

Performance Counts

Volume 1 Issue 1



M I C R O T E S T N E W S

Fall 1997

Members Speak Out About Performance Measures

We asked all applicants to MICROTTEST to complete an application form as part of the selection process. Among the questions was one that asked applicants to describe what the microenterprise industry would gain by having performance measures. Below are excerpts from some of the applicants' responses.

What would the microenterprise industry gain by having performance measures?

"Performance measures have the potential to bring greater confidence, clout and coherence to the field. Practitioners would gain confidence by having our institutions substantiated by "evidence"; by having clearer goals to strive for, and by having a concise language to speak in. The field would gain clout through greater accountability, consistency and documentation. Coherence will come from shaping our vision of what is possible, desirable and achievable through microenterprise development."

Eloise Vitelli, Maine Centers for Women, Work and Community

"Recognition as an "industry" by policy makers, donors and the public in general. As long as individual microenterprise programs measure performance using different rulers and expecting different standards, we will be seen and act as many individual programs without a collective impact."

Cris Himes, ACCION-U.S.

"By developing performance measures, the microenterprise industry can: assist programs to look at benchmarks with which to compare themselves; provide new programs with guidelines and standards that will assist their program start-up; set standards to evaluate program effectiveness, cost efficiency, and service performance; and assist public policy makers to make economic and human development decisions that can support the microenterprise efforts of low-income individuals...."

Lisa Ziebel, Women's Initiative for Self Employment

"Accountability in the management of programs....A set of standards relevant to a unique industry...a clearer path for new programs...."

Cris Himes, ACCION-US

"First and foremost, the microenterprise field must develop some kind of certification system...the funding community, both private and public, must be assured of two things: that microenterprise works and that a particular microenterprise program works. Additionally, practitioners need performance measures to help them have greater impact in ways which funders may not consider...."

Chris Sikes, Western Massachusetts Enterprise Fund

"We must have good data to tell our story. We also need good data to test if our assumptions of what has happened are born out in fact. Good data will make

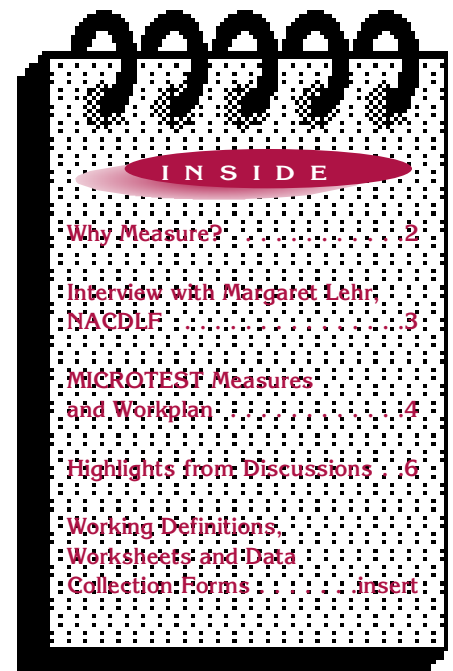
it easier to identify and target problem areas. Good data will also make it easier to establish "best practices" for our industry and to accurately calculate the scale of investment necessary to exponentially expand our work."

Jeff Ashe, Working Capital

"If we as an industry are proactive in developing a set of performance standards, it will deter others from establishing those for us."

Cathy McClelland, Detroit Entrepreneurship Institute

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Why Measure?

by Peggy Clark, Director
Self-Employment Learning Project (SELP)

These last five years in the microenterprise field have been marked by diverse, creative experimentation carried out by a broad array of institutions in a range of local settings. The energy and commitment of hundreds of microenterprise practitioners across the country have brought us to a place where close to 100,000 microentrepreneurs have received credit, training and technical assistance to support their businesses and families. This exponential growth has also brought us to a place where we as an industry must be able to clearly describe who we are and what we stand for.

A look at programs in the SELP 1996 *Directory of U.S. Microenterprise Programs* provides a window into the spectrum of programs that variously call themselves “microenterprise programs”: one is a community development corporation in Brooklyn, New York with an average loan size of \$50,000 that recently added a microenterprise program when it was awarded a SBA Microloan Program Intermediary loan. Another is an incubator in a rural state that has assisted 50 small and microbusinesses in the wood-working sector. Another is a women’s business assistance program in a mid-western city which serves women with a median client household income of

\$37,000. Another is a multi-state peer lending program working towards financial sustainability, and another is an urban program with a self-employment program for welfare recipients.

