Underwriting to Scale Microfinance

Offered by Strategic Consulting at Opportunity Finance Network

April 16, 2014

Growing Microfinance to Scale Webinar Series

• Support the microfinance sector
• Provide webinars to CDFIs and CDFI partners interested in microfinance

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Strategic Consulting at OFN

- Opportunity Finance Network’s Strategic Consulting Department advances our purpose to align capital with justice. We offer consulting for:
  - Industry Capacity Building
  - Investor Services
  - CDFI Services
- We provide services within OFN’s areas of expertise, and collaborate with others in their areas of expertise, to ensure the best outcome for our clients.

Today’s Expert Presenters

- Luz Gomez, FIELD at the Aspen Institute
- Leslie Hoffman, FIELD at the Aspen Institute
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GoToWebinar

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Agenda

• Intros
• The Road to Repayment Framework
• Underwriting Framework
• Key Takeaways

Drawing on FIELD’s body of work
Who’s on the call today?

What critical areas of underwriting do you feel need most attention?
What we heard...

How can we ensure our underwriting processes accommodate increasing scale?

How can technology help?

How can we ensure a strong portfolio?

How can we make underwriting more efficient?

Our Exploration of Underwriting

Team
Technology
Efficiency
Philosophy: Growth w/Quality
Our Compass: The Path to Repayment

Breaking Down Risk: Key Categories

Credit Risk
- Quality
- Concentration

Market Risk
- Conditions
- Target Market

Operational Risk
- Systems
- Staff

Liquidity Risk
- Sufficiency
- Duration
"The Rub" of Growth and Quality

Transaction

Relational

Standard Factors of Credit Risk

Quantitative

- Credit Profile (FICO, BK Index)
- Capacity (DSCR, DTI)
- Loan-to-value coverage

Qualitative

- Business characteristics
- Borrower characteristics
- Conditions
Monitoring Risk: Key Indicators

- **Credit Risk**
  - Aging Reports and Vintage Charts
  - Loan Risk Ratings

- **Market Risk**
  - Interest Rates
  - Sales Activity

- **Operational Risk**
  - Compliance Reports
  - Postmortem Reviews

- **Liquidity Risk**
  - Balance Sheet Ratios
  - Loan Loss Reserves

Monitoring UW Risk

*Chart 4: Write-Offs by Vintage (Sample Chart)*

FROM D4D
Customizing the Tool

• Write-offs
• PAR

• Year
• Industry
• Geography

• Monthly
• Quarterly

What did we learn about growing with quality?

✓ Monitor and manage risk, explore four core areas of credit, market, operational and liquidity risk

✓ Strike a balance between quantitative and qualitative factors of credit risk

✓ Practical tools that can help include vintage charts, peer examples
Options for Increasing Efficiency

- Same for less.
- More for same.
- A lot more with more.

Measuring Efficiency: Snapshot of Options

**Cycle Time**
- Lead to application
- Application to underwriting
- Underwriting to closing

**Input/Output**
- Cost per dollar lent or per loan made
- Customer satisfaction
- Conversion rates
What did we learn about efficiency?

- First think critically about the type of efficiency you want
- Measuring efficiency = cycles times + input/outputs

Sketch Out Tech Framework

- Define Your Goal
- Identify Bottlenecks
- Does Tech Solve Problem?
Share Your Experience

- Has your organization worked to centralize processes and increase access to its loan files?
- How are you currently accessing credit reports? How many people have direct access to the reports?
- What document storage solutions is your organization using?
- Has your organization incorporated technology into the document-collection process?

Technologies to Improve the Lending Lifecycle

- Credit evaluation grids
- Statistical scoring models (MMS, build your own – ACCION East; OnDeck; InVenture/InSight)
- Use of alternative credit data (Demyst Data, Cignifi, Yodlee, LexisNexus, and L2C)
Internal Evaluation Questions

• Defining problems/Pain points: What problem or pain point in the lending process do we address first? Is the pain point internal to the organization (i.e. staff capacity) or external (i.e. customer challenges)?

