Valley Economic Development Center

Growing a Microloan Program

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

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

- **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%
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

Issues

• High cost of operating a microloan fund
• How to go to scale
• Achieving sustainability
• Controlling defaults
Loan Servicing

• Portfolio Management
  – Invoicing
  – Payment collection and posting
  – Tickler system
  – Contact management
  – Loan software
Loan Servicing

- **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

- 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

- **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

- 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

- 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

• 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
Recommended Action

- **Repossessed 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)

- **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

• Growing the Business
  – Website
    – www.vedc.org
    – www.microloan.org
    – www.wheresthemoneyinLA.com
Marketing

• Events
  – Where’s the Money? Access to Capital Expo
  – Grand Openings
  – Ribbon Cutting Ceremonies
  – Check Presentations
Marketing

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

• 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

• 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

• Critical Issues:
  – Approaches
  – Funding
  – Staffing
  – Operations
Growing the Business

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

- 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

• 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

- 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.