



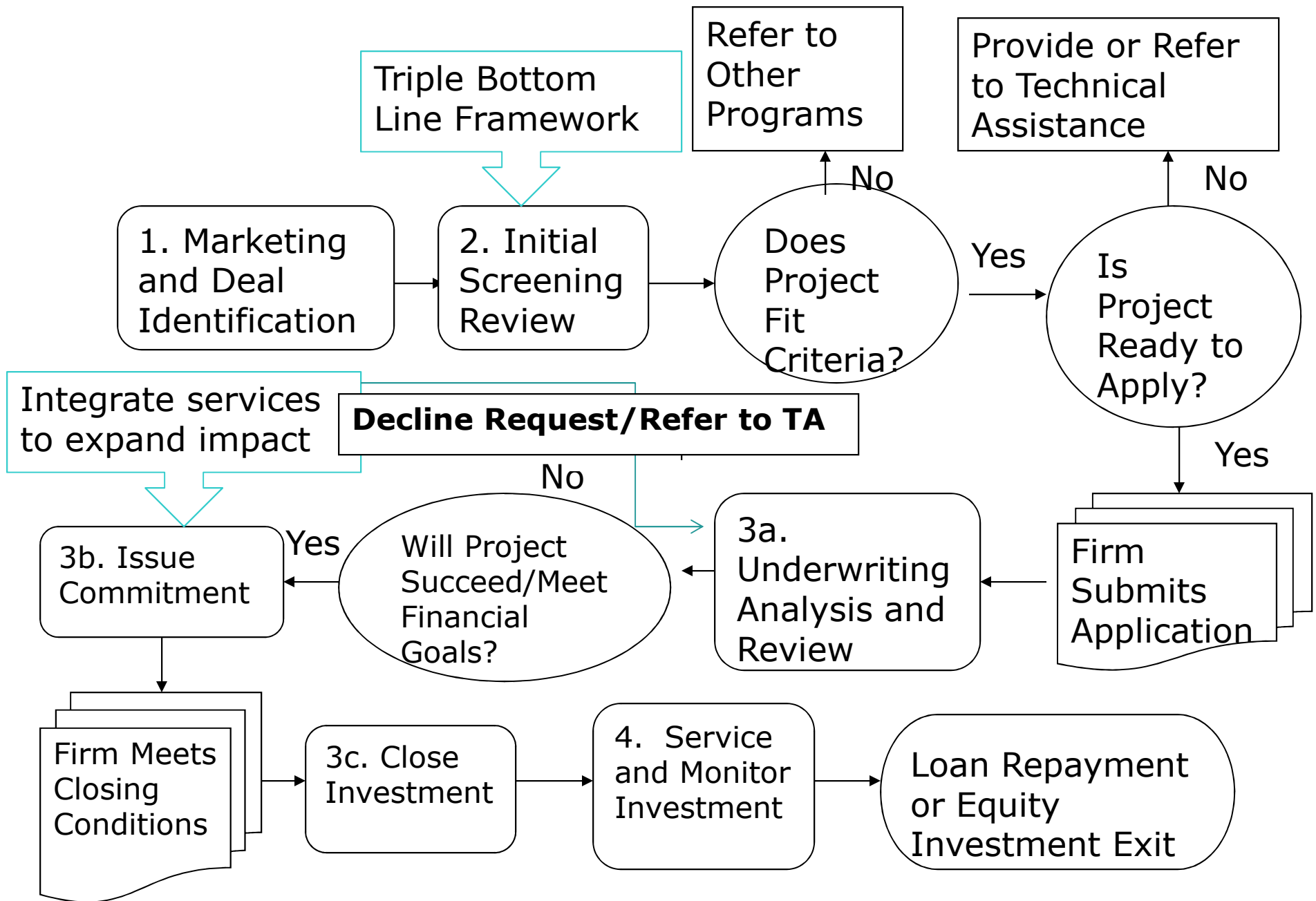
Managing Lending and Investing Operations

