



Strategic Plan
For
2008-2010

Board Approved:

January 24, 2008

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VCC Strategic Plan 2008-2010

Executive Summary

This document defines the growth strategy for Virginia Community Capital, Inc. (VCC) for the time period of 2008 through 2010. VCC is an organization that lends capital to community development projects throughout the Commonwealth of Virginia. VCC's mission is *"To offer innovative, flexible financial products designed to support affordable housing and community development ventures, increase jobs and build sustainable communities."*

VCC went through a major strategic expansion in 2005. During that year, VCC redefined its service area to include the entire Commonwealth of Virginia, received \$15 million in additional capital to expand its lending programs, and reorganized its board of directors to reflect its new strategic direction. By year-end 2007, Virginia Community Capital was a viable, statewide CDFI with a loan portfolio of approximately \$10 million with 0% delinquencies. VCC had completed 23 community development projects; creating or preserving 623 affordable housing units and creating or preserving 83 living-wage, permanent job opportunities. Additionally, during this time, the capital base of the organization grew from \$15 million at YE 2005 to \$19.1 million at YE 2007. Assets of the organization grew to \$28.3 million. As the organization ended 2007, it had also laid the foundation for the opening of a regulated community development bank and began to focus on new strategic directives to guide its growth for the next 3 years.

VCC staff, advisory board and board of directors reviewed its operating environment and current market opportunities. The review included analyzing the organizational performance against national peers, reviewing the strengths and weaknesses of the current organization, and capturing the needs and visions for a statewide community development organization over the next three years. This input and some additional market research became the basis for the 2008-2010 VCC Strategic Plan.

VCC's Plan includes 3 years of growth and continued service to the Commonwealth. The organization is well positioned to begin work on the plan and should be able to accomplish the major objectives set forth in the document. The goals and objectives presented in the plan include:

Goal #1: Leverage the success of the organization and the current capital base to grow assets to \$70 million while maintaining fiscally-conservative, sustainable governance policies.

- Develop a capital plan to leverage \$20 million in equity to \$70 million in assets.
- Grow balances while maintaining credit quality in the loan portfolio. Annual portfolio growth goals will be established while maintaining delinquencies and charge-offs at or below industry averages.
- Grow the non-profit operating reserve level to \$1 million.
- Maintain capital ratios and loan loss reserves that demonstrate financial strength and allow for additional borrowing. Capital ratios and loan loss reserves should meet or exceed industry standards for both the bank and the CDFI.

Goal #2: Create and deliver mission-based products appropriate for both the bank and the CDFI to meet the community development needs of the Commonwealth.

- Create and launch the new \$30-million, 3-year affordable housing preservation program by March 2008.
- Create an expanded small business credit product line and introduce it to the market by second quarter 2008. Originate \$12 million in new small business loans over the next 3 years.
- Launch a new lending program for medically underserved communities, including both facilities and small business lending products. Originate \$25 million in new medically-related loans throughout Virginia in the next 3 years.
- Stay responsive to loan requests generated by community bank partners, originating at least 10 deals per year through referrals.
- Deliver \$15-\$18 million per year of community development capital to projects in the Commonwealth of Virginia.

Goal #3: Create an operating environment where core costs are fully self-supporting and therefore, grant income is utilized entirely to leverage technical assistance and other non-profit activities.

- Grow loan portfolio size and yield to a level that will support core operating expenses. Increase self-sufficiency ratio from 90% to 100% by 2010.
- Utilize grant income to increase equity and/or support non-profit activities. Raise an additional \$3 million in grant funding over 3 years.

Goal #4: Create a community development organization known for its responsiveness, technical ability, inclusive culture, and creativity; and is viewed as a leader of innovative community development programs – utilizing both state and private capital partnerships.

- Create a process to measure customer and constituency feedback and satisfaction. VCC should be rated at the top levels of grading for responsiveness, technical ability, diversity and innovation/creativity. Customers and partners should view VCC as value-added to their organization.
- Work with state housing, community development and small business organizations to leverage new state programs with VCC capital. Create or expand two new partnerships within 3 years.

- Increase VCC's brand awareness through quarterly updates to the website, annual report distributions, periodic advertising, annual luncheons, and conference and sales outreach efforts.
- Create a responsive, committed, talented team of employees.
- Embed a deep sense of environmental stewardship in our culture, our products and organizational behavior.

