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**In Partnership with the Office of Thrift Supervision and the  
OTS Minority Depository Institutions Advisory Committee**

# **Investor Guide to Minority Depository Institutions Regulated by the Office of Thrift Supervision**

**Prepared by  
National Community Investment Fund  
Chicago, Illinois**

[legal disclosures and disclaimers to be added]

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Table of Contents

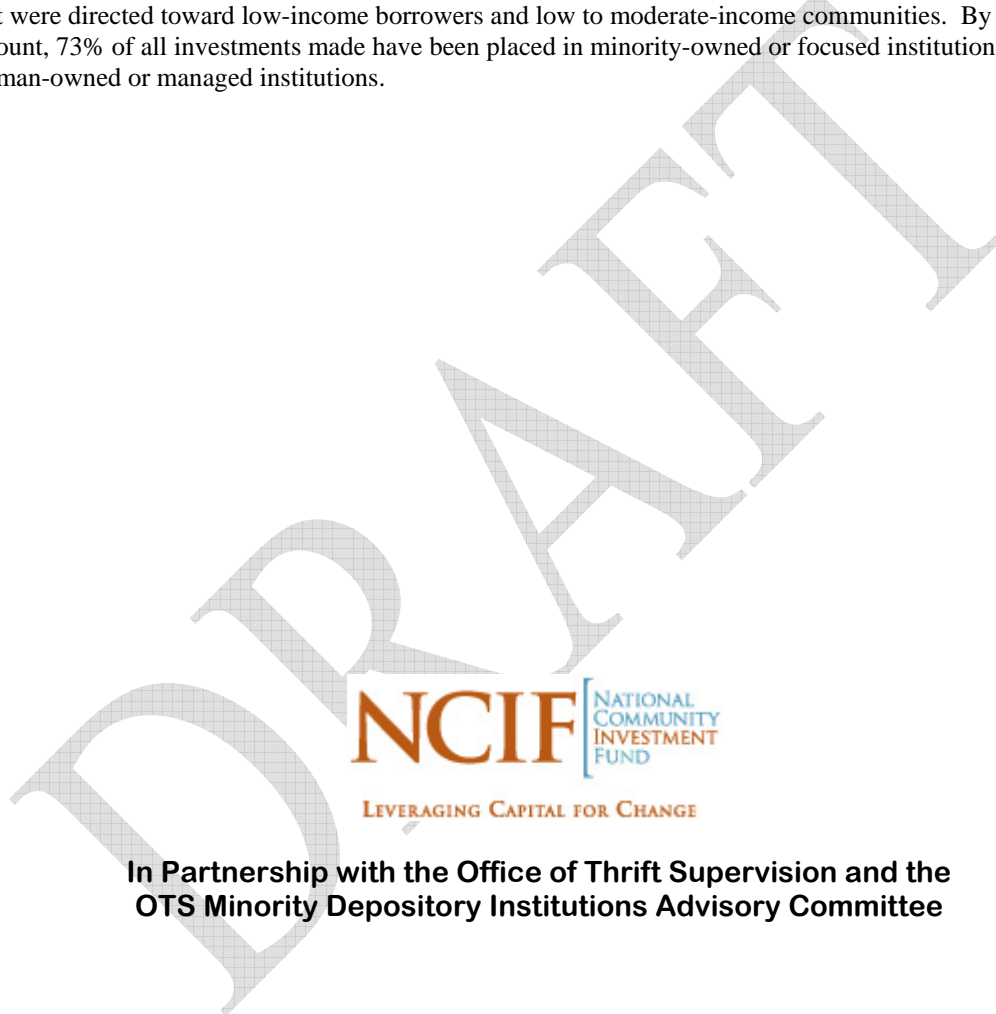
Foreword..... 4  
Minority Depository Institutions..... 5  
Primer on Social Performance Metrics<sup>SM</sup> and the Model CDBI Framework ..... 6  
Investment Opportunities in Minority Depository Institutions..... **Error! Bookmark not defined.**  
Institution Name.....**Error! Bookmark not defined.**



