



NALCAB



EXPANDING LENDING TO MINORITY-OWNED SMALL BUSINESSES

THE DEVELOPMENT OF INNOVATIVE CDFI CONSORTIUM MODELS

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EXECUTIVE SUMMARY



NALCAB – National Association for Latino Community Asset Builders is a Community Development Financial Institution (CDFI) that represents and serves a geographically and ethnically diverse group of more than 120 nonprofit community development and asset-building organizations that are anchor institutions in our nation’s Latino communities. NALCAB strengthens the economy by advancing economic mobility in Latino communities.

NALCAB was founded with recognition of the needs and challenges in our communities, but we are fundamentally focused on the economic power and potential of Latino workers, entrepreneurs and consumers. NALCAB sees capital as the critical tool for sustainably changing Latino and immigrant communities for the better. In order to deploy capital for positive change, NALCAB supports its member organizations and the communities they serve to understand the markets in which they operate and become capital ready. Since 2007, NALCAB has been a catalyst for more than \$375 million in investment in Latino communities, much of which has flowed through structured partnerships and consortia among NALCAB members.

Latinos face well-documented barriers to accessing capital from mainstream banks as well as a proliferation of predatory lenders in our neighborhoods and online. NALCAB has conducted targeted research on capital availability for Latino business owners in numerous cities around the country, contributing to a growing body of knowledge about minority small business lending. It is clear that CDFIs are often best positioned to address the capital needs of borrowers who otherwise struggle to access capital through mainstream financial institutions.

While CDFIs are an important part of the solution, they also face significant challenges in scaling their work. Local CDFIs understand local market dynamics and have the cultural competence to reach diverse borrowers. However, they are often limited by the capacity of their lending systems, and find it difficult to leverage capital due to the lack of sufficient equity on their balance sheets.

NALCAB has created a number of small business lending consortia, among Latino-serving CDFIs and aspiring CDFIs, designed to overcome these challenges and increase the capacity of the participating organizations to deploy capital to meet the needs of Latino and immigrant entrepreneurs. By bringing together lenders with varying levels of capacity from diverse geographical markets, NALCAB’s consortium model presents the opportunity to achieve scale while leveraging the strongest participants to build capacity of emerging organizations. The consortium model promotes peer-to-peer learning to share best practices. With support from the Surdna Foundation, NALCAB has supported the development of three consortia aimed at increasing access to capital for Latino and immigrant entrepreneurs: NALCAB Network Small Business Lending Consortium; the Affinity Group Lending Consortium; and the *Acceso* Loan Fund.

BUILDING NONPROFIT CAPACITY TO MEET THE NEEDS OF LATINO SMALL BUSINESSES



Over the past ten years, NALCAB has been the leading provider of capacity building resources and services to nonprofit organizations that serve Latino business owners and entrepreneurs. NALCAB Network Members include organizations that provide small business development services; engage in place-based economic development by supporting mercados, commercial corridors and business incubators; and are small business lenders. Since 2010, NALCAB has made more than \$5 million in grants to more than 50 nonprofits that support small business owners and entrepreneurs in predominately Latino and immigrant communities. NALCAB has also provided training to more than 500 practitioners on best practices in small business development services and small business lending.

In 2013, NALCAB and its Network Members made a “Commitment to America” at the Clinton Global Initiative - America to expand access to capital for minority-owned small businesses. From 2013-2015, with support from Sam’s Club Giving Program of the Walmart Foundation, Surdna Foundation, Citi Community Development and JP Morgan Chase Foundation, the NALCAB Network achieved the following outcomes:



Secured more than **\$37M** in funding for neighborhood economic development projects

Secured more than **\$98M** in new capital for business lending



33,000 small business owners received training, **6,100** received loans and **15,400** jobs were created

This work was featured on the mainstage at the Clinton Global Initiative - America for two consecutive years. NALCAB has continued this work with an increasing focus on addressing commercial gentrification and strengthening Latino-serving CDFI business lenders.

THE CONSORTIUM MODEL



Beginning a decade ago, NALCAB achieved significant success in developing consortia of nonprofit housing development organizations. In January 2010, the US Department of Housing and Urban Development awarded a consortium of 15 NALCAB members a grant under the Neighborhood Stabilization Program Round II in the amount of \$137 million to acquire, rehabilitate and develop properties impacted by foreclosure or blight. The NALCAB Network produced well over 2,000 units of affordable housing in 8 states and the District of Columbia and created thousands of jobs, ultimately stabilizing low- and moderate-income communities that had been hard hit during the Great Recession.

