

Training Module: Building Operational Infrastructure

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Why operations?

CDFIs are overwhelmed by the day-to-day operations required to successfully run their organizations. CDFIs need staff support and new technology to help ease the reporting, servicing and other operational burdens that limit them from taking full advantage of new client opportunities.

(Source: interviews and survey of CDFIs)



Why operations?

Realizing operational infrastructure efficiencies and cost savings are critical to self-sufficiency!

High operational costs hinder the ability of CDFIs to provide other financing, lending, and assistance activity to small businesses in their community.

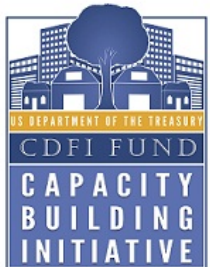
This module provides a discussion basis on the challenges and potential solutions for operations.



Lending Functional Areas

	Sales & Marketing	Loan Operations	Compliance & Reporting
Operational Tasks	<ul style="list-style-type: none"> Conduct community economic research Analysis of CDFI economic impact Community outreach programs Identifying suitable candidates for CDFI funding Marketing available funding programs to potential recipients 	<ul style="list-style-type: none"> Loan origination Loan application/documentation Credit analysis/underwriting Funding/Disbursement Payment collection Monthly servicing Collections Workouts/liquidations Collateral review 	<ul style="list-style-type: none"> Finance & accounting reports Credit/Compliance risk monitoring Required statutory reporting Reporting performance in economic and social terms Measuring outputs versus outcomes versus impacts

How can CDFIs efficiently complete back office operations while maintaining enough resources to conduct rigorous business and community development functions?



Strategies: Formal vs. Informal

Formal

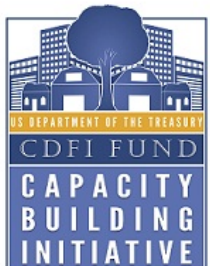
establishing a partnership or similar legal structure entity to fund larger projects, centralize operations, benefit from lower costs and shared resources

- Centralize back office operations centers
- Develop shared services centers
- Utilize centralized clearinghouse and credit monitoring
- Develop standardized reporting across industry

Informal

building regional (open) network to exchange knowledge and partnership opportunities

- Develop standardized reporting templates for your CDFI or across multiple CDFIs to simplify analysis, perhaps regionally
- Participate and/or lead trainings on building financial infrastructure (loan underwriting, pricing, servicing practices, tracking loans, etc.)
- Utilize existing networks



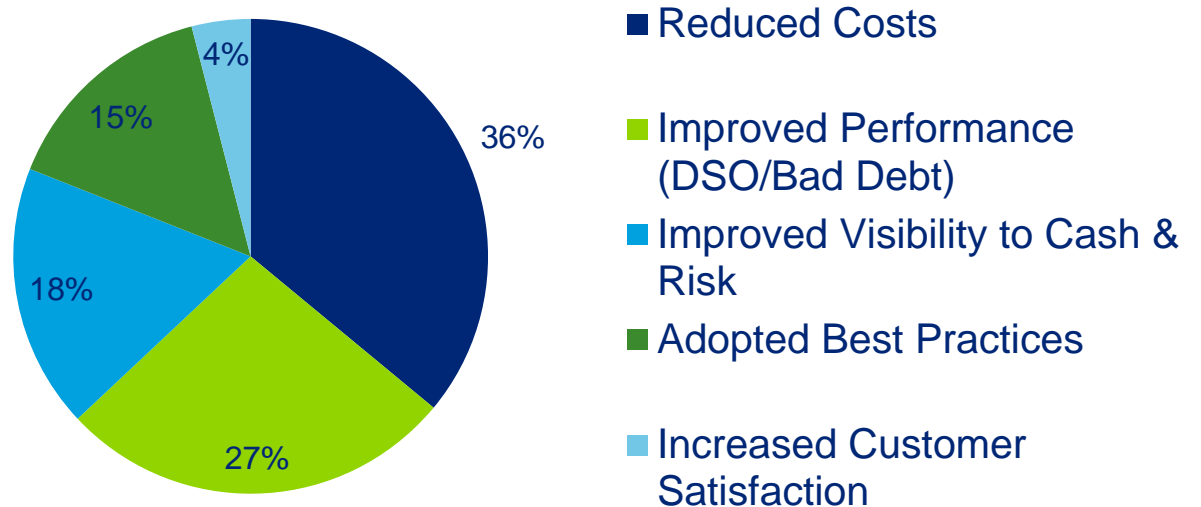
Shared Services Model

From the largest to the smallest financial institutions, cost savings may be realized through the implementation of shared services platforms.

