

2009 OPPORTUNITY FINANCE NETWORK CONFERENCE

**THE NEW NORMAL**

## Stabilization Essentials: Comprehensive Risk Management in Light of the Financial Crisis

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October 28, 2009

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### Agenda:

- ▶ Deciphering the Current Risk Environment
- ▶ Review of Risk Management Practices
- ▶ Impacts & Implications for CDFIs

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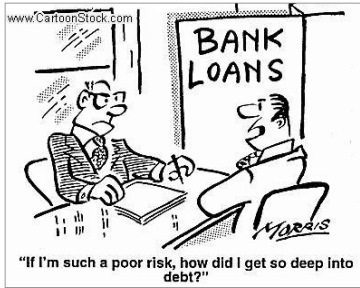
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### Current Risk Environment



www.CartoonStock.com

"If I'm such a poor risk, how did I get so deep into debt?"

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### The Financial Crisis of 2007-2010:

- ▶ Financial System Melt Down
- ▶ Toxic Asset Legacy
- ▶ Global & Local Economic Havoc
- ▶ Liquidity Stress on All Institutions
- ▶ Credit Crunch
- ▶ Banking Crisis

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### Lessons from the Financial Crisis:

- ▶ Where Risk Management Systems Failed
- ▶ Recurring Themes in Risk
- ▶ Some New Risk Trends

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### Financial Crisis--Recurring Risk Themes:

- ▶ Cyclical Dynamics of Booms & Bust
- ▶ Speculative Bubbles

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### Financial Crisis—New Risk Trends:

- ▶ Systemic Risk by and from Non-Banks—The “Shadow Banking System”
- ▶ How Global Financial Markets Sped Up Risk Contagion
- ▶ Norm-Defying Risk Correlations & Risk Concentrations
- ▶ Need for Managing Against Tail Risks as Part of Risk Management

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### What Has Not Worked:

- ▶ Capital Market-Based Strategies
- ▶ Hedging
- ▶ Risk Modeling
  - ▶ Traditional Risk Paradigms
  - ▶ ‘Normal’ Risk Assumptions
- ▶ Corporate Governance
- ▶ Stress Testing

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### What Has Worked:

- ▶ Relationship-Based Strategies
- ▶ Conservative Balance Sheet Management
- ▶ Underwriting Discipline for Manageable Growth
- ▶ Diversification of Risk, Earnings, Markets
- ▶ Strong Communication & Transparency

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## Impact on CDFIs:

- ▶ Risk Concentration
- ▶ Liquidity
  - ▶ Reliance on Public Capital/Funding
  - ▶ Confidence-Sensitive Sources
- ▶ Investment Portfolio Risk
- ▶ Weakened Economic Conditions
- ▶ Reputation Risk

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10

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## Risk Management—Form vs Function:

- ▶ Knowing Top Key Strategic Risks for Your Institution
- ▶ Providing Forums for Rigorous Discussions and Planning
- ▶ Delegating Risk Management to Line Managers
- ▶ Monitoring Key Risk Triggers & Performing Reality Checks
- ▶ Adapting to Changing Risk Environment

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11

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## Select RM Issues for CDFIs:

- ▶ Portfolio Risk Management
- ▶ Collaboration with Community & Other Organizations on RM
- ▶ 'High-Risk Asset' Remediation Strategies
- ▶ Risk Reporting & Documentation as Part of Corporate Governance
- ▶ Transparency

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**Questions & Answers**

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13

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