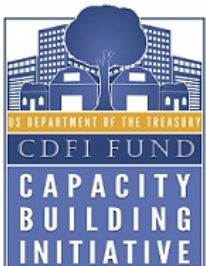


Innovations in Small Business Lending

Introductory Session

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Innovations in Small Business Lending

This series is designed to support business-oriented CDFIs that are experienced in providing loans and services to small and medium-sized enterprises.

Small business loans generally range from \$50k to \$1 million.

Training themes:

- ***Finding innovations in the market:*** Proactively monitor trends and the underlying small business opportunities
- ***Finding capacity:*** Understanding capacity requirements and building or finding substitutions for capacity
- ***Considering mission impacts:*** Foresee mission impact considerations – both intended and unintended

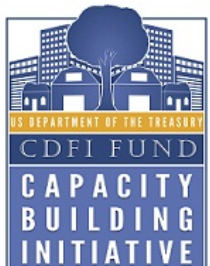


Innovations in Small Business Lending – CDFI Led Approach to Development

Phase 1 – Data analysis and CDFI focused research

- Reviewed literature
- Conducted focused interviews with select CDFIs
- Conducted lending survey of CDFIs
- Performed market analysis and research of economic trends
- Interviewed subject matter advisors for select markets and industries

Phase 2 – Development of training materials, included interviewing select CDFIs on their lending programs



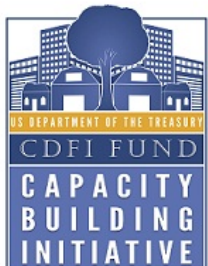
Goals of the Training

- Focus on market “waves” that demonstrate potentially high profit and mission impact
- Analyze multiple national and local trends
- Discuss several “innovations” within these markets

Training was specifically developed for CDFIs who are already engaged in small business lending and are looking to grow their portfolios into new products or markets.



What challenges with Small Business Lending are you facing?



What challenges were most commonly cited by CDFIs in our Small Business Lending survey?

Difficulty finding qualified borrowers

Technical and specialty knowledge needed

Operational infrastructure needed

Access to funds (especially availability of capital at the right price)



Source: Small Business Lending survey of CDFIs

What challenges are small businesses in your community facing?



What challenges are small businesses across the country facing?

1	Poor sales (23%)
2	Taxes (23%)
3	Government regulations (18%)
4	Cost & availability of insurance (7%)
5	Quality of labor (6%)
6	Inflation (6%)
7	Competition from large business (5%)
8	Other (5%)
9	Cost of Labor (4%)
10	<i>Financing and interest rates (3%)</i>



Source: National Federation of Independent Business, Small Business Economic Trends December Report: Single Most Important Small Business Problem – November 2012

What challenges are small businesses in low-income minority neighborhoods facing?