VCC has a great start on organizational and operational capacity needed to realize these goals. Major systems are installed, strong financial policies established, good governance and board structure is in place, and experienced staff with broad networks throughout the state joined the team. As the organization grows, VCC will need to create new subsidiary organizations and add a few more members to the team. Marketing efforts must remain strong to introduce and launch new products. Finally, the organization must actively manage credit risk as it expands, to ensure long term success and sustainability.

The financial forecasts for this strategic plan are strong and profitable. The non-profit lending organization continues to show positive fund balance growth each year. The new banking entity turns profitable in its third year of operations. The organization as a whole achieves self-sufficiency in 2009. The total projected net income for VCC at the end of the plan (for calendar year 2010) is \$1,342,000. The assets of the organization are projected to have grown to \$69.2 million and the capital base is projected to be \$22 million. Annual new community development lending will be approximately \$18 million *per year* – an amount greater than the original equity expansion in 2005.

This plan takes VCC to a new level of organizational stability. It gives it the critical mass necessary to support its operations, grow additional programs and outreach, demonstrate diligence and technical capacity, and pass regulatory and auditing reviews. VCC will be delivering solid financial benefits to Virginia's underserved communities and will be well positioned to examine new market opportunities and address new needs.

Mission and Values

Virginia Community Capital (VCC) is a non-profit, Community Development Financial Institution (CDFI) serving the Commonwealth of Virginia. VCC's mission is:

To offer innovative, flexible financial products designed to support affordable housing and community development ventures, increase jobs and build sustainable communities.

In addition to its mission, VCC has established a set of values that direct its staff in their approach to work, customers, and furthering the goals of the organization. VCC's corporate values are:

1. Own the Mission
2. Be Transparent and Candid
3. Embrace Diversity
4. Deliver Responsive, Quality Service - Practice Active Listening
5. Value Partnerships
6. Promote Environmental Sustainability

Background

Virginia Community Capital was originally created in 1995 as a small, micro-lending organization serving 3 counties in SW Virginia. After almost 10 years of operation and in response to broadening needs and opportunities, the organization changed dramatically in 2005. During that year, VCC redefined its service area to include the entire Commonwealth of Virginia, received \$15 million in additional capital to expand its lending programs, and reorganized its board of directors to reflect its new strategic direction.

In the summer of 2005, Virginia Community Capital established a 3-year strategic plan to guide its growth. The plan included several major strategic elements:

- Expand loan product offerings to address affordable housing AND economic development needs that traditional capital was not serving
- Create an organizational structure that includes both a non-regulated, non-profit CDFI lending operation and a regulated, for-profit Community Development banking institution, allowing the organization to maximize leverage of its capital base
- Look for opportunities to grow this organization to achieve its mission while achieving efficiencies and sustainability
- Expand the operations, capacity and technical knowledge of the staff in order to meet the strategic vision of growth

By year-end 2007, Virginia Community Capital was a viable, statewide CDFI with a loan portfolio of approximately \$10 million with 0% delinquencies. VCC had completed 23 community development projects; creating or preserving 623 affordable housing units and creating or preserving 83 living-wage, permanent job opportunities. Additionally, during this time, the capital base of the organization grew from \$15 million at YE 2005 to \$19.1 million at YE 2007. Assets of the organization grew to \$28.3 million; both through organic growth and through a merger with another VA-based CDFI completed in early 2007.

VCC also filed to open a regulated financial institution in March 2007. Organized as a state chartered bank, the new company would be called Community Capital Bank of Virginia. It would operate as a 'wholesale' bank, lending to small businesses and non-profits and raising deposits from institutional investors such as other community banks, foundations, and socially-responsible investors. This bank would NOT have a retail banking strategy focused on consumers, since that market segment is being actively served by community banks. At the end of 2007, VCC had been approved by both the state Bureau of Financial Institutions and the Federal Reserve on its application and was waiting approval from the FDIC in order to open the bank. This approval is expected sometime in the first quarter of 2008.

As the organization ended 2007, it had expanded organizational capability both in operational and staff capacity, merged with another entity to gain further efficiencies and self-sustainability, laid the foundation for the opening of a regulated community development bank and began to focus on new strategic directives to guide its growth for the next 3 years. This plan establishes the scope and resources needed for VCC to reach its next growth plateau of \$50 to \$100 million in total assets and capacity.

