

Loan Participation Program (LPP) Building Sustainability

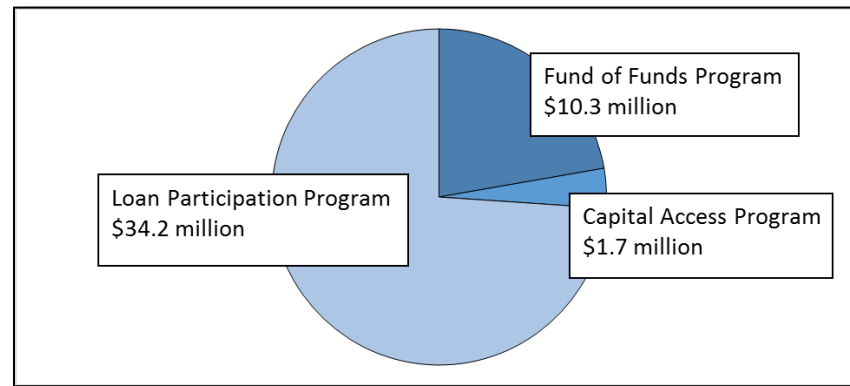
**Thomas Wall
Director SSBCI
NC Rural Center**

June 8, 2017



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”



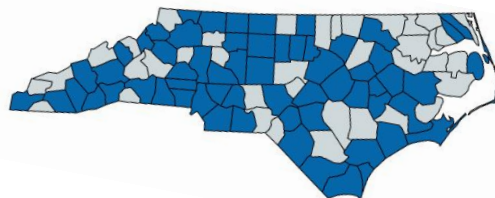
LPP Increasing the trajectory

- 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



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Loan Participation Sustainability

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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

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