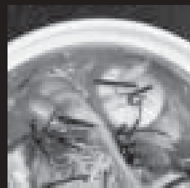
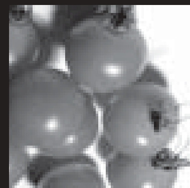
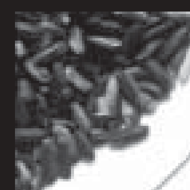
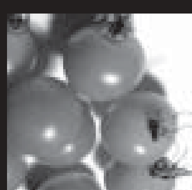




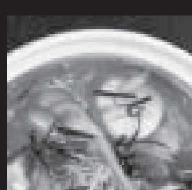
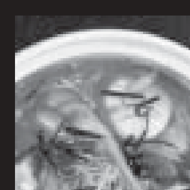


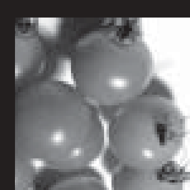

Microenterprise Lending

A Cookbook for Mutual Success





By Karen A. Dabson,
Phillip L. Black,
and Maria L. Hein






Presented by ISED Solutions in Cooperation with the Office of Refugee Resettlement

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Guidebook Design

Amanda Reid

Disclaimer

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Note

The words customer and client are used interchangeably in this document.

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Microenterprise Lending: A Cookbook for Mutual Success

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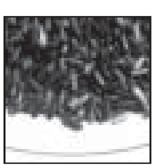

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*The forms are examples and should be the basis for your program developing its own materials and forms. No warranty is offered or conveyed with these documents.

Microenterprise Lending: A Cookbook for Mutual Success

Foreword

Embarking upon the world of microenterprise lending is not for the faint of heart, but when successful, it is undeniably one of the most exciting activities that an organization can undertake. For those working in the refugee world, we have seen firsthand how people's lives change through microenterprise development. Newcomers venturing to America with nothing to claim as their own have now acquired small businesses, homes, and vehicles. Most importantly, they have re-captured their self-worth and self respect while securing the dream of a stabilized lifestyle so precious to raising their children and living well.

Becoming involved in microlending is a balancing act between providing maximum access to capital for as many refugees as possible while developing and observing prudent loan policies that reduce the organization's exposure to risk and loss of precious funding. Fortunately, we know that microenterprise is a highly successful program among refugee participants. It is also, happily, a largely unregulated field. That means that you will have the freedom to design or refine a microenterprise program that most closely fits the market you are trying to reach.

The following story about immigrants and migrant workers, whose economic disadvantage often compares with refugees, and the group that serves them, is a good illustration of how to think about designing a lending program with products and services that meet community and market demand.

> Azteca Community Loan Fund works with budding businesses and helps move them toward mainstream operation. Two years ago, Azteca began making Pulga loans, literally "flea" loans to very low-income individuals involved in flea market-type businesses—fruit sellers, street vendors, backyard mechanics, and basket weavers. These informal businesses are often the brainstorms of Mexican migrant workers who elect to stay put in this impoverished area of Texas known as the Colonias. They have few resources and even less capital, but they have a lot of drive.
>
> Take Ricardo Pichardo. In Mexico, he was well known for his fine cabinetry skills, but in the U.S., he could not compete, because he needed certain specialty saws. Says Azteca[1a] CEO and President David Arizmendi[1b], "For underwriting such a loan, we looked at his work and experience, and felt it was good so [through a loan] we helped him buy $3,500 worth of equipment. He's doing really well, employing two relatives, *and* he has bought a house. Now he's ready for a second loan to try and enter the commercial market." Arizmendi added that Pichardo is a community builder because he is providing quality cabinets for the low-income community at an affordable price.
>
> Azteca is willing to underwrite informal businesses or very tiny microenterprises because they recognize the merit of rewarding initiative. Eventually, as borrowers grow their businesses, Azteca moves them along into more structured business planning, market development, and small business management activities.

"Coming from a troubled land, from the war, refugees find that microloan programs can help them get through the things that happened to them in the past by planning for the future. We help them to find a new life."

- **Elvir Kolenovic**, *Business Counselor, Business Center for New Americans, NYANA, New York City*

"Microenterprise lending can be a risky and frequently speculative adventure, but with proper preparation, it can lead to significant rewards for your customers, their communities, and your organization."

Much like Azteca recognized that its customer base needed a business lending program that relied on character and initiative more than their ability to write business plans, we encourage you to take an in-depth look at your target markets, and design a sound program that is still flexible enough to meet their needs. Use this cookbook as a guide to find inspiration in developing your own recipe for microenterprise lending – one that the consumer will use and appreciate in building a new life in the United States.

Recipes in an Imperfect Kitchen

When planning a gala dinner party for your friends, there are a number of questions that run through your head. They might range from the purpose of the gathering, to how many people to invite, to what kinds of foods they like, and what special recipes to cook—thinking of all the details that will add up to a delightful and successful evening for your company. Likewise in the world of refugee microenterprise, many different and somewhat specialized factors must come together in order to launch and sustain a successful microenterprise lending program.

Using the cookbook concept, this guide walks you through all the courses you will need to consider and plan in order to make your microenterprise lending program a reality. From mission to marketing to making and servicing loans, and everything in between, the "cookbook" for microenterprise lending offers ideas, practical shortcuts, exercises, and examples that will help you to formulate your own best plans for your refugee market.

Ideas and forms in this cookbook are intended for copying, and at the close of the book, the contact information for the authors is listed in case you have more questions as you design your own lending programs. All the forms that we refer to can be found in the Ingredients chapter at the back of this guide. In addition, the Table of Contents has been specially formatted to help you decide which sections to consider when using the cookbook as a reference.

Microenterprise lending can be a risky and frequently speculative adventure, but with proper preparation, it can lead to significant rewards for your customers, their communities, and your organization.

I. APPETIZERS: GETTING STARTED

A. Mission & Program Design

B. Planning in the Long Run

Like a great appetizer can be a sign of a fantastic feast to come, the preparations you put into your microlending program are indicative of its success. The chapter provides the recipes for developing mission statement and program design, and creating goals and objectives—the first and most important course of your microlending meal.

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Chapter I. Appetizers: Getting Started

For many non-profit refugee-serving organizations, “cooking up” a recipe for microenterprise lending will be a serious departure from the programs that they are accustomed to providing. The notion of assisting disadvantaged individuals with access to loan capital is an exciting one, but it is also a significant business risk for organizations. This guide will help you to think through how to reduce that risk while still attaining the mission that you set out to accomplish.

A. Mission & Program Design

Recipe for Mission & Program Design
Mission statement
Long term plans
Goals and objectives
Market
Service area
Availability of funds

Mission Statement

Begin preparing for a microenterprise lending program (referred to as microlending hereafter) by developing or refining a brief phrase that captures the essence of what it is that you are trying to accomplish. Whether or not you are an existing organization at the time that you take on a microlending program, a mission statement will be the beacon or guiding light that you will follow for many years to come.

Ask yourself whether your organization fits into one or more of the following categories:

- Community Development - working to improve the whole community through enhancements to business, infrastructure, housing, recreation, etc.
- Enterprise Development – working to start and grow businesses over time
- Economic Development – creating and retaining jobs through business development
- Social and Economic Justice – working on changes that improve the human condition.

Exercise

Ask yourself whether your organization fits into one or more of the following categories:

- [ ] **Community Development** working to improve the whole community through enhancements to business, infrastructure, housing, recreation, etc.
- [ ] **Enterprise Development** working to start and grow businesses over time
- [ ] **Economic Development** creating and retaining jobs through business development
- [ ] **Social and Economic Justice** working on changes that improve the human condition

All of these types of organizations have tried microlending. The extension of credit was new to some, and others were already conducting community lending of some kind. Whether new or existing, an organization should check to confirm that lending matches its original purpose and that it in no way affects its charitable standing or tax exempt position.

Organizational Culture

Chances are, most refugee organizations will fall under the category of Social and Economic Justice. For years, they have worked to obtain social and economic opportunities for the newcomers that approach them for service. An entire organizational culture has resulted that is very much oriented toward social services, which at times can run counter to the business focus of operating a microlending program.

For reasons of survival, and in the face of considerable risk, refugee microlending programs must take care to devise business plans that assess risk, and predict returns on investments (loans) that will contribute to retained earnings. On developing a return on investment (ROI), first, you must know how to calculate it! (Basically, incorporate all costs of microloan lending, and determine how much these are exceeded by what you earn on your spread and fees charged. Spread is the difference between your cost of money and what you are charging the customer in interest). Second, be sure that your operation is harvesting and keeping the data to calculate the ROI. Third, once you have the numbers, how will management use the information? It seems that many of us can calculate the ROI but then do not use it in managing the operation. Some questions you may need to ask yourselves are: Do we need to provide less service per customer, do we need to make more loans, do we need to raise the rates, have less debt, charge fees or more fees?

Business plans should include and involve senior organization staff at every step, but recognize that it will take time and patience, and repeated education efforts to have them fully understand and accept the benefits of a microloan program. A good way of proceeding may be on an incremental basis, enabling senior staff to make a series of decisions that will lead to the microloan program. One good place to start is with a mission statement for the microlending initiative.

Your mission statement ought to answer the global question of why you are in the microlending business in the first place. As we say in the French cookbooks, it is your “raison d’être.” Devising or changing a mission statement for your microlending program involves staff and board members because it is your pivotal purpose for existence. At refugee agencies, it is critically important to involve senior staff and board members as the other programs that they oversee may differ radically from a microenterprise program. Having them help conceive the mission statement, and goals and objectives for the microlending program will work as an education for them, and hopefully, as buy-in from the top for your program.

Exercise

Consider the following points when developing your mission statement, and write one-two word answers for each.

What is the program trying to do?

What is important to your board members, your potential customers, and your community?

What needs do you want to address, now and in the future?

Who are you trying to serve?

Look at the word lists that you have generated, and taking from each category, try to develop a mission statement that is brief, and easy to remember, but that contains all the key points. Please make it general as this will allow for greater flexibility as the program grows over time.

Consider the following points when developing your mission statement, and write one-two word answers for each.

- What is the program trying to do?
- What is important to your board members, your potential customers, and your community?
- What needs do you want to address, now and in the future?
- Who are you trying to serve?

Look at the word lists that you have generated, and taking from each category, try to develop a mission statement that is brief, and easy to remember, but that contains all the key points. Please make it general as this will allow for greater flexibility as the program grows over time.

Sample Mission Statement: *To promote and assist refugees and families from Southeast Asia to become self-sufficient and successful.*

- What is this organization trying to do?
- What seems to be important to them?
- What needs are they trying to meet?
- Who are they trying to serve?
- How many words long is their statement?
- Is it possible to remember their mission?
- Do you think this is a good mission statement?

Write your refined mission statement here

Recipe Point #1

Develop or refine a mission statement that communicates a quick understanding of your program or organization's critical importance to investors and customers.

"Microlending for refugees plays a critical role in the community and for the individuals involved. People come off of public assistance and become taxpayers, employers, and community role models thanks to opening their small businesses. No longer reliant on their children as interpreters, or put down for their lack of English, they regain the self-esteem, respect, and pride that is their due. Their children are able to attend universities or get jobs...they recapture the old values important to their way of life."

- Lalo Acevedo,
*Operations Director,
Fresno County EOC,
Fresno, CA*

B. Planning in the Long Run (pacing yourself when cooking in the kitchen)

Creating or revising and adopting a mission statement are critical to a program or to an organization's development as a microlender, whether or not it elects to develop a business plan. But as the authors of this work, we strongly encourage you to develop a business plan for your microlending program. It is the only thorough way to examine whether microlending is right for you.

Since most of you are familiar with business planning, we will not reiterate the step-by-step process here, but merely mention a few items that we feel will guide the development of your program. Chiefly, we mention business planning because we want you to take the long view about where your microlending program is headed. Organizations interested in microlending must understand that it is not a program to undertake for one-to-two years. When the average loan term for microloans in the U.S. is three years long[2] , and with terms available through the US SBA Microloan of up to 6 years, it follows that a microloan program would have to operate for at least that many years to serve its clientele. We advocate for making a five-year business plan regarding your microlending plans, and updating it at least once every two years.

Some general considerations for getting started on your business plan would be to set goals, identify your markets and service areas, and learn about what funds might be available for your purposes.

Goals and objectives are the next stage following the development of a mission statement. The mission is your vision of global change, but goals and objectives begin to focus the mission in more concrete terms. Goals remain somewhat general, and they are designed to answer the question "why." While it is not necessary to have very many goals, you may have goals that govern both policy and program. (See exercise on side).

> Purchasing a cleaning business franchise was the choice of a Muslim refugee from Somalia. Obtaining a loan from the refugee microloan program helped him to obtain repayment terms that made going into this business feasible. Working alone, he is able to earn more than his former job in retail paid, and he can flex his work hours around his desire to go to school. **The microlending organization had a goal to support opportunities for self-sufficiency. By financing this business, the refugee gained the business as an asset and as a support to continue his education, another long-term asset.**

Exercise

In a strategic planning exercise, divide the sheets of a flipchart into two vertical columns, labeled "What" and "Why." Go around the room, and have each person state what s/he would like to accomplish with a microenterprise program, and why. Once you have completed your lists, the items under "what" can direct your program design, while those under "why" will become your goals.

Example

An applicant to a microlender in a Mid-western state came in with a good business plan for a high tech company that would provide light therapy for diabetes. The company would create two professional jobs for which refugees could compete. **The loan would not be made because the company would not be owned by refugees. This would have been a violation of the illustrated policy goals in the example above.**

Sample What/Why Chart:

What [Program Design]	**Why** [Policy]
1. Make loans to low-income refugee owners.	1. Ensure use of loan funds for intended audience, low income refugee owners, to help them become self-sufficient.
2. Start making loans to refugee entrepreneurs.	2. Increase access to financing for low-income refugees starting their own businesses.
3. Arrange a banking program for refugees.	3. Increase the opportunities for refugees to establish relationships with traditional financial institutions.

Write goals here

Recipe Point #2

Write at least two goals for your microlending program

Objectives are created to take goal-making one step further, and tell what, when, and how much. Some objectives measure outcome and impact, while others depict output. Impact objectives describe what difference the microlending program made, as in increases in refugee household income, increased net worth, and jobs created. Output objectives frequently refer to meaningful activities accomplished, like number of refugees trained in entrepreneurship, number of loans made, and dollar amounts of loans made.

It takes some practice to write good objectives, and it is much easier to write output objectives than outcomes or impacts. However, investors and funding organizations will be most interested in the impact that you can have in your community. Generally, if you have written good goals, you should be able to craft objectives to measure how closely you are meeting the goals. Well-written objectives also double as a way to evaluate how well you are delivering your program.

Recipe Point #3
Write one impact objective and one output objective

Write objectives here

Markets are a complex question about target populations, demand, competition and reach, and will be discussed at some length in the next chapter.

Service area describes where you plan to practice your microlending. However, simply answering the question “where” does not cover all the ground required for planning. Once you have established what your geographic boundaries are (city-wide, several counties, a region, or even a state), you can examine a couple of factors:

- Are you reaching the population(s) you want within these boundaries? Sometimes we make decisions based on other issues, such as cost and convenience. But if you are not reaching the folks who need the help, then there is little point in further planning, right?
- Are other microlending organizations active in the area? Making the best effort to identify and coordinate with other practitioners is what makes microlending possible, so be sure to do your homework here. Also, getting to know your competition will help eliminate barriers before they begin!
- What will be the costs associated with serving this area? While we want to make every effort to serve as many customers as we can, finding funding for microlending is always a challenge. You will have to make some hard decisions about what is practical in terms of telephone, travel, and staff expenses in selecting the area to serve.
- Will owners and their businesses reside within your geographic boundaries or not? Some organizations allow people to develop businesses within the service area, even though the owners reside outside. This decision may be a reflection of what you decided to do in your mission and goal statements.
- Does the service area meet with funding source approval? Be attentive that some of your funding sources may approve microloan services for a specific geographical location, and you will want to include something in your policies to reflect this restriction, and to observe it.

Example

Goal

Increase the availability of loan products for low-income refugees starting their own businesses.

Objectives

1. Within the first year of microlending operation, 10 refugee businesses will start because they received microloan financing
2. In year one, 10 loans will be made to refugee businesses.

Exercise

Just for practice, try answering the following questions. In the example above:

1. Which objective measures impact? What is the impact or outcome?

2. Which objective measures output? What is the output?

3. When will these objectives happen?

4. Do they tell how much?

Answers:
1. Objective 1, the impact is that businesses will be started (a change of condition)
2. Objective 2, 10 loans were made (tells what happened, but not the impact)
3. Within the first year of operation
4. Yes, 10 businesses will start, and 10 loans were made.

Example

An Appalachian hairdresser who lived across the river in another state applied for a loan to establish her salon within a microlender's service area. It was far more affordable than locating in her hometown, and more market opportunities were available to her. **The organization made the loan based on their mission of enhancing economic development within a certain geography. It was not material to them whether the woman lived in the area. However, it should be noted that an out-of-state situation such as this could present loan collection problems later.**

Recipe Point #4
Briefly describe your proposed or actual service area

Write your service area here

Availability of funds may sound like a discussion of funding sources for microlending efforts, but it is not. In the development of your policies, blend in a dialogue and some disclaimers about when the lending funds you have are available. There are a number of good reasons for stating this.

1) At some point, you may find that you must prioritize which loans receive financing from you, if demand becomes too great.

2) Some sources of money may restrict loan uses. In the State of Ohio for example, only fixed assets can be funded with state monies. This contrasts with the fact that most microenterprises require working capital.[3] Note that the need for working capital for your customers can be fairly immediate. Plan an efficient process so that customers can depend on you to have the working capital available when it is needed.

3) Investors and funding organizations may also restrict who can receive loans. The Office of Refugee Resettlement requires that all loans made with its grants shall be made to refugees, asylees, Cuban/Haitian entrants, trafficking victims, etc. (For further clarification, please see ORR State Letter 00-17).

4) There will be times when you are awaiting the arrival of funds, and simply do not have enough in your loan pool to meet application requests.

For all of these reasons, developing and publishing a funds availability disclaimer will be key to your operation, and important in delivering a consistent message to your customers. It is far better for them to know ahead of time what the restrictions on the money are so that they can spend their time wisely in applying for a loan from you.

One other disclaimer that some boards use is to state that they have the right to deny a loan if it is not in the best interest of the organization. This may not have anything to do with the availability of funds or the restrictions on them, but it may relate to situations that are perceived as threats to the financial stability of the organization.

Write your disclaimer here

Recipe Point #5
Write a disclaimer statement

This section on Appetizers is intended to whet your appetite for the chapters to follow. Taking these first essential steps to developing your microlending program, and hopefully, your business plan, prepares you for the fun and challenging subject of market assessment. We have put this subject under Soups & Stews because it is a superb mixture of ingredients that will be the ultimate predictor of whether you can make your microenterprise lending program successful!

Example

A young inventor had developed a prototype wheelchair lift for certain vehicle models. He wanted a microloan in order to further refine the prototype, and to produce a small quantity of the lifts. **While the invention was viewed as a novel and useful idea, the loan was denied because the organization believed it was not in a position to underwrite a speculative venture (the invention was untested) that might also have some serious liability issues attached to it.**

II. SOUPS & STEWS: IDENTIFYING & REACHING YOUR MARKET

A. Market, Demand & Gaps in Meeting Needs
B. Deal Flow

The best soups and stews have the perfect combination of several ingredients. This chapter shows you how to combine the right amounts of information, assessment, and processes to assess market demand and identify a profile of potential diners (customers).

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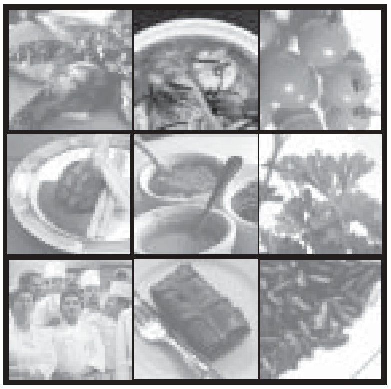


Chapter II. Soups & Stews: Identifying & Reaching Your Market

A. Market, Demand & Gaps in Meeting Needs

Recipe for Market, Demand & Gaps in Meeting Needs
Secondary market information
Direct market information
Barriers and risk assessment
Capacity friendly processes

Tip

Creating programs or developing services because you conclude through your market research that there is not an organization providing the service, provides little in the way of ensuring that your program will be successful.

Market information

Some initial steps can be taken to capture a description and an understanding of the markets you intend to reach. Especially in refugee-serving organizations, you have some service history to draw upon. Take some time now to think about the customers who come through your door. What do you know about them? You can probably list several of their characteristics including traits such as ethnicity, country of origin, language spoken, legal status in the U.S., income level, marital status, gender, age, family composition, educational and work experience, approximate income levels, etc.

While these traits are useful and important, understanding the real market demand will go deeper than this by exploring potential customers' business ideas, financial behaviors, and socio-environmental issues. What you are seeking is to understand their current business knowledge and experience, and what is preventing them from putting it into action.

Understanding the market…appreciating the real demand

By now, you have used a combination of secondary market information along with surveys and focus groups to learn about market demand for microenterprise development and financing services in your target market. Demonstrating a need for the services is an excellent point to begin your implementation strategy for delivering your products and services in the marketplace.

Real demand cannot be measured completely by market research and focus groups because:

- there is little reliable data on the characteristics and predictability of low-income and refugee populations; and
- researchers may not fully understand the needs, behavior, and desires of refugees for microenterprise services and products.

As well, these characteristics may change very quickly and your understanding and conclusions about your market will undergo a rapid alteration to keep up. Having staff that speak your customers' languages and who appreciate cultural differences on matters of economic adjustment will prove more effective in sizing up your market demand.

One method for checking your understanding of the "real" marketplace and that your array of products and services is meeting its needs is to consider developing a demonstration program.   This can work whether you are designing a new program or a new product offering. Conducting a demonstration before planning for scaling up the program will enable you to:

- Validate market research conclusions
- Learn about the true needs for your products and services
- Provide services and products without the pressure of achieving program scale
- Develop core competencies for delivery of services and products
- Develop a positive reputation for product and service delivery for customers served
- Gather primary data about real market demand for the products and services you offer

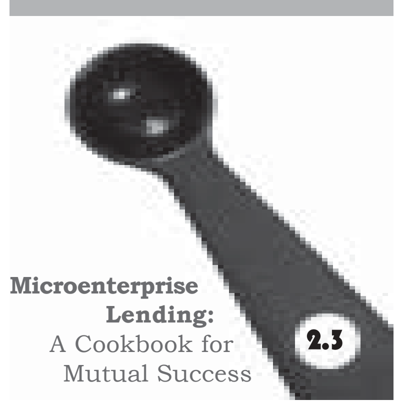
So what additional barriers exist?

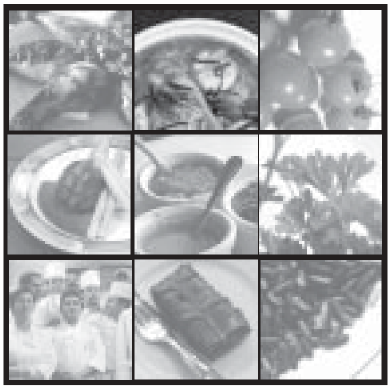
Refugees encounter a variety of hurdles when seeking financing for their business ideas, including:

- Cultural beliefs & values about taking loans
- Language differences
- Understanding of how US economic systems work to support a business
- A lack of experience operating business in the US, or in their chosen business
- Inability to organize and accumulate data necessary for a credit decision
- Adequate assets to meet collateral and loan conditions
- Marginal living conditions and a dearth of support networks

Preparing for products and services that meet potential demand may be tempered by a variety of barriers and challenges faced by refugee and low-income populations. The real demand is based on needs for services after all of the complicated dynamics are factored into the market potential.

"Refugees encounter a variety of hurdles when seeking financing for their business ideas."





Gap fillers and the financial continuum

Understanding the "Financial Risk Continuum" and the role your development services and financial products play in meeting the needs of your customers depends in most part on where they fit along the financial risk continuum. To understand the market potential of your financial development services, it is important to plot your position on the financing risk continuum (see chart on sidebar).

The key inferences that a MED organization might derive from the illustration in the sidebar are that:

- The proper sources of capital are available to the MED lender to back the credit risk properly planned for in their business plan.
- The further left you go from standard bank credit, the more your chances increase that the loan portfolio will consider higher risks.

It is important to understand your risk tolerance. Accumulate capital resources and assemble development services that meet the needs of your customers and the risk they represent.

Exercise

Let's look at the illustration below. Place where your products and services fit on the continuum.

Relevance of business planning…scaling the aggravation index for loan qualification

While addressing and understanding the customer's training and one-to-one business technical assistance needs are critical to developing and delivering MED services, it is important to recognize their capacity. Your program design should be respectful and realistic of your customer's current capability and what they can provide in terms of information for a loan. Program design should represent services that reflect market demand and can be utilized by your customers. Inasmuch, all qualifying plans, training and information ought to be carefully crafted to make sure that program expectations are congruent with what a typical client can accomplish. There is little point in creating program design elements to insure a client will most likely not be successful. Make sure that the business plan is one that a client can complete with assistance from your program and that the loan you offer is based on the client's ability to successfully carry out that plan and effort.

Write your marketplace profile here

Recipe Point #6

Create a profile of your marketplace. List typical characteristics, and then anticipated barriers. Reflect on how this list will help shape your program design.

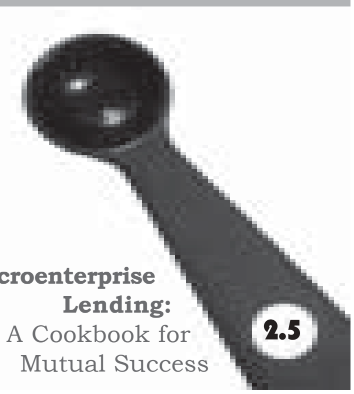
Characteristics	Barriers	Product/Service Design Fit

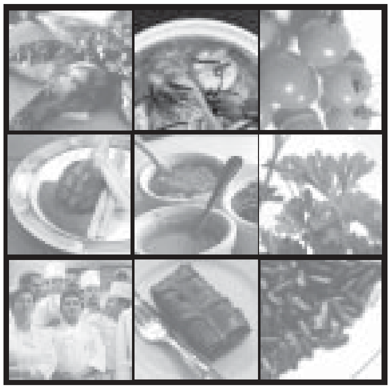
Characteristics	Barriers	Product/Service Design Fit
Hmong refugees	Do not speak or write English well	Provide training verbally, minimize writing; refer to ESL
Lack of credit history	Cannot access financing	Design loan product that considers character, other background information
Single parents	Child care	Provide child care during training sessions; foster child care business development program
Etc.		

Flow of Activities	Total	Rate

Example

Originally involved in retail in her home country, a Laotian refugee relocated from Tennessee to California where she was well connected to Southeast Asian customers for her new oriental food store. From being on public assistance, she has graduated to a successful operation made possible with the $10,000 microloan and technical assistance that helped put her in business. She has done so well that she repaid the 36- month loan in 22 months, and has purchased a three bedroom home for her family. **This woman knew her market!**





Exercise

Take a look at the customer profile that you developed in the section above. Can it help to answer the following questions?

1. Prior to applying for a loan, will they benefit from:

- ☐ One-on-one business counseling?
- ☐ Short-term classes?
- ☐ Long-term classes (longer than six weeks)?
- ☐ Day or evening class or counseling hours?
- ☐ Business planning?

2. Have they conducted a business in their home country, or had previous entrepreneurial experience here in the US?

3. Do they have a marred credit history, or non-existent credit history?

4. Can they read your forms, or is English a second language?

B. Deal Flow

Recipe for Deal Flow
Enough of the right customers
Many partners
Media tool kit
Energy
Tenacity
Time

The first section of Soups & Stews gives an explanation of how to assess market demand in your area. It also describes how to identify a profile of your potential customers. In the recipe for Deal Flow, we will examine how all of the ingredients work together to make your lending operation come alive.

Deal flow is unquestionably the one area of microlending that deserves the most attention after the customers themselves. Simply stated, if sufficient numbers of borrowers are not coming in your doors, then you do not have a lending program, you cannot maintain operations, and you will not meet your mission. On a more positive note, increased deal flow is truly a function of how many ingredients you are willing to put into it.

