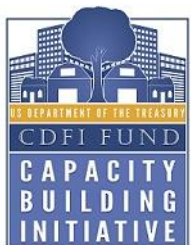


Training Module:

Organic Capital Growth – New Revenue Strategies



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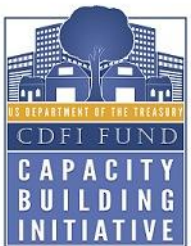
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Why do CDFI MDIs Need to Generate New Revenue Streams?

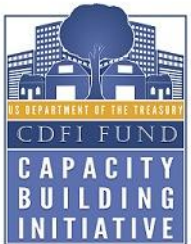
Earnings compression in the current low interest rate environment requires CDFI MDIs to expand their income opportunities beyond core businesses. In addition, new regulations and increased risk management processes further burden CDFI MDIs' profitability

Mission Alignment: Increasing your revenue streams is an outgrowth of effectively serving your customers



Structure of the Module

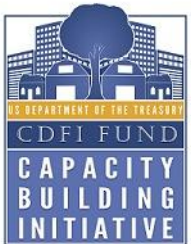
- I. Two Approaches to Revenue Growth
- II. Top-Line Growth
- III. Marketing and Cross Selling Initiatives



Goals of the Module

This module explores areas of opportunity for CDFI MDIs to:

- Increase and diversify their revenue streams
- Improve their banks' balance sheet, and
- Enhance their ability to grow



Overview of Results of Capacity Assessment Tool

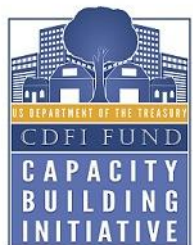
| Revenue Streams | |
|--|-----|
| At least one major revenue stream is declining | 43% |
| At least one major revenue stream is unpredictable | 29% |
| All major revenue streams are stable | 21% |
| All major revenue streams stable with at least one growing | 7% |

| Revenue Composition | |
|---|-----|
| Revenue is comprised of mostly interest income | 36% |
| Revenue is a combination of interest and non-interest income | 36% |
| Revenue is a combination with non-interest income becoming a growing source of income | 38% |

64% indicated that they are actively assessing options for diversifying revenue streams

14% have made a plan for diversifying sources of revenue

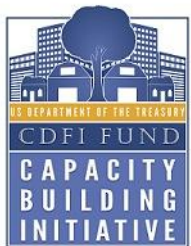
This underscores the importance of identifying diversified revenue streams



*based on those in attendance for Atlanta and New York that submitted a completed capacity assessment tool

Revenue Growth: Two Distinct Approaches

- **Bottom line growth:** How efficiently a CDFI MDI manages its expenses and operating costs. The top three expenses for a CDFI MDI typically include people, facilities, and IT
- **Top line growth:** Expanding business and increasing income stream by providing holistic services to existing customers and increasing volume by reaching new customers
- **Together:** The sum of both determines the financial strength, stability, and profitability of the CDFI MDIs. It is critical to understand the impact of these on each other, i.e. a reduction in an operating expense could result in a reduction in revenue if it is not properly assessed

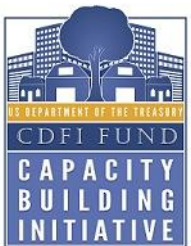


Revenue Growth Strategies

Increasing your footprint in your community

Strategies for Increasing Revenue at CDFI MDIs

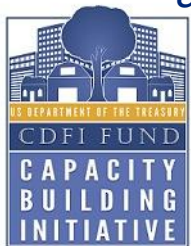
- Offer new products or services
- Increase prices of all existing services
- Increase prices of some services
- Lower prices of some services in order to increase demand
- Increase the volume of banking services that produce the greatest amount of revenue compared to cost
- Increase demand for and volume of all or part of CDFI MDIs banking services by a well-defined and targeted marketing campaign



Strategies for Increasing Revenue Streams

Stay focused on your core strengths. CDFI MDIs have an advantage that comes from being local: better knowledge of your communities, less bureaucracy, and the ability to provide more personalized service. Success comes from leveraging these strengths and providing products and services at a good value

