



Strategies for Addressing Non-Performance and Loan Defaults

Welcome

The Broadcast will begin at 2:00 PM (Eastern)

Thank you

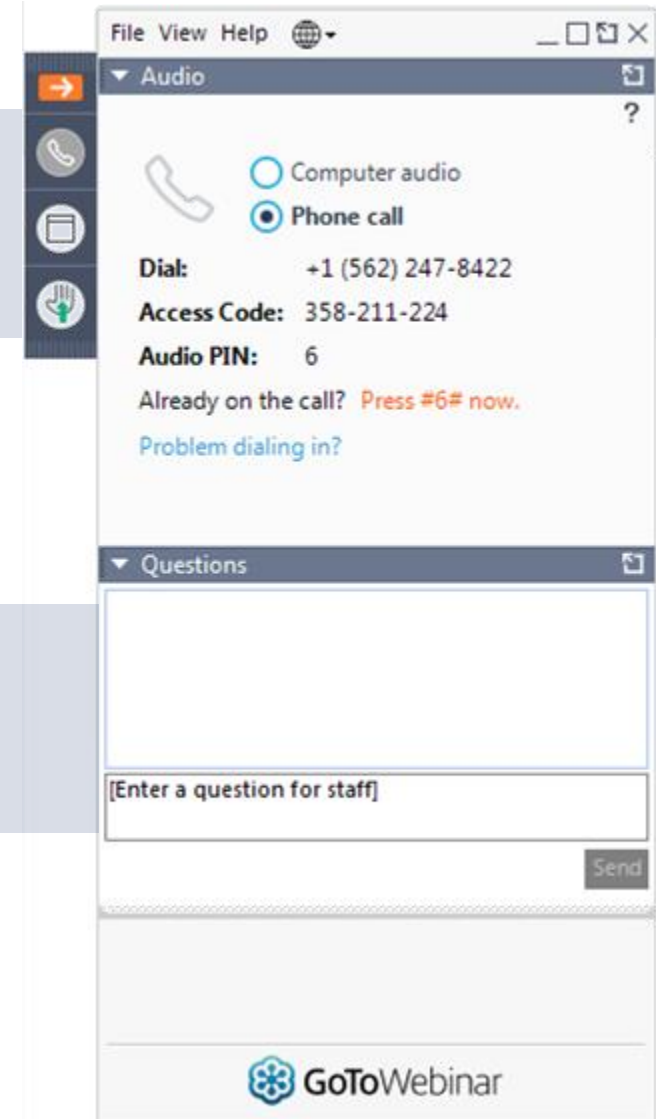
for joining the
conversation today.

Send us your
questions and
comments!



Strategies for Addressing Non-Performance and Loan Defaults

Using your telephone will give you better audio quality.



Submit your questions to the panelists here.



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Strategies for Addressing Non-Performance and Loan Defaults

Panelists



Harry Allen, Moderator
Coordinator, Research & Technical Assistance
Council of Development Finance Agencies



Michelle Beecher
Lending Associate
Rural Nevada Development Corporation



Amanda Peterson
Compliance Director
Colorado Lending Source



Rachel Baldini
Vice President, Director of Lending
First State Community Loan Fund

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See all of CDFFA's RLF resources online at www.cdfa.net



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Navigating Troubled Loans & Maximizing Recovery

Amanda Peterson, Compliance Director
Colorado Lending Source

The borrower is showing signs of potential default...now what?

Signs of potential default:

- Borrower has missed payment(s)
- Borrower has requested a deferral
- Borrower has sold fixed assets to fund working capital
- Borrower has sought out additional financing (i.e. “hard money” loans, factoring loans, etc.) to fund payroll, past due A/R, etc. rather than current/future “growth” (i.e. future purchase orders, inventory, etc.)
- Borrower has requested a release of primary collateral

The borrower is showing signs of potential default...now what?

Signs of potential default (continued):

- There has been a change of ownership or change in management
- Their internal or external credit risk factors have declined (i.e. at quarterly, semi-annually or annual review)
- A personal guarantor has declared bankruptcy
- The business is facing or involved in a current lawsuit or declared bankruptcy
- Borrower does not meet loan covenants or supply required documentation

Change in Terms/Loan Modification(s)

If the borrower is simply requesting a change to the non-payment terms of the loan (i.e. a subordination or substitution on collateral, change of ownership, etc.) and the request is made *in advance* of any deadlines or prior to the action occurring, then as long as the change addresses a real concern or need of the borrower then it is typically something to consider.

If the borrower is requesting a change to the non-payment (i.e. a release of collateral) or payment terms of the loan (i.e. an deferral or interest only period, reduced interest rate, etc.) then it is typically a sign of financial trouble and the request should be treated with more careful consideration, especially as to the long term consequences to default. EARLY IDENTIFICATION is KEY

What do you need to collect to consider a Change in Terms/Loan Modification?

