

2009 OPPORTUNITY FINANCE NETWORK CONFERENCE

THE NEW NORMAL

**Portfolio Management:
When Back-Office Takes Front
Burner**

Peggy Downs, The Reinvestment Fund
Tim Reinert, Epitome Systems
Scott T. Young, Community Reinvestment Fund, USA
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Portfolio Mangement: When Back-Office Takes Front Burner

Capital is scarce and it will flow to those organizations that are deemed to not only have top quality front- end origination platforms but top quality back office loan servicing operations as well. You will learn the steps that TRF has taken to take its operations to the next level and the expectations that capital providers have of a top quality servicer.

The CDFI industry has grown up organically, with most of us lacking the structure and systems that larger institutions require. Tackling these issues may matter more now than ever, given the current economic conditions and the imperative need to maintain tight controls over a loan portfolio. TRF shares how it has approached standardizing the process of document management and adding rigor to portfolio management as it has sought to help these roles 'grow up.' TRF has engaged Epitome Systems (Business Process Automation technology) to formalize its workflow processes and make its now automated loan files searchable and secure. Epitome offers an affordable automated solution that can fill the "white space" between your silo-ed systems such as origination, servicing and accounting. TRF and Epitome will share experiences and facilitate a conversation among peers of what else helps CDFIs move to the next level.

CRF will present what investors/capital providers expect from a servicer in this environment.

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TRF Capital at the point of impact.

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TRF – Capital at the Point of Impact

TRF uses its experience and information to apply capital where it can have the maximum financial and social impact:

- residential and commercial real estate development that reclaim and revitalize neighborhoods
- businesses and community facilities that can provide value and opportunity to neighborhood residents

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TRF Profile

- **\$845 million** in cumulative investments and loans throughout the mid-Atlantic
- Currently manage **\$569 million** in capital, with nearly 830 investors
- TRF loan portfolio as of 8/30/09
 - Number of loans & leases - 269
 - Loans & leases outstanding - \$143.3 million

Business Lines

-  Lending and Investing
-  Policy & Information Services
-  Real Estate Development
-  PolicyMap



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Community Reinvestment Fund, USA

MISSION:



To **transform** the community development finance system by accessing capital markets on behalf of local development lenders to enable them to increase their impact on the lives of people and their communities.

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Community Reinvestment Fund, USA

- More than **\$1 billion** provided
- 2,273 loans in 46 states and D.C.
- 41,000 total jobs created/retained
- 16,500 affordable housing units created
- Issued 5 rated securities
- 6,000 loans serviced
- Only non-profit servicer rated "Select" by Standard and Poor's
- More than 30 contract loan servicing relationships

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Epitome Systems

- Who we are and what we do
 - Pioneering software technology company
 - Headquartered in Philadelphia
 - Deep domain expertise in commercial mortgage industry
 - Partnered with TRF to implement a secure loan management system with business process automation.

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CDFI Servicing Operations

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Ever-Changing Expectations of Capital Providers

- Limited sources of available capital - very competitive environment
- Making your CDFI the logical and sound choice for awarding capital dollars - role of portfolio management operations

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TRF Servicing Operations: Where We Were

- Many manual processes
- Disjointed systems
- Servicing fire-drills
- Lack of defined processes and procedures
- Redundancies and inconsistencies in data entry

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TRF Servicing Operations: What We've Done

- Imaged loan documents
- Locked down collateral
- Implemented formal workflow practices
- Automated some processes and procedures
- Established firm servicing standards with rating agency sanctions

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TRF Servicing Operations: What We've Done

- Set expectations and predictable completion results
- Scrubbed existing data
- Assigned specific roles and responsibilities within the operations team
- Enhanced clarity within staff job descriptions
- Defined tasks
- Instituted explicit data reports needed to manage operations

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Benefits

- Attracting and retaining quality sources of capital
- Reducing risk
 - Secure collateral
 - Avert delinquencies/defaults
 - Loss mitigation
 - Hedge non-monetary defaults

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Benefits

- Establishing greater predictability and enabling more accurate forecasting
- Data reliability
- Reporting regularity
- Generated a greater scalability of operations
- Produced staff accountability

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Benefits

- Enabled a means of ascertaining and managing continuous system needs/wants
- Provided an ease of audit and due diligence reviews by outside agencies (i.e. CARS, S&P, etc.)