- Tap into new deposit customers
 - Corporate/small business
 - Federal, state and local governments (these public entities typically have numerous programs for placing deposits with MDIs)
 - Community
- Look for sources of non-interest income
 - Non-bank competitors
- Provide holistic products and services to your community
 - Mobile banking
 - Money transfer
 - Other products and services geared towards new immigrant communities, such as small business export financing



Tapping in New Sources of Deposit Customers

Corporate/Small Business

- Check collection and cash management services
- Data processing
- Benefit services
- Payroll services
- Money transfer payment services
- Deposits, especially for social enterprises that care about making local investments

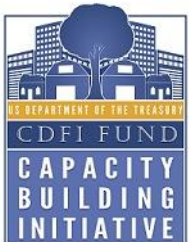
Government Deposit Programs

- Real estate tax payment accruals
- State, city, county cash management
- State escheat funds
- State and local retirement plans cash management
- Schools – local community colleges and universities
- Federal deposit programs like the Department of Energy MDI Deposit Program

Individuals in the Community

Purpose driven savings accounts for:

- Down payment for a car
- Christmas/holiday spending
- Education
- 529 accounts



Tip: Use your community impact story to attract new deposits

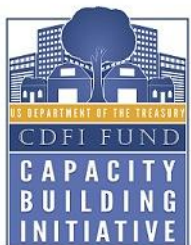
Trends in Products and Services

Lessons from the Industry

Bringing the Unbanked into your Institution

Seize opportunities to provide valuable services at a good price

| | The Opportunity | Examples of Market Players |
|----------------------------|---|---|
| Prepaid Check Cards | <ul style="list-style-type: none">• To offer service as an entry point of for other financial services to the unbanked | <ul style="list-style-type: none">• Walmart Money Card, American Express, Walgreens, GreenDot, H and R Block• \$2-\$5 monthly fee; \$2.00 ATM withdrawal fee |
| Small Dollar Loans | <ul style="list-style-type: none">• To provide a lower cost alternative to payday loans• These non-bank providers charge interest rates well beyond 25 percent | <ul style="list-style-type: none">• Online (\$5-\$25 per \$100 borrowed up to \$2000)• Western Union (Check Into Cash; cost depends on state) |
| Check Cashing | <ul style="list-style-type: none">• To offer service as an entry point for other financial services to the unbanked while generating additional fee income | <ul style="list-style-type: none">• Walmart Money Center (max \$3 for payroll or government checks)• Western Union (cost depends on state; typically \$1.95/\$100)• 7-Eleven, K-Mart, grocery stores, liquor stores |

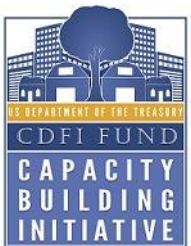


Bringing the Unbanked into your Institution

Key Considerations and Opportunities

- **Market Demographics/Demand:** Move beyond existing customers
- **Pricing:** Must be competitive in your communities
- **Locations:** May offer a partnership/teaming opportunity with businesses in your communities
- **Community Need:** Understanding decision to offer or not to offer services

Key: Know your customers and community needs and develop customized products for your community



Benefits and Risks of Products Targeting the Unbanked

| | Benefits | Risks |
|----------------------------|--|--|
| Prepaid Check Cards | <ul style="list-style-type: none"> • Provide an entry point of services to the unbanked | <ul style="list-style-type: none"> • May not align with mission since it is an alternative to using a bank account • Making sure funds are FDIC-insured for customers • Might not be competitive with alternative providers |
| Small Dollar Loans | <ul style="list-style-type: none"> • Diversified revenue stream • Providing an alternative to usury non-bank providers of payday loans | <ul style="list-style-type: none"> • Need for high volume to make profitable • Streamlining the loan approval process • Determining what is an acceptable interest rate • Managing default/charge offs |
| Check Cashing | <ul style="list-style-type: none"> • Provide an entry point of services to the unbanked • Generate additional fee income | <ul style="list-style-type: none"> • Need a branch network aligned to the location of the community needs • Competing on cost with non-regulated providers |
| Money Transfer | <ul style="list-style-type: none"> • New source of fee income • Provide services geared to the needs of immigrant communities | <ul style="list-style-type: none"> • Finding the right partner • Compatibility with partner's IT platform • Managing regulatory compliance with the Patriot Act, AML, and BSA rules |



