



**FINAL REPORT**

**THE COMMERCIAL LENDING ASSESSMENT PROJECT  
AND CANYON OF THE EAGLES RETREAT**

**MARCH 2006 THROUGH APRIL 2007**

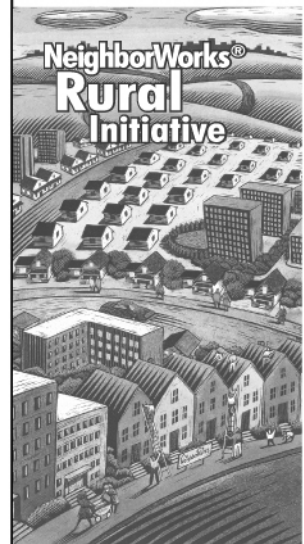
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**June, 2007**

**NEIGHBORWORKS® AMERICA**

**RURAL INITIATIVE AND COMMUNITY ECONOMIC DEVELOPMENT**



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Canyon of the Eagles Retreat  
April, 2007

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## Introduction

Ben S. Bernanke, Chairman of the Federal Reserve, stated in April 2006:

*It is becoming increasingly important to gather good data to support community growth and development... To attract more return-oriented investors, CDFIs must demonstrate financial viability as well as the ability to fulfill the broader development mission... More generally, the movement toward quantifying the performance, risk, and community impact of CDFI, is essential to the growth and sustainability... By demonstrating both financial viability and social impact through hard data, CDFIs are better positioned to obtain the funding necessary to maintain their operations and to respond to emerging needs and opportunities.<sup>1</sup>*

Community Development Financial Institutions (CDFIs) are private-sector community economic development financial intermediaries certified by the US Department of Treasury. Although Bernanke's remarks were directed towards CDFIs, they hold true for all non-profit commercial lenders. The thread that weaves these organizations together is providing access to capital that could not otherwise be secured from a traditional lender.

A common mission for non-profit commercial lenders is to create economic and social change within the local economy through the provision of needed capital for business growth while stimulating job creation and/or retention. To effectively address that mission, nonprofit commercial lenders must demonstrate the financial viability that attracts the funding necessary to maintain their operations and respond to changing markets.

## Background – NeighborWorks<sup>®</sup> Organizations and Non-Profit Commercial Lending

During FY06, NeighborWorks<sup>®</sup> network practitioners defined Community Economic Development (CED) as *a strategy that strengthens communities by providing capital access; commercial lending, technical assistance and training for entrepreneurs; business support and job creation; commercial property development; and other related efforts which improve the climate for local businesses, as well as build and preserve assets for individuals and communities.*

Prior to this report, little empirical data had been collected on the network's commercial loan fund capacity, performance, and outcomes. However, in the FY06 Annual Survey, 52 NWOs self-identified as conducting commercial lending as a line of business. NeighborWorks<sup>®</sup> organizations practicing commercial lending can be much more than CDFIs – they are intermediary lenders for SBA Micro, SBA 504, USDA Intermediary Relenders (IRP), SBA 7(a), and New Market Tax Credit certified. In addition, they borrow funds for their commercial lending programs from various entities – the federal government, banking institutions, private industry, and nonprofit credit unions. In the FY06 annual survey, NWOs reported a combined portfolio of over \$71 million in outstanding commercial loans. Reflecting on Bernanke's comments, to sustain network growth in the commercial

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<sup>1</sup> Ben S. Bernanke (2006). *By the Numbers: Data and Measurement in Community Economic Development Communities & Banking: Federal Reserve Bank of Boston* Volume 17, Number 4 Fall 2006 pp.6-8.

lending line of business, it is essential to track loan fund performance, measure risk, identify capacity needs, and measure outcomes on the borrower level.

Sustaining network growth means different things to different people, including increasing assets or loan volume, or servicing a larger geographical area. Gregory Ratliff and Kirsten Moy, of the Aspen Institute, postulate that in the community development lending industry sustained growth is related to achieving scale. In a particularly thoughtful analysis, they state that for a non-profit commercial lender to expand capacity, it must develop new ways of serving its customers and leveraging the resources of both mainstream and nontraditional financial industries. But they also recognize that there is little agreement among practitioners, policymakers and academics as to how to achieve scale.<sup>2</sup> Not surprisingly, NeighborWorks<sup>®</sup> organizations address achieving scale in a variety of ways.

Before addressing scale within the context of the NeighborWorks<sup>®</sup> network, we first needed to understand how the NWOs implement commercial lending, and analyze the financial strength of their commercial lending line of business. Therefore, we designed a commercial lending assessment based on a process utilized by the banking regulatory industry and forming the foundation of the CDFI industry's<sup>3</sup> CARS rating system – a process known as CAMEL. We chose CAMEL because of its alignment with the private sector's lending assessment standards.

## **Purpose of Nonprofit Commercial Lending Assessment**

The purpose of the nonprofit commercial lending assessment was to:

- Understand how NWOs implement commercial lending,
- Analyze the financial strength of the commercial lenders,
- Identify best practices, and
- Develop standards and key performance indicators.

With these goals in mind, between March 2006 and March 2007 a non-profit commercial lending assessment was designed and implemented. Based on a modified process used by federal banking regulators and Opportunity Finance Network<sup>4</sup> (OFN), CAMEL stands for Capital, Assets, Management, Earnings and Liquidity.

The CAMEL model measures capacity as well as performance of the organization. The organization's capacity informs its performance. Therefore, in assessing an organization both capacity and performance measures are integral components.

In addition to assessing the commercial lending line of business capacity and performance, the assessment also attempts to measure social and economic outcomes of the network's commercial lending activities. Therefore, our assessment included the collection of spatial data and other economic indicators.

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<sup>2</sup> Gregory A. Ratliff and Kirsten S. Moy (2004). *New Pathways to Scale for Community Development Finance*. Pathways News and Views December 2004 pp. 2-23.

<sup>3</sup> National Community Capital Association (2004). CARS – the rating system for CDFIs – On the Road. October 2004.

<sup>4</sup> NCCA is now called the Opportunity Finance Network.

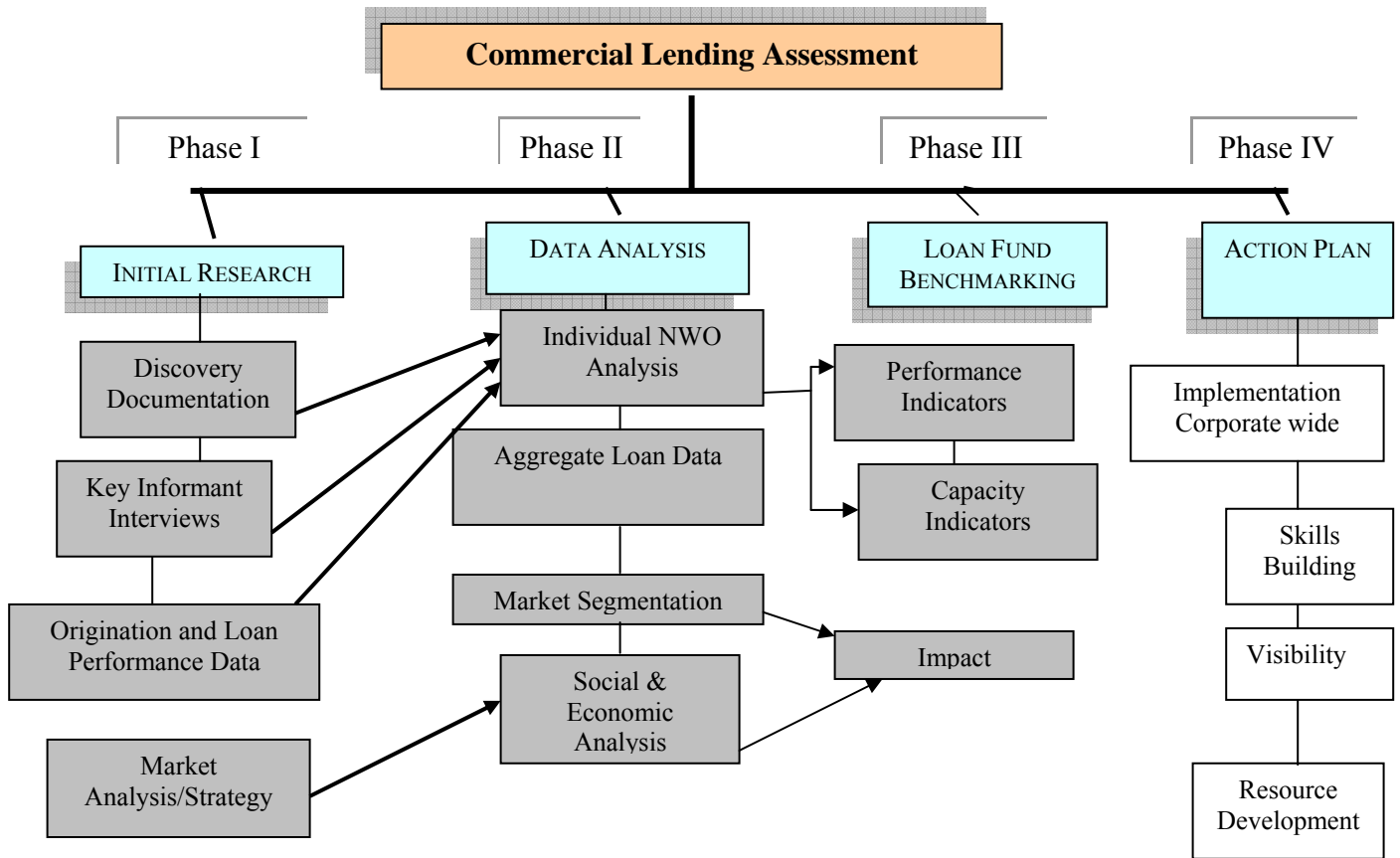
# Methodology

The nonprofit commercial lending assessment is a formative model employing a mixed methods approach utilizing both qualitative and quantitative data including:

- Organizational and financial documents;
- Interviews with key personnel, management, and members of the NWO board of directors; and
- Loan data on each borrower and generating an aggregate database.

This “drill down” approach allowed for the creation of a database of 797 commercial loans which includes business location, direct loan amounts, banking participation amounts, entrepreneur’s equity investment, business location and NAICS codes.

Five NWOs with commercial lending portfolios over more than \$1 million were chosen for the study. The design of the commercial lending assessment was divided into four phases – initial research; data analysis; loan fund benchmarking, and action plan. The following is the conceptual design to map the assessment phases.



