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City First Bank Serves Neglected Neighborhoods with Help from 'Win-Win' Bank Partnerships

By Cliff Kellogg, *President and CEO, City First Bank of DC, N.A.*



Gregory Maison is a skilled carpenter who works in ignored neighborhoods all around Washington, DC. City First works right alongside him.

Greg Maison had the will. He just needed the way.

Maison, a skilled carpenter in Washington, D.C., believes in breathing new life into weary old buildings. His surname — “home” in French — fits him. Greg’s plan was to buy, rehabilitate, and rent affordable housing — one property at a time — in some of the city’s most neglected neighborhoods.

That’s where City *First* Bank came in. We are the first bank certified as a community development financial institution (CDFI) in Washington. A large part of our reason for being is to help community-committed entrepreneurs such as Greg Maison. We liked his plan and backed him financially.

It’s been a rewarding investment. Thus far we have financed six of his \$80,000-\$150,000 multi-family rehabs. Some 61 low- to moderate-income families are the beneficiaries — as is the city. Indeed, if we had more Greg Maisons we would have fewer unmet housing needs in the nation’s capital. And there *are* more Greg Maisons. City *First* is reaching out to serve them — with crucial help from other banks.

Leveraging our resources

City *First* had its beginnings in a church basement in 1993. Years of work and dedication moved us from initial planning to incorporation in November 1998 as a for-profit, OCC-regulated, FDIC-insured community development bank. We have grown rapidly since then.

Assets have risen from \$13.5 million to over \$50 million. New loan originations have increased from \$6.3 million to approximately \$17 million per year. We are currently making more than 80 percent of our loans in lower-income target neighborhoods. Borrowers include nonprofits providing homes for battered women, small-scale entrepreneurs like Greg, charter schools and social service agencies. Although many of our borrowers would be considered unacceptably high-risk by conventional criteria, in over 145 loans originated we have had only one loss.

In addition to commercial customers, our mix of depositors and savers includes about 1,000 low-

income households who do their banking at a *City First* branch in a retail center built by a local community development corporation. Most of them (55 percent) have balances under \$500. Their positive response to our outreach tells us we are supplying a much-needed alternative to higher-cost fringe financing operations such as check cashers.

We have had vital help from both local and national partners. Georgetown University provided our lead investment. Other private shareholders include Allfirst Bank, Bank of America, Citibank, First Union, SunTrust, Fannie Mae and the National Community Investment Fund.

In addition to shareholding, our “win-win” relationships with some of the nation’s largest banks include board membership, correspondent bank activity, loan participations, and cross-referrals. These synergistic activities have helped us grow, and they hold great potential for the future — as do investments such as a recently promised \$2 million deposit from the National Capital Revitalization Corporation.

Our board chair, Desa Sealy Ruffin, a native Washingtonian with long experience in community development, notes: “Our banking partnerships help us to greatly leverage our investments in underserved neighborhoods — and help our partners to better target their community reinvestment commitments.”

Lessons learned

We have learned five main lessons from our growth thus far:

- 1. Focus on high-need market niches.** Early on, we identified three promising product areas, and at this stage of our development we are staying largely within them:
 - Small private renovators of multi-family housing are crucial to the improvement of the housing stock in our primary investment area: 51 percent of the housing stock is in buildings with 5 to 49 units, 31 percent in buildings with under 25 units. Bank support is critical to enable small developers and investors to sustain these local housing markets.
 - Community agencies such as churches, child care centers, charter schools and social service agencies often look for and need banking expertise for facilities financing or asset-based lending. Although these organizations rely on public and charitable funding sources that must be carefully underwritten, the services they provide are a key to revitalizing local neighborhoods.
 - Some 68 percent of the city’s population lives within our targeted neighborhoods, but these neighborhoods contain only 36 percent of the city’s businesses. Our target market needs tailored financing to support small neighborhood business start-ups and expansions. This generally requires intensive loan structuring up front, both for growth opportunities — such as facilities financing or asset-based financing — and for restructured debt.
- 2. Adapt marketing to local opportunities.** For example, *City First* targets local businesses by sector, using direct mail to explain what we’ve done for borrowers with similar needs. To help create working networks of community stakeholders — and identify promising new projects — we host a quarterly “Deal Room,” inviting customers, contractors, appraisers, and developers to share market information and expertise.
- 3. Recruit the best possible staff and board.** Sounds obvious, but we really work at it. In addition to their commitment to community revitalization, senior lending staff have extensive prior banking experience. Other senior managers also have had careers in banking and community development finance. Early attention to staff infrastructure has helped *City First* build strong internal systems

and avoid early losses, while working closely with our diverse board to grow the bank.

4. Leverage outside expertise to assist borrowers. We provide a great deal of up-front technical assistance in structuring initial financing. As our clients' enterprises progress, however, we take care to connect them with other community institutions that can provide ongoing support. That way *City First* can leverage our staff resources most efficiently while reinforcing community interconnectedness.

5. Banking partnerships make all the difference. Early deal flow is crucial to the success of a new institution like *City First*, and bank-to-bank relationships are a primary source of participations and referrals. (Another excellent source is bulk sales of loans, from which we have not yet benefited.) Importantly, the flow of business is not one way. We already sell participations in our originations to other banks.

By maintaining vibrant business relationships with community development banks like ours, other banks help us to seek and share a growing number of profitable business deals in low- to moderate-income markets, where *City First's* specialized knowledge gives us a comparative advantage. Solid banking relationships thus help to extend much-needed financing to underserved areas — to everyone's benefit and profit.

For more information, contact Cliff Kellogg, President and CEO, *City First* Bank, N.A. at (202) 332-5002, or visit the Web site: www.cityfirstbank.com.

Allfirst Bank's Partnership with *City First* Bank of DC, N.A.

Allfirst Bank has invested \$250,000 in the stock of *City First* Bank and has invested another \$100,000 in a certificate of deposit. Nick Lambrow, President of the Chesapeake Region of Allfirst Bank also sits on the board of directors of *City First* and chairs its credit committee. How is all this possible since the Depository Institutions Management Interlocks Act (or DIMIA) normally prohibits management officials from serving on the boards of unaffiliated banks? DIMIA provides exceptions for serving on the board of a bank that provides services in low- and- moderate income areas, is minority- or women- owned, or is newly chartered. There is also a small market share exemption to the DIMIA restrictions where the two interlocking banks together hold less than 20 percent of the deposits in their community or relevant MSA. Based on its investment of \$350,000 and Lambrow's time and expertise, Allfirst Bank has entered into an active partnership with *City First*.

"We see *City First* as doing things . . . in markets that we cannot necessarily reach," said Lambrow in a recent phone interview. In his role as the chair of the credit committee, Lambrow is responsible for reviewing the credit policy and underwriting standards for *City First*. Allfirst has also established a correspondent relationship with *City First* which provides operational and investment support. And *City First* recently purchased a \$750,000 participation in a larger loan that was offered to them by Allfirst.

The partnership developed between Allfirst and *City First* did not end after the investment checks were cut. This partnership has proven to be a beneficial relationship for both banks . . . and for the communities they serve.