

# Microloan Underwriting

September 21, 2017



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at the Aspen Institute

*Advancing microenterprise through knowledge and innovation*

# Our Technology



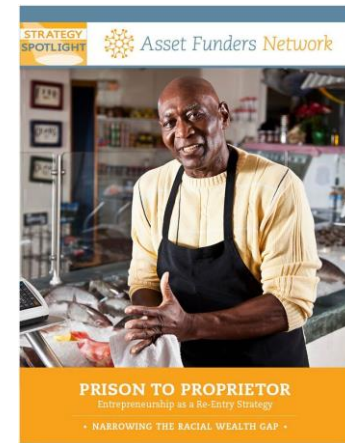
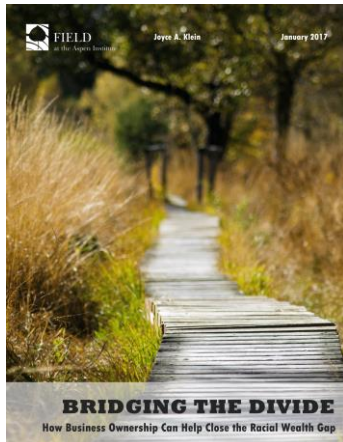
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- Participants can ask questions by using the chat window. Please do! Presenters will pause periodically to respond to questions.
- Technology problems:  
Email [Tony.Mastria@aspeninst.org](mailto:Tony.Mastria@aspeninst.org)  
or [Lavanya.Mohan@aspeninst.org](mailto:Lavanya.Mohan@aspeninst.org).
- A PDF of the slides for today's webinar was included in your reminder email and is available on our event page: [bit.ly/MicroloanWebinar](http://bit.ly/MicroloanWebinar).



**Our mission:** advancing business ownership as an economic opportunity strategy.

**To do so we:**

- Build knowledge – through applied research and data collection.
- Strengthen leaders – through peer learning and leadership development initiatives.
- Inform donors – through our research and publications.



# Today's Focus

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Size

Microloans

\$50,000 or  
less

Market

Borrowers  
targeted  
by mission-  
led micro-  
lenders

# Today's Presenters

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## Leslie Hoffman

- Principal of LEH Consulting Group, a firm specializing in community development
- Former head of lending for NM-based CDFI
- Teach at the Univ. of NM Anderson School of Management

