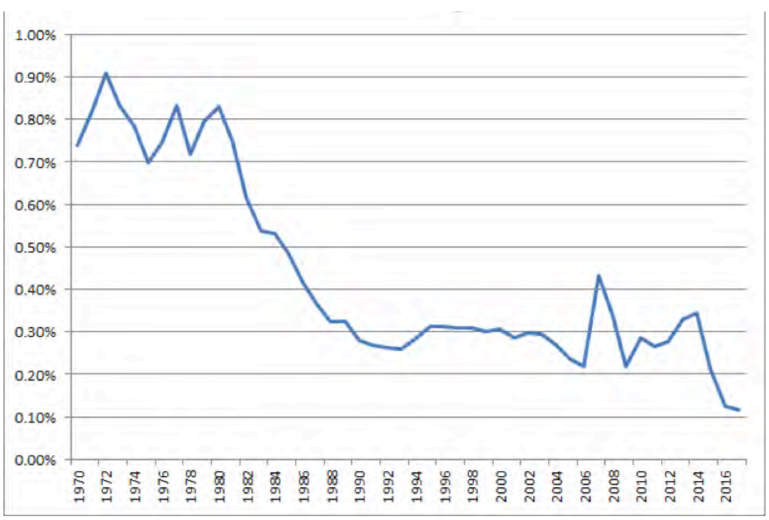
Over the last 30 years federal spending on community development has been cut drastically. Despite this, the CDFI industry has done a good job filling the gap left by supporting local development projects in their communities. In fiscal year 2010, CDFI Banks lent a total of $750 million in low- and moderate-income communities. In fiscal year 2011, institutions reporting to NCIF made over loans to over 31,000 customers and reached over 9,000 individuals with financial counseling and training. Since 1998, banks reporting to NCIF have lent $5.13 billion nationwide. The CDFI world has a great record.

> *"Over the last 30 years federal spending on community development has been cut drastically. Despite this, the CDFI industry has done a good job filling the gap left."*
> *– Bob Rapoza*

After a presidential election that was very focused on local economies, CDFIs have to seize the opportunity to talk about the jobs that have come from their investments all over the country. This sector has been at the forefront of job creation, and has also had a substantial impact on small business. Politicians have focused on underserved and rural areas lately, so it's important to talk about the role CDFIs play in getting jobs to those communities as well.

Communicating the end results of CDFI Banks' efforts is critical to winning the political and financial support necessary to keep this industry alive. I hope to continue to work with the CDFI sector to keep Washington informed of the positive impact banks are creating in distressed communities across the country.

Community Development as a Percentage of Federal Total Outlays



CONNECTING THE INDUSTRY

The Investor Panel: How Can CDFI Banks Attract Mission-Driven Investments?

In the current capital-scarce economic environment, CDFI Banks should focus on attracting mission-driven investments from foundations, faith-based organizations, and major corporate banks. Mission-driven investments are market rate investments that are aligned with a particular mission and have a direct connection to advancing that sense of purpose. Because of their transforming impact in low- and moderate-income communities, CDFI Banks can be an attractive target for this type of investor.

The participants in this panel encouraged CDFI Banks to reach out and develop personal relationships with impact investors. Each individual transaction should be seen as a step toward building a long-term relationship. Investors don't have easy access to information about their investments, so CDFIs should personally update their investors about the successes of their programs. Once investors have been fully engaged as partners, banks should regularly ask them to increase their financial involvement. In addition, banks can learn from each successful transaction to propose creative new types of investment opportunities and investment products. This kind of active engagement will further align the values between the CDFI Bank and investor communities and will lead to more investments in the industry as a whole.

A traditional foundation like the Kellogg Foundation looks for investments with low to moderate risk, durations under three years, and yields in the 3% to 4% range, and that are very closely aligned with its mission to help vulnerable children thrive in all aspects of life. Kellogg's depository portfolio has touched over 25 CDFI Banks.

> *"The notion that CDFI Banks compete with large banks is a misconception – they can work together to help each other."*
> – Lee Winslett

Faith-based investors such as Everence Financial have already invested hundreds of thousands of dollars of deposits in many of the CDFI Banks represented at the conference. Although they have been supporters of high-risk projects in the past, today faith-based investors are most interested in investments with high impact, low return, and low risk. When approaching organizations, potential investees have to attract the attention of gate-keepers within the area-level leadership, such as fund managers, as opposed to grassroots congregations that may not have any control over funds. In order to market themselves successfully, banks will have to offer investment opportunities that are both financially prudent and deeply aligned with the values of that religious institution.

