

Micro-loan lending intensifies as other lending slow to thaw

By Joel Berg

More and more entrepreneurs and small-business owners in northeastern Pennsylvania are embracing an alternative to traditional commercial loans: the microloan.

Microloans are small, typically less than \$50,000, but they are proving a good fit for people looking to start or expand businesses during this economic downturn, according to local small-business consultants.

"We have recently seen a very large increase in activity in our loan programs," said Christina Hitchcock, business development director for **MetroAction**, a nonprofit that is one of the region's busiest microlenders.

In all of 2008, MetroAction received 96 applications from people hoping to prequalify for loans. In the first four months of this year, the organization took in 84.

Daycare providers were popular start-ups this spring, Hitchcock said. This fall, MetroAction is seeing more action from retail and service businesses, such as restaurants and hair salons. Construction and landscaping also are picking up.

Stricter lending standards at banks are one of the reasons people are turning to microloans, which are generally tailored for those who have trouble securing conventional bank loans, Hitchcock said. Lenders rely more on business plans, for instance, and give less weight to credit scores.

"We look at the merits of each individual application when we're reviewing them," Hitchcock said. "So everyone really gets a fair shot. If you have a strong business plan and weak credit, that can be mitigated."

But given tightening bank standards, even people with relatively strong credit are turning to microloans. Despite the increased demand, MetroAction has not had to curtail its lending or tighten its own requirements, Hitchcock said. "We don't anticipate running out of funds."

Demand also is coming from people who have been laid off and are hoping to start their own ventures, said Elaine Tweedy, director of the Small Business Development Center at Scranton University. Microloans are preferable to financing a business through credit cards, which is another source entrepreneurs often tap, Tweedy added.

In addition to funding startups, microloans can help people clean up their credit

by taking out small, manageable loans and establishing a steady history of repayment, Tweedy said. "You can borrow \$5,000 and pay it back over three years and, at the same time, you've got a smaller payment."

Interest rates range from 8.5 percent to 14 percent, Tweedy said. Banks generally are charging less. The prime rate, applied to business customers with the best credit scores, sits at 3.25 percent.

Microlending first came to prominence in the 1990s as a way of financing rural entrepreneurs, particularly women, in developing countries. One of its biggest proponents, Bangladeshi economist Muhammad Yunus, went on to win the Nobel Peace Prize in 2006.

The concept also has taken off online with Web sites helping to match borrowers and lenders. Active sites include Prosper.com and Kiva.org.

MetroAction, an affiliate of the Greater Scranton Chamber of Commerce, began making microloans in 1997 after securing start-up funding from local banks, many of whom remain active in the organization. Since then, MetroAction has made more than 200 loans. The average size is \$18,000.

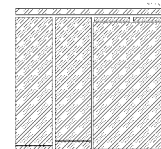
Startups are eligible for loans up to \$35,000, while businesses in existence for at least two years qualify for up to \$50,000. Applicants must have fewer than 50 employees and annual sales below \$1 million.

The microloan programs tapped by MetroAction include one administered by the U.S. Small Business Administration, which has beefed up its lending capacity in hopes of stimulating the economy.

The Association for Enterprise Opportunity, a Virginia-based trade group for the microlending industry, estimates that between 10 million and 20 million businesses owners are having trouble finding capital and could benefit from a microloan.

To meet the demand, the SBA in August shifted an additional \$50 million into its microlending program, ensuring a steady supply of capital to lenders such as MetroAction. The program had exhausted its initial funding of \$20 million.