CDFI MDI: Small Dollar Loan Pilot

The Opportunity

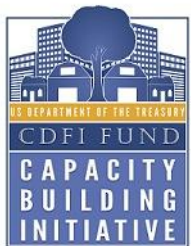
- Found an opportunity to provide an alternative to payday lending

Overview of Product

- Providing small dollar loans to individuals with credit scores lower than those typically approved for other types of products
- Offset risk by offering at higher interest rate (19 percent interest rate)
- The loan approval process can be done entirely online

Product Strategy and Early Successes

- In volume, the product can be profitable since software and minimal staffing costs are needed
 - Pilot: 700 loans
 - Target: 5 million loans through various marketing
 - Charge Offs: between 2-3 percent with an employer relationship and 5 percent without



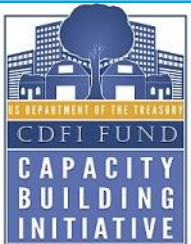
Earning Recurring Referral Fee Income through Partnerships, Teaming, and Strategic Alliances

Examples of Opportunities for Potential Partners/ Alliances

- **Large Correspondent Bank:** Help with Community Reinvestment Act (CRA) requirements or take a subordinate position on deal
- **Regional or Local Brokerage or Investment Management Firms:** Provide investment and financial planning services to upper market customers
- **Insurance Companies:** Offer various insurance options to your customers. Examples include personal and commercial life and disability, high risk car insurance, commercial and personal property and casualty, healthcare, and annuities

Key Considerations before Partnering

- Conduct due diligence on potential partners and their offerings including:
 - Evaluate if the services are providing additional value to your customers not just additional fee income for you
 - Assess the strength of the partners management, review audited financials, audit product performance, verify licenses and certifications, etc.
 - Make sure the partner is compatible with your institution's mission and culture
- Train and educate your staff on products and terms of partnership – this is key for effective cross-selling
- Prepare for any additional compliance required by partners regulators such as SEC or Insurance



CDFI Bank: Insurance Premium Financing

Background on the Opportunity

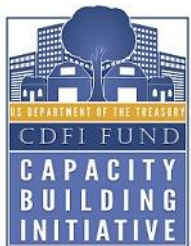
- Leadership of CDFI bank had insurance industry experience and interest in getting into the insurance business
- Bought an insurance agency in 2006 mostly for alignment of premium financing product, a form of specialty lending, and alignment of existing customers with credit problems

Overview of the Insurance Premium Financing Product

- Target customer: can only get high risk insurance and cannot afford insurance premium
- Structure: CDFI bank finances the car insurance premium and borrower puts a down payment of 20 percent and has six installments over the year
- APR is high but provides a service for people who would not be able to get a loan otherwise
- Commission runs about 12-15 percent of the customer's premium

Cross-selling

- Help customers improve credit scores through financial counseling and supporting them with moving to standard insurance
- See this product and the financial counseling as gateways into other financial services of the bank



CDFI Bank: Insurance Premium Financing

Risks

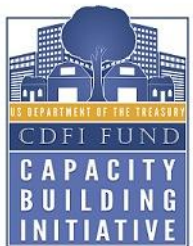
- Whether regulators would be okay with purchase of insurance company
- Joint Venture with other agents was a potential risk but field examiners were okay with arrangement

Early Results

- Lost money for the first few years but have seen growth each year
- Have agents in all of the branches
- Most of the staff from acquired firm is still at CDFI bank

Lessons Learned

- Importance of patience with profitability and integration of new firm
- Challenges in merging organizational cultures
- Requires maintaining the human capital through the acquisition
- If they were doing it again they would look at partnership