This diversity of program types points to the fact that at this juncture in the field’s development we *must* begin to clarify and define what is meant by a high quality microenterprise program. The openness and diversity of the microenterprise field has been—and will always continue to be—one of its great strengths. The field must, however, like others before it (community development loan funds, community development credit unions, community development corporations), begin to narrow and clarify its identity and focus. What does an “excellent” microenterprise program look like? Does it meet certain performance criteria in terms of numbers of clients served, cost-effectiveness, and repayment rates? Does it reach a minimum level of low-income clients? Does it partner with other local credit and technical assistance providers and banks? How do we define quality?

This is the moment when these standards must begin to be defined, widely discussed, and used by programs to set benchmarks for their own performance. Unless and until these standards are

embraced and used, it will be difficult to widen the number and amount of funders and investors in microenterprise. The level of performance is so uneven—and, more critically, the definitions of microenterprise so broad—that it is difficult for an investor to decipher “best practice”.

This discussion necessarily involves hard choices. Do we stand up for microenterprise programs that target income-disadvantaged clients? Can those poverty-targeted programs also serve other, more moderate income clients in order to reach scale and greater cost-effectiveness? If, in fact, microenterprise is primarily an “education-first” strategy with training, technical assistance and networking services in greater demand than loans—how can we determine what amount of training and technical assistance a microentrepreneur needs? Are we doing enough training and technical assistance? Do entrepreneurs need continued, industry-specialized technical assistance after they complete a program’s required generic business training? How can we pay for it? These are critical questions for the field to be asking now, and these discussions must take place in order to advance the field.

Given the importance of performance measures to the field’s development at this moment, SELP would like to join with others in the field who are beginning to think about performance measures (such as AEO, CFED, NACDLF), and move the debate forward by proposing the set of measures that we developed and tested in SELP. The measures proposed in MICROTTEST are offered as a work-in-progress; as a beginning point in our search to find appropriate measures. They are offered in the hope that practitioners will critique, modify, subtract, and add other measures that we can explore together and test in the years ahead. ●

The purpose of MICROTTEST is to establish a working group of microenterprise practitioners and researchers who will develop and test a set of performance measures for the microenterprise field. MICROTTEST’s long-term mission is to improve the quality of microenterprise organizations over time by perfecting and promoting the use of measures to regularly assess performance.

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Margaret Lehr, Director of Strategic Initiatives at the National Association of Community Development Loan Funds (NACDLF), spoke to MICROTTEST staff recently about the Association's experience with performance measures. Our discussion centered on the following questions:

How do performance measures relate to your program activities?

Ms. Lehr explained that a commitment to performance underlies all of NACDLF's work and is a defining characteristic of its membership. NACDLF's purpose is to support the development of a national network of strong and effective nonprofit Community Development Financial Institutions (CDFIs) with the capacity to be permanent resources for development in their communities. She stated that the National Association cannot do that without identifying and cultivating the factors that contribute to strong performance.

NACDLF's commitment to defining performance criteria dates from the Association's formation. Its first major activity in this area was in 1992 when it developed performance criteria for CDFIs. Historically, NACDLF has looked at three major areas: organizational strength, management systems, and actual performance—the latter under the assumption that actual performance demonstrates organizational strength and the efficacy of management systems and approaches. Given the diversity of its membership, NACDLF tends to look at a variety of measures and to determine when an organization is operating outside the range of what is considered "acceptable" performance.

NACDLF began to look at performance measures for underwriting purposes to assess members' eligibility and competitiveness for loans from NACDLF's capital fund.

More recently, the "Best Practices Project" is the Association's current effort to capture, document and disseminate NACDLF's and its members' collective experience and expertise regarding best practices for nonprofit CDFIs. NACDLF is building on its earlier work, but the effort represents its first attempt to take a comprehensive look at performance and best practices. The Association starts with the assumption that as public purpose institutions, the member organizations make promises or commitments to the public. Best practices are a means of honoring those public commitments. Performance outcomes (both increased

ship, and it evaluates the performance of members who borrow from NACDLF on a quarterly basis.

What are the major areas of performance that you review?

Measures include a broad range of institutional and program development aspects, such as:

- Clarity of mission, market knowledge and definition, and overlap among the three elements
- Leadership and management capacity
- Governance
- Financial discipline and risk management
- Quality of loan portfolio and lending track record
- Financial strength (net worth relative to debt)
- Capacity for financial sustainability
- Capitalization strategies
- Fiscal management
- Legal compliance
- Impact regarding whether the organization's activities result in tangible benefits for low-income people and communities.

