NCIF Annual Development Banking Conference
"The Power of CDFI Networks"
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November 4 & 5, 2009
Chicago

Summary of Proceedings

National Community Investment Fund
2230 South Michigan Avenue, Suite 200, Chicago, IL 60616
(312) 881 5826/snarain@ncif.org/www.ncif.org

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Acknowledgments

We want to thank the **Federal Reserve Bank of Chicago** and **Mr. Charles Evans, President and CEO** for their ongoing support of the NCIF Annual Development Banking Conference. Over the years, the Fed has provided mind-share and logistical support for the Conference and in convening the Community Development Banking Institutions (CDBI) industry. We are especially grateful to **Alicia Williams, Michael Berry** and their team at the Fed for their encouragement and support.

We were honored this year to have the continuing presence of the **Honorable Donna Gambrell**, Director of the CDFI Fund, as a keynote speaker. She has been a tireless supporter of the CDFI industry and under her leadership the CDFI Fund has grown rapidly to increase the flow of capital to underserved communities around the country.

NCIF is also honored to have **John Walsh, Chief of Staff for the Office of Comptroller of Currency**, stepping in for Comptroller John C. Dugan along with **Barry Wides, Deputy Comptroller** and **Steve Lydenberg, Chief Investment Officer for Domini Social Investments** as keynote speakers at the conference. And finally, we are grateful to **Director Sandra Thompson, FDIC** who takes time off her busy schedule each year due to her personal passion to support this sector – thank you.

The NCIF Conference is organized primarily to support the **CDBI Industry** and its usefulness grows exponentially with the industry's active participation. We are delighted to have hosted about 140 participants including about 40 Chief Executive Officers and other senior staff members of CDBIs for these two days. Industry leaders flew in from all over the country – Arkadelphia, Oakland, Los Angeles, New Orleans, St. Paul, Nashville, Milwaukee, New York, San Luis Obispo – and actively contributed in the conference proceedings. We believe that this strength in working together for the ultimate client – the underprivileged in the country - is critical.

We benefit from guidance, support and participation from NCIF Trustees – **David McGrady (Chair), Carlton Jenkins, Mary Tingerthal**, and **Charles Val Loan**. They have been very deliberate in taking forward the NCIF mission over the last several years. We are privileged to have the leadership of **Ron Grzywinski, Mary Houghton** and **George Surgeon** at ShoreBank, who are key mentors in taking the industry forward through action, more than words.

Finally, NCIF would like to thank its Event Sponsors whose generous support makes this conference possible – **Wells Fargo** as the Gold Sponsor and **Prosper.com**, **Bancography, Bank of America** as Silver sponsors and **JPMorgan Chase and Bank of America** as our investors.

Finally, we would like to acknowledge support of a few key individuals at NCIF **Joe Schmidt**, **Manisha Paralikar** and **Marc Victorianne** – without whom the Conference would not have taken place. We also want to acknowledge **Natasha Ruser**, **Tonya Sanders** and **Sara West** who took copious notes of the conference proceedings.

Saurabh Narain
and the NCIF Fund Advisor Team

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The Power of CDFI Networks: *Leveraging the Strength of the Community Development and Minority Banking Industry*

Wednesday, November 04, 2009

Time	
7:45 AM — 8:30 AM	*Breakfast and Registrations*
8:30 AM — 8:45 AM	**Welcome to the Conference and Introduction** **Saurabh Narain, Chief Fund Advisor, NCIF**
8:45 AM — 9:15 AM	**Keynote Speech** **The Honorable Donna Gambrell** **Director of the CDFI Fund, U.S. Treasury Department**
9:15 AM — 10:30 AM	**Growth and Survival Strategies in a Recession – Stories from the CDFI Bankers** CDFI Bank CEOs on how they are coping with challenges of the recession - dealing with increase in loan losses, need for capital and funding and using niche strategies to grow their business. **David McGrady, Vice Chairman, City First Bank of DC, Moderator** **Paul Hudson, Chairman & CEO, Broadway Financial Corporation** **Guillermo Diaz Rousselot, CEO, Continental National Bank of Miami** **Luz Urrutia, President, El Banco de Nuestra Communidad**
10:30 AM — 10:45 AM	**Break**
10:45 AM — 12:00 PM	**Mergers, Acquisitions, Valuation** Crisis brings opportunities – can the healthier banks use the low valuations to buy banks either from the regulators or from the market; CDFI Bank CEOs who have bought banks recently will discuss their experiences on valuation and integration. **Charles Van Loan, Director, Independent Bank Corporation, Moderator** **Phil Baldwin, President & CEO, Southern Bancorp** **Steve Kent, Managing Director, Keefe, Bruyette & Woods** **Thomas FitzGibbon Jr., Executive Vice President, MB Financial Bank**
12:00 PM — 1:30 PM	**Lunch & Keynote Speech** **Steven D. Lydenberg** **Chief Investment Officer, Domini Social Investments**
1:30 PM — 2:45 PM	**NCIF Social Performance Metrics and Model CDBI Framework** NCIF will discuss the Social Performance Metrics valuations and its ability to attract additional capital to the sector; the Performance Metrics Working Group will update on the progress on creating industry standards for communication of social impact and also to create a CDBI certification and a rating mechanism. **Michael Berry, CCA Division, Federal Reserve Bank of Chicago, Moderator** **Joe Schmidt, Fund Advisor, National Community Investment Fund** **Jeff Cheung, President & CEO, OneCalifornia Bank FSB** **Huilan Yang Krenn, Program Director, The W. K. Kellogg Foundation**
2:45 PM — 3:00 PM	**Break**
3:00 PM — 3:30 PM	**The Power of Networks – The NCIF New Markets Tax Credit Strategy** NCIF is using our NMTC Allocation to invest in transactions that promote a 3-way partnership between mainstream investors, CDBI banks (and NCIF). The NCIF strategy promotes quick delivery of capital to distressed neighborhoods and also help in strengthening CDFI banks. **Saurabh Narain, Chief Fund Advisor, NCIF** **Matthew Reilein, JP Morgan Chase**
3:30 PM — 4:00 PM	**Keynote Speech** **Ms. Sandra Thompson** **Director, Division of Supervision and Consumer Protection, FDIC** ***Introduced by:* George Surgeon, ShoreBank**
4:00 PM — 5:00 PM	**Regulator Perspectives** Representatives from regulators will discuss current issues including relating to Safety and Soundness, Concentrations, Brokered CDs and Community Development. **Robert Mooney, Deputy Director, Consumer Protection and Consumer Affairs, FDIC** **John Moon, Federal Reserve Board** **Cassandra McConnell, Director, Consumer and Community Affairs, OTS**
5:00 PM — 6:30 PM	**Networking Reception** All conference attendees are invited to participate in a networking cocktail reception to be held at the venue.

