

LEVERAGING CAPITAL FOR CHANGE

NCIF NATIONAL
COMMUNITY
INVESTMENT
FUND

NCIF MISSION STATEMENT

The **National Community Investment Fund** (NCIF) invests private capital in, and facilitates knowledge transfer to, depository institutions that increase access to financial services in underserved communities.

KEY INVESTOR PARTNERS

Bank of America
Washington Mutual Bank
The CDFI Fund
The Ford Foundation
The F.B. Heron Foundation
The Annie E. Casey Foundation
The MacArthur Foundation
Jewish FundS for Justice
Fannie Mae Foundation

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NCIF capital and knowledge enhance community development across the U.S.

The National Community Investment Fund is a non-profit, private equity fund investing in banks, thrifts and credit unions that generate both financial and social returns. These Community Development Banking Institutions (CDBIs)—a term used by NCIF to describe depository institutions with a community development focus—may be located in urban, rural or Native American markets, and may be minority-owned, minority-focused or majority-owned. However, to be considered a CDBI, an institution must focus a substantial part of its business on low to moderate-income people or communities.

NCIF LINES OF BUSINESS

"Equities with Exits" Investments

NCIF purchases common stock in individual community development banks and thrifts as a patient investor. These institutions need to demonstrate sustainable, sound financial performance, a strong development impact in the communities they serve, and they must provide shareholder liquidity within a reasonable time frame. Additionally, NCIF makes seed fund loans, extends debt to banks and provides secondary capital to low-income credit unions. NCIF has a \$38 million allocation of New Markets Tax Credits.

CDBI Exchange Network

This informal peer-to-peer network of CEOs, CFOs and other participants in the CDBI industry provides best practices in risk management, valuation, corporate governance and development impact analysis. NCIF's Annual Development Banking Conference is the centerpiece of its knowledge transfer initiatives.

COMMUNITY DEVELOPMENT IMPACT

Since NCIF began tracking the activities of its portfolio institutions in 1998, these institutions have generated over \$3.0 billion in development lending. This represents over 70,000 loans that were directed toward low-income borrowers and low to moderate-income communities.

In 2006, NCIF portfolio institutions originated \$555 million in development lending—a leverage multiple of 43.3 times over the total NCIF investment within these institutions.

NCIF investments by the numbers

Total Investment

Since inception, NCIF has invested \$23.9 million in 37 financial institutions nationwide.

Diverse Investments

By dollar amount, 73.0% of all investments made have been placed in minority-owned or focused institutions and/or woman-owned or managed institutions.

Rural Institutions

By dollar amount, 18.9% of all investments made by NCIF have been placed in rural institutions.

De Novo Banks

NCIF has invested seed capital in six de novo CDFI banks.

Expanding the community development investing landscape

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI) INDUSTRY OVERVIEW

The CDFI Fund was established as a result of the Reigle Community Development and Regulatory Improvement Act of 1994, and since then it has become one of the largest single sources of funding for CDFIs.

CDFIs are specialized financial institutions that create economic opportunity for individuals and small businesses, and help provide quality affordable housing and essential community services. CDFIs help bridge the growing U.S. financial services access gap by bringing capital and financial services to low-income people and communities, affording them access to capital to start and expand businesses, build and purchase homes, and develop needed community facilities.

The CDFI industry includes five sub-sectors:

- Community Development Banks and Thrifts
- Community Development Credit Unions
- Community Development Loan Funds
- Community Development Microenterprise Funds
- Community Development Venture Capital Funds

Summary of CDFI Sector FY 2005*

	All	Bank	Credit Union	Loan Fund [§]	Venture Fund
Number of CDFIs	496 [†]	51	280	150	15
Total Assets	\$20,782,033,752	\$11,105,541,165	\$5,688,162,756	\$3,813,059,321	\$175,270,510
Average Assets	\$41,899,262	\$217,755,709	\$17,966,504	\$25,420,395	\$11,684,701
Total Direct Financing Outstanding	\$14,026,013,396	\$7,233,417,171	\$4,232,457,207	\$2,432,213,037	\$127,925,981
Average Direct Financing Outstanding	\$28,860,110	\$141,831,709	\$15,115,919	\$17,372,950	\$8,528,399

*Source: CDFI Data Project [†]The number indicates the number of CDFIs reporting to the CDFI Data Project. [§]Loan Fund includes both Loan Funds and Microenterprise Funds.

