



**2006 NATIONAL COMMUNITY
REINVESTMENT CONFERENCE**

Emerging Issues in Community
Development Investing

Metropolitan Issues and Demographic Trends

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Key Demographic Trends

- The United States is becoming increasingly ethnically and racially diverse
 - By 2030, 42% of the population will be African American, Hispanic, Asian or Native American
 - Almost half of the largest cities already are majority minority; the cities that are growing are those with a fast-growing minority population
 - There appears to be a migration of African Americans, especially middle class African Americans, to the South
 - Hispanics are the fastest growing ethnic group and already outnumber African Americans
 - The minority population is young, and getting younger
 - Minority spending power will top \$2 trillion annually before 2015
 - Between 1980 and 2000, over 6.5 million minority households became middle income
 - Over the same period, more than 4.2 million minority households became upper income
 - Minority owned firms are growing faster than overall firm growth rate, as is the number of jobs provided by minority firms



Key Demographic Trends

- Importance of immigration
 - About 11% of US residents were born abroad
 - In 2004, 32.7% of immigrants were from Latin America, 35% from Asia (Homeland Security data)
 - Immigrants are increasingly using new gateways, such as Atlanta, Dallas and Las Vegas, and are increasingly moving straight to suburbs; 55% of the Latino population now lives in the suburbs
 - Of the 74 cities among the top 100 that grew by at least 2% during the 1990s, 19 would have lost population but for the increase in Hispanic residents (including, but not limited to immigrants)
 - The number of second-generation Americans is soaring, and they do and will account for a huge portion of new households and homeowners
 - Immigration increases the ties of the United States to the rest of the world, culturally and financially (role of remittances)
 - Attitudes toward immigration remain schizophrenic, especially with respect to the 12 million undocumented immigrants



Key Demographic Trends

- Aging of the baby boomers
 - Between 2010 and 2040, the number of Americans aged 65 to 84 will increase by almost 90% (from 11% to 16.5% of the population), and the number 85 and older will grow 2.5 times (from 2% to 3.9%), while the working age population will increase only about 13% (declining from 60% to 53.6%)
 - This has significant implications for the workforce, housing, medical care, the capital markets, pension systems, and governments at all levels
 - It also will create a huge intergenerational transfer of wealth
- Homeownership is increasing among all groups
 - But there continues to be a substantial gap between white and minority homeownership rates (76% white; <50% minority)
 - Homeowners, especially of low and modest income, are increasingly stretched financially; in rural areas, condition is also a problem and in both urban and rural areas, overcrowding is increasing
 - The supply of affordable rental housing continues to diminish in large parts of the country, especially on the coasts



Key Spacial Trends

- Metropolitan areas continue to grow, and to sprawl
 - Growth is fastest in the South, Southwest and West; slowest in the Northeast and Midwest
 - More central cities are growing again, heavily due to immigration; some suburbs are losing population, while others continue to grow
 - Urbanization is increasing much faster than population, especially outside the West; there are social and financial, as well as environmental, consequences of this sprawl
 - Decentralization of jobs appears to have a disproportionately negative impact on African Americans
 - Interest in Smart Growth and Transit Oriented Development is increasing and spreading beyond the environmental community
- Poverty is becoming less concentrated in central cities; some inner ring suburbs are feeling the challenges of concentrated poverty—with fewer resources to respond to the challenge
- Rural areas continue to be challenged by resource depletion and an aging population



Key Financial Trends

- Importance of global capital markets; relative decline of depositories
- Concentration in financial services industry: top 10 banks have over 40% of industry assets, and bank holding companies have increasingly acquired or merged with finance companies, mortgage bankers and investment banks
- Changing interest rate environment
- Taming of inflation, but high and increasing prices of energy, health care and higher education
- Slowing job growth; loss of well-paid jobs not requiring post-secondary education
- Growth of dual financial system, especially in mortgage lending; increasing foreclosures in low-income and minority communities; increase in activities of payday lenders and other alternative providers
- Large and increasing disparities in income, and especially, wealth
- Income and wealth stagnation over past 5 years; negative savings rate
- Extremely difficult federal (and, in general, state and local) budget environments
- Rise of new philanthropy