Thursday, November 05, 2009

Time	
7:45 AM — 8:30 AM	*Breakfast and Registrations*
9:00 AM — 10:30 AM	**Investors Meet MDI & CDFI Banks** SRI and mainstream investors will discuss experiences and expectations on investing or providing funding to CDFI and MDI banks. **Mary Tingerthal, President, Capital Markets Companies, Housing Partnership Network** **Scott Budde, Managing Director, Global Social & Community Investing, TIAA-CREF** **Brian Handal, Senior Vice President, Wells Fargo** **Mark Regier, Director of Stewardship Investing, MMA** **Sister Pam Buganski, Provincial Treasurer, Sisters of Notre Dame**
10:30 AM — 10:45 AM	**Break**
10:45 AM — 11:45 AM	**Governance, Board Composition, and Human Capital** CDFI Banks face significant challenges relating to human capital both at the management and board levels; this panel will discuss some of the best practices relating to running high impact and efficient organizations. **Jan Piercy, Executive Vice President, ShoreBank Corporation** **Linda Heagy, Former Managing Partner, Heidrick & Struggles** **Deborah Cole, President, Citizens Savings Bank and Trust Co., Nashville**
11:45 AM — 1:15 PM	**Lunch & Keynote Speech** **The Honorable John C. Dugan** **29th Comptroller of the Currency**
1:15 PM — 2:30 PM	**The Power of Networks - Innovations** New innovations can be used by CDFI Banks to reduce the cost of delivery of financial services -- this includes prepaid cards, peer to peer lending. Mobile Banking was discussed in the 2008 conference. **William M. Dana Jr., President and CEO, Central Bank of Kansas City** **Mick Conlin, Senior Vice President, Meta Payment Systems** **Chris Larsen, CEO & Co-Founder, Prosper.com** **Joel Freehling, ShoreBank**
2:30 PM — 3:45 PM	**The Power of CDFI Networks — Learning from the Best CDFI Models** CDFI Bank CEOs will discuss Success Stories -- on ramping up a new 1-4 family real estate business, managing commercial real estate exposures, managing risk in affordable housing consortia and creating a customer centric business. **Manisha Paralikar, Fund Advisor, National Community Investment Fund** **Al Lau, President & CEO, First American International Bank** **Deborah Wright, Chairman & CEO, Carver Bancorp** **Jim Conrad, President, University National Bank**

Closing Remarks to end by 3:50 pm

Day One: Wednesday, November 7, 2009

Welcome and Introduction

Michael "Mike" Berry, CCD Division, Federal Reserve Bank of Chicago, welcomed the conference attendees on behalf of Charlie Evans, President and CEO of the Federal Reserve Bank of Chicago. Mr. Berry also provided an overview of the importance of mission-driven organizations like Community Development Financial Institutions (CDFIs) and Community Development Banking Institutions (CDBIs[1]) for the development of underserved communities.

Mike turned over the stage to **Saurabh Narain, Chief Fund Advisor of NCIF** to formally welcome everyone to the conference. Mr. Narain acknowledged the key role played by CDFI banks in development finance industry, especially in these highly distressed economic times. He emphasized the goal of the conference to bring industry stakeholders together in a positive way and to strengthen the "Power of the CDFI Networks".

Mr. Narain noted that the conference aimed to address the survival of banks during these trying economic times, measuring CDFI performance, new industry innovations, best management and board governance practices, regulator concerns, cost containment, and increasing the reach of CDBIs within underserved communities.

Mr. Narain recognized the keynote speakers of the conference: the Honorable Donna Gambrell, Director of the CDFI Fund, Steve D. Lydenberg, Chief Investment Officer, Domini Social Investments, Sandra Thompson, Director, Division of Supervision and Consumer Protection, FDI, and the Honorable John C. Dugan, 29th Comptroller of the Currency.

While in 2009, 116 banks had failed only one of these banks was a CDFI bank. He noted, however that the story is still unfolding even though historically CDFI banks have been better able to manage problem assets.

He emphasized that CDBIs need to continue to measure their social performance outputs and impact and communicate this to the stakeholders while requesting for greater support from them.

He called for a recommitment from CDFIs to live out their mission to serve underserved communities by building new businesses and innovating within the industry. He concluded his presentation by acknowledging the NCIF staff, trustees, fund advisors, and conference volunteers.

