2018-
2020

Rio Grande Valley Multibank/Community Loan Center

STRATEGIC PLAN 2018-2020

Executive Summary

The Rio Grande Valley Multibank (RGVMB) is a local Community Development Financial Institution (CDFI) working in the Lower Rio Grande Valley of Texas, bordered by Mexico to the south and the Gulf of Mexico to the east. The RGVMB is a for-profit stockholder held organization owned by ten (10) banks and organizations; Wells Fargo, Bank of America, BBVA/Compass, Frost Bank, International Bank of Commerce– Brownsville, IBC– McAllen, IBC– Zapata, National Cooperative Bank, Lone Star National Bank and the Community Development Corporation of Brownsville. The RGVMB's target market is the Lower Rio Grande Valley, Texas (RGV). The RGV is one of the poorest and fastest growing regions in the United States. The RGVMB's target population is the growing, low-to-moderate income Latino population.

In 1996, the RGVMB received certification as a Community Development Financial Institution (CDFI) from the United States Department of Treasury. The Corporation's most recent recertification was received in 2017. The RGVMB became the first CDFI to become a member of the Federal Home Loan Bank of Dallas in 2013.

Community impacts to date include:

- Over 735 Mortgage loans totaling over $30 million dollars all to families earning less than 80% AMFI.
- Interim construction financing totaling $4.5 million developing over 350 new single-family homes all for families earning less than 80% AMFI
- Acquisition financing of raw land and improved lots totaling $852,000 for the purchase by local affordable housing non-profits upon which 242 new affordable homes have been built and sold to families earning less than 80% AMFI.
- Over 16,000 Small Dollar Loans made to individuals in the Rio Grande Valley, over $16 million in total loans originated, with only a 4.5% loan loss in 2017.
- Franchised eleven (11) Community Loan Centers with local non-profits in three (3) states since 2014. Total lending by franchise partners since 2014 is 15,000 loans for $16 million.

The RGVMB has been successful in carrying out the 2013-2017 strategic goals set by the board and staff. The above listed accomplishments are a direct response to the focus of the board and staff. In the spring of 2017 the RGVMB set-out to set new goals and outcomes for the next three years.

The results are confident and exciting goals for 2018 through 2020 period. These build on the RGVMB's strengths, past experience and mission.

1. **Increase Total Loan Originations from $23,341,313 in 2010 -2017 to $42.6 million.**
2. **Increase Balance Sheet Capital to $19 million by 2020.**
3. **Increase the RGVMB's impact on the communities we serve.**
4. **Grow and strengthen the RGVMB in order to carry out this plan.**

Strategic Planning Process and Goals

In early winter, 2017 RGVMB staff and board met to start its three-year strategic planning process with an idea session. At this session staff and board reviewed the past three year's history as well as looking at internal and external challenges and opportunities. In April, 2017 RGVMB invited over 30 people (board, staff, franchise network members and friends) to a two-day strategic planning event at the Dallas Federal Reserve Bank moderated by Joe Gonzales of NeighborWorks America. The main question of the session to be answered was "How do we get to 50,000 loans a year?"

The entire group reviewed the evaluation that was performed by Texas Apple Seed and Texas A&M University. This survey broke down who the borrowers are and how and why they accessed RGVMB and CLC Franchise organizations for funds. After the review of the survey Mr. Kevin Jewell reviewed his business analysis of the CLC loan product and the franchise financials. He reviewed employer turn over, relationship of investors to types of employers, price of capital, employer recruitment, employer convince, and loan renewal rates. A presentation on the KENN system was also done to help the participants think about website experience and how we can improve the experience.

The participants were then broken up into five working groups corresponding to different challenges and opportunities facing the RGVMB and the Community Loan Center with the "Main Question" at the center of the conversation. Ideas and plans emerged from this two-day session to help define the direction of the RGVMB/CLC. Main points were:

- It's not just about 50k loans, but the quality and number of employers.
- How do we recruit employers?
- To reach 50k loans at least 7 franchises would need to do 8k loans. This is not practical in rural markets. We need to think about a two-tiered system.
- Need to standardize administration work between RGVMB and the franchises
- Each franchise needs to make a 100% commitment to the small dollar loan product.
- Subsidy is not equal across franchises or loan products. How do we standardize this?
- Should we add a financial capabilities product across the network or continue to keep that part localized.
- New mortgage take out markets are needed. Possibly the GFEs with the duty to serve mandate may be a place to start. Possible seller/servicer status.

During the month of June through and August the staff then met to refine draft goals and strategies by utilizing all the information and questions brought forth by the working group. In September, 2017 these strategies and goals were then presented to the Board of Directors for discussion, review, refinement and approval in November, 2017.

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Vision and Values

The mission of the Rio Grande Valley Multibank (RGVMB) is to provide financial products and development services in the area of affordable housing and consumer lending in Cameron, Willacy, Hidalgo, and Starr Counties. Key products include the CASA Loan (fka Affordable Housing Loan Program); minority contractor and non-profit affordable housing interim construction lending; and a small dollar consumer lending program (Community Loan Center).

The RGVMB believes that every family should be given the opportunity to prosper, build assets, and become financially secure. We help families reach these goals by providing financial products and services that address their needs for homeownership, safe and secure rental properties, and lower-cost personal loans through employers.

RGVMB has intentionally positioned itself as an "alternative" source of capital and is specifically targeted to provide maximum product or service delivery to the low-income residents of the Rio Grande Valley investment area, while at the same time using its investment to secure additional financing credit through traditional lending sources enhanced by Federal granting sources, as well as guarantee, enhancement, and other loan pools.

RGVMB stockholder institutions represent the largest financial service providers in the Rio Grande Valley area and are among some of the most visible and pro-active community leaders. High level leadership in RGVMB from each of the stockholding institutions has allowed RGVMB's board to focus on envisioning a future for the region, and has enabled bringing to the table various political, community, business, and corporate leaders for discussions on how projects involving community and economic development might be developed and imparted.

RGVMB's project investment approach in the area of affordable housing seeks to maximize the use and effectiveness of Federal, State, and other "flexible" financing to enhance tailored consumer financial and mortgage products offered by local financial institutions or by the RGVMB.

Institutional Overview

In February, 1994 six (6) financial institutions were invited to become educated on, discuss, analyze, and determine their interest in investing in an alternative financing vehicle for affordable housing within Cameron County. Two (2) of the institutions were minority owned banks.

A series of meetings were held with the CEO's of each of the six (6) financial institutions. Education on community development corporations, their relation to the banking community, a review of bank regulatory conditions, areas of focus, community involvement, structuring, administration and operations, relation to ongoing community development activities, legal, and political considerations were analyzed and discussed. The six lenders also reviewed loan declinations made to small business by their commercial banks and identified the need for a flexible equity investment pool that could leverage more traditional lines of commercial credit.

A preliminary "Investment Proposal", as well as draft Articles of Incorporation, By-laws, and Administrative agreements were prepared based on the CEO's discussions. These were reviewed and revised over a four-month period.

Following the initial education, consultation, and discussion process, each of the institutions was invited to decide on participation in forming a multibank community development financial institution and their potential investment level. Five of the invited financial institutions pledged capital commitments totaling $1.2 million dollars. The Comptroller of the Currency and State of Texas banking regulators granted permission to invest for the four (4) federally chartered, and one (1) State of Texas chartered banks in April, 1995.

Initial capital was paid in April, 1995, and the first Board meeting was held in May, 1995. Initial investing stockholder banks were Mercantile Bank (now Wells Fargo), International Bank of Commerce, Brownsville National Bank (now BBVA Compass), Texas Commerce Bank (now JPMorgan Chase), Bank of America, and the National Cooperative Bank of Washington, D.C. In March, 2001, the Corporation expanded its investment area to include Hidalgo, Starr, and Willacy Counties. Three new equity investors included Frost National Bank, Lone Star National Bank, and International Bank of Commerce-McAllen. In 2015 International Bank of Commerce-Zapata purchased stock and in 2017 The Community Development Corporation of Brownsville purchased stock. In 2016 JPMorgan Chase sold their $300,000 initial stock purchased back to the RGVMB for $1.

In 1996, the RGVMB received certification as a Community Development Financial Institution (CDFI) from the United States Department of Treasury and is the largest CDFI operating on the Texas/Mexico border. The Corporation's most recent recertification was received in 2017. The RGVMB became the first CDFI to become a member of the Federal Home Loan Bank of Dallas in 2013.

Current Lending Products

CASALoan (formerly known as Affordable Housing Loan Program)

The RGVMB's oldest affordable mortgage financing program is the Affordable Housing Loan (AHLP) program, now rebranded as the CASALoan Program. Since its founding in 1994, over 735 loans totaling over $30 million dollars in first lien loans have been made all to families earning less than 80% AMFI. This includes a six-year period, starting in 2006, when the loan product was dormant when it was overwhelmed by rampant no down, no doc, no income lending in the area and the subsequent housing crisis in 2009. The RGVMB discontinued the product due to lack of interest by clients.

The product remained dormant until 2013 when the AHLP was rebranded as the CASALoan and the RGVMB began utilizing its new line of credit with the Federal Home Loan Bank of Dallas. Since the relaunch of the CASALoan in 2013 the RGVMB has originated over 109 CASALoans totaling $6.7 million.

Interim Construction Lending

In the area of affordable housing financing, the RGVMB makes available one credit facilities with its current capital to increase the production of affordable housing. This facility allows for an affordable housing non-profit to borrow funds from the RGVMB to relend as interim construction financing to small, minority contractors building affordable housing for the non-profits. Many of these small contractors are not able to secure interim financing in any substantial amount from traditional lenders.

The RGVMB lending facility allows for the non-profits to lend interim financing to their contractors in an amount that allows the contractors, under terms dictated by the non-profits, to build homes on an ongoing basis based on demand, thus increasing the number of affordable homes being constructed. Interim financing is currently provided at a rate of prime for a term of from 12 months.

A draw system is used by each non-profit to draw interim construction funds based on construction completion. Since 2006 local minority contractors have drawn over $3 million in interim construction financing from the RGVMB for the construction of affordable housing. Currently, CDC of Brownsville utilizes a $250,000 unsecured line is available for interim construction in association with the Rural and Colonia Reconstruction programs.

