

# ProfitWise

news and views

Issue 1 | 2015



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**Searching for more impact: Impact data on banks for the big picture**

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# ProfitWise

news and views

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# Issue 1 | 2015

Our first edition of 2015 features contributions from Desiree Hatcher, a director in our Community Development group, on measures to address blight in Detroit; from Jack Markowski, president of Community Investment Corporation and chairman of The Preservation Compact, Inc., on a recent conference that addressed preserving Chicago's small (5- to 49-unit, unsubsidized) affordable rental housing stock, and related policy implications; and from the National Community Investment Fund's Emily Sipfle and Farah Ansari on NCIF's BankImpact product, which provides key information to actors in the community development banking sphere.

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## The Federal Reserve Bank of Chicago

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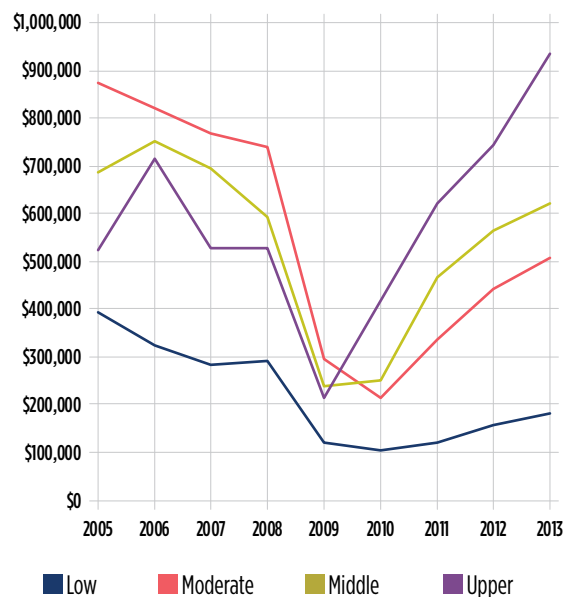
# Preserving Chicagoland's small multifamily housing stock

by John G. (Jack) Markowski

On May 22, 2014, more than 75 lenders, regulators, and housing stakeholders gathered at the Federal Reserve Bank of Chicago to discuss lending to small rental properties (5 to 49 units). Co-hosted by the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the Institute for Housing Studies at DePaul University (IHS), Community Investment Corporation (CIC), and The Preservation Compact, the discussion focused on causes and potential solutions for the dearth of lending to small rental buildings in Chicagoland's low- and moderate-income communities.

In the wake of the housing market crash, lending to multifamily properties declined significantly throughout the Chicago area. For some communities, particularly upper-income communities, the recovery began in 2009 when lending volume climbed quickly and exceeded pre-crash levels during 2012. Meanwhile, lending continued to lag in low- and moderate-income (LMI) communities. According to data presented at the event by Geoff Smith, executive director of IHS, small loans to multifamily properties in Cook County's low-income neighborhoods declined 67.5 percent between 2005 and 2012 (see chart 1). The question for the event's panel of experts was why certain neighborhoods have not seen any recovery in lending, and what can be done about it.

Chart 1. Annual Cook County multifamily loan dollars by neighborhood income level, 2005-2013 (\$000 thousands)



Source: Home Mortgage Disclosure Act, 2005 to 2013.

Moderated by Jonathan Miller, deputy director of Policy and Research at the FDIC, the panel featured Colette Loesher, president of ABC Bank in the Austin community of Chicago, and Tony Smith, community development banking market manager at PNC Bank. The borrower’s perspective was represented by John Brauc, president of CheckMate Realty & Development and president of the Rogers Park Builders Group. Daniel McKee, associate deputy comptroller at the Central Office of the OCC, brought his extensive knowledge of regulatory standards to the discussion. An audience of experienced bankers and regulators drew from the panel’s remarks for a lively conversation.

The reason for the decline in lending in 2008 is easily identified – the crash of the U.S. housing market and subsequent recession – but the reason for a bifurcated recovery is less clear. While many banks put the brakes on lending to shore up their reserves and ensure their safety and soundness going forward, the crash and ensuing recession also led to the failure of dozens of Chicago area community banks. Between 2009 and 2012, more than 40 area banks closed. Although more than 150 community banks based in the Chicago area remain, there are nearly two-thirds fewer community banks today than 20 years ago due to industry consolidation and failures.<sup>1</sup>

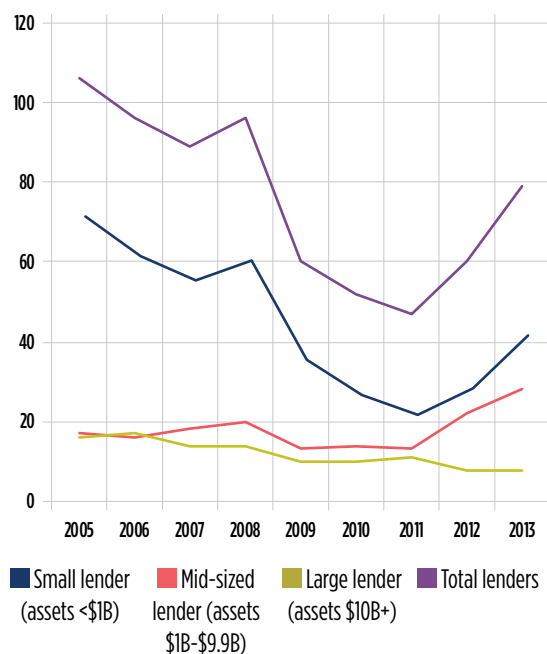
Community bank closures have been widely noted in the media and in the neighborhoods where they had long been a source of credit for individuals and businesses, particularly small rental properties. Historically, local banks – with an immediate knowledge of area properties, neighborhoods, and owners – have been an important source of financing for small rental housing, and they have generally held these types of loans in their portfolios, as there is no scaled secondary market for them. Each loan is unique, relatively small, and underwriting often involves evaluation of personal assets, management experience, and other factors; these conditions complicate formation of an organized secondary market. Despite the complex underwriting, financing small multifamily rental buildings was, prior to the crisis, an important and profitable line of business for community banks. In the credit-constrained post-crisis period, and with property values still depressed in many redeveloping areas, smaller banks in particular have difficulty serving the market, and many have closed or merged into larger institutions.

