

CDFI Webinar Series

Participation Loans: How Bankers are Growing their Loans and Lending Partnerships

January 28, 2014
2:00 pm – 3:00 pm EST

Organized by the Federal Reserve Bank of Richmond

CDFIs – Participation Loans: How Bankers and Growing their Loans and Lending Programs

A Webinar Series for Community Development Financial Institutions (CDFIs)

Hosted by the Federal Reserve Bank of Richmond



Welcome

Thank you to everyone for joining this session.

Jen Giovannitti

Regional Community Development Manager,
Federal Reserve Bank of Richmond



Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.



Welcome

For today:

- This webinar was recorded.
- An archived recording of this session will be available at http://www.richmondfed.org/conferences_and_events/community_development/

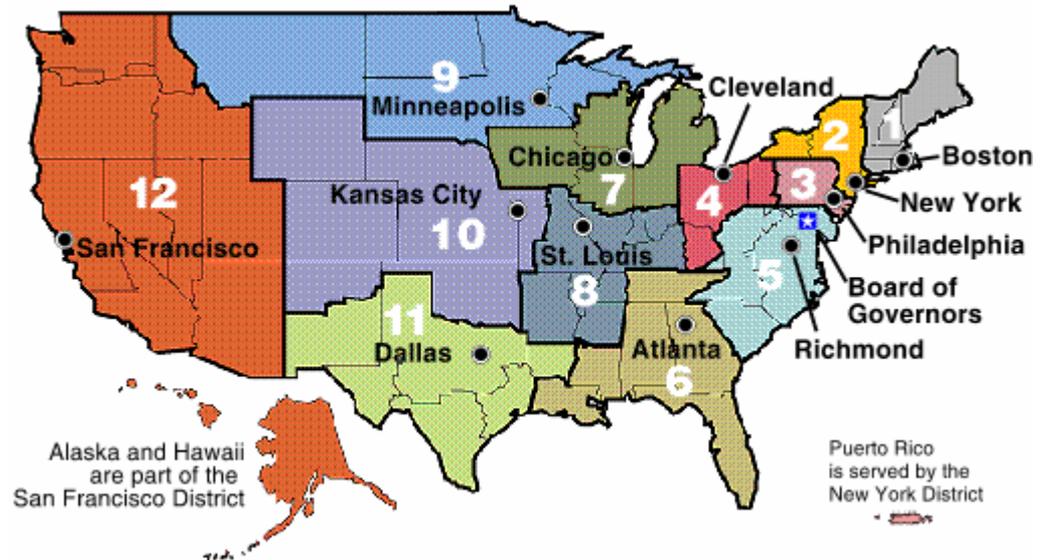


Community Development at the Federal Reserve Banks

In 1981, the Federal Reserve System established the Community Affairs program in each of the 12 Federal Reserve Banks.

The mission of the Community Development Department at the Federal Reserve Bank of Richmond is to support the economic growth objectives of the Federal Reserve Act by working with public and private partners to resolve credit and development issues in low-and moderate-income communities.

At the Richmond Bank, our department is called Community Development (CD).



Community Development Bank Resource Center



THE FEDERAL RESERVE BANK OF RICHMOND
RICHMOND • BALTIMORE • CHARLOTTE

At work for America's economy™

Research Banking Education **Community Development** Press Room Publications About Us

home > community development > resource centers >

Resource Centers

[Community Data](#)
[Community Development Bank](#)
[Community Development Financial Institution \(CDFI\)](#)
[Foreclosure](#)
[Map Resource Center](#)

Resource Centers

Community Development Bank

Print



The primary goal of the Community Development Bank Resource Center is to provide information about the structure and function of community development banks to policymakers, financial institutions and bank examiners. We also hope that community development banks will find the information useful as input into their performance benchmarking.

About **Data** Resources Publications Regulation

About

Community development banks (CDBs) are Federal Deposit Insurance Corporation (FDIC)-insured depository institutions. They function in much the same way as traditional commercial banks, providing products and services such as checking accounts, savings accounts, personal loans and business loans. What distinguishes CDBs from traditional commercial banks is their focus on low- and moderate-income markets. CDBs are often described as having a dual financial and social mission – earning profits and promoting community development – because they serve low- and moderate-income communities that may be otherwise underserved.

CDBs are part of a larger group of organizations known as Community Development Financial Institutions (CDFIs) and are often referred to as CDFI banks. CDFIs can obtain a designation known as certification by applying to the CDFI Fund.

- [List of Community Development Banks \(Current as of March 31, 2011\)](#)
- [Map of Community Development Banks \(Current as of March 31, 2011\)](#)

CDFIs – Participation Loans: How Bankers and Growing their Loans and Lending Programs

A Webinar Series for Community Development Financial Institutions (CDFIs)

Hosted by the Federal Reserve Bank of Richmond



Introduction to the Topic

Why we chose bank partnership loans for this webinar:

- A way to recognize the strong lending partnerships that banks have with CDFIs and community loan funds in West Virginia.
- An educational opportunity for bankers to hear from other bankers about the loan funds that they are working with.

The agenda for today's webinar:

- Learn about two small business loans that were closed in partnership with traditional and alternative lenders.
- Discuss the importance of building relationships with CDFIs and community loan funds.
- Share additional resources.



