

# FinTech and CDFIs

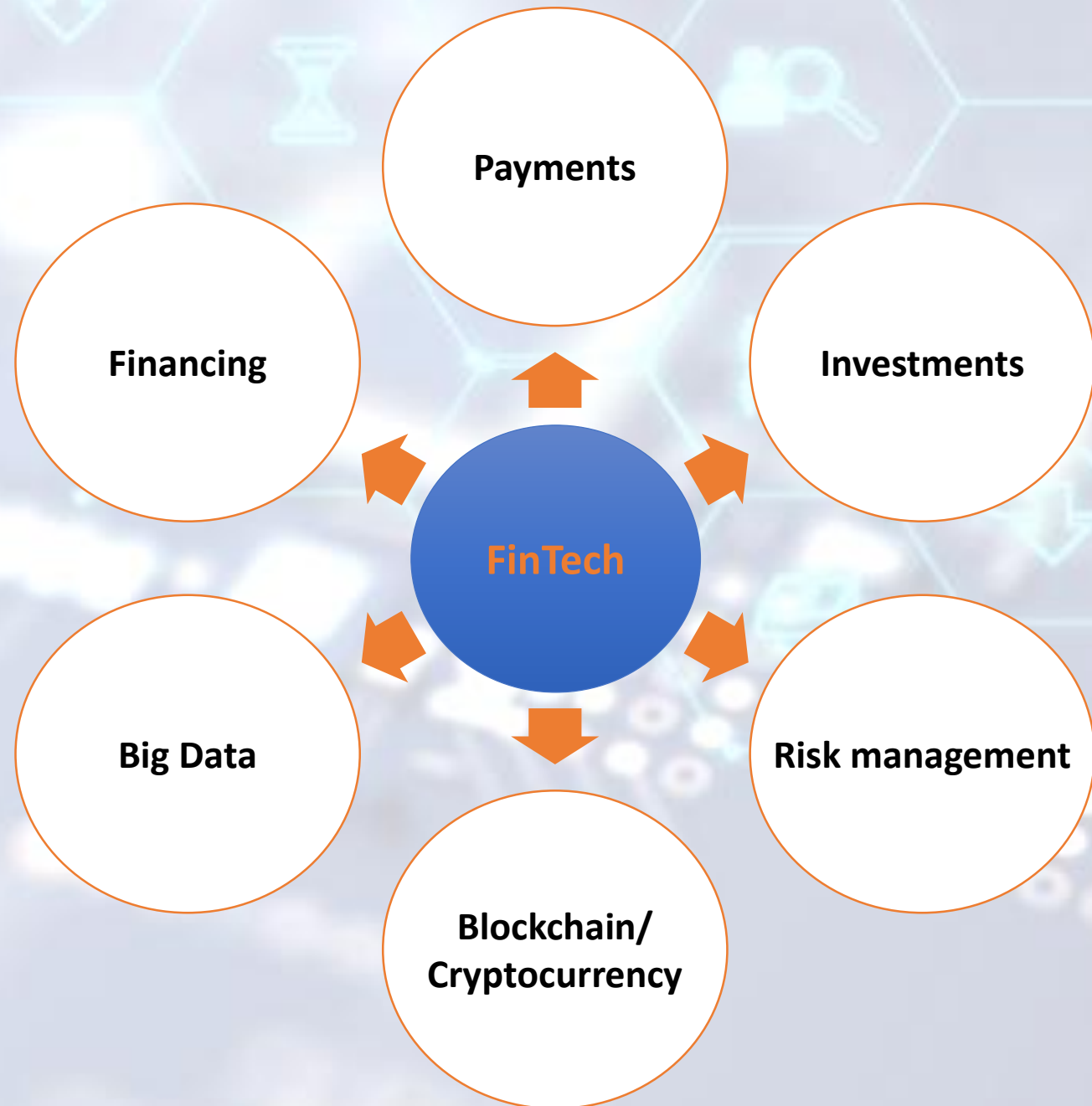
2018 CDFI Institute

Washington D.C., March 1, 2018

- Nick Elders, Community Reinvestment Fund, USA
- Connie Evans, Association for Enterprise Opportunity
- Dominik Mjartan, South Carolina Community Bank
- Ami Naik, Radicle Impact Partners
- Eben Sheaffer, National Federation of Community Development Credit Unions

# Questions

- FinTech trends and the unbanked and underbanked?
- Best FinTech practices for CDFIs?
- Considerations for CDFIs in FinTech partnerships?
- Future for FinTech in the CDFI industry?
- Concerns/opportunities such as possible bias related to AI loan decisioning?