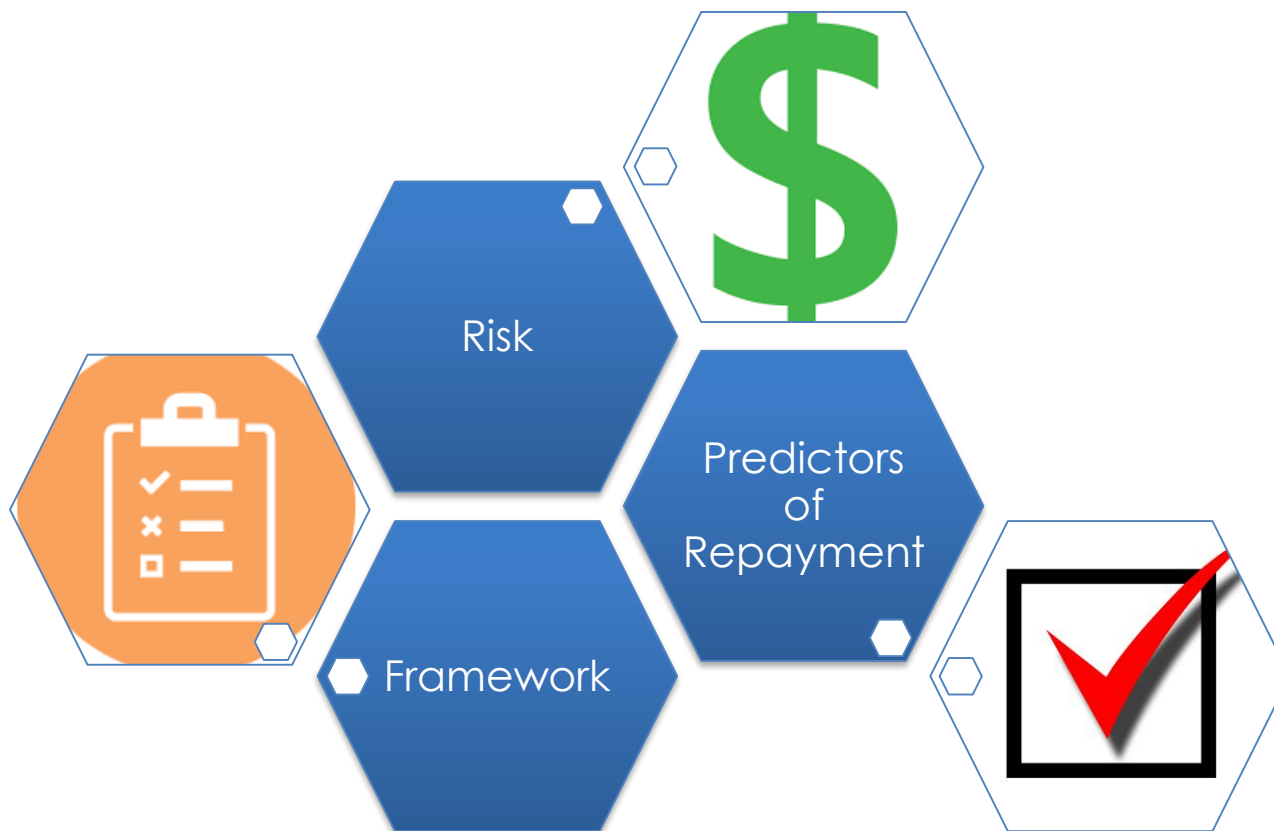
## Barbara Eckblad

- Principal of The Eckblad Group, focusing on CDFIs
- Former head of lending for WI-based CDFI
- Early career in banking; built a successful real estate business before moving into CDFI work

# Today's Journey



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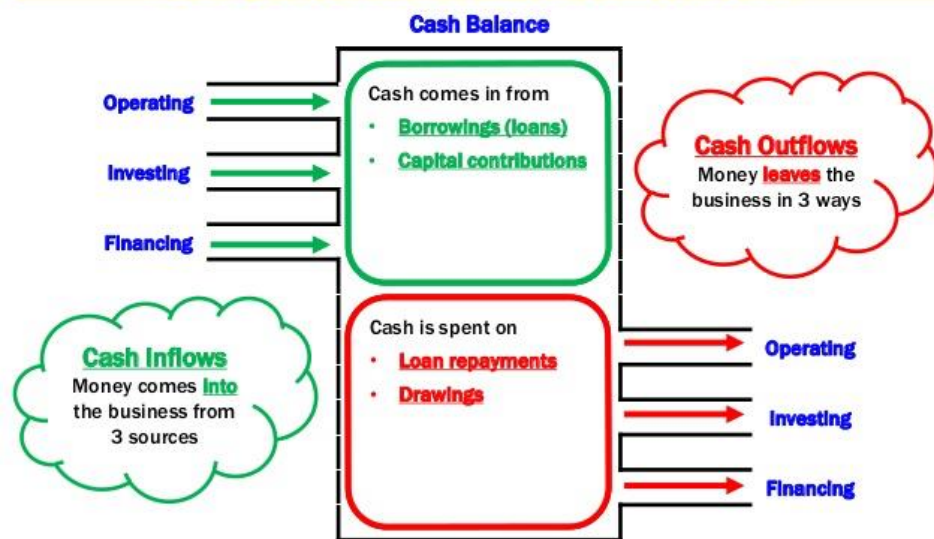


# What We Won't Cover



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## 12.8 ANALYSIS OF THE CASH FLOW STATEMENT



How much do you know about Lien Perfection?