Small Dollar Loan Program- Community Loan Center (CLC)

The RGVMB newest program is its Community Loan Center's small dollar loan program. This product was created to provide a marketplace alternative to high cost payday, pawnshop, signature loan, car title loan, and check cashing outlets. The RGVMB has been operating this program over the past six years and has to date originated over 16,000 transactions in the Rio Grande Valley totaling over $16 million.

The program is designed to assist working families who face emergency situations that are not of a regular nature, who would be currently utilizing the services of a high cost payday or salary advance lender to meet their needs. The amortization term and monthly payment amount is calculated to allow the family sufficient time to repay (versus having to do a rollover loan with a payday lender based on an 18-day turn), while at the same time making the monthly payment affordable based on the median income of the marketplace.

The CLC Loan is a maximum of $1,000, with an amortization period of 12 months, at an interest rate of 18%. A one-time $20.00 set up fee per borrower is required. Current market high cost lenders have an average 500% APR and 18-day amortization period.

The RGVMB is partnering with area employers to allow them to offer the program to their employees, coordinate and assist in taking loan applications and using payroll deductions to insure repayment through the employee's paycheck. The CLC is an on-line loan origination and servicing program. This allows for less “touch” per-loan and lower expenses overall. RGVMB is able to pass these savings on to the borrower. All transactions are done on-line including application and servicing.

Community Loan Center – Franchise Services

In 2014 the RGVMB began to franchise the Community Loan Center to other CDFI's around the country. Currently there are eleven active franchises in Texas, Maryland and Indiana. Since 2014 the CLC Franchises outside the Rio Grande Valley have originated 15,000 loans totaling over $15 million.

Working as the Franchisor of the Community Loan Center business model. The RGVMB/CLC provides loan funding, servicing and franchise services. This bifurcated model allows local non-profit and CDFI lenders to offer an alternative to high cost loans in their market lending their own capital within a proven model. Each local lender is required to raise its own lending capital and recruit local employers and leave all the back-room administration and servicing duties to the RGVMB/CLC. This model has proven to be highly effective and has allowed the RGVMB/CLC to generate 40% of its revenue from administration and servicing fees as well as allowing the local lender to reach breakeven within two years of launch.

Recent Awards & Grants

The RGVMB has been awarded two (2009 and 2013) CDFI Fund grants and loans totaling over $1.6 Million. These funds allowed the RGVMB to restart the CASALoan and create and launch the Community Loan Center.

In 2015 the RGVMB and its partner franchises in the Community Loan Center network were awarded $5.1 million from JP Morgan Chase for the Pro-Neighborhoods Award. These funds were used to increase lending in the three markets in Texas (Dallas, Brazos Valley and the RGV) as well as set up to new franchises in the State of Indiana.

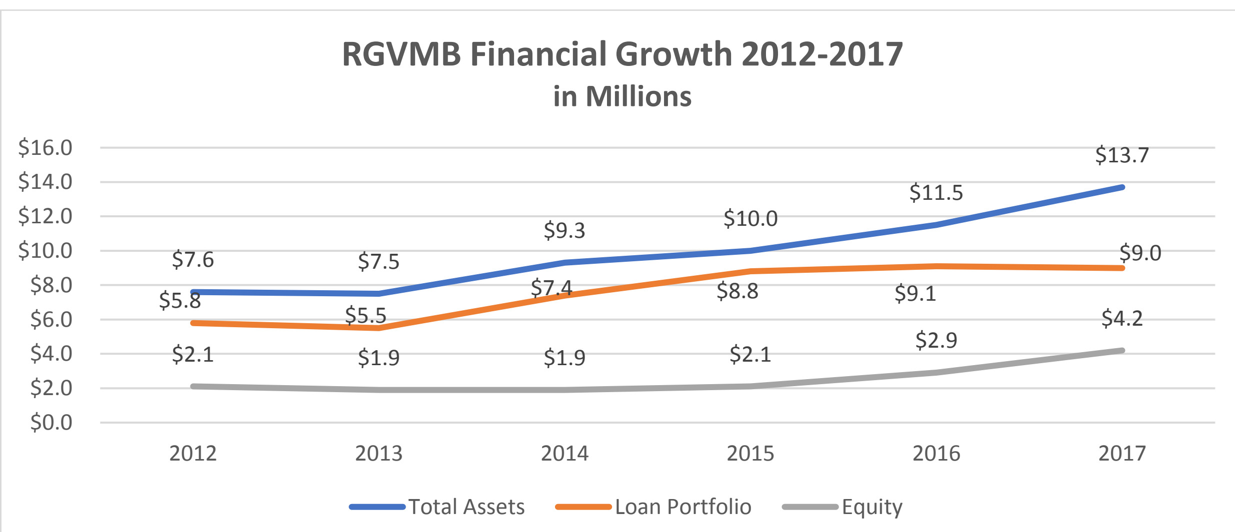
In 2016 The RGVMB was awarded $1.6 million from the Wells Fargo/Opportunity Finance Network NEXT Award. These funds are used for lending capital in the RGV as well as lending capital for new and expanding CLC Franchises.

In 2017 The RGVMB was awarded a PRI of $1,000,000 from the Kellogg Foundation. These funds are used for lending capital in the RGV as well as lending capital for new and expanding CLC Franchises in Texas, Mississippi, New Orleans and Michigan.

Current Financial Position

In 2009 the Rio Grande Valley Multibank had a hard decision to make, do we close our doors or do we expand into the market place with new and lofty goals to truly impact the Rio Grande Valley. We decided that the second option was the way to move. At that time the real estate market, national and local economies were at their lowest point, nevertheless, we saw opportunity where we could make a difference in people's lives and make the RGVMB successful.

In 2012 our total assets were just $7.6 million, equity stood at $2 million and mortgage loan portfolio was at $5 million and shrinking. In order to increase our financial strength, we set out to do two things that no other CDFI had yet perfected; join the Federal Home Loan Bank of Dallas and create a small dollar loan program to compete against high cost payday lenders in the RGV. Using these two strategies we grew from $7.6 MM to $13.7 MM by December, 2017.

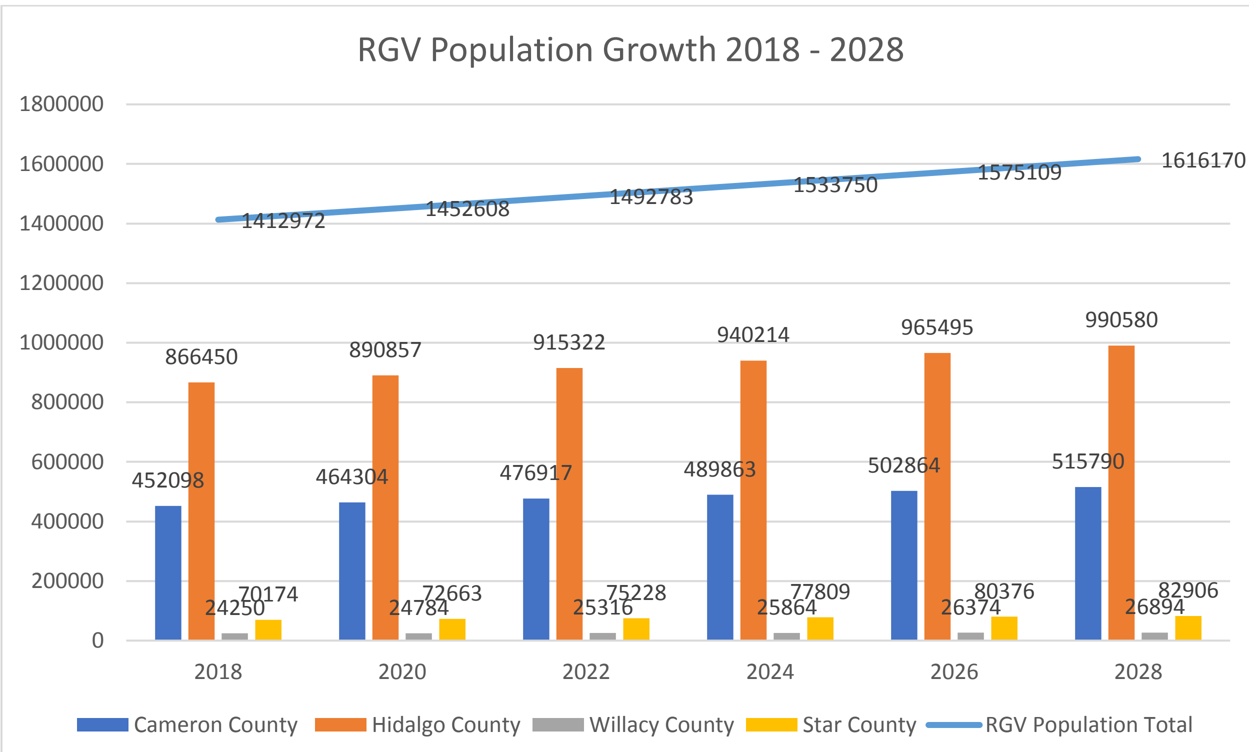


Market Analysis

Population Growth

The Rio Grande Valley has seen quite a bit of change over the last couple of decades and the next couple of years is set to continue this trend. It is estimated that the population will grow from 1.4 million in 2018 to over 1.6 million by 2028.

The Rio Grande Valley continues to be one of the fastest growing regions in America. In fact, the McAllen-Edinburg-Mission metro area became the 5th largest Texas metropolitan statistical area in 2015. Igor Ryabov, a sociology professor at UTRGV, noted that the region "grows approximately 20 percent per decade, which is quite impressive for the United States."