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[1] Community Development Banking Institution (CDBI) is a term coined by NCIF to denote insured financial institutions that have a mission of community and economic development ex ante or ex post. CDBIs 'walk, talk and look' like certified CDFI Banks but may not be currently certified. NCIF hopes that these institutions will eventually become certified.

Keynote Address

The Honorable Donna Gambrell
Director, CDFI Fund
US Department of the Treasury

Saurabh Narain, Chief Fund Advisor for the National Community Investment Fund (NCIF) introduced the Keynote Speaker, **Director Donna Gambrell.** In his remarks, he acknowledged that since Director Gambrell was appointed as Director of the Treasury's CDFI Fund in 2007, the CDFI Fund has grown rapidly for the benefit of the industry.

Director Gambrell opened by acknowledging that the economic crisis has presented challenges for the CDFI industry in the past year. She stated that this crisis calls for CDFIs to think deeply and strategically, and that the CDFI industry has continued to grow and forge strong partnerships despite this economic adversity. She acknowledged that CDFIs have become more important than ever in providing capital to the underserved given the current credit crisis. She stated that CDFIs have survived in no small part because of their ability to network inside and outside of the industry; strengthening these networks can help reduce the cost of delivering financial services. Ms. Gambrell's goal is that the Department of Treasury brings more entities into the CDFI community; she noted that the conference offered an opportunity for this community to evaluate where it is, and where it needs to go.

Director Gambrell further noted that CDFIs have performed well in developing social performance metrics, and that without this data, it would be difficult to convince a broader audience that CDFIs can effect long-lasting change in communities. Without data, CDFIs can rely only on anecdotes to describe their successes. She explained that the CDFI community must be strategic about how it conveys this data and should not assume that everyone will believe that CDFIs do good, proven work. Performance metrics will allow CDFIs to demonstrate that they are effective and therefore demand more resources.

Director Gambrell affirmed the commitment of the Department of Treasury to both the CDFI Fund and the greater CDFI community. The Department of Treasury has implemented many of the Fund's key recommendations, and in turn the Treasury has been generous with giving the Fund technical support. She acknowledged, however, that more needs to be done with regard to the CDFI Fund's relationship to the CDFI community. This includes certifying more qualified institutions as CDFIs. She stated that NCIF has identified a much larger universe than the current 65 certified CDFIs and that getting more institutions certified would enable them to access resources and raise the profile of the CDFI industry.

Director Gambrell concluded by highlighting the importance of reflecting on the work that CDFIs do and warned against becoming complacent. CDFIs must continue to ensure strong underwriting, offer credit counseling, and provide affordable products. She acknowledged that this work will require more energy and more than ever before.

Panel 1: Growth and Survival Strategies in a Recession

David McGrady, Vice Chairman, City First Bank of DC, moderated this panel and discussed the current issues faced by the CDFI banks especially as they relate to asset quality.

Paul Hudson, Chairman & CEO, Broadway Financial Corporation, began his remarks by acknowledging the work of Donna Gambrell and the CDFI Fund, describing how Broadway received CDFI certification, followed by a BEA award, and then TARP funding without the encumbrance of warrants.

Mr. Hudson explained that Broadway's classified assets, nonperforming assets, and loan loss provisions increased steadily from Q4 2008 to Q3 2009. Deterioration in the faith-based portfolio, which represents the biggest segment of non-performing loans at Broadway, came as somewhat of a surprise but bank management moved quickly to address the underlying problems. Key actions included focusing on asset quality by allocating significant human resources to loss mitigation efforts, identifying early earning signs with earlier valuations on delinquent loans and biweekly internal asset reviews, and maintaining frequent customer contact. Broadway's efforts are beginning to see results: net interest margin is improving, and earnings are strong.

Potential capital raising strategies include Treasury funds (TARP, Small Business Initiative, CDFI Fund), private equity (Urban focused funds, Bank funds), and CRA/Social Investments (Banks; Foundations).

Guillermo Diaz-Rousselot, CEO, Continental National Bank of Miami, explained that capital ratios and liquidity will be the key drivers in banking for the next year. Mr. Diaz-Rousselot explained a bit of Continental's history, including its recent experience operating under a consent order.

Mr. Diaz-Rousselot underscored the importance of communicating closely with regulators, and working with them on asset improvement plans. Mr. Diaz-Rousselot described Continental's approach in meeting with developers, one of the bank's largest customer bases, to create construction and repayment schedules that include a sensitivity analysis around factors such as vacancy.

Luz Urrutia, President, El Banco de Nuestra Communidad, described El Banco's history and mission, as well as the bank's position in The Peoples Holding Company. Potential investors in People's current capital raise have found the uniqueness of El Banco's social mission and financial results quite appealing.

El Banco, a $60 million bank, operates with a focused mission that has its origins in promoting economic development in low- and moderate-income communities. Today, El Banco is restructuring for growth by tapping into three key segments: retail consumer; Hispanic businesses; and money service businesses. The results of these growth strategies have included significant increases in both deposit and loan volume. Additionally, El Banco has suffered zero loan losses in 2009. Finally, employee performance has improved dramatically.

In closing, Ms. Urrutia emphasized the need to focus on core competencies and eliminate low performing businesses, understand customer segments and offer a unique value proposition, revise credit strategy in light of the current economic environment, and retain the best talent and openly communicate expectations with employees.

Panel 2: Mergers, Acquisitions, Valuation

Charles Van Loan, Director of Independent Bank Corporation, moderated this panel to discuss growth opportunities available to CDFI banks in the current market.

