Best Practices of Loan Portfolio Management

Presented by:
Jamie Olson, Oweesta Director of Lending
Alexandra Shaughnessy, Oweesta Lead Lending Officer

June 28th, 2023 – 10:15 to 11:45 a.m.

8th Annual Native CDFI Capital Access Convening

Turning the Tide

Sponsored by:

Today's Learning Conversations

- Understanding how loan policy and loan procedures relate to managing a loan portfolio.
- Recognizing the importance of risk rating and how it relates to protecting your loan portfolio.
- Implementing effective loan portfolio management and monitoring processes.
- Identifying early indicators or "red flags" within the loan portfolio that indicate potential credit risk.

What are we managing?

Credit Risk

- To be sustainable, a Native CDFI operates as a revolving loan fund, which is just that, loans are made into the community, the community borrower repays their loan as agreed and the NCDFI relends those funds into the community.
- The possibility of a loss resulting from a borrower's failure to repay a loan as agreed upon through a promissory note and/or loan agreement.

Your Playbook: Loan Policy & Procedures

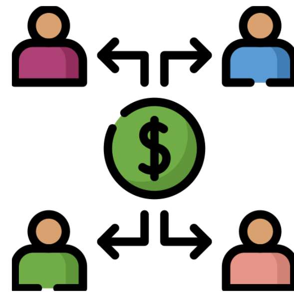
reporting
detailed loan delinquency procedures
due diligence
single borrower limit
reporting
required borrower documents
effective control functions
eligibility requirements
identifying red flags
credit risk
loan rating rubric
charge-offs and collections
credit risk
portfolio performance
eligibility requirements
proper loan structure
required borrower documents
effective control functions
loan restructures
loan diversification
identifying red flags
loan rating rubric
relationship management
loan diversification
due diligence
detailed loan delinquency procedures
underwriting
relationship management
charge-offs and collections
loan restructures
risk rating
underwriting
loan monitoring
loan diversification
workout loans
approval process
understanding the borrower
policy exceptions
permissible lending activity
proper loan structure
risk tolerance
loan products
relationship management
effective control functions
understanding the borrower
loan monitoring
portfolio performance
risk tolerance
identifying red flags
collateral
collateral
loan loss reserve
policy exceptions
loan restructures
loan products
single borrower limit
target market
approval process
risk rating
credit risk
detailed loan delinquency procedures
permissible lending activity
understanding the borrower
target market
loan loss reserve
workout loans

What Practices do we Implement to Manage Credit Risk?

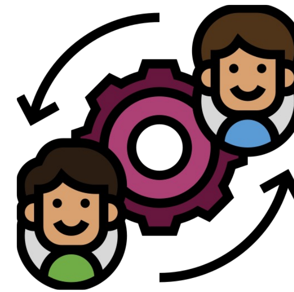
- What do you consider as your top two most effective tools in managing credit risk in your organization?

Practices to Manage Credit Risk

Risk Ratings



Loan Portfolio Diversification



Know Your Borrower

Early Warnings & Red Flags

Risk Ratings

Managing Credit Risk through Risk Ratings

- Provides an objective method of evaluating a loan application based on specific creditworthiness characteristics.
- Provides guidance for loan approvals.
- Sets the risk tolerance of your organization.

Peer Sharing – Risk Ratings

- Why is implementing a Risk Rating System for your loan portfolio important?

Importance of a Risk Rating System

Management Perspective

- Understand the risks in your loan portfolio and keep track of risk trends.
- Compare risk levels from loan-to-loan.
- Figure out which borrowers should be actively monitored.
- Help staff and board develop a common credit culture.

