Background on Finance Fund

- CDFI, established in 1987
- Service to Ohio Community Development Corporations
- Assistance in financing economic and community development projects
- Key Programs
  - New Markets Tax Credit: 8 rounds totaling $250 million
  - Predevelopment Grants to CDCs to evaluate project feasibility
  - Economic Development Grants to support project construction
  - Small Business Loans, primarily using NMTC recycles funds
  - Linked Deposits to write-down cost of capital
- Recent New Initiatives:
  - Driven by mission and diversification
  - Community Health Care Center (FQHC) Loan Program to support capital expenditures
  - Healthy Food / Local Foods
Community Advantage?

- The Small Business Financing Network in Ohio
  - Multiple active SBA 504 CDCs and Finance Port Authorities
  - Several large SBA active regional, national and community banks
  - Good SBA deployment over time with interested SBA DDs

- Financial Modeling focused on...
  - Use of available Finance Fund capital
  - Secondary Market as a source of revenue
  - Secondary Market as a source of recycling capital

- Existing Finance Fund infrastructure
  - Strong back office experience
  - Strong network in the state
  - Small business financing is a new market for us
  - No secondary market experience

- We did not participate...because of the prohibition on contracting out

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Once contracting out was allowed...

- Dialogue with SBA emphasized....
  - Encouraged to consider Lender Service Providers who had served SBA lenders previously
  - The CA lenders should not be seen as a “front” for the LSP

- Researched existing SBA lenders and their experience with LSPs

- Identified and interviewed several LSPs

- Evaluation based on secondary market sales volume, references and ability to provide training and technical assistance to FF

- Services offered by LSP: Soup to Nuts
  - Intake, review of CA lender eligibility, credit underwriting, credit memo, loan and collateral structure
  - ETran data entry, submittal
  - Review of Authorization, Closing, Disbursal
  - Sale in Secondary Market
Process

- Draft LSP Contract
  - Submitted and approved by SBA
- Submittal of Community Advantage Application
- Training:
  - LSP training of Staff on procedures
  - SBA training of Staff on “Lending the SBA Way”
- Development of formatted SBA documents to be used in program marketing
- Technical Assistance Protocols
  - Use of Finance Fund Underwriting Policies
  - Alignment with SBA Eligibility and Standard Operating Procedures
  - “Over the shoulder” TA through first 10 projects

Lender Service Provider Contract

- Services to be Provided
  - Review of Credit, Servicing and Portfolio Management Policies
  - Loan Origination (if so desired)
  - Underwriting (if so desired)
  - Closing and Disbursal
  - Sale in Secondary Market
  - Loan Servicing
  - SBA Periodic reports
- Fees
  - $2,500 per loan max + Hourly rate on optional services provided
- Secondary Market
  - 9 – 13% premium depending on loan structure
  - Longer term, higher variable rate preferred for higher premium
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Community Advantage: LSP Cost/ Benefit

Elizabeth Dwyer
Accion Chicago
June 12, 2013

Accion Chicago: Business Model

- Certified CDFI and IL/IN statewide microlender
  - Microloans $500 - $50,000
  - Charge origination fees + collateral filing fees
- 425 loans disbursing $3.8 million per year
  - Volume grows 15% per year
- 5.1% net default rate
Accion Chicago: Systems

- Small 25-member staff
  - Lending department = 13 staff
  - Accounting & operations = 4 staff

- Outsource loan servicing & collections to MB Financial
  - Package loans in-house (1.5 FTE staff)

- Outsource initial underwriting to Accion Texas MMS
  - Staff/board credit committees make ultimate loan decision

Accion Chicago: Partnerships

- $6 million in programs funded by SBA, CDFI Fund, EDA, IL DCEO

- SBA Microloan Intermediary in both Illinois and Indiana

- Launched participation sales & loan guarantee programs:
  - 2012: Began selling 100% participations to banks seeking CRA credit
  - 2013: Launching IL DCEO Advantage state guarantee program
Why *not* Community Advantage?

- No in-house SBA 7(a) lending experience
- Trepidation about rigorous CA requirements
- CA administration arduous
- Microloan size good fit for CA loans for our clients?

Why Community Advantage?

- Manage risk on largest loans
- Enable growth into larger loan sizes
- Sell on secondary market
- Lender Service Providers exist!
Why seek a Lender Service Provider?

- Do Community Advantage right from day one
- Eliminate risk of losing guarantee
- Staff stay focused on core competencies
- Gain CA expertise gradually, easily

Seeking from LSP:

- Provides CA/7(a) training to Accion
- Excellent customer service to Accion clients
- Servicing integrates with Accion accounting systems
- Competitive price commensurate with service
- No minimum loan volume
**Outcomes expected from CA with LSP**

- Saved money vs. hiring or developing in-house CA staff
- Guarantee intact on every CA loan
- Most/all CA loans sold on secondary market
- Clients felt treated well & staff felt little burden
- Within 1 year: Steady CA lending
- Within 2-3 years: Knowledge to do CA in-house