Banks

Ruth Salzman

Impact of Trends in Banking

Ruth Salzman

Consolidation – (FDIC Data)

Year	# of FDIC-insured Commercial Banks	Consolidated Assets (\$millions)
2004	7,630	\$8,413
2000	8,315	\$6,246
1990	12,347	\$3,389
1980	14,437	\$1,856

Consolidation – (FRB Data)

Year	# of Banks with assets >\$300 million	Consolidated Assets (\$millions)
2005	1,531	\$8,054
2001	3,504	\$6,166

Impact of Consolidation – Bank perspective

- Large efficient platforms are key to handling the volume
 - Standardization is essential to meeting volume goals
- Decision making must be more centralized
 - Insures consistency of credit quality across large geographies
- Deal review by more “professional” staff, fundamentals vs. judgment of local generalist
 - Better control of risk
- Breadth and professional depth enables institution to handle the larger and more complex transactions
 - Expansive toolkit of products and expertise to draw on

Impact of Consolidation – Community Perspective

- Hard to get a deal done that doesn't fit the box
 - More emphasis on standard structures and hard collateral
- Decision makers seem to be remote
 - may be hard to get specifics on where a proposal falls short
- Expected to meet a higher standard of professionalism in presenting a proposal and managing a project
 - Asked to get beyond “because it's the right thing to do”
- Big institutions can handle a more complex transaction but it can be hard to navigate to the right place in the bank

The road ahead...

- Large institutions must balance cost efficiency of large standardized platforms against the higher margin of creatively deploying their wide array of products and services
- Openings exist for niche players including smaller banks and non-regulated lenders such as CDFIs but only if they can make the economics work

Mainstream Capital

Evelyn Kenvin
Citibank

Trends In Community Development Investing

Mainstream Capital

Evelyn B. Kenvin

Director of Investments

Citibank Community Development

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Citibank Community Development



Community Development Investments/Portfolio Mix

- Low Income Housing Tax Credits
- New Markets Tax Credits
- Traditional Private Equity
 - Real Estate
 - Economic Development
- SBICs
- Community Development Venture Capital (CDVC)
- Targeted Securities
- Others (EQ2)

Trends In Community Development Investing/Real Estate Funds

- Banks were original investors in 1999/2000
- Terrific timing/Real Estate cycle
- Pension funds in second generation funds
- Larger funds
- Larger deals
- Mixed income in urban areas (previously LMI)
- Mission vs. return

Trends In Community Development Investing

- Real Estate – who can do the small deals?

- Role of government subsidies
 - Limited soft money available
 - Uncertain future for NMTC
 - High demand for LIHTC

Trends In Community Development Investing/Socially Responsible Funds

- CDVC – the challenges
 - Small fund size: *need to cover costs*
 - Attracting talent: *competition with traditional funds, turnover*
 - Double bottom line: *commercial viability vs. programmatic goals*
 - Job creation: *growth of outsourcing*

- CDVC – the opportunities
 - CDVCA: *growth of industry/best practices*
 - Non-profit affiliates: *training support*
 - Growing collaboration among CDVC funds: *growth to scale*

Community Development Investing/Growing To Scale

- Expand universe of investors beyond CRA – pension funds
- Expand linkages with expertise-rich traditional funds
- Focus on urban areas/ethnic markets
- Overcoming constraints of ratings and mark to market requirements

Mission-oriented Capital

Mary Tingerthal
Community Reinvestment Fund

The role of non-profit and public community development lenders in Community Development Investing

- Often the vehicle to facilitate investment in projects and programs with high social impact **within** larger Community Development Investment categories
 - Low Income Housing Tax Credits
 - New Markets Tax Credits



**Community Development Investing
- Importance of Social Capital**

The role of non-profit and public community development lenders in Community Development Investing

- Can be a magnet for non-bank social capital
- Often lend to facilitate the flow of federal, state and private subsidy sources

Examples:

Acquisition financing for LIHTC projects

“Mezzanine” lending for under-capitalized borrowers



**Community Development Investing
- Importance of Social Capital**

The importance of supporting projects with both clear social impact *and* good financial performance

- Builds broad, bi-partisan long-term support for important subsidy programs
- Stable subsidy programs that are structured to attract market-rate private capital form the core of Community Development Investing



**Community Development Investing
- Importance of Social Capital**

How do we keep social dollars engaged in the community development sector?

