

SAURABH NARAIN

Thank you Sameera. I want to first start by thanking David Erickson and John Moon, the Federal Reserve Board here as well as San Francisco Fed for organizing this fabulous meeting and bringing this front and center in terms of our thought process. I was asked to talk about some of the work that NCIF has been doing in creating the social performance metrics as well as advancing the field of, you know, standardization of impact measurement among the banking space, the CDFI banking space. So, I would focus my remarks on three different things. One is where we are today with the metrics work; two to talk about some ideas of certification and issues that have come in associated with certification. Somebody said, you know, certification is a holy grail; once you get into it you can't really get out of it, so you will have to be cautious about what you want to do there, and thirdly, looking at the future. As background NCIF is a nonprofit 51C4 [?] crossed [?] set up in 1996 to invest capital into community development banks around the country. We're the largest investor in CDFI banks today with investments in about 20 institutions which formulate-- it's about 25 percent of the CDFI industry currently which is certified. Now, the reason I mention that is that the 82 banks and we have investments in 20 banks, if we have to expand and bring in scale, that Arian [sp?] talked about earlier, then we have to think about the larger group of institutions around-- in the country; so that particular chart on the right represents 8,000 banks or whatever is current number of banks as by the day

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Federal Reserve Board | Washington, DC

Saurabh Narain | Panel #3

2

7,666 or whatever that number is, you know. Each dot represents a bank. There are 30 percent of the census [?] tracks [?] in the country which are considered low to moderate income communities; the 7,600 institutions at--, you know, doing simple math, there should be about 2400 institutions which are mission-oriented, that could be mission-oriented. As an investor, so I come in here as in two parts; one, as an investor and as an impact investor; and two, as a person who's trying to build, you know, help catalyze, you know, the hubris, and with humility the industry, you know, from an impact standardization perspective. So if there are 2400 other institutions why are we not thinking about some of those institutions? So, we [?] said how do we look at them in a consistently in a standardized form? So we came out with two sets of core metrics; one is the development lending intensity, i.e. simple terms, you know, person to lending in low income communities and development-- deposit intensity person to the branching in low income communities. It's clearly not glamorous to have a branch in the south side of Chicago relative to the north side of Chicago. So, if an institution has 80 percent of its branches in low income communities, it's telling me more about their mission. If you look at this chart and you find that the median of what we have called CDBIs is 67.58 [?], 67 percent of a bank's lending, of a bank's branches are in low income communities, i.e. it's about 4.1 times the all bank medians; it's telling me a little bit about the, you know, the work that these guys are doing in these markets. Similarly, 58 percent of the lending is located, home lending, is

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Federal Reserve Board | Washington, DC

Saurabh Narain | Panel #3

3

located in low income communities which is, again, 3.5 times the all bank median. So we said "All right, so how many institutions are there in quadrants 1, 2 and 3?" About 1400 institutions, and the first level of CDBIs, as we have called them, are, you know, in quadrant 1, which adds up to about 483 institutions, many more than the current certified [?] institutions which are 82 banks. The way we look at this industry is this is not a substitute for due diligence. This is an initial screen, as we think about certification, initial screen, as Andrew also said, initial minimum bar of social performance for these banks. We then go ahead and look at their actual qualitative performance in low/moderate income communities to determine whether they are worthy of impact investments per se. So we then came out with Lumbee Guarantee Bank in North Carolina, Mission National Bank in San Francisco or Community Trust Bank in Kentucky, in Pikeville, Kentucky, you know, in the Appalachia, you know, who are not certified, don't want to be certified, but are CDBIs in our terminology. We can go deeper into it and say, you know, an institution investor came to us and said "Show me the bank which has a branch in the most distressed market of the country. The most distressed market of the country with 20 percent, you know, of the median household income." And we can, today, determine that because we have the data on all the 7,600 banks. So, where do we go from here? We created this certification which is composed of all the certified CDFI banks which is a positive screening process of all banks which could be certified and which are likely to be in

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Federal Reserve Board | Washington, DC

