

NCIF Social Performance Metrics:

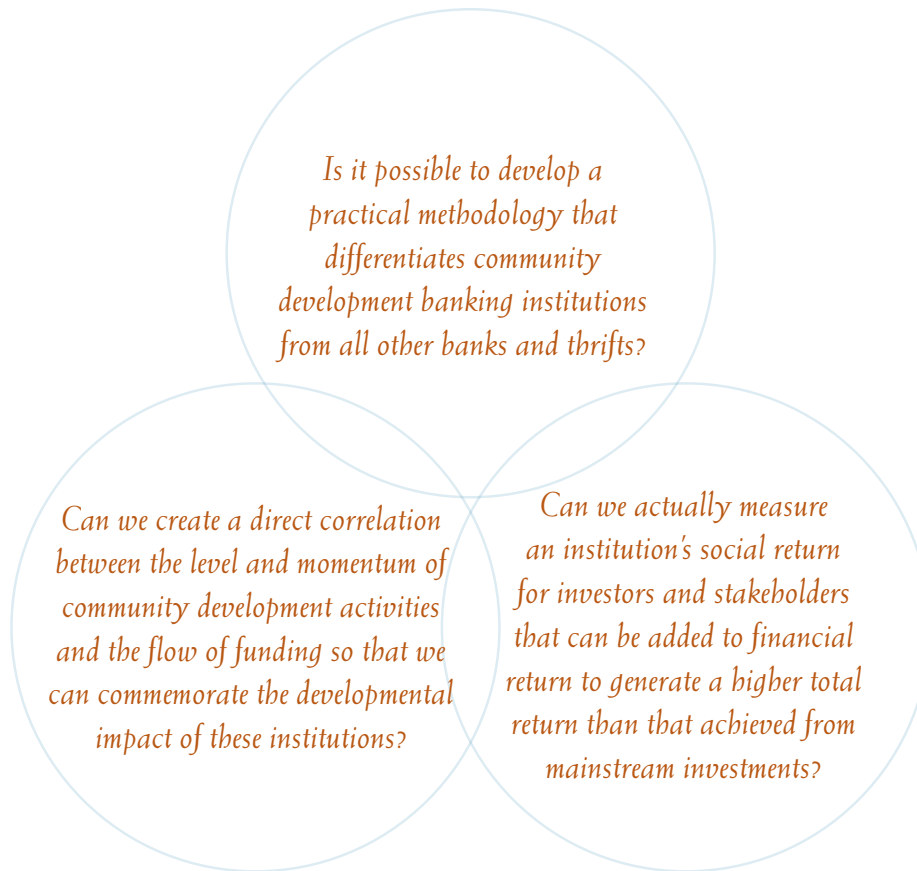
A Quantitative Approach to Measuring the Social Impact of
Banks and Thrifts, and to Investing Capital in the
Community Development Banking Sector

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National Community Investment Fund



LEVERAGING CAPITAL FOR CHANGE

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In 2007, these questions led the National Community Investment Fund (NCIF) to begin to develop a methodology for identifying depository institutions with a community development mission. The resulting NCIF Social Performance Metrics utilize publicly available census data, branch location data and Home Mortgage Disclosure Act lending data to measure the social impact of banks and thrifts. Institutions performing high on these metrics are identified with the initial objective of recognizing the impact they have on their communities, and the eventual objective of providing more funding to them.

NCIF is focused on the long-term promotion of these community development-focused financial institutions, especially given the significance of their leverage—a dollar of equity can be leveraged as many as 10 to 15 times for raising deposits and creating a commensurate increase in community impact.

NCIF coined the term Community Development Banking Institutions (CDBIs) for such institutions which have a community development mission and generate sound financial returns. NCIF hopes that these institutions will eventually become certified as Community Development Financial Institutions (CDFIs) by the CDFI Fund (www.cdfifund.gov) to gain well-deserved name recognition and attract more funding.

The underlying objective of this “certification” is to provide an incentive for CDBIs to provide measurable data to stakeholders—socially responsible and mainstream investors, government, funders, community organizations, etc.—and for the stakeholders to support such institutions to deliver superior social and financial return. We believe that the SRI industry and other stakeholders are interested in building sustainable financial institutions and looking for “deal flow” and “products” that pass Total Return hurdles. NCIF believes that our Social Performance Metrics will be used as a proxy for Social Return, increasing the flow of SRI and mainstream funds into CDBIs to catalyze economic development, alleviate poverty and build strong, sustainable communities.

NCIF Social Performance Metrics Measure a Bank's Social Performance to Meet Investor and Institutional Needs

Using the NCIF Social Performance Metrics, it is possible for an investor or other stakeholder to identify institutions that are high social performers, and that also meet other requirements for support. As an example, NCIF has provided a series of sample queries that an investor might use while sourcing potential investment targets. Please remember, this is only a sample, and NCIF will work with any organization to create a series of screens that match the organization's preferences.

Institutional Questions: Current Performance

- A New York State-focused investor wants to identify which banks in the state originated 60% or more of their housing loans in low-income communities during 2006.
- A minority-focused investor (or a regulator pursuing the mission of promoting minority depository institutions) wants to identify which FDIC Minority Depository Institutions (MDI) around the country originated 20% of their housing loans in highly distressed census tracts and have 50% or more of their branches in these census tracts.
- A rural CRA investor wants to invest deposits in mid-sized Arkansas-based banks with an asset level between \$100 and \$200 million and that operate 100% of their branches in low-income communities.
- An SRI investor wants to make deposits in housing-focused banks located in the Midwest that are innovative in retail financial services, with 50% of their branches in LMI areas and over 60% of their home lending in LMI areas.

Institutional Questions: Performance Over Time

- A foundation wants to provide program-related investments to CDBIs that have at least 80% of their housing loans in low-income areas and have tripled the percentage of their housing lending in low-income areas since 2002.

Peer Group Questions

- A CDFI bank in the Southeast wants to create a customized peer group of all CDFI and MDI banks in Alabama, Georgia, North Carolina and South Carolina with percentage of housing lending located in low-income communities, so it can then showcase the social impact of its work.
- An MDI bank wishes to measure its own social impact by calculating the percentage of its branches in LMI areas as a proxy for the Services Test under the Community Reinvestment Act (CRA) rules, and then compare it to the same measure for all HMDA reporting MDIs in the states where this institution is active.

For listings of banks that meet these screens please see the Appendix.

Community Development Banking Institutions (CDBIs) Defined

Are there banks that are located primarily in low-income and underserved areas?

Are there banks that provide responsibly priced mortgages that are based on their customers' ability to pay?

Are there banks that are offering financial services as alternatives to payday loans and predatory check cashers?

In short, are there banks that are dedicated not only to making a profit, but to maximizing a "second bottom line" of improving the economic well-being of their communities by providing much needed products and services that meet the needs of their low-income, underserved customers? There are such banks, commonly known as **community development banks**.

Community development banks (in this document, we will use "bank" to refer to both banks and thrifts) are domestic depository institutions with a mission of providing financial products and services that benefit underserved individuals and communities. While serving the financial needs of their community, these banks are also regulated institutions that must deliver sound financial performance.

This combination of a strong social mission and solid financial performance makes community development banks attractive to various mainstream and social investors who are interested in maximizing their "double bottom line" returns. However, up until now there have been no transparent metrics that could be used to identify these community development banks.