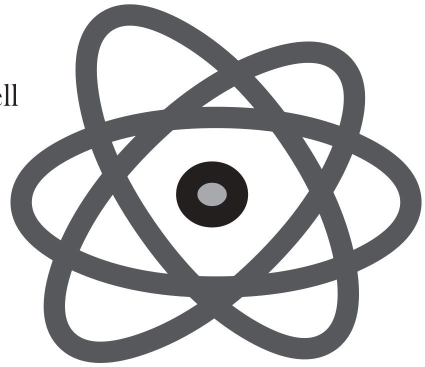
Customer Response Philosophy

It seems important to begin this discussion by going back to what we know about the customers that you propose to serve. Too often, we have observed that programs design their lending programs for the protection of the organization, or what they deem will be most beneficial to the clients without ever consulting them! This is not unexpected given the high-risk nature of microenterprise, and the fact that groups spend significant time researching how to construct microenterprise programs. However, a picture perfect loan program can be designed that will have no customers, unless you ensure that the design matches what you have learned your market wants, as well as what it needs.
Now use these answers to begin to shape program design. Ask as many questions as you can to be sure you are evaluating the situation appropriately. Even better, organize a focus group or two with past borrowers or potential borrowers to find out how they answer these points, or what they can contribute to your knowledge in helping them.

Your lending program will be more valued if you have the buy-in of the people you intend to reach. And it will be more successful as those loan applications begin coming in.

The authors are not suggesting that you adjust your program for each individual, but be generally aware of the needs of your target market, and work hard to design a program that fits them. Sometimes, adding a little flexibility to your policies can go a long way.

The Entrepreneurial Ellipse



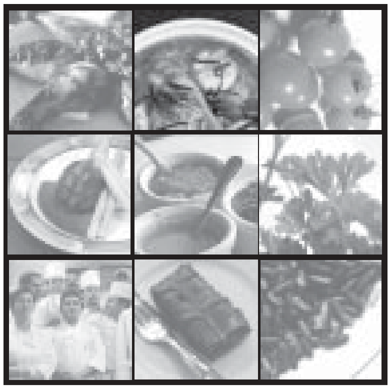
Getting to know your customer base well is the first good step to creating solid deal flow. But as you can see from the ingredients listed above, there are many other contributing factors. In thinking about this, we would ask you to consider the entrepreneurial ellipse.

In the illustration, you can see three ellipses circling each other. Of equal size and importance, they represent the entrepreneurs, microenterprise programs, and resource partners. Entrepreneurs can be in the pre-business, pre-loan, small business owner, pre-expansion, or expansion stage. Microenterprise programs are your program, for instance, or anyone who is offering microenterprise training, technical assistance, and/or lending services. Resource partners include small business service providers like banks, CPAs, insurance companies, architects, small business development centers, adult education centers, vocational rehabilitation services, and so on.

The ellipses are intended to show the eternal nature of entrepreneurial activity, but also that they all exist in the same universe, and more than occasionally, they intersect with each other. This is a fanciful but useful way of showing that entrepreneurship is driven by the constant interaction between entrepreneurs, micro programs, and resources. Why is it included in a discussion of deal flow? Because the more frequently you can encourage these ellipses to intersect, the more often potential loan opportunities will be discovered.

Example

Coming into a country where you can't speak the language can be tough. For a middle-aged refugee from Laos, it was hard to keep up with the fast pace of factory work due to an inability to remember English words. With a lifelong background in farming, he decided to work with the refugee microenterprise program in his area to begin a farm once again. Receiving progressively larger loans (the last was for $10,000) and good technical assistance support in his own language for his vegetable farm featuring Asian specialty crops, he expanded to 10 acres from five last year. Success has brought him a larger farm, a home, and the ability to repay all of his loans. Now his crop diversity includes Hispanic crops like chilies, sugar cane, and jicama to reach an even broader market. Next year, the microloan program will help him "farm" his venture to other financial institutions and loan opportunities.



Exercise

Take some time now to identify resource partners. In the columns below, fill in partner names and check whether they are current or potential partners.

Financial Institutions	Current	Proposed
Community Resources		
Government Programs		
Proposed		

Following closely upon the services that you provide to entrepreneurs, pay attention to nurturing relationships within your resource network. They will be a primary source of loan applicants.

An abundant source of loan referrals is financial institutions. A microlending program can be of incredible assistance to the bankers in their area. Due to the large volumes of business loan applications that banks receive, they frequently have to turn people away. This is an opportunity to provide them with a positive customer relations outcome. Be sure that information about your microlending program is in their possession, meet with them to build confidence in your services, and make it easy for them to refer people to you (see Bank Referral form in Ingredients).

Likewise with your community partners, find out what helps them achieve their ends. Will they benefit with investors and funding organizations for helping clients access credit with you? If so, it is up to you to make sure that they know about your programs, and again, can easily make referrals.

Understanding your partners' needs, providing them with feedback on deals that they have sent your way, and inviting their input will all contribute to deal flow. Some microlending groups hold semi-annual meetings with partners to review programs, the loan portfolio, and special issues that they are facing. They make it a celebration, provide lunch, and take seriously the comments and suggestions of those attending. They revise some of their lending operations to reflect this input.

The end results? Partners know that they:

- are an appreciated part of the microlending operation,
- have contributed to the organization's mission,
- have good knowledge of the program's services,
- have referred customers who have received first-rate service, and
- possess an excellent resource for deal referrals.

It is exceedingly important to remember to address and include partners' feedback as possible in your revised program design if you are intent upon them playing a role in your entrepreneurial ellipse.

ATM it!

Another contributing factor to deal flow is how customers perceive what you have to offer. The more conducive you make your loan application process to customers' behavior and desires, the more they will contribute to your organization's deal flow. What we are aiming at in this section is product design. Now that you have gathered what customers and partners want, how do you put it all together in an attractive and ready-to-use form?

Today's commercial world is dominated by ways to obtain information, goods, and services as quickly and as effectively as possible. Automated Teller Machines (ATMs) are a good example of a high-speed response to customer behavior. Many services are available from financial institutions simply be slipping your plastic debit card in the slot (and remembering your pin)!

One suggestion for microlending programs to consider is bundling your services just like the banks and credit unions do. In recent years, the small business development field has moved toward the "one-stop shop" approach to services to emulate this idea. While it is challenging to design such a product given the dearth of funding for microenterprise efforts, groups can try to put as much at the customers' fingertips as possible. Many sites offer counseling, classes, and loan applications all in one location. Some have begun to make these offerings electronic. Still others travel out to the customer in order to make it easier to access services. By bundling, you can discover efficiencies of operation and still effectively deliver the goods to your customers.

> Originally from Tashkent in the former USSR, this talented refugee sought to open her own design studio, creating wedding gowns and other women's apparel. Long years of working in other designer houses, never being able to save any money, and speaking very little English, she requested a $10,000 loan from a refugee microloan program to cash flow the first six months of her operation. She was a magnet for technical assistance, and needed help with business planning, marketing, recordkeeping, even securing a location for the business…all provided in her own native language. Five years following the loan, now she has more customers than time, and her business is booming. Her next steps? To computerize her operations and accounting activities. **The microenterprise development program that she contacted took a 'bundled' approach to her situation: (1) she was encouraged to attend their business classes even on an individual basis; (2) the organization helped her to complete a business plan through one-to-one counseling; (3) she was able to obtain a small loan to set up her operation; and (4) follow-up services have been provided on an ongoing basis.**

In this story, the organization housed all four types of service, making it possible for the customer to come to one location for everything. If you are an organization where someone else is providing counseling, try to think of how to bundle services to make it easier on the client. Could you bring an outside partner into your office one day a week? Could you take her to them? Bundling can be as creative as you are!
The point is to understand how your target market behaves, and then design your program and products in a seamless manner that makes them easy but effective to use.

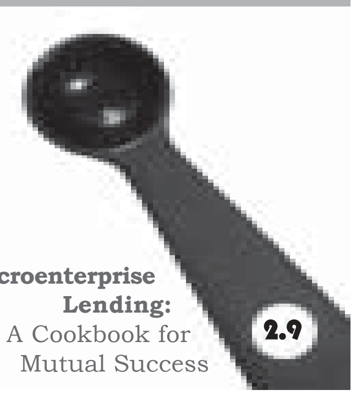
Exercise

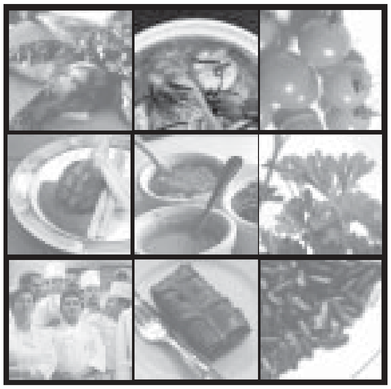
Think about what your partners want and need. List the benefits you can provide to bank and community based resource partners. Making this list will help you to develop your "pitch" when meeting with them.

Partner	Benefits

Example

Partner	Benefits
banks	*help them serve hard-to-reach corners of their assessment areas.*





Answer: **Forever**

Question: **How long does it take to create & maintain deal flow?**

It may sound daunting to think about the time involved in creating and maintaining a good flow of loan packages into your microlending program, but the truth is that unless time is devoted to this activity, real progress toward achieving mission will not happen. However, getting organized with a specific marketing plan and incorporating it into the routine of the organization will provide an avenue for accomplishing this important task. Remember that in following this guide:

- Your organization has already identified the target market,
- You know who your primary and secondary partners are,
- The microenterprise program has good services and loan products to offer, and
- There is a demand for your services.

If you have never run a microlending program before, or if you have never developed a marketing plan, the other thing you should understand about time is that it will take awhile for your lending program to be recognized and utilized. Brand new programs can plan on completing ten loans or less in the first year of operation. It is not a function of capacity as much as it is of marketing. Existing programs may expect to begin processing more loans sooner once they initiate their marketing plans.

Of real importance, repeat marketing will be a life-saver. Bear in mind that the customers and partners you are pursuing have busy lives, and are bombarded with other information on a daily basis. Also, partners frequently experience staff changes. Launch an aggressive campaign of continual marketing, keeping your program fresh in the customer's/partner's mind, with an end goal of continual loan referrals.

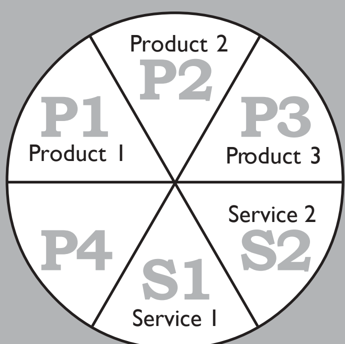
Promoting—a marketing plan & everyday promotion

If you do not have a marketing plan, start one today (or at least decide a specific date for beginning one). Marketing is the main item that small businesses and non-profits do not invest enough time or money in, but it is the only thing that will keep a business or your microlending program moving forward.

Try to develop a marketing plan for at least one year's worth of activities. It should include every type of promotion that you plan to use. This is where a media tool kit can come into play. Don't know where to start? Try this exercise to help your thinking.

Exercise

In the chart below, "bake your pie" of service. How many slices can you fill in? How many do you need to fill in other ways?



Product 1:

Product 2:

Product 3:

Product 4:

Service 1:

Service 2:

Recipe Point #7 Complete this Marketing Plan Exercise

1. Revisit your mission - ensures understanding of mission and re-affirms purpose of staff's work.
2. Set service goals for next year (or re-focus on goals if already established) - sets tone for how to achieve goals through marketing.
3. Take time to describe and list various markets you are trying to reach - different audiences may/will require different marketing techniques.
4. Compile "laundry list" of current marketing methods. Rate for effectiveness. Refine, cast out or create new ones you would like to try that you believe will be more effective.
5. Divide the year into four quarters and define marketing activities to take place during each. **Important!** Identify what activity, its purpose, where the activity will take place, frequency of the activity, and who will be responsible for making sure that it happens.

For instance, in the First Quarter of 2004:

What	Why (purpose)	Where	How Often	Who
Personal calls on refugee businesses (start up and existing)	Identify their TA/financial assistance needs or those of refugee/ immigrant entrepreneurs or would-be entrepreneurs that they know	Smallsville	5-8 businessesper week; or 60 per quarter	Tu Lu; Riyadh
Follow-up with past borrowers	Try to learn if further financial (loans) assistance is needed	All service areas	2 per week; or 24 per quarter	Sam; Rasheed

[Remember—activities designed to support "word-of-mouth" techniques are the most powerful—Word-of-mouth techniques are ones where you actually have an exchange of conversation with an individual or group. These contacts are most effective in person, but can also be accomplished by phone. Examples: one-on-one calls to existing businesses (retail, home-based, vendor carts, etc.); personal contact with past borrowers; speaking engagements, attending and speaking at cultural events; providing incentives for former TA or borrowing customers to help you market; holding focus groups; going to places where your market is likely to be and setting up available hours; repeating these techniques!! Repeat marketing (approaching the same groups/individuals more than once) is essential, and repeat techniques (using the same method each quarter) may be effective for your program, and saves you from having to "invent" new techniques every quarter. If something works, stick with it!]

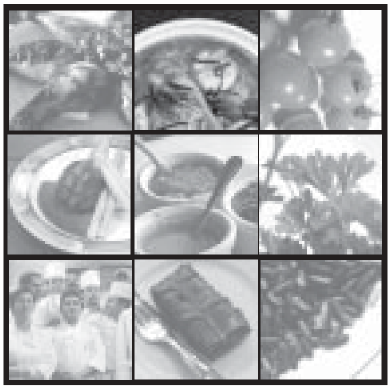
Recipe Point #7 continued

6. Designate a marketing plan point person. His/her responsibility is not to take care of the entire marketing plan, but to track marketing activities, including reviewing with staff on a regular basis what activities have taken place, reminding responsible parties of upcoming activities for completion, and collecting results of contacts and activities.

7. Complete written edition of the marketing plan, and distribute to all staff.

[Important—At least one or two times a year, hold a staff meeting that includes all micro staff to evaluate the progress of the plan, and amend as needed].

"Remember - activities designed to support "word-of-mouth" techniques are the most powerful"



It is sometimes hard to realize that most of the elements to include in a marketing plan or a media tool kit are ones that we use in the ordinary course of business. The advantage to having a marketing plan is that it provides structure and substance to these activities. For instance, if you are in the habit of calling some of your banking partners on a regular basis, then move this up a notch for the marketing plan by describing *who will be contacted when about what by whom*. This will give focus and planned regularity to your telephoning, speaking, or meetings.

A whole host of activities can become part of your "media tool kit." Here are a few to jog your thinking. Please feel free to add to the list!

- Orientation to small business classes
- Visits to existing businesses
- Speaking engagements to chambers, rotary clubs, bankers, lawyers, and CPA associations
- Business cards, brochures, other print media
- Press conferences and media releases
- Customer celebrations, such as graduation party or awards ceremony
- An "800" number to increase accessibility to services
- A small business directory for distribution
- Focus groups for banking and community partners
- Personal visits to partners
- Radio programs

With so many ideas, you can see why it is vital to divide your plan into timeframes, to prioritize activities according to what will be most effective for the dollars and resources that you have to invest in them, and to identify which staff or volunteers will be responsible for what parts of the plan. Remember to take the time to identify whether or not these activities yielded positive returns for the organization. One way of assessing results is to ask each loan applicant what prompted them to turn to your organization for help.

Last, every good plan should incorporate training for front office staff. Whoever is answering the phones at your organization has the first opportunity to get your message across. Ensure that they are able to do so in a knowledgeable and welcoming manner.

To summarize, organizations that run effective microlending programs:

- Understand their target markets' needs and wants,
- Have a concrete, written marketing plan,
- Practice ongoing marketing efforts every day, and
- Track the effects of their marketing activities.

Example:

A Latina employee of Opening Doors in Sacramento offers a weekly radio program about small business. The program is provided in Spanish to fit the predominantly Latino refugee target audience. Almost every week, referrals are received because of this show.

III. SALAD: PREPARING FOR MICROLENDING

A. Recipe for Microenterprise Lending

B. Goals for the Financial Self-Sufficiency of Your Organization and Clients

C. Bankers Can Be the Secret Ingredient

Like the salad sets the stage for the rest of a meal, this chapter is devoted to preparing you for what is to follow. Hopefully, it will aid in the digestion of a great deal of information!

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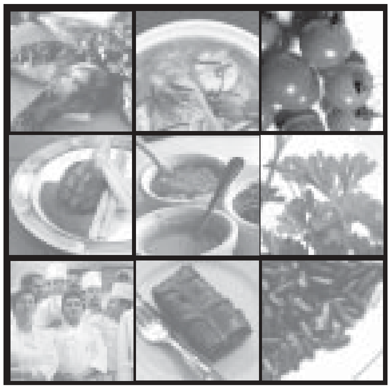


Chapter III. Salad: Preparing for Microlending

Headlining our salad choices is an over-riding recipe for microenterprise lending that spells out the broader parameters of a microlending program. This is followed by some preparatory thoughts on working toward your clients' financial self-sufficiency through providing access to a microenterprise program, followed by a discussion on how financial institutions can help. Banks will be your partners throughout the life of your loan fund, so it makes some sense to study them early in your program design.

"Refugee entrepreneurs can be quite resistant to taking on debt, but to our surprise, we are learning that many of them are saying that a loan would have been beneficial to their position as start-up businesses. By offering a loan guarantee program and loan packaging, we are able to act as the bridge or connection that helps refugees understand debt and overcome their hesitancy about borrowing—giving them more solid footing on which to start out."

– Betsy Slosar, *Director, Economic Development, International Institute of St. Louis, MI*

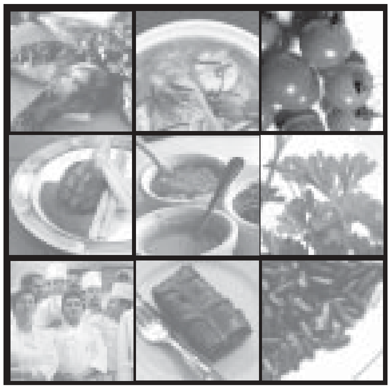
A. Recipe for Development of a Microenterprise Refugee Lending Program

- Start with the understanding that you will need experienced staff, good loan policies and procedures that will enable your organization to assess an individual's personal considerations and their capacity to scale an enterprise that will be successful. Based on the refugee population you serve with your lending program, you will want to make sure that the policies are refined to reflect language and cultural considerations
- Stir in ingredients that enable the staff and client to learn about business viability, relevant scale for financial viability and the resources (time and money) that will be needed to achieve success.
- Bake mixture with a high degree of planning, training and pre-business technical assistance where start-up enterprises are involved.
- Excessive financial analysis of a start-up business or a business without a demonstrated track record or good financial statements is discouraged.
- Involve client so they will comprehend how their business will operate in the context of their community and market.
- Encourage the client, over the term of the loan, to utilize microenterprise development business technical assistance services from your organization to adjust marketing strategies, develop and refine management practices and to build a process for contingencies.
- The lender must understand the conditions for underwriting a microenterprise loan. They must be understood by the lender and the client. Understanding conditions and having a belief that working with the client to reduce risk and improve conditions will increase the likelihood that a loan will make the enterprise successful. Combining training and technical assistance with a number of loans to the same business based on certain performance benchmarks is another approach for reducing credit risk for the lender and helping the business grow at the pace that is best suited for the client.

Operating and managing a microenterprise refugee lending program will require that certain program and lending infrastructure be developed and integrated into the operation of the program prior to when lending begins. The following is intended as a general list of essential elements for the development and implementation of a successful MED Lending program.

- Source of loan capital & capital for loan loss reserves
- Lending policies and procedures
- Development of a system where all staff have an understanding of the MED lending process
- A loan application
- A process that ensures good loan documentation
- Staff who can interpret and analyze applicants' loan requests and develop a loan request for a credit decision
- A timeline for processing loan requests
- Procedures for making timely credit decisions, including development and training of a loan committee
- Loan management software for managing accounts
- A clearly delineated loan closing process
- A well developed financial management process that meets government audit standards
- An effective system for client case management
- Clear direction from the Board of Directors on the philosophy of collecting past due accounts
- A process for collecting delinquent loan payments and a commitment to follow-up and follow through as it relates to pursuing past due accounts
- A system for financial "checks and balances"

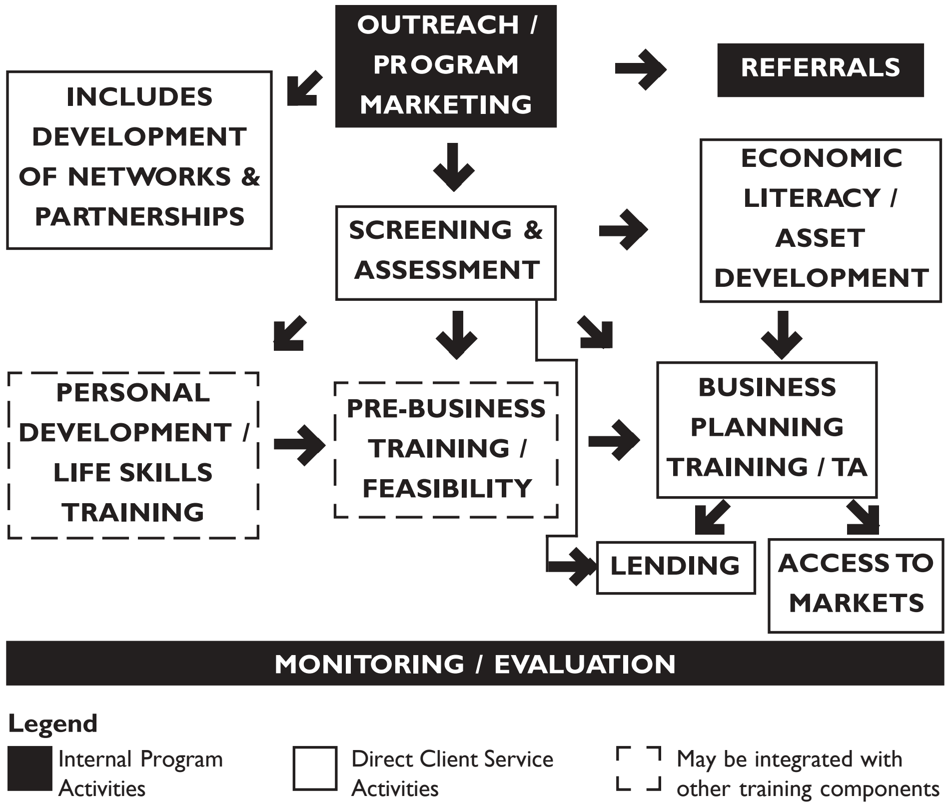
Banks will be your partners throughout the life of your loan fund, so it makes some sense to study them early in your program design.



Example

With a $13,350 loan from a microlending program, a Bosnian businessman got help from a refugee microenterprise program to elevate his part-time, home-based auto graphics and window tinting program from part-time to full-time, from a home location to a small business incubator. He's done so well, he has now hired one full-time employee.

Standard Microenterprise Program Components



ORGANIZATIONAL MISSION SHOULD BE THE DRIVING FORCE BEHIND ALL PROGRAM DESIGN.

B. Goals That Support the Financial Self-Sufficiency of Your Organization & Customers

The microenterprise development industry has experimented with many different approaches to achieve and measure results. In its evolution, microenterprise development programs have addressed economic impact in areas ranging from community economic development to poverty alleviation. Despite this versatility and the positive impact that microenterprise development has had, it still faces the challenge of reaching significant program scale in the United States.

It is fairly difficult to gain recognition for the economic impact of microenterprise development, partly because it grows small businesses individually, one at a time. Most communities still like to focus on landing and supporting larger businesses. All vie for these large businesses because the immediate attraction of employing significant numbers of the available workforce is so hard to resist. Frequently when this occurs, a community's small business economy must develop on its own without much direction or planning from its leaders.

Yet the positive impact of a vibrant and diverse small business economy is vital to providing activities that are essential to a community's survival, and to the economic infrastructure that larger businesses require. Small businesses create wealth for their owners, provide needed goods and services, create jobs (today, in greater numbers than their larger counterparts)[4], contribute to the local tax base, and consume products and services from other local businesses. Fostering the development and financing of start-up and expanding small businesses has broader implications for the local economy regardless of other efforts to attract and maintain the presence of larger firms. Refugee microenterprise loan programs are part of these efforts, and guarantee an opportunity for refugees, despite their citizenship status or income level, to own and operate successful businesses.

Creating and maintaining a MED in your community is critical to fostering a positive small business climate, and to helping clients sustain their businesses. You provide the essential ingredients to business creation and sustainability—access to information, resources and capital.

Many executive directors and others who have witnessed the positive economic results of MED programs struggle with how best to sustain these efforts due to the cost of providing the service; it will also be your job to promote the benefits of small business development as an important investment in the community. While sustaining your MED program will not guarantee that every business will be a successful effort, the availability of your program will increase the likelihood that more businesses can be started and sustained. As your customers prepare to access new markets, continue to learn about good management practices and use the access to capital made available through your program, it is important for you to develop the resources to sustain your program.

C. Bankers can be the Secret Ingredient: Box and Non-Box Issues

The "Just Say Yes" strategy is an excellent approach for your program, its collaborators and the community you serve to develop some momentum with the help of your banking partners. You will learn that few bankers want to say no to a loan request. Bankers need to live in the community, too, and they see the value of customers getting a loan from your organization and having a business or savings account through their bank. Being able to refer to your program also helps them exercise their needs to make prudent lending decisions under banking regulation, and to avoid a drain on their potential profits.

Make sure your banking partners know about your lending services, and make it easy for them to refer customers to you. Remember:

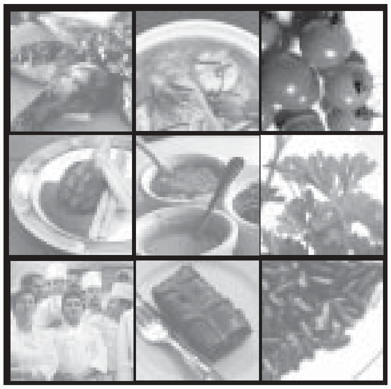
- You are not competing with the banks, and
- Bankers never want to miss an opportunity to "just say yes."

Provide them with referral forms, and give them ideas about when to refer to your organization.

Exercise

In beginning to plan for the sustainability of program effor, and client self-sufficiency, ask yourself these questions:

1. What is your most popular service and how is it funded?
2. Given your current operation, can you pursue the funding that will enable you to grow your program both in the short-term and long-term? Can you balance the development services offered with the available funding streams?
3. Can you combine or consolidate any of your MED Services or reorder the services to make your services more efficient and cost effective?
4. Evaluate your core competencies and assess your capacity to deliver all of the services that you promise. Only continue to provide the services that you are good at delivering.



The Banker's Box: Getting In from the Outside

A successful business will always need access to capital sources to sustain and grow its operation! The source of capital may be the owner's savings, from family and friends or through a loan (debt). While getting a first loan for a business is daunting for just about everyone, it is particularly challenging for individuals who have suffered from poverty of access to money and information.

Most business lending is provided by banks. These institutions are highly regulated, make low profit margins and require high volume transactions to become sustainable and successful. In many instances, a bank lender will offer a business loan only after the owner(s) demonstrates how the loan is a very low risk proposition for the bank.

A lender will look for good collateral combined with relevant business experience and a variety of other factors to ensure that the operation of the business and the commitment of its owners are in place before making a loan.

Subsequent loans are based on the track record of the business, how successfully it is managed, how it maintains accounting records and the relationship that is built with the lender. If the business being operated or planned falls outside of the above description, then it will fall outside of the banker's box. Microlenders can help borrowers obtain the capital needed to make the business a success and to gain credit experience that can be later used to get back into the banker's box.

Remember, having access to the funds when you need them remains essential to the success of the business. Building banking relationships as early as possible, through checking and savings accounts, will also aid entrepreneurs in getting inside the box and later having access to the financial resources they need to grow.

One further note, banks must market, and they invest a great deal of money in order to create customer awareness; and to attract and keep customers. Developing a firm partnership and referral relationship with the financial institutions in your community can enable you to take advantage of the banks' marketing and promotional efforts while helping them out.

