



COMMUNITIES Unlimited

The Decision Process

Presentation to:
Austin Region CDFA EDA Revolving Loan Fund
November 7, 2018



COMMUNITIES Unlimited

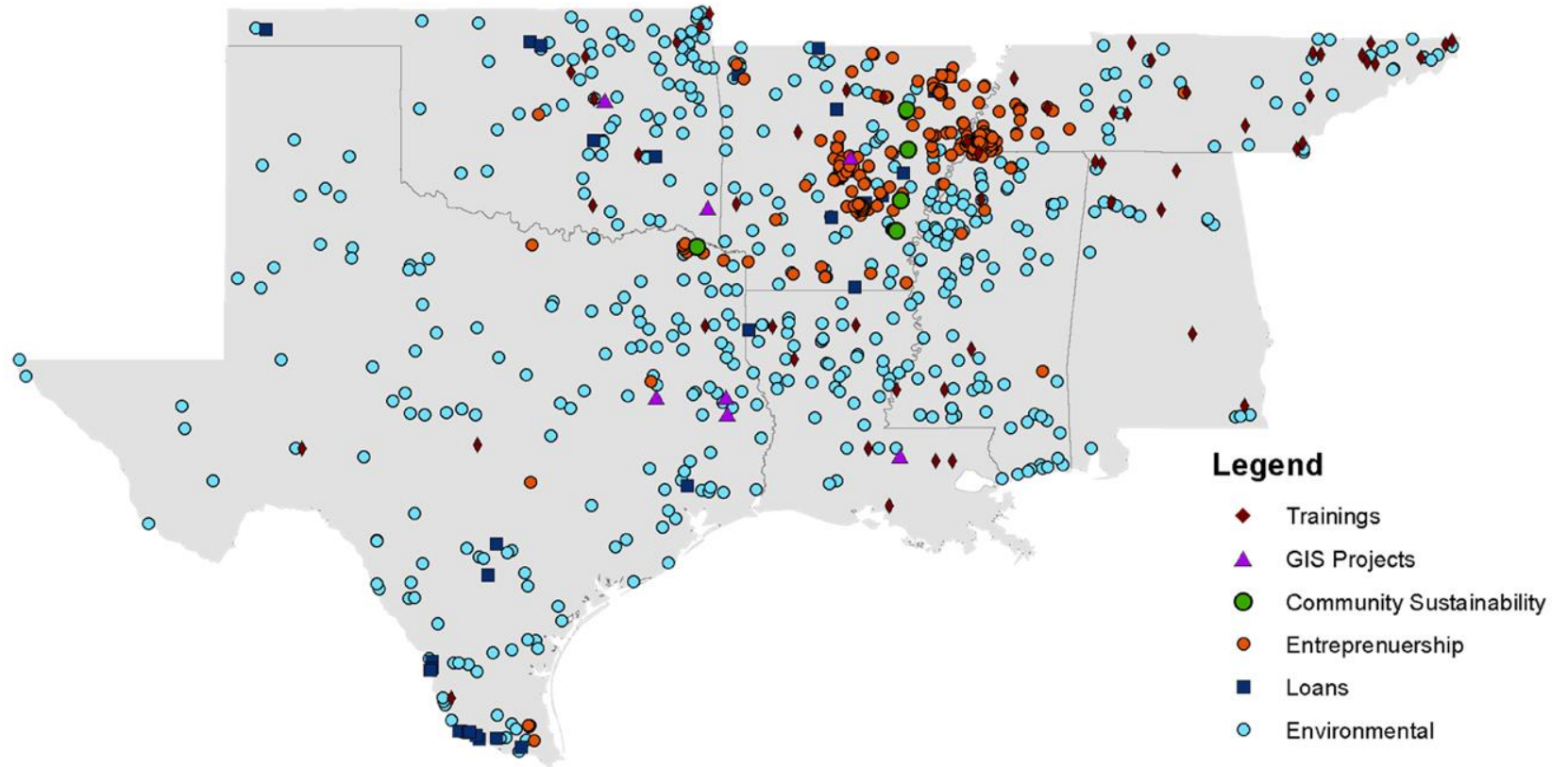
Mission Statement:

To move rural and under-resourced communities in areas of persistent poverty to sustainable prosperity.

Communities Unlimited serves Alabama, Arkansas, Louisiana, Mississippi, Oklahoma, Tennessee and Texas.



Impact Map FY2017



COMMUNITIES
Unlimited

Community Development Financial Institution

Communities Unlimited (CU) is a U.S. Treasury certified Community Development Financial Institution (CDFI). As a CDFI CU expands economic opportunity for underserved people and communities by providing access to capital they need to prosper.

COMMUNITIES
Unlimited



Lending

Business Lending

- Microloans: \$500 to \$50,000
- Business loans: \$500 to \$100,000
- Participation and Referral loans for those over \$100,000

Uses include working capital, equipment, expansion, business acquisition

Small Community Water & Wastewater Systems

- Loans up to \$500,000

Uses include capital improvement projects, equipment and emergency funding.



