

FIELD

Microenterprise Fund For Innovation,
Effectiveness, Learning and Dissemination



Financial Literacy and Credit- Building Services in Microenterprise

September 2010

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**U.S. Small Business Administration,
Citi Foundation and
Charles Stewart Mott Foundation**

<http://fieldus.org/Webinars/index.html>

Webinar Goal

Examine the scope of financial education and credit-building services being offered by MDO's



- What's going on in the field
- In-Depth look at one organization's work
- Lessons



<http://fieldus.org/Publications/FinEdPracticeScan.pdf>

**Financial Literacy and Credit-building Services
Among Microenterprise Development Organizations**

July 2010

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Microenterprise Fund for
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Progress Notes
from FIELD

AUGUST 2010

**Building Financial Skills for Business Success:
A Case Study of the Latino Economic
Development Corporation**

Introduction

Microenterprise practitioners have long recognized that one of the critical factors in the success of the entrepreneurs with whom they work is their ability to manage their personal and their business finances. For that reason, financial education and skill building have been important elements of the products and services offered by microenterprise development organizations (MDOs) since the field's earliest days. Offerings have included units on personal financial management embedded in core training programs, stand-alone workshops or courses on financial literacy, and financial products that offer entrepreneurs the opportunity to save and manage credit.

In recent years, credit scores have come to play an increasingly important role in determining who can access a range of products (including loans, credit cards, rental property, telephone service), and the prices they pay for them. In addition, researchers and advocates have recognized and sought to address the needs of the large number of unbanked/underbanked individuals. In response, MDOs have begun to expand their work in this area to include a focus on credit building. Many are developing new training, counseling and other services, as well as financial products geared specifically toward helping clients to better understand how credit markets and bureaus work, and to enable them to build skills and access

About this Research

This case study is part of an ongoing research project by FIELD that examines how U.S. microenterprise development organizations (MDOs) can scale up their Business Development Services (BDS) in order to serve many more microentrepreneurs, and to serve them effectively. In this project, BDS are defined as non-financial resources, including, but not limited to, training and technical assistance, which microenterprise organizations provide to help entrepreneurs start and grow their businesses. This case study is complemented by a second publication, *Financial Literacy and Credit-building Services Among Microenterprise Development Organizations* which examines the state of the U.S. microenterprise industry's practice in financial education and credit building based on a literature review, survey data from practitioner organizations, and interviews and discussions with microenterprise practitioners. This BDS research project is supported with funding from the U.S. Small Business Administration's PRIME (Program for Investment in Micro-entrepreneurial) program, as well as with funding provided by the U.S. State Foundation and Citi Foundation in support of FIELD's Scale Academy for Microenterprise Development.

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A Sense of the Room



A few definitions...

Financial literacy training/financial education: classes or workshops that provide information on budgeting, savings, personal financial management, financial products, etc.

