

Valley businesses get boost with microloans

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By Bethany Clough / The Fresno Bee

A form of lending that usually benefits poor people in Third World countries is thriving in the Valley as small businesses struggle to find credit.

Increasingly, they are turning to microloans — a form of financing provided by nonprofit agencies rather than banks.

The model for microloans was developed in the Third World, where they have been used for decades to boost the fortunes of people who may earn less than \$1 a day. In the Valley, such loans are providing hope for business owners who have seen their credit cards and home-equity lines dry up.

The microloans often are less than \$35,000, an amount too small for many banks to consider. But that can be enough to help small businesses survive. The agencies that offer the loans are seeing a surge of interest.

The Central California Hispanic Chamber of Commerce has seen inquiries rise by up to 20% in the last two years. At the Fresno Area Hispanic Chamber of Commerce, applications for such loans have doubled to 20 a month since before the recession.

And the Fresno Community Development Financial Institution, a subsidiary of the Fresno Economic Opportunities Commission, recently expanded its microloan program to all businesses. It used to be just for refugee farmers.

In an effort to help businesses survive the economic downturn, President Barack Obama called for the cap on federally funded Small Business Administration microloans to be raised to \$50,000 last month. The loans are made through nonprofit organizations.

Such loans can give a significant boost to the local economy, said FCDFI loan officer Jeremy Hofer.

"It is about job creation and retention," he said. "That money gets circulated into the economy, money that goes into these businesses to keep their doors open and to keep them expanding."

Jay and Leah Lujan, owners of Fresno Tool Repair and Electric, had no other place to turn when they needed cash. Their business credit card company — which charges a 21% annual interest rate — cut their limit from \$18,000 to \$5,800.

Fresno Tool Repair, which repairs tools like jackhammers for construction companies, needed cash to complete jobs before it got paid for them, said Jay Lujan. It also needed new equipment, tools and a marketing campaign to expand the type of jobs it could take on.

The Lujans took out a \$20,000 loan that will be paid back over five years with an 8% interest rate from the FCDFI.

Lujan said the loan is the reason "we're still open, even though things are tough [and] businesses are closing."

Microloans got their start in Bangladesh as a way to alleviate poverty. More than 154 million people have received microloans outside the U.S.

Small loans for businesses have been around for years in the United States, mostly to serve startup businesses, said Jeff Blythe, director of administration at the Microcredit Summit Campaign advocacy group.

That mission is changing amid hard economic times.

American banks typically won't touch such small loans, saying they're not cost-efficient for the amount of time spent on them, said Tim Rios, a senior vice president and community development manager at Wells Fargo, which has loaned \$2.3 million to nonprofits for microloans. Banks also like businesses to be at least two years old.

Microloans traditionally have a slightly higher default rate than commercial bank loans, but that is expected as the risk is higher, Rios said.

The money for microloans comes from banks and the federal government and is funneled through nonprofits that handle the paperwork. Banks usually loan the money at a low interest rate to nonprofits who lend it out at a higher rate. Government funds either need to be repaid or go back into a pool of money that is loaned to other businesses.

Sureewan Ly, owner of SL Alterations & Design, was turned away by Wells Fargo and Bank of America because her business was too young.

She has run her shop from a tiny storefront tucked behind a Shell station at Clinton Avenue and Fresno Street since March of last year.

Ly does alterations and makes outfits, mostly for Thai or Laotian customers who want skirts and tops made in traditional styles from brightly colored fabrics. She stumbled upon a niche: Customers wanted to buy the fabric she used, but had to drive to Los Angeles to find it.

Ly needed thousands of dollars up front to buy the bolts of fabric to sell in her shop. She found help through a \$17,000, five-year microloan with an 8% interest rate through the FCDFI.

"It's still going well," she said. "I don't see any shop like me."

Professionals in the microlending world say these types of loans are more important now as they expect small businesses to help pull the country out of the recession. Such businesses are credited with creating nearly two-thirds of new jobs in recent years.

The microloans use business owners' homes or business equipment as collateral.

Although more laid-off workers seeking loans to start their own businesses account for some of the increase in interest, existing businesses are applying in

droves.

At the Fresno Area Hispanic Chamber of Commerce, 70% of applicants are existing businesses. Two years ago, start-up businesses outnumbered them, said Ana Medina, corporate relations director.

The Valley Small Business Development Corporation lends directly to business owners, but also funnels loan money through the chamber. Because existing businesses are more likely to have good credit than a person starting a business, lending through the corporation has shot up 83% when compared to this time last year, said Debbie Raven, the corporation's president and chief executive.

Not every business can qualify, however.

Hofer said his organization gets applicants looking for help with day-to-day expenses because their income has shrunk during the recession.

"That's really hard for us to do," he said. "You can't evaluate when they're going to pick up."

But others have jobs lined up and just need cash to do them, like Elias Ramirez, owner of E&A Plastering Company. His business applies stucco and plaster to walls, and it opened in February.

"We have to [have] money in the bank to pay my employees before my invoices come in," he said.

He used a \$45,000, six-year loan to not only pay employees, but buy supplies up-front before payment from his customers came in. He's been busy ever since.

The effect of these loans multiplies as the businesses spend money locally and hire employees, Rios said.

"These are people who would not have been approved elsewhere, who are creating jobs for others," he said. "These loans are sustaining families behind them."