

Looking for Capital in All the Right Places

Interagency Minority Depository
Institutions National Conference
July 16-18, 2008

July 18, 2008

Saurabh Narain

snarain@ncif.org | 312-881-5826

Outline

- **The Landscape - Minority Depository Institutions**
- **Expectations from MDIs: The Socially Responsible Private Equity Perspective**
- **Selected Equity Capital Raises by Community Development Banks**
- **National Community Investment Fund**

Contacts

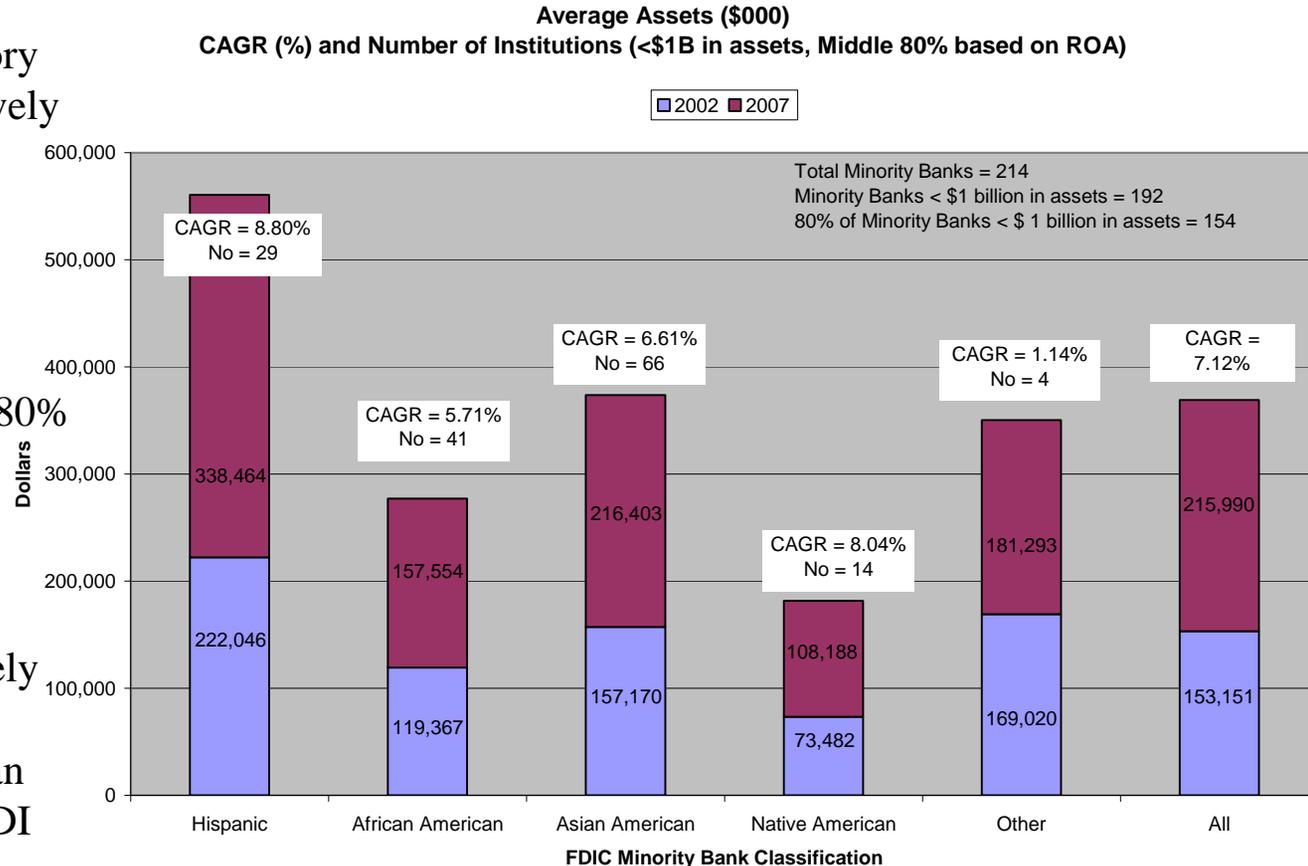
The Landscape: Minority Depository Institutions

Average Assets MDI < \$1 billion

•Most Minority Depository Institutions (MDI) relatively small

•214 MDI, 192 less than \$1 billion, average assets \$216 million (of middle 80% sorted by ROA)