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IV. ENTREES: MAIN ELEMENTS OF MICROLENDING PROGRAMS

A. Cooking Up Policies & Procedures
B. Due Diligence
C. Collateral Criteria & Procedures
D. Combos: Training, Technical Assistance & Access to Capital
E. Lending Program Infrastructure

Here is the "meat" of your program. This chapter contains recipes for cooking up policies and procedures; due diligence; collateral criteria and procedures; training, technical assistance, and access to capital; and lending program infrastructure. These should provide for a hearty microlending meal!

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Chapter IV. Entrees: Main Elements of Microlending Programs

Serious thought has been given to mission, markets, program design, and how best to serve your potential borrowing customers. These have been discussed in preparation for the main course. The Entrees section of this guidebook deals with topics that will be crucial to the well-being of your microlending program. Like a well-balanced meal, many elements need to be present in order to conduct a healthy lending program. In Entrees, we take a look at recipes for Policies and Procedures, Training and Technical Assistance, Access to Capital, Infrastructure, and Closing and Post-Loan Activities. This *is* the "soups-to-nuts" chapter for the 'thorough cooking' of your microloan program. We strongly encourage you to address each of these essentials when planning or revising your program.

This is the "soups-to-nuts" chapter for the 'thorough cooking' of your microloan program.

A. Cooking Up Policies & Procedures

Recipes for Policies and Procedures	
Lending criteria:	Eligibility, Types of Businesses, Terms & Rates
Due Diligence:	Loan applications, Excellent underwriting, Business plan
	analysis, Credit analysis, Major ingredient: Character
Collateral criteria:	Fair value, Resale value, True value to borrower,
	Level & types of collateral
Collateral procedures:	Real estate, Titled vehides, Miscellaneous

Like the small businesses you pledge to serve, you will have the opportunity to describe your products and services as you develop your microlending policies and procedures. These will range from lending criteria to servicing and collections. They will serve as a comprehensive guide for staff, board, and loan committee members to develop and review loan applications, and to service the loans after closing. Your loan policies and procedures will be responsive to your target markets, and meet the requirements that your funders set forth.

In this first set of recipes, we will walk through subjects to consider as you begin your policy development or review, including lending criteria, due diligence, collateral criteria, and collateral procedures.

Lending criteria

Earlier, we referred to making the "right" loans for your portfolio. What did we mean by that? Your loans should:

- meet the mission of the organization,
- be beneficial for the individuals involved,
- have benefits for their communities,
- take into account the level of risk involved, and
- conform to the parameters imposed by organization financial soundness and funder requirements.

Policies established by your organization to capture these intentions will prescribe loan applicant screening measures that achieve good balance in your portfolio through sound microenterprise loans. They will enable you to treat each potential borrower in an equitable, fair, and consistent manner. Last, they will preserve your ability to stay in business, and continue working toward your mission by helping to create or expand successful businesses.

Eligibility

Eligibility usually falls into two categories:

(1) loan applicant's fit with organization mission

(2) proposed uses of loan proceeds

A third category that some organizations require for eligibility is completion of a business training class, with the organization or another credentialed organization, that results in the development of business plans. Many groups feel that this is a proven method for getting to know the customer before a loan is made. Especially for refugee MED programs, it is the chance to help the refugee client become familiar with U.S. business practices prior to investing their time and energy as well as your organization's money.

(1) Loan Applicant's Fit with Organization Mission

In the earlier exercises about developing mission, goals, and objectives, you identified attributes about the population you want to serve, or the community results you hope to achieve. One of the first determinations you will make about a loan application is whether or not the applicant and his/her business meet that mission. Ask yourself some basic questions related to your mission, such as:

- Is the loan applicant a low-income individual?
- Is s/he a refugee or asylee?
- Will the business be opened/expanded in your designated service area?

"Language and cultural barriers lead to new dilemmas every day. It is critical to devote time to teaching refugee entrepreneurs financial literacy and regulatory requirements, like tax issues....these are very different in their home countries, but if they do not know and accept U.S. business requirements, they will experience setbacks before they even begin."

- Steven Bob,
WREAP Coordinator, World Relief, Nashville, TN

- Will the business contribute to the sustainable development of the service area?
- Will the business create jobs, either for the owner or others?
- Will the jobs created be high quality?

Plan to revisit your own mission statement and goals, and convert them into loan eligibility wording. If things like job creation and environmental sustainability are important to you, include them here, too. Make sure your eligibility policy has "inclusive wording instead of language that screens out customers from participating.

Recipe Point #8
Write your opening eligibility policy here

Write your opening eligibility policy here

(2) Proposed Uses of Loan Proceeds

Loan proceeds is another way of saying loan dollars. The purpose of this section of your policies is to make descriptive statements about how those dollars can be used, or what are the eligible uses of those dollars. We frequently think about these dollars in terms of what they will buy, like equipment, inventory, or furnishings. But this is a much broader category that can be divided into types of business and business related expenses.

Types of Business

Business characteristics such as ownership, size, age, industrial classification, location, and legal status may all be of concern to you and your board. While not all of these will reflect your objectives, the ones that do should find their way into your policies. Some of the subjects related to each of these categories are:

Ownership – sole proprietorship, partnership, corporation, low-income-owned, minority-owned, women-owned, franchise

Size – owner operated, fewer than five (*or whatever number you choose*) employees, gross sales of $50,000 (again, you choose the figure), net assets of $20,000 or less

Exercise

Your mission is "to create microenterprise businesses owned by low income refugees in Wood County, Ohio." Which of the following loan applicants meets your parameters?

- ☐ 1. Single Somalian refugee mother with two children, receives TANF, and wants to open a gift and crafts store in the county.
- ☐ 2. Unemployed middle-aged man living in Lake County wants to start a business in Wood County fixing vacuum cleaners.
- ☐ 3. Afghan couple without employment seeking to start taxi service in Franklin County.
- ☐ 4. Political asylee Ahmed plans to expand his restaurant in Bowling Green. Had net loss of $4,000 last year.

(continued next sidebar)

Age – start up, expansion, strengthening, operating for less than 10 years

North American Industry Classification System – retail, service, manufacturing, farming, construction, commercial, professional, developer, combination

Location – home-based, storefront, office building, farm, owned building, cooperative, incubator, business within service area, borrower resides in service area

Legal Structure – like ownership, only further describe corporations (i.e. "S" types, "C" types, LLCs, etc.), (franchises should not be listed here as it does not pertain to legal structure

Policy statements about the type of business describe which kinds are eligible for financing from your microlending program. Likewise, you may want to go on the record to state what types of businesses will be ineligible.

Business Related Expenses

Though it is true that microbusinesses require financing for equipment and other fixed assets, more often than not what they really need is access to working capital to cashflow their operation from a day to day basis. Financing for working capital is often difficult to obtain through conventional sources when dealing with start-up or relatively new businesses or when dealing with owners who may not have a track record or the individual wealth to ensure that the business can survive during tumultuous times. This is a gap that microlenders fill every day. Your organization may decide to make loans for a wide variety of business related expenses. Generally, these fall into the categories of equipment, vehicles, furniture, fixtures, inventory, professional fees and licenses, and working capital. While the first six items are self-explanatory, working capital can be a catchall.

A few examples of working capital are: lease or utility deposits, insurance, marketing and promotional materials, consumable supplies, pollution and pest control, salaries, and so on. Perhaps it can also be understood as how much cash will be needed to keep the business in operation for the cycle between when the owner has to pay bills and until he is paid. Again, like the types of business, write policy statements that describe what you can and cannot finance with your loan fund.

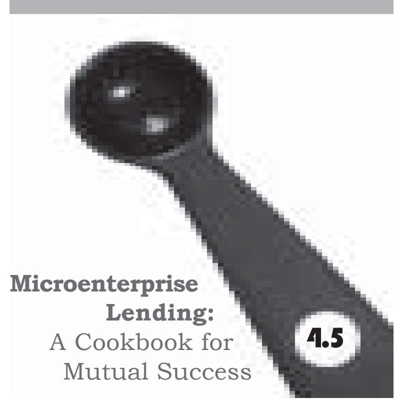
Answers can be found in the footnote at the bottom of the page, but to develop a policy statement for the mission used in the example above, you could simply re-state it as:

To be eligible for loans from the Refugee Community Center, loan applicants must:

- Be planning to open or expand a microenterprise
- Have official refugee or asylee status
- Be able to document that their income falls under the low-income categories according to HUD regulations for our service area
- Plan to base and operate their business in Wood County, Ohio

Answers to exercise, opposite sidebar:

1. Yes, she is low-income, refugee, business to be conducted in Wood County.
2. No, he is not a refugee.
3. No, they plan to open the business in another county.
4. Yes, asylees could be considered, he is probably poor (negative bottom line), and the city of Bowling Green is in Wood County.



Quickie Quiz

Just for fun, check the types of businesses or business related expenses that you would be willing to finance. These are all from actual examples. How do they fit into your loan policies? If you decide against some, write down your reasons.

- ☐ A 25-year-old dump truck & the first tank of fuel
- ☐ A well established herb & vitamin franchise
- ☐ A video promotion company
- ☐ Used bakery equipment
- ☐ A pyramid style business
- ☐ A new age bar
- ☐ A refugee-owned Ethiopian grocery store
- ☐ A traveling environmental magician
- ☐ An ostrich farm
- ☐ A small commercial shopping center

You will never be able to think of all the types of requests that you will receive from your microloan applicants. The point here is to create policies that can be flexible and responsive to your customers while safeguarding the financial soundness of your loan fund. Just be aware and prepared to deal with issues that will fall in between the lines.

Recipe Point #9

Write some sample policy statements for types of business, and business-related expenses

Write your policy statement here

Recipe for Deal Structure

Terms

Rates

A balanced mixture

A good portion of what will make your loan applicants successful rests on how you plan to structure their loan deals. This, too, is a matter of generating some policies that will govern the outside limitations of your lending program. One of the most fun parts of microenterprise is in deal structuring where there is an opportunity to be much more flexible than conventional financial institutions. Here is a chance for your organization to structure a loan that fits very well with the customer's needs. Loan structures are as far-ranging as your imagination.

However, in designing lending policies, it is essential at every turn, to make certain that the policies you write treat all loan applicants and borrowers in an equal and fair manner.

The chief ingredients of any loan structure are its terms (or conditions) and rates. Terms and conditions include the length of time allowed for repayment, how that repayment will be made, and repercussions if repayment is not received. Rate is the amount of interest that the borrower will pay for "use" of the money in the revolving loan fund. This is a deductible business expense for the microentrepreneur.

Below is a chart of frequently asked questions (FAQ) about terms and rates (nonpayment is discussed later). Use it to help guide your decision-making when creating your terms and rates policies.

Microlending Terms & Rates FAQs

Terms & Conditions	
How long should a loan term be?	Terms can be based on the use of loan proceeds. For working capital, 1-5 years is usual; fixed assets may reach 7 years. Be reasonable. If loan uses are short-lived, perhaps the loan should be, too. Size is also a factor—larger loans likely take longer to repay.
How is loan term determined?	The term should make sense for the borrower. If it is too short, it may affect ability to repay. If too long, your microenterprise program may be taking higher risk. Also, check investor and funding organization's limitations.
What about extenuating circumstances?	Each applicant is different, but altering your policies must only be done rarely if you are to treat all equally.
What are examples of special terms?	1. If a loan applicant has a seasonal business (farming, summer recreation, etc.), you may arrange for payments to occur during certain times of the year that reflect their peak earning capability. You may also offer interest only payments for a specified period until certain conditions occur for the business. 2. If you are financing startups, consider deferring a few months of principal payments in the beginning of the loan to help them keep the maximum amount of cash in the operation of the business, giving the business owner an easier start. These principal payments can be added onto the end of the term. 3. If a business cannot afford the loan payments, but looks like it will do well in a few years, you can structure a longer term with a balloon payment due at the end of a prescribed period (see exercise in sidebar, next page).
Should repayment occur monthly?	Certainly, having all borrowers repay monthly on the same date is most efficient for administrative purposes, but be open to considering other options if it fits your customer. Repayment practices range from weekly ACH (Automatic Clearinghouse) payments directly into your bank account, to quarterly or semi-annual payments. Be extra vigilant on loans that vary from your norm!
Rates	
Is there a preferred rate of interest to charge for microloans?	Rates, like terms, may vary according to customer need, loan uses, perceived risk, and funding source requirements. MED programs commonly promote their loans as access to capital, not necessarily low interest. Slightly higher rates may be charged to cover the higher risk associated with microlending, and for short-term loans, do not significantly impact the borrower's monthly payment (see exercise below). Current rates range from 8-16%. Be attentive to what your funding sources require. Some allow only a minimum number of points to be charged above prime, for instance. Try to seek a balance on your rates that serves your audience well, while preserving the financial stability of your program.

- ☐ A home-based beer manufacturer
- ☐ Repayment of debt
- ☐ Ten polled Hereford cows
- ☐ Owner's salary
- ☐ A series of television ads
- ☐ A coal-fired stove company
- ☐ Contract labor
- ☐ Cosmetics display inventory
- ☐ An organic vegetable farm
- ☐ Massage therapy table
- ☐ Down payment on a lease agreement for a delivery van

"Some refugee clients' beliefs do not permit them to pay interest, and so they are prevented from joining the U.S. banking world. Refugee microloan programs are needed to address the issue of Islamic financing until better solutions can be found."

– **Steven Bob,**
WREAP Coordinator, World Relief, Nashville, TN

Rates (continued)	
Fixed or variable rates? What's best?	Rates can be fixed or unchanging; or they can be variable. Most programs charge a fixed rate to give borrowers definite knowledge of what their loan payments will be over time, and to ease loan management. Variable rates may reward good payers, motivate slow payers, and act as a safeguard for deals that become risky. Careful tracking must occur in these cases.
What if another MED is competing with us by offering lower rates?	Engaging in "price wars" is to no one's benefit. Evaluate carefully your costs in terms of risk, potential earnings, and public relations—what is best for your customers and for the sustainability of your program?
Can we discount our rate?	MED programs discount their rates sometimes to reward present borrowers, but you may also put rates "on sale" for awhile to help boost deal flow. Make sure this is all right with your funding source! Some offer a range of rates to fit individual deals and circumstances.
What if a refugee's faith does not permit them to pay interest?	This is an ideal situation for microlending flexibility. Obviously, your program has a cost of money when it makes loans. In order to recover in situations where you cannot collect interest, consider charging fees (often allowed) or building slightly more principal into the loan to increase the principal repayment, so that some portion may be redirected toward your costs. This is a growing issue, so be watching the field for other alternatives as demand for no interest loans increases.

Other Term & Rate Structures	
What other structures can we offer potential borrowers?	Let your imagination and your sense of your customer base be your guide. If 90-day notes are needed, develop them. Others offer step loans, where a borrower takes increasingly larger loans as s/he learns to manage the business; blended loans, in which the MED works with other programs or banks to finance the deal; loan guarantees, a form of backing a loan that the borrower obtains elsewhere; and peer lending, a way for entrepreneurs to make loans within a working circle.

Write your policies for terms and rates here

Recipe Point #10

Write your policies for terms and rates

Creating well-balanced loan structures will help your program grow and sustain itself. If structured for ready repayment, loan payments and interest will contribute to the recapitalization of your loan fund and loan loss reserve, and will assist with operating expenses.

> A Muslim woman from Somalia took classes at a refugee microenterprise program, and successfully began a women's clothing shop for Muslim apparel. Friends invested money initially, but she also "self-financed" with credit cards. She applied for a refugee microloan for additional inventory purchases, since with the obligations she had already amassed, she had no other funding alternatives. The refugee microlender was able to structure a series of small loans that helped her to expand the business without going under from the weight of too much debt. With some help on American business practices, now her income is growing monthly, and she is on a course to repay her loan ahead of schedule.

B. Due Diligence

Recipe for Due Diligence
Loan applications
Excellent underwriting
Business plan analysis
Credit analysis
Major ingredient: Character

If you have been following this cookbook so far, then you have prepared a revised mission statement, goals and objectives, a market profile and marketing plan, and lending policies regarding eligibility, terms and rates.

The next most important section of your policies is the one that governs how you evaluate whether or not to finance a microenterprise. Called due diligence, you will establish techniques for diagnosing each small business situation, and will set up application procedures to begin the process.

The Loan Application

Central to your due diligence process, the loan application is a chance to gather every pertinent detail that will aid in making loan decisions. It is also the method for gaining entry into your lending program. Applications vary widely in form and length, and are offered by many refugee-serving organizations in several languages. But there are certain key elements to cover in all of them. Specifically, you are seeking personal contact information, a summary of the business (idea), and the loan request and collateral. Sample items under each section are found in the chart on the next page.

Exercise

Complete these calculations, and then ask yourself the following questions:

Calculate:

1.a $7,000 loan made at 12% for 3 years; at 12% for 1 year; at 12% for 6 years.

2.a $7,000loan made at 8% for 3 years; at 8% for 1 year; at 8% for 6 years.ß

Which is more important in affecting the size of the payment, term or interest?

What happens when the loan is for a short-term?

What happens if it is long-term?

(Tip – you can search for and easily find a loan calculator on the internet)

Answers to calculations:
1. $232.50; $621.94; $136.85
2. $219.35; $608.92; $122.73

Called due diligence, you will establish techniques for diagnosing each small business situation, and will set up application procedures to begin the process.

Sample Loan Application Items

Personal Contact Information

- Name(s) of applicant
- Social security number, VISA information, or refugee/asylee documentation
- Address
- Phone where applicant can be reached
- Household size
- Household income
- Nearest living relative and phone
- Personal references with phone numbers (at least three)

Optionally, you can request information about: Gender, ethnicity, veteran status, past felony convictions, child support payment status

Summary of Business Idea

- Business name
- Business phone
- Business address
- Age of business (startup? existing?)
- Legal structure
- Type of business
- Gross annual sales (actual if existing; projected if new)
- Number of employees including self

Loan Request and Collateral

This can be a table that lists:

- Loan uses
- Amounts needed
- Collateral proposed
- Market value of collateral
- Total loan request and total collateral

Sample Loan Request and Collateral Table

Loan Uses	Amount	Collateral	Market Value
Purchase Equipment	$	New Equipment	$
Repair Equipment	$	New Inventory	$
Leasehold Improvements	$	New Furniture/Fixtures	$
Furniture/Fixtures	$	New Supplies	$
Inventory Purchase	$	Existing Equipment	$
Supplies Purchase	$	Existing Inventory	$
Purchase Insurance	$	Existing Furniture	$
Fees/Licensing	$	Existing Supplies	$
Working Capital:	$	Land	$
Rent	$	Building	$
Advertising	$	Vehicles (clear title)	$
Deposits/Fees	$	Real Estate	$
Salaries	$	Other:	$
Total Working Cap.	$		$
Other:	$		$
TOTAL LOAN REQUEST	$	TOTAL COLLATERAL	$

Consider loan applications as a data collection form for your organization, and be sure to have a place for applicants to sign their names, and the date:

(1) to attest that the information on the form is true, and

(2) that they give your organization permission to explore their credit history and verify all the details of the application.

(See application examples in Ingredients)

Any loan application is accompanied by a host of materials that will help you to understand the loan request and evaluate its viability (see loan application checklist in Ingredients). Two critical ingredients are the business plan and the financial pro formas. Business plans can be highly academic, or may be a five-page fill-in-the-blank form for very small operations. Financial statements demonstrate the projected growth of the business in income, assets, and cash flow, if it is a startup or expansion. (Existing businesses are usually asked for up to three years of past financial history). Respectively, that means you would request projected income statements, balance sheets, and cash flows for the next three years. Realistically, microenterprises, particularly startups, will be able to provide the first year of an income statement or cash flow month-by-month, and possibly a second year by quarter.

Any loan application is accompanied by a host of materials that will help you to understand the loan request and evaluate its viability. Two critical ingredients are the business plan and the financial pro formas.

Probably the most challenging aspect of microlending, good underwriting is essential to good loan-making, and it is true that the better your underwriting processes are up front, the fewer problems you will have in collecting loans.

Recipe Point #11

Create or revisit the loan application form for your organization

Write notes for your loan application form here

Underwriting, Business Plan and Credit Analysis

"To agree to finance" or "to assume liability" –both are definitions of underwriting that can be found in the dictionary. They tell exactly what happens when a loan is made, but more broadly, underwriting is widely known as a process that is undertaken in order to make a loan decision. Probably the most challenging aspect of microlending, good underwriting is essential to good loan-making, and it is true that the better your underwriting processes are up front, the fewer problems you will have in collecting loans.

Happily, in the refugee microlending world, lenders experience much lower rates of delinquency and default than groups serving non-refugee clients. Nonetheless, try to identify a clear process for underwriting loans in order to protect the liability you will be assuming, provide the best services to your customers, and preserve your loan fund for years to come. As discussed in other parts of this book, take caution that this complex part of microlending does not make it overly difficult for your loan applicants to qualify for loans.

The three major elements to be analyzed in underwriting are the business plan, the financials, and the borrower's character.

The Business Plan

The process of underwriting is one of validating the information that is submitted, and understanding how the various components of documentation are related to supporting the business idea. Most of us are familiar with the basic components of a business plan: business and product/service description, market, operations, and financial plan. The checklist below may give you ideas of what questions to include in each of these areas as a routine part of your underwriting process. But it is also helpful to consider some "rules of thumb" when testing the business plan.

Rules of Thumb for Business Plan Analysis[5]

1. The business plan is written clearly in language all will understand.

a. Without clarity, a loan reviewer who is not familiar with the business idea or industry will not be able to understand the deal, and may dismiss it.

2. It demonstrates that the entrepreneur has done his homework. Much research is needed on the business idea, the marketplace, and how this plays out in costs and potential income.

a. If the entrepreneur states that he has no competition, then he has not done enough analysis. Everyone has competition!

b. The entrepreneur must show that he understands his market, and what percentage of the market he can expect to attract. If it is too high, it will likely be unrealistic.

c. That said, projections must be based on more than percentages for local markets. If not, then a real understanding of market does not exist.

d. If proper attention and adequate costs have not been assigned to marketing, then the deal is in trouble.

3. The business plan is realistic.

a. Be wary of the business plan that predicts high sales in the first month. If anything, expect that these will be low, if there are any sales at all!

b. If sales are shown at the same level each month, the entrepreneur does not understand how the market behaves.

4. It discusses best and worst scenarios.

a. A business plan should take into account the results if everything goes really well, and what to do should the worst happen. Plan for at least three levels of sales, income, etc., in order to safeguard against an unrealistic plan.

Whether the business plan is short or long, in the refugee's own language or in English, what you are looking for is a demonstration that the applicant has studied every aspect of his business, and has as thorough an understanding of the business as he can. It is worthy of note that the complexity of the business plan relates to the level of risk that the organization and the owner/operator perceives or understands for his particular business idea. Low risk deals can be completed with a minimal amount of paperwork (such as one of the fill-in-the-blank business plans found in the Ingredients section). However, any deal should demonstrate a firm grasp of the market it can reach, and the amount of cash it will need to open its doors each day and each month. These two critical factors are often under-emphasized in business plan development and evaluation. On the next page are some sample questions to ask when reviewing a business plan.

What you are looking for is a demonstration that the applicant has studied every aspect of his business, and has as thorough an understanding of the business as he can.

Example

A Bosnian family owned an inner city grocery/deli that was on the "edge of dying," but with true entrepreneurial spirit and 15 years of experience with ethnic food, they decided to convert the grocery into a Bosnian restaurant. With site control, but none of the right equipment, they approached a refugee microloan program to borrow $25,000 for furnishings and equipment. Mother, father, and teenage sons all pitched in to redecorate the store, build a licensed kitchen in the basement, and start cooking. The parents worked hard in outside jobs as well to make ends meet while the restaurant gathered steam. Today, its reputation for excellent food and pies makes it a must for ethnic food lovers and the general public alike. The microloan counselor is helping the family to plan for a second location—coming soon! **A good business plan plus experience and drive added up to success for this family.**

Evaluating the Business Plan – Sample Questions to Ask

Business concept, products and services

- ☐ Do you understand what the business is?
- ☐ What are its products and services?
- ☐ Is the applicant knowledgeable about the products and services?
- ☐ What is she focusing on? Or is she focused?
- ☐ Is the business located where it can reach its market?
- ☐ Have necessary licenses, permits, variances (signage, zoning, construction, sales) been obtained for this location?
- ☐ Does she have a lease or deed (site control)?
- ☐ How suitable is the location? (space, layout, affordability)?

Authors' note: Site visits are encouraged to better assess the feasibility of the space.

Market:

- ☐ Does the entrepreneur understand why her market will buy from her—price, quality, expertise?
- ☐ What is her market territory?
- ☐ Were steps taken to evaluate the local market, and are they reliable?
- ☐ Is the market share predicted realistic?
- ☐ Has a thorough analysis of the competition been completed?
- ☐ Does she have a marketing plan, and is it realistic?

Operations/Management:

- ☐ Can you understand the management plan?
- ☐ Have all responsibilities been considered and assigned?
- ☐ Are there staff, and do they have the skills needed for the job?
- ☐ Does the owner have appropriate job or entrepreneurial experience?
- ☐ What are the hours of operation? Are they adequately covered?
- ☐ Has a legal form of business been designated?
- ☐ If a partnership, has a sound partnership agreement been written?
- ☐ If incorporated, is documentation included in the loan package?
- ☐ Is the name of the business registered?

Financial or Credit Analysis

The financial plan is actually part of the business plan, but it usually consists of charts and tables that show income and expense projections, cash flows, and assets and liabilities. It should be accompanied by a narrative explanation. There are a number of questions specific to credit analysis.

Evaluating the Financial Plan – Sample Questions to Ask

- ☐ Are the loan request and payments included in the projections, and is the request reasonable?
- ☐ Is there a chart of sources and uses of loan proceeds?
- ☐ Does the applicant include quotes for all the items on the chart?
- ☐ Have relationships been established with suppliers and vendors?
- ☐ Does the entrepreneur have contracts committed?
- ☐ Are all costs and income incorporated on the projections?
- ☐ Is there a narrative explaining the assumptions behind the figures on the projections?
- ☐ Do projections make sense after reading the business plan? (e.g. If an ambitious marketing strategy is described, do they show the funds to pay for it?)
- ☐ Does income projected reflect slow startup or the seasonality of the business?
- ☐ Does cash flow match the good and the slow periods shown on the income statement?
- ☐ If some months on the projections show a loss, how do they plan to survive?
- ☐ What is the past pattern of growth for the business? If positive, how will they build on it? If negative, how do they plan to reverse the trend?
- ☐ In reviewing past financials, what can you learn about the applicant's management ability?
- ☐ Are all taxes paid and current?
- ☐ Is the entrepreneur current on all outstanding debts?
- ☐ How does she plan to pay your loan payment if her income projections are not achieved? Is there some fallback income?
- ☐ What level and quality of collateral is being offered? Is it correctly valued?
- ☐ How much equity, if any, is the owner putting in?
- ☐ When does the applicant plan an owner's draw? Will you inadvertently finance it?

Example

The owner of a construction company wanted to expand into the roofing business. As a Bosnian refugee, he sought help from the refugee microenterprise program for a loan to purchase a truck, a trailer, and some small equipment. With business plan and loan packaging help, he soon received the loan and put the roofing business in motion. Things came to a grinding halt some months later when a worker was injured falling from a rooftop. But the hurt went deeper than just the bruised individual. The insurance premium increased dramatically (more than $4,000 a month), and soon the borrower fell behind in all of his payments. He was forced out of the roofing business.

"Better budgeting and better communication with the client about the importance of insurance in a high-risk business could possibly have saved this loan. Particularly with refugees, they are sometimes reluctant to understand the realities of business practice. Lenders may want to consider whether loan amounts should be increased to pay for insurance in these instances. The risk should be well evaluated and dealt with during the loan application process." - Matt Schindler, Program Coordinator, Microenterprise Development Coordinator, International Institute of St. Louis, MO

Exercise

Debt to Income Ratio

1. A Cuban couple plans to open a bakery. They are asking for loan payments of $400 per month for the next four years. They pay rent of $1,000 a month, a car loan of $209 per month, and several credit cards that add up to $250 per month. They both work other part-time jobs that bring in about $1,800 in gross income in a month. They predict that the bakery will gross $5,000 in sales per month. Their fixed monthly costs at the business will be $1,700. What is their debt-to-income ratio before the loan? What is their debt-to-income after the loan? If everything else looked positive, would you make this loan? Why or why not?