This continuous population growth has spurred tremendous business expansion all throughout the area. 2018 will bear witness to new economic activities including:

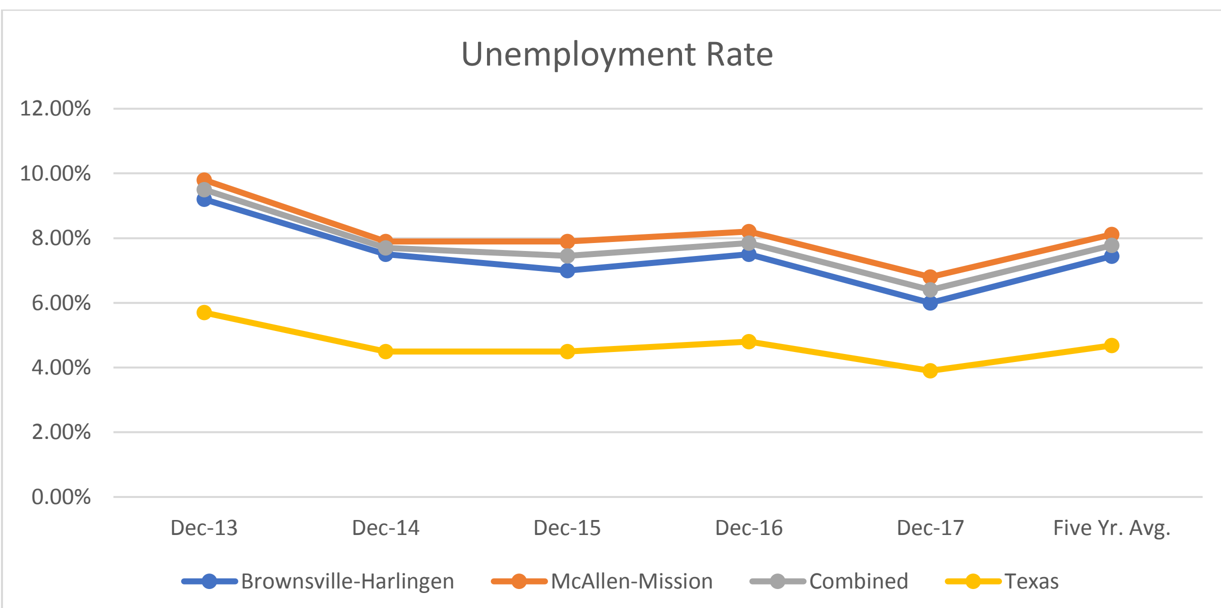
- La Plaza Mall will continue to expand with an additional fifty stores, four junior anchor stores, and six restaurants that will add an additional 245,000-square-feet to the retail site.
- The Bert Ogden Arena in Edinburg is set to open in late 2017 and will be the largest arena in the Rio Grande Valley. With 8,500 seats, the arena will be a venue for sports, entertainment, and shows. The arena will also be home to the RGV Vipers, the local NBA D-League team, and serve as a venue for UTRGV teams.
- HEB Park, a 9,700 seat, state-of-the-art soccer stadium and outdoor venue, is set to open in 2017. The RGV Toros will call the stadium home, but it will also serve as an outdoor concerts venue, and site for local soccer leagues.
- SpaceX will continue to grow its infrastructure and lure professionals from numerous walks of life. The site has brought in engineering jobs and opportunities for local students attending the region's colleges and universities.

- The Port of Brownsville has been approved to increase the depth of its port channels. The growth with make it one of the deepest ports in the Gulf of Mexico and make it competitive with other national ports.
- Italian-based SATA group is making the investment to establish a $114 million-dollar manufacturing plant in Brownsville that will help to create over 300 jobs over a ten-year period.
- A $35 million-dollar diabetes research center in the Rio Grande Valley will continue to bring in high paying jobs and economic development opportunities.
- UTRGV, and its associated medical school, will continue to improve the local health care infrastructure and create economic development opportunities.

Unemployment

Unemployment in the Brownsville-Harlingen MSA dropped from 6.00% in December, 2017 from 7.40% in December, 2016. In McAllen-Mission metro area unemployment went from 9.8% in 2013 to 6.8% in 2017.

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Five Yr. Avg.
Brownsville-Harlingen	9.20%	7.50%	7.00%	7.50%	6.00%	7.44%
McAllen-Mission	9.80%	7.90%	7.90%	8.20%	6.80%	8.12%
Combined	9.50%	7.70%	7.45%	7.85%	6.40%	7.78%
Texas	5.70%	4.50%	4.50%	4.80%	3.90%	4.68%



Market for RGV Multibank Products

The larger economic conditions in the Rio Grande Valley have improved greatly since the financial crash of 2009, however, the target population (market) for the RGVMB's products have not improved as it has for the upper income population.

The RGVMB's target market is qualified investment areas within four of the poorest counties in the United States - Cameron; Willacy; Starr; and Hidalgo counties in south Texas. The counties comprise the area known as the lower Rio Grande Valley (RGV) of Texas. According to the US Census and the Texas Work Force Center the area is, primarily Latino (89.9% Latino), characterized by high growth (29% growth), high unemployment (8%), low educational attainment (36% of 25-year old and older with less than a 9th grade education), low household incomes (RGV-$34,000 annual household income) and extremely high poverty rates (35%).

The RGVMB target market is low income, minority families earning at or below 80% of the Area Median Family Income (AMFI) for the mortgage and interim construction lending products and 120% of AMFI for the Small Dollar Loan program. These are the same clients the RGVMB has been serving since 1995. The majority are Latino families earning less than $22,500 annually. The Target Market for the products offered by the RGVMB will continue to be this target population.

Real Estate Market Conditions
The demographics listed above are some of the primary causes for the distress in the target market; low educational achievement, high unemployment, poverty rates and high minority population. Historically these underlying issues have led to abusive and predatory lending practices. With the collapse of the mortgage market and the high influx of "high cost" payday and car title lenders the stress on and financial capabilities of the population has become a serious issue.

The three major areas of financial stress around capital and credit and the reason residents are unable to access are related and work against each other.

- Lack of will or capability of banks and mortgage companies to fund mortgage credit facilities for the types of clients (low-income, credit challenged clients) in the RGV. Which in turn leads people to utilize high cost contract for deeds, predatory mortgage products or they choose to live in dilapidated housing structures;
- Rapid population growth and the lack of affordable housing mortgage options, which also leads to utilization of high cost loan products and Contract for Deeds;
- The low credit scores and the misunderstanding of the need for and the need to keep a clean credit history.

While the target market is served by numerous banking institutions, bank consolidation has affected the availability of credit and financial services for those not able to meet traditional consumer and mortgage credit underwriting. The market is saturated with pawnshops, payday, signature loan, and check cashing storefronts, all of which strip assets from already impoverished residents.

As a result of the readily availability of financing, the RGVMB ceased to do alternative mortgage lending in 2006 as the sub-prime lenders dominated the marketplace, attracting uneducated buyers with teaser rates, no down payments, and lax income verification and credit requirements. Responsible lending such as that offered by the RGVMB and the nonprofits that use our interim construction financing, was no competition for the sub-prime products being offered. Sub-prime lenders servicing area builders advertised monthly mortgage payments that excluded escrows for taxes and insurance without informing the buyers of the reality of these payments having to be made annually out of the buyer's income, a practice that has caused many homeowners to fall behind on property tax payments, leading to penalties and other charges.

Today, much of this predatory lending activity has dried up as the market collapsed, leaving many lower income families seeking homeownership without an alternative mortgage product that can serve their credit profile and income range. According to the Texas A&M Real Estate Center, over the last two years January, 2016 through December, 2017 over 1,400 homes were sold with an average sales price of $122,000 well above the price afforded by our target market. Over the past seven years only 49% of the homes sold were sold for less than $100,000. In the last quarter of 2017 of the 510 homes sold only 142 homes sold for less than $100,000.

	Percent Distribution							
Price Range	2011	2012	2013	2014	2015	2016	2017	Avg. %
$0 - $69,999	28.1	24.8	24.2	20.2	17.9	15.9	16.8	21.1
$70,000 - $99,999	30	32.7	28.7	29.4	30	23.6	22.9	28.2
$100,000 - $149,999	25.3	25	30.6	30.6	33.1	36.1	35.4	30.9
$150,000 - $199,999	10.6	11.7	9.7	13.6	11.6	15.2	17.1	12.8
$200,000 - $249,999	4	2.9	3	3.6	4	6	4.7	4.0
$250,000 - $299,999	1.7	1.5	2	1.7	1.6	1.4	1.8	1.7
$300,000 - $399,999	0	0.5	0.8	0.6	1.3	1.1	0.8	0.7
$400,000 - $499,999	0.2	0.7	0.5	0.3	0.1	0.6	0.3	0.4
$500,000 - $749,999	0.2	0.2	0.5	0.2	0.4	0.1	0.3	0.3
$750,000 - $999,999	0	0	0	0	0	0	0	0.0
$1,000,000 +	0	0	0	0	0	0	0	0.0

Small Dollar Loan Market Conditions
The stress caused by "high cost" lenders is evident in the target market. In the four-county area of the RGV, there are over 500 storefronts for pawnshops, payday lenders, signature loan, or check cashing. According to the non-partisan Center for Public Policy Priorities (CPPP) there are 176 payday lenders in Texas, with over 3,307 payday lending/consumer service organization storefronts located throughout the state. Over 2,000 of the locations are operated by seven of the nation's largest payday lenders. Texas payday lending locations have more than doubled since January, 2007 and are now expanding at a rate of three new locations per week. In the two MSA's of the RGV there were 272 payday or auto tile lenders (Office of Consumer Credit Commissioner – Texas). This amounts to 1.52 payday/auto tiles lenders per 10,000 residents. In October, 2017 the Texas OCCC reported that over 45,500 transactions occurred in the RGV and over $10 million borrowed and 257 vehicle repossessions occurred in the nine months or 7 per week.

The area, already impeded by low wages, low educational levels, young median age, and large family size, is ripe for uneducated consumers whose household economics leave no margin for unexpected expenses or emergency situations. Outside of the RGVMB Community Loan Center, only traditional banking and high cost lending outlets are sources of financing. According to a local survey of 10 high cost lenders, the average APR offered was over 400% with an 18-day average amortization period. Many low-income Hispanics are not comfortable with the traditional bank, are intimidated by its edifice, and feel more at home with a community-based facility. The fact that the US Treasury selected Brownsville as a target city (one of four in the county) for its Financial Services project to expand bank products to the community indicates the need for the CDFI to channel such funds and provide non-bank products and services.

Market Demand
The focus of the RGVMB's products and services are families earning less than 80% AMFI for housing mortgage programs and families earning less than 120% AMFI for consumer loan products. Efforts focus on those individuals not able to access traditional mortgage markets, and those consumers currently utilizing "payday" and other high cost lending services.