Operating Environment

Peer Analysis

Analyzing Virginia Community Capital against a peer group is challenging. Research has indicated that no other organization is funded and organized like VCC. There are several CDFI's in Virginia but none of them are as financially strong or operating statewide; so market-based peer analysis cannot be completed. There are community banks in Virginia, but no other community development banks. There is an industry of approximately 55 community development banks across the nation. However, as of the writing of this plan, this industry does not collect and distribute industry specific performance and volume numbers. And, VCC has not opened its banking subsidiary, so a comparison against this industry is slightly premature.

The national CDFI lending industry contains many more organizations and serves as a better database for peer analysis. Some CDFI's are focused on single-family mortgages, some on micro-lending to small businesses, some on affordable multi-family rental housing finance and some on New Markets Tax Credit financing. Opportunity Finance Network (OFN) is the national industry association for CDFI's. In 2005, OFN conducted a 'data collection' project to analyze industry trends and averages. VCC's two years of lending was compared with industry averages for 1) the industry average of all reporting CDFI's, 2) small business CDFI's similar in size, 3) housing CDFI's similar in size, and 4) CDFI's that lend to community organizations. VCC is actually a combination of all of these, however; analyzing this data against VCC's performance produced some useful insights:

1. VCC's lending volumes per year and outstandings are still relatively low, room to grow here as the organization matures
2. VCC is well capitalized, should be able to leverage more debt
3. Loan portfolio performance is excellent, reserves are probably about right for our loan mix, and our charge-off history is high (but driven by early portfolio clean-up and 2007 ratio was only .08%)
4. Our weighted average return on loans is below peers and our weighted average cost of borrowed funds is above peers, thus our margins are thinner than the industry. This trend is changing for VCC however. New loans closed in 2007 yielded 7.73%, much higher than the portfolio as a whole.
5. Staffing levels for the organization are still slightly low. However, increasing staffing levels will decrease VCC's self-sufficiency ratio and make the organization more reliant on grants and fundraising. As VCC opens the banking entity in 2008, it will need to increase staff to focus on regulator issues and documentation. Therefore, VCC's self-sufficiency ratio will decrease to industry levels before the portfolio can actively grow to support the growth and thus achieve complete self-sufficiency. As grant funding can be unpredictable and narrowly focused, it should be a goal of VCC to become self-sufficient. Then, all grant funding can be utilized to support incremental non-profit, non-earning activities.

(See chart on the next page for industry statistics)

VCC versus select 2005 CDFI Industry Data

Category	VCCI (Corporate lending activity thru 2007)	CDFI Industry Average (2005)	CDFI's B3* (19 organ.) (2005)	CDFI's H2* (12 organ.) (2005)	CDFI's S* (10 organ.) (2005)
Average Financing/year \$	\$4 MM	\$15.1MM	\$5.4MM	\$3.1 MM	\$8.0 MM
Average Outstandings \$	\$10 MM	\$30.9 MM	\$12.6 MM	\$7.2 MM	\$16.0 MM
Equity/Total Assets	68%	22.7%			
Net Charge Off Ratio	2.5%	.4%	2.6%	.6%	.5%
Loan Loss Reserve	4.95%	3.6%	8.1%	9.6%	6.9%
Delinquency > 90 days	.00%	2.3%	4.1%	2.9%	3.5%
Weighted-Average Interest Rate	4.44%	6.7%	7.4%	6.9%	6.7%
Weighted-Average Cost of Borrowed Funds	3.3%	2.6%	2.7%	2.3%	2.4%
Average FTE Staff	8	22	27	5	18
Age of Organization (in years)	2	20	21	11	18
Self-Sufficiency Ratio (Earned Rev./Operating Expenses)	90%		75%	72%	62%

* B3 = Business Financing with Capital Greater Than \$10MM

H2 = Housing Financing with Capital of \$7-15MM

S = Community Services Financing

Reference Source: "Side by Side", Fiscal Year 2005 Data and Peer Analysis, Opportunity Finance Network, January 2007.

Competitive Environment

Currently, there are no other Community Development Banks in the Commonwealth of Virginia. There are approximately 105 registered banks in the Commonwealth, many of them community banks focused on similar markets as VCC. These banks play an important role in their communities, but lack the community development expertise to respond to many of the revitalization projects. VCC's CDFI can be their partner – both with technical assistance and with credit enhancements that will allow the local bank to become a partner in the project. VCC's bank can be their partner – allowing them to share some risk, exceed a legal lending limit or gain experience in community development lending. VCC views these organizations as excellent partners, not competitors. VCC will seek to create active business relationships with many of these organizations; for they are generally the first source an applicant seeks when looking for funding. With the right training and deal sharing, these banks can benefit both financially and from a community perspective by having a strong partnership with VCC.