The Chicago area lost almost one-third of its total multifamily lenders between 2005 and 2010 (see chart 2); six of the area’s top eight multifamily lenders in 2006 had closed or ceased multifamily lending activity by 2010. To the extent that they are active in multifamily lending, many banks have shifted their focus from serving market-rate multifamily buildings in LMI communities to financing Low Income Housing Tax Credit projects.

Accordingly, obtaining credit for small, multifamily rental properties may remain a community development challenge for the foreseeable future.

The changing landscape of active lenders accounts for some of the decline in lending to small multifamily properties, but not all. Lending is strong in middle- and upper-income areas, even for small rental properties, leaving the question of why LMI communities in particular continue to struggle. Participants in the forum shared their thoughts about why lending remains constrained,

**Chart 2. Active multifamily lenders in Cook County: Number of lenders originating at least five multifamily loans per year by lender asset size, 2005-2013**



Source: Home Mortgage Disclosure Act, 2005 to 2013.

**Table 1. Rental units by building size, 2010**

	U.S.	Cook County	Chicago
<b>1 unit</b>	33.5%	13.8%	9.6%
<b>2 to 4 units</b>	18.7%	32.7%	38.6%
<b>5 to 49 units</b>	31.4%	33.9%	29.6%
<b>50+ units</b>	11.6%	18.9%	21.8%
<b>Other</b>	4.7%	0.6%	0.4%

Source: 2010 American Community Survey, U.S. Census Bureau data element B25032 – tenure by units in structure.

including slow recovery in certain neighborhoods, low appraisals, and a greater regulatory emphasis on safety and soundness. In areas where property values have not recovered, low appraisals can sideline deals as lenders generally will not exceed standard loan-to-value ratios, even for projects with strong cash flow. In many struggling neighborhoods, all-cash transactions have held values down, and the small number of transactions of any kind limits the selection of comparable sales for appraisals. After several years facing pressure to build capital, increase reserves, reduce concentrations, and focus on safety and soundness, lenders are cautious about lending in areas where values have not yet stabilized or started to pick up.

The policies of local governments can also discourage lending. One audience member raised concerns about the Chicago laws that hold lenders responsible for conditions in buildings they finance and that requires them to keep occupants in foreclosed buildings or pay them \$10,600 per unit to relocate. The long foreclosure process is also a concern for lenders—on average in Cook County a foreclosure takes more than two years to complete. These factors increase the cost of doing business, and for loans on small multifamily rental properties, which require extensive underwriting but generate limited return, they reduce already narrow margins. While forum participants discussed ways to spur lending activity in the short term, many thought that market forces may work in these neighborhoods eventually—though questions remain about how long it will take and at what cost to the neighborhoods.

The event served as a reminder of how important small multifamily buildings are to the affordable rental stock. Buildings with five to 49 units account

for more than one-third of the rental housing in Cook County (see table 1). Generally privately owned and without government assistance, rent restrictions, or income restrictions, they are prevalent in many LMI neighborhoods and provide a major portion of the affordable rental housing supply in Cook County.

The majority of small multifamily rental properties in Chicagoland’s LMI neighborhoods provide affordable housing without government subsidy. When most people hear the term “affordable housing,” they think of housing built or made affordable by various forms of government financial assistance. In fact, 75 percent of the low-cost rental housing in the U.S. receives no form of public assistance, including Section 8 rental vouchers for its residents.<sup>2</sup>

Ownership and management of small rental buildings often represent a family business; rental property may be a side venture or a full-time career if the owner has enough units to achieve minimal economies of scale. Generally motivated by cash flow, the potential for property appreciation, and the opportunity to be self-employed, these hands-on entrepreneurs are classic small business owners. They provide a valuable service, they invest their own time and money, they hire and buy materials and supplies locally, and they are committed to their communities. In many neighborhoods, they are among the strongest and most stable local businesses.

While small multifamily rental housing is vital to Chicagoland, the unmet need for financing is not isolated to the region. David Saltzman, principal at David Paul Rosen & Associates, provided a national perspective in his presentation on the issue. The patterns around small multifamily rental in Chicago are reflected in the national landscape—5- to 49-unit properties account for nearly one-third of rental housing nationwide. Units in small multifamily properties tend to be more affordable, with median rents more than \$200 less than units in buildings with more than 50 units. According to his presentation, mortgage debt on 5- to 49-unit buildings has declined as debt on buildings with 50 or more units has increased. Saltzman thought this could be attributed to the decline in thrifts, which traditionally held loans on small multifamily properties in portfolio, and the increasing dominance

of securitization. While GSEs purchase 27 percent of multifamily loans over \$10 million, they purchase just 5 percent of loans under \$1.9 million.