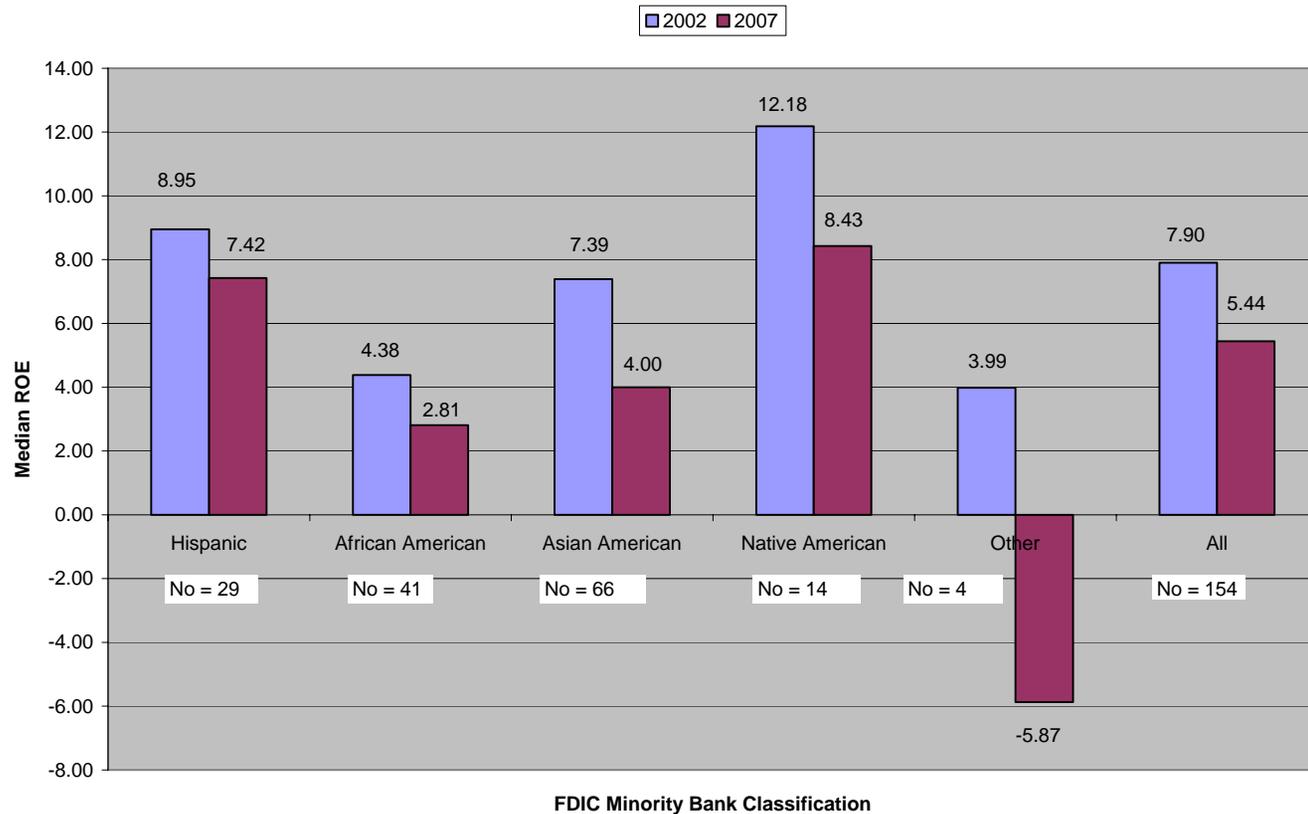
•Hispanic and Asian American MDI – relatively larger with high rates of growth. African American and Native American MDI relatively smaller.



Size needs to be a deliberate strategy – either “small is beautiful” by design or MDIs need to demonstrate the potential and strategy for growth.

Median Return on Equity MDI < \$1 billion

Median Return on Equity - Middle 80% by ROA



- Median ROE in every class of MDI is low and has declined since 2002.

