

Strengthening Small & Emerging CDFIs

The Lending Life Cycle Part Two: Loan Servicing and Troubled Loan Management

Ginger McNally and Tabitha Atkins, Opportunity Finance Network

April 24, 2014

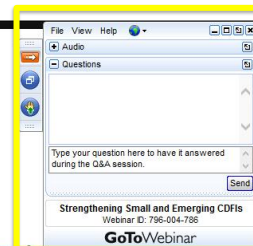


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GoToWebinar

CDFI Fund's Capacity Building Initiative

- The Capacity Building Initiative will greatly expand technical assistance and training opportunities for Community Development Financial Institutions (CDFIs) nationwide and significantly boost the ability of CDFIs to deliver financial products and services to underserved communities.
- Industry-wide training will target key issues currently affecting CDFIs and the communities they serve.



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CDFI Fund's Capacity Building Initiative: Strengthening Small and Emerging CDFIs

- **Goal:** Increase capacity of CDFIs to strengthen financial sustainability and increase community impact.
- **Focus:** Business models that work to support sustainability and impact, understanding stages of organizational growth, and change management.
- **Approach:** Five trainings, five mentored cohorts, one-to-one technical assistance, virtual resource bank.
- **Results:** Each CDFI developed an Action Plan with implementation supported by mentored cohorts.



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Presenter



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Agenda

- Quick Review of Part One of the Lending Life Cycle
- Loan Servicing
- Troubled Loan Management
- Summary of Lending Life Cycle
- Lending Life Cycle Resources



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Quick Review of Part One of Lending Life Cycle

- Strategic context for the Lending Life Cycle
- Business model canvas tool
- Lending Life Cycle tool
- Infrastructure for managing lending risk, supporting lending growth (technology, staff, measuring efficiencies)
- Loan origination, role of marketing strategy, Who/What/What exercise to identify and reach most strategically important customers



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Quick Review of Part One of Lending Life Cycle

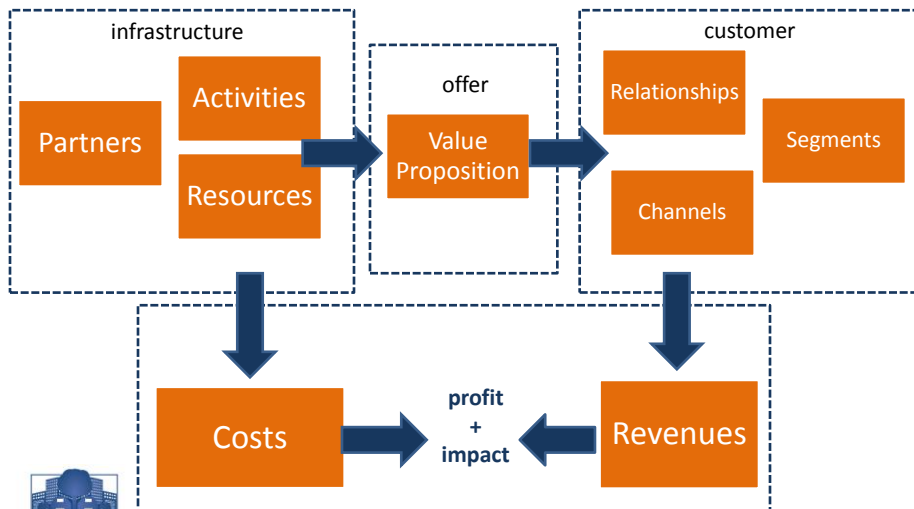
- Loan underwriting and role of written loan policies
- Loan decision process, risk matrices, authorization levels
- Loan closing documentation, technology platforms



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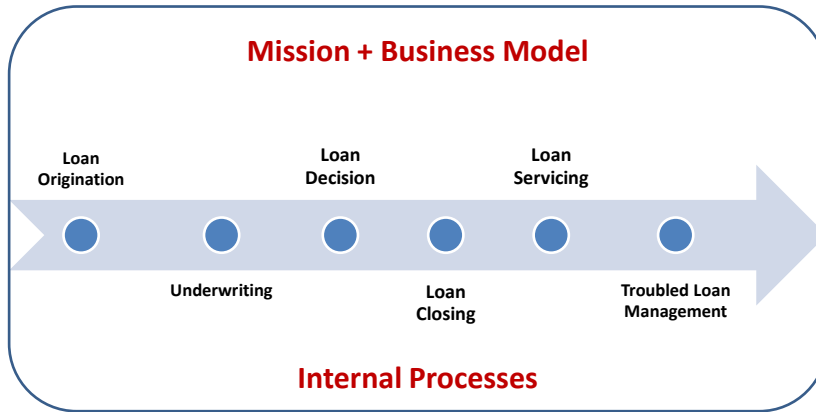
Business Model Canvas