Why are performance measures important for this industry?

Performance measures help ensure accountability to customers, investors, funders and the larger public. NACDLF members are largely unregulated; developing and adhering to performance standards facilitates self-regulation. Performance measures are also critical to adjusting programs and strategies and to product development. How does a CDFI know whether or not it is achieving its corporate purposes if the organization does not identify key indicators of success and then track them?

**PERFORMANCE
MEASURES:**

*"The questions are as important
as the answers."*

*An Interview with Margaret Lehr, Director
Strategic Initiatives, NACDLF*

organizational capacity and strength, and improved positive outcomes for customers, investors and funders) are expected to be the result of best practices.

What are the tools or approaches you use to measure performance?

NACDLF uses a variety of evaluation and assessment tools and invites its member CDFIs to engage in self-assessment along with the Association. NACDLF relies on the review of written documents—from bylaws to board minutes to lending policies and procedures to actual credit memoranda to portfolio status reports—to assess an organization's lending process. The Association uses phone interviews and site visits to increase its understanding. It tracks performance of members at least once a year in NACDLF'S annual report on member-

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MICROTEST Performance Measures

What is MICROTEST?

Based on research undertaken by the Self-Employment Learning Project and published in *The Practice of Microenterprise: Strategies, Costs and Effectiveness* in July 1996, researchers Edgcomb, Klein and Clark identified a set of performance measures to assess microenterprise program performance and outcomes. MICROTEST was established to develop and test these and other performance measures and to advance the dialogue within the U.S. microenterprise field concerning issues of quality and program assessment. Toward that end, MICROTEST competitively selected a core working group of 15 practitioner agencies to discuss, debate, refine, and test the proposed measures over a one-year period. A wider circle of associate members has been invited to join the discussion via an e-mail listserv and to use the measures and forms developed by the

core group to collect data on their own programs' performance, if desired.

An Introduction to MICROTEST Tools and Process

This section of the newsletter is designed to discuss and disseminate the performance measure tools and forms that have undergone one round of development and testing by the MICROTEST core working group. These tools and forms correspond to the first two categories of proposed performance measures: Reaching Target Groups and Program Scale. The complete set of performance measure categories is listed below:

- Reaching Target Groups
- Program Scale
- Program Costs and Cost Efficiency
- Program Performance (Credit Portfolio and Training Program)
- Program Sustainability and Internal Cost Recovery
- Outcomes and Impact

One of the most important activities of the MICROTEST core working group has involved standardizing performance measure definitions and developing common methods for data collection and reporting. Another key activity has been to gather and interpret the data in order to further refine the set of performance measures for a second round test later in the year. To make the MICROTEST effort more manageable, we are reviewing and testing the performance measure categories in sections over one- to two-month periods. At the beginning of every period, we are setting aside time to discuss via an e-mail listserv the performance measure definitions related to each particular category. After the discussion period we decide as a group which measures to use for the data collection, and then each core member begins compiling the information concerning his/her specific program. ●

Year One MICROTEST Work Plan

May • Training session at AEO to present MICROTEST, to market test proposed measures, and to establish a broader interest group to follow the progress of MICROTEST.

June • Design and distribute MICROTEST Membership Information and Application packet.
• Completed applications due.
• Begin reviewing MICROTEST application forms.
• Develop MICROTEST Log Book.

July • Select core working group members.
• Send out Log Book materials to core working group.
• Hold first conference call with core group.

Aug. • Data Collection and Analysis: Target Groups and Scale.

Sept., • Data Collection and Analysis: Program
Oct., Performance.

Nov. • Design newsletter.
• Hold MICROTEST meeting in late November.

Dec., • Data Collection and Analysis: Costs and
Jan., Cost Efficiency, Sustainability and Internal
Feb. Cost Recovery

Mar.– • Data Collection and Analysis: Outcomes and
Apr. Impact
• Hold MICROTEST meeting in conjunction with AEO conference.

May • Conduct second round test of 5 previous performance categories using '97 fiscal year data.
• Present revised measures and formats at AEO session.

PRACTITIONER PROFILE:

ACCION Chicago and the ACCION U.S. Network

by Cris Himes, ACCION U.S.