# THE FINTECH ECOSYSTEM

## Payments & Transfers



## Lending & Financing



## Retail Banking



## Financial Management



## Insurance



## Markets & Exchanges



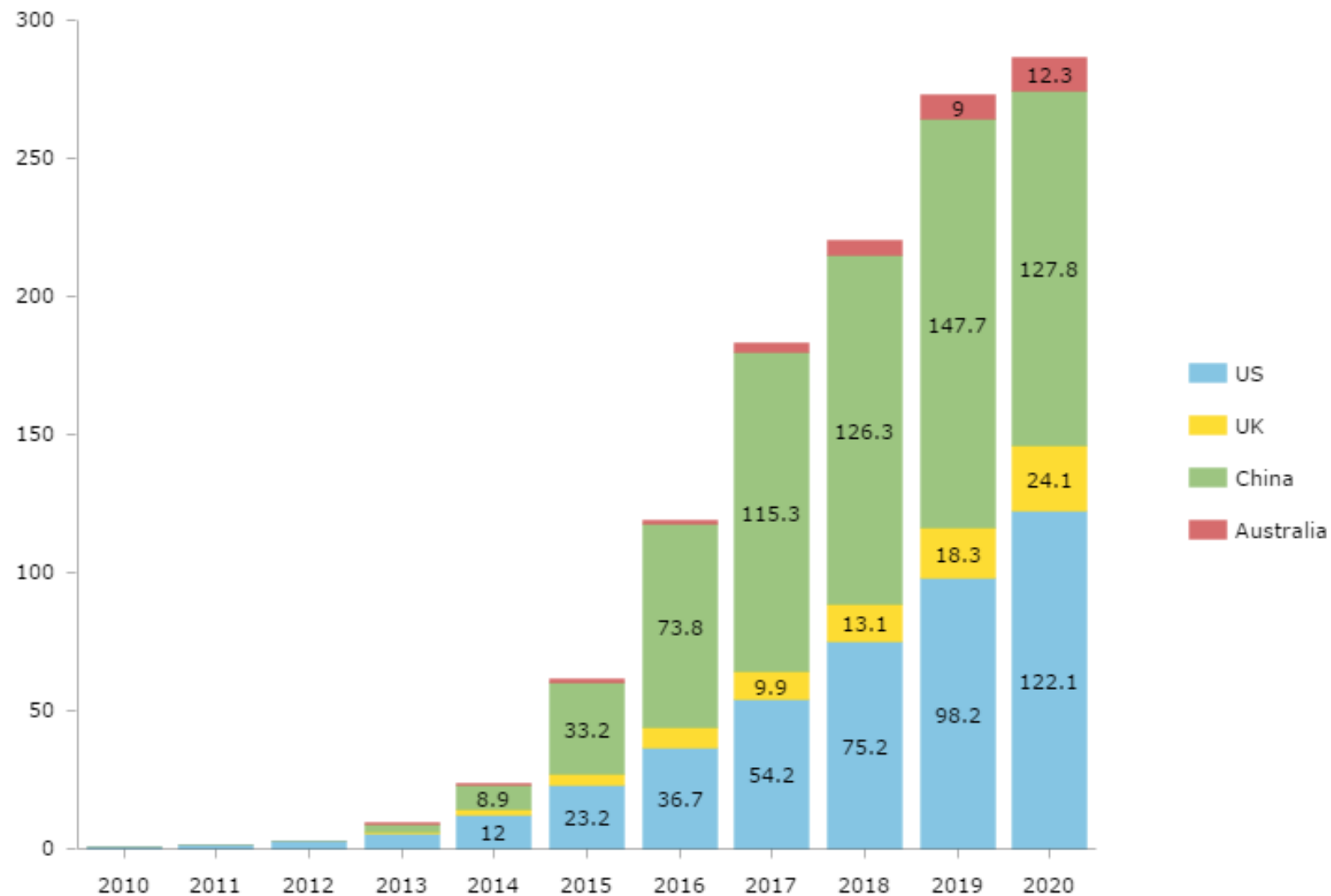


# Unbundling of a Bank



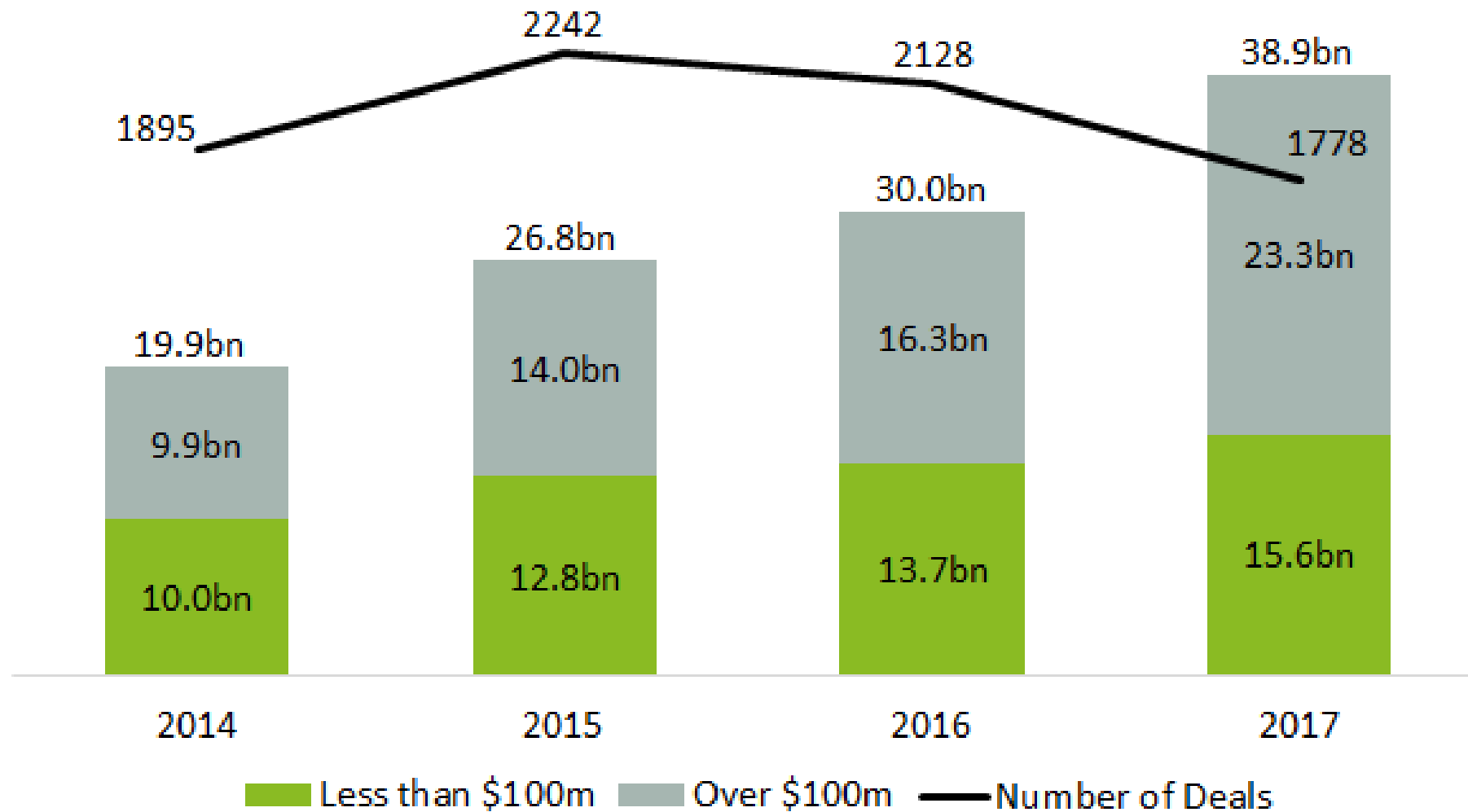
**Base Case: Global Marketplace Lending Can Reach \$290 Billion by 2020, With Expect Compound Annual Growth Rate of 51% From 2014-2020**

Global Marketplace Loan Issuance (\$billions)



## Global FinTech investments, 2014 - 2017

(USD, number of deals)