CDFI Banks represent the perfect tool for big banks, such as Wells Fargo, to fulfill their obligations to low-income communities under the Community Reinvestment Act. As these big banks have gotten larger, their ability to participate in smaller transactions has diminished, so they look to partner with CDFI Banks that can take on more capital. Beyond CRA, larger banks have begun to embrace community development as a business in which to invest. Historically Wells Fargo has made limited direct equity investments in CDFI Banks, partly because of a lack of expertise to do it on a large scale. Big banks, including Wells Fargo, have the desire to channel capital into communities, but CDFI Banks have to think of a creative way to make this mutually beneficial for both parties.

Lee Winslett
Director of New Markets Tax Credit Group
Wells Fargo Bank

Mark Regier
Director of Stewardship Investing
Everence Financial

Tony Berkley
Director of Mission Driven Investing
W.K. Kellogg Foundation

Moderated by Carlton Jenkins
Partner at Yucaipa Funds and NCIF Trustee

The New Opportunities Panel: The Bond Guarantee Program, New Markets Tax Credits and Small Business Lending

Moderated by Joe Schmidt
Vice President of Investments and Research, NCIF

Steve Kramer
Senior Vice President of Tax Credit Investments, US Bancorp

Robert Ibanez
Program Manager, CDFI Fund

Scott Lindquist
Partner, SNR Denton US LLP

Don Graves
Deputy Assistant Secretary, US Department of Treasury

Russ Davis
Senior Manager, Deloitte Financial Advisory Services

CDFI Banks must continually innovate in order to survive a changing economic environment. This panel discussed several possible new directions for banks and provided expert advice on how to best take advantage of those opportunities.

The CDFI Bond Guarantee Program began as part of the Small Business Jobs Act, as a way to inject new and substantial capital into our nation's most distressed communities. The US Department of the Treasury will guarantee up to ten bonds a year for eligible CDFIs, each worth at least $100 million with a maturity of 30 years. Given the size of each bond, it is likely that CDFI Banks will pool together to participate in the program. The Bond Guarantee Program will be designed so that it does not cost anything to the taxpayer and results in long-term community investments.

The CDFI Fund anticipates opening another round of the Bank Enterprise Award Program, which provides monetary awards for increasing community development activities. The Fund has been pleased with the very high level of participation in the past. CDFIs are encouraged to apply, although because resources are limited the Fund is not always able to award even highly qualified applicants.

New Market Tax Credits represent another possible avenue for CDFI Banks to earn income while supporting their community development mission. The CDFI Fund encourages mission-oriented financial institutions to apply for and use New Markets Tax Credits to finance business lending in the communities they serve. Those institutions that don't have experience with NMTC should visit the CDFI Fund website to research the application requirements and complete an online self-assessment. Another way for someone to become familiar with the application is to serve as an application reviewer this year. This is a significant time commitment, as there are ten to twelve applications per round and each one takes up to eight hours to review. Although the process is lengthy, serving as a reviewer is recommended as great preparation for applying for credits.

NCIF is a three-time allocatee within the New Markets program and actively seeks to partner with community banks on qualifying projects. NCIF's unique three-way partnership NMTC model brings together a large bank (US Bancorp, in the example presented), NCIF, and a CDFI Bank to finance high-impact transactions nationwide. US Bancorp has now completed close to $200 million in deals with CDFI Banks and loan funds and has closed four transactions with NCIF, the most recent of which was a $60 million project along with Liberty Bank to bring a supercenter grocery store to a designated food desert in Detroit.

While the primary New Markets structure delivers impact to underserved areas, it remains complicated and is not feasible for smaller transactions. As a solution to this problem, NCIF and US Bancorp are developing a New Markets aligned pool that would invest in smaller-sized small business transactions.

The final new opportunity discussed by the panel involves new ways of approaching small business lending. Deloitte Financial Advisory Services is working with the CDFI Fund on a series of two-day training sessions in five different cities. The sessions will teach capacity building, technical assistance, and tools for expanding small business lending capacity. The number one problem for CDFI Banks has been a lack of small business borrowers; these training sessions are intended to address that issue. The training is intended for CDFIs with programs in small business lending and is generally aimed at mid-level people, although anyone is welcome. Admission is free for CDFIs.

