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## Building Wealth and Stability Through Entrepreneurship

*Q&A with Janie Barrera and Celina Pena, Accion Texas*

**CI:** The most recent recession has pushed many to pursue self-employment. Are you seeing a growth in demand for services for starting small businesses? Are you seeing trends that are different from pre-recession levels?

**A:** We've always been a champion and supporter of startups and self-employed; in our view, it's been the largest segment of business creation out there in recent years, especially following the recession. For instance, within our own portfolio, we have seen a persistent annual growth rate of 31-37 percent in the amount of start-up business loans issued every year since 2009.

Looking at this trend, we can see that a growing number of jobs are being created in new enterprises rather than within large established firms. In part, this reflects what all the macro economic trends have told us: the economy is still tepid and job stagnation, while not as apparent, is still there. In this economic environment, we have seen a window open for new businesses to take hold and create employment opportunities.

**CI:** In your experience, what are the top three barriers to low-income potential entrepreneurs starting a business?

**A:** First, these potential entrepreneurs often lack experience, and an understanding of their potential market and how to go after it. They may be unfamiliar with the basic financial aspects of starting a business, including key concepts such as balancing operations costs and revenue, achieving breakeven point and profit, and how to know when a business is financially "bleeding."

Second, confidence can be an issue. They need to believe in their product, their price-point, and the principle that owning a business is about making money.

Finally, they need to feel comfortable requesting support, and know when to ask for help; doing so early and proactively is so important, because having to be reactive after problems have already occurred is tougher.

**CI:** What is the Accion approach to overcoming these barriers and why does it work?

**A:** For low-income potential entrepreneurs, going into business usually is not only about the spirit of entrepreneurship – it is about the practical goal of supporting one's family. This instinct is very powerful and can be used to an entrepreneur's advantage in creating a business. Low-income entrepreneurs tend to be very resilient and fastidious; they know where every dollar and penny goes within their business. We have to reframe the idea of debt for our borrowers in some cases, as many fear taking on any debt at all and view loans as being negative debt. We help them to understand that this kind of debt can be a positive and responsible way to build wealth and stability. For us at Accion, it's not just about capital – it's about community. Many of the businesses we work with are rooted locally and give back to their communities through their businesses. They also pass along their wealth of knowledge and support to future entrepreneurs in their communities.

For example, one business we provided with a loan in 2011, Bake, Broil and Brew in San Antonio, Texas, is a local food and kitchen incubator. The entrepre-

neur started out as a cupcake baker, and her greatest challenge was finding a commercial kitchen; our loan helped her to secure an incubator facility for her business. We helped her to develop a business plan and to establish a relationship with her bank, so that she was able to get more capital when she needed it. She has gone on to help over 25 other small businesses get started in her community through her kitchen incubator.

Another example is a borrower we worked with in New Orleans. She started out as an aspiring immigrant entrepreneur with no credit score, so we provided her with a \$500 Credit Builder loan. From this starting point, she was able to later secure a \$1,500 loan and then another \$8,000 loan with Accion. She now works with other local women to develop their capacity as entrepreneurs. Every 90 days, she meets with a business advisor at Accion to stay on a path to growth.

**CI:** Are there new methods, programs, or products that are borne of both the deep expertise of Accion and the particular challenges of the latest economic crisis?

**A:** Our latest product, the Promise loan, was developed in order to serve more of the clients whom we've had to deny in the past. As an alternative to traditional loan qualification, we built a quiz that uses criteria based on an understanding of basic financials, entrepreneur skills, honesty, and drive, to understand and determine how best to serve our potential clients who did not qualify for our existing loan products due to lack of credit, lack of collateral, or inability to document source of income. With the Promise Loan, we are able to provide individuals who qualify under these different criteria with loan capital of up to \$5,000.

**CI:** Tell us about more about the Promise Loan program. What are the goals of this product and what impact are you seeing?

**A:** With the addition of the Promise loan, we've seen a 35 percent increase in our loan production, and we still have a healthy portfolio. We now are creating a repayment model for the promise loan borrowers, to perfect the scoring. We've made 775 loans totaling \$4 million, with a default rate of 10.6 percent for this product. The Promise loan has allowed us to serve more people with thin credit or limited credit files, as well as others who may have been traditionally overlooked for loans. Among our Promise loan borrowers, 86 percent are minorities, with 40 percent being African American and 46 percent Hispanic. Nearly half of the borrowers are women, 65 percent are low- or moderate-income earners, 5 percent are veterans, and 10 percent were unemployed when

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they applied for the loan. The loans have helped our borrowers to create 275 new full-time jobs within their businesses.