The leading institution that identifies and promotes the work done by such institutions is the Community Development Financial Institution Fund (CDFI Fund), a division within the Department of the Treasury, that certifies banks and other institutions with a proven community development mission. However, as of January 1, 2008 there were over 8,500 banks operating within the United States—and only 55 of them were certified as Community Development Financial Institutions (CDFI)!

NCIF believes that there are many more community development banks in the United States, and it is our mission to increase this asset class by identifying additional institutions that "walk, talk and act" like CDFIs but are not necessarily certified by the government. NCIF has coined the term Community Development Banking Institutions (CDBIs) to describe these banks that have a mission of working in low-income communities but are not necessarily CDFIs. The NCIF Social Performance Metrics were created to identify such CDBIs and recognize the impact of their community development efforts.

These metrics are an important step in the creation of consistent, verifiable and cost-effective measures of social impact by commercial banks. We were proud to have supported NCIF in their development and use them to evaluate our own insured deposit portfolio on an absolute and relative basis. They allow us to analyze social and financial return in a rigorous way.

Luther M. Ragin, Jr.
Vice President, Investments
The F. B. Heron Foundation

The NCIF Social Performance Metrics are path-breaking, they enabled us to identify banks that have a high proportion of their home lending in low to moderate income communities (Development Lending Intensity) and institutions that are targeting a significant proportion of their branches in these areas (Development Deposit Intensity). This is the first time that publicly available data has been mined to create transparent and credible metrics for generating SRI product for investors and we congratulate NCIF for this effort.

Tom Reis
Program Director
W.K. Kellogg Foundation

The strong research and methodology underlying NCIF Social Performance Metrics demonstrate NCIF's continued leadership in the field. This work will provide an excellent tool in the ongoing search for quantitative capture of the "double bottom line," and is sure to become a vital resource for the community development industry.

Paul Hinds
Program Related Investments Executive
Bank of America

The Development and Utility of NCIF Social Performance Metrics

CHALLENGE #1:

CREATE A SERIES OF TRANSPARENT AND OBJECTIVE METRICS

Is it possible to develop a practical methodology which differentiates community development banking institutions from all other banks and thrifts, and can be used for analysis both at a point in time and consistently over a period of time?

This is the question that framed the initial challenge for NCIF: Is it possible to create an objective and transparent metric for a bank's social performance? We began by examining the current landscape for social performance analysis and found that the federal government, various foundations and other funding organizations currently have their own system of social performance measurement, but these systems are problematic and were unworkable for this project.

- The CDFI Data Project is a collaborative effort of all the CDFIs in the country and collects information on a voluntary basis from CDFIs. NCIF collects information on all CDFI banks and thrifts as part of this collaboration. However, this data is only gathered for certified CDFIs, a class of bank that is already identified as having a social mission.
- The CDFI Fund requires annual reporting through its Community Investment Impact System (CIIS) from current awardees. The reporting process is rigorous and thorough, and industry analysis is just becoming available. However, since the data may be confidential, institutional and peer group analysis is not easily achieved from these reports.
- NCIF collects annual Development Impact data from its investees. Similarly, foundations and social investors require reporting from their grantees/investees. However, the resulting data varies from organization to organization given that the requested data points may be different. Also this data is not available in the public domain.

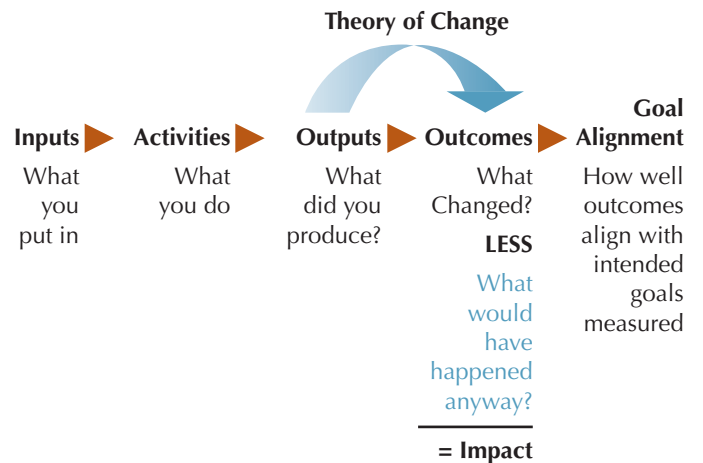
These existing systems all rely on privately reported information, and private information collection cannot be extended to cover every domestic bank and thrift. To create a reporting mechanism and to require compliance is highly costly and time consuming, and if an organization was able to gather a large enough sampling of information, there would be inconsistencies across respondents. NCIF required a system that would cover as many of the over 8,500 banks as possible, and that would be built on objective, consistent data.

Next, the information to be used had to provide insight into the impact that is generated by banks and thrifts. Unfortunately, true impact measurement is increasingly regarded as too expensive

and difficult to achieve, because of the difficulty of adequately defining a control group, outside of ideal experimental conditions including randomized assignment of cases². Rather, the focus has moved towards measuring forms of outcome—a desired change resulting from an output or series of outputs, linked by a theory of change which explains the causality³.

We know that CDBIs are focused on providing services to low-income and underserved communities, but are those financial intermediation outputs resulting in an outcome that is desired on an *ex ante* basis? NCIF relies on the body of recent finance literature that has demonstrated a clear causal linkage between the volume of intermediation and economic growth at the national and international level. It is now generally accepted that financial intermediation has a “first order positive causal impact on economic growth”⁴. Through this theory of change, NCIF relies on the hypothesis that increasing the availability of financial intermediation outputs will result in improved outcomes.

MEASURING PERFORMANCE: Outputs, Outcomes, Impact



To determine which banks were providing a high level of financial product and service provision within low-income communities, it was necessary for NCIF to acquire intermediation data that covered as much of the banking industry as possible. Fortunately, the regulation and reporting associated with the banking industry has led to the creation of rich sources of publicly available, transparent output data that detail an institution's performance on two forms of financial intermediation: branch location and housing lending.

²Hollister, R “Measuring the Impact of CDFI Activities”, CDFI Research Conference, 2004.

³Immergluck, Daniel (2006) “What might we know? Research Design Issues for Measuring CDFI Subsector Impacts”, Mimeo 2006, commissioned by the MacArthur Foundation.

⁴Levine, Ross (2005) “Finance & Growth: Theory and Evidence” in Handbook of Economic Growth, Elsevier.

Branch Location

Through the Summary of Deposits (SOD) database, the Federal Deposit Insurance Corporation provides annual data on branch location and deposit market share for every FDIC-insured depository. Using this data, it is possible to determine which branch locations are located in low- to moderate-income (LMI) communities. A branch location in an LMI community can be seen as a proxy for the services test included in the Community Reinvestment Act (CRA) examination. While we considered using the dollar volume of deposits booked in each branch, NCIF decided not to do so, given that it would have created an incentive for institutions to artificially book deposits in LMI communities.

By operating a branch in an LMI area, a bank is providing much needed financial and non-financial products to communities that are typically underserved by mainstream banking outlets. Moreover, a brick and mortar location offers a level of accountability to the neighborhood, since a bank cannot easily move out if its reputation is sullied due to improper lending or service practices. Finally, these branches can provide products that are alternatives to the payday lending and check cashing services that are prevalent in economically distressed communities.