Demand for Mortgage Finance
In the Rio Grande Valley, mortgage finance industry has historically been dominated by subprime and predatory mortgage lenders due to the demographics of the area. Fortunately, much of the predatory lending problem has dried up as the market collapsed. Unfortunately, the decline in any mortgage finance has left many lower income families seeking homeownership without an alternative mortgage product that could serve their credit profile.

The RGVMB ceased to do alternative mortgage lending in 2004 as the sub-prime lenders dominated the marketplace. The collapse of this market in 2009, and the tightening of credit standards by the mortgage banking institutions, has created the demand necessary for RGVMB to reinitiate its mortgage lending efforts in 2013.

In late 2012, after the RGVMB was granted membership in the Federal Home Loan Bank of Dallas (the first CDFI to join and the only CDFI delivering mortgage product to the FHLB) the RGVMB reconstituted this mortgage product and has closed on over $6.7 million for 109 low-income families. RGVMB, working with the CDC of Brownsville, reviewed both intake and application trends over the past 12 months and the following was found:

- On average, 47 new clients visit with a loan officer or counselor to start the process of purchasing a home per month.
- Average of 10 clients become Homebuyer Ready each month.
- The average credit score of applicants with credit scores was averaged 630, however, when factoring in those clients without a FICO score the average drops to 450.

Currently the RGVMB is able to approve 10 applicants per month to be homebuyer ready and an additional 47 clients starting the process monthly. An applicant is deemed Homebuyer Ready for this product when all four of the following items are complete:
- Credit score above a 590
- Backend ratio no greater than 43%
- Savings for down payment (3% of sales price)
- Complete 8 hours of homebuyer counseling (one-on-one and group counseling)

Demand for Interim Construction Lending
The affordable housing production market has started to improve over the past 12 months. The RGVMB’s partnership with non-profit housing producers as well as small minority owned construction companies has opened up a market for interim construction lending. The CDC of Brownsville reported building on over 100 homes in the past fiscal year utilizing small minority contractors. As well, the growth of non-profit LIHTC developers has grown. In Cameron and

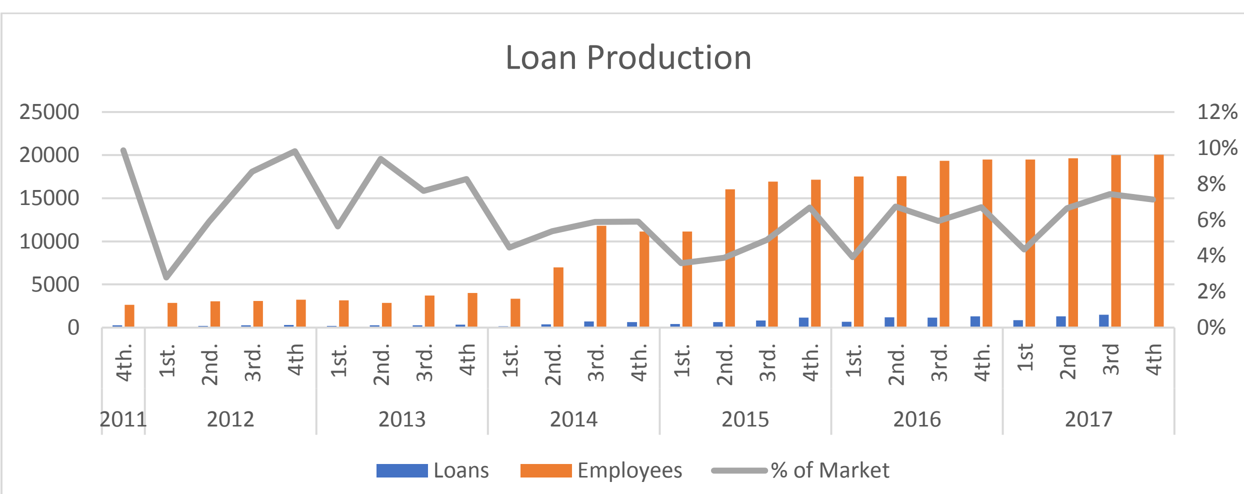
Willacy Counties alone over 120 units of rental housing will be started in 2018 by non-profit developers. The smaller non-profits have also seen a growth in rehabilitation and reconstruction work.

Over the past 12 months the RGVMB originated a $250,000 construction lines of credit with a non-profit developer. All together in 2017 this line of credit assisted in the construction of 20 affordable rural and colonia homes for low-income residents.

Demand for Small Dollar Loan Program (Community Loan Center)
The demand for a small dollar loan product can most be seen by the huge success and number of outlets of successful "high cost" lenders. In the two largest MSA's in the four-county area of the Rio Grande Valley, there are 130 payday/car tile loan locations, this does not include pawnshops or check cashing. The lenders originated 195,728 loans over the last 12 months as reported by the OCCC of Texas.

Credit Access Business Transaction Report Q4 2016 - Q3 2017					
Rio Grande Valley MSAs	Payday Loans		Auto Title Loans		Total Transactions
	Single Payment	Installment	Single Payment	Installment	
	No. of Transaction	No. of Transaction	No. of Transaction	No. of Transaction	
Brownsville-Harlingen	35,986	10,427	13,859	5,746	66,018
McAllen-Mission	80,821	14,199	21,864	12,826	129,710
Totals	116,807	24,626	35,723	18,572	195,728

The RGVMB/CLC's rapid growth over the past six years is also evidence of the high demand for a low-cost alternative to payday lenders. RGVMB/CLC's product is an employer-based program. Employers sign an MOU with the RGVMB that allows their employees to participate in the program. During the first six years of activity the RGVMB signed MOU's with 86 employers with a total employee base of 20,000 people (eligible borrowers). During these six years, October, 2011 to December, 2017, RGVMB originated 16,494 loans (219 per month); this is a market penetration of 22% annually.



Demand for Community Loan Center Administration Services

The RGVMB's newest product line is offering of franchises of the Community Loan Center. The demand for this service has grown at a consistent pace since 2014 when we added our first two franchises. Since that date we have added a total of eleven franchises in three states. Our franchise model allows local lenders to lend their own capital and recruit their own employer partners leaving the backroom duties of funding, servicing and software upkeep to the RGVMB. The on boarding process takes between six and 12 months. Recruiting has increased from just two new franchises in 2014 to the addition of eleven currently.

Franchise	2014	2015	2016	2017
Dallas	X	X	X	X
Brazos Valley	X	X	X	X
Texas		X	X	X
Houston		X	X	X
Laredo		X	X	X
Heart of Texas			X	X
East Texas			X	X
West Central Indiana			X	X
Northeast Indiana			X	X
Austin				X
Chesapeake				X

Currently we are working with three new prospects in Arizona, North Carolina and Missouri and planned to start lending in these markets by summer, 2018.

Market Demand Summary

- Overall, the market demand for the products offered by the RGVMB is strong. The need for alternative mortgage products is evident with the lack of products in the overall market and the high demand of our non-profit partner housing developers.
- The incredible demand for small dollar loans at low cost is also evident in the amount of lending being done by high cost lenders and the lack of any real alternative besides the RGVMB's Community Loan Center.
- Construction lending is the weakest of the products but is has never been a huge business line. Nevertheless, it is used by a few organizations and small builders.
- The Community Loan Center Franchise business is growing the fastest and given the interest in providing an alternative small dollar loan to markets throughout the country we feel this business line will only grow.

Strategic Goals

1. **Increase Total Loan Originations from $23 million in 2010 -2017 to $42.6 million.**
2. **Increase Balance Sheet Capital to $19 million by 2020.**
3. **Increase the RGVMB's impact on the communities we serve.**
4. **Grow and strengthen the RGVMB in order to carry out this plan.**

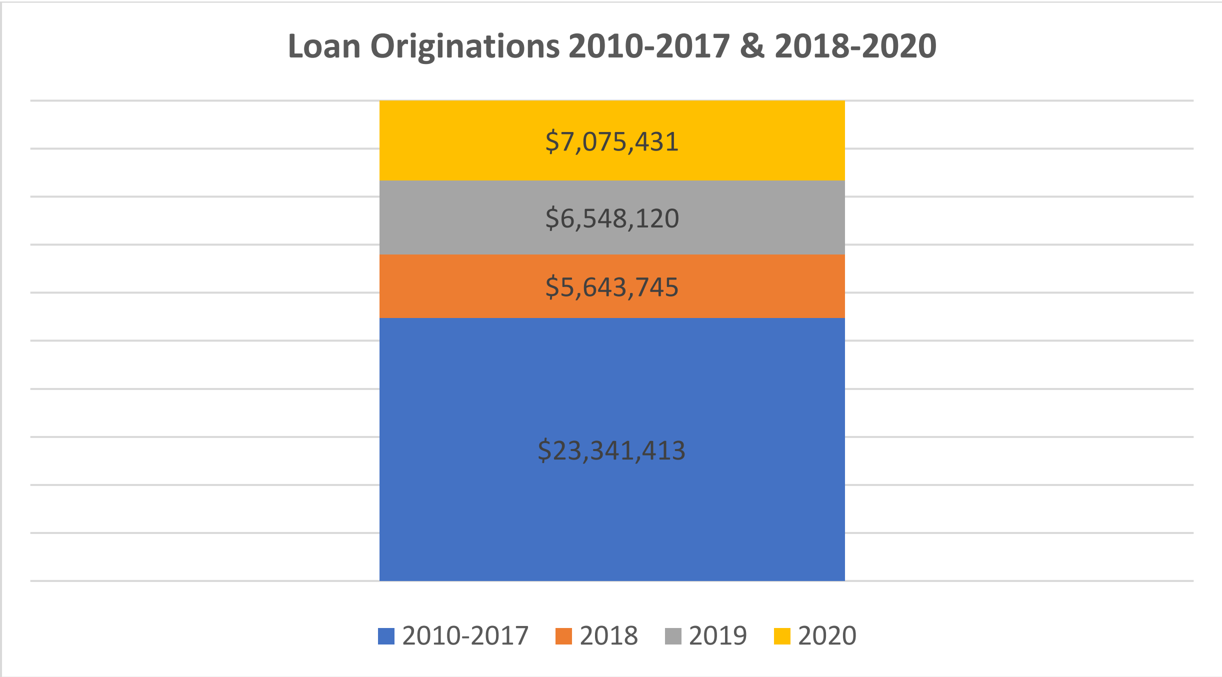
Goal 1 – Increase Total Loan Originations from $23 million in 2010 - 2017 to $42.6 million.