ACCION Chicago is part of ACCION International's U.S. initiative, a six-year-old experiment in applying lessons learned through two decades of microlending in Latin America to the United States. ACCION Chicago was founded in 1994, after three years of successful adaptation of the ACCION lending model in Brooklyn, New York. ACCION programs were started in three other locations the same year: Albuquerque, San Antonio and San Diego. A sixth site, in El Paso, was added in 1996. The ACCION programs are independent and locally governed non-profit lending institutions and, together with the ACCION International's U.S. division based in Washington, D.C., make up the ACCION U.S. Network.

The goal of the network is to develop a successful microenterprise lending model which has a positive impact on borrowers, scales up to reach a significant number of clients, and strives toward financial self-sufficiency. This year the U.S. network was awarded a Presidential Award for Excellence in Microenterprise Development in the area of Access to Credit.

Methodology

Like all ACCION programs, ACCION Chicago is a credit-led institution that uses a stepped-lending methodology whereby borrowers can access larger, longer-term loans according to their payment history and their repayment capacity. Loans range from \$500 to \$25,000. While some ACCION programs in the U.S. network do make group loans, ACCION Chicago's portfolio is entirely made up of individual loans. The program provides limited one-on-one technical assistance to its borrowers in record-keeping, cash-flow management and business licensing, among other topics.

ACCION Chicago initially targeted microenterprises in the predominantly Latino Little Village and Pilsen neighborhoods of Chicago, but has since begun

efforts to expand throughout the city. In November 1994, the program's first two loans were disbursed to two family-run enterprises. By August 1997, ACCION Chicago had disbursed 246 loans totaling nearly \$980,000 to 144 clients. As of August 1997 the program had an outstanding portfolio of \$413,704 with 106 active borrowers. In 1996 the program covered 34% of its total costs with internally generated income.

Client Profile

Most of ACCION Chicago's clients operate service-related (67%) or retail (21%) businesses. Just over half are storefront operations, while nearly a quarter are home-based. Ninety-six percent of the borrowers are members of a minority group (84% are Latino). They typically have no more than a high school education and have run their businesses for about three years. Their median income is just over \$27,000 for a household of three (HUD 1997 Chicago MSA median family income is \$55,800). On average, nearly 60% of their family income is derived from the borrower's business.

Measurable Results

A recent analysis of ACCION Chicago's borrowers showed positive trends in business stability and growth for the 45 clients who had received at least two loans from the program by December 1996. In an average of seven months (the average loan term for the first loan), clients experienced a 21% increase in the dollar value of their business assets, a 41% increase in monthly profits and a modest (3%) increase in take home income from the business. The average number of full-time equivalent jobs per business increased from 2.4 to 2.7. These trends were even stronger in the ten businesses who had received three loans from the program, with notable increases in family income drawn from the business (36%), a phenomenon which did not compromise growth in

business profits (54% growth). These outcomes reflect similar findings from other ACCION programs and seem to suggest that access to credit is an important ingredient in strengthening a microenterprise's potential to generate wealth, income and employment.

Bank Participation

ACCION Chicago's loan fund has been financed through lines of credit from both local and national banks. Recently, significant program-related investments from the MacArthur and Wieboldt foundations have helped capitalize the loan fund, lowering the program's cost of funds. ACCION has actively sought bank participation in capitalizing the loan fund, partly to promote fiscal discipline in the program. Bank participation also has another benefit in helping ACCION put microentrepreneurs on the path toward formal financial relationships. For example, ACCION Chicago clients make their loan payments through Metropolitan Bank. For some, these payments are the first formal bank transactions they have ever made.

Internal Performance Standards

The ACCION U.S. network has embarked on its own effort to develop internal performance standards. This process will draw on the historical findings of ACCION International's quarterly loan activity and financial assessments of the U.S. programs, and will tap into the expertise of the network's board and operational leadership.

In developing internal performance standards, the ACCION U.S. Network hopes both to contribute its findings from this process to the MICROTEST working group and to draw on the expertise of the other working group members. In addition to data from the ACCION-Chicago office, headed by Executive Director Leroy Pacheco, ACCION International will make ACCION U.S. Network data available to MICROTEST. ●

Highlights from Discussion of First Two Performance Measure Categories

*There were two particularly challenging issues we faced in our listserv discussions. One involved the question of which **low-income standard** to use for MICROTEST and the other concerned the definition of a **short-term client**.*

Low-income Standard

The jury is still out regarding which low-income standard to employ. We found that a significant number of core members use HUD guidelines in their programs and others use HHS or Census poverty line definitions.

