



2009 Annual Development Banking Conference  
November 4-5, 2009

**The Power of Networks – Learning from the  
Best CDFI Models  
2:30 pm – 3:45 pm**

**Moderator:** Manisha Paralikar  
Fund Advisor, National Community Investment Fund

**Panelists:** Al Lau  
President & CEO, First American International Bank, NY

Deborah Wright  
President & CEO, Carver Bancorp, NY

Jim Conrad  
President, University National Bank, MN

November 5, 2009 [www.ncif.org](http://www.ncif.org)

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## Building a 1-4 Family Real Estate Business

First American International Bank

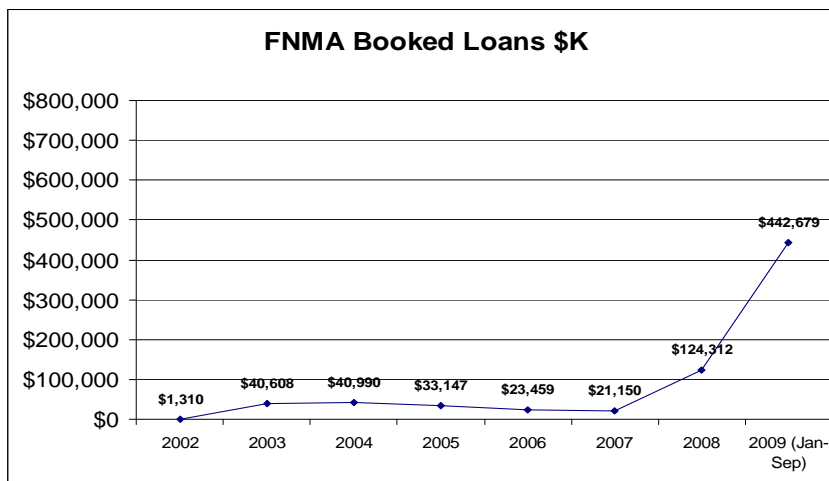
November 5, 2009

Presentation at the 2009 NCIF Conference

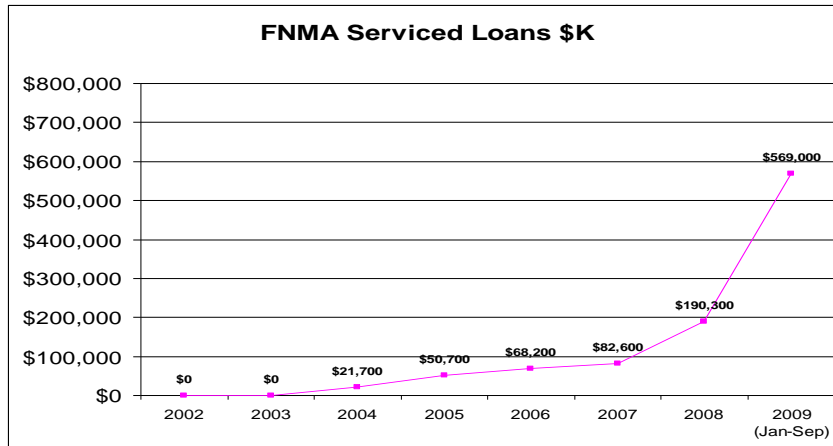
## Our approach has been consistent with our mission as a CDFI

- Supporting and developing a local community must include housing development and financing
- Consumer mortgage is a key financial product to provide to our residents
- The “American Dream” lives strongly in ethnic communities and owning a home is a major component of achieving this dream
- Strategic decision to sign up with one of the GSE’s – FNMA
- It was a multi-year commitment that the Board was willing to make
- We started the process in 2000; signed up with FNMA in 2001; and became a full originator and servicer in July 2004
- Compliance is a major issue that we had to manage

## Results have been particularly strong in 2008 and 2009



## Serviced loans larger than portfolio loans



## The environment is primed for CDFI's to reclaim this business

- Housing is a key element to reviving the general economy and local communities in particular
- Rates are expected to remain low
- Excesses are out of the market
- We are back to traditional lending – irrational lenders are no longer in business
- It's actually what we are really good at – meeting local residents' financial needs
- We are trusted

**We recommend that you evaluate and add to  
your strategic plan for the future**

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- This decision must be a long term commitment
- Maintain a consistent product availability and marketing/sales effort
- Invest in system, processes and people
- Your local community needs to have a local consumer mortgage lender now that former major players are out
- GSE's will always have a role in the housing market – plan to partner with them
- Service your customers by servicing their mortgages
- Manage compliance to regulations

**Act now !**

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- Timing is right
- Major competitors are not back in the market yet
- Housing market will rebound before the commercial real estate market recovers
- Take the opportunity to actively promote your local community focus
- Leverage your local branch distribution
- You already have an advantage with your existing customers
- Finally, it is a product that CDFI's should offer



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## Carver Bancorp, Inc.