The topic has captured the attention of the U.S. Department of Housing and Urban Development (HUD), which is piloting a Section 542(b) risk-sharing program, under which the Federal Housing Administration (FHA) will cover 50 percent of the risk of loss associated with loans to small multifamily properties. The risk-sharing program will be available to certified Community Development Financial Institutions (CDFIs) and will allow the lending institution greater flexibility in the loan terms for this important sector of the rental market. In the notice for the program, HUD shared the results of the Rental Housing Finance Survey (RHFS), which indicated that small multifamily properties tend to be older, and located in low-income neighborhoods. They also have lower median rents and higher shares of affordable units than larger multifamily rental properties, underscoring the importance of the stock to the supply of affordable housing. The RHFS also indicated that the majority of landlords for this stock are individuals, households, and estates, compared to 8 percent of larger properties.

The need for affordable housing continues to grow. Nationwide, according to HUD, the number of renter households with worst case housing needs increased to 8.48 million in 2011, up from a previous high of 7.10 million in 2009. Locally, the growing gap between the number of households in need of affordable rental housing and the supply of units stands at 176,000.

The confluence of an increasing need for affordable housing and decreased lending to the properties that provide it presents a difficult problem. For owners or prospective owners of small multifamily rental buildings, who wish to acquire more units or participate in the market for the first time, access to credit is critical to maintaining quality housing in economically marginalized neighborhoods, extending the life of the buildings, and preserving the historical investments that have been made in Chicagoland's housing stock. For lenders and regulators, the experience of the market collapse in housing of all kinds has given rise to an abundance of caution, as they work to preserve bank capital and

prevent further bank closures and other supervisory actions. In LMI neighborhoods, however, this has resulted in a shortage of credit for the segment of the housing market that is experiencing sharply increased demand. The forum elevated the discussion of these topics, an important step in moving toward a long-term solution.

## Notes

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## Biography

**John G. (Jack) Markowski** is chairman of The Preservation Compact and president of Community Investment Corporation (CIC), Chicagoland's leading multifamily rehab lender.

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# Detroit tackles the issue of blight

by Desiree Hatcher

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Detroit's population has been in decline for decades and this trend is expected to continue. The Southeast Michigan Council of Government's (SEMCOG) forecasts for the city predict that the population will fall from the 2010 Census figure of 714,000 to 610,000 by 2030—far from the city's peak population of over 1.8 million in the early 1950s.<sup>1</sup>

Detroit has experienced what may be considered the life cycle of a rust belt city. As jobs left, people left; unemployment rose; tax revenue decreased; city debt increased; and cuts to city services like police, fire, and public schools inevitably followed. As vacant homes turned into blighted neighborhoods, many residents still holding jobs left the city to find homes in more stable areas, taking with them more of the tax revenue needed to service communities plagued by decreased population and increased vacancies.

The large volume of vacancies has had a negative impact on the city's housing values and corresponding tax base. In addition, Detroit's unstable housing market has made it increasingly difficult for prospective home owners to get loans. In many instances, homes do not appraise to their sale price or support the

amount of loans requested. According to RealtyTrac.com, between year-end 2005 and 2012, the median value for a home in the city of Detroit decreased from \$75,300 to \$28,900 (a 61 percent reduction).<sup>3</sup> Local media put the median selling price at \$13,000 as of 2014 (82 percent reduction).<sup>4</sup> Though individual

borrowers had difficulty obtaining traditional mortgages, investors began seeing Detroit (homes) as a major profit opportunity, and began buying properties in

bulk at the Wayne County tax auction with the intent to market them as rentals. This activity was initially viewed positively as it ostensibly put these homes back on the city's tax role. Unfortunately, the view changed when it was found that the investor-owners were largely not paying property taxes. According to news reports, of 18,568 properties sold at auction in Wayne in 2011 and 2012, 80 percent were delinquent on taxes by 2013.<sup>5</sup> The majority of these properties were located in Detroit.<sup>6</sup> Many owner-occupants also stopped paying property taxes. According to an article in the *Detroit News*, 47 percent of the 305,000 taxable parcels were delinquent on their 2011 bill, with many citing inflated property assessments and inadequate city services among major causes for their

**“Reduction of urban blight is among the city's highest reinvestment priorities”**

**Kevin Orr, Detroit Emergency Manager<sup>2</sup>**

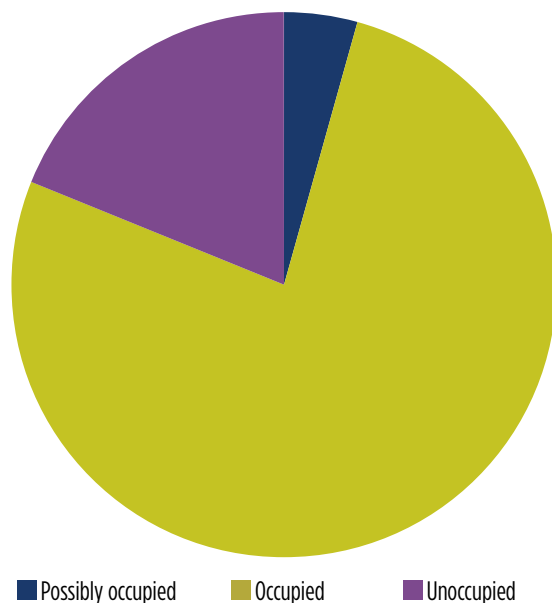


actions.<sup>7</sup> Wayne County treasury officials were so overwhelmed by foreclosures that they ignored about 40,000 delinquent Detroit properties that should have been seized in 2012 and, at that time, predicted they would look the other way on about 36,000 delinquent properties in 2013.<sup>8</sup> If tax foreclosures were initiated, property owners very often repurchased their land in tax-foreclosure auctions, at a fraction of their mortgage balance.<sup>9</sup>

Public and private initiatives have been implemented to encourage people to move into the city, including: providing financial incentives for the purchase of homes in specific Detroit neighborhoods; providing grants to nonprofits for the purchase; rehabilitation and sale of vacant properties; and launching of the Detroit Land Bank auction website. However, the large number of nearby vacant and blighted properties gave many potential residents cause for concern, dampening the impact of the programs.