Housing Lending

The Home Mortgage Disclosure Act (HMDA) was enacted by Congress in 1975 and requires depository and non-depository lenders to collect and publicly disclose information about housing-related loans. Utilizing HMDA data is beneficial because the information that is required for reporting institutions is robust and provides data on all housing-related loan originations and purchases during a given year. Also, the reporting is completed annually and the current and historical data packages are readily available through the Federal Financial Institutions Examination Council (FFIEC). By analyzing the location of each home mortgage loan origination and loan purpose, it is possible to track and determine if a borrower is located in a low- to moderate-income community. This can be seen as a proxy for the lending test of the CRA examination.

The HMDA data is highly useful and allows us to examine the entire portfolio of home mortgage-related lending, but it is important to note that the data only captures one segment of an institution's lending activity. HMDA data does not provide any information on other types of lending that are performed by the institution, and there is no other publicly available data source that collects and aggregates data on the small business, consumer and commercial real estate lending activity of an institution. Also, not every bank is required to report through HMDA. Banks that do not have a home or branch office located within a Metropolitan Statistical Area (MSA) or banks that do not pass a threshold level for total assets are not required to report.

NCIF Social Performance Metrics at a Glance

(Data is available for all years since 1996)

Core Metrics

1. Development Deposit Intensity (DDI)

The percentage of an institution's physical branch locations that are located in low- to moderate-income (LMI) census tracts. This can be used as a proxy for the services test for the purposes of CRA examinations.

2. Development Lending Intensity-HMDA (DLI-HMDA)

The percentage of an institution's HMDA reported loan originations and purchases in dollars that are located in LMI census tracts. This can be used as a proxy for the lending test of the CRA examinations.

Additional Metrics

3. Adjusted DLI-HMDA

The percentage of an institution's HMDA-reported loan originations and purchases in dollars that are located in LMI census tracts, excluding loans classified by HMDA as high-rate loans (this data only available since 2004).

4. DLI-HMDA (Highly Distressed)

The percentage of an institution's HMDA-reported loan originations and purchases in dollars that are located in census tracts that have a median household income that is 70%, 60%, 50% or 40% of the relevant geographic area.

5. DLI-HMDA (Low Income)

The percentage of an institution's HMDA-reported loan originations and purchases in dollars that are provided to borrowers that have a household income that is below 80% of the relevant geographic area.

6. DLI-HMDA (Equity)

The ratio of an institution's HMDA-reported loan originations and purchases to the institution's total equity.

From "Social Performance Measurement for CDFI Banks" by David Porteous and Saurabh Narain, 2007, published in *Reengineering Community Development for the 21st Century*, edited by Donna Fabiani and Terry F. Buss (ME Sharpe 2008).

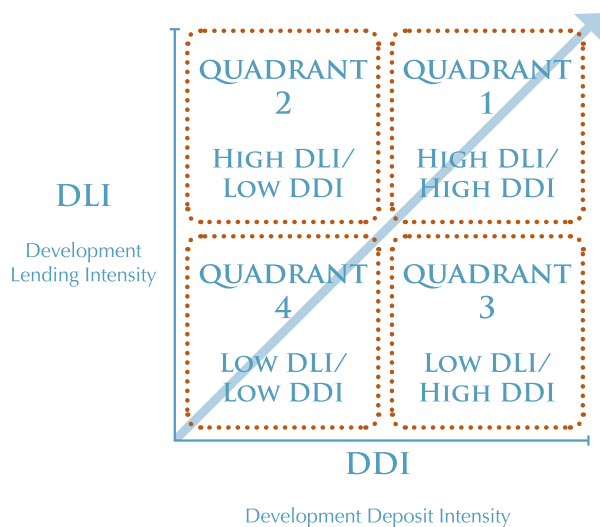
³HMDA Reporting, "Getting it Right" pp 1.

CHALLENGE #2:

INCREASE THE ASSET CLASS OF CDBIs

There are over 8,500 banks in the US and 40% of all census tracts are considered to be low- to moderate-income. How can we identify institutions that have a mission of economic and social development and recognize their impact?

Once the NCIF Social Performance Metrics were created, the next challenge was to use the metrics to identify other CDBIs beyond those already known. Using the two core NCIF Social Performance Metrics, DLI-HMDA and DDI, NCIF compared the scores of known CDBIs (CDFI banks and community-focused minority-owned banks) to the scores for other peer groups and generated proposed benchmark values for the entire universe of banks and thrifts that differentiate CDBIs. Every institution can be plotted on this DLI-HMDA/DDI matrix:



By creating threshold values, NCIF can positively screen each institution to determine whether it is a “high” performer or a “low” performer on each metric. To complete this task, NCIF analyzed various sub-sets of banks and compared the average scores for each sample group. Using the data shown in the table below, NCIF created reasonable threshold values differentiating a high performer from a low performer on both DLI-HMDA and DDI.

2006 Social Performance Metrics Comparison (Averages)

Sample	DLI-HMDA	DDI	Adjusted DLI-HMDA	DLI-HMDA (Low Income)
CDFI Banks & Thrifts	62.7%	74.5%	56.0%	17.3%
Minority Depository Institutions	45.5%	60.2%	37.6%	10.5%
All Banks	20.8%	28.2%	16.6%	11.5%
All Banks Below \$1 Billion in Assets	21.1%	28.1%	16.4%	12.0%
Ten Largest Banks (Assets)	19.0%	33.6%	17.8%	6.4%
Threshold Proposed by NCIF	40.0%	50.0%		

Thresholds

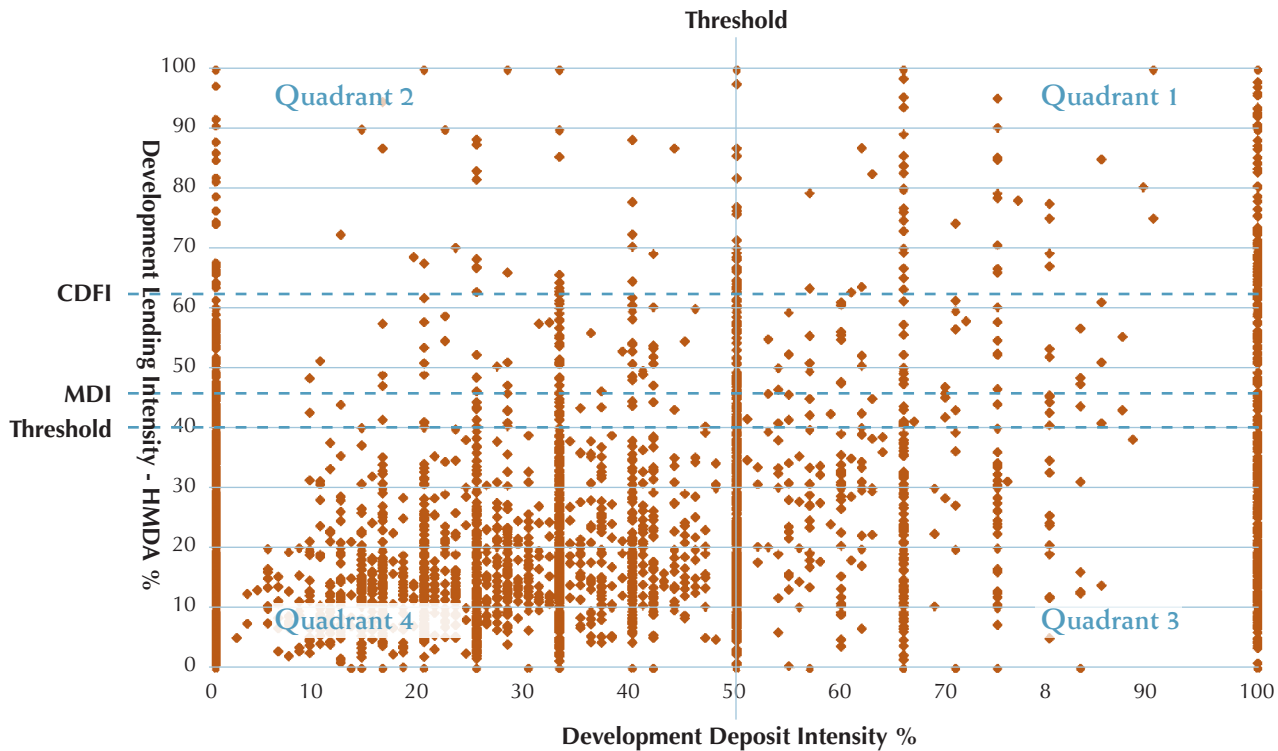
Development Lending Intensity: NCIF proposes a threshold value of 40% for DLI-HMDA to be used to identify banks that have a high focus on lending in LMI areas.