**CI:** What services do you offer to business owners who don't qualify for a loan from you?

**A:** We support them online and individually with our business support services. We are currently exploring other alternatives, such as crowdfunding, for those who don't qualify for our loan products. We know that not all clients can be served by banks, due to regulations around risk levels. Accion also has a reputation for making loans and mitigating risk, which has allowed us to maintain a 96 percent repayment rate, with an average FICO score of 590 among our borrowers. In some cases, though, we work with lenders such as Kiva, which funds forgivable loans, and act as an intermediary assisting recipients of these loans with their business development needs. Having funder partners like these that offer forgivable loans allows us to take on more risk. We've also developed the Promise loan program described above to help serve a broader range of clients who may not have previously qualified for our loan products.

We ensure that all clients who apply for a loan from us and are denied understand why they have been denied. Potential borrowers may not even know their credit score when they apply – only 20 percent of Americans pull their credit score every six months – so they discover that credit and cash flow problems are often barriers to obtaining a loan. They are encouraged to meet with an Accion loan officer to walk through the reasons for their loan denial and to help think through how they might improve their likelihood for approval if they apply again. We use tools such as financial calculators and videos to explain how they can modify their cash flow, use Accion resources, and reapply.

**CI:** How are each of your loan products performing in terms of dollars lent, portfolio at-risk, and percentage of write-offs?

**A:** Here is an overview of how our loans are performing as of May 31, 2014:

	Portfolio Balance	Delinquency Rate	Portfolio At-risk Rate	New Write-off Rate
<b>Microloan Product</b>	\$25,830,629	3.31%	6.06%	2.32%
<b>Small Business Loan Product</b>	\$9,9298,881	0.40%	2.71%	0.01%
<b>SBA 504 Loan Product</b>	\$113,112,808	5.72%	5.72%	3.05%

**CI:** Statistics show that the average age of entrepreneurs launching a business is 55. What are the particular challenges of serving “second act entrepreneurs?”

**A:** This is a great segment to serve. Starting a business is a way for people to add to retirement savings or build community after they complete a traditional career trajectory. One quarter of our borrowers are 55 or older, and we have a self-assessment that lets potential business owners know where they stand in the entrepreneur “lifespan.”

Another significant “second act” group is veterans. They are opening up business at a fast pace, and we are setting up programs to meet their needs, such as the lower interest rate program. As a financial institution without revenue, we depend on grants, donations, and other forms of support, such as a funder buying down the interest rate on one of our loan products. In the case of veterans, USAA is buying the interest rate down on the loans we make to veterans, allowing us to offer the loan to the borrower at lower rate.

**CI:** Do you anticipate that mainstream banks will ever lend to small business owners at pre-recession levels? Why or why not?

**A:** Some banks are lending, but the question is ‘How much risk can banks tolerate in relation to the regulations under which they are operating at the moment?’ If they can strike a healthy balance to provide traditional business bank loans to a broader range of bor-

rowers, they may come back full force. I also think that partnering with CDFIs to lend to low-income and first-time entrepreneurs could make banks more comfortable with the idea of supporting this market through healthy lending options tailored to the needs of the borrowers.

A bank may want to help a loyal customer who has an account with them but also has a higher risk profile, so the bank can partner with Accion to lend to that customer while still keeping their risk low. In this way, banks and other private sector lenders benefit from assisting community development financial institutions (CDFIs) that then help microbusiness owners. These entrepreneurs in turn create jobs, and they and their employees can eventually become bank customers.

Data and experience help us to identify the profile of borrower who is ready for a loan. Our loan officers have a good relationship with our clients. A great collections department is valuable, too: if clients are late, we want to know that quickly and we want to know why. We use a wraparound approach to ensure we provide pre- and post-loan training and support for our clients and help them succeed.

We see ourselves as working to level the financial playing field by extending our services and products to those who do not qualify for traditional loans. We aim to help our borrowers start their businesses to develop stability for their families and grow the wealth of their communities. **CI**