The vacant homes have become havens for drug dealers, "urban miners" (who remove pipes, fixtures, and any other items with salvage value), squatters, and illegal dumping. In addition, 60 percent of the city's fires occur in vacant homes<sup>10</sup> (see chart

**Chart 1. Structure occupancy**



Source: Motor City Mapping, at <https://motorcitymapping.org/#t=overview&cs=detroit&cf=all>.

1). In his proposed blueprint for reinventing the city, Emergency Manager Kevin Orr listed five main reasons why blight removal is key for Detroit: stabilize property values and property tax base; allow for more efficient city service delivery; improve residents' health and safety; increase new land development inside the city; and "dramatically" improve national perception.<sup>11</sup>

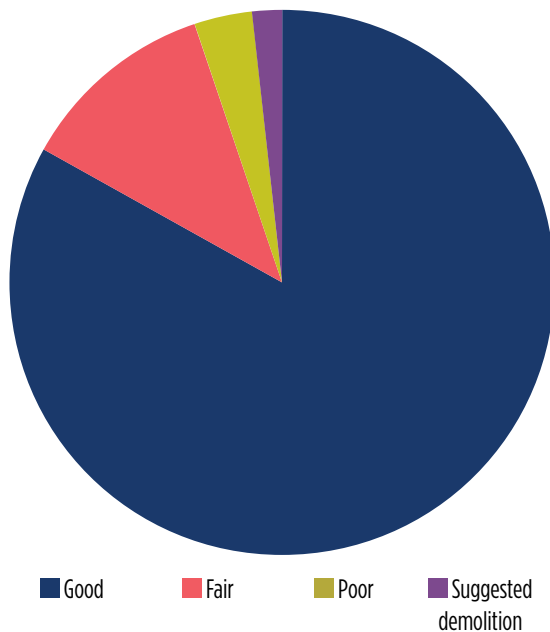
## Detroit Blight Removal Task Force

As part of its plan to help Detroit rebuild itself, in September of 2013, the Obama Administration established the Detroit Blight Removal Task Force, with the mission to remove all blight in the city, and address public works and public safety.<sup>12</sup> This was not the city's first formal effort in eliminating blight. As recently as 2010, in his first state of the city address, former Detroit Mayor Dave Bing pledged to demolish 10,000 abandoned homes before the end of 2013.<sup>13</sup> The plan was presented as an issue of child safety, with most demolition targeted around schools. More than 5,000 structures were demolished, but the city lacked sufficient funding to complete the project by its target date.<sup>14</sup>

For most, the term "blight" is somewhat subjective. It is difficult to define precisely, but the Blight Removal Task Force developed a definition based on Michigan state law and defines a blighted property as one "that meets any of the following conditions as determined by an applicable governing body:"

- a public nuisance
- an attractive nuisance (likely to attract children who are unable to appreciate the risk posed)
- fire damaged or otherwise dangerous
- has code violations posing a severe and immediate health or safety threat
- open to the elements and trespassing
- already on Detroit's Buildings, Safety, Engineering, and Environmental Department (BSEED) Demolition list
- owned by or is under the control of a land bank

Chart 2. Structure condition



Source: Motor City Mapping, at <https://motorcitymapping.org/#t=overview&cs=detroit&cf=all>.

- has had the utilities, plumbing, heating, or sewerage disconnected, destroyed, removed, or rendered ineffective
- a tax-reverted property
- has been vacant for five consecutive years, and not maintained to code<sup>15</sup>

The first step of the task force was to have a survey conducted in order to gather property conditions (see chart 2) for the city’s 380,000 parcels. The \$1.5 million survey project was funded by Rock Ventures, the Kresge and Skillman foundations, and the Michigan State Housing Development Authority (MSHDA).<sup>16</sup>

Of total parcels, nearly 85,000 properties (excluding large-scale commercial structures) were identified as needing some form of blight intervention. Of total properties, approximately 40,000 parcels met the task force’s definition of blight, with another 38,000 showing indications of future blight. The report also identified over 6,000 vacant lots, which had been used for what it calls “excessive dumping.”

The plan, titled “Every Neighborhood Has a Future... And It Doesn’t Include Blight,” was published in May 2014, and contains a number of recommendations, including suggestions for: creating and strengthening codes, ordinances, and laws; utilizing the powers of the Detroit Land Bank Authority; prioritizing tipping point neighborhoods in removing blight; funding blight removal, using public and private resources; and using annual parcel surveys and tax reforms to get ahead of future blight.<sup>17</sup> The plan can be downloaded at [www.timetoendblight.com](http://www.timetoendblight.com).