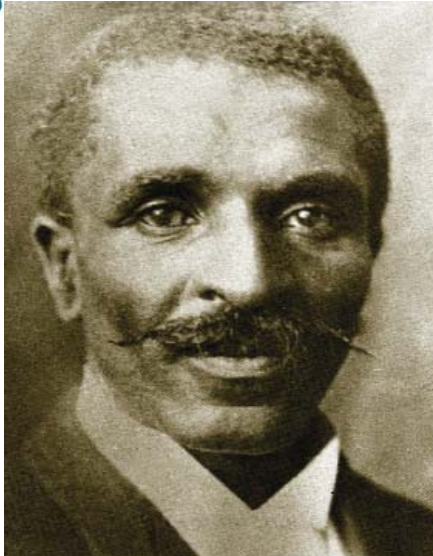
[www.carverbank.com](http://www.carverbank.com)

*"The Power of CDFI Networks"*

National Community Investment Fund  
Chicago, IL

November 4-5, 2009

9



*"Where there is no  
vision, there is no  
hope"*

*George Washington Carver*

10





*Celebrating 60 Years!*

## Carver's Founders: 1948



Standing: Thomas B. Dyett Hawthorne E. Lee Joseph D. Gibson James Felt C. D. King  
William R. Hudgins M. Moran Weston Charles A. Petroni  
Sitting: Walter A. Miller A. George Daly Mable E. Beaud'Huy Joseph E. Davis

11



## Agenda

**Who is Carver?**

**Community Preservation Corporation**

**Our Partnership: Opportunities, Risks and Returns**

12





## Who is Carver?

- **A Community Bank**
- **Headquartered in Harlem with 10 branches and twelve 24/7 ATM centers in Harlem, Brooklyn, Queens**
- **Largest African- and Caribbean-American operated bank in America**
- **Business model: lend to local residents, non-profits and small businesses, utilizing core and other deposits**
- **\$810 million in assets (as of June 30, 2009)**
- **Over 45,000 retail & commercial accounts**
- **NASDAQ:CARV**



## Targeted Advertisement Strategy: Small Businesses

SMALL BUSINESS IS OUR BUSINESS.

**Investing In Your Business. Investing In Our Community.**

"I knew that Carver was looking to expand and consolidate their facilities in Harlem. They also made me aware of a building that may become available. Carver bank helped me structure a deal that was a win-win for everyone, because they knew all the players, saw the inherent value in the deal and could act fast. This is just one example of how a smaller community bank can deliver!" - **Steve Watson, T Capital Investments.**

718.230.5900 [carverbank.com/smallbusiness](http://carverbank.com/smallbusiness) Member FDIC

BRONX BROOKLYN CROWN HEIGHTS DOWNTOWN BROOKLYN FORT GREEN HARLEM JAMAICA 10 ALBANY SUNSET PARK

SMALL BUSINESS IS OUR BUSINESS.

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"When the federal government changed the standards for tugboat certification in New York Harbor, my boat became obsolete overnight. Trying to explain to an underwriter on the other side of the country what kind of business I have was frustrating to say the least! What I needed was a well-capitalized local bank that could act fast. For me, Carver really was that bank!" - **Venesha Ruffalo, Kronic Floating Dental Corp.**

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## Customer and Community Impact

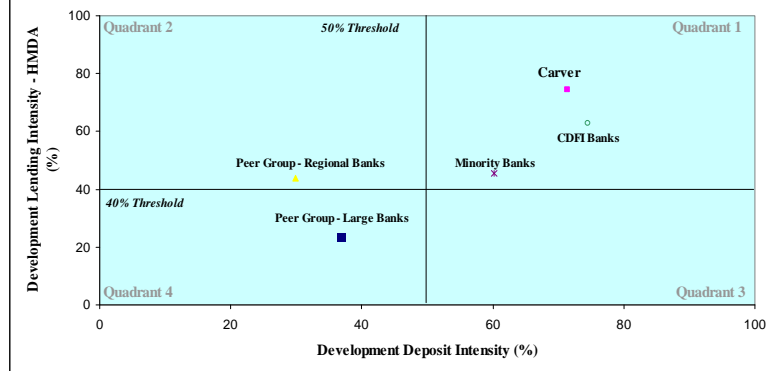
Carver Community Development Corporation was established to formalize and expand our community development, corporate giving and outreach efforts. Initial focus includes:

- **New Markets Tax Credit**
  - CCDC successfully deployed \$59 million in NMTC allocation received in 2006 (Round IV). CCDC received a second allocation of \$65 million in May 2009 made available through the 2009 American Recovery Reinvestment Act.
- **School Construction Authority Mentor Program**
  - As of the end of the first quarter of FY10, 43 SCA loans totaling \$2.77 million have been originated since the program's inception.
- **Financial Empowerment Series/Financial Literacy Center**
  - Last fiscal year over 5,000 people attended financial empowerment workshops and counseling sessions addressing homeownership, credit, foreclosure and anti-predatory lending.
- **Strategic Relationships with City Agencies and Corporate Partnerships Addressing the Unbanked/Under-banked**
  - Key partnerships with the Department of Homeless Services' Advantage Savers Program, Opportunity NYC and NYCHA Rent Collection Program.
  - "Pay Rent Build Credit": Carver will assist our customers with thin or no credit files to establish a credit history by registering timely rent and utility bill payments, thereby establishing a strong FICO score.



## Customer and Community Impact

NCIF Social Performance Metrics - 2006 Data  
Carver FSB, in Comparison to Peer Groups



**Social Performance Metrics**  
**Development Lending Intensity-HMDA** - The % of an institution's HMDA reported originations and purchases, in dollars, that are located in low to moderate income census tracts.  
**Development Deposit Intensity** - The % of an institution's branch locations that are located in low to moderate income census tracts.  
**Comparison Peer Groups**  
**Large Banks** - Banco Popular North America; Bank of America, NA; Capital One, NA; JPMorgan Chase, NA; Sovereign Bank; TD BankNorth, NA; Wachovia Bank, NA



## Customer and Community Impact

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### Industry Benchmarks

- Residential lending portfolio includes substantial “Alt-A” loans; delinquency rates a fraction of industry benchmarks

### NCIF Metrics

- Development Deposit Intensity
  - Carver rated greater than 2x score of large and regional competitors. Indicates branch location investment in inner city
- Development Lending Intensity
  - Carver rated over 3x average score for large competitors; 1.7x regional competitors in NYC



## Agenda

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### Who is Carver?

**Community Preservation Corporation**

### Our Partnership: Opportunities, Risks and Returns



## Who is the Community Preservation Corporation?

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- A non-profit lender and developer launched in the 1970's by David Rockefeller and NYC headquartered banks
- Mission: stabilize, strengthen and sustain affordable housing in low and moderate income communities through construction, rehabilitation and permanent financing
- Business model: fill the void created by lack of mainstream lenders in the sector, focusing on small developers in emerging neighborhoods
- Initial source of buildings and subsidies from the City of New York
- Began development subsidiary in the 1990's
- Expansion throughout the Northeast region including Connecticut, New Jersey
- Since inception, CPC has invested over \$7 billion in 150,000 affordable housing units

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19



## CPC Business Model

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- Funding provided by credit facility from 90+ sponsoring banks and insurance companies, including Carver
- Liquidity enhanced by selling participation interests in loan pools and larger loans
- Developments are for-sale housing or affordable rentals. For rentals, permanent take out provided by pension funds (New York City 30 year financing)

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20





Who is Carver?

Community Preservation Corporation

**Our Partnership: Opportunities, Risks and Returns**



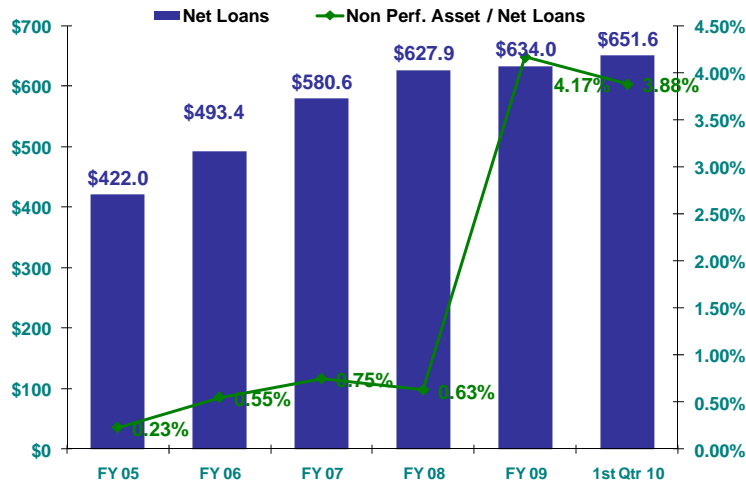
## Motivations for Carver Participation

- Consistent mission
- Approximately \$200 million in new origination volume from 2004-2008 in inner city communities where Carver branches are
- CRA-eligible loans given geography and income target of affordable homes
- Leverage experienced construction management infrastructure at CPC vs. costs of building capacity at Carver (construction loan administration, loan servicing)
- Attractive LIBOR pricing in prior economic environment, minus servicing fee
- New business potential: end loans, retail deposits, and operating accounts
- Excellent credit given City Pension take out; strong demand in emerging neighborhoods; top loss guarantee in earlier deals
- Currently represents 16% of Carver's loan portfolio, down from 30%



## Loan Growth and Credit Quality

\$ In millions



As reported in public disclosures.

