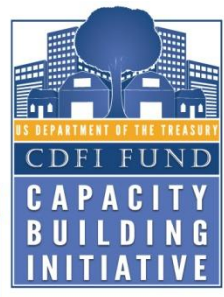




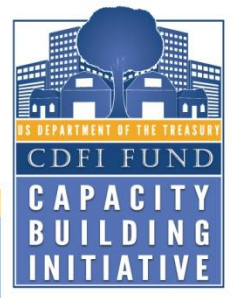
Developing Loan Policies and Procedures for Healthy Food Financing

Webinar by Ginger McNally
Presented with Jayne Crosby Giles, MaineStream Finance
September 12, 2012



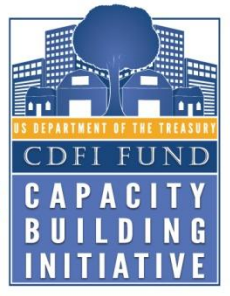
Introduction

- CDFI Fund's Capacity Building Initiative
 - Financing Healthy Food Options
 - Workshops
 - Technical Assistance
 - Resource Bank



Today's Webinar Topic

- Best practices related to loan policies and risk management for healthy food financing
- Demonstrate how loan policies can be a tool for guiding organizational practices for loan administration and beyond
- Case example of loan policies focused on healthy food financing



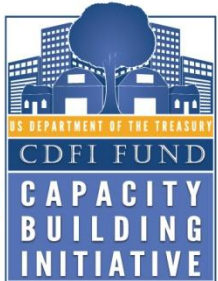
Ginger McNally



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Jayne Crosby Giles

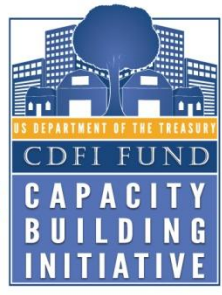


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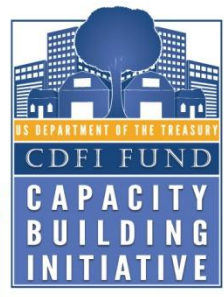
<http://mainstreamfinance.org/>





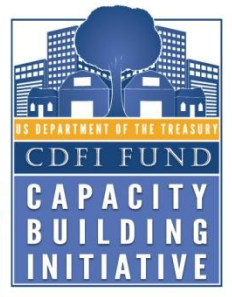
Developing Loan Policies and Procedures for Healthy Food Financing

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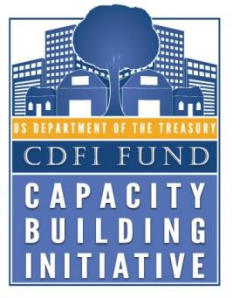
Overview of Webinar Content

- **WHAT:** Learn how loan policies can play a critical role in lending effectively to food-related businesses.
- **WHY:** Learn how to strengthen your organization's loan policies to manage risk and increase loan volume.
- **HOW:** Learn from examples of organizations that used revised loan policies to increase their capacity to lend to healthy food businesses.



Focus on Mid-Tier Food Chain Enterprises

- Part of a larger healthy food system
 - Farms and Food Production
 - Mid-Tier Community Food Enterprises
 - Food Retailers



Healthy Food Continuum

Food Production

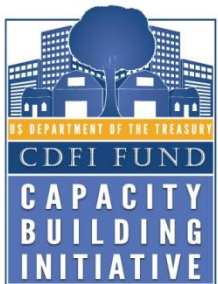
- Farms
- Ranches
- Fisheries
- New Kinds of Farms

Mid-Tier Food Chain Enterprises

- Value-Added Production
- Food Aggregation
- Food Distribution
- Waste Management

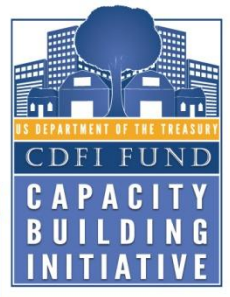
Food Retailers

- Grocery Stores
- Food Co-Operatives
- Public Markets
- Farmers' Markets
- Community Supported Agriculture
- Mobile Vendors



