

Finding Investments & Selling Them Inside the Bank

Federal Reserve Board Conference –
Las Vegas, NV

March 21, 2006



WF CDC Overview

- CRA investment arm of the Bank.
- Double-bottom line and place-based investor.
- Geographically focused on the western half of the U.S. including California and the West, the Pacific Northwest, Southwest, and Midwest.
- Our mission is to “do well by doing good”.

WF CDC Overview

- Principally real estate investors --- focus on affordable housing and redevelopment areas --- but invest across multiple asset classes including tax credits and private equity to finance small and middle-market businesses.
- Current portfolio of about \$1.4 billion; deploy about \$400 million in new investments each year.
- Primarily an indirect investor through professionally managed investment funds alongside other institutional investors.
- Limited direct investments in commercial real estate.
- Planned co-investment initiative to leverage existing relationships with private equity fund partners to finance growth in small and medium-sized businesses.

Strategies for Finding Good Investments

- Work with organizations with proven track records in their fields
- Select community development investments based on local needs and that have strong local support
- Collaboration with other financial institutions, government agencies and nonprofits is often essential for the financial success and viability of community development organizations.
- Achieve “double bottom line” returns balancing financial and non-financial objectives.
- Run it like a business.

Evaluating Investment Opportunities

- What exactly are they proposing?
- What problem is being solved?
- Why isn't the need being met in the marketplace already?
- Is there a business model that makes sense?
- Is it self-sustaining?
- Does it scale?

The People Test – Managing Execution Risk

- Who are they?
- What have they done?
- Who do they know and who knows them?
- What's in their future?
- What do they have at risk?

Evaluating Investment Returns

- Financial.
- Social.
- Community/public relations – building “brand” value.
- Compatible business objectives – cross sell opportunities.

Achieving Internal Buy-In

- Good investments start with good people & good organizations.
- Know your deal.
 - Players
 - Market/Industry
 - Risks
 - Returns
 - Alternative/Historical Investments
- Anticipate questions.
- Don't be a soloist – sing in the choir!
 - Cultivate internal awareness/participation
 - Involve credit early & often
 - Board/Loan Committee participation

Achieving Internal Buy-In (con't)

- Develop meaningful benchmarks for:
 - Underwriting
 - Reporting/Monitoring Risk
 - Comparing returns – IRR vs Yield vs ROE vs Cash-on-Cash Returns
- Understand the big picture -- explain how proposal fits into the larger scheme of things...
 - CRA objectives
 - Brand equity
 - Linkages with other business units/initiatives
- Success has 1,000 fathers!

Achieving Buy-In --- Selling Investments to Credit

Know Your #'s

- Challenge assumptions
- Understand what drives the projections
- Compare with other similar investments
- Adequate administrative/operating costs
- Build in cushions
- Be comfortable that Sponsor understands the #'s and takes ownership

Achieving Buy-In – Selling Investments to Credit



Post-Closing Issues

- Asset management/Servicing
- Deal monitoring
- Compliance
- Accounting

Observations

- Building better communities isn't for amateurs.
- Risks are often greater than in the conventional marketplace due to lack of information and other factors.
- Going forward, the environment is changing –
 - we've operated in a relatively benign business environment for the past several years --- low interest rates, relatively strong economy.
 - Low-hanging fruit has been picked.
 - Too much capital chasing deals.
 - Investors are getting more sophisticated and more demanding about outcomes – financial and social.

Challenges & Opportunities

- Responding to the changing nature of underserved communities – in many communities, low income is no longer synonymous with the so-called “inner city”.
- Developing a viable capital markets to provide liquidity and risk-matching for investors similar to what exists in the conventional capital markets.
- Managing the diverse and growing expectations of double-bottom line investors – banks, insurance companies, pension funds and corporate investors.
- Operating on a larger scales without compromising mission.
- Measuring and communicating positive results – both financial and social.

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