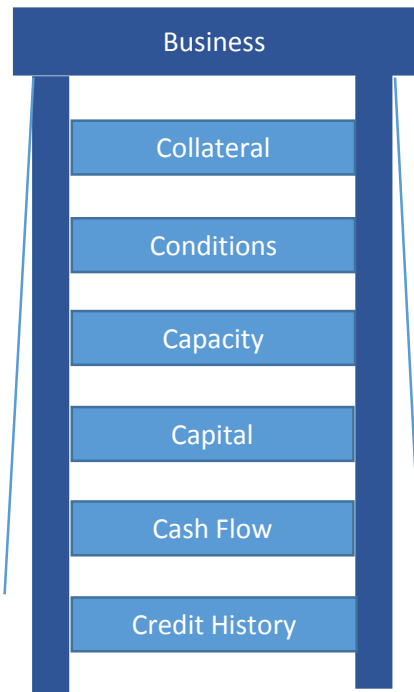
Decision Process

C's of Credit – Critical to understanding risk.



Decision Process

Risk – the possibility of losing something of value



- Lender and Business owner both have risk in any venture and both should clearly understand their risk.
- CU looks at the C's and tries to identify where the rungs in the ladder are weak or cracked – sometimes the rung is missing!
- Through the Decision Process we determine if the risk is reasonable and if there are ways to manage or mitigate the risk for both CU and borrower.

Decision Process

Credit History Risk

- Lender Risk
 - Financial loss
 - Limits capital available for others
 - Reputation Risk
- Borrower Risk
 - Financial loss
 - Credit worsens
 - Loss of assets, personal capital, equity
 - May effect family
 - Reputation

The Decision Process

- Is borrower qualified?
 - **Red Flag – problems not disclosed by applicant**
- Is credit improving?
- Is borrower working to improve?
- Are there guarantees, special reserves
- Consider smaller loan when possible
- Step loans as borrower performs



Decision Process

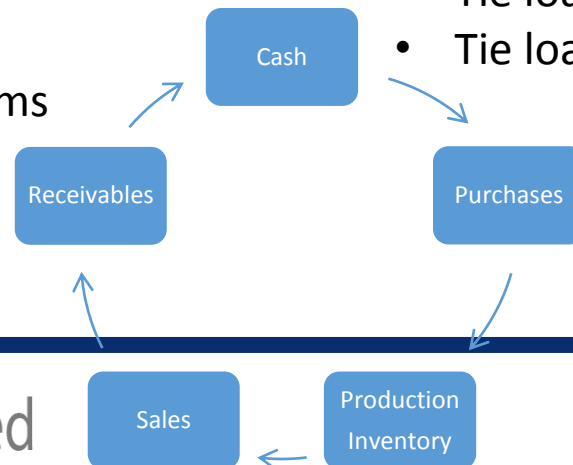
Cash Flow Risk – Know the Business Model

Causes of Cash flow Problems

- Lack of understanding about cash flow
- Fast Growth – Strong growth can result in negative cash flow. Does the client understand their cash flow?
- Pricing – Is client competing in price?
- Lack of inventory or too much inventory
- Selling on terms?
- Buying COD or limited terms
- Leasing assets too early
- Seasonality

The Decision Process

- Clearly understand cash flow before loan is made.
- How does cash flow compare to industry?
- Does client have systems to manage cash flow?
- Is client making needed changes?
- Can client reduce draws/salary?
- Tie loan advances to specific items
- Tie loan payments to seasonality



Decision Process

Capital Risk and Capacity Risk

What is Capital Risk

- Little or no net worth or equity
- Little or no reserves
- Minimal capital investment
- Debt to Equity too high
- Business owner taking too much money from business?
- Ratios not favorable to industry

Capacity Risk

- Financial capacity – Reserves or Equity
- Personal assets or additional income
- Management capacity or experience
- Industry experience and knowledge

The Decision Process

- Debt / Equity of 2:1 to 4:1; Risk rating tied to D/E.
- Secondary income
- Personal commitment
- Proven experience in industry
- Proven investment in venture
- Require Reserve
- Require limited draws



Decision Process

Collateral Risk and Conditions Risk

Collateral and Conditions

- Market and / or Industry conditions influence the value of collateral
- What is the value of collateral in a forced sale?
- Can the collateral be moved? What is the cost to move?
- Can the collateral be used in other industries or markets?
- Is this a competitive market or a niche market?
- What is the competitive environment?

The Decision Process

- Market value
- Other uses of collateral
- Ability to secure collateral
- Cost of foreclosure
- Local economy
- Local competition
- Competitive advantage
- Access to reserves, guarantees or other risk mitigation

The Decision Process

Pre-Application – Credit History

- *Decision point* - Not qualified – Decline; Qualified – begin underwriting

Complete Loan Package – Tax returns, business financials, personal financials, business plan or business model

- Analysis of the C's of Credit
- Identify any risk mitigation that may be available – reserves, guaranty, etc.
- *Decision Point* – Decline or Move to Internal review

Review with Lending Team

- *Decision Point* – Decline or Determine next steps; Engage Consultant or other resource or begin to prepare for Loan Committee

Loan Committee Presentation

- Approved – Letter of Conditions
- Not Approved – Declination

Close Loan – Personal guaranty and automatically draft payments

Implement Monitoring Plan

The Decision Process



1. Lending is not without risk.
2. Know the risks, identify them and manage or monitor them
3. You will miss some. You will identify new ones.
4. Help borrower understand the risk and prepare
5. Follow Up!
6. Collect and review reports

Contact Information

Deborah Temple

Director of Lending

Phone: 479.443.2700

Email: Deborah.Temple@CommunitiesU.org

