



# Successful Lending Practices: Collections

The CDFI Fund's Capacity Building Initiative: *Building Native CDFI's Sustainability and Impact II*

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ICF and First Nations Oweesta Corporation, Inc.



Citizen Potawatomi  
Community Development Corporation



# Introduction

*Collections can be the hardest part of the loan process for any loan product. This interactive Native CDFI panelist webinar will discuss meaningful strategies and best practices to strengthen your collections process.*

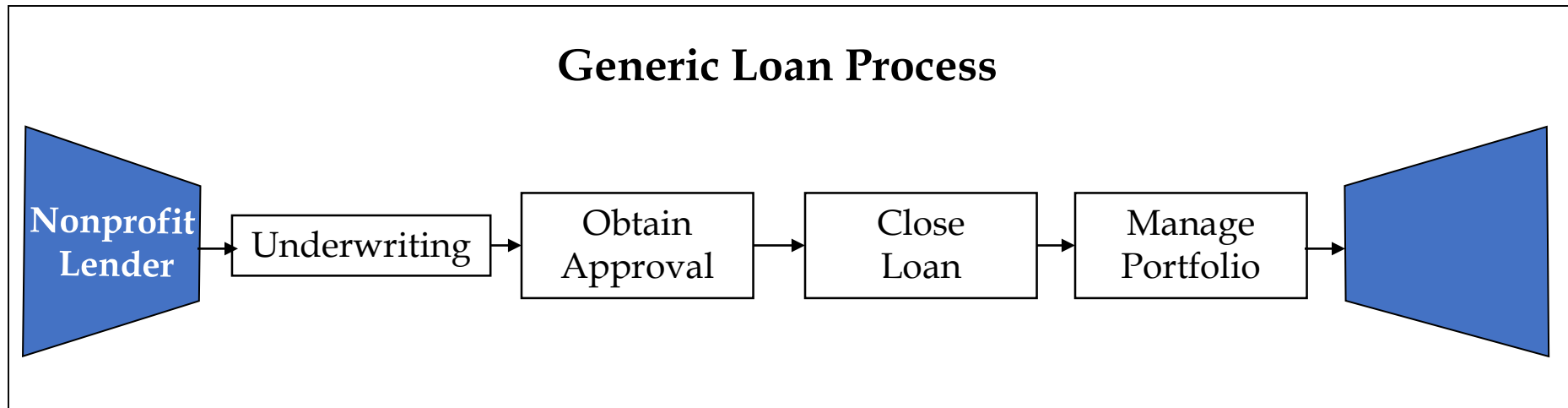
## **This Webinar Presents:**

- How collections work for different types of Native CDFI lending
- The process and timeline from closing a loan to write-offs and where collections fits in this process
- Best practices related to collections at a Native CDFI
- The challenges related to collections at a Native CDFI and strategies to overcome them
- How the legal system affects collections and what Native CDFI practitioners can do if there is not a strong legal structure in place

# Panelists

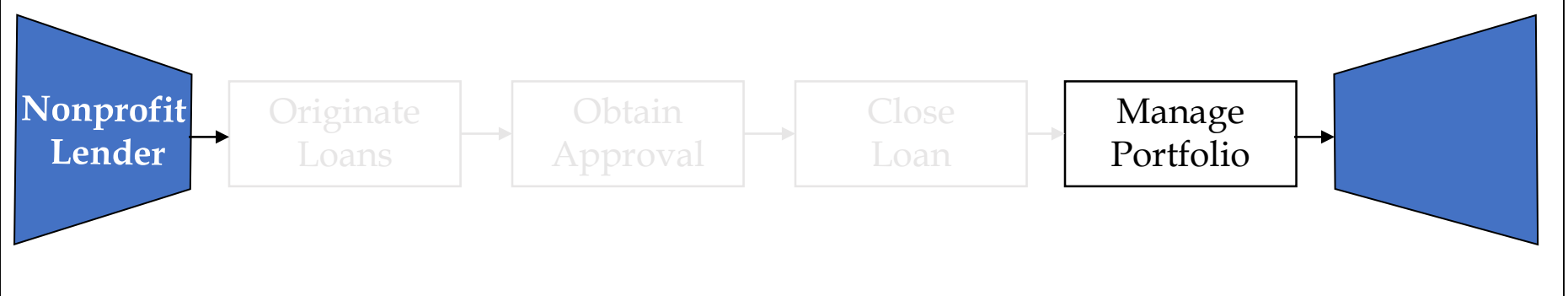
- Tawney Brunsch, The Lakota Funds
- Cindy Logsdon, Citizen Potawatomi CDC
- Rose Marquez, Native Community Finance

# What are Collections?



# Collections

## Generic Loan Process



# Collections = Problem Loans

- When do loans go “sideways?”
  - First payment disasters
  - About 2 years in
- The best solution is prevention!
  - Invest early and often in the relationship

# Collections Best Practices

- Effective collections is a “win-win” approach
- Begin collecting the day you close the loan...or sooner!
- Track communications
- Have a clearly defined schedule that starts Day 1 of delinquency
- Make collections a priority

# Poll

My organization's collections policies are:

- Nonexistent
- In development
- Adequate
- Excellent



# Importance of Policies

Collections can be impacted by:

- Loan Policies
- Financial Policies

# Purpose of loan policies

- What kinds of loans do we make?
- What is too risky?
- How much will we lend to one borrower?
- Who decides what?
- How do we reserve against loan losses?
- What do we do when a loan goes bad?
- How do we evaluate portfolio performance?
- What social impact are we trying to achieve?

