




# Learnings from the Diverse Community Capital Program Underwriting Working Group

 Opportunity Finance Network  
June 9, 2016

*Lead Sponsor*



# Today's Panelists

- Don Harrington, The Support Center
  - Patrick Pariseau, meda
  - Bob Porter, Pacific Community Ventures
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- Introduction: Connie Smith, Wells Fargo
  - Moderator: Alex Jaskula, OFN

# Agenda

- Introduction and Update from Wells Fargo
- Wells Fargo Diverse Community Capital Knowledge Network Overview
- Today's Topic and Presenters
- Findings from the Knowledge Network Underwriting Working Group
- Discussion, Questions, and What's Next?

# **Wells Fargo Works *for Small Business*<sup>®</sup>: Diverse Community Capital**

Connie Smith, Wells Fargo

# Diverse Community Capital Knowledge Network

# Knowledge Network Participants

- Access to Capital for Entrepreneurs (ACE)
- Albina Opportunities Corporation
- Black Business Investment Fund
- Bridgeway Capital
- Community Investment Corporation
- CommunityWorks
- Craft3
- ECDC Enterprise Development Group
- Forward Community Investments
- Hope Enterprise Corporation
- Metropolitan Economic Development Association (MEDA)
- Montana CDC
- Natural Capital Investment Fund
- OBDC
- Pacific Community Ventures
- Pathway Lending
- Self-Help Ventures Fund
- The Support Center
- Wisconsin Women's Business Initiative Corporation

# Working Group Topics

- The Knowledge Network is exploring the following topics:
  - Marketing and Outreach
  - Tailored Products
  - Underwriting

# Today's Topic: Underwriting

## Goals:

- Hear the approaches of three CDFIs who have revised their underwriting approach to respond to customer needs
- Spark some ideas in your own organization
- Challenge us with some ideas for the Diverse Community Capital Knowledge Network

## Agenda:

- Themes from the Underwriting Working Group
- Panelist Presentations
- Discussion and Questions
- What's Next?



# Themes from the Underwriting Working Group

- Common barriers to reaching diverse markets:
  - Low credit ratings,
  - Lack of collateral, and
  - Mistrust of conventional financial institutions.
  
- Change in underwriting is not the only shift for the organization, often accompanied by:
  - Targeted marketing and outreach
  - Strong technical assistance
  
- Alternative methodologies for assessing credit and repayment capacity include:
  - Revamped loan policies
  - Secondary repayment sources besides collateral
  - Underwriting to projected business cash flow
  - Alternative credit score policy

# Panelist Questions

- What barrier did your existing underwriting practices present to serving your diverse markets effectively?
- What solution did you identify and implement to overcome that barrier?



- Patrick Pariseau

# meda

## Minneapolis, MN

### Product Lines

- a. Operating lines of Credit (RLOC) 12 months or less
- b. Gap Financing SBA 7a and SBA 504
- c. Equipment financing
- d. Real-estate financing (Commercial)
- e. Term loans to Amortize to 84 months three year balloon
- f. \$50,000 up to \$400,000 plus
- g. Use subordinate financing, pro-rata with banks, First or Second position all UCC1 asset filings, etc.

# Revolving Line of Credit (RLOC)

- Bankable clients could not rest their operating line of credit
- Got loans called at maturity or refinanced into term.
- Bank lines created more cash flow issues after called all ready too late to move or refinance.  
Refinance to term eliminated SBA options
- Thus prohibited growth potential, conversion to term stagnated any growth as wait and see with banks.

# Problems

1. How do you support a revolving line with multiple transactions, system issues, and personnel issues?
2. How do you support the borrowing base or revolving operating lines of credit? (Technology issues)
3. What if collateral other than receivables is already encumbered?

# Making It Work

- Contracted with a bank with a master participation agreement.
- Bank allowed us access to mutually use Home Banking site to monitor activity with meda and client.
- Limited draw amounts to at least \$1,000 to \$5,000 dependent upon size. (limited amount of transactions.)
- Agreement from bank to allow us to take receivables and allow them to finance other assets.
- Bank sends out notices, demand letters, up to 90 days then back to meda. Streamlined bank draw system.
- meda reviews sources and uses on all draw request approved by meda and can control third party funding.