## Key Findings

Major findings of the study show that the five NWOs:

- Implement creative methods for securing diversified sources of capital for commercial lending.
- Mobilize and allocate capital to areas of greatest demand in underserved communities.
- Develop and implement methods for reducing risk and safeguarding their assets.
- Develop complex infrastructures, administered by qualified staff that implement lending standards, financial and portfolio management reporting systems, and key networks and partnerships to provide access to capital for underserved communities.
- Develop and implement innovative ways to recover part of its costs from fees, marketing, diverse revenue sources, and build their capital asset base over time.

The CDFI Coalition, OFN and the Aspen Institute have carved out segments of the commercial lending field to track and analyze the performance of micro enterprise and CDFI lending organizations, but do not address the complete spectrum of commercial lending. To address the commercial lending field in its entirety, the challenges for NeighborWorks<sup>®</sup> are to develop common definitions, standardized procedures, protocols and methodologies, a widely accepted rating system and compatible technology platforms, and to accumulate aggregate data from each commercial lender. This type of national infrastructure will allow financial institutions to match use of capital with the suppliers of capital quickly, efficiently, and profitably.

### ***Capital (Capacity Measure)***

Capital in this category refers to capitalization of the loan fund. The assessment process reviewed three years of audits and other internal financial documents, and accrued individual borrower information from each participating organization. The individual borrower data formed a database of 797 individual loans. The following table illustrates the amount of funds lent out to small businesses and the amount of leveraged funds in three states and 95 counties.

**Table I: Amount of Commercial Lending Investments for Five NeighborWorks<sup>®</sup> Commercial Lenders (1990-2006)**

TOTAL # OF LOANS	797
TOTAL AMOUNT OF DIRECT LOANS	78,095,000
TOTAL BANK PARTICIPATION	74,385,000
TOTAL EQUITY INVESTMENT	13,555,000
STATES	KY, NY, TX
COUNTIES	95

In addition to the individual borrower data, the audits revealed that each organization had multiple sources of secured funding for re-lending activities. These funds were borrowed from public and private sources, such as SBA Micro, USDA IRP, CDFI, traditional

commercial lending institutions, and for profit and nonprofit corporations. In addition to securing borrowed funds for re-lending, three organizations manage the SBA 504 commercial loan program, New Market Tax Credits, and one has the capacity, through an LLC, to provide SBA 7(a) loans. There is a small amount of equity through grants from HUD, EDA, CDFI, and NeighborWorks® America.

Through the analysis of the borrower database, the source of capital was matched with each loan. The following table illustrates the number of loans made, the direct loan amount, bank participation, and borrower's equity investment in relationship to source of funds.

**Table II: Total Number of Loans, Amount of Direct Loans, Bank Participation and Borrower's Equity Investment per Source of Funds (1990-2006)**

YEARS	# OF LOANS	DIRECT LOAN AMOUNT	BANK PARTICIPATION	BORROWER'S EQUITY INVESTMENT	FUND SOURCE (S)
1990-2006	144	56,764,000	62,544,000	13,106,000	SBA 504
1996-2006	87	6,251,000	6,940,000	70,000	USDA IRP
1999-2006	310	5,058,000			SBA Micro
2003-2005		2,908,000			New Market Tax Credit
2001-2006	55	2,274,000	-	-	CDFI Leveraging Commercial and NWA
unknown	14	1,417,000	3,339,000	191,000	Commercial
2001-2006	50	1,040,000	736,000	27,000	CDFI
2002-2006	36	674,000			SBA Micro Leveraging CDFI, NWA and Commercial
1998-2006	17	622,000	85,000	29,000	EDA
2002-2005	7	445,000	395,000		NWA Leveraging Commercial
2003-2006	13	104,000			HUD Funds for Small Businesses
<b>TOTALS</b>	<b>733</b>	<b>77,558,000</b>	<b>74,038,000</b>	<b>13,423,000</b>	

Source: Individual borrower database

The SBA 504 program, the New Market Tax Credit (NMTC) program and the SBA 7(a) program require specialized skills to market, package, and service the loans.<sup>5</sup> The SBA 504 and the NMTC loans have the potential to raise sufficient revenue to support the overall administrative costs and supplement less profitable loan products. The IRP loan product can also generate additional revenue (outside of interest earned) to defray administrative costs.

<sup>5</sup> Exact data was not collected on New Market Tax Credits or SBA 7(a) loans.



The specialized skills needed to manage these programs are acquired either through hiring of expert personnel or through training opportunities outside the NeighborWorks® network.

Managed loan funds have the potential to earn more revenue than borrowed funds and carry less risk to the nonprofit lender. These loans tend to be larger and are for the seasoned business owner with more business experience and capacity. NWOs that manage SBA 504 loans exclusively require that each loan meet a public purpose test for eligibility.

**Table III: Managed Loans vs. Direct Risk Loan Amounts**

	# OF LOANS	DIRECT LOANS	BANK PARTICIPATION	EQUITY INVESTMENT
Managed Loans	144	59,672,000	62,544,000	13,106,000
Direct Risk (borrowed funds)	589	17,886,000	11,495,000	317,000

Source: Individual Borrower Data

Table III illustrates that the average loan amount for managed loans was approximately \$414,000 while the direct risk loans average was around \$30,000.

Within the direct risk loan product category, there are several sources of funds. The USDA IRP, only available to rural markets and governed by federal regulations, is offered to nonprofit commercial lenders at a reasonable cost (one percent) for an extended term. Rural entrepreneurs can borrow up to \$150,000 for asset purchase, including land, buildings, heavy machinery and more. Although the funds are borrowed by the nonprofit lenders from USDA, the federal government reserves loan approval authority which, in some cases, causes a delay in the loan being disbursed to the borrower<sup>6</sup>. This lag time for loan approval, sometimes up to six weeks, creates a challenge for the non-profit lender.

Another example of direct risk lending is the SBA Micro loan product. Among the five organizations in the assessment the SBA Micro was the most common source of funds and is limited to loan amounts of \$35,000 or less to the entrepreneur. The nonprofit lender can borrow these competitive funds at a reasonable rate and term, and is eligible to receive a Technical Assistance grant to defray the costs of providing entrepreneurial training and technical assistance. Four of the five organizations in this study utilize SBA Micro funds.

Private and CDFI funds were the most flexible of all the funds borrowed and were utilized to provide loans to projects that did not meet the requirements of other investors. NeighborWorks® America capital grants have been used as SBA Micro Loan Loss Reserve (15 percent of contracted amount) and to leverage other funds by reducing the interest rate to the borrower.

NWO management closely monitors the need for additional capitalization for re-lending through various in-house reports. **One of the key lessons learned in this is that**

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<sup>6</sup> The loan approval delay may be related to environmental impact statements and other necessary documentation.

**deployment of funds is particular to the borrowed fund source and should not be calculated on the aggregate.<sup>7</sup>**

Partnerships are a key ingredient to the success of the nonprofit commercial lender. Participating NWOs have partnerships with local banks, municipalities, counties, regional development organizations and other like nonprofits. Organizations have multiple partnerships that can leverage resources through loan referrals, loan participation, secure funds, marketing, and provision of entrepreneurial training and technical assistance.

The organizations projected loans and loan amounts for the upcoming year but did not tie those projections into an income statement or a balance sheet.

At the *Canyon of the Eagles* retreat held in April 2007, the participating NWO Executive Directors recommended the following capital standard language and key capacity indicators.

**Capital Standard I (Capitalization):** The NWO has sufficient funds to meet the demands of their commercial lending line of business.

Key Capacity Indicators:

Indicator	Measurement	Target
Sources of Funds	NWO has diverse sources of funds (public and/or private) to capitalize loan fund and allow continuity of lending.	Minimum of 2 sources of funds (public and/or private) for lending.
Lending Activities	NWO has and deploys Loan Products that meet market demands & organization's mission statement.	Defined loan products with rates and terms that meet market demands and investors requirements.
Lending Related Partnerships	NWO has lending related partnerships that leverage financial resources and/or deals.	3-year trend analysis on leveraged resources in dollar amounts and/or number of deals.

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<sup>7</sup> Best Practice

## ***Asset Quality (Performance Measures)***

**All participating organizations have two or more loan products and exhibited various sources of funding<sup>8</sup>.** The loan products range from a minimum of \$500 to a maximum of \$2.2 million.

**A “lesson learned” is that loan delinquency and loan loss ratios should be calculated in relationship to the loan product and not on the aggregate<sup>9</sup>.** The delinquency ratio and the net loan loss ratio should reflect the investor’s guidelines, when appropriate. If the investor does not address this issue then the organization should abide by its organizational guidelines or policy and procedures.

In the abstract, policy and procedures in relation to loan origination, approval process, the loan servicing process, collateralization and a host of other management concerns are integral components of the asset quality of loan portfolios. Asset quality, it is thought, reflects the soundness of the organization’s policies and its internal capacity to implement the policies.

But future changes in the economy or catastrophic social upheaval in the borrower’s personal life cannot be taken into consideration when loans are approved. Under these conditions the borrower may have a hard time meeting their obligations. Social and economic issues affect the small borrower much more drastically than the larger borrower. This is not to say that the small borrower will not pay their debt but that they may have a higher delinquency rate over time.

During the *Canyon of the Eagles* Retreat, the NWO Executive Directors voiced their opinions on loan delinquency and net loan loss measures. They divided the measures into two primary categories – micro and small business loans. Because of the special circumstances of the micro borrower, they recommended that the delinquent and the loan loss measures be either/or and not assessed as independent measures.

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<sup>8</sup> Best Practice

<sup>9</sup> Best Practice

**Asset Quality Standard II:** The NWO originates and manages sound loans.

**Key Performance Indicators:**

Indicator	Measurement	Target
90+ days Delinquent  <b>OR</b>	3-5 year trend analysis Micro Loans ( $\leq$ \$35,000)	$\leq$ 15% of outstanding loan balance
	Small Business Loans ( $>$ \$35,000)	$\leq$ 10% of outstanding loan balance
	Entire Portfolio	$\leq$ 12% of outstanding loan balance
Net Loan Loss (Write Offs plus Bad Debt Recovery)	3-5 year trend analysis Micro Loans ( $\leq$ \$35,000)	$\leq$ 7% of outstanding loan balance
	Small Business Loans ( $>$ \$35,000)	$\leq$ 6% of outstanding loan balance
	Entire Portfolio	$\leq$ 6% of outstanding loan balance

***Management and Marketing (Capacity Measures)***

All of the NWOs in the assessment have highly qualified staff in place to manage and operate the loan fund<sup>10</sup>. Staff have banking, federal bank examining, economics, and financial expertise, as well as the appropriate education and training. Although many staff come from the for-profit sector, they feel empowered by the opportunity to make loans that they couldn't make before. The executive directors feel having staff experienced in the commercial lending field is essential to operating and maintaining a sound loan fund. In addition, when a loan committee was utilized to approve loans, the assessment found that the members were highly qualified to approve the commercial loan products offered by the NWO. One NWO established a resident loan committee whose members were either in business or had a business background.