Declining volume of small business lending

Challenges accessing mentoring, networking, and expert advice

Changing consumer spending habits

Uncertain regulatory and tax environment

Lack of affordable infrastructure

Decreased skilled labor population for specialized staffing needs

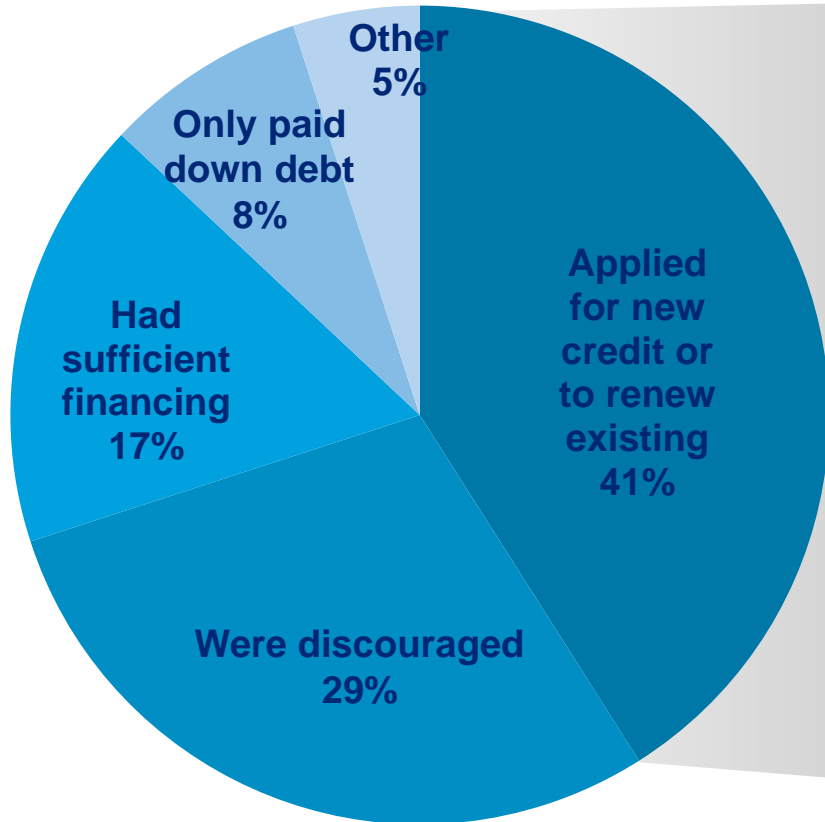


Source: Goldman Sachs: 10,000 Small Businesses Report

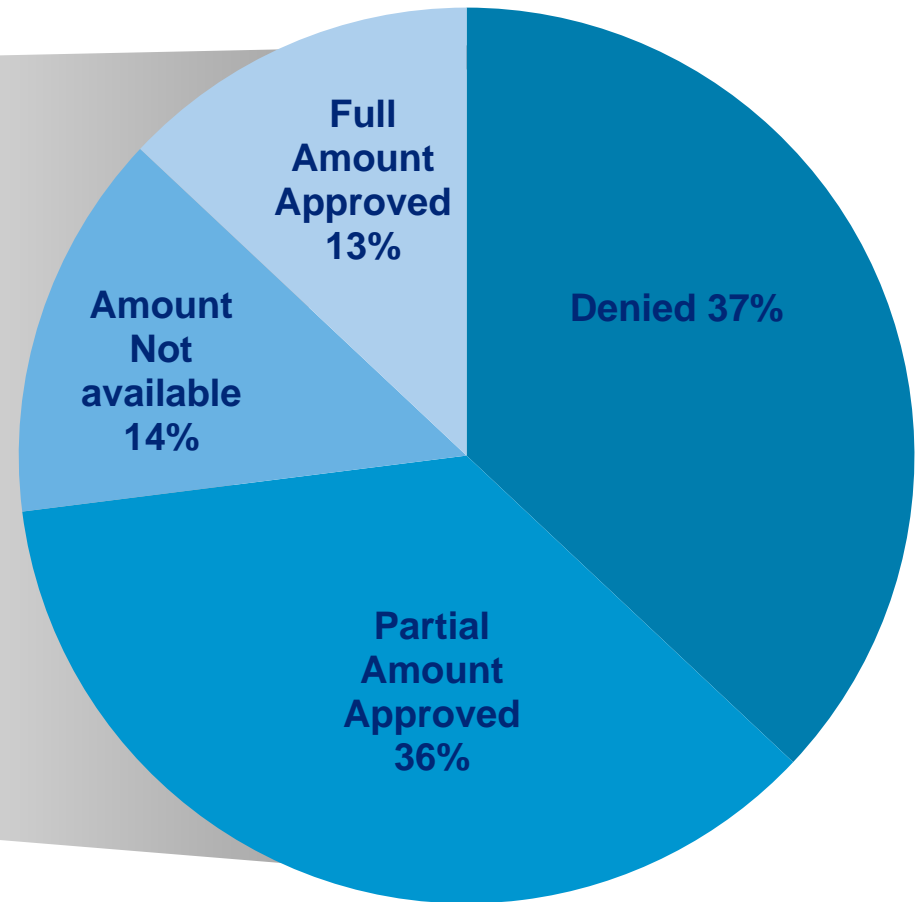
Ninth District Insight Report – Quarter 4, 2011 Published by the Community Development Department of the Federal Reserve Bank of Minneapolis

Credit demand and success rates for small business

Demand for credit

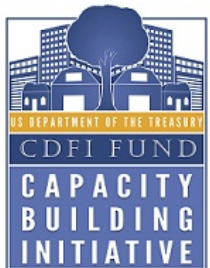


Of those that applied, applicant success rates



Source: Federal Reserve Bank of New York, Small Business Borrowers Poll Report, August 2012