- MDIs need to enhance efficiencies and differentiate themselves from their peer groups by delivering high quality and consistent ROE

MDIs need to find efficiencies to increase ROA and ROE

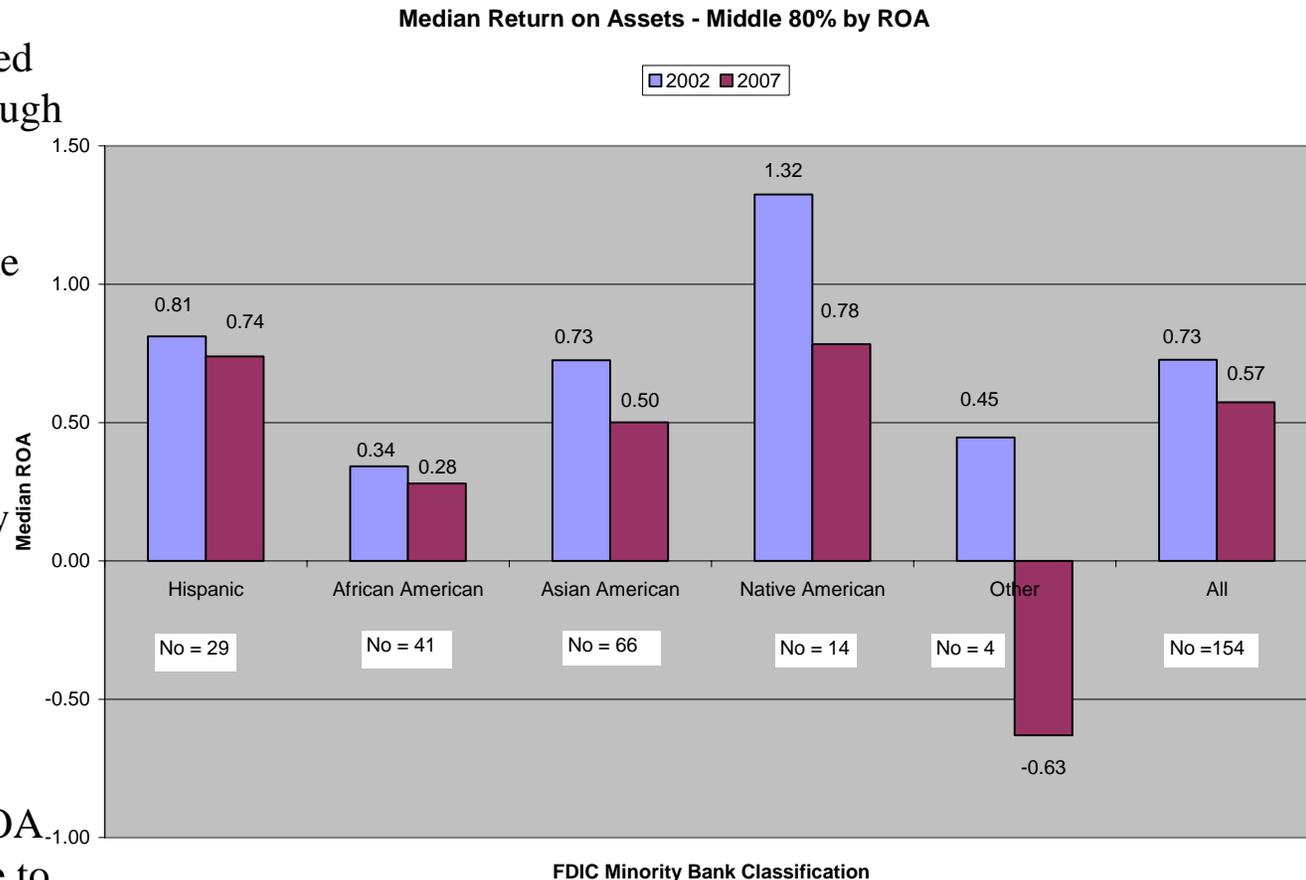
Median Return on Assets MDI < \$1 billion

- Median ROA has declined across the board even though Hispanic and Native American ROAs are still relatively higher and some may say, reasonable.

- Probably higher cost of deposits even though they have high levels of core deposits and some subsidized deposits.

