

LENDING

Loan Fund

Use these standards for a loan fund, a lending program in which funding is reallocated as previously made loans are repaid.

Level 1: Project Feasibility Assessment

These basic criteria determine the feasibility of a loan fund. The focus is on the organizational and financial readiness of the loan fund.

1. NEED

a. Community Need

- i. The loan fund serves those without access to conventional financing.

b. Market Study/Needs Analysis

- i. The market study confirms the need for, and viability of the loan fund.
 1. There are no other loan funds in the area that can work with the target population.
 2. There is enough demand and sources of funding to support the loan fund.
- ii. The market study informs the organization about demographics of the area, competition, and barriers to entry.
 1. The loan fund's interest rates and terms are comparable to or better than those of the local area.

c. Local Support

- i. The beneficiaries of the program, such as businesses within the area, support the loan fund.
- ii. Neighbors and local community members support the loan fund.
- iii. The loan fund is in alignment with local city, county, state and/or federal development goal(s)

2. ORGANIZATIONAL READINESS

- a. The organization is willing and able to do the loan fund.
- b. The loan fund is in alignment with the mission of the organization.
- c. The Board of Directors embraces a CED strategy and/or embraces the program as a part of the CED strategy.
- d. The organization and/or its partners have a track record of participating in similar loan funds.
- e. The organization has the financial and operational capacity to undertake the proposed loan fund.
 - i. The organization can support the additional debt (if any) created by the loan fund.
 - ii. The organization has qualified staff that can undertake the loan fund.
 - iii. The organization has access to reliable, qualified vendors and service providers.

3. FINANCIAL FEASIBILITY

a. Program cost

- i. The loan fund is affordable to the organization, and the projected cost is appropriate to the concept.
- ii. The operator or staff providing the cost estimates is qualified and experienced with loan funds.

b. Funding sources

- i. There are enough sources of funding for the uses.
- ii. The organization has endeavored to secure all available competitive and noncompetitive funding sources for which the loan fund qualifies.
- iii. The actual disbursement of each source is timely and in sync with the needs of the loan fund.
- iv. The organization is aware of the compliance implications of each source.

c. Cash flow

- i. The loan fund produces enough cash flow to support the proposed debt structure (if any).
- ii. The loan fund minimally pays for itself over time. It has a sustainable cash flow.
 1. If the loan fund is low-cost or free, it is subsidized enough to sustain the loan fund.
 2. The loan fund can survive beyond the first year.

Level 2: Practical Considerations

These criteria are essential for a successful, operating loan fund.

1. MARKET BARRIERS

- a. The organization understands why past loan funds have not worked and instead addresses prior issues in innovative and alternative ways.

2. DEVELOPMENT TEAM & PARTNERSHIPS

- a. The organization has assembled the best team for the program, including vendors, employees, trainers, outreach coordinators, underwriters, and management staff.
- b. If the organization is lacking in any area (financial, experience), it has partnered with another entity to operate the loan fund.
- c. The loan fund is supported by public sector, private sector, and community partners.
- d. Through an open dialogue with the community, the organization has sought and incorporated community participation in the program.

3. SITE CHARACTERISTICS

- a. The area which is served by the loan fund makes sense.
- b. The offices of the loan fund are located near or adjacent to transit.

4. PROGRAM DESIGN & OPERATION

- a. The loan fund is run in the appropriate language(s) for the clientele in the area.
- b. The loan fund is culturally appropriate to the clientele in the area.
- c. The loan fund is tailored to the specific geography of the clientele in the area.
- d. The loan fund has lending guidelines.
- e. The loan fund has underwriting guidelines.
- f. What types of documentations is required.
- g. The loan committee consists of members with expertise in the industry, whether through past experience or current employment.

5. PORTFOLIO MANAGEMENT

- a. What percentage is the loan loss reserve?
- b. Loss tolerance: when do losses become a concern?
- c. The organization has established key ratios that it abides by to manage the loan fund.

Level 3: From Feasible to Exemplary

These criteria elevate a loan fund to an exemplary one.

1. FUNDING & FUNDING REQUIREMENTS

- a. The loan fund uses a funding program or funding source that is new and innovative.
- b. Each funding source was heavily leveraged to gain further resources.
- c. Certain features of the loan fund were adapted to capture funding, but the program was not completely changed in order to capture one particular funding source.
- d. There are multiple stakeholders providing funding, and this mix of funding sources maximizes the feasibility of the loan fund.
 - i. Funding includes conventional funding from bank.
 - ii. Funding includes nonconventional funding, such as start up grants or CDFI money.
- e. The loan fund exceeds minimum standards required by funding sources.
 - i. There is deeper low and moderate income targeting than required by funding sources.

2. FUTURE PROJECTS

- a. The loan fund strengthens the position (financial, political, capacity, experience) of the organization.
- b. Through the loan fund, the reputation of the organization was enhanced. Issues that the staff faced were dealt with in a diplomatic manner, enabling future programs.
- c. The success of the loan fund will enable future funding on other programs.
- d. The community is happy with the loan fund and will participate in more/similar programs in the future.
- e. The community is more knowledgeable about loan funds.

3. ECONOMIC IMPACT

- a. The loan fund attracts customers and new businesses to the area.
- b. The loan fund helps retain existing businesses.

- c. The loan fund stimulates long-term job creation.
 - d. The loan fund encourages development, redevelopment, and investment.
4. PORTFOLIO ANALYSIS
- a. There is a diversity of loans in sizes, terms, and types.
 - b. The loan fund funds green projects/programs and creates green jobs.
 - c. The loan fund funds food security projects.
 - d. There is a low cost per loan disbursed.
5. COMPREHENSIVENESS
- a. The organization provides or connects to other programs that provide multiple services e.g. technical assistance.
6. DIVERSITY
- a. The loan fund serves a mixed income clientele.
 - b. The loan fund encourages mixed age, gender, ethnic, etc. participation.
 - c. The loan fund supports minority businesses.
7. PUBLIC BENEFITS
- a. The loan fund provides a service that is needed by the community but is currently lacking.
 - b. The loan fund results in other positive physical impacts.
 - c. The loan fund results in other positive economic impacts.
 - d. The loan fund results in other positive social impacts.
8. REPLICABLE/SCALABLE
- a. This loan fund can be replicated in other communities, regions, and/or states.