2. What if their gross income per month was $2,300?

Answers:
Scenario 1: Personal ratio 81% or .81; after the loan, 52% or .52—you probably would not make the loan unless you could stretch out the term to reduce their monthly payments.
Scenario 2: Personal ratio 63% or .63; after the loan, 48% or .48—you might make this loan, but it is still high risk. You may want to change the term in this one if everything else in the deal looks good.

The chart above does not include questions about financial ratios, because so often, they are not meaningful numbers in the microlending business. However, one financial ratio that can have some import for your lending decisions is the debt-to-income ratio. You may want to calculate it as a safeguard to making a loan that the individual simply cannot afford. This ratio is calculated by dividing the total of all of the monthly payments, including the new payment for your loan, by the total of all of the gross income that the applicant has.

Debt-to-income ratios should never be the single decision point on whether or not to make a loan, but it can be important information to have. In Point 1 of the exercise above, you calculated a ratio of 52%. That means for every dollar the couple earns from the business or their jobs, 52 cents is going toward debt service. That only leaves 48 cents for the remainder of their living expenses. Ratios used at some credit unions routinely deny debt-to-income ratios of greater than 50%, consider ratios between 41-49% poor, and 31-40% marginal—30% and under is good. However, in microlending you have the option to structure the deal differently, if you feel it is to the benefit of the client, the community and your organization. Review Terms and Rates above for ways to structure loans. Here are some more ideas that may help you think about credit analysis.

Quick Tips on Credit Analysis

Never an exact science, loan underwriting for microenterprise deals can be made less arbitrary with the following tips.

1. An explanation of the applicant's credit history may reveal how they make financial decisions. Find out the applicant's explanation of any poor credit as soon as possible, and documentation to support that explanation. Compare this against the credit report. What has been done to address derogatory credit? Ask for documentation of this as well.	Tip > Poor credit may not be a barrier to extending a loan if there have been documented efforts to address the situation. If the customer does not have a personal credit history, you may need to observe the purchasing patterns, their age, and their assets to make a determination about whether or not the lack of credit history is a positive or a negative indicator.
2. For applicants with bankruptcies, review the causes, and what steps have been taken to resolve it. Consider the circumstances before the bankruptcy and what has taken place since the bankruptcy has been discharged. Compare for serial overspenders and poor credit management habits.	Tip > Bankruptcies caused by major medical situations may be ones with which you can work through when thinking of offering a loan. Bankruptcies due to unrestrained spending are probably not a good indication for loan purposes.
3. Look for patterns in the applicant's debt and spending habits.	Tip > Persons who frequently make unplanned personal spending decisions may be likely to make unplanned business spending decisions.

4. Analyzing collateral for microloans is not always easy. However, value the collateral as well as you can, and ensure that it is available, in case you have to go get it. Ask yourself how much the applicant is willing to "stake" for his loan.	Tip > Collateral should never be the chief determinant in making a loan. However, since collateral for microloans is rarely equal to the value of the loan, view it as the applicants' personal statement about how much they are willing to invest in their idea. In the absence of traditional collateral, the more personal the item committed for collateral, the better.
5. Character is the chief form of collateral that will be acquired for a microloan.	Tip >The importance of getting to know your customers cannot be overemphasized. Gauge their commitment by the level of effort they put into their business plan and loan application with you.
6. Applicants must be current on taxes and debt service.	Tip >The government can take precedence over your loan in order to collect taxes. Many states will lock up businesses that are behind in sales tax. Other creditors can put tremendous pressure on your borrowers. Being behind on taxes or debt can be a deal spoiler for your applicants.
7. Sometimes non-financial considerations enter into the underwriting analysis. Deals can be delayed or stopped if things like site control, licenses, name registration, an outstanding phone bill, signage, and insurance have not been handled properly.	Tip > Attention to detail is important when working to make a sound loan. Business reasons like these can put a halt to getting a loan closed. Your organization may have invested a lot of time without getting the desired result. Try to measure when to ask for detailed information. Loans that present low risk may require less examination on your part. However, overall, these tips will serve you well when evaluating credit.

"Refugees are real survivors, and very entrepreneurial, but there is a gap for them when it comes to accessing capital for their businesses. Refugee microloan programs can fill that gap by providing credit even when no credit history exists. Having no credit history does not mean that a refugee is a bad candidate for a loan."

-Yanki Tshering,
Director, Business Center for New Americans, NYANA, New York City

Character – A Primary Ingredient in the Due Diligence Process

In the tips above, we begin to present the notion that the evaluation of the loan applicant's character is valuable. In fact, it is so important that we treat it here as a separate subject. Not too long ago, banks made loans against the five "C's"–cash or capital, collateral, credit, capacity, and character. As banks have centralized their operations, fewer loans are being based on character, and more on scores.

Microenterprise is by its nature a community-based activity, and it is highly individualized in its approach to loan applicants. It becomes character-centered for these reasons, but also because the loan applicants usually do not have the cash, collateral, or credit upon which to bank their deals. What they do bring is their own personalities, skills, education and training, experience, and behavior patterns. It is absolutely critical to gain an understanding of an applicant's character in order to make a microloan decision.

Assessing character traits is far more subjective than the business plan and credit analysis discussed above. It takes patience and experience. However, asking a series of questions about the applicant's experience, checking references, both trade and personal, and working with them through their personal financial statement can yield powerful information.

Here are some of the tools that will help you evaluate character.

Character Assessment Tools

Tool	What it documents	Indicators
• **Resume**	Work and educational experience	• Any experience/knowledge of proposed business idea • Other relevant experience/knowledge • Management experience • Experience running/owning a small business • Chronological work history – is it sporadic, or continuous? • Specialized education or training
• **References**: Employers Suppliers Teachers Customers Landlords Personal Others	How other people feel about applicants, their work, their attitude	• Degree of: Reliability & timeliness Independence Tenacity Tolerance Ability to handle pressure Skill Customer service & satisfaction • Money handling • Timely repayments • Spending habits • Ability to learn & adapt
• **Credit history** • **Restructured payment documents**	Repayment history	• Level of debt • Types of debt • Debt current, bills paid on time • If behind, acceptable explanation • Workouts • Did applicant explanation of credit history match actual document? • Differences explained
• **Personal financial statement** • **Bank statements**	Financial situation Client's representation of the situationPresence of cash or savings	• Amount of current income • Level of cash and savings • Amount of assets and liabilities • Household costs • Personal spending habits • Telephone bill and rent
• **Tax returns** • **Sales license**	Taxes were filedIntent to collect sales tax	• Taxes paid on time, or not • Attitude about taxes • Any workouts

"A lot of older refugees without the opportunity to go through the US educational system cannot complete or find satisfactory jobs that will make them independent. Microloans enable them to use the skills that they have brought from their country, and to create businesses and economic independence for themselves."

– Blong Lee,
Business Plan Specialist, Fresno County EOC, CA

In order to have policies that treat all customers equally, it is important in character lending to base your assessment on actual tools. It is too easy to listen to hearsay or follow gut instincts on some deals, but in the end they will not be accurate, you will not be able to document them, and you may put your organization at risk through inconsistent, or at worst, prejudicial treatment of customers. All of the tools cited above can be requested as an ordinary part of the loan application process. It will be up to your skills as an interviewer to bring out some of the indicators mentioned. No proper risk assessment can be made of a microloan, however, without considering these sometimes very personal factors.

Write characteristics you should test for here

Recipe Point #12

Draw two columns on a pad, and write down the characteristics that will be most important for you to test with your target market in order to make loans; then identify the tools that will help you to understand those characteristics. Later, write policies to describe these.

Characteristics	Tools
Sample: Trustworthy	Personal financial statement compared to credit history; or if none, bank statements

C. Collateral Criteria & Procedures

Recipe for Collateral	Recipe for Collateral Procedures
Level & types of collateral	Accurate paperwork
Fair value	Mortgages & Titles
Resale value	UCCs and other

If you are setting up a microlending program, it is important to plan collateral and collections systems well ahead of time. If you currently practice lending, be sure to revisit these systems to make sure that they are comprehensive. This section of the book will focus on collateral, and collections will be covered in a later chapter. But for now, we encourage you to think about writing collateral procedures that are clear, definite, and easily understood.

Example

A Palestinian gentleman with no credit history desired to purchase a used car lot. The refugee microenterprise loan counselor worked with him to develop a business plan and a loan package. He received a $20,000 loan—$10,000 to purchase the business, and $10,000 to buy used cars at the auto auction. It is a testimony to his character that the loan was made even though the collateral would be constantly revolving. Today the business is a success thanks to a combination of technical assistance and financing, and the entrepreneur's own skills at auto repair and sales.

As mentioned in other areas of this cookbook, be aware of your market in planning the types of collateral you will request. If you are working with refugees who have only recently acquired property, is it reasonable to expect that they will want to offer it for collateral? Of course, many others will have no property at all. Already, you can see that there are many complications in thinking through collateral policies.

Most importantly, even though we are focusing heavily on collateral in this section, please remember that **loan deals should not succeed or fail based on collateral alone**. Too many times, we have observed loan committees that were unhappy with the collateral, and voted the deal down notwithstanding the many positive attributes of the business plan. In microlending, collateral is important for reasons other than recovery of the loan amount. Including collateral as part of the overall deal sends the message to potential borrowers that you are treating their transaction in a business-like fashion, that you do expect to be repaid, and that this is a method for them to demonstrate how serious they are about going into business.

Example

A young West Virginia woman decided to raise and sell herbs at the local farmer's market to earn supplemental cash for her household. She needed a $500 loan for seeds, soil nutrients, and packaging supplies. She had no collateral, but her uncle had a condo in Florida. Several loan committee members thought it would be a good idea to take the condo as collateral, if it could be obtained, but finally it was agreed to take the loan proceeds for part of the collateral, and her uncle's signature for the remainder in order to approve the deal.

Level and Types of Collateral

The main purpose of properly secured collateral is to protect the lender and promote the longevity of the lending program so that future entrepreneurs can be served. But from a practical standpoint, in many cases a microlender will not be able to secure collateral that, if collected, would equal the loan amount. Nonetheless, we recommend that you pursue collateral pledges that are equal to as much of the loan as possible on the day of closing. You may be somewhat flexible in how you assign value to pledged collateral, but developing general guidelines will guarantee that borrowers are treated consistently and fairly. Try to ensure that the collateral you are taking is appropriate to the type and size of deal.

In the example in the sidebar, committee members wanted an enormous amount of collateral to back a very tiny loan. The deal finally came back into proportion as loan proceeds and a co-signer were obtained. Unless the loan amount posed a significant risk to the organization, or the business plan itself seemed highly tenuous, there would be no reason to "over-collateralize" to this extent. It is all about how well the collateral fits with the other elements of the loan and the business plan.

Sometimes it is not possible to achieve 100% collateral coverage. In those cases, it is up to the loan committee to review the other merits of the deal, or suggest a re-structuring of the terms that may bring the loan closer to full collateral coverage.

Types of Collateral

Several variables affect the type of collateral to request. Among these are loan proceeds or uses of the money, types of businesses, and the loan structure, including rates and terms. In the first two instances, they help determine the types of collateral available, and as we have already learned, rates and terms can be adjusted to help with collateral coverage.

Again, we cite the loan application as an important document. This is the first opportunity for the organization to see what the potential borrower is offering for collateral. If you use a chart similar to the one in the Ingredients section, then you will also have a description of the collateral, where it is located, and its proposed value.

Types of collateral by category and value:

Loan proceeds/business assets - Whenever possible, try to see how much value you can get out of the items that will be bought with the loan proceeds, and next, look to the business' assets. If these are insufficient, then you may want to consider some other categories that may or may not be business-related.

[redacted]

Real estate—houses, property, buildings—is good, solid collateral, but in most cases, as a small lender, you will find yourself in second or third position in the lien line-up. Exercising a foreclosure in such circumstances can be costly and unproductive if the first lien holder does not wish to go along with you. If the loan that you make is large enough and the title to the property is free and clear, then securing a first mortgage on real estate is about the best security you can get. Remember to keep it in line with the amount of the loan.

[redacted]

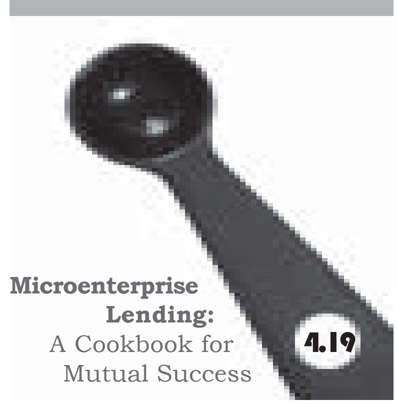
Probably the most frequently used form of collateral in microlending, vehicles new and used can be a good form of security. They can be valued by an easy visit to the Kelley Bluebook website, www.kbb.com, but be sure to physically view the vehicle, too, since condition is a further determinant of value along with mileage. Never take a second position on a vehicle, unless it is for "psychological" collateral—that is collateral that has an emotional attachment for the borrower. At the rate vehicles depreciate, there is usually no room for a second lien.

[redacted]

Businesses commonly have equipment available to pledge, but you will need to be able to determine a resale value, and whether a resale market is available for the item in question. Equipment generally has a longer life than inventory and furniture and fixtures, making it more valuable as collateral.

Example

Sometimes things are not what they seem. One of many Laotian refugees receiving a farm loan from the local microenterprise organization, it wasn't long before this Lao woman defaulted on the $5,000 obligation. Sadly, she left town with her drug-using boyfriend, taking her collateral with her, a 1985 model car. **A lesson in underwriting, the organization learned to further explore relationships of the borrower, secure better collateral and check on it routinely, and perform periodic site visits to see that the loan proceeds are being implemented as promised. Vehicles or any rolling stock (something on wheels) taken for collateral must be monitored frequently for location and condition.**



Example

A young man, a non-refugee, applied for $3,000 to buy a used "illusion" for his traveling environmental magic show. After researching resale markets (other magicians), it was learned that used illusions have very good value for resale. Therefore, he was able to use the item purchased with loan proceeds for most of his collateral.

4. Inventory and furniture/fixtures

These items are less valuable as collateral, but more likely to be available. They are more difficult to re-sell, and as a rule, do not hold their value very long. Also, inventory is transitory by its nature and hard to track. As well, equipment and furnishings and fixtures are relatively easy to "disappear," so if these are taken for collateral, there must be a routine check for their presence at the business or home of the entrepreneur.

A number of groups are taking accounts receivable for collateral. Particularly for microbusinesses conducting contract work, the organization can be assigned the proceeds of a contract. This brand of collateral can be challenging to collect. It is costly to pursue when you do not get repaid, and chances are, the borrower has made a deal with the contractor to pay them directly.

Personal items

Especially among refugees, people have good savings habits. If they are doing so in one of the ways cited these can be taken as collateral, and are very strong, as they represent cash.

This grouping represents some of the things that are most precious to the loan applicant. While you will need to get a third party to rate their value, they are sometimes priceless in the eyes of the borrower. In the absence of more traditional collateral, the more personal you can make security the better. For persons who do not have much else to pledge, this is a good display of their stake in the business and their serious intent to do well.

In our experience, we have learned that it is better to take horses than cows for collateral! Where horses are considered members of the family, cows are less cared for, and more expendable. Taking livestock of any kind is extremely tricky, because if you end up having to repossess them, there will be a whole set of issues to handle, not the least of which is their care and feeding. Animals should be registered and if living in herds, identifiable as yours (you could tattoo them!). Think twice about using livestock for collateral, but know that in some cases, it can represent strong personal commitment to the deal.

Sometimes the only collateral potential borrowers have are the items that furnish their homes. These can be valued, and re-sold. However, as a lender, if you ask for collateral that is very personal, you must be certain that you will be willing to collect it if necessary.

Other

[redacted]

While you cannot assign a dollar value to it, personal guarantees are important to include as collateral. Essentially, you will ask the borrower to sign a form (see Ingredients) stating that he or she will be responsible for repayment of the loan, regardless of business performance. This is a document that you can take into court if necessary.

[redacted]

Microenterprise lending has as one of its goals to empower people to take financial control over their lives. However, particularly with refugees, there is frequently no collateral available to secure the loan. What has worked successfully in many refugee programs is to help the applicant identify a co-signer who can repay the loan if he does not. Since co-signers are usually someone close to the borrower, this form of collateral is valuable in that the co-signer can pressure the borrower to repay, and from the organization's viewpoint, the co-signer is available to pay if the borrower cannot.

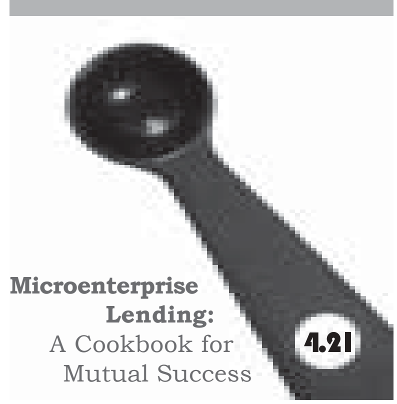
> **For any form of collateral, if you are not willing to collect the items pledged, then don't take them as security for the loan, because (1) it is worth nothing to you if you do not intend to repossess, and (2) you will spend considerable expense and time filing security documents for collateral that will never be recovered.**

Valuing Collateral – Fair Value and Resale Value

Fair Value refers to the fair market value of the item at the time that it is pledged as collateral. While most new collateral can be valued at 80% of the purchase price, values vary according to the specialty nature of the item. Fair market value can be determined by checking at least three sources for estimates of the purchase price of the item. For used equipment, fixtures, and furnishings, this becomes more challenging. You will find yourself conducting research in places like secondhand restaurant equipment stores or used car lots in order to come up with fair market value. Frequently, used items are given a value of 50% of the purchase price new, but if it is used restaurant equipment, for instance, then its value will range somewhere between 10% and 25%. Don't forget to check out the condition of the equipment as well. What sounds good on paper may be quite run down in reality. In your policies, consider allowing a range of between 25%-50% on used items.

"Combining a refugee microloan program with an Individual Development Account program makes good practical sense. The startup or expansion gets a boost from the injection of capital made by both the loan and the individual's personal savings, giving the refugee a real stake in the business."

– **Helen M. Seenster**, *Branch Office Manager and Business Consultant, ISED, Waterloo, IA*



Example

A low-income, rural family wanted to start a lunch wagon business, delivering hot and cold sandwiches to businesses on-site. Besides the truck for the lunch wagon, all they had at home for collateral was a television, a refrigerator, and a Rubbermaid storage unit. When they defaulted on the loan, the television and the storage unit were repossessed and sold. This motivated the couple to begin payments again, and they were able to keep the rest of their possessions. While it may seem hard-hearted to some, this repossession had the effect of returning the borrower to a normal repayment schedule, thus creating a positive addition to their credit history, and contributing to the longevity of the loan program.

At this stage, you are trying to make your best estimate of what the collateral is worth. As you make more loans, you will improve at underwriting collateral value.

Home-based Courier Service: Sample Collateral for $6,000 Loan Package

Item	Fair Value	Collateral Value	Position	Validation
Inventory & supplies	$1,500	$1,200 (at 80%)	1st position	3 quotes from Staples, Office Depot, Wal-Mart
1995 Buick Regal, good condition	$3,720	$3,720	1st	Kelley Blue Book 02/04/04
1992 Geo Metro Hatchback, fair condition	$ 680	$680	1st	Kelley Blue Book 02/04/04
Arrowhead collection	$ 500	$250(resale est.)	1st	Third party evaluation*- Museum curator
Total Collateral Package		$5,850		

*You may incur fees with third party evaluators; can pass on to loan applicant.

Resale value is not always the same as fair market at the time of the loan. For one thing, time will pass, and the collateral will depreciate. Frequently, the value goes down more quickly than the principal outstanding on the note. This can result in "upside-down collateral." Reassessing your collateral on a routine basis, say once a year, can be of benefit for those loans that need restructured or for a deal that is going sour. You have the opportunity as a lender to request additional collateral as needed, provided you have written your promissory note to allow for it. In actual practice, few programs conduct this reassessment, but fortunately, it is not often needed. Please be aware that repossessed items normally sell well below the fair market value, and it is usually a costly proposition to repossess, store, and sell collateral.

Write notes for your collateral policy here

Recipe Point #13

Begin writing policies that will govern what you will accept for collateral and how you will value it.

Recipe for Collateral procedures
Accurate paperwork
Security document
Mortgages & Titles
Uniform Commercial Code

Accurate paperwork

The earlier discussion of collateral offers a rational for why collateral is taken. But it is pointless to develop collateral policies without good, solid collateral procedures. Learning to perfect your collateral positions and verifying that they will hold up under legal scrutiny in your state is critical to securing the collateral pledged for the loans. Regardless of the form of collateral, complete and accurate paperwork is a painstaking process requiring knowledgeable and dedicated staff. Below are brief discussions about certain types of paperwork that you can utilize to protect your interest in the property pledged by borrowers as collateral.

Security Document (Agreement)

During the loan closing, the borrower and your organization will sign a security document which sets forth all of the pledged collateral, with the exception of any mortgages or vehicles. (Those are documented separately). It also delineates the connection between this security and the promissory note that they just signed with you, and sets out the rules that will govern the collateral. Such a document can be designed by you from examples (such as the one in Ingredients), but be certain that it is reviewed by legal counsel for accuracy, inclusion of all factors, and legitimacy in your state. Some of the rules it will specify that the borrower must follow are: maintaining the collateral in the location disclosed, keeping it in good condition, insuring it and naming your organization as the loss payee, and prohibiting its sale or removal without your express written permission. A separate security document must be drawn up for any vehicles pledged as collateral. It is best to create individual security documents for each titled vehicle pledged.

It should be noted that some microlending programs do not take collateral. This is not addressed in this book because we recommend taking collateral in all instances, even if the only value it has is tied to the borrower's emotional attachment to the object.

Exercise

From the example of the home-based courier business two pages ago, which security documents will you use for each type of collateral listed?

Answers:
The vehicles will be listed on a separate security document, and the title lien will be recorded at the County Recorder's. The inventory, supplies, and arrowhead collection will be listed on a separate security document, and be recorded on a UCC. The arrowhead collection will be stored at the agency in a fireproof locked cabinet, or in a safe deposit box at the bank.

Mortgages

Mortgage is another way of saying "security document" only its intent is to secure real property. Forms for mortgages are straightforward, and tie the mortgage to the debt with you, listing a very specific property description from the deed. Whether you have a first, second, or even third position on property, be sure to complete a mortgage and have the borrower sign it. Don't forget to conduct a title search to ensure that the title only has the liens on it that the borrower has specified. Staff can be trained to research titles, or this can be completed by a lawyer or title office depending on how your state does business. Mortgages are signed by all owners, notarized, and then filed at the County Recorder's Office that serves the property in question.

Vehicle Titles

Vehicle titles customarily refer to cars and trucks, but boats, motor homes, and some trailers have titles as well. The applicant must bring you a clear title in his or her name in order for you to perfect the lien. This will give you important information for the security documents including the VIN number, and it will also demonstrate whether or not there are any other liens on the car. At the loan closing, the borrower will sign a security document specific to the vehicle(s) in question. The organization retains the original title, and records the security agreement with the respective local Clerk of Courts, obtaining a Memorandum of Title for the borrower.

UCCs

Uniform Commercial Code (UCC) forms are filed with the County Recorder and the Secretary of State in most states to reflect what collateral has been pledged on the security document. The forms can be obtained from office supply stores, printing companies, and in some states, on-line. It will behoove you to be as detailed as possible in describing the miscellaneous collateral that is listed on the UCC in the event that you ever need to repossess it. Inventory, tools, equipment, furniture and fixtures, and personal items can be listed on an attachment if there is not enough room on this small form. Collateral can be described by serial number, model number, or any other defining number or description. Request a photograph for the file if no other identifiers can be found. This is particularly helpful with collections, antique furniture, and artwork. UCCs remain valid for three years. If the loan will exceed that time period, re-file on a UCC-3 which the borrower will have to re-sign.

To Score or Not to Score

To effectively and efficiently prepare and process loan requests, your fund will need some sort of recipe for quickly assessing how much credit risk it can tolerate. It can also act as a timely way to inform clients about whether or not they qualify for loans. Instead of **loan** scoring, think about **application** scoring as a means to quantify credit risk and to give focus to how the lender can provide development services to move the client toward being qualified. Consider the following factors when scoring applications, and note that they sometimes do involve the use of ratios.

To effectively and efficiently prepare and process loan requests, your fund will need some sort of recipe for quickly assessing how much credit risk it can tolerate.

Loan Application Scoring Worksheet - Sample

Ratings	Score	Weighing %	Total
Cash flow to Capacity			
Collateral			
Personal Credit History			
Management Experience			
Commitment to Community			
Total			

Factors – Directions for Scoring

Defining the Scoring Process

The range for each factor is from 1 to 4, with one being the lowest possible score, and four being the highest. You may elect to assign weights to certain categories for higher or lower importance, depending on your target market, program mission, sector, and portfolio quality.

Categories for the Scoring Process

Cash flow to Capacity: This is the ratio of personal and business debt to personal and business income. To calculate this ratio, take the debt figures from the customer's personal financial statement, the income figures from the financial statement, and add the business income reflected on their personal tax return, or their projections.

Total Personal Debt
+ Business DebtPersonal Income
+ Business Income
= Cash Flow to Capacity (%)

Score as follows:

1 = If the ratio is greater than 75%
2 = If the ratio is 51% to 75%
3 = If the ratio is 26% to 50%
4 = If the ratio is 25% or less

One way to capture all of the information from a scoring evaluation is to use a loan application transmittal form. This provides a good summary of the basic loan request and scoring data, as well as any explanations.

Collateral: This calculation is based on using a collateral value as a cumulative value divided by the total loan amount requested. The collateral value is based on a real net market value of the proposed collateral.

Total Collateral Net Market Value
Total Loan Request
= Collateral Coverage (%)

Score as follows:

1 = The loan request is for working capital with no collateral.

2 = The customer submits the items purchased with the loan as the only collateral (purchase money security).

3 = The customer submits the items purchased with the loan plus additional items as collateral (purchase money security plus additional collateral).

4 = The collateral value equals 75% or more of the loan request.

Personal Credit History:

Score as follows:

1 = The customer has public records and derogatory credit not addressed, or a Chapter 7 bankruptcy.

2 = The customer has addressed some issues, or has a Chapter 13 bankruptcy.

3 = The customer has a history of "slow pay," but is current on payments; or can demonstrate payment arrangements.

4 = The customer has no derogatory credit and is current on payments.

Management Experience:
(years experience in management and/or the type business that they propose)

Score as follows:

1 = The customer has less than two years experience.

2 = The customer has 2 to 4 years experience.

3 = The customer has 5 to 9 years experience.

4 = The customer has 10 or more years experience.

Commitment to Community:
(may be optional for refugees or alternative criteria may be developed to address this measure)

Score as follows:

1 = The customer has worked in the community for less than 2 years.

2 = The customer has worked in the community for 2 to 4 years.

3 = The customer has worked in the community for 5 to 9 years.

4 = The customer has worked in the community for 10 or more years.

Sample Scoring Matrix

Risk Rating	Sum of Category Points
Superior	20
Excellent	16-19
Good	10-15
Needs Work	10 or less

Don't forget that weighting can be altered depending on the nature of your customer base. An example of how weighting may make the application scoring more relevant and useful to your clients is if your organization serves low-income women or a high percentage of refugees who have little collateral, you may want to place less weight on this category. On the other hand, if your organization is a Community Development Organization, the collateral score may be considered on a more equal basis with the other measures.

There are many benefits to be derived from loan application scoring. It can be used as a tool to:

Make loan decisions

Evaluate portfolio risk

Identify trends, risks, and action steps to keep your loan program viable

A loan application scoring process can be easily adopted by any staff involved in the lending process. One way to capture all of the information from a scoring evaluation is to use a loan application transmittal form (see sample next page). This provides a good summary of the basic loan request and scoring data, as well as any explanations. Our only caution is that, like so many other parts of loan decision-making, guard from using application scoring as your primary means of approving or denying loans.

Exercise

See if you can score this loan application.

