

How to Become a Microlender Intermediary



The U.S. Small Business Administration (SBA) offers a Microloan Program that provides microloans (loans of \$50,000 or less) to small businesses by way of a network of private non-profit community and faith based lenders (subject to availability of funds). The SBA makes loans to these Intermediary Lenders, enabling the lenders in turn to make loans to small business borrowers. Organizations selected to participate as lenders may receive grant funding to provide training and technical assistance to their microborrowers.

In 2010, SBA microlenders provided almost \$45 million to more than 3,800 businesses throughout the nation—a tremendous success story; one that helped create or retain more than 13,000 jobs. To support this effort, SBA accepts applications from organizations that would like to become microlenders, and this short guide is designed to help you begin that process.



To apply to become an SBA microloan intermediary, you 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. Though SBA is always ready to work with organizations that would like to become microlenders, it cannot waive these requirements. SBA must ensure that its partners have the appropriate experience and judgment to lend government funds.

There are three major steps to take before you can apply to become a Microloan Intermediary:

1. Develop your organization's capabilities, including establishing non-profit status and hiring staff.
2. Raise funds and begin making small loans of \$50,000 or less.
3. Act as counselor and servicer to your borrowers, providing technical assistance and training while simultaneously collecting regular payments.

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 to a list is available at: <http://www.sba.gov/sites/default/files/Microloan%20Intermediary%20List.pdf>. Ultimately, to become an SBA microlender, you will have to demonstrate that you are qualified to lend government funds and are capable of performing all of the associated tasks.

Develop your organization's capabilities.

To be eligible to become an SBA microloan intermediary, an organization must be a legally incorporated non-profit organization. Many faith based organizations choose to incorporate a subsidiary organization in order to protect themselves from financial and reputational risk, but this is not required.



Eventually, you will need at least three 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.

Raise funds and begin making small loans.

This can be the most daunting part of the process, especially for organizations with little or no experience fundraising. Funds can usually be raised from one of three sources:

Your community. This is often the easiest place to start. Try ‘passing the plate’ or setting aside a portion of regular donations to begin building your loan fund.

Private lending institutions. A number of local, regional and national lending institutions have devoted funds to help develop American microenterprise.

Non-profit, grant making organizations. National foundations have a history of providing grants to support economic development, including support in building your training capacity. The Association for Enterprise Opportunity (<http://www.microenterpriseworks.org/>) may be a useful resource for finding these foundations.

It is often best to start by making small loans: loans under \$5,000 are easier to finance and pose less risk to your financial stability than loans of \$25,000 or \$50,000. Making \$50,000 loans is not a requirement for SBA funding. In fact, the average SBA microloan is just under \$12,000. Most successful intermediary applicants have made at least 5-10 microloans at the time they submit their application.

Act as trainer and servicer to your borrowers.

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. You must assist small business borrowers by providing counseling, mentoring, and training—everything from helping them improve their business plans, to connecting them with accountants once they are in business.
- Service your borrowers’ loans. You must act as a professional lender, collecting payments of interest and principal, and negotiating—if necessary—adjustments in the terms of repayment.

These are areas in which it is critical to develop and acquire expertise. It may be worth hiring someone with this experience rather than attempting to build it from scratch. There are also several nationwide microenterprise associations that offer training on these tasks, including the Association for Enterprise Opportunity (<http://www.microenterpriseworks.org/>). Finally, SBA offers a wide range of resources to support small business borrowers; feel free to contact your local SBA district office for more information at www.sba.gov.

After a year or more of making and servicing loans, providing technical assistance to borrowers, and 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) 205-6495.

DISCLAIMER: Performing the above activities does not necessarily mean that your organization will be qualified to receive SBA funding. However, eligible organizations that submit an application and are not selected may work with SBA to strengthen their position for up to two years after application is made.

SBA cannot endorse any individual institution, public or private.

All SBA programs and services are provided on a nondiscriminatory basis.