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Lending Life Cycle



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Poll Question

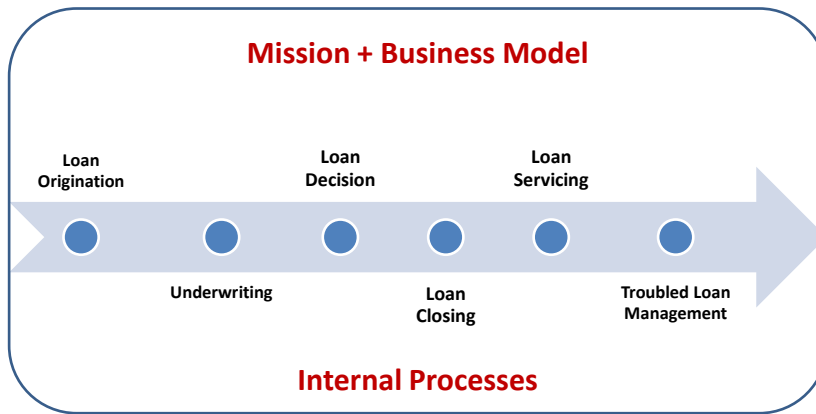
What elements in Part One of the Lending Life Cycle did you find most compelling, with tools or ideas that you plan to investigate?
(Choose as many answers as you want)



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Lending Life Cycle



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Loan Servicing

After the initial loan proceeds are disbursed to the borrower, then the **loan servicing** phase begins. It is imperative that the CDFI have the right infrastructure to not only collect interest payments, but to also proactively monitor the financial and operational performance of its borrowers.

The key to great **loan servicing** is relationship management with borrowers.



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Infrastructure for Effective Loan Servicing

The **foundation** of loan servicing includes:

- Monitoring loan disbursements in accordance with the loan agreements
- Invoicing and collecting payments from borrowers
- Creating annual interest statements
- Maintaining loan aging reports

CDFIs must evaluate their loan servicing assets:



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Infrastructure for Effective Loan Servicing

CDFIs should also be **proactively** asset managing its borrowers by:

- Collecting and analyzing borrowers' reports
 - financial statements
 - tax returns
 - insurance certificates
- Monitoring loan covenants (i.e., DSCR)
- Conducting site visits and collateral monitoring
- Based on loan performance, applying risk rating grade to each borrower
- Recommending post-closing technical assistance



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Technology Platforms

At a minimum, the loan servicing platform should capture:

- Borrower information and project overview
- Type of loan
- Loan status – current and days delinquent
- Terms of loan
- Loan covenants
- Risk rating – pre and post closing
- Site visit schedules
- Loan disbursement history
- Construction draws
- Community impact metrics

Ensure the platform is user-friendly and has the ability to create standardized reports for Loan Review Committee and investors.



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Monitoring Portfolio Quality

The loan servicing staff should create either monthly or quarterly portfolio quality reports that summarize loan performance by:

- Underwriting exceptions
- Delinquency
- Risk rating score
- Collateral value
- Most recent site visit
- LLR and/or write-down
- Proposed loan restructuring

The data will help the CDFI and Loan Review Committee establish portfolio concentration targets and amendments to underwriting policies and procedures.