- Four Key Activities
 - Marketing and identification of projects
 - Review and screening of projects
 - Underwriting of requests and commitment of funds
 - Servicing and monitoring of loans and investments



Triple Bottom Line Approach

- Policies and screening metrics that encompass economic, environmental, equity outcomes
 - TBL investment criteria
 - Target industry and business models that advance TBL outcomes
 - Financial products tailored for TBL investments
- Partnerships and services to enhance borrower TBL practices & results
 - CEI EcoTag: audits for more efficient operations; reduced interest rate with implementation
- TBL Scorecard





Principles For An Effective Investment Process

- Create relationships for shared goals and mutual benefit
- Clear policies and procedures that align decisions with economic development and financial objectives
- Transparent process to facilitate successful applications, provide accountability and build trust
- Skilled staff devoted to all aspects of the process
- Accountability at the policy and transaction level
- Commitment to continuous improvement



Marketing and Identification of Projects

- Marketing objectives
 - Increase awareness and understanding of program
 - Identify lending or investment opportunities
 - Build relationships that help you achieve objectives
 - Obtain information on your market and clients' needs
- Marketing approaches
 - Wholesale: advertising, social media, press coverage
 - Retail: One-on-one marketing: calling officer approach; referral networks
 - In between: presentations to selected audiences
- Best Practices
 - Annual plans with senior staff commitment & resources
 - Engage all staff in marketing
 - Strong referral networks
 - Track information sources for new inquires & customers



Initial Project Screening

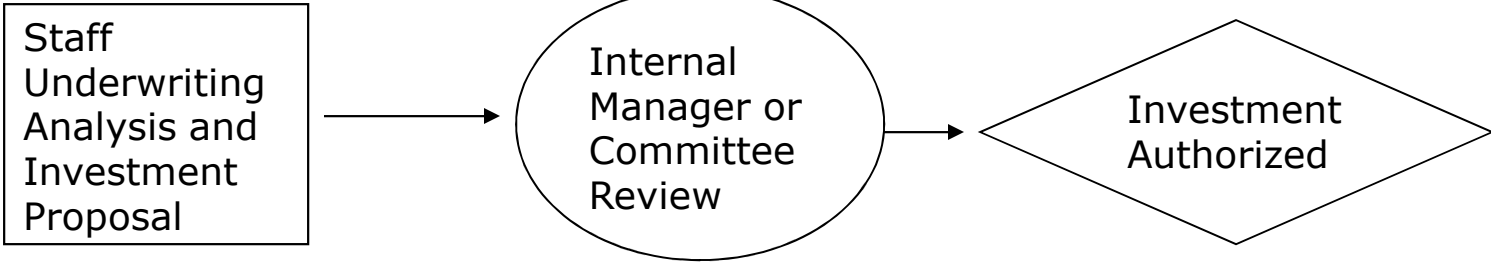
- Screening objectives
 - Determine applicant /project fit with goals & financing
 - Diagnose weaknesses and provide/refer to assistance
 - Potential to advance/broaden impacts
 - Assess readiness for financing
 - Clear picture of how to apply and qualify for financing
- Best Practices
 - Screening criteria and standards to review requests
 - Application standard: what a firm needs to apply and must have accomplished to be seriously reviewed
 - Help firms meet standards and secure financing:
 - *Ineligible*: refer and introduce to appropriate sources
 - *Incomplete information/weakness in project*: Define what needs to be done, refer to technical assistance or provide it directly
 - *Infeasible or poorly conceived project*: explain why



