



Evaluating Portfolio Health

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Agenda

- Welcome and Introductions
- Opening Activity
- Tip 1: Measuring and Monitoring Portfolio Health
- Tip 2: Managing the Short Game and the Long Game in Account Management
- Closing

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Emily Trump



- **Job:** Lending and Compliance Manager, First Nations Oweesta Corporation
- **Focus:** Micro business and consumer lending
- **Passion:** New CDFI development
- **First Industry Gig:** Loan officer for Hunkpati Investments on Crow Creek Reservation
- **Fun Fact:** I have an encyclopedic knowledge of Marvel superheroes

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Leslie Hoffman



- **Job:** Principal, LEH Consulting Group
- **Focus:** Micro and small business lending
- **Passion:** Mission-centered collections
- **First Industry Gig:** Communications manager for Accion in Albuquerque
- **Fun Fact:** I hiked Mt. Kilimanjaro earlier this year

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Gallery Walk

What metrics do you monitor:

- Daily
- Weekly
- Monthly
- Quarterly
- Annually



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Tip 1: Measuring and Monitoring Portfolio Health



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Credit Worthiness

- Loans receive an initial risk rating based on the results of underwriting
- Loans can be upgraded or downgraded based on new information
- Loan loss reserve percentages are typically linked to loan ratings

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Collateral and Assets

Valuing assets

- Book value vs. reality
- Depreciation schedules
- Appraisals

Monitoring collateral

- Financial statements
- Site visits
- Insurance
- Substituting collateral

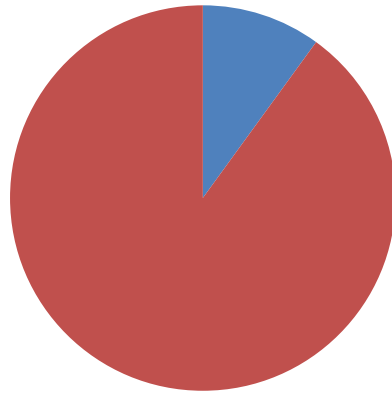
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Concentration Risk

Types of concentration

- Loan type (e.g., business, housing consumer)
- Geography
- Borrower's industry
- Borrower's employer
- Single (or related) borrowers
- Restructures



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Payment Behavior

Delinquencies

- 30, 60, 90, 120+ days past due
- Consider both current delinquencies and how many times the borrower has been late in the past
- Loan policy sets out collection actions based on delinquencies
- Delinquencies can alert you to the need for a payment plan

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What is a Dashboard?

- Summarizes portfolio information
- Identifies key metrics to track over time
- Communicates to board, staff, key stakeholders

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Sample Dashboard

Loan Portfolio Quality Chart		Current FY To Date End of Period 6/30/16	
Loan Portfolio Aging Schedule		Number	Delinquent Amount
a.	31 to 60 days	7	\$2,001
b.	61 to 90 days	10	\$9,811
c.	90+ days	17	\$28,157
d.	Gross Amount Delinquent (Total Loans)	34	\$39,968
e.	Total Portfolio-at-Risk or Delinquency Ratio (d / f)		2.9%
		Current FY To Date End of Period: 6/30/2016	
f.	Total Outstanding Loan Portfolio		\$1,384,990
g.	Net Write-Offs or Net Charge-Offs		\$60,745
h.	Annual Net Loan Loss Ratio (g / f)		4.4%
i.	Loan Loss Reserve (cash)		\$20,117
j.	Loan Loss Reserve (accrual)		\$140,973
k.	Loan Loss Reserve Ratio (i + j / f)		11.6%

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Practice Time!