• Price: How much does the tool/technology to solve those problems cost upfront? What are the ongoing costs?

• Efficiency: How will this improve the efficiency of the loan process? How can I quantify this efficiency? What metrics will I use?

More Internal Evaluation Questions

• Staff input: What expertise on the staff do I need to tap for insights into changes to be made in this area?

• Training: Is there an early adopter of technology that can help train others on staff (train the trainer)? Who can assist me in designing the training? How much time should I allot for adoption of the technology?

• Feedback: How will I garner feedback and make adjustments to new technology as we begin using it?
What did we learn about technology?

- Sketch out a technology framework, using internal evaluation questions as a tool
- Think internally about bottlenecks in your own processes
- Explore available options from third-party vendors

Questions?
Areas of Specialization

Front-end focus
- Staffing in marketing/sales and underwriting

Back-end support
- Monitoring, compliance and collections.

Hiring for Organizational Values

- Explicit, regular discussion of values.
- Hiring to those values first, combined with a focus on sales.
- Implemented incentive system that rewarded quality and production.
Quality and Production

Monitoring and Compliance
- Document reviews
- Application of guidelines

Customer Service
- Consistent messaging
- Billing/servicing assistance

Collections
- Adding staff resources
- Strengthening current resources
- Training to improve skills

Functions that Support Scale

Core Functions

Compliance & Monitoring
- Marketing & Communications
- Underwriting

Collections
- Loan Servicing
- Development
Technical Training Areas for Underwriters

- Credit Analysis
- Portfolio Management
- Organizational Risk Management

Sustaining Success = Ongoing Support

Underwriters
- Portfolio analysis
- Loan structuring
- Lien perfection

Lenders
- Cash flow analysis
- Credit report analysis
- Loan file postmortems

Everyone
- Fraud awareness
- Economic trends
- Customer service
What did we learn about team?

- Trends in the industry include specialization, value hiring, functions that support scale
- Create onboarding for success
- Focus on key technical areas of training for underwriters
- Keep training expertise fresh and offer ongoing support

How have organizations used this content?
Questions?

ADDITIONAL RESOURCES & CONTACT INFORMATION
Additional Resources

• Dollars for Dreams: Scaling Microlending in the United States (2010)  
  http://fieldus.org/Publications/DollarsForDreams.pdf

• Surviving the Recession: How Microlenders are Coping with Changing Demand, Risk and Funding (July 2010)  
  http://fieldus.org/Publications/TrendlinesMicrofinance.pdf

• FIELD forum Issue 23: The Organizational Foundations of Sustainability (2009) on ACCION New Mexico-Arizona-Colorado  

Sample Third-Party Technology Vendors

• Microloan Management Services:  
  http://www.acciontexas.org/mms/about/

• OnDeck Capital:  
  http://www.ondeck.com/

• Inventure/Insight:  
  http://www.inventure.org/using/learn-about-insight

• Demyst data:  
  https://demystdata.com/

• Cignifi:  

• Yodlee:  
  http://www.yodlee.com/
Thank you!

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CDFI Fund’s Virtual Resource Bank

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
UNITED STATES DEPARTMENT OF THE TREASURY

Scaling Up Microfinance: Resource Bank
The resources for this topic can be found below. To view all of our available Resource Banks, click here.

I. Training Webinars
• Innovative Business Models
• New Products
• Talent Management
• Technology Solutions

II. Training Webinars
• Innovative Business Models
• New Products
• Technology Solutions
• Loan Repayment

III. Additional Resources
• Microfinance Landscape and Borrower Experience and Need
• Innovative Business Models
• New Products and Services
• Technology Solutions
• Talent Management
Upcoming Microfinance Webinars

• Upcoming webinar topics include:
  • Grant Messaging
  • Stages of the Lending Life Cycle

To register: ofn.org/growing-microfinance-scale

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