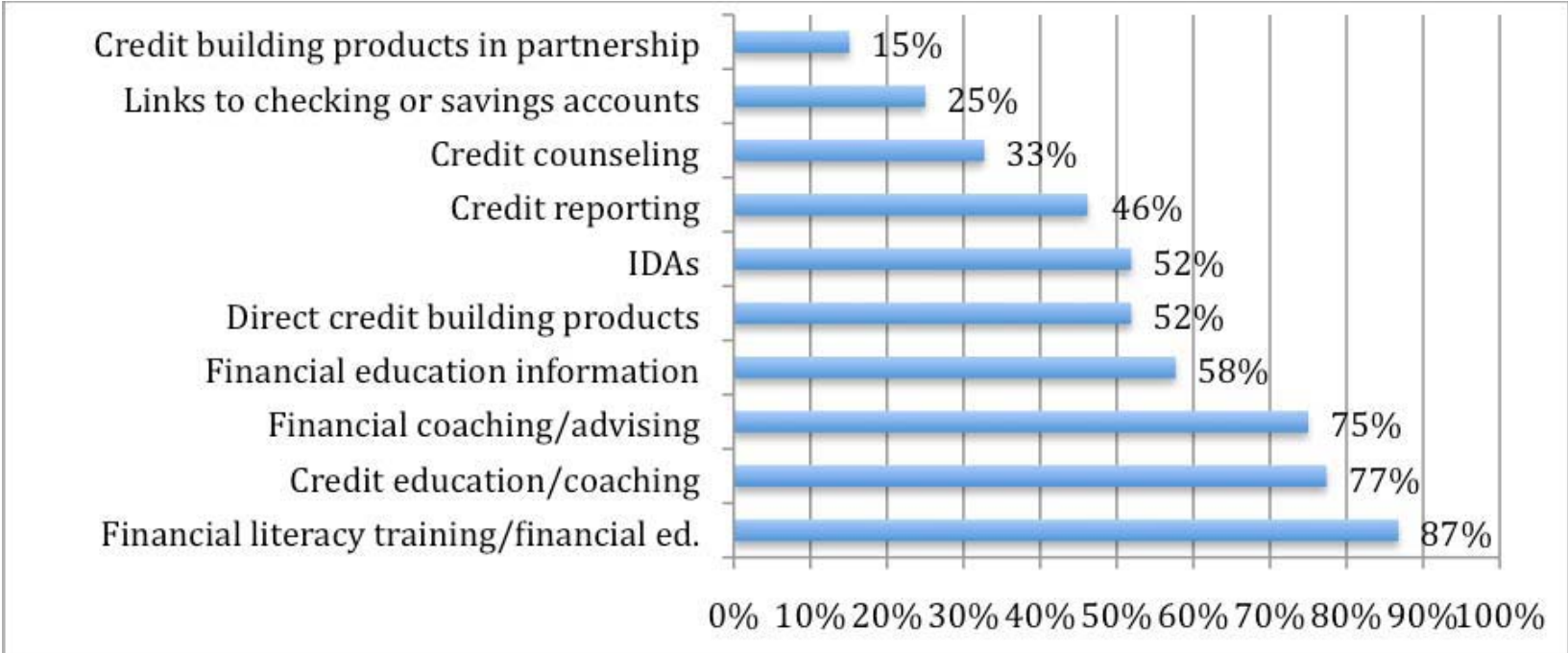
Financial coaching/advising: one-on-one assistance on budgeting, savings, personal financial management, financial products, etc.

Credit counseling: one-on-one assistance focused on dealing with a crisis and/or an individual's debt situation, typically provided by licensed credit counselors.

Credit education/credit coaching: one-on-one counseling or technical assistance focused on building basic credit knowledge and helping individuals build positive skills and behaviors.