As the above table details, while CDFI banks represent only 10.3% of the number of CDFI institutions, these institutions are responsible for 51.3% of the direct financing outstanding.

NCIF is a certified CDFI and Community Development Entity, but its mission doesn't stop there. The Fund is actively seeking to expand the impact of its investments by providing capital to the larger number of institutions that demonstrate a community development mission, but are not yet certified as CDFIs.

BEYOND CDFIS: NCIF IDENTIFIES COMMUNITY DEVELOPMENT BANKING INSTITUTIONS

To expand the impact of its investments to more communities, NCIF coined the term Community Development Banking Institution (CDBI) to describe depository institutions that “walk, talk and act” like CDFIs, but are not necessarily certified by the federal government.

As defined by NCIF, the CDBI industry consists of those depository institutions—including but not limited to CDFIs and minority-owned institutions—that provide needed banking products and services in economically distressed communities. NCIF believes that it is important to recognize the community development work of these institutions and increase capital available to the sector. *NCIF is the only private sector, non-profit investment fund dedicated to providing patient capital to CDBIs.*

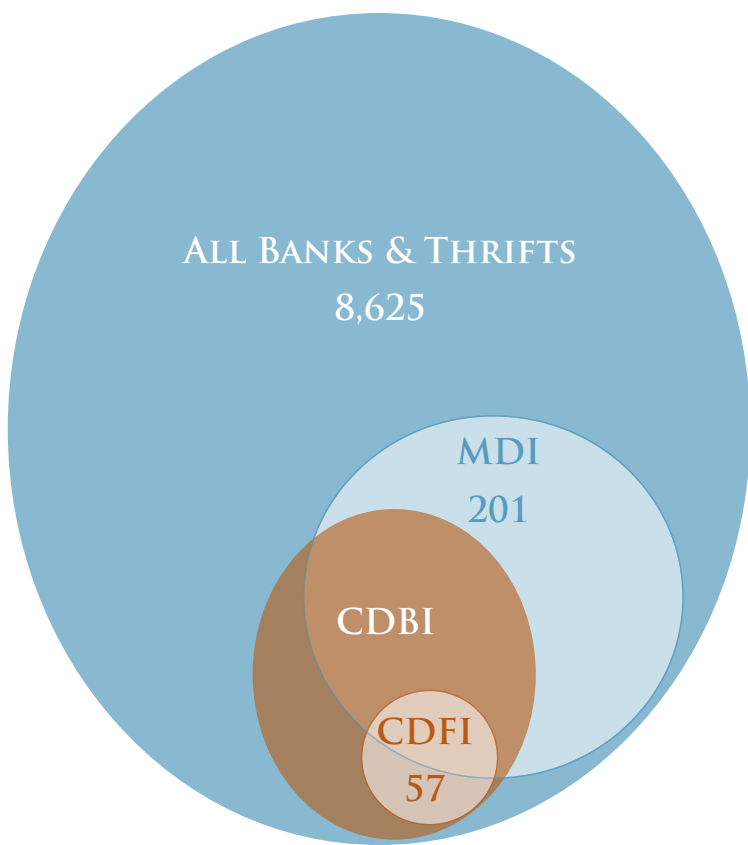
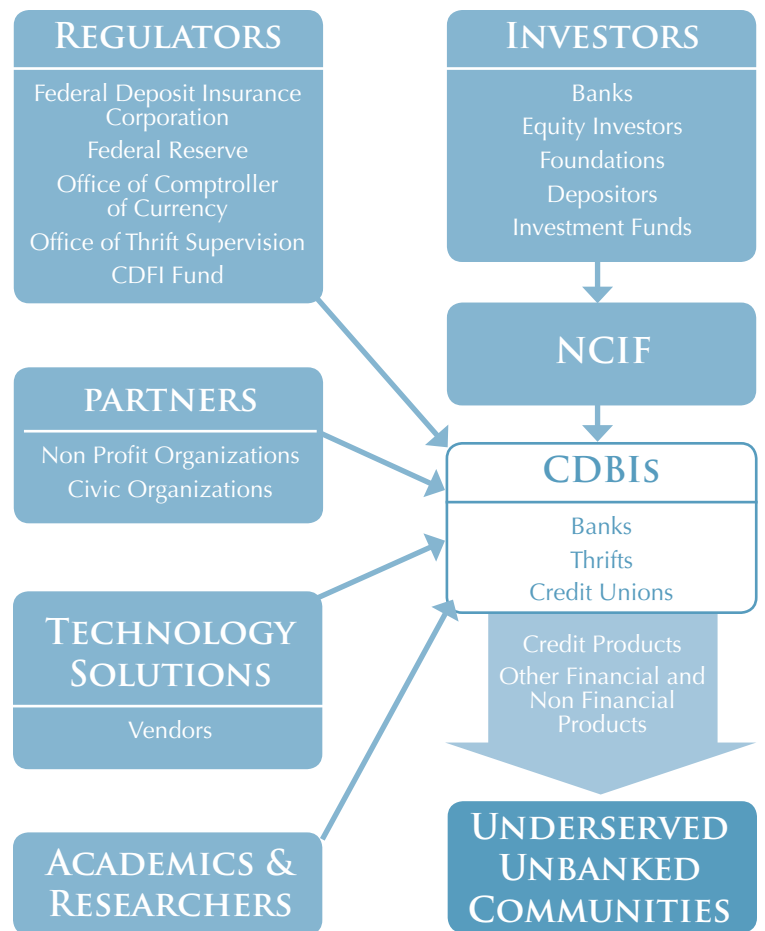