- MDIs need to deliver ROA greater than 1% and more to attract investor attention

MDIs need to find efficiencies to increase ROA and ROE



Expectations from MDIs: The Socially Responsible Private Equity Perspective

Key Expectations of Equity Investor

- **Reasonable Financial Condition and Performance**
 - CAMELS Analysis – in current market tackle question on relative riskiness of minority banks with special emphasis on asset quality and on potential ‘toxic waste’ in portfolio
 - Growth markets – ethnic (Hispanic, Asian, immigrant), new markets – conservation related lending, technology-led alternative channels

- **Financial Return on Investment**
 - Dividend yield
 - Capital appreciation
 - Increase in book value and earnings per share or increase in multiple to book/price
 - Liquidity or Exit Strategy in reasonable time period
 - Strategic sale, initial public offering or repurchase of stock by bank or promoters

- **Alignment of Management, Board and Investor interests**
 - “Skin in the game’ – ownership by insiders
 - Willingness and ability to achieve financial and social return

Additionally, Social Investors Require

- Social Return on Investment
 - Development lending, branch location, jobs created, community facilities generated
 - NCIF Social Performance Metrics – see White Paper
 - Other Impact Data
 - Product offering - financial services in low to moderate income areas, alternatives to pay day lending and check cashing, products for underserved communities.
 - Targeting CRA needs of bank investors

Minority Depository Institutions need to demonstrate community development orientation to attract Socially Responsible Investment Capital

NCIF Social Performance Metrics

Core Metrics using publicly available HMDA, FDIC data

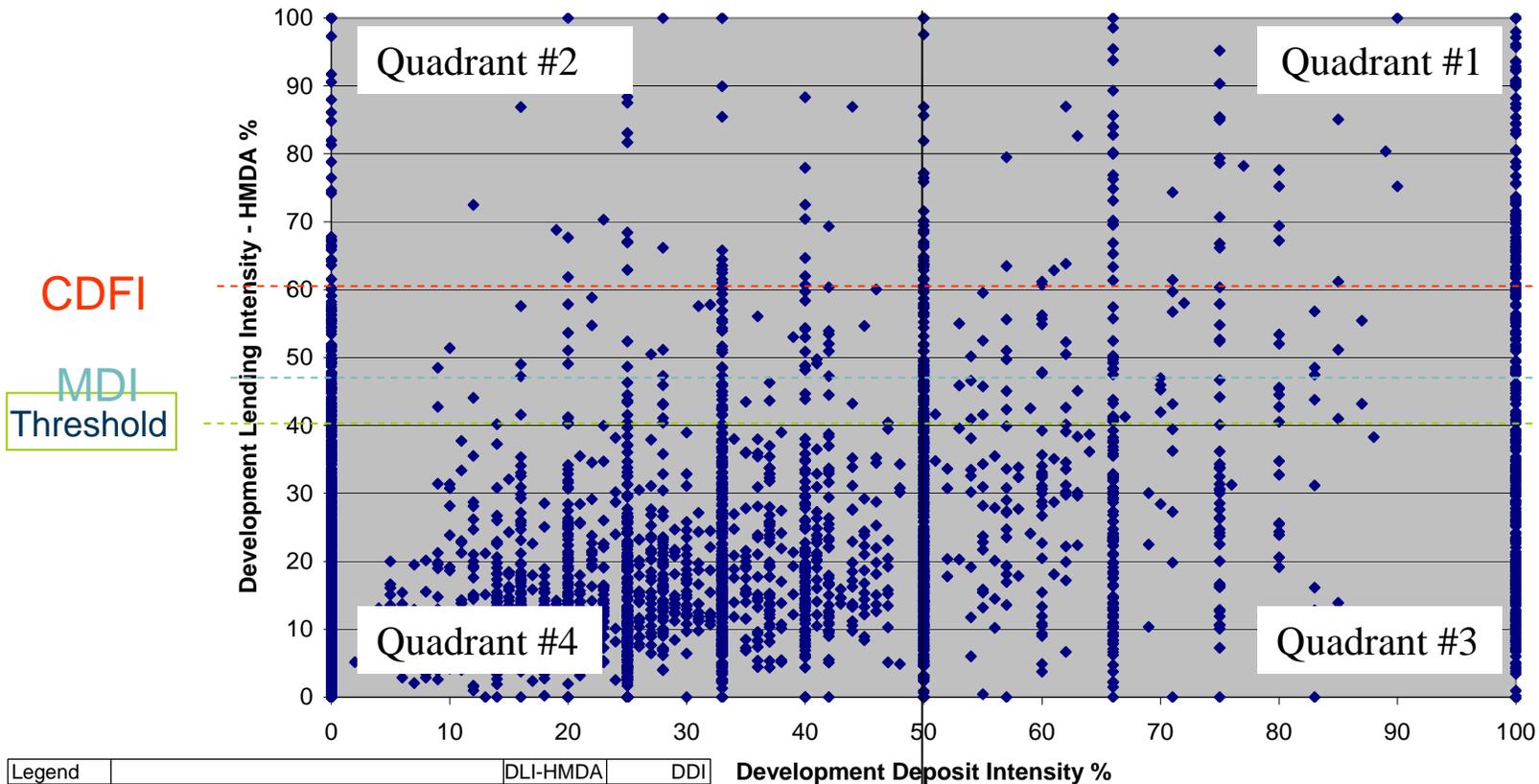
1. Development Lending Intensity (DLI – HMDA)
 - $DLI (HMDA) = \% \text{ of HMDA loan originations and purchases in investment areas – (IA) / total HMDA loans originated and purchased}$
2. Development Deposit Intensity (DDI)
 - $DDI = \% \text{ of branches in CDFI investment areas / total branches}$