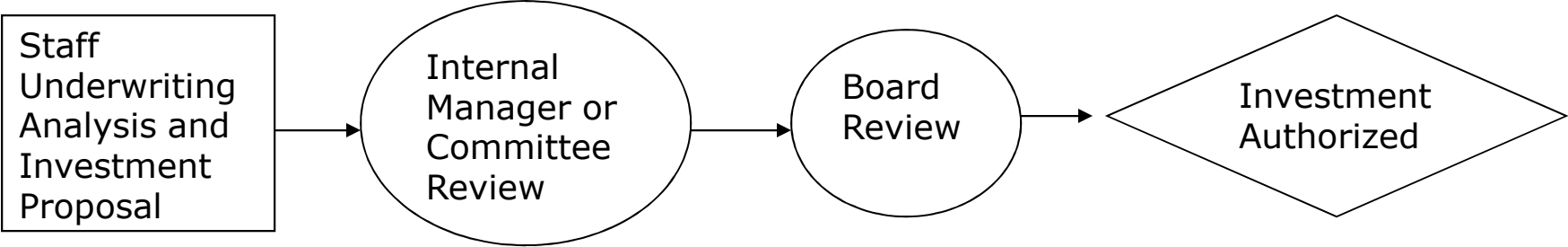
Underwriting and Commitment of Funds

- Underwriting Objectives
 - Assess feasibility and ability to repay/provide return
 - Understand risks and how to reduce or manage them
 - Structure financing to fit project needs and your goals
 - Document decisions and financing transaction
- Three Components
 - Underwriting standards
 - Due diligence process
 - Decision making process
- Best Practices
 - Sound, explicit underwriting standards
 - Well-defined and thorough due diligence process
 - Expertise in target market or industries
 - Leadership in financial packaging: visualize a viable plan to meet all parties' objectives
 - Good systems to close loan and transition to servicing

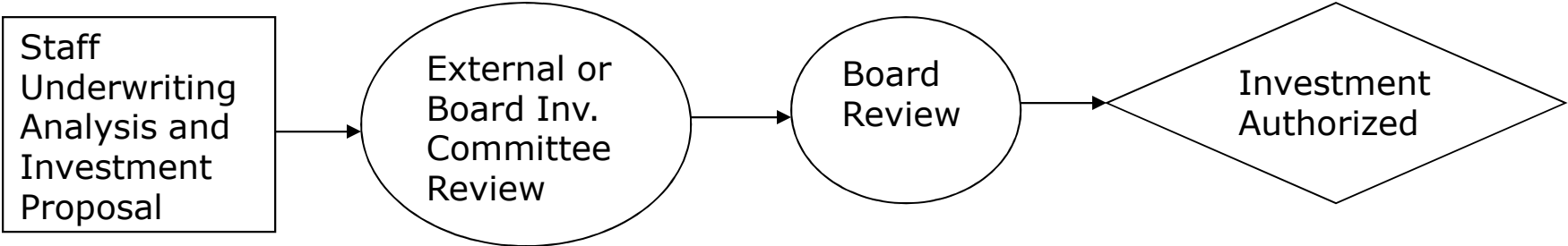
Option A



Option B



Option C





Servicing and Monitoring

- Objectives of loan servicing and monitoring
 - Ensure timely repayment of the loan/investment
 - Protect collateral (tax liens, insurance, security interest)
 - Track the firm's progress in meeting objectives
 - Identify/respond to problems: help firm and minimize losses
- Options
 - Underwriting staff handles loan monitoring
 - Separate staff handles loan monitoring
 - Contract to third party
- Best Practices
 - Clear and comprehensive servicing requirements
 - Regular financial and TBL outcome reporting; actual vs. projections
 - Strong internal tacking systems
 - Follow-up quickly on non-performance
 - Communicate with borrowers and develop trust
 - Understand the source of problems and seek solutions
 - Portfolio wide risk analysis; action plans to address problems



Rural Enterprises

- What are the key challenges faced by RE's lending program?
- How to best address these challenges:
 - lending strategy vs.
 - loan products vs.
 - operations?
- What would you propose to improve the results and sustainability of RE's lending activities?
- What changes to RE's lending systems and operations would you recommend?
- What should be the Board's role in implementing proposed changes?