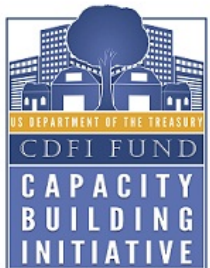
Shared Services

- Shared service centers & shared service agreements
- Top driver of adopting a shared service center: reduce costs through productivity gains
- Focus has shifted to driving sustained strategic benefits, such as: improved business performance, ensured regulatory compliance, and enduring competitive advantage
- Often associated with transaction-based activities – repeatable processes

Reported impact of a shared services model



Source: Sungard Avantgard Insights, "The Next Generation Shared Service Center – What Have We Learned?",



Potential Strategy: Centralize Back Office Operations

Current Back Office Operations at Local CDFIs

Specialized functions (legal, cash management) may be outsourced to appropriate third party vendors

Credit Analysis and Underwriting

Legal

Funding and Payments

Compliance Reporting

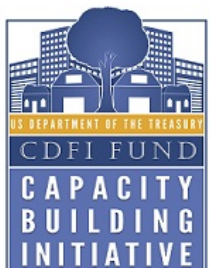
Centralized CDFI Operations

Loan Origination

Finance and Accounting

Monthly Loan Servicing

Documentation



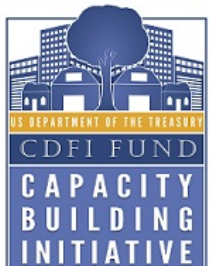
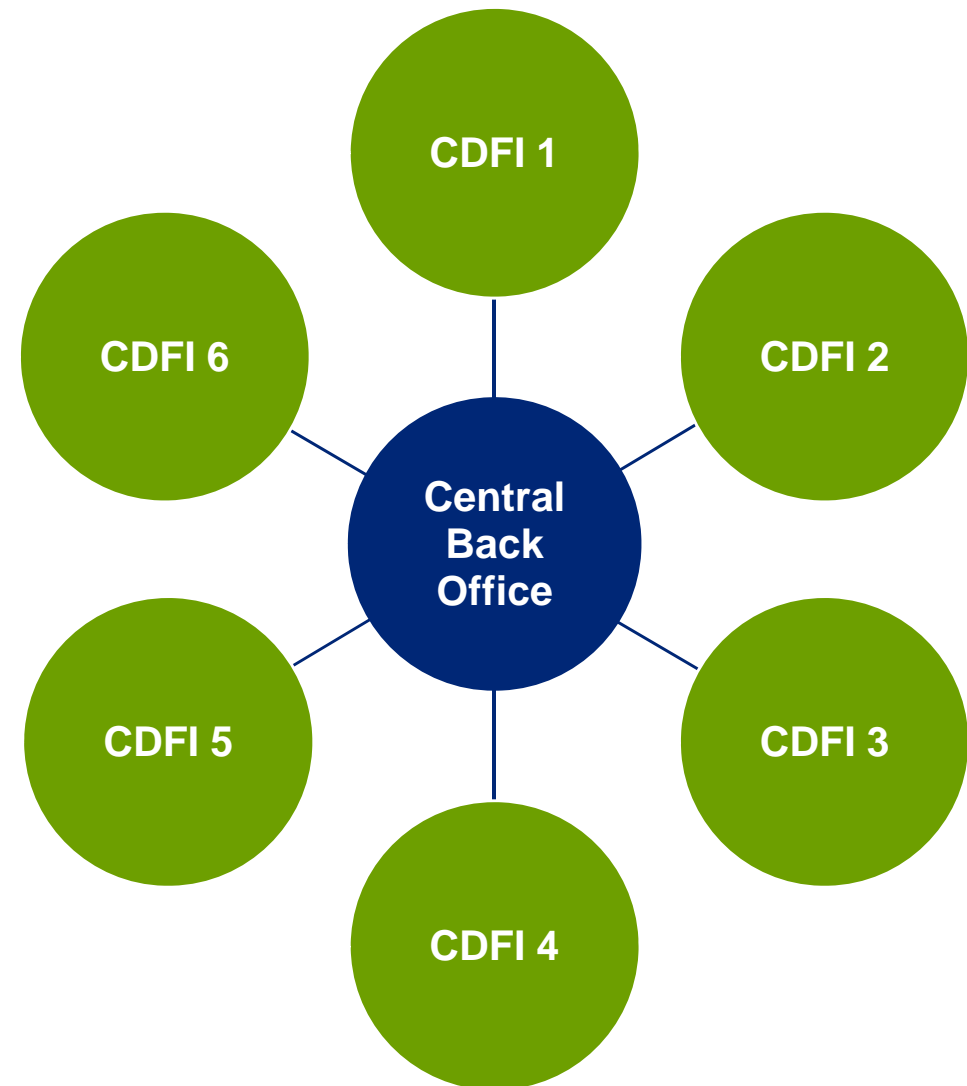
Centralized Back Office Operations: Understanding the Benefits and Challenges

