

Constructing a Community Development Investment Portfolio

Balancing Risk, Profitability, and CRA

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WACHOVIA

Who is Wachovia?

In the Corporate World

- 4th Largest Bank Holding Company in the US
- 3rd Largest Full service brokerage network in the US
- \$782 Billion in assets
- 3400 financial centers in 21 states and the District of Columbia
- Diversified financial services company (commercial and retail banking, asset management, investment banking, securities brokerage)

Who is Wachovia?

In the Community

Maintains an “Outstanding” CRA rating

In 2007, Wachovia:

- Provided \$47 billion in community loans and investments to revitalize neighborhoods.
- Provided nearly \$16 billion in small business loans to more than 108,000 entrepreneurs building their businesses.
- Invested more than \$296 million in equity to create more than 2,100 affordable rental-housing units.

Who is Wachovia?

In the Community

- Helped an average of 306 low-and moderate-income families and families in low-and moderate-income neighborhoods buy a home each week.
- Trained nearly 24,000 families and individuals in PC, Internet and money management skills through our financial literacy programs, Money Smart and eCommunitiesfirst®. Employee volunteers partnered with community groups to offer classes in English and Spanish.

How does Wachovia approach Community Development Lending and Investing?

- In a “sustainable” fashion
- Do well for the shareholder while doing well for the community

How does Wachovia approach Community Development Lending and Investing?

Bottoms-Up, Organic, Integrated into mainstream business divisions

- Large Real Estate Finance business
- Large Small Business Lending business
- Large Mortgage Banking business
- Dedicated Community Development Banking Business
- Capable of originating community development transactions directly
- Not dependent on buying from intermediaries

Current Investment Alternatives

Wachovia meets its CRA obligation through Low Income Housing Tax Credits, affordable housing bonds, CRA qualified grants and a number of miscellaneous investments.

Volume of Investment 6/30/06	\$2.8 Billion
Total CRA Qualified Investments	\$2.8 Billion
Low Income Housing - Historic Tax Credits	\$2 Billion
New Markets Tax Credits	\$286 Million
Various Affordable Housing Related Bonds	\$345 Million
Qualified Zone Academy Bonds	\$89 Million
Misc. Investments – Equity, Deposits, etc.	\$54 Million
Grants	\$59 Million

CRA Investment Fallacies

- You can't make money
- Don't expect to get your money back
- Traditional corporate finance principals don't apply to community development

CRA Investment Truths

There aren't enough CRA qualifying investment alternatives

Why?

- *There aren't enough investment professionals in the field*
- *CRA is placed-based which can run counter to risk management principles of a well diversified portfolio*
- *Immature secondary market*

CRA Investment Truths

Returns on housing bonds are below market

The CRA Investment World is still a “Cottage Industry” but progress is being made toward emergence into the modern global capital markets

- *Growth of Socially Responsible Investor world*
- *Rising wealth and liquidity are in need of new asset classes, particularly if they are non-correlated to traditional asset classes*
- *Large CRA players can't afford not behave in a sustainable fashion*

Trade Offs

- Consider liquidity, credit quality and return, first, then overlay CRA
- Some CRA objectives can run counter to financial objectives
- When a CRA investment can't meet all three financial hurdles the tendency is to compromise on return before liquidity and credit quality