Increasing Liquidity and Sharing Risk through Participations, Loan and Portfolio Sales, and More

Moderated by:

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Opportunity Finance Network
Rosa Valdez Rios
President & CEO
BCL of Texas
Capacity  
BCL 30 years  
statewide commercial real estate lending expertise
Capital — lending partners

- **Community Banks**
  - Loans ≤ $250,000
    - Match Bank rate & term

- **Local Eco. Dev. Corp.**
  - Loans ≤ $50,000
    - Customized Rates (W/ Prime - 7 with floor 3% or Disaster 0%)
    - Term 3-5 years

- **CDFI's or CED's**
  - Loans up to $1,500,000
    - Rates 4.5% to 7%
    - Term 18 mos to 7 yrs

- **BCL Growth Fund**
  - Loans $10,000 to $500,000
    - Rates (cost of funds + 6%)
    - Term ≤ 15 years

- **Loan Participations & Loan Fund Administration**

- **Grants & Loans**

**Lending Capital Sources**
Shared Risk

• **Banks** — Collateral shared 50/50 (Pari-Passu)

• **Local Loan Funds** — Local Capital / BCL capacity

• **CDFI’s** — Collateral shared 50/50 (Pari Passu) business or non-profit borrowers

• **CDE/CDE** — shared Capital Pool /Common mission commercial real estate investment in distressed markets
Leverage

**Community Banks** $1,500,000
- BCL charges standard Processing + Closing Fee
- BCL recaptures 100% P+I of its participation

7 yrs

**Local Loan Funds** $3,500,000
- Business pays $100 application + closing fee
- EDC pays monthly fee to administer RLF

20 yrs

**CDFI’s** $1,000,000
- BCL charges standard Processing + Closing Fee
- BCL recaptures 100% P+I of its participation

2 yrs

**CDE/CDE** $2,500,000
- shared Capital Pool /Common mission investment in distressed markets
  - Origination Fee +
  - Underwriting Fee +
  - Interest based on BCL pricing 4.5%

6 mos
Anna Tefft
Senior VP and Director of Lending
Natural Capital Investment Fund
WV HQ: Lending primarily in WV, NC & parts of MD

WV Offices: Charles Town, Fairmont, & Charleston

NC Offices: Chapel Hill, Hendersonville, & Winston-Salem

Lending Focus:
General business lending; ag lending; solar projects; essential community service; & businesses with positive environmental impact

Loan amounts: $10,000 - $750,000

Programs: SBA CA; USDA B&I Lender; Senior Lender in SBA 504s
Partnership Lending

Benefits & Considerations

Examples:

- Participations
- Separate Loans for same project
- SBA 504
Benefits & Considerations:

- Reduce capital exposure
- Gain underwriting knowledge of new industry
- Improve LTV in some cases (The Rural Center Loan Participation Program)
- Diversify portfolio (geography; larger loans, different industries)
- Meet compliance requirements

- **Trust:** rely on lead lender’s underwriting, closing documentation; workout efforts
- **Accounting:** lead lender sends a share of payments to lending partner, often timing issues with loan balances
- **Participation Certificate:** clarifies structure/relationship (typical structure: pro-rata share of origination fee & servicing fee of .25% of interest rate)
Example – Participation

Senior Lender: CDFI
Project: $576,000 Equip loan to co-op
Location: Durham, NC
2 Participations: $192,000

- Lead lender has significant experience in co-op lending but located in another state
- Two 33% participation lending partners
- NCIFund close to co-op
- Another CDFI is real estate developer and co-op is tenant
Example – Separate Loans

Two Separate Loans:
$400,000 Bank 1\textsuperscript{st} on r/e
$150,000 NCIFund 2\textsuperscript{nd} on r/e

- Simultaneous closing
- Enabled Bank to meet LTV and CRA requirements
- Enabled NCIFund to participate in downtown revitalization project & bring technical assistance grants to project

Lead Lender: Community Bank
Project: $550,000 mixed use r/e development project
Location: Davis, WV
Example – SBA 504

Senior Lender: NCIFund
Project: $1 million childcare r/e acquisition
Location: Durham, NC
Interim Financing: NCIFund
Permanent Financing: NCIFund & SBA
Structure: (50:40:10)

• Long term financing with very low rates on SBA loan
• Senior lender is 1st position on r/e with 50% financing
Bob Porter
Managing Director
PCV (Pacific Community Ventures)
Selling non-SBA Loans: PREPARING

- **BOD and Leadership**
  - Discuss and agree on idea
  - Have a BOD resolution in place

- **Finance Team**
  - Develop a financial model to determine financial pros/cons
  - Consult your outside audit team

- **Lending Team**
  - Team understanding and buy-in
  - Consider your software and processes

- **Outside Resources**
  - Identify and reach out so these resources are prepped and ready to call on
Selling non-SBA Loans: Bank Discussions

- **Redacted portfolio spreadsheet**
  - As many data points as possible – think CRA credit
  - Use drop downs to make it easy to sort during convos

- **Be able to verbally “commit” during convos**
  - So many details will have be discussed, negotiated and then be approved by the bank’s credit, CRA, legal and executive teams

- **Know your non-negotiables**

- **Don’t lose sight of your financial model and the benefit of the loan sale as issues arise**
Selling non-SBA Loans: The Payoff

• **Sold 90% of $1.65M**
  - PCV received $1.48M
  - PCV retained all servicing
    - As servicer, PCV keeps 59% of interest on the 90% sold and the bank receives the remaining 41%
  - PCV keeps 100% of the interest on the remaining 10% (unsold)
  - PCV received a CRA donation of $31K
  - PCV agreed to guarantee the 90% sold

• **Net benefit of sale**
  - PCV built a financial model which compared the cost of borrowing $1.48M against the cost/benefit of loan sale
  - Net benefit of the sale was a positive $249K

• **Borrowers in transaction are not seeing a difference**
Moderated Discussion