



Partners
IMPACT FOR THE COMMON GOOD

PARTICIPATION LENDING

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Legal Disclaimer

The information contained in this presentation and the topics discussed today include discussion of legal documents and structures. However, the information presented here does not, and is not intended to, constitute legal advice. We recommend consultation with qualified counsel when entering into legal agreements or with respect to any particular legal issue.





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WHO IS PARTNERS?



PARTICIPATION LENDING | WHO IS PARTNERS?

Partners is a National CDFI



We Focus on Participation Lending

- 60+ partners
- Affordable housing and community facilities
- Flexible products / terms

New Markets Tax Credits (NMTC)

A Community Development Entity (CDE)



CDBA
COMMUNITY DEVELOPMENT
BANKERS ASSOCIATION



CapNexus
NEWS



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MULTI-LENDER STRUCTURES



Provide a broad overview of multi-lender transactions with a specific focus on:

- Participations
- CDFI Lending Strategy





Purpose: Bring multiple parties to a transaction

Types:

- Co-lending
- Syndication
- Participation





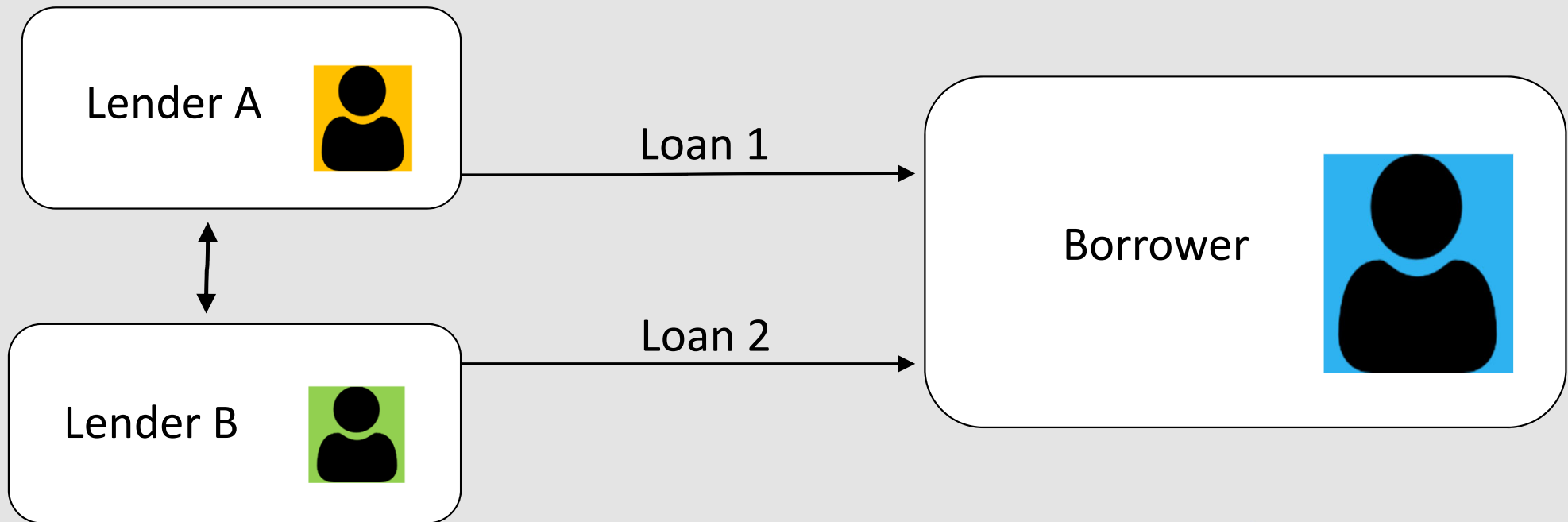
Co-lending | Definition

Co-Lending is an arrangement where multiple lenders provide a loan to a borrower. Each lender sets their own terms and conditions.