Credit Factors:

- Current/Interim Business Financial Statements
- Year End Business Financial Statements
- Personal/Guarantor Financial Statements
- Current Credit Report(s)
- Current Debt Schedule
- “Seasoned” Loan (i.e. has the loan been funded for enough time to consider the Change in Terms)

Collateral Factors:

- Current Appraisal
- Copy of Commitment Letters, Invoices, Receipts, etc.
- Before and after analysis (i.e. is the loan still secure)
- “Due on Sale” (i.e. will the proceeds of the sale be used for business purposes or to repay/pay down the loan)

Focus: Change In Payment Terms

Types:

- Deferral: Change in Terms by which a “temporary” modification of repayment terms is granted (i.e. a 3 month full or interest only deferral)
 - Catch-Up Plan vs. ReAmortization?
- Rate Modification: Typically a reduction to the interest rate with a reamortization over the remaining term of the loan.
- Workout/Full Debt Restructure: Typically a reduction to the interest rate with additional factors included. If workout not feasible then proceed to liquidation.

Considerations:

- Is the problem “short term” in nature? Will this deferral help the issue(s) or only delay eventual default? Has the borrower justified how they will address the issues in the futures?
- Past Due/Demand Letters? Not required but may help you document your actions against the borrower and help when either pursuing litigation and/or collection against the delinquent account(s).

Ongoing Monitoring (Change in Payment Terms)

Credit Factors:

- Year End Business (or more frequent) Financial Statements
- *Watch Out for “Strategic Defaults” or a borrower who intentionally default in order to obtain a Change in Payment Terms*

Collateral Factors:

- Site Visits: At least at time of request/default and periodically following (PROTECT THE COLLATERAL)
- If Bankruptcy or Foreclosure continue to monitor status of litigation and make sure that required claims are submitted in a timely manner (may require use of legal counsel).

Still in Default/Failure to Meet the Terms of the Change in Terms

When a borrower fails to negotiate a Change in Terms or continues to fail to meet the terms of the Change in Terms, then it is time to proceed to liquidation (i.e. sale of collateral).

If liquidation does not suffice, then, depending on the cost/benefit, litigation (i.e. suite or judgement) may be required.

If litigation is not required, then referral to collections and on-going business credit reporting is likely the final solution including loan Charge-Off.



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Loan Workouts and Collateral

Working out and using collateral for troubled loans

When writing a loan, sometimes we need to get creative with the collateral we use to secure the loan

- Real estate
- Vehicles
- Equipment
- Transport trucks/trailers
- Personal possessions
- Livestock/hay

Use of collateral in a workout

It is important to remember, we don't WANT the collateral. Most small lending institutions don't have the manpower and resources to have to take possession of and liquidate collateral in many situations, so whatever you can do to work the loan out before this step is VERY important!

Tips to avoiding loans going bad

- Weekly late-pay calls
- Consistent follow-up and follow-through
- Frequent meetings with clients
- Site visits
- Holding borrowers accountable
- Use of loan default provisions

Once the workout is necessary

- Discuss whether a payment restructure could help
 - Weekly payments
 - Deferred charges
 - Longer amortization

Once the workout is necessary

- Are there outside sources available to help? Perhaps additional signers or guarantors?
- Is there additional collateral available?

When taking possession of the collateral can't be avoided

- Discuss each step with a legal advisor to make sure the process is handled properly



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Strategies for Addressing Non-Performance and Loan Defaults:

Technical Assistance

Background:

First State Community Loan Fund (CLF)

- ▶ Established in 1993
- ▶ FSCLF is a not-for-profit Community Development Financial Institution (CDFI) and a Certified Development Company (CDC)
- ▶ Mission Statement:
 - ▶ *“First State Community Loan Fund’s mission is to educate, empower, and elevate business owners, and entrepreneurs, by augmenting technical expertise, increasing access to capital and stimulating business growth throughout Delaware and southeastern Pennsylvania.”*

Pre-Closing process:

- ✓ Commitment Letter/Closing Checklist Issued
- ✓ Commitment Meeting Scheduled
- ✓ Document Gathering
- ✓ **Meeting with Technical Assistance Coordinator**
- ✓ Loan Closing
- ✓ Ongoing Servicing

Technical Assistance Coordinator:

- ▶ Prior to loan closing, all clients must meet with the Technical Assistance Coordinator
- ▶ A Business Assessment and TA Plan is completed
- ▶ TA Coordinator and Client sign off on plan

TA Meeting Objectives:

- ▶ Provide an overview of the TA Coordinator's role and the importance of technical assistance in the success of the business
- ▶ Stress an overall team effort to help insure borrower's success
- ▶ Determine areas and/or skills that the borrower might need to increase their probability of success
- ▶ Discuss long-term plans for the borrower's business
- ▶ Obtain confirmation that the business owner agrees to work with a service provider to assist in strengthening the identified business areas or skills