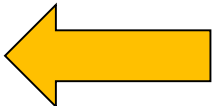


# Let's Start with You

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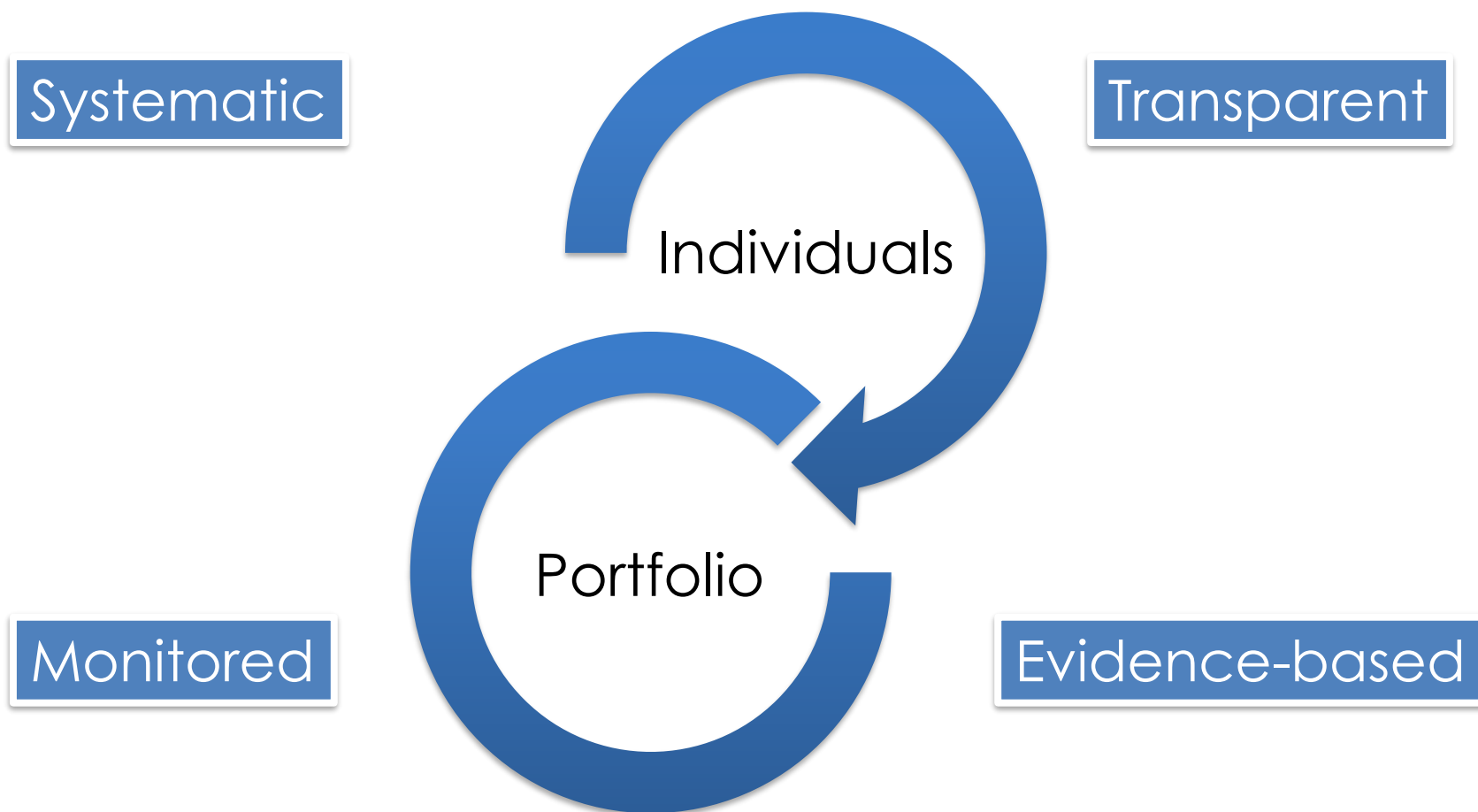
If you had to boil underwriting down into single concept, which among these would you choose?

1. Information verification
  2. A source of technical assistance for our clients
  3. Risk management 
  4. Financial analysis
-



# Areas of Risk for CDFIs

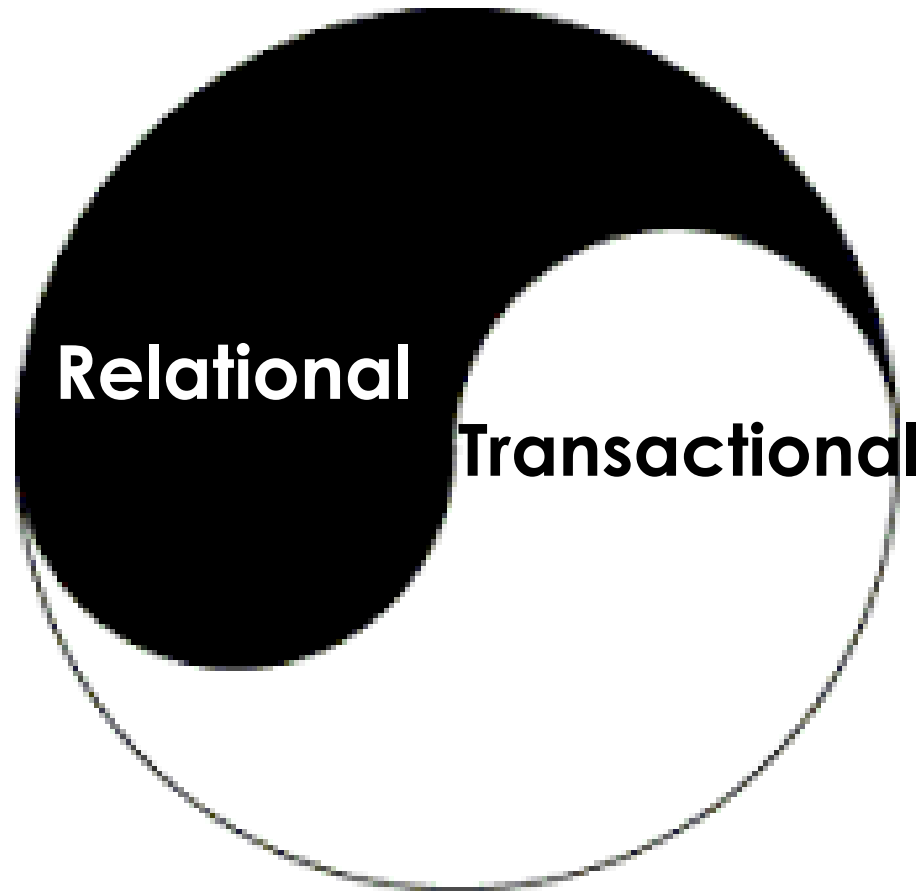




# Growth and Quality



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# What Do You Think?