Co-lending





Loan Syndication | Definition

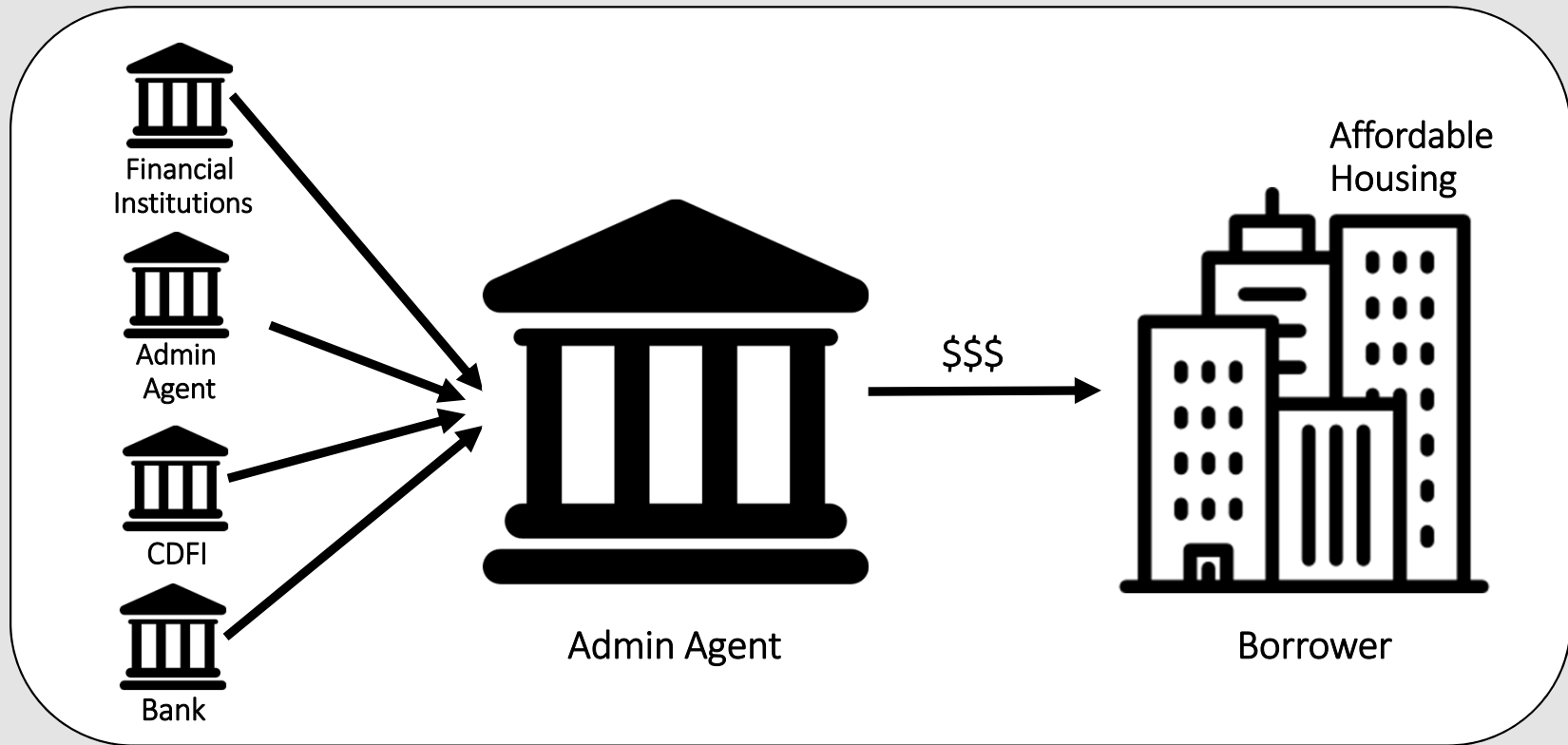
A Loan Syndication is the process of involving a group of lenders that fund various portions of a loan for a single borrower.





PARTICIPATION LENDING | MULTI-LENDER STRUCTURES

CO-LENDERS



ONE CREDIT AGREEMENT



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PARTICIPATION LENDING



Participation Lending | Definition

A Loan Participation is a transaction in which a “Lead” or “Originating” lender sells an undivided ownership interest in a portion of a loan to one or more participating lenders (“Participants”).