Generally, programs have adopted a particular standard based on the reporting requirements of external funding sources. In

order to be responsive to programs' current needs, and to ensure comparability across programs in different regions—which using HUD figures seemed to provide—we asked core members to collect data for the first test using both HUD low-income guidelines and 185% of HHS low-income guidelines. Later, we decided to also add the measure of 100% of HHS poverty guidelines.

Our goal under MICROTEST was to determine which measure would be the most relevant to a general audience, particularly policy makers, and would reflect the significant level of services



that the field is currently providing to disadvantaged individuals. The resulting discussion centered on how expansive a definition of low-income to use. Several members noted that calculating HUD income limits is difficult for programs that operate in several counties or

regions. Given the challenges of this question, the group decided to use all three measures in the MICROTEST tests. The group will return to the

question of which low-income standards to use in the Spring when we conduct a second round test of all the measures for fiscal year 1997.

Short-term Client Definition

Concerning the definition of a short-term client, the group discussed how to distinguish between individuals who may attend a short orientation session and not return and those who are truly benefiting from short-term services. The group recommended that short-term client be defined as an individual engaged in “exploratory” activities (e.g., a workshop). ●

ASSOCIATE MEMBERSHIP

If you are not yet an Associate Member of MICROTEST and would like to become one, please contact Pat Krackov at (202) 833-7447 or p.krackov@aspenninst.org to receive a registration form. Associate membership entitles your program to receive subsequent issues of this newsletter, including the performance measures and tools developed over the course of the MICROTEST process. Associates are also invited to join in the e-mail discussion of the tools and measures as they are being refined, and to participate in other events as they become available. Membership can be obtained by filling out the membership form and enclosing a \$40 check payable to The Aspen Institute/SELFP. The membership fee will help underwrite the publication of this newsletter.

Subscribe to the MICROTEST Listserv!

MICROTEST has established an e-mail listserv to foster dialogue among the fifteen programs in the core working group and a larger circle of interested practitioners, researchers and donors who are MICROTEST Associates. The listserv is the primary means of communication for discussing the proposed performance measures and data collection tools.

If you are interested in participating, please send an e-mail to: mt@lists.aspeninst.org with the word “subscribe” (without quotation marks) in the subject field. You will then receive notification that your address has been added to the listserv, and from that time forward you will receive all new MICROTEST postings. If you have any further questions, please contact Pat Krackov at p.krackov@aspenninst.org

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*Denotes MICROTEST Steering Committee member

Members Speak Out

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“The industry needs performance measures to survive. We cannot continue to practice our trade of microenterprise lending and development without standards. The days of extreme experimentation, demonstration and innovation in the field are numbered.... Without performance measures, we will continue investing in learning the same lesson...”

Phil Black, North Carolina Rural Economic Development Center

“...MICROTEST is the first attempt to get standards to a 10-year-old field—it's about time!”

Frank Ballesteros, PPEP/MICRO



An Interview with Margaret Lehr

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What have been the most critical challenges facing the industry in developing and adopting performance measures?

There have been three principal challenges: 1) diversity within the field in terms of organizational type, lending model, and institutional stage of development; 2) lack of a common vocabulary and a common set of measurement tools; and 3) fear that performance measurement will somehow stifle flexibility and creativity and result in rigid standards.

What lessons can we draw from this industry's experiences with performance measures?

It is worthwhile to invest time in developing a common vocabulary and a set of measurement tools. Performance measurement must be placed in a larger context that looks at factors critical for success, how we cultivate those aspects, what their effect is on performance, and how performance relates to impact. The questions are as important as the answers. Measurement will result in a range of answers that will be more or less “good” depending on the context. ●



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Working Definitions for First Two Performance Measure Categories: Reaching Target Groups and Program Scale

Below are the most significant decisions concerning performance measure definitions resulting from our deliberations on the first two performance measure categories. These decisions guided MICROTEST’s first data collection period.



Reaching Target Groups

“Total number of clients served” refers to individuals who are currently receiving an intensive service from the program or who have an active, outstanding loan.

“Short-term clients” are individuals who are not receiving an “intensive” service, but are receiving an “exploratory” service from the program.

MICROTEST core members agreed to test three different low-income standards—80% of Local Median Income under HUD income limits (which they calculate using local guidelines), 185% of HHS poverty guidelines, and 100% of HHS poverty guidelines. We are interested in testing which measures work best for microenterprise practitioners and which are useful for policy audiences.



