



Comptroller of the Currency
Administrator of National Banks

Community Developments

Summer 2001

Community Affairs OnLine News Articles

Microlending: How ACCION USA Partners with Commercial Banks

by William Burrus, President & CEO, ACCION USA

Mauro Leija has worked with children in San Antonio for 13 years as a coach, special education teacher, and daycare provider. In 1996, after ten years of being employed by others, he opened a daycare center of his own. But when Mauro went to commercial banks with a plan to expand his fledgling business, they couldn't help him.

"I needed working capital, but I had some past credit problems," he says. "The loan officers told me, 'Be realistic - you can't get a loan. You have no college diploma, no capital, no credit, no history with any bank.'"

Mauro's experience is typical of other "micro-entrepreneurs" -- low- and moderate-income women and men who start their own small businesses to support their families. A recent study commissioned by ACCION USA found that 82 percent of the estimated 13.1 million micro-entrepreneurs in the United States have never received a bank loan. Of those, 86 percent had never applied for one, in many cases because of fears of rejection. Fourteen percent had applied but been rejected.

Looking beyond the credit record



Like many U.S. Microentrepreneurs, Mauro Leija could not get a bank loan. Microlenders like ACCION USA provide business credit to low- and moderate-income individuals who start their own small businesses to improve the lives of their families.

Despite being turned down, Mauro managed to keep his daycare center going, and it soon began to turn a small profit. Always eager to improve his business skills, Mauro attended classes on budgeting, business planning and hiring at San Antonio's "Small Business Incubator," a Small Business Administration program. There he met a representative from ACCION Texas.

Part of the ACCION USA network, ACCION Texas provides business credit and training to people ineligible for traditional credit. ACCION's typically low- to moderate-income clients struggle to support themselves and their families by starting very small businesses such as food vending carts, home-based beauty salons or small neighborhood shops. ACCION USA has microlending programs in Atlanta, Chicago, New York, San Diego, and throughout New Mexico, and Texas.

ACCION Texas looked at Mauro's character and experience - not just his credit record - and provided an initial loan of \$1,500. The loan came at a critical point. Mauro used it to install air-conditioning ducts at the daycare center; without them he wouldn't have passed inspection and would

have had to shut down. With a second loan he renovated the playground. A third loan helped him purchase a van to transport the children.

Micro-entrepreneurs like Mauro drop through the cracks of conventional financing for various reasons. Their credit needs are often too small for a bank to profitably lend to them. They typically have no credit history, a flawed credit history, little collateral or incomplete financial records. Women, ethnic minorities, and non-English speakers may face additional barriers. One New York micro-entrepreneur puts it bluntly: “If you’re white, they help you more – they’re kinder.”

Accurate or not, these perceptions are part of the problem. But things are changing. To overcome barriers and reach out to greater numbers of micro-entrepreneurs, more than 30 commercial banks have formed partnerships with ACCION USA.

Partnering for change

ACCION USA was created in collaboration with ACCION International, a Somerville, MA-based nonprofit with nearly 30 years of experience in microfinance in Latin America. Since its 1991 launch, ACCION USA has loaned \$30 million to more than 4,500 clients. The average loan is \$3,500.

Banks are an important source of funding for ACCION USA, and they make other contributions such as referring clients, co-hosting business training programs, donating office space and market intelligence technology, and playing a governance role.

Funding: ACCION USA is funded through commercial bank loans, donations, and the interest paid on its microloans. More than 30 banks have made loan capital available to ACCION USA, led nationally by Wells Fargo, Citibank, Chase, Bank of America, and by local banks such as First Bank of the Americas in Chicago and First State Bank in New Mexico.

For example, ACCION New York currently has a \$1-million line of credit from Chase. At prime minus one, this loan can be used as a typical line of credit or as a 100-percent guarantee for other credit initiatives. This allows ACCION to diversify its funding sources, particularly to include socially responsible individual investors. Wells Fargo has recently announced a \$1-million line of credit at zero percent interest to ACCION New Mexico.

