**Quick Start Guide for the**

**Resilient Community Development Finance**

**Model Due Diligence and Underwriting Toolkit**

**Introduction**

The Model Due Diligence and Underwriting Toolkit 2.0 for Resilient Community Development Finance has three components:

1. The Model Due Diligence Checklist is a recommended list of documents and information to be obtained and analyzed by the lender.
2. The Model Credit Memo is the ultimate presentation of the lender's analysis and recommendations to its decision-making body.
3. The Project Intake, Analysis, and Optimization Workbook bridges the Due Diligence Checklist and the Credit Memo, providing a repository for key information and serving as an analysis and structuring tool.

The Toolkit is intended as a model template for adoption or adaption and integration by the lender. Many lenders already have a process for gathering, collating, and analyzing much of the information listed in this workbook. Lenders may wish to modify their existing materials to reflect all or some of this Toolkit. Others may wish to adopt the Toolkit as a whole, substituting the Toolkit’s components for their current materials.

More information and instructions for how best to use these tools, as well as best practices, data sources, resilience-building strategies, and other information are available on the **Resilient Community Development Finance Resource microsite**.

**Model Due Diligence Checklist**

**Purpose:** This template is intended to assist the lender in gathering all information necessary for a robust credit analysis. Further, this model due diligence checklist suggests that the lender gather information that will allow the lender to identify opportunities to invest in “precovery,” measures that will reduce risk and increase positive outcomes.

While some lenders may choose to adopt this template wholesale, many lenders will adapt this template to fit their needs or just use it as a model as they revise their existing materials. It is likely that this Checklist will need to be augmented to include materials specific to a particular asset type or lending sector.

**User:** This template is intended to be used by a lender as part of its underwriting and approval process. The Checklist is designed to be used internally by the lending team and could be sent to a potential borrower.

**Instructions:** Applicants should provide the following reports, documentation, and information to the extent available. If something is not applicable, write “NA”. If an item is in process but not yet available, the applicant should provide the status and expected date.

**Project Intake, Analysis, and Optimization Workbook**

**Purpose:** This workbook is intended to help a community development lender strengthen its due diligence and underwriting processes and communicate its findings and recommendations to its decision-making body. While some lenders may choose to adopt this workbook wholesale, many lenders will adapt this work to fit their needs or just use it as a model as they revise their existing materials. The template may need to be augmented or modified to for a particular asset type or lending sector.

**User:** This workbook is designed to be used by a community development lender as part of its due diligence and underwriting process.

**Instructions:** The lending team should use this workbook to track its due diligence and collect information, to analyze its findings, and to structure and optimize the project/deal. The template should be augmented or modified as needed for the lending sector, asset type, or specific loan/project.

**SEE THE CHART BELOW FOR MORE DETAILED INSTRUCTIONS ON EACH TAB OF THE WORKBOOK.**

**Model Credit Memo Template**

**Purpose:** This Template is intended to help a community development lender strengthen its underwriting process and communicate its findings and recommendations to its decision-making body. While some lenders may choose to adopt this template wholesale, many lenders will adapt this template to fit their needs or just use it as a model as they revise their existing materials. The template may need to be augmented or modified to for a particular asset/project type or lending sector.

**User:** This template is designed to be used by a community development lender as part of its underwriting and approval process.

**Instructions:** The lending team should use this template as an outline for communicating findings and recommendations to its decision-making body. The template should be augmented or modified as needed for the lending sector, asset type, or specific loan/project.

**Project Intake, Analysis, and Optimization Workbook**

The chart below provides detailed instructions for each tab of the Workbook.