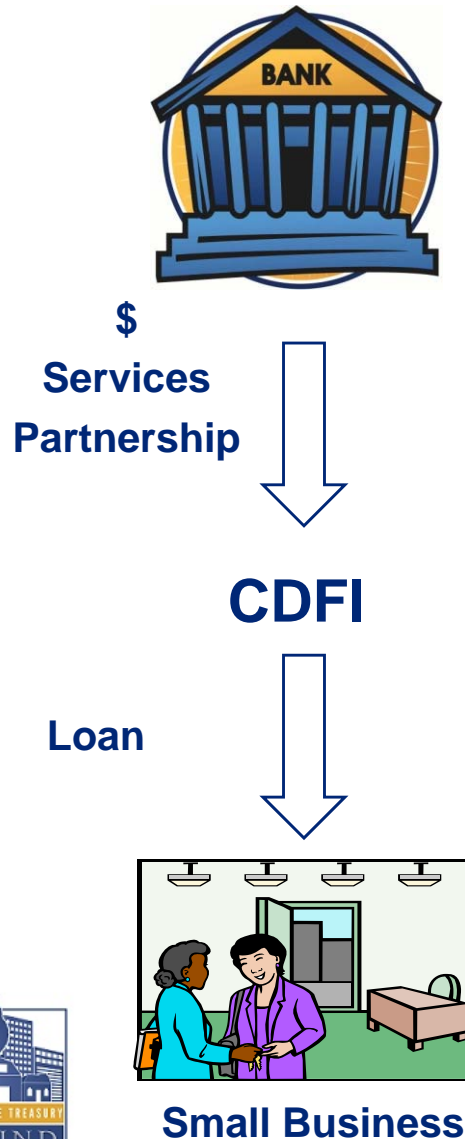
Why are small businesses not getting loans?



Source: Federal Reserve Bank of New York, Small Business Borrowers Poll Report, August 2012

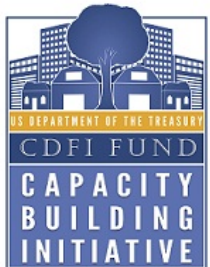
Finding Innovation in the Market

There are many types of "Innovation"



Innovations That Grow Small Business

- New Sources of Cash
 - New Financial Models
 - New Technology
-
- Industry Growth Initiative
 - New Technology
 - New Equity Models, Sources
 - New Products