- Recognize that relatively small amounts of below market capital can support huge amounts of market rate Community Development Investments
- Insist on the use of scarce social dollars in increasingly effective ways as credit enhancement
 - Subordinate tranches of securities
 - Use of guarantees of private, rated entities



**Community Development Investing
- Importance of Social Capital**

New Business Models

Kirsten Moy
Aspen Institute

New Pathways to Scale for Community Development Finance

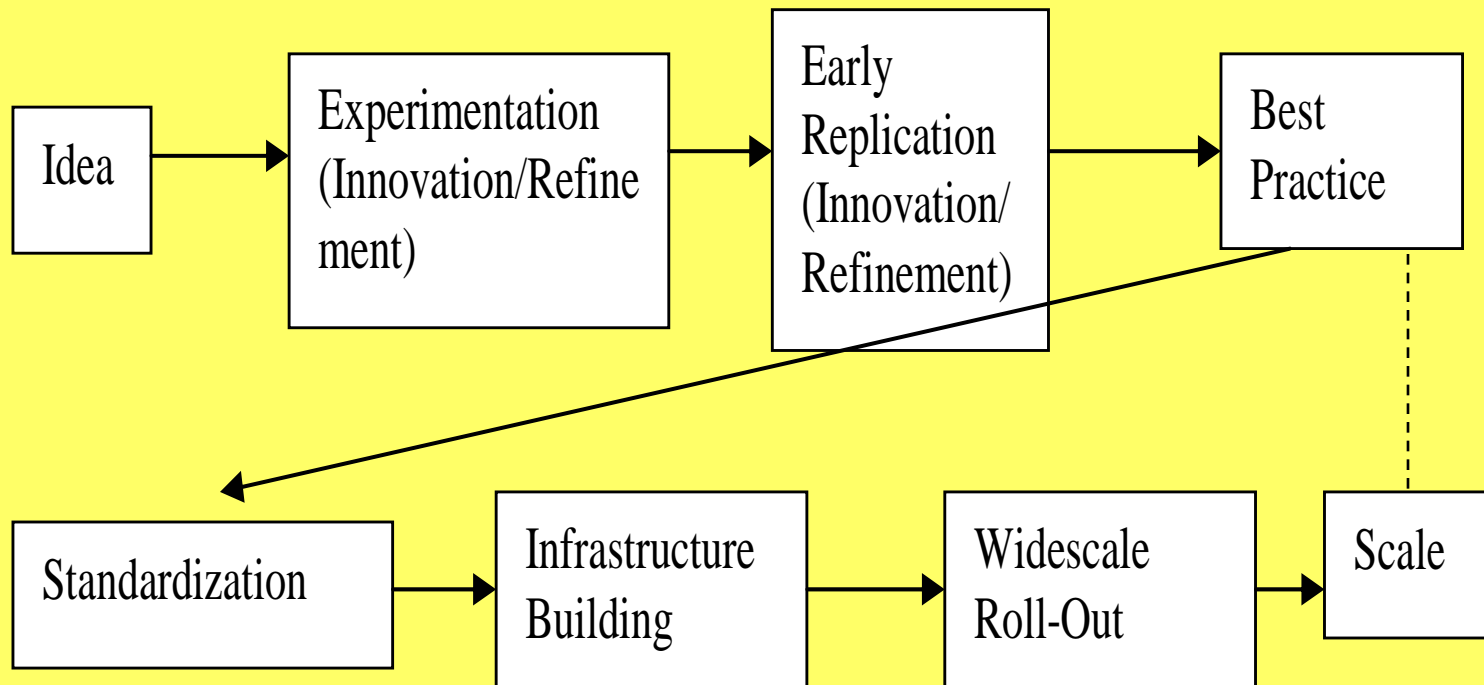
*Presentation for the 2006 National
Community Reinvestment Conference*

