

Scaling Up Through Bank Partnerships

An Excerpt from:

Scaling up Microenterprise Services



FIELD

Microenterprise Fund for
Innovation, Effectiveness,
Learning and Dissemination

The Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) is a research and development organization dedicated to the expansion and sustainability of microenterprise development efforts, particularly those aimed at poor Americans. Its mission is to identify, develop and disseminate best practices, and to broadly educate policy makers, funders and others about microenterprise as an antipoverty intervention.

**Copyright 2002 by FIELD, Microenterprise Fund for
Innovation, Effectiveness, Learning and Dissemination
A program of the Aspen Institute**

**Published in the United States of America
2002 by the Aspen Institute**

All rights reserved

**Printed in the United States of America
ISBN: 0-89843-350-9
Inventory Number: 02-028**

SCALING UP MICROENTERPRISE SERVICES

Elaine L. Edgcomb
Director of FIELD

With

Mohamad G. Alkadry
West Virginia University

Terri Ludwig and Luz Gomez
ACCION New York

Janie Barrera
ACCION Texas

Walter J. Merkle and Terrence M. Ratigan
National Federation of Community
Development Credit Unions

Marisa Barrera
ACCION New Mexico

Jeffrey Reynolds
Center for Rural Affairs/Rural Enterprise
Assistance Program

Jerry Kolo and Venesia Thompson
Florida Atlantic University/Center for
Urban Redevelopment and Empowerment

Eugene Severens
Nebraska Microenterprise Partnership Fund

Jan Losby, Jill Robinson and Debra Carr
Institute for Social and Economic
Development

May 2002

Microenterprise Fund for Innovation,
Effectiveness, Learning and Dissemination
The Aspen Institute
One Dupont Circle, NW, Suite 700
Washington, DC 20036

SCALING UP THROUGH BANK PARTNERSHIPS

ACCION New Mexico

ORGANIZATION'S BACKGROUND

ACCION New Mexico is an award-winning non-profit organization that increases access to business credit, makes loans and provides training, which enable emerging entrepreneurs to realize their dreams and be catalysts for positive economic and social change. Based in Albuquerque, ACCION New Mexico is an independent associate of the ACCION US network. In operation eight years, ACCION New Mexico has lent more than \$3.9 million to over 900 microbusinesses through some 1,600 loans of an average amount of approximately \$2,500.

STATEMENT OF CHALLENGE

The socioeconomic needs facing New Mexico are sobering — the state has the highest poverty rate in the nation, the highest percentage of persons lacking health insurance and the fourth highest rate of unemployment. It is in rural New Mexico, where some 60 percent of the state's population resides, that the situation is direst. Over the last decade, several of New Mexico's rural counties have been confronted with poverty rates above 30 percent and unemployment rates reaching 25 percent.

In response to the economic distress besetting many of the state's rural communities, ACCION New Mexico began to expand its geographic service area in 1999. Previously, the organization had served only the greater Albuquerque area. Based on a statistical study released in 1998 by ACCION International,¹ the organization was convinced that access to microcredit could have a profound impact on the lives and livelihoods of New Mexico's rural entrepreneurs. Per the study, low-income borrowers who received four loans from ACCION New Mexico experienced average increases of 231 percent in business profitability, 88 percent in take-home business income, 33 percent in full-time equivalent job provision and 32 percent in overall household income over the course of their first three loans.

While the potential positive impact of extending its microcredit services to rural New Mexico was apparent, geographic expansion presented ACCION with a formidable challenge — how to cost-effectively deliver small loans to rural entrepreneurs given the state's sparse population² and large size.³ Anticipating that loan demand in rural communities would be limited due to population size, the costs associated with pursuing a traditional expansion model — opening and staffing additional offices — threatened to adversely affect ACCION's pursuit of scale. To serve rural New Mexico, ACCION needed to formulate a credit delivery methodology that would allow the organization to accommodate significant increases in scale in terms of both loan volume and service area while also delivering net gains in self-sufficiency.

STRATEGY FOR SCALE-UP

To address this challenge, a team of ACCION staff, board members and clients developed an innovative microlending methodology to bring credit to New Mexico's rural entrepreneurs via lending partnerships between ACCION and commercial banks. This new credit delivery strategy capitalizes on an existing bank's infrastructure in communities that serve as hubs for commerce within a larger rural region. Local banks in

1 Lisa J. Servon and Cristina Himes, *Measuring Client Success: An Evaluation of ACCION's Impact on Microenterprise in the U.S.* (Somerville: ACCION International, 1998).