PURPOSE

- Capital
- Exposure
- Risk

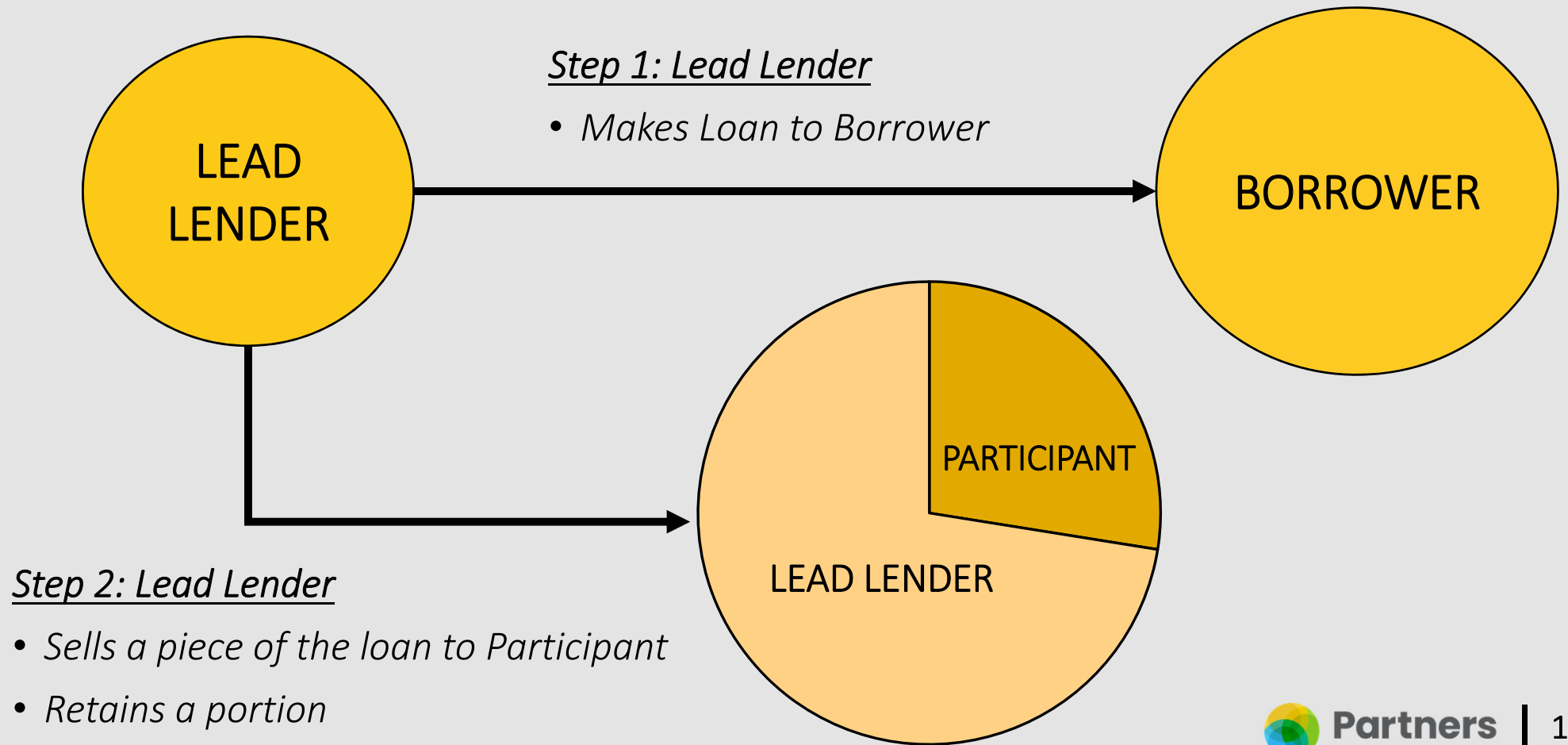
PARTIES

- Borrower
- Lead Lender
- Participant

OUTCOME

- Collaboration
- Impact