Phil Baldwin, President & CEO, Southern Bancorp, began by noting Southern Bancorp's longtime CDFI certification. Southern's transformational goals include reducing poverty and unemployment, and increasing high school graduation rates.

Mr. Baldwin noted that Southern's structure formerly consisted of a holding company with 3 banks and 3 nonprofits. In the course of raising capital, management determined that the structure was overly complex, and collapsed all charters into one bank charter.

Southern recently acquired both Timberland Bank and First Delta Bankshares with the help of $11 million in TARP funds and a mission driven investment of $5 million from the Kellogg Foundation,. The Timberland transaction, where Southern offered $0 to purchase but $12 million in loans, closed in June and has since exceeded expectations. Four weeks after filing the application to purchase Timberland, Southern then filed an application to acquire First Delta in Missouri. Mr. Baldwin noted that the examiners were helpful throughout the process, but that the acquisitions and capital raise were still challenging. The results of the acquisitions include the addition of $500,000 to the bottom line, a 9.5% annualized return, and an ROI of 15%.

Steve Kent, Managing Director, Keefe, Bruyette & Woods, opened by acknowledging the "brutally dispassionate capital markets" that factor into almost any bank's acquisition strategy. Mr. Kent predicted that in coming months, leverage will decrease, assets will grow more slowly, and margins will improve. He noted that credit quality is critical to bank survival, and that those banks with regulatory standing, balance sheet capacity, and strategic vision in accordance with the company's business model will enjoy relative prosperity going forward.

Mr. Kent described recent trends in the financial markets: the disappearance of securitization; the dramatic decline in both the value and volume of mergers and acquisitions; and significant divestitures by banks. He also noted that banks are no longer necessarily valued on the basis of their earnings streams; instead they are being valued at liquidation prices, which are very low and prevent much M&A activity.

Mr. Kent recommended that banks look to qualifying subordinated debt for capital, which can be considered a safe asset and receive tier 2 capital treatment.

Thomas FitzGibbon, Jr., Executive Vice President, MB Financial Bank, began by noting that as of June 30, fifty-six local financial institutions had Texas ratios above 50%. He opined that although there are many good banks, there are few good bankers.

Mr. Fitzgibbon described the steps necessary to review bid packages offered by the FDIC. He noted that MB Financial has acquired 3 failed institutions this year, including Corus Bank. Limiting the conversion period to 5 to 10 weeks is essential. Reviewing bid packages first requires a review of the offering and consideration of how it would integrate into existing operations. Then, due diligence of assets and liabilities is undertaken, followed by a facilities analysis and consideration of what the bank offers to the community. Analyses of staff competency, customer (historical and financial), and business lines are also performed. Finally, a workout team capacity evaluation and competitive landscape evaluation are required.

Keynote Address

Steve Lydenberg
Chief Investment Officer
Domini Social Investments

Mr. Lydenberg addressed the conference on the importance of reporting on societal returns, reporting on how each community development banking institution strengthens the communities in which it operates, how these banks contribute to the stability of the financial services industry, how these institutions align daily operations with the creation of a just and sustainable society and how they support government in achieving these fundamental goals. After ensuring that one's bank survives and is profitable, reporting on societal returns is the single most important thing that one can do today. The current financial and economic crises have demonstrated all too clearly to all too many just how far business has become misaligned with our basic societal needs. The financial community in particular has strayed far from its original purpose of contributing to a stable, productive economy and become blindly obsessed with risk-adjusted returns measured against abstract financial benchmarks.

The community development banking world is ideally situated to take a leadership role here because these institutions, more than any other segments of the financial sector, have fully aligned your operations with the needs of society. Bank leadership knows it, and investors and depositors want to know it. But unless banks document and report on societal returns, go beyond the financials to tell the whole story, supporters will not be able to distinguish community development banks from the large banks that have given their industry such a bad name these days.

Mr. Lydenberg continued, stating that community development banks are on the right track when it comes to reporting. He highlighted the work of the National Community Investment Fund and stated that the Social Performance Metrics℠ database is a major step in the direction of providing potential customers and clients, as well as investors, with a tool to measure banks' records systematically. Social metrics, measuring societal returns, is the next frontier. How to measure them, how to report them, is not easy and is not entirely clear. But it is a problem on which we are all working, and it is a problem that we must all solve together if finance is to function properly in society.

In closing, Mr. Lydenberg stated that the industry needs to create a cultural change—a change driven by the strength of our vision of a just and sustainable society, by strong, well-run institutions with the savvy to tell their stories in ways that cannot be denied, and the capacity to handle the growth that will be their reward. It may be a difficult road ahead, but the road down which the large financial institutions that dominate the headlines today are taking us will surely be more volatile and painful for all. Our road is one well worth travelling, it is a road that begins with measurement of societal returns and proceeds to the rewards these returns bring. It is a road that will undoubtedly be filled with twists and turns, setbacks and surprises, but it a road on which I welcome taking the journey together with you.

Panel 3: NCIF Social Performance Metrics and Model CDBI Framework

Michael Berry, Manager of the Consumer and Community Affairs Division of the Federal Reserve Bank of Chicago moderated this panel. He opened by commending NCIF for taking the lead in establishing standard performance metrics and for the Model CDBI framework.

Joe Schmidt, Fund Advisor for NCIF. Mr. Schmidt noted that narrative stories, supported by concrete quantitative figures, can be a key method for communicating development impact to a larger audience of investors, regulators, and stakeholders. NCIF has begun the work of standardizing and monetizing the way impact is measured in order to differentiate CDFI banks from traditional banks.