Benefits

- Long-term standardized operations and reporting across system
- Stability and reliability
- Frees individual CDFI resources to focus on local marketing and educational efforts
- Enables peer performance comparisons
- Can promote networking and information sharing across CDFI's

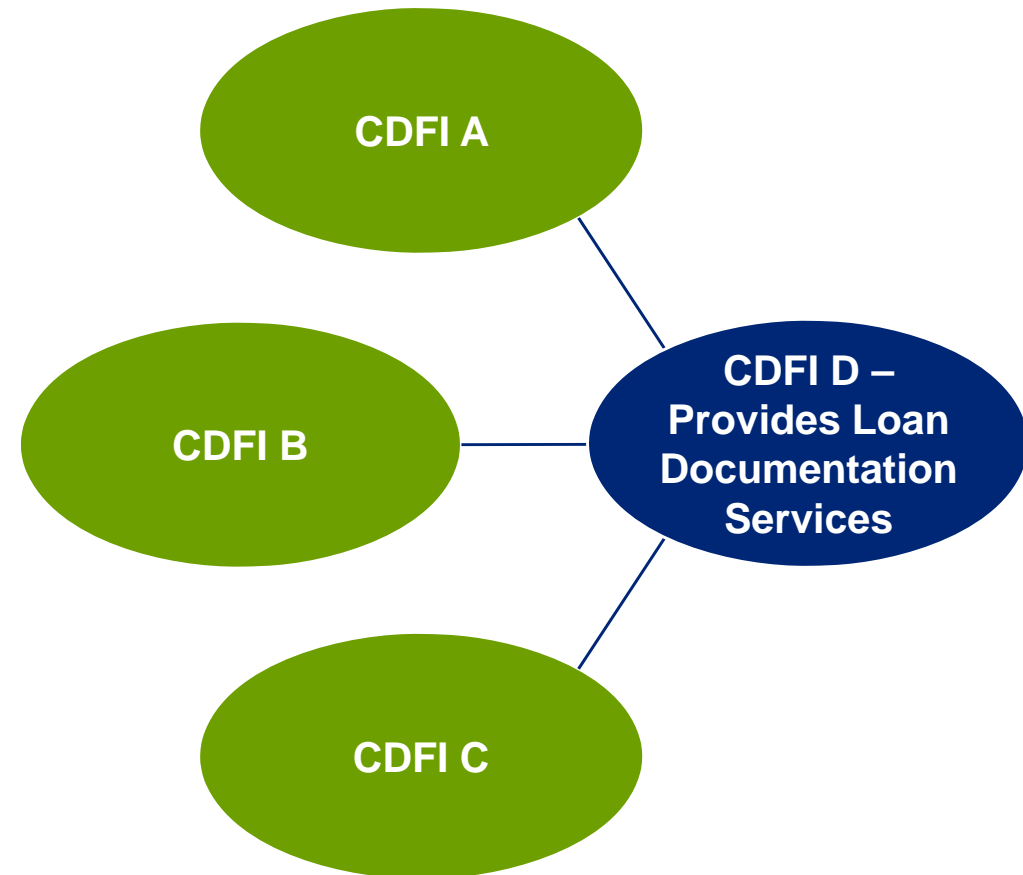
Challenges

- Financial and regulatory
- Lack of member support
- Lack of standardized reporting and data standards in current systems



Alternative: Shared Service Cooperatives

- Group of private businesses or public entities that form a cooperative corporation to provide one or more services that enhance or increase the competitiveness of their operations.
- Cooperatives could develop and offer services based on the needs of the member CDFIs:
 - Purchase technology products
 - Provide support services – accounting, loan servicing, legal assistance, marketing, etc.
 - Start by offering a single service and new or more complex services can be added as the cooperative matures.