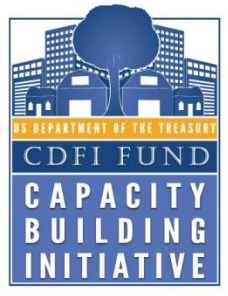
Typical Mid-Tier Loan Requests

- Most healthy food loan requests are for:
 - Microloans (\$1,000 up to \$50,000)
 - Small business loans (\$50,000 to several million dollars)
- And need the following loan products:
 - Lines of credit
 - Finance short-term operational needs (inventory or supplies)
 - Interest-only minimum payments with 30 day clean-up period, annually renewable with review of financial condition
 - Term loans
 - Finance longer-term investments (equipment or real estate)
 - Usually fully amortized
 - Flexible payment loans can be good fit for start-ups, seasonal food businesses, and small farmers



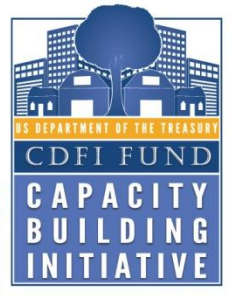
Typical Profile of Mid-Tier Healthy Food Applicants

- Diverse!
- Generally start-up or emerging (microenterprise, micro-agriculture, small business)
 - Limited capital
 - Limited historic cash flow
 - Limited collateral
 - Poor or limited credit history



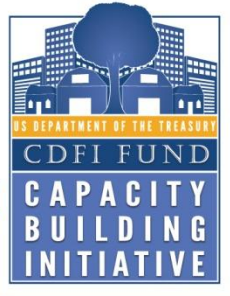
How Good Loan Policies Support Lending to Healthy Food Enterprises

- Inform lending staff about the nuts and bolts of lending
- Ensure consistency and fairness in treatment of borrowers' applications
- Create a framework for oversight and regulatory compliance
- Provide organizational direction and consistency with the mission



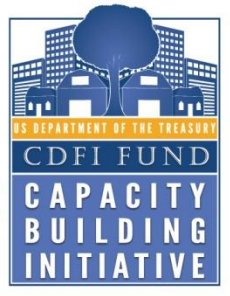
Key Characteristics of Strong Loan Policies and Procedures

- They're written down
- They're clear and easy to understand (accurate spelling, punctuation, grammar)
- They follow a logical order (table of contents, numbered sections, page numbers)
- They're current (revised promptly to reflect changes in loan products or procedures, reviewed annually, date of last review noted on each page of policy)



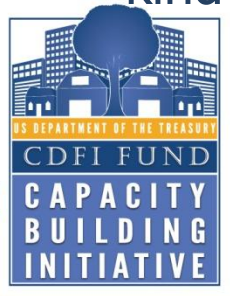
Loan Policy Tone and Content Matter

- Mission Statement and a Statement of Purpose
 - Set the stage for lending, from loan origination through loan collection
 - Keeps the organization clear about who it lends to and why
- Loan policies reflect the lending organization's level of risk tolerance which may change over time
- Loan policies can reflect an attitude of supporting borrowers while simultaneously protecting the lending organization's assets



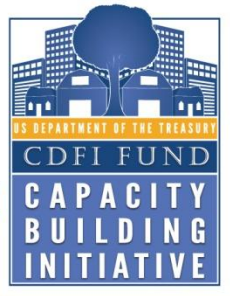
A Strong Example: MaineStream Finance

- Introducing Jayne Crosby Giles, CEO of MaineStream Finance
- An excerpt from MaineStream's Loan Policies:
 - MaineStream Finance is not a charity. MaineStream Finance's mission is to improve the lives of its borrowers. Not only do unsound loans cost far, far more than they produce in revenue and harm the lending organization, unsound loans also result in harm to the borrower. Originating and underwriting good loans is essential to the success of the mission statement.
- How MaineStream developed the tone of its loan policies and what kind of impact it has on daily lending operations



