Deployment: Barriers, Breakthroughs, and Best Practices

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Introduction

- Deployment is central to the mission of CDFIs
- However, deployment is a constant challenge to most CDFIs
- Discussion of common challenges to deployment and successful strategies to increasing loan volume
Methodology

- Online survey sent to 103 CDFIs that finance small businesses
- Received 62 responses:
  - 47 loan funds
  - 13 banks
  - 1 venture fund
- Follow-up interviews with 5 CDFIs:
  - Access to Capital for Entrepreneurs (ACE)
  - Bridgeway Capital
  - Noah Bank
  - The Progress Fund
  - Virginia Community Capital

Survey Respondents

- Staff Size by CDFI Type
  - 15% < 4
  - 15% 4-7
  - 25% 8-10
  - 15% 11-20
  - 30% > 20

- Loan Portfolio Size
  - 13% < $3 million
  - 31% $3 to $10 million
  - 15% $11 to $20 million
  - 39% > $20 million
Survey Respondents

Deployment Challenges

- Lending restrictions from capital sources
- Cost of capital requires taking on additional risk to get desired returns
- Competition- primarily among CDFI banks
- Economic downturn and credit squeeze- hurt CDFI banks but helped CDFI loan funds
Deployment Challenges

Major Barriers to Deployment

- Lack of Quality Deals: 54% (Bank), 53% (Loan Fund), 52% (All Respondents)
- Staff Capacity: 38% (Bank), 40% (Loan Fund), 39% (All Respondents)
- Competition with Other Lenders: 69% (All Respondents)
- Lack of Marketing Budget: 23% (Bank), 28% (Loan Fund), 27% (All Respondents)
- Available Capital*: N/A

Characteristics of CDFIs with Increased Deployment

- Portfolio Size of CDFIs with Loan Volume Growth:
  - < $3 million: 17%
  - $3 to $10 million: 28%
  - $11 to $20 million: 40%

- Staff Size of CDFIs with Loan Volume Growth:
  - < 4: 13%
  - 4-7: 19%
  - 8-10: 22%
  - 10-20: 17%
  - > 20: 35%
Strategies to Address Deployment Barriers

- CDFIs tailor strategies for increasing deployment based on target markets, borrower needs, and business models
- 57% of respondents with loan volume growth over past three years attributed at least part of growth to marketing and outreach strategies
- Strategic and capitalization plans have been helpful to increasing loan volume

**Marketing & Outreach Strategies for Increasing Loan Volume**

- Referral Relationship: 98%
- Speaking at Community Events: 56%
- Providing TA/Development Services: 48%
- Website: 40%
- Newsletter: 21%
- Direct Mailing: 13%
- Second Look Program with Local Lender: 13%
- Other: 13%

**Bank**

**Loan Fund**
Successful Strategy: Referral Relationships

- 98% of survey respondents indicated that referral relationships were a successful strategy for increasing loan volume
- 56% of respondents indicated that speaking at community events was a successful strategy
  - These events have led to additional referral relationships

Case Study: Bridgeway Capital
- Three step process to develop relationships with banks:
  1. Face-to-face presentation with bank staff
  2. Individual follow-up to maintain contact
  3. Thank you reception for successful referrals

Case Study: Virginia Community Capital
- Year-end luncheon for borrowers, prospective customer and referral sources to reinforce relationships

Case Study: Community First Fund
- Identification and yearly outreach to “influencers” who indirectly create referrals
Successful Strategy: Deployment Goals

- Setting organization-wide or individual deployment goals
- Goals for both dollars deployed and deployment ratios
- Use of incentives varies by organization

Case Study: Access to Capital for Entrepreneurs
- Organization-wide deployment ratio of 60%
- Each loan officer is given an individual goal based on product and budget

Case Study: Bridgeway Capital
- Overall deployment ratio goal of 80% by 2016
- Deployment goal (in dollars) for each loan officer
- No incentives; hire mission-driven staff

Case Study: Virginia Community Capital
- Working on building a sales culture among staff
- Loan officers have deployment and pipeline goals
- Developing incentives for staff
Successful Strategy: Marketing

- 62.5% of respondents found a marketing plan helpful in facilitating deployment
- Marketing staff varies widely

Marketing strategies adopted by CDFIs:
- Holding informational meetings at local libraries in underserved areas in the Target Market
- Marketing products and services to strategic partners, including SCORE (small business mentoring program)
- Hiring outside professionals for marketing materials, including web designers, graphic designers, and professional writers
- Developing partnerships with local agencies who work with entrepreneurs
- Hiring marketing staff for specific loan products
- Marketing through media sources, including websites, internet advertisements, social media, press releases, and radio advertisements
Successful Strategy: Marketing Materials

Case Study: The Progress Fund
- One-page “Product profile”
- Features borrower success story and photo
- Shows current and potential funders the impact of their investment

Case Study: Bridgeway Capital
- Materials marketed directly to end users
- Uses fliers for manufacturing loans, SBA loans, and business education programs
Successful Strategy: Marketing

- Means of marketing through media:
  - Website
  - Newsletter
  - Social media: Facebook and YouTube
  - Press coverage and/or writing magazine articles
  - Radio advertising in key markets

- Case Study: The Progress Fund
  - Issue a press release for loans to new businesses or existing borrowers doing something noteworthy
  - Hire a professional journalist to do write-ups
  - Journalists often covers loan/story in local newspaper

Successful Strategy: Specialization

- Many CDFIs have found success in narrowing focus in lending by product or sector

- Case Studies:
  - Noah Bank: Asian-American communities and small business in target market
  - The Progress Fund: Tourism industry and rural communities in northern Appalachia
  - Bridgeway Capital: Loan officers become specialists for few specific products
Successful Strategy: Capitalization

- 90% of survey respondents indicated that a capitalization plan was helpful in facilitating deployment
- Type of capital (restricted vs. unrestricted) often dictates ability to lend
- Case Study: The Progress Fund
  - Only accepts unrestricted capital to continue with lending parameters and niche market of tourism

Case Study: Virginia Community Capital
- Nonprofit loan fund and holding company for state-chartered community bank, Community Capital Bank of Virginia
- The loan fund and bank share participations
- Less expensive, shared capital allows VCC to offer larger loans and lower blended rates
- Provides credibility in marketplace

Case Study: Access to Capital for Entrepreneurs
- Struck a balance in seeking capital that allows for development of loan products while working within guidelines of capital sources
Key Takeaways

- Likelihood of successful deployment is increased by relying on fundamentals of management
- Key to increasing deployment: Creation of clearly stated goals and development of integrated strategies that link capitalization, marketing and deployment into measurable management approach