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Sample Portfolio Quality Report

Portfolio by Loan Product							
	# Total Loans Outstanding	% of Total Portfolio (#)	\$ Total Loans Outstanding	% of Total Portfolio (\$)	30 Day Delinquency Rate	60 Day Delinquency Rate	90 Day Delinquency Rate
Working Capital Loans - Term							
Working Capital Loans - Line of Credit							
Fixed Asset Term Loans - Equipment							
Fixed Asset Term Loans - Real Estate							
Total							
Portfolio by Industry							
	# Total Loans Outstanding	% of Total Portfolio (#)	\$ Total Loans Outstanding	% of Total Portfolio (\$)	30 Day Delinquency Rate	60 Day Delinquency Rate	90 Day Delinquency Rate
Industry 1							
Industry 2							
Industry 3							
Total							
Portfolio by Geography							
	# Total Loans Outstanding	% of Total Portfolio (#)	\$ Total Loans Outstanding	% of Total Portfolio (\$)	30 Day Delinquency Rate	60 Day Delinquency Rate	90 Day Delinquency Rate
Cleveland MSA							
Akron MSA							
Canton MSA							
Total							
Portfolio by Loan Size							
	# Total Loans Outstanding	% of Total Portfolio (#)	\$ Total Loans Outstanding	% of Total Portfolio (\$)	30 Day Delinquency Rate	60 Day Delinquency Rate	90 Day Delinquency Rate
\$50,000 - \$100,000							
\$101,001 - \$200,000							
\$201,001 - \$300,000							
> \$300,001							
Total							



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CDFI Fund's Minimum Prudent Standards for Portfolio Quality

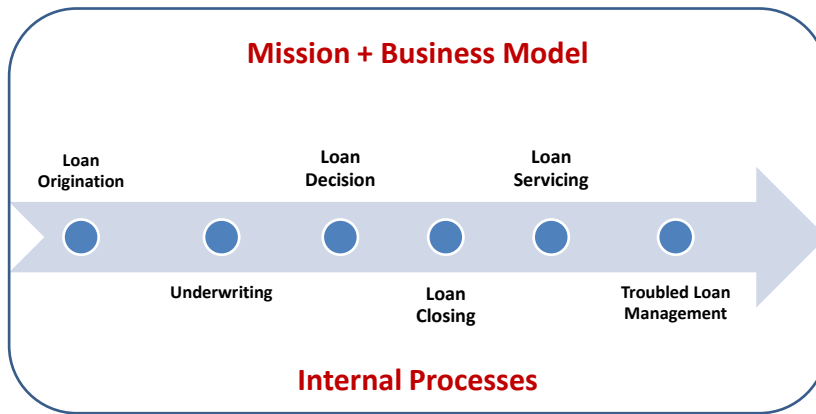
Loan Portfolio Quality Minimum Prudent Standard (MPS) for Non-Regulated Entities			
Product Grouping	Portfolio-at-Risk (PAR)	Annual Net Loan Loss Ratio	Loan Loss Reserves (LLR) Or Provision for Losses
Affordable Housing-First Lien	≤ 7.00%	≤ 1%	Loan Loss Reserves are expected to be no less than half the actual Portfolio-at-risk and no more than one and a half times the actual portfolio at risk: .5 PAR ≤ LLR ≤ 1.5 PAR
Affordable Housing-Subordinate Lien	≤ 7.00%	≤ 3%	
Business	≤ 10.00%	≤ 5%	
Consumer & Micro-enterprise	≤ 12.00%	≤ 9%	
Overall MPS	≤ 15.00%	Narrative Only	



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Lending Life Cycle



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Troubled Loan Management

- The way CDFIs and other mission-driven lenders set expectations regarding repayment - and work with borrowers having difficulty - is a distinguishing characteristic of the sector
- Building a culture of repayment starts with the first contact with a borrower and is consistently reinforced throughout the life of the loan



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Poll Question

What represents the biggest hurdle to getting complete, timely repayment in your organization?



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Attitude Matters (Part One)

Attitude matters in loan repayment and collection

- We are clear from the beginning about expectations regarding full and timely repayment and what will happen if payments are late
- We ask and listen respectfully to borrowers who are in trouble and work with them to get back on track
- We are proud of our organization and work to protect the loan portfolio so that we can continue to do our great work in the communities we serve



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Tips for Strengthening Repayment

Marketing	Application	Underwriting	Account Management	Customer Service
<ul style="list-style-type: none">• Messages should reflect mission• Market to clearly identified customer segments	<ul style="list-style-type: none">• Offer value in this stage• Be thorough• Think about what a collector may need later	<ul style="list-style-type: none">• Codified, clear standards• Regular portfolio monitoring to ensure the right risk parameters	<ul style="list-style-type: none">• Find multiple ways to be in touch• Are clients clear about where their account stands?	<ul style="list-style-type: none">• Working to build trust with your customers will help when times get tough



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Provide Tools and Support

How does your organization define key terms?