Green Valley Ranch

Las Vegas, Nevada

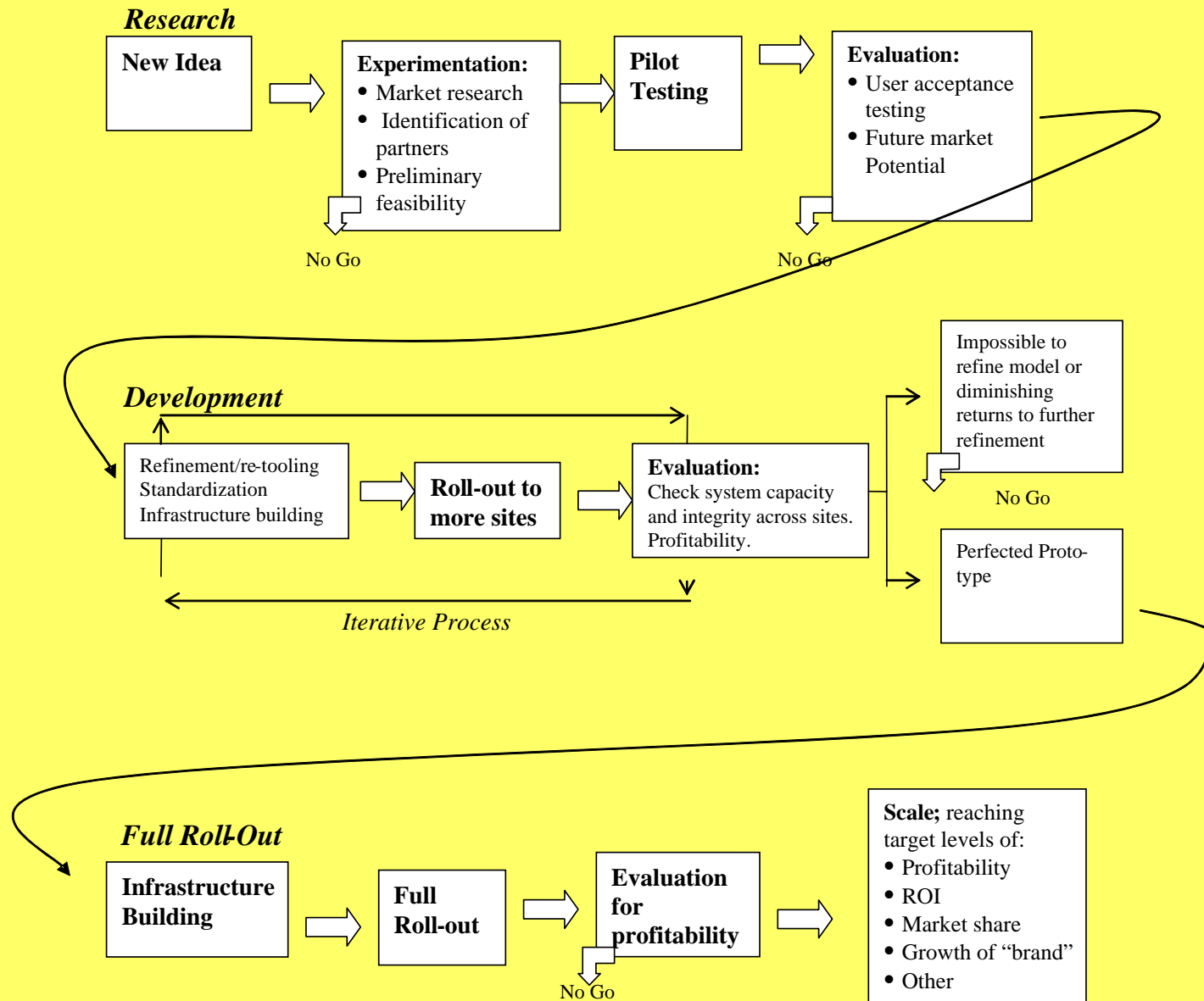
Kirsten Moy
The Aspen Institute
March 20, 2006