23



## Challenges Post 2008

- Current economic climate reduced spread given lack of pricing floor underneath LIBOR
- Recession slowed demand for home purchases given pricing and credit availability for borrowers
- Some developers have less liquidity in economic crunch
- Non-profit status means CPC is not subject to bank examination regulations and standards, requiring participants to provide higher level of oversight
- Bureaucracy inherent in City government involvement in permanent conversions

24





## Lessons Learned

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- **Stick with the basics**
  - Asset allocation
  - Define risk tolerance you can live with (product type, borrower)
  - Take nothing for granted: fully underwrite every loan to your underwriting standards
- **Remain actively involved**
  - Request board member representation
  - Ensure top level dialogue among executive teams
  - Make sure consortium leadership understands your needs
- **Monitor what counts**
  - Get close to the actual borrower and facts on the ground
  - Assign staff member(s) to oversee the relationship (loan officer, loan servicing, credit administration)
  - Ensure that frequent reports are captured in ongoing asset/liability meetings, where senior management is included
  - Focus on the data that counts (your standards not the consortium)

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25



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**Learn More At**  
[www.carverbank.com](http://www.carverbank.com)

### **Contacts**

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*“The Power of CDFI Networks”*

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26



# The Asset Quality Challenge

NCIF Annual Conference  
Thursday, November 5, 2009  
Jim Conrad, President



# Revisiting Best Practices

1. Credit Culture
2. Recognition
3. Resource Allocation
4. Action
5. Communication & Transparency



# 1. Credit Culture

- “Drink the Kool Aid”
  1. Asset Quality focuses on risk of default vs. risk of loss.  
Loss is simply a byproduct of poor asset quality.
  2. Global cash flow is king
- Lenders are wired for sales, so their focus needs shifting:
  - remove the fear factor regarding credit downgrades
  - support timely risk rating actions (both down AND up)
  - incent behavior through revised comp goals (i.e. internal vs. external downgrades, etc..)



# 2. Recognition

- Accept the new reality of today’s credit risk and get to work!
- Organize the facts and create a game plan
- Gain support and resources from bank ownership & BOD
- Take the lead in notifying regulators:
  - Communicate the situation
  - Outline improvement efforts already under way
  - Provide a forecasted timeline for progress



## 3. Resource Allocation

BE PRACTICAL - BE PREPARED: spread the load

- Assign a SVP or CLO (w/ admin assistance) for managing impaired and OREO loans. This provides consistency of process and communication.
- Identify primary legal counsel (expertise in real estate and C & I)
- Identify a primary property manager / receiver
- Identify appropriate realtors by property type

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## 4. Action

### NEW LOANS

- Underwriting structure:
  - Lower LTV and shorten amortization
  - For RE loans, outsource pre-inspection, progress inspection, and post inspection
  - Escrow for taxes (early warning indicator)
  - Greater focus on contingent liabilities and projects funded by other creditors (capacity for additional debt, concentrations, etc.)
  - No “out of trade area” collateral
- Clearer communication with customer regarding reporting expectations
- Increase frequency of supplemental external loan review

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## 4. Action (cont.)

### REDUCING PROBLEM LOANS

- Go after “low hanging fruit” (marginally performing loans)
  - provide incentives to refinance elsewhere
- For OREO, effectively use network of customers as sales source
- If residential, work with affordable housing non-profits and cities with acquisition/rehab programs
- In certain communities, a workable TDR is better than foreclosure
- Be decisive and take your medicine– recognize the loss and move on (don’t forget the burden of upkeep, taxes, repairs, code compliance, etc.)

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## 5: Communication & Transparency

Challenges, action plans, and progress must be clearly and frequently communicated. This promotes overall confidence and “buy in” amongst the target audience. It can also generate helpful ideas, greater effort, common goals, and a sense of accomplishment.

Who is the “target audience” ? :

- Internal Staff
- Ownership/Board of Directors
- Regulatory Agencies

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## Progress Reporting – YTD 2009

<b>NET INCOME</b>	
Add backs:	
OREO Expense	
Legal Expense	
OREO adjustment	
FDIC Special Assessment	
Reserve Addition	
<b>CORE EARNING CAPACITY</b>	



## Progress Reporting Continued

<b>Additional Information:</b>	
NET LOANS	
Classified Asset Ratio	
OREO Assets ( \$ )	
LIQUIDITY RATIO <i>(Primary &amp; Secondary)</i>	