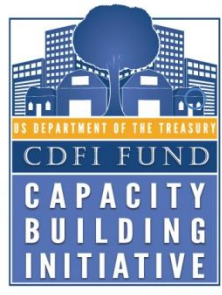
How Loan Policies Define Loan Administration – Loan Types

- Be clear about the types of loans you will and won't make
 - Desirable loans
 - Sound and prudent loans
 - Example: Short-term loans to established businesses with capacity to repay
 - Undesirable loans
 - Representing undue risk
 - Example: Loans secured by collateral if prospects of repayment are poor and liquidation of collateral is the primary source of repayment
 - Prohibited loans
 - Loans for illegal purposes
 - Example: Resale of stolen vehicles



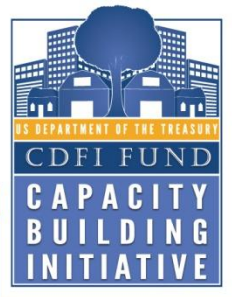
How Loan Policies Define Loan Administration – Loan Underwriting

- Define the five Cs of credit
 - Character
 - Generally verified by credit history, complete and accurate loan information, apparent honesty throughout application process
 - Capacity/Cash Flow
 - Describes the borrower's financial ability to repay the loan as agreed, as well as management's ability to run the enterprise effectively
 - Collateral
 - A physical asset pledged as a source of repayment in the event that the loan is not paid as agreed
 - Capital
 - Individual and business net worth, as well as the owner's investment in the business and unencumbered assets available to support repayment
- Conditions
 - Terms of the loan agreement, including performance standards



How Loan Policies Define Loan Administration – Loan Underwriting (cont.)

- Collect complete credit information
 - Loan application, financial information, business plan, legal documentation, other relevant documentation
- Understand the business
 - Key financial ratios, loan to value, credit history, cash flow, equity investment, secondary source of repayment, collateral, additional sources of repayment and loan guarantees
 - Site visit and quarterly updates



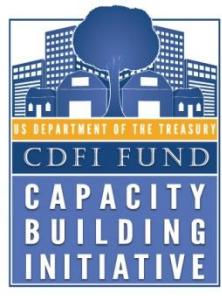
How Loan Policies Define Risk Management – Risk Ratings

1. Excellent

- Minimum 5 years in business, strong cash flow and debt service ability, excellent business and personal credit history (FICO scores between 730-850), strong collateral, experienced management, market outlook is strong
- Loan loss reserve requirement: 0%

2. Very Good/Good

- Minimum 2 years in business, adequate cash flow and debt service ability, excellent or limited business and personal credit history (FICO scores between 640-729), adequate collateral and/or supported by a good guarantor, experienced management, market position is uncertain
- Loan loss reserve requirement: 10%



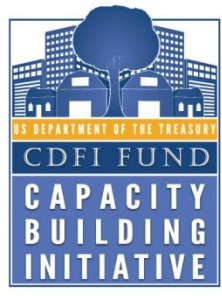
How Loan Policies Define Risk Management – Risk Ratings (cont.)

3. Average/Borderline

- In business less than two years, includes start-ups, weakness in cash flow, marginal debt service, limited or no business credit history, average personal credit history (FICO between 620-639), average collateral and/or is supported by average guarantor, management is less experienced, market position is uncertain
- Loan loss reserve requirement: 15%

4. Substandard

- In business less than two years, includes start-ups, insufficient cash flow, inadequate debt service, poor business and personal credit history (FICO between 300-619), management is inexperienced, business viability questionable
- Loan loss reserve requirement: 25-35%



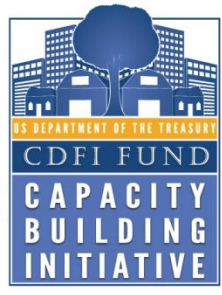
How Loan Policies Define Risk Management – Risk Ratings (cont.)