Sofia and Estefan seek a $15,000 loan for starting a laundry service, and are pledging the equipment that they will purchase with the loan as well as their 1993 Taurus car for collateral. Both work other jobs at present—Estefan at the factory for $26,000 a year, and Sofia, housekeeping at $7,000 a year, off the record. They have occasionally had trouble meeting bills but now are current on everything. The refugee couple has $800 per month in personal debt (they live with Sofia's sister), and the new business loan will add $200 per month in debt. They ran a laundry in Haiti, where Estefan was manager for six years, and Sofia was a laundress for almost three years. They have three children and moved to this community two-and-a-half years ago. What is their application score?

Does this couple present a reasonable credit risk for a loan?

Answer: 14: Cash flow to capacity=36% for 3 points; + 3 points for business and personal collateral; + 3 points for current on payments; + 3 points for 6 years of business management experience; + 2 points for residing/working in the community

Our only caution is that, like so many other parts of loan decision-making, guard from using application scoring as your primary means of approving or denying loans.

Sample Loan Application Transmittal Form

Applicant Name: ____

Applicant Address: ____

City: ___________________________ State: _____ Zip: _________

Type of Business:

- ☐ Retail
- ☐ Service
- ☐ Manufacturing
- ☐ Construction
- ☐ Wholesale
- ☐ Combination
- ☐ Other____________________________

Address of business: ____

____

Date Request was submitted: ____________________________

Amount Requested: _____________ Amount Approved: __________________

Proposed Term of Loan: _______________ Proposed Interest Rate: _____________

Proposed Collateral: ____

____

Use of Funds:

Working Capital	$_______________
Inventory	$_______________
Equipment	$_______________
Improvements	$_______________
Construction	$_______________
Real Estate	$_______________

Ratings	Score	Weighing %	Total
Cash flow to Capacity			
Collateral			
Personal Credit History			
Management Experience			
Commitment to Community			
Total			

Representative Completing Form_______________

D. Combos: Training, Technical Assistance, and Access to Capital

Much attention has been given to the loan policies, but in thriving microenterprise lending practices, we know that loans are only as good as the training and technical assistance that accompanies them. Here are some comprehensive recipes for the successful design of your training and technical assistance programs.

Before preparing any recipe, the chef considers what ingredients she will need, and what steps she will take. We suggest this approach in cooking up your training and technical assistance.

The Approach:

- Start with a good understanding of customer's needs in your marketplace.
- Stir in program activity measures that will create positive change.
- Simmer & stir constantly to create desired program activities and outcomes.
- Be careful not to add program activities or outcomes that cannot be achieved given your organization's capacity and your understanding of the demand in the marketplace. Over promising can lead to long-term funding problems when program performance goals are not attained.
- Bake until community outcomes and significant impact occurs.
- Be mindful of the need for effective data collection efforts and the time it will take to prepare reports for funding organizations.
- Serve with good evaluations and timely reports.

Recipe for Training

- Start with customers with barriers beyond business basics (may enjoy additional pinch of personal effectiveness training).
- Add economic literacy training to taste to ensure broad participation in your economy by the customers served in your target market.
- Pour in recruitment and screening techniques to ensure program efficiency and availability of needed services to your target market.
- You may serve cold for some expanding businesses with good financial information; otherwise bake at high heat with the availability of extensive business plan development courses for start-up businesses and for those clients with little experience.
- Training can be served with business technical assistance and blended loans with banks and other sources of up to $105,000, based on availability. [Your share would be $35,000—this blending ability is now permitted by the SBA].

"Most refugees have acquired skills and experience in running a business, but need help translating (sometimes literally) that experience into American business practices. A micro-lending program serving refugees provides that support."

– Carminia Rios, *Business Counselor, Business Center for New Americans, NYANA, New York City*

Careful with the amount of loan packaging assistance until you are sure that the client can qualify for the requested loan!

Recipe for Business Technical Assistance

• Mix business technical assistance efforts with layers of business training and business plan development programs. Work to ensure that business technical assistance is not being offered to replace needed training (a costly and inefficient use of the business technical providers' time and cause of unnecessary delays for clients waiting to receive needed business technical assistance).

• Prepare all ingredients so they are available to clients for effective business technical assistance.

• Careful with the amount of loan packaging assistance until you are sure that the client can qualify for the requested loan! Investing the technical assistance provider's time with an unqualified client translates into a waste of time and money for the organization, and a source of client frustration if they thought the work with the technical assistance provider meant they would get a loan.

• Add, for good measure, post-loan business technical assistance to maintain low delinquency rates in your loan portfolio and to promote the greater likelihood that the businesses assisted will survive, grow and become profitable.

• Based on availability, program mission, and affordability; business technical assistance can be enhanced with all or any of the following spicy additives:

- Mentorship
- Assistance by licensed professionals
- Assistance for sector specific strategies
- Assistance with access to markets
- Access to state & federal procurement programs
- Attending trade shows
- Developing access to international markets
- Minority business development programs
- Community festivals
- Youth enterprise programs
- Technology transfer efforts

• Serve with generous portions of training programs and loans up to $105,000 based on availability of capital, your lending philosophy, and program loan limits.

Microenterprise training recipes for refugee practitioner organizations will vary based on the different needs of its customers. Preparation is often needed by the client before they are ready for business training. Usually integral to organizations that provide refugee microenterprise development (MED) services, non-business training involves instruction, information, and activities to help clients overcome a variety of personal, professional, and environmental barriers. The client's situations and circumstances must be well understood by the training provider so that effective training can be offered to address those particular needs. There are a variety of MED organizations that offer a range of training programs not related specifically to business training. They can include language instruction, economic literacy, and personal effectiveness.

One recipe to keep your program affordable and efficient is to collaborate with other educational institutions or organizations that offer specialized training programs for your clients. There are a variety of educational institutions, government agencies, government funded organizations and non-profit organizations in most communities both rural and urban who are funded to provide and/or develop specialized training programs. Yet, many MED organizations may rush to develop and maintain a menu of non-business related training programs based on their assessment of the training needs of the client. Keeping all training functions within the MED organization may keep the training cost per client very high and may create divisions between lending staff and training staff about the most important program priorities.

One recipe to keep your program affordable and efficient is to collaborate with other educational institutions or organizations that offer specialized training programs for your clients.

Exercise

Chart your training approach by answering the following Action Step Questions.

Action Step Chart

- Who and what organizations in my market can develop or offer needed non-business training for my customers?
- Can the MED organization offer high quality non-business training with consultants instead of staff?
- Do I need a curriculum upgrade for the training programs offered—or might it be more cost effective to buy an already developed curriculum to use as opposed to taking the time to develop my own?
- As it relates to the training offered by the organization how high is the demand for the training by clients?
- Are all of the training staff familiar with the curriculum and have they been trained on how to effectively offer training and instruction to clients?
- Is the scope of training on target?
- Is the sequence of training activities and the time allotted for training enabling clients to achieve stated training outcomes?
- What is the frequency for repeating training programs in your market?

Another approach, if funding is available, is to bundle certain training programs and offer different training courses that are related to business success. A common approach in MED is to offer economic literacy and asset development programs in conjunction with business readiness training and business plan development courses.

Tales from the Cautionary Side:

Rethinking the Training Design Approach after a Budget Cut!

Background:

Anon Smith, the new Executive Director of the rural based Big Dreams and Tall Orders Microenterprise Development program based in Northern California, faced a funding crisis in her first year as the new Executive Director. The organization lost a large training grant and yet they had more clients that year than in any other year of their 10 year existence. Quickly, she learned that many clients were taking their 30 hour business plan development course, but few were starting a business and even fewer were obtaining a loan from the organizations loan fund. Anon also learned that the staff was providing many hours of pre-venture and pre-loan technical assistance to clients who were not starting a business or obtaining a loan.

Moreover, the loan fund was not being utilized and the board of directors wanted to learn why there was such a high balance of idle loan funds available when there were so many clients. All of the training staff were complaining about job overload and burn out. In fact the organization had already lost a trainer this month forcing the Executive Director to cancel training courses or offer the training herself. Their training program was mandatory as an entry point into accessing the other services offered by Big Dreams and Tall Orders.

Anon to Action:

· She developed a shorter 3 hour business readiness course.
· She shortened the 30 hour course to 12 hours in length.
· She no longer required the training program as an entry point for clients!
· She bought a new business plan development curriculum.
· She redeveloped all program promotional materials that promoted other services of loans and the availability of on-going business technical assistance.
· She instigated a new rule: clients new to business or starting a business had to participate in a training program before accessing individual business technical assistance.
· She offered lower interest rates for loan-qualifying clients who successfully completed the business plan development training course.
· She increased the fees charged for courses, but allowed the fee for the course to be financed if the client qualifies for a loan.
· She set up a sliding scale for training fees based on income!

Budget reduction should not be the primary factor when thinking of the effectiveness of the organization's training programs. Instead, developing new training programs, redefining existing training programs, or working to ensure that the training offered is effective and efficient must be an ongoing function for a program director. A realistic assessment must be conducted and revisited from time to time to ensure that the training programs offered are favorably congruent with the mission of the organization, yielding desired program outcomes.

Next, think about what types of training will be offered based on the training assessment. Because training is one of the most expensive elements of a MED program, design development and delivery are of equal importance.

Another approach, if funding is available, is to bundle certain training programs and offer different training courses that are related to business success.

Defining, developing, rethinking and refining your business training programs

A similar assessment and the key questions listed in the Action Step Chart should be utilized to understand what business related training will be offered by your MED organization. After you have performed the assessment and answered the key questions, it is important to distinguish between business readiness training and business plan development training. Here is an example of a business readiness program design offered to a low-to-moderate income client base.

It is important to distinguish between business readiness training and business plan development training.

Sample Business Readiness Program

You will learn about:

- Key Business Readiness Questions:
  - Is there a business for me?
  - Can I sell the product or services needed to be successful?
  - What resources will I need to manage successfully?
  - What money resources will I need for the business?
- Characteristics and traits of entrepreneurs
- Exploring why you want to be self employed
- Getting ready for the challenges and minimizing risk
- Sustaining a selling strategy
- Pricing for a profitable business proposition
- The number of customers your business will need to be successful
- How to approach feasibility: From idea to an enterprise
- Managing the business along with the other activities in my life?
- The real reason good record keeping is necessary
- Tax and license requirements
- What are the likely sources of money to start sustain or expand a business
- How your personal credit report affects your ability to borrow money
- Saving and borrowing money to operate your business
- Scaling your business to fit your budget
- Will developing a business plan make my business a success?
- Is business ownership right for me right now?

Selecting a training curriculum to offer for those who need assistance with the development of a business plan

A number of choices exist for selecting a training curriculum. One option is to develop and/or use an existing customized business plan development curriculum. This option may be of particular value if your knowledge about the clients served enables you to identify custom materials that are of particular value to the client base.

Considerations when thinking about developing or refining an in-house curriculum are as follows:

1) Do you have a good understanding of client training needs?

2) Do you have the staff expertise or will you need to hire additional employees or consultants to complete the project in a timely manner?

3) Is it cost effective and is it a good use of staff resources to be involved in curriculum development?

4) When will you need the curriculum for use with clients and trainers?

5) Do you have the experience and time to test the curriculum to ensure that clients can obtain desired outcomes?

If you find that too many of the answers to the above listed questions are ***no*** then you may want to explore purchasing an existing business plan development curriculum. While the ones listed below are not intended as an exhaustive list, it will give you some ideas about understanding how existing curricula may fit the needs of your organization's business training component, and more importantly, the needs of your business clients.

A number of choices exist for selecting a training curriculum. One option is to develop and/or use an existing customized business plan development curriculum.

Once you have completed your research, there is always the option to develop your own curriculum based on what you have learned, and upon your knowledge of the refugee market to be served.

Examples of business training curricula available in the marketplace are as follows, and have different qualities depending on what you are seeking. Since they are not designed specifically for refugee MED programs, practitioner organizations should be careful to seriously study them before entering into, in some cases, an expensive investment of time and money. Once you have completed your research, there is always the option to develop your own curriculum based on what you have learned, and upon your knowledge of the refugee market to be served.[6]

- FastTrac: Kaufman Center for Entrepreneurial Leadership
- NxLevel: NxLevel, Training, Business Plan Basics
- Good Work: Building Your Business
- REAL: Rural Entrepreneurship through Action Learning
- ISED: Microenterprise Training Curriculum
- Core Four, Northeast Entrepreneurs Fund
- Business Matters: Self Employment: From Dream to Reality TP
- American Institute of Small Business: How to Set Up Your Own Small Business
- EDTECINC: The New Youth Entrepreneur, Education, Training and Enterprise Center
- MMF: Foundations
- Making Cents: Best Game, Business Orientation Course, Plan It!
- WEV: Planning for Business Success, Women's Economic Ventures

Defining the Business Technical Assistance Component for a MED program

Business technical assistance often encompasses many activities performed by MED staff and others for or with a client to make certain that they have the resources to build their business for success. If they obtained a loan, the business technical assistance offered will often be centered on getting the business to generate revenue sufficient to pay timely loan payments and all recurring expenses. Regardless of whether the business technical assistance provider is the lender or not, plan to offer the types of assistance that best help the borrower with repayment and asset development.

Similarly, a MED organization that plans carefully for the successful development and implementation of its training component should also emphasize the development of an effective program design for business technical assistance. In many instances a MED organization may categorize all time invested by a staff member with a client as business technical assistance. While it is important to account for staff time, without a design for business technical assistance, the likelihood that inefficiencies occur are extremely high. Just as an effective MED training component must be well developed and implemented, so should the development and delivery of the business technical assistance component be planned and effectively implemented and managed.

To develop or refocus a business technical assistance program, a program manager, with concurrence from its Board of Directors, can start by revisiting the organization's mission and its related program goals and objectives. Similar to the MED training component, it recognizes that the technical assistance program must offer non-business assistance and development services.

Relocated populations served by refugee practitioner organizations are like many organizations that serve poverty stricken populations in the United States. The similarities are that both types of MED organizations need to provide services that are well beyond those that are limited to business technical assistance. These services should be defined and categorized as pre-business technical assistance.

Pre-business technical assistance services are needed for client groups to address needs beyond or before business technical assistance is provided to the client and includes:

- Crisis management
- Shelter and transportation
- Conflicts associated with economic and religious beliefs
- Dissolving trauma
- Decision making, goal setting, and prioritization of task
- Building mentorship connections to groups and institutions, and
- The pathway to a positive resettlement and integration into the community

Many MED organizations may rely on other community based organizations to provide these essential but non-business technical assistance services. Other organizations such as refugee organizations may have specific funding sources to provide these types of services in addition to providing business technical assistance services. The approach to keeping operating costs low while maintaining a high quality network of services for clients may include a combination of utilizing volunteers, paid consultants, part-time and full-time staff. The array of how to ensure that these services are available and offered to clients on a timely basis will depend on the mission, the budget, and the level of services that can be provided by other organizations in your target market.

The approach to keeping operating costs low while maintaining a high quality network of services for clients may include a combination of utilizing volunteers, paid consultants, part-time and full-time staff.

For Executive Directors Only
When investing the organization's resources to provide non-business technical assistance, it is important to make sure the organization's case management MIS reveals how resources are being invested to achieve mission and program goals. Watch and measure program activity measures and how they are related to reaching desired outputs and outcomes.

"Microlending programs are important because they provide access to capital and cut through the red tape refugees are likely to encounter at banks. At microloan organizations, they qualify for loans based on character and skills, and are not ruled out because they didn't know how to fill out the paperwork or had not worked enough years in the United States."

– **Helen M. Seenster**, *Branch Office Manager and Business Consultant, ISED, Waterloo, IA*

Recipe for Program Triage
Refined program design
Human resources allocation
Frequency
Duration
Cost

According to the American Heritage Dictionary, triage is a noun that describes a process for sorting injured people into groups based on their need for or likely benefit from immediate medical treatment. Triage is used in hospital emergency rooms, on battlefields, and at disaster sites when limited medical resources must be allocated. It is also (a) a system used to distribute a scarce commodity such as food, only to those capable of deriving the greatest benefit from it; or (b) a process in which things are ranked in terms of importance or priority (or in our kitchen how to repair the foods when the guest are soon to arrive and you have little time and certainly no time to start over!)

To gain the greatest community benefit while working toward "scaling up" microenterprise services, you must think about developing or refining a triage for your MED organization. Since most MED organizations have limited budgets and staff, implementing a triage system will enable you to serve more clients and provide more needed services to the clients who will derive the greatest benefit. The client will in turn create better outcomes for your organization.

It matters more about getting started right away than where you start! In most instances, you will have to implement the triage system and any changes while continuing to provide services to your existing client. You can have a triage system that accommodates all or part of your MED effort and as you learn how it is working you can adjust or make incremental changes to make sure that the system fits with your organization's mission, culture and values.

Let's get started with your training component!

Who should offer the training?

Explore often if there is a demand, need and utility for your organization to provide the training. Are the training programs offered needed by your clients? Are there other organizations that can deliver the training or deliver it more cost effectively? Explore meeting your clients' training needs by forging community-based collaborations and utilizing consultants and part-time staff for your training component. If, however, you learn more about your clients and are able to build relationships with them during training, you may consider effectiveness over efficiency. Effectively reducing your lending risk by completing your character assessment for a loan in the training programs you offer can be invaluable.

Frequency

Is your training program offered enough or too often in your service area? A program indicator to help assess frequency is to track the number of participants that attend each training program offered. Low attendance may mean that you do not have a demand for the training offered or you may be offering the training too often. An opposite indicator may be that your training should be offered more frequently to avoid long waiting periods for potential participants!

You also may learn that some parts of your market may need more or less frequent training courses offered. Another indicator to look for in your assessment is how the training programs are promoted to the target market. Is this effort consistent over time? Also, make sure that trainers and instructors are qualified and that their techniques are engaging and being well-received by participants. A good evaluation instrument completed by the training participants will help to ensure that the programs you offer are on target and meeting your quality expectations.

Duration

A training program that is perceived by the customer as too long may lower the percentage of students participating in the course. It is very common for clients to first ask how long the training will take to complete before asking about the content of the course and the benefits of completing it. Lengthening the time it takes to complete your training programs may not translate into a client who will be less likely to fail in a business! Think about parsing your training courses to make them shorter and add more specific training programs that can be completed in a shorter period of time. Avoid the trap of front-loading your training design with lengthy comprehensive offerings. Utilize short, intense, and just-in-time training efforts to meet your client's training needs and to ensure that their business is a success.

To save on resources, a statewide MED program headquartered in New Mexico that offers training, business technical assistance and loans will only allow their clients with start-up businesses to access one-to-one business technical assistance services after they have completed their training program.

Utilize short, intense, and just-in-time training efforts to meet your client's training needs and to ensure that their business is a success.

Training Considerations Summary Matrix

Activity	Customer	Organization	Program/ funding organization	Community
Internal vs. External	Needs information to be success	Mission to provide service	Contract to provide services and to ascertain certain activities	Resource for entrepreneurs to increase the likelihood that refugee populations are assimilated and have an increased chance for them to be successful in business
Frequency	Need to have timely access to training courses	May be motivated to provide training based on mission and need to serve geographic area	May have provided organization funding or performance based contract to provide services	May not be aware of funding and/or contract for services and may depend on the organization having knowledge about training needs
Duration	May desire information without an appreciation for duration of training offered	Pressure to reach certain prescribed program objectives in terms of training offered	Pressure to reach certain prescribed program objectives in terms of training offered	Competition with other Community Based Organizations or educational institutions who offer training programs
Relationship & fit with other MED services offered	May participate in training to gain access to other services such as business technical assistance and loans	May offer a contract that includes services in a broad range of MED services	May offer a contract that includes services in a broad range of MED services	May have an appreciation for the organization providing a comprehensive array of services by one organization

What about Business Technical Assistance?

Usually, any time invested with a client on a one-to-one basis by a staff member of a MED organization may be characterized as business technical assistance, including loan packaging services and time invested to verify that accounts are current and in good standing. Certainly, the MED organization will want to provide services to make sure that the client's loans are current, but collection activities on an outstanding loan are not business technical assistance. In fact, the U.S. Small Business Administration does not allow participating organizations to characterize or cost collection efforts as business technical assistance.

Moreover, MED organizations are prohibited from providing certain business technical assistance that can only be provided by licensed professionals (unless the organization has a licensed professional on staff). MED organizations would describe these services as legal and accounting, but depending on the complexity and breadth of the clients' businesses, the prohibition may extend to environmental, engineering, and medical services as well.

Services you may provide under the category of MED one-to-one business technical assistance:

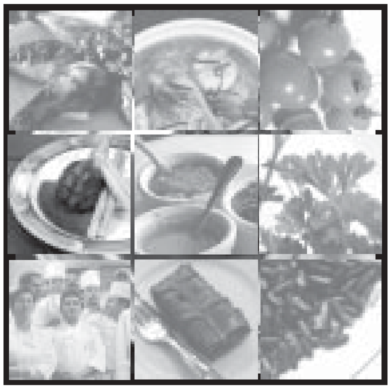
Information and education about:

- starting a small business
- expanding or strengthening an existing business
- better management of an existing business
- cash flow management
- marketing and business promotion
- procurement and international market opportunities
- obtaining a loan

You may depend on other community based organizations to provide some or all of these services or you may elect to utilize a cadre of consultants. These services may also be provided by part- or full-time staff in conjunction with other MED services like training and loans.

It is important that a distinction between business technical assistance and lending be understood by the MED organization. Often a client is asked to sign a "waiver of responsibility" indicating that the MED organization and its staff are harmless for the technical assistance offered to the client. The business technical assistance offered by staff and the organization should only be provided so that the client can make improved business management decisions. Their actions are not related to loan packaging services or the loan decisions of a MED organization. (Please refer to the client intake form for sample language about "waiver of responsibility").

Usually, any time invested with a client on a one-to-one basis by a staff member of a MED organization may be characterized as business technical assistance... but collection activities on an outstanding loan are not business technical assistance.



Provide a specific approach to effectively offer one-to-one business technical assistance to MED clients. Typically, mission and philosophy of the organization is a good place to begin your business technical assistance program design and implementation efforts. Next you must think about program objectives, needs of the client base, and what community issues are relevant.

After determination of who will provide services, monitor to see that the services provided to clients are developed and delivered with a great degree of consistency and high quality.

Developing or managing a Microenterprise Development triage system for a lending effort is perhaps the most straightforward component. Some critical underpinnings about a MED loan program are as follows.

A considerable amount of the time it takes to get a client qualified for a loan can be captured in the training and technical assistance components of an efficiently operated MED program. In the event that you do not offer all MED development services, a working agreement can be developed with other organizations so that development services offered seem fairly transparent to the client. If training or business technical assistance is to lead to good loans, make sure that all organizations and consultants have a good understanding of what will be required for a loan application.

Recipe Point #14

Identify the types of technical assistance that you plan to offer along with your lending program, and how you plan to provide them.

Write notes for your TA here

Elements of Case Management Parameters for One-to-One Business Technical Assistance:

- Certain training elements must be satisfactorily completed to gain access to the Microenterprise Development Program's business technical assistance program.
- Certain information such as financial information about the client and the business must be provided before services are rendered.
- An appointment for the services to be provided after the staff member has an opportunity to review the status of the client's request.

D. Lending Program Infrastructure

Recipe for Lending Program Infrastructure
The Ten Step Lending Process
Loan Committee
Accountability & the Speed of Lending
Compliance

Discovery is finding out who in your market actually needs loans, screening their initial eligibility, and assessing what steps will be needed to prepare them for the lending process.

Much of this chapter has been devoted to policy development, and the technical assistance needed to support strong lending programs. In discussing lending program infrastructure, what we are really talking about is the procedures to put in place to make those policies come alive. We call this 'infrastructure' because it is the framework that operates the microlending program, serves clients well, and protects the organization.

The Ten Step Lending Process

The Ten Step Lending Process covers loan-making from birth to at least middle age. Incorporating something like these Ten Steps into your microlending program will ensure a comprehensive lending program. Some of these steps have been explained in other parts of this document, so are treated lightly here, while others will be explored in more depth.

Step 1. Discovery

It all starts with wanting to get a loan. Disadvantaged entrepreneurs and potential microenterprise owners will approach your organization for monetary assistance for their business ideas, especially in a financial climate where they cannot obtain loans conventionally. In more sophisticated language, we call this access to capital, and that is largely the reason microenterprise lending exists. In fact, in the discussion above about creating deal flow, you have probably marketed your programs as "access to capital." What this results in are loan applications. Discovery is finding out who in your market actually needs loans, screening their initial eligibility, and assessing what steps will be needed to prepare them for the lending process.

Step 2. Intervention

Based on the assessment, loan applicants may be directed into a number of "interventions," like the technical assistance described above. Intervention could include referral to business technical assistance such as pre-business training/feasibility study, technical assistance counseling for access to markets and other needs, or a business planning class; or more personal assistance that will better prepare them for the rigors of small business operation, such as life skills training, economic and financial literacy, asset development programs, and assistance with personal barriers that may stand in the road of business development (basic needs like clothing, food, etc.). It should be noted that it is not necessary for your organization to house all of these interventions, but plan to develop a network of resources that can help with some areas. Plan, too, for a method of follow-up to track loan applicant progress, especially if you refer them to outside partners.

Some loan applicants may be prepared to move straight into the lending process. In these cases, and when the others are ready, work with them to make sure that their loan applications are as complete as possible for consideration. The loan checklist in the Ingredients section will give you some ideas on the sizable amount of documentation that can be amassed to inform the loan decision-making process.

Step 3. Due diligence

Once you and the loan applicant agree that the loan application is complete, it is your turn to put in some work. Now you will put to task the due diligence processes that you have set forth in your policy and procedures manual to test the information provided by the loan applicant. From this, you will produce a loan summary for the credit or loan committee.

Step 4. Loan presentation

In the Ingredients section, you will find an example of a loan presentation summary. A summary is recommended in order to give loan committee members, who are usually volunteers, concise and consistent information about each loan deal that they review. We recommend developing a template that provides the basic information on the first page, followed by brief paragraphs that summarize the due diligence that you have performed on the application. Generally, financial projections are attached to the summary prior to sending to the loan committee. On the day of the loan committee meeting, staff should be present with the complete loan file to answer questions that arise beyond the summary.

Example

A refugee from Bosnia suffered an injury at his previous job that left him unable to support his family. He learned of a refugee microenterprise organization, and completed business planning classes there for his landscaping business. With the support of a $3,000 microloan from the organization, he was able to purchase tools, supplies, and moldings for yard vases. The business took off, and now, despite his disability, he is able to work part-time and contribute to the family income.

Microlending programs are of two minds when it comes to loan presentations to credit committees. For some, they require that the applicant present his/her own case, usually amounting to a ten-minute presentation followed by questions and answers. The argument is that the experience is beneficial for the applicant in that it represents a conventional borrowing situation, and that it is helpful to the loan committee as they try to evaluate the character of the would-be borrower and the caliber of the loan.

Other groups feel strongly that there should be a degree of separation between the credit committee and the loan applicant. In these settings, paper presentations are used. Applicants benefit because they are forced, in a positive way, to clearly state their ideas on paper, and the benefit for the loan committee is that they can act as a third party making the decision. Most microlending programs are small, and this approach considers that the loan officer on staff naturally develops a relationship with the potential borrower. If a denial or restructure of the deal is necessary, paper presentations allow for a "firewall" of sorts to separate the committee from the applicant, and objectify the process.

For paper or personal presentations, a practice we encourage is developing the loan summary along with the client, in order to have them sign off on its accuracy, or to add items they feel are critical. That way, they will know precisely what you are representing to the loan committee about them and their deal.

Step 5. Credit or Loan Committee

A vital part of your lending process will be to develop a credit or loan committee that is committed, involved, and understanding of microenterprise practice. The ability to relate to the issues of refugees will also be significant. Loan committees can be composed of staff, board members, community members, or some combination of all three. In any case, create a job description for committee members that outlines their responsibilities, the time commitment required, their minimum term of service, and the expectation that they will attend training.

Responsibilities.

Committee member responsibilities fall into at least six categories:

1. To attend orientation and training on microenterprise lending,
2. To review and make decisions about microloan applications,
3. To provide advice and suggestions to borrowers/loan applicants,
4. To report back to the Board of the organization on its actions,
5. In some cases, to oversee the loan portfolio, and
6. To maintain the confidentiality of the information that they review.

A vital part of your lending process will be to develop a credit or loan committee that is committed, involved, and understanding of microenterprise practice.

