

SMALL BUSINESS FINANCE FORUM

Scaling Small Business Lending: Lessons learned from *10,000 Small Businesses Financing Initiative*

Pam Porter, Cristina Shapiro, Dan Betancourt, Don
Harrington, Chuck Hurst, Bob Porter

June 16, 2017

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Agenda

- Small Business Financing Initiative
Background
- Participant Experience and Outcomes
- Challenging Our Organizations – A
Conversation with the Panelists

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Today's Presenters

- Pam Porter
Executive Vice President, Strategic Consulting
OFN
- Cristina Shapiro
Vice President, Urban Investments Group
Goldman Sachs
- Dan Betancourt
President and CEO
Community First Fund

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Today's Presenters

- Don Harrington
Vice President/Chief Credit Risk Officer
Carolina Small Business Development Fund
- Chuck Hurst
Vice President, Lending
Northern Initiatives
- Bob Porter
Managing Director, Business Advising and Loan Fund
Pacific Community Ventures

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Goldman Sachs 10,000 small businesses

Small Business Financing Initiative:

Multi-faceted program to increase the scale of small business lending by mission-driven lenders

2014

- Workshops
- Forum
- OFN Conference
- Leader Award

2015

- Collaborative
- Forum
- OFN Conference
- Leader Award

2016

- Collaborative
- Webinars
- TA Memos
- Forum
- OFN Conference
- Leader Award

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Finance Collaborative Participants

- ★ Access to Capital for Entrepr...
- ★ Accion NM/AZ/CO/NV
- ★ Bridgeway Capital
- ★ Brooklyn Cooperative Federa...
- ★ California Coastal Rural Dev...
- ★ CDC Small Business Finance
- ★ CEI
- ★ Colorado Enterprise Fund (C...
- ★ Community First Fund
- ★ Community Reinvestment F...
- ★ Craft3
- ★ Entrepreneur Fund
- ★ Excelsior Growth Fund
- ★ Growth Capital Corporation
- ★ Kentucky Highlands Investm...
- ★ LITFund, formerly known as ...
- ★ Montana CDC
- ★ Northern Economic Initiativ...
- ★ Pacific Community Ventures
- ★ PIDC Community Capital (PI...
- ★ The Support Center
- ★ Travois
- ★ VEDC
- ★ Virginia Community Capital

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Small Business Finance Collaborative Outcomes

- Dramatic increase in small business lending while maintaining strong asset quality
 - 5,500+ new loans originated
 - \$367 million new business added to portfolio
- Improvements in operational efficiencies and staffing structures
- Technology used more effectively
- Stronger focus on the customer, new product design, targeted marketing strategies

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COMMUNITY FIRST FUND

Community First Fund Growth Plan

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Community First Fund Growth Plan

- Community First realized that we had become stagnant in our loan growth at about 100 loans for \$100 million annually
- We set a goal to double that loan volume over three years while improving profitability and maintaining our mission impact
- Loan volume increase was targeted to improvements in sales management, centralized loan underwriting and documentation, and using technology to increase efficiency

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Operational/Process Changes

- Added a credit analyst position to underwrite all loan requests for committee and added analyst
- Added a loan processing associate to remove the documentation/closing process from lender's responsibilities

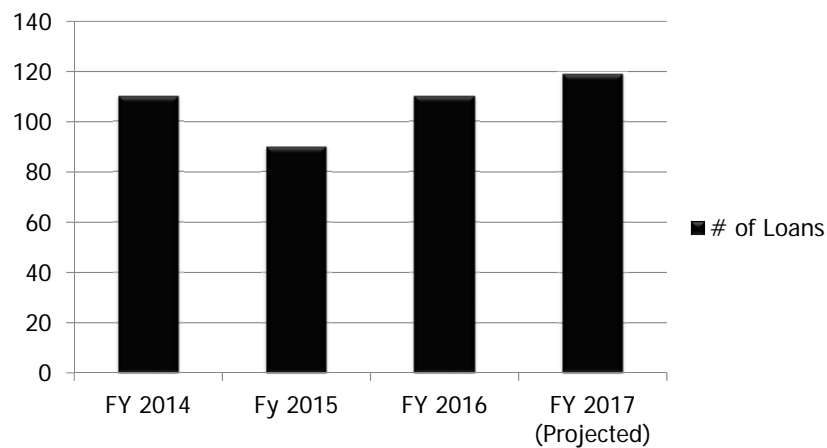
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Operational/Process Changes

