Lessons from the Field

A Series of Asset Manager Interviews Conducted by Elaine Magil, TCAM/MRI

A Lender's Perspective
Jerri Edwards, Vice President & Director of Credit Administration
Community Investment Corporation

Jerri Edwards leads the Credit function at Community Investment Corporation (CIC), a CDFI operating in Chicago. In this role, Jerri helps make lending decisions for the organization's $300 million+ real estate portfolio. Her team of asset managers also oversees loan performance after closing. In this interview conducted by Elaine Magil, Jerri talks about bringing a portfolio oversight eye into loan underwriting and learning from experience, and sheds light on how lenders assess borrowers in real estate transactions.

The conversation has been edited for length and clarity.

EM: I've been really impressed at how CIC balances decision-making power on investment decisions. A lot of organizations put it all on the person who's trying to get a deal to closing (Development, Originations, Lending) rather than the people who take it up after that (Asset Management, Servicing, Portfolio Management). At CIC, you seem to have really struck a much more even balance. How did it come to be this way, and are there any lessons for others?

JE: That type of balance is important. Prior to my arrival, CIC's pre-loan approval process consisted of reviewing deals (scheduled for Loan Committee) in a group setting of Loan Officers, and the Construction, Portfolio/Asset Management, Closing and Servicing Departments prior to the Loan Committee meeting. That still exists. However, since joining the team, my focus has been to ensure each department's contributions are given equitable consideration, are clearly documented on the loan presentation, and align with CIC's overall risk appetite. I think this approach facilitates the necessary balance between groups and allows for greater collaboration on future transactions.

> *TIDBIT: We're careful about how much information we try to collect, but then we know that each piece is actually really meaningful.*

I'm also responsible for monitoring the portfolio, which includes reviewing delinquencies, assigning a risk rating to each loan, and determining loss reserves. I draw on those experiences, recall how we structured recently closed loans, and consult with the SVP of Lending to ensure any risks or potential concerns are appropriately mitigated.

TIDBIT: "When people know what they know, they may not consider the other pieces." People can speak on their own expertise but there's important information they may not realize they don't know. So we have to invite people from all these perspectives to speak on what their expertise is.

Our Loan Officers are problem solvers that are very skilled at bringing creative deals to the table. The success of our business depends on them bringing in new deals. So, the goal is to critically analyze each deal while maintaining a collaborative working relationship with the lenders. Sometimes it helps to use real life examples. If a loan is beginning to exhibit issues, I'll either inform the respective lender or address it in a nonjudgmental group setting with the lenders so that we can use it as an example for future transaction. The same goes for performing deals: What positive lessons can we learn from this? How can we apply them going forward? In the end, we are all working toward the same goal: get a deal that works out according to what we're underwriting.

EM: A lot of your lending is NOT on LIHTC projects, but rather to small nonprofits and mom-and-pop small-scale multifamily real estate owners. Are there lessons you can share about how to make credit decisions about and oversee portfolios of that type of property?

IDEA: To help create an ownership (rather than solely development) focused culture, build into the success measures for your Development staff some look-back at how well "their" deals did/didn't perform.

JE: I think the credit decision for any type of real estate investment must address the 5 C's: Capital, Collateral, Character, Conditions, and Capacity. Secondly, know and communicate your process; from the time you accept an application until closing and how the loan will be managed until maturity. Ideally, have the process and timeline written, along with who's responsible for each step.

IDEA: As developers, we can look into the lender's playbook. CDFIs are really focused on whether money has been repaid, so they set up a strong Credit function that goes between the "front-end" side and portfolio oversight side. Performance vs underwriting is really central to the lender's business, so they set up the upfront decision-making to accommodate that.

Lastly, know your applicant. The Loan Committee is largely basing its decision on the written loan presentation, so include enough about the Borrower's portfolio that it will give the Committee the confidence that it's a good deal. Also, know the dynamics of your Committee. Anticipate their questions, based on prior interactions, and be prepared to address them with the goal of getting the deal approved.