Model for Reaching Scale



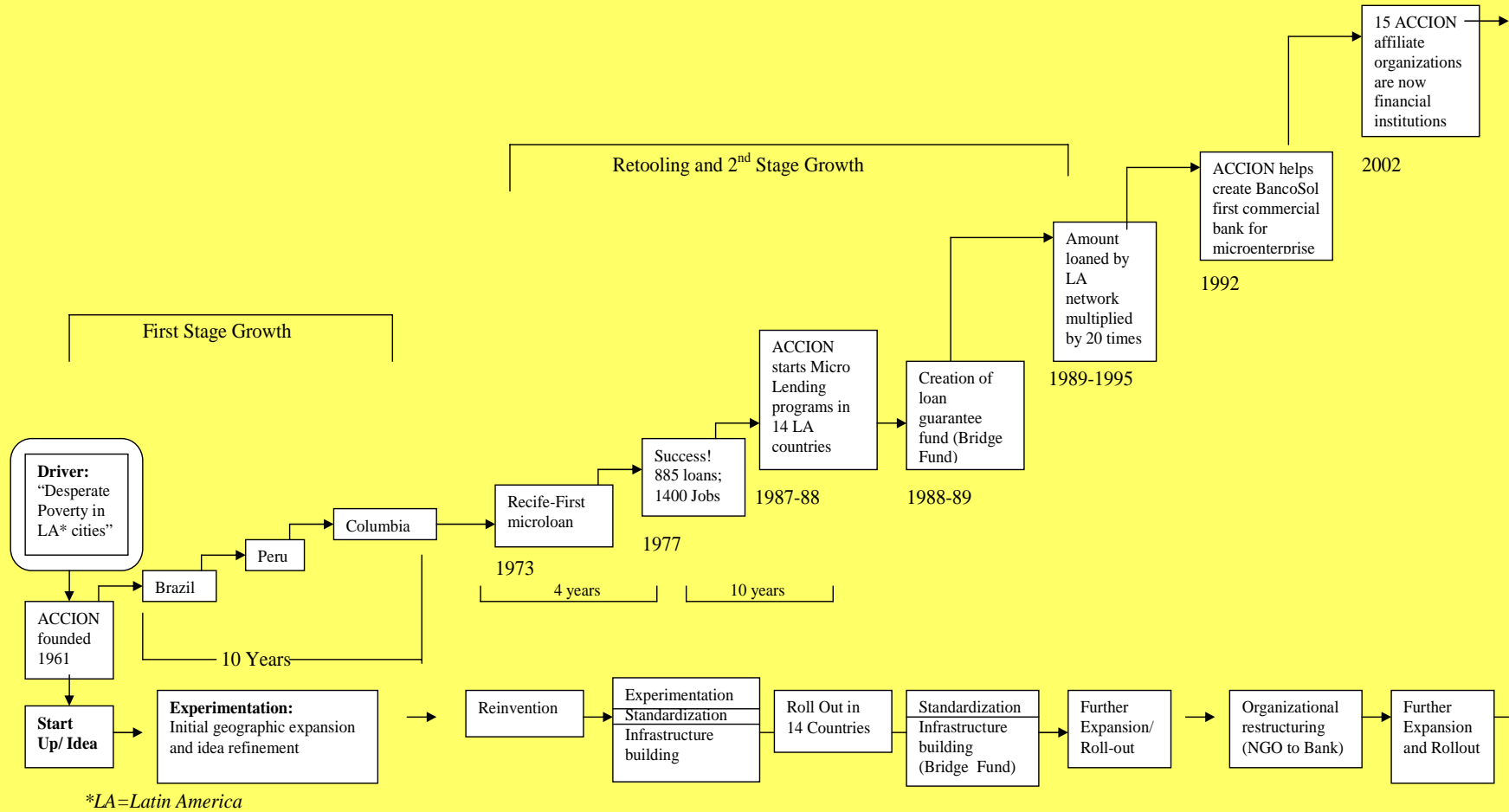
Source: Alan Okagaki & Associates

Model: Product Level

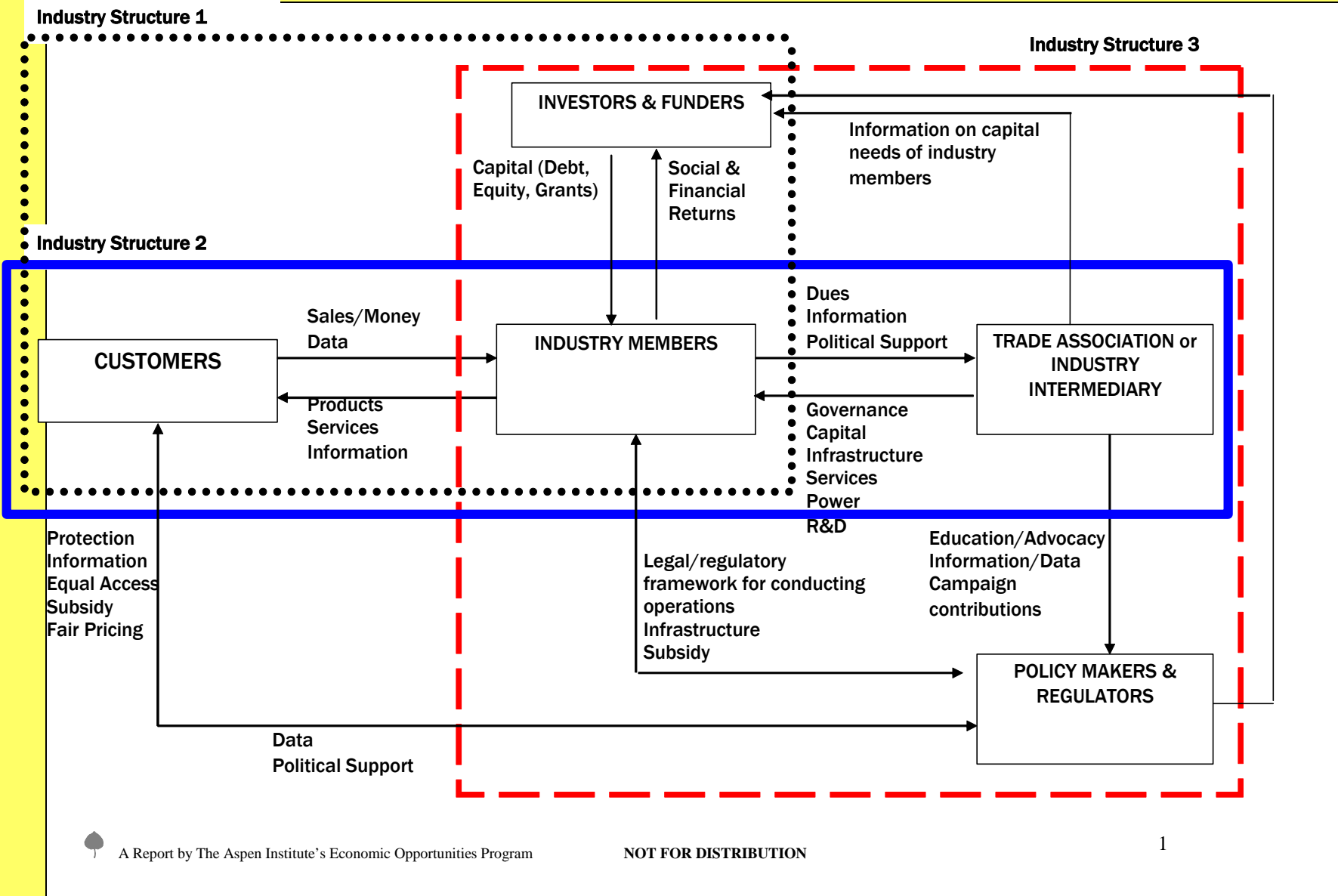