5. Doubtful

- In business less than two years, includes start-ups, severe cash flow problems, inadequate debt service, poor business and personal credit history (FICO between 620-639), collateral is very weak or illiquid, management is questionable, business viability is questionable
- Loan loss reserve requirement: 50% or more

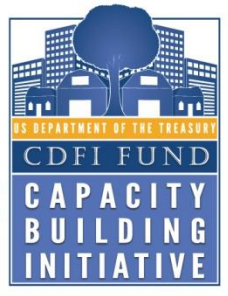
6. Loss

- Loan is delinquent more than 180 days, no viable source of repayment, liquidation, bankruptcy: 100%



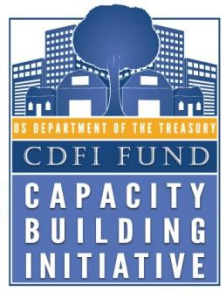
How Loan Policies Define Risk Management – Portfolio Review

- Review loan portfolio and establish risk ratings and loan loss reserve requirements for each loan
- Develop a quarterly risk rating report showing aggregate portfolio data (number and dollar amount of loans in each risk category, loan loss reserve requirements for portfolio, change in risk status from prior report)
- Share report with management and board of directors
- Review entire loan portfolio at least annually and revise individual and aggregate risk ratings as needed



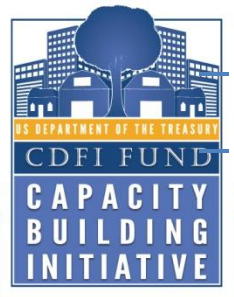
How Loan Policies Define Risk Management – Delinquency and Collection

- Support the borrower through ongoing monitoring and early detection of problems
- Identify red flags to watch for
 - Slow pays
 - Deterioration of premises
 - Increased personal debt
 - Slow sales
 - Cancellation of insurance
- Outline steps and timing of collections efforts
- Restructure the note if it makes sense
- Take legal action to protect the organization's assets if other actions have not been successful



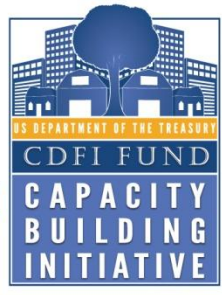
Linking Loan Policies with Organizational Capacity and Strategic Goals

- Strategic considerations for healthy food lending
 - Does this fit into the organization's strategic plan?
 - What would the organization have to give up in order to launch this type of lending?
 - How would lending to sustainable healthy food producers benefit the organization reach its broader goals?
 - Infrastructure considerations
 - Capacity to analyze, underwrite, document, disburse, service, monitor, and collect loans
 - Adequate liquidity to fund approved loans
 - Financial considerations
 - Potential cost/benefit to organization
- Starting slowly, building loan loss reserves
- Liquidity management



Linking loan policies with organizational capacity and strategic goals – MaineStream Finance

An example of using loan policies to advance organizational capacity and strategic goals:



Thank you!

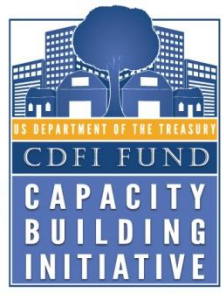
Presenters:

- Ginger McNally
 - Mission Plus Money Matters
 - ginger@missionplusmoney.com
- Jayne Crosby Giles
 - MaineStream Finance
 - jgiles@penquis.org



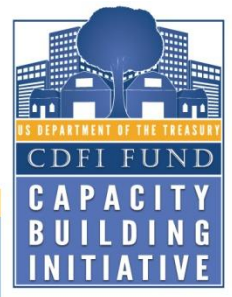


Questions?





Additional Resources



Financing Healthy Food Options Resource Bank

http://www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp



The screenshot shows a web browser window with the URL www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp. The page features a navigation menu on the left with the following items: WHO WE ARE, WHAT WE DO, IMPACT WE MAKE, NEWS & EVENTS, and HOW TO APPLY. The main content area is titled "COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND" and "UNITED STATES DEPARTMENT OF THE TREASURY". Below this, the "Financing Healthy Food Options Resource Bank" is introduced, followed by four sections: I. Training Curriculum, II. Training Webinars, III. Additional Resources, and IV. Food Desert Mapping Tools. Each section contains a list of links to various resources.