Today's Presenters and Agenda

- **Dan Reitz**, *Executive Director*, Washington County Council on Economic Development (WCCED).
- **Kevin O'Connor**, *Branch Manager*, The Huntington National Bank
- **Dave Clark**, *Executive Director*, Woodlands Community Lenders.
- **Hoy Ferguson**, *Commercial Loan Officer*, Davis Trust Company
- **Jim Gordon**, *Lending Specialist*, Kanawha Institute for Social Research and Action, Inc (KISRA).



Bank Participation Loan between a Traditional Lender and Non-Traditional Lender

Dan Reitz

Executive Director,
WCCED/FMWV

Kevin O'Connor

Branch Manager,
The Huntington National Bank



Heramosilla's Deli Market

Fairmont, West Virginia

- Heramosilla's had deposit relationship with the Huntington National Bank.
- However it was a start-up venture, and a restaurant/market, so The Huntington National Bank called First Microloan of West Virginia.
- An SBA microloan of \$41,000 from First Microloan of West Virginia, was added to cash from the borrower of \$6,000 giving this start-up business a capitalization of \$47,000.
- The SBA microloan program allows a loan of up to \$50,000 and can be a part of a package of up to \$150,000 in participation with a bank. Yes we do subordinate!
- The maximum term is 72 months and we fix the rate for the term of the loan.
- First Microloan of West Virginia requires a business plan and financial projections.
- First Microloan of West Virginia works with the Small Business Development Centers and SCORE chapter to assist the business in creating these items.



Heramosilla's Deli Market

Fairmont, West Virginia

- **First Microloan of West Virginia looks at the idea, the character, the business plan and the experience of the borrower.**
- **We are not here to compete with the Banks, our goal is to create employment and opportunity in the communities we serve.**
- **We work with businesses to help them succeed and to create good customers for the banks, while providing needed services for the community.**



Hermosilla's Deli Market

Fairmont, West Virginia

- The Huntington National Bank is getting a business with a proven track record to finance, when Hermosilla's is ready for their first expansion.
- First Microloan of West Virginia can subordinate to the Lead Lender on collateral.
- The Huntington National Bank provided all sorts of lender services, merchant accounts.



Sharing the Risk & Making Deals Work

Dave Clark

Executive Director,
Woodlands Community Lenders

Hoy Ferguson

Commercial Loan Officer,
Davis Trust Company



Custard Stand

- Small, WV-based franchise based in Webster Springs, WV.
- Businessman in Elkins, WV approached lender with an interest in:
 - Purchasing property
 - Purchasing equipment and fixtures
 - Borrowing start-up capital



Sharing the Risk

Davis Trust

Provided financing for:

1. Real Estate purchase and
2. Line of Credit/Operating Capital.

Underwriting considerations

- The business was a start-up, but borrower had an existing successful business;
- All loans involved security personally held by borrower;
- Franchise purchase provided a basis for grounded financial projections;
- Created 8 new jobs.

Woodlands Community Lenders

Provided \$96,000 in financing for equipment and fixtures.



Sharing the Risk – Benefits and Challenges

- CDFI is willing to take on risk that conventional lenders cannot;
- Not all deals can work with both parties;
- Requires a bank loan officer who understands CDFIs and our potential role in a given deal;
- Davis Trust and WCL have an open and trusted line of communication, and talk regularly about potential borrowers.



KISRA

Jim Gordon

Lending Specialist,
Kanawha Institute for Social Research & Action, Inc.
(KISRA)



About KISRA

- **KISRA** - is a Faith-Motivated, nonprofit organization that empowers West Virginians through a variety of **Health, Employment, Asset Development & Learning Programs**.
- Working in the Banking Industry for 15 years prior to **KISRA** I have maintained & established a good working referral relationship with several traditional financial institutions. I have made it a priority to personal visit all the area banks and speak to every employee in a branch from the tellers, personal bankers, loan officers to the branch managers to explain our Micro-loan program.



Getting Referrals

- The key for KISRA has been stressing to the bankers that I'm not there to take potential loans from their portfolios, but that they can refer a client that they can't help due to:
 - Credit
 - Newness of the business
 - Insufficient collateral
 - Other underwriting criteria
- It is an extension of their customer service: Even offering them a few words to say to their client(s) – “ Mr. Davis we value your relationship with us, at this time we won't be able to assist you with your loan request, however there is an alternative lending program that might be able to assist you, here is the gentleman's contact information or if you don't mind Mr. Davis, I would gladly call Mr. Gordon on your behalf.



KISRA's Valued Partners

- **KISRA's Bank Partners in the Charleston, WV Region**
 - City National
 - BB&T
 - WesBanco
 - Chase
- When I receive a referral, often times we'll make the appointment with the referring loan officer in their office. The referrals for me have been a two way street as well, I have referred clients who have had other banking needs.
- On a final note KISRA's micro-loans range from \$1000.00 to \$50,000.00. If you apply for more then \$5000.00, the client must have a denial letter from a traditional financial institution showing the loan was denied. This reinforces and shows the need for alternative lenders and has been very helpful in obtaining referrals from banks.



Wrap-up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our web site.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at jen.giovannitti@rich.frb.org
- Information about future sessions will be posted on our website along with archived materials from past sessions:
http://www.richmondfed.org/conferences_and_events/community_development/