Further, loan committee members must be aware of potential conflicts of interest, and openly declare them when they occur. In small communities, members may have knowledge of or a relationship with an applicant that could be prejudicial. They may also be in line to benefit from the proceeds of the loan. Either represents a type of conflict. Plan to develop a conflict of interest and confidentiality statement that members sign when they join the committee. Be sure it includes elements like the following:

(a) Declaration of a conflict

(b) Refrain from voting in conflict situations

(c) No direct benefits from loans made to third parties

(d) Ineligibility for staff, committee members, or board members to obtain loans

(e) Maintenance of confidentiality in regard to loan packages reviewed.

Encourage your members to stay on the committee for at least a two-year period as proficiency counts in microlending. After that, have them stagger their terms every other year to mix new members with more experienced ones.

Avoiding conflict and preserving confidentiality at all times will protect your organization from potential liability. Practice collecting and shredding loan package materials held by committee members following loan decisions.

Time Commitment & Term

The amount of time devoted to serving on a credit committee varies according to how your group makes loan decisions.   These days, loan committees meet by phone, by email, and in person, according to what best fits their markets' needs. Be sure your loan committee recruit understands your mode of operation and the related amount of time it will take. Calculate the number of loans that you anticipate reviewing in any one month, and allow up to 1.5 hours for each loan (that's review and meeting time). Advise members that at a minimum, they are committing to two hours per month for loan review.

When a committee is new to microloan review, we recommend face-to-face meetings to become familiar with the process and dynamics of interacting with each other. Lending has a definite learning curve, and as the group becomes more familiar with the process, they will prepare more efficiently, and make speedier loan decisions. Encourage your members to stay on the committee for at least a two-year period as proficiency counts in microlending. After that, have them stagger their terms every other year to mix new members with more experienced ones.

Important! Training the Loan Committee
Provide orientation to microenterprise, your target market, and microlending in a well-orchestrated training session that gives loan committee members the tools and knowledge to make excellent loan decisions. Provide each loan committee member with a complete book of policies and procedures, parameters of your revolving loan fund, and information about your organization. Review job descriptions and obtain signatures on conflict of interest/confidentiality statements. Discuss your mode of operation and time and term commitments.

Study in-depth the loan review process, including underwriting, making loan decisions, and post-loan activities. Emphasize the importance of preparing for loan committees by studying loan packages prior to a loan committee meeting. Go through the standard agenda of a loan committee meeting, so that members will understand the flow of the meeting, and that their valuable time will be used in the most efficient way possible. Assure them that they may take every opportunity to question the loan preparer about any facet of the loan that they do not understand. It is both the loan committee's and the underwriter's responsibility to make good loans, and this can only happen when adequate information is presented for consideration.

Importantly, wind up with a loan review exercise role play so that they can begin evaluating a loan as a group. Repeat training as new members join the committee, even if it only involves one or two people.

Loan Committee Composition
Again a credit or loan committee can be made up of staff, board, community members or some combination of each. There are many variations on this theme, but the chief thing to remember when developing or redeveloping these committees is to make sure that they are representative of small business and your customer community. Try to have a balanced blend of people from several different disciplines. Accountants, lawyers, bankers, small business owners, finance specialists, tax experts, academics, and insurance agents can represent the business side, while former consumers of your services, refugee practitioner staff, social service workers, and low income representatives can serve on behalf of your customers.

Once they have become experienced in microlending, some groups authorize staff lending authority up to a certain dollar threshold. This can be beneficial in turning loan applications around more quickly. Remember to invoke the same lending procedures for staff, though, that you would for the loan committee. Use loan summaries, and report on results to the Board of the organization, since they are responsible for the organization's loan activity. More importantly, if your source of loan funds is a loan from another organization, then lending activity can relate to the financial health of the lending organization and can lead to some issues around loan liability.

> ***A credit or loan committee can be made up of staff, board, community members or some combination of each. There are many variations on this theme, but the chief thing to remember when developing or redeveloping these committees is to make sure that they are representative of small business and your customer community.***

Loan Committee Composition – Pro's and Con's

Type of Committee	Pro's	Con's
Community Volunteers	Adds diversity & experience, if well-constructed; helps provide advice to entrepreneurs	Needs fairly intensive training; can be biased based on personal choices; level of commitment not fiduciary
Board Members	Bring diversity in most cases; are committed, partly due to fiduciary responsibility, but mainly to mission of organization; provides balance to staff involvement	May sometimes be too cautious due to fiscal responsibility; sometimes difficult to assemble meetings, slows down process; requires training
Staff	Most acquainted with loan details; experienced in lending and small business development; committed; understands loan programs best; can turn deals around very quickly	May be overly involved in loan deals/relationships with clients; can be overly conservative if "stung" by bad loans

Speaking of liability, most states indemnify volunteers in non-profit organizations. However, check with your state to see if this is correct, and explore obtaining Directors and Officers Insurance for the organization. This is costly, but a good idea in any case when you are extending credit. Make sure that the insurance quote does not exclude the extension of credit.

Step 6. Loan decisions and conditions

The loan application has been received, appropriate interventions have been taken, underwriting is complete, and the loan committee has reviewed the loan package. Now comes the decision the client has been anxiously anticipating! The loan committee, with its understanding of lending policies and procedures, has an obligation to review loans and approve or deny them based on two fundamental aspects: the merits of the deal and the relationship of the deal to organization mission.

The loan application has been received, appropriate interventions have been taken, underwriting is complete, and the loan committee has reviewed the loan package. Now comes the decision the client has been anxiously anticipating!

The Merits of the Deal

Loan committee members may want to answer the following questions in evaluating the loan package. These questions focus on the most salient and essential points covered in your loan policies and procedures, and are asked in relation to how the loan will affect the borrower's business.

• Is the cash flowing into the business greater than the cash flowing out?

An answer to be gleaned from the financial projections, look to see if over a several month period, cash flow trends become positive. Check to see if they cover the debt that the applicant will incur with your organization. Ask how realistic the sales projections are in respect to the market description in the business plan.

• Is the potential borrower current on existing debt?

Just a reminder that applicants who are behind on debt pose a much greater risk to the lending organization than those who are current. See how long ago any bad debt occurred, and whether steps were taken to cure it. If there is little credit history, as with many refugees, review other evidence that they are regular payers (rent history is one).

• Is the loan request appropriate to the business plan?

The budget for the loan and use of proceeds should find its basis in the business plan. Watch for extras or overblown amounts that are unnecessary or that could throw the deal off-balance.

• Does the applicant provide an equity stake, and what sort is it?

We know that many refugees cannot provide cash for equity. If they can, great, but if not, what else are they offering? Are they bringing in goods they have already made, or other in-kind materials? Re-evaluate how important equity is to your group. Like debt repayment, this is as much a question about character as about cash.

• What is the nature of the collateral pledged, and is it suitable for this deal?

Look for proceeds from the business and the loan first, but see how far the applicant will reach into his/her own assets, if any, to secure the loan. Remember, collateral alone does not determine the deal.

• What management capabilities do the applicants have?

This question must be asked because one of the major reasons businesses fail is due to mismanagement. Be sure to review all the references given, and the applicant's resume for management experience.

Example

An Italian immigrant shoemaker and shoe retailer requested the maximum $25,000 to finance inventory purchases for his existing business. Working through his business plan, the loan counselor and committee finally recommended that he begin with a smaller loan. The applicant, unhappy with the decision, insisted that the full amount would be needed, and ultimately the larger loan was made. After the fact, it was learned that the borrower had an unpaid debt lurking in his past, and he used a sizable portion of the loan to repay that debt. Then he made a poor decision, buying summer inventory at the end of summer. The two mistakes added up to a troubled business that is now struggling to survive.

Relationship of the Deal to the Organization Mission

Organizational mission is the driving force behind microlending. For this reason, the following questions are crucial to pose, especially if they meet the mission of your organization. If your mission is different, re-write these questions to suit.

- Does the deal accrue to the benefit of the refugee population we promised to serve?
- Is the business located in the area we are trying to improve economically?
- Will the business create jobs for the owner and others, especially low-income refugees?
- Is there a good fit between the proposed business or expansion and the types and purposes of the loans we make?

Considering the loan application on the whole and answering these questions will bring the loan committee to a decision point. While most of the questions can be answered with a "yes" or a "no," loan decisions are rarely that simple. Committee members have the option to approve or deny a deal as presented, or they can approve a loan with a different structure, and/or recommend certain conditions.

Examples of restructures or conditions:

- If a loan applicant has some past due debt issues, but the loan package appears solid, the committee can approve the loan with the condition that the loan money cannot be drawn down until the debt is brought to current status.
- If a loan applicant asks for a sum that committee members think their financial projections cannot support, they may vote to approve a reduced loan amount. (Committees that do this frequently leave the door open for return loan applications once the first loan is repaid).
- If a loan package looks good, but collateral is unclear or insufficient, the loan committee can approve conditionally based on clarification and substantiation of collateral.
- If a microenterprise is needed in the community, but the committee is unsure of the applicant's management abilities, they can restructure the deal to make a smaller initial loan, with another, larger loan commitment for later after certain management conditions have been fulfilled.

Once the loan committee has made its decision to approve a loan, approve with conditions or restructure, or deny, have a document ready for them to sign signifying the decision. Like the sample in the Ingredients section, the loan decision document states the name of the loan package, amount requested, disposition, any conditions, reasons for denial (if denied), and signatures and date of the meeting. This record will be maintained by the organization and reported at the next Board meeting.

If a microenterprise is needed in the community, but the committee is unsure of the applicant's management abilities, they can restructure the deal to make a smaller initial loan, with another, larger loan commitment for later after certain management conditions have been fulfilled.

Step 7. Loan closing

Once a loan disposition is handed to the board and staff, a host of procedures and paperwork are invoked to complete an actual loan closing with a borrower. Loan closings are best held in person, where the parameters of the program as well as the dictates of the loan can be explained thoroughly. Please refer to the section on Spreads and Toppings below where the loan closing procedure is explained in full.

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Step 8. Disbursement of funds

When all signatures have been put to the appropriate promissory notes and security documents, you have a legal standing to disburse funds to your new borrower. A signed promissory note is negotiable tender and should be stored in a fireproof safe or in a safety deposit box at the bank. File copies may be maintained at your place of business. In any event, it is now safe to proceed with making the loan.

Organizations vary on how they disburse loan proceeds. Some release the full amount at the time of the loan signing. Others disburse against documented requests for the expenditure of funds, while others release funds directly to vendors as dictated by the borrower. Each of these methods grows progressively tighter in monitoring the use of the loan proceeds.

Loan proceeds can be disbursed all at once using any of these methods, or can be disbursed over a period of months. Be reminded, though, that the more complicated the disbursements become, the more complex your accounting systems will have to be.

Step 9. Use of funds

The use of funds, a reporting phase of the lending process, refers to two types of accountancy and compliance. First of all, establish systems for documenting how the loan proceeds were spent. Secondly, you must account to your funding sources about numbers of loans and amounts lent, and how they fit the funder's parameters. Usually, you will also need to account for how you spent operating monies in order to make the loans.

Accounting software programs, especially those designed for revolving loan funds, can be extremely helpful in tracking transactions, disbursements, and repayments, and we recommend that you purchase a system if you do not already own one. There is a good, affordable selection of revolving loan fund software available, and an excellent review of the different types is provided in Charles Waterfield's *2002 FIELD MIS Software Review: FIELD Project to Improve Management Information Systems for Microenterprise Practitioners*, a publication of the Aspen Institute (see Resources section under Ingredients).

Another form of software you may wish to consider is one that will help track statistical fields, and provide you with an on-time management tool. Developed by George Bailey at ISED, MicroMIS is an application designed specifically for microenterprise programs. Its mission is to improve the quality of services to microenterprise clients and to improve your capacity to track clients and measure performance. Although MicroMIS minimizes data entry, it contains extensive client, business and loan demographics to help your program become outcome focused. MicroMIS features a multi-level security system and easy-to-use forms. MicroMIS's approach and wide range of reports sets it apart from other lending focused systems. For more information, contact George Bailey at gbailey@ised.org or 319-338-2331.

One of the things to realize when embarking on a microenterprise lending program design is that you will be entering into very long-term relationships with your borrowers. Follow-up care and service to your borrower will be crucial to the success of your lending program.

Step 10. Follow-up

One of the things to realize when embarking on a microenterprise lending program design is that you will be entering into very long-term relationships with your borrowers. Follow-up care and service to your borrower will be crucial to the success of your lending program. The people that you are helping have extraordinarily thin defenses against the personal and business problems that may send their business plans off track. This mainly translates to a lack of spare cash to deal with emergencies, but the risk also lies with new business owners that have little experience managing the challenges of every day business. Even businesses with positive income can present issues if owners are unfamiliar with handling large amounts of cash. Your organization's presence in their business lives will become a variable in how well they are able to repay you.

Another piece of the long-term relationship comes in the form of loan servicing and collections explained below. Loan servicing continues up until the time you are totally repaid or have to write the debt off as uncollectible.

A planned system of loan "aftercare" as detailed in the Spreads and Toppings section is recommended for the life of each borrower's loan.

Other Resources

A discussion of program infrastructure would not be complete without addressing those other resources that make microlending possible. For several aspects of the Ten Step Lending Process, you will find that the advice of experts is invaluable. Develop a team of experts to assist with questions related to accounting, taxes, legal matters, marketing, insurance, and so forth. Either pro bono, or for pay, try to identify a CPA, a few lawyers who specialize in small business, bankruptcy, and collections, and an insurance agent as your minimum “outside” team. As discussed in the marketing section, don’t forget to continually nurture relations with your small business partners. They are not only a source of referrals, but a huge help when providing post-loan technical assistance to borrowers. Keep their interest and involvement going!

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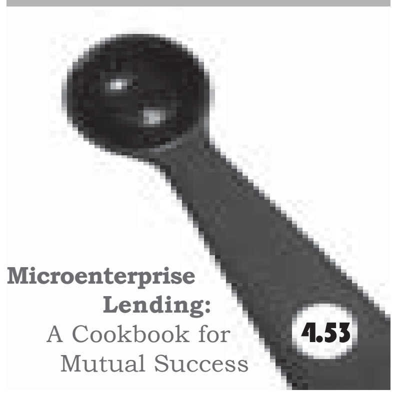
Accountability and the Speed of Lending

A final over-riding consideration of the lending process is accountability. In this case, accountability refers to our level of responsiveness to our target market. In the era of predatory lending and payday loans, it is considerably more important for organizations to pick up the speed of their lending—reaching more customers, more quickly, with higher quality loans that fit them better. There are at least ten good points for why speed and the flexibility of microlending are important.

Why speed is needed:

1. As much as or more than excellent training and outstanding business technical assistance, micro-borrowers need access to cash and capital, debt and equity...NOW.
2. All types of lenders in the marketplace are trying to attract your customers, even if the type and source of funding is perilous to the customer, and nothing we would ever recommend.
3. The right source and use of loan funds for loan deals is more critical to the long-term success of your customer’s business than the interest rate of the loan. Do not waste time haggling over rates.
4. Your borrowers’ competitors have access to capital and do not have to wait for loans to make purchases. They will stride ahead in the competition game if we do not arm our customers with easily accessible capital.
5. Lengthy loan decision-making periods do not translate into less risky loans, but just make the customer spin their wheels. In their growing impatience, they may end up down the street at the “ABC Easy Loan” store.



What a microlending organization can do to "speed up":

6.Make many small loans to customers over time as their business grows (This can be a quicker decision-making track and usually more beneficial than one big loan).

7.Provide just-in-time training and business technical assistance closely followed by loans to ensure that access to capital grows along with the customer's growing ability to operate his business.

8.Not all types of business require the same level of planning to be successful. Few of your customers will have sufficient knowledge to develop a comprehensive business plan. Focus on funding the plan that fits best with their current capability, and turn it around as quickly as possible into a loan.

9.Give customers honest answers in a timely manner.

10. Help sort through financing options at your organization versus others. This may save customers untold financing costs and hassle.

A final note of caution—be sure to preserve your good underwriting skills while adopting speedier techniques. The costs of a bad loan will definitely slow down your process with many other negative repercussions.

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V. SPREADS & TOPPINGS: WHAT TO DO AFTER THE LOAN IS MADE

A. Closing Procedures

B. Aftercare for Borrowers: Borrower Support Plans

C. Management Forevermore

This chapter provides recipes for a list of spreads you can use to top off your loans—closing procedures, borrower support plans, and ongoing management—to guarantee that you are doing all you can to ensure the success of your lending program and the businesses to which you lend.

By Karen A. Dabson, Phillip L. Black, and Maria L. Hein

Presented by ISED Solutions in Cooperation with the Office of Refugee Resettlement

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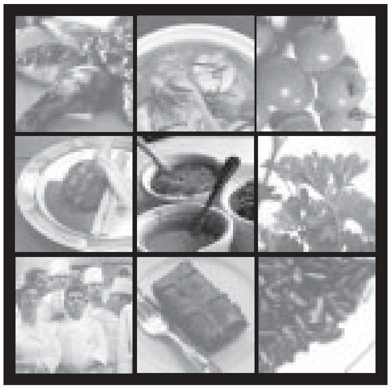

Chapter V. Spreads and Toppings: What To Do After the Loan is Made

A. Closing Procedures

Recipe for Loan Closing Procedures
The right forms
Correct information
Detailed processes that are followed

All of the work that has been invested with the client by the staff is of little worth if the loan is not properly closed. Developing and executing the correct paperwork is vital to the closing process, and examples of closing forms can be found in the Ingredients section of this cookbook. So what are some good recipe steps to follow for closing a loan?

Step One: Loan Conditions Authorization

After the loan has been approved, create a document that defines the specifics of the loan including interest rate, term of the loan, what collateral will be offered, and any other conditions that are required such as insurance limitations and financial reporting by the client. These conditions are captured in writing and formalized by the signature affixed to this document representing the approving body.

Step Two: Notification

Loan Approval—The loan officer prepares and sends to the client a "term sheet" (formally known as a letter of commitment) outlining the specifics of the loan offer as itemized in Step One. The term sheet should have an expiration date of no longer than 30 days from the date of the offer.

[Tip - *Make sure you check the client's personal credit report again if the offer is not accepted within the first 15 days as you may learn that their credit conditions have changed*].

Loan Denial—In the event that a loan is denied, a loan denial letter would be sent at this stage detailing the reasons for the denial, and any appeal process that you may have in place (see sample in Ingredients). Should the client appeal, give it immediate attention, and document its resolution in writing.

Tip

Make sure you check the client's personal credit report again if the offer is not accepted within the first 15 days as you may learn that their credit conditions have changed

Step Three: Verification
Before the lending forms can be prepared, there is certain information that the lender must verify, including the exact name(s) of the borrower(s) and their legal status, as well as the precise name of the business. Elicit and preserve on file documentation of individual borrowers' identities and any co-makers'. A personal credit history for the co-maker, along with pay stubs or bank statements, should be reviewed and on file as proof of their ability to repay. If you cannot obtain this information, then you have no method of learning whether they are viable co-makers who can pay the loan. If the borrower is a corporation or LLC, check for their good standing with the state, and that they as an entity have the authority to take on debt. Often a resolution to borrow and a copy of the Articles of Incorporation are instruments used for such verification.

Step Four: Document Preparation
Once the lender determines who will be borrowing and all of the identification material has been collected, the lender can prepare the loan documents to include:

- Promissory Note,
- Security Agreement,
- UCC's indicating the specific collateral pledged, and
- Other collateral instruments (such as when an automobile is offered as part of the collateral package).

If real estate is being purchased or real estate is being used for collateral, it may be prudent to utilize the services of an attorney to conduct a title search as part of your lien preparation. The cost of an attorney should be paid for by the client as a loan closing cost.

Other documents specific to the loan to be prepared at this juncture include certification of income and an itemized listing of vendors for loan proceeds (use of loan funds).

[**Tip** - *Some organizations send the borrower draft copies of the proposed documents for signing so that they have the opportunity to review them, with legal counsel if they choose, prior to the loan closing date*].

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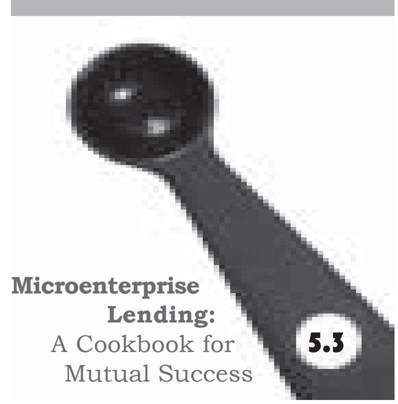
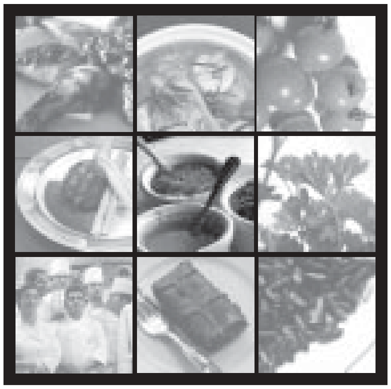




Tip

Whenever possible, consider using check disbursements made payable to the vendor with whom the loan funds will be used, or to the vendor and the client in a two-party check for tighter loan proceeds control. The client will already have made the decision about where to spend the money, and this practice makes certain that the loan monies go toward the business' development

Step Five: Date of Documents & Disbursements

All of the loan documents along with any check disbursements should be dated for the date the loan closing is scheduled. Step disbursements on the loan that a borrower does not need at closing can be made at a later date. Remember that a borrower can only be charged for interest on the loan balance outstanding and not on the amount that they are authorized to borrow. Plan to place dates on the documents on the day of the closing, when you are assured that all parties are going to be present.

[Tip: *Whenever possible, consider using check disbursements made payable to the vendor with whom the loan funds will be used, or to the vendor and the client in a two-party check for tighter loan proceeds control. The client will already have made the decision about where to spend the money, and this practice makes certain that the loan monies go toward the business' development*].

Step Six: Loan Closing

Schedule the loan closing and make sure that all parties to the loan are available at the loan closing. Review all loan documents with the borrower(s) and disclose the terms and rates of the expected re-payment plan. Review the purpose of the loan and any conditions that must be met by the borrower, such as insurance, taxes, and collateral documentation, along with the due dates. Collect loan closing and service fees as disclosed to the borrower prior to their attendance at the loan closing.

Don't forget to discuss late fees and the delinquency/default process! The use of a loan closing checklist, to be initialed by the borrower, can be a valuable tool for guaranteeing that each closing item has been thoroughly discussed and understood by the borrower.

Loan Closing Checklist (sample)

DATE:[enter date] **AMOUNT**: [enter amount] **LOAN#:** [loan number]

BORROWER: [name and company]

LOAN FUND: [ORR,SBA...]

ITEM **BORROWERS INITIALS**

I. REVIEW OF LOAN DOCUMENT:

A. **PURPOSE OF LOAN:** ___________
Enter the purpose of the loan:

B. **TERMS OF LOAN:** ___________
Interest rate is [enter interest rate]; a term of loan is [months].
Payments in the amount of [monthly payment]are due monthly.
First regular payment due on [enter date],
and thereafter on the [first or fifteenth]of every month until paid.

C. **SPECIAL CONDITIONS OF LOAN:** ____________
Monthly financial reports to lender in first 6 months.
Quarterly financial reports after 6 months until paid loan.
Business will be based in [enter the city], Idaho.
Client will adhere to Technical Assistance Plan.
Other:____

D. **PERSONAL GUARANTEES** ____________
E. **DELIQUENCY PROCESS & LATE FEES** ____________

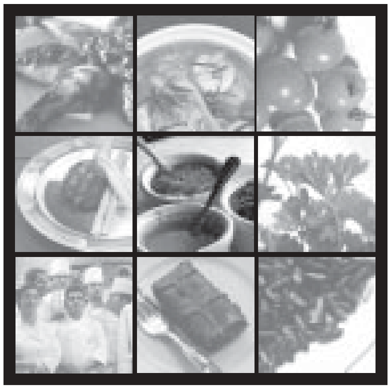
F. **DEFAULT PROCEDURES** ____________

2. REVIEW OF SECURITY DOCUMENTS:

A. **COLLATERAL ESTABLISHED & DOCUMENTED**___________
B. **INSURANCE REQUIREMENTS/LOSS PAYEE**____________
C. **MAINTAIN CURRENT STATUS ON TAXES** ____________
D. **UCC's** ____________
Security papers will be filed with the appropriate authorities
no later than 10 days after closing or purchasing materials/equipment.

3. CLOSING FEE _____________

Make sure that all security documentation has been properly and speedily filed. If it is not, then you have no collateral!



Establish an invoicing system that acts as a monthly or periodic reminder to the borrower that the loan payment is due.

Step Seven: Post-Closing Procedures

Your predominant concern in this step is to make sure that all security documentation has been properly and speedily filed. If it is not, then you have no collateral!

Mortgages must be filed at the county Recorder's office in the same county where the mortgaged real estate can be found. The original mortgage with notarized signatures and a filing fee must be sent in order to accomplish the filing. *Always keep a copy for your files, just in case of loss!* The Recorder will return the original to you eventually.

Title liens on vehicles are filed with the Title Office of the County Clerk of Courts. The signed security document plus original title and fees must be submitted, along with a Memorandum of Title application for the borrower. The Clerk of Courts will return a new title to you (showing your lien), and a copy of the title for the customer. *Again, don't send originals without making a copy for the file!*

Two UCCs are prepared at closing, and one is sent to the State Recorder's Office, and the other to the County Recorder in the county where the borrower resides. These will act as a public itemized record of the collateral that your organization took to make the loan.

Finally, establish an **invoicing system** that acts as a monthly or periodic reminder to the borrower that the loan payment is due (more on this in the servicing section).

Step Eight: The Loan File

Another essential post-loan activity is developing the loan file. Build the permanent loan file and organize and secure all the required loan documents. As these files can be immense, create a hanging folder for each loan, with separate folders within it for the note, security documents, collateral documentation, loan application, etc. Some organizations elect to create a folder for technical assistance as part of the loan file, but this can also be maintained as a separate file. Creating a file on your loan tracking software also should be a fundamental part of this process. Original documents with original signatures must at all times be maintained in the lenders' secure storage and safekeeping. A safety deposit box, a lockable fireproof file cabinet, or a fireproof safe are three ways of securing documents.

Step Nine: Business Wellness Check

Plan for a wellness check or a thank you visit with your customer within 15 to 30 days of the loan closing. This is an opportunity to reinforce your "working presence" with them, and to show that you will be an interested technical assistance provider, there to help with the ultimate success of the business.

Step Ten: Complete Documentation

Revisit the permanent loan file over the next 30 days to make sure that all required documents, such as security filings, collateral documentation, etc., have been received and are in the file.

B. Aftercare for Borrowers – Borrower Support Plans

Recipe for Borrower Support Plan
Plan Objectives
Plan Time-line
Planning, Evaluation & Troubleshooting Tools

In many instances, MED organizations apply a large amount of resources for training, business technical assistance, and preparing the customer for a loan. Perhaps even more important is providing business technical assistance after the client gets started with their business loan. In order to ensure that the needed technical assistance is provided in a systematic approach, try developing a framework for borrower support activities and one-to-one business technical assistance. This structure will be measurable and manageable, and will provide an element of portfolio risk mitigation for your organization as a lender.

Plan Objectives

The primary objective of creating a plan is to provide effective one-to-one business technical assistance and support services to the borrowers toward the long-term sustainability of the business, to promote the timely repayment of loans, and to provide services suitable to each individual business situation.

Plan Timeline

A timeline is schedule of activities that a client completes to enhance business activity, and that also qualifies him for further access to services from your organization. This will help keep the borrower on track. In it, define the amount of pre-loan, loan packaging and post loan activities that can be made available to client. Be clear about activities that will be required from your client during the first 45 days after the loan is closed, such as reports, visits with staff, or other goals that have been established as a part of the client's borrower support plan. Regardless, plan for staff to visit the borrower within this time period, but no more than 45 days following the loan closing.

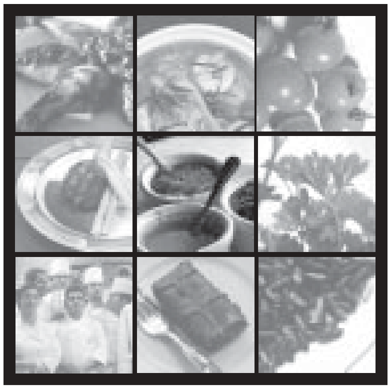
Tools

The tools that the lender will use in conjunction with the borrower come in the form of two useful worksheets:

- Borrower Orientation Worksheet
- Follow up Visitation Worksheet

"Being culturally sensitive as a staff, we can attract refugee borrowers and give them a comfort level that they won't find at the bank. And they don't come for the money alone, but for help with business planning and a broader understanding of business in America."