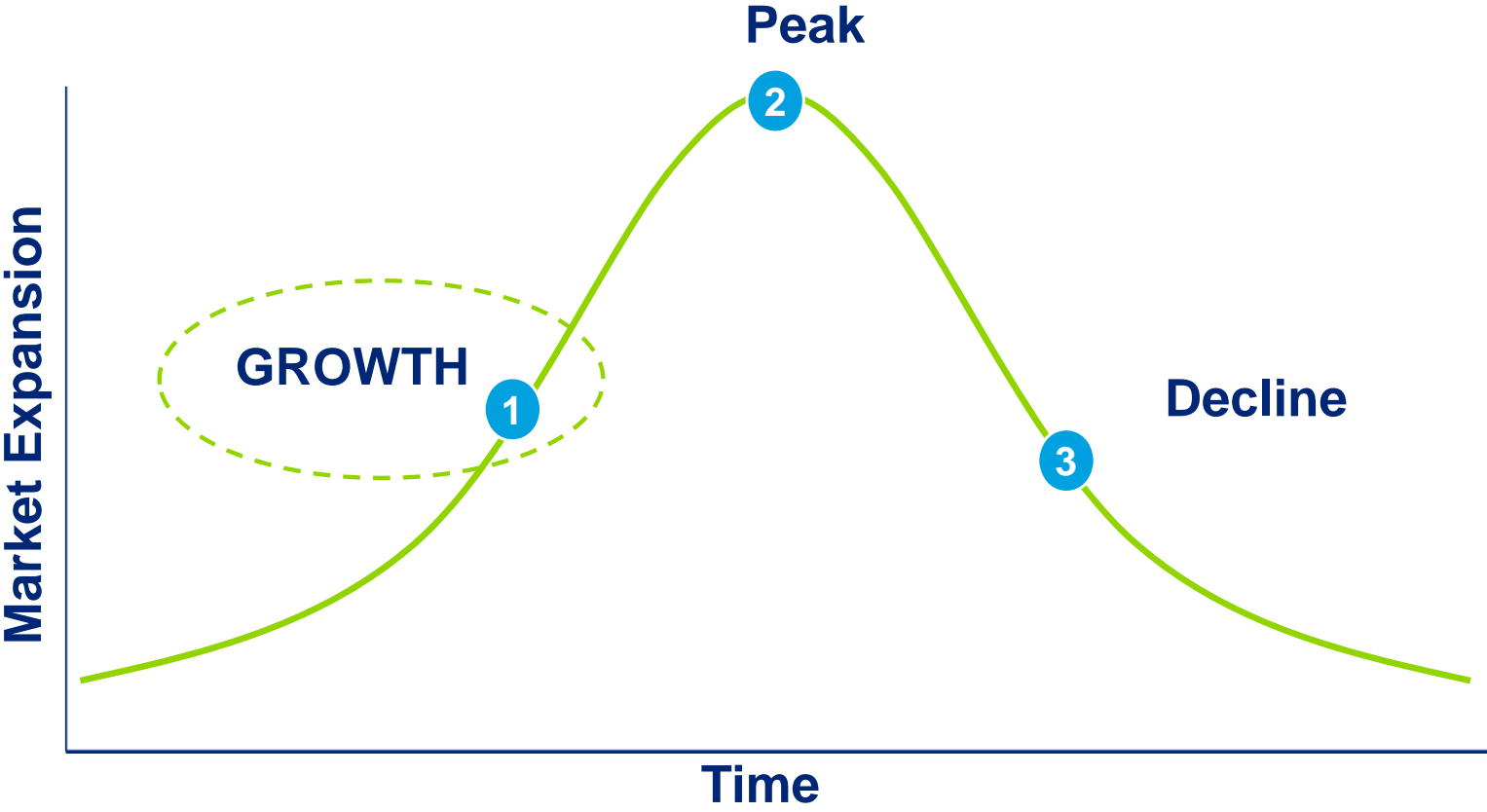


“If you’re not failing every now and again, it’s a sign you’re not doing anything very innovative.”