In the plan, the Task Force estimates the cost of demolishing 85,000 vacant homes at \$850 million. It notes that the city has (from federal sources) approximately \$87.6 million immediately available, including: \$52.3 million in Hardest Hit Funds; \$20 million in Fire Escrow Funds; \$8 million in Community Development Block Grants (CDBG); and \$7.3 million in Neighborhood Stabilization Program Grants. In addition, pending approval by the U.S. Bankruptcy Court, the city hopes to allocate \$368 million from its proposed \$1.4 billion post-bankruptcy restructuring and reinvestment funding toward blight elimination. This leaves a shortage of \$394 million. However, the plan provides a number of recommendations for dealing with this shortage, including: allocating at least \$8 million of CDBG funds each year; advocating for additional Hardest Hit Funds; and requesting that the state contribute \$6 million to build two recycling facilities in the city, offering a potential cost savings of 10 percent of the total cost of demolition.<sup>18</sup>

## Detroit Housing Workshop

On June 5, 2014, the Federal Reserve Bank of Chicago and the HOPE NOW Alliance, with support from the Financial Institutions Community Development Conference, held a Detroit Housing Workshop. The goal of this workshop was to bring together housing-related stakeholders (including lenders and servicers, local government, community development partners, and real estate professionals) to discuss the severity and current efforts regarding blight; determine where additional tools and resources are needed; and formulate strategies to assist in rebuilding Detroit neighborhoods. A major focus of the workshop was the recommendations from the Detroit Blight Removal Task Force that

were published the previous week. Panels were broken down to provide perspectives from city officials, nonprofits, and lenders. Suggestions included:

- **Improving communication/collaboration between banks and city officials.** Financial Institutions expressed a need to understand the city's priorities and plans for each neighborhood. One banker indicated that if his bank plans to demolish an REO property, he needs to know if the city feels the particular neighborhood would be better served if the property were rehabilitated. In addition, appropriate points of contacts are needed for banks who serve the city of Detroit. Some noted a degree of coordination breakdown between city agencies. Further, lenders noted that programs are available to address many needs brought up during housing conference. These programs could be promoted more widely.
- **Providing programs to rehabilitate auctioned homes.** One city official expressed that people buying homes through the city's auctions have no idea of the house's interior condition. They purchase the vacant house for very little and then find out later that it will cost more than its worth risking to rehab it. If they ultimately walk away, the house is again vacant.
- **Going beyond demolition by creating communities of choice.** One nonprofit staffer offered that the focus needs to be on creating communities in which people want to live. He indicated that the focus should be on improving the sustainability of neighborhoods [that can be saved].
- **Supporting financial literacy programs for first-time home buyers.** One housing nonprofit staffer noted that people are buying homes without proper counseling or awareness of costs they will incur beyond the initial cost. They purchase a home for \$3,000 – \$4,000 for instance, without doing a title search, and then find that the home is delinquent on taxes by as much as \$12,000. If the taxes cannot be paid, the home is lost to tax foreclosure. Introducing new buyers to neighborhoods is not productive if they cannot sustain the situation.

After the workshop, the Federal Reserve Bank of Chicago and the HOPE NOW Alliance continued the conversation regarding blight through monthly conference calls and in-person meetings with lending institutions serving the city of Detroit, city district managers, and Detroit Land Bank officials. The primary purpose was to discuss ways to create strong engagement and support; assist in the process and procedures that will enhance blight removal efforts; align industry partners with the correct information and necessary tools to work efficiently; and monitor progress with these efforts. Participants include: representatives from Bank of America, Citibank, Comerica Bank, Fannie Mae, First Merit Bank, Flagstar Bank, Freddie Mac, Huntington Bank, JPMorgan Chase, Nationstar Mortgage, Ocwen, PNC Bank, Quicken Loans, Talmer Bank and Trust, U.S. Bank, and Wells Fargo.

## Financial institutions take active role in neighborhood redevelopment

Financial institutions are taking an active role in efforts to stabilize/revitalize Detroit neighborhoods, including providing resources for home rehabilitation. JPMorgan Chase is investing \$100 million in the city of Detroit over a five-year period. This amount includes \$25 million for blight removal.<sup>19</sup> A portion of the funds (\$5 million) has been provided to Liberty Bank, which has leveraged the funds to establish a loan loss reserve that allowed the bank to offer rehab financing.<sup>20</sup> The "Liberty Bank Home Restoration Program" is a nontraditional program that provides special financing for the rehabilitation of homes purchased in the Boston Edison and East English Village neighborhoods through Detroit's *Neighbors Wanted* auction.<sup>21</sup> The remaining \$20 million provided by Chase will be used to strengthen the capacity of the Detroit Land Bank; support neighborhood nonprofits; and support the Motor City Mapping Project.<sup>22</sup> In addition, Talmer Bank and Trust, through a \$1 million commitment, is offering up to \$25,000 in grants to successful auction bidders to assist in the rehabilitation of homes located in the city's Marygrove neighborhood. The grants are forgiven at the rate of 20 percent per each year that the buyer continues to live in the home, up to five years.<sup>23</sup> Furthermore, FHA 203(K) Rehabilitation Loans and Fannie Mae Homestyle Renovation Loans

are available to all eligible Detroit home owners by First Merit Bank, PNC Bank, and Wells Fargo.

## Conclusion

The city of Detroit has, for years, faced a variety of challenges, with blight being but one. The current state of blight has been developing for over 60 years, with many public and private organizations working to address across the city's 139 square miles. However, the degree of blight and land area covered has sometimes made it difficult to see improvements from their efforts. Though stable neighborhoods still exist, they are overshadowed by the city's blighted areas. This negative perception, particularly at the national level, has been a factor in hindering the city's growth. However, the past year offers reason for renewed optimism. The year brought a new mayor; a new city council by district; an opportunity for a new financial beginning via bankruptcy filing; and a new five-year strategy for stabilizing the city's blighted neighborhoods. This year, the city of Detroit (area code 313) celebrates its 313th birthday. Rather than reflect back over the years, the city is looking ahead and planning for a more viable future.