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| --- | --- | --- | --- | --- |
| **Tab** | **Stage in Process** | **Name** | **Purpose** | **Instructions** |
| 1 | Information and data capture | Due Diligence Tracking and Report | Use this tab to track the documentation, reports, and information requested from the applicant, what has been received, what has been reviewed, follow up needed, etc. | When a report, document, or information has been requested, update the status to “requested”. Once the item has been received, update the status to “received”, and so forth as the information is reviewed and processed. Capture important highlights as well as follow up needed. |
| 2 | Information and data capture | Loan/Deal Information Summary | This tab is designed to give a high-level summary of the project/deal. | Enter high-level information about the project/deal to give an “at-a-glance” summary. |
| 3 | Data capture and Analysis | Applicant/Borrower Information and Assessment | Capture and analyze data related to the borrower’s ability to execute its plans, develop a successful project, and repay the requested loan. | Enter information relevant to the borrower’s ability to execute of its plans, develop a successful project, and repay the requested loan, capturing factual information and subjective assessments, as appropriate. Make sure to capture vulnerabilities as well as strengths. |
| 4 | Data capture and Analysis | Project/Business Information and Assessment | Capture and analyze data related to the project-business’s ability to execute its plans, develop a successful project, and repay the rent or fees that ultimately support the loan. The project-business may be an anchor tenant, a crucial counterparty such as the power purchaser for a solar project, or the project sponsor, if the applicant-borrower is a special purpose entity. | Enter information about the project/business, if the project/business is different than the borrower, capturing factual information and subjective assessments, as appropriate. Include information relevant to the project’s/business’ ability to execute on its plans, operate successfully, and repay the requested loan. Make sure to capture vulnerabilities as well as strengths. |
| 5 | Information and data capture | Operations and Management Assessment | Capture and analyze information related to the operations and management of the project/business and the capacity of the entities and key individuals responsible for managing the project. | Enter information about entities and individuals responsible for managing the project, including owners and/or board members of the applicant-borrower and of the project/business, if the project/business is different than the borrower, capturing factual information and subjective assessments, as appropriate. Include information relevant to the project’s/business’ ability to execute on its plans, operate successfully, and repay the requested loan. Make sure to capture vulnerabilities as well as strengths. |
| 6 | Information and data capture | Property Assessment | Gather and evaluate information about the property being financed. With this worksheet, the lender can assess the strengths and weaknesses of the property's existing conditions, project likely property performance as-is and as-improved, and identify opportunities to improve the property's resilience. | Enter information about the property being financed. Skip any sections that are not relevant. Concentrate on collecting the information necessary to evaluate the property's existing conditions, project likely property performance as-is and as-improved, and identify opportunities to improve the property's resilience. |
| 7 | Data capture and Analysis | Shocks and Stresses Risk Assessment | This Assessment is intended to be used by a community development lender to better understand the assets and vulnerabilities of the community that hosts a financed project. The scale of community appropriate for assessment ranges from the neighborhood to county-level, with some exceptions for multi-county regions or entire Tribal communities/reservations. | Enter the property’s/business’ address into the Enterprise Portfolio Protect Risk Analysis tool and enter the results in the last chart at the bottom of this tab. Working your way up, use the next two charts to identify and assess chronic stresses and acute shocks that could affect the project’s performance or impact. Consider the potential cascading effects from the interaction of potential shocks and stresses and assess the level of risk to the project; enter the results in the “Overall Risk Analysis” chart. Finally, at the top of the tab, capture the key chronic stresses and acute shocks that could affect the project’s performance or impact, and explain how and to what extent each has been investigated and evaluated. |
| 8 | Information and data capture and analysis | Sources and uses | This tab is a tool for the lender to evaluate and communicate the financial feasibility of the project related to the development budget. The tool allows the lender to show whether the project has a budget deficit or a surplus. It also communicates how secure each source of funding is. Finally, it enables analysis of how realistic the budget is and the level of certainty around project costs. | In the table below, enter the proposed sources and uses of project financing. Then, in the "status" column under "use of funds", describe the level of certainty around both the use of the funds and the expected cost. For example, the status for "land and/or building purchase" could be "advertised sales price", "letter of intent", "purchase agreement", appraised value", or "applicant estimate". In the "status" column under "sources of funds", describe the level of certainty that the funds have been secured and will be available when needed. Possible entries for "status" could include: application in process, committed/awarded, in restricted borrower account, borrower general funds, etc. If this information is already available elsewhere, feel free to just reference and attach the external sources and uses. |
| 9 | Analysis | Financial analysis |  | Enter your organization’s financial analysis template here. |
| 10 | Analysis | Collateral and security |  | Enter your organization’s collateral and security analysis template in this tab. |
| 11 | Analysis | Construction |  | Enter your organization’s construction budget and draw schedule templates here. |
| 12 | Information and data capture and Analysis | Mission fit and impact | Before one can assess whether a project will perform reliably and deliver intended outcomes in both routine and extraordinary situations over the full lifecycle of the project, one must define the desired performance and intended outcomes. This tab is designed to guide and capture such an impact analysis. |  |
| 13 | Structuring and Optimization | Lender's levers worksheet | This worksheet is designed to help lenders to use the levers at their disposal to design the deal/project to maximize the beneficial impacts for all involved, and to eliminate or reduce any potential negative impacts. The worksheet asks the lender to consider financial terms and structuring, physical design and specifications, and systems and operations as the three levers available to strengthen a deal or project. |  |
| 14 | Structuring and Optimization | Deal/Project Performance Optimization Tool | The tools on this tab have been designed to help the lender think through the highest priorities and objectives of each of the stakeholders for a particular deal and to use the levers at its disposal to design the deal/project to maximize the beneficial impacts for all involved, and to eliminate or reduce any potential negative impacts. |  |
| 15 | Data capture and Analysis | Due diligence and community engagement process evaluation | This tab is designed to help the lender to capture key information and assess the due diligence and community engagement process used for this loan. |  |
| 16 | Structuring and Optimization | Reliable performance and preparedness evaluation | Financed projects should be prepared for all foreseeable circumstances to the extent feasible and should perform as intended, delivering the desired impacts. This tab has been designed to help a lender evaluate the extent to which its projects have been designed to achieve their primary objectives for their defined client/target market decisions in both routine and extraordinary situations under all reasonably foreseeable conditions over the delivery lifespan. |  |
| 17 | Structuring and Optimization | Systems impact evaluation | Resilient community development finance best practices require that all projects be structured responsibly to positively affect the community and greater system and that, in fact, all projects support the well-being of the community resulting in stronger, healthier, more equitable communities and greater systemic resilience Further, projects should be structured to avoid or limit negative cascading events and unintended consequences. This tab has been designed to help a lender evaluate whether the deal/project has been structured to deliver maximum positive benefits and minimal negative effects to the community and system at large. |  |