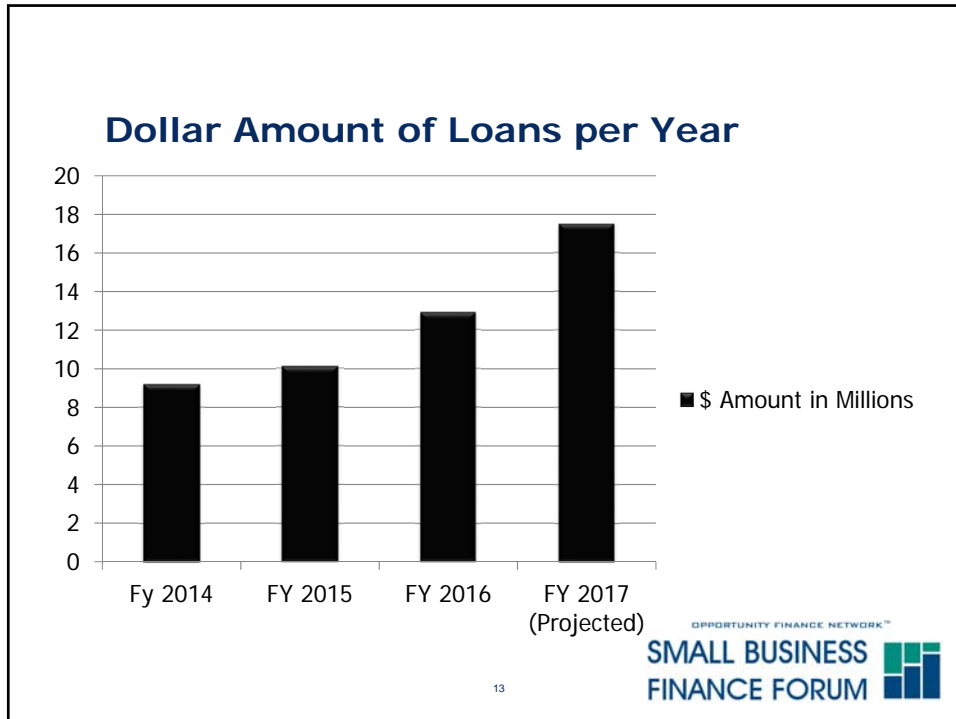
- Removed CLO from direct sales responsibility to focus on sales management
- Added new lender in growing market of Lehigh Valley
- Realigned responsibilities of real estate specialist
- Technology changes are underway to add online loan application and improved system processes in 2017-18


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Number of Loans per Year



12



- ### Challenges
- Staffing issues have hindered progress and consumed management time both in the backroom and front line
 - Technology choices have slowed our ability to move forward on options – on track now to move forward
 - We have used manually processes to track application to closing timeline. Have reduced our processing time in half to about 30 days but need an automated solution to do this efficiently and consistently.
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Questions?

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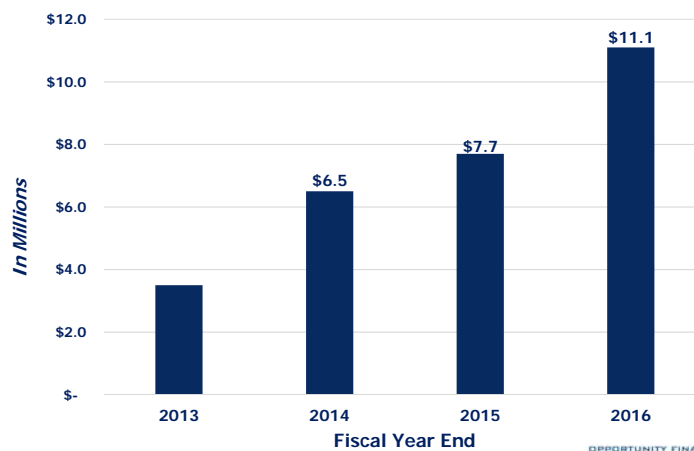
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Growth Plan

- Triple our volume of small business loans to entrepreneurs and small businesses in underserved communities by focusing on:
 - Loan amounts in the range of \$50K to \$250K through a corresponding increase in referrals from small business centers
 - Small business advisors, and financial institutions that have strong small business and commercial loan volumes

Loan Volume



Lending Function Changes

- Staff Restructuring and Additions
 - Revamped responsibilities of Business Development Officers
 - Added additional Business Development Officers
 - Added Loan Closer
 - Added Loan Underwriter
- Lending Cycle Improvements
 - Centralized loan underwriting
 - Retooled loan templates
- Upgraded Technology
 - Added online loan application
 - Revamped website

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Challenges

- Maintaining adequate staffing levels
- Maintaining loan turnaround goals
- Portfolio risk management
- Acquiring lending capital

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Benefits of Financing Initiative

- Opportunity Sharing and Networking
 - Managers' peer to peer learning
 - Discussion of emerging trends
 - Discussion of trends in competitive landscape
 - Mentoring other CDFIs

- Brand Elevation
 - Staff participation in OFN panels/workshops
 - Leveraging relationship with Goldman Sachs
 - Connect2Capital Collaborative
 - Small Business Leader Award

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Questions?