Mr. Schmidt provided an overview of NCIF's Impact Measurement. NCIF has developed two core metrics: Development Lending Intensity (HMDA) and Development Deposit Intensity (DDI). Through the use of these two metrics, NCIF has demonstrated that most CDFI and MDI banks are considered "High Performing." To continue this trend, CDFIs must continue to develop innovative products to serve the needs of low-income groups as well as partner within the community.

Setting standards will be key to garnering more investment for CDFIs. NCIF has made the Social Performance Metrics data available on its website; this data will acclimate new investors to the impact of CDFIs. To date, the use of Social Performance Metrics has led to approximately $70 million in new deposit funding.

Social Performance Working Group members include OneCalifornia, Liberty Financial Services, City National Bank of New Jersey, Sunrise Banks, Southern Bancorp, Carver, Broadway, and Shore Bank. The working group will seek feedback from CDFI and other banks to determine if the information they are collecting is relevant and scalable. Ideally, every CDBI would use the metrics to properly capture their work in underserved communities and provide full and accurate reporting of economic output data such as jobs created, loans originated, etc.

How does your institution measure social impact?

What social impact measures would your institution find most useful?

How does your institution describe its social mission to potential investors?

Jeffrey Cheung, President and Chief Executive Officer, OneCalifornia Bank, CA, offered some background on OneCalifornia, which was certified as a CDFI in February. The bank measures itself against a triple bottom line: environmental, social, and profit. It has one office in Oakland and only one ATM machine. It offers single family mortgage lines and utilizes innovation, collaboration, and social leverage. Products and programs include essential bank accounts, fair star accounts, financial literacy education, and free money orders that serve as checks.

OneCalifornia also works in partnership with the Annie E. Casey Foundation to provide a matched savings account. The bank also utilizes the Grameen Bank model in working with ethnic borrowing circles. In addition, OneCalifornia promotes a hybrid social capital with large foundations and also collaborates with other non-bank CDFI lenders.

According to Mr. Cheung, keeping the mission front and center, with a sustainable business model, is key. Currently, 70% of the bank's loans are made to women, minorities, and low-income people. In addition, lending customers have reported the creation of 109 jobs as a result of financing from OneCalifornia. The bank also uses green metrics with regard to carbon emissions, solar system installation, etc.

Huilan Yang Krenn, Program Director, The W. K. Kellogg Foundation began her presentation by describing the Kellogg Foundation's Mission Driven Investment (MDI) program. The mission of the Kellogg Foundation is to support vulnerable children and families and to position them to succeed in life. In 2007, Kellogg launched the MDI pilot program with a $100 million investment, an investment unrelated to the foundation's grantmaking budget. The program's focus is to make investments to mission-driven institutions that will produce a social and financial return for the Foundation. MDI measures return on investment as investment capital + cost of earning + inflation. It is expected that the ROI will equal 4 to 6%.

Ms. Krenn explained that the foundation is initiating a paradigm shift by focusing its efforts on a theory of change. Kellogg has acknowledged that social return measures are not linear; therefore, Kellogg must consider potential shifts along the way.

MDI performance measures include the number of jobs created; number of children enrolled in day care; number of caretakers with savings accounts; etc. MDI social metrics are designed around a human centered framework. The foundation expects that the social metrics will provide expectations around social returns; produce benchmarks; assist in securing commitments from investors; garner customer support; and produce data that can be aggregated, is simple to use, can help answer big questions, and can leverage opportunities in the field. The stories that accompany social metrics also help to contextualize the analysis.

Panel 4: The Power of Networks – The NCIF New Markets Tax Credit Strategy

Saurabh Narain, Chief Fund Advisor, NCIF, began the panel by acknowledging that his fellow panelist's company, JP Morgan Chase, is one of the few institutions still buying New Market Tax Credits (NMTC). He stated that NCIF was fortunate enough to receive $128MM in NMTC, and its objective is to partner with CDFI banks in highly distressed areas to identify potential investments that can be made using NMTC.

Mr. Narain stated that NCIF is developing a three-way partnership for utilizing NMTC where CDFI banks and tax credit investors source deals and NCIF allocates the credits. Currently, however, financing is difficult to obtain. The NCIF structure for NMTC involves bringing in institutions from the NCIF network to provide reasonably priced loans. These institutions could include large, commercial banks. It is NCIF's hope that this network will grow to the point where it can create a pool of tax credit equity that it can use to lend out. NCIF would match this equity investment provided that the transaction is backed. If this structure works, then the ability of the CDFI community to provide equity investment would be tremendous. Mr. Narain noted that this new structure uses the subsidy as a form of debt.

Matt Reilein, Senior Vice President, JP Morgan Chase, underscored that Chase is still active in the NMTC industry and that Chase values its partnerships with NCIF and other CDFIs. Chase expects to be the second largest investor in NMTC for 2009, and it has dedicated substantial resources to running the program with a long-term view. Chase views NMTC as a means of capitalizing on current market disruption.

Mr. Reilein explained that due to massive consolidation in the banking industry, demand for tax credits is decreasing in general as not many banks are looking to offset tax liability. The NMTC in particular is less valuable than other credits to some investors as it does not afford the ability to offset the alternative minimum tax, although there is currently legislation proposed to change this. Additionally, banks face an increased cost of capital, and so in order to maintain internal yields, pricing for NMTC has dropped from its peak of 82 cents to 60-70 cents.