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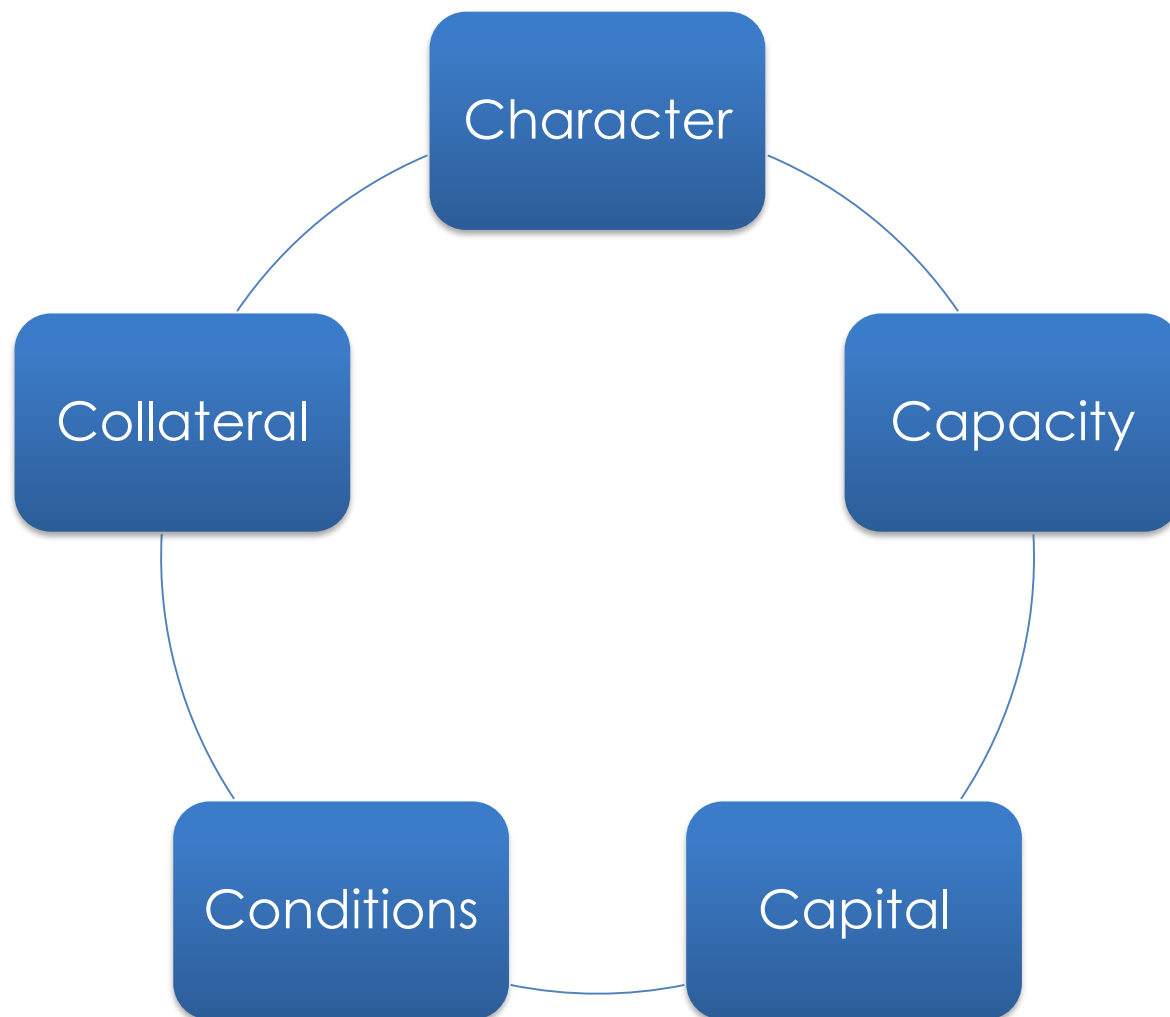
How often do you experience tension in your lending team between the relational and transactional elements of this work?

1. Never
2. Occasionally
3. Frequently
4. Daily 

# The Classic Framework: The C's



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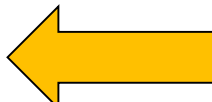
# What Do You Think?

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What are the two most important C's in determining microloan repayment?