## Notes

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23. Detroit Land Bank Authority, available at <http://auctions.buildingdetroit.org/Financing>.

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## Biography

**Desiree Hatcher** is the community development and Michigan state director in the Community Development and Policy Studies Division of the Federal Reserve Bank of Chicago.

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LEVERAGING CAPITAL FOR CHANGE

# Searching for more impact:

## *Impact data on banks for the big picture*

by Emily Sipfle and Farah Ansari

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How can an investor – looking to invest in or place deposits in a bank in Chicago – best identify a bank that is focused on underserved populations and that also fits his interest in social and financial performance criteria? How can a bank CEO understand how her bank compares to peers in terms of social performance? How can regulators and public policymakers identify high-impact institutions that serve as anchors in underserved communities?

BankImpact, a dynamic online tool, was developed to help answer these questions with relevant data, and ultimately increase the flow of capital to mission-oriented banks and the low- and moderate-income (LMI) communities they serve. BankImpact, paired with Social Performance Metrics, created by National Community Investment Fund (NCIF), can help provide the data necessary to inform and attract impact investors and help banks better understand and contextualize their own performance. See the sidebar on page 11 for more information on Social Performance Metrics.

The database is designed as a resource to help users gather data on financial institutions to meet a range of needs, including for:

- Bank leadership to gain an understanding of their own impacts and better communicate them

to potential investors and other stakeholders. In order to make decisions and enhance their impacts, bank leadership must first understand what impact they are having individually and in comparison to their peers.

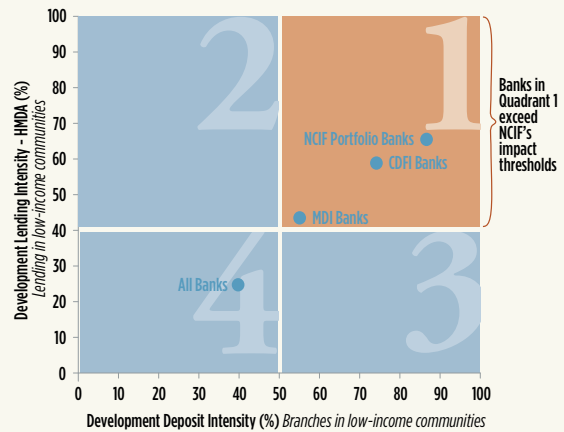
- Investors to identify and compare banks, as well as keep track of a portfolio. Impact investors and others have a range of investing options available to them as they look to make socially conscious investments and are looking for high-impact institutions. BankImpact helps provide this information.
- Regulators and researchers to better understand the social impacts of banks. Mission-oriented banks may look different than other banks in terms of financial performance, and peer group comparisons can help draw out these differences. BankImpact allows their strong social performance to come to the forefront.
- Organizations and individuals to learn more about banks in the communities they serve. Beyond investors, organizations and individuals are also looking to bring their business to socially impactful institutions and can use the tool to identify a bank operating in their communities.

## Providing the social performance data to make the case

BankImpact is a unique tool in that it provides access to Social Performance Metrics (SPMs) for all U.S. banks, a resource unavailable through other means. NCIF created the SPMs to help quantify and compare banks' social impacts in their communities. NCIF believes the social performance of banks should be an important component of investment decision-making and provides this information to help investors and consumers make informed banking choices. SPMs available on the BankImpact database include:

- Development Lending Intensity (DLI-HMDA) – An indicator of the percentage of a bank's housing lending that occurs in low- and moderate-income communities. DLI-HMDA is based on data from the Home Mortgage Disclosure Act; other analyses of lending activity are available.
- Development Lending Intensity-Equity (DLI-Equity) – The percentage of a bank's housing lending to low- and moderate-income communities as a proportion of its total equity. DLI-Equity demonstrates how much of a bank's equity is lent out to low- and moderate-income areas.
- Development Depository Intensity (DDI) – The proportion of a bank's branches located in low- and moderate-income areas.
- Quadrants – DDI and DLI-HMDA can be visualized together to create a comprehensive look at a bank's SPMs (see image 1). Banks with a high percentage for each indicator are placed within quadrant 1, signifying high social performance. The quadrant analysis allows for easy comparison of SPMs between banks.
- In addition to the SPMs available on BankImpact, NCIF offers other metrics gauging banks' social performance. The DLI analysis can be created for a range of loan types, such as the percentage of small business lending or CRE lending in low- and moderate-income areas for banks supplying NCIF with the data. Another tool, the Mission Intensity metric (MI), captures the percentage of mission-related lending a bank undertakes, regardless of geography.

Image 1. NCIF quadrant diagram



The following sections describe some of the applications for BankImpact, including case study examples.

## Investors: Find a bank in your target geography or programmatic area

With more than 6,700 domestic banks, it can be challenging to find a bank that fits a specific profile—either in terms of financial or social performance. BankImpact is a centralized source for both financial

and social data, collected and analyzed from several publicly available sources and presented in a manner that is easy to search and interpret. The bank profiles and peer groups within the tool include the following information—the majority of which is searchable (see table 1).