As of January 2007, there were 14 CDFI's located throughout the state (including Virginia Community Capital). Three of the 14 entities are credit unions, which focus primarily on consumer loans. The remaining 10 entities are loan funds, primarily smaller than Virginia Community Capital and many focused on micro-lending. Four of these loan funds are already customers of VCC. CDFI's are not viewed as competitors, but as possible customers and lending partners. VCC will not undercut another CDFI on a loan deal. Flexible capital is too scarce to competitively bid against other CDFI's. VCC's strategy is to work in partnership and enhance deal structure whenever possible. There is plenty of need in the Commonwealth for the current CDFI capacity in the state.

Strengths and Weaknesses

As part of the strategic planning process, the board of directors, the advisory board and the staff were all asked to participate in a reflective exercise. Each group spent time discussing VCC's strengths and challenges after two years of operations.

When asked about VCC's current strengths as an organization, participants responded:

- Nimble, flexible, responsive, act quickly
- Staff is mission focused, high energy, experienced, warm and personal, knowledgeable and networked; creative
- Brand is gaining recognition, good outreach

When asked about VCC's potential challenges, participants responded:

- Raising sufficient capital in the CDFI, ability to offer competitive rates
- Balancing risk and innovation/flexibility in credit underwriting
- Limited staff size and resources, need for strong partners

- Need to define sales strategy and product mix, differentiate VCC from other lenders in market
- Focus some resources on process, operations, and procedural documentation

Each group was also asked to discuss market opportunities for the organization going forward. The groups were asked to discuss current community development needs.

Responses to opportunities and needs included:

- New markets tax credits to promote job creation and earn income
- Affordable housing construction and preservation lending
- Small city downtown revitalization projects and rural community services; factory rehabs to housing, new affordable housing in rural areas
- Land acquisition
- Small business lending; SBA lenders needed; look for other credit enhancements to help this market segment

The final discussion question focused on a 3-year vision for VCC and asked what the organization should be known for in the market. Respondents were insightful and offered the following:

- Become a tool for the community banking world – seek to be their partner and bring them value added services; expand bank and other partnerships
- Stay nimble and able to respond to niche markets, stay innovative and creative
- Don't lose vision of the mission while continuing to focus on leveraging the business model
- Be the 'gap' organization, provide leadership and assistance in redevelopment
- Be inclusive, include diversity outreach and understanding

Market Opportunities

Virginia Community Capital lends to organizations and small businesses that focus on affordable housing, job creation, neighborhood revitalization and community services. VCC has many lending products to respond to the needs identified in these focus areas. Those product descriptions are attached at Exhibit A to this business plan. However, there are several specific focus areas identified by the staff and board that offer unique market opportunities for the organization:

Housing Preservation

Much of the nation's affordable rental housing is at risk of being converted to market rate housing. The federal government's policy decision to enable private owners to opt out of HUD and USDA Rural Development programs, combined with the fact that nearly

all of these projects were built 20 years ago with federally-funded mortgages, guarantees and subsidies which are now beginning to expire, creates a real risk to the availability of affordable rental housing over that next several years.

Changes in the tax code in 1986 provided few benefits to owners to stay in these programs. Congress also has adopted policies to reduce federal funding for subsidized housing; translating to lower Section 8 funding. Only Section 8-sponsored projects are required by federal law to give advance notice of their intent to convert to market rate, which means tens of thousands of units funded by Section 236 and USDA Rural Development are not required by law to give notice prior to conversion.

According to data compiled by the National Housing Trust in early 2007, Virginia has 211 properties with Section 8 contracts expiring before 2012. These properties comprise a total of 22,202 units, of which 17,617 are assisted with Section 8 subsidies. Some of these Section 8 properties are owned by non-profits, thus reducing their chances of being lost from the affordable housing inventory. However, 55% of the properties (117) representing 42% of the subsidized units (7,392) are privately owned and more likely to opt-out when their Section 8 contract expires.

