



# Valley Economic Development Center

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## *Growing a Microloan Program*

NCDLS • March 14-17, 2010  
New Orleans, LA



# Micro Lending

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## History

- **Year Established:**      **1998**
- **Production**
  - Total Loans Funded as of 12/31/09: 615
  - Total \$\$ Funded as of : \$5,925,495
  - Average Loan Amount:                      \$10,461
  - % of Minority Business                      : 45%
  - % of Women Business                        55%
  - % Start-up in :                                      42%



# Micro Lending

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- **Funding**

- SBA Funding as of 12/31/09: \$3,750,000

- **Collections**

- Total # of Loans Written-Off to Date: 21

- % of Write-Offs: 6.67%

- Total # of \$\$ Written-Off to Date: \$179,076

- % of \$\$ Written-Off : 4.56%



# Micro Lending

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## Impact

- **Hybrid program of lending**
  - Achieve volume of microlending
  - Credit, collateral, cashflow plus character
  - 93% payback
- **Participation with other funding sources**
  - Maximum funding, minimum risk



# Micro Lending

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## Issues

- **High cost of operating a microloan fund**
- **How to go to scale**
- **Achieving sustainability**
- **Controlling defaults**



## Loan Servicing

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- **Portfolio Management**
  - **Invoicing**
  - **Payment collection and posting**
  - **Tickler system**
  - **Contact management**
  - **Loan software**



## Loan Servicing

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- **Annual Portfolio Review**
  - Annual review to determine current status of borrower
    - Annual submission of tax returns
    - Annual site visits
    - Annual review of credit reports, UCCs expirations
    - Update cashflow vs. projections



# Loan Servicing

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- **Constant Monitoring of Delinquencies and Defaults**
  - Calls or visits once payment is 5 days past due
  - Late Letters at 45 and 60 days past due
  - Default letter and call at 90 days
  - Acceleration at 105 days
- **Target of >15% delinquency; >5% net chargeoffs**





# Collections

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- **Collateral analysis**
  - **Vehicles and equipment**
    - Market value less repossession and sale costs
  - **Trust Deeds**
    - Market value less senior liens and sale costs
    - Consider arrangements with senior lenders to avoid foreclosure
- **Recommended action**



## Collections

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- **Liquidation of collateral at 120 days**
  - **Repossession of vehicles or equipment**
  - **Foreclosure of real property**
  - **Legal action i.e. judgments and small claims**
  - **Collection Agency**



## Collections Case Study

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- **ABC Company received a \$10K Microloan**
- **ABC Company secured the loan with a vehicle valued at \$10K and a UCC filing valued at 2K.**
- **Servicing**
  - Once the payment was 5 days past due the borrower was called.
  - A Late letter was mailed out when the loan became 45 and 60 days past due.
  - A Default letter was mailed out, certified mail, and the borrower was given 15 days to cure.
  - An Acceleration letter was mailed out, certified mail, and the borrower was given 15 days to payoff.



## Collections Case Study

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- **When the Acceleration letter for ABC Company expired there was a current loan balance of \$8K**
- **Collateral Analysis**
  - Current value of vehicle was \$5,500
  - Less: Cost to Obtain vehicle \$500
  - Current value of UCC was \$2,000
  - Less: Cost to obtain equipment \$150



## Collections Case Study (cont.)

### Recommended Action

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- **Reposessed Vehicle (Best Asset)**
  - Sold Vehicle for \$5,000
  - Applied to Loan Balance with a \$3,000 deficit.
- **Liquidated Equipment**
  - Sold Equipment for \$1,850
  - Applied to Loan Balance with a \$1,150 deficit
- **Deficiency: \$1,150**
- **Small Claims Court**
  - Obtained a Judgment
  - Judgment impacts all future credit transactions



## Recommended Action (cont)

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- **Borrower attempts to refinance to a lower rate**
  - Judgment prohibited action without VEDC's cooperation
  - VEDC worked out a payment plan with borrower to pay all outstanding principal owed



# Marketing

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- **Growing the Business**
  - **Website**
  - [www.vedc.org](http://www.vedc.org)
  - [www.microloan.org](http://www.microloan.org)
  - [www.wheresthemoneyinLA.com](http://www.wheresthemoneyinLA.com)



# Marketing

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- **Events**
  - **Where's the Money? Access to Capital Expo**
  - **Grand Openings**
  - **Ribbon Cutting Ceremonies**
  - **Check Presentations**





# Marketing

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- **Partnerships:**, U.S. SBA, Banks, Community organizations
  - Referrals
  - References
  - Resources
- **Partnerships Bank denials**
  - Turndowns
  - **Concept: provide banks an alternative to saying “No”**



## Technical Assistance

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- **All approved borrowers are required to participate in an Entrepreneurial Training Program**
  - Six weeks, one night weekly for 3 hours
  - One all day Saturday class
  - 10 hours of One on One consulting



## Technical Assistance

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- **One on One Consulting**
  - **Women's Business Center**
  - **Downtown Capital Access**
  - **Any reputable government, educational or non profit resource, chamber of commerce, business advocacy group**



# Growing the Business

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- Critical Issues:
  - Approaches
  - Funding
  - Staffing
  - Operations



## Growing the Business

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- Single Product Lender
- Multiple Product Lender
- Business Development Organization: TA and Lending
- JV between community organization and micro lender



## Growing the Business

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- SBA Micro lending Program 7(m):
- CDBG, EDA, USDA
- Bank Contributions and Investments, inc. EQ2s
- Foundation grants and Program related investments
- CDFI Fund



## Growing the Business

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- Loan Officers: acctg, finance skills
- Business Development/Customer Service: good outreach and business acumen
- Loan Administrator: familiarity with Trust Deed filings, UCC, vehicle registration, loan documentation
- Collections: ability to deal with the hard part of the business



## Growing the Business

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- Management: Financial management experience
- Loan Committee development
- Loan policies that control losses, but encourage more and more lending
- Short term: Generate sufficient net interest income to cover losses; seek grant support for operations
- Long Term: Generate sufficient net interest income to 66% of program costs.