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**Foreword**  
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This publication, *An Investor's Guide to Minority Depository Institutions*, was created by the National Community Investment Fund (NCIF), with assistance from the Office of Thrift Supervision (OTS), to give investors an overview of minority depository institutions and the vital role they play in low- and moderate-income communities. The NCIF is a non-profit, private equity trust that invests in banks, thrifts and credit unions that generate both financial and social returns. The NCIF invests private capital in, and facilitates knowledge transfer to, depository institutions that increase access to financial services in underserved communities. Since the NCIF began tracking the activities of its portfolio institutions in 1998, these institutions have generated over \$3.7 billion in development lending. This represents over 83,000 loans that were directed toward low-income borrowers and low to moderate-income communities. By dollar amount, 73% of all investments made have been placed in minority-owned or focused institutions and/or woman-owned or managed institutions.



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**Minority Depository Institutions**  
**A note by Office of Thrift Supervision**

**Minority Depository Institutions**

OTS identifies MDIs as publicly or privately-owned savings associations that fit any of the following categories: minorities have at least 51 percent ownership or stock ownership, a majority of the Board of Directors is minority and the community the institution services is predominantly minority, socially and economically disadvantaged individuals have at least 51 percent ownership or stock ownership, as applicable. OTS also considers institutions where the majority of the Board of Directors and the Chief Executive Officer are women to be MDIs. The Office of Thrift Supervision's National Minority Depository Institutions Program is designed to preserve the number and character of MDIs, provide training and technical assistance, and encourage the creation of new MDIs, many of which primarily serve low- and moderate-income communities.

Minority depository institutions often promote the economic viability of minority and under-served communities. The OCC and other federal regulatory agencies have long recognized the importance of minority depository institutions and have historically taken steps to preserve and encourage minority ownership of insured financial institutions. Two examples of this activity are detailed below.

**Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)**

In August 1989, Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). Section 308 of FIRREA established the following explicit goals to protect, preserve and provide for the Minority Depository Institution sector:

- preserve the number of minority depository institutions;
- preserve the minority character in cases of merger or acquisition;
- provide technical assistance to prevent insolvency of institutions not now insolvent;
- promote and encourage creation of new minority depository institutions; and
- provide for training, technical assistance, and educational programs.

**Community Reinvestment Act (CRA) consideration for investing in MDIs**

The Community Reinvestment Act of 1977 was enacted to encourage financial institutions to help meet the credit needs of their communities, including low- and moderate-income (LMI) neighborhoods. The CRA requires federal financial institution regulators to assess the record of each bank and savings association in helping to fulfill their obligations to the community and to consider that record in evaluating applications for charters or for approval of mergers, acquisitions and branch openings. Investment in an MDI is a way for institutions to receive CRA consideration while simultaneously reaping the social benefits of helping to improve underdeveloped communities in need and earning returns on their investment.

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### Primer on Social Performance Metrics<sup>SM</sup> and the Model CDBI Framework

There are over 8,000 banks in the United States, but only 63 of those banks are certified as Community Development Financial Institutions (CDFIs) by the CDFI Fund. NCIF believes that there are many other banks that are highly active in low income areas but have yet to become certified as a CDFI. To identify and differentiate these banks from the rest of the mainstream banking universe, NCIF performs both a quantitative and qualitative analysis to determine if a bank is focused on providing access to sound financial services in underserved areas.

#### Quantitative: NCIF Social Performance Metrics

NCIF's Social Performance Metrics combine financial performance data with social performance data to quantitatively identify Community Development Banking Institutions (CDBIs) and evaluate them as potential investment prospects. NCIF has calculated the Social Performance Metrics values for every domestic bank and thrift for the years 1996 through 2007 and is able to link this information with each institution's financial information to identify those institutions that are both sound financial performers and superior social performers.

