Managing Lending and Investing Operations

- Major Operations of a Finance Program
  - Marketing and identification of projects
  - Review and screening projects
  - Underwriting of request and commitment of funds
  - Servicing and monitoring of loans and investments
- Principles For An Effective Investment Process
  - Well defined policies and procedures to align decisions with economic development goals and financial objectives
  - Transparent process to facilitate successful applications, provide accountability and build trust
  - Skilled staff devoted to all aspects of the process
  - Creating a relationship of shared goals and mutual benefit
  - Accountability at the policy and transaction level
  - Commitment to continuous improvement

Marketing and Identification of Projects

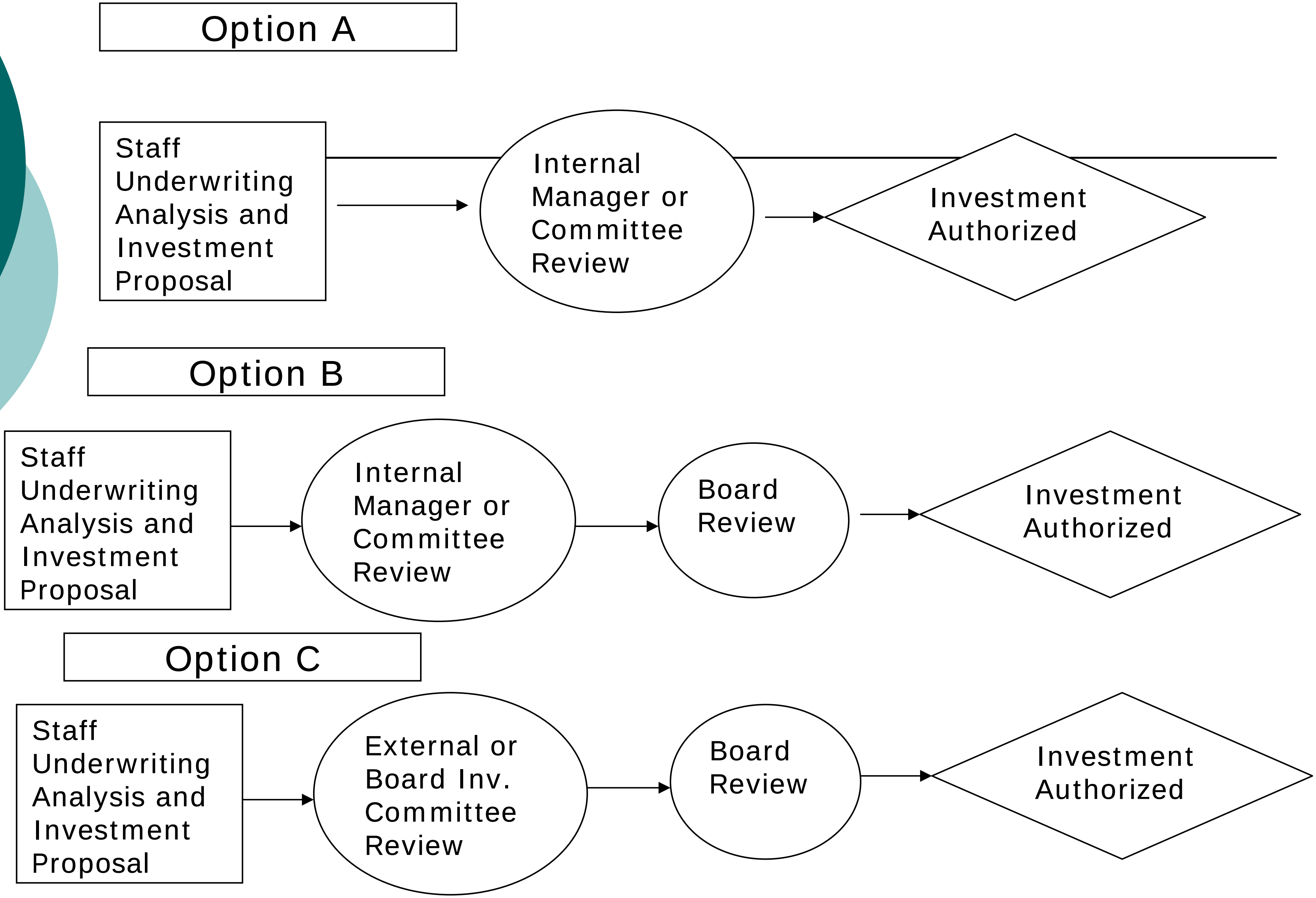
- Pursue marketing objectives
  - Increase awareness and understanding of program
  - Identify lending or investment opportunities
  - Build relationships that help you achieve objectives
  - Obtain information on your market and clients' needs
- Marketing approaches
  - Advertising
  - Targeted mailings
  - Press releases and press coverage
  - One-on-one retail marketing: calling officer approach
  - Referral networks
  - Talks and presentations to selected audiences
- Best Practices
  - Annual plans with senior staff commitment & resources
  - Engage all staff in marketing
  - Strong referral networks
  - Track information sources for new inquires & customers