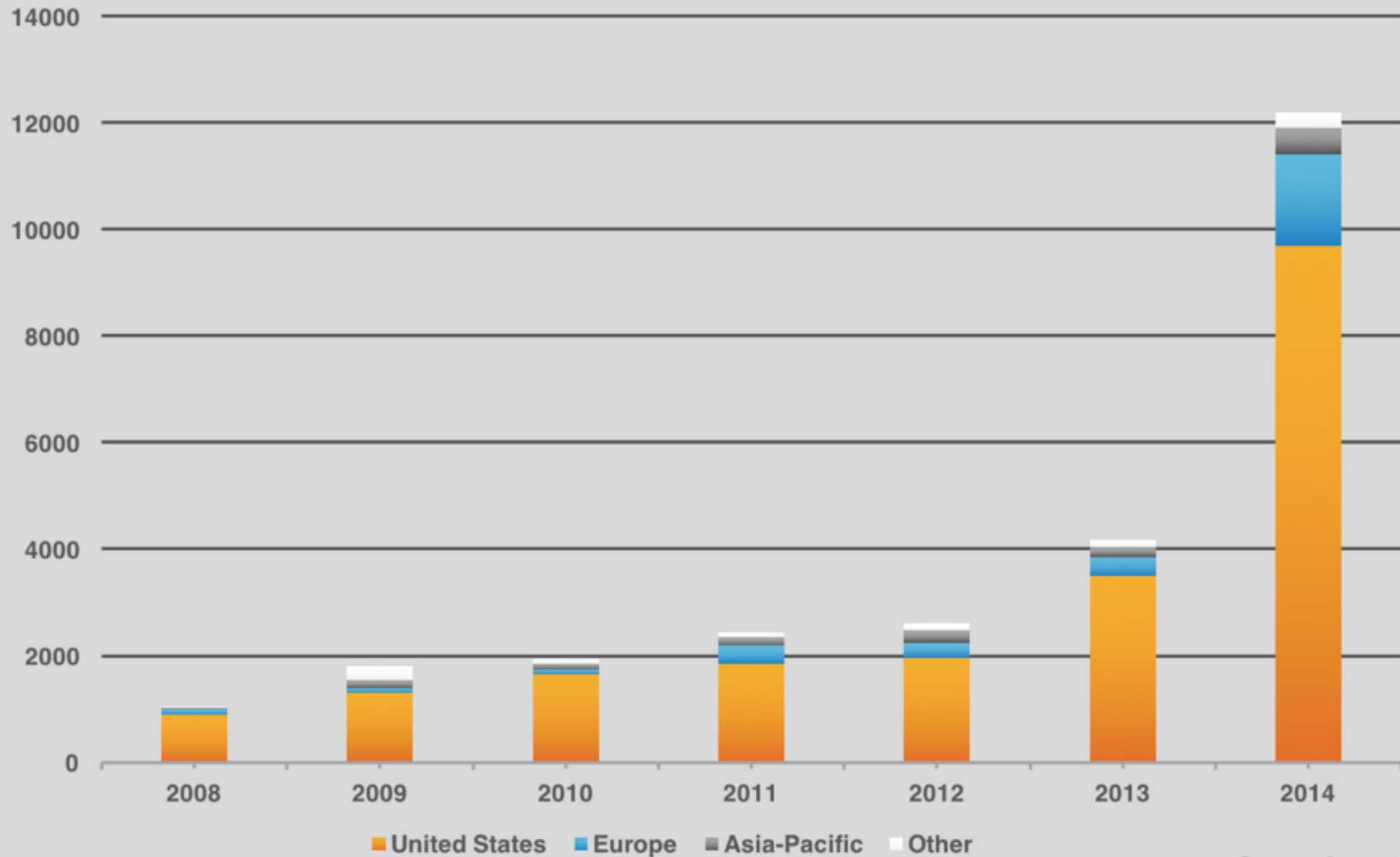


Source: FinTech Global



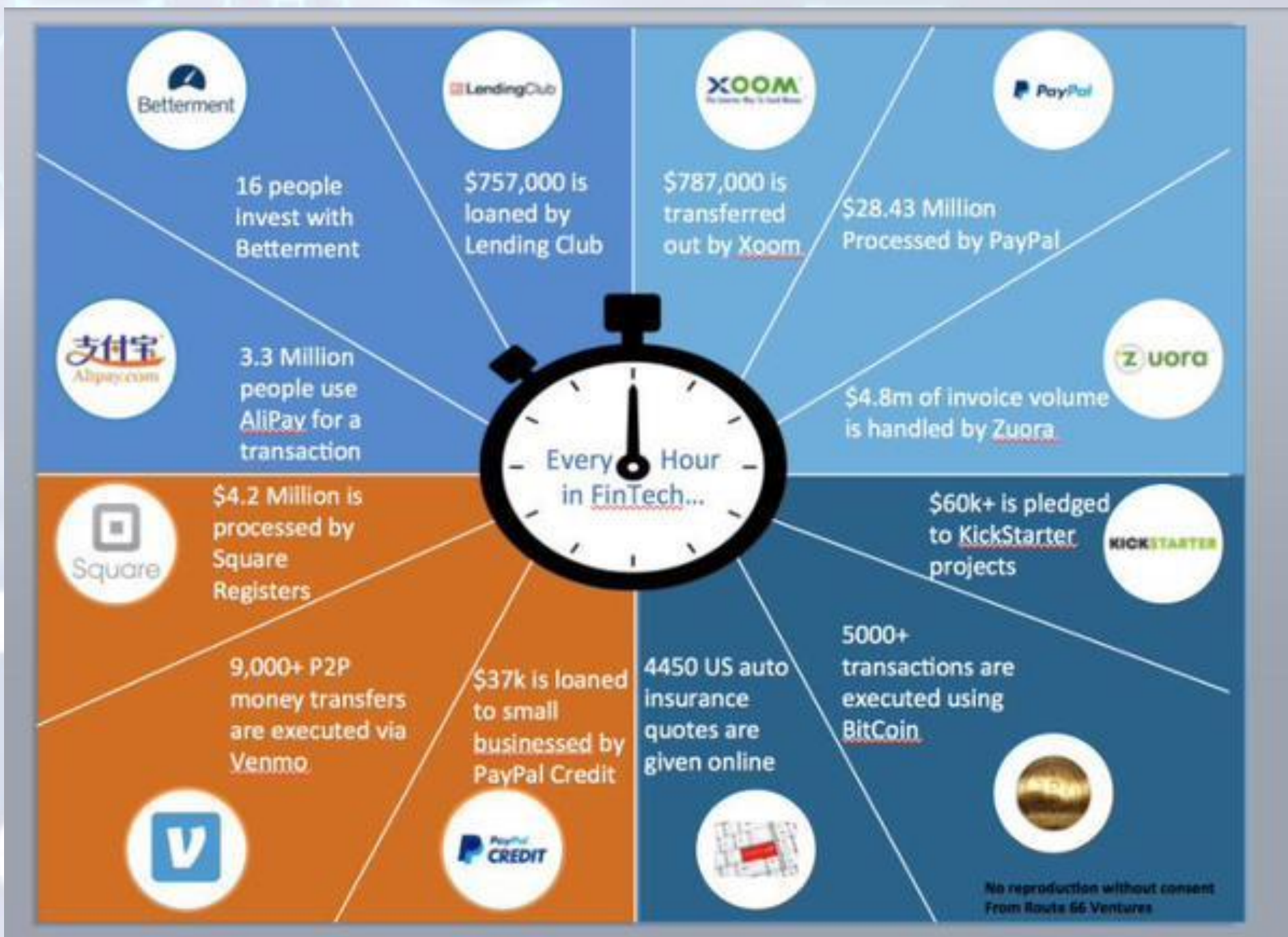
## Ready for take off?

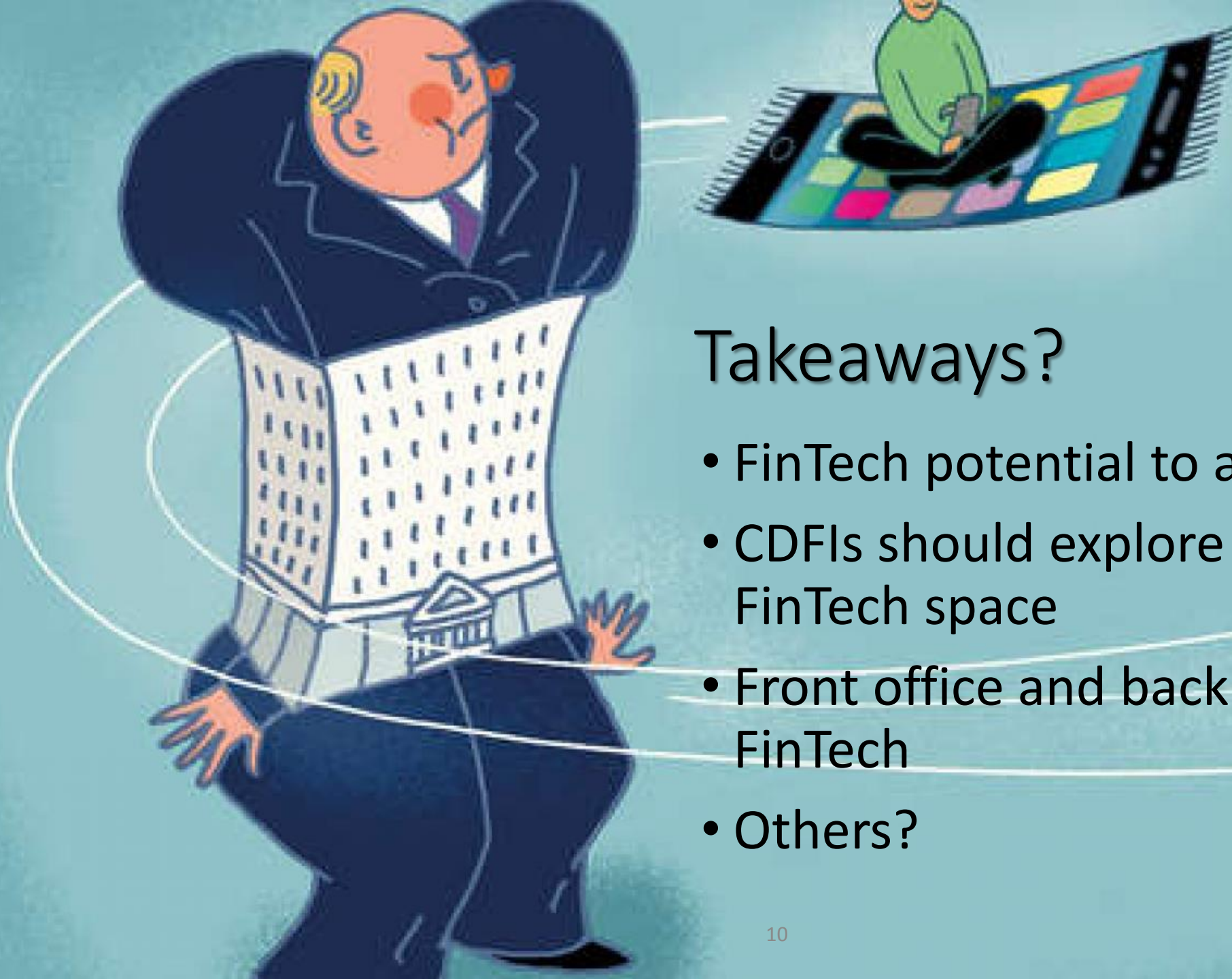
Global investment in fintech (US\$ million)



Source: Accenture

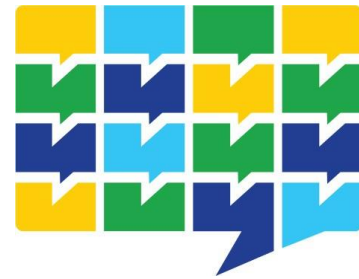






## Takeaways?

- FinTech potential to amplify impact
- CDFIs should explore and engage the FinTech space
- Front office and back office use of FinTech
- Others?



**AEO** Association for  
Enterprise  
Opportunity  
The Voice of MicroBusiness

## FINTECH REVOLUTION IMPACT ON FINANCIAL SERVICES FOR UNDERSERVED PEOPLE AND PLACES

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March 1, 2018  
CDFI Coalition Institute



# What we do

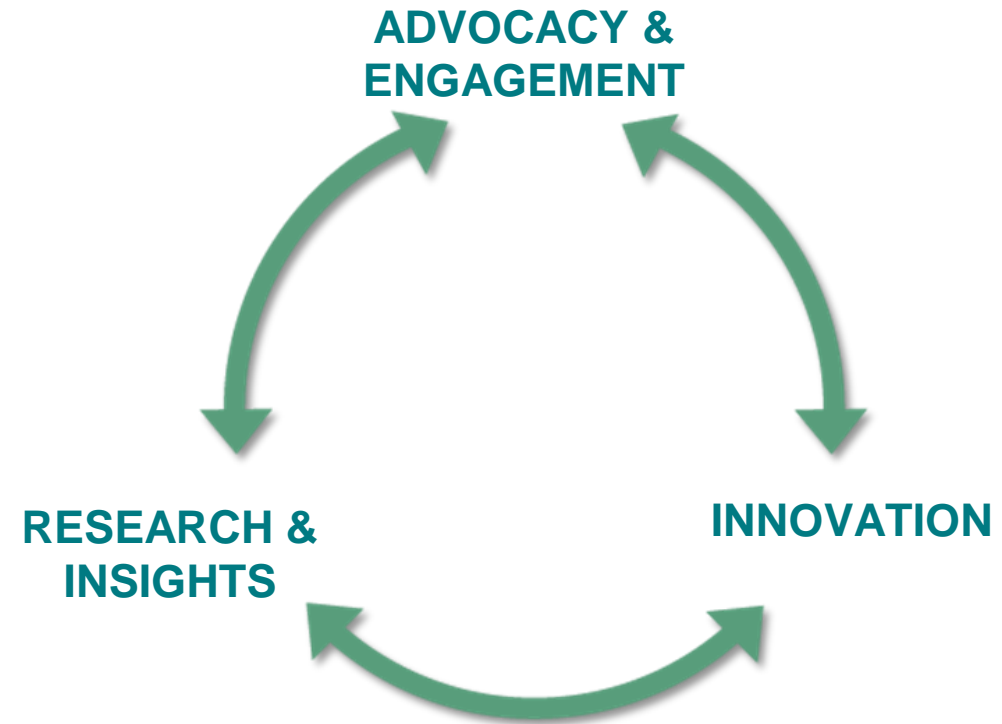
## WHO WE ARE

National trade association  
for US microfinance and  
micro business

**Mission:** create economic  
opportunity for  
underserved entrepreneurs

**1600+** nonprofit  
community lenders and  
business service providers  
across the country

## WHAT WE DO



# Innovations

## Ideation & Testing

**TILT Forward Network:** Largest and most diverse group of CDFIs and entrepreneur support organizations in the US. Network serves as “skunk-works” and knowledge-sharing network.