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Where We're Going

- Increased automation
- Greater level of service
- Single point of data entry
- Diminishing cost of service
- Enhanced business opportunities
- Epitome Systems
 - Potential "white-space" solutions for CDFI operations

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About Epitome's Enterprise Productivity ManagementSM (EPM) Technology

- Single end-to-end platform combining:
 - Business Process Management (BPM)
 - Business Rules Engine (BRE)
 - Enterprise Content Management (ECM) & Document Management (DM)
 - Enterprise Application Integration (EAI)
 - Business Analytics and Reporting Engine
 - Collaboration
 - Scalable and Extensible
 - Web-based, Service-Oriented Architecture (SOA)
 - On-Demand or On-Premise Delivery Model

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Epitome Systems – Where we came from and why we know your business



- Heritage from GMAC Commercial Mortgage (now Capmark)
 - EPM enabled automation around the core LOS and Servicing systems that continued to be in place. This "white space" coverage around core legacy systems allowed the client to cohesively process work throughout the supply chain
 - All file cabinets removed; staff trained to search for documents through the EPM system
 - Decrease time spent looking for a document from minutes and sometimes hours to seconds
 - Skyrocketed productivity by using one central source of documents, instead of the local department copy in the file cabinet. Everyone was working off the same information, reducing the amount of errors
 - The extra space allowed for less cluttered work environment which was not only evident to the client but also the rating agencies which determine their servicing rating as a company, which drives their ability to be more profitable
 - Back office has transitioned from processing \$1 billion of cash management transactions to \$5 billion. Their loan servicing portfolio grew from \$80 billion to \$260 billion
 - At peak had 4500 users on EPM

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Epitome Systems – Benefits to CDFI's

- Imaging (Convert paper, fax or email to electronic format)
- Secure
- Automated Processes
- Data and Document Accuracy
- Reduced Risk
- Greater Predictability
- Monitor and Understand Loan Status
- Loan Accountability
- Include Quality Control in the Process
- Fix and Correct Errors Before Servicing and Throughout the Process
- Time to Market – Fast Results
- Real Time Reporting and Business Intelligence
- Low Cost/Low Risk – Initial and Ongoing



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Servicing and Portfolio Management

What do investors want?

Focus has shifted from Origination
 Impact to ongoing safety and soundness.

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Key Elements Required

- Servicer must be Financially Sound
- Transparency
- Solid Portfolio Management
- Sound Controls/Procedures/Technology
- Prove it with Third Party Reviews

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Financially Sound

- Third Party Due Diligence
- Financial Updates – more than covenant reporting
- Board Involvement/Finance Committee
- CARS Review

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Transparency

- Timely Monthly Reporting
- Constant/Regular Communication
- No Surprise Rule

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Portfolio Management

- Adequate Staffing/Skill Sets
- Up to Date Portfolio Quality Statistics
- Past Due and Watch Lists
- Documented Contact with Problem Assets
- Sound Resolution Strategies
- Current Risk Profile of Portfolio

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Sound Controls/Procedures/Technology

Internal Controls/Segregation of Duties

- Documented Procedures
- Tested Results

Technology



- Secure, Automated, Tested Disaster Plan

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Key Processes


- New Loan Set up
- Payment Processing
- Real Estate Tax, Insurance and UCC
- Customer Service
- Investor Reporting
- Asset Management

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Third Party Reviews

- USAP – Uniform Single Attestation Program
- Reg. A/B Procedures
- Rating Agency Servicer Review
- Specialized Agreed Upon Procedures

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