The *Advanced Search* option, in particular, is useful in sorting through the wealth of information to find a bank or several banks that meet your particular criteria – and then using the bank profile pages to take a deeper look at individual banks. The *Advanced*

## Image 2. First Eagle Bank

Chicago, Illinois  
<http://www.fedbank.com>

**FDIC Certificate #:** 25883

**Parent Name:** First Eagle Bancshares, Inc.

**Number of Branches:** 2

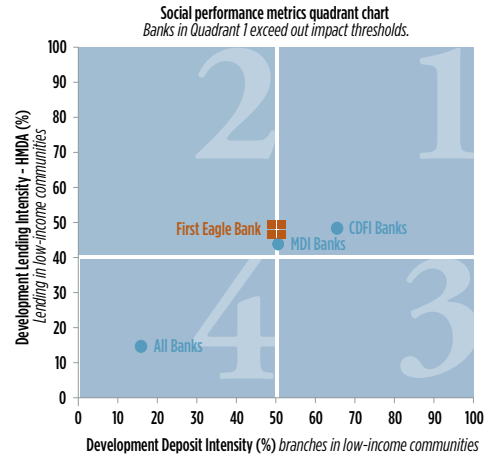
**Date Established:** 02/15/1985

**Public or Private:** Private

**Mission Indicators Checklist:**

Checkmarks (✓) show this bank's mission indicators.

- ✓ CDFI
- MDI
- ✓ Quadrant 1 CDBI



### Social Performance Metrics

Development Lending Intensity-HMDA:	46.88%
Housing Focus:	32.85%
Development Lending Intensity-Equity:	19.75%
Development Deposit Intensity:	50.00%
SPM Quadrant:	1

### Financial Performance

#### Balance Sheet/Income Statement

Total Assets (000s):	\$416,584
Total Equity (000s):	\$60,043
Total Loans (000s):	\$265,149
Total Deposits (000s):	\$321,215
Net Income (000s):	\$8,612

#### Capitalization

Tier 1 Leverage Ratio:	13.85%
Tier 1 Risk-Based Capital Ratio:	18.68%
Total Risk-Based Capital Ratio:	19.93%

#### Asset Quality

Net Charge-Offs to Average Loan Ratio:	0.10%
Noncurrent Loans to Total Loan Ratio:	0.55%
Loan Loss Reserves/Gross Loans:	2.12%
Texas Ratio:	8.52%

#### Earnings

Return on Assets:	2.15%
Return on Equity:	14.63%
Net Interest Margin:	3.87%
Efficiency Ratio:	42.60%

#### Liquidity

Net Loans to Deposits Ratio:	82.55%
Net Loans to Assets Ratio:	63.65%

**Table 1. Bank profile information**

Institutional	Financial	Social Impact (see sidebar for additional information)
State	Total assets	CDFI certification
FDIC certificate number	Return on assets	MDI designation
Ownership structure	Return on equity	SPM: Quadrant score
CDARS <sup>1</sup> participation	Loan-to-deposit ratio	SPM: Development Lending Intensity (DLI-HMDA)
Ticker	Noncurrent-loans-to-total-loans ratio	SPM: Development Deposit Intensity (DDI)
	Efficiency ratio	SPM: Development Lending Intensity-Equity (DLI-Equity)
	Tier 1 leverage ratio	
	Housing focus	

*Search* tool allows users to move from large amounts of data to specific pieces of information that can help in decision-making – either for investors, community members, or other stakeholders.

The *Advanced Search* results can be bookmarked for future use or exported as a CSV or PDF file.

### Advanced Search Case Study 1

A financial advisor seeks to identify a Chicago-area bank with a focus on community development and housing, and with a strong lending presence and deposit base in its local communities.

BankImpact’s *Advanced Search* (see image 2) can be set to identify potential banks based on the advisor’s criteria. For example, the location can be set to Illinois, and criteria can be set to select a bank with high housing lending in low- and moderate-income areas (DLI-HMDA) as well as a high portion of its banks in the same areas (DDI). By inputting the search criteria to identify mission-oriented banks aligned with these criteria, the financial advisor can locate five banks dedicated to serving distressed communities and with a strong presence in the Chicago area.

Image 2 on the preceding page is an illustration of the data return. It shows how BankImpact includes the percentage of a bank’s lending portfolio that is made up of housing-related loans. The available bank profile page, such as the profile displayed in image 2, shows the bank’s mission indicators, social and financial data, and a chart of their scores on key social impact metrics. From there, the advisor can

print a PDF profile of the selected bank to share – or use one of the peer group searches to begin to compare First Eagle to other banks.

### Advanced Search Case Study 2

Consider a bank officer looking to share his bank’s impacts with a potential investor. The bank currently collects some data on community involvement and technical assistance, but would like to complement that with a clear description of social performance to distribute. By searching for the bank by name using the *Advanced Search* tool, the officer can reach the bank’s profile page—similar to the one displayed on page 12.

## Bankers: Compare financial and social impact performance using three peer group builders

Peer groups can be beneficial in many ways, and allow for a quick summary of data to help users understand how one bank compares in financial and social performance measures to other banks. For bankers, this can be useful in comparing their own bank’s performance to that of others. For investors, the peer groups can provide a side-by-side comparison of potential investee banks along specific criteria. It can also be used to track the performance of an existing portfolio of up to ten banks.

BankImpact includes three different peer group builders to help users compare a bank to a peer group, ranging from comparing to preprogrammed



peer groups, to selecting based on specific criteria, to selecting specific banks to be included. The tools are:

1. **Standard Peer Builder** – Compare a bank to all CDFI Banks, Minority Depository Institution (MDI) banks, or Quadrant 1 Banks. The *Standard Peer Builder* allows for comparison between a bank of your choosing and one of the three preprogrammed peer groups.
2. **Auto Peer Builder** – Create peer groups for comparison using your selected criteria. By allowing you to set the criteria that creates the peer group, *Auto Peer Builder* allows you to compare a bank to a peer group that matches the characteristics you desire.
3. **Custom Peer Builder** – Benchmark the aggregate performance data of up to ten banks. The *Custom Peer Builder* is a quick way to create and keep tabs on portfolio banks or other banks of interest.