Diagram not to scale.
As of 6/30/2007 Source : FDIC

NCIF speculates that of the 8,625 banks and thrifts there are several hundred that could be certified as CDFIs by virtue of their superior community development impact. To illustrate this point, this diagram starts with the universe of banks and thrifts, and shows how minority-owned banks (MDI), CDFIs and CDBIs fit within that universe. While the numbers of minority-owned banks and CDFIs are well established, the number of CDBIs as defined by NCIF is less clear.



NCIF hypothesizes that economic development is the result of the efforts of a wide range of stakeholders. These diverse organizations and individuals focus their talents and resources on CDBIs who in turn provide critical services to their communities.

Where to invest? A disciplined approach to finding high-potential CDBIs

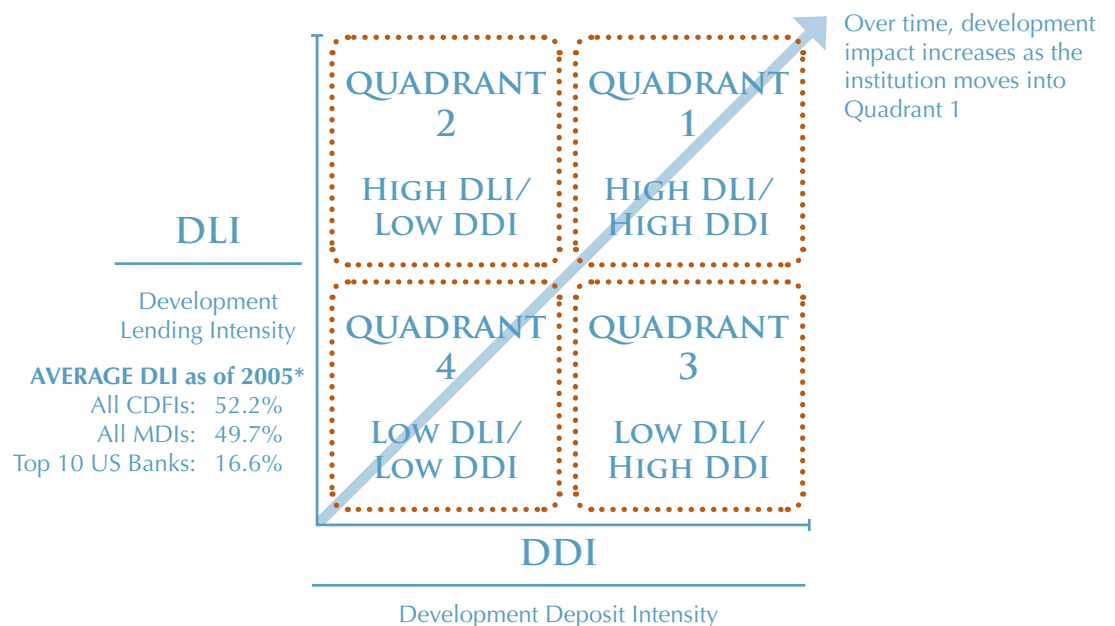