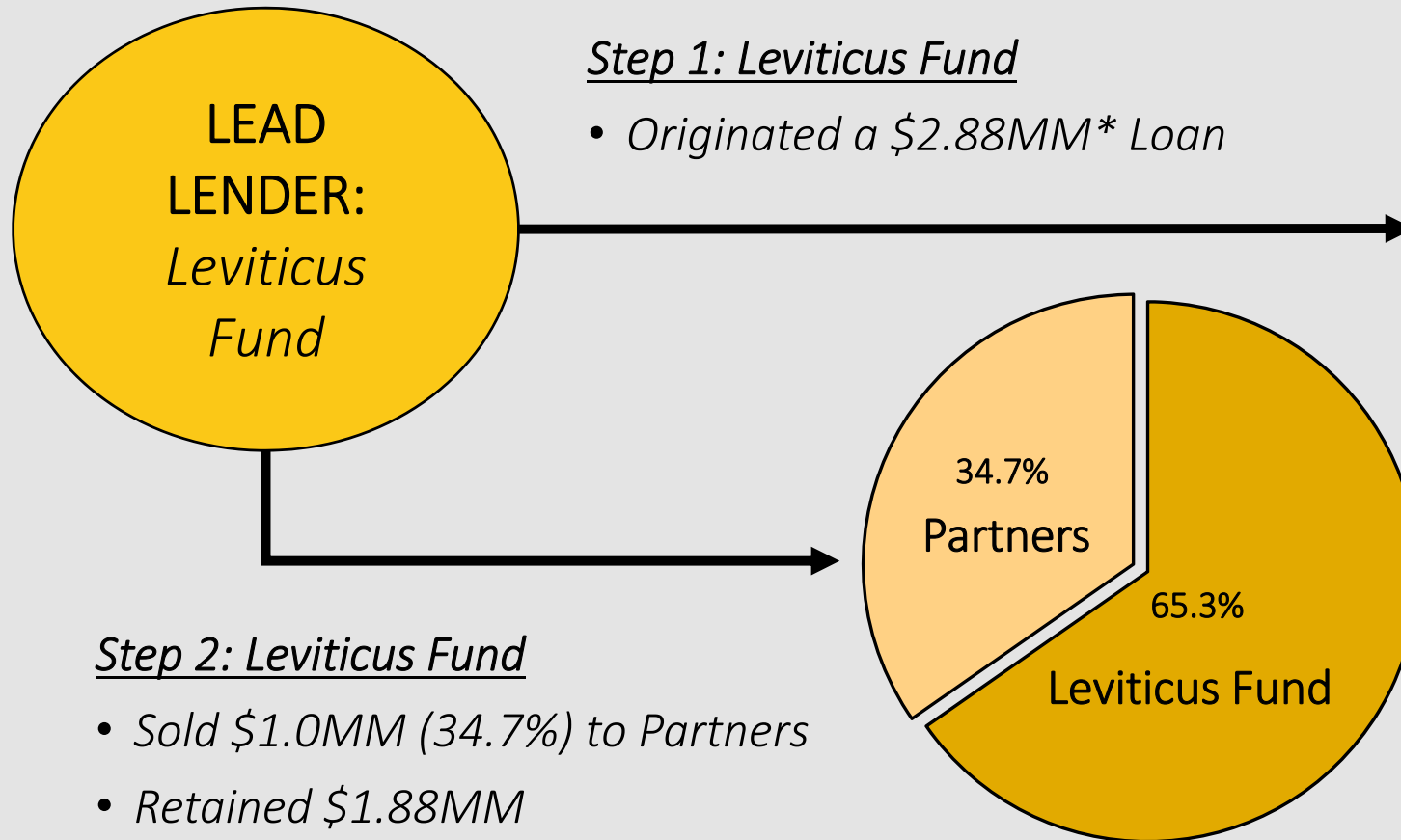






PARTICIPATION LENDING

SCENARIO: THE LOUELLA
AFFORDABLE HOUSING, BRONX, NY



**MM means millions and M means thousands.