Rural Enterprises

Figure 3. Revenue, Loan Interest Income & Total Expenses as a Percentage of RE Loan Portfolio 2004 to 2007

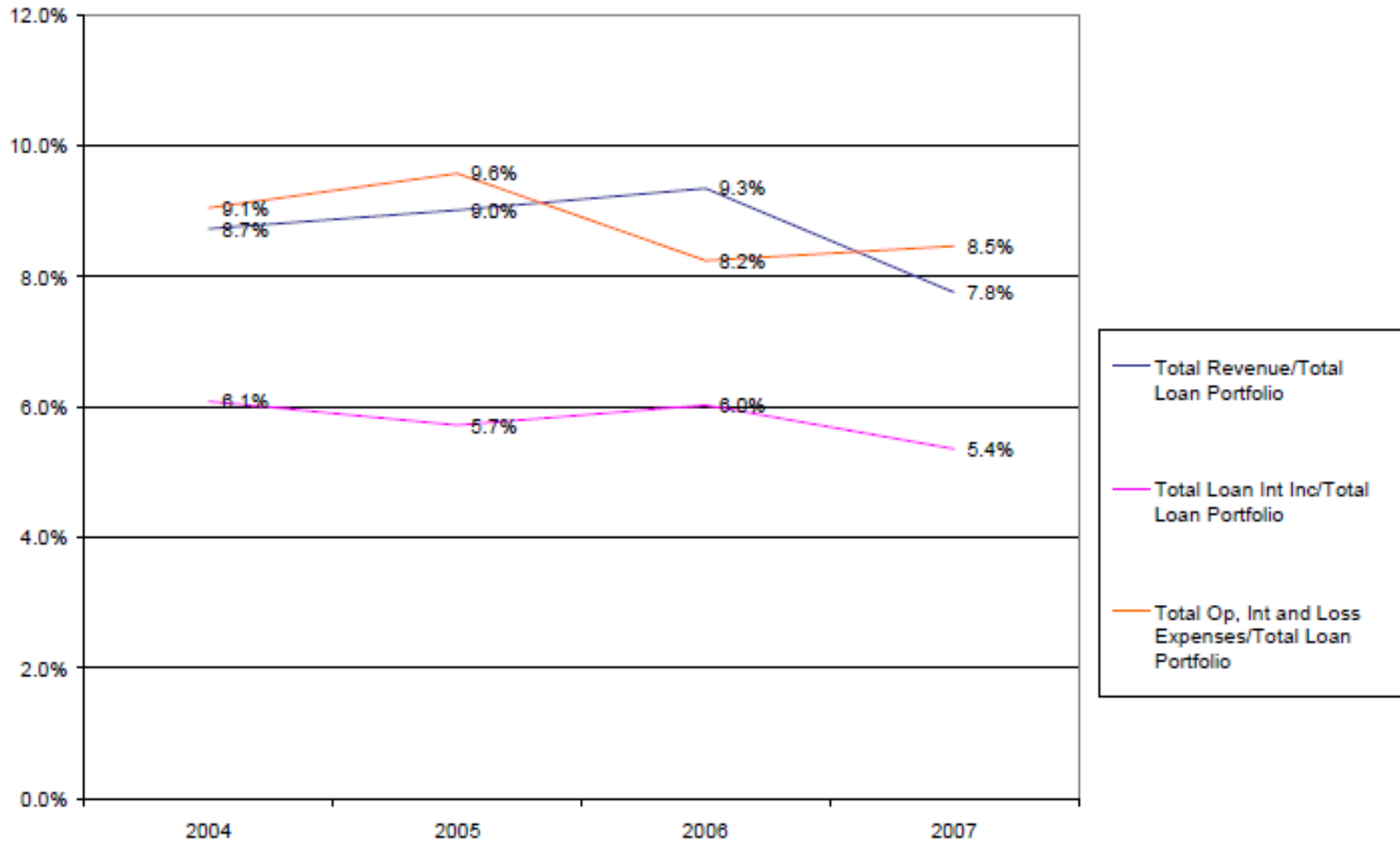


Figure 1. Rural Enterprises Lending Profit and Loss Statement, 2004 to 2007

	9/30/2004	9/30/2005	9/30/2006	9/30/2007	4-Year Avg
Total Notes Receivables	\$25,628,059	\$25,359,480	\$25,258,579	\$26,427,648	\$25,668,442
	2004	2005	2006	2007	4-Year Avg
Revenue					
Grants & Contracts	\$190,218	\$165,736	\$164,869	\$117,144	\$159,492
Fee Income	\$262,374	\$337,232	\$317,762	\$302,394	\$304,941
Interest-cash	\$106,804	\$196,708	\$253,374	\$128,551	\$171,359
Interest-lending	\$1,559,078	\$1,450,310	\$1,522,835	\$1,415,794	\$1,487,004
Recovery of bad debt	\$15,560	\$21,849	\$45,553	\$72,000	\$38,741
Total Revenue	\$2,134,034	\$2,171,835	\$2,304,393	\$2,035,883	\$2,161,536
Note interest expense	\$535,266	\$520,416	\$480,308	\$434,268	\$492,565
Loan loss expense	\$608,994	\$687,829	\$413,673	\$557,445	\$566,985
Expenses					
Staff & fringe	\$762,471	\$801,299	\$811,013	\$823,104	\$799,472
Travel	\$20,087	\$17,799	\$21,730	\$27,391	\$21,752
Occupancy & communications	\$71,732	\$81,171	\$76,897	\$82,983	\$78,196
Other Expenses	\$72,138	\$88,211	\$72,216	\$63,186	\$73,938
Total Expenses	\$926,428	\$988,480	\$981,856	\$996,664	\$973,357
Net Profit/Loss Before Adjustments	\$63,346	(\$24,890)	\$428,556	\$47,506	\$128,630
Adjustment for NCLF & prior year income	\$104,091	\$115,015	\$57,200	\$15,989	\$73,074
Net Profit/Loss After Adjustments	\$167,437	\$90,125	\$485,756	\$63,495	\$201,703
Inter-agency expenses charged to lending	-\$249,452	-\$232,050	-\$207,699	-\$249,482	-\$234,671