As NCIF seeks to identify Community Development Banking Institutions and drive socially responsible investment to them, it has developed a comprehensive CDBI screening system that provides key information about the community development mission of banks. Applying these screens, NCIF is able to identify CDBIs and analyze them as potential investment targets through qualitative and quantitative measurements.

NCIF SOCIAL PERFORMANCE METRICS

NCIF created Social Performance Metrics to quantitatively identify CDBIs, to commemorate their impact and to help bring mainstream and social capital to these institutions.

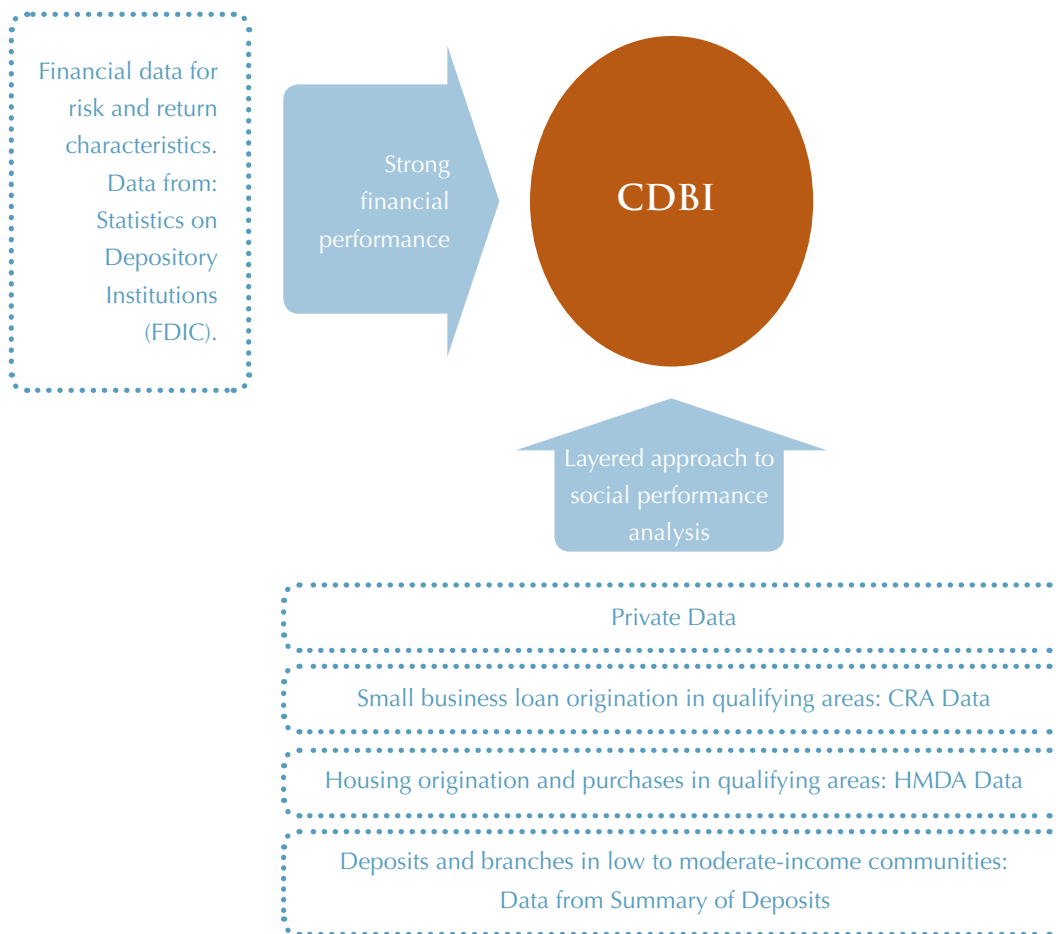
Development Lending Intensity (DLI) is the percentage of a bank's lending activity in dollars that goes to borrowers that are located in low-income communities, initially calculated using information reported through the Home Mortgage Disclosure Act (HMDA). This measure can be seen as a proxy for the Community Reinvestment Act (CRA) lending test.