# Addressing collections in loan policies

- Collateral or other guarantee
- When to start collections and progressive collection

# Underwriting to mitigate collections

- Risk management
- Risk assessment

# Risk Management

Use the technical assistance (TA) process to assess risk:

- ✓ Assess character & commitment
- ✓ Assess capacity
- ✓ Identify potential risks



## Risk Management (cont.)

Use the TA process to manage risk:

- Provide on-going TA to strengthen business/individual
- Continue to build relationship with borrower
- Anticipate and avoid late payments and worse

# Risk Assessment

Evaluating the 5 C's:

- Credit
- Capacity
- Character
- Capital
- Collateral

# Communicating with Clients



# Pursue Delinquent Borrowers

Portfolio manager is responsible for:

- Confirming that actions outlined in policy are actually followed
- Recording all delinquent borrower communication in loan file

## Pursue Delinquent Borrowers (cont.)

There often is a tendency to procrastinate

- Loan policies help by specifying actions to be taken by staff at certain number of days that a payment is late
- Delinquent loan process requires prompt attention to missed payments as this is crucial to minimizing loan loss risk

# Delinquency Process

Date of Delinquency	Action to be Taken
By the 30 <sup>th</sup> day	<ul style="list-style-type: none"><li>- Conduct phone call or in person interview</li><li>- Document to file</li></ul>
By the 45 <sup>th</sup> day	<ul style="list-style-type: none"><li>- If satisfactory arrangements to bring the account current have not been made, a face-to-face interview with the borrower(s) should be conducted.</li><li>- Attempts to arrange an interview will be documented in the loan file.</li></ul>
By the 60 <sup>th</sup> day	<ul style="list-style-type: none"><li>- If a satisfactory response is not obtained, CDFI will continue to follow up with notices, letters, telephone contact, face-to-face interviews, etc. until the loan has been brought current.</li><li>- Document to file</li></ul>
By the 90 <sup>th</sup> day	<ul style="list-style-type: none"><li>- If it is discovered that the collateral has been abandoned, a demand letter should be sent immediately to the borrower(s).</li><li>- Document to file</li></ul>
By the 120 <sup>th</sup> day	<ul style="list-style-type: none"><li>- The CDFI will consider legal means to recover repayment of its loan balance, interest, and expenses.</li><li>- Document to file</li></ul>

## Option: Loan Restructuring

**DEFINITION:** Issuing a new loan with lower monthly payments to replace an existing loan by extending term or providing interest only or grace periods

- Restructuring is not for every delinquent borrower - only those with “good fundamentals” (including strong payment histories) who are experiencing genuine hardships
- Time consuming for staff
- Multiple restructurings require Loan Committee and Board approval

## Next Step: Foreclosure & Repossession

- FORECLOSURE: Lender's option to obtain court order to collect outstanding balance of loan through repossession of collateral, wage garnishment, etc.
- REPOSSESSION: Lender's option to take possession of collateral and sell it for whatever it's worth (after obtaining legal right to do so)

## Next Step: Foreclosure & Repossession Issues

- Issues
  - Lender's rights under loan and security agreements, but NOT our core business
  - Last resort, but sometimes has to be done
  - Will be observed and/or commented upon by community members
  - Time consuming; tendency for staff to procrastinate
  - Usually requires Board approval
  - Requires authorization from local legal jurisdiction
  - Best to outsource to community attorney (or others)

# Final Step: Write-Offs

- WHEN
  - Write off loans for which the staff has exhausted all remedies in loan docs
  - Any F Loan is a candidate
  - By this point, loan should be reserved up to anticipated loss
  - Loan policies require write-off after certain number of days delinquent (e.g. 180, 270, 360)