Mr. Reilein closed by noting that Chase favors providing NMTCs to organizations with a social mission, and that Chase's most important criteria is the quality of the borrower. During the Q&A session, Mr. Reilein noted that the average size of an NMTC deal is upwards of $5 million.

Keynote Speech

Sandra Thompson
Director, Division of Supervision and Consumer Protection
Federal Deposit Insurance Corporation

George Surgeon, President of ShoreBank introduced **Director Sandra Thompson** who is responsible for the FDIC's programs on safety and soundness. He acknowledged Director Thompson as a vigorous advocate of consumer and community affairs and one who speaks out about affordable housing and foreclosure prevention.

Director Thompson's speech addressed two topics: the state of the CDFI industry, and her general opinions about the industry.

Director Thompson acknowledged the challenging environment facing the industry and projected that the current challenges will continue. The FDIC expects to see more problem banks and bank failures in the future. Ms. Thompson noted the high correlation between unemployment and delinquencies.

Ms. Thompson stated that commercial mortgages are the current driver of the credit crisis as large numbers of commercial real estate loans are ready to roll over, and yet property values continue to fall, resulting in difficulties with refinancing. To that end, the FDIC recently issued guidance about prudent loan workouts that includes examples of how to respond in certain situations. Ms. Thompson emphasized that she has asked all examiners to exercise judgment and flexibility when examining commercial real estate loans.

Director Thompson added that the Deposit Insurance Fund will require a cash infusion in 2010 and will look to banks to supply that cash. She indicated that it is the industry's responsibility to repay the FDIC, but that the payments should not impact banks' ability to lend. She emphasized that the FDIC has never lost a penny of insured deposits and never will, but that more public education and awareness around FDIC insurance is necessary.

Regarding her general opinions about the industry, Director Thompson stated that the gains made by the Community Reinvestment Act (CRA) are in danger of being lost, particularly with regard to homeownership, small businesses lending, and lending in low to moderate income and minority communities. Although Director Thompson stated that the most egregious practices were loan originations outside of the banking sector, the banking sector was complicit in its attempt to compete for loans in a "race to the bottom." Furthermore, aggressive growth strategies exposed weaknesses in management.

Ms. Thompson explained that the FDIC will begin conducting material loss reviews of banks if losses to the FDIC are greater than $25MM. Director Thompson stated that it is the FDIC's priority to help people enter the financial mainstream and that consumer confidence is still of critical importance.

Panel 5: Regulator Perspectives

Robert Mooney, Deputy Director, Consumer Protection & Consumer Affairs, FDIC, acknowledged that the FDIC had experienced significant call volume of late regarding the increase in FDIC insurance premiums. For the first time in its history, the FDIC engaged an advertising agency to develop a public service campaign, with messages targeted to minority audiences.

The FDIC is preparing to release a survey of the underbanked that will show that although 75% of banks are aware that the underbanked population is significant, just 20% of those actually plan to target underserved communities as a component of their business plan.

John Moon, Federal Reserve Board, stressed the importance of ensuring that banks have sufficient exam staff. Mr. Moon described an FRB convening in February 2009 on the topic of CRA modernization. Although Congress has yet to act, the Fed of San Francisco produced a collection of essays, papers, and research by some of the thought leaders on CRA.

In response to the challenges facing CDFIs, Mr. Moon noted that the FRB has hosted a summit and produced a working paper regarding best practices and funding constraints. Many ideas discussed at the conference served as a basis for recent actions taken by the Administration, the Treasury, and the CDFI Fund.

Cassandra McConnell, Director, Consumer and Community Affairs, OTS, highlighted the recent Commercial Real Estate guidance that is now posted on the OTS website. She explained that the OTS is working to draft guidance on reverse mortgages and overdrafts as well.

Ms. McConnell discussed the Minority Depository Advisory Committee, which was launched in March 2008 and represents minority banks, investors, and community groups focusing on capital. The committee has hosted a session with the CDFI Fund in Atlanta, highlighting the benefits of CDFI Certification. The committee (in partnership with NCIF) is also developing an investor guide to introduce socially responsible investors with minority depository institutions. It is expected to be published in 2010.

Sandra Thompson, Director, Division of Supervision and Consumer Protection, FDIC, was a keynote speaker in the previous session but joined the Regulator Perspectives panel to participate in the Q&A.

Day Two: Thursday, November 5, 2009
Panel 1: Investors Meet MDI & CDFI Banks

Mary Tingerthal, President, Capital Markets Company, Housing Partnership Network and Trustee, National Community Investment Fund moderated this panel. Ms. Tingerthal noted that the panel would offer cross-cutting views of investors and other players in the business of investing in CDFIs and MDIs. NCIF has been at the forefront of bringing these groups together.

Scott Budde, Managing Director, Global Social and Community Investing, TIAA-CREF began with a brief overview of TIAA-CREF. TIAA-CREF is a $400 billion investment firm that has entered the realm of social investing, in part due to attractive financial returns. TIAA-CREF represents 3.5 million investors, many of whom are rather educated interested in socially responsible investments. Due to this interest from their investor membership, TIAA-CREF is actively looking for opportunities to invest in community development focused institutions, including CDFI banks. TIAA-CREF has an existing portfolio of deposits in CDFI banks and considers these investments to be an integral component of their overall asset allocation strategy.

Brian Handal, Division Senior Vice President, Institutional Lending, Wells Fargo talked about the opportunities for community banks to partner with Wells Fargo, or other correspondent banks, to improve liquidity and spur growth. He explained that Wells Fargo buys mainstream products and uses them in traditional and non-traditional ways. Mr. Handal noted that community banks represent a great opportunity due to their diversified revenue streams.