Another critical factor to a successful commercial loan fund is a sound infrastructure that codifies ideas into internal systems which provide management and board the necessary loan portfolio information to make sound decisions<sup>11</sup>. The infrastructure of each NWO is unique but produces adequate loan portfolio information for management and board decision-making.

Each NWO has well defined commercial loan policies and procedures. In organizations using SBA and USDA loan programs, the policies and procedures are in alignment with federal regulations. The policy and procedures address collateral concerns, loan approval

<sup>10</sup> Best Practice

<sup>11</sup> Best Practice

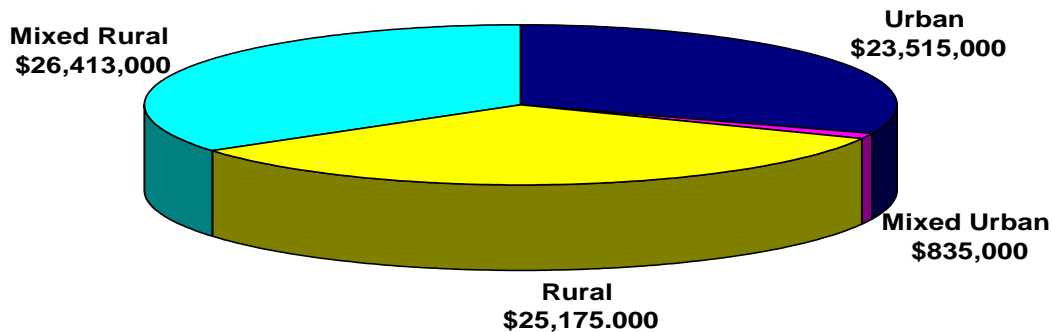
parameters, underwriting, setting loan loss reserve, borrower eligibility, portfolio management in regards to collections, delinquencies and write-offs.

One NWO in the assessment had two loan products while the other four had multiple products. Nevertheless, all loan products addressed unmet economic needs within their respective markets. The Executive Directors concurred that **a commercial loan fund could not be sustainable with only one loan product, and that there needs to be a balance of loan products – those with direct risk and managed loans (indirect risk) – to be able to subsidize the mission-driven products<sup>12</sup>.**

Although the interviews showed that staff and management understood their markets thoroughly, some organizations did not have a market analysis or did not describe their commercial lending markets in their organizational plans. Most NWOs projected their annual loan amounts and number of loans in their organizational plans as well as reporting on their ability to meet the previous year’s projections. However these projections were not tied to an income statement and a balance sheet for the commercial lending line of business.

Three of the NWOs’ service areas spread across more than 30 counties. With such a large geographical area to serve, **partnerships with local municipalities, and/or organizations that facilitated the leveraging of financial and marketing resources<sup>13</sup>** allow them to stay informed on market trends and changes. Three NWOs set up local loan fund committees to market a micro loan product and make the loan approval decisions. This allowed a greater reach into underserved areas, especially in rural communities.

**Graph I: Spatial Distribution of Direct Loan Amounts – Rural, Mixed Rural, Urban, Mixed Urban**



Source: Individual Borrower Data

Through their innovative partnerships, the NWOs were able to provide commercial loans to 95 counties, reaching “hard to develop” communities in south Texas, central Kentucky, and rural New York. The data collected reveals that rural and mixed rural counties received the greater investment share.

<sup>12</sup> Best Practice

<sup>13</sup> Best Practice

Various methods were used to set loan loss reserves (LLR). Some employed a rating system with a scheduled portfolio review either quarterly or on an annual basis, a standard practice in commercial banking. In the case of federal funds, the NWOs followed the regulatory guidelines for the establishment of the LLR. For example, SBA Micro is a flat 15 percent of SBA's contracted loan amount. This is noted as a cash reserve asset on the balance sheet. In other examples the LLR is set according to a predetermined percentage of the original loan amount. Instead of showing the LLR on the balance sheet as a separate account, the LLR may be netted out of the notes receivable or cash available for lending. This can be a challenge when trying to analyze whether the NWO has set aside sufficient LLR to mitigate risk.

The borrower eligibility criteria vary between the organizations, but the eligibility requirements are well defined in their policies and mission statements. Four of the five organizations provide "character loans" to the unbankable while one provides loans that meet a social policy test. However they define it, all the organizations provide commercial loans to communities and entrepreneurs that do not have access to traditional lending institutions.

At the *Canyon of the Eagles* retreat, the participating NWO Executive Directors recommended the following management and marketing standard language and key capacity indicators.

**Management and Marketing Standard III:** The NWO has the staff and board capacity, partnerships developed, and the policies and financial systems in place to operate the loan fund in a defined market and be in compliance with investors’ requirements.

**Key Capacity Indicators:**

Indicator	Measurement	Target
Written Policy and Procedures	Defined processes for loan approval, underwriting, collateralization, monitoring, portfolio mgmt, loan loss reserve, write-offs, and borrower eligibility.	Ratified by Board within the last 3-5 years.
Staff and Board Capacity	Dedicated staff and board members have the professional experience and/or education in related field(s).	Dedicated staff are qualified to originate, underwrite, monitor, and service loan products offered by the NWO. As appropriate, a proportion of the board members have the experience to approve loans offered by the NWO.
Market	The NWO operates with a clear understanding of the market trends and has developed commercial lending products to meet the market demand.	A commercial market study or market analysis has been developed and is described in organization’s underwriting proposal.
Performance Measures	NWO projects next year’s lending activity, including the number and amount of loans, earned income and associated expenses.	Has a cost accounting system for the commercial lending line of business and prepares a report comparing the projected lending activities with actual.
Loan Performance Data	NWO has financial systems in place to report loan fund performance to board and management. NWO has internal financial systems to track borrower’s performance, specific loan fund performance, and overall operational financial performance of commercial lending activities.	Write-offs and delinquency reports per loan fund, individual loan fund outstanding loan balances, new loans approved and loan closure reports, principal repayments, available cash for lending in each loan fund, and interest earned.
Loan Loss Reserve	NWO has a Loan Loss Reserve policy to determine the LLR amount for all loan products offered.	The LLR may be reflective of investors’ requirements or internal policies.

## ***Earnings (Performance Measure)***

In the annual audits, the balance sheets and statement of activities report the total of the organization's structure and financial systems and not on individual lines of business. It is not unusual to encounter an organization that conducts commercial lending via various subsidiary corporations. Therefore statement of activities and balance sheets may not be broken out for commercial lending exclusively – making it difficult to calculate a net asset ratio and determine the fundamental financial strength of the commercial lending line of business.

In some cases the annual audits provide a separate lending schedule. These schedules identify the source and amounts of various types of earned income, such as fees, interest expenses, bad debt recovery and other types of income, but other income associated with the lending “silo”, such as SBA 504 fees, is often credited in a general income account. In addition, overhead costs may not be credited under lending but credited in a general expense account. The annual audit issues “muddy the waters” when trying to determine whether there is sufficient income to meet expenses. Therefore, **commercial lending income and expense information must be obtained from internal financial documents and not the annual audits**<sup>14</sup>.

As noted above, loan loss reserve accounts are determined by various means. **LLR can be set in compliance with investor's requirements or by individual policy and procedures**<sup>15</sup>. For example, SBA Micro requires 15 percent of SBA's contracted loan amount. In some instances the NWO periodically reviews their loan portfolio and rates each loan in accordance with the risk. The rating systems are generally on three or five percentage point scales, indicating the risk of the individual loans. This method is utilized extensively in the banking industry.

The analysis compared the LLR to the standard method (based on loan loss) and to the CDFI method (based on delinquency) and found that these two methods did not accurately establish whether the NWO set aside adequate loan loss reserve to manage risk of the portfolio. Therefore, the Executive Directors at the *Canyon of the Eagles* retreat suggested that the loan loss reserve reflect funder's requirements and the organization's policies and procedures. The Earning Standard language and the key performance indicators suggested by the Executive Directors are as follows.

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<sup>14</sup> Lesson Learned

<sup>15</sup> Best Practice



**Earnings Standard IV:** The NWO has financial strength in the commercial lending line of business through the diversification of revenues to meet its obligations, and manages risk through an adequate loan loss reserve.

**Key Performance Indicators:**

Indicator	Measurement	Target
Loan Fund Sustainability Ratio	3-year trend analysis – Income minus Expense formula:  <b>Revenue:</b> Interest Income                    _____ (Interest Expense)                _____ Non-Interest Income               _____ Contract Income                    _____ Bad Debt Recovery                 _____ Fundraising                         _____ <b>Total Revenue</b> \$ _____  <b>Expenses:</b> Bad Debt Expense                   _____ LLR Expense                         _____ Operating Expenses                 _____ <b>Total Expenses</b> \$ _____ <b>Net Operating Income</b> \$ _____  <b>Loan Fund Sustainability Ratio</b> _____ (Total Revenue/Total Expenses)  Other Expenses                    \$ _____ Internal Subsidy Amt               \$ _____	Loan Fund Sustainability Ratio should remain the same or increase during the three-year trend.
Risk Management	Loan Loss Reserve amounts are held as either Cash Reserve or a contra asset account by source of funds.	Loan Loss Reserve amounts meet or exceed existing NWO policies
Operating Ratio	3-year trend analysis – Total Income divided by operating expenses.	Operating Ratio should remain constant or decrease throughout the trend period.

## **Liquidity (Performance Measure)**

The assessment’s attempt to calculate liquidity ratios from collected financial data is difficult because the NWO’s financial information often did not break out the current and long-term assets and liabilities, or create a balance statement exclusive for the commercial lending line of business<sup>16</sup>.