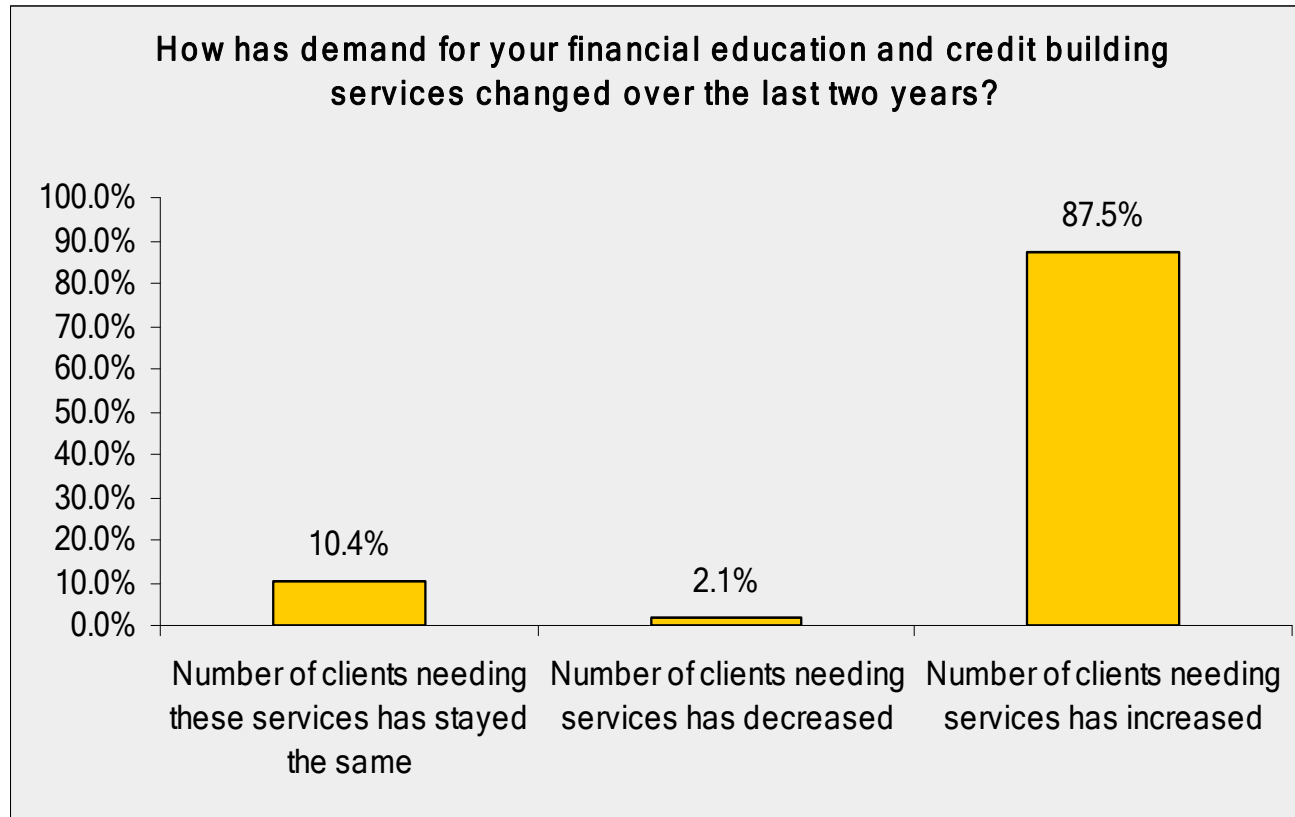
Credit-building loans/financial products: financial products, including checking and savings accounts, prepaid accounts, term loans or credit cards, offered by the organization or with a financial institution, that seek to help an individual to manage cash, debt and/or improve their credit profile.

MDO's are offering these services



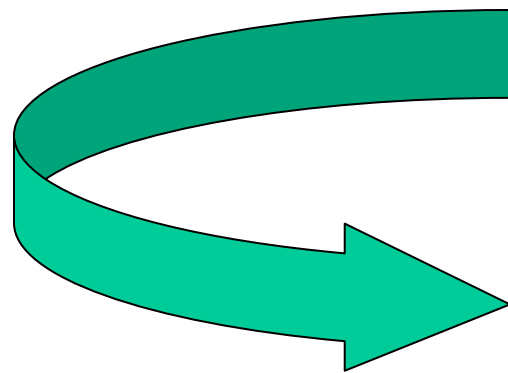
n=52

Changing demand for these services



n=48

Emerging Trend



Financial Education

- Knowledge gains

To Financial *Capability*

- Longer-term behavior change

Questions from Participants

Please send us a question via the chat feature.





Manny Hidalgo
Executive Director



Emily Coronado

Director Small Business Development



Cesar Lopez

Director of Lending

History of LEDC

Our mission is to drive the economic and social advancement of low- to moderate-income (LMI) Latinos and other underserved residents in the Washington metropolitan area by providing the educational and financial resources they need to achieve financial independence and become community leaders.

History of LEDC

Core programs:

- *Small Business Development (including micro-lending)*
- *Homeownership Counseling (including foreclosure intervention)*
- *Affordable Housing Preservation (through tenant-based organizing and community-wide advocacy)*

Opened a second office in Montgomery County, MD in 2006 where a majority of DC area Latinos now live and own small businesses.