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

Financing Healthy Food Options Resource Bank

I. Training Curriculum

- [Food Systems Overview](#)
- [Healthy Food Retail Financing](#)
- [Financial Services for Mid-Tier Food Chain Enterprises](#)
- [NMTC & Urban Supermarkets](#)
- [Understanding the Grocery Industry](#)
- [Underwriting Supermarkets & Grocery Stores](#)
- [Mid-Tier Food Chain Enterprises Overview & Underwriting](#)
- [Capitalizing Healthy Food Retail Initiatives](#)
- [Identifying Optimal Areas for Supermarket Development](#)
- [Understanding the Food Production Sector](#)
- [Credit Skills for Lending to the Food Production Sector](#)
- [Food Producers Case Studies](#)
- [Identifying Partners and Convening Stakeholders](#)

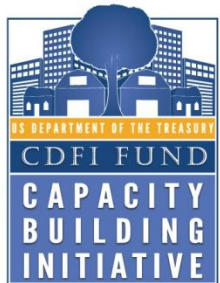
II. Training Webinars

III. Additional Resources

- Searching for Markets: The Geography of Inequitable Access to Healthy and Affordable Food
 - [Executive Summary](#)
 - [Full Report](#)
- [Financial Resources Catalogue](#)

IV. Food Desert Mapping Tools

- [USDA Food Desert Locator](#)
- [PolicyMap](#)



Financing Healthy Food Options Webinar Archive

http://www.cdfifund.gov/what_we_do/FHFOResourceBankWebinars.asp



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- 1. PolicyMap and Using Limited Supermarket Analysis in Your Target Market**
 - [Webinar 1 Presenter Biography](#)
 - [Webinar 1 Accompanying Presentation](#)
- 2. Healthy Food Options Program Design and Social Impact Measurement**
 - [Webinar 2 Presenters Biographies](#)
 - [Webinar 2 Accompanying Presentation](#)
 - [Sample Retail Loan Pre-Application Design](#)
 - [Sample Retail Loan Application Design](#)
 - [Sample Retail Loan Template for Data Collection \(.xls\)](#)
 - [The Grocery Gap: Who Has Access to Healthy Food and Why it Matters \(Food Trust and PolicyLink\)](#)
- 3. Green for Greens**
 - [Webinar 3 Presenters Biographies](#)
 - [Webinar 3 Accompanying Presentation](#)
 - [Green for Greens: Finding Public Financing for Healthy Food Retail \(Public Health Law & Policy\)](#)
 - [Getting to Grocery: A Toolkit for Attracting Food Retail to Underserved Neighborhoods \(Public Health Law & Policy\)](#)
- 4. New American Foodshed**
 - [Webinar 4 Presenters Biographies](#)
 - [Webinar 4 Accompanying Presentation](#)
 - [Field Guide to the New American Foodshed](#)
 - [Field Guide: One Page Planning](#)
 - [National Good Food Network](#)
 - [Farm Credit Council](#)

The CDFI Fund Has Moved



Upcoming TA Webinars

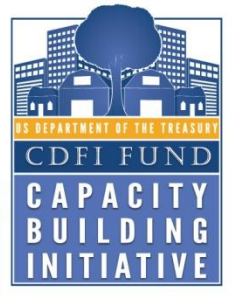
Lending to Agricultural Entrepreneurs: Analyzing A Farm Loan

•Thursday, September 20 @ 2pm EDT

Chips to Carrots: Financing Healthy Corner Stores

•Thursday, September 27 @ 2pm EDT

Visit www.opportunityfinance.net/FHFOwebinars/ to register for one or all of the TA webinars



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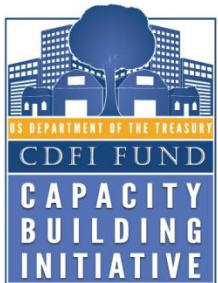
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