#### Core Social Performance Metrics

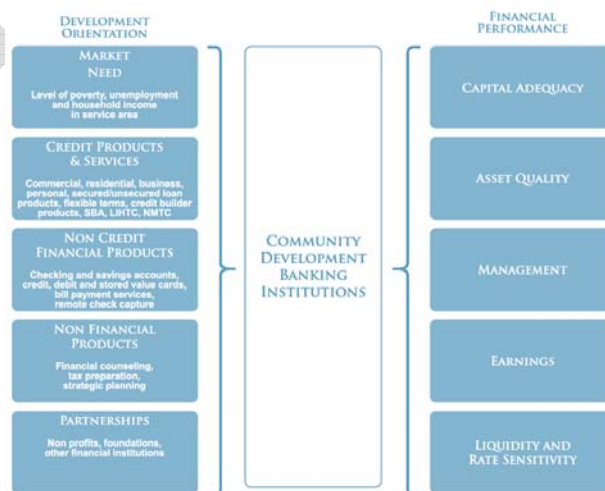
**Development Lending Intensity - Home Mortgage Disclosure Act (DLI-HMDA):** The percentage of an institution's single and multi-family housing loan originations and purchases that is located in low to moderate income census tracts.

**Development Deposit Intensity (DDI):** The percentage of an institution's branch locations that are located in low to moderate income census tracts.

**Housing Focus:** This is the percentage of an institution's outstanding loan portfolio that is composed of single and multi-family housing loans. Since DLI-HMDA is a measure of home lending, this measure provides an indicator as to an institution's level of home lending activity.

#### Qualitative: Model CDBI Framework

While the above tools utilize quantitative data, NCIF utilizes the Model CDBI Framework to provide a qualitative measure of an institution's mission orientation. The NCIF Model CDBI Framework examines an institution's market need, credit products and services, non-credit financial products and services, non-financial products and partnerships to ascertain whether or not the bank is providing the types of products and services that an economically distressed community needs. This final level of analysis communicates the innovative nature of CDFI banks, and shows investors the tangible products and services that are being provided to the community.



#### Community Development Banking Institutions (CDBI)

Community Development Banking Institutions or CDBIs are financial institutions that have a strong mission of community development or have significant operations in low- and moderate-income communities and are reasonable financial performers. These institutions walk, talk and look like certified CDFIs but may or may not be certified as such. NCIF expects that several of these institutions will get certified over a period of time.

<sup>1</sup> Community Development Financial Institution or CDFI is a certification of the Community Development Financial Institutions Fund of the US Department of Treasury ([www.cdfifund.gov](http://www.cdfifund.gov))

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## ABC Federal Savings Bank

### Organizational Information

75 West Street  
City, State 123456  
**Phone Number:** (999) 951-1234  
**Web Address:** www.ABCbank.com  
**CDARS<sup>2</sup> Participant:** Yes  
**Number of Branches:** 10  
**Parent Company:** ABC Bancorp, Inc.  
**Top Level Ticker:** ABC  
**Date Established:** 1/1/1928  
**Certified CDFI:** Yes  
**Minority Depository Institution:** Yes



### BACKGROUND

ABC Federal Savings Bank is a federally chartered stock savings bank headquartered in Main County in City. The institution was originally founded in 1928, as a minority thrift addressing the financial credit needs of an underserved Caribbean-American community, particularly in low- and moderate-income areas. As a result of its mission, the institution maintains a strong presence in these historically underserved communities in its assessment area. ABC Federal Savings Bank received a rating of “Outstanding” in its last evaluation by the Office of Thrift Supervision in accordance with the Community Reinvestment Act. The outstanding CRA performance rating is a reflection of the institution’s strong responsiveness to the credit and service needs of its community.<sup>3</sup>

