CDFIs: How to Measure Financial/Organizational Performance

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fahe Strength in Numbers

OPPORTUNITY FINANCE NETWORK

Renaissance Community Loan Fund

Opportunity Finance Network

- Increase flow of capital to CDFIs
  - $660 million under management
    - $146 million in direct financing
    - $472 million in CDFI Bond Guarantee Program authority allocated to 16 CDFIs
- Strengthen CDFI industry
  - Industry conferences and research
  - Training & technical assistance for CDFIs & investors
- Amplify the Voice of CDFI industry
  - Industry advocacy
  - Industry branding & marketing
  - CDFI Market Reach
    - 265 CDFI members
    - More than 700 CDFI customers

Renaissance

- Mission:
  - To provide support through financial assistance and development services which facilitates the development of communities that provide safe, quality housing for the residents of Mississippi
  - Create economic opportunities that will add/retain jobs in the community
- Financial Stats:
  - $44 million in assets
  - Over $100 million in lending by RCLF for housing and small business loans
  - Leveraged over $100 million from partnership lenders
  - $15 million in small business loans as part of the NMTC program
  - Created/Retained over 1,000 jobs

Fahe

- On a mission to end persistent poverty in Appalachia
  - Deepen our commitment to leadership development throughout all of our work
  - Expand the reach and depth of our housing platforms
  - Extend our core competencies to support increased educational attainment in the region
  - Facilitate multi-sector collaborations that include health and social services to provide person-centered solutions for vulnerable people
  - Explore and develop additional ways to advance economic opportunities
- Financial Stats
  - $70 million in assets
  - 2019 Impact of Fahe Network
    - Over 80,000 individuals assisted
    - Over $100 million in lending and direct programs

What do you hope to learn in this session?

- CDFIs manage two kind of funds – operating and capital (be able to discuss/differentiate)

- Keep up with GAAP rules – new non-profit accounting rules
  - 2010 – Disclosures about the credit quality of financing receivables
  - 2018 – net asset classifications, liquidity disclosures
  - 2019 – revenue recognition
  - 2022 – allowance for loan losses

- Net assets – with donor restrictions & without donor restrictions

Considerations

- Capital
  - Capital structure
  - Characteristics of net assets (restrictions)
  - Characteristics of debt (secured/unsecured; senior/subordinate; fixed/variable)
- Asset Quality
  - Delinquency and write-off levels and trends
  - LTV and lien positions
  - Loan concentrations, types, and terms
  - Changes in Allowance for Loan Losses

- Earnings
  - History and trend of Operating results
  - Composition and reliability of earned and grant revenues
  - Strategies for Sustainability, self-sufficiency, efficiency
- Liquidity
  - Operating and capital liquidity
    - Maintain cash for operations vs capital
    - A/L matching
    - Off balance sheet liquidity (line of credit; funds)
    - Interest rate management

Capitalization

- Net Asset Ratio
- Unrestricted Net Asset Ratio

Asset Quality

- Allowance for Loan Loss Ratio
- Past Due Loans Ratio >30 days & > 90 days
- Net Charge-Off Ratio

Operating:

- Self-Sufficiency Ratio
- Net Operating Surplus (without donor restrictions)

Liquidity

- Quick Ratio
- Months Unrestricted Cash
- Deployment

Sample Ratios by Peer Group (from OFN Member Survey)

	All Loan Funds	Housing – Orgs	Housing-Ind	Business	Micro
Net Asset Ratio	46%	40%	56%	46%	50%
ALL%	6.2%	4.6%	5.0%	7.0%	10.2%
Past due>90	2.3%	1.1%	3.7%	2.2%	4.7%
Net Charge-offs	0.9%	0.1%	0.1%	1.5%	2.7%
Self-sufficiency	66%	83%	64%	59%	38%

Net Asset Ratio

- Measures the percentage of a CDFI’s total assets that are equity or net assets
- Equity protects senior debt investors from losses, helps reduce a CDFI’s average cost of capital, and enhances a CDFI’s flexibility

Net Asset Ratio = Total Net Assets ÷ Total Assets

- Alternative calculation considers donor restrictions and protection afforded by EQ2 investments

Unrestricted Net Asset Ratio

- Measures percentage of a CDFI's total assets that are in the form of unrestricted net assets
- Shows how much flexibility the CDFI has to use its assets for financing or operations

UNA Ratio = Total UNA ÷ Total Assets

- Alternative calculation may include temporary and permanently restricted NA available for financing

Allowance for Loan Loss Ratio

- Measures the Allowance for Loan Losses (ALL) as a percentage of a CDFI's gross loans
- ALL acts as insurance reserves for potential problem loans. They are an estimate of loans (or portions of loans) that may prove to be uncollectible
- The net impact of the ALL is to discount the value of the gross portfolio based on likely repayment and to smooth losses on the income statement

ALL Ratio = ALL ÷ Gross Loans Outstanding

Past Due Loans Ratio >30 Days

- Measures the dollar amount of delinquent loans as a percentage of a CDFI's gross loans outstanding
- Demonstrates potential problem loans in the portfolio. Consider in conjunction with the ALL Ratio and Net Charge-off Ratio

Past Due Loans >30 Days Ratio = Past Due Loans >30 Days ÷ Gross Loans Outstanding

Net Charge-off Ratio

- Measures the net amount of loans written off as a percentage of a CDFI's gross loans outstanding
- Ratio will fluctuate year-to-year based on portfolio performance

Net Charge-off Ratio = Net Charge-offs ÷ Gross Loans Outstanding

Self-Sufficiency Ratio

- Measures the extent to which a CDFI is covering its expenses through earned income
- Higher self-sufficiency allows CDFIs to be more independent in program growth and priorities
- Adjusted expenses excludes pass-through grants and one-time non-operating expenses
- Self-sufficiency allows CDFIs to be more independent in program growth and priorities

Self-Sufficiency Ratio = Earned Revenue ÷ Total Adjusted Expenses*

*operating expenses + financing expenses

Quick Ratio

- Measures a CDFI's short-term liquidity
- Shows a CFDI's true ability to meet its short-term obligations with its most liquid assets
- Differs from "current ratio" as it excludes portfolio and other current assets not easily liquidated

Quick Ratio = (Cash and Equivalents + Marketable Securities) ÷ Current Liabilities

Deployment

- Measures the percentage of total financing pool that is deployed; CDFIs need to manage this ratio. Should be considered over time

Deployment = Loans & Notes Outstanding ÷ (Debt + EQ2 + TRNA Available for Financing + UNA)

Examples of Projection Tools

Resources

Download 3 Performance Counts Papers:

https://ofn.org/performance-counts

Purchase Side by Side:

https://ofn.org/publications

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Questions?