Additional metrics are available that eliminate high cost lending and measure lending to low income people. Check www.ncif.org for accessing current year information. NCIF has information on metrics starting 1996 and also on highly distressed census tracts.

Note: CDFI Fund Investment Area or IA are census tracts that meet any of the following three criteria: poverty rates greater than 20%, unemployment rate greater than 1.5 times the national average or median household income not exceeding 80% of the benchmark median household income.

NCIF Social Performance Measurement

Search for Potential Community Development Banking Institutions



Legend		DLI-HMDA	DDI
CDFI	Certified CDFI banks and thrifts	62.7%	74.5%
MDI	FDIC MDI banks and thrifts	45.5%	60.2%
Threshold	Threshold proposed by NCIF	40.0%	50.0%
	All banks and thrifts	20.8%	28.2%
	All banks and thrifts < \$1billion in assets	21.1%	28.1%

Banks in Quadrants 1, 2 and 3 meet initial social screens

Socially Responsible Capital Sources

- **CDFI Fund**
 - Financial Assistance Program to match up to \$2 million of funds raised from elsewhere
 - NMTC Program – structure subordinated debt or other forms of capital with a coupon enhanced by the tax credits

- **Private Equity Funds like NCIF**
 - Common and Convertible Preferred Stock
 - NMTC enhanced structures (depends on availability of credits)

- **SRI Funds**
 - 2% movement in among SRI funds i.e. they want to invest up to 2% of capital under management in SRI assets. CDBI equity is still a very small proportion of this investment pool.

- **CRA targeted loan sales to reduce need for capital**

- **Deposits: accessing deposits to using economic development impact metrics**
 - NCIF Social Performance Metrics being used for this

Selected Equity Capital Raises by Community Development Banks

Nuestro Banco, NC

- Raised \$14.6 million in 2007
- De novo bank, CDFI and MDI certified
- Hispanic orientation
- Strong management team
- Local and national investors
- NCIF role
Early stage investor to promote bank oriented towards low to moderate income communities in North Carolina

Mission Community Bank, CA

- Started 1997, located in San Luis Obispo, CA, OTCBB: MISS
- Raised \$7.4 million in February 2008; issue price \$18 vs. market price at time of issue of \$16.5; current price \$12.5
 - Additional \$4 million being raised in private placement
- Strong management team with regional growth plans
- Local and national investors
- Institutional investors taking on 10-20% ownership without bank holding company implications
- NCIF role
Follow on investor in a bank that is oriented towards low to moderate income communities in California

Deposits in Major MDIs

- Foundation may want to invest in banks and credit unions that have a community development mission
- Banks pass initial social screens using NCIF Social Performance Metrics
 - Other geographic, financial and impact screens applied to the short list
- Deposits being placed at:
 - Minority Depository Institutions
 - Carver FSB, NY
 - Liberty Bank, LA
 - Native American Bank, CO
 - South Carolina Community Bank
 - Non minority, community development banks
 - Delta Southern Bank, AR
 - First Bank of Delta, AR
 - New Mexico Bank and Trust, NM
 - ShoreBank, IL
- NCIF Role
Use of NCIF Social Performance Metrics to route deposits to above institutions.