Saurabh Narain | Panel #3

4

quadrants 1, 2 and 3; like I said earlier, this is supposed to be an inclusive, positive screen. It's not a negative screen; it's not saying banks in quadrant 4 or even banks in quadrants 1 and 2 are not doing good work. I mean, it is saying these are institutions which are doing good work by the initial screening process that we have put together. Hence, what we did was we created this as a public good. This information is available on our website, NCIF.org, for free for every impact investor to look at and then we encourage investors to either come to us or do their own due diligence. It's fascinating for me how many new investors are looking at the tool to do their initial due diligence and then go onto look at the work that those institutions are doing which meet the geographic and programmatic criteria. So, when foundations look at, you know, programs, when investors, CRA investors look at, you know, areas, service areas, from a CRA perspective, they can very easily use this tool. One of the things that I've talked a lot about in thinking about impact investing is, you know, the virtuous cycle of high impact community investing. You know, when we think about the comment that was made earlier in the day, we talked about the fact that the investor is actually at the center of the universe here; that is actually, in some senses, true but at the same time I'd like to posit that the person who is actually at the center of the universe should be the high income community. This is a conference about advancing social impact. How are really moving money to impact the lives of people? So there could be many possible outcomes from an impact investing perspective. We could be doing

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Federal Reserve Board | Washington, DC

Saurabh Narain | Panel #3

5

initial identification from a certification perspective. We can go on to actually make investments which, I think, is slightly dangerous because just using a nascent tool and a nascent business to actually go and route investments very quickly into institutions that are, you know, still sort of figuring it out for themselves is kind of interesting but, you know, we have to be cautious about that use and then, you know, it's changing the lives of people. I think, as we talked about earlier in the day, it's a much longer term process. So, as investors you know, when we look at these institutions which are causing change in low income communities-- oh this is not coming out very dark-- but, you know, we have to think about actually moving money-- this is not reading very well-- when you look at initial criteria of social impact measurement-- I have it here-- we should look at the initial criteria the they choose, the basic minimum certifications and then we have to encourage our investors to be aligned with our objective of putting more money to work in low income communities and, therefore, we've actually got to move money into these markets and then ask those investees, which are creating the impact, to provide more information. I was sitting at a conference the other day and somebody said "You know, we were going to a bank and the bank asked for a \$100,000 deposit from us, a fully insured \$100,000 deposit." And we said "Sure, but let's define the terminology. Let's define the impact you're going to create for me for a \$100,000 fully insured deposit. Tell me how it affects my duration of my portfolio's pool." You know it's sort of-- I agree with that idea

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Federal Reserve Board | Washington, DC

Saurabh Narain | Panel #3

6

that we have to, as impact investees, we really need to think very hard about having the terminology right but impact investors need to go down this virtuous cycle. We ask for some basic because, provide more information, provide money, then ask for more information to increase the asset class but change the lives of people around the country. I'm going to close with three points on how the bank, how the government, the role of government in the future. One, you know, I'm in the regulator depository space. We are fortunate that there is so much information out there in the public domain. We started with HMDA, we started with institutions deposits, you know, branch locations; there is CRA information. It's collected all day long; let's make that public. Let's make that publicly available in a machine readable format as Aneesh [sp?] talked about it earlier and Ta [sp?] talked about it. There is, you know, small business admin information, those gentlemen [?] from SBA, you know, can we make that information more publicly available, mineable [sp?]? Two, we can make this data more connectable. Very often the information that we, as you're thinking about the future, the information that we're collecting is either at the county level or the census level, at the community facility level, can we make it more connectable so that, you know, people out here can actually move the needle in terms of impact measurement and continue [?] the lives of people. And then three, creating standards for long-term behavior change, you know, both from a positive incentive perspective, which CRA is all about and several other initiatives are all about, but also from a negative perspective, you know,

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Federal Reserve Board | Washington, DC

Saurabh Narain | Panel #3

7

bringing in and internalizing the costs that we have with negative behavior and very short-term time horizons. So, with that, I'll stop and thank you very much.