- This threshold is over two times the national average and represents a stringent target that needs to be met by institutions for support from social investors (see table below).
- One possible interpretation of this threshold is to say that a bank with a DLI-HMDA score of greater than 40% is likely to be a CDBI bank with a social mission, either by choice or by virtue of its activities in low-income areas. A bank that has met this screen should be examined by investors and/or the CDFI Fund.

Development Deposit Intensity: NCIF proposes a threshold value of 50% for DDI to identify institutions that are well positioned by design to provide financial services to LMI areas.

- This threshold is nearly two times that of the rest of the banking universe and represents a stringent target that requires an institution to operate at least half of its physical locations within low-income communities (see table below).
- One possible interpretation of this threshold is to say that a bank with a DDI score of greater than 50% is likely to have a social mission, either by choice or by virtue of its activities in low-income areas. A bank that has met this screen should be examined by investors and/or the CDFI Fund.

Search for Potential Community Development Banking Institutions



The Quadrants Explained and Quantified

The use of the **Social Performance Metrics** serves as an initial lens for a bank's social impact. The 8,625 banks and thrift institutions in the NCIF database in 2006 were distributed among the four DLI-HMDA/DDI quadrants as noted below. To create a more complete profile of a specific institution, NCIF recommends that investors and stakeholders perform more detailed research and analysis.

Quadrant 1: 378 Institutions

Banks that score above the threshold value for both DLI-HMDA and DDI (40% and 50% respectively) are located within Quadrant 1. By virtue of their lending activity and branch location, these institutions display a high level of activity within low-income communities and that activity is likely a sign of a community development mission.

Quadrant 2: 256 Institutions

Quadrant 2 is composed of those institutions that score above the DLI-HMDA threshold, but below the DDI threshold. These institutions are providing a high level of home mortgage lending within low-income communities, and that activity indicates a high degree of social performance. NCIF considers these institutions to be potential CDBIs and is interested in gathering more information about their operation.

Quadrant 3: 761 Institutions

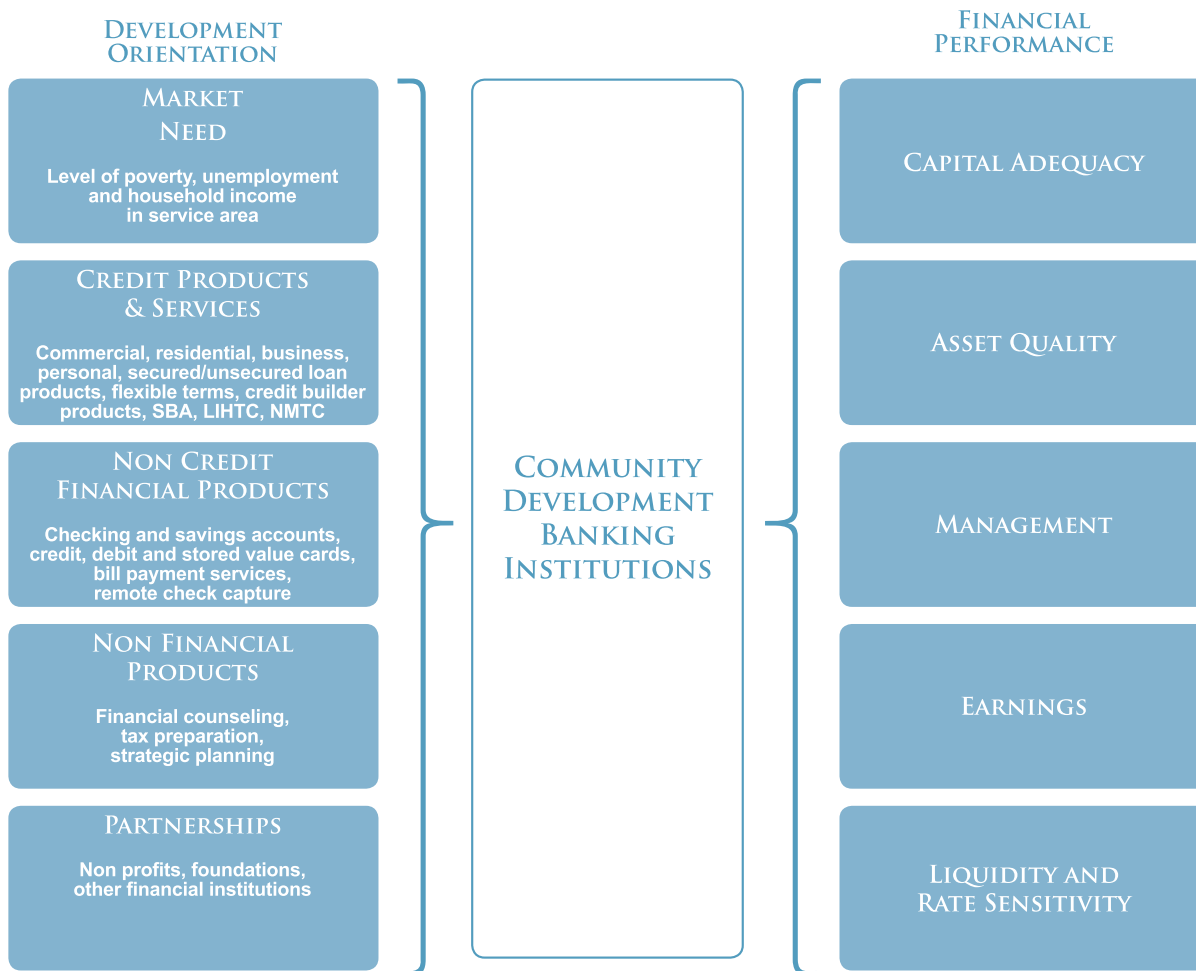
Quadrant 3 is composed of those institutions that score above the DDI threshold, but below the DLI-HMDA threshold. These institutions operate 50% or more of their branches within low- to moderate-income communities, and as a result are offering important financial and non-financial products and services within areas that are typically underserved by the mainstream banking community. Rather than patronize a payday lender or check cashing store, a consumer in a low-income area with a bank presence has the option of entering into a banked relationship. Also, a physical presence in a community offers a level of accountability to that community.