Additionally, Virginia has 260 USDA Section 515 properties containing 10,201 units – of which 6,343 receive USDA rental assistance. Many of these owners are older and interested in selling due to the fact that market forces in most rural areas will not support conversion to market rate. Nonprofit purchasers need bridge financing in many instances to rehabilitate and preserve these properties using Low Income Housing Tax Credits and other subsidy programs.

The changes occurring in affordable rental housing finance create an opportunity for VCC to fill a niche. Capital will be needed to acquire and rehab these properties if they are to be preserved. VCC could work with developers, both for-profit and non-profit, who are focused on housing preservation to help stabilize this situation and recommit to extended useful lives for these properties.

Small Business Lending

Virginia Community Capital continues to uncover need for small business capital throughout its markets. Many small businesses have little equity and even less working capital, especially as they work through their first two years of operation. VCC staff believes that with a designated loan loss reserve, responding to this need might be a prudent, mission-focused business opportunity. Community banks will lend to small businesses if they are at least 2 to 3 years old, profitable, and generally able to secure the loan with business or personal assets. Banks will also provide unsecured working

capital lines of credit for well established businesses. VCC could play a role in financing the 'just beyond bank risk tolerance' businesses.

VCC could position itself as the SBA lender for SW and Southside Virginia. There is a lack of SBA knowledge and outreach in the rural markets, according to economic development professionals. VCC has experienced SBA lending staff – both 7a and 504 lending. VCC is also already approved as a Business & Industry Lender under the Rural Development Loan guarantee program. Loans with government guarantees could be placed in the new bank.

VCC could also position the CDFI to move slightly out on the risk spectrum in the small business arena and 'credit enhance' those loans with a designated loan loss reserve. Funding could be requested for such a program from CDFI-friendly foundations and the Tobacco Commission. If the loan loss reserve were funded as a cash deposit in the bank, program losses could be charged against the reserve when needed.

During the next 3 years, the state of Virginia is focusing more attention on the state procurement program for Small, Minority And Women-owned businesses (SWAM). VCC could work with the businesses who have registered as part of the SWAM program to provide capital for contracts they might procure with the state. Additional state contracts might produce a need for equipment financing or working capital lines of credit.

Medically Underserved Communities

Virginia Community Capital staff has been studying the needs in medically underserved communities in rural Virginia. Access to close, decent medical care is an essential element of a thriving community. Currently in Virginia, over 50 counties and cities are designated as "Underserved", thus allowing them to apply for Federal and State grant funding. These communities are primarily rural and represent almost 18% of Virginia's population. Many of these communities have initiated Community Healthcare organizations – non-profit, community run health clinics. Some are operating out of schools and churches; some are operating in their own buildings. Today, there are 75 non-profit Community Health Centers and 52 Rural Health Clinics operating throughout the state.

VCC staff recently met with the Virginia Community Healthcare Association and with the Virginia Health Care Foundation. Both of these organizations discussed the need for capital in these underserved markets. Real Estate loans are needed for new health care facilities for the clinics and Small Business loans are needed for the doctors and dentist establishing or expanding practices in these markets. The small business needs include some real estate loans (if operating outside of the clinic), equipment loans, and small working capital lines of credit.

These credit needs must be met with innovative capital, not traditionally offered by banks. The profitability margins for the doctors in these markets are much lower than in metropolitan areas. The health clinics are generally organized as non-profits because

25% of their revenue is dependent on fundraising to keep the clinic open. These factors make these difficult loans for traditional banks to underwrite. However, the Virginia Health Care Foundation has a \$700,000 loan loss reserve they are willing to bring to a new, innovative program. And, most of these areas qualify under the Federal New Market Tax Credit program. Thus, VCC should be able to help them attract below market financing under the New Markets Tax Credit program – either by winning an allocation from Treasury or by attracting another awardee to this issue in the Commonwealth. Staff believes that pursuing a strong partnership with these two associations should present business and mission opportunities for VCC.

Goals and Objectives

The goals and objectives of Virginia Community Capital for the next three years have been developed based on the information presented above.

Goal #1: Leverage the success of the organization and the current capital base to grow assets to \$70 million while maintaining fiscally-conservative, sustainable governance policies.

- Develop a capital plan to leverage \$20 million in equity to \$70 million in assets.
- Grow balances while maintaining credit quality in the loan portfolio. Annual portfolio growth goals will be established while maintaining delinquencies and charge-offs at or below industry averages.
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- Increase VCC's brand awareness through quarterly updates to the website, annual report distributions, periodic advertising, annual luncheons, and conference and sales outreach efforts.
- Create a responsive, committed, talented team of employees.
- Embed a deep sense of environmental stewardship in our culture, our products and organizational behavior.