The deployment ratio indicates how much cash is available for re-lending in relation to the outstanding loan balance. The cash available for lending is found in internal financial documents. Each NWO generates a report indicating the fund source cash available for re-lending and the outstanding loan balance associated with each fund source. This information is important when determining whether the organization has sufficient funds to meet its projections or if the organization has to obtain additional capital.

The deployment strategy, on the other hand, illustrates the amount of earned income in relation to the outstanding loan balance. **All five NWOs earned approximately \$1 of income for every \$6 to \$10 of outstanding loans<sup>17</sup>.**

During the *Canyon of the Eagles* retreat, the Executive Directors suggested that **the liquidity ratios should be applied to the organization as a whole as opposed to the commercial lending line of business<sup>18</sup>**. They also recommended that the deployment ratio reflect the commercial lending line of business and that funds deployed should fall in the neighborhood of 65-75 percent of total funds available for re-lending in a three-year trend analysis.

**Liquidity Standard V:** The NWO as an organization has sufficient liquid assets to fund operations, short-term liabilities and unexpected short-falls. The NWO has sufficient cash available for commercial lending or a plan to secure the funds to meet the annual commercial lending projections.

### **Key Performance Indicators:**

<b>Indicator</b>	<b>Measurement</b>	<b>Target</b>
Liquidity	The organization’s consolidated balance sheet demonstrating current and long-term assets and liabilities.	Current Ratio = $\geq 1.5$ , Cash Ratio = $\geq .65$ Liquidity Ratio = 1:1 Days Cash Ratio = $\geq 90$ days
Deployment Ratio	NWO generates internal documents indicating the available cash for re-lending and outstanding loan balance for each funding source	Deployment Ratio of 65-75% for each fund source

<sup>16</sup> Lesson Learned

<sup>17</sup> Best Practice

<sup>18</sup> Lesson Learned

## Conclusions

CDFI Coalition, OFN and the Aspen Institute track and analyze the performance of micro enterprise and CDFI lending exclusively and do not address the entire spectrum of the nonprofit commercial lending field. NeighborWorks® America's space and challenge in the commercial lending field is to address the development of commercial lending standards, key performance and capacity indicators and organizational capacity building opportunities that reach all types of commercial loan products offered by our network organizations to meet the market demands of their communities.

As a result of this commercial lending assessment, NeighborWorks® America has gained further insight into how NWOs implement commercial lending within their organizations, with the realization that no two organizations are identical. The five NWOs assessed are unique but demonstrate similarities in governance, management and financial practices.

One cannot assess an organization's performance without taking into account the organization's capacity to secure funds for re-lending, its infrastructure and its governance. The Executive Directors concurred that a commercial loan fund could not be sustainable with only one source of funds. For example micro loans, although the most numerous provided by the programs, do not create sufficient income to sustain operations. This loan product must be subsidized either by outside grants or internal funds.

To achieve scale the following factors were present:

- A diversified menu of loan products – micro and small business loans with direct risk and small business loans that are managed and carry an indirect risk – enable an NWO to subsidize mission driven products.
- Lending in mixed rural and mixed urban markets seems more productive than lending in a strictly rural or strictly urban market.
- Finding qualified personal and board members is often difficult in strictly rural areas.
- Lending in strictly urban areas faces increased competition.
- Most of the funds in place are borrowed; and
- Funds can be leveraged through partnerships with municipalities that have revolving loan funds.

Our assessment concurs with the Ratliff and Moy perspective on scale. To achieve scale the NWOs studied have developed new ways of serving customers through a diversified loan product menu and regional spatial distribution. A general trend among the five NWOs shows there are more federal funds invested in commercial development than private funds and that banks seem more reluctant to invest in nonprofit commercial funds than in housing funds.

NWOs have been successful in mobilizing and allocating capital into areas of greatest demand, such as south Texas, central Kentucky, and rural New York, through the creation of partnerships with municipalities, banks, and government agencies. These partnerships extend the NWOs' services and help leverage financial resources. Local loan committees have been developed to market loan products and to approve loans at the community level.

The most effective way to provide pre-loan technical assistance (business plan development) appears to be partnering with small business training providers rather than providing in-house counseling. For post-loan technical assistance, it appears that the most effective method is in-house business advice counseling.

Each NWO has developed sound infrastructures that address policy and procedures, staff and board capacity, management controls and internal financial and performance reports for management and board decision-making that contribute to their success. Although most have staff and board members with expert experience in banking, economics, small business, and financial analysis, there is a need for on-the-job training in community based commercial lending.

Asset quality seems to be related more to the quality of post-loan follow-up and frequent staff contact with the borrower than to the type of loans made. In the absence of post-loan follow up, automatic bank withdrawals may be a viable alternative for accepting payments and keeping the asset quality at an acceptable level. The NWOs in this analysis have several tiers of loan products requiring different underwriting and collateral requirements therefore requiring various strategies to address asset quality.

During the assessment design process, it was thought that the annual audits would provide all the financial information necessary to assess the organization's financial strength and identify key performance indicators – asset quality, earnings and liquidity components. However, during implementation it became apparent that additional financial documents needed to be gathered. The structural complexity of the organizations did not allow some financial information to be obtained from the annual audits alone. Tracking and reporting commercial loans/assets are not generally separated from other lending, making it difficult for analysis. Therefore internal financial records specific to commercial lending were requested. These documents included:

- Delinquency and loan write off reports
- Outstanding loan balances specific to loan fund sources
- Loan Loss Reserves specific to loan fund sources
- Cash available for lending specific to loan fund sources
- Administration expenses specific to commercial lending line of business
- Revenue – specific to commercial lending line of business (broken down by interest income, non-interest income, fees, contract fees, bad debt recovery, fundraising revenue, and any other earned income.
- List of sources of funds, amounts, term and rates borrowed for commercial lending.

NWOs earn more income through managed loan products where they have indirect risk than through loan products with a direct risk. The bulk of the earned income on direct risk loans is generated from fees and interest. However the interest spreads are kept low to make them more attractive to the established business owner. Methods for establishing loan loss reserves are dependent on investors' requirements and internal policies and procedures.

Overall the five NWOs assessed in this project have developed best practices in the areas of obtaining capital for re-lending, development of sound infrastructures for managing, monitoring, servicing, and governing small business or commercial loan funds. The information gained through this study provides a framework for expanding commercial lending as a line of business throughout the NeighborWorks® network.

## **Addendum A**

Commercial Loan Fund Assessment Agreement Letter  
Informed Consent Form  
Interview Questions Guide  
List of documents to be gathered

Date

Mr. John Doe, Vice President  
CDC  
210 Country RD  
Summerville, NY 11270

Dear Mr. Doe;

Thank you for agreeing to participate in the Commercial Loan Fund Assessment project of NeighborWorks® America, Community Economic Development Program. This letter serves as a confirmation of your nonexpendable grant award of \$2,000 for your participation in the project. Your participation includes the following activities:

- A 3-day site visit with NeighborWorks® America CED Specialist and the Lead Management Consultant.
- The Executive Director will select three key personnel to be interviewed. 1- a key person managing the loan fund, 2- a staff person responsible for loan origination and monitoring loan performance, and 3- a person that is responsible for making final decisions on the loan action. These interviews will be approximately 2-hours each and take place during the 3-day site visit.
- If possible, a tour of some commercial development associated with the NWO commercial loan fund.
- The provision of document copies as specified by the CED Specialist.
- The participation, as appropriate, in the distribution of a survey to loan portfolio entrepreneurs to assess social impact on constituent communities.

In previous conversations, we agreed the 3-day site visit would occur between June 19 and June 21, 2006. If agreeable, the following is the tentative schedule for the site visit:

- June 19<sup>th</sup> -- Interview meeting with CEO, and if possible, a tour of economic development enterprises in your communities in which you have an investment.
- June 20<sup>th</sup> -- Meet with Vice President and Sr. Credit Officer for approximately two hours in the morning.

Name  
Page two

Date:

- June 20<sup>th</sup> -- Meet with Vice President for approximately two hours in the afternoon.
- June 21<sup>st</sup> -- Meet with all those interviewed for clarification of the information and a discussion of next steps.

The appropriate time for the meetings will be determined by you and your staff's schedules.

Each interviewee will be asked to sign an Inform Consent Form prior at the start of the interview (see attachment). This is done to protect the rights of the interviewee and their ability to withdraw their information from the assessment at any time. I have also attached a list of interview questions that will guide the flow of each interview, for your information. I would like to tape record the interview conversations, if agreeable with each of the interviewees. This allows for a verbatim transcription and conversation accuracy.

In addition, attached to this letter is **a list of documents that you will need to develop prior to my arrival**. Included in the document list are an electronic (excel) copy of the loan origination data and an electronic (excel) copy of the loan performance data in your portfolio. To keep the borrowers identity unknown, you may choose to redact, the borrowers name, street and city address, and phone number. I only need the loan number and the zip code to link pertinent social information and loan performance data. Please have these documents generate by time of the site visit, so that I can take them with me.

Understanding the confidential nature of borrowers' information, known as nonpublic documents, I will bring with me a Nonpublic Information Release Form that addresses the release of nonpublic information to NeighborWorks<sup>®</sup> America, the data use, and an Intellectual Property Rights statement. The appropriate person from your organization will need to sign the form, if agreeable.



Name  
Page three

Date:

I am looking forward to visiting your organization and finding out more about your Commercial Loan Fund.

Respectively,

Rebecca Seib, CED Specialist  
Rural Initiative  
NeighborWorks® America

cc: CEO and President  
Management Consultant, NeighborWorks® America  
Northeast District Director, NeighborWorks® America

Attachments: Informed Consent Form  
List of Interview Guiding Questions  
List of Documents Needed

## Informed Consent Form

Approval No \_\_\_\_\_

### NeighborWorks® America PARTICIPANT INFORMATION STATEMENT AND INFORMED CONSENT FORM

NeighborWorks® Organizations  
Commercial Lending Assessment Project

You \_\_\_\_\_ are invited to participate in a NeighborWorks® Commercial Lending Assessment Project within the network. We, at NeighborWorks® America, hope to learn what NeighborWorks® organizations (NWO) operating loan funds for commercial activities need to do to become efficient and sustainable, and how markets are reached. You were selected as a possible participant in this study because you are considered to be either key management personnel, key administrative staff, or governance official, and bring a unique perspective to the study.

If you decide to participate, we will meet at a prearranged time for approximately two hours to casually discuss four primary areas:

- 1) What are the community development needs in your community?
- 2) How do you reach or monitor your constituents and borrowers?
- 3) In your perception, what impact, if any, does the loan fund have on the community you serve?
- 4) What are your challenges in capitalizing and developing administrative revenues for your loan fund?

