Native CDFIs: Growing with Debt Capital

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Share Your Experience With Debt

- What types of sources of debt do you currently have?
- How many sources of debt do you currently have?
- What do your lenders require of you (debt covenants)?
- What are your biggest challenges related to debt?
Know Your Terminology

Debt: Where Do We Stand?
Leverage

- Compares use of debt and equity
- Ratios to consider:
  - Net asset
  - Leverage
  - Debt to equity
  - Lending capital composition

Cost of Capital

- Measuring the cost of your debt and comparing it to what you earn from lending
- Ratios to consider:
  - Average cost of debt capital
  - Average overall cost of capital
  - Net interest margin
Capital Asset Matching

- Matching the length and terms of loans you are taking out (from your investors) and giving (to your borrowers) in order to reduce your risk
- Things to consider:
  - Loan products offered
  - Existing debt maturities
  - New debt maturities

Covenants: Minimum Loan Loss Reserve

Sample: Loan Fund shall maintain at all times **Loan Loss Reserves** at the level indicated by its internal risk assessment of its loan portfolio and consistent with its policies for managing risk, subject to a **minimum 5% of Gross Loans Receivable**.

Watch out for:
- Cash vs. accrual loan loss reserve
- Does the minimum required actually reflect the risk of your portfolio?
Covenants: Minimum Capital Requirement

Sample: Loan Fund shall maintain at all times the ratio of Net Assets to Total Assets at a minimum of 20%.

Watch out for:
• Too strict covenants prevent you from leveraging additional debt

Covenants: Maximum Funder Concentration

Sample: At no time during the term of this loan may Loan Fund’s ratio of Funder loan proceeds to Total Assets exceed 10%.

Watch out for:
• Repayment of other sources may reduce ratio
• Funders like to see diversity of funding prior to making investments
Covenants:
Use of Proceeds

Sample: Loan Fund shall use all proceeds of the loan to provide technical and financial assistance for community development and to finance activities that create permanent living wage jobs.

Watch out for:
• May restrict use of funds to certain type of loan or geographical area
• Too many restrictions can lead to mission creep

Debt: How Do We Manage It?
Asset-Liability Management (ALM)

- How Much in Reserve?
  - Typically obligations maturing in 3-12 months
- Consider:
  - Portfolio size
  - Risk profile of loan products
  - Track record of attracting / renewing investments
  - Investor requirements
**Longer-Term ALM**

**Lending Assets & Liabilities - Simple Liquidity Gap Analysis**

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<th>12/31/18</th>
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<td>Cash avail to repay maturities at beg period</td>
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<td>Net principal repayment</td>
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<td>Total assets avail to meet maturities</td>
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<td>Lending notes payable</td>
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<tr>
<td>Funder B</td>
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<tr>
<td>Total liabilities maturing</td>
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<td>Asset-Liability Gap</td>
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(End of period cash)

**Reporting Requirements**

*Sample:* Loan Fund shall submit to Lender the following within 45 days of the end of each fiscal year:

A. **Consolidated financial statements** including a balance sheet, statement of activities, and profit and loss statement;

B. A **report on the performance of Loan Fund’s portfolio** in form and content satisfactory to Lender; and

C. A **report on the community impacts** of Loan Fund’s activities in form and content satisfactory to Lender.

*Watch out for:*
- Need to collect specific data points
- Reporting can be burdensome, especially for government sources
Funder Relationship

Case Study: Two Rivers Community Loan Fund
Questions?

Before You Go

Please complete your session evaluation!

You can find it in the Conference app.

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