



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?

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Know Your Terminology



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Debt: Where Do We Stand?



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Leverage

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



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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



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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



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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?



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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



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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



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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

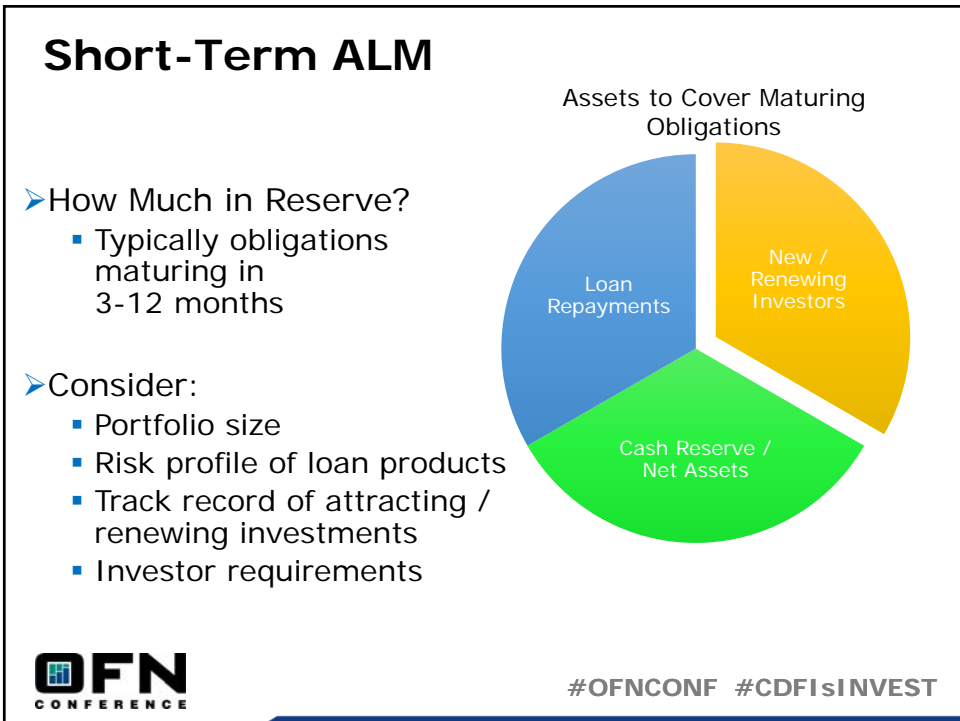
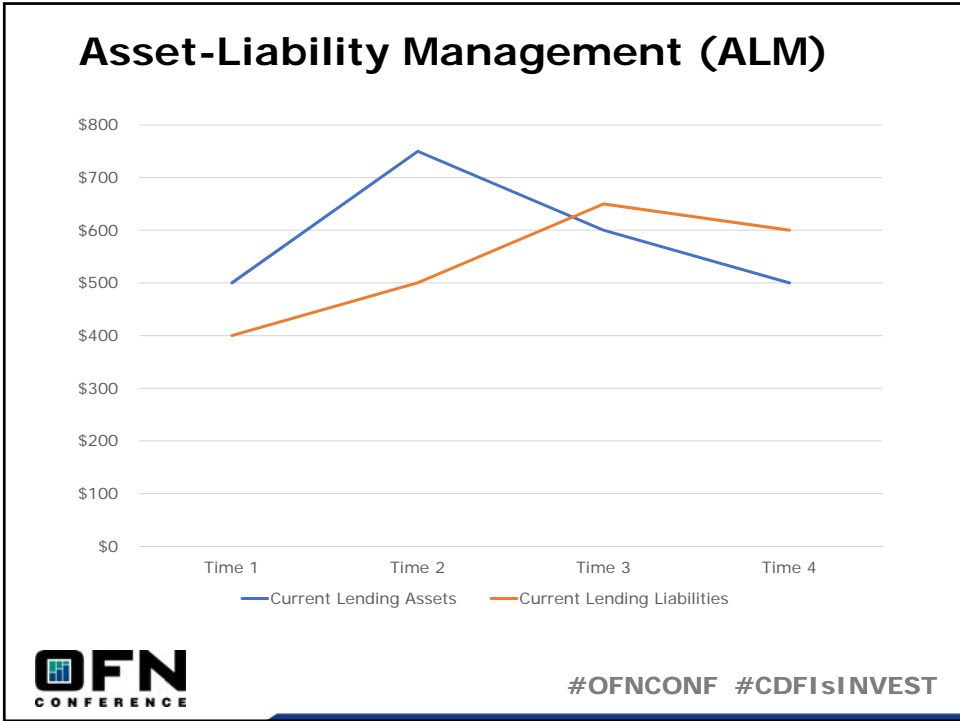


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Debt: How Do We Manage It?



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Longer-Term ALM

Lending Assets & Liabilities - Simple Liquidity Gap Analysis

	<u>12/31/17</u>	<u>12/31/18</u>	<u>12/31/19</u>
Cash avail to repay maturities at beg period	50,000	70,000	80,000
Net principal repayment	<u>40,000</u>	<u>30,000</u>	<u>20,000</u>
Total assets avail to meet maturities	90,000	100,000	100,000
Lending notes payable			
Funder A	0	0	100,000
Funder B	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
Total liabilities maturing	10,000	20,000	120,000
<i>Asset-Liability Gap (End of period cash)</i>	<i>70,000</i>	<i>80,000</i>	<i>(20,000)</i>



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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



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Funder Relationship



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Case Study: Two Rivers Community Loan Fund



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Questions?



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Before You Go

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