LEDC Micro-Lending Program

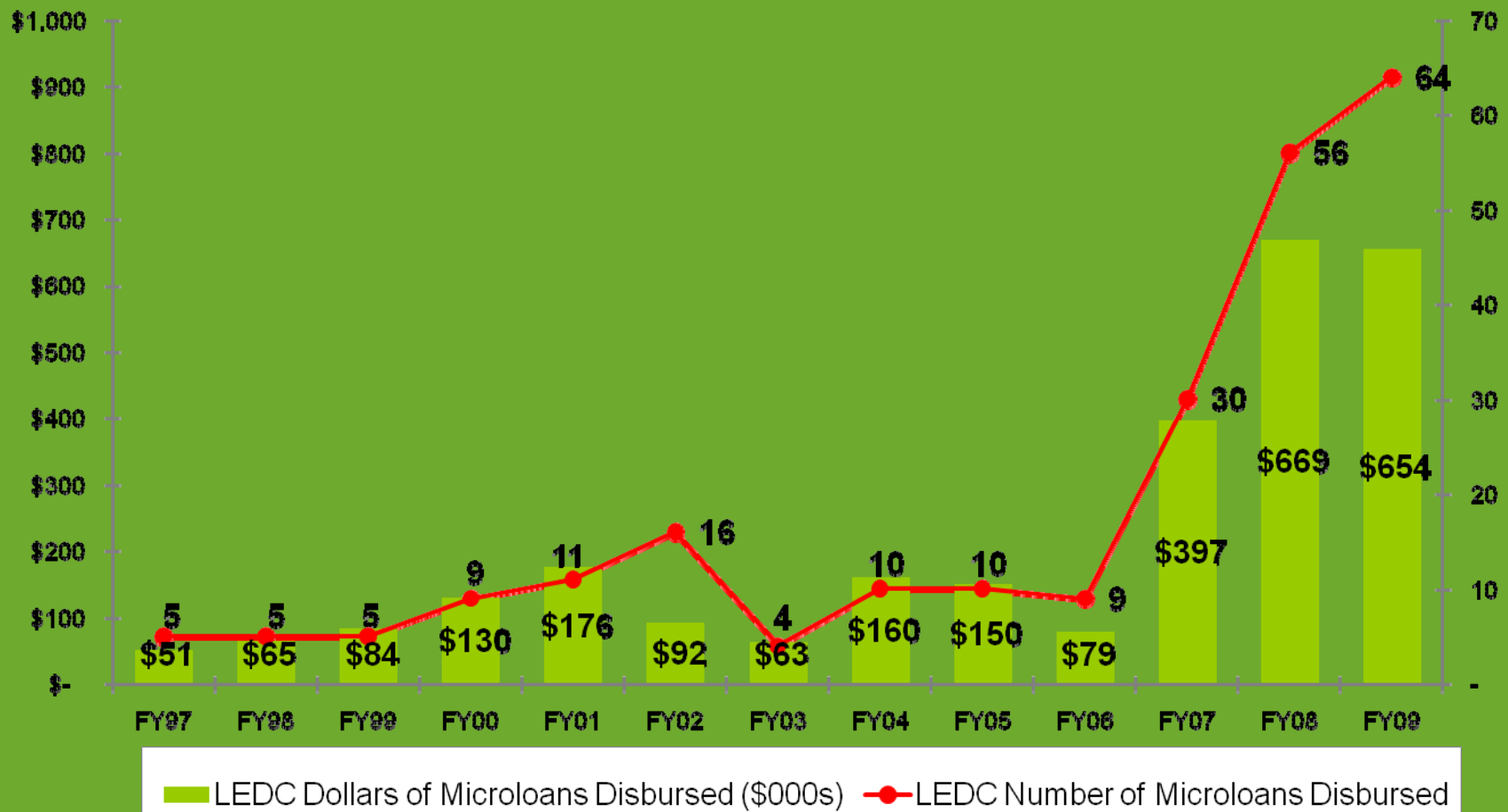