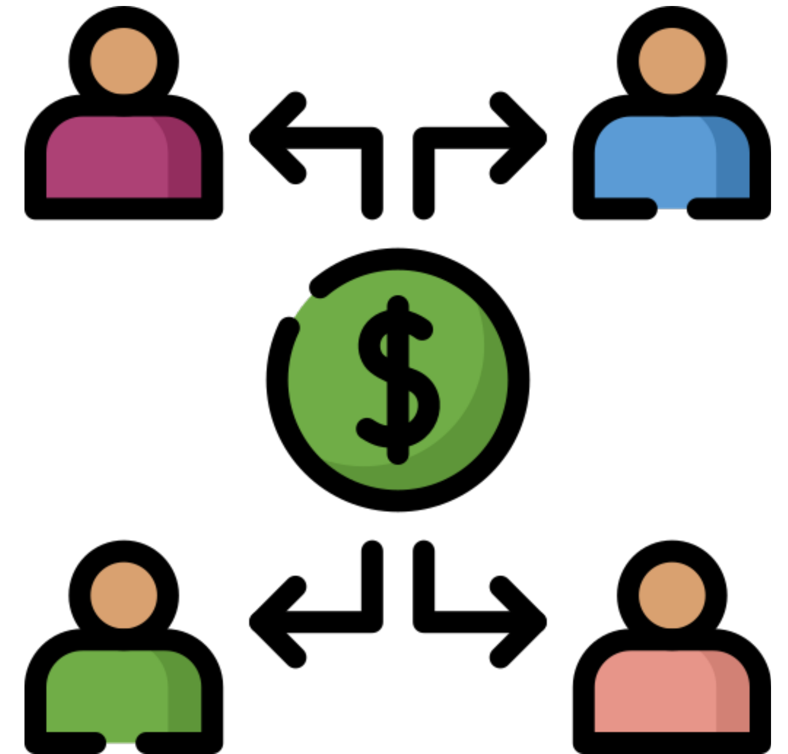
Investor Perspective

- Shows investors you are conscious about risk.
- Prove to investors that you are following industry standards and best practices.
- Reassures investors that you are actively monitoring their investment.

Loan Portfolio Diversification

Effective Loan Portfolio Diversification

- Diversification is a pro-active way to protect your loan portfolio from external factors that could affect your borrower's ability to repay.
- A process of identifying and implementing strategic loan diversification parameters & monitoring of those parameters relevant to your organization.

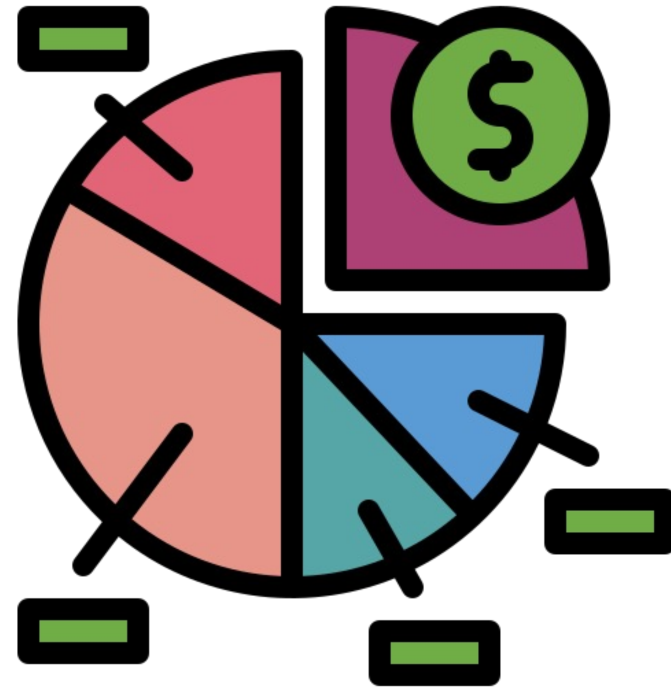


Peer Sharing – Diversification Methods

- What loan diversification methods can you implement?

Examples of Diversification Methods

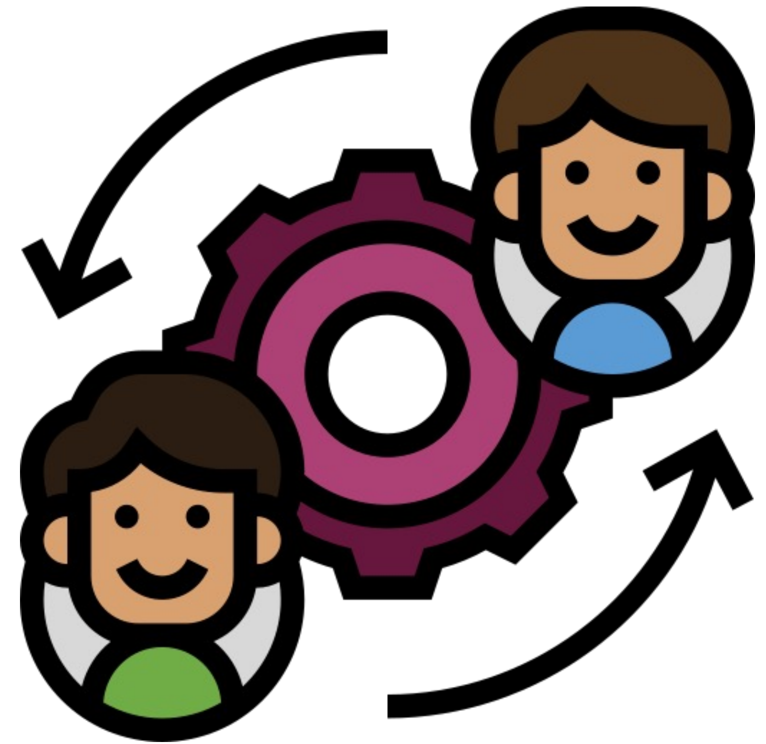
- Mix of Loan Product Types
- Borrower Concentration
- Single Borrower Limits
- Product Concentration
- Risk Rating Concentration
- Types of Lending Concentration
- Industry Concentration