National Community Investment Fund

National Community Investment Fund

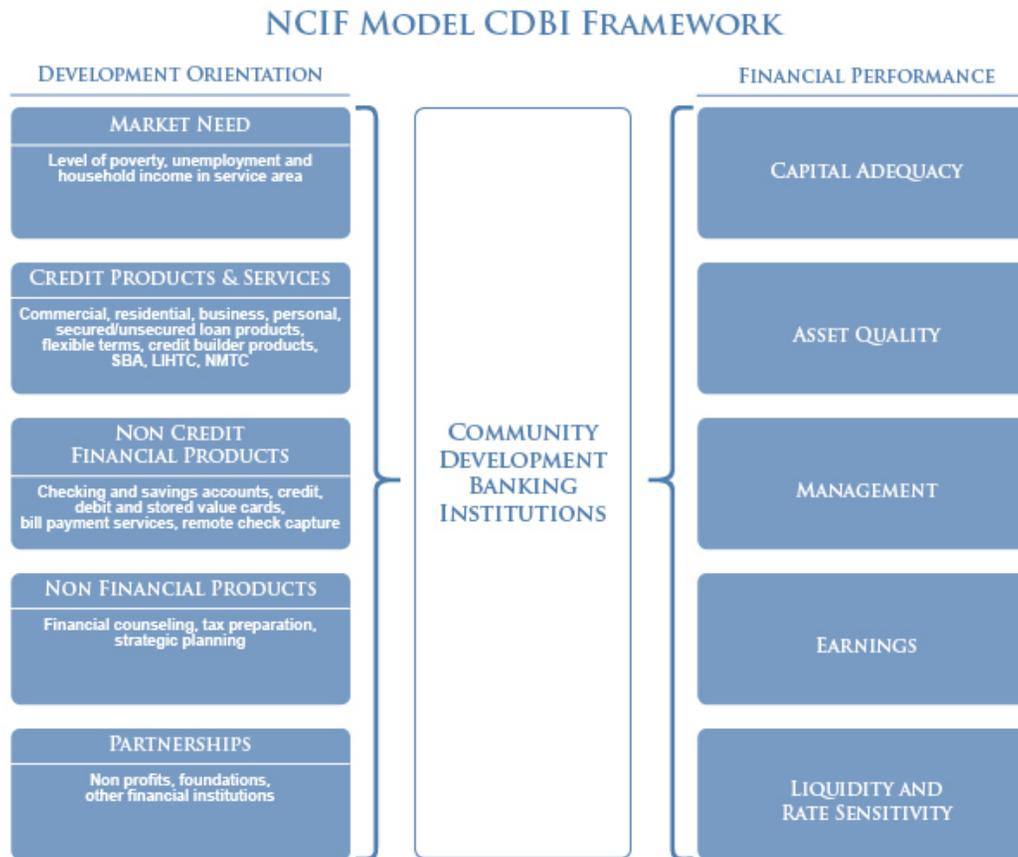
- **Only Socially Responsible Private Equity fund focused on CDBIs; established 1996**
 - **Mission Statement: NCIF invests private capital in, and facilitates knowledge transfer to, depository institutions that increase access to financial services in underserved communities.**
- **Investing in “equities with exits”**
 - **Cumulatively invested \$24.9 million in 37 institutions in equities/debt**
 - **73% of institutions are minority-focused, 68% of dollars are in minority-owned institutions.**
 - **81.1% of institutions in urban markets**
 - **\$3 billion in more than 74,000 development loans; CDFIs leverage capital 12-20 times.**
- **CDBI Exchange Network**
 - **CEO Peer to Peer network, best practices in governance, valuation, risk management, branching strategies, retail financial services, social performance measurement**
 - **Annual Development Banking Conference – November 6, 7, 2008**
 - **Thought leadership**
 - **NCIF Social Performance Metrics that are being adopted by investors and CDBIs**
- **Advised by ShoreBank Corporation – oldest CDFI with over \$2.2 billion assets**

Conclusion

**Capital is or will be available;
To access this capital minority banks need to demonstrate value to investors:**

- **Financial Return – using the existing metrics**
- **Exit Strategy and Liquidity – have a plan to provide liquidity in a reasonable timeframe**
- **Social Return – using proprietary or industry metrics (NCIF Social Performance Metrics)**

NCIF Model CDBI Framework



Contact

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

Save the Date

NCIF Annual Development Banking Conference November 6-7, 2008 Chicago, IL