1. Character and Conditions
2. Character and Capacity 
3. Capacity and Capital
4. Conditions and Collateral



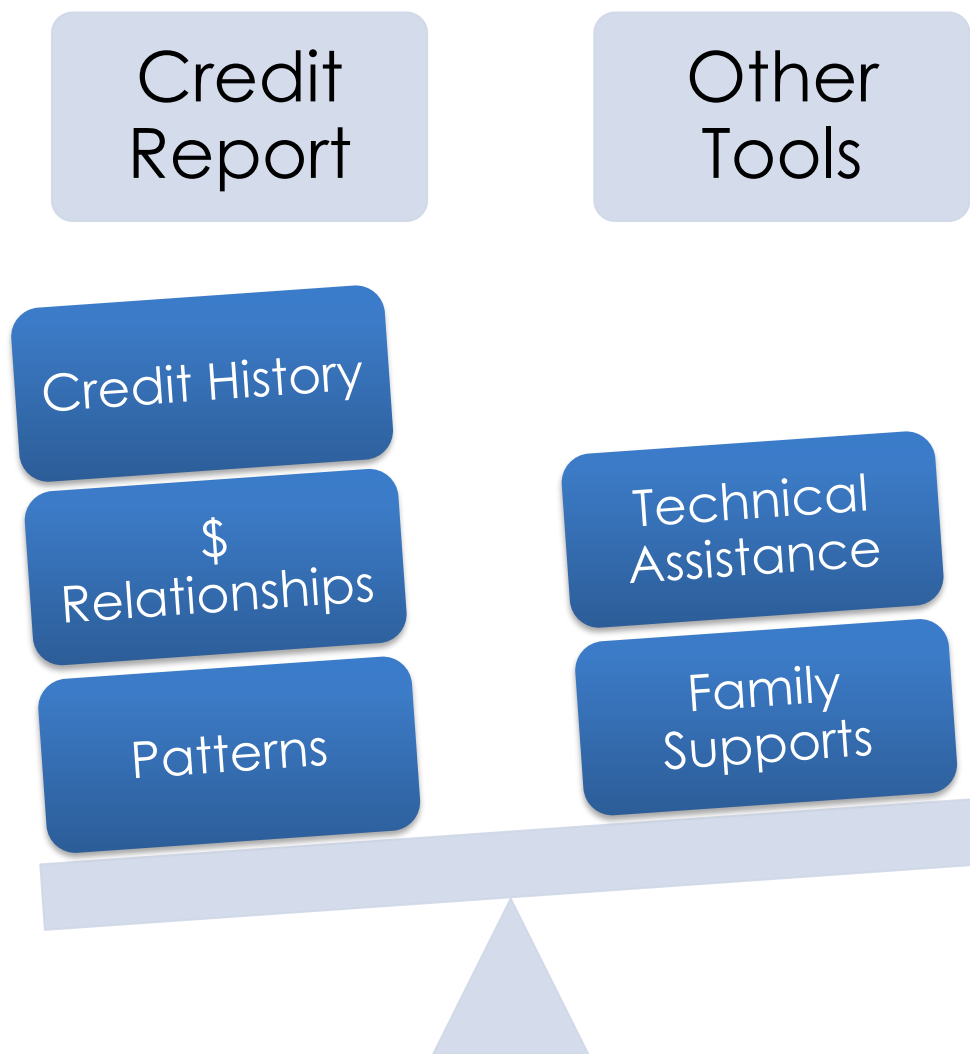
A history of repaying debt and/or managing financial obligations

A set of behaviors we deem “acceptable”

# Character Tools



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# Let's Walk through an Example



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## Chanell, the plumber



# What Do You Think?

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***What is one key indicator of positive credit history for Chanell?***