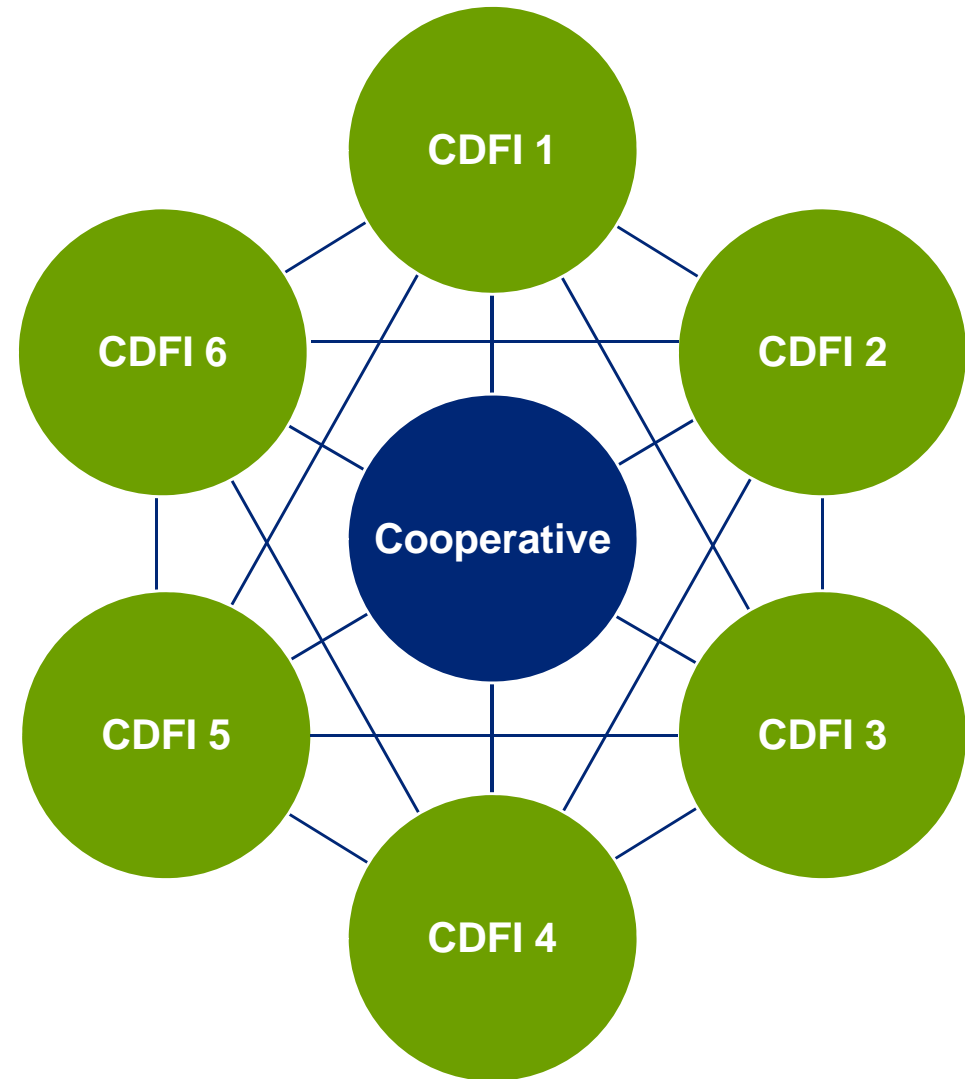
Shared Service Cooperatives – Understanding the Benefits & Challenges