The information you provide will be analyzed individually as well as aggregated with fourteen other NWO interviewees participating in the Commercial Lending assessment project. Your participation will contribute to a greater understanding of what it takes for an NWO to administer a commercial loan fund and become efficient in its operation. Commercial Lending assessment outcomes will include the development of key performance indicators, loan fund standards across markets, and an action plan to incorporate the findings across NeighborWorks® America.

We cannot and do not guarantee or promise that you will receive any benefits from this assessment.

#### **Confidentiality and disclosure of information**

Any information that is obtained in connection with this assessment which can be identified with you will remain confidential and will be disclosed only with your permission or except as required by law. If you give us your permission by signing this document, we plan to develop and write a Commercial Lending report particular to your organization, as well as a cumulative NWO Commercial Lending report incorporating the data collected on five NWO commercial loan funds participating in this assessment. It is hoped that these reports will be ready for distribution in August 2006. The Commercial Lending assessment findings along with recommendations will be furnished to your Executive Director, and within NeighborWorks® America. In any publication, information will be provided in such a way that you cannot be personally identified.

Complaints may be directed to the David Dangler, Director of Rural Initiative, NeighborWorks® America, 855 Boylston St. 6<sup>th</sup> Floor, Boston, MA 02116 (phone 617-585-5011, fax 617-450-0440, email [ddangler@nw.org](mailto:ddangler@nw.org)).

**Feedback to participants**

An organization final report will be offered to participants at the completion of the study. If you wish to receive an individual copy of your organization’s report please indicate below by checking the appropriate box.

- I do not wish to receive copy of the report.
- I wish to receive a receive a copy of the report.

**Your consent**

Your decision whether or not to participate will not prejudice your future relations with NeighborWorks® America or your affiliated NeighborWorks organization. If you decide to participate, you are free to withdraw your consent and to discontinue participation at any time without prejudice.

If you have any questions, please feel free to ask us. If you have any additional questions later, contact Rebecca Seib, CED Specialist, NeighborWorks® America (phone 617-585-5055, email rseib@nw.org) will be happy to answer them.

You will be given a copy of this form to keep.

**You are making a decision whether or not to participate in the NeighborWorks® America NWO Commercial Lending Assessment Project. Your signature indicates that, having read the information provided above, you have decided to participate.**

.....  
Signature of Research Participant

.....  
Signature of Witness

.....  
(Please PRINT name)

.....  
(Please PRINT name)

.....  
Date

.....  
Nature of Witness

.....  
Signature(s) of Investigator(s)

.....  
Please PRINT Name

**REVOCATION OF CONSENT**  
NWO Commercial Lending Assessment Project

I hereby wish to **WITHDRAW** my consent to participate in the research proposal described above and understand that such withdrawal **WILL NOT** jeopardize any treatment or my relationship with NeighborWorks® America or the NWO in which I am affiliated.

.....  
Signature

.....  
Date

.....  
Please PRINT Name

The section for Revocation of Consent should be forwarded to Rebecca Seib, CED Specialist, Rural Initiative and CED, NeighborWorks® America, 855 Boylston St., 6<sup>th</sup> Floor, Boston, MA 02116 (fax: 617-450-0440, email [rseib@nw.org](mailto:rseib@nw.org)).

## **Interview Questions**

### Commercial Lending Assessment Key Informant Interview Questions

This key informant interview process will focus on the NWOs internal assessment of strengths, weaknesses, and external challenges and threats. The people to be interviewed will be the Executive Director/Loan Fund Manager, key loan personnel, and a Board Member/Loan Fund Committee Member for each of the 5 NWOs participating in the assessment. The selection of the key informants was based on their level of the operation experiences -- governance, management, and administration.

The intent of the interviews is to gather personal opinions on what it takes to keep the commercial lending line of business sustainable and what it takes to deliver services to their constituents.

The following categories will guide the interview process.

#### **Executive Director/Loan Fund Manager**

In your opinion, what are the community development needs in your service area?

Tell me about your market. Do you think your market is changing? Do you see it as a threat or an opportunity?

Tell me how you meet your market needs.

Why in your opinion does the loan fund exist?

In your opinion, what does it take to deliver services to your constituents?

Tell me your strategy on how you reach your constituents.

In your opinion, what do you have to do to be sustainable?

Tell me about your partners and how they got involved with the loan fund.

Tell me about the impact that your loan fund is having on the community you serve.

(Financial institutions, community and policy)

Are you involved in business advocacy? If so, can you tell me about it?

#### **Staff**

In your opinion, what do your borrowers need?

Tell me about the assistance you provide to your borrowers?

In your opinion, what does it take to deliver services to your constituents?

Tell me how you put a loan package together.

Tell me how you determine if this is a good loan application.

Tell me how you get the word out about your program.

In your opinion, what do you have to do to be sustainable?  
Why, in your opinion, does the loan fund exist?  
Tell me about the market and how it has affected your borrowers.

Tell me about the impact that your loan fund is having on the communities you serve.  
(Financial institutions, community and policy)

**Board/committee member**

In your opinion, what are the community development needs in your service area?  
Tell me about your market. Do you think your market is changing? If so, how?  
Tell me how you meet your market needs.  
Why in your opinion does the loan fund exist?

In your opinion, what does it take to deliver services to your constituents?  
Tell me about the process of making a loan decision.  
Tell me about the board's economic development strategy

In your opinion, what do you have to do to be sustainable?

In your opinion, what social and economic impact have you been able to achieve through the loan fund? (Financial institutions, community, and policy)

Are you involved in business advocacy? If so, can you tell me about it?

**Commercial Lending  
Assessment Documents**

CDC

Dear

Date: 5/1/2006

Please generate the following documents that have not been obtained and are listed below.  
Return this cover sheet with documents.

Obtained (X)

**Governance**

- Commercial Lending Strategic Plan - Current
- Investment Policy and Procedures
- Loan Fund Policy and Procedures
- Schedule of Loan Approval Committee meetings held within the last year
- Number and status of loan applications reviewed
- Board Members or loan approval committee members resumes
- Minutes - Loan Approval Committee, if appropriate

**Personnel**

- Commercial Lending management personnel resumes and job descriptions
- Commercial Lending staff, resumes and job descriptions

**Program**

- Copy of pre-loan training curriculum
- List of types of post-loan technical assistance provided
- Copy of marketing materials

**Loan Fund** (provide only those that are not shaded or not obtained)

	2000	2001	2002	2003	2004	2005
Audit Reports				X		
Loan Aging Reports						
Current Financial Statement						

- Electronic copy of loan fund database
- Electronic copy of origination database
- Electronic copy of training data
- Sample of loan underwriting documents
- Sample of loan agreement documents
- List of Active Loans
- Capital Overview Jan 06

**Commercial Lending**

**Operations**

- Commercial Lending Capital Funds Purchase information (term/rate and lender)
- Grants awarded – Commercial Lending Capital and Operational (list of funders, amount, and award date)
- List of major private funders (current)
- List of major public funders (current)
- Organizational Plan for current year
- Loan Fund projections for current year

- Market analysis document
- Target population map
- List of Fee for Service Contracts

**Other**

- OAD Assessment 2004
- Overview of Programs
- CDC Overview
- Performance Report 2005



## **Addendum B**

Detailed Methodology

## ***Detailed Methodology***

### **NWOs Selection**

Five NWOs practicing commercial lending were pre-selected for participation in the assessment. The NWO selection criteria included the following parameters:

- Conducts commercial lending,
- Maintains a commercial loan portfolio of over \$1 million, and
- Provides commercial loans to various markets – rural, suburban, and urban

Within the network five NWOs were identified:

Community Ventures Corporation, Lexington, KY	– Great Lakes District
CDC of Long Island, Long Island, NY	– Northeast District
Rural Opportunities, Inc., Rochester, NY	– Northeast District
BCL of Texas, Austin, TX	– Rocky Mt. District
NHS of Dimmit County, Carrizo Springs, TX	– Rocky Mt. District

Each participating NWO Executive Director signed a consent form agreeing to participate in the Commercial Lending Assessment and was provided a \$2,000 expendable grant. The Agreement Letter covered the data to be collected and use of the information, representations and warranties, and intellectual property rights. These signed documents are on file at the NeighborWorks® Rural Initiative office in Boston, MA.

### **Assessment Process**

To guide the assessment process, CAMELS, was designed as an analytical tool. Through a series of primarily and secondary questions, the CAMELS analyzes Capital, Asset Quality, Management and Marketing, Earnings, Liquidity, and Social Impact related to commercial lending products and procedures only. In addition, the analytical tool identified the organizational and financial documents needed to answer the questions. A scan of NeighborWorks® records ensued for existing documentation. The next step was to identify additional documents to be collected from the individual NWO during the site visit.

It was important to establish a measure of trust with the NWO personnel. Therefore, a pre-site visit telephone interview took place to prepare the Executive Director for the site visit, to receive input on the research design, and to develop an interview schedule. This procedure allowed the Executive Director the opportunity to question why the documents were necessary and to schedule the gathering of documents prior to the site visit. Discussion involved the purpose of the assessment, confidentiality issues, time schedule, the selection of the staff and board member interviewees, and the site visit tour. Also the participating organization's Executive Director received a letter detailing the agreed upon time schedule and events, and a list of loan fund documents to be generated before arrival.

The five site visits were conducted in May and June 2006. Prior to the site visits, each NWO Executive Director identified three individuals to be interviewed – one key loan personnel, one management staff, and one board or loan committee member. A key

informant interview guide was developed prior to the individual site visits.<sup>19</sup> A total of 15 interviews were conducted, transcribed and thematically coded for analytical purposes. Each interviewee signed a participant interview consent form. The consent form addressed the areas to be discussed, confidentiality and disclosure concerns, feedback to participants, and a statement that the interviewee can withdraw their consent at any time. All signed consent forms are on file at the NeighborWorks® Rural Initiative office in Boston, MA.

Each site visit was for three days. The first day entailed an interview with the Executive Director and a tour of the area. The second day was devoted to interviews with staff and board members. The third day was a debriefing meeting with interviewees to go over researchers' notes and to check accuracy, and to obtain any additional clarification.

The primary objectives guiding the interview questions were:

- Ascertain information on the organization's service area community development needs.
- Identify what they have to do to deliver services.
- Identify what the organizations have to do to be sustainable.