# Quick Check for Questions

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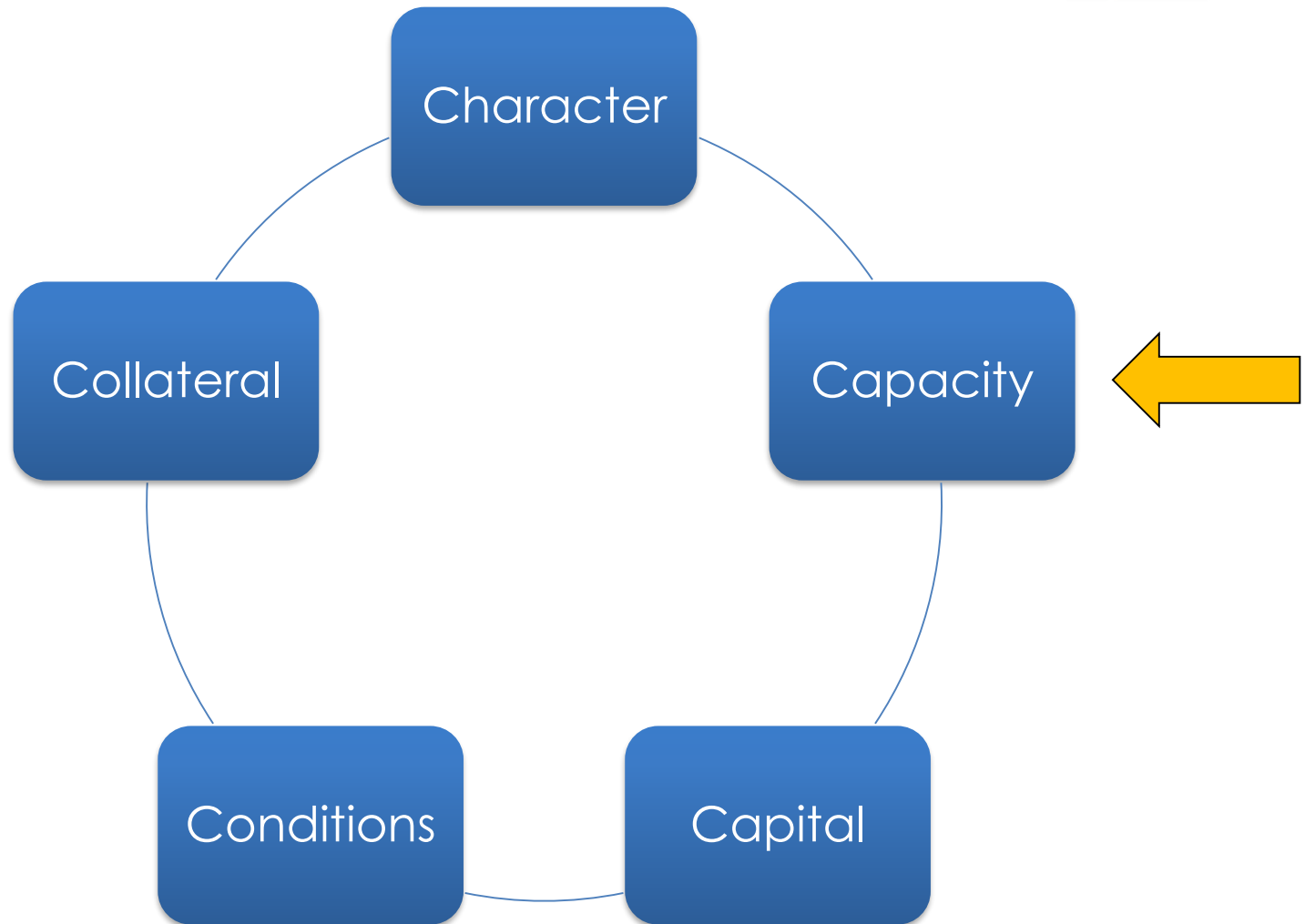
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If you have questions, please type them into the chat window.

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# Second Predictor of Repayment



# Keys to Capacity



1. Capacity is a **holistic** concept of cash flow in microlending.
2. The business is not the **whole story** in microlending.
3. Projections are **context**, not content.

# What Do You Collect?



## Personal



- ☐ Pay Stub/Employer Letter
- ☐ Tax Return
- ☐ Bank Statements\*
- ☐ Credit Report
- ☐ Personal Financial Statement

## Business



- ☐ POs, Invoices, or Ledger
- ☐ Tax Returns
- ☐ Bank Statements\*
- ☐ Financial Statements\*
- ☐ Debt Schedule

# Keys to Capacity



BUSINESS CASH FLOW ANALYSIS										
APPLICANT: Chanelle The Plumber										
	2 Years Ago		Last Year		Current Year To Date		Year 1		Year 2	
	\$	%	\$	%	\$	%	\$	%	\$	%
<b>REVENUES</b>										
Gross Sales	\$-		\$-		\$-		\$-		\$-	
COGS	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!
<b>NET REVENUE</b>	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!
<b>EXPENSES</b>										
Business Expenses	\$100	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!
Add back: Rent saved*	\$10	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!
Add back: One time**	\$10	0%	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!
Add back: Amortization	\$10	#DIV/0!	\$-	#DIV/0!	\$-		\$-		\$-	
Add back: Interest	\$10	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!
Add back: Depreciation	\$10	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!
Add back: Other	\$-									
Total Add back:	\$50		\$-		\$-		\$-		\$-	
<b>Net Debt Service Available</b>	\$50	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!	\$-	#DIV/0!
[Your Organization] New Debt	\$25		\$-		\$-		\$-		\$-	
Existing Debt	\$-									
<b>Total Debt/DSC</b>	\$25	2.00	\$-	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
<b>EXISTING BUSINESS DEBT</b>										
	Term		Int. rate		Mo. Pmt		Yr. Pmt			
Existing Debt #1	\$-				\$-		\$-			
Existing Debt #2							\$-			
							\$-			
							\$-			
							\$-			
<b>TOTAL BUSINESS DEBT</b>	\$-				\$-		\$-			