Benefits

- Empowerment / Control
- Stability and Reliability
- Networking
- Flexibility

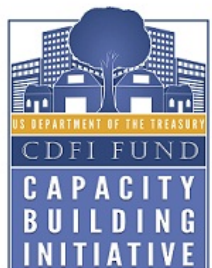
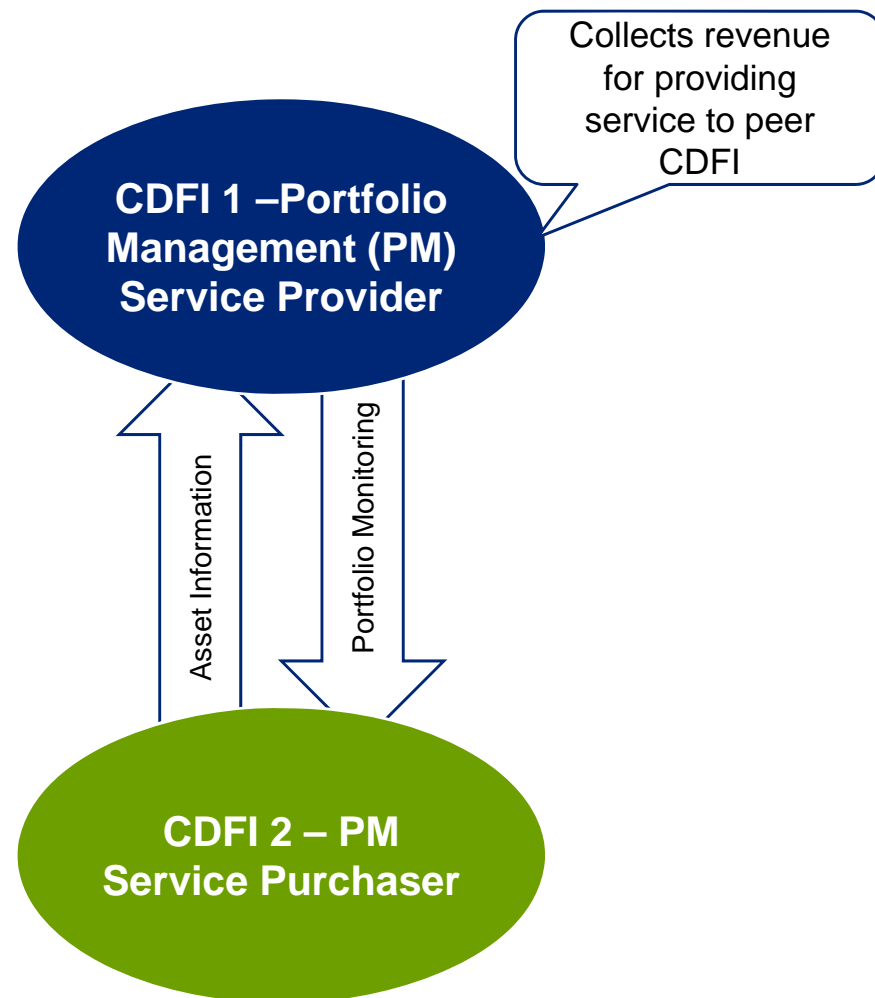
Challenges

- Financial
- Competition among Members
- Quality of the shared systems
- Potential conflicts with information sharing
- Lack of Membership Support



Alternative: Shared Services Concept as a Revenue Generator

- Large or specialized CDFIs can provide services and expertise to other CDFIs
- Advantage of cost savings for other CDFIs and an alternative revenue source for the CDFI providing the service
- Ability to leverage the expertise and resources of CDFIs:
 - Experienced in a specific type of deal
 - Specialized in certain financing instrument
 - Large scale



Sample of Current CDFI Shared Services

ACCION

ACCION provides a Micro Loan Management System (MMS), which is a web-based service center for micro lending.

Benefits:

- Faster loan turnaround time
- Reduced paperwork
- Scoring model increases quality of underwriting

Community Reinvestment Fund

CRF provides a broad range of loan servicing support to 40+ organizations including CDFIs and small community lenders.

Benefits:

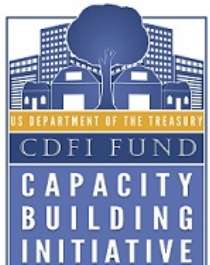
- Loan servicing platform increases operational efficiency
- Electronic document preparation reduces paperwork
- Service platforms provide live customer assistance, ease of use

Valley Economic Development Center

VEDC enters into joint ventures with smaller CDFIs to provide back office underwriting services for these entities.