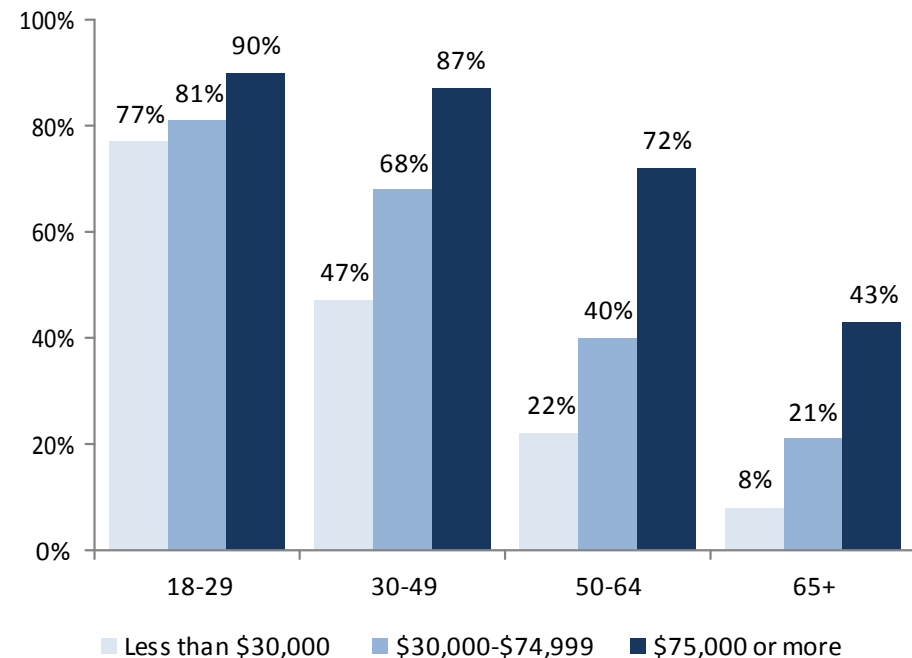


Providing Holistic Services: New Distribution Channels

- The increased penetration of mobile devices, apps availability, and a mobile generation has driven the banking industry to invest in technology that allows information and transaction services to be accessed 24/7
- With today's technology younger customers are increasing their use of branchless banking options
- Types of services expected include deposit, bill pay, balance check, transferring funds, and customer alerts
- Adoption by African-Americans and Hispanics is particularly high

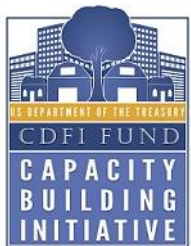
Smartphone ownership by income/age grouping

% within each age/income grouping who own a smartphone (example: 77% of 18-29 year olds with an annual household income of less than \$30,000 are smartphone owners)



Source: Pew Research Center, Smartphone Ownership – 2013 Update

http://pewinternet.org/~media/Files/Reports/2013/PIP_Smartphone_adoption_2013_PDF.pdf



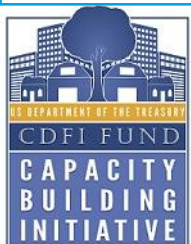
Providing Holistic Services: Money Transfer

What is the Opportunity?

- The U.S. money transfer business totaled \$7.4 billion in 2012 – a key fee generating financial service
- Money transfer services tend to target customers that are unbanked and/or have no credit cards
- Significant amounts of remittances were sent from 37 U.S. states, but six states were identified as the "traditional sending" states: New York (which led the group with 81 percent of its immigrants making regular remittances), California, Texas, Florida, Illinois, and New Jersey
- Western Union is currently the largest money transfer/bill payment service in the world, as of Dec. 2012
- 80 percent of Western Union's money transfer growth came from new customers; this is a growing market!

Key Considerations Before Offering

- Money transfers are subject to compliance with the Patriot Act and Anti-Money Laundering and Bank Secrecy Act rules
- Know the demographics of your customers and how the demographics are changing to match services with their needs and expectations
- Evaluate your pricing
- Find the right money transfer partners



Providing Holistic Services: Mobile Banking

What is the Opportunity?

- To attract and retain customers – offering mobile banking is becoming increasingly important
- Mobile banking can reduce costs through staffing requirements, increasing controls to mitigate fraud risk, and reducing human error in transactions
- Report by the Mercator Advisory Group from September 2013 shows people of Latin, Asian, and African descent lead other ethnic groups in smartphone ownership. These groups have exhibited a good deal of interest and comfort with mobile banking.