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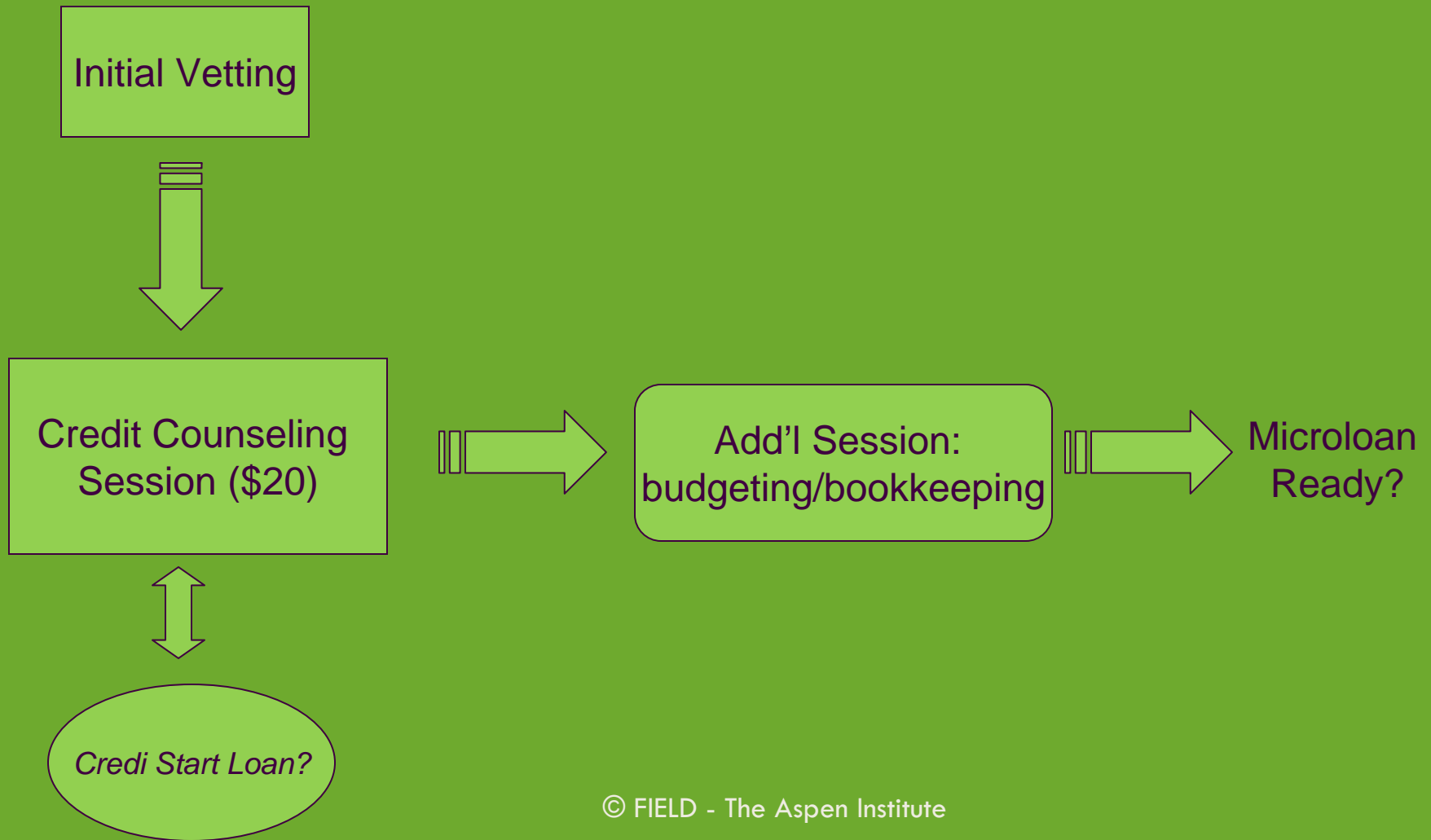
LEDC Micro-Lending Program