Know Your Borrower

Key to Effective Portfolio Management –Know your Borrower

- Nurturing client relationships.
- Earning your client's trust.
- Be a trusted financial partner.

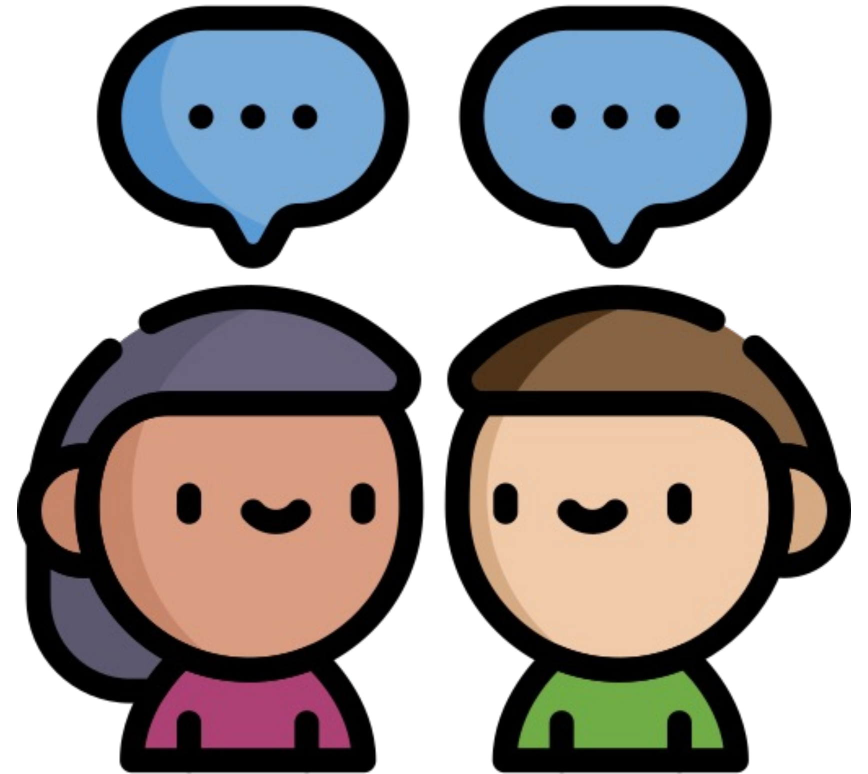


Peer Sharing – Know your Borrower

- What have you discovered to be the most effective communication and interactions with borrowing clients?

Examples of Knowing your Borrower

- Consistent and open communication
- One-on-one conversations
- Learn their business and industry
- Identify opportunities
- Provide TA and training
- Conduct site visits and check-ins
- Work through challenging situations
- Early intervention when needed
- Acknowledge your client when you see them
- Be engaged and interested in your client



Early Warnings & Red Flags

Early Warnings & Red Flags

- Loss prevention is mitigated by the ability to detect early warning signs that a borrower could be experiencing a situation that could affect their ability to repay.
- Red Flags are signals that a credit could be at risk. Being knowledgeable about what could be considered a Red Flag will assist in detecting early warning signs.

Common Early Warnings & Red Flags

- Borrower difficult reach.
- Missing a payment unexpectedly.
- Consistently and progressively late on payments or reporting.
- Purchase of "toys" you know may not be affordable, e.g., cars, boats, RV.
- Business financials trending down or industry downturns.
- Financials that are "messy" or don't make sense.
- Embezzlement or other legal troubles.
- Personal problems, such as job loss or divorce.
- Significant medical issues and expenses.
- Significant changes within a business, e.g., turnover, low inventory, layoffs, etc.

Peer Sharing - Early Warnings & Red Flags

- How do you address early warnings and red flags?

Talking Circle – Storytelling

1) Describe a challenging situation with a borrower in which you were able to turn a loan default into a performing loan.

2) What were the key factors that impacted the success of the turnaround?

Special Thanks to our Sponsors