*



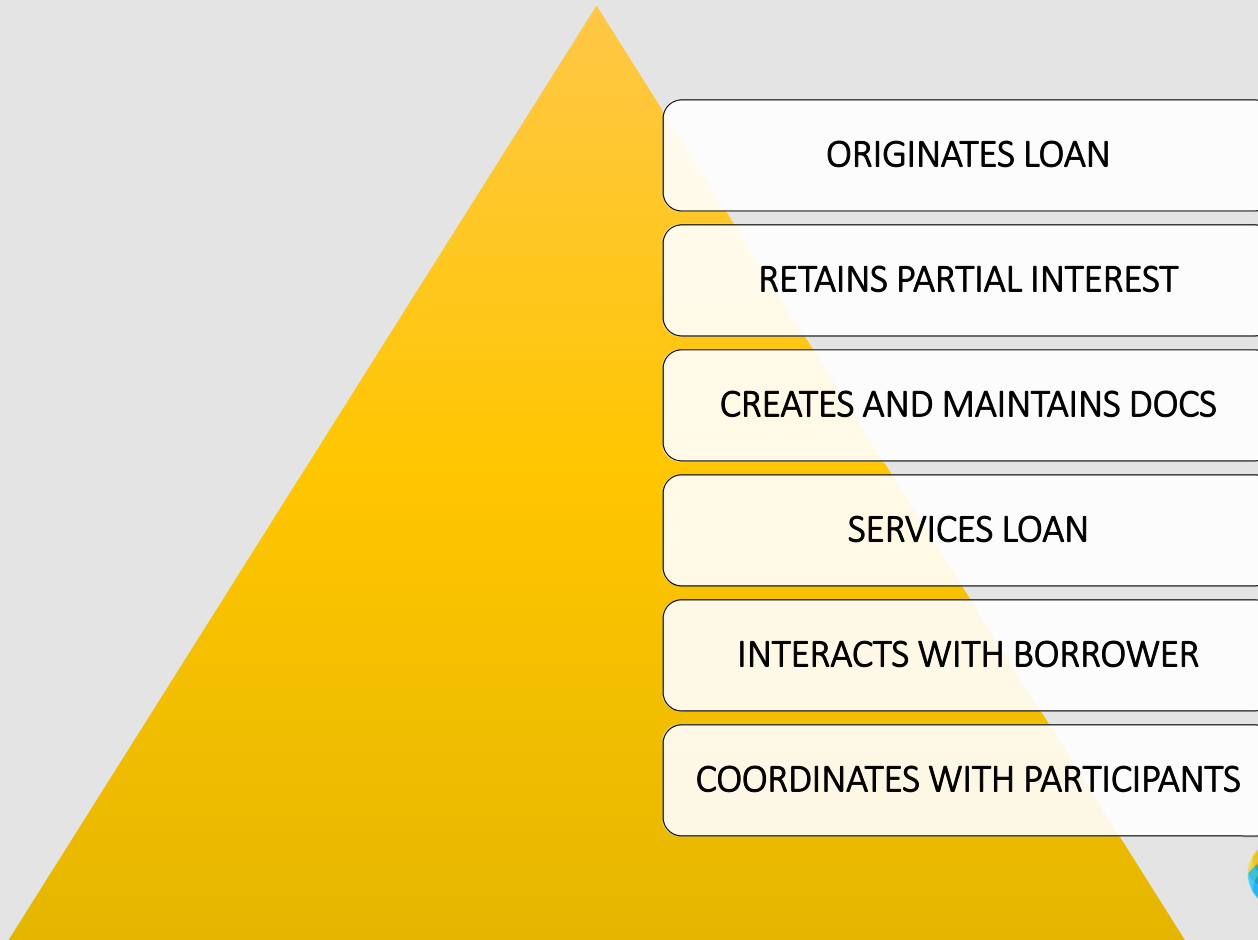
BORROWER:
*TCB 2064
Grand
Concourse LP*



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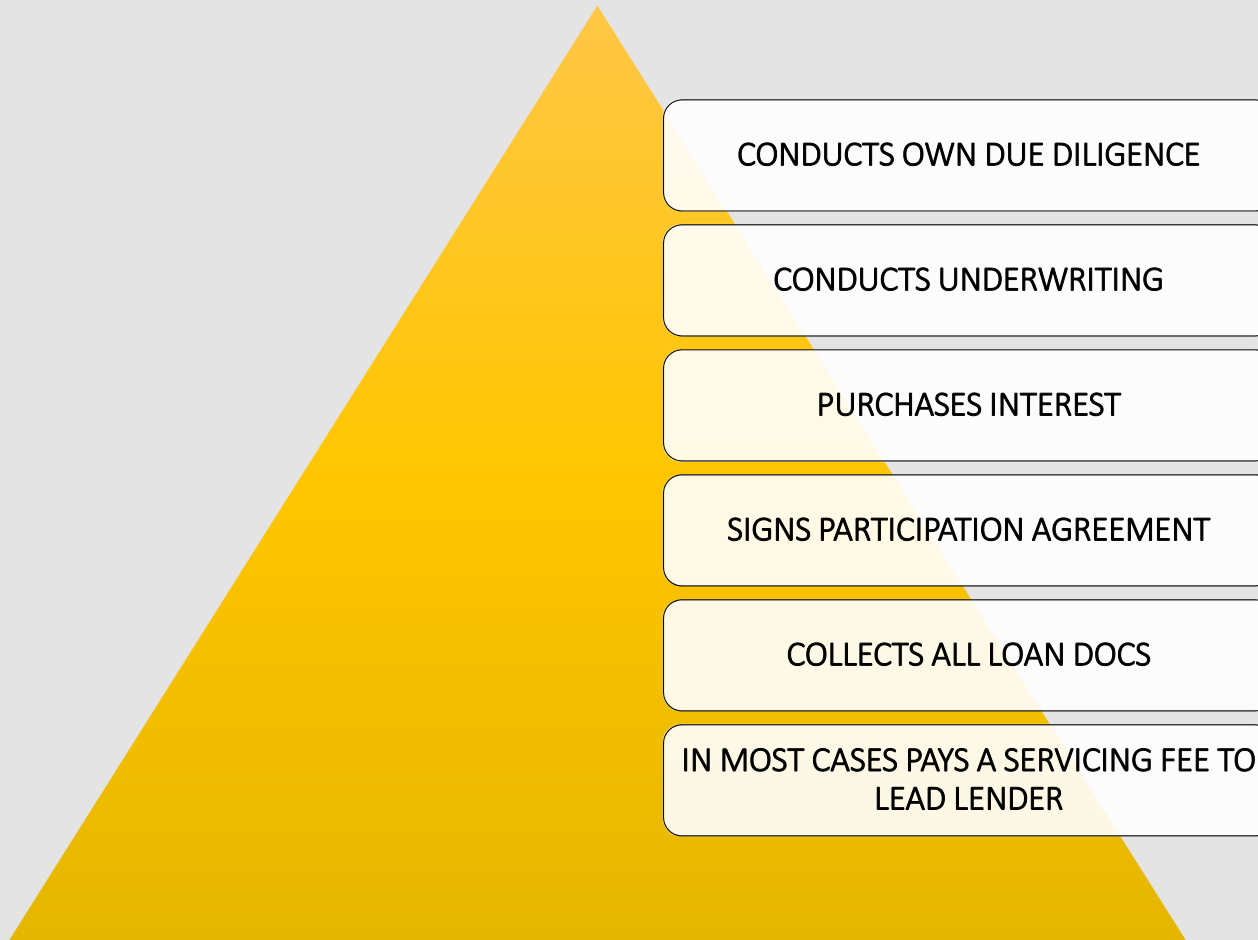