### FINANCIAL HIGHLIGHTS

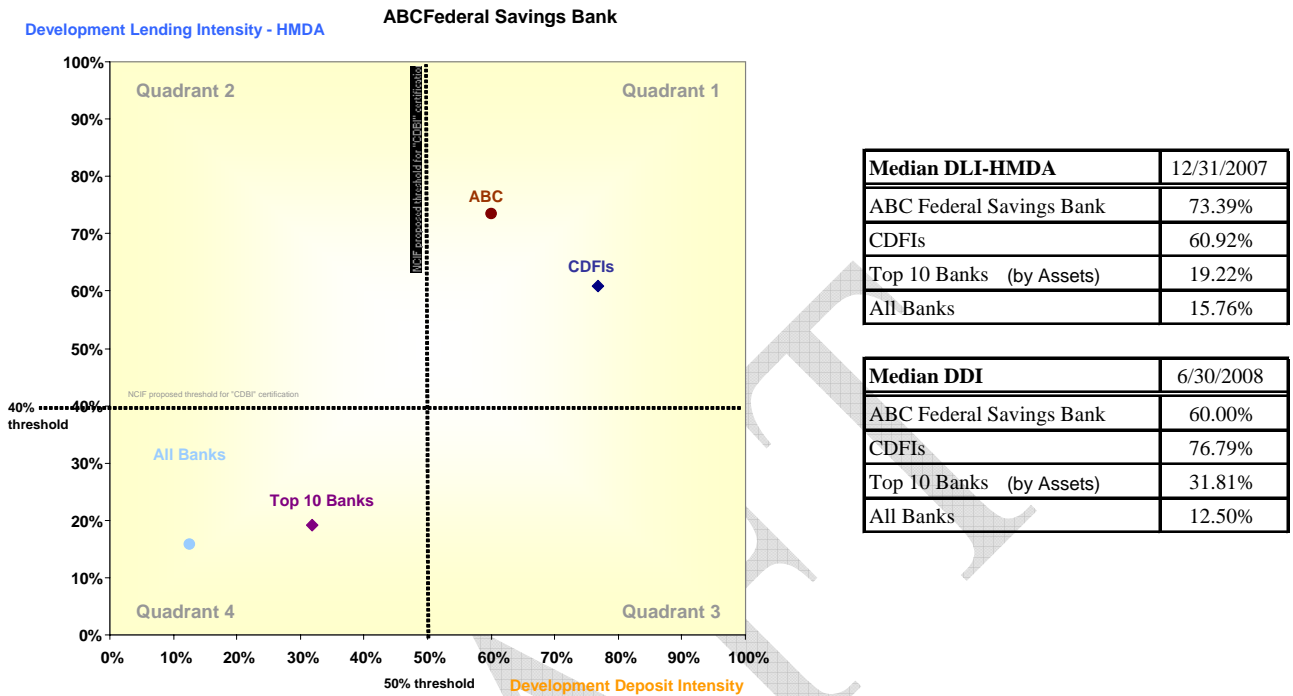
End of Period Date	12/31/2006	12/31/2007	12/31/2008
Total Assets (000's)			\$ 790,750
Total Shareholder's Equity (000's)			\$ 61,700
Total Loans & Leases (000's)			\$ 659,027
Total Deposits (000's)			\$ 622,566
Net Income (000's)			\$ (2,785)
Net Interest Margin			3.79%
Efficiency Ratio			94.94%
Return on Assets			-0.35%
Return on Equity			-4.11%
Loan to Deposit Ratio			105.86%

<sup>2</sup> Certificate of Deposit Account Registry Service

<sup>3</sup> Office of Thrift Supervision Community Reinvestment Act Performance Evaluation, August 28, 2006

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**SOCIAL PERFORMANCE METRICS<sup>SM</sup> – A QUANTITATIVE ANALYSIS<sup>4</sup>**