Who's collecting and when?

What expertise and resources are available? (i.e. legal, auction, repo, etc.)



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Poll Question

Do you have clear written collection protocol defining who is responsible for which collection efforts and when?



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Technique 1: The Right Information

- Are you pulling regular reports on the aging of your portfolio?
 - Look for movement between aging buckets
- Do you know how your client is performing with other creditors?
 - Pull a credit report
- Are you tracking communication?
 - That log is a critical tool



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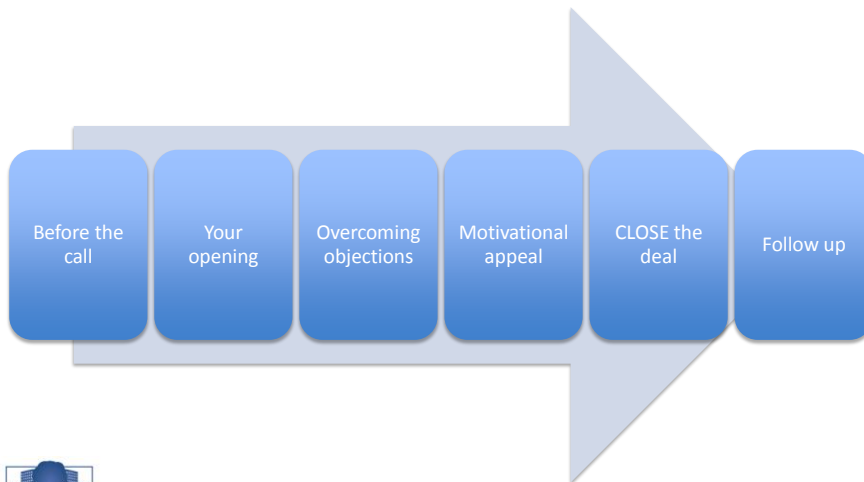
Technique 2: Setting Goals, Building a Schedule

- Follow a schedule/protocol
 - Start on Day 1 of delinquency
- Schedule activities
 - What are the best times to reach clients?
- Set goals for collections staff
 - Number of calls per day, week or month
 - Dollar amount to be collected per week or month



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Technique 3: Making the Call



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Attitude Matters (Part Two)

When talking with a customer who is late on payments, it's helpful to remember:

- The customer is typically nervous, may be embarrassed or possibly afraid, and wants the problem go away
- People tend to respond better to options than obstacles
- Helping a customer discover how he or she can move forward with repayment helps everyone



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Lending Life Cycle – A Summary

- Defining the Lending Life Cycle
 - The Lending Life Cycle starts with the initial contact with a potential borrower and continues through the final loan payment
- Understanding the strategic context for lending
 - The mission and business model provide the context for lending and help the organization identify key customer segments, its value proposition in the marketplace, its infrastructure needs in order to deliver on its promise to its customers, and the financial and social impact bottom lines



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Lending Life Cycle – A Summary

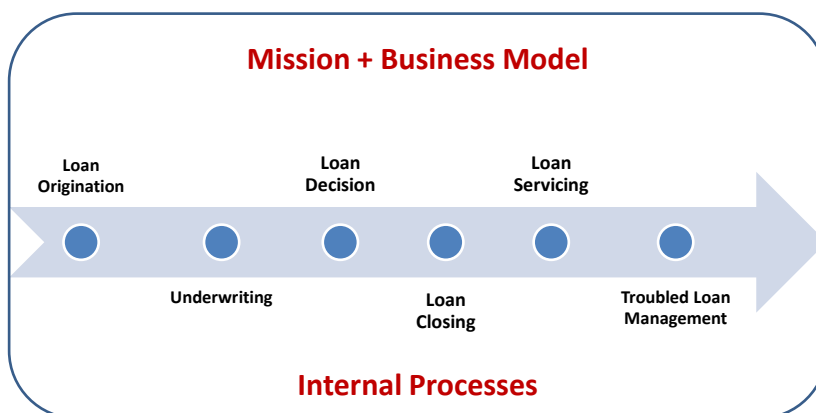
- Examining the infrastructure to support (or impede) lending activities
 - Internal processes need to be rapid, accurate, consistent
 - Technology must be affordable, able to talk to different parts of the organization, and have the capacity to generate loan reports for multiple audiences
 - Staffing needs to be adequate for the type and level of lending activity, with training and performance standards