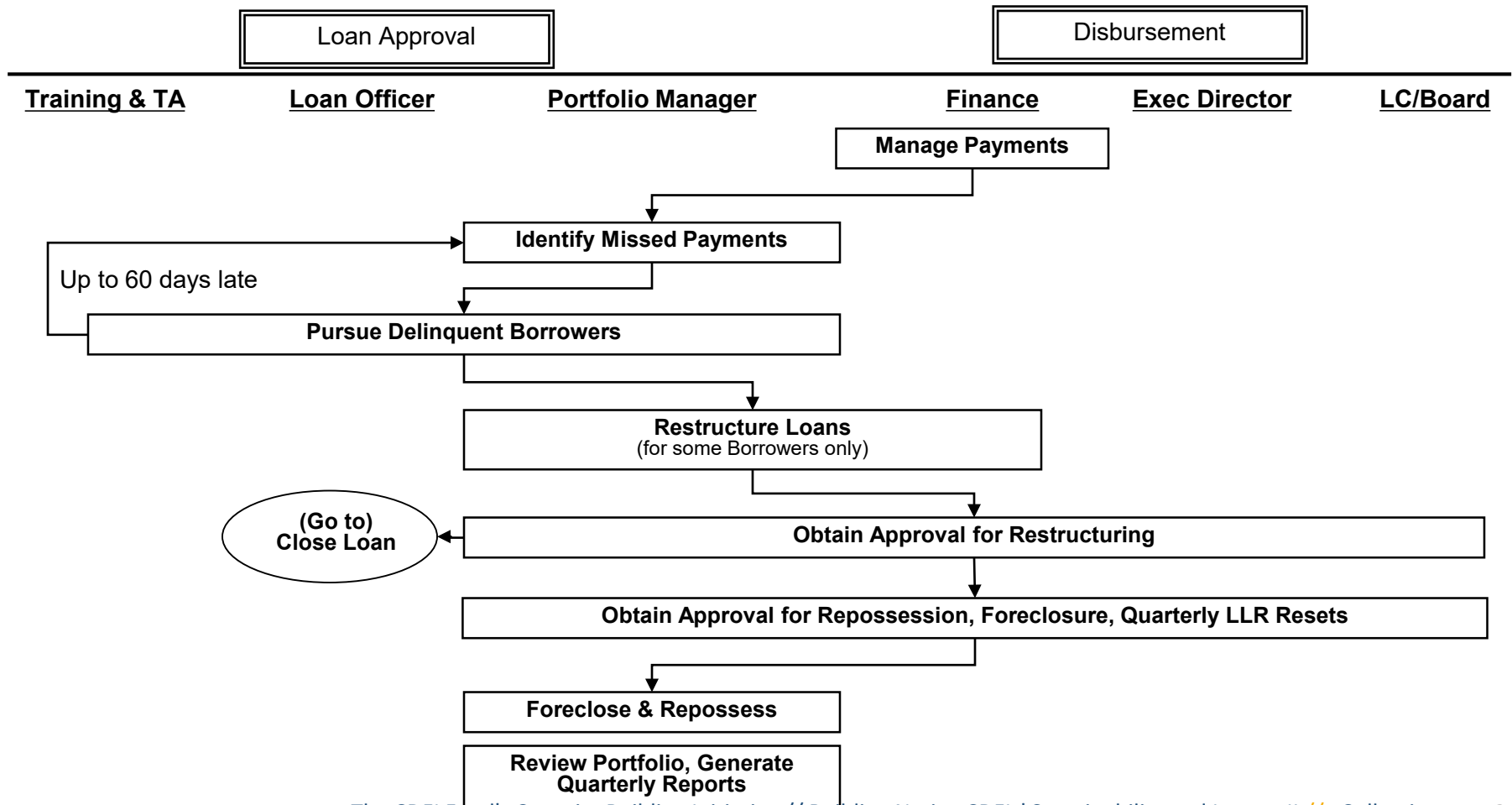
## Final Step: Write-Offs (cont.)

- HOW
  - Remove loan from loan software, loan report
  - Reduce Loan Loss Reserve by outstanding balance of written off loan
  - Send to collection agency
  - Conduct loan analysis



# Staff Responsibilities

# Manage Portfolio



# Staff Responsibilities – Finance Function

- Record payments received (cash, checks, employer deductions) in loan software
- Deposit checks and cash
- Post payments in loan servicing software

# Staff Responsibilities – Portfolio Manager Function

- Establish fixed cutoff date each month
- At least monthly, check loan software to identify missed payments
- Update loan ratings to reflect actual payment history
- Send delinquency notices

# Loan Committee and/or Board Responsibilities

- Policies dictate what they must review, recommend, and/or approve
- Loans that deviate from loan policy require loan committee approval
- Actions in case of delinquent borrowers (90+ days) require loan committee approval
- Review portfolio performance quarterly

# Poll: What has been your greatest collections challenge?

- Staff follow through
- No collections procedures in place
- No loan policies
- Lack of tribal/local legal infrastructure
- Other

## Panel: Collections Challenges

- In your experience, what has been your greatest challenge when dealing with collections?
- How did you address this challenge?

## Chat Box

- What unique collections practices have you tried and/or incorporated into your policies/procedures?



# Panel

- What has worked particularly well with your collections processes?

# Panel

- Describe how the legal system you work under affects collections and how your organization works within that structure?

## Panel

- For newer organizations that have not yet developed or implemented collections procedures for their various lending products, what would you recommend as first steps?

# Panel

- What would be your number one collections tip and could you share additional lessons learned?

## Panel

- What changes or revisions were necessary to make to your collections procedures as you grew your portfolio and/or added additional lending products?

# Questions?

- Office Hours scheduled: **THURSDAY, JUNE 20, 2019, 1PM-2PM ET**
  - Open forum for more individualized questions and/or questions related to collections that were not covered in this webinar.
- Registration reminder will be sent