Quadrant 4: 7,230 Institutions

Quadrant 4 is composed of those institutions that do not meet either Social Performance Metrics threshold value or where HMDA data or branch location data is unavailable. However, NCIF stresses that scoring below the threshold value does not necessarily indicate that these institutions are not committed to community development. The NCIF Social Performance Metrics are positive screens that highlight those institutions that are active within low-income communities. The Quadrant 4 institutions do not meet these standards but may be active in other community development work that cannot be captured by these metrics. Investors should use other metrics for evaluating them, as appropriate.

It is important to highlight that this is a positive screen using a finite amount of data in the public domain. NCIF is making a statement based on positive performance in this data set, but we are unable to make any definitive remarks on institutions that do not rate as highly on these metrics. NCIF recommends that investors and stakeholders perform a more detailed analysis to create a more complete profile of an institution. For example, NCIF uses the Model CDBI Framework (below) to evaluate the mission and potential financial performance of an institution prior to making an investment. While the Social Performance Metrics provide a powerful lens to begin to identify CDBIs from the rest of the banking universe, additional diligence is necessary to get a complete picture of the mission orientation of an institution.

NCIF MODEL CDBI FRAMEWORK



NCIF utilizes the Model CDBI Framework to analyze an institution for potential investment. To determine if an institution has an economic development orientation, NCIF examines the need within the institution’s market as well as the products and services that the institution offers to its customers. Also, NCIF inquires about the partnerships that the institution has with various organizations, government departments and community groups, as these partnerships can assist the institution in providing maximum impact. To determine if an institution is financially viable, NCIF uses the traditional CAMELS analysis.

With the recent publication of NCIF Social Performance Metrics, the organization has created a powerful tool that should result in significantly higher deal flow in distressed neighborhoods. More importantly, they have created a credible model for measuring social performance that may be adaptable to other sectors. By creating mechanisms that allow institutions to focus on social performance outcomes, this groundbreaking work may help expand impact in ways that have been difficult to imagine.

Laura Berry
 Executive Director
 Interfaith Center for Corporate Responsibility

CHALLENGE #3: INCREASE THE FLOW OF CAPITAL TO THE CDBI SECTOR

A measurement tool is only valuable if it results in a direct correlation between the measured performance and increased funding. How can NCIF use the Social Performance Metrics to increase investment in institutions that are providing sustainable impact in low-income communities?

If CDBIs are to become a standard retail investment class, able to tap into wider sources of retail investment, then there is a need to create standardized means of investment allocation so that an investor's preferences can be used to create a short list of investment targets.

According to the 2007 Report on *Socially Responsible Investing Trends in the United States*, assets under socially responsible management grew 18% to \$2.7 trillion from 2005 to 2007. However, out of the three core socially responsible investing strategies (screening, shareholder advocacy, and community investing), only \$25.8 billion (0.9%) is dedicated toward community investing. There is a relative lack of "deal flow" within the community investing space and a sizable demand for a community investing product that can meet the SRI community's needs.

NCIF took a practical approach, proposing an Investment Allocation Methodology that can be used by investors to search for worthwhile investment targets that are serving as community development catalysts and then make appropriate investment decisions.

NCIF Investment Allocation Methodology

The Investment Allocation Methodology using NCIF Social Performance Metrics is a robust tool for investors and funders to target banking institutions with a strong community development mission. Theoretically, the methodology can be conceptualized as a function of organizational information, financial performance criteria, asset quality and social metrics. For example:

$$\text{Investment Allocation Methodology} = f \{ \text{organizational information, financial performance, social performance} \}$$

NCIF will work with investors to formulate and structure a methodology that suits their preferences and can be customized by the investor according to a suite of available menu options. This flexibility allows an investor to target institutions located in certain states or to create customized threshold financial performance and social performance levels that must be met for consideration.

For example, suppose an investor is interested in placing \$25 million in deposits in California banks that have a DLI-HMDA greater than 70% and a DDI greater than 80%. Using the Social Performance Metrics Database at www.ncif.org we find that there are five institutions that meet these criteria, with DLI-HMDA scores ranging from 72.6% to 100% and DDI scores ranging from 89% to 100%. NCIF can allocate \$5 million in deposits to each of these institutions, or we can construct a portfolio that would "reward" institutions that are out-performing the others with more investment.

Institution	State	Assets (000)	Return on Assets	DLI-HMDA	DDI	Housing Focus
First Mountain Bank	CA	\$153,824	1.08%	100.00%	100.00%	12.24%
Mission Bank	CA	\$142,444	2.20%	100.00%	100.00%	4.77%
Finance and Thrift Company	CA	\$119,028	1.67%	100.00%	90.00%	3.92%
County Bank	CA	\$1,955,836	1.28%	80.35%	89.00%	6.77%
Pan American Bank	CA	\$41,889	0.19%	72.56%	100.00%	82.36%

NCIF will also work with an investor to develop a methodology that identifies banks meeting a wide range of organizational, financial performance and social performance screens. Using the NCIF database of 11 years of data, it is possible to create screens and weighted investment amounts based on current performance, trends in performance over time, or we can compare institutions relative to a customized peer grouping. NCIF can work with a sophisticated investor to develop an allocation that operates as a function of a series of complex preferences.

Examples of the Developmental Role of CDBIs

Central Bank of Kansas City, MO

Through financing from Central Bank of Kansas City's Urban Core Improvement Fund (UCIF), the St. Mark Child and Development Center was able to build a new facility to serve the area's needs. Every year St. Mark serves approximately 225 low-income families through its early childhood education program, a before and after school program, and a summer camp. Nearly 100% of the children are African American, with many living in single-parent households in one of Kansas City's poorest neighborhoods. The fund uses deposits from foundations, individuals and companies to make loans to the community, including social service agencies and businesses that are looking to improve Kansas City's urban core. Another bank had turned down the church's loan request as too risky. But Central Bank, as a long-time corporate citizen of the Historic Northeast, eagerly said yes.

Liberty Bank and Trust Company, LA

This institution was an integral part of the post-Hurricane Katrina rebuilding effort in its community and continues to offer new Certificates of Deposit through a nationwide deposit-raising campaign. The goal of this campaign is to increase Liberty's pool of funds available for immediate lending—the very funds that customers formerly in New Orleans have withdrawn from their Liberty accounts as they re-establish their lives in the aftermath of Katrina.

Nuestro Banco, NC

This new institution opened in 2007 to meet the needs of an underserved community in and around Raleigh, NC. With a dramatic influx of recent Hispanic immigrants, the region was in need of a bank that would offer the products and services that this new population needed. Nuestro Banco offers a host of specially tailored services that other banks in the area were not, including check cashing for new immigrants and small business loan applications in Spanish. Even the bank building is replete with Hispanic-influenced touches, such as a stucco exterior, a tile roof and bilingual signs.

Southern Bancorp, AR

Southern is a unique organization that combines the vision, passion, and creativity of non-profit organizations with the fiscal discipline, financial capacity, and permanence of FDIC-insured banks. Southern's family of companies includes three commercial banks and three 501(c)(3) non-profit organizations. The banking organizations are long-term members of their respective communities with the ability to influence both public and private policy initiatives and create local, state, and national support for Southern's community development work.