Development Deposit Intensity (DDI) is the percentage of a bank's branch locations that are located in low to moderate-income communities, calculated using information available through the FDIC Summary of Deposits database. This measure can be seen as a proxy for the CRA services test.



*Source: *Social Performance Measurement for CDFI Banks* by David Porteous and Saurabh Narain, 2007, to be published in a book entitled *Reengineering Community Development for the 21st Century*, edited by Donna Fabiani and Terry Buss (Armonk, NY: M.E. Sharpe).

NCIF uses **DDI** and **DLI** as lenses to further identify institutions as investment targets. As the preceding graph shows, institutions that score highly on both measures (Quadrant 1) demonstrate a high level of focus in low to moderate-income neighborhoods and would be prime candidates for investor support. Institutions that score highly on only one measure (Quadrants 2 and 3) demonstrate a similar orientation toward serving these neighborhoods, but it is less clearly defined and requires further examination to determine if they meet NCIF investment standards. Those institutions that fail to score highly on either measure (Quadrant 4) are not necessarily without a social mission, and may be candidates for further analysis at a later date.



This diagram shows how risk and return data obtained from the FDIC (left) is merged with four layers of social performance data obtained from a variety of sources (bottom) to identify CDBIs and flag those with both strong financial and social performance. As the Social Performance Metrics grow in use, NCIF hopes to add more private data to provide additional depth to the analysis.

NCIF MODEL CDBI FRAMEWORK

NCIF only invests in CDBIs that display both sound financial performance and strong social performance. To determine if an institution meets these criteria, NCIF evaluates the institution using a Development Impact analysis as well as an internal CAMELS analysis. In addition, the institution must provide a planned exit strategy.

Development Impact Analysis

NCIF drills deep into the CDBI, asking critical questions about the extent of its impact on community development:

Market Need

Is the bank operating in areas of high economic need? What is the median income, poverty rate and unemployment rate relative to the surrounding area? Does the institution cater to the surrounding community and other low to moderate-income communities.

Credit Products and Services

What credit products and services does the bank offer? Does the CDBI offer credit builder products? Does it provide mortgage products tailored to the needs of its customer segments? Is the CDBI an SBA Preferred Lender? Does it use Alternative Credit Scores to evaluate credit worthiness?

Financial Products and Services

What retail deposit, savings and checking products are offered? Does the CDBI offer credit cards, debit cards, stored value cards, Individual Development Accounts (IDAs) and other financial services needed by underbanked consumers?

Non-Financial Services

Does the institution offer financial training and literacy to individuals, community groups and businesses? Does it offer other services such as discounted tax preparation advice, workshops and counseling?