Key Considerations Before Offering

- Critical to understand the spectrum of relationship and transaction needs in your particular community, when a personal touch and non-touch services are needed
- Adults 65+ have the lowest adoption rates for smartphones
- Important to select the right vendor

Current Mobile Banking Services Offered by CDFI MDIs*

- | | |
|---------------------------------|--|
| • 36% offer online applications | • 36% offer smartphone banking |
| • 86% offer online banking | • 29% offer mobile applications |
| • 43% offer email alerts | • Remote deposit: 21% for consumers and 64% for business |



*based on those in attendance that submitted a completed capacity assessment tool

CDFI MDI: Implementation of Mobile Banking

Why they made the move

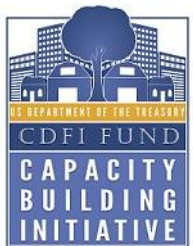
- Saw that mobile banking was becoming more of a given than a value add
- Wanted to keep up with the trend

Things they looked for in the vendor

- Usability and functionality of the platform for the customer
- Integration with online banking and continued integration with new features
- Clear roadmap of the product by the vendor
- Investment in product development to keep up with the market

Progress to date

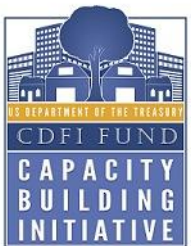
- Rapid uptake in product
- Roll out of mobile deposit in Q1 of 2014



Implementation of Mobile Banking

In your table groups, discuss the following:

- What is the status of mobile banking in your CDFI MDI?
- What are your community needs and wants in this area?
- What challenges do you foresee?
- How can you do to mitigate the potential challenges?
- What potential partners do you have?



Marketing & Cross Selling Initiatives

Cross-Selling: Maintaining Customer Relationships

- By increasing the number and types of bank products and services provided to a customer, you increase and diversify your income streams and enhance shareholder value. ***Ask the question: “Do I add value for my customers?”***
- Effective cross selling provides you with the opportunity to maximize the revenue and deepen the relationship with each of your existing and new customers
- You can become a trusted advisor or first call for new service opportunities with customers

| | | CUSTOMERS | |
|----------|----------|--|--|
| | | EXISTING | NEW |
| PRODUCTS | EXISTING | (1) Existing Customer with Existing Product | (2) New Customer with Existing Product |
| | NEW | (3) Existing Customer with New Product | (4) New Customer with New Product |



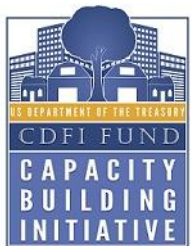
Enhancing Cross Sell Opportunities

Step One: Conduct Market Research

- Start by reviewing and analyzing your current customer data
- Gather supplemental data by hiring a bank marketing firm or using online resources to know your community and optimize your product offerings
- This includes data analytics of existing customers and the community
 - Demographics
 - Services used
 - What services will your customers buy?
 - How much will they pay for services? (customers perception of value)

Example Resource

- There are new online platforms that can help your bank analyze customers and target markets to make more effective decisions
- For example, [Demystdata.com](https://demystdata.com) is an online tool that provides structured risk information on underserved customers which can help your bank make better product and target market decisions



Enhancing Cross Sell Opportunities

Step One: Conduct Market Research

Conduct your own surveys that include some of the following questions:

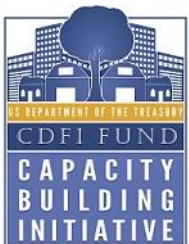
Understand Your Existing Customers Product Use and Needs

- Who are your most profitable customers?
- What products do they use at your bank?
- What products do they use at other financial institutions?
- What products are they willing to pay for?
- What are your incentives (relationship pricing) for multiple product holdings?

Assess Existing and New Customer Opportunities

- What are the changes in your customer demographics?
- What are the service gaps (unbanked and underserved) in your market?
- What is the expected demand for product and services vs. current market demand for services in your market?
- What is the cost of delivery of new services in your market?
- What is the potential ROI for adding new products and services?