The Technology Panel: Innovations in Small Business Lending

Rob Frohwein
CEO and Founder, Kabbage

Brad Kime
Chairman,On Deck Capital

Jay Lee
CEO, Smallknot

Moderated by Joe Mroczek
Manager of Operations and Control, NCIF

Technological advances in the banking industry present opportunities for mission-oriented banks to reach customers, deliver products, and increase internal efficiency. These three leaders in small business lending solutions provide innovative new ways of working in underserved markets.

Kabbage

Kabbage.com provides working capital to small businesses that operate mainly online, for example by selling their products on eBay or Etsy. Kabbage facilitates small business lending by driving down the significant costs associated with acquiring customers. The company does not rely on credit scores as the only relevant factor in making a decision, but rather pools data from several non-traditional sources. Kabbage claims to take only seven minutes to approve a loan, as opposed to six to eight weeks. In 2012, its first full year of lending, Kabbage lent $60 million. The company has raised $56 million through venture capital.

On Deck Capital

The mission of On Deck Capital is to make lending easy. Small businesses struggle to access funding – only 16% of them receive all of the funding they were seeking and 47% receive no funding at all. On Deck Capital considers alternative data sources outside of credit scores, such as bank account records, without putting a lot of faith in self-reported statements from business owners. The company claims to reach loan decisions in just ten minutes. The database on a customer is built around information collected on an almost daily basis, which is useful to small businesses with irregular revenue patterns. To date, On Deck Capital has deployed over $300 million in working capital across all 50 states.

Smallknot

Smallknot.com provides community crowdfunding for small businesses in New York City. To date, Smallknot has deployed $100,000 to 1,500 companies, with 60% of customers seeking loans less than $35,000. Small businesses create their own online profile pages, similar to personal fundraising pages for marathon runners. This approach can be considered "social underwriting" or a "Grassroots SBA Guarantee," because engaging known customers as investors removes some degree of risk. Smallknot correlates social data and credit to form new credit metrics, improving repayment rates and predictions. Most small businesses don't have access to loans because they are too small, too young, or asset-light. Social underwriting allows them to grow.

There is exciting potential for partnerships between these online companies and other kinds of institutions. For example, if a lending organization like Accion can only approve one-third of a requested $30,000 small business loan, it refers that customer to Smallknot to raise additional money through crowdfunding. The money raised is used as collateral so that Accion can approve the full loan for that small business. This is a partnership that has worked well for both Accion and Smallknot, and it could be tailored to meet the needs of other institutions as well.

The Regulator Panel: Navigating the Changing Regulatory Environment

CDFI Banks play an essential role in providing affordable financial services to low- and moderate-income communities by reaching out to the populations that mainstream banks don't reach. However, the CDFI Banking industry has been weakened by the recession, and now faces the challenge of changing bank regulations intended to protect consumers and the economy. In this economic context, CDFI Banks will find it difficult to comply with higher capital requirements and new risk-weighting calculations. It's important that regulators take into account the operating realities of CDFI Banks, as well as the differences in the business models of CDFIs and larger institutions, when implementing new rules. Regulatory agencies recognize the concerns of CDFI Banks and are taking steps to improve communications with these institutions, so that they can continue to provide credit and financial services to underserved communities at a time when those communities need them most.

The Federal Reserve recently launched communitybankingconnections.org, one of a variety of initiatives meant to improve communication with community bankers. Agency representatives urge CDFI Banks to utilize this resource to learn about regulations and best practices, and to effectively communicate needs and concerns around new policies.

The FDIC has launched a series of Community Banking Initiatives in order to develop working relationships with CDFI Banks. The agency is engaging banks through regional MDI and CDFI roundtables in order to improve pre-examination planning, technical assistance outreach, and communication regarding examination and other regulatory issues. Recent regional webinars and teleconferences, for example, have discussed regulatory proposals to solicit informed comment. The agency is also evaluating its examination policies with regard to CDFI Banks. Should CDFIs be compared to banks of similar asset sizes nationwide or to other CDFI Banks? Is more than one peer group appropriate? The FDIC's Community Banking Study focuses on the evolution of community banks over the past 25 years and the challenges and opportunities they face. Additional FDIC outreach efforts encourage CDFI banks to collaborate on new approaches to capital-raising, asset disposition, and cost-effective operations.

Regulatory agencies are aware that CDFIs have special needs and operating realities. They recognize the importance of CDFI Banks and are willing to improve programs and policies. CDFI Banks, in turn, must realize that communication is key to a healthy regulatory relationship, and should increase and improve their communication with regulators if they hope for positive policy changes.