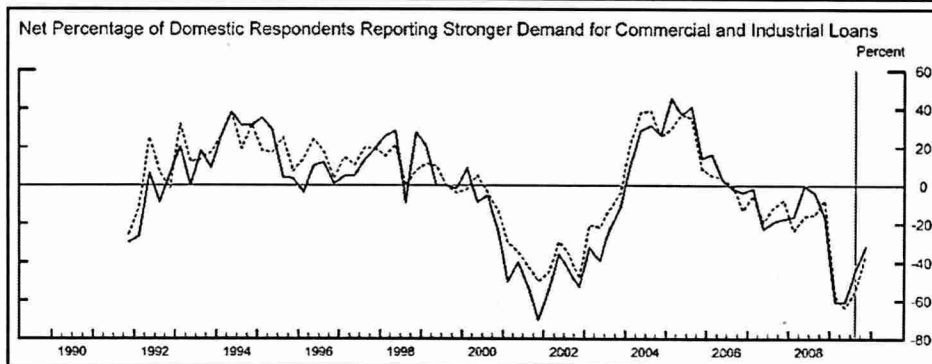
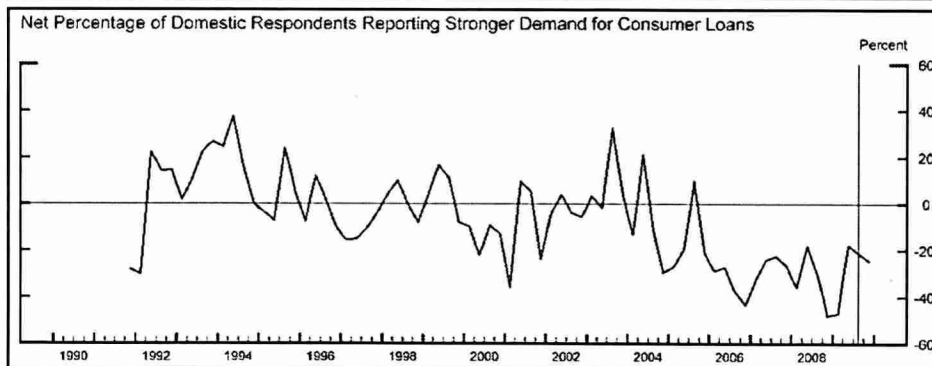
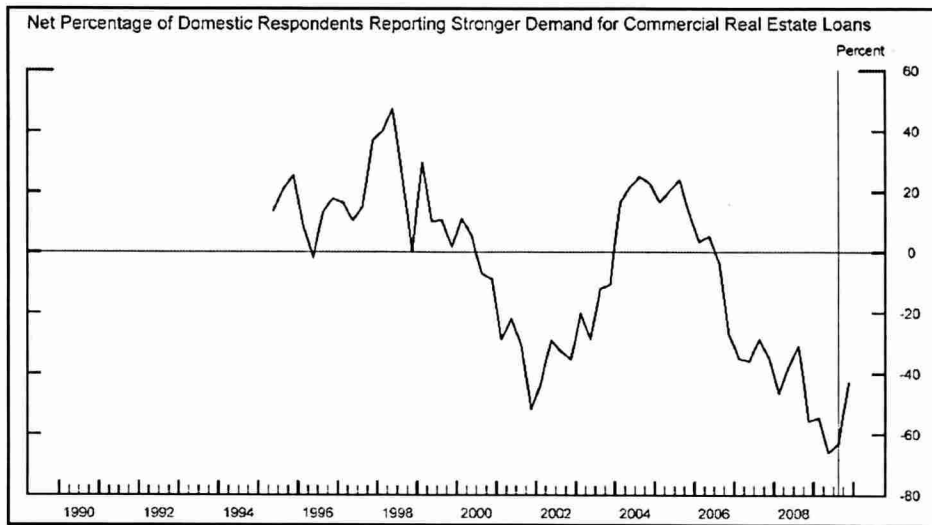
In October, President Barack Obama asked Congress to lift the cap on SBA microloans to \$50,000, up from \$35,000. The average loan is about \$13,000, ac-



ording to the SBA.

“Increasing maximum loan sizes will allow the SBA to ensure that more small business owners and entrepreneurs can get access to the credit they need to expand their operations and create jobs,” SBA Administrator Karen Mills said in a statement. ■

Results of the Fed's October Senior Loan Officer Opinion Survey on Lending Practices



Demand for most major categories of loans at domestic banks reportedly continued to weaken, on balance, over the past three months. This weakening was somewhat less widespread than in the July survey for C&I loans, CRE loans and nontraditional mortgages; approximately the same for consumer loans; and significantly more widespread for home equity lines of credit. However, banks reported stronger demand, on net, for prime residential real estate loans.

Source: Federal Reserve Board's *The October 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices*, Nov. 9. www.federalreserve.gov