Underwriting to Scale

Joyce Klein, FIELD at the Aspen Institute
Luz Gomez, FIELD at the Aspen Institute
Leslie Hoffman, FIELD at the Aspen Institute

November 1, 2013

Go-To-Webinar

Scaling Up Microfinance

GOAL
To enhance Microfinance CDFIs’ exposure to best practices in the field as well as tools with which to analyze their own business practices and determine appropriate strategies to scale.

SUCCESS
Each microfinance organization will identify, and begin to implement, at least one new initiative to facilitate scaling operations.
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.

Scaling Up Microfinance Task Order

Expand the capacity of CDFIs that specialize in microfinance through a program focused on decreasing costs, exploring new products, building human capital, and improving business models in order to attract investments.

• 3 Trainings
  • Technical Assistance
  • Virtual Resource Bank
Presenters

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Underwriting Mentored Working Groups

Goal:
• Provide a collaborative learning experience that enriches your knowledge of underwriting as a component of risk management

Content:
• Case studies from industry and group members on key areas of underwriting success and struggle
• Examination of business model impact
• Reflection on individual and organizational approach

Agenda
• Intros
• The Road to Repayment Framework
• Underwriting Framework
• Key Takeaways
Drawing on FIELD’s body of work

Underwriting Group Participants

**Group A**
- BOC Capital
- Coastal Enterprises
- New Jersey Community Capital
- Northern Initiatives
- Self-Help
- Women’s Economic Ventures

**Group B**
- CommunityWorks Carolina
- International Institute CDC
- Innovative Changes
- La Fuerza Unida CDC
- New York University Federal Credit Union
- Opening Doors
- Rocky Mountain Microfinance Institute
Who’s on the call today?

What critical areas of underwriting do you feel need most attention?
What we heard...

How can we ensure our underwriting processes accommodate increasing scale?

How can technology help?

How can we ensure a strong portfolio?

How can we make underwriting more efficient?

Our Exploration of Underwriting

- Team
- Technology
- Efficiency
- Philosophy: Growth w/Quality
Our Compass: The Path to Repayment

Breaking Down Risk: Key Categories

Credit Risk
- Quality
- Concentration

Market Risk
- Conditions
- Target Market

Operational Risk
- Systems
- Staff

Liquidity Risk
- Sufficiency
- Duration

Outreach & Application
Closing & Account Management
Legal Collections
File Processing & Underwriting
Early Delinquency
Default & Post-default Recovery
“The Rub” of Growth and Quality

Transaction

Relational

Standard Factors of Credit Risk

Quantitative
- Credit Profile (FICO, BK Index)
- Capacity (DSCR, DTI)
- Loan-to-value coverage

Qualitative
- Business characteristics
- Borrower characteristics
- Conditions
Monitoring Risk: Key Indicators

Credit Risk
- Aging Reports and Vintage Charts
- Loan Risk Ratings

Market Risk
- Interest Rates
- Sales Activity

Operational Risk
- Compliance Reports
- Postmortem Reviews

Liquidity Risk
- Balance Sheet Ratios
- Loan Loss Reserves

Monitoring UW Risk

Chart 4: Write-Offs by Vintage (Sample Chart)

FROM D4D
Customizing the Tool

- Write-offs
- PAR
- Year
- Industry
- Geography
- Monthly
- Quarterly

What did we learn about growing with quality?

- Monitor and manage risk, explore four core areas of credit, market, operational and liquidity risk
- Strike a balance between quantitative and qualitative factors of credit risk
- Practical tools that can help include vintage charts, peer examples
Options for Increasing Efficiency

- Same for less.
- More for same.
- A lot more with more.

Measuring Efficiency: Snapshot of Options

- **Cycle Time**
  - Lead to application
  - Application to underwriting
  - Underwriting to closing

- **Input/Output**
  - Cost per dollar lent or per loan made
  - Customer satisfaction
  - Conversion rates
What did we learn about efficiency?

- First think critically about the type of efficiency you want
- Measuring efficiency = cycles times + input/outputs

Sketch Out Tech Framework

1. Define Your Goal
2. Identify Bottlenecks
3. Does Tech Solve Problem?
Share Your Experience

- Has your organization worked to centralize processes and increase access to its loan files?
- How are you currently accessing credit reports? How many people have direct access to the reports?
- What document storage solutions is your organization using?
- Has your organization incorporated technology into the document-collection process?