- Close to \$3.5 million loans made
- Average Loan \$11,734
- Loan Loss Rate 6.1%
- Began in 1997 and experienced great growth since 2006

Growth in Loan Portfolio



Financial Literacy and Loans



Credit Counseling

- 🎯 The session is based in part on the “Five Steps to Build Credit” framework developed by Credit Builders Alliance.
- 🎯 Taught from a “Credit as an Asset” viewpoint.
- 🎯 Assessed for appropriate financial product.

Building Credit through Credi-Start

🎯 Credi-Start is a 6 month term loan for individuals with little or no credit history. The purpose of the loan is to build a positive repayment history that will allow the client to access more capital in the future.

Terms:

\$500 loan

6 month term

Monthly payment of \$90

14% annual interest rate

\$40 processing fee

Building Credit through Credi-Start

- ⊙ This product is available to employed (self or otherwise) individuals who have proof of income, identification, and a bank account.
- ⊙ Fills the market need for recent immigrants with no credit history in the US, but solid credentials otherwise.
- ⊙ Benefits include helping clients grow with their business and being able to provide more financing (eventually getting clients to banks when appropriate).
- ⊙ The costs are largely off set by fees charged for credit reports and servicing.
- ⊙ Tradeoffs include being outcome based in the lending team as opposed to only output based.

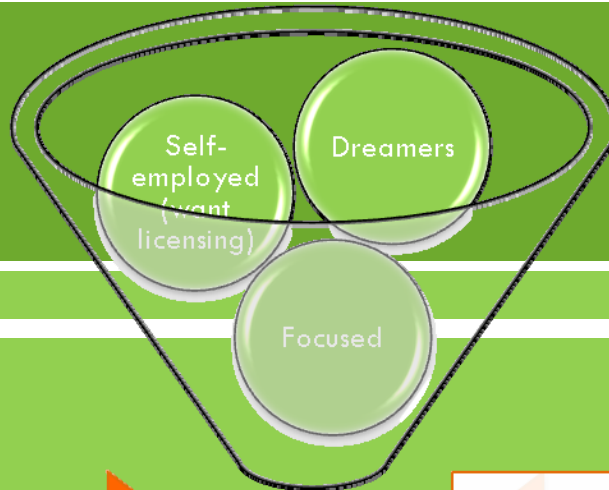
Pricing

- Primary goal: Ensure commitment from clients (and that services are valued)
- Secondary: Recoup some costs of implementation

Small Business Development Program

Training and Technical Assistance





Seminar: Start a Business

- Conducted weekly in MD and DC
- Covers entity formation, licensing, finance, business plan basics



Emprendedores en Accion

- Offered 4 times a year
- In Spanish only
- 30 hour business basics class



Coaching and Consulting

- Education paired with deliverables
- Has covered: Sales, Marketing, Record-keeping and Financial Management

How to Start a Business

- Twice weekly
- Credit as a main topic in the class
- Many clients go on to have one-on-one session with Loan Originator

Emprendedores en Acción

- 24 hour business basics course
- Offered 4 times yearly
- Loan officer comes in for one session as guest speaker linking business concept to personal credit
- Incorporates basic financial management concepts: break-even analysis, pricing, cashflow

Recordkeeping & Financial Management:

- Workshops and technical assistance for entrepreneurs at three different levels:
 - “Shoebox accounting”
 - Excel basics, and
 - Quickbooks
- Cross-referrals between these trainings and Lending
- Has links and supports tax preparation work.

Content

- Primer Paso was used, shifting to using Core Four
- Adapting both using experiential learning tools from 'Training for Change'
- Want to emphasize 'change of attitudes, beliefs and behaviors' aspect of learning instead of simply 'knowledge acquired.'

