June 12–14
Pacific Grove, California
nativecdficonvening.org

2018 Native CDFI Capital Access Convening

Bringing Native CDFIs, Funders, and Investors Together to Bring Capital to Native Communities

Understanding the CAMELS Analysis

Pacific Grove, California

Your Presenters

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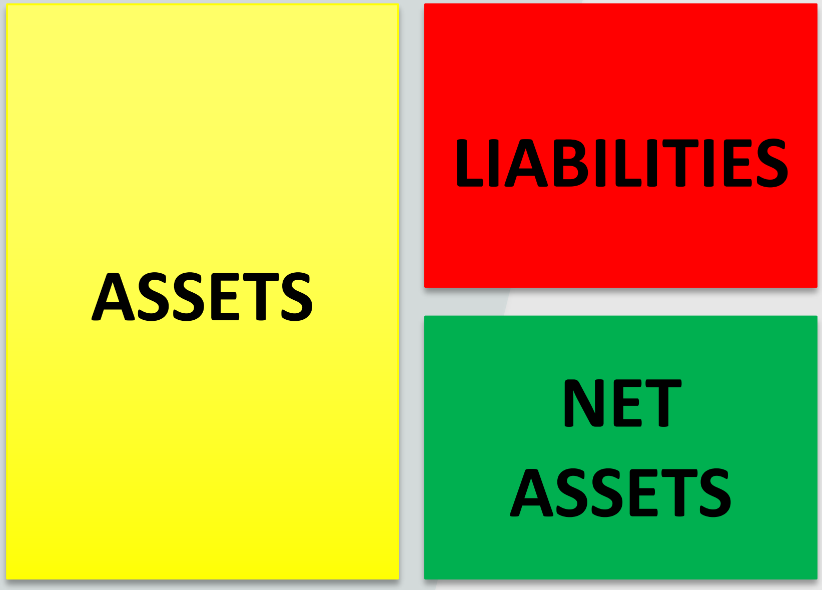
- Lisa Wagner, Bluestem Consulting

Agenda

- Balance sheet refresher
- CAMELS focus and key ratios
- Complete a mini CAMELS analysis

Balance Sheet Refresher!



CAMELS Analysis

Capital Adequacy

Asset Quality

Management Capability

Earnings

Liquidity

Sensitivity

- The batting average for your CDFI

Capital Adequacy

<u>Focus:</u>

Composition and trends of CDFI capital

<u>Key Considerations:</u>

- Is your CDFI capitalized appropriately (debt level, amount of net assets)?
- What are the characteristics of your debt (interest rate, terms, etc.)?
- How much of your net assets are unrestricted?
- Diversity and predictability of capital sources

Capital Adequacy

<u>Key Ratios </u>(think balance sheet health):

- **Growth in assets and net assets**
- **Net asset ratio** = total net assets/ total assets (CDFI Fund historical target > 20%)
- **Unrestricted net asset ratio** = total unrestricted net assets/ total assets
- **Leverage ratio** = total liabilities / total net assets
- **% Senior vs. subordinated debt** (as % of total debt)
- **Cost of capital** (average lending capital interest rate)

Asset Quality

Oweesta
FIRST NATIONS OWEESTA CORPORATION
A SUBSIDIARY OF FIRST NATIONS DEVELOPMENT INSTITUTE

Focus:

Loan portfolio strength

Key Considerations:

- Is your loan portfolio performing well (delinquencies, write-offs, restructures)?
- What is your portfolio composition (industry, type of loan)?
- Are your loans secured? (type and amount of collateral)
- What does your loan loss reserves management look like?
- Are your loan policies and processes strong?

ANA ADMINISTRATION FOR NATIVE AMERICANS
Northwest Area Foundation Reducing Poverty. Building Prosperity.
PROSPERITY NOW
NeighborWorks AMERICA
AMERIND Risk Tribes Protecting Tribes
FHLB DES MOINES
NATIVE AMERICAN BANK
Capital One Bank INVESTING for Good
Clearinghouse CDFI

Asset Quality

Key Ratios:

- **Portfolio at risk (90+, 60+, 30+ days delinquent)** = total loans delinquent / total loans receivable
- **Troubled debt restructures (TDR) ratio** = TDRs / total loans receivable
- **Annual net charge off ratio** = (total loans charged off – recoveries) / total loans receivable
- **Loan loss reserve ratio** = loan loss reserves / total loans receivable (*generally* should be in line with the PAR ratio and your experience with actual losses)

Management Capability

Focus:

Ability of management to guide and control the organization

Key Considerations:

- Do the Board of Directors and key management have relevant experience?
- Is governance appropriate for the size of the CDFI (policies, mgmt. reporting, internal controls, structure)?
- Does the CDFI have appropriate infrastructure for its size (IT systems, audits)?
- Does the CDFI engage in strategic planning and budgeting?

Earnings

Focus:

The profitability of a CDFI and predictability of its income

Key Considerations:

- Do you earn enough income to cover your costs?
- How much of your costs are covered by earned revenue (what is your self-sufficiency level)?
- How diverse and sustainable are your income sources? (including contributed funds and earned revenue)
- How well do you control costs?
- What is your net interest margins (are your loan products priced appropriately)?

Earnings

Key Ratios:

- **Net income** (should be > $0)
- **Income ratio** = total revenue / total expenses
- **Reliance on largest funder** = revenue from largest funder / total revenue
- **Interest coverage ratio** = interest revenue / interest expense (should be at least > $0)
- **Self-sufficiency ratio** (CDFI Fund historical target > 40%)

Liquidity

<u>Focus:</u>

Sufficient levels of operating cash and lending capital available to operate *without interruption*

<u>Key Considerations:</u>

- Do you have enough cash in the bank for operations? (generally = between 3-6 months of expenses)
- Do you have enough lending capital available to meet existing commitments and near-future demand? (generally > at least 3 months of expected loan demand)
- Do your loan receivable terms align with your loan payable terms? (aka, asset-liability matching)

Liquidity

Key Ratios:

- **Current ratio** = current assets / current liabilities (must be > 100%)
- **Operating cash ratio** = total cash & cash equiv for operations / total annual expenses (should be > 25%...enough to cover 3 months of expenses)
- **Months operating cash =** total cash & cash equiv for operations / (1/12 annual expenses)
- **Deployment ratio** = total loans receivable / total lending capital (CDFI Fund historical target > 50%)

Sensitivity

Focus:

The impact on a CDFIs portfolio due to future market changes

Key Considerations:

- Are you at risk of your lending capital interest rates increasing above your loans receivable interest rates? (aka, interest rate risk)
- Is your CDFI heavily concentrated in a particular market that creates risks? (eg, ag lenders subject to fluctuation in crop prices)

Key Ratio:

- Portfolio concentration risk = % loans receivable in industry / total loans receivable

Now it's your turn…

CDFI Inc Information:

- Small business lender founded in 2001
- Founding CEO still at the helm; new CFO hired in 2017
- Board made up of lenders, realtors, politicians
- Loan policies in place that were last reviewed in 2011
- Strategic plan and annual budget in place
- Three audit findings related to SBA program in 2016, two repeated in 2017

Using the CAMELS analysis, discuss CDFI Inc.

-What are key strengths and weaknesses in each area? Overall?

Questions & Comments