The following are examples of three more recent consortia that NALCAB organized to focus on opening access to capital for minority business owners and entrepreneurs:

**NALCAB NETWORK
SMALL BUSINESS
LENDING CONSORTIUM**

**THE AFFINITY GROUP
LENDING CONSORTIUM
WITH FINANTA**

**THE ACCESO
LOAN FUND**

NALCAB NETWORK SMALL BUSINESS LENDING CONSORTIUM

In 2015, NALCAB formed a small business lending consortium with four NALCAB Network Members in order to deploy a \$2 million Program Related Investment (PRI) from the Surdna Foundation. PRIs are low interest loans made by private foundations primarily to achieve their charitable purpose. NALCAB received the \$2 million loan from the Surdna Foundation and in turn made four \$500,000 loans to four NALCAB members: LiftFund, a regional lender in the South; FINANTA of Philadelphia, PA; Latino Economic Development Center of Minneapolis, MN; (LEDC-MN) and Mission Economic Development Agency (MEDA) of San Francisco, CA. The goal of this PRI was to demonstrate an innovative new approach to expanding lending to small business owners in predominately Latino markets. It allowed members to deploy capital in multiple markets to Latino and immigrant business owners who would not have been able to access capital through mainstream sources.

This consortium has allowed the four NALCAB CDFI lenders to make loans to 37 borrowers who would not have been able to access credit through

traditional lenders. The 37 minority and immigrant-owned small businesses borrowed a total of \$2,584,271, which has resulted in the creation of 163 full and part time jobs in a range of industries including restaurants, food suppliers, automobile service, health care and contracting.

In this consortium, less experienced or well capitalized nonprofit lenders are paired with more experienced and financially robust organizations. This model resulted in building the capacity of the emerging lenders by leveraging the strength of the larger lenders, as well as extensive technical assistance from NALCAB.

This impact was maintained even as the overall consortium was deploying capital at scale across multiple markets. NALCAB also provided grants to Consortium Members to increase their available loan loss reserves. When the consortium was launched, three organizations were certified CDFIs and MEDA was aspiring to become certified. Participation in this consortium was a critical step for MEDA in securing CDFI status for its business lending subsidiary.



THE AFFINITY GROUP LENDING (AGL) CONSORTIUM WITH FINANTA

As an outgrowth of the original NALCAB Network Small Business Lending consortium, in 2017 NALCAB initiated a partnership with FINANTA to establish a second consortium of lenders based on FINANTA's Affinity Group Lending (AGL) model.

FINANTA, a NALCAB member, is one of the top five utilizors of the U.S. Small Business Administration's (SBA) Microlending Program in the country and pioneered the use of SBA funds through the AGL model.

Lending circles (known globally as roscas, tandas, susus, and more) are a financial model that has been implemented for decades in other countries across the globe. This model is a culturally resonant way for newcomers to access the US financial system. FINANTA's model differs from traditional lending circles in that each loan is capitalized using external loan capital, primarily from the SBA instead of capitalizing loans from a participant-funded pool. Like a traditional lending circle model, AGL borrowers participate in entrepreneurial education and technical assistance. FINANTA had previously trained two other organizations to utilize this model, one of whom successfully secured certification as an SBA microlender.

With this experience, FINANTA was uniquely positioned to train and support the creation of this consortium with other NALCAB members that expressed interest in establishing similar lending programs to meet the needs of Latino and immigrant small businesses. Starting in December 2017, with support from Surdna Foundation, NALCAB provided a grant to FINANTA to develop a training process and curriculum, as well as micro-grants to support travel expenses for participants to visit FINANTA's operations in Philadelphia for hands-on training and peer learning.

Utilizing knowledge of the needs and capacity of network members, NALCAB introduced FINANTA to five member organizations who expressed interest in implementing the AGL model to meet the needs of their borrowers. In early 2018, FINANTA conducted in-person assessments of the following organizations: Hispanic Interest Coalition of Alabama (HICA) in Birmingham, AL; El Pajaro CDC, in Watsonville, CA; Midlands Latino Community Development Corporation (MLCDC) in Omaha, NE; Hacienda Community Development Corporation in Portland, OR; and the Hispanic Economic Development Corporation (HEDC) in Kansas City, MO. These organizations are a mix of certified and aspiring CDFIs.