# Keys to Capacity



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GLOBAL DEBT SERVICE CALCULATION					
	2 Years Ago	Last Year	Current	Year 1	Year 2
Income	YTD	12 months	12 months	12 months	12 months
Business Debt Service Available*	\$-	\$-	\$-	\$-	\$-
Owner outside income	\$-	\$-	\$-	\$-	\$-
Other household	\$-	\$-	\$-	\$-	\$-
Outside guarantor	\$-	\$-	\$-	\$-	\$-
Other	\$-	\$-	\$-	\$-	\$-
<b>Total Income</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Personal debt</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Business debt**</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Total Debt</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Global DSC</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>
<b>Personal Debt</b>		<b>Balance</b>	<b>Mo. Pmt</b>	<b>Mo. Pmt</b>	<b>Mo. Pmt</b>
Mortgage/Rent		\$-	\$-	\$-	\$-
Vehicles		\$-	\$-	\$-	\$-
Credit Cards		\$-	\$-	\$-	\$-
Student Loans		\$-	\$-	\$-	\$-
Other		\$-	\$-	\$-	\$-
		\$-	\$-	\$-	\$-
		\$-	\$-	\$-	\$-
<b>Total Personal Debt</b>		<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>



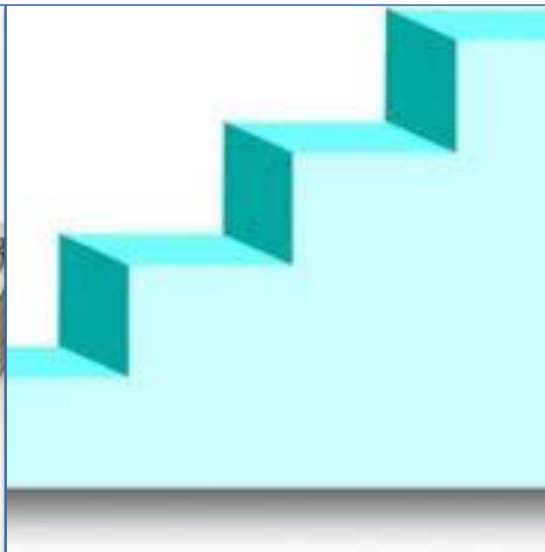
# Can You Make It Better?



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Loan Size



Stepped  
Lending



Guarantors

# What Do You Think?

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***When should we use projections as part of our global debt service coverage calculation?***

# The Other C's



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Capital



Conditions



Collateral

# What Questions Do You Have?

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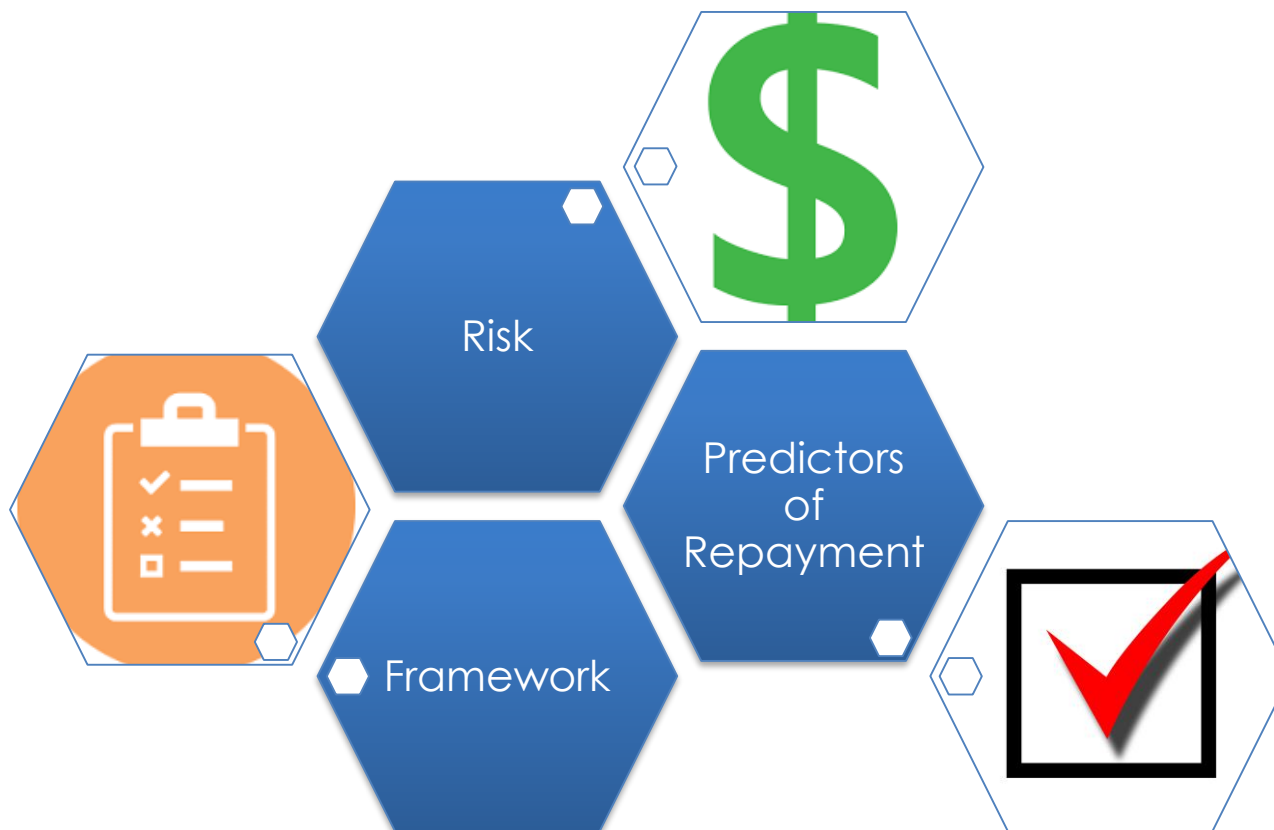