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Tip 2: The Short Game and the Long Game



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The Short Game and Payment Plans

Situation

- Temporary changes in owner's lifestyle and/or availability
- Temporary changes in business operation or performance
- Temporary changes in market conditions

Approach

- Provide short-term allowance for cash flow recovery
- Change payment arrangements for short period of time
- Loan agreement does not change
- Monitor delinquencies for payment plan needs

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The Long Game and Restructures/Modifications

Situation

- Long-term or permanent change in owner's lifestyle and/or availability
- Long-term or permanent change in business operation or performance
- Long-term or permanent change in market conditions

Approach

- Permanent changes to the loan agreement are needed to address the new circumstance
- Restructured loan calls for an underwriting review of the file
- Execute new loan documents or a restructure addendum to reflect new terms
- Track restructures as a concentration; adjust loan loss reserves accordingly

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Let's Practice!



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Payment Plan Best (Written) Practices

- Get ahead of the issue early – payment plans are not “last ditch” efforts.
- Limit the number of times your organization permits payment plans over the life of the loan.
- Limit the length of time a payment plan can be in place (no longer than three months generally).
- Be very careful with “skip a pay” and interest-only arrangements.

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Restructure/Modification Best (Written) Practices

- Get ahead of the issue quickly – restructures work best when they are not “last ditch” efforts.
- Clients should be eligible for a restructure only once.
- This is creating a new loan agreement so be thorough in your underwriting analysis.
- You should be tracking these in your portfolio separately and adjusting loan loss reserves accordingly.

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Reporting Best Practice

- Include non-accrual loans, TDRs, and impaired loans in the disclosure guidance for financing receivables in financial audit reports. (FASB)
- OFN recommends the following in audited financial statements and other loan portfolio reporting communications to describe portfolio performance:
 - **Current loans**
 - **Past due loans**
 - **Non-accrual loans:** A past due loan that is no longer accruing interest
 - **Impaired loans:** Probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement
 - **Troubled debt restructurings (TDRs):** Restructure where the lender granted a concession that it otherwise would not consider but for the borrower’s financial difficulties.

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What did you hear today?



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Resources

- *CDFI Portfolio Reporting: Definitions, Accounting Treatment and Reporting Guidance*
http://ofn.org/sites/default/files/PerformanceCounts_CDFI_Portfolio_Reporting.pdf
- *Portfolio Management: Best Practices for Definitions and Reporting to Funders and Partners*
<https://vimeo.com/174551183>
- *Loan Review: A Critical Element of Effective Portfolio Risk*
<https://www.cdfifund.gov/Documents/OFN%20Loan%20Review%20TA%20memo.pdf>
- *Oweesta Online Help Desk*
<http://www.oweesta.org/resources/online-help-desk>

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SCENARIO 1

Sean is a new borrower who took out a loan to expand his convenience store. His store is the only place for people in his rural tribal community to buy the basics without having to drive an hour to the nearest city. He had on-time payments for the first 10 months and is now late for the first time. You reach him by phone, and he tells you an unexpected road construction project to repair the highway near his store has created electrical outage issues that have forced him to close his store several times. The resulting dip in sales has him behind on several bills, including yours, and he's concerned about the past-due notices that are piling up. Tribal government officials say the construction project should be complete in six weeks.

SCENARIO 2

Vicky is an accountant on her third loan with your organization. She provides contract accounting services to the Tribal government and local businesses. The Tribal government takes 90 days to pay her invoices so she has borrowed money from your organization for working capital to help smooth out her cash flow when she is doing a lot of work for the Tribe. She has had repeated delinquencies, but she had never been more than 30 days past due. With this loan, she is now approaching 60 days past due. After repeated attempts to contact her, you learn she's been diagnosed with cancer. When you finally reach her, you learn she has had to temporarily shut down the business while she is undergoing treatment. She tells you she is optimistic about her recovery, and she hopes to be back working full time within three to four months.