Program Scale

“Total number of clients served” refers to individuals who are currently receiving an intensive service from the program or who have an active, outstanding loan.

“Number of loans made” refers to outstanding loans made to individuals from the program’s capital fund. It includes only those loans that the program has made directly.

“Number of technical assistance and training clients served” is a subset of the total number of clients served. It is those clients who have received or will receive a significant training or technical assistance service.

“Business start-up” is defined as a business that is less than 12 months old. A business is considered a business when there are sales or steps have been taken to formalize the business.

An “ongoing business” is one that has been in operation for more than 12 months.

“Clients linked to banks or other commercial credit providers” includes only those clients that the program has helped to access bank or other financing.

MICROTEST Data Collection Forms

Reaching Target Groups

| | | |
|---|----------------------|--------------------------------|
| Total # of Clients | | |
| Total # of Short-term Clients (not a subset of Total # of Clients) | | |
| | Number of Clients | Percentage of Total Clients |
| Women | | |
| Minorities | | |
| Low-Income based on 100% of HHS Poverty Guidelines | | |
| Low-Income based on 185% of HHS Poverty Guidelines | | |
| Low-Income based on HUD Guidelines (80% of local median) | | |
| Welfare Recipients (this is a subset of Low-Income) | | |

Program Scale

| | |
|---|--|
| Total number of clients served | |
| Number of loans made | |
| Dollar value of loans made | |
| Number of clients linked to banks or other commercial credit providers | |
| Number of technical assistance and training clients served | |
| Number of start-up businesses assisted | |
| Number of ongoing businesses assisted | |

MICROTEST Worksheets

If you are interested in following along with the MICROTEST core group in testing the performance measures, you should use the following two worksheets: HHS Low-Income Worksheet at 100% and 185% and HUD Low-

Income Worksheet. Use these worksheets to compute your total number of low-income clients based on each measure. After you have completed the worksheets, transfer the totals to the MICROTEST data collection form.

| HHS Low-Income Worksheet 100% and 185% of 1997 HHS Poverty Guidelines | | | | |
|--|---|---|---|---|
| Number of People in Household | Maximum Income Level for Household at 100% of Poverty | Number of Low-Income Clients at 100% of Poverty | Maximum Income Level for Household at 185% of Poverty | Number of Low-Income Clients at 185% of Poverty |
| 1 | \$ 7,890 | | \$14,597 | |
| 2 | \$10,610 | | \$19,629 | |
| 3 | \$13,330 | | \$24,661 | |
| 4 | \$16,050 | | \$29,693 | |
| 5 | \$18,770 | | \$34,725 | |
| 6 | \$21,490 | | \$39,757 | |
| 7 | \$24,210 | | \$44,789 | |
| 8 | \$26,930 | | \$49,821 | |
| <i>add for each additional member for households that exceed 8</i> | \$ 2,720 | | \$ 5,032 | |
| Total Number of Low-Income Clients (transfer this total to the Data Collection Form) | | | | |

HUD low-income limits are 80% of median income for your county or census-defined Metropolitan Statistical Area (MSA). Thus the limits will vary depending on where your microenterprise program is located. To obtain

the local median income index for your area you can either call your local HUD office or consult the HUD web site on the internet at the following address: <http://www.huduser.org>.

Select: [Publications](#) and then [Public and Assisted Housing](#). Next select [Assisted Housing](#) and then [Income Limits](#) and [FY 1997 Income Limits](#). Scroll down to the map and click on the state for which you need data. Locate the pertinent county in the list. Below the correct county, look at the row entitled [L80 Low Income \(1-8 person\)](#) to find income levels by household size. Enter these figures on the HUD Low-Income Worksheet (located at right). Note that you must calculate the *9 Persons or More* number on the Worksheet. Do this by going back to the previous screen, [Income Limits](#), and clicking on: [Click Here to Learn how HUD Income Limits are Calculated](#). Then scroll down to [Family Size Adjustments](#), below 1997 [Low Income Limits](#) and follow the instructions. Fill in the figure for *9 Persons or More* on your worksheet.

| HUD Low-Income Worksheet 80% of Local Median Income | | |
|--|--|------------------------------|
| Number of People in Household | Maximum Income Level for Household (you will need to get this information from HUD) | Number of Low-Income Clients |
| 1 | | |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |
| 6 | | |
| 7 | | |
| 8 | | |
| 9 persons or more | | |
| Total Number of Low-Income Clients (transfer this total to the Data Collection Form) | | |