# Why It Works

- We are able to monitor all activity, can be contract driven and to specific term.
- Short term allows monitoring to move to bank or to term debt based on financial conditions and/or qualify for future SBA loan.
- Bank software has line of credit drawable capability and does all closings, documents, and servicing of the loan under bank regulations, gives business, a business credit rating.



# Summary

- Design Product to meet niche
  - **Ask your clients**
  - Design to not create brain damage and **understand ultimate goal of the product.** (short an move to bankable or term)
  - Product met a need for community banks as they are regulated on revolving lines to rest the line annually. Ok with us taking risk on receivables or even to a subordinated position. (Underwrite to a LTV overall.)
  - Combination of loans between banks give them a sense of security as they get equipment and hard assets we get receivables etc. Risk is higher so charge a higher rate better yield.
  - Short term give free look for moving to bankable an since is short term allows for SBA take out.



# The SUPPORT CENTER

Your Partner in Small Business Growth

- Don Harrington

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- Bob Porter

## Lending Underwriting Matrix

Company Name:				Date:
Principal/Guarantor Name:				
Amount Requested:				

Credit Criteria	Point System			Points Awarded
	1 point	2 points	3 points	
Principal/Guarantor Credit Score	550-639	640-699	700-850	
Principal/Guarantor Outside Net Worth	\$0 - \$50K	\$50K - \$100K	Over \$100K	
Principal/Guarantor Gross Debt to Inc Ratio	40% - 45%	30% - 39%	Under 30%	
Time in Business	<3	3-5 years	>5	
Profitability (Consecutive Years)	1	2	>3	
Debt Service Coverage*	1.00 - 1.10	1.10-1.20	1.20+	
Debt to Net Worth	>1.00	.50 - 1.00	<.50	
Net Worth	\$<25K	\$25K - \$50K	Over \$50K	
Current Ratio	1.00-1.10	1.11-1.50	1.51+	
				Total
				0

Loans >\$150 will be reviewed by the Loan Committee			
Score	X Points	Y Points	Z+ Points
Risk Rating	Acceptable Risk	Moderate Risk	Low Risk
Regular Pricing	9-10%	8-10%	7-9%
Current Loan (\$50-150K) Scoring Guide			
Score	X Points	Y Points	Z+ Points
Risk Rating	Acceptable Risk	Moderate Risk	Low Risk
Regular Pricing	9-10%	8-10%	7-9%
Approval	Loan Committee	Internal Committee	Auto-Approved
New Smaller Loan (<\$50K) Scoring Guide			
Score	XX Points	YY Points	Z+ Points
Risk Rating	Acceptable Risk	Moderate Risk	Low Risk
Micro Pricing	13%	12-13%	10-12%
Approval	Loan Committee	Internal Committee	Auto-Approved

\*proposed debt included

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# PCV Lending Underwriting Matrix

Lending Underwriting Matrix

Company Name:					Date:	
Principal/Guarantor Name:						
Amount Requested:						
	<b>Point System</b>					
<b>Credit Criteria</b>	<b>1 point</b>	<b>2 points</b>	<b>3 points</b>			<b>Points Awarded</b>
Principal/Guarantor Credit Score	550-639	640-699	700-850			
Principal/Guarantor Outside Net Worth	\$0 - \$50K	\$50K - \$100K	Over \$100K			
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# PCV Lending Underwriting Matrix (continued)

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New Smaller Loan (<\$50K) Scoring Guide

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# Discussion and Questions

- For the audience:
  - What barriers to capital access are your clients experiencing? Are they barriers that can be addressed in the underwriting process?
  - Any underwriting strategies you would like to share? Have they helped you increase your lending to diverse entrepreneurs?
  - What topics/best practices would you like to see addressed through the Diverse Community Capital program over the next year?

# What's Next?

- Multi-year Diverse Community Capital Program:
  - Offering industry webinars on Knowledge Network best practices and other relevant topics
  - Documenting best practices of the Knowledge Network working groups



**Thank You!**

**Questions?**

**Follow up with Alex Jaskula  
([ajaskula@ofn.org](mailto:ajaskula@ofn.org)).**