Quantifying the Impact of Financial Institutions in Underserved Markets

Catalyzing Flow of Capital

July 17, 2014
Outline

- NCIF and its research and advocacy efforts

- Background on new research initiative
  - Objectives
  - Stakeholder benefits
  - Team members
  - Research process
  - Goals and progress

- Solicit feedback and explain ways to get involved
National Community Investment Fund

- Non-profit private equity fund
  - Focused on mission-oriented financial institutions (banks and credit unions) that provide financial products and services in underserved markets nationally.
  - $228 million assets under management including New Markets Tax Credits (NMTC).

- Three main activities
  - Investor
    - In mission-oriented banks: since inception worked with 45 financial institutions that have generated over $5.5 billion in development loans. Largest investor in CDFI and Minority banks in the US.
    - Building a fund for investing in banks and financial technology companies
  - Direct lender: using NCIF Network banks as partners
    - NMTC strategy to invest in projects with banks as local partners
    - Building Small Business Lending Fund to provide subsidy to small businesses
  - Research and Metrics: built BankImpact.org, publish research to tell the story of mission-oriented banks and to catalyze investment decisions.
NCIF’s goal in undertaking the project is to measure the relationship between financial institutions and changes in quality of life and economic activity in the surrounding communities.
The project has three overarching objectives:

1. Drive investments by providing additional data on social impacts

2. Better “Tell the Story” of financial institutions

3. Expand knowledge on the role financial institutions play in their communities
Project Background: Stakeholder Benefit

This work will help a range of stakeholders, including:

1. **Investors**
   Make investment decisions using social and environmental information, Social Return Index/Scorecard

2. **Mission Oriented Financial Institutions**
   Better “tell the story” of impact to stakeholders to solicit investment and support

3. **Researchers**
   Expand the quantitative knowledge around the roles financial institutions play in their communities
Project Background: Team Members

**Research Collaborator**
Michael Swack, Professor, The Carsey Institute at the University of New Hampshire
Jack Northrup, Consultant

**Data Collaborator**
Steve Reider, Founder and President, Bancography

**Advisory Board Members**
Alden McDonald, President and CEO, Liberty Bank and Trust
B. Doyle Mitchell, Jr., President and CEO, Industrial Bank
Cathie Mahon, President/CEO, National Federation of Community Development Credit Unions
Cliff Rosenthal, Former Assistance Director of Financial Empowerment, CFPB
Ellen Seidman, Senior Fellow, Urban Institute and Former Director, Office of Thrift Supervision
Greg Bischak, Program Manager, Financial Strategy and Research, CDFI Fund
Hewson Baltzell, Executive Director and Head of Product Development, ESG Research, MSCI, Inc.
Jody Rasch, Senior Vice President, Moody’s Corporation
Mark Ricca, President and CEO, First American International Bank
Mary Houghton, Former CEO, ShoreBank Corporation
Michael Berry, Director of Policy Studies, Federal Reserve Bank of Chicago
Paige Chapel, President and CEO, Aeris
Preston Pinkett III, President and CEO, City National Bank of New Jersey
Robert Weissbourd, Founder and President, RW Ventures
Steve Lydenberg, Partner, Strategic Vision, Domini Social Investments, LLC
Steve Reider, Founder and President, Bancography
Tony Berkley, Director of Mission Oriented Investing, W.K. Kellogg Foundation

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Project Background: Research Process

Create project team
Collect and process data
Initial analysis
Interviews with practitioners
Refining analysis
Moving towards a Social Return Index

Communicate findings and involve stakeholders
Project objectives and progress
1. Driving Investments

Investing: Use data to capture social impacts in financial decision-making.
2. Financial Institutions: Telling the Story

Financial Institutions: Better “tell the story” of mission-oriented financial institutions.

Current NCIF Impact Measurement

- BankImpact Search Engine
- BankImpact Dashboards
- Industry Analysis for “aggregate” case

Enhanced and expanded through research

- Products adapted to represent new findings
- Better able to benchmark and differentiate
- Scorecard and ranking
- Help facilitate the flow of capital
2. Financial Institutions: Telling the Story

Financial Institutions: Better “tell the story” of mission-oriented financial institutions.
3. Research: Expanding Knowledge

Research: Expand the quantitative knowledge around the roles banks and credit unions play in their communities.

Financial institutions can have positive impacts in their communities, measurable through a range of variables measuring Quality of Life and Economic Activity.
3. Research: Expanding Knowledge

Research: Expand the quantitative knowledge around the roles banks and credit unions play in their communities

Currently collecting and analyzing data including:

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<tr>
<th>Financial Institutions</th>
<th>Economic Activity</th>
<th>Quality of Life</th>
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<td>Branch location</td>
<td>Unemployment</td>
<td>Educational attainment</td>
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<td>Deposits</td>
<td>Number of businesses</td>
<td>Age, gender, race</td>
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<td>Age of institution</td>
<td>Number of employees</td>
<td>Population density</td>
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<td>Loan to deposit ratios</td>
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<td>ROA</td>
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<td>Ownership structure</td>
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<td>HMDA data</td>
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<td>NCIF Social Performance Metrics</td>
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</table>
3. Research: Expanding Knowledge

Research: Expand the quantitative knowledge around the roles banks and credit unions play in their communities

Data sources
- HMDA
- FDIC (Summary of Deposits, Statistics on Depository Institutions)
- National Credit Union Administration
- Bancography
- Census (American Community Survey, Statistics on US Businesses)
- County Business Patterns

Methodologies
- Large scale analysis at the national level
- Matched pair analysis for geographic comparisons
- Transitional matrix
- Case studies to refine
3. Research: Expanding Knowledge

Chicago Housing Units Change, 2011-2012

Identify relationships between variables overtime and the presence of financial institutions.
Moving the industry forward
NCIF: Moving the Industry Forward

1998-2010
Building the case with public data: HMDA
- Development Lending Intensity – HMDA
- Development Deposit Intensity Quadrant Analysis

2010-2011
Expanding to include all lending data
- Geographic Analysis
- Development Lending Intensity – All Loans
- Development Lending Intensity – Highly Distressed

2012-2013
Further Expand to include all lending data - mission segment analysis
- Environmental Lending
- Non-profit Lending
- Underserved Groups
- Mission Intensity

2013 and ongoing
Incorporate outcome data and client data, diversity and governance; align with global standards - impact rating and investment standards (IRIS); map to BEA and CDFI Fund CIIS data collection
- Jobs Created
- Clients Served
- Governance
- Diversity
- BankImpact

OUTCOMES TO IMPACT
NCIF is conducting research to measure the impact of financial services in LMI communities and to create a Social Return Index
NCIF: Moving the Industry Forward

- Building on past efforts, this research and collaborations with stakeholders:
  - Continue current efforts and provide quality analysis to partner banks and the industry
  - Explore funding mechanisms based on social performance
  - Create a score card
  - Create a ranking system
Opportunities for Collaboration

1. Investors
- Use quantitative data on impacts to allocate capital
- Provide feedback on variables that are useful in resource allocation

2. Financial Institution
- Provide feedback on methodology, proxies for impact or ways to better represent the sector
- Participate in other NCIF efforts including Dashboard data collection

3. Researchers
- Provide feedback on this research project and help identify future avenues of collaboration
Contact NCIF

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