From its start in 2011 the RGVMB's Community Loan Center has grown in loan originations an average of 49% per year, Originating on average $4.5 million per year over the past three years. The RGVMB's goal is to originate $15.8 million in CLC loans and an additional $3.4 million in mortgage loans.

Strategies for Goal 1

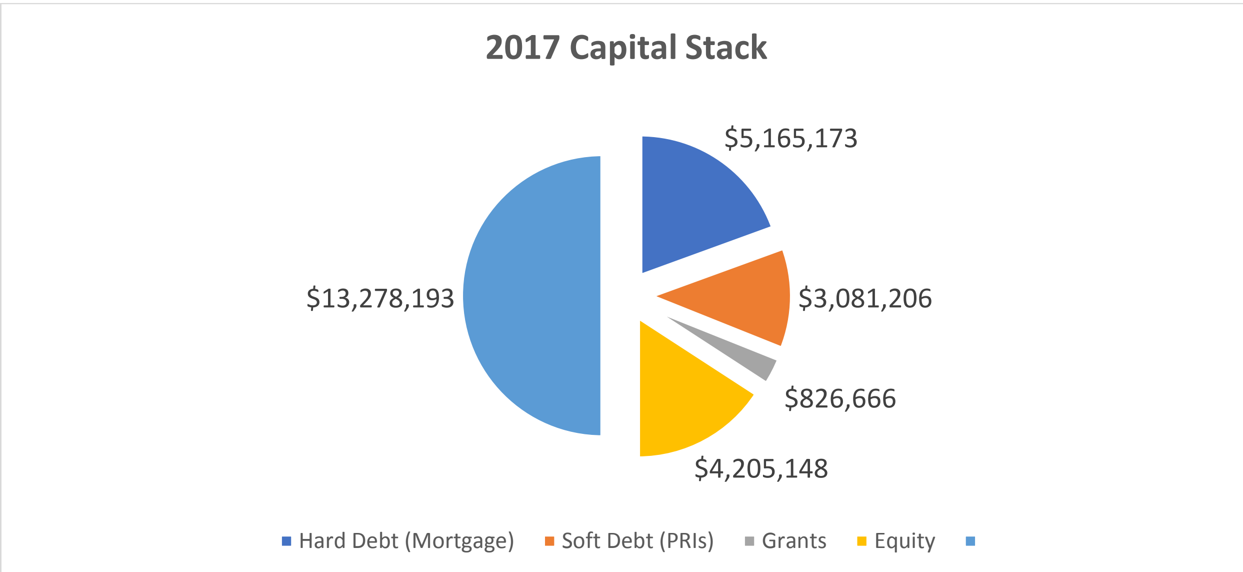
- Double the number of employees able to borrower from the Community Loan Center.
    - Improve branding and brand awareness among local businesses.
    - Improve the sales pitch to local businesses.
    - Land at least one large (500 employees or more) each year.

- Increase the RGVMB's asset value with the FHLB of Dallas from $13.6 million currently to $19 million.
    - Raise an additional $1.29 million in equity stock and retained earnings.
    - Raise an additional $2.27 million in loan capital for the FHLB Dallas.
    - Increase soft financing by $2 million and grant funds by $500,000.



Goal 2 - Increase Balance Sheet Lending Capital to $19 Million.

Currently the RGVMB has $13 million in lending capital. This is made of hard loans for mortgages from the FHLB of Dallas and a few smaller pools with local banks, soft debt from two PRIs, grant funds and equity in the form of retained earnings and equity stock.



Strategies for Goal 2

1. Increase equity from $4.2 to $5.5 million to in three ways
   - Increase Profits – In 2017 the RGVMB made $333,000 in retained earnings. The 2018 budget estimates smaller profit margin of $284,000. Nevertheless, over 3 years and based on the growth of the Community Loan Center the RGVMB will see $990,000 in growth from profits alone. These profits will come from mortgage lending, small dollar loan lending and small dollar loan franchise fees.
   - Stock Purchases – The RGVMB has stepped ups it efforts to bring more banks on board with stock purchases. We are currently working with Woodforest Bank, Texas Community Bank, and First Community Bank. Over the strategic plan period RGVMB's goal is to raise $300,000 in stock equity.

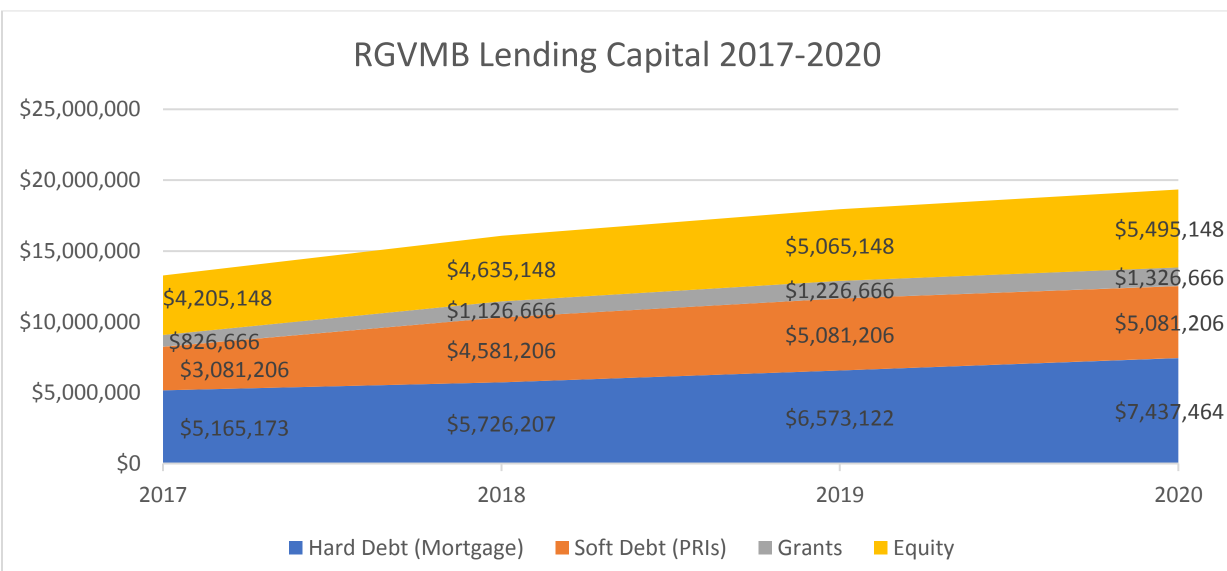
2. Increase grant revenue from $826,666 to $1.3 million
   - Grant Income – The RGVMB is always searching for grant income for lending capital in order to blend with debt to lower our overall cost of

capital. Over the past six years we have raised about $1 million in grant funds and we anticipate raising an additional $300,000 from the CDFI fund and $200,000 from other sources in grant funds. As a for profit corporation it is much harder to raise grant dollars we have found a way through the IRS code to accept these grants and not pay taxes on the proceeds as long as they are utilized for lending capital.

3. Increase Hard debt from $5.2 million to $7.4 million.
    - Federal Home Loan Bank of Dallas. As the RGVMB increases total assets our line of credit opens up at the Federal Home Bank. Currently we have room on our line of $400,000. Our partner non-profit developers have $1.4 million in mortgages ready to deliver to the RGVMB for funding. For every dollar in assets raised by the RGVMB $.50 cents of debt is available at the FHLB Dallas. Over the next three years none FHLB asset value to $16 million which will allow us to raise FHLB debt of $2.38 million in debt.

4. Increase soft debt from $3 million to $5 million-

    - The best source for this type of debt is the CDFI fund. The RGVMB is able to utilize equity stock purchases and retained earnings as match for a CDFI award we are able to add this type of debt as equity or very soft debt. Over the next three years we hope to raise $1 million from the CDFI Fund.
    - The RGVMB has been very successful in attracting PRI investments from foundations interested in small dollar lending. Over the past 2 years the RGVMB has raised $1.75 million in long term PRIs from different foundations. The RGVMB is currently expecting another investment from the Kellogg Foundation of $500,000 by May of 2018. Our goal is to increase PRI funding from $3.08 million currently to $5 million by 2020.



Goal 3 - Increase the RGVMB's impact on the communities we serve.

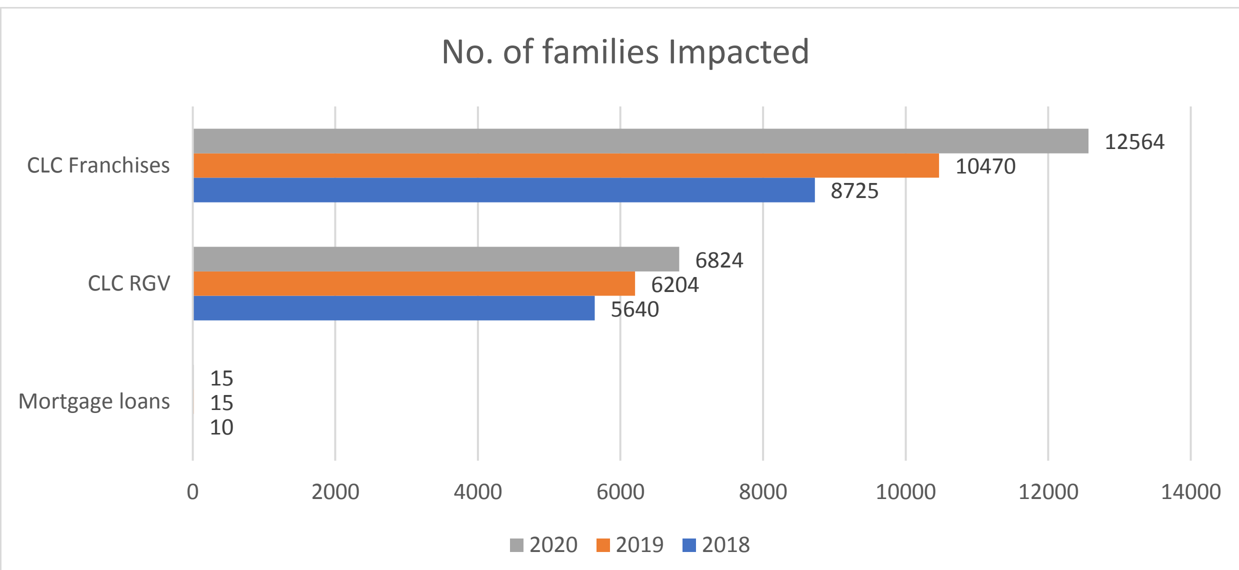
Communities impacted by the work of the RGVMB/CLC has grown since our creation of the Community Loan Center in 2011 and the growth through franchise development in 2014. Our impact is felt in two different areas, 1) Mortgage lending in the Rio Grande Valley and 2) Community Loan Center lending in the RGV and the 11 other markets served through the CLC.