Operations/Organization

Structure

VCC is currently a non-member, non-profit organization with a board that is self-perpetuating, not elected by shareholders. Board representation is governed by the By-Laws of the organization and designed to ensure ongoing community development mission-focus. At any given time, two board members are representatives of the Commonwealth of Virginia and 3 board members are designated as community development experts. The remaining board members are elected at large and bring a variety of skill sets that benefit the organization.

VCC is well on its way to creating the appropriate legal structures to meet its goals and objectives. Today, it is operating as one company. However, the application and legal entity for the new bank are complete and the entity was capitalized on December 31, 2007. The next step is to create a separate company to allow for the separation of the holding company (currently VCCI) and the CDFI lending activity. When this new entity is created, all lending activity will occur in a subsidiary company and the holding company will become the governance and capital oversight for the organizations.

Additional legal entities may be created as needed for business development models; an example being the creation of a Community Development Entity (CDE) in order to receive an allocation of New Markets Tax Credits.

Staffing

Staffing levels for the organization will need to grow as the organization grows. Currently, the staff consists of the following people and positions:

- Jane Henderson, President and CEO
- William Skeen, Chief Credit Officer
- Maurice Green, CFO and Chief Operating Officer
- Dawn DeHart, Senior Lender
- Cynthia Maxwell, Portfolio Manager
- Carol Edwards-King, Underwriter
- Kim Burchette - Officer Manager, HR Officer, Security Officer, & IT Coordinator
- Carl Virgin – Project Manager – Accounting and Capital Planning
- Heather Derrick – Marketing and Public Relations Manager

Additionally, VCC contracts with several individuals for technical assistance – Bob Adams, Tim Mattox, and Connie Vaughn. These individuals work varying hours helping the organization deliver technical assistance to communities and customers or helping with special projects for corporate development. All full time staff work for VCC at the holding company level and their salary expense is allocated to the appropriate legal entity based on cost methodology approved by the board each year.

As the organization grows, it is anticipated that more staff will need to be added. Heather Derrick and Carl Virgin joined the team late in 2007 and will be increasing the capacity of 'operational' staff. The next additions will be needed in the credit area. In order to create a banking credit culture and pass regulatory reviews, it is anticipated that the organization will need a dedicated Sr. Risk Officer as part of the executive staff in 2010. This position has been budgeted as part of the original bank pro formas. Additionally, VCC may need to consider adding more sales and underwriting support as loan volume increases. These positions will be considered as the portfolio grows and can support additional staff expense. For planning purposes, the budgets have added one position with a total cost – salary and benefits – of \$106,250 beginning in 2009. This should allow VCC to hire an experienced lending or credit person as needed for the team. This position is in addition to the Sr. Risk Officer hire in 2010.

Systems

In 2007, VCC signed a 5-year servicing contract with Precision Computer Systems, banking software and servicing company. This system provides VCC's general ledger,

loan and deposit accounting, clearing and transit, accounts payable, and other minor ancillary systems. The loan system is very robust and will allow for loan sales, participations, servicing fees, and multiple billings for VCC's different subsidiaries. This contract and access to these systems should be more than sufficient to handle the major data processing needs of the organization through the next 3 years.

VCC's PC network was purchased during 2007 and is being depreciated over this 3-year planning period. We believe the capacity of the system is sufficient to handle the projected growth of the organization through 2010. Pro formas have been developed to include only expenses associated with the purchase of new desk stations for new employees and the possible replacement of 25% of our current desk stations as they age.

Marketing

Marketing for VCC's growth needs to be well planned and coordinated with partners and opportunity. As the organization introduces strategic initiatives, VCC will leverage our partnerships and their networks to increase awareness of our services. This has worked effectively for our initial 2-years of operations. VCC has utilized conferences, an advisory board, banking networks, technical assistance outreach, and a few mass mailings to introduce our brand. We will expand on these techniques and add more partnership marketing in our plans for 2008. A few of our new partners include Rural Development, Va. Community Healthcare Association, Va. Health Care Foundation, and Kaufman & Canoles.

Community Development lending is driven by relationships and active calling efforts, not by mass media advertising. The pro formas have been developed with budgets of \$25,000 per year to support the activities listed above and the development of sales tools for our credit team. We believe this amount should be sufficient to drive our growth over the next 3 years.