Woody Allen

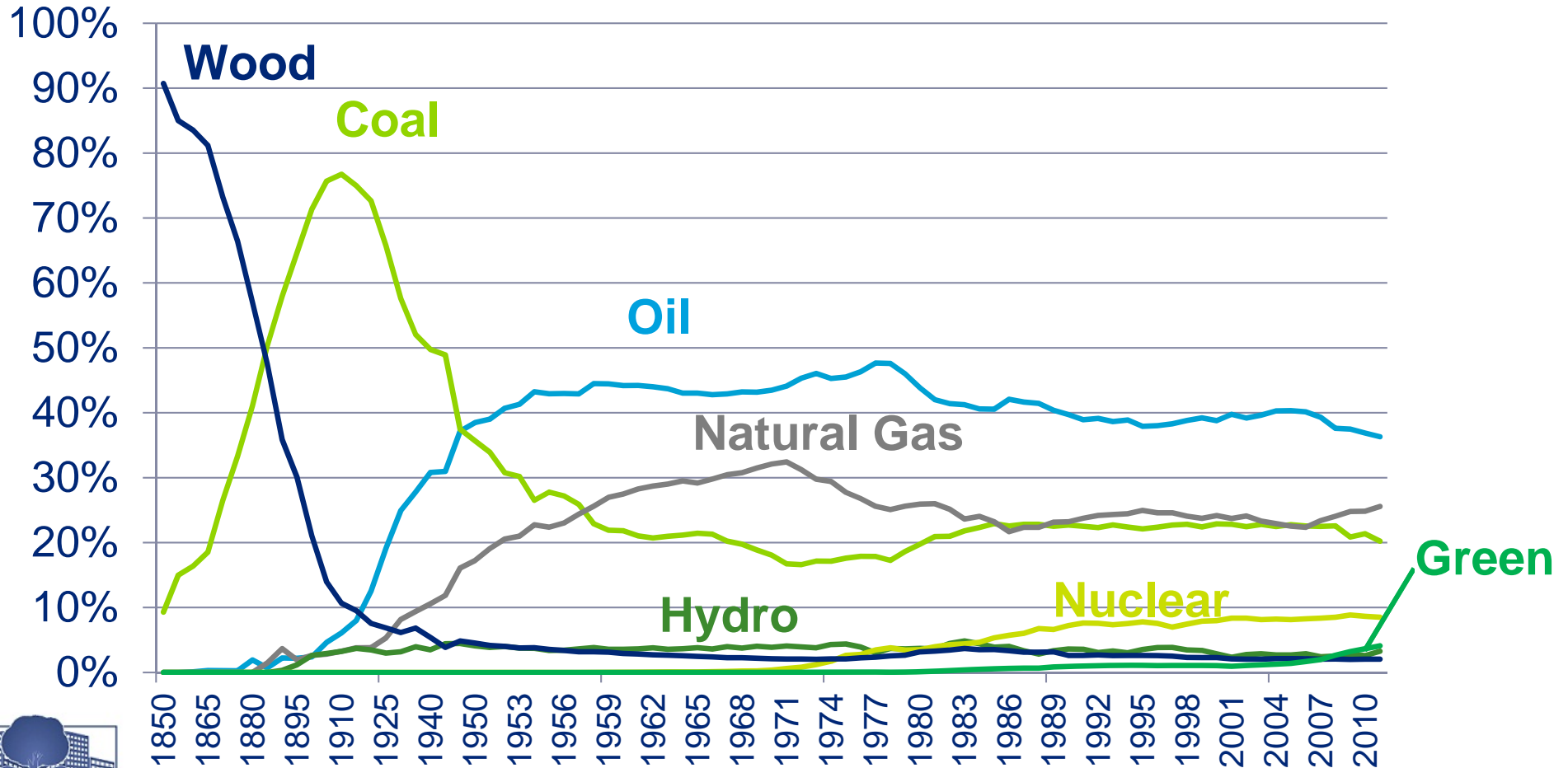


Where will you find innovation?



Example: U.S. energy markets

Economic Changes Come in Waves (Example: US Energy %, By Source)



Source: EIA website



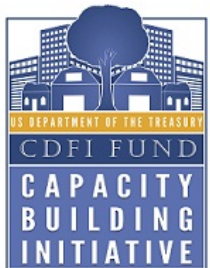
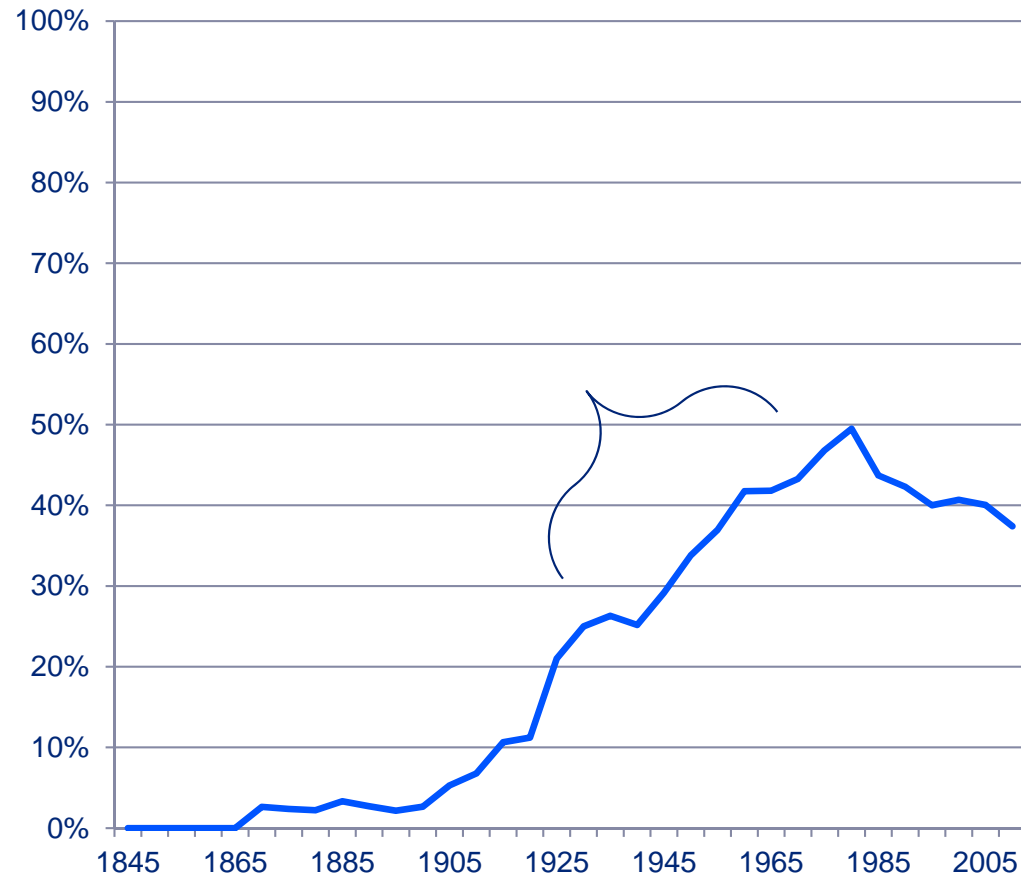
The Growth Period: Good for Distressed Areas, Small Businesses