Initial Review and Screening of Projects

- Objectives of the screening process
  - Determine if the applicant and project fit economic development goals and type of financing provided
  - Diagnose weaknesses and provide/refer to assistance
  - Assess readiness for financing
  - Provide a clear understanding of what the client needs to do to apply and qualify for financing
- Best Practices
  - Screening criteria and standards to review requests
  - An application standard --what a firm needs to apply and what must it have accomplished to be seriously reviewed
  - Help firms meet standards and secure financing:
    - *Ineligible:* refer and introduce to appropriate sources
    - *Incomplete information/weakness in project*: Define what needs to be done, refer to technical assistance or provide assistance directly
    - *Infeasible or poorly conceived project*: explain why

Underwriting and Commitment of Funds

- Objective of the underwriting process
  - Assess firm/project feasibility; ability to repay loan/provide return
  - Understand the risks and how to reduce or manage them
  - Decide on financing structure to meet the project's needs and your financial objectives
  - Document decisions, expectations and financing transaction
- Three Components
  - Underwriting standards
  - Due diligence process
  - Decision making process
- Best Practices
  - Sound explicit underwriting standards
  - A well-defined and thorough due diligence process
  - Expertise in your target market or industries
  - Proactive management to identify and resolve issues and make decisions. Provide leadership in financial packaging: know the constraints and requirements of other funders to **visualize a viable plan that can meet all parties' objectives.**
  - Good systems to close loan and transition to servicing.


Option A
Staff Underwriting Analysis and Investment Proposal
Internal Manager or Committee Review
Investment Authorized
Option B
Staff Underwriting Analysis and Investment Proposal
Internal Manager or Committee Review
Board Review
Investment Authorized
Option C
Staff Underwriting Analysis and Investment Proposal
External or Board Inv. Committee Review
Board Review
Investment Authorized

Servicing and Monitoring

- Objectives of loan servicing and monitoring
  - Ensure timely repayment of the loan or investment
  - Protect collateral (tax liens, insurance, security interest)
  - Track the firm's progress in meeting its objectives
  - Identify/respond to problems to help firm and minimize losses
- Options
  - Underwriting staff handles loan monitoring
  - Separate staff handles loan monitoring
  - Contract to third party
- Best Practices
  - Clear and comprehensive servicing requirements
  - Regular reporting: financial, ED standards, performance versus projections
  - Strong internal tacking systems
  - Follow-up quickly on non-performance
  - Communicate with borrowers and develop trust
  - Understand the source of problems and seek solutions
  - Portfolio wide risk analysis; action plans to address problems

Risk Management

- Policies to Reduce Credit Risk
  - Sound credit standards and policies
  - Careful analysis of applications to address flaws before financing (Phoenix Forge). Provide technical assistance to resolve problems and strengthen firm or project
  - Use loan covenants to provide warnings and leverage
  - Active monitoring to identify potential problems early
  - Obtain sufficient security within constraints of the borrower and your leveraging goals
  - Good legal documentation of financing and security
  - Fund adequate loan loss reserves
- Diversifying with a Targeted Investment Strategy
  - Limit loan size
  - Co-lend or co-invest with other lenders; sell loan participations.
  - Vary loan types to reduce some risks (e.g. senior and subordinate loans, shorter and longer terms, etc.)
  - Specialize: know your target market well to make good judgments
  - Develop technical assistance capacity in target area