**DEVELOPMENT IMPACT LOAN ANALYSIS – HMDA DATA**

**Table:** ABC Federal Savings Bank Development Loan Analysis

<b>ABC Federal Savings Bank</b>	<b>\$ of Loans (000)</b>	<b># of Loans</b>
All CY 2007 HMDA Loans	\$ 45,777	103
CY 2007 Development Loans	\$ 33,596	70

**Table:** Housing Focus Peer Group Analysis<sup>5</sup>

<sup>4</sup> The core Social Performance Metrics analyzed here are:  
*Development Lending Intensity (DLI)*: the percentage of a bank’s lending activity in dollars that goes to borrowers that are located in low-income communities, initially calculated using information reported through the Home Mortgage Disclosure Act. Data as of 12/31/2007, reported in 2008.  
*Development Deposit Intensity (DDI)*: the percentage of a bank’s branch locations that are located in low to moderate-income communities, calculated using information available through the FDIC Summary of Deposits database as of 6/30/2008.  
<sup>5</sup> Housing Focus: This is the percentage of an institution’s outstanding loan portfolio that is composed of single and multi-family housing loans. Since DLI-HMDA is a measure of home lending, this measure provides an indicator as to an institution’s level of home lending activity. Data available through the FDIC Statistics on Depository Institutions database as of 12/31/08.



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<b>Housing Focus</b>	12/31/2008
ABC Federal Savings Bank	28.98%
CDEIs	24.70%
Top 10 Banks (by Assets)	35.51%
All Banks	27.94%

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### NCIF MODEL CDBI FRAMEWORK ANALYSIS – A QUALITATIVE ANALYSIS<sup>6</sup>

#### Market Need

ABC Federal Savings Bank operates ten branch locations throughout the Harlem neighborhood of Manhattan, Brooklyn and Queens. ABC also operates eight 24/7 banking centers and/or stand-alone Automated Teller Machines. The branches and banking centers are located in or adjacent to low- and moderate-income geographies, and provide needed banking services to the local communities. For example, the bank operates a branch in a census tract with a poverty rate of 55.1%. Branches are accessible and are open for hours tailored to the needs of the community.

#### Credit Products and Services

ABC's principal lending activity is the origination of mortgage loans for the purpose of purchasing or refinancing one-to-four family residential, multifamily residential and commercial properties. ABC also originates or participates in loans for the construction or renovation of commercial property and residential housing developments and permanent financing upon completion. In addition, the institution also originates home equity and consumer loans.

#### Non-Credit Products and Services

Apart from traditional deposit and savings options, ABC offers special deposit products for nonprofit organizations and for families. ABC offers a special savings program for first-time home buyers, First Home Club (FHC) as a Federal Home Loan Bank member. The FHC provides down payment and closing cost assistance by granting four dollars in matching funds for each dollar saved in a dedicated account (up to \$7,500 in matching funds) to an eligible first-time homebuyer purchasing a home through ABC.

#### Non-Financial Products and Services

ABC's commitment to its community is evidenced through their Financial Empowerment Series. The Financial Empowerment Series provides ongoing seminars for first time homebuyers, homeowners, and seniors to help them understand basic banking and financing terms as well as products and services that will help provide the tool needed to build and sustain wealth.

#### Partnerships

ABC's many partnerships include an arrangement with the Office of Financial Empowerment (OFE) to provide bank accounts to "un-banked" families .

ABC is also partnering with the Housing Authority by participating in a pilot program to encourage "un-banked" residents to pay their rent at a ABC Branch. This program has been very successful, and ABC is currently working on expanding its services and products to serve this vulnerable market segment. ABC also has a partnership with the City School Construction Authority. As the sole bank partner to the SCA, ABC established a special working capital loan program for local construction managers and contractors who have been awarded contracts by the SCA. The underwriting process is fast-tracked and provides participants speedy access to bridge capital as well as technical assistance on the application process.

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<sup>6</sup> This commentary is based on inputs provided by the MDI