Pros:

- Easier Entry
- Lower Competition
- Room For Inexperienced Workers
- Higher Profits
- Less Regulation
- Easier to Raise Equity

Cons:

- Riskier
- Dirtier



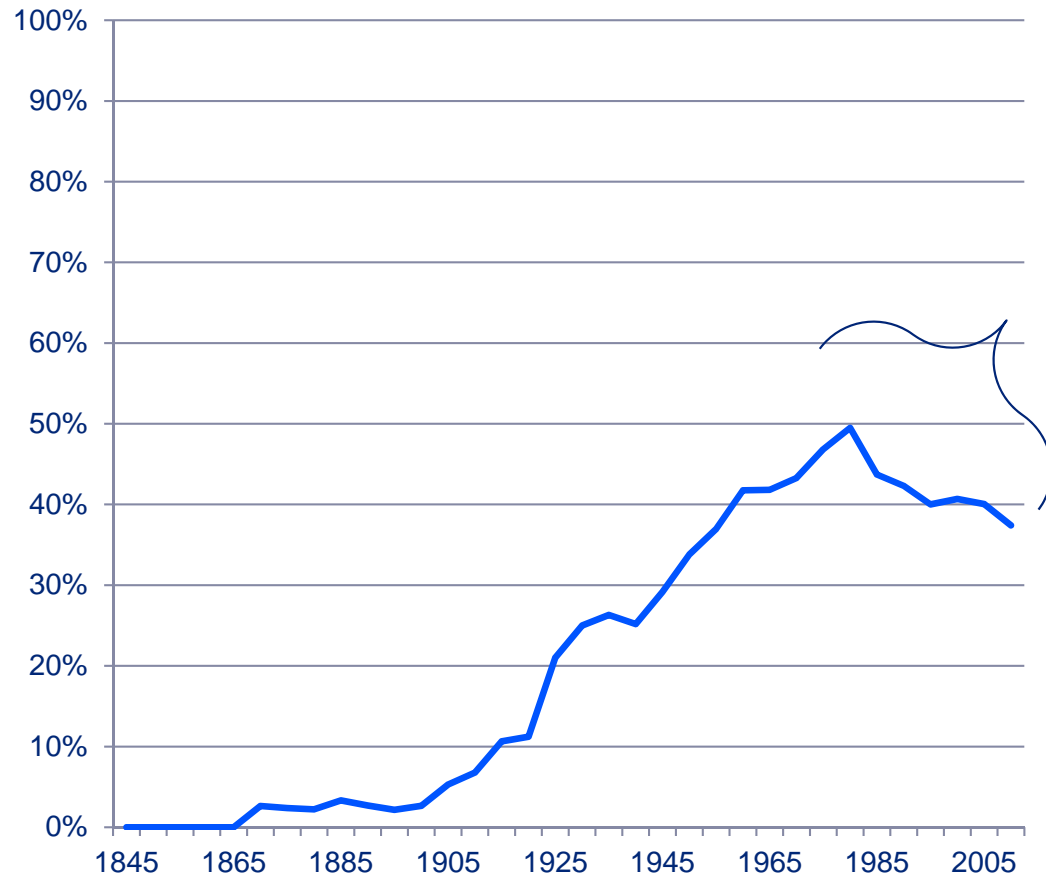
The Decline Period: Bad for Distressed Areas, Small Businesses

Pros:

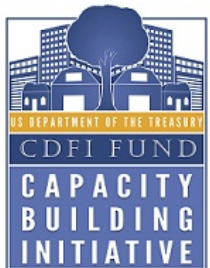
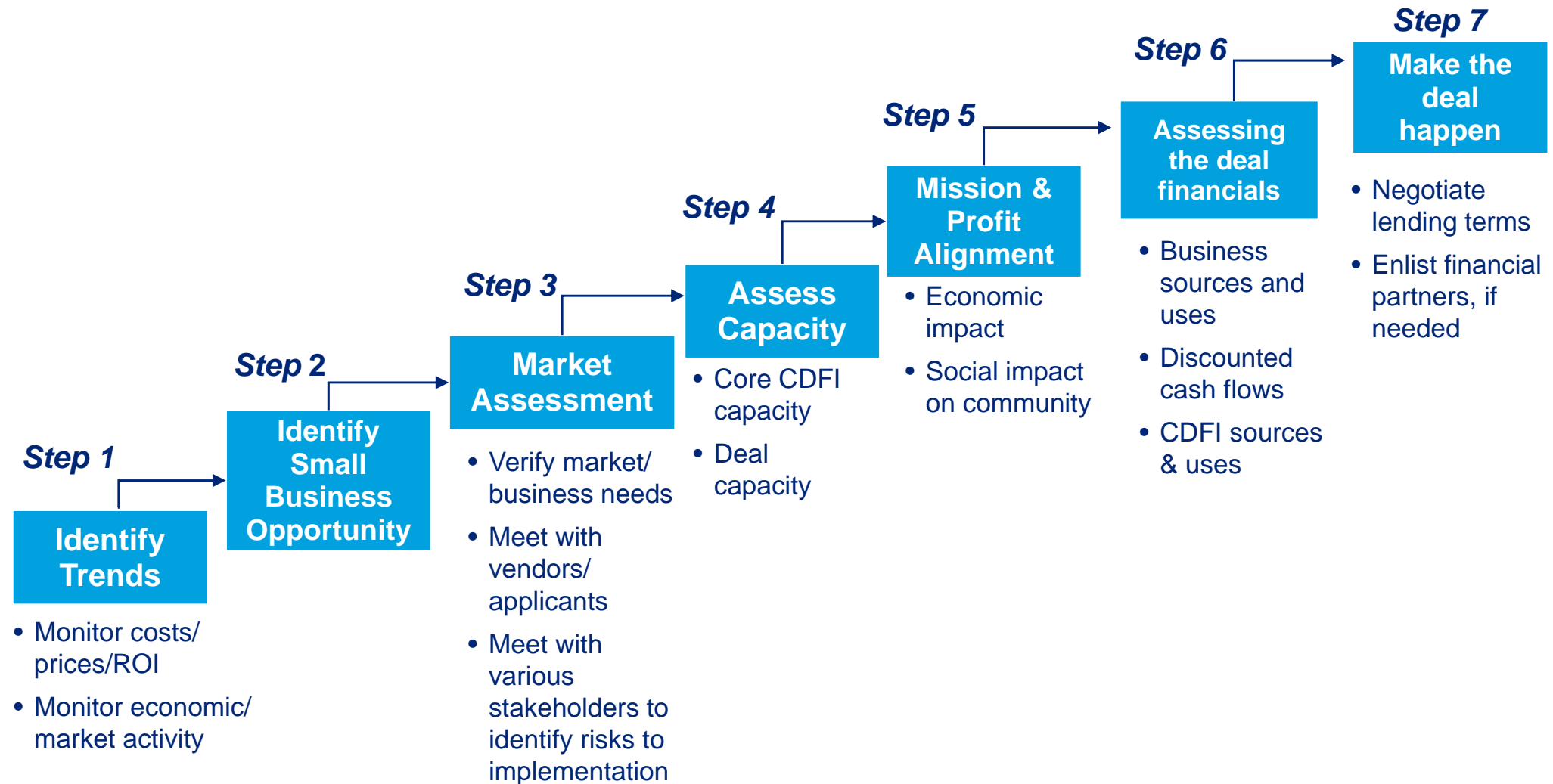
- More predictable cash flows
- More templates available
- Lower enterprise risk

Cons:

- Difficult entry for new business
- Higher regulations
- Higher competition
- High losses
- Consolidation drives out small business
- Impending death of industry

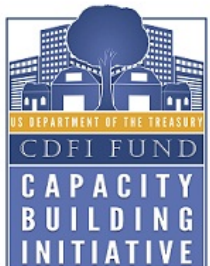


Process for innovating new business



“Innovation – any new idea – by definition will not be accepted at first. It takes repeated attempts, endless demonstrations, monotonous rehearsals before innovation can be accepted and internalized by an organization. This requires *courageous patience.*”

Warren Bennis



Finding Capacity

CDFI - Capacity Assessment Tool

CDFI Capacity Assessment Tool - October 2012_v1.xls [Compatibility Mode] - Microsoft Excel