Client Outcomes

- Intake and loan application serves as baseline
 - Client information (credit score)
 - Business information
- Short-term outcome measures
- Microtest outcomes surveys: past 3 years
- 1 year out surveys

New Directions...



COMMUNITY FIRST
FINANCIAL CENTER

Community First Financial Center

Launched in March 2010 as a social enterprise/subsidiary of LEDC

Mission is to provide customers with responsible, reliable, and transparent financial services (remittances, check-cashing, money orders, bill pay, and phone cards)

Located next door to our Wheaton, MD office so that customers can immediately access LEDC's comprehensive wealth-building services including credit counseling

Community First Financial Center

Community First's director provides individualized financial literacy training using a bi-lingual curriculum produced by the Inter-American Dialogue called, "Financial Independence - A Reachable Goal for All"

Five core topics covered by the curriculum are Remittances, Budgeting, Savings, Credit, and Insurance.

Questions from Participants

Please send us a question via the chat feature.





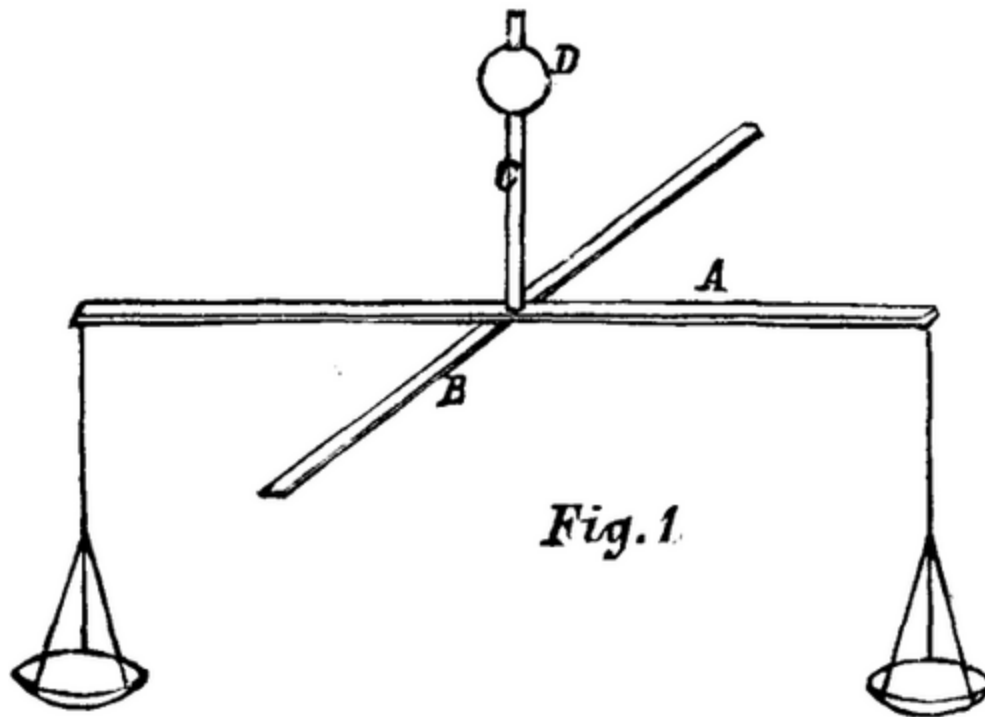


*Link financial education and credit-
building services to key business needs.*



Financial education and credit-building services can support scale in lending and BDS services.