- Leonid Ostrovsky,
Program Coordinator, Business Center for New Americans, NYANA, New York City



You are in effect conducting an assessment of the further technical assistance needs specific to each individual borrower's business circumstances.

The ***Borrower Orientation Worksheet*** can:

- Assist the client in making sure that the appropriate licenses and tax forms have been applied for and/or received.
- Assess the value of a bookkeeping system and how it is being utilized by the client for the business, and
- Assist the client to understand his/her tax obligations and learn what tax forms must be filed by the client for the State and Federal Government.

By completing this worksheet, you are in effect conducting an assessment of the further technical assistance needs specific to each individual borrower's business circumstances.

The ***Visitation Worksheet*** includes, as applicable, the following activities:

- Review of first month's financial statements,
- Review of payroll tax forms and reporting,
- Inspection of bookkeeping system,
- Inspection of business licenses and permits, and
- Review of marketing and sales strategies

Like the borrower orientation worksheet, the follow-up visit worksheet enables staff to consistently cover questions that may be of importance to the borrower. Follow-up will vary from borrower to borrower, but plan to stay in touch on at least a quarterly basis for the duration of the loan term.

Sample Borrower Orientation Worksheet

Name of Client: ____
Name of Staff: ____
Date of Visit: __________________________

__________1. Review of financial statements

How are actual sales comparing with projections?
What statements were reviewed?

- Checking
- Profit and loss statements
- Balance Sheet
- Other___________________________________
- Computer

____________2. Tax reporting (as applicable)

____________3. Business licenses and permits – physical inspection

- Merchant's Certificate of Resale (retail business)
- County privilege license
- City privilege license
- State licenses

Sample Follow-up Visit Worksheet

Name of Client:______________________________

Name of Staff:______________________________

Date of Visit:______________

What is the Tax ID number for the business? ______________________

What type of insurance does the business have? ______________________

Business Address: ______________________________

Business Phone Number:______________________________

Fax Number:______________ E-mail address:______________________

Directions to the business location: ______________________

____

1. What is going well in the business?

____

____

____

2. What could be improved?

____

____

____

3. Discuss financial objectives and compare projected plans with actual results.

How does actual performance compare with projected expectations?

____

____

____

4. Discuss other barriers that are inhibiting success and provide an overview of any actions that will be taken to improve the situation or circumstance:

Non business issues related to family

____

____

Non business related issues related to culture and language

____

____

5. Discuss business related obstacles and plans for addressing them:

Marketing

____

____

Management

____

____

Money & Finances

____

____

Comments, including visual inspection of business:

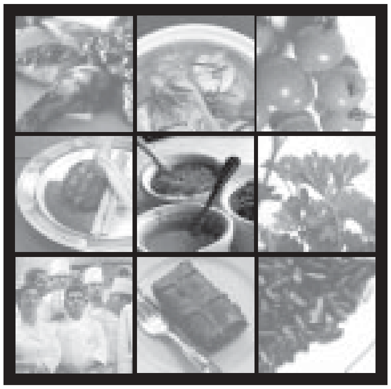
____

During the next visit, we should focus on:

____

____

Follow-up will vary from borrower to borrower, but plan to stay in touch on at least a quarterly basis for the duration of the loan term.



C. Management Forevermore

Building a borrower support plan is a form of external management that is vital to undertake if MEDs are to help their borrowers to succeed in business. Internally, a number of management systems and procedures should be developed and practiced that lead to efficient and effective services, while diminishing the risks of microlending.

This section provides a suggested recipe for accomplishing sound microlending operations.

Recipe for Management of a Microlending Program
Personnel procedures and job descriptions
Cash management procedures
Procedures for processing loan assistance requests
Loan tracking software
Client file management and security procedures
Program compliance reporting and client tracking systems
Risk management practices
Contract management
Evaluation of services and products
Capacity to achieve an unqualified audit

Personnel procedures and job descriptions

Does your organization have personnel procedures in place that outline rights, benefits, procedures and policies for staff?

Does your organization have personnel procedures in place that outline rights, benefits, procedures and policies for staff? The procedures should contain program elements for staff performance evaluations, grievance procedures, and other activities that are important for an employee to function effectively within the organization. This is particularly important given that federal and state organizations have laws that govern how your organization will function in respect to employees.

Does your organization have job descriptions that are current for employees? The job descriptions should contain their performance expectations and responsibilities. Make sure your job descriptions include:

- A summary of the major purpose and function of the position
- A specific outline of the duties and responsibilities to be performed
- Specifications concerning the minimum level of education, experience and other qualifications that are required
- Any details that outline more specific duties and responsibilities that is required
- The reporting hierarchy

Cash management procedures

Whether or not your Microenterprise Development Organization includes a lending component, the establishment of cash management procedures is a must. An organization that offers lending should create written procedures that dictate the disbursement of loan proceeds, the management of accounts payable and the tracking of loans or notes receivable. Emphasizing procedures that encompass compliance with program operations and that aid reconciliation efforts for accounts is strongly encouraged.

Whether or not your Microenterprise Development Organization includes a lending component, the establishment of cash management procedures is a must.

Procedures for processing loan assistance requests

In your program design, you have decided to provide business training, technical assistance, loans, or some combination of these services. Be sure to develop written processes to handle requests for service. Train staff on the organization's process for developing clients and achieving program compliance. The development of a flow chart of activity is a helpful tool for new and existing staff to quickly assimilate the client flow process.

Sample Loan Client Flow Chart (partial)

REQUEST FOR SERVICES

↓

INTAKE CONDUCTED; ELIGIBILITY DETERMINED → INELIGIBLE, EXIT PROGRAM

↘ REFER TO SMALL BUSINESS CLASS ↙

↓

REFER TO LOAN COUNSELOR

↓

PREPARE LOAN PACKAGE

↓

APPLY FOR LOAN

↓

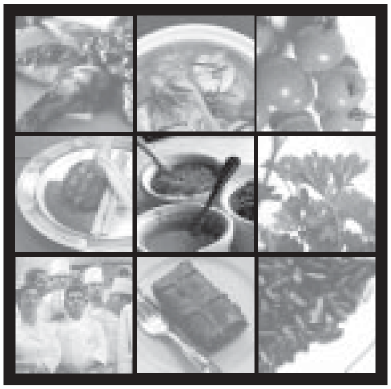
LOAN REVIEW COMMITTEE

↓ ↓

APPROVED DENIED

And so on.....

What we are really talking about here is an operational plan that covers every aspect of loan program functioning. Someone has to be responsible for each activity described in every area.



Make sure that all the intake data is collected from the client in the beginning of the client intake process so that data needed to measure activities and outcomes has been captured. Review your client intake procedures to ensure that all needed data is being collected on clients served.

Loan tracking software

The use of index cards and spreadsheets will never do for loan tracking if your organization plans to offer microenterprise loans on any scale. Conduct a cost benefit analysis to determine what software is best for your organization. In general the higher volume of loans that you plan to offer each year will dictate in part your budget for buying and maintaining loan tracking software. If your organization is evaluating the purchase of new software, we refer you again to the software review published by the Aspen Institute's FIELD program. In general, try to have a system in place for tracking outstanding loan balances prior to making loans.

If you determine that loan tracking software is not an affordable option, then you may also conclude that managing a loan fund is not feasible and affordable for your organization. Regardless, if lending is a part of your MED program, most funding organizations will want you to demonstrate your capacity to provide a MIS that can track activity measures, services provided to clients, and the outcomes that are achieved.

Client file management and security procedures

Client confidentiality and the development of procedures that will enable an organization to capture, store and manage the data on clients served is of significant importance. Have procedures for staff who input the data on clients served and who will work with the data afterwards. Since most of the data collected is not to be disclosed to the public at any time, an executive director will want to be confident that the system established exhibits certain security features to insure that the data and outcome activity reports meet your organizations reporting requirements while preserving confidentiality.

Providing microenterprise loans translates into your organization needing to develop procedures for cash and contract management. The development of loan files requires that conditions, contracts and collateral be secured and managed. Moreover, since your organization keeps original documents, original titles on vehicles and equipment, the storage and management of your loan files is of paramount importance. Most organizations acquire and use a secure "fireproof" safe to store the loan information. If you learn that your organization will make loans and keep secure original files in a fireproof environment, put in place security procedures about who in the organization can access the information in the loan files. Your auditor can assist you with the development of file access procedures.

Exercise

Refer to the loan closing sheet discussed earlier. Decide who in your organization will conduct the closings, make post-closing filings, enter file data, etc., until all activities are covered.

Program compliance reporting and client tracking systems

Depending on the source of funds that your organization utilizes for program operations and lending, you will no doubt discover that periodic reports are required to demonstrate program activity and impact. Every funding organization is different, so learn about the type and frequency of the reporting that is required by your funding organization. Once you have learned about the requirements, you will want to make sure your MIS system is set up to capture the information and produce timely reports. Developing a grid of reports, due dates, and staff responsible is an effective way to accomplish timely reporting.

Sample Contract Compliance Grid

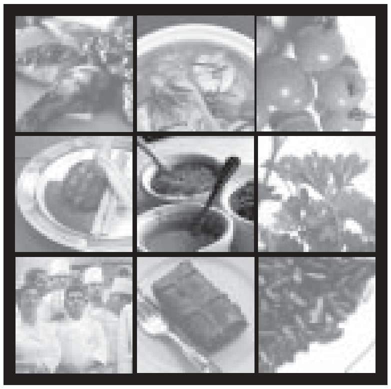
Funder	Type Report	Due Dates	Staff Responsible
ORR	Semi-annual microenterprise	July 30; Jan 30 each year	Kinza Kibbeh
SBA	Portfolio report	By the 30th of each month	Mira Yoblensky
Hometown Foundation	Annual	By Jan 30th following close of year	Andrea Broccoli

Risk management practices

On behalf of the Board of Directors and the organization's senior level management, the development and implementation of a system for assessing risk in your portfolio is part of how an auditor will assess the organization's ability to manage risk. Risk assessment starts with the underwriting philosophy and continues through with your organization's capacity to follow-up with clients. Additionally, it is important to establish procedures for collecting past due accounts.

All the policies and procedures combined with inadequate resources to manage the risk in your loan portfolio will not enable you to be a successful microenterprise lender. The development of loan policies and procedures is of little use if the commitment and resources needed for staff to follow through, up to and including collections, is not in place. If loans are offered, it is worthwhile to establish who will be responsible for collections and legal actions. Decide now before any new loans are offered. Without some balance between underwriting and collections activity, the chance that portfolio delinquency will rise is high.

Without some balance between underwriting and collections activity, the chance that portfolio delinquency will rise is high.



Work with your audit firm to make sure that the proper procedures are in place to receive an audit that is of the highest rating.

Contract management

Many social service organizations that offer a MED effort with a mission to provide human development services may find that rethinking and fine-tuning their thoughts about MED is necessary in order to be effective. An organization that provides assistance services to refugee or low-income populations should evaluate how well it can diverge into the business orientation that running a MED program requires. While they are still aimed at achieving social ends, as you have read, a microlending program simply cannot endure without a distinct emphasis on business planning.

Evaluation of services and products

Both on a short term and long term basis, it is important to consider how an organization providing development services and MED financial products can capture the activities and results that occur. Funding organizations and program managers need the data to learn what is working and what should be emphasized in future program efforts. Organizations that can capture and report their activities and impact data will be considered competitive for future funding in the eyes of most funding sources. If your organization is providing a service that is needed in your community, take care that the activities and results are captured in your data management software.

Capacity to achieve an unqualified audit

Do you have the mechanisms in place for an annual audit? Without systems to achieve an unqualified, opinion free audit, your organization could be in jeopardy for receiving future funding. Work with your audit firm to make sure that the proper procedures are in place to receive an audit that is of the highest rating.

Even with systems in place, a MED Manager must constantly work to ensure that procedures are being followed and that all client data is being managed. Management forevermore is based on your confidence that staff understands and follows established procedures; and on your capacity to ensure that the essential data is being collected and compiled.

VI. GARNISHES: ESSENTIAL PRACTICES FOR PROGRAM LONGEVITY

A. Servicing & Collections

With a recipe including good systems, consistency, and quick action, garnishing your lending program with loan servicing and collections should be a breeze.

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Chapter VI. Garnishes - Essential Practices for Program Longevity

A. Servicing and Collections

Recipe for Servicing and Collections
Good systems
Consistency
Quick action

There is truth in the statement that sound work at the front of a loan package equals less trouble on the back end.

Servicing and collections is a more exact science than microloan decision-making, but it is far from predictable. However, developing and implementing tight systems of accountability can be of great assistance if and when loan accounts become delinquent. Similar to, but far more than a garnish on food, servicing and collections puts the final, completing touch on the loan process. Without it, the likelihood for failure is significantly increased. For the purposes of this cookbook, servicing will be the term used to describe working with loan accounts that are current. Collections will be used when discussing accounts that are delinquent or in default.

Servicing

A servicing system that serves the organization and the borrower well is a sure way to guarantee fair treatment to all customers and keep your revolving loan fund in business. By implementing a thorough loan underwriting and loan closing process, an organization has taken vital steps to ensuring a smooth servicing process. There is truth in the statement that sound work at the front of a loan package equals less trouble on the back end.

Servicing loans involves:

- sending the loan customer an invoice to remind them that their payment is due
- recording the loan payment when received
- booking the amount of loan principal and interest paid
- calculating the new balance.

As mentioned earlier, a good software program can manage all of these points with some help from its human friends for data input!

Whether borrowers are paying by check, cash, or electronically through ACH accounts, an invoice is a friendly way to remind them to verify that they have enough cash in their business account to cover their loan payments. Invoices can be sent 10-15 days in advance for this purpose, and are especially important with those borrowers who are not making payments on a monthly installment basis.

Positive rewards can be offered for regular, timely payment. A number of agencies report positive credit to a credit bureau on a quarterly basis. However, this has become increasingly difficult to do. Letters can be written for use by the borrower stating that they have been a good payer between the dates in question. Last, some organizations offer discounted rates to borrowers who have repaid well during the past year. A quarter point reduction in the loan rate costs the organization little, but adds up to continued good payment and an incentive for the customer!

Collections

Unfortunately, the only way to avoid delinquency in a lending program is by making no loans at all! And we would like to state that good upfront work makes collection easier, but it does not. Collection is tough. However, it is gratifying to state that in the refugee microlending experience, most programs report minimal delinquency, and default rates are remarkably low at 2% of all monies loaned.[7] Refugees appear to have a clearer grasp of how timely repayments build their credit background, and enhance their chances for future capital. With these figures in mind, plan to design a collections system that will help get any slow payers from your market back on track. Failing that, be prepared to take collections as far as you need to recover your principal.

Organizations that do not exercise systematic collections will soon find that more slow pays will result as borrowers realize that they have no consequences to fear. An older, but certainly relevant publication on delinquency by Katherine Stearns provides some excellent points on thinking through these issues.

Tip

Regardless of the deal structure, we encourage organizations to use the same due date in the month (either the 1^{st} or the 15^{th}) for all loan payments—it is much more efficient from an administrative standpoint. If customers are paying more frequently, set two regular dates for receiving payments.

Three Golden Rules of Collections

1. Put systems in place and stick by them for fairness to clients and for your own protection.
2. The best approach to dealing with delinquencies is acting quickly!
3. Cash is king. It is the ideal way to be repaid.

The hidden beast: delinquency in microenterprise credit programs.[8]
- excerpt from overview

This paper explores methods for managing delinquency in microenterprise credit programs and shares control strategies, while shedding light on ways of managing delinquency in microenterprise credit programs and giving insights on the cost of delinquency and how to measure and monitor portfolio quality

It argues that microenterprise credit programs themselves control their levels of delinquency. With few exceptions, poor portfolio quality is more a reflection of a flawed credit program, rather than "bad" borrowers or an unfavorable economic context, suggesting strategies that can help microenterprise credit programs control their delinquency.

This portion of the cookbook is written to suggest a certain mode of collection, but you may want to re-shape it as you consider your local market for microloans. Whatever system you choose, practicing its consistent application and continued open communication with your borrowers will be imperative to a healthy loan portfolio. Remember, the overall objective is to build successful businesses, not to collect loans.

When is a loan late?

Different organizations define lateness differently, but it has been our experience that the best way to deal with delinquencies is to catch them quickly! For our purposes, *a loan payment is late the day after it is due.* We firmly suggest that you inaugurate the "*day-after call.*" A friendly reminder to borrowers, this is an easy and effective way to get the borrower to submit payment. It opens the lines of communication with the borrower, who can then inform you of the reason for lateness, and sometimes acts as an early warning signal for impending problems, like cash flow issues. Be sure to get a firm commitment from the borrower of what specific date they intend to pay you.

The day-after call kicks off a series of steps to take in the collections process. Forms for each of the letters can be found in the Ingredients section.

1. Day-After Call. Made the day following the date the loan payment was due to remind the borrower of payment. Document in written file notes that the call was made. Be sure to specifically designate and train a staff person to make these calls.

2. 10-Day Collection Letter. A letter on organization letterhead whose tone is friendly but concerned should be issued once a payment has been missed for 10 days. At this point, it is usual for a late fee to be invoked. Late fees vary in size, but usually it is a nominal amount to get the borrower's attention, ranging from $10 - $25, or some small percentage of the monthly repayment amount. The letter can be signed by the loan officer or TA counselor. If you agreed to certain terms during the day-after call, these can be reiterated here.

Sample language as part of 10-Day Letter. You stated on February 1, 2004 that you mailed your January 31st payment on January 28th, check number 404. That payment has not been received. Please issue another check, and cancel payment on this one. Thank you.

3. 30-Day Collection Letter. This letter treats the delinquency with a more serious tone, and is signed by the director, connoting that the matter is no longer in the loan officer's or TA counselor's hands. It can be placed on letterhead, or if you prefer, develop "Collection Department" stationery. Delineate the amount past due, the late fee, the new month's payment due, and the total amount due now. If you like, include a citation from the promissory note that they signed that signifies their knowledge of the loan payment arrangements.

4. 60-Day Collection Letter. More serious yet, the 60-day letter connotes that the loan is on the brink of default. In fact, depending on your policies, this may act as your default letter since it will be very difficult for the customer to rally enough money to pay two past months, plus late fees and interest, plus a new month's payment. This letter is also signed by the director, and should itemize all past due amounts, late fees, accruing interest, and the current payment due. A citation from the promissory note should be included in the body of the text.

5. Default Letters. Please look for examples of these letters in the Ingredients. These comprise a series that demands repayment in full, or collateral if payment cannot be made. Exercise practices that will protect the organization at this point, such as sending letters by certified mail with return receipt. Such documentation may be necessary if you end up in court with the borrower.

At any time, any of these letters can be sent certified, depending on how you want to document the path you will take to recover payment or collateral. It is wise to maintain accurate documentation, as the burden of recovery and collections falls to your organization, and legal authorities will be unforgiving of incomplete paperwork. ***Very important***—if there is a co-signer or guarantor on the loan, make sure that they are copied on every delinquency and default letter. Remember, they, too, are liable for ensuring that the loan is repaid, and without your notification, they may have no means of knowing whether or not the loan is current.

"Culture and collections often clash. How do you convince some refugees that money should be repaid? Look to the values that they hold most dear: truthfulness, repayment of kindness, and pride of person."

– Lalo Acevedo, Operations Director, Microenterprise, Fresno County EOC, CA

Some customers will attempt to put you off with a vague promise. If a customer says, "Yes, I'll send you a check," make it clear that you expect it will be sent the same day.

Delinquency Tips & Techniques

Good Cop/Bad Cop: One way to avoid alienating a customer while putting on the pressure is to blame a third party, such as the parent funding company. You might say something like: "I know times are tough right now, but I still have to say that you need to make your payments on time. The Funding Agency insists that we cannot let accounts go over 30 days past due even in extreme circumstances. The Funding Agency has an obligation to its funders to maintain minimum levels of delinquency."

Get A Commitment: Customers may try to put you off until their cash flow increases or a specific check arrives. If you learn when they will get a check for services rendered or when they get paid, plan a visit to the business on that day to collect. To get people to commit to a payment, you may want to ask for a postdated check. Such checks are good approximately 98% of the time. You might want to suggest: "What we need today is at least half of your monthly loan payment, and another check that's good two weeks from now for the balance. Of course, I'll call you three days prior to the date on the postdated check to make sure it can be cashed."

No Vague Promises: Some customers will attempt to put you off with a vague promise. If a customer says, "Yes, I'll send you a check," make it clear that you expect it will be sent the same day. You might say: "Great, today is the 10th, so we should get your check on the 13th. I'll mark my calendar, so I'll be sure not to miss it."

Be Firm with the Second Promise: If the check does not arrive on the 13th as promised, do not wait to take action. Immediately call the customer and say, "We didn't get the check you said was sent on the 10th." Many customers may offer another excuse. If they make another promise, be as firm as you were with the first and confirm a date for the payment to be received.

The Stall: If the check still has not arrived by the new date, take a firm and friendly approach, such as stating a time you will be by to pick up the check. You may choose to be direct with the customer and explain the consequences of not making the payment as promised: "I can give you three more days to get the payment in, but if I don't get it by then, "well, my hands are tied." We will be required to turn this matter over to the funding agency. Furthermore, as you may recall, your delinquent status will be reported to the credit agency and reflected on your credit report. This is a policy of the program." Don't give them any more time.

It's In Your Attitude: Generally, most customers will have some money that they can get their hands on even though they might have to give up something else that month. Try not to be insensitive, but always try to be firm. Debt collection is clearly a form of negotiation and you must always hold your ground.

Before the fall - working out delinquency.

Clearly, we are advocating forcefully for strong collections systems. But you may gauge when there are opportunities to work with a borrower to bring them back to current status. If you are successful at maintaining positive communication with the borrower, then workouts can and do produce favorable results.

1. Cash – the best repayment. You can visit the business to better understand the status of the situation. While there, ask for their cash position. If it is reasonable, request (never strong arm!) that they make a payment of cash to you on the spot. If they are able to do so, you are on your way to a workout with the customer, and it may be time to set up a meeting to talk about re-structuring. Always carry a receipt book on these occasions! If it seems distasteful to ask for cash, bear in mind that a repossession and resale situation can be a great deal worse in terms of time, money, annoyance and grief for all involved, and may not net you as many dollars, nor reinstate the customer as a good payer.

2. Workouts work! Whether or not a customer can pay you cash immediately, many delinquent borrowers are good candidates for workout resolutions to their late pay situations. In its simplest form, a workout is a way of amending the terms of the promissory note to make repayment achievable for the borrower. Often this takes the form of extending the term of the note to reduce the monthly payment. Before making this decision, sit down with the borrower to review his/her finances, provide a history of payment to-date, and develop a plan of repayment that is feasible.

Lengthening the term is one method of restructure. Another is to agree to interest only payments for a short period. A third is to move to weekly payments that are smaller and more manageable for the microentrepreneur. The point is that restructures or workouts can be as creative as you are.

Whatever you plan with the borrower, try to provide incentives and be clear about sanctions should they not meet the workout. The main incentive to use is that they may be considered current if they meet the terms of the workout, and will not incur further late fees or growing interest costs. The deterrent is that if they do not fulfill the workout, the organization will pursue full recourse as allowed under the law. In other words, you will foreclose.

The point is that restructures or workouts can be as creative as you are.

Debt Collections - Do’s and Don’ts

DO:

- Be firm!
- Contact the customer within 5 days after payment is due.
- Contact the customer in person, by phone, by fax, or by mail. When contacting in person or by phone, do so at reasonable times such as after 8:00 a.m. and before 9:00 p.m.
- Follow-up on contact with the customer stating the exact amount owed.
- Set a deadline for when payment will be made.
- Be understanding, but have them understand the consequences of their delinquency.
- Be straightforward and factual with the customer.
- Remember that collection efforts are different with every customer.

DON’T:

- Harass customers!
- Use threats of violence against the person, property, or reputation.
- Use obscene or profane language with a customer.
- Repeatedly use the phone to annoy someone.
- Call the customer at a place of employment unless you don’t have the customer’s home telephone number.
- Publish a list of customers who refuse to pay their debts.
- Misrepresent the amount of the debt being collected.
- Misrepresent the involvement of an attorney in collecting a debt.
- Threaten to take legal actions against the customer which legally may not be taken or which you do not intend to take.
- Threaten the customer with arrest for nonpayment.

Whatever you plan with the borrower, try to provide incentives and be clear about sanctions should they not meet the work-out.

After default - when you cannot work it out.

Sadly, some borrowers do not repay, no matter how much we try to work with them. When this happens, the good collections system that you have designed will be put to the test. In the Forms section, under Ingredients, there are several examples of letters to use as you begin the challenging task of collecting collateral.

1. A formal default letter – Send this first, detailing the event of default, the amount of principal, interest, and fees owing, and citing the relevant paragraphs from your promissory note that describe when a note can be called into default. Attached to this letter is a **deficiency letter** which states your intentions to collect collateral and other actions you may plan to take.

The surrender of collateral can be voluntary, or you may be forced to collect it. In either circumstance, it is up to the organization to secure the items, store and insure them.

2. Repossession letter – This letter is sent after the collateral has actually been collected to provide the borrower with the opportunity to redeem the collateral. Check with legal advice for your state, but there is usually a minimum of 30 days allowed for him to bring his account current, and get his collateral back. The borrower must transport redeemed collateral.

3. Notice of potential sale letter – This is used to keep the borrower informed of the sale of his collateral. He can still attempt to raise funds to re-purchase his own collateral at this stage. The organization must make its best effort to recover a fair value for the goods, since there will most likely be a remainder to charge back to the borrower. Try advertising at least three times in the local paper, or transport the goods to a market specializing in that item (an auto auction, for example). Make sure you have the correct insurance and licensure for moving collateral!

4. Notice of sale letter – Notify the borrower of the results of the collateral sale—sale price, how it was applied to the account (pay fees—late fees, collections fees, and interest *first*, then principal), and let him know how much remains on the account.

On occasion, you will be unable to get any response from a borrower. They are unable or unwilling to repay the organization, they have made their collateral vanish, and they do not respond to repeated attempts to contact. Others simply do not plan to pay the new balance remaining after collateral has been sold. In these events, you have little choice but to go to court.

Sadly, some borrowers do not repay, no matter how much we try to work with them. When this happens, the good collections system that you have designed will be put to the test.

1. Small Claims Court – is for small claims, but the dollar limit can vary, and changes periodically, so check with the Municipal Court for local procedures. Generally, once you understand the court's procedures, staff can file paperwork, represent the organization in court, and obtain judgment. Some savings on legal fees can be realized in this manner. When you appear in court, be sure to take documentation of the loan history, amount owed, and evidence of any attempts to collect.

2. Municipal Court – for amounts too high for Small Claims Court, it is probably a good idea to use an attorney to press cases through the Municipal Court. Similar documentation to Small Claims is required. Borrowers may not show up in court and this can result in (a) a decision in your favor, (b) a request for a debtor's exam to be completed by the borrower, (c) re-scheduling, repeatedly, and (d) a contempt of court ruling for the borrower, which rarely happens. As can be surmised, going to Municipal Court can take a great deal of time, patience, money, and energy. However, it is a method to obtain a judgment in your favor.

It's not over yet. Obtaining judgment is not the end of your battle to recover principal. The "burden of collection" is still on your shoulders. However, there are some options to exercise in retrieving the repayment that is now legally recognized as yours.

It's not over yet. ***Obtaining judgment is not the end of your battle to recover principal. The "burden of collection" is still on your shoulders. However, there are some options to exercise in retrieving the repayment that is now legally recognized as yours.***

1. Wage Garnishment – Cumbersome and frustrating, the local Clerk of Courts may be able to help you attach a borrower's wages. Forms must be completed and fees paid before the court will proceed, and the process tends to recur on a monthly basis thereafter. The borrower can appeal, and turn this method into a long, drawn out process that may result in fees greater than the amount you were trying to collect in the first place.