### **Team Effort**

The commercial lending assessment was conducted in a team effort. NeighborWorks® America staff from Organizational Assessment Division (OAD), District Management Consultants (MCs), and the CED Specialist comprised the team. The CED Specialist was the principal assessment team leader.

OAD staff played an integral role in the design and implementation phases of the assessment process. OAD staff provided the initial discovery documents needed to begin the review of each of the five NWOs, and provided comments and insights into the document analysis phases. The CED Specialist accompanied one OAD staff member on a scheduled organizational review of a participating NWO. During the analysis phase of the assessment, OAD staff's participation was key in the identification of standards and key indicators for commercial lending.

The MCs assisted in the relationship building between the NWO staff and the CED Specialist as well as the collection of additional organizational and financial documents. Prior to the site visits, the CED Specialist trained the District MCs on how to conduct key informant interviews and the interview structures. In addition, the MCs accompanied the CED Specialist on their respective district site visits and assisted in the implementation of the key informant interviews.

Once the documents were gathered and the interviews conducted a formative analysis was conducted in accordance with the CAMEL matrix. Five individual reports were prepared and provided to participating NWO Executive Directors for their comments and edits. After the Executive Directors signed off on the edited reports, final drafts were prepared and distributed to the NWOs and selected NeighborWorks® staff. These reports

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<sup>19</sup> See Addendum A for the individual key informant interview guide.

were meant to be internal documents and not for public distribution. A retreat was held at *Canyon of the Eagles* in Texas to discuss and identify commercial lending standards, key performance and capacity indicators. The key findings combine findings for all five organizations.

## **Addendum C**

CAMELS Key Questions

CAMELS Matrix

## **NeighborWorks® America CAMELS**

The following are the NeighborWorks® America CAMELS key questions to be analyzed during the Data Analysis Phase of the assessment:

### **NeighborWorks® America CAMELS Key Questions:**

#### **CAPITAL**

1. What are the sources and amounts of available capital?
2. Does the NWOs historic and current deployment ratio and deployment strategy indicate that there is a need for additional capital to achieve projections?
  - How aggressive has the NWO been in using available capital during the last 5-years?
  - Does the NWO have a deployment strategy? If so, describe it.
  - Does the NWO manage liquidity and capital through partners? If so, describe them.
3. Does the NWO extend its resources by partnering with compatible entities?
4. Are the projected activity levels consistent with projected budgets, as revealed by comparison with historic performance?
  - Are the number and dollar volume of loans as indicated in the historic statements consistent with those indicated in the project statements?
  - If not, has the NWO offered an explanation for this disparity (e.g. larger loans entail fewer transactions)?

#### **ASSET QUALITY**

5. Does the NWO's process for loan origination and administration generate sound loans?
  - Has the NWO loan portfolio exhibited an annual delinquency ratio? What is it? (5-year trend)
  - Has the NWO loan portfolio exhibited an annual net loss ratio? What is it? (5-year trend)

#### **MANAGEMENT/MARKETING**

6. Does the NWO have sufficient number and capable staff to manage the commercial lending?
  - Do the board members have expertise with commercial lending financial products?
  - Do management personnel pertinent to commercial lending have the expertise or professional training in the type of financing of commercial lending?
  - Does staff responsible for operating the commercial lending line of business have the experience in lending pertinent to the products and/or pertinent training or demonstrated expertise?
7. Does the NWO have a policy/procedure/process in place for loan award approval/action?
  - What are the parameters of the loan approval process?
  - Is collateral secured? If so, how?

8. Does the NWO develop their loan products to meet the needs of their market?
  - Does the NWO describe the unmet need or demand for its loan products?
  - Are the loan products provided by the NWO targeted at job creation? If not, describe targets.
9. Has the NWO adopted suitable policies governing the processes of loan origination and management, and are they utilized?
  - Does the NWO have Board approved policies governing the following management controls, and if so, do these policies address particular management practices?
  - Are the policies as defined carried out?
10. Have the NWOs established sound management information systems to provide timely data necessary to inform management of its portfolio, operating performance and compliance with investor requirements?
  - Has the NWO acquired and effectively used Management Information System (software)?
11. Does the NWO demonstrate financial capacity within the loan approval committee?
  - Who makes the decision on the various loan products?
  - Of those that make the loan decisions, what is the financial capacity expertise in place?
  - Who has the ability to analyze the risk analysis of the underwriting information?
  - Who has the final decision making authority for loan action?
  - Who has the ability to determine the risk analysis of the underwriting information?
12. Is there an unmet need for the NWOs loan products considering competing sources?
  - Does the NWO have a Community Economic Development Strategy (CEDS) that focuses on the unique strengths that are market-based and can leverage public, private, and community resources?
  - Does the NWO's description of its market convey a clear understanding of trends, opportunities, and critical factors?
  - Are the residents able to obtain financing from other sources?
  - Does the NWO present information evidencing unmet demand, such as interview data or co-lending with banks, implying their unwillingness to lend unassisted?
13. Are the components of the projections mutually consistent?
  - Does the NWO project a balance sheet?
  - If so, do the projected income and expenses comport with the projected balance sheet?

EARNINGS:

14. Has the NWO raised sufficient income to meet expenses?
15. Does the NWO manage risk to its loan portfolio through utilizing an adequate loan Loss Reserve?
  - Does the NWO have an adequate Loan Loss Reserve?

16. Does the NWO have fundamental financial strength?
  - Does the NWO have the basic financial strength needed to endure downturns and minimize cost of funds?
  - Currently and in each of the past 5 years, what was the NWO's net asset ratio?
  - Are capital funds borrowed? If so, what is the cost?
17. Is the NWOs earning income and receiving grants sufficient to build and avoid diminishing their financial strength?
  - Currently and in each of the past 5 years has the NWO COMMERCIAL LENDING annual income exceeded expenses?
  - What are the current loan products including the terms and rates?
18. Is the NWO earning enough income to avoid an undue burden on its parent and to survive in the long term?
  - Currently and in each of the past 5 years, what percentage does the NWO's earned income comprise of its total expense?
19. Is the projected budget sound as revealed by comparison with historic performance?
  - Are the net income and self-sufficiency ratios consistent between the projected and historic performance?
  - If not what is the explanation?
20. What are the NWO's sources of funds?
  - Are the sources of funds diversified (grant, fee and investment income, loans, etc)?

LIQUIDITY:

21. Does the NWO have enough liquid assets to fund loans, operations, short term liabilities, and unexpected shortfalls?
  - Currently and in each of the past 5 years, what is the NWO's current ratio?
22. Does the NWO's historic and current deployment ratio and deployment strategy indicate that there is a need for additional capital to achieve projections?
  - How aggressive has the NWO been in using available capital during the last 5 years?
  - Does the NWO have a deployment strategy and if so, what is it?
  - Does the NWO manage liquidity and capital through partners, if so who are they?

SOCIAL IMPACT:

23. Does the NWO directly provide pre-loan and/or post-loan training or technical assistance?
  - What type of pre-loan training is provided to the applicant?
  - What type of post-loan assistance is provided to the borrower?
  - Does the NWO engage in business advocacy?
24. Does the NWO have a community impact through the creation, expansion, and/or retention of jobs?
  - Has the NWO been successful in leveraging investment in businesses developed?



- Does the NWO set targets for lending and provide operational guidelines for reaching these targets?
  - Has the NWO conducted a market analysis to identify the economic needs of the communities they serve?
  - Does the NWO provide loans that address the market analysis?
25. What social impact has been achieved through the commercial lending line of business?

### **NeighborWorks® CAMELS Matrix:**

The following NeighborWorks® CAMELS Matrix outlines in detail the primary and secondary questions to be addressed, the types of information and ratios to be collected, and where the required information maybe located.

## NeighborWorks® CAMELS Matrix

Mar-06

CATEGORY	PRIMARY QUESTION	SUB-QUESTIONS	AREAS FOR REVIEW	BENCHMARK	DATA SOURCE
<b>Capital</b>	1) What are the sources and amounts of available capital?		Capital sources	% of available capital as function of total amount of loans	Audit reports/financial statements List of partners and description of relationship Capital grants awarded Capital Funds Purchased
<b>Capital</b>	2) Do the NWOs historic and current Deployment Ratio and deployment strategy indicate that there is a need for additional capital to achieve projections?	<p>How aggressive has the NWO been in using available capital during the last 5 years?</p> <p>Does the NWO have a deployment strategy and if so, what is it.</p> <p>Does the NWO Manage Liquidity and Capital through partners? If so who are they?</p>	<p>Deployment Ratio (total outstanding loans divided by total capital for lending, which is the sum of funds borrowed to re-lend and of equity available to lend).</p> <p>A deployment strategy defines the balance between investment income, loan fund balance and delinquent loans.</p> <p>Managing Liquidity and Capital Loan Sales Interest Rate Swaps Lines of Credit</p> <p>Total Liabilities/Net Assets Target Liabilities/Net Assets Equity Needed to Meet Leverage Target Free Cash Flow to Debt</p>	To be developed	<p>Audit Reports/Financial Statements</p> <p>Interview with Director of Loan Fund</p> <p>Current Financial Statement</p> <p>Organizational Plan</p> <p>Loan Fund Projection for upcoming year</p> <p>Commercial lending portfolio performance reports</p>

			Years to Repay Debt C/offs to Reserves + Net Assets		
<b>Capital</b>	3) Do NWOs extend its resources by partnering with compatible entities?		Partnerships: Loan participation Staff Sharing T/A and Training Other lending partners	to be determined	List of partners and description of relationships
<b>Capital</b>	4) Are the projected activity levels consistent with projected budgets, as revealed by comparison with historic performance?	Are the number and dollar volume of loans as indicated in the historic statements consistent with those indicated in the projected statements?  If not, has the NWO offered a convincing explanation for this disparity (e.g. larger loans, entail fewer transactions)?	5-year trend of loans compared to current projection of loans to be provided.  Use Lending Predictive Analysis model	to be determined	Audit Reports/Financial Statements  OU Plan for current year  Loan Fund projection for current year.