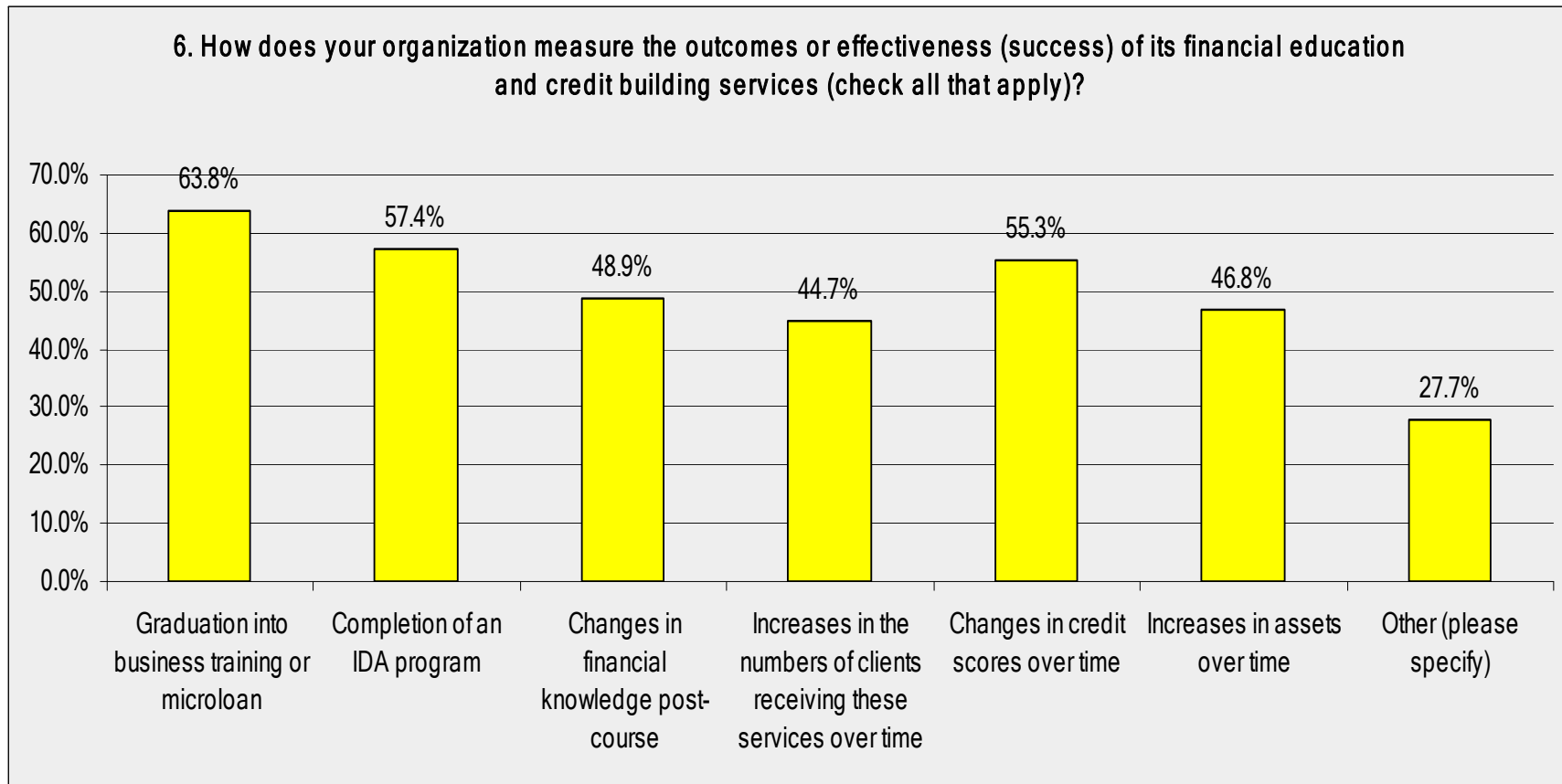
When developing content, look to balance standardization and customization.



Measure both short-term and longer term outcomes.



Measuring Outcomes



n=47

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Resources

Resource Page:

<http://fieldus.org/Projects/FinancialEd.html>

Publications:

Financial Literacy and Credit-Building among Microenterprise Organizations (July 2010)

Building Financial Skills for Business Success (August 2010)

Recorded Webinars:

"Tax Prep Services for Microentrepreneurs"

<http://fieldus.org/Webinars/index.html>



To access the FIELD
publications and Webinars:

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