Post-Closing: TA Coordinator

- ▶ TA Coordinator ensures plan is followed:
 - ▶ New Businesses: Monthly TA Sessions
 - ▶ Existing Businesses: Quarterly Sessions
- ▶ Objectives:
 - ▶ Check-in
 - ▶ Gather Financial Information
 - ▶ Make clients aware of additional resources/trainings provided through FSCLF

Additional Technical Assistance Programs Include:

- ▶ Women's Business Center
- ▶ Retail Assistance Program

THE WOMEN'S BUSINESS CENTER

AT FIRST STATE COMMUNITY LOAN FUND

The Women's Business Center Offers

- ▶ **Business Training**
 - ▶ **Long-Term Business Mentoring**
 - ▶ **Industry Specific Programming**
 - ▶ **Business & Industry Specific Resources**
- **One-on One Business Counseling**
 - **Business Plan Development**
 - **Access to Capital**
 - **Networking Opportunities**
 - **Technical Assistance**

Stay Connected.....

www.wbctrainings.org | wbc@fiststateloan.org | 302-652-6774 Option 2



THE WOMEN'S BUSINESS CENTER

AT FIRST STATE COMMUNITY LOAN FUND

QuickBooks Basics Training

The hands-on three (3) hour program will focus on:

-
- Setting up a Company
- Working with Lists
- Working with Bank Accounts
- Using Other Accounts in QuickBooks
- Sales Receipts vs Invoices
- Receiving Payments and Making Deposits
- Entering and Paying Bills



THE WOMEN'S BUSINESS CENTER

AT FIRST STATE COMMUNITY LOAN FUND

B.L.E.N.D Marketing

Coffee is coffee, right? Ask any coffee snob and they will set you straight in a second. So how does one brand stick out from another? If we do the same thing as someone else, how will we distinguish ourselves in ways other than price?

This Training Bundle includes a video training of Donna's Signature Marketing Blend and a Live Training/Q & A Call.

Active Members will also have access to Donna Duffy's BLEND Digital Masterclass, which includes video and audio modules and PDF workbooks.



THE WOMEN'S BUSINESS CENTER

AT FIRST STATE COMMUNITY LOAN FUND

Passport to Business Success Program

Passport to Business Success (PBS) is a program, which engages women entrepreneurs in all the development areas of a business plan. Using a unique approach, the online program provides instruction that is crafted to educate and inspire each woman desiring to start or grow their business. The program is accessible at any time from any computer or tablet. The program requires for, at least, one module completion per week. The program consists of up to 13 modules for English and Spanish learners. During the course, the program will interact with you at your pace.



Retail Assistance Program:

- ▶ The Retail Assistance Program is designed to help mitigate some of the risks associated with starting or expanding retail and food service (restaurants) businesses.
- ▶ With an added emphasis on business expansion, First State CLF takes a value added approach to assisting individual retail business

Retail Assistance Program: Services Provided:

- ▶ Preparing a comprehensive Business Assessment Report that includes specific recommendations to improve or enhance the prospects for business growth and success
- ▶ Working closely with the business owner to insure the implementation of the assessment report recommendations
- ▶ Assisting with lease negotiations
- ▶ Providing access to capital resources



First State Community Loan Fund

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Question and Answer

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Upcoming CDFA EDA RLF Best Practices Events

CDFA EDA Revolving Loan Fund Webinar Series: Solutions for Revolving Loan Fund Servicing

October 16, 2018 | 2:00PM Eastern

CDFA EDA Revolving Loan Fund Training

Dallas, TX

November 6-7, 2018

CDFA National Development Finance Summit

Dallas, TX

November 7-9, 2018

Register online at www.cdfa.net

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What are Development Finance Agencies?

CDFA is proud to represent development finance agencies (DFAs) across the country. Learn how they finance the development priorities in their communities.

CDFA Upcoming Events

CDFA EDA Revolving Loan Fund Webinar Series: Exploring the Role of Revolving Loan Funds in Economic Development
January 23, 2018
2:00 PM Eastern

Fundamentals of Economic Development Finance WebCourse
January 24-25, 2018
Daily: 12:00 - 5:00 PM Eastern

CDFA // BNY Mellon Webcast Series: Transforming the Motor City: Redevelopment in the Rust Belt
Tuesday, February 13, 2018
1:00 PM Eastern

CDFA EDA Revolving Loan Fund Webinar Series: Maximizing Revolving Loan Fund Impact
February 20, 2018
2:00 PM Eastern

[=> View CDFA Events](#)

Right Now at CDFA



Tax Cuts & Jobs Act

Tim Fisher
Manager, Legislative & Federal Affairs

Tax reform will change the tax code for decades to come. It also preserves PABs! Here's an early look by The Bond Buyer outlining the impact of the bill on development finance. CDFA will be releasing more details in the days to come.