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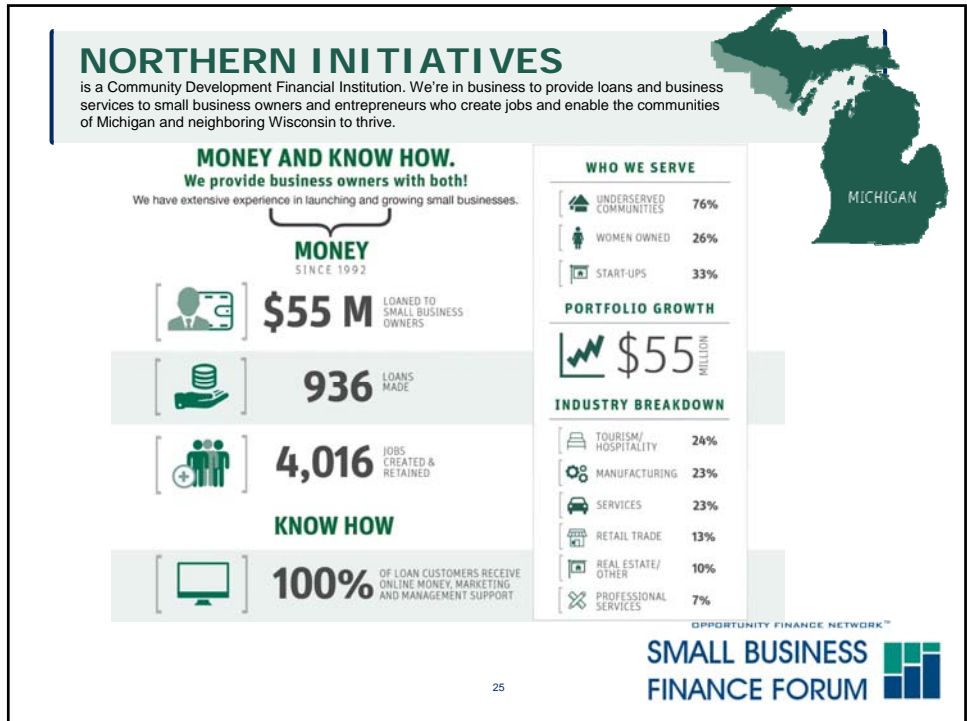
A decorative graphic on the left side of the slide, featuring several overlapping, curved, overlapping segments in shades of grey, orange, and light grey, similar in style to the Northern Initiatives logo.

