Effectively Expanding Beyond Microlending to Small Business Lending

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What is your CDFI’s motivation for moving from micro-loans to small business loans?
What are you hoping to achieve for your organization and for the community you serve?
How will the expansion impact your CDFI’s performance?
CARS™ Perspective

★ Consider Impact to Organization
   – Transition from Technical Assistance/Training – Led organization to Credit-Led organization
   – Alignment with Mission
   – Staff and Board and Community
     • Ready for the transition?
★ Consider Impact to Capital Base
   – Capital
     • Does it support larger loans, longer terms?
   – Net Assets
     • Cushion to carry through transition

★ Consider Impact on Credit Assessment

<table>
<thead>
<tr>
<th>Micro Enterprise Lending</th>
<th>Small Business Lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher degree of subjectivity; less consistency in underwriting</td>
<td>Less subjectivity; more consistency</td>
</tr>
<tr>
<td>(Character evaluation essential)</td>
<td>(Character evaluation important)</td>
</tr>
<tr>
<td>Lower reliance on credit scores</td>
<td>More reliance on credit scores</td>
</tr>
<tr>
<td>Less quantifiable information; more dependent on loan officer to collect</td>
<td>More quantifiable information</td>
</tr>
<tr>
<td>(Cashflow evaluation important)</td>
<td>(Cashflow evaluation essential)</td>
</tr>
<tr>
<td>Less loan documentation</td>
<td>More loan documentation</td>
</tr>
<tr>
<td>May not involve risk rating/LLR tied to risk ratings</td>
<td>Risk rating important/LLR reflective of tiered risk</td>
</tr>
</tbody>
</table>
**CARS™ Perspective**

★ Consider Impacts to Internal Operations

– Administration
  • Policies: Underwriting, Loan Management, Portfolio Management
  • Risk Rating
  • Loan Administration/Collections

– Staffing
  • Underwriters and TA providers
  • Training

★ Consider Impact to Budget

– Costs to ramp up to larger loans
  • Staffing, Training
  • Strategic Plan, Business Plan, Marketing Plan
  • Lost revenue from change in focus?

– Fundraising for transition
– Larger loans do not necessarily mean higher earnings
– Multi-year projections
– Over time lower underwriting cost per loan
Community First Fund Perspective
Considerations for Expansion to Small Business Loans

1. Company Culture and Mission
2. Community Needs Assessment
3. Staff Capacity
4. Investor Relations
5. Raising Capital
6. Risk Tolerance
7. Infrastructure
8. Self Sufficiency
9. Asset/Liability Management
10. Collections/Workout

Community First Fund Perspective

Earned income and self sufficiency can increase as you diversify your loan portfolio

<table>
<thead>
<tr>
<th>FYE</th>
<th>Size of Loan</th>
<th>Total Income</th>
<th>Interest Income and Fees</th>
<th>Self Sufficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$5MM</td>
<td>1,738,034</td>
<td>458,261</td>
<td>0.26</td>
</tr>
<tr>
<td>2007</td>
<td>$7.5MM</td>
<td>2,288,041</td>
<td>743,026</td>
<td>0.32</td>
</tr>
<tr>
<td>2008</td>
<td>$10MM</td>
<td>2,932,533</td>
<td>903,890</td>
<td>0.31</td>
</tr>
<tr>
<td>2009</td>
<td>$13MM</td>
<td>2,963,393</td>
<td>1,159,458</td>
<td>0.39</td>
</tr>
<tr>
<td>2010</td>
<td>$15MM</td>
<td>3,402,189</td>
<td>1,255,401</td>
<td>0.37</td>
</tr>
<tr>
<td>2011</td>
<td>$18MM</td>
<td>2,995,032</td>
<td>1,437,182</td>
<td>0.48</td>
</tr>
<tr>
<td>2012</td>
<td>$20MM</td>
<td>2,827,062</td>
<td>1,614,647</td>
<td>0.57</td>
</tr>
</tbody>
</table>

| 6 year increase $ | $15MM | 1,089,028 | 1,156,386 |
| 6 year increase % | 300% | 63% | 252% | 120% |
Mountain BizWorks Perspective

Issues, Questions & Concerns To Be Addressed in Expansion

- Does this shift serve your mission?
- Has your Board bought in?
- How did you determine that there is market demand for your larger loan product?
- Will you need to expand your geography to generate deal flow sufficient to justify expenses associated with this growth?
- Are you overbuilding systems, platforms, staff and expertise in anticipation of growth?
- Who are you competing with?

Mountain BizWorks Perspective

Issues, Questions & Concerns To Be Addressed in Expansion...cont’d

- Will this require a fundamental shift in your CDFI’s culture i.e., from training-led to credit-led?
- Will you need to augment the credit skills of your loan staff?
- Does your organization’s leadership structure support this shift?
- Does your balance sheet support this shift?
- Are you preparing your Board and internal approval authorities for new P&P needed to support this shift?
- How are you handling the internal message and the external message?