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Lending Life Cycle



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Lending Life Cycle – A Summary

- Loan origination and customer acquisition
 - Importance of identification of key customer segments
 - Who/What/What exercise and developing an integrated marketing strategy
- Underwriting
 - Who qualifies for what loan product brings the mission to life
 - Fair and consistent application of written loan policies is a must



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Lending Life Cycle – A Summary

- Loan decision
 - Balancing mission and risk while serving key customer segments is an ongoing and iterative process
 - Loan policies outline loan approval authority
- Loan closing
 - Importance of ensuring the loan has been fully documented at closing
 - Critical moment for setting repayment expectations



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Lending Life Cycle – A Summary

- Loan servicing
 - Create frequent asset quality reports to summarize loan performance by product, industry, etc.
 - Proactively monitor borrower's financial and operational performance to predict loan prepayment and apply risk rating grades.
- Troubled loan management
 - Building a culture of repayment starts with the initial contact with a potential borrower
 - Importance of written detailed collection protocols



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QUESTIONS?



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Resources

- Business Model Generation, Osterwalder & Pigneur, 2010.
- Sample of Technologies to Improve the Lending Life Cycle
- What's in Your Technology Toolbox? OFN Publication.
- Risk Rating Systems for Small Business Community Development Financial Institutions (CDFIs)
http://ofn.org/sites/default/files/TAMemo_RiskRatingSystems.pdf
- Portfolio Review: A Critical Element of Effective Portfolio Risk Management
<http://www.opportunityfinance.net/store/downloads/2011PortfolioReview.pdf>



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Sample Third-Party Technology Vendors

- Microloan Management Services:
<http://www.acciontexas.org/mms/about/>
- OnDeck Capital: <http://www.ondeck.com/>
- Inventure/Insight:
<http://www.inventure.org/using/learn-about-insight>
- Demyst data: <https://demystdata.com/>
- Cignifi: <http://www.cignifi.com/en-us/>
- Yodlee: <http://www.yodlee.com/>



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Strengthening Small and Emerging CDFIs Webinar Series

- **Upcoming topics include:**

- *Market Research*
- *Financial Projections*

Upcoming webinar registration and past webinar recordings can be found at:
[The CDFI Fund's Virtual Resource Bank.](#)



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CDFI Fund's Virtual Resource Bank

A screenshot of the CDFI Fund's Virtual Resource Bank website. The browser address bar shows "www.cdfifund.gov/what_we_do/Strengthening_Small_and_Emerging_CDFIs_Resource_Bank.asp". The page has a blue header with navigation links: "WHO WE ARE", "WHAT WE DO", "IMPACT WE MAKE", "NEWS & EVENTS", and "HOW TO APPLY". The main content area is titled "COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND" and "UNITED STATES DEPARTMENT OF THE TREASURY". Below this is the "Strengthening Small and Emerging CDFIs Resource Bank" section, which includes a link to view all available Resource Banks. The page is divided into three sections: I. Training Curriculum (listing Models for Growth, Logic Model, Four Stages of Organizational Growth, Business Model, Managing and Negotiating Change, CDFI Action Plan, and Leading Organizational Change), II. Training Webinars (listing Coming Soon), and III. Additional Resources (listing Analysis of the CDFI Industry Landscape, CDFI Operations, and Tools for Greater Community Development Impact).

www.cdfifund.gov/what_we_do/Strengthening_Small_and_Emerging_CDFIs_Resource_Bank.asp

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

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

Strengthening Small and Emerging CDFIs Resource Bank

The resources for this topic can be found below. To view all of our available Resource Banks, click [here](#).

I. Training Curriculum:

- Models for Growth – What Works
- The Logic Model as an Outcome-Based Project Management Framework
- The Four Stages of Organizational Growth
- Business Model: External Environment
- Managing and Negotiating Change
- CDFI Action Plan
- Leading Organizational Change

II. Training Webinars:

- Coming Soon

III. Additional Resources:

- Analysis of the CDFI Industry Landscape
- CDFI Operations
- Tools for Greater Community Development Impact



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