**Reimagining TA:** Findings from of an 18-month long research initiative were released in the form of a report in May 2016. Now we invite organizations to join a cohort of peers to pilot and learn from tests of new services, products and ways of delivering trusted guidance.

## Infrastructure

**myWaytoCredit:** Multi-bank customer referral marketplace. Seed money for proof of concept from US Treasury “Innovation Challenge.” Follow-on investment from JPMorgan Chase Foundation. On track to deliver 3K customers/month to CDFIs by end of year.

**DreamFund:** Shared utility to expand product set and create liquidity for (CDFIs) in order to serve more businesses in low-wealth communities. First-of-its-kind structure (SPV) designed by Kirkland & Ellis presents as an efficient and effective investment vehicle for CRA & mission-motivated capital. Compelling results from proof of concept.

# myWay to Credit

Overview  
November 2017

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# There is a Market Failure on Main Street

8,000  
DECLINED

Requests for credit  
every business day <sup>1</sup>

\$52  
BILLION

Credit gap for loans  
to Main Street <sup>2</sup>

2.2  
OF  
MILLION  
SMALL  
BUSINESSES

In low-wealth communities  
that seek each credit year,  
most struggle<sup>3</sup>

How can we solve this failure?

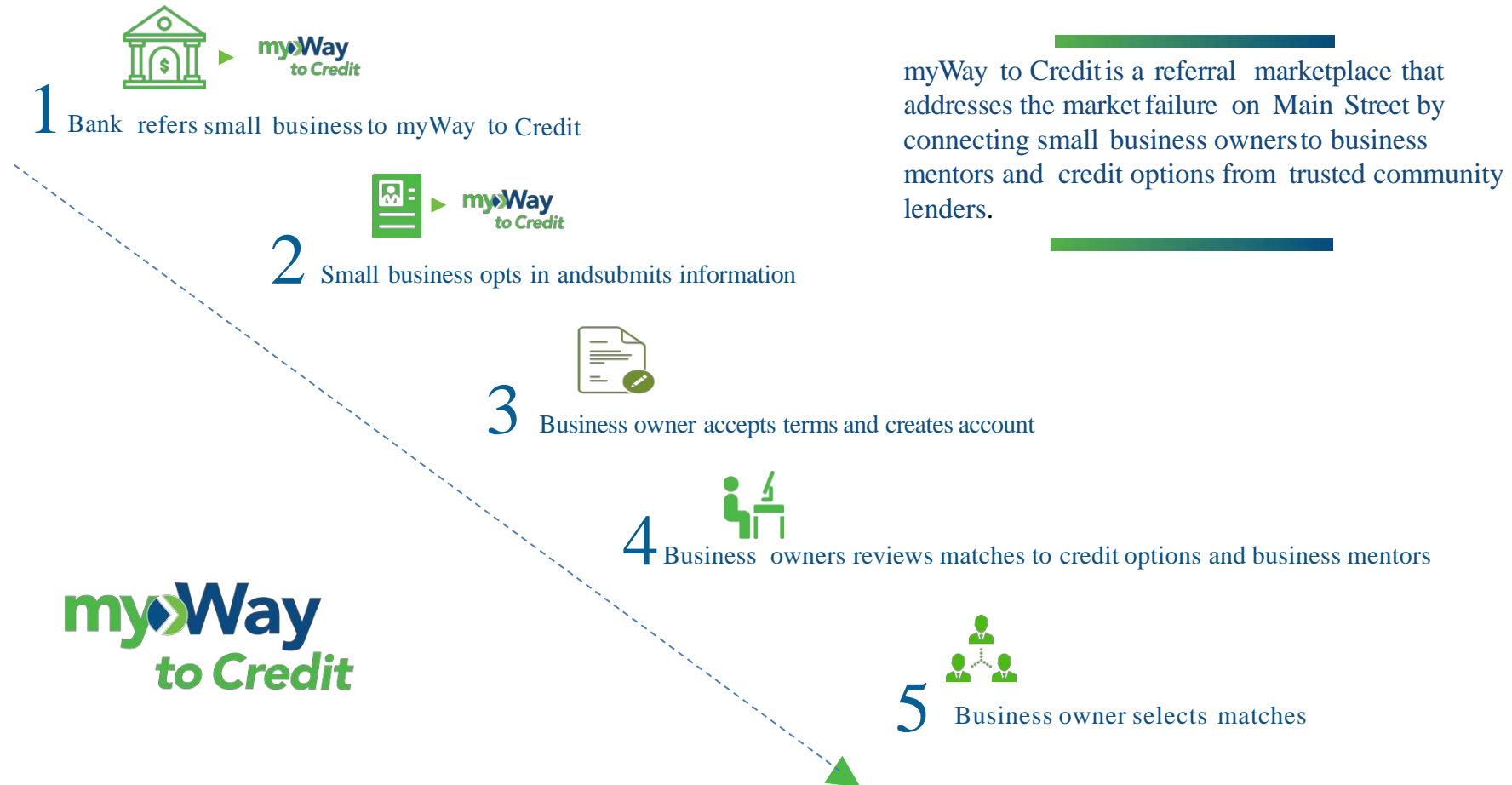
- Banks need an efficient and effective solution that is also CRA compliant.
- CDFIs need solutions that expand product sets and reduce (or rationalize) operating costs.
- Investors (and Philanthropy) need investment vehicles that permit investment at scale with reasonable return expectations.
- Business Owners need guidance, choices, and support on the “path to capital.”

<sup>1</sup> US Treasury, June 2013 <https://www.treasury.gov/press-center/press-releases/Pages/j11979.aspx>

<sup>2</sup> Micro Capital Task Force <https://www.aeoworks.org/pdf/MCTF%20Concept%20&%20Framework%20-%20DRAFT%20April%202012.pdf>

<sup>3</sup> AEO, “The Big Picture: A Larger View of the Small Business Market” <http://www.aeoworks.org/pdf/the-big-picture.pdf>

# myWay to Credit Connects Small Businesses to CDFIs and Path-to-Capital Services



# myWay to Credit: We're Reinventing 'Yes'

This solution works for everyone by enabling banks to connect small business owners to trusted lenders and business mentors.



Traditional lenders funnel declined customers to community lenders who are likely to meet their needs.



Easy for business owners to use because it's a single source for multiple referrals.



Platform is compliant with industry standards and regulations.



Easy to implement and integrate into existing operations.



Small businesses are connected with lending and credit products tailored to their needs.



myWay to Credit is  
an ecosystem focused on  
the success of the business  
owner.



### Community Lenders



Identify small businesses that can  
benefit from lending solutions

Acquire more customers at a low  
cost

### Bank Referral Partners



Offer another path to “yes” by  
inviting small business owners to  
myWay to Credit

Retain relationships with small  
business owners without risk to  
reputation or risk of losses

