

# How to Become a Microloan Intermediary & Success Stories



U. S. Small Business Administration – [www.SBA.gov](http://www.SBA.gov)

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1. Why Microloan Intermediaries are Important
2. How to Apply to be a Microloan Intermediary
3. Success Stories
4. Resources
5. Summary and Next Steps



# 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.

# How: Do you qualify?

## 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](http://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](http://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](mailto:jody.raskind@sba.gov)