Mark Regier, Director of Stewardship Investing, Mennonite Mutual Aid (MMA) hails from one of the oldest socially responsible investment firms in the country. MMA, a faith-based investment fund, is a pension program and publicly traded mutual fund.
Mr. Regier began his presentation by describing the psychology of faith-based investors. He argued that two types of faith-based investors exist: large and small. The large investor views investing and mission as clearly separate. These investors prefer market-rate products with a distinguished social impact. They tend to be less innovative than small investors and prefer investments of $1 million or more. On the other hand, small faith-based investors generally seek greater integration of the investment and the mission component, and operate a bit more informally. Relationship management, with personal contact, is key for this group.

Sr. Pam Buganski, Provincial Treasurer, Sisters of Notre Dame of Toledo, Ohio explained that her order represents a classic example of a small side faith-based investor. The order is an international community comprised of more than 2,000 members. Sr. Buganski noted that SND seeks to engage members that are involved with group such as social justice committees, as well as younger members of the church. They leverage the faith-based mission by holding socially responsible mutual funds and educating members on social investments. SND's community investments focus on socially responsible mutual funds, companies that value shareholder advocacy, and companies with a mission pertaining to women and children.

Panel 2: Governance, Board Composition, and Human Capital

Jan Piercy, Executive Vice President of ShoreBank Corporation acknowledged the level of creativity of the institutions present at this year's conference and predicted that the economic crisis will only make these institutions and leaner and stronger. She stated that people drive CDFIs, and high morale is therefore important. Ms. Piercy noted that because CDFIs are not always at the top of the pay scale, they must invest in human capital, both internally and by using industry partnerships at the institutional level.

Deborah Cole, President of Citizens Savings Bank and Trust Co., noted that her remarks would focus on the relationship between leadership style and bank performance among minority-owned depository institutions.

Ms. Cole asserted that leadership is the key to performance. Although much time is spent on asset and portfolio management, little is spent on leadership. Furthermore, leadership studies generally do not include bank leadership despite the role banks play in the economy. Ms. Cole pointed out a key difference between management and leadership: management is oriented in the present, and leadership in the future.

Ms. Cole cited her doctoral dissertation that identified two types of leadership in a bank transformational and transactional. Transformational leaders are charismatic, and their ability to galvanize people is often co-opted in the bank setting. Transactional leadership involves reward-based results, which often result in shortcuts in order to obtain incentives. Ms. Cole advocated striking a balance between the two leadership styles.

Linda Heagy, Former Managing Partner at Heidrick & Struggles started by acknowledging the difficulty of focusing on "softer issues" such as human capital, given today's tough economic conditions. However, these difficult times are also character building. Ms. Heagy highlighted the importance of reaching out to junior staff to mentor them, and remind them that positive transformation is occurring. With this mindset, CDFIs will have a heightened ability recruit employees attracted to the mission.

Ms. Heagy underscored the importance of process when trying to attract quality human capital. A substantive search process includes first considering internal candidates; the cost of a wrong hire is prohibitive and can be disruptive. Furthermore, hiring an internal candidate who is ready for a change can be quite energizing. Ms. Heagy emphasized that external searches must be rooted in the organization's ethos. Consistency around organizational strategy and direction are critical. A fair disclosure of the challenges facing your organization is certainly in order once new hires are brought on board.

In closing, Ms. Heagy recommended considering short-term placements for junior executives for special projects, as part of a company knowledge share.

Keynote Speech

John Walsh, Chief of Staff, standing in for
The Honorable John C. Dugan, 29th Comptroller of the Currency

Mr. Walsh began by highlighting the growth in the CDFI banking industry since NCIF began hosting the Annual Development Banking Conference ten years ago. The $16.2 billion dollars in collective assets of CDFI banks represents 170% asset growth during that period. He continued, commending CDFI banks for their work in revitalizing communities and their commitment to serving the financial services and credit needs of the unbanked and underbanked. To illustrate this point, Mr. Walsh quoted figures from the NCIF Social Performance MetricsSM indicating that 58% of the home lending for the average CDFI bank is located in low- and moderate-income communities and 72% of the branch locations of the average CDFI bank are located in low- and moderate- income communities.

Mr. Walsh acknowledged the innovative products and services provided to these communities by CDFI banks and highlighted the work of a CDFI bank that used the New Markets Tax Credit program to help finance a world-class education, arts and recreation campus that serves as a redevelopment anchor within a highly distressed Washington, DC community. He stressed the importance of CDFI bank development work as the current economic crisis has curtailed the amount of investment that large institutions are placing in community development projects. Mr. Walsh continued, highlighting the actions that the federal government is taking to improve the tax-credit market and to improve the capital position of all CDFI organizations. As examples, he detailed several fixes to the tax-credit programs that will expand the use of the program and he highlighted the $160 million in appropriations that the CDFI Fund received to provide financial assistance awards to organizations that are serving the needs of economically vulnerable neighborhoods.

Mr. Walsh discussed the steps taken by the OCC and by other regulatory agencies to encourage community investment under the Community Reinvestment Act (CRA). To encourage broader community development activity, CRA rules provide that a bank can receive favorable consideration for loans and investments that benefit a state or regional area that includes a bank's assessment area. Recently, the agencies clarified Interagency CRA questions and answers to provide banks with options to show that an investment in a nationwide fund meets the geographic requirements in the rules. This change can lead to increased investment by and into CDFI banks throughout the country.

