

San Diego ACCION provides micro-loans

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In an uncertain economy, business owners can find themselves strapped for cash. Even some who traditionally would have qualified for a bank loan are being turned away while lenders tighten credit limits and try to stay in business.

For business owners in San Diego County, San Diego ACCION offers an alternative. The nonprofit organization uses the micro-financing model to provide loans ranging between \$300 and \$35,000 to low- to moderate-income entrepreneurs within county limits.

ACCION has provided more than 2,300 loans totaling more than \$12 million since 1994. And in recent months, the number of loan inquiries has increased.

"We have recently seen a steady inquiry stream of 100 inquiries per month," said Elizabeth Makee, director of operations for San Diego ACCION. "Just in the last two months we have helped almost 20 business owners per month."

In both July and August, ACCION issued nearly \$200,000 in loans. On average, each loan was for about \$10,000.

Funding for the loans comes from a variety of sources. The biggest contributor, however, is banks, which account for 65 percent of the total funding. Other sources include private donors and the city.

Despite the economic crisis, ACCION still is able to provide assistance to qualified borrowers. But future funding could depend on how quickly the economy recovers.

"This year we've been very lucky -- we received a lot of funding in the first half of the year," she said. "But I think as any nonprofit would say, with the things going on in the marketplace, we just hope banks will still have the capacity to support us with all that's going on. Time will only tell with that."

Recipients of ACCION loans are a diverse group of business owners.

About 68 percent of borrowers are part of an ethnic minority group, and 42 percent are women.

"Both of these groups have historically faced barriers in obtaining business financing from traditional sources such as banks and credit unions," a press release about the company states. "ACCION is proud to provide an alternative lending opportunity for these hard-working micro-entrepreneurs."

Borrowers are those who might have had past credit challenges, are starting a new business, have filed bankruptcy in the past, have no credit in this country or have credit scores that are too low for bank loans.

No minimum credit score or specific debt-to-income ratio is necessary to qualify for an ACCION loan. And they are not fully collateralized, either.

"Oftentimes we will just take a DMV title, a lien of their vehicle or business assets," Makee said. "Even if the client has a \$10,000 loan, we may take a car that's worth \$5,000, but it is very symbolic in the sense that the client needs a vehicle to do business. "We work one-on-one and take into account the whole picture."

About half of all borrowers come back for a second loan. Makee said some borrowers will start out with a smaller loan if they're only showing the capacity for a smaller loan. But after six months of a positive repayment history, some clients may request a larger one. Some clients will fully repay the first loan, then ask for a second.

Overall, there is a 7 percent default rate on the loans. But Makee this figure has seen a bit of an increase during the past two years.

She said she thinks at least part of it was an effect of the housing prices in Southern California.

But borrowers who stay in communication with ACCION often have opportunities to work together with the organization to avoid defaulting.

"What we're really trying to do is step up our communication with clients," Makee said. "Because we have a flexible lending program and we are nonprofit, if a client stays in communication with us and is having trouble making payments, there are certain situations in which we'll help them lower payments or defer a payment."

For business owners outside of San Diego County, there are other ways to take advantage of an ACCION loan. ACCION San Diego is affiliated with ACCION USA and ACCION International.

Business owners outside of an affiliate office's service area can borrow from the parent organizations.