



Building Bridges in Low- and Moderate-Income Communities

By Stanley Tom, Valley Small Business Development Corporation

Operating a small business in today's dynamic marketplace is a difficult venture, and in low- and moderate-income communities, the challenges multiply. Often, pockets of business are isolated, the storefronts are a bit worn, and municipal infrastructure is dilapidated. Small business owners in these communities, many of whom are first-time entrepreneurs and new Americans, often need financing from outside sources to help them grow their businesses.


Collaborations between financial institutions, financial intermediaries, and other service providers . . . can result in effective methods of increasing access to education as well as to financial tools.

To qualify for commercial capital, however, financial institutions require high credit scores, strong net worth, adequate cash flow and sufficient collateral. Unfortunately, for those small business owners who do not fit the traditional profile served by financial institutions, these requirements act as barriers. In the face of these barriers, small business owners may seek or impulsively accept credit card offerings and solicitations from payday or cash advance offices. Depending upon how the small business owner manages these alternative financial resources, they can help or can become a burden.

An important community development trend has been the creation of safer alternative sources of capital through loan pools designed for start-ups and small businesses. These loan pools, which are typically managed by nonprofit lenders or governmental agencies and offer flexible underwriting standards, bridge the short-term needs of small businesses until they can qualify with traditional lenders. The pools are capitalized by CRA-eligible investments from financial

institutions, government funds, grants and internally generated funds. Some of the most flexible loan funds are created through Community Development Block Grants (CDBG), U.S. Department of Agriculture Rural Business and Enterprise Grants (RBE), and foundation grants. Targeted to borrowers in specific geographies or income-brackets, the funds offer attractive features for borrowers, such as longer terms, low or no loan fees, and below or comparable commercial market rate interest. To qualify for these loan funds, small business owners must prepare and gather a loan package. At a minimum the loan package must answer the following questions: does the small business owner have the ability to repay the loan and does the small business owner have the strength of character, as demonstrated by a credit report, to repay the loan.

Small business owners may need assistance not only in assembling information for a loan package, but also in generally boosting their financial literacy skills so that they can eventually qualify for financing from mainstream institutions. Collaborations between financial institutions, financial intermediaries, and other service providers, such as educational institutions, chambers of commerce, community organizations and government agencies, can result in effective methods of increasing access to education as well as to financial tools. These institutions can partner to provide topic-specific workshops and training, one-on-one counseling, trouble-shooting and operational review for small businesses, all of which can help owners learn how to improve operating margins and increase revenue. Participating financial institutions benefit by both learning the special needs of the small business community and receiving valuable input on how to improve their financial services to these potential customers.

The networks created through these collaborations improve the capacity of the service providers working with small business owners and help owners access the financing and information they need if they are to grow their businesses. They also create forums for exploring and exchanging ideas that benefit all participating parties. Ultimately, these partnerships build the bridges that will help small businesses in low- and moderate-income communities succeed. 

Supporting Hispanic Entrepreneurs in the Central Valley

Helping an entrepreneur access the resources to grow his or her business is no simple task. For immigrant entrepreneurs, many of whom have little or no prior experience using U.S. financial institutions, the hurdles are more daunting. But Wells Fargo Bank, the Fresno Area Hispanic Chamber of Commerce, and the Valley Small Business Development Corporation (VSBDC) have partnered to expand delivery of services and credit to Hispanic entrepreneurs in the Central Valley.

VSBDC, which administers 15 loan and loan guarantee programs directed to small businesses in nine counties in the Central Valley, was working in 2003 with Hmong farmers in the area. One of their loan officers was able to conduct outreach, and thereby extend loans, to the Hmong community, but the organization did not have the capacity to do the same kind of culturally and linguistically appropriate outreach for Hispanic entrepreneurs. The Fresno Area Hispanic Chamber of Commerce, on the other hand, had built trust and developed strong relationships within the Hispanic small business community, but did not have the capacity to extend loans to those having trouble accessing the capital needed to start or grow their businesses.

With the help of Wells Fargo Bank, an innovative partnership was developed between the two groups as a way to make the most of each organization's assets. Wells Fargo provided an initial \$250,000 equity-equivalent (EQ2) investment to VSBDC for a revolving loan pool, which was to be administered by the Hispanic Chamber of Commerce. On its own, the Chamber could not qualify for the capital needed for a loan program, but with VSBDC acting as the intermediary, the Chamber is now able to serve as the "face" in extending microloans to the Hispanic community. The Chamber, which does a great deal of outreach to Spanish-speaking business owners and can accept loan applications in Spanish, established a loan committee of community "peers" who make determinations on loans held by VSBDC.

The program has taken off—indeed, the initial pool of capital was disbursed within the first 30 days of the program's existence. Since then, Wells Fargo has invested an additional \$500,000 in the program and the Chamber has consequently seen hundreds of clients and made 35 loans; out of these, only one has defaulted. This is in large part due to the Chamber staff's ability to provide continual follow-up with clients, which has generated a high level of accountability among borrowers. "Clients come to the Chamber and share their personal stories, and we are able to build relationships with them," said Dora Rivera, Executive Director of the Fresno Area Hispanic Chamber of Commerce. "We have the flexibility to help clients get through hardships...and we can provide the hand-holding and encouragement to make sure that clients meet their obligations." Another important feature of the Chamber's program is that they have established a loan-loss reserve fund to protect VSBDC from delinquencies and losses.

"We have the flexibility to help clients get through hardships...and we can provide the hand-holding and encouragement to make sure that clients meet their obligations."

This partnership has been beneficial for all those involved. The Chamber has become a "one-stop-shop" providing loans, technical assistance and outreach to clients, and has been able to attract other funding necessary to operate its programs. Its future plans include opening a business incubator facility in the city of Fresno. In addition to learning how to better manage business finances, borrowers are able to get the training and mentorship they need to become comfortable with mainstream banking institutions, and VSBDC is able to reach a market they were otherwise not able to adequately access. For its part, Wells Fargo is able to meet CRA requirements in an innovative way and sees opportunities for creating new bank customers and cross-selling other products. Tim Rios, Vice President of Wells Fargo's Community Development Group, said, "It's not a cinch to start these programs and it has taken the support of many institutions, but the Chamber has become a mini-powerhouse... CRA stories just don't get any better than this."