Robert Mooney
National Coordinator, Minority and CDFI Bank Program, FDIC

David Kaufmann
Board of Governors of the Federal Reserve System

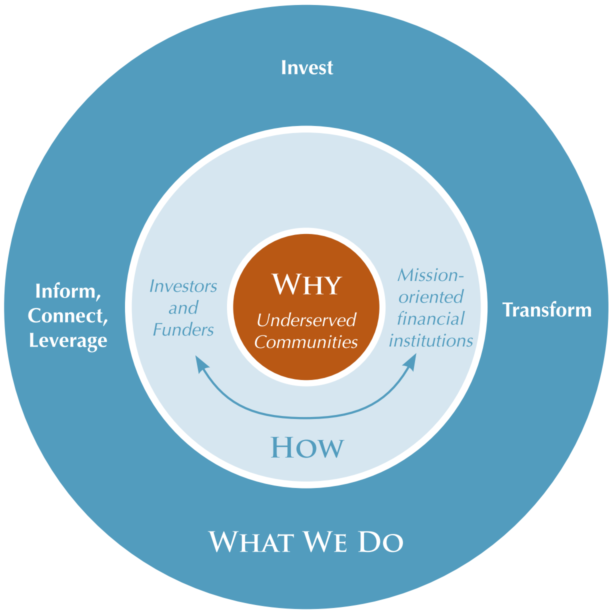
Moderated by Ignacio Urrabazo
President and CEO, Commerce Bank

NCIF Impact Model

Vision

The National Community Investment Fund aspires to see a society where responsibly priced financial products and services are available to underserved communities.

NCIF also aspires to have investors value social and environmental returns in addition to financial returns.



Mission

The National Community Investment Fund invests capital in institutions, primarily banks, that increase access to responsible financial products and services in underserved communities.

NCIF contributes to their success by aggregating capital and knowledge and leveraging opportunities. NCIF generates reasonable financial, social and environmental returns for its investors and funders

Invest	Increase volume of equity, debt, deposits and grants for our network of clients. This can be on-balance sheet, off-balance sheet or via advisory services.
Inform, Connect, Leverage	Create and communicate standards for benchmarking and monetization of social and financial performance. Effectively leverage and communicate our industry knowledge and expertise to strengthen our network of clients. Foster a platform to connect CDFI banks with their different stakeholders and among themselves to achieve business and networking efficiencies. Define, publicize and grow the number of institutions that provide responsible financial products and services in underserved markets.
Transform	Foster development of new business models to increase efficiencies and scale among NCIF Network of Banks. Influence investors to incorporate social and environmental returns in meeting total return hurdles.

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 sponsor, the Federal Reserve Bank of Chicago, and our wonderful keynote speakers. **We look forward to seeing you this year!**

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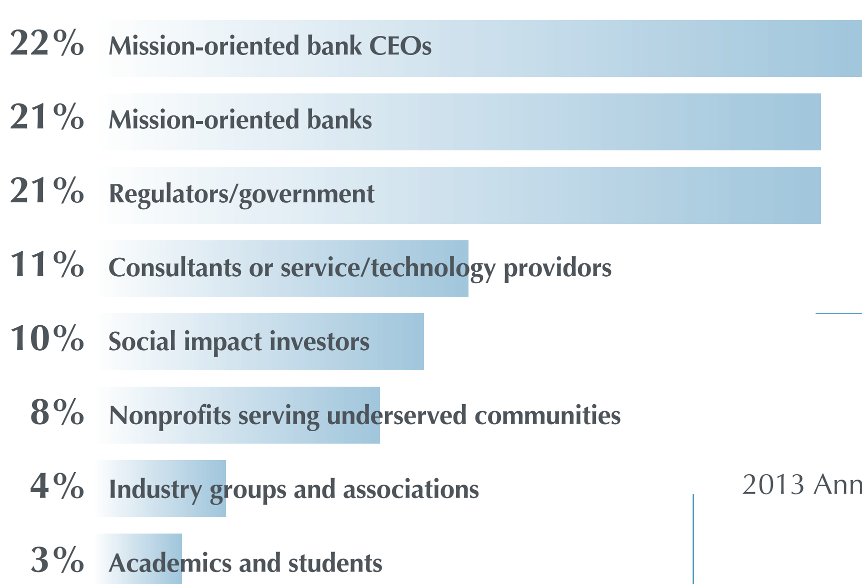
2012 Annual Development Banking Conference Attendance



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