PARTICIPATION LENDING | LEAD LENDER RESPONSIBILITIES





PARTICIPATION LENDING | PARTICIPANT RESPONSIBILITIES





BENEFITS

- Share risk
- Conserve capital
- Satisfy lending or concentration limits
- Generate fee income

DISADVANTAGES

- Multiple parties
- Counterparty risks
- Administrative costs





BENEFITS

- Deploy capital
- Diversify portfolio
- Leverage lead lender's expertise
- Explore a new(er) market
- Invest with less cost

DRAWBACKS

- Servicing fees
- Borrower credit risk
- Lack of direct access to borrower / control
- Administrative risk
- Potential limited flexibility on terms

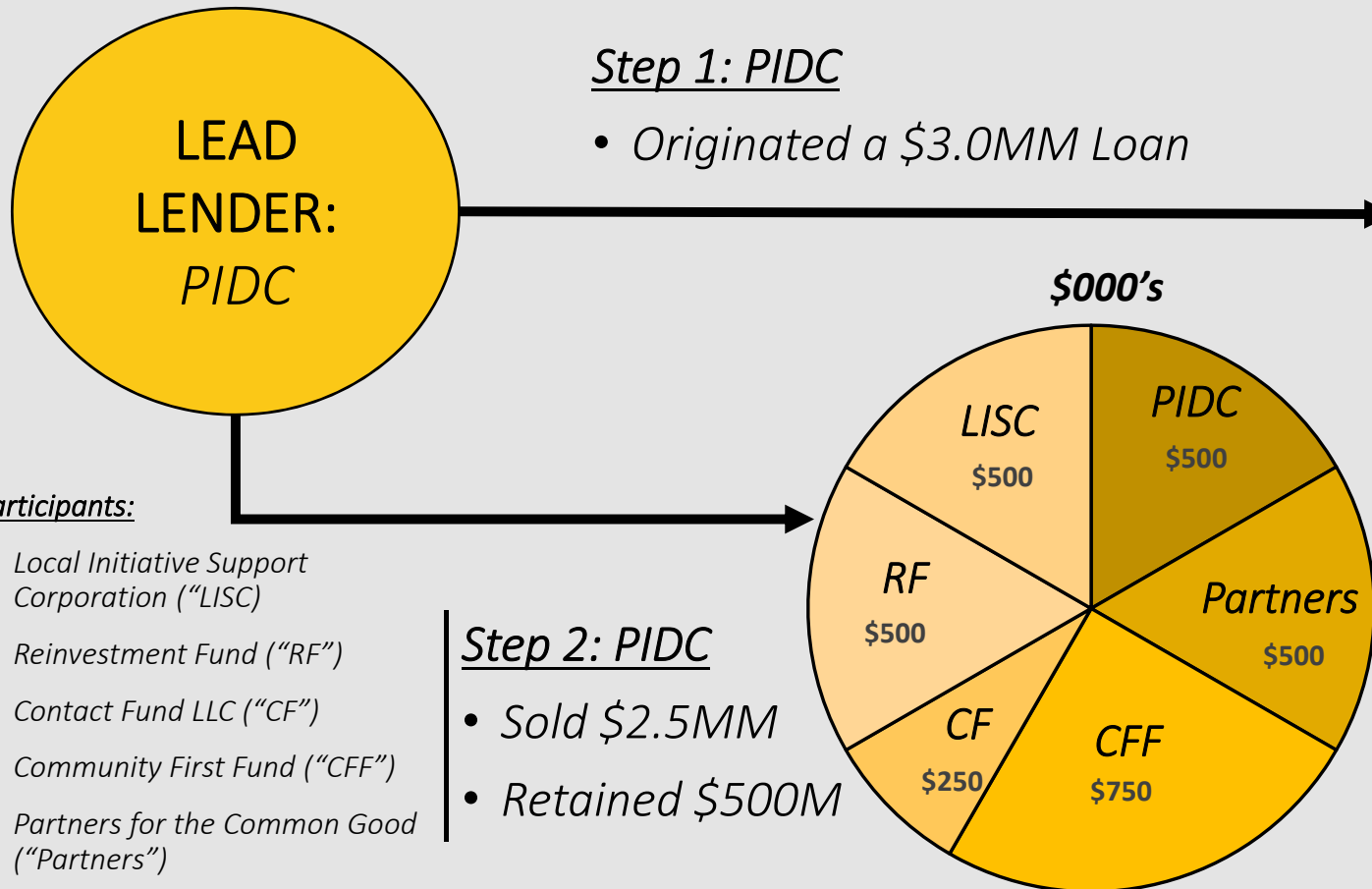




PARTICIPATION LENDING

Scenario: HOK COMMUNITY LP:
Predevelopment and construction, Philadelphia, PA

BORROWER: HOK



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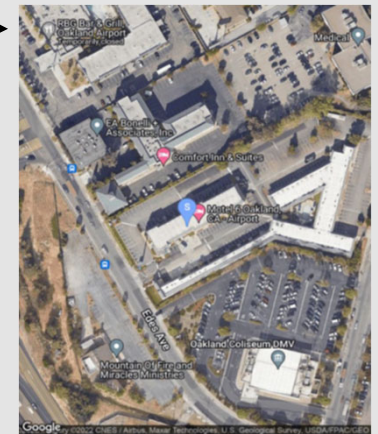
PARTICIPATION LENDING

FAMILY COMMUNITY DEVELOPMENT, INC. ("FCD") and CARE CAMPUS LLC ("CCL"),
OAKLAND, CA
Social Services Facility: Acquisition

Step 1: Community Bank of the Bay (CBB)

- *Originated 2 loans = \$22.5MM*

BORROWERS:
FCD and CCL



LEAD
LENDER:
CBB

\$1,500
Partners

\$000's

\$20,970
CBB

Step 2: CBB

- *Sold \$1.5MM to Partners split between two loans*
- *Retained \$21MM*



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BENEFITS

- Access desired capital
- Diversified lender group

DRAWBACKS

- More parties
- Different approaches/risk profiles
- Potentially greater administrative costs





Pari passu

- Partners' approach
- Risk mitigation

Subordinated participations

- GAP product

Multiple tranche / Fund structures

- Participations may use more complex structures
- Fund structures (e.g. EJPF)





Loan Documents

- Only lead lender has a contractual relationship with borrower
 - Ordinary loan documentation
 - Security documents, guarantees, and indemnities
- Participation Agreement

Administration

- Centralized with lead lender
- Lead lender is obligated to borrower
- Only lead lender has contractual rights against borrower





Each participant is expected to do its own diligence:

- Representation and warranty

Participant diligence includes:

- Credit analysis
- Review of borrower / other obligors (e.g. guarantors)
- Documentation review
- Collateral review

Reviews may be concurrent

Counterparty diligence





- 1 Why might lending partners want to perform diligence on each other?
