CDFIs: Linking your Credit Rating to Loan Loss

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CFO Convening
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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

Determining ALL

- ALL acts as insurance reserves for potential problem loans. 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

- Several methods:
  - For non-impaired loans – as a % of certain classes/segments of loans (general reserve)
  - For impaired loans – specific reserves based on impaired analysis (specific reserve)

Factors to consider while determining ALL:

Historical losses

Nature and value of collateral

Past due status of loan

Terms trends

Loan rating trend

Concentration risks

National/local economy

Other factors

Current Expected Credit Loss (CECL)

- Adopted Jan 1 2022
- Clarifications to credit loss standards
  - Reflects management's expectations based on past events, current conditions, and reasonable and supportable forecasts .
  - Reflects the use of forward-looking information
  - Incorporates expected losses over the remaining contractual life.

Discussion

Who has started preparations for implementing CECL?

Any tips for the group?

Risk Rating System

- Most CDFIs have risk rating system to help set ALL
  - Loans that have similar risk characteristics are grouped together
  - Methodology for scoring loans
  - Specific rating then translates in ALL percentage or range of percentages.

- Also factor in:
  - Third party guarantees
  - Other credit enhancement
  - Reliability of repayment source

Discussion

What risk rating system do you use?

How do you link it to your ALL?

Example Risk Rating to Allowance for Loan Losses

Risk Rating	Allowance for Loan Losses
1	3%
2	5%
3	10%
4	20%
5	50% or more – determined per loan

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