<p><b>Asset Quality</b></p>	<p>5) Do the NWO's processes for loan origination and administration generate sound loans?</p>	<p>Has the NWO loan portfolio exhibited an annual delinquency ratio? (5-year trends)</p> <p>Has the NWO loan portfolio exhibited an annual net loss ratio? (5-year trends)</p>	<p>Del Ratio = total \$ of loans with payments 90 days or more past due divided by the total outstanding loan portfolio. This should be a trend analysis over at least the last 5 years.</p> <p>Net loss ratio = total \$ of loans considered to be a loss or non-recoverable, during the course of the NWOs fiscal year and eliminated as an asset, less loan amounts charged-off but later collected through foreclosure or liquidation of recovered assets divided by the total of outstanding loans. This should be a trend analysis over at least the last 5 years.</p> <p>Charge-offs to Provision</p> <p>Provision to Loss Reserve</p> <p>Recoveries to Charge-offs</p> <p>Charge-offs to Avg. Loans</p> <p>Charge-offs to Avg. Assets</p>	<p>To be set according to loan products (CDFI maximum is 7% for 90 days+)</p> <p>NCCA demonstrates an all business loan loss rate of 3.9%</p> <p>Net LR to be set according to loan products</p>	<p>Commercial lending portfolio performance reports (5 years)</p> <p>Audit reports/Financial Statements</p> <p>Current Financial Statement</p> <p>Electronic copy of land fund database</p>
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<b>Management AND Marketing</b>	6) Does the NWO have sufficient number and capable staff to manage the commercial lending line of business?	<p>Do the board members have expertise with the commercial financial products?</p> <p>Do commercial lending management personnel have the expertise or professional training in administering the loan fund?</p> <p>Does staff responsible for operating the loan fund have the experience and/or expertise in lending?</p>	<p>Identify the commercial loan products and needed expertise to administer the origination, underwriting, management and collection of loans.</p> <p>Terms of board members and staff job description.</p>	To be determined	<p>Board members/Loan Approval Committee resumes</p> <p>Management personnel resumes, and training certificates</p> <p>Loan fund staff resumes and training certificates.</p>
<b>Management AND Marketing</b>	7) Does the NWO have a process in place for loan award approval/action?	<p>What are the parameters of the loan approval process?</p> <p>Is collateral secure? If so, how?</p> <p>Does the NWO conduct a risk analysis? If so, what are the factors involved?</p>	<p>Loan information prepared by the loan officer and submitted to authorizing authority.</p> <p>Information contained in loan underwriting documents (risk analysis, meeting market demand etc)</p> <p>Loan agreement terms and conditions.</p>	To be determined	<p>Schedule of Loan Approval Committee meetings held, and number and status of loan applications reviewed.</p> <p>Loan Fund Policy and Procedures</p> <p>Sample of Loan underwriting documents</p> <p>Sample of Loan agreement documents</p>

<b>Management AND Marketing</b>	8) Does NWO develop their loan products to meet the needs of their market?	Does the NWO describe the unmet need or demand of its loan products?  Are the loan products provided by the NWO targeted at job creation?	# of jobs created in the last 5 years through the commercial loan fund  Type of loan products provide by the NWO		Strategic Plan  Electronic Copy of origination database  List of loan products (terms and rates)  Loan Fund Policy and Procedures  Borrower survey  Market analysis document  Copy of marketing materials
<b>Management AND Marketing</b>	9) Has the NWO adopted suitable policies governing the processes of loan origination and management, and are they utilized?	Does the NWO have formal, adopted policies governing the management controls, and if so, do these policies address particular management practices?  Are the policies as defined carried out?	1. <i>Underwriting Policy</i> – Defining evaluation criteria for each product, and staff/management/board responsibilities.  2. <i>Portfolio Management Policy</i> – Procedures for addressing delinquent loans; at least semi-annual review of the performance of all loans, considering local, use of funds and other pertinent factors.  3. <i>Methodology for Setting Loan Loss Reserve</i> – Writing off loans delinquent more than 120 days; diversification of portfolio to limit concentration of risk in single borrowers,	To be set according to loan products.	Loan Fund Policy and Procedures  Interview loan staff and those responsible for invoicing and collecting payments concerning their knowledge of the policy and procedures.

			<p>locales, or other risk factors.</p> <p><i>4. Loan Participant Eligibility Criteria -- Demographic or spatial criteria for loan eligibility.</i></p>		
<b>Management AND Marketing</b>	<p>10) Has the NWO established sound management information systems to provide timely data necessary to inform management of its portfolio, operating performance, and compliance with investor's requirements?</p>	<p>Has the NWO established and does it utilize suitable Management Information Systems (software)?</p>	<p>Can they generate the following information:</p> <p><i>Portfolio Performance -- reports describing each loan (the amount; the use; interest rate; term; origination date; current status; and number of delinquency during the last two years)</i></p> <p><i>Operating Performance -- Does the NWO generate monthly internal financial statements and audit reports of the financial condition, distinct from the overall condition of its affiliates or other lines of business?</i></p>	to be determined	Commercial loan portfolio performance reports to management/board.
<b>Management AND Marketing</b>	<p>11) Does the NWO demonstrate financial capacity within the loan approval committee?</p>	<p>Who makes the decision on the various loan products?</p> <p>Of those that make the loan decisions, what are the financial capacity expertise in place?</p>		To be determined	<p>Schedule of Loan Approval Committee meetings held, and number and status of loan applications reviewed.</p> <p>Interviews with loan approval committee members</p> <p>Board members or Loan Approval Committee members resumes</p>



		<p>Who has the final decision making authority for loan action?</p> <p>Who has the ability to determine the risk analysis of the underwriting information?</p>			Loan Fund Policy and Procedures
<b>Management AND Marketing</b>	12) Is there an unmet need for the NWO's loan products considering competing sources?	<p>Does the NWO have a community Economic Development Strategy (CEDS) that focuses on the unique strengths that are market-based and can leverage public, private, and community resources?</p> <p>Does the NWOs description of its market convey a clear understanding of trends, opportunities, and critical factors?</p> <p>Are the residents able to obtain financing from other sources?</p>	<p>Comparing small business and micro business lending to better served areas</p> <p>Compare industry, purchasing power, and income information with better served areas.</p>		<p>Commercial Lending Strategic Plan – Current</p> <p>Investment Policy and Procedures</p> <p>Market Analysis document</p> <p>CRA Evaluation Reports of surrounding financial institutions</p> <p>Interview with the Loan Fund Director</p> <p>SBA banking data regarding small business and micro-business lending (<a href="http://www.sba.gov/advo/research/2004.html">http://www.sba.gov/advo/research/2004.html</a>)</p> <p>Drill down employment, industry and purchasing power data (<a href="http://www.uwm.edu/Dept/ETI/drilldowns/">http://www.uwm.edu/Dept/ETI/drilldowns/</a>)</p>

		Does the NWO present information evidencing unmet demand, such as interview data or co-lending with banks, implying their unwillingness to lend unassisted?			
<b>Management AND Marketing</b>	13) Are the components of the projections mutually consistent?	Does the NWO project a balance sheet?  If so, do the projected income and expenses comport with the projected balance sheet?	Projected Financial Statement along with the last audited statement	to be determined	Loan Fund Projection for current year.  Last year's audit report/ financial statement
<b>Earnings</b>	14) Has the NWO raised sufficient income to meet expenses?		2-3 years of annual audits and current financial statements	surpluses noted, reserves maintained	Audit reports/financial statements
<b>Earnings</b>	15) Does the NWO manage risk to its loan portfolio through utilizing an adequate Loan Loss Reserve?	Does the NWO have an adequate Loan Loss Reserve?		To be set according to loan products  (CDFI – 50% of the Amount of delinquent loans $\geq$ the LLR $\leq$ 1.5 of the Amount of the delinquent loans)	Audit reports/ financial statements  Commercial lending Policy and Procedures  Commercial lending portfolio performance reports to management/board

<p><b>Earnings</b></p>	<p>16) Does the NWO have fundamental financial strength?</p>	<p>Does the NWO have the basic financial strength needed to endure downturns and minimize cost of funds?</p> <p>Currently and in each of the past 5 years, what was the NWO's net asset ratio?</p> <p>Are Capital funds borrowed? If so, what is the cost?</p>	<p>Net Asset Ratio (Net assets (current) divided by total assets). This should be a trend analysis over the last 5 years.</p> <p>Equity Capital Ratio (Equity Capital/Total capital). Equity capital acts as a cushion to protect senior debt investors from losses, helps reduce a CDFIs cost of funds, and enhances a CDFIs lending flexibility.</p> <p>Determine the % cost of borrowed funds and where the funds are borrowed from.</p>	<p>CDFI requires a net asset ratio of at least 20%</p> <p>NCCA demonstrates that most CDFIs Equity to Capital Ratio is between 38-39%</p>	<p>Audit Reports/Financial Statements.</p> <p>Capital Funds purchase information (terms/rate and lender)</p> <p>Grants awarded – capital and operational (list of grantors, amount, and award dates)</p>
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<b>Earnings</b>	17) Is the NWO earning income and receiving grants sufficient to build and avoid diminishing their financial strength?	Currently and in each of the past 5 years has the NWO commercial lending line of business annual income exceeded expenses?  What are the current loan products including the terms and rates?	Net Income ratio (Total expenses divided by annual income) Also a 5-year trend.  Fees for service -- loan packaging for 3rd parties Loan servicing for 3rd parties Underwriting for 3rd parties Fee Based Consultant Services  Administrative Grants Loan products term and rates.  \$ in Loans outstanding for each product.  Types of loans and security requirements.	CDFI Fund requires nonprofits to achieve net positive income.  NCCA demonstrates that earned revenue from loan and portfolio income ranged between 42-49%. Contract income ranged from 1-85% of earned income.	Audit reports/financial statements  Interest earned Investment Income earned Administrative grants received Fees for service/Contract income  Grants awarded – capital and operational (list of grantors, amount, and award date)  Commercial lending Policy and Procedures
<b>Earnings</b>	18) Is the NWO earning enough income to avoid an undue burden on its parent and to survive in the long term?	Currently and in each of the past 5 years, what percentage does the NWOs earned income comprise of its total expense?	Self-Sufficiency Ratio (total expenses divided by total earned income). Also a 5-year trend  Operating Costs  Operating Expenses/Avg Assets  Ongoing Operating Revenue/Op Exp  Sustainability Ratio: All Op Rev/All Exp	CDFI Fund requires a 40% Self-sufficiency Ratio  NCCA demonstrates a Self-sufficiency ratio between 45-66%	Audit reports/financial statements  Current Financial Statement  Interest on loans Investment Income Fees for Service/contract income Other Revenue generation activities