2. Liens – With a judgment on file, the organization can attach liens to real property and vehicles. While no immediate repayment will be realized, the borrower cannot sell these properties without satisfying payment to you.

3. Bank Account Attachment – Funds in the borrower's checking or savings accounts can be attached by the organization. Good rapport with bank personnel may help you to do this prior to them notifying the borrower of your legal claim. Otherwise, you may find the account empty when you go to attach it.

4. Professional Collection Services – This is an option at any time, but can help, usually at a percentage of the recovery, when your own efforts are exhausted.

5. IRS 1099-C Cancellation of Debt – Only as a last resort when all other attempts to collect have failed, you may choose to use this form to report amounts written off as bad debt to the Internal Revenue Service (IRS). The IRS may consider such amounts as income with taxes due from the borrower. *Importantly, you cannot continue to attempt collection once this form has been filed.*

6. Credit Bureau Reporting – The organization may elect to report a loan write-off to the credit bureau. While this is the opposite of the credit history building that microlending attempts to do, for the recalcitrant borrower, it may also be one of your last resorts.

Closing thoughts on collections

When the organization is prepared to write off the bad debt, the adjustments in your accounting journals will show a debit to Notes Receivable and a credit to Bad Debt. Whenever possible, this is a journal entry that you want to avoid. Fine-tuning the preparation and underwriting of loans, and familiarizing yourself with the character of potential borrowers are your best guarantees against becoming enmeshed in collections. Running your servicing and collections policies by your legal advisor is advisable in order to ensure that your proposed practices are sound and that they are legal for the state(s) in which you operate.

Post-Repayment Procedures

Ending on a high note, the majority of your borrowers will repay the entire amount of the loan to the organization. Here are some simple steps to take on their behalf once they do.

1. Prominently mark the promissory note "Paid in Full," and return it to the borrower, retaining a copy for file.
2. Release security pledged, as follows:

   A. Mortgages – Prepare a mortgage release document, have it signed by your CFO, and notarized. File this with your County Recorder (usually requires a small fee). Shortly, they will return formal mortgage release notifications to your office.

   B. Vehicles – Have your director or CFO sign the original title in the designated release section right on the title. Return original to the borrower, and they can opt to get a new title or use the one you signed.

   C. UCCs – An authorized representative of the organization signs the termination sheet of the UCC, which is then forwarded to the Recorder's office for release.
3. Along with the cancelled promissory note, attach copies of any security that you have released related to the repaid loan. Remember, original notes and titles are returned to the borrower.

Tip

Reminders –

(1) Double-check with your state and county authorities to make sure these procedures match their requirements.

(2) Retain copies of all documents returned to the borrower in the organization's files. It is no longer as critical to secure the documents in a fireproof cabinet, but it will always be important to maintain confidentiality regarding them.

VII. CHEF QUALIFICATIONS: HUMAN RESOURCES

A. What's in a Staff Anyway?

Just as you can't run a kitchen without a great chef, the staff you hire for your microlending program dictate its success or failure. This chapter provides some recipes for hiring and training a staff that will support and run a successful program.

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Chapter VII. Chef Qualifications: Human Resources

A. Whats in a Staff Anyway?

Recipe for Staffing
Skilled, competent staff
Business competence
Linguistic and cultural competence
Administrative buy-in and support
Adequate resources
Clear understanding of responsibilities

Organizations that provide MED services and products in the United States are most likely to be characterized as non-profit organizations in accordance with strict guidelines and measures managed by the Internal Revenue Service. Central requirements are to demonstrate the need for the services provided and to have developed a mission that addresses how and what the organization will work to address. In exchange for the organization providing the services, they are granted exemption from certain tax burdens and are considered a charitable foundation.

Many MED organizations already have:

- A clearly defined mission
- An established Board of Directors
- A designation from the IRS as a Non-profit Organization
- A defined set of program objectives, and
- A detailed list of planned activity measures and expected program outcomes

If you are a new organization without any of the central elements, developing your staffing array should be postponed until the above matters are developed.

Next, the scale of activities and the program's operating budget that are planned govern the number of staff needed, the scope of their job responsibilities and their level of compensation. You will discover that in order for your organization to effectively deliver the services needed for clients that you must compete to recruit staff that have certain credentials and work experience. Attracting, hiring and retaining a high quality staff will require you to compete in the open marketplace with other private sector organizations to attract the qualified staff who can deliver the results. Striking a balance on how to effectively use limited resources and assure that the best staff are hired and retained is of critical importance.

Example

Staff planning. Your organization agrees that creating a microenterprise loan fund is of critical importance to your clients and the mission of your organization. In your program design you agree that you will make loans up to $35,000 for terms up to six years. The planning implications are that you will need a staffing infrastructure plan that can endure for six years to provide services and to achieve loan repayment (unless high loans losses can be tolerated).

If staffing in a non-profit environment was not already a challenge, the board of directors and its senior level management must understand the long-term ramifications of offering microenterprise services. While training initiatives or the provision of business technical assistance can be managed on a more short-term basis, launching a loan program translates into planning for staffing requirements for the long term, or at least the term of the loan. While your organization may one day be in a situation to sell or transfer an existing loan portfolio to another organization, you still need to plan for staff coverage during the period in which you hold the loan notes.

Learning from experience

Operating a successful training program does not mean that you can add lending without changing your staffing array to some degree. Trainers may be good lenders and lenders may be good trainers, but assuming that both or either is true may lead to program performance mistakes. Try not to add microenterprise development services onto other responsibilities that current staff hold without revisiting your staffing array and learning what distinctive competencies they have, and where gaps exist.

The refugee experience

This point is particularly relevant for refugee serving organizations. The special test of any refugee microlender is to identify personnel who not only understand the world of business, but who are linguistically and culturally competent and sensitive. In the refugee organizational setting, there are many staff persons who speak other languages and hail from other cultures, but it will take some exploration to identify which of these may have business experience in their background.

"It is important to have a diversified staff that knows and understands the backgrounds of the refugees, but also has the technical know-how to get clients to the next level of business."

- Blong Lee,
Business Plan Specialist,
Fresno County EOC, CA

Exercise

At your next staff meeting, try developing a skills and competency matrix. This is a quick way to begin identifying appropriate people to staff the microloan program. Put a big, long chart on the wall that lists all of the competencies you are seeking, as well as suggestions from staff. Have individuals write their initials under the ones that match their skills. Begin to single out those persons who have the highest number of competencies needed, and figure out how to bring them into your microloan program!

Sample Competencies Identification Chart

Competencies	Speaks Hmong, Vietnamese, Bosnian, other	Understands culture of Hmong, Vietnamese, Bosnia, other	Holds business degree	Has owned small business	Counseling skills	Training prowess	Lending experience
STAFF NAMES							
STAFF NAMES							
STAFF NAMES							

This is a good first step to identifying microloan staff and making best use of in-house resources. You may be surprised at what you will find within, but as well, be prepared to expose some serious gaps in your staffing pattern.

At least two courses are open to you to start filling the gaps! One is to embark on training and professional development for those that could use some background in small business development and lending. While each is enlarged by experience, neither area is impossible to learn. Training is available through ISED Solutions as the ORR-contracted technical assistance provider, and through national trade organizations such as Association for Enterprise Opportunity or the National Community Capital Association. Don't be afraid to use this cookbook for training, too! Note that it has a lengthy resource and reading section covering most angles of microenterprise credit.

The other path is to advertise for qualified candidates that suit your needs. This involves designing an appropriate ad, but even more importantly, placing the job opening details in the right venue. There are a variety of organizations and internet sites related to community economic development that are good starting points for your advertisement. Also, think of all the other refugee-serving groups you know (including social service organizations, churches, civic groups, newspapers, radio shows, etc.), and be sure to get in touch with them.

Since seeking the right staff is based on strategic functions relevant to the microlending program components that you will offer, developing accurate job descriptions will be a must. Spell out responsibilities, duties that will need to be accomplished, educational credentials and experience required.

Don't forget before adding a microenterprise program component that you want not only professional staff, but the administrative and support staff to round out your efforts.

Essential MED Staffing Elements assuming that all MED Components are offered

The capacity to provide:

- Program oversight and management
- Client screening and evaluation
- Training programs
- Business technical assistance services
- Loan review eligibility
- Coordination with committees & boards
- Managing loan development services
- Managing loan closing procedures
- Managing an active loan portfolio
- Loan collections and workouts
- Program compliance, reporting and administration
- Development of new services and new sources of funding

Your staffing array should include job descriptions and all the resources and individuals necessary to make your program successful. Plan to develop an organizational flow chart and framework that illustrates who is responsible for day-to-day operations of the organization, who will work with the client and how the work flow will be managed daily.

When you are in a perfect world and have an infinite budget, you may be free to hire specialists that can address activities in all the areas specified above. Few organizations that operate in the MED world suffer from this problem so you may need to develop some efficiencies through multiple functions and cross training. Consider a dual method of specialization as an alternative.

Example combinations are listed below:

- Lead Trainer and loan development specialist
- Trainer and credit analyst
- Trainer and portfolio workout specialist
- Administration, marketing and data input
- Program analysts for budget, reporting and compliance
- Director of programs and development

While the combinations of certain services may be possible, be careful not to add responsibilities to an individual who may not have the ability to perform all of the services successfully.

Staffing your program efforts is by far one of the most important elements of a microlending program. Managing the effort is of equal importance and is often overlooked. All things being equal, the right staff is critical to the successful delivery and achievement of program results. What is in a staff anyway? Everything.

What is in a staff anyway? Everything.

VIII. DESSERT: IN CLOSING...

A. Finishing Touches & Final Thoughts

In closing, this brief chapter contains some finishing touches and final thoughts to consider as you design your microlending program. We hope that these desserts will top off all you have created by following the recipe points in the rest of the manual.

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Chapter VIII. Dessert: In Closing...

A. Finishing Touches & Final Thoughts

If you have followed the recipe points throughout this guide, then you now have the semblance of your own cookbook for microlending. There are two thoughts with which we would like to leave you that are candidates for your serious consideration as you complete your own microlending program design. Each is symbiotically linked with the other.

Thought #1 – Creation of a microlending operations manual

Through all of the courses in this cookbook, we have promoted the development of policies and procedures and sound infrastructural systems for carrying out the work of your microlending program. An operations manual for microlending is simply the aggregation of all of this work in a comprehensive reference guide for use by your staff, board, and loan committee members.

Anyone possessing your guide should be able to understand, and if need be, conduct the microlending program in its entirety. What should be included in your operations manual? Below are suggested categories for inclusion.

- Mission and/or vision statement for the microlending program, including any philosophy that under-girds your lending program
- Brief background on the program
- Brief description of the “parent” non-profit, if there is one
- Projected goals and objectives for the next three years, including the year you are operating in
- Description of products and services offered
- Depiction of target market(s) to be reached and served, and geographic area
- Marketing plan
- Lending policies and procedures, including:
  - Application process (includes eligibility & collateral)
  - Due diligence
  - Scoring
  - Loan decision-making
  - Notification
  - Loan closing
  - Post-loan procedures and activities
  - Borrower support plans
  - Servicing and collections

If you have followed the recipe points throughout this guide, then you now have the semblance of your own cookbook for microlending.

- Staff requirements and responsibilities
- Job descriptions
- Evaluation procedures
- Accounting procedures
- Required reporting (for Board, and as dictated by funding source)
- Forms related to each of these sections
- Loan program descriptions (if more than one)

In compiling your operations manual, check that sections relate to each other, and agree in purpose and principle. Sample loan policies and procedures tables of contents can be found in the Ingredients chapter.

Thought # 2 – Microlending without walls

Some parts of this text discuss the inability to achieve scale with microlending programs. One of the factors that can impede a MED lending program from reaching a large number of borrowers is the amount of restrictions that we place on ourselves. By carefully developing a full-blown set of lending policies and procedures, and a comprehensive operations manual, we set forth how to operate a lending program, but we also may be unnecessarily preventing access to our loans.

In opening this cookbook with the story of Azteca, our aim was to illustrate what is brightest and best about microenterprise development lending—that is, its ability to morph to the shape of its community. At Azteca, there are borrowers who had no chance of conforming to standard microlending practice, let alone bank financing. There we saw a creative design for reaching the customers most in need, and causing business to happen.

As refugee microlending practitioners, you have similar challenges to overcome with the target populations you serve. This cookbook is intended to present every aspect of microlending, and to act as a reference for your program development. The good news is that the microenterprise lending community is as yet unregulated, so it is your option to choose what works best for your clientele, while developing lending practices that protect your organization and preserve your program for the long-term delivery of access to capital for disadvantaged populations.

It is unquestionably a delicate balance. Microlending without walls will summon your best creative thinking, but the joy of this particular brand of cooking is that many different recipes have been proven to work so long as the end customer was the driver of program design.

We encourage you to use these "recipes" to develop sound business lending practices, but only after you have achieved a solid understanding of your target market.

Happy Cooking!

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Example

Struggling to keep his part-time business alive while working a full-time job, a Bosnian refugee requested a $3,000 loan from the refugee microlending organization in his area. The approved loan proceeds for equipment helped him convert raw materials into well-constructed furniture and fine-finish cabinetry. The microloan successfully moved him from a full-time job to full-time business operation.

IX. INGREDIENTS: HELPFUL RESOURCES & TOOLS

A. Resources

B. Forms

This chapter contains a list of ingredients you can use to "spice up" your microlending program. Hopefully this list of key microenterprise organizations and websites, articles of interest, funding sources, and sample forms will make for happy cooking!

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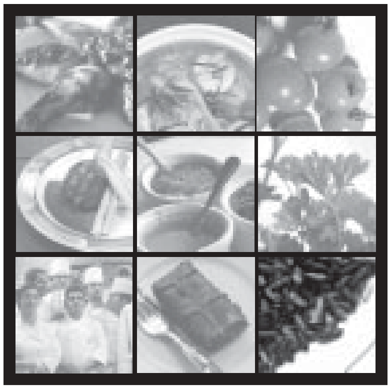

Chapter IX. Ingredients: Helpful Resources & Tools

A. Resources

MICROENTERPRISE AND MICROLENDING RESOURCES KEY ORGANIZATIONS AND WEBSITES

The **Association for Enterprise Opportunity (AEO)** is the national association of organizations committed to microenterprise development. Their website is a good place to start gathering information about microenterprise. It includes fact sheets, success stories, policy information, a search engine to locate local programs, and more. http://www.microenterpriseworks.org/

The **Corporation for Enterprise Development (CFED)** supports asset-building and economic opportunity strategies, particularly in low-income communities. Check out the website to learn about microenterprise and development finance, asset development strategies, and effective economic development policies and practices. http://www.cfed.org/

The **Fund for Innovation Effectiveness, Learning and Dissemination (FIELD)**, a program of the Aspen Institute, is dedicated to education about microenterprise as a poverty alleviation strategy. The FIELD program has provided grants to learn about how the loan demand in the microenterprise field could be increased by tailoring products and delivery systems to the needs of low-income entrepreneurs. The FIELD program also contains information on topics such as best practices, improving access to markets, bringing services to scale, MIS, and self employment for welfare recipients. The FIELD program has published several useful reports, which are listed in the next section, "Articles of Interest." http://www.fieldus.org/

The **Institute for Social and Economic Development (ISED)** is a non-profit organization that works to strengthen the social and economic well-being of individuals and communities. ISED is a leader in the field of microenterprise development and provide a variety of services to help individuals build solid economic futures. ISED also works with public and non-profit organizations by providing technical assistance, training, and research and program evaluation services. Go to http://www.ised.org to download publications and learn more about ISED's programs.

The **Journal of Microfinance** provides valuable information for microfinance and microenterprise development practitioners. The Journal publishes articles that represent the broad spectrum of perspectives and experiences within the microfinance and microenterprise development fields. The Journal is published twice a year in the spring and fall. To learn more, go to http://www.microjournal.com.

For information about **Microfinance Risk Management**, go to www.microfinance.com. You'll find information on a variety of topics, such as microenterprise, rural microfinance, credit scoring, and more. The information was prepared by Dr. Mark Schreiner from the Center for Social Development at Washington University in St. Louis.

The **U.S. Small Business Administration** seeks to maintain and strengthen the nation's economy by assisting and protecting the interests of small businesses. Its website provides helpful information for people who want to start a small business. You'll also find success stories; small business statistics; resources for women, minorities, and veterans; an online library; and the locations of the local SBA offices. http://www.sba.gov/
Information about the SBA's MicroLoan program is available at http://www.sba.gov/financing/sbaloan/microloans.html

See the "Key Funding Sources" section below for more websites with helpful information.

ARTICLES OF INTEREST

A bibliography of recent information on microenterprise in the U.S. was prepared by the AEO Research Committee. It includes reports, books, and journal articles published in from 1999 to 2002. It is available on the AEO website by going to http://www.microenterpriseworks.org/services/research/ResearchBibliography1999-2002.pdf

Another bibliography provides resources on microenterprise in the U.S. that were published in 1999 or earlier. It was prepared by the Institute for Social and Economic Development (ISED). You'll find the bibliography on the AEO website by going to http://www.microenterpriseworks.org/links/Biblioghraphy-Else-2-01.pdf

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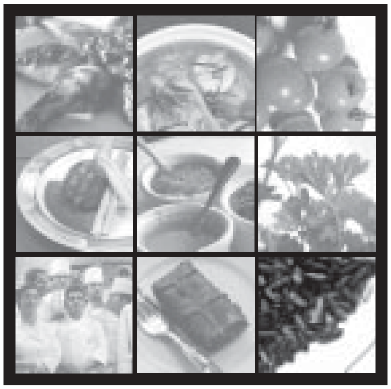

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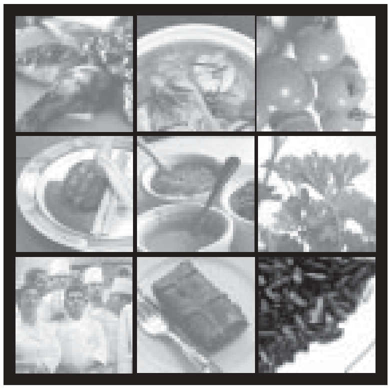

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KEY FUNDING SOURCES

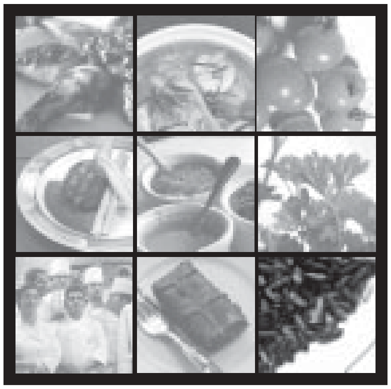
For an overview of the major funders that support microenterprise, start with the Association for Enterprise Opportunity (AEO)'s fact sheet, "**Federal Programs Fact Sheet: Key Federal Funding—Economic Development and Microenterprise.**" (www.microenterpriseworks.org)

Federal Funding:

If you want to serve rural areas, check out the **U.S. Department of Agriculture's Rural Business Enterprise Grant (RBEG)** and the **Rural Business Opportunity Grant (RBOG)**. For more information, go to (http://www.rurdev.usda.gov/rbs/busp/rbeg.htm) and (http://www.rurdev.usda.gov/ny/rbog.htm).

The **Department of Health and Human Services**, **Office of Community Services (OCS)** offers the **Job Opportunities for Low-Income Individuals (JOLI)** program. This program supports a variety of employment creation opportunities, including microenterprise, for low-income people. OCS also helps CDCs to create business ownership opportunities through its **Community Economic Development** program.

If you want serve refugees (persons who fled their countries of origin due to a well-founded fear of persecution because of race, religion, or other factors), the **Office of Refugee Resettlement (ORR)** has a microenterprise program. To learn more, go to http://www.acf.hhs.gov/programs/orr/programs/microenterprise.htm.



If you plan to serve urban areas, the **Department of Housing and Urban Development's Community Development Block Grant (CDBG)** program, which seeks to expand economic opportunities for low- to moderate-income people, may be an option. (http://www.hud.gov/offices/cpd/communitydevelopment/programs/index.cfm)

Federal agencies that have supported microenterprise to a lesser extent include: 1) the **Department of Labor**, under the Job Training Partnership Act; 2) the **Department of Transportation**, through welfare-to-work funds; and 3) the **Department of Commerce's Economic Development Administration**, through funding to address community issues.

State and Local Funding:

Some states are active in funding these very small businesses. Look at state departments such as human services, economic development, labor or workforce development, unemployment insurance, and vocational rehabilitation that are most likely to fund microenterprise services.

If your state has a **Statewide Microenterprise Intermediary**, funding may be filtered through it. Check out, http://www.microenterpriseworks.org/stateassoc/assoclist/

Support for community based microenterprise efforts is available in many cases through local governments or an area's **United Way**.

Foundations:

You may also be able to obtain support for microenterprise development from foundations. The following foundations may be worth checking into: The **Levi Strauss Foundation** provides support to increase economic development opportunities for women and youth (ages 7 to 25), including support for programs that create micro-businesses or providing microenterprise lending opportunities. For more information, go to http://www.levistrauss.com/responsibility/foundation.
The **JP Morgan Chase Foundation** provided funding for microenterprise and small business assistance organizations during 2003 in the following states: Arizona, California, Delaware, Florida, Illinois, Louisiana, Massachusetts, Ohio, Texas and the New York tri-state area. To find out more about these funding opportunities, go to http://www.jpmorganchase.com, then click on "community and culture," then on "grants," and then on community economic development.

The **Charles Stewart Mott Foundation** has been supporting the microenterprise development field since its inception in the mid-1980s. Early funding initiatives included support for microenterprise services to clients as well as funding to create and maintain the national infrastructure and support policy education and research. Currently, the Mott Foundation is moving away from funding direct services for clients. Its current funding objective is to ensure that self-employment remains a viable option for increasing the incomes of low-income entrepreneurs by continuing to support the development and sustainability of the field's infrastructure, documenting promising practices, and informing public policy. To learn more, go to http://www.mott.org/index.asp.

The **Ford Foundation** was a significant supporter of the microenterprise development field for about fifteen years—providing support for organizations that provide direct services to clients as well as those that support the field. Currently, the Ford Foundation is winding down its involvement in the U.S. microenterprise development field, by providing limited support for organizations that make up the field's infrastructure. The Ford Foundation also supports microenterprise indirectly by funding Community Development Financial Institutions that in turn provide financing for microenterprises. For more information, go to http://www.fordfound.org/.

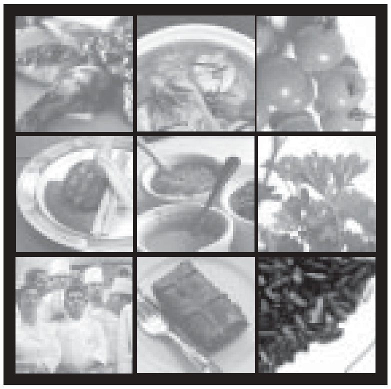
In the past, the **Ms. Foundation for Women** provided funding for microenterprise development through its Collaborative Fund for Women's Economic Development. Although they are no longer making grants under this program, very limited support (one to two grants per year) is provided to current or former Ms. Foundation grantees through the "Fairy Godmother Fund" to provide capital to 100% women-owned start-up businesses. (http://www.ms.foundation.org/)

Local foundations may also be interested in funding microenterprise development.

For Profit Sector:

Banks, insurance companies, and national and local corporations have also supported microenterprise programs.

- **American Express** provides grants to promote entrepreneurship and small business development. The website is: http://home3.americanexpress.com/corp/philanthropy/
- **Hewlett-Packard** has also funded microenterprise, most recently through a grant program that helped non-profit microenterprise development agencies to provide their clients with access to technology and associated training. For more information, go to: http://grants.hp.com
- **Wells Fargo** provides charitable contributions in the states that it serves. Decisions about the types of grants to be provided are made on a state by state basis, but may include economic and community development initiatives. Check out http://www.wellsfargo.com/about/charitable/index.jhtml
- **Other Banks.** It may also be worthwhile to develop partnerships with national or community-based banks. Banks that have supported microenterprise programs include Bank One and National City Bank.



For More Information:

The Foundation Center is a valuable resource for identifying potential funding sources. It provides a variety of resources, including information on the grant-seeking process and search engines to identify foundations and grant opportunities. The Center provides information on its website (http://fdncenter.org) and in publications, as well as through five libraries and a national network of Cooperating Collections.

B. Forms

Please find sample forms on the CD(s) sent under separate cover.

Microlending Forms: Table of Contents

The Microlending Forms CD contains forms in each of five categories, in the following order: 1) client forms, 2) loan decision-making, 3) loan closing documents, 4) servicing and collections, and 5) policies and procedures. Each category of form is coded as follows:

A = Client Forms
C = Loan Closing Documents
B = Loan Decision-Making
D = Servicing and Collections
P = Policies & Procedures

The kinds of forms in each category are listed in the table below.

A	**Client Forms**
A1	Application form
A1	Client Intake form
A1	Client disclaimer
A2	Personal financial statement
A3	Personal and/or business collateral
A3	Certification of income eligibility
A4	Financial projections worksheet
A4	Itemized use of loan proceeds
A5	Loan package checklist
A6	Bank referral sheet
B	**Loan Decision-Making**
B1	Loan presentation summary
B2	Loan presentation summary- blank
B2	Loan application scoring worksheet
B3	Loan approval letter
B4	Loan denial letter
B5	Portfolio Report
B6	Loan Committee Decision form
B7	Credit committee signatures
B8	Borrowing resolution
C	**Loan Closing Documents**
C1	Pre-closing checklist
C2	Loan Closing checklist
C2	Disclosure statement
C3	Errors and Omissions Agreement
C4	Release of Information
C5	Security Agreement (non-vehicular collateral)
C6	Exhibit A
C7	Uniform Commercial Code
C8	Security Agreement (vehicular)
C9	Application for Certificate of Title
C10	Mortgage
C11	Promissory Note
C12	Loan Amortization Schedule
C13	Loan Agreement
C14	Letter of commitment
C15	Notice to Cosigner
C16	Personal guarantee form
C17	Landlord waiver
D	**Servicing and Collections**
D1	Invoice
D1	Record of checks received
D2	10-Day Delinquent letter
D3	30-Day Delinquent invoice
D4	30-Day Delinquent Letter
D5	60-Day Delinquent Invoice
D6	60-Day Delinquent Letter
D7	Default letter
D8	Deficiency letter
D9	Repossession letter
D10	Notice of potential sale letter
D11	Notice of sale
D12	Note addendum
D13	Loan Source Tracking Document for Accounting Department
D14	Uniform Commercial Code Termination Statement
D15	Satisfaction and release of mortgage
P	**Policies & Procedures**
P1	Policy and Procedures for the program
P1	General Policy Agreement
P2	Delinquency Pol & procedures
P3	Table of Contents for Pol & Proc.

We gratefully acknowledge contributions from the following organizations and sources for sharing forms for the Microlending Cookbook.

- BusinesStart, Southwest Virginia Community Development Financing Inc.
- Institute for Social and Economic Development (ISED), Iowa
- Mountain States Group, Idaho
- New York Association for New Americans (NYANA)
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Endnotes

1a Azteca operates as part of a membership known as La Union del Pueblo Entro (LUPE). Once a loan is awarded, the borrower can tap into a wide variety of services that help not only with the business, but with financial literacy, consumer needs, housing, health…all the things that create empowered and connected community members.

1b David Arizmendi is the CEO and President of the Azteca Community Loan Fund, and an advisory Board member of LUPE. In 2003, he was recognized as a James A. Johnson Community Fellow by the Fannie Mae Foundation

2 MicroTest (average term of a microloan)

3 MicroTest (working capital reference)

4 U.S. Small Business Administration, Office of Advocacy, Office of Research, December 1996.

5 Paraphrased from unpublished work by Mark Barbash, (1997) "What makes a good business plan?" Columbus, Ohio.

6 FIELD's Best Practices Guide Volume 3: A Guide to Curricula, The Aspen Institute

7 Else, J., Krotz, D., and Budzilowicz, L. (2003). *Refugee microenterprise development: achievements and lessons learned*, Second Edition. ISED Solutions: Washington, D.C., p. vii.

8 Stearns, K. (1991) *The hidden beast: delinquency in microenterprise credit programs*. Cambridge, MA, USA: Accion International – overview.

Microenterprise Lending: A Cookbook for Mutual Success

By Karen A. Dabson, Phillip L. Black, and Maria L. Hein

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