As for portfolio management, the key is accurate, consistent and independently-produced (i.e., system-supported) reporting and routinely analyzing that data to make certain the portfolio is effectively managed. Then [we can] take action in accordance with CIC's policies and overall risk appetite.

EM: Do you have any thoughts as a loan-side person on what the developer-side asset management folks should know?

JE: I'm always of the belief that it's good to know entire process from loan origination to loan closing to final payoff/liquidation. Attend a Loan or Investment Committee meeting, and/or request to be added to the distribution list to receive a copy of the Loan Presentations sent to committee members (and read them). This will allow you to get a different perspective, and to understand what's in the pipeline and be prepared.

TIDBIT: It's important not only to do your homework in preparing something to go to Loan Committee, but also that you've established a track record of having always done your homework in the past so that they trust that if you're putting a deal in front of them, it's been well-vetted.

EM: Has anything changed substantially for you in the COVID era?

JE: We offered a Borrower Assistance Program (BAP). Essential workers account for a lot of the tenants of our Borrowers. We've encouraged all our Borrowers to have reserves, but we're long past the obligatory 3-5 months of reserves. The government's eviction moratorium is great on the tenants' side, but on the landlord side, the concern is how do I enforce collecting rent to keep my loan current? To address this, CIC designed the Borrower Assistance Program. We created a process flow chart and ensured that everyone, from Loan Officer to Closer, was involved in the creation of this process along with the written procedures. This was done in order for us to anticipate and adapt to the effects of the pandemic. So rather than communicate to our borrower, "Hey, you're 30 days late, pay the amount due!" instead we have a structure where we can inform our borrowers about BAP and how to assist them through this program. It's a 3-month loan deferral repaid over a two-year period. Our Loan Committee approved this program because it provides immediate assistance, requires minimal paperwork on behalf of the borrower, and consists of a reasonable repayment structure.

The current situation also helped us transition from being primarily dependent on hard copy documentation. We're also improving our lockbox process, providing more options for electronic payments and monthly statements.

This whole lens helped us think more carefully about what we need to be doing to be effective. For instance, when COVID-19 first hit, all of our Loan Officers shifted to take on basic asset management responsibilities. For example, 30-day collections check-ins. And in doing that, they have the opportunity to revisit their deals and see how they are performing post-closing. This was also a good impetus for us to make sure that Loan Officers have access to the Asset Management data system, so they can actually go in and see what the asset managers see, for instance about 'this borrower is chronically 30 days past due.' This has helped the Loan Officers become even more informed about how their deals are performing.

Jerri Edwards is the Vice President and Director of Credit Administration for CIC in Chicago, responsible for managing the credit quality of its loan portfolio and overseeing all aspects of credit administration and risk. She previously served as Senior Credit Officer for New Markets Support Company, an affiliate of LISC. Prior to that she was the Senior Director and Chief Credit Officer of Seaway Bank and Trust Company, the largest African-American and woman-owned bank in the US. Her prior experience includes managing distressed asset portfolios, lending, credit analysis and underwriting at several financial institutions.
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Elaine Magil is the Director of the Advisory & Transactions practice at TCAM, an MRI company, a leading provider of asset management and consulting services to the affordable housing industry. At TCAM, Elaine is responsible for dozens of consulting projects, working with state and local housing agencies, large housing authorities, capital providers, and housing developers. She also leads TCAM's third-party underwriting work in support of property acquisitions, valuations, and dispositions, including on unrestricted ("naturally occurring") affordable housing and Year 15 investor exits. Prior to joining TCAM, Ms. Magil was a Senior Associate at a national LIHTC syndicator, and previously worked in program management as well as direct client service at community development nonprofits.
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CIC is the leading lender for the acquisition, rehabilitation, and preservation of affordable rental housing in the Chicago metropolitan area. Since 1984, CIC has provided $1.5 billion for 2,500 loans, to rehab and preserve more than 63,000 units of affordable rental housing for 157,000 people. Its Multifamily Loan Program provides first mortgage financing and its primary market niche is the privately owned rental housing (generally, 5 to 100 units) that constitutes the vast majority of affordable rental housing in Chicago and across the country.

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