Each of the peer builder searches can be bookmarked for future use, helping users keep track of financial and social performance as the data changes.

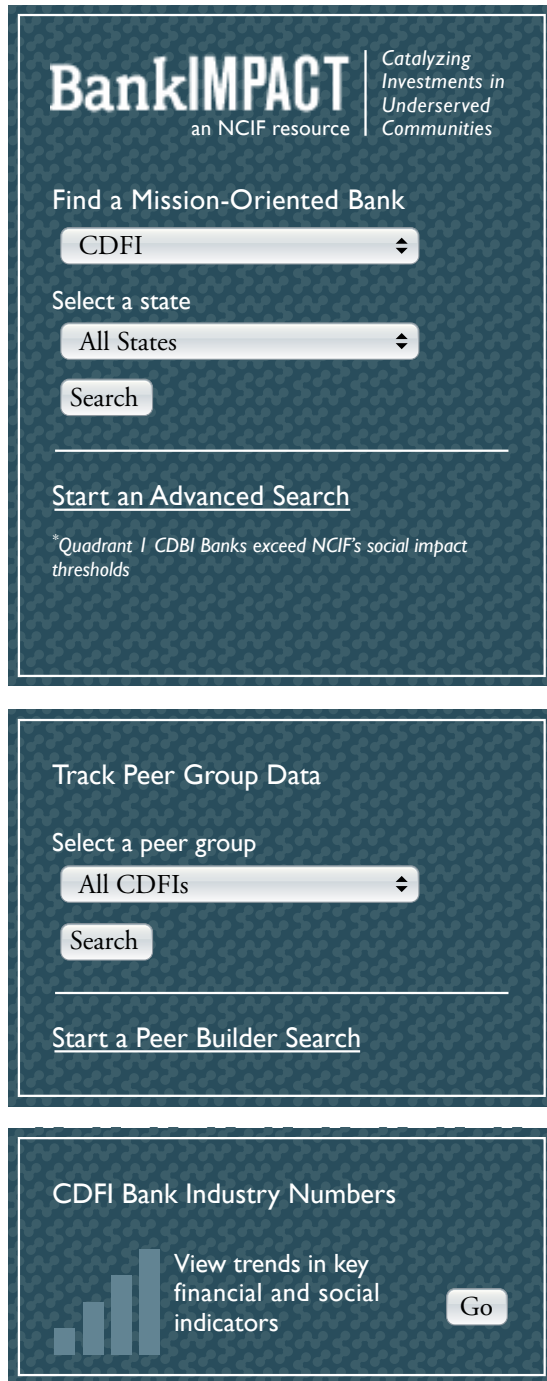
### Peer Group Case Study

Consider the needs of a bank CEO interested in benchmarking her bank’s social performance to a set of similar peers. The *Auto Peer Builder* can benchmark a bank’s performance to a group of banks she identifies as peers. In our example, the banker wishes to make sure the peer group banks are of a similar size and are also CDFIs, so she uses the financial and social variables to set her criteria and search for peers. After inputting the criteria, the *Auto Peer Builder* returns the data on the bank and its peer group for easy side-by-side comparison. Then she can save her peer group so she can analyze as often as she wants, creating a bookmark for it in her account.

## Researchers, regulators and policymakers: Utilize aggregate industry analysis

Some users may be interested in general information on mission-oriented financial institutions or be looking for a bank that is based in their communities.

Image 3. BankImpact basic search options



To meet the data needs of these users, BankImpact provides aggregate analysis on the CDFI industry. NCIF also has information on the historical performance of all banks in the country—available through contacting NCIF.

### Aggregate Industry Analysis Case Study

Consider the needs of a researcher interested in community development. He has recently learned about a CDFI bank in his community and some of the community-focused projects the bank has supported recently and would like to find out more about CDFI banks generally. He is also interested in identifying other CDFI banks working in Illinois, his home state.

BankImpact also includes several basic search options, designed to support general inquiries, such as the researcher's, as well as to provide industry analysis. Using the basic searches seen in image 3, he can retrieve a list of all mission-oriented banks in Illinois, by selecting the CDFI mission criteria and Illinois. MDI and Quadrant 1 Banks searches are also available. He can also track peer group data on the CDFI Industry overall or view historic trends using the other search tools.

### Accessing BankImpact

BankImpact helps fill important data needs for a range of stakeholders. It can help investors identify potential investee banks, as well as keep track of their portfolio's performance; help bank leadership understand their own performance and benchmark with their peers; and help regulators and other stakeholders understand the impacts of banks. NCIF believes this will help investors and bankers increase the flow of funds to mission-oriented financial institutions and, in turn, the low-income and underserved communities where they operate.

Visit [www.BankImpact.org](http://www.BankImpact.org) to sign up for a trial account and explore on your own, or contact [esipfle@ncif.org](mailto:esipfle@ncif.org) for more information.

## Notes

1. The Certificate of Deposit Account Registry Service (CDARS) facilitates extension of FDIC deposit insurance on CD accounts larger than normal FDIC limits cover; this service allows social impact investors to place large CD accounts with community development-focused and minority-owned banking institutions and thereby provide them a more stable deposit base. More information available at [www.cdars.com](http://www.cdars.com).

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## Biographies

**Emily Sipfle** is the director of impact at the National Community Investment Fund.

**Farah Ansari** is a senior analyst for impact and financial analysis at the National Community Investment Fund.

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