Net Profit/(Loss) After	(\$82,015)	(\$141,925)	\$278,057	(\$185,987)	(\$32,968)

Rural Enterprises

Table 1. RE Loan Portfolio and Loan Write-offs by Loan Size

Original Loan Size	Percent of Total Number of Loans	Percent of Total Amount of Loans	Percent of Loan Write-offs, FY 2004 to 2008
Under \$35,000	45%	10%	20%
\$35,000 to \$100,000	35%	29%	36%
Over \$100,000	19%	61%	44%

Table 2. RE Loan Portfolio and Write-offs by Loan Sector

Sector	Percent of Total Number of Loans	Percent of Total Amount of Loans	Percent of Loan Write-offs, FY 2004 to 2008
Farms/Fishing	9%	6%	2%
Manufacturing	14%	17%	22%
Wholesale	2%	3%	14%
Retail	9%	7%	18%
Real Estate	9%	25%	7%
Healthcare/Social Assistance	8%	9%	9%
Accommodations/Food Service	8%	5%	3%
Other Services	6%	4%	12%
Other Sectors/Unclassified	34%	25%	14%

Rural Enterprises

Table 3. Comparison of RE to Other Community Development Lenders

Ratio	RE	CDFI Data Project Peer Business Loan Funds FY 06	CDFI Data Project All Loan Funds FY 06	Microtest 2006 Credit-led Programs
Total Capital	\$38,453,795	\$18,799,402	\$23,466,385	\$3,607,548
Share of Capital from Debt	49%	51%	63%	NA
Total Loans/Financing Receivable	\$25,725,525	\$13,604,173	\$17,765,581	NA
Average Loan Size	\$44,534	\$93,464	NA	NA
Deployment Rate	66%	71%	NA	75%
Annual Number of Financings	79	82	NA	220
Delinquency Rate > 90 days	14.0%	5.1%	NA	
Delinquency Rate > 30 days	15.7%	6.4%	NA	8%
Loan Loss Reserve	7.3%	5.7%	NA	NA
Cumulative Loss Ratio	15.6%	6.4%	NA	NA

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11.437 Financing Economic Development
Fall 2016

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