[=> Learn More](#)

CDFA National Sponsors



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Development Finance Headlines

- Ohio's Smart Mobility Resource and Assets**
JobsOhio | Jan. 22 | [Economic Development](#)
 - Sens. Cornyn, Warner Introduce PAB P3 Bill**
The Bond Buyer | Jan. 22 | [Bond Finance](#) | [Infrastructure Finance](#) | [Legislative](#) | [Public-Private Partnership \(P3\) Financing](#)
 - US CoC Urging Congress to Expand PABs**
The Bond Buyer | Jan. 22 | [Bond Finance](#) | [Infrastructure Finance](#) | [Legislative](#)
 - Skidmore, MO Approves \$1M Bond Issue for Water/Sewer Project**
The Maryville Forum | Jan. 22 | [Water Finance](#) | [Infrastructure Finance](#) | [Revolving Loan Funds \(RLFs\)](#) | [Bond Finance](#)
 - OK Bill would Eliminate Renewable Energy Tax Credit**
Norman Transcript | Jan. 22 | [Legislative](#) | [Tax Credits](#)
 - Murphy Orders Review of NJ's Tax Credit Programs**
U.S. News | Jan. 22 | [Tax Credits](#)
 - RI Housing Agency Approves LIHTC Financing**
Providence Journal | Jan. 22 | [Tax Credits](#)
 - DCHFA Closes \$11M Deal to Fund DC Affordable Community**
Multi-Housing News | Jan. 22 | [Bond Finance](#)
 - Two BIDs Move Closer to Being Established in the Bronx**
Bronx Times | Jan. 22 | [Special Assessment Districts](#) | [Tax Increment Finance \(TIF\)](#)
 - \$400M Plan Proposed to Save the Salton Sea Involved the Creation of an EFD**
NBC Los Angeles | Jan. 22 | [Brownfield Financing](#) | [Tax Increment Finance \(TIF\)](#) | [Water Finance](#) | [Infrastructure Finance](#) | [Special Assessment Districts](#)
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CDFA EDA Revolving Loan Fund Best Practices Program

The EDA Revolving Loan Fund Program is a staple of the federal economic development access to capital delivery system. The program, established in 1975, is designed to provide grants to state and local governments, political subdivisions, and nonprofit organizations to operate a lending program that offers low-interest loans to businesses that cannot get traditional bank financing. Grant recipients are required to manage their RLF according to their RLF administrative plan, a document that describes the lending strategy and administrative procedures for a specific RLF project. The EDA has charged CDFA with developing an education program which will help to improve this crucial program.

CDFA has worked with the EDA to develop an innovative technical assistance approach to better supporting and improving the more than 500 EDA funded Revolving Loan Funds in the United States. The CDFA EDA RLF Best Practices Program will include a diverse set of offerings that will encourage learning, best practice collaborations, evaluations of service efficiencies and improvements, and a comprehensive resource collection and dissemination process.

Key program elements will include:

- EDA Revolving Loan Fund Training**
CDFA will present its comprehensive Intro Revolving Loan Fund Finance Course once in each of EDAs six regions. The course curriculum will be tailored to address the specific needs of EDA RLF grantees with a focus on introductory elements related to program design, marketing, management, decision making, pre- and post-loan closing processing, disclosure and monitoring, underwriting strategies, program expansion, evaluations and program risk strategies.
- EDA Revolving Loan Fund Webinar Series**
Understanding that not all RLF grantees will have the resources or ability to attend in-person training, the CDFA EDA RLF Best Practices Program will offer an exclusive online learning environment through CDFA's established webcast system. This learning module will include twelve, ninety minute, webinars focused on specific RLF program management best practices.
- EDA Revolving Loan Fund Peer-to-Peer Learning Exchange**
CDFA and EDA will match low performing loan funds with high performing loan funds over the duration of the program in order to encourage learning from best practices. CDFA staff will lead conversations and pairings with most exchanges occurring as scheduled web meetings. Peer-to-Peer learning participants are encouraged to attend the regular webinars and then hold a follow-up meeting for a peer exchange on the same topic.

EDA Revolving Loan Fund Training

EDA Revolving Loan Fund Webinar Series

EDA Revolving Loan Fund Peer-to-Peer Learning Exchange

EDA Revolving Loan Fund Resource Center

The CDFA EDA RLF Best Practices Program was prepared by the Council of Development Finance Agencies using Federal funds under award ED17HQJ3030053 from the Economic Development Administration, U.S. Department of Commerce. The statements, findings, conclusions, and recommendations are those of the author(s) and do not necessarily reflect the views of the Economic Development Administration or the U.S. Department of Commerce.



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