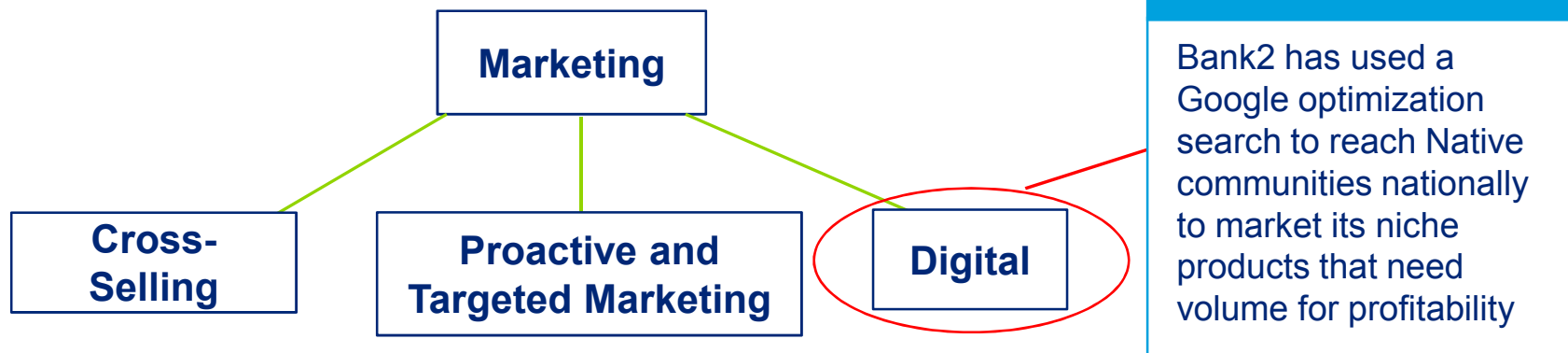
Tip: Consider partnering with local colleges or universities to have students support your bank with market assessments



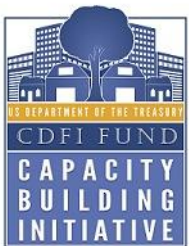
Enhancing Cross Sell Opportunities

Step Two: Develop a Marketing and Communication Plan

- Determine your value proposition for each customer segment
- Prioritize new product areas and customers based on your marketing analysis and alignment with your CDFI MDI's mission
- Determine the most profitable distribution channels to reach your new and existing customers



Today's challenge: Customers are shopping and buying differently. A combination of appropriate distribution/communications channels should be evaluated and used in order to reach customers

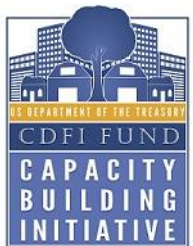


Enhancing Cross Sell Opportunities

Step Two: Develop a Marketing and Communication Plan

Identify new customers/markets that may align with your bank's mission

- Businesses
 - Small business and new businesses moving into the community
- Non Profits
 - Foundations, universities, endowments, health clinics and hospitals – cash management services
 - For example: scholarship pools, building fund pools, program funding pools
- Remittances
 - Money transfers
- Geographical expansion
 - Regional
 - Local/neighboring cities and towns



Enhancing Cross Sell Opportunities

Step Three: Educate Staff and Management

- Front-line staff are your customers first point of contact
- Everyone needs to be good at cross-selling and facilitating business
- Learn how to tell your story as a local bank focused on community
- Staff need to learn how to teach customers about the benefits and costs of products and services at a basic and more advanced level
- Learn who to connect customers with for more information on specific products and services
- Provide training on how to effectively communicate your products and services through all of your chosen distribution channels

Strategy: Use staff meetings to educate staff on various products and services and to practice product cross-selling



Wrap-Up

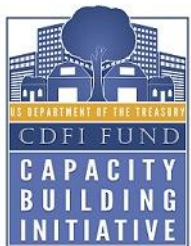
Key Takeaways

The strategies and steps proposed herein, combined with creative sales and marketing approaches, provide your CDFI MDI with an opportunity to address your profitability challenges and increase the value you provide to your customers

What new opportunities will your CDFI MDI consider?

- Tapping into the Unbanked: Mobile banking, money transfer
- New Sources of Deposit Customers: Government, local businesses
- Recurring Fee Income: Partnerships, teaming or strategic alliances

By increasing and diversifying your bank's revenue streams, you can improve your financial stability, profitability, and shareholder value

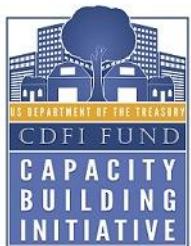


Examples of Potential Technical Assistance

- Conduct data analytics of existing customers and product usage
- Perform geospatial mapping of target market
- Provide support with evaluating strategies for increasing revenues
- Perform market research on various market opportunities for new products
- Provide or service partnership options based on bank's goals
- Review a marketing and communications strategy
- Develop a staff education plan



Questions?





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