			Operating Costs for Lending Op Cost per loan (Gr. cum)		
<b>Earnings</b>	19) Are the projected budgets sound as revealed by comparison with historic performance?	Are the Net Income and Self-sufficiency ratios consistent between the projected and historic performance?  If not what is the explanation?	Self-Sufficiency Ratio (total expenses divided by total earned income). Also a 5-year trend  Operating Cost Operating Exp/Avg. Assets  Ongoing Operating Revenue/Op Exp	To be determined	Audit reports/financial statements  Current financial statement
<b>Earnings</b>	20) What are the NWO's sources of funds?	Diversity of grant and fee income provides some assurances in continued stable earnings.			Audit reports/financial statements  List of partners and description of relationship  Grants awarded – capital and operational
<b>Liquidity</b>	21) Does the NWO have enough liquid assets to fund loans, operations, short term liabilities, and unexpected short-falls?	Currently and in each of the past 5 years, what is the NWO's current ratio	Current Ratio (Total current assets/total current liabilities)  Cash/Investments to ST Liabilities  Cash/Investments to Total Assets  Cash/Investments to Op Exp  Cash/Investments Months on Hand  Target Cash/Investments	CDFI Fund requires a current ratio of a least 1.0	Audit Reports/ financial statements  Current financial statement

			<p>Month on Hand</p> <p>Cash Need to Meet Cash Target</p> <p>Repayments/Loan Volume</p>		
<b>Liquidity</b>	<p>22). Does the NWO's historic and current deployment ratio and deployment strategy indicate that there is a need for additional capital to achieve projections?</p>	<p>How aggressive has the NWO been in using available capital during the last 5 years?</p> <p>Does the NWO have a deployment strategy and if so, what is it.</p> <p>Does the NWO manage liquidity and capital through partners? If so who are they?</p>	<p>Deployment Ratio (total outstanding loans divided by total capital for lending, which is the sum of funds borrowed to re-lend and of equity available to lend).</p> <p>A deployment strategy defines the balance between investment income, loan fund balance and delinquent loans.</p> <p>Managing liquidity and capital</p> <ul style="list-style-type: none"> <li>Loan Sales</li> <li>Interest Rate Swaps</li> <li>Lines of Credit</li> </ul>	To be developed	<p>Audit Reports/Financial Statements</p> <p>Current financial statement</p> <p>Interview with Loan Fund Manager</p>

<b>Social Impact</b>	23) Does NWO directly provide pre-loan and/or post loan training or technical assistance?	<p>What type of pre-loan training is provided to the applicant?</p> <p>What type of post-loan assistance is provided to the borrower?</p> <p>Does the NWO engage in business advocacy?</p>	<p># of individuals attending pre-loan training sessions.</p> <p># Of individuals graduating from pre-loan training.</p> <p>Types of pre-loan trainings provided.</p> <p># of business mentorships developed.</p> <p>Types of post-loan TA and Training provided</p> <p>Is There a business association in the area?</p> <p>Type of business advocacy conducted.</p>	to be determined	<p>Pre-loan training curriculum.</p> <p>Interviews with personnel.</p> <p>Electronic copy of training data</p>
<b>Social Impact</b>	24) Is the NWO having a community impact through the creation, expansion, and/or retention of jobs?	<p>Has the NWO been successful in leveraging investment in businesses developed?</p> <p>Does the NWO set targets for lending and provide operational guidelines for reaching these targets?</p> <p>Has the NWO conducted a market analysis to identify the economic needs</p>	<p>#and type of businesses started or retained</p> <p>Leveraging ratio -- \$ amount of private investments leveraged for every \$ from the NWO.</p> <p>Cost of creating jobs: # of jobs per \$ amount of loans provided.</p>	<p>EDA uses a leveraging ratio of two to one.</p> <p>EDA reports it costs \$936 for each job for loans averaging 1.25 percent below prime.</p>	<p>List of partners and description of relationship</p> <p>Interview with Executive Director</p> <p>Electronic copy of loan fund database</p> <p>List of loan products (term/rate)</p> <p>OU Plan for current year</p> <p>Loan Fund Policy and Procedures</p> <p>Market analysis document</p> <p>Borrower's Survey</p>

		of the communities they serve?  Does the NWO provide loans that address the market analysis?			
<b>Social Impact</b>	25) What social impact has been achieved through the commercial lending line of business?		<p>Diversification of types and asset size of businesses</p> <p># of FTE and hourly wage</p> <p># of PTE and hourly wage</p> <p>Benefits -- health insurance, employers contribution, asset building (stock ownership, retirement plan etc). Life insurance, sick and vacation paid leave, participate in IDA programs,</p> <p>Training -- Trade specific, customer service, computer, telephone reception, sales, soft skills, bookkeeping, other</p> <p>Employee Retention rate - # of years of employment per employee</p>		<p>Survey to business in NWO loan portfolio, Loan origination records, Community Economic Development Strategy</p> <p>Will use the job quality index (wage and benefit matrix NW Area Foundation)</p> <p>Commercial lending Strategic Plan</p> <p>Market Analysis Document</p> <p>List of types of post-loan technical assistance provided.</p>



			<p>Contribution to community vitality -- local neighborhoods (financial and in-kind support to area schools, non-profit or religious organizations) and</p> <p>Local industry (membership in local business associations or mentoring other business owners)</p>		
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## **Addendum D**

Key Capacity and Performance Indicators

# COMMERCIAL LENDING STANDARDS AND KEY INDICATORS (CAPACITY AND PERFORMANCE)

**CAPITAL STANDARD I:**

The NWO has sufficient funds to meet their commercial lending line of business (Capitalization).

Key Capacity Indicators:

Indicator	Measurement	Target
Sources of Funds	NWO has diverse sources of funds (public and/or private) to capitalize loan fund and allow continuity of lending.	2 sources of funds (public and/or private) for lending.
Lending Activities	NWO has and deploys Loan Products that meet market demands & organization's mission statement.	Defined loan products with rates and terms that meet market demands and investors requirements.
Lending Related Partnerships	NWO has lending related partnerships that leverage financial resources and/or deals.	3-year trend analysis on leveraged resources in dollar amounts and/or number of deals.

**ASSET QUALITY STANDARD II:**

The NWO originates and manages sound loans.

Key Performance Indicators:

Indicator	Measurement	Target
90+ days Delinquency  OR	3-5 year trend analysis Micro Loans ( $\leq$ \$35,000)	$\leq$ 15% of outstanding loan balance
	Small Business Loans ( $>$ \$35,000)	$\leq$ 10% of outstanding loan balance
	Entire Portfolio	$\leq$ 12% of outstanding loan balance
Loan Loss (Write Offs)	3-5 year trend analysis Micro Loans ( $\leq$ \$35,000)	$\leq$ 7% of outstanding loan balance
	Small Business Loans ( $>$ \$35,000)	$\leq$ 6% of outstanding loan balance
	Entire Portfolio	$\leq$ 6% of outstanding loan balance

**MANAGEMENT AND MARKETING STANDARD III:**

The NWO has the staff and board capacity, partnerships developed, and the policies and financial systems in place to operate the loan fund in a defined market and be in compliance with investors' requirements.

**Key Capacity Indicators:**

Indicator	Measurement	Target
Written Policy and Procedures	Defined processes for loan approval, underwriting, collateralization, monitoring, portfolio mgmt, loan loss reserve, write-offs, and borrower eligibility.	Ratified by Board within the last 3-5 years.
Staff and Board Capacity	Dedicated staff and board members have the professional experience and/or education in related field(s).	Dedicated staff are qualified to originate, underwrite, monitor, and service loan products offered by the NWO. As appropriate, a proportion of the board members have the experience to approve loans offered by the NWO.
Market	The NWO operates with a clear understanding of the market trends and has developed commercial lending products to meet the market demand.	A commercial market study or market analysis has been developed and is described in organization's underwriting proposal.
Performance Measures	NWO projects next year's lending activity, including the number and amount of loans, earned income and associated expenses.	Has a cost accounting system for the commercial lending line of business and prepares a report comparing the projected lending activities with actual.
Loan Performance Data	NWO has financial systems in place to report loan fund performance to board and management. NWO has internal financial systems to track borrower's performance, specific loan fund performance, and overall operational financial performance of commercial lending activities.	Write-offs and delinquency reports per loan fund, individual loan fund outstanding loan balances, new loans approved and loan closure reports, principal repayments, available cash for lending in each loan fund, and interest earned.
Loan Loss Reserve	NWO has a Loan Loss Reserve policy to determine the LLR amount for all loan products offered.	The LLR may be reflective of investors' requirements or internal policies.

**EARNINGS STANDARD IV:**

The NWO has financial strength in the commercial lending line of business through the diversification of revenues to meet its obligations, and manages risk through an adequate loan loss reserve.

**Key Performance Indicators:**

Indicator	Measurement	Target
Loan Fund Sustainability Ratio	3-year trend analysis -- Income minus Expense formula:  Revenue: Interest Income _____ (Interest Expense) _____ Non-Interest Income _____ Contract Income _____ Bad Debt Recovery _____ Fundraising _____ <b>Total Revenue</b> _____ Expenses: Bad Debt Expenses _____ Loan Loss Reserve _____ Expenses _____ Operating Expenses _____ <b>Total Expenses</b> _____ <b>Net Operating Income</b> _____  <b>Loan Fund Sustainability Ratio</b> _____ (Total Revenue/Total Expenses)  Internal Subsidy Amt _____ Other Expenses _____	Loan Fund Sustainability Ratio should remain the same or increase during the three-year trend.
Risk Management	Loan Loss Reserve amounts are held as either Cash Reserve or a contra asset account by source of funds.	Loan Loss Reserve amounts meet or exceed existing NWO policies
Operating Ratio	3-year trend analysis -- Total Income divided by operating expenses.	Operating Ratio should remain constant or decrease throughout the trend period.

**LIQUIDITY STANDARD V:**

The NWO as an organization has sufficient liquid assets to fund operations, short-term liabilities and unexpected short-falls. The NWO has sufficient cash available for commercial lending or a plan to secure the funds to meet the annual commercial lending projections.

**Key Performance Indicators:**

Indicator	Measurement	Target
Liquidity	The organization's consolidated balance sheet demonstrating current and long-term assets and liabilities.	Current Ratio = $\geq 1.5$ , Cash Ratio = $\geq .65$ Liquidity Ratio = 1:1 Days Cash Ratio = $\geq 90$ days
Deployment Ratio	NWO generates internal documents indicating the available cash for re-lending and outstanding loan balance for each funding source	Deployment Ratio of 65-75% for each fund source