The benefits of using the NCIF methodology include:

- **Financial Return.** Investors can achieve targeted financial returns from different categories of investment dollars, ranging from program related to market rate investments, as has been postulated by the F.B. Heron Foundation.
- **Social Return.** Investors can readily identify institutions that are highly active in low-income communities.
- **Transparency.** The tool is transparent and NCIF works with an investor and tailors the methodology to suit their specific needs.
- **Reduced Risk.** CDBIs are regulated institutions, with stringent oversight by one or more regulatory agencies. Moreover, deposits of up to \$100,000 are FDIC insured, and if the institution that you are interested in supporting is a CDARS participant, that level rises to \$50 million.
- **Leverages NCIF Expertise.** Using the methodology leverages the expertise of NCIF as an intermediary and frees staff members from analysis and ongoing monitoring. NCIF is the leader in CDBI analysis and research and welcomes you to use our existing intellectual capital to provide a listing of institutions that meet your preferences.

Through the Investment Allocation Methodology and the NCIF Social Performance Metrics, it is now possible for CDBIs to become a standard investment class. Support from social and mainstream investors is critically important because CDBIs act as "social entrepreneurs" and provide real and lasting benefits to the communities in which they are located.

Rather than simply taking part in a series of transactions, community banks are institutions that provide extended advantages to communities where they are located. By operating in low-income and underserved areas, community development banks offer retail services, including savings and deposit products that allow low-income residents to access much-needed wealth-building products that are not otherwise available.

Many of these institutions play an active role in community affairs and planning. As an example, **Southern Bancorp, AR** is involved in the "Delta Bridge Project" a multi-county effort to revitalize the region. As part of this initiative, the bank was instrumental in passing a ½-cent county sales tax in Clark County and a 2-cent city sales tax in Phillips County. These funds will be directed towards revitalization efforts within the community.

Many community development banks have organized outreach efforts to provide financial counseling or have established subsidiary non-profit organizations to service the varied financial and non-financial needs of their customers. There is value in providing and promoting these institutions and the long-term sustainable growth that they provide.

Different Stakeholders – Different Benefits

The NCIF Social Performance Metrics are designed to help differentiate CDBIs from the rest of the banking universe. NCIF undertook this identification process to drive investment to these institutions that are doing right by their local communities. There are many investors and stakeholders that may find the Social Performance Metrics useful, including:

Investors:

Large Banks and Other Community Reinvestment Act (CRA)-Interested Investors

Large banks are required to engage in community development investments within their geographic footprint in order to score highly on CRA examinations. By utilizing the Social Performance Metrics, banks can invest in high-performing institutions located in their assessment areas. Additionally, based on the FIRREA 308, they may also be able to identify and invest in minority depository institutions even if they are located outside of their assessment areas.

Socially Responsible and Mainstream Investors

Socially motivated investors wanting to identify prospects with a social mission can use the NCIF Social Performance Metrics to identify and support banks that meet these criteria and are actively building sustainable communities.

Foundations

Foundations are increasingly looking to further leverage their corpus by engaging in mission-related investing and program-related investing. These metrics can provide support to the mission of the investee organization and a measure of social return.

High Net Worth Individuals

High net worth individuals provide the market rate, federally insured deposits that banks convert into loan capital. By depositing or otherwise investing with a CDBI, those deposits are converted to high impact loans that help to revitalize communities.

Government Agencies:

CDFI Fund

The CDFI Fund certification process can utilize the NCIF Social Performance Metrics as one input to determine the primary social mission of an organization.

Regulators

Regulators analyze the lending and service provision of banks as part of the CRA examination. Since DLI-HMDA and DDI can be used as proxies or indicators for the lending and services tests, NCIF hopes to work with regulators to use these measurements as part of the examination process.

Financial Institutions:

Community Development Banking Institutions (CDBIs)

High-performing CDBIs can use the Social Performance Metrics to quantitatively measure and differentiate themselves from the rest of the banking universe. This can help in seeking funding and capital support from social and mainstream investors. CDBIs can also create customized peer groups for evaluation of financial performance and social return over a period of time and against the peer group performance.

As TIAA-CREF looks at expanding its community investing programs, the NCIF metrics are proving a helpful tool for understanding the relative strategies and outcomes of CDFIs. The addition of systematic, objective data to an otherwise relatively subjective process is a major advance both for TIAA-CREF and the SRI industry.

Scott J. Budde
Managing Director
Global Social & Community Investing,
TIAA-CREF Asset Management

With its Social Performance Metrics, NCIF has launched us down the road toward a systematic measurement of the social impact of community banks. It has then taken these metrics to create a practical tool to help easily place funds with the most impactful of these banks.

Both major accomplishments!

Steve Lydenberg
Chief Investment Officer
Domini Social Investments

NCIF Social Performance Metrics are a significant development for the community development banking industry. These metrics will help to identify financial institutions that work in low and moderate income communities or with underbanked people so that investors can support them with deposits, debt, and capital. ShoreBank uses these metrics to report on economic and social outputs that it generated over time and in comparison with customized peer groups.

Ron Grzywinski
Chairman and
Mary Houghton
President
ShoreBank Corporation

Conclusion:

Quantifiable Metrics Increase Capital and Funding

NCIF's mission is to invest private capital in, and facilitate knowledge transfer to, depository institutions that increase access to financial services in underserved communities. In fulfilling this mission, NCIF focused on building relationships with banks, thrifts and credit unions that were certified by the CDFI Fund. However, since there were over 8,500 domestic banks, but only 55 were certified as CDFI banks as of January 1, 2008, it became clear that a strategy focusing solely on certified CDFIs would not be sufficient.

In its efforts to build the community development banking sector, NCIF hypothesized that there are hundreds of banks that are not certified as CDFIs, but that possess a mission of community development. Through meeting with and learning about other banks, it was apparent that there is a significant number of domestic banks that are operating in, and are dedicated to serving low- to moderate-income communities. NCIF challenged itself to develop a tool to differentiate community development banks from the rest of the banking universe in order to identify and support those institutions that are highly active in underserved and economically distressed communities. The resulting information is available on the NCIF website (www.ncif.org).

These Social Performance Metrics have been embraced by investors and stakeholders due to their objectivity, transparency and ease of use, and they represent an opportunity to create a direct correlation between community development outputs and the availability of capital or other funding. NCIF believes that this can be used to create an index of social return that can be added to financial return to meet the total return hurdles of investors.

For further information about the NCIF Social Performance Metrics and how NCIF can assist with peer group data and investment decisions, please contact us. We look forward to working with CDBIs, investors and other stakeholders interested in supporting the mission of Community Development Banking Institutions.

Saurabh Narain	Joseph Schmidt
Chief Fund Advisor	Fund Advisor
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To examine the performance of a specific institution, or to find high-performing CDBIs in your area, please visit our website: www.ncif.org and access our Social Performance Metrics Database Tool free of charge.

Over the years, the Minority and CDFI banks have worked hard to bring financial services to the underserved communities and in low to moderate income people. The NCIF Social Performance Metrics is a terrific tool that will be used by us and other minority banks to quantitatively demonstrate this work so that we can attract more capital to the high performing banks.

James Young
Chief Executive Officer
Citizens Trust Bank, Atlanta

City National has used these metrics as another important tool to communicate some of the work that we do in distressed markets to solicit support from our investors. This tool has been instrumental in allowing us to better quantify our social impact especially in the area of consumer mortgages. We support NCIF in this effort and will take this forward to include other areas of lending data that would enhance it further.