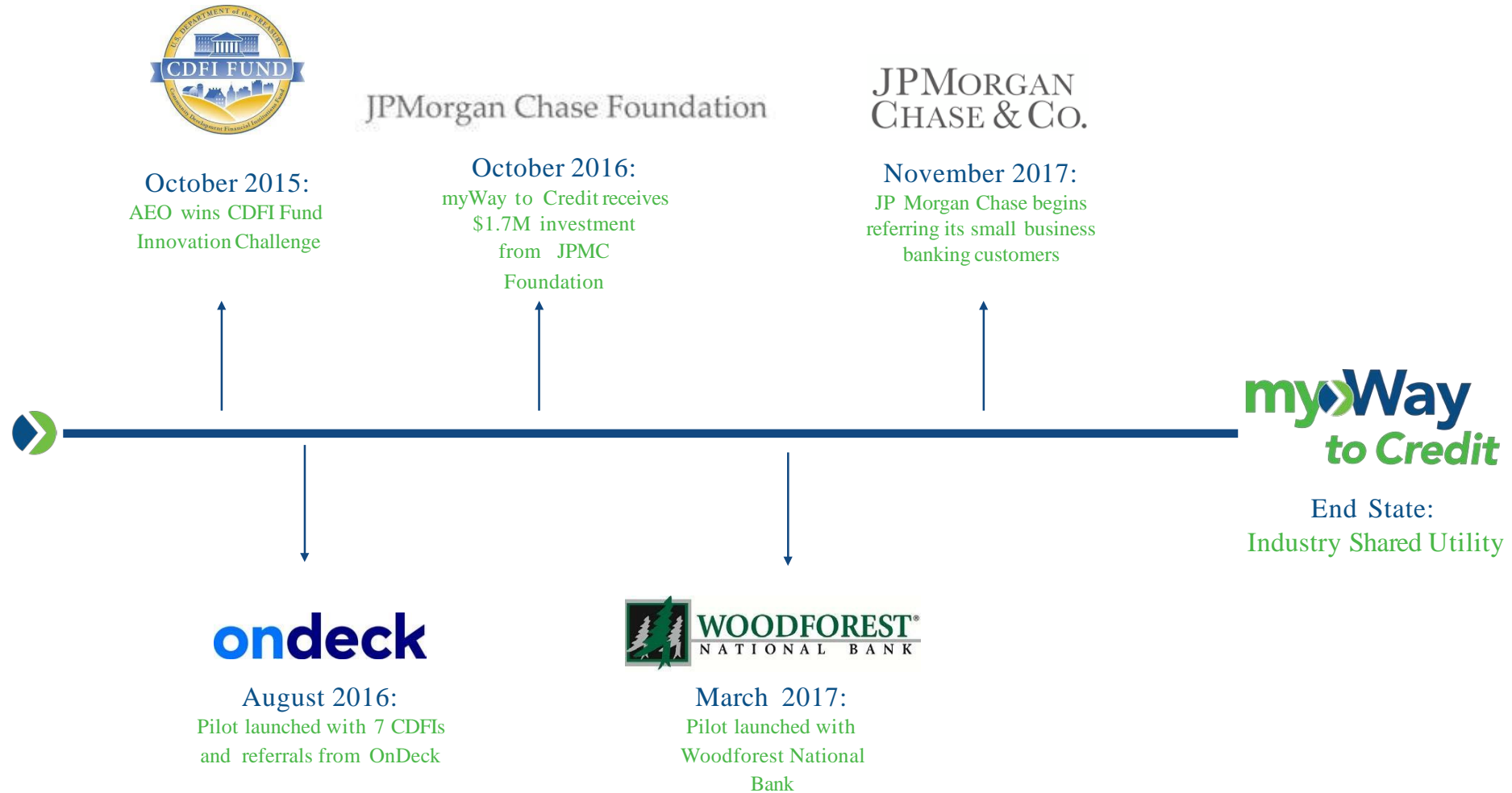
### Small Business Owners



Choose products and services  
that are the best fit for their  
businesses

More small business owners have  
a shot at success

# Our Vision and Path



# Innovations

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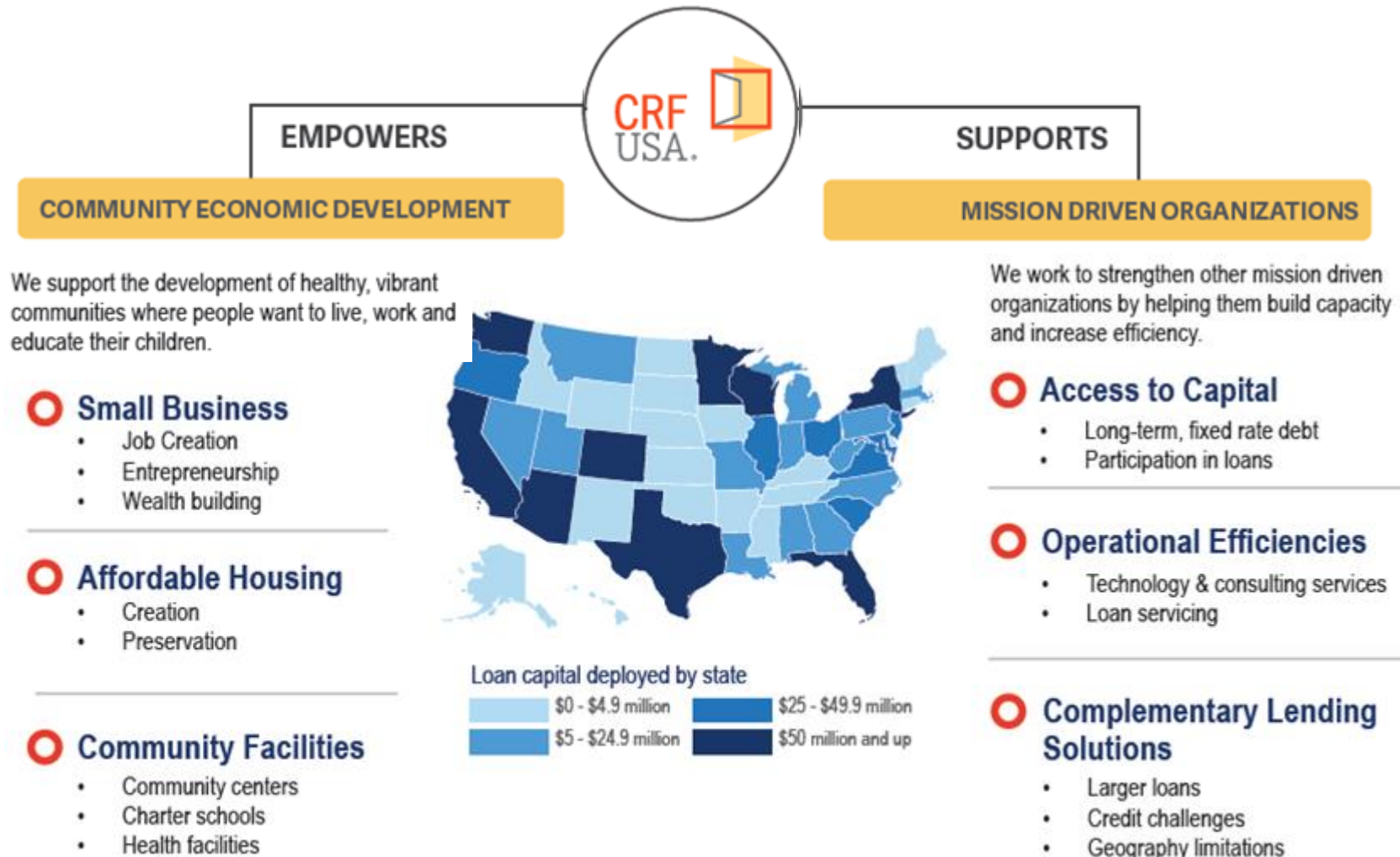
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# Community Reinvestment Fund, USA (CRF)





# According to the Fed, how many firms applied for credit in 2016?

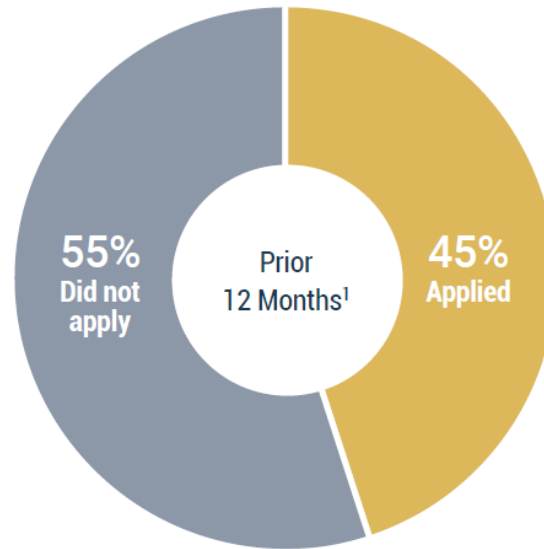
45% of all firms applied for credit in 2016

- 55% of firms sought \$100K or less

## DEMAND FOR FINANCING

(% of employer firms)

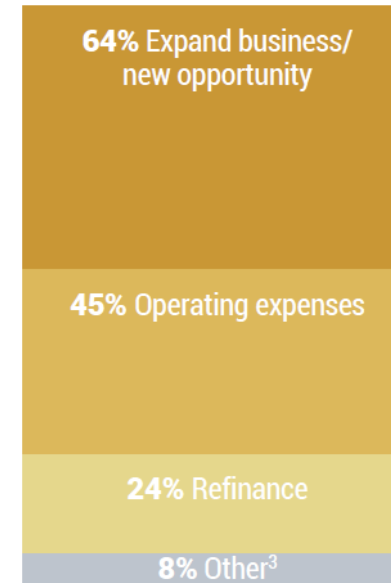
N = 10,303



## REASONS² FOR APPLYING

(% of applicants)