Credit

Establishing a strong credit culture is fundamental to VCC's long term success as an organization. While the company is mission-focused and wants to help communities revitalize and prosper, it must do so in a way to safeguard the capital base and produce sufficient income to ensure the long-term sustainability of the organization. VCC has set the stage for such a culture with an extensive set of credit policies, an active and engaged credit committee, and the development of a risk rating system for the current loan portfolio. Delinquencies are monitored daily by staff and monthly by the board.

As new initiatives and products are introduced, procedures will be established to track their performance and overall risk. Underwriting guidelines for these programs will be reviewed and approved by the loan committee and ultimately the board of directors. Loan loss reserve levels will be monitored quarterly in relation to portfolio performance and adjusted as necessary.

As VCC grows, attention will be paid to the level of risk and where new loans fall on the risk continuum presented below:



By design, the portfolio today is heavily weighted with real estate collateral. As we introduce new small business initiatives that move to the right on this risk spectrum, we will begin to monitor and track portfolio balances accordingly. Banking regulations dictate how much capital can be lent against different types and values of collateral. VCC staff will book loans in the bank subsidiary whenever possible in order to leverage deposit money. However, if the collateral values fall outside of the regulator requirements and VCC still believes the project is a viable credit risk, the loan will be placed in the CDFI subsidiary. Some credits may have both a bank and CDFI component. Each credit will be approved by the appropriate loan committee based on its proposed placement.

Financial Forecast

VCC has already established a strong set of financial control policies for the organization. These controls were reviewed and approved by the board of directors and are monitored regularly at their meetings. Additionally, it is also company policy to have annual audited financial statements produced by an independent accounting firm hired by the Audit Committee of the board of directors.

As part of developing this plan, a 3-year financial forecast was developed for the organization – see Exhibit B for a Projected Balance Sheet and Income Statement.

Assumptions used in the forecast included:

- Loan originations of \$15 to \$18 million per year
- Borrowings would only occur as new originations necessitated or when a positive interest rate arbitrage could be earned on subsidized funds.
- Staffing expenses increased 2% in 2008 and 4% per year for 2009 and 2010, plus the addition of 2 more FTE's as described in the staffing section of this plan.
- Rent expenses increased according to the lease agreements already in place, no new office space was allocated

- Other expenses increased at 3% per year
- Interest rates were held at current levels. The financial plans assume a well managed interest rate spread on growth. Pricing levels for new loans will be determined, in large part, by the incremental cost of additional debt. Where possible, subsidized debt will be secured. The organization will seek a minimum 200 basis point spread on funding, more if possible and feasible for the project risk.

The forecasts for the 3-year period report solid financial performance and increasing fund balances, even with the negative earnings drain of the new bank. VCC experiences positive equity growth of \$ 550,000 for 2008, \$986,000 for 2009, and \$1,342,000 for 2010, with the bank hitting profitability also in that year. These growth trends in equity will be important to the organization's continued ability to leverage debt into the CDFI operation.

To reach our goal of self-sufficiency in the core operating expenses of the organization, the company must generate \$1.3 million in revenue (utilizing 2008 budgets). VCC earns 444 basis points on its current \$10 million portfolio, generating \$444,000 per year. The CDFI also has \$9 million in debt, supported by an equal investment balance that generates operating income of \$180,000 per year. The organization has \$7 million in bank capital currently earning about 4% or \$280,000 per year. These three factors generate \$904,000 per year, leaving an operating deficit of about \$400,000 that must be subsidized by grant funding. Based on 2008 forecasted operating expenses, VCC needs to grow its loan portfolio to \$30.4 million to become self-sufficient. Self-sufficiency should be reachable within the period covered by this strategic plan, probably occurring in 2009.

Capital Planning

As VCC grows, the organization will need to leverage both deposits and debt to support continued lending. The banking subsidiary will raise deposits as its primary source of new loan capital. The initial equity base of the bank should be sufficient to support all the deposit growth projected in the next three years. Additionally, the bank can sign-up for a borrowing line of credit with the Federal Home Loan Bank of Atlanta (FHLB). The FHLB will lend up to 10% of an organization's asset base for new banking entities. The loan must be 100% collateralized by mortgage-backed securities. This should allow VCC to borrow about \$1.5 million in the bank if necessary the first year. Borrowings were originally built into the bank pro formas, however, it is not now anticipated that they will be necessary for operations and growth.