2 New Mexico's population is approximately 1.8 million per the 2000 US Census.

3 New Mexico is the fifth largest state in terms of geographic size.

these target communities serve as ACCION “facilitators” — informing potential clients about the program, providing interested applicants with ACCION materials, assisting in the application process and closing ACCION loans with microentrepreneurs.

In analyzing how to partner strategically with banks to increase program scale, ACCION became aware that many of the entrepreneurs banks had historically referred to the program did not go on to contact ACCION. In some cases, the entrepreneur may have lost the program’s contact information or forgot to follow up on the provided information. However, applicant and client feedback has indicated a more likely scenario is that entrepreneurs may not follow up on a simple referral because they believe the application process will be cumbersome, or worse, that a denial will result.

With its partnership methodology, ACCION sought to improve the probability that a microentrepreneur who learns about the program from a bank goes on to become an applicant and then a client. Given this goal, the program asked partner banks to do more than make a simple referral. Highlighting the accessibility of credit through ACCION, partner banks display promotional program materials and loan applications in their offices, and in some cases, make an introductory video about the program available for viewing. Trained bank personnel are available to inform entrepreneurs about the small business loans and services available through ACCION, and to assist interested entrepreneurs in completing the ACCION application process.

Frequently, bank officers will introduce ACCION as an option for entrepreneurs who do not meet initial bank eligibility requirements for business credit, such as start-up businesses or those looking for a small amount of credit. The banker will typically provide the entrepreneur with an overview of ACCION’s mission and products, supply ACCION application materials and answer any initial questions about completing the application. In many cases, the potential borrower will return to the bank with the completed application, and the bank will then fax application materials to the ACCION office for consideration. Some applicants who actually applied for but did not receive business credit from the bank may request that a copy of their bank application materials be forwarded to ACCION. The banker is thus able to provide the service of having the application considered by ACCION without the entrepreneur having to produce a new loan application package.

Once the ACCION office in Albuquerque receives an application initiated by a partner bank, program staff communicates with the potential borrower (in some cases, the applicant has already been in contact with program staff, often through a phone call initiated by the referring bank) and completes credit underwriting. ACCION staff contacts the applicant directly with the resulting credit decision. With the applicant’s permission, ACCION will keep the referring bank apprised. If the application is approved, bank staff meets with the microentrepreneur in the local community to close the loan on behalf of ACCION. Loan servicing and follow-up is performed by ACCION, and the loan is reflected in the organization’s portfolio. Personal contact between ACCION and the entrepreneurs served through the bank partnerships is achieved through systematic telephone communication and periodic community visits and gatherings. Thus, the cost associated with expansion into sparsely populated target communities is minimized, while clients are able to build a relationship with both ACCION and a local bank.

Implementation

ACCION originally proposed its lending partnership concept to a number of banks. Not surprisingly, the first two banks to agree to pilot the untested methodology, Wells Fargo and First State Bank, had a long history with ACCION. Both banks had provided significant financial support to the program for several years. Perhaps more importantly, the top leaders of both banks had served on ACCION’s board of directors and/or had provided strategic direction to the agency since its inception. Their familiarity with ACCION,

and the organization's responsible track record, served to reduce perceptions of risk and exposure in agreeing to pilot a new partnership model.

ACCION's proposed partnership offered tangible organizational incentives to banks. Banks certainly recognized the potential Community Reinvestment Act (CRA) benefits to be realized by providing support services to ACCION. Also critical in New Mexico's competitive bank market was the significant public relations value of such a microlending partnership. By collaborating directly with ACCION in microlending, banks had a new vehicle through which to serve customers who might otherwise have been turned away — the partnership was thus an opportunity to increase customer loyalty and cultivate future customers. One participating banker says of the microenterprises receiving credit through the partnership, "If you've helped them start out with ACCION, hopefully you've made a customer."

While buy-in by top leaders and clear organizational incentives were key elements in getting banks to agree to launch ACCION's partnership strategy, support at the branch level proved to be key to sustaining the partnerships. Although designed to be efficient for bank employees, entering into the partnership would entail branch staff spending more time with interested applicants as well as undertaking new responsibilities such as ACCION loan closings. Before committing to the lending partnership, the leadership of both Wells Fargo and First State Bank encouraged ACCION to meet with the frontline bank staff that would be instrumental in building a successful partnership to gauge their interest in the concept. Staff from both banks in several communities reported strong interest in the proposed partnership because of its potential to increase their ability to satisfy customer needs, and equally importantly, to help make a greater positive impact in their community.