Since 2010 the RGVMB has assisted 109 families purchase a new home in the Rio Grande Valley originating $6,689,425. Since 2011 the RGVMB/CLC originated 16,494 loans for a total of $16.6 million in the RGV and additional 15,157 loans for $15.2 million through our ten franchises. It is estimated that the CLC has saved borrowers $22 million in fees and interest.

Over the next three years the RGVMB/CLC has set the goal to originate 40 new mortgages and an additional 18,600 small dollar loans. The mortgage lending is dependent on our ability to raise the additional equity on our balance sheet to open up our line of credit with the FHLB of Dallas.

In 2017, 12,398 families were impacted by the work of the RGVMB/CLC franchise wide. Over the next three years the RGVMB will impact 50,000 families with our lending and servicing activities. It is estimated this will save borrowers $35,000,000 in fees and interest as compared to payday lenders in Texas.

The RGVMB working with the Community Development Corporation of Brownsville (CDCB) will research and activate an on-line interface for financial coaching and counseling for all participating CLC Franchises. This is planned for launch in 2019.



Goal 4 - Grow and strengthen the RGVMB in order to carry out this plan.

In the beginning the goal of the RGVMB was to be a "tool" for both the stockholder banks to fulfill CRA requirements in an easy way and for local non-profit housing organizations to access lending capital for mortgage loans. The RGVMB was very successful at this mission. However, over the past six years the RGVMB has taken the leadership in consumer lending in both small dollar loans as well as mortgage loans. The RGVMB was the first CDFI to join the FHLB of Dallas and one of the first CDFI's nationally to deliver mortgage loans to the FHLB system under a line of credit. The RGVMB also created the Community Loan Center and has been the leader industry wide in small dollar loan production. Nevertheless, the RGVMB needs to look to the future and how we can perfect our strengths and impact more lives.

The RGVMB/CLC, after four years of investment in the Community Loan Center and expansion into eleven new markets with the CLC has a strong balance sheet, a growing staff, and a Board of Directors fully dedicated to our mission. These three points will serve the RGVMB/CLC well as it implements this plan. The strong financial outcomes from both our main lending products and supportive relationships with our franchise partners helps keep self-sufficiency high. During the three years of this plan, RGVMB/CLC will continue to build on its strong financial performance and increase the leverage of its balance sheet. As the level of activities increase, new staff members will be recruited as needed to work under the existing Operations Manager to support increased loan originations, portfolio management and financial reporting. As well, RGVMB is currently and actively recruiting a new Deputy Administrator to take over full-time management of the RGVMB/CLC. This position will focus on raising capital, creating new partnerships and planning for future growth. At the same time the RGVMB will work to improve and build on the highly successful FinTech product (KENN) created for the origination and servicing of CLC loans.

Strategies for Goal 4

- Increase self-sufficiency to 100% for operations and generate a minimum of 10% net income each year of the plan.
- Develop a staffing plan to keep up with franchise growth, lending production and asset growth.
- Update and keep updated all lending policies, handbooks, and servicing manuals.
- Improve accounting, lending and servicing technology to improve our efficiency in financial reporting, analysis, risk management and impact measurement.

Summary

The Rio Grande Valley Multibank and the Community Loan Center has seen incredible growth and impact over the past five years. We have become leaders in the CDFI industry and have gained the reputation of smart, proactive and creative thinkers and doers. Nevertheless, as the saying goes "What have you done for me lately?", we need to be constantly be thinking about how we do what we do better, how we reach more people and how we change the land scape of community development lending. We believe that this three-year plan helps us to focus on just that. This plan focuses on growth (lending and financial), impact (touch more people) and organizational perfection (policies and people).

Revenue	2018 Budget	2019 Budget	2020 Budget
Pooled Mortgage Interest (after expenses)	$158,254	$169,331.78	$181,185
Interim Const. Lending Interest	$991	$1,060.37	$1,135
INTEREST INC LA JOYA TRCKING	$3,389	$3,626.23	$3,880
INT INCOME- FHLB ACCT	$1,868	$1,998.76	$2,139
CAPITAL STOCK DIVIDEND	$3,568	$3,817.76	$4,085
CASA FUNDS REVOLVING	$8,375	$8,961.25	$9,589
RCLP-GRANT INCOME	$28,136	$30,105.52	$32,213
CLC Revenue Interest (Earned)	$448,976	$480,404.32	$514,033
CLC Revenue Admin. Fee	$100,760	$107,813.20	$115,360
Misc. Income SOC Audit Reimb.	$4,594	$4,915.58	$5,260
CLC Late & NSF	$24,135	$25,824.45	$27,632
Grant Income		$100,000.00	$100,000
CLC Franchise Admin & Serv Revenue	$335,983	$359,501.81	$384,667
CLC TACDC OPERATING INC	$1,800	$1,926.00	$2,061
Total Revenue	**$1,120,829**	**$1,299,287**	**$1,429,216**
Expenses			
Admin. Fee to CDCB	$355,290	$397,924.80	$445,675.78
INSURANCE D&O	$7,579	$8,488.48	$9,507.10
MISCELLANEOUS	$2,438	$2,730.56	$3,058.23
CONFERENCE & TRAININGS	$2,365	$2,648.80	$2,966.66
PROFESSIONAL FEES	$14,953	$16,747.36	$18,757.04
AUDIT FEE	$21,450	$24,024.00	$26,906.88
SERVICING FEES - CASA LOANS	$24,844	$27,825.28	$31,164.31
TRAVEL EXPENSES	$1,933	$2,164.96	$2,424.76
CONSULTANT TECH SERVICES	$1,925	$2,156.00	$2,414.72
FRNCHSE ADMIN FEE DUE TO CLC TX	$1,073	$1,201.76	$1,345.97
MARKETING & ADVERTISING	$5,823	$6,521.76	$7,304.37
TRAINING	$1,183	$1,324.96	$1,483.96
CREDIT Reporting	$805	$901.60	$1,009.79
OFFICE SUPPLIES & License Fees	$1,143	$1,280.16	$1,433.78
TRAVEL EXPENSES	$3,876	$4,341.12	$4,862.05
HOSTING/SERVER EXP	$796	$891.52	$998.50
PROVISION FOR LOAN LOSS	$180,212	$201,837.44	$226,057.93
KENN LOAN SOFTWARE COMMISSION	$66,153	$74,091.36	$82,982.32
BANK SERVICE CHARGES	$30,673	$34,353.76	$38,476.21
LEGAL SERVICES	$54,568	$61,116.16	$68,450.10
DOCUSIGN	$13,063	$14,630.56	$16,386.23
RACKSPACE	$44,835	$50,215.20	$56,241.02
Total Expenses	**$836,980**	**$937,418**	**$1,049,908**
Profit (Loss)	$283,849	$361,869	$379,308

Community Loan Center Retreat
Hosted by the Federal Reserve Bank of Dallas
April 6-7, 2017

DAY 1

Introductions:

Alfreda Norman: Federal Reserve has been part of the work done in Texas to fight payday lending through local ordinances but also with the alternative product. We want everyone to be involved in the economy so they can be productive.

Nick Mitchell-Bennett: Everyone was specifically invited for a reason. We have been doing this for five years and we are doing really well. We can grow smarter and faster or can slow down. When we leave here we want to have some sort of strategic plan to move forward. We have some tough questions that we really want to think about. Tomorrow we are going to talk about financial capability services because the Community Loan Center (CLC) was always intended to be part of increasing the financial empowerment of clients. We will be talking about this tomorrow because almost all of the CLC clients are interested in some sort of financial capability services and programs.

Five Action Items for the Retreat:

- **Establish realistic and sustainable growth targets**
- **Identify system improvements to fix and streamline operations**
- **Develop strategies to ensure CLC stays on strong financial footing**
- **Develop strategies for CLC to improve financial wellbeing impacts for borrowers**
- **Guidance for creating an evaluation system integrated into system to focus on targets and identify problems early.**

Attendees:

- Joe Gonzalez: NeighborWorks America and will be facilitating the meeting
- Kelton Averyt: Consultant to Nick for building the CLC platform (KENN) and 25 years of experience in e-commerce
- Ann Baddour: Texas Appleseed
- Cruz Correa: CLC program manager Dallas
- Woody Widrow: RAISE Texas
- Robin Odland: Opportunity Finance Network in Philadelphia
- Alfreda Norman: Federal Reserve Bank of Dallas and host
- David Long: Texas State Affordable Housing Corporation
- Matt Hull: Texas Association of CDCs and director of Texas Community Capital
- Levar Martin- NALCAB
- Don Baylor: Annie E. Casey Foundation
- Paul Charles: CLC of Houston
- Marie Morse: HomesteadCS in Lafayette, Indiana
- Donna Normandin: Frost Bank

- Eliza Platts Mills: UT Law School
- Edna Oceguera: CDC of Brownsville
- Keith: AdvanceNet
- Lee Reed: IBC Bank and Chairman of the Multibank
- Paul Turney: Brazos Valley CLC
- John Kinnaird: Community Bank & Trust and board member of HOT CLC
- Cathy Semans-NHS of Baltimore and CLC of the Chesapeake
- Rick Galloway: AdvanceNet
- Megan Hutson: HOT Goodwill and the HOT CLC
- Howard Porter: Texas Community Capital
- Kevin Jewell: KJ Consulting
- Lauren Gates: RAISE Texas
- Raquel Valdez: BCL of Texas
- Ron Burkins: Western Kentucky Region in Owensboro, KY
- Wendy Hanson: United Way of Southern Cameron County
- Yvette Ruiz: JPMorgan Chase
- Debbie Taylor: Citi
- Yoly Davila: BBVA Compass