The CDFI must grow through fundraising and debt. With a capital base of \$12 million, this subsidiary should support an additional \$36 to \$40 million in debt financing. Debt financing for the CDFI can come from many sources, including traditional bank loans, foundation PRI loans, and state and federal programmatic loans. Anticipated debt for 2008 includes the following:

<u>Source</u>	<u>Amount</u>	<u>Purpose</u>
Bank of America PRI	\$2.5 mm	Housing Preservation
Dept. of Housing & Comm. Dev.	2.0 mm	Housing Preservation
Wachovia PRI	1.0 mm	Small Business
Calvert Foundation PRI	1.0 mm	Small Business
BB&T	.5 mm	Operating Line of Credit

The CDFI will apply to the Treasury department for programmatic funding during the fall 2008 application round. Additionally, a request will be filed with the Tobacco Commission in their 2008 funding round. Additional debt will be secured in later years as needed to support loan programs.

It should also be noted that the organization has two other funding sources for loan originations – 1) commitments made to the Housing Preservation Program, and 2) Community Reinvestment Fund small business and New Markets Tax Credit programs. The Housing Preservation Program will be supported by \$22 million in credit participations from VHDA and banks. As loans are originated under this program, participations will be sold to these lenders. This will allow the organization to originate the bigger loans associated with preservation, take on less debt while still being responsive to need, and begin to earn some servicing fee income to support operations. The Community Reinvestment Fund is a national CDFI that acts as a secondary market for community development loans. They currently run two programs and VCC is approved as an originator for both of them. Funding is committed prior to loan closing and the loans are closed and sold simultaneously. VCC benefits from this relationship by having access to more capital and by keeping origination and servicing fee income on any loans done with these programs.

The table below presents the basic capital needs to support growth in this plan:

	<u>Total Company</u>	<u>CDFI Subsidiary</u>	<u>Bank Subsidiary</u>
As of 12/31/2007 (Actual)	Assets: \$ 28.3 Debt: \$ 9.2 Equity: \$ 19.1	Assets: \$ 21.3 Debt: \$ 9.2 Equity: \$ 12.1	Assets: \$ 7.0 Deposits: \$ Debt: Equity: \$ 7.0
As of 12/31/2008 (Projected)	Assets: \$ 39.5 Deposits: 5.0 Debt: 14.8 Equity: \$ 19.6	Assets: \$ 27.1 Debt: \$ 14.0 Equity: \$ 13.0	Assets: \$ 12.4 Deposits: \$ 5.0 Debt: \$.8 Equity: \$ 6.6
As of 12/31/2009 (Projected)	Assets: \$ 53.8 Deposits: 16.0 Debt: 17.0 Equity: \$ 20.7	Assets: \$ 29.8 Debt: \$ 15.5 Equity: \$ 14.2	Assets: \$ 24.0 Deposits: \$ 16.0 Debt: \$ 1.5 Equity: \$ 6.5
As of 12/31/2010 (Projected)	Assets: \$ 69.2 Deposits: 32.0 Debt: 14.9 Equity: \$ 22.3	Assets: \$ 28.3 Debt: 12.7 Equity: 15.8	Assets: \$ 40.9 Deposits: \$ 32.0 Debt: \$ 2.2 Equity: \$ 6.5

Timeline To Begin Execution

Anticipated Activity Timeline	
Activity	Timeframe
VCC Board Review of 2008-2011 Business Plan	January 24 th , 2008
VCC Launches Affordable Housing Preservation Initiative	February 2008
VCC Opens New Bank – Community Capital Bank of Virginia	1 st Quarter 2008
VCC Applies for New Markets Tax Credits	March 5 th , 2008
VCC Formalizes Partnership with HealthCare Organizations	March 2008
VCC Launches New Small Business Initiative	2 nd Quarter 2008
Lending Officers Actively Market New Programs	1 st thru 4 th Quarters, 2008
VCC Completes First Bank Regulatory Review	3 rd Quarter 2008
New Market Tax Credit Awards Announced – VCC sets strategy accordingly	3 rd Quarter 2008
VCC Applies for CDFI Funding to Support Small Business Loan Growth	3 rd Quarter 2008
VCC Board Reviews First Year Progress Against the Plan	January 2009

Exhibit A

Loan Products

Exhibit B

3-Year Financial Projections