

What Investors Want to Know About Your Loan Assets

This document provides a checklist of information and analyses about your loan products and loan portfolio that your organization should consider having on hand. Not all investors will ask for all of this information, but having this information will maximize the number of different investment channels that are open to you.

- ***Complete loan documentation:*** Individual loan files should have complete and accurate information including borrower information, underwriting files, promissory note and other closing documents, and security / collateral information. The CDFI Resource Bank contains examples of loan file checklists to ensure that an organization's loan files are complete.
- Ideally, a prospective investor should have the information necessary to calculate the expected cash flows from a loan portfolio. This is especially true when the investor is considering a purchase of loans. The information an investor would need to do so includes both basic loan product information and loan performance information.
- ***Loan product information:***
 - Markets served (customer types and geographies) for the loan product; general purpose / uses of the loan product
 - Weighted average interest rate and average remaining term by product type; range of interest rates and term of loans in each product type
 - Additional loan terms of the product (for example, if it is interest only, a balloon loan, etc.)
 - General underwriting guidelines for each product
 - Existing balances of gross loans receivable by product type
 - Range (histogram) of Loan to Value ratios and weighted average LTV among outstanding loans by product type
 - Range of borrower credit scores and weighted average credit score among outstanding loans by product type
 - Range of income ratios and weighted average income ratio among outstanding loans by product type
 - Range of loan age and weighted average age by product type
 - Aggregate expected cash flows by year, by product type, of principal and interest
- ***Loan performance information:***
 - Existing delinquency information by loan product, showing the percentage of loans that are 30, 60 and 90 days overdue by product,

and ideally providing additional breakdowns by the following factors (as applicable):

- Initial credit score of borrower
 - Cohort (age) of loan
 - Loan-to-Value Ratio
 - Income ratio
 - Other key borrower type distinctions (e.g. business sector for business loans)
 - Charge-off information by loan product, showing annual and cumulative charge-offs and ideally providing additional breakdowns by the following factors (as applicable):
 - Initial credit score of borrower
 - Cohort (age) of loan – including a graph of cumulative charge-offs as loan age advances, and a default curve showing percent of loans going into default by year of loan
 - Loan-to-Value Ratio
 - Income ratio
 - Other key borrower type distinctions (e.g. business sector for business loans)
 - Prepayment information by loan product, showing % of loan cohort prepaying by year, by loan product and ideally providing additional breakdowns by:
 - Loan term
 - Loan amount
 - Loan-to-Value Ratio
 - Information on loan restructurings – what percent of the loan pool has been restructured and what are the modified terms vs. the original terms of the loan
- **Credit enhancement:** Investors will want to know what measures are in place to protect them if the underlying loan assets go into default and losses cannot be recovered from the collateral. Information should be provided on:
 - Whether the investment is being secured by the underlying loan assets only, by the full faith and credit of the organization, or by additional guarantors or credit enhancements
 - The amount of any first-loss positions (such that the investor will not absorb any losses until total losses exceed that amount), including any cash Loan Loss Reserves maintained by the organization or any investors or organizational equity that is in junior position to the investor
 - Any guarantees that are in place, any caps or limitations on the amount of the guarantee being provided, and identity and credit rating of the guarantor

- ***Business volume information:*** Investors may want to know about the amount and type of deal flow that an organization can generate for them. It can be helpful to provide information related to:
 - Number and dollar volume of loans made by year, by product type, for the past 3 to 5 years, and expectations regarding future lending volume by product type
 - Expected growth in business volume and market strategies that substantiate the expected growth

- ***Organizational financial health:***
 - Current financial statements and 3 years of historical, audited financial statements
 - Key organizational ratios along CAMEL (Capitalization, Asset Quality, Management, Earnings, Liquidity) metrics and trendlines in these ratios. (The Resource Bank provides a link to the Opportunity Finance Network CARS rating system, which utilizes these types of ratios, and to Sustainable Mission software, which can produce a number of these ratios when you input historical financial information).
 - Information on term of liabilities on the balance sheet (to assess asset/liability matching)

- ***Organizational capacity:***
 - Overall organizational track record / performance highlights
 - External assessments / ratings of the organization such as CARS, NeighborWorks® Organizational Assessment, etc.
 - Experience and qualifications of management team
 - Experience and qualifications of organizational governance
 - Loss mitigation strategies and other strategies utilized to boost loan performance (this might include development services that the CDFI offers)
 - Ability of organization to track loan and financial information
 - Loan, portfolio management, and financial policies and procedures

- ***Social Return on Investment (mission impact):*** Investors will often want to know what positive benefits for people and/or communities are being generated by the CDFI's lending activity. It can be helpful to provide information related to:
 - General description of the impacts the organization seeks to achieve
 - Specific measurement indicators the organization uses to track whether the impacts are being achieved, and data on what those measurements have shown
 - Anecdotal and qualitative information (for example, stories, photos and case studies) documenting the changes that are occurring as a result of the organization's work