Louis E. Prezeau
Chief Executive Officer
City National Bank of New Jersey

This is a unique opportunity for rural banks like Southern to highlight their work in very highly distressed communities. We hope that these metrics will continue to gain traction among investors so that they can support our work with greater amounts of capital.

Phil Baldwin
President and CEO
Southern Bancorp, AR

OUTPUT OF CDBIS BASED ON SAMPLE QUERIES LISTED ON PAGE 2

Financial data as of 12/31/06. Social Performance Metrics data as of 2006, unless otherwise indicated.

A New York state focused investor wants to identify which banks in the State of New York originated 60% or more of their housing loans in low-income communities during 2006.

Institution	State	Assets (000)	Return on Assets	DLI-HMDA	DDI	Housing Focus
1 New York National Bank	NY	\$140,325	-0.05%	100.0%	100%	17.1%
2 The Upstate National Bank	NY	\$103,901	0.12%	90.3%	75%	11.9%
3 Riverside Bank	NY	\$156,391	1.82%	90.3%	100%	4.6%
4 Asia Bank, National Association	NY	\$416,945	1.14%	75.2%	80%	11.2%
5 Carver Federal Savings Bank	NY	\$765,672	0.58%	74.3%	71%	35.3%
6 Chinatown Federal Savings Bank	NY	\$146,374	1.30%	73.7%	100%	72.3%
7 New York Community Bank	NY	\$26,375,174	0.95%	68.8%	19%	79.1%
8 Flushing Savings Bank, FSB	NY	\$2,827,553	0.89%	64.7%	40%	70.3%
9 First American International Bank	NY	\$408,912	0.45%	63.0%	100%	15.0%
10 Interest National Bank	NY	\$1,857,825	1.33%	60.0%	0%	42.2%

Institutions ranked by DLI-HMDA score.

A minority focused investor (or a regulator pursuing the mission of promoting minority depository institutions) wants to identify which FDIC Minority Depository Institutions (MDI) around the country originated 20% of their housing loans in highly distressed census tracts and have 50% or more of their branches in these census tracts.

Institution	State	Assets (000)	Return on Assets	DLI-HMDA	DDI	DLI-HMDA (Highly Distressed)	Housing Focus
1 Legacy Bank	WI	\$161,708	0.87%	83.4%	100%	32.0%	35.3%
2 Community Bank of Lawndale	IL	\$38,253	-0.91%	92.4%	100%	30.3%	31.0%
3 Citizens Trust Bank	GA	\$334,636	1.05%	58.0%	72%	28.9%	30.3%
4 Industrial Bank, National Association	MD	\$322,595	0.40%	66.8%	75%	20.1%	42.8%

Institutions ranked by DLI-HMDA (Highly Distressed) score.

A rural CRA investor wants to invest deposits in mid-sized Arkansas-based banks that had 100% of their branches in low-income communities.

Institution	State	Assets (000)	Return on Assets	DLI-HMDA	DDI	Housing Focus
1 First Bank of The Delta, NA	AR	\$193,633	1.58%	NA	100%	13.5%
2 Cross County Bank	AR	\$177,474	0.98%	NA	100%	19.7%
3 Arkansas Bankers Bank	AR	\$166,864	0.62%	NA	100%	2.6%
4 Timberland Bank	AR	\$161,811	0.73%	NA	100%	20.7%
5 Helena National Bank	AR	\$148,722	1.09%	93.5%	100%	25.4%
6 Simmons First Bank of South Arkansas	AR	\$141,996	1.57%	NA	100%	18.1%
7 Bank of Brinkley	AR	\$140,215	1.80%	NA	100%	11.3%
8 Simmons First Bank	AR	\$138,575	0.97%	NA	100%	31.9%
9 Warren Bank and Trust Company	AR	\$126,942	1.07%	NA	100%	33.2%
10 Bank of Salem	AR	\$118,849	1.10%	NA	100%	27.9%
11 First State Bank of Warren	AR	\$104,532	0.85%	NA	100%	17.4%
12 McGehee Bank	AR	\$103,777	1.68%	NA	100%	14.5%

Institutions ranked by asset level.

An SRI investor wants to make deposits in housing-focused banks located in the Midwest that are innovative in retail financial services with 50% of their branches in LMI areas and over 60% of their home lending in LMI areas.

Institution	State	Assets (000)	Return on Assets	DLI-HMDA	DDI	Housing Focus
1 First Community Bank	OH	\$119,355	0.68%	86.9%	50%	46.9%
2 ShoreBank	IL	\$1,989,977	0.60%	85.1%	85%	42.3%
3 Illinois-Service Federal Savings and Loan	IL	\$117,017	0.06%	76.5%	50%	85.6%
4 The First Commercial Bank	IL	\$339,254	1.52%	76.3%	66%	47.4%
5 Mutual Federal Savings and Loan Association of Chicago	IL	\$75,001	0.88%	73.6%	100%	99.7%
6 Seaway National Bank of Chicago	IL	\$358,547	0.83%	70.9%	100%	46.8%
7 Second Federal Savings and Loan Association of Chicago	IL	\$256,028	0.21%	69.4%	80%	96.0%
8 Washington Federal Bank For Savings	IL	\$75,758	1.12%	67.2%	100%	62.5%
9 Pacific Global Bank	IL	\$135,808	0.79%	66.3%	100%	64.6%
10 Ohio River Bank	OH	\$80,121	1.16%	66.3%	100%	57.4%
11 Ripley Federal Savings Bank	OH	\$91,484	-0.03%	65.5%	100%	60.6%

Institutions ranked by DLI-HMDA Score

Institutions in **tan** are certified as a CDFI by the CDFI Fund. Institutions in **blue** have a Housing Focus greater than 30%.

All information is gathered from or generated by publicly available data sources. NCIF is not responsible for any inaccuracy.

OUTPUT OF CDBIS BASED ON SAMPLE QUERIES *continued*

A foundation wants to provide program-related investments to CDBIs that have at least 80% of their housing loans in low-income areas and have tripled the percentage of their housing lending in low-income areas since 2002.

	Institution	State	Assets (000)	Return on Assets	DLI-HMDA (2006)	DDI	DLI-HMDA (2002)	DLI Growth (since 2002)	Housing Focus
1	Commercial State Bank	TX	\$56,778	1.39%	85.4%	100%	0.7%	123.79	16.0%
2	Capital Bank	MN	\$43,687	1.90%	100.0%	100%	4.0%	24.9	11.6%
3	Peoples National Bank	CO	\$98,531	1.77%	84.8%	0%	5.1%	16.6	31.6%
4	Tri-County Bank	MI	\$189,935	0.92%	90.1%	14%	5.5%	16.2	27.2%
5	Fullerton Community Bank, FSB	CA	\$670,547	0.81%	87.5%	25%	13.9%	6.3	50.9%
6	Terrabank National Association	FL	\$304,510	0.34%	95.5%	66%	15.4%	6.2	35.4%
7	United Bank of Philadelphia	PA	\$73,935	0.16%	89.9%	33%	15.0%	6.0	40.2%
8	Brantley Bank and Trust Company	AL	\$56,785	1.30%	100.0%	100%	20.7%	4.8	17.0%
9	UMB National Bank of America	KS	\$686,564	0.89%	88.3%	40%	18.9%	4.7	18.9%
10	American Security Bank	CA	\$496,598	2.03%	100.0%	50%	25.8%	3.9	5.4%
11	Murphy Bank	CA	\$107,967	2.44%	100.0%	0%	27.5%	3.6	6.3%
12	The Upstate National Bank	NY	\$103,901	0.12%	90.3%	75%	29.1%	3.1	11.9%

Institutions ranked by DLI growth.