The Model: Organization Level - ACCION

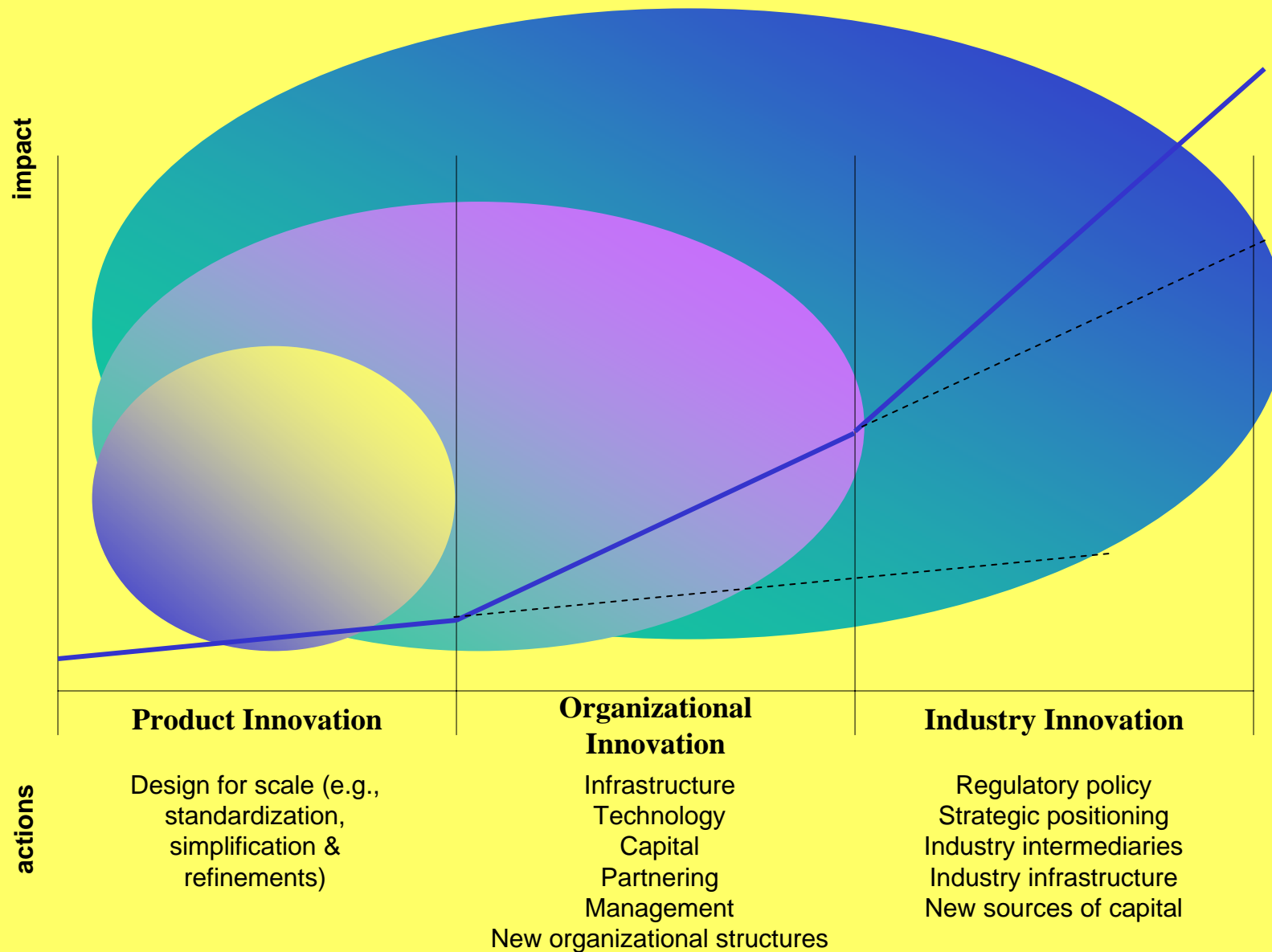
Retooling, organizational restructuring
and 3rd stage growth



Model: Industry Level



New Pathways to Scale for Community Development Finance





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