Sample CDFI A

Portfolio as of 9/30/2016

	Home Repair Loans		Emergency Loans		Business Loans	
	# of Home Re	Home Repair \$	# of Emergenc	Emergency \$	# of Busine	Business \$
Outstanding Portfolio	23	\$364,343	194	\$118,146	11	\$3,073,510
31-60 Days Past Due	0	\$0	32	\$19,041	1	\$281,500
31-60 %	0.0%	0.0%	16.4%	16.1%	0.0%	0.0%
61-90 Days Past Due	2	\$11,642	12	\$8,611	0	\$0
61-90 %	8.7%	3.2%	6.3%	7.3%	0.0%	0.0%
90+ Past Due	0	\$0	20	\$11,399	0	\$0
90+ %	0.0%	0.0%	10.3%	9.6%	0.0%	0.0%
Total Past Due	2	\$11,642	64	\$39,051	1	\$281,500
Total Past Due %	8.7%	3.2%	33.0%	33.1%	9.1%	9.2%
Restructured	1	\$12,341	0	\$0	1	\$75,977
Restructured %	4.3%	3.4%	0.0%	0.0%	9.1%	2.5%

Largest Borrowers			
Name	Outstanding	% of Portfolio	Status
Fish and Wildlife	\$ 831,000	23.4%	Current
Gaming Department	\$ 750,000	21.1%	Current
L & T Enterprises	\$ 548,333	15.4%	Current
Historical Preservation	\$ 495,000	13.9%	Current
Yazzie Dry Goods	\$ 281,500	7.9%	30+

Credit Grade		
	Outstanding	% of Portfo
A	\$1,742,440	49%
B	\$924,560	26%
C	\$462,280	13%
D	\$284,480	8%
F	\$142,240	4%

Historical Information				
	9/30/2016	12/31/2015	12/31/2014	12/31/2013
# of loans	228	160	79	57
\$ of loans	\$3,555,999	\$2,803,740	\$ 1,266,820	\$681,107
# Past Due	67	31	11	3
\$ Past Due	\$332,193	\$ 543,225	\$ 176,393	\$ 35,848

Sample CDFI B

	9/30/2016	6/30/2016	3/31/2016	12/31/2015	12/31/2014	12/31/2013
Outstanding Portfolio	\$1,829,821	\$1,648,487	\$1,735,249	\$1,652,619	\$1,573,922	\$1,311,602
31-60 Days Past Due	\$58,907	\$59,502	\$60,103	\$54,147	\$53,611	\$50,321
31-60 %	3.22%	3.61%	3.46%	3.28%	3.41%	3.84%
61-90 Days Past Due	\$60,347	\$35,498	\$39,443	\$31,554	\$15,777	\$14,013
61-90 %	3.30%	2.15%	2.27%	1.91%	1.00%	1.07%
90+ Past Due	\$19,055	\$42,856	\$12,590	\$31,081	\$181,407	\$0
90+ %	1.04%	2.60%	0.73%	1.88%	11.53%	0.00%
Total Past Due	\$138,309	\$137,857	\$112,136	\$116,782	\$250,795	\$64,334
Total Past Due %	7.56%	8.36%	6.46%	7.07%	15.93%	4.90%
Restructured \$	\$234,511	\$169,020	\$176,520	\$189,777	\$70,632	\$10,011
Restructured %	12.82%	10.25%	10.17%	11.48%	4.49%	0.76%

Largest Borrowers		
Name	Outstanding	% of Portfolio
Cascade Logging	\$ 243,997	13.3%
D. Sampson Wood Products	\$ 171,660	9.4%
Northland Coffee Company	\$ 138,400	7.6%
A & L Contracting	\$ 81,955	4.5%
Ray's Construction	\$ 69,381	3.8%

Credit Grade		
	Outstanding	% of Portfolio
A	\$585,543	32%
B	\$805,121	44%
C	\$219,578	12%
D	\$91,491	5%
F	\$128,087	7%

Sector Breakdown				
Sector	Real Estate	Construction	Ag/Timber	Service/Other
# of loans	2	11	23	7
\$ of loans	\$219,578	\$311,069	\$1,152,787	\$146,386
% of portfolio	12%	17%	63%	8%
# Past Due	0	2	2	1
\$ Past Due	\$ -	\$ 33,052	\$ 93,960	\$ 11,297
% Past Due	0%	11%	8%	8%