N = 4,796



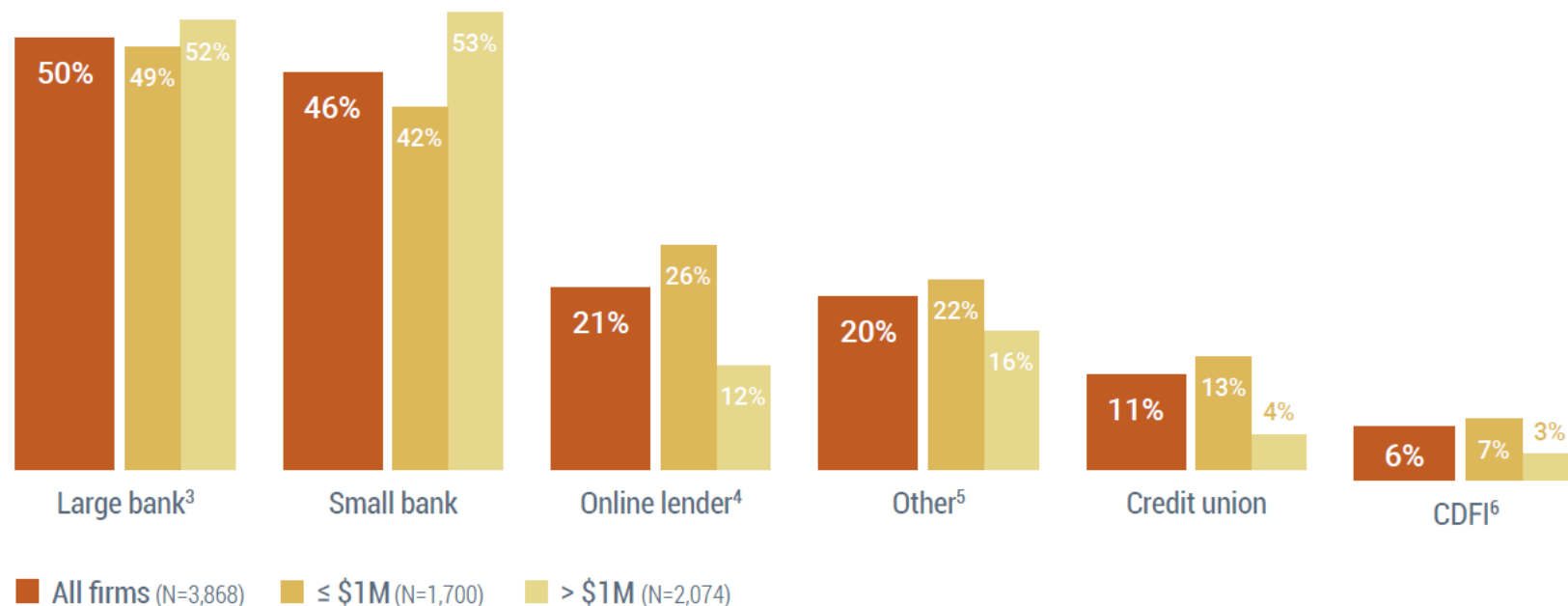
Source: 2016 Small Business Credit Survey, Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, St. Louis

# Once they've decided WHY to apply, where do they apply?

- Banks still the primary application point. Online gaining ground.

- Application rate for CDFIs = 😞

CREDIT SOURCES<sup>2</sup> APPLIED TO BY REVENUE SIZE OF FIRM (% of loan/line of credit applicants)



Source: 2016 Small Business Credit Survey,  
Federal Reserve Banks of New York, Atlanta,  
Boston, Cleveland, Philadelphia, Richmond, St.  
Louis

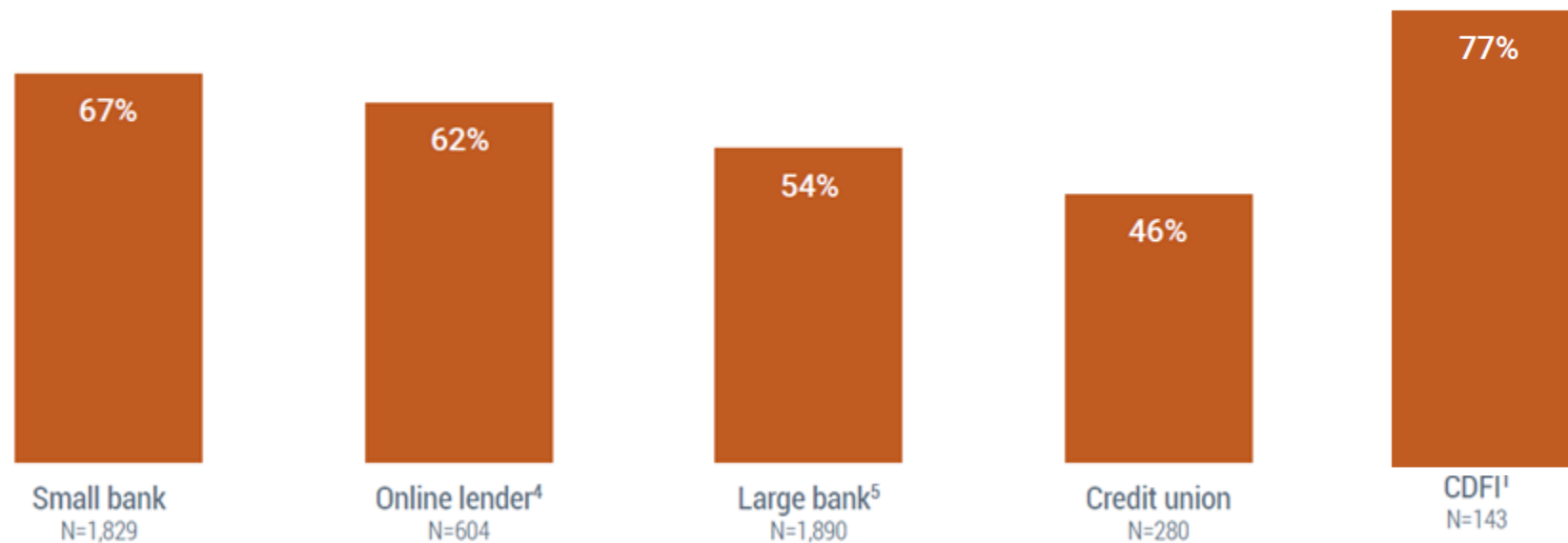
# What is the approval rate for those seeking financing?

- Small banks with the best approval rate and largest sample size (barely).

- Approval rate for CDFIs = 😊

APPROVAL RATE<sup>2</sup> BY SOURCE<sup>3</sup> OF LOAN/LINE OF CREDIT (% of loan/line of credit applications)

ALL FIRMS



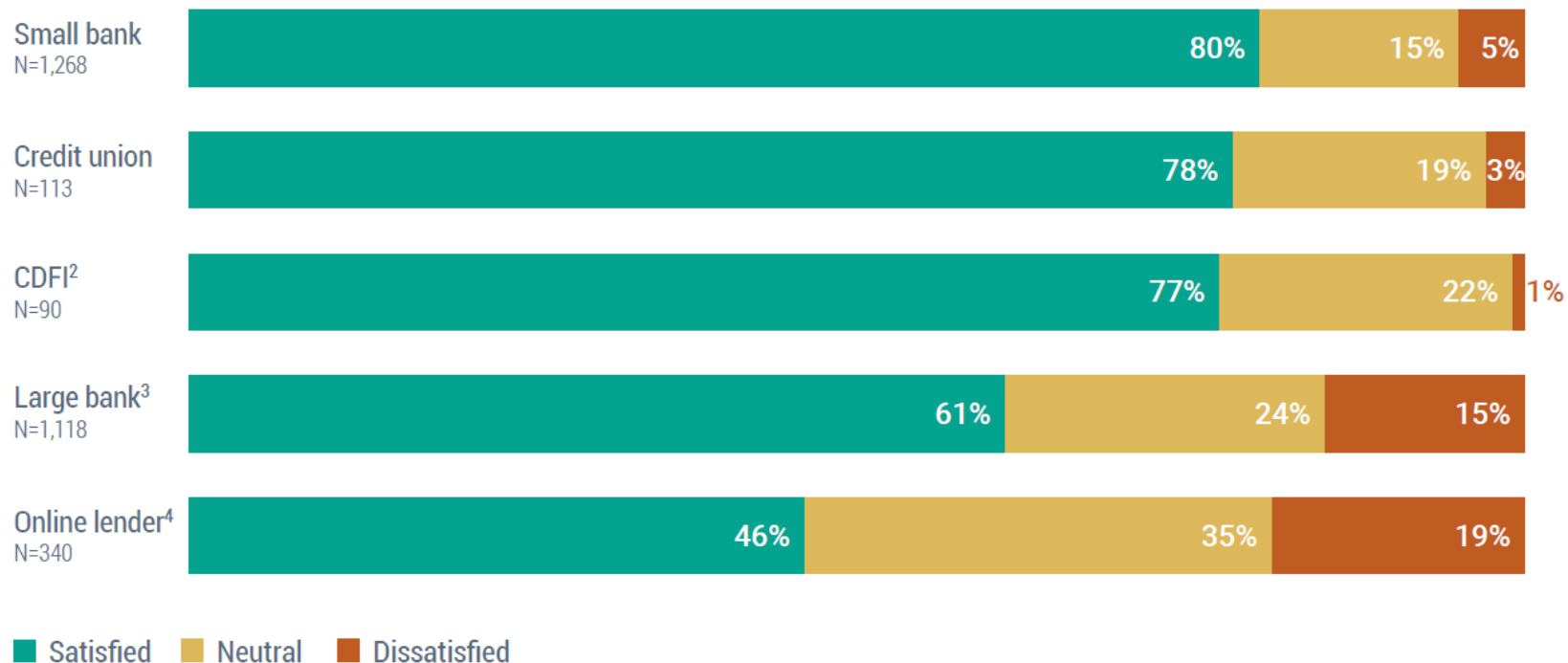
Source: 2016 Small Business Credit Survey,  
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Louis

# How satisfied were the firms that received financing?

- Small banks, credit unions and CDFIs did well!