Benefits:

- Smaller CDFI still provides the initial origination function
- VEDC performs a standard underwriting process including collateralization of the loan
- Both entities share in the income stream



Sources: Interview with Community Reinvestment Fund, Interview with VEDC, <http://www.accion.com/>, <http://www.crfusa.com>

Establishing standardized
data definitions,
reporting, and analysis

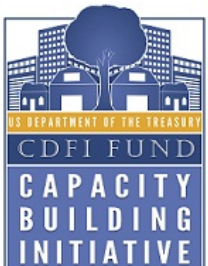
Standardized Documentation

- Create standard reporting documentation and templates to be used across CDFIs
 - Loan application
 - Loan approval
 - Loan performance
 - Regulatory reporting
 - Financial performance monitoring
- Consider having third party or a leading CDFI develop documentation – then offer documentation for a fee to CDFI industry
- Master License Agreement with third party
- Need for uniformed reporting will only continue to grow:
 - Compliance and regulatory purposes
 - Upcoming Bond Guarantee Program



Standardized Data Definitions

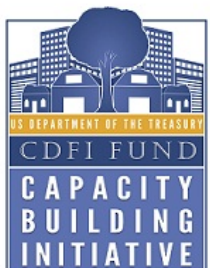
- Financial Performance measurements – example resources for definitions:
 - CDFI Fund CIIS database definitions
 - Financial Accounting Standards Board
- Social impact measurements – example resources:
 - National Community Investment Fund (NCIF) - Social Performance Metrics Database
 - Global Impact Investing Network (GIIN) – Impact Reporting & Investment Standards Performance Metrics (IRIS Metrics)
- Need for benchmarking and industry performance comparison



Benefits of Standardized Documentation and Definitions

Establishing common data standards, definitions and documentation/templates provides for the following potential benefits:

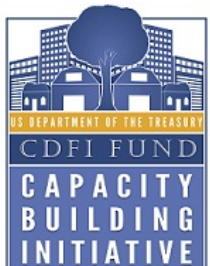
- Increased readiness to obtain commercial, long-term funding
- Ease of information sharing
- Simplify and standardize social and economic impact measurements
- Benchmarking performance measurements across the industry
- Potential for cost savings
 - Allows use of shared documentation and templates
 - Provides the ability to use third-parties for common services
 - Leverage best practices versus creating customized documents



Innovations in the Market

On-line platforms

- Many innovative on-line platforms are being launched to streamline funding and underwriting – particularly related to small business lending.
- Due to recognition that small business finance is broken – this is an area where traditional financial institutions are not meeting market needs
- CDFIs have the opportunity to develop partnerships with these entities that are at the forefront of technology innovations in financing.



Triple Bottom Line Tool

- Free on-line tool developed for assessing triple bottom line impact of investments – economic, environmental, and social impact
- Designed for use as:
 - **Design tool:** Consider how to optimize your investment's impact
 - **Decision tool:** Compare and rank potential projects and investments
 - **Communication tool:** Describe how an investment aligns with your mission and community priorities
 - **Education tool:** Documentation and case illustrations can build the understanding of economic development processes and impacts
- Currently in beta testing mode – the tool is available online for testing and to provide feedback into the design for final version

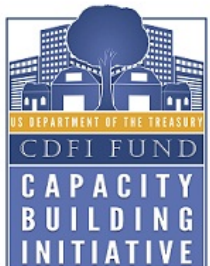


Triple Bottom Line Tool

- Generates a score for each of the three bottom line goals
 - Economic vitality
 - Natural resource stewardship
 - Community well-being
- Tool was funded by the U.S. Economic Development Administration
- Development led by Portland State University in collaboration with PolicyMap, University of Arizona, and Dr. Ira Goldstein from the Reinvestment Fund

www.tblltool.org

Note: This tool is in testing phases. Inclusion in this presentation is not an endorsement or recommendation of the tool; this is to provide information on new tools in development.



**For sources and further information,
see the “Operational Infrastructure”
section of the Virtual Resource Bank**

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