A CDFI bank in the Southeast wants to create a customized peer group of all CDFI and MDI banks in Alabama, Georgia, North Carolina and South Carolina that includes the percentage of housing lending located in low income communities, so it can then showcase the social impact of its work. Peer group averages for Assets, Return on Assets, DLI-HMDA, DDI and Housing Focus are included at the bottom.

	Institution	State	Assets (000)	Return on Assets	DLI-HMDA	DDI	Housing Focus
1	Haven Trust Bank	GA	\$372,588	2.4%	100.0%	0.0%	23.6%
2	Quantum National Bank	GA	\$282,798	1.5%	100.0%	0.0%	0.4%
3	Commonwealth National Bank	AL	\$62,908	0.6%	59.6%	100.0%	47.4%
4	Citizens Trust Bank	GA	\$334,636	1.1%	58.0%	72.0%	30.3%
5	Alamerica Bank	AL	\$53,941	3.1%	53.9%	100.0%	13.9%
6	Mutual Community Savings Bank, SSB	NC	\$88,980	-1.0%	52.8%	100.0%	56.3%
7	Capitol City Bank & Trust Company	GA	\$249,774	1.0%	51.2%	85.0%	8.1%
8	South Carolina Community Bank	SC	\$64,831	1.1%	41.0%	100.0%	16.5%
9	Lumbee Guaranty Bank	NC	\$194,531	1.1%	38.3%	88.0%	35.2%
10	Mechanics & Farmers Bank	NC	\$267,868	0.9%	28.2%	55.0%	23.6%
11	United Americas Bank, NA	GA	\$189,020	1.0%	26.8%	66.0%	48.8%
12	First Tuskegee Bank	AL	\$90,392	0.5%	14.8%	66.0%	20.4%
13	First Intercontinental Bank	GA	\$182,898	1.2%	NA	100.0%	1.7%
14	The Carver State Bank	GA	\$32,975	0.7%	NA	100.0%	51.0%
15	Global Commerce Bank	GA	\$93,591	1.8%	NA	0.0%	2.5%
16	American United Bank	GA	\$65,958	0.5%	NA	0.0%	8.9%
	AVERAGES		\$164,231	1.08%	52.0%	64.5%	24.3%

Institutions ranked by DLI-HMDA score.

Institutions in **tan** are certified as a CDFI by the CDFI Fund. Institutions in **blue** have a Housing Focus greater than 30%. All information is gathered from or generated by publicly available data sources. NCIF is not responsible for any inaccuracy.

OUTPUT OF CDBIS BASED ON SAMPLE QUERIES

An MDI bank wishes to measure its own social impact by calculating the percentage of its branches in LMI areas as a proxy for the Services Test under the Community Reinvestment Act (CRA) rules, and then compare it to the same measure for all HMDA reporting MDIs in the states where this institution is active.

	Institution	State	Assets (000)	Return on Assets	DLI-HMDA	DDI	Housing Focus
1	Pan American Bank	CA	\$41,889	0.19%	72.6%	100%	82.4%
2	Commonwealth National Bank	AL	\$62,908	0.63%	59.6%	100%	47.4%
3	Alamerica Bank	AL	\$53,941	3.06%	53.9%	100%	13.9%
4	One World Bank	TX	\$54,636	0.92%	51.2%	100%	0.0%
5	Eastern International Bank	CA	\$82,754	0.91%	46.0%	100%	16.5%
6	International Bank of Commerce	TX	\$824,536	1.10%	41.0%	85%	13.6%
7	Metrobank, National Association	TX	\$1,011,445	1.43%	70.7%	75%	0.7%
8	Metropolitan Bank	CA	\$112,043	2.05%	44.2%	75%	29.9%
9	Liberty Bank and Trust Company	LA	\$290,233	1.37%	30.1%	69%	54.8%
10	American First National Bank	TX	\$374,425	1.18%	89.3%	66%	4.3%
11	Unity National Bank of Houston	TX	\$50,951	-6.21%	85.6%	66%	26.9%
12	Southwestern National Bank	TX	\$258,671	1.32%	84.0%	66%	7.9%
13	Commerce Bank	TX	\$517,183	1.09%	38.2%	66%	9.6%
14	Farmers & Merchants Bank	OK	\$107,435	0.66%	23.5%	66%	27.2%
15	First Tuskegee Bank	AL	\$90,392	0.45%	14.8%	66%	20.4%
16	United Central Bank	TX	\$679,813	1.71%	87.0%	62%	4.2%
17	First International Bank	TX	\$243,625	2.33%	30.8%	57%	7.3%
18	Lone Star National Bank	TX	\$1,715,467	1.16%	50.2%	54%	11.5%
19	Falcon International Bank	TX	\$646,173	1.68%	64.7%	50%	14.2%
20	Bank of the Orient	CA	\$645,521	0.92%	56.6%	50%	32.8%
21	Broadway Federal Bank, F. S. B.	CA	\$300,999	0.73%	48.5%	50%	62.7%
22	United Bank of El Paso del Norte	TX	\$80,140	0.77%	45.9%	50%	3.5%
23	Gateway Bank, FSB	CA	\$433,025	1.32%	29.7%	50%	99.7%
24	Dryades Savings Bank, F.S.B.	LA	\$89,617	0.40%	9.6%	50%	42.8%
25	International Bank of Commerce	TX	\$9,181,474	1.23%	22.7%	41%	18.2%
26	Wallis State Bank	TX	\$243,666	1.84%	62.0%	40%	3.7%
27	East West Bank	CA	\$10,819,589	1.54%	53.0%	39%	25.3%
28	Cathay Bank	CA	\$8,013,844	1.68%	35.9%	36%	16.3%
29	Universal Bank	CA	\$472,651	2.07%	58.3%	33%	59.7%
30	First State Bank of Porter	OK	\$34,993	2.26%	42.9%	33%	24.3%
31	First United Bank	CA	\$257,160	0.64%	37.7%	33%	12.9%
32	Canyon National Bank	CA	\$252,075	1.81%	34.4%	33%	13.2%
33	Golden Bank, National Association	TX	\$363,939	1.35%	68.4%	25%	7.7%
34	Preferred Bank	CA	\$1,348,877	1.91%	67.7%	20%	6.4%
35	First Commercial Bank (USA)	CA	\$374,821	1.18%	0.0%	20%	6.0%
36	Community Commerce Bank	CA	\$343,309	1.22%	86.9%	16%	27.1%
37	Bank 2	OK	\$82,847	0.26%	11.5%	0%	20.5%
38	F & M Bank, National Association	OK	\$69,437	0.96%	2.3%	0%	7.1%
39	First State Bank	TX	\$36,723	1.35%	0.0%	0%	8.4%
	AVERAGES		\$1,042,647	1.09%	46.4%	52.36%	22.84%

Institutions ranked by DDI score.

Institutions in **tan** are certified as a CDFI by the CDFI Fund. Institutions in **blue** have a Housing Focus greater than 30%. All information is gathered from or generated by publicly available data sources. NCIF is not responsible for any inaccuracy.

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.

BOARD OF TRUSTEES

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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.

FUND ADVISOR

NCIF is advised by ShoreBank Corporation (www.shorebankcorp.com), the nation's first and leading community development financial institution.



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