Loan Participation Program (LPP) Building Sustainability

Thomas Wall
Director SSBCI
NC Rural Center

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North Carolina SSBCI Programs
$46 million of funding allocated to 3 programs

- Loan Participation Program largest and most active
- Capital Access Program serves as bridge and door opener
- Fund of Funds Program provides ROI to support sustainability
LPP Market penetration

• Build on CAP programs awareness
• Work with bankers to ensure program fit
  • Help address an underwriting issue
  • Simple to use, quick turnarounds
  • No impact on borrower
  • Waive fee-share enhancing lenders’ yield
• Create demand-pull through business community
• Multi-level sale
  • Bank C-levels
  • Credit officers and lenders
• Strategic positioning with CDFIs
LPP Maintaining momentum

• Adjust participation levels toward equilibrium…
  20%/$500,000 reduced to 15%/$200,000
  …to ensure constancy of funds availability
• Create bad-debt reserve from program income
• Recycle principal payments and net income
• No fees for prepayments
• Make good loans! (and diversify)
• “Manage” interest rates
• Ongoing communication – maintain “mindshare”
LPP Increasing the trajectory

- Reinvesting net program income and ROI from Fund of Funds program
- Accessing USDA Intermediary Relending Program
- Pursuing mission-related capital sources
- Investigating becoming a CDFI
LPP Trends & Impacts

- Over 300 participations purchased from 22 lenders, mostly community banks
- Average size declined from $233k to $89k
- $ 9 million of recycled funds committed
- 22% loan dollars in LMI Census Tracts
- Private dollar leverage 10.4 X
- 6373 jobs created/retained
- Loans in 62 of 100 counties, 39% rural
Contact info:

Thomas Wall
twall@ncruralcenter.org
919-250-4314
www.ncruralcenter.org
Loan Participation Sustainability

John Saris

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Loan Participation Sustainability

• Oregon Business Development Fund
  – Second development finance program established in Oregon
  – Support of traded sector (manufacturing) industries
  – Financial need

• Historical Capitalization and Performance
  – Appropriations
  – Portfolio Performance
  – Program Impacts
Keys to Sustainability

• Program Income
• Due Diligence
• Collections
• Risk Rating
Program Income

• Application Fee
• Closing Fee
  – Referral Fees
• Interest Income
• Loan Repayment
• No Prepayment Fees
Due Diligence

• Underwriting
   – Staffing
   – Financial review
     • Debt service cover
     • Global cash flow
     • Strength of guarantor
     • Discounted value(s) for collateral securing the loan
Collections

- Value of ACH Payments
- Weekly and Monthly Review and Reporting
- Workout Objectives
- Use of State Department of Justice (Attorney General)
Risk Rating & Allowance for Loan Loss

• Routine Periodic Reviews
• Purpose and Value of an Allowance for Loan Loss (ALL)
• Risk Rating Criteria
  – Subjective criteria for establishing the ALL
• Other Best Practices
  – Work with SAG Lenders
Long Term Opportunities

• Benefits of Revenue Generating Programs
  – Demonstrated financial stewardship
  – Improved Legislative and Public Trust
  – Ability to influence and recommend new financial programs
    • Example – Royalty Financing Pilot
Contact Information

John Saris
Business Oregon
Mobile (503) 383-8612
john.saris@Oregon.gov
www.oregon4biz.com