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Sustainable Loan Deferment Policy



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- Goals
- Risk rate portfolio in light of economic situation
- Calling borrowers
- Deferment Options
- State Guarantee
- Capital sources
- Operational Reserves
- Creating a subordinated note
- Documenting deferments
- Loan loss reserve considerations
- Deferment approval authorization
- Strategic requests to funders
- Expand virtual capacities
- Deferment Policy in Loan Manual
- Continual Development

Goals



- Be responsive to borrowers and assure your fund's sustainability
- Your organization is a community asset
- Not all borrowers are affected the same:
 - Some borrowers suddenly have no revenue
 - Some unaffected
 - Some have increased revenue

Risk Rate Portfolio

In light of the current economic situation:

- Review every loan
- Create a quick risk rating:
 - High: Adversely affected within 3 months
 - Medium: Adversely affected within 3-12 months
 - Low: Unaffected or growing

Calling Borrowers

- Call borrowers to ascertain their current and near-term revenue streams
- Determine what payment plan is feasible: Interest-only? No payment? Full payment?
- Can't assume impact based on industry; some borrowers may surprise you
- Adjust your risk ratings based on these conversations
- Staff huddle/debrief once/day to share info & forge a rolling strategy

Deferment Structure Ideas

1. Blanket 90-day deferment for all
2. 90-day P&I deferment when requested; then 3-6 months interest only when needed
3. 30-day payment waiver to all; extend month-by-month as situation unfolds
4. Waive payments, but keep ACH active with \$10/month; creates some continuity and financial connection
5. Balloon payment tacked onto the end of the loan; or
6. Deferred amount repaid in equal monthly installments over a period equal to four months for each month of deferment

State Guarantee



Loans with a State Guarantee

- Can defer principal not interest
- Can only do one deferment for maximum of six months
- Can only extend term to seven years
- Borrower must be current to defer. See slide 10 for an idea of how to keep clients who are unable to pay current.

Capital Sources

- Review debt vs equity sources of capital
- Make sure you can defer your loans under your investment agreements. See if you need to change covenants.
- Undertake cashflow projections to determine how much deferred revenue you can offer and remain sustainable
- Make payments to your investors while you can
- Take some time to craft a strategic ask from your investors
- If future, accept equity that creates a staggered balloon payment schedule

Operational Reserves

- Organizations that experienced the 2009-2010 recession created 6-to-12-month operational reserves
- And healthy loan loss reserves
- Allows organization to manage operations and support borrowers, in the face of decreased revenue generation from loan activity

Subordinated Note

- Community Vision created a subordinated note to form a reserve to cover deferred borrower interest for those unable to even make an interest payment
- In effect advancing more capital to borrower
- Temporary measure while determining long-term response to highly impacted borrowers

Documenting Deferrals

- Easiest: Create an amendment to the note
- Eventually might restructure to extend maturities where needed
- Be clear with borrowers what deferment means: include ‘promise to pay’ language; avoid ‘forego’ or ‘forgive’ language
- Create a COVID-19 Loan Deferment Term Sheet and COVID-19 Loan Deferment Memorandum

Loan Loss Reserve



- CV has LLR of 8%
- Historic losses of 1%
- Reviews portfolio quarterly and reserves according to risk
- Expenses adjustments to LLR
- Currently evaluating whether to increase LLR

Deferment Approval Authority

- To respond rapidly, CV staff received Board approval for staff-level authority to determine how to adjust each loan in the short run
- CV reviews its portfolio quarterly which has provided deep organizational knowledge
- Board is well informed about the portfolio and...
- Trusts its experienced staff some of whom have been through the last recession

Strategic Requests to Investors

- CV will wait on deep investor conversations until it has a better read on longer term needs
- Have had a few “temperature reading” calls where most are saying “tell us what you need”
- Many funders not yet offering new money for economic development; focused on first response right now
- But when ready, be clear about what you need to marshal secondary response to address economic injury

Expand Virtual Capacity



- Create virtual document signing capacity
- Create virtual meeting and online coaching capacity
- Consider an end-to-end lending platform that can keep you fully operational in a shelter-in-place environment

Deferment Policy in Loan Manual

- Prepare for economic downturns by creating a Temporary Relief or Deferment Policy in your Loan Manual
- Include in your policy the topics covered by this webinar
- When we get through all this, start a 6-to-12-month operational reserve
- If your lending program is new or not fully developed, consider taking CAMEO's **CDFI Essentials** (starts April 10) to build several foundational risk management practices

Continual Development



- This is not likely to be a one-and-done with each borrower
- Will need continued conversations as recession evolves and shelter-in-place is extended
- Your own staff as well as your borrowers could become ill

Discussion and Questions



As Information becomes available...

- As CAMEO verifies information on disaster support for small business, we will quickly schedule webinars
- Visit our resource page: <https://cameonetwork.org/coronavirus-resources-for-business>
- Visit OFN's COVID-19 Community for sample docs/deferment letters: <https://ofn.org/articles/new-covid-19-community-ofn-members-cdfi-connect>
- [SBA website for COVID Assistance](#) for small business