1. Mission

SECTION 2: Capacity Assessment Questionnaire

Institution Capacity Level

	1	2	3	4
	Baseline Expectations	Capacity to Provide Full Service Line	Capacity to Grow the Service Line	Capacity to Sell Services to Other CDFIs
Mission/Strategy				
1. Mission	N/A Does your CDFI's Mission (overall institutional mandate) support Small Business Lending (SBL)?	Items to the left, plus	Items to the left, plus	Items to the left, plus
	NO Does your CDFI's Annual Business Plan provide for lending capital to be used for general business loans and identifies 'restricted funds' for specific uses?	N/A Does your CDFI have access to a community / business needs tool to determine financial gaps for target customer base?	YES Does your CDFI pursue an ongoing, aggressive Partner Recruiting Plan (PRP) to recruit external resource partners, both financial (e.g., capital sources) and non-monetary (e.g., Technical Assistance support providers) to expanded individual services lines?	N/A Has your CDFI established excess capacity in a deep business infrastructure, both human capital and operational systems, to expand institutional services to other CDFIs?
	YES Has the Board has approved of your CDFI Mission Statement and annual Business Plan?	YES Does your CDFI have access to net-impact estimation tool?	YES Is your CDFI Permitted Investments Policy (PIP) is up-to-date, matched to local growth sectors, and have personnel responsible for preparing impact reports on a regular basis?	N/A Does your CDFI employ a mission-monitoring service, even if it does not provide a specific function itself?
2. Overall Strategy	N/A Does your CDFI have a strategy that permits the	Items to the left, plus	Items to the left, plus	Items to the left, plus

Ready | Main | EnterBasicInfo | EnterChecklist | Overview Report | 100% | 3:12 PM 10/2/2012



Common Capacity Needs – By Strategic Pillar

OPERATIONS

- New Product Development
- Operational Planning
- Marketing
- Procurement
- New Business Vetting

HUMAN RESOURCES

- Human Resource Planning
- Staffing Levels
- Performance Management
- Compensation and Incentives
- Knowledge Management

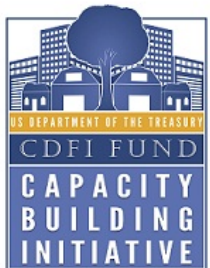
LEGAL

- Legal Structure
- Legal Risk Management
- Legal / Regulatory Staffing



Ways to Find Capacity

- Partnerships
- Service Agreements with larger institutions
- Shared services
- Industry cooperatives
- Self-directed training for staff
- Volunteers (local institutions, colleges, business/law schools)
- Automated systems
- Streamlined transaction procedures
- Standardized documents and language



Considering Mission Impact

Considering mission impacts of loans

Lending has many mission impacts – some intended and some unintended.

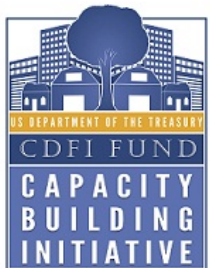
Mission Considerations:

Job and Employment Impact

Economic Development

Quality of Life

Environmental Impacts



Training Binder - Mission Considerations List

Training Agenda

Training Modules

Community Staples – building the core community businesses required to retain and attract residents

Growth Financing – utilize quasi-equity financing tools to provide funds to small businesses looking to enter the growth stage of business development

Real Estate Restructuring – non-traditional real estate restructuring opportunities such as business incubators and sale-leasebacks with purchase option

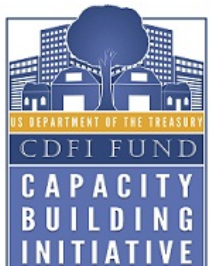


Training Modules

Community Exporters – financing local niche businesses that have the prospect of exporting their products or services regionally, nationally, or internationally

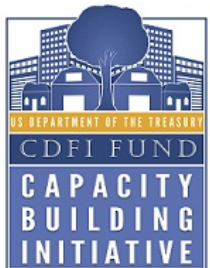
Operational Infrastructure – exploring operational infrastructure challenges and brainstorming solutions

Energy – financing energy efficiency improvements, renewable energy, and emerging green businesses



Takeaways

- Training will cover five market opportunities and several innovations in these markets
- Market opportunities are based on market “waves” and trends in the economy
- Not all opportunities will be applicable to all CDFIs



Creativity is thinking up new things.
Innovation is doing new things.

Theodore Levitt

Deloitte.

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