Historic Overview of the CLC- *Nick Mitchell-Bennett and Matt Hull*

- 3 years of research, licensing process, etc. the CLC originated its first loan October 1, 2011.
- Loans are a maximum of $1,000 or up to half of the borrower's gross monthly pay, 18% interest (21.83% APR), $20 origination fee, client has to have a bank account, relaxed underwriting, and no prepayment penalties.
- CLCs report the payments to the credit bureaus.
- The repayment schedule works out to be $23.38/week or $94/month per $1,000 loan.
- Our clients are poor but they are not stupid. They see the difference between the high fees of the payday loans compared to CLCs.
- TACDC was brought in for its small loan fund to help expand the program throughout Texas. Growth took off once recruiting CLCs took off.
- In 2013, the CLC started designing and the licensing of the new KENN software system. KENN allowed the expansion of the CLC model into other markets across the state. Kelton Averyt developed the KENN software. It is exactly what we want because we designed it and we own it. KENN stands for Kelton-Edna-Nick-Nadia.
- In October 2014, KENN went live in Dallas, Rio Grande Valley and Brazos Valley.
- In 2015, the franchise originated 5,387 loans topping the first four years of 1,324 loans. The numbers doubled overnight.
- In 2016, Houston came on along with Laredo. The CLC of Texas handed over their portfolio to the HOT CLC in Waco. We did the 20,000th loan in February 2017 and have loaned $18 million.

- The product is designed for each individual local CLC lender to be licensed in that state. Our next new local lender in Texas is IBC bank as the lender in the San Antonio Area. The lender co-brands with the CLC program.
- The CLCs are franchises of the CLC. Eliza has walked us through the legal side of how to do this so each center is setup as a franchise.
- Currently the CLC program has a total of 120 employers and 75,000 eligible borrowers in all of the franchises combined.
- For fundraising, we take money from anyone. The OFN Wells Fargo Next Award (1.6 million) and the JP Morgan Chase Bank PRO Neighborhood Award (5.1 million grant) are the two big nationally-recognized funders, but all lenders are very important. It takes a lot of money to fund this program.
- We have signed up 12 markets to date. We are currently talking to: Michigan, New Mexico, Fahe (Appalachia- trade association), Alabama, Missouri, and Arizona. Virginia is looking pretty good too. Over the next two years we will probably be in 8-12 more markets.

GOAL: HOW DO WE GET TO 50,000 LOANS A YEAR? We have gotten to 10,000 per year and then just reached 20,000 in total. If we can get to 50,000, then the sky is the limit.

<u>Results of CLC Evaluations-</u>

Ann Baddour (borrower piece)

- We sent out the two studies that have been done to evaluate the program. To frame the conversation, we will offer some high level points.
- In the borrower survey, we wanted to get to 400 borrowers and had a high participation rate of about 50%. We wanted to collect information to know who we are reaching. Based on the evaluation, clients look a lot like payday lending borrowers.
- The survey showed:
    - Median age: 41
    - 60% female
    - 59% Latino, 26% Black, 12% White
    - Reached some high income borrowers but primarily have reached deep into the payday lending population
    - Reasons for taking out the loans: pay bills, cover special occasions, and to cover car repairs
    - Goals: top two were saving for emergencies and paying down debt
    - Were the loans manageable for borrowers: YES
    - Did access to CLC loans coincide with improved assets or financial stability: NO. But relative financial stability over the time period
    - Did access to CLC loans coincide with decreased debt or fewer challenges to make ends meet: YES

    - Was the CLC loan program effective at connecting borrowers with other community asset building resources: NO
    - At the end of the program, were participants hesitant about using payday and auto title loans? YES
    - It is an affordable product
    - There were positive impacts in the areas of reducing financial setbacks coupled with successful repayment
    - Opportunities exist to expand borrower take up of local financial education and asset-building resources

Kevin Jewell (business piece)

- The program is heading in the right direction. We are doing well. One of the main things that were helping us is free money- free grant capital that won't always be around. A loan loss rate of under 4% and keeping the capital costs under 3% will be important to expansion and long-term stability. We need to understand why many borrowers renew the loan at the end or before the end of the loan. The program loses a little bit of interest revenue on that but it ends up being revenue neutral because the loan loss rate decreases.
- One question we looked into is about employee turnover.
    - The main point is underwrite the business and not the person. That is the first question we look at when we walk in the door of a business.
    - We need to look at whether or not the program has decreased the turnover rate for the businesses.
- The next question: Is there any relationship between investors and clients (i.e. Sisters of Mercy has hospitals)? Or a specific marketing technique that the investor can help with?
    - No, but that is something that we are talking about. How do we get employers financially invested in this as well. We have been in conversation with housing authorities that want to lend in their area but no other conversations have been had around that.
- Another question: what is the biggest inhibitor to increasing the cost of funding above 3%? Is it demand for the product evaporates? Underwriting reduces this?
    - The 3% is the cost of capital to the franchise. The limitation to increasing that is that we start losing money. Legally, we can go up to 36% in Texas. When this program was originally setup the Board said that we would do it at 18%. We technically have room to move it up to 21% but have received pushback that it hits the interest rates of a credit card.
    - We shouldn't be comparing this to a credit card. We should be comparing it to the 300-400% APR of the payday loans. These borrowers wouldn't get approved for a 16% credit card rate.
- Next question: What is the participation of employers?

    - The individual franchise has to sell this hard. This is a hard job. It is about being persistent to going back to the employers and then it is who discusses it and how well payday lending issues are explained. Getting through the gate people and HR is very difficult since it is conceived as more work. How do we make it so easy for the employer and employee?
- Question: Do we have to convince employers to stay on?
    - There has only been one employer that we have had to convince to keep offering the program.
- Question: 60% of the clients come back for another loan. We want to get people bankable. Are these payments being reported to the credit bureaus?
    - Reporting to the credit bureaus is now an option that we can do. But there are challenges where the person connects with the system. An HR employee doesn't get it setup on time so suddenly a borrower is delinquent because of an error made by the HR department. We need to be sure that it is tracked correctly. Paul Turney can manually fix credit issues that are mistakes.
- Question: How is our cost of capital going to keep going up based on the rates?
    - It will be slow and gradually slow.
    - Once you cover your fixed costs, then you have more room to move. The key is the charge off operation. The lower we can keep that, then the higher the cost of capital can go. Picking real stable employers at the beginning helps with growth. Also if you can get an employer that has a lot of credibility within the community, then they will bring other ones. The City of Dallas adds credibility to the program. In Brownsville there was a school district that joined and then many followed.

KENN Presentation: *20 minute video of the online application process.*

- There are 5 key components: applications, employee portal, employer portal, financial partner portal, and the administrative portal.
- We are still working on what to track in the analytics section.
- We recently partnered with Nerd Wallet. On the live version you can go to the website powered by Nerd Wallet and a client can sign up to track the increases of their credit scores. We have been working with Nerd Wallet for 6 weeks. We do not pull credit scores so we cannot provide credit score changes to financial partners. No credit scores are pulled because it is a cost and you need the client's permission to do so. Brazos Valley does a soft pull once the permission is received but that is through the financial coaching program. Also, none of the competition pulls credit- no payday lenders pull it but they will report missed payments to the credit bureaus.

TABLE DISCUSSIONS: *Sustainability and Potential Growth of the CLC Program Under Current Model*

We need to get notes from each table.

- Where are we with moving forward with the existing CLC Program?
- We just realized how hard it is. Going to 50,000 loans is very doable with the system. The question is what is the journey there? Do we put the marketing on top of the product now to take us there? Or do we need to perfect the product and then market it? The value proposition for employers is very important. We need to decide who to work with on the ladder too and who will be most effective in helping us.
- We need to update the software system now so that we can correct any issues before we have the 50,000 loans.
- There was lots of conversation around how the capital source and how we can make it less sloppy. The distribution of capital needs to be easier. Right now it feels like we have a bunch of McDonald's and all of you have to buy your own buns.
- Some of the information and marketing materials need to be pushed out there better.
- We might want to look into a PR Firm (pro bono) since it is a good enough story to sell it.
- We want to get this to the point where we are paying for it ourselves and we don't need to rely on someone else.
- How do we raise $46 million in capital to cover 50,000 loans and how do we streamline that? How can we leverage the network to get the capital to get to the 50,000 loans? That is something to talk about.
- We have raised about $10 million to date, and need about $15 million to reach the $25 million needed.

Nick's Thoughts on Today

- Today made me feel better about how we have been raising capital in a collective manner. We have a really good return on the collective efforts. We have been talking to Kellogg and they have said probably $500,000 and then a few years later another $500,000 is possible.
- We need to be able to figure out how to tighten up some of the sloppy parts of the process.
- It sounds like we need to put together some collective marketing strategies.
- We also need to figure out how to size our pricing and educate the franchises on how much it really costs to service a loan and how it costs different prices per pay periods and structures, etc. We definitely want to figure out how to decrease the costs, if possible.

DAY 2

Reflections on Day 1 and the 5 Main Questions

- We have underestimated the role of marketing.

- Nobody said 50,000 is unrealistic per year in loans. The discussion needs to be had about the complications of the Dallas CLC and some of its employers and when do we put minimum standards on employers verses turning them away.
- We need to re-evaluate the economics of the program continually to make sure we are meeting expectations.
- We need to have really good deliverables and a tight message to grow the program. Having a consistent message across all marketing levels- franchisees, employers, employees- and having it well-defined.
- Mint markets constantly and that is what we need to do too.
- We need to figure out how to market without the costs increasing significantly.