FINANTA produced a training curriculum, *Affinity Group Lending Manual: A Guide to Providing Capital Access to Financially Underserved Communities*, in addition to other lending tools and templates. Based on the initial assessment, four organizations moved forward and attended an intensive 3-day training to learn the essentials of underwriting, loan closing, peer group formation, and technical assistance with FINANTA staff in September 2018. NALCAB provided financial and technical support to all the organizations engaged in this collaborative effort. In early 2019, consortium member HICA successfully launched its first active peer-lending group with FINANTA's model.



In September 2019, NALCAB was awarded a PRIME grant by the SBA to build the lending capacity of the participants in the AGL consortium. NALCAB will support FINANTA to provide in-depth technical assistance around the AGL Model, create a community of practice, and provide cost reimbursement grants to support the growth of the model in the trainee organizations. With learnings from this initial cohort, NALCAB anticipates scaling this model to additional organizations in future years.

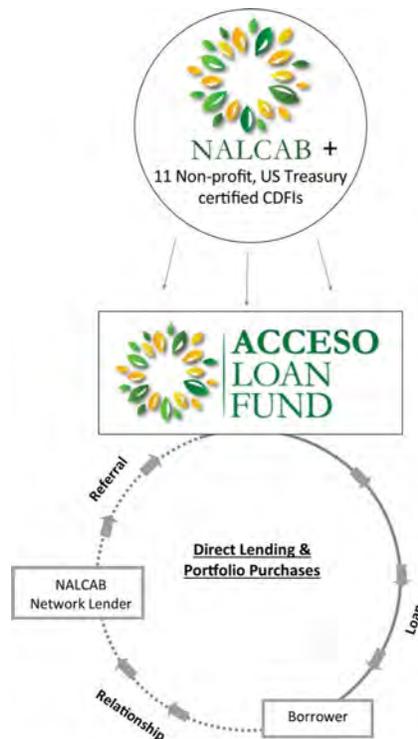
THE ACCESO LOAN FUND

The CDFI sector offers few, if any, truly national strategies for deploying capital to the large, fast-growing Latino small business market. In the fall of 2019, the Wells Fargo Foundation made a historic \$10 million grant to NALCAB to support growth-oriented lending to minority-owned businesses nationwide through a consortium of Latino-led nonprofit business lenders. The new *Acceso Loan Fund* is designed to help diverse entrepreneurs scale to a greater size – expanding their revenue, impact on the economy and ability to provide jobs. The Fund will provide small business loans in the range of \$50,000 to \$500,000 and will purchase portfolios of small business loans, of similar size and character, from NALCAB Network lenders.

The U.S. Latino Entrepreneurship Gap Report published by the Stanford Graduate School of Business' State of Latino Entrepreneurship Initiative identifies scaling, not start up, as the primary challenge for Latino-owned businesses. It states, "Latinos make up 17% of the U.S. population, and 24% of all new entrepreneurs.... Latinos are actually overrepresented among startups. However, these new business starts...are not scaling at high rates. Latinos make up only...5% of employer businesses with more than \$1 million in annual revenue."

The *Acceso* Loan Fund is managed by *Escalera* Community Investments, a wholly-owned subsidiary of NALCAB, with the responsibility for fund management, coordinating the capital raise, overseeing the Fund operator, and reporting. NALCAB member LiftFund is among the nation's few experienced CDFI business lenders with a well-established track record of small business lending across multiple states, and will act as the Lending Administrator for the Fund.

Escalera Community Investments



By sharing the grant funds equally and investing each portion in the Fund, NALCAB, LiftFund and each of ten other CDFI business lenders in the NALCAB network are co-owners of the fund. For each, it will be recorded as an asset (an investment) on their balance sheets, thus performing an elegant double duty: strengthening the debt to equity ratio of the NALCAB Lender while also leveraging capital in the Fund structure. With equity funding in place, the Fund will leverage at least \$20 million in debt.

Latino-owned business seeking capital from banks are denied at significantly higher rates than non-Latino businesses. There is enormous unmet demand for capital among Latino-owned businesses, which dwarfs the capital that CDFI lenders can currently make available. Most CDFIs with the networks and