Referrals: ACCION and commercial banks have created formal channels to refer micro-entrepreneurs who wouldn’t qualify for a bank loan and who otherwise might not know that ACCION is an option. Bank referrals to ACCION New York currently account for 25 percent of its client base. Chase, Bank of America, and Wells Fargo display and distribute ACCION promotional materials. BankOne’s Loan-by-Phone call center in Tempe, AZ refers clients to ACCION Texas and ACCION Chicago.

In New Mexico, three commercial banks - Wells Fargo, First State Bank, and First National Bank - work closely with ACCION throughout the referral, underwriting, and loan disbursement process. Bank officers give potential clients ACCION loan applications, help them fill out the application if necessary, and send it to ACCION New Mexico, which then completes the loan documentation and credit underwriting. The bank closes the loan and actually disburses the funds to the client at

the local branch. This has enabled ACCION New Mexico to expand its outreach to many smaller communities throughout the state without the cost of setting up new offices and hiring additional staff.

Collaborative Lending: ACCION Chicago has implemented an innovative joint lending program with First Bank of the Americas, a bank certified by the Treasury Department's CDFI Fund. Because ACCION Chicago cannot make loans over \$25,000, some of its larger clients were having difficulty obtaining funds to grow. Under the joint lending arrangement, ACCION Chicago lends up to \$25,000 and First Bank of the Americas provides the rest. ACCION Chicago takes second position on the loan, reducing the bank's risk exposure. Last year First Bank of the Americas provided over \$1 million in loans to ACCION Chicago clients through this partnership. Each of these new clients set up a business checking account with First Bank of the Americas.

Training programs: Financial training can be crucial to the success of microloan programs. ACCION USA, in partnership with several banks, offers seminars on topics such as financial literacy, starting and growing a business, inventory control and marketing.

Technology and infrastructure: Chase has provided extensive market mapping technology to ACCION New York. Using Chase's data to identify areas of low bank penetration, diverse low-income populations, and high densities of small businesses, ACCION New York targets areas most in need of microlending services.

Eight of ACCION Texas' satellite offices are housed rent-free in supporting banks, including Chase, Bank of America,

and Wells Fargo - enabling ACCION Texas to grow by minimizing overhead expenses.

Governance: Banks play strong leadership roles on boards of directors and volunteer committees at all ACCION programs. For example, a Citibank officer chairs ACCION Texas's board, and a La Salle Bank officer chairs ACCION Chicago's board. Bank employees also serve on loan review committees at several ACCION USA sites.

How banks benefit

Banks have found partnering with ACCION USA to be an effective marketing strategy while satisfying Community Reinvestment Act (CRA) requirements. Partnering helps raise a bank's profile in communities where it may have had little presence or even a negative image. Partnering also builds bridges to the Hispanic and African-American minority groups that comprise 82 percent of ACCION USA's borrowers.

Many ACCION clients are potential future bank customers. Developing a solid credit history prepares many clients to move to mainstream financing. Meanwhile ACCION borrowers - particularly those who make their monthly loan payments at the bank - are introduced to banks and the services they provide.

Banks can also see that microlending makes a difference. With just two microloans each, 203 ACCION clients increased their business assets by an average of 51 percent, business revenue by 37 percent and take-home income by 40 percent over a two-year period.

And microlending can be sustainable. Currently, each ACCION USA program covers between 25 and 50% of their own

operating costs by revenue directly generated from microloan fees and interest. The remainder of operating costs are covered by contributions from banks, corporations, foundations and individuals. The ultimate goal is to reach 100% self-sufficiency.

The power of microlending, as banks are discovering, is that it isn't charity. Instead of creating dependency, it fosters initiative, supporting people like Mauro Leija who make a clear contribution to their communities - even if they don't have a perfect credit history. Microlending is good for banks because it is good for the communities they want to reach and for the future customers they hope to attract.

For more information, contact William Burrus, ACCION, USA:
<bburrus@accion.org>.