Establish realistic and sustainable growth targets

- 50,000 loans can't be our only sustainable growth target. The formula of number of employers + loans will equal the 50,000. We know after 5 years that we have 120 employers + 75,000 employees equaled 10,000 loans last year.
- We came up with 50,000 because it seemed unattainable last year but now it seems like we can reach that.
- According to the projections, franchises can cover their fixed costs based on if they do about 8,000 loans each year. To reach 50,000 loans then that is 6-7 franchises each doing 8,000.
- One way to reach 50,000 loans is for each franchise to reach 8,000 each year. Given the amount of franchises we have, then that is well over 50,000.
- What is the market? What is the size of the market? Pew research says 8% of adults take out a payday loan. So that is a large market that we can reach.
- How does 50,000 loans a year change the economics? This is important to figure out because it will help the local franchises too. How will this number get us from a scrappy start-up to a well-known program.
- When we began we had a business plan to work with at inception, and even though it was totally wrong we need to still consider doing that or having each local franchise put together a business plan on how they are going to reach scale. They should turn in a business plan before we allow them to become a franchise.
- As a new franchise, we would have been helped by receiving an idea of how other franchises do it. This information is being put together as the franchise information and paperwork are being developed.
- We need to build one primary case study around a successful franchise to provide to other potential franchisees.
- Funders like the idea of the business plan.
- One challenge is that each franchise does the administration differently. When do we standardize that and require that franchises do it a specific way?

- If we look at the numbers, we have two high producing franchises (7,600 total loans), two medium producers (700 loans), two small producers (177 loans and 276 loans) and then a few that didn't really do many. If we can bring in more high producers, then we can hit our goal.
- All franchises are not going to be able to reach 8,000 loans a year. We might need two tiers- one tier produces 7,000 loans or more a year, and the other tier does smaller amounts of loans. It is important to reach all of these markets but we can't discount any of the work that is being done. Maybe have a third tier that the program says no to becoming a franchise because they won't be able to be effective. If we get the top tier totally functioning, then they might be able to subsidize the rest of the other tiers.
- What about putting some of the smaller producers like Brazos Valley into tier one, but having the tier two programs be run by Texas Community Capital? Or if there isn't a local lender, then Texas Community Capital can run it.
    - Concern: the economics of this doesn't necessarily work because if they aren't covering the costs of the program, then how would the central entity be able to cover the costs? Would the central entity raise capital and operational costs just for that, then that would work.
- One thing that was missed was that there are some markets that Howard read out that should not be that small. This program cannot be the red-headed step child of the organization. If you do affordable housing, then next you do affordable housing and small dollar lending. Just because you get a key to the CLC club, doesn't mean you don't have to throw everything you have behind it.
- Right now we don't have any specifics in the paperwork, but why can't we put in minimum standards to meet or you are out? You define what best efforts mean. Include very clear targets on how many employers, how many touches, etc. Best efforts need to be more specific. Based on the differences in markets, it should be a percentage of the market touched.
- What is the threshold? If you only do 5,000 loans, then you are out? No, it is much lower than that. I think it is 1,100 or 1,200 loans to break even.
- Want to make sure we are not limiting rural America or other lower-population areas that need these loans too.
- Each local lender is subsidizing its own program, but there is a concern about there being only so much water in the well. So eventually it will start to effect the programs when they are going after the same money.
- We need to think about what is the current capacity and does that match the potential market? The 50,000 loans goal is good at a time but that will probably change.
- Does the model of local lenders still work? Yes, because you can't saturate the market without a local lender. But would a statewide CLC work better for a state like Indiana that doesn't have a local CDFI to do it? Maybe but if there isn't local presence then it just becomes one more online lender. That doesn't reach our mission.

- It might be nice to have a standard model that is flexible by market.

<u>Financial capability services for borrowers: Should CLC be more than an employer-based loan product?-</u> *Woody Widrow*

- Before adding on the financial empowerment products, we need to make sure that this product will work. We can now see that this product provides an alternative and can meet the goals and have a business product that will work. Now we need to look at other products and think about how attractive these other products look to funders, employers and employees. We will be receiving national data of employers to see the demand and need for financial wellness programs at the work place.
- Potential Services: financial coaching (in person, technology), financial education, credit repair. Potential Products: checking accounts, savings accounts, etc.
- Should we add these components? Do we need to strengthen this piece of it?
    - It is not clear to everyone if we have done enough around the single small dollar loan product to move on. We weren't sure if this should be a pilot and who should pay for it. One possible option is a pilot that funds a grant for CLCs to offer other products and services, but what does that tell us about the other markets? Will that pilot be effective?
- Should there be another type of loan offered after the CLC loan?
    - There is a way to expand into groups like churches, nonprofit housing developers, and other groups to offer to their populations. Should this be the next move after employers? If we are looking for working people, is it important to reach housing authority people at their job or can we reach them through the housing authority? The risk is increased but the underwriting is beautiful through the employer.
    - One way to do this is to bring on say the housing authority is to make them the local lender (CLC) and they would offer the small dollar loans to their specific population.
    - It is frightening to think about the potential risk we would put the borrowers in with a new model, and the risk to Nick's group. Lots of concern in the room about having to change the model.
- We might need to create bigger algorithms that can show us the types of employers that will have this type of losses and refine the intellectual property that we have in this area rather than looking at other products and services. Can we expand the knowledge around this one loan product and develop a credit rubric to which employers we are going to accept, etc. There is a lot of opportunity to better understand this arena so that it is easier to fund this and reach the populations. Looking into other products and services, it would take away time and effort from building on what we have.
- There is a potential of 700,000 loans in Texas if 8% of the adult population use payday loans, then we need to go after that.

- Reaching the populations might need to be more of an affinity group model. Same loans but through different lenders. E-HOME and E-MONEY are financial education models that can provide revenue to the local CLCs but also this would be more enticing to the employers. The more that is added on will make employers more excited about offering these loans, and then more of the target population would be reached.
- What is the end result of the borrower? How do we track the impact? How do we know that this is working? Some of the discussions were IDA accounts, savings accounts, myRA, etc. One table felt like we need to have those other services and products offered while we are perfecting the small dollar loan process.
- It would be nice to have a local bank that would open a savings account for borrowers so when they pay back their loans the paycheck deduction would automatically start to go to the savings account. This would help them build assets. Who would pay for the collection of that money once the loan is closed? There is a way to have the bank offer some money to roll into the program.
- We need some surveys to have borrowers fill out about the financial impact on their lives.
- We need a way to show the impact because some of the answers from the surveys and analysis of the program were not very positive. We need to get it to the point where the answers will be positive and show positive impact on borrowers. The borrowers are already better off because they didn't go to a payday lender! We need to put together a slide that shows the positive impact that we can pull out from the existing data.
- Keep it simple. How can we do more through messaging, tipping points and encouragement? If they check the box to receive more information then what are we going to do? They have already come to us instead of the payday lender, so now we need to think behaviorally and use the financial capability concepts and put these ideas into some simple steps. It could be walking down to the HR department and having them save $50 from each paycheck into a savings account.
- The borrower platform can send out a coupon for a free financial coaching session or something automatically. There could be a lot of good information and resources on the borrower platform. The local CLCs can offer the services, have partnerships in the community set-up, etc.
- We need to really compel them and drive them to save. We know they will need to have a financial goal to reach, and it will probably require an incentive. One idea is reducing the final payment if they complete a financial coaching program. Tiering off the renewals so they can't borrow as much each time is another idea. People need the immediate funds for a reason, but we need to ween them off that immediate need. But, then they will go to a payday loan to get the money.
- If Nick's shop puts together the messaging, emails, coupons, etc. to help encourage local lenders to push financial education/coaching/counseling or whatever the agreed upon requirements are, would that work?

  - It seems like we are biting off more than we can chew by combining two – the expertise in small dollar lending and savings- areas of expertise into one space without a lot of research.
  - Actually, the local CLCs started as experts in the asset-building field and then got into the lending field, so we are actually going back to our expertise.
  - There is this idea of 60% of borrowers renew their loans. Should we do something specific for the high borrowers?
  - We can get to a baseline if we use the check box to offer products and services and then build it up from there.

Establish realistic and sustainable growth targets

- Stay focused on 50,000 loans.
- Questions on capacity and more definable markets, more definable expectations on the franchisees.
- Keep an eye on the quality as well as the quantity of our goals. Look at the loss rates, performance of franchisees, and other evaluation methods.

Identify system improvements to fix and streamline operations

- All pieces are integrated but we have covered all of these things.
- We will probably need a short-term plan for the next 1-2 years and then a long-term plan for the next 3-5 years.

Develop Strategies to ensure CLC stays on strong financial footing

- This is most of what we have been figuring out these past two days.
- We need to understand that larger franchisees verses the new/emerging franchisees are in different places.

Develop strategies for CLC to improve financial wellbeing impacts for borrowers

- Do a pilot or a study to show the benefits to the employers and employees.
- What do we need to do for the small dollar loan product? What fixes? And then what simple things can we do around the financial wellness to help borrowers? This might differ depending on the CLC since it is natural for some of the franchisees compared to others.

Guidance for creating an evaluation system integrated into system to focus on targets and identify problems early.

- There has been some discussion about the way we can evaluate different employers.
- Finding very stable employers in the first place to get it established.

- Franchisees and the planning team have calls every two weeks to be sure communication is flowing and all issues are dealt with .
- Possible new program for citizenship loans to cover the cost of the $700-$800 application process. The default rate is basically zero.
    - Citi piloted this type of program before in Maryland and New York, and they found most qualify for the vouchers that covered the process.
    - Promise Credit Union in Houston has had mixed results with a program like this. Higher default rates.

Final Thoughts

- Talked a lot of problems and lots of solutions. Nothing is insurmountable. We have come a long way.
- Tremendous way to get a better understanding of what you folks are all about. You have done something phenomenal to reach 20,000 loans.
- Would like a report on what the next steps are and where to go from here.
- It pleases funders that it is effective and will continue to be. Like Nick's aggressive vision of being in all 50 states.
- Encouraged that the learning curve of new franchisees will be so much easier and shorter.
- We need to address employers with multiple sites, and ways to offer the loans online in places where people are getting payday loans online (Maryland).   Get the state departments to sign on so that we can reach those employees.
- These programs take time. It is a process and has taken a lot to get to that point, but this is going to be a great investment. So funders please be patient because it is going to be a lot bigger than expected.
- Financial literacy is a big component.
- In two years we want to move from scrappy/sloppy to really shiny.
- Two main takeaways: get and keep franchisees on solid ground (breakeven), and ease the process of onboarding new franchisees.