

Case Study: City First Bank of D.C., NA

Like traditional financial institutions, community development banks (CDBs) are profit-making enterprises. However, CDBs have a second, socially driven mission that they do not share with a typical bank: to provide financial products and services to people residing in low and moderate income communities.

In the 1990s, spurred by the availability of a new source of Federal assistance, the number of CDBs in the United States expanded significantly. Yet, it was not until 1999, when City First Bank of Washington, D.C. opened its doors, that our nation's capital had a CDB to call its own.



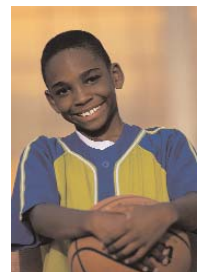
Today, City First is part of a growing number of CDBs that are rapidly changing the landscape of our distressed inner cities and rural communities. With total assets in excess of \$107 million, City First targets its loan portfolio to real estate renovation, nonprofit and social service agencies, and small businesses. And City First has developed specialized lending niches in multi-family affordable housing renovation; nonprofit facility lending; and small business lending to neighborhood businesses.

Although its charter requires the bank to support and strengthen underserved communities in Washington, D.C. and surrounding areas, the needs of City First are not that different from a typical community bank's. First among these is the need to increase available deposits in order to grow its lending activities. That's where Promontory Interfinancial Network and its Certificate of Deposit Account Registry Service[®], or CDARS[®] can help.

Security Without Collateralization

One of the best sources of deposits for CDBs is the socially motivated investor. This group of depositors, which includes public sector agencies, foundations, nonprofits, and certain individuals, invests in CDBs, such as City First, because these banks are committed to a social investment agenda.

Unfortunately, the ability of CDBs to attract large, socially motivated deposits has been limited since many public agencies and governments, nonprofits, and foundations have strict fiduciary rules about the security of their investments. A number of them require either full Federal Deposit Insurance Corporation (FDIC) coverage or that deposits be collateralized with securities. Prior to CDARS, City First was unable to accept deposits from such depositors in amounts more than \$100,000, unless the bank collateralized the deposits with Treasuries. This in turn restricted the bank's ability to make development loans to the low and moderate income communities it was chartered to serve.



The Results Are In

But CDARS has changed all that. With CDARS, banks can offer their customers a convenient way to enjoy access to full FDIC insurance on multimillion-dollar deposits. Through CDARS, larger deposits are broken into CDs of less than the applicable FDIC insurance coverage amount and placed with other FDIC-insured banks. Other CDARS Network Members do the same thing with their customers' funds. With help from the Promontory allocation engine, Network Members exchange deposits on a dollar-for-dollar basis. Each bank comes out "whole" and can make the full amount of deposits received available for lending in its local economy. A customer only has to deal with one bank, receive one statement, and for individual account holders, one 1099 tax form.¹

With the ability to offer multimillion-dollar FDIC insurance on CDs offered through CDARS, City First is now able to accept much larger deposits and to do so without collateralization. This allows the bank to place more funds to work in the community and reduce administrative tracking burdens. Since joining the Network in October of 2003, City First has placed more than \$40 million through CDARS.

And where have these deposits come from? A large percentage has come from the bank's core base of depositors, many of whom wanted to increase their investment in City First's work but needed the security of greater FDIC coverage to do so.

But deposits are also coming from new sources, such as foundations and government entities. According to Kenny Emson, Vice President and Chief Financial Officer of the Community Foundation, CDARS made all the difference when it came to deciding to open an account at City First:

*"Every day, the Community Foundation helps over 300 local foundations use their financial resources to benefit the National Capital Region. CDARS is a new option for us to conveniently invest at a good return, while keeping our deposits working for DC's neighborhoods. After [the Community Foundation] heard about the service, we [placed funds through CDARS] within 10 days."*²

But the good news doesn't end there. The bank placed a large deposit from the government of the District of Columbia - all because the bank offers the CDARS service.

Since a major portion of City First's loan portfolio goes to small "mom and pop" rehabbers, the new capital drawn to the bank by CDARS has allowed City First to play an even bigger role in spurring the development of affordable, multi-family rental housing. In addition, the bank has expanded its investments in nonprofit organizations and small businesses in low to moderate income communities in the eastern parts of the city.

With CDARS, smaller banks can compete with larger institutions for the socially conscious investor who needs a safe investment for deposits, likes the added feature that the funds can be reinvested locally, and appreciates the time-saving conveniences associated with managing funds through a single bank relationship.

And if a bank that offers CDARS is also certified by the U.S. Treasury Department as a Community Development Financial Institution, it can encourage mainstream commercial banks to invest in CDBs that offer CDARS as a way to meet their Community Reinvestment Act requirements.



"PRIOR TO CDARS, the strict investment policy requirements of many of our socially motivated investors, nonprofits, foundations, and public agencies prevented them from putting more than \$100,000 in our bank without full collateralization. CDARS changed all that. We are able to accept much larger deposits now and we can use them to fund loans that benefit the communities we serve."

- Ann Scoffier, Vice President of Resources, City First Bank

To learn more about CDARS and how to market CDARS to socially conscious investors, please contact Promontory Interfinancial Network by calling 1-866-776-6426 or visit us at our website at www.promnetwork.com.