With a green light from both Wells Fargo and First State Bank, ACCION initially implemented its bank partnership methodology in the communities of Grants, Las Vegas, Santa Fe and Taos. Early on, program staff provided training to bank representatives on ACCION's mission, values, target market, underwriting criteria and lending process. With this knowledge, bank staff began to provide entrepreneurs whom they felt were good candidates for an ACCION loan with the program's application materials, oftentimes assisting with the application process and even faxing completed applications to the ACCION office for potential clients.

With a strong initial response from the frontline staff of participating banks, ACCION had to address the need to sustain awareness of the partnership at the branch level. This was achieved partly on an individual basis — ACCION cultivated warm relationships with key bank staff such as loan officers and branch managers. Perhaps most important to keeping participating bankers motivated was sharing the success stories of clients they had helped obtain credit from ACCION. Through phone calls, letters and in-house produced postcards featuring a client photo and profile, bankers were able to learn of the direct impact of their efforts. On an organizational level, ACCION also strove to ensure that participating banks received recognition for their efforts. The program profiled the partnerships in its annual report, ran thank-you ads in local newspapers and hosted community receptions aimed in part at thanking local banks for their efforts to help microenterprises access credit.

Perhaps most successful in thanking and motivating banks has been ACCION's "bank blitz" — a period of heightened outreach to bank officers involving layered and regular communication via phone calls, office visits and mailings. During the blitz period, banks (all area banks are included, not just those banks that close ACCION loans) and bankers are challenged to refer a certain number of microentrepreneurs to ACCION within a limited time. The blitz then culminates in a reception hosted by ACCION with prizes awarded to the top referring banks and bankers — cultivating friendly competition and team spirit. During a two-and-one-half-month "blitz" in 2001, bank referrals accounted for 23 percent of program inquiries with 22 businesses receiving first-time loans from the program over the eight-week period.

To strengthen its capacity to reach and remain in contact with entrepreneurs and bankers around the state, ACCION created an outreach director position in 2001. In addition to driving “bank blitz” efforts, the outreach director coordinates opportunities for clients and partner banks outside of Albuquerque to have regular interaction with program staff.

One participating banker says of the microenterprises receiving credit through the partnership, “If you’ve helped them start out with ACCION, hopefully you’ve made a customer.”

Results to Date

The structure of ACCION New Mexico’s bank partnerships has allowed the organization to meet the following goals: 1) increase access to credit for rural entrepreneurs; 2) create a new point of entry for traditional financial institutions to nurture microenterprise development; 3) capitalize on existing bank infrastructure and resources to reduce the need for ACCION to create and staff additional offices, keeping overall program operating costs down; 4) capitalize on existing interpersonal relationships between bank staff and community members, reducing the potential barrier of distrust that may exist when a new organization enters a small community; and 5) include banks in microcredit delivery channels given the insight gained from a 1997 market study commissioned by ACCION New Mexico that indicated banks are the most common source of loan information for microentrepreneurs.⁴

Now in its third year, ACCION’s microlending partnership with commercial banks has shown significant success and continues to thrive. Partly because of the lending efficiencies introduced through the bank partnerships, the annual number of loans disbursed increased 92 percent from year-end 1998⁵ to year-end 2001, while total annual expenses increased by only 30 percent over the same time period.⁶

Since implementing its bank partner strategy in September 1999 to serve New Mexico’s smaller communities, ACCION has issued 164 loans totaling \$764,853 outside of the Albuquerque metropolitan area. In 2001, 28 percent of loans disbursed by ACCION New Mexico were issued to entrepreneurs outside of Albuquerque, where the organization is based. Through ACCION’s bank partnerships, the entrepreneurs who received these loans were able to do so in a timely manner in their own communities without ACCION incurring the staff and travel expense associated with deploying staff for each closing. A rural entrepreneur who received her ACCION loan at a local Wells Fargo office says, “working with ACCION was a very comfortable experience. I was able to close the loan here locally in Las Vegas (New Mexico) instead of traveling two and one-half hours away, and since I have young children in school, it saved me a great amount of time.”

Encouragingly, the introduction of this new lending methodology has not had a significant negative effect on portfolio quality. In 1999, with only a small number of loans issued late in the year using the bank methodology, the organization’s year-end portfolio at risk⁷ was 5.46 percent. For year-end 2001, with nearly 30 percent of the program’s lending activity directed outside of Albuquerque, year-end portfolio at risk was 5.83 percent. Importantly, cumulative net dollars written off has remained at a relatively constant 2 percent - 2.5 percent of cumulative dollars lent.