- We think we may have found an issue with the source data

**LENDER<sup>1</sup> SATISFACTION** (% of applicants approved for at least some financing at source)

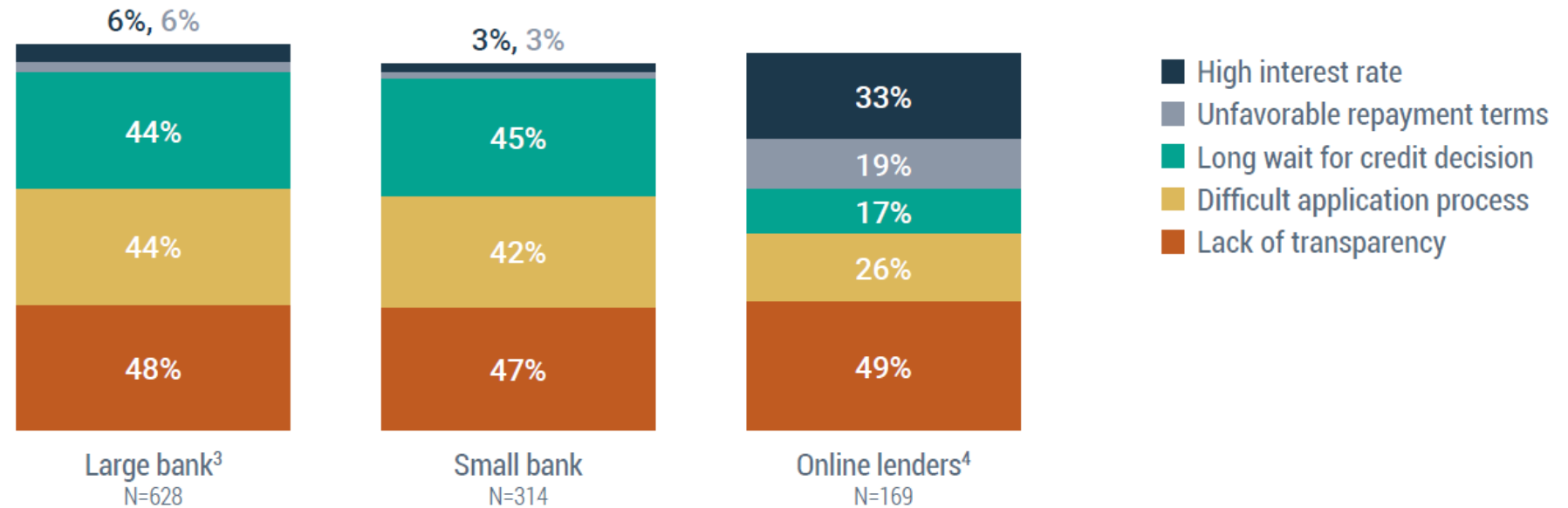


Source: 2016 Small Business Credit Survey,  
Federal Reserve Banks of New York, Atlanta,  
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Louis

# What did successful borrowers cite as reasons for dissatisfaction?

- Online lenders cited for unfavorable repayment terms (daily withdrawals), and high interest rates
- Banks docked for long decision and difficult application
- ALL cited for lack of transparency

REASONS<sup>1,5</sup> FOR DISSATISFACTION, *Select Lenders*<sup>6</sup> (% of employer firms dissatisfied with lender)

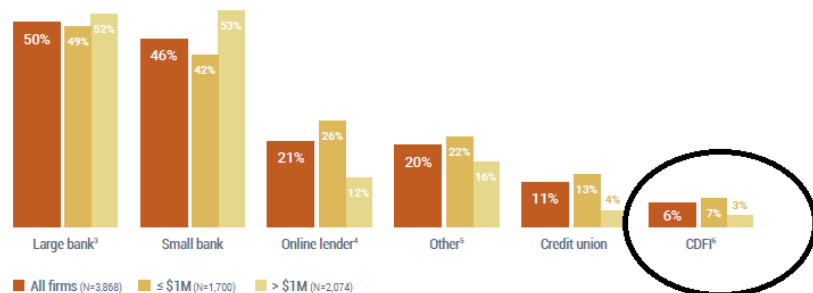


Source: 2016 Small Business Credit Survey,  
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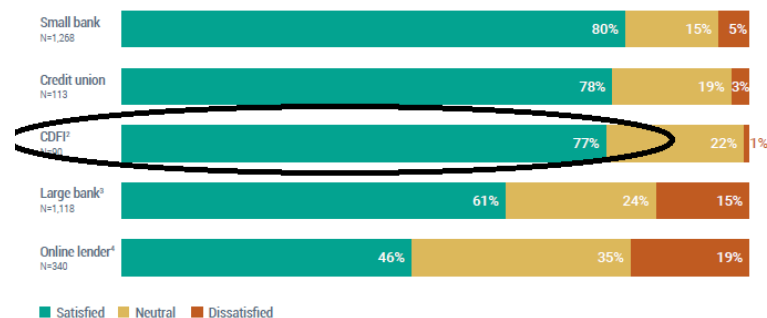
# Let's make sure we all heard the same thing...

CREDIT SOURCES<sup>2</sup> APPLIED TO BY REVENUE SIZE OF FIRM (% of loan/line of credit applicants)



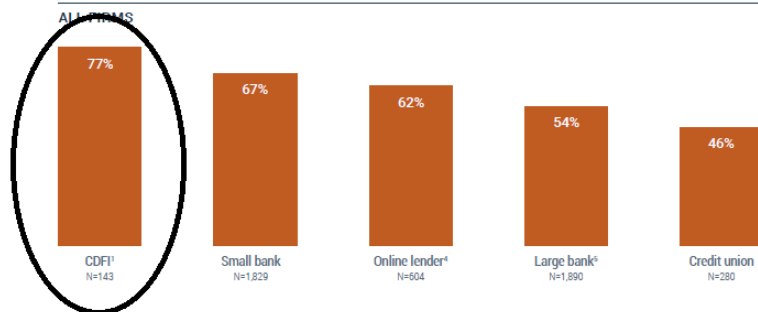
Lowest Application Rate

LENDER<sup>1</sup> SATISFACTION (% of applicants approved for at least some financing at source)



High Lender Satisfaction Rate

APPROVAL RATE<sup>2</sup> BY SOURCE<sup>3</sup> OF LOAN/LINE OF CREDIT (% of loan/line of credit applications)



Highest Approval Rate



NEED MORE CDFI LENDING!

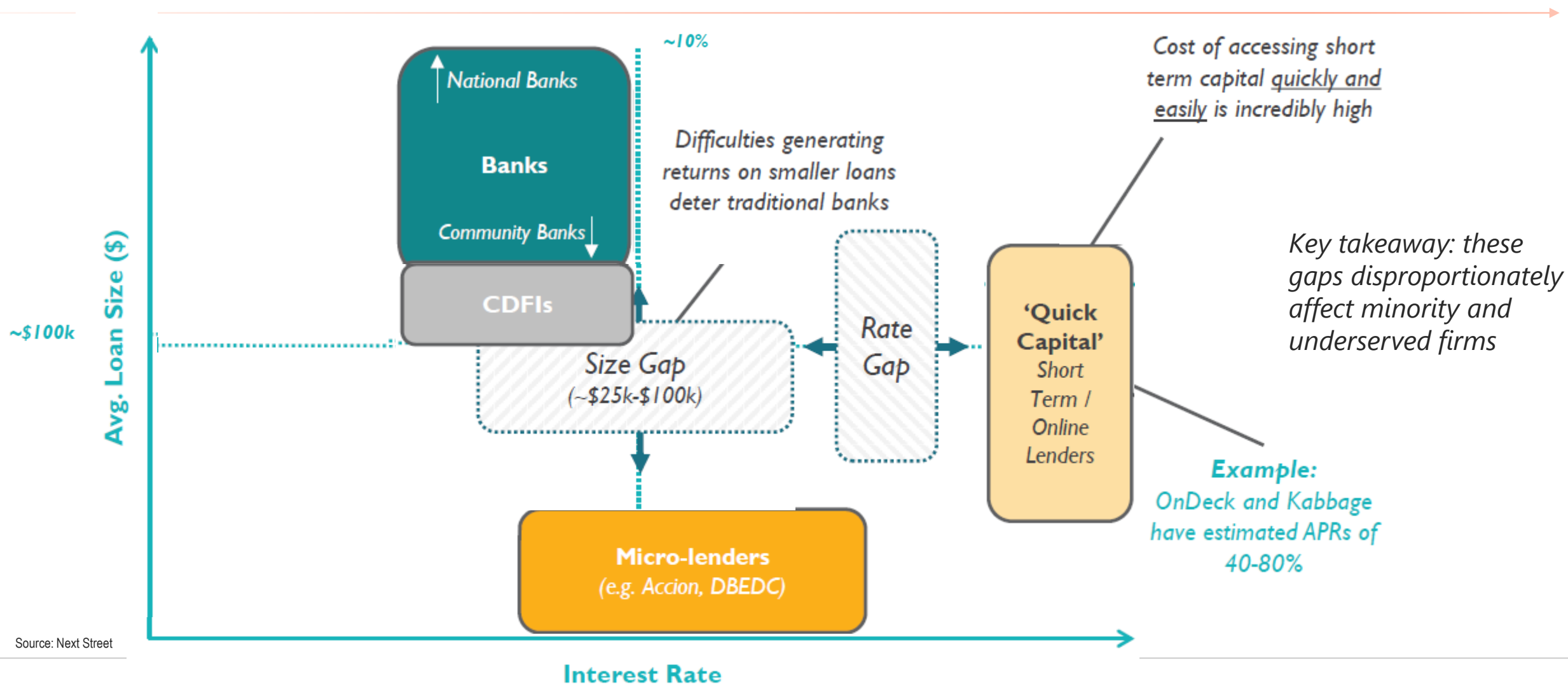
# It's hard for businesses to find us – they have an enormous amount of resources available to them today:

- But it really varies based on:
  - How much you need
  - How fast you need it
  - How good your credit is
  - How long you've been in business
  - How you plan to use the money
  - How much you are willing to pay
  - How long you need to pay it back
  - How much collateral you can pledge
  - Unique to CDFIs – How much impact you make in the communities we serve

Loan Options for Small Business Owners						
	 SBA and Bank Loans	 Alternative Loans	 Equipment Loans and Leases	 Invoice Financing	 Merchant Cash Advance	 Use Retirement Money
Amount of Financing Available	\$5K- 5 Million	\$2K-500K	\$5K- 15 Million	\$100-150K	\$2K-500K	As much as you have in your retirement account
Typical Turnaround Time	1-4 weeks	Less than 1 week	1-2 weeks	1-3 business days	3-5 business days	3-4 weeks
Required Personal Credit Score	600+	500+	500+	530+ (no credit check in some cases)	500+ (no credit check in some cases)	Not Applicable
Required Age of Business	2 years+	1 year+	Startups Ok	Startups Ok	Startups Ok	Startups Ok
Typical Use of Funds	Working Capital, Expansion, and Real Estate	Working Capital and Expansion	Buying Equipment	Filling Cash Flow Gaps	Working Capital and Expansion	Starting a Business or Buying an Existing Business
Relative Cost	Lowest	Medium	Low	Medium	Highest	Medium
Typical Time to Repay	10 years	1 month - 5 years	1-7 years	1 week-3 months	4-12 months	Not Applicable
Collateral Needed?	Yes	No	The equipment is the collateral	No	No	Not Applicable

Source: FitBizLoans.com

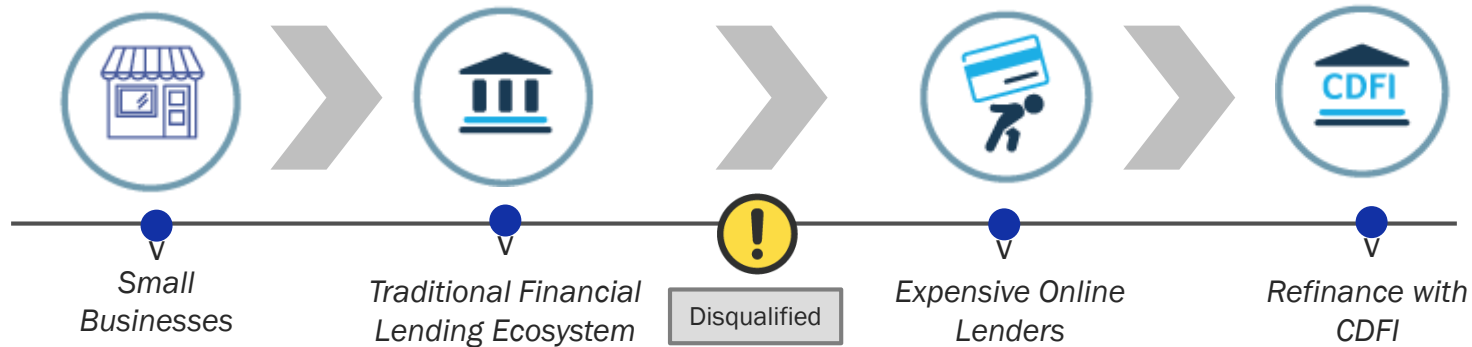
# But we also know there are gaps in the capital continuum



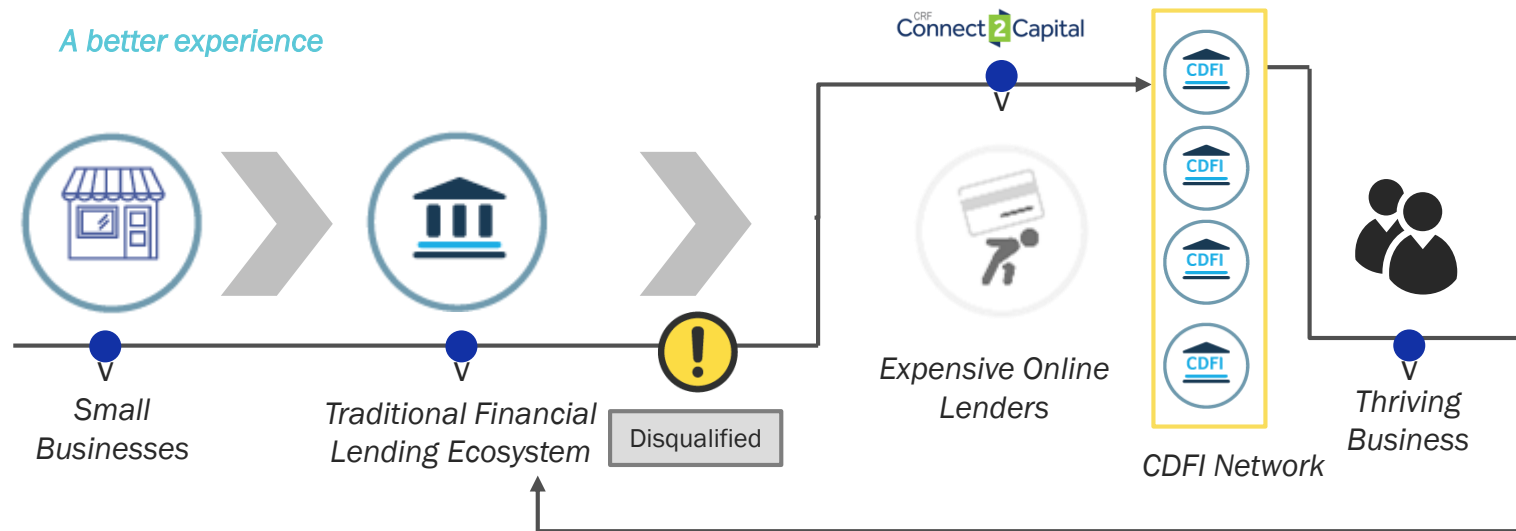
Source: Next Street

# Where is FinTech playing a role today as it relates to the mission lending industry? Current Customer Journey

*Current Experience*



# How can we use FinTech in our world? Build up a marketplace of responsible lenders offering tailored products to borrowers in our communities



Bringing this vision to reality is going to take a lot of hard work



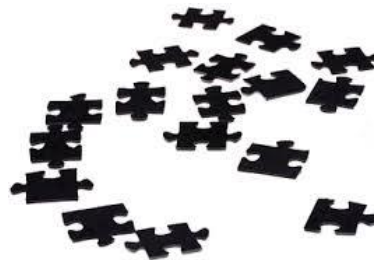
# Current CDFI Processing Landscape



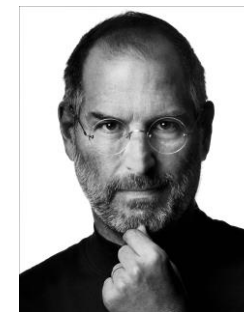
Manual, paper-based processes



Fund source management



Fragmented Systems Landscape



Inefficient Technology Management



Nascent business intelligence and performance measurement



Stressed servicing and post-closing operations



Staff stretched too thin



Lack of scale

# Let's use fintech to build a better processing landscape supported by technology



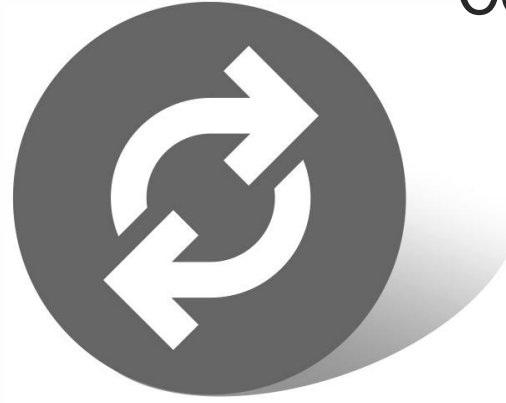
Information  
Security



Compliance



Speed



Process



Transparency

# If we do that, we can use our STRENGTHS!



Local presence –  
on the ground



Gap fillers



Responsible and  
relationship-based



Distributed  
Network



Business Advisory  
Services



Regulatory Advantage

# How else should we think about differentiating as in industry?



## SMALL BUSINESS BORROWERS' BILL OF RIGHTS



Transparent  
pricing and terms



Non-abusive  
products



Responsible  
underwriting



Fair treatment  
from brokers



Inclusive credit  
access



Fair collection  
practices

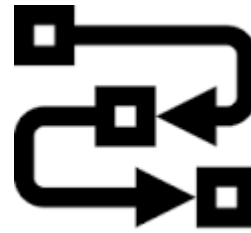
Recommendation: Really take a hard look at all the things you are doing as an organization and ask the hard question: Do I have to do all this?



Technology  
Infrastructure



Customer  
Acquisition



Process  
Optimization



New Product  
Development



Balance Sheet  
Management



Information  
Security



Program  
Compliance



Customer  
Experience