Technologies to Improve the Lending Lifecycle

- Credit evaluation grids
- Statistical scoring models (MMS, build your own – ACCION East; OnDeck; InVenture/InSight)
- Use of alternative credit data (Demyst Data, Cignifi, Yodlee, LexisNexus, and L2C)
Internal Evaluation Questions

• Defining problems/Pain points: What problem or pain point in the lending process do we address first? Is the pain point internal to the organization (i.e. staff capacity) or external (i.e. customer challenges)?

• Price: How much does the tool/technology to solve those problems cost upfront? What are the ongoing costs?

• Efficiency: How will this improve the efficiency of the loan process? How can I quantify this efficiency? What metrics will I use?

More Internal Evaluation Questions

• Staff input: What expertise on the staff do I need to tap for insights into changes to be made in this area?

• Training: Is there an early adopter of technology that can help train others on staff (train the trainer)? Who can assist me in designing the training? How much time should I allot for adoption of the technology?

• Feedback: How will I garner feedback and make adjustments to new technology as we begin using it?
What did we learn about technology?

• Sketch out a technology framework, using internal evaluation questions as a tool

• Think internally about bottlenecks in your own processes

• Explore available options from third-party vendors

QUESTIONS?
Areas of Specialization

Front-end focus
• Staffing in marketing/sales and underwriting

Back-end support
• Monitoring, compliance and collections.

Hiring for Organizational Values
• Explicit, regular discussion of values.

• Hiring to those values first, combined with a focus on sales.

• Implemented incentive system that rewarded quality and production.
Quality and Production

Monitoring and Compliance
- Document reviews
- Application of guidelines

Customer Service
- Consistent messaging
- Billing/servicing assistance

Collections
- Adding staff resources
- Strengthening current resources
- Training to improve skills

Functions that Support Scale

Core Functions

Compliance & Monitoring

Collections

Marketing & Communications
Underwriting
Loan Servicing
Development
Technical Training Areas for Underwriters

- Credit Analysis
- Portfolio Management
- Organizational Risk Management

Sustaining Success = Ongoing Support

Underwriters
- Portfolio analysis
- Loan structuring
- Lien perfection

Lenders
- Cash flow analysis
- Credit report analysis
- Loan file postmortems

Everyone
- Fraud awareness
- Economic trends
- Customer service
What did we learn about team?

- Trends in the industry include specialization, value hiring, functions that support scale
- Create onboarding for success
- Focus on key technical areas of training for underwriters
- Keep training expertise fresh and offer ongoing support

What Changes Are Group Members Making?
QUESTIONS?

ADDITIONAL RESOURCES & CONTACT INFORMATION
Additional Resources

- Dollars for Dreams: Scaling Microlending in the United States (2010)
  http://fieldus.org/Publications/DollarsForDreams.pdf
- Surviving the Recession: How Microlenders are Coping with Changing Demand, Risk and Funding (July 2010)
  http://fieldus.org/Publications/TrendlinesMicrofinance.pdf
- FIELD forum Issue 23: The Organizational Foundations of Sustainability (2009) on ACCION New Mexico-Arizona-Colorado

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/
- Yodlee: http://www.yodlee.com/
Thank you!

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Scaling Up Microfinance
Fall Webinar Series

- New Product Development
  - Ashvin Prakash and Brenton Peck, CFSI

- Underwriting to Scale
  - Leslie Hoffman and Luz Gomez, FIELD at the Aspen Institute

- Customer Acquisition- Reaching and Retaining Your Customers
  - Ginger McNally, OFN and Maria Semple, The Prospect Finder

- Loan Fund and Credit Union Collaborations
  - Seth Julyan, OFN and Melanie Stern, The Federation

- The Role of Market Research in Scaling Microfinance
  - Tammy Halevy, AEO
CDFI Fund’s Virtual Resource Bank

Scaling Up Microfinance: Resource Bank
This resource for the topic can be found below. To view all of our available Resource Banks, click here.

I. Training Curriculum
- Innovative Business Models
- New Products
- Talent Management
- Technology Solutions

II. Training Webinars
- Innovative Business Models
- Talent Management
- New Products
- Technology Solutions
- Loan Requirement

III. Additional Resources
- Microfinance Landscape and Borrower Experience and Need
- Innovative Business Models
- New Products and Services
- Technology Solutions
- Talent Management

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