

How to Become a Microloan Intermediary & Success Stories



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Why Microloan Intermediaries are Important

- SBA is committed to supporting small businesses and entrepreneurs -- particularly in underserved communities.
- Microloan Intermediaries in these communities can provide local lending options to entrepreneurs who are trying to start a business and who might otherwise not be able to access capital.



Why Microloan Intermediaries are Important

- SBA and Department of Commerce studies have shown the importance of lower dollar loans to small business formation and growth in underserved communities.
- These entrepreneurs often just need \$50,000 or less to get a business started.
- SBA has heard from its 7(a) lending partners that the paperwork and processing time involved frequently means that it is not cost effective to make a low dollar SBA loan.



How: Do you qualify?

- Must be a non-profit.
- Must have **a year or more of experience** making and servicing loans of **\$50,000 or less**, and providing **training and technical assistance** to your borrowers.

SBA must ensure that its partners have the appropriate experience and judgment to lend government funds.

3 major steps to take before you can apply to become a Microloan Intermediary

STEP 1

Develop your organization's capabilities, including establishing non-profit status and building staff.

STEP 2

Raise funds and begin making small loans of \$50,000 or less.

STEP 3

Act as counselor and servicer to your borrowers, providing technical assistance and training while simultaneously collecting regular payments.



STEP 1

Develop your organization's capabilities

- An organization must be a legally incorporated non-profit organization.
- Eventually, you will need at least 3 staff members devoted to your lending operation:
 - A person to raise funds and work with your board of directors.
 - A person to evaluate loan applications and make loans, as well as provide assistance and counseling.
 - A person to service loans (collecting payments and negotiating terms), as well as provide assistance and counseling.



STEP 2

Raise funds and begin making small loans

- Funds can usually be raised from one of three sources.
 1. Your community.
 2. Private lending institutions.
 3. Non-profit, grant making organizations.
- It is often best to start by making small loans. Making \$50,000 loans is not a requirement for SBA funding. Most successful intermediary applicants have made at least 5-10 microloans at the time they submit their application.

Loans from SBA to the Intermediary

- Base rate is the 5 Year Treasury Bill Rate
- Rate bought down (discounted) by 2% if the portfolio of microloans averages \$10,000 or less
- Rate discounted by 1.25% if portfolio of microloans averages more than \$10,000

The Discounted rate is known as the “Cost of Funds”



Loans from Intermediary to Microborrower

- Loan of \$10,000 or less may be charged up to 8.5% over the intermediary's cost of funds.
- Loan of greater than \$10,000 may be charged up to 7.75% over the intermediary's cost of funds.





STEP 3

Act as trainer and servicer to your borrower

- It is simply not enough to make loans. An SBA Microloan Intermediary must also perform two critical functions:
 - Provide ‘training and technical assistance’ to your borrowers.
 - Service your borrowers’ loans.



Success Story #1

Economic and Community
Development Institute (ECDI)

Columbus, Ohio

Inna Kinney, Founder & CEO

<http://www.ecdi.org/index.html>

- 1998:** Started as the Business and Asset Development Division of Jewish Family Services (JFS); provides Microenterprise Development Training to Columbus' immigrant population with support from ODJFS
- 2004:** Outgrows JFS' mission and incorporates as its own entity, ECDI
- 2005:** Becomes US Treasury Certified CDFI; contracts with City of Columbus to provide microloans to Columbus-based businesses; **Becomes SBA Microloan Intermediary**
- 2009:** Receives SBA PRIME funding to expand training programs

Currently, ECDI manages 13 distinct loan funds, including funds from:

- SBA
- HHS Office of Refugee Resettlement
- HHS Office of Community Services
- Ohio Dept. of Dev.
- City of Columbus
- Franklin County
- Huntington Bank
- The Calvert Fdn.
- The Columbus Fdn.
- KeyBank
- Anonymous Donor
- ECDI Employees
- Invest Local Ohio



ECDI Today

Through its access to capital programs such as business lending and IDA grants, **ECDI has helped start or expand over 2000 business and create over 4000 jobs.**

ECDI's Small Business Loan Program provides loans ranging from \$500 to \$100,000 to underserved entrepreneurs.

Since 2004, ECDI has made over \$9.5 million in loans to around 550 businesses.



Success Story #2

Cooperative Business Assistance
Corporation (CBAC)

Camden, New Jersey

Michael Diemer, Executive Director

www.cbaclenders.com

Resources to Help You

- You might want some help, if you are reluctant to do it from scratch.
 - Association for Enterprise Opportunity (<http://www.microenterpriseworks.org>)
 - Feel free to contact your local SBA district office (www.sba.gov)
 - You may also want to contact Microloan Intermediaries in your area to discuss the challenges they faced getting started and the resources they used. The link is available at:

<http://www.sba.gov/sites/default/files/Microloan%20Intermediary%20List.pdf>

Summary

A year or more of making and servicing loans + Providing technical assistance to borrowers + Ensuring you are appropriately organized and have developed appropriate policies and procedures

 Submit your application to become an SBA Microloan Intermediary!

- If you need more information, contact SBA's Microenterprise Development Branch at (202) 205-6485 or contact Jody Raskind at jody.raskind@sba.gov