Mr. Walsh concluded by commending the National Community Investment Fund for their efforts to advance the professionalism and capacity of all community development organizations. NCIF's work demonstrates that mutually beneficial community development partnerships can result in good, safe and sound business transactions that are sustainable and profitable.

Panel 3: The Power of Networks – Innovations

Chris Larsen, CEO & Co-Founder of Prosper.com, began by explaining the business model of Prosper.com, a type of Ebay for lending. It is the largest Peer-to-Peer (P2P) lending marketplace and functions by allowing direct P2P listings: an individual requests a loan with a specified maximum interest rate, and the loan is auctioned online. Prosper services the loans and is responsible for certifying the identification of its registered users. Mr. Larsen noted that Prosper.com currently has over 870,000 registered members. Mr. Larsen spoke of the potential for a bank to use Prosper.com to move existing loans off of the books by selling them in the secondary market. Furthermore, Prosper is able to collect substantial non-traditional credit data by virtue of its detailed application. This provides an avenue to focus on credit at a very community-specific level.

Mick Conlin, Senior VP of Meta Payment Systems, spoke of Meta Payment Systems work in the prepaid card market. Mr. Conlin offered a brief summary of the differences between two prepaid card models for community banks: direct issuers vs. agent banks. In the direct issuer model, the community bank would control the entire card program. In the agent bank model, the community bank works with an issuing bank that performs many of the back office administrative and operational functions associated with the program. Each model has various opportunities and risks associated with them. Traditional barriers to the direct model include long implementation times and resources vs. revenue opportunity. Emerging barriers to the direct model include increased competition with the agent model. Although Mr. Conlin conceded that prepaid cards will not generate significant revenue, they can strengthen networks and relationships. For example, travelers' checks could be replaced by travel cards and the bank could partner with a travel agent to offer matching incentives towards a travel goal. Should prepaid cards be used as company credit cards, management could easily add to or remove value from the cards at will, limiting potential abuses. Mr. Conlin also suggested that banks consider a gift card program using prepaid cards that are also reloadable. For the underbanked, this product could be a safe solution to a traditional thrift account.

Joel Freehling, Manage of Triple Bottom Line Solutions at ShoreBank, spoke of green innovations in lending. Mr. Freehling said that many of his customers are increasingly asking for green products. As a result, ShoreBank's sustainability approach has been to focus on both financial and environmental performance and develop products accordingly. One popular product is the Homeowner's Energy Conservation Loan Program. This program can provide financing for 100% of incremental costs associated with energy efficiency. The program offers $500 for an Energy STAR qualified refrigerator and can finance up to 85% LTV for green building loans. According to Mr. Freehling, many banks offer green mortgages, which involve discounted pricing and long term financing for alternative energy. Banks are also offering loans for energy efficiency improvements. As an example of broader impact, Mr. Freehling stated that the U.S. Department of Energy is becoming a delegated lender for guaranteed loans.

Panel 4: The Power of CDFI Networks—Learning from the Best CDFI Models

Manisha Paralikar, Fund Advisor, NCIF began by briefly introducing the panelists.

Al Lau, President & CEO, First American International Bank, NY acknowledged the upcoming 10th anniversary of the founding of the First American International Bank. First American primarily serves Chinese American communities in New York City, and specializes in 1-4 unit family real estate businesses. The bank finds it imperative to participate in housing development and finance and has grown the portfolio significantly since 2008. Mr. Lau described the current environment as prime for CDFIs to reclaim this line of business. He recommended attendees adopt a strategic plan that includes a long-term commitment to: this line of business; maintenance of consistent product availability; marketing and sales; investment in systems, processes and people; partnership with GSEs; and compliance management.

Deborah Wright, Chairman & CEO, Carver Bancorp initiated her presentation by describing Carver Bancorp's business model, which focuses more on commercial real estate lending along with residential lending. Carver is the largest African- and Caribbean-American operated bank in the U.S. It is also a publicly held company. Ms. Wright described Carver's partnership with the Community Preservation Corporation (CPC), a non-profit lender and developer launched in the 1970s by David Rockefeller and banks headquartered in New York.

Some of the opportunities generated through the partnership include, a shared mission, additional loan originations in Carver's existing service area, and new business potential in addition to the increased lending activity. Unfortunately, the current economic climate highlighted several risks within the partnership including a reduced spread due to a lack of floors in adjustable rate loans, decreased liquidity among some developers, and the difficulties inherent in working with an unregulated non-profit lender.

Through these difficulties, Carver learned the following lessons about working with partners. (1) Stick to the basics. (2) Define the risk tolerance that you can live with and take nothing for granted. (3) Even when working with a partner, fully underwrite every loan to meet your own internal underwriting standards. (4) Remain actively involved via board member representation and monitor what counts.

Jim Conrad, President, University National Bank. The bank has $130 million in assets and is a certified CDFI. Mr. Conrad noted that asset quality focuses on risk of default versus risk of loss. Loss is simply a byproduct of poor asset quality, and global cash flow is king. It is critical to shift the focus of lenders, who are typically oriented toward sales. Mr. Conrad also recommended that banks (1) Accept the need to downgrade credits. (2) Accept the new reality of today's credit risk and get to work. (3) Organize the facts and create a game plan. (4) Gain support and resources from bank ownership & board of directors. (5) Take the lead in notifying regulators: communicate the solution, outline improvement efforts already under way, and provide a forecasted timeline for progress.

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Sandra Thompson, Director, Division of Supervision & Consumer Protection
Federal Deposit Insurance Corporation

John Walsh, Chief of Staff and Public Affairs
Office of the Comptroller of the Currency

Previous Keynote Speakers

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