- 2 What types of documentation might it be useful to review when considering potential partner(s)?
- 3 How might risks be mitigated?
- 4 What other factors should be considered?





Transaction / Participation Terms

- Basic terms should be agreed upon and documented
- Some participation terms may be negotiable
- Impact considerations

Credit documentation

- Lead lender's credit memo
- Due diligence
- Documentation of project's impacts

Additional diligence





Basic Loan Terms

Participations permitted

Disbursement Procedures

Covenants

Security/Guaranty Agreement

Environmental Indemnity



Separate agreement between lead lender and participant(s):

- Summary of transaction
- Nature of participation
 - Percentage interest
 - No joint venture, pari passu
- Advances
- Allocation of fees and interest payments
- Modifications
- Events of default
- Losses and expenses
 - Normal vs other expenses



- Standard of care
- Default provisions
 - Borrower
 - Lead lender and participant(s)
- Representations
- Resale of foreclosed security
- Administrative costs and indemnification
- Loan disbursements and payments
- Notices
- Development services





- Typical exhibits include:
 - Participation certificate
 - Summary loan/rate/fee splits
 - Document listing
 - Wiring instructions
- Multiple-participant transactions





- Participant has limited consent rights:
 - Increases in loan amount
 - Changes in rate or fees
 - Changes to payment timing or amounts
 - Release or substitution of collateral or guarantees
 - Waivers of financial covenant defaults
 - Material modifications
- Notification periods
- Consultation/voting procedures





Potential Issues

- **Closing:**
 - Timing of approvals and funding
 - Documentation
 - Closing conditions
 - Material modifications
- **Servicing:**
 - Receipt of required reports (e.g. financial statements)
 - Discrepancies between provisions and practice
 - Payments and tracking of percentage interest (Interest reserves)
- **Accounting / finance:**





Impact Measurement

Steps Involved for Impact Measurement and Management (“IMM”)

Social Impact Feedback





Impact Measurement

Definition:

In the lending world, Impact Measurement is a tool used to gauge if the organization's loan products and services serve the intended populations and are making a difference.