Partnerships

What partnerships is the institution involved with in the surrounding community? Are they actively working with external non-profits and various civic organizations? Do they operate their own non-profit subsidiaries to engage in these activities? Are they engaged in advocacy projects? Are they involved in regional and national trade groups?

NCIF Internal CAMELS Analysis

NCIF performs a thorough analysis that examines historical performance and future projections for these institutional characteristics:

Capital Adequacy | Evaluation of the level of shareholder's equity relative to the assets, loans and earnings of the institution. Capital levels are also viewed in light of regulatory capital guidelines for both total assets and risk-weighted assets.

Asset Quality | Analysis of the credit risk inherent across the institution's various asset classes, including the level of non-performing assets and the diversification within and across asset types. This category also examines the monitoring and control mechanisms in place to manage credit risk.

Management | Assessment of managerial effectiveness and efficiency. The institution's performance on various indicators is compared to its peer group as one measure of management strength.

Earnings | Evaluation of both the aggregate earnings of the institution, relative to its size, as well as the level of "core earnings" or earnings which stem from normal/recurring business operations.

Liquidity | Assessment of the institution's Asset and Liability management, including the degree to which depositors can readily access funds and the relative volumes of loans and deposits.

Sensitivity | Introduced by regulators in 1996, this ratings category measures the institution's risk to market movements, including swings in interest rates, foreign exchange rates, commodity prices and equity prices.

NCIF impact: Measuring investment performance in human terms

While NCIF rigorously monitors the financial performance of its investment portfolio, the Fund's second bottom line—catalyzing positive social change—is less easily quantified, but no less important. These two case histories illustrate the positive impact of NCIF investments, not in dollars and cents, but in human terms.

CASE HISTORY 1: REBUILDING HOMES—AND LIVES—IN NEW ORLEANS



When Hurricane Katrina struck on August 29, 2005 and the levees and floodwalls failed, New Orleans Fireman Michael Flot and other first responders spent the following days and weeks rescuing people trapped all over the metropolitan area. It was several days before Michael and his wife Latanya had an opportunity to assess the impact of Katrina on their own family: their home in the Gentilly neighborhood had been flooded to the roof, destroying most of their possessions and leaving them homeless.

Michael and his family found temporary housing through the government, but soon realized they needed a more permanent solution. The Flots approached several lenders with a plan to both purchase a new house and repair their flood-damaged home, but found that very few banks were willing to lend in heavily flooded areas because of uncertainties regarding repopulation and the availability of insurance.

But New Orleans-based NCIF investee Liberty Bank and Trust Company had faith in the revival of their hometown and made a loan to the Flots when no one else would, allowing them to buy a new home and to rebuild their flooded house. The Flots are now back in their Gentilly home and plan to rent their temporary residence to other displaced New Orleanians who want to come home.

CASE HISTORY 2: PROVIDING TOOLS AND KNOW-HOW TO MAKE SAVING EASIER



When Detria Stackhouse of Helena, Arkansas needed money to make repairs to her home, she went to First Bank of the Delta, a community bank owned by NCIF investee Southern Bancorp. First Bank introduced her to Southern's Asset Builders program, which helps low-income families build assets through Individual Development Accounts (IDAs) and Saving for Entrepreneurship, Education, and Downpayment (SEED) accounts.

IDAs help families achieve their goals of homeownership, small business ownership, or a college education by matching deposits on a 3:1 basis, up to a maximum of \$2,000. SEED accounts work similarly, and are provided to low-income families with three and four-year-old children to encourage a lifetime habit of saving.

Detria opened an Asset Builders account and began saving for improvements to her home. Within seven months, she had completed the economic skills training classes and reached her savings goal. She was able to get new insulated windows and kitchen cabinets installed in her home, but more important, she learned how to make saving a regular part of her life. She has also enrolled her daughter Kevonshayee in Southern's SEED program to begin her college savings.

