

## Microlenders Pick Up Where Banks Left Off

Posted By [Renita Burns](#)



George Williams of Ujamma Communications

For George Williams, keeping his computer-solutions company afloat after losing major contracts from Fortune 500 companies seemed impossible. As the tech bubble imploded in 2001, Ujamaa Communications saw annual profits fall 90% from \$250,000. During a fateful walk in Harlem, he was handed a flyer about Project Enterprise, a microlender, which helped the struggling entrepreneur rebuild and expand his business.

“After the Pfizer contract was pulled, I nearly hit rock bottom,” explains Williams, whose business was crippled after the pharmaceutical giant cut its IT budget during the 2001 recession. “I went to Project Enterprise for networking and resources.”

And it’s the networking, resources, and greater access to capital that have many microlending organizations picking up where large credit strapped commercial banks left off, giving small businesses tools to grow in troubled times.

Sara Ignas, spokesperson for the Association for Enterprise Opportunity, a trade association representing some 450 microenterprise organizations, says providing capital is a large part of what these organizations do, but it tends to overshadow their core mission.

“Entrepreneurs can have all the money they want, but if they don’t know how to run a business, it’s not going to do them any good,” Ignas says. Many of AEO’s members offer training in e-commerce, Web development, marketing, and other areas.

At the New York-based Project Enterprise, potential borrowers attend bi-weekly business planning meetings, where they build business plans with peer and professional feedback. Once finished, the plan and a loan application are submitted to the organization.

“You get a support team, people to critique your business” Williams says.

Williams’ advisor is also helping him become a certified minority-owned business. The status will allow him to bid on a lucrative contract with Harlem Hospital Center.

For many microlenders like Project Enterprise the loans are more character-based as opposed to being solely credit-based.

The organization will lend to a borrower even if an applicant’s credit score is below 600 if “the [loan] committee feels like it’s a good opportunity,” says Arva Rice, executive director at Project Enterprise. An interest of 12% is calculated on the loan’s principal, which beats out banks who’ve upped the ante on small business loans with stricter eligibility requirements and plain frugality. About 70% of banks say they’ve tightened lending standards for small firms, according to a report released by the Federal Reserve in January.

Meanwhile, Project Enterprise increased the number of loans issued in 2008 by 20%, totaling \$272,000. Rice says the organization hopes to distribute \$300,000 worth of loans this year, even as Citibank Inc. and Washington Mutual, two of its largest supporters that provide loan capital and loan pool, remain caught in the onslaught of the widening financial crisis.

Both banks said they are reducing or eliminating funding this year and into 2010. In an effort to continue current lending rates, Project Enterprise is closing one of its centers.

Accion Chicago, a microlender serving the Chicago area, distributed 121 loans totaling more than \$1 million in 2008. That's up from 113 loans valued at just under \$1 million the previous year, for the Accion USA, affiliate. Accion USA is the largest microlending network in the United States.

Through the Community Reinvestment Act (CRA), which encourages banks to invest in low and moderate-income neighborhoods that they operate, Accion Chicago has secured steady funding for its loan program. "Instead of physically doing the lending themselves, [banks] give us lines of credit and we loan out the money to low income areas," says Susan Spector, a community outreach coordinator at Accion Chicago.

Even with the credit crunch, Spector says financial institutions are still required to allocate CRA funding.

Aside from capital infusion from banks, donations, fundraising, the Small Business Administration is another source of capital for microlenders. In 2008 the SBA, which regulates microlenders, distributed \$19 million in money to microlenders in 2008, up \$1 million from the previous year.

The administration will also receive of boost from President Barack Obama's budget which earmarks \$25 million to its microloan operation. The much needed capitol comes as overall, microlenders distributed less money in 2008, \$31 million, compared to \$32 million, says George Dale, chief of the SBA's microenterprise development branch.

But, it's not all about the capitol reminds Ignas of the Association for Enterprise Opportunity.

"To compete you need to know how to run your business," Ignas says. "If you don't know how to market yourself, manage your staff or finances, your business will not work."

For more information in micro lenders check out SBA.gov and AccionUSA.org. To find a local micro lender, log onto [AEO.org](http://AEO.org).

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