- Inputs versus outcomes
- Why do we need it?





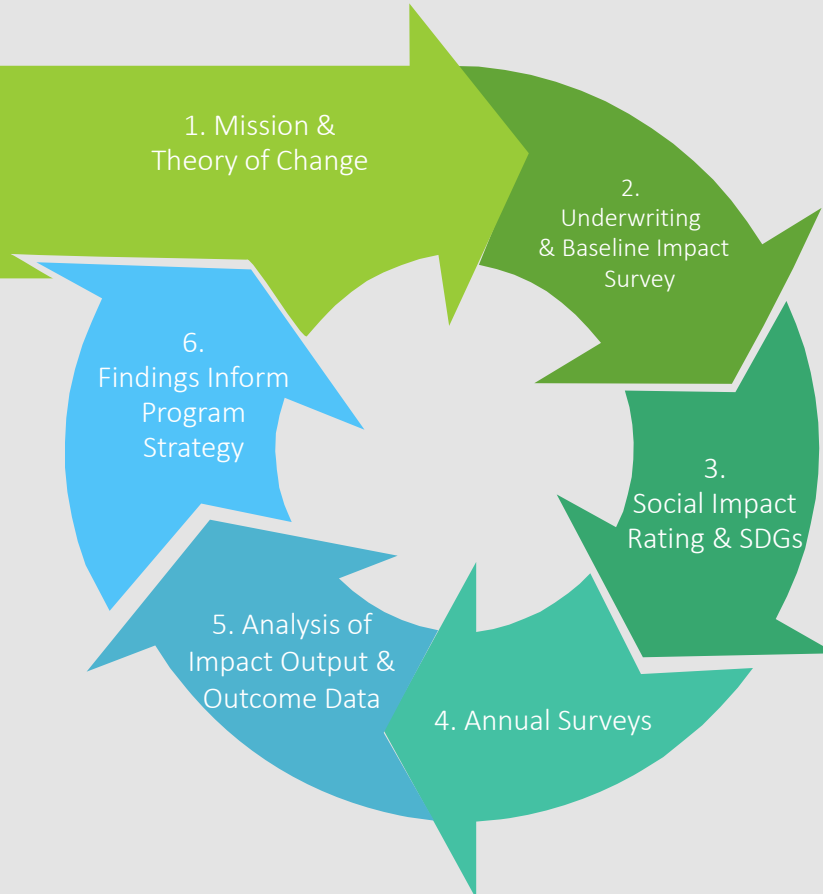
Steps involved for IMM

- ➡ Set goals & expectations
- ➡ Define strategies
- ➡ Select metrics & set targets
- ➡ Measure, track, use the data, and report





PARTICIPATION LENDING | IMPACT AND IMPACT MEASUREMENT



1. Theory of Change: Planning and consensus building process to determine desired impact goals, objectives, strategies, and outcomes.

2. Underwriting & Baseline Survey: As part of underwriting, we screen for alignment with impact objectives. We also begin impact data collection via baseline impact survey. Surveys are tailored by project type.

3. Impact Rating & SDGs: As part of underwriting, we develop an impact “rating” on the proposed benefits to be created and ensure the activity aligns with the UN Sustainable Development Goals (SDGs).

4. Annual Surveys: Every year a borrower is in our portfolio, we collect updated data on progress toward impact outcomes.

5. Analysis: Every year we analyze data collected to determine whether we are getting the desired results.

6. Findings: We use findings of analysis, to assess whether we are achieving desired outcomes and/or need change our products, program delivery strategies, data collection methodologies, goals, or theory of change.



CASE DISCUSSIONS



Great Falls CDFI (GFC) has two affordable housing loans it would like to originate:

- \$5MM acquisition (strong LTV, less experienced borrower, uncertain takeout)
- \$500M predevelopment loan (no collateral, experienced borrower, strong liquidity)

Constraints:

- GFC has a \$3MM loan limit
- Portfolio limit on unsecured lending





PARTICIPATION LENDING | DISCUSSION QUESTIONS

- 1 How might GFC use participations to originate both loans?
- 2 If liquidity is a concern, how might that affect GFC's approach?
- 3 GFC has experienced recent charge-offs. How might that affect GFC's strategy?





Potomac River CDFI (PRC) focuses its lending on commercial real estate but is expanding to affordable housing.

Constraints:

- Experience in affordable housing is limited
- Staff capacity





1 How might PRC approach participating in one or both loans?

2 If slow deployment is an issue, how might that affect PRC's approach?

3 How can PRC address concerns about risk while still diversifying into affordable housing?





THANK YOU!

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WHERE TO FIND US?



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