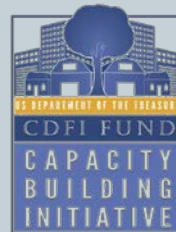


# Maximizing the Effectiveness of your Native CDFI's Loan Policies & Procedures



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CAPACITY BUILDING INITIATIVE



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## **NeighborWorks® America**

NeighborWorks® America (NeighborWorks®) is a national nonprofit organization chartered by Congress in 1978. Its mission is to create opportunities for Americans to live in affordable homes, improve their lives, and strengthen their communities. NeighborWorks® has over 25 years of experience providing training and is recognized as the premier provider of training in the affordable housing and community development industry.

## **Seven Sisters Community Development Group, LLC**

Seven Sisters Community Development Group, LLC is a woman- and majority Native American-owned national consulting firm, which offers culturally relevant and innovative strategies, services, and products that create systemic change. Its team of community development experts works with low-wealth and diverse communities across the country, with a particular focus on Native Communities. The team brings a broad range of experience with tribal governments and communities as well as national and local nonprofits, foundations, corporate organizations, and governmental entities.



# Today's Session

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- **Introductions**
- **12 Key Elements of Effective Loan Policies**
- **Challenges**
- **Foundational Pieces for Effective Loan Policies**
- **Lending Control Functions**

# Introductions

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- **Charmagne Dolphin**  
-Partner, Seven Sisters Community  
Development Group, LLC
- **Vickie Oldman-John**  
-Partner, Seven Sisters Community  
Development Group, LLC

# Participant Introductions

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- **Name**
- **Organization**
- **Briefly describe your market**
- **Rank the effectiveness of your CDFI's loan policies and procedures (1-10).**

# Webinar Common Courtesies

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- Be present and engage
- Reduce background noise (mute if possible)
- Use the **chat box** for comments and questions
- Use **hand** for responding
- Have fun learning and sharing!

# Why do we have loan policies?

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**What key elements do we need in our loan policies to ensure their effectiveness and longevity?**



# How have you adapted your loan policies for your target market?

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- Credit worthiness of borrowers
- Remoteness of market
- Lack of physical and legal infrastructure
- Cultural nuances
- Tribal jurisdiction issues

# Twelve Elements of Effective Loan Policies

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1. Clear mission statement
2. Specify lending authority
3. Delineate responsibilities for reporting loan information
4. Describe origination, underwriting criteria and process
5. Documentation for complete application and complete credit file
6. State who maintains credit files

# Twelve Elements of Effective Loan Policies

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7. Collateral guidelines
8. Loan rating and loss reserves
9. How interest rates and fees are set
10. Preferred upper limit for total loans outstanding/  
concentrations
11. Describe trade area
12. How to detect, analyze, and work out problem loans

# Loan Policy Challenges

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- Updating loan policies to reflect the changing needs of your market.
- Making sure your staff knows the loan policies and are aware of any current changes.
- What loan policy challenges does your CDFI face?

## Poll 1:

Were your CDFI's loan policies created internally?

Yes or No

# Finding the Right Players

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**What procedures do you currently use to assign members to your Loan Policy Committee?**

# What types of loans go to the Board for approval?

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- A.** Loans that exceed the lending authority of you and your staff.
- B.** Extenuating circumstances that are not covered in your current loan policies.
- C.** Other

# Showing Flexibility

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How does your CDFI show flexibility in the way it applies collateral/security standards to its loans?

- **Collateral/Security Standards**
  - Bartered services
  - Art, cattle, ???



# One Way to Make Money

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## Loan Rates, Terms and Fees

- Are you reviewing them?
- Are your rates competitive?
- Who reviews the fees, rates and terms of your loans? How often?

# Are We Saving Time?

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- Do you score your loans numerically to derive the risk rating?
- If not, are you planning on implementing a scoring system in the near future?

# Can We Avoid a Write Off?

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Did you know that spending more time collecting on delinquent loans from within your CDFI can bring in 70% more of the outstanding balances?

- Are all loans good?
- Do we want to have a write off?
- Clearly define your staff's collection responsibilities and timelines within your loan policies.

# Show Me the Money!

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## Who collects on your CDFI's delinquent loans?

- How often are customers called once they are 30 days past due, 60 days, etc?
- What do we need to do to keep the delinquencies down?
  - \*17<sup>th</sup> day call

# Lending Control Functions

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- 1. Portfolio Review**
- 2. Loan Review**
- 3. Audit Functions**



# Considerations

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- ✦ **Determine frequency**
- ✦ **Determine who does the work**
- ✦ **Consider impact on staff/workflow**

# Tips for Success

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- Ensure loan policies reflect the needs of your market
- Adopt strong yet flexible loan policies
- Offer training for your loan committee members
- Present loan policies to your board annually for review and approval
- Use your loan policies and procedures handbook
- Create a summary policy sheet for your lenders

# Q&A