4 In 1997, ACCION New Mexico contracted with an Albuquerque-based market research firm to conduct a study of the local microenterprise market. A component of the study involved a telephone survey of some 400 microenterprises. One of the most notable research findings of this survey was that although only eight percent of the respondents indicated that they had received a bank business loan, 50 percent indicated that they would go to a bank for information about loans. ACCION New Mexico’s market study is further detailed in: Sarah Abbe, William Burrus and Anne Haines Yatskowitz, *A Guide to Strategic Marketing Research for Microenterprise Development in the United States* (Somerville: ACCION International, 2001).

5 1998 figures for ACCION New Mexico represent 14 months of activity (Nov. 1, 1997 to Dec. 31, 1998), due to a change in the organization’s fiscal year.

6 Based on preliminary 2001 figures.

7 Portfolio at risk is equal to the total outstanding principal balance of loans past due more than 30 days divided by the total active loan portfolio.

The dramatic increase in loan volume since launching the bank partnerships, without a commensurate rise in operating expenses, has allowed the organization to enjoy an increase in self-sufficiency⁸ from 19.4 percent in 1999 to an anticipated 29 percent in 2001.

ACCION New Mexico currently partners with three bank systems to help deliver credit to microentrepreneurs in numerous communities. As the organization continues to work with banks to serve additional communities and to eventually deliver credit statewide, attention must be paid to how many lending partnerships to take on. The more banks helping inform entrepreneurs about ACCION's services, the greater the market penetration and impact the organization can expect to achieve. However, with a small program staff, the number of bank systems actually closing ACCION loans must remain administratively manageable.

LESSONS LEARNED

Over the last three years, several lessons have emerged in implementing and sustaining ACCION's microlending collaboration with banks: 1) start with banks that know your microlending program; 2) get buy-in at the top levels of bank leadership; 3) highlight bank incentives beyond CRA such as increased customer loyalty and community goodwill; 4) create and sustain awareness of the lending partnership at the branch level, being sure to share client success stories with frontline bank staff; and 5) create recognition events and opportunities to reward and motivate participating banks and bankers.

Importantly, ACCION's lending partnerships have proved beneficial for the entrepreneurs served and for participating banks. The microentrepreneurs who have received financing through ACCION's bank partnerships have been able to access credit quickly within their own communities while building a relationship with a local financial institution that may be able to meet future financial needs of their businesses and families. Banks that have partnered with ACCION report a positive impact on their Community Reinvestment Act ratings, increased community goodwill and the cultivation of customer loyalty. By having banks work directly with microentrepreneurs, and by maintaining a repayment rate of approximately 98 percent, ACCION has helped counter stereotypes regarding the "credit worthiness" of microentrepreneurs.

By having banks work directly with microentrepreneurs, and by maintaining a repayment rate of approximately 98 percent, ACCION has helped counter stereotypes regarding the "credit worthiness" of microentrepreneurs.

ACCION New Mexico has designed an innovative methodology to achieve scale and efficiency in delivering business credit to microentrepreneurs in remote rural areas. By serving almost as field offices for ACCION, strategic bank partners minimize the program's overhead while increasing the organization's client base and loan volume. Based on the success of ACCION's microlending collaboration with commercial banks, microcredit organizations in other states have voiced significant interest in ACCION New Mexico's partnership lending strategy. ACCION New Mexico's collaborative lending model promises to have a significant impact on the national microlending field by providing an avenue to radically increase scale and reach, decrease cost per loan, maximize efficiency and increase an organization's self-sufficiency. This, in turn, could have a broad-based impact on the availability of credit to underserved populations throughout the United States.

⁸ Self-sufficiency is calculated by dividing revenue from lending operations and investments by total expenses (less expenses incurred through in-kind contributions).

BANKS CLOSING ACCION LOANS*

Wells Fargo in the following communities:
Anthony
Espanola
Gallup
Grants
Hatch
Las Cruces
Las Vegas
Santa Teresa
Springer
First State Bank in the following communities:
Belen
Los Lunas
Moriarty
Santa Fe
Taos
First National Bank of Santa Fe in the following communities:
Los Alamos
Santa Fe

* Numerous other area banks display and/or dispense ACCION materials and refer microentrepreneurs to the program. However, these banks do not close loans on behalf of ACCION.