GROWTH PLAN IMPLEMENTATION

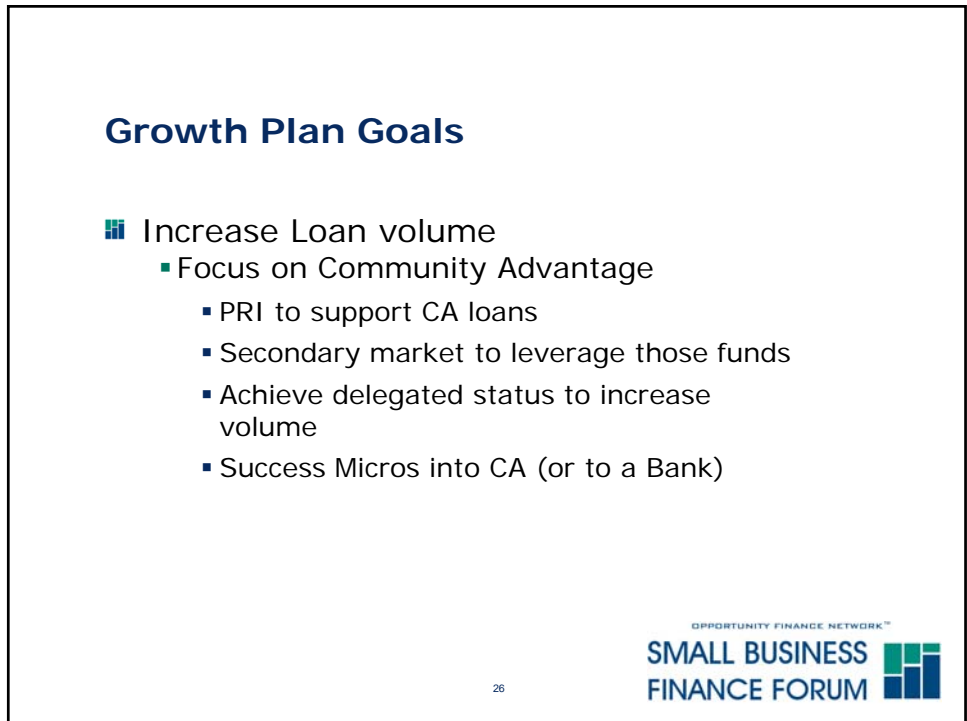
Chuck Hurst & Amanda Blondeau

Northern Initiatives provide loans and business services to small business owners and entrepreneurs who create jobs and enable communities of Northern rural Michigan and neighboring Wisconsin to thrive.

The logo for the Small Business Finance Forum, featuring the text "OPPORTUNITY FINANCE NETWORK™" above "SMALL BUSINESS FINANCE FORUM" and a graphic of three vertical bars in shades of blue and green.



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Growth Plan Goals

- Increase Loan Volume
 - Focus on Micro Loans
 - SBSS Scoring system
 - 19 fields entered from application and tax returns
 - Lenders can decision in < 1 hour
 - Lender approval authority
 - Up to \$40,000 depending on experience

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Growth Plan Goals

- Focus on TA: Innovate, Differentiate, Drive Growth
 - Provide TA to 100% of our Customer Base
 - Web based portal platform ensures every one of our customers has access to technical assistance and coaching regardless of their loan funding source or geographic location.
 - Expand Your Geographic Reach
 - Provides a means to cost effectively expand our geographic reach, conserving precious staff time, travel costs, and technical assistance dollars.
 - Improve Your Operational Efficiency
 - Access to a powerful set of coaching tools and a means to build a standardized approach to serving our customer base.

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Growth Plan Goals

- Blended Learning
 - Engage
 - In the underwriting phase
 - Set Goals
 - Connect with a coach, establish goals
 - Action Plan
 - Update status Track progress
 - Measure
 - Survey to measure impact



Growth Plan Goals

- Focus On: Standardizing Operational Processes
 - CRF JumpStart process
 - Identify and resolve bottlenecks across the organization
 - Clearly articulated processes
 - Implement and enforce

Results 2016 versus 2015

- 34% increase in loans closed
 - 67 – 2015
 - 90 – 2016
- 37% increase in \$\$ volume
 - \$4,020M – 2015
 - \$5.496M – 2016
- 33% increase in Micro Loan Volume
- 18% increase in CA Volume
- 30% increase in borrowers accessing business services
 - Portal page views on track to exceed 70% of 2016 levels
 - Scalable portal platform introduced May 2017

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Challenges

- Access to flexible capital
- Implementation of JumpStart across organization
- Geographic expansion and onboarding
- Multiple systems
- Rising rates and effects on CA structure & premiums

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Questions?

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Goldman Sachs *10,000 Small Businesses* Financing Initiative Goals

- 200% improvement in yearly capital deployed
- Introduce 2-3 new loan products
- Create a business model to generate 50% of operating costs by end of Year 3

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Goal 1: 200% improvement in yearly capital deployed

- Mapped and re-mapped processes decreasing application-to-close from 5 weeks to less than a week
- Implemented 2 additional approval channels
- Developed a targeted, specific marketing strategy

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Goal 2: Introduce 2-3 new loan products

- Introduced a \$10-50K loan (our second product)
 - 20% of applications were asking for less than we offered
 - Developing forced us to take a hard look at our underwriting
 - Positioned as first step on a continuation to capital ladder

- Launching SBA Microloan (our third product)
 - Launch of second product qualified us for third product
 - Software automation adopted and being implemented

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Goal 3: Generate 50% of operating costs by Year 3

- Growth Plan work critical
 - Forced most of PCV to be involved in Growth Plan
 - Developing forced us to take a hard look at our underwriting
 - Positioned new product as first step on a continuation to capital ladder

- Deep financial analysis conducted to truly understand costs

- Lending software researched, tested and implementation in process

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Results

- 1 new product launched (second launching in 2017)
- Application-to-close improved by over 4 weeks
- 185% increase in the number of loans closed
- 214% increase in the \$ of loans closed
- Self-sufficiency ratio increased to 54%

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Questions?

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Discussion Topics

- Leadership buy-in
- Growth Plan modifications
- Customer focus
- Surprises

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