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# Today's Journey



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# Interested in more?



- Slides and recording from today's webinar are available on our event page: [bit.ly/MicroloanWebinar](http://bit.ly/MicroloanWebinar).
- We will be hosting another webinar – on portfolio management – on October 26. RSVP now at [bit.ly/Portfolio-Webinar](http://bit.ly/Portfolio-Webinar).
- For those attending OFN annual conference, session titled: *Strategies for Driving Scale and Impact in Micro and Small Business Lending* will delve into applications of these concepts used by members of FIELD's Microfinance Impact Collaborative.

# Please contribute to the US Microenterprise Census



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The information below represents **FY2015** data from **49 organizations nationwide** reporting as of **April 28, 2017**.

[View metrics definitions](#)

[Customize Report](#)

**69,485**

TOTAL INDIVIDUALS SERVED

**42,639**

TOTAL BUSINESSES SERVED

**\$92.8 MIL**

MICROLOANS OUTSTANDING

GENDER



RACE/ETHNICITY



INCOME STATUS



MEDIAN STAFF SIZE (FTE)

**3.5**

MEDIAN NUMBER OF INDIVIDUALS RECEIVING  
TRAINING AND TA

**210**

NUM. OF LOANS DISBURSED

**6,384**

# Online Census survey



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microTracker

Lavanya Mohan



## The 2016 U.S. Microenterprise Census

15% Complete

### Microfinance Products and Services

[Go to Section ▼](#)

#### 7 Do you directly provide microenterprise loans up to \$50,000?

☐ Yes ☐ No ☐ Don't Know

#### 8 Please check the other types of microfinancing you offer.

Please check all that apply.

- ☐ NA, we did not offer any other microfinancing
- ☐ Credit-builder Loans
- ☐ Individual Development Accounts (IDAs)
- ☐ Microgrants
- ☐ Microequity
- ☐ Don't Know
- ☐ Other saving services or microfinancing products

#### 9 Please indicate the range of interest rates you charge for your microloans.

Min

Max

☐ Don't Know

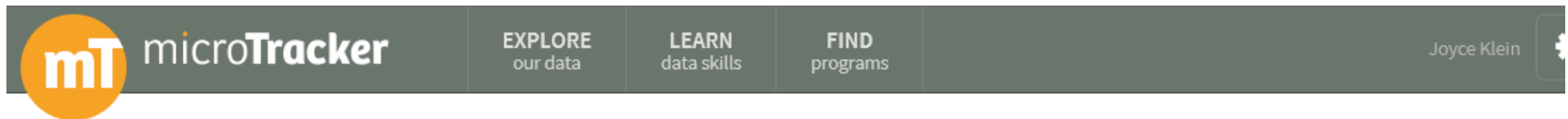
☒ Please enter your response in a percentage format. For example, enter "5" for 5%.



# To report your data



[microtracker.org/census/](https://microtracker.org/census/)



## The U.S. Microenterprise Census

The U.S. Microenterprise Census is an online survey that counts and collects data on the microenterprise industry. Microenterprise development organizations across the country report data on the scale, scope, and performance of their activities to the Census every year. The data you report to the Census is a crucial tool to help build the industry and make the case for your work.

[View U.S. Microenterprise Census Survey](#)

Please provide the name of your organization.

Potential matches for your organization may pop-up as you enter the organization name. If you see your program listed, please click on it as this will pre-fill your contact data and ensure your past Census data is connected to this year's Census.

Next

# Thank you for joining us!



For additional questions on today's webinar:

[Barbara@TheEckbladGroup.com](mailto:Barbara@TheEckbladGroup.com)

[Leslie@LEHConsultingGroup.com](mailto:Leslie@LEHConsultingGroup.com)

For questions/more information regarding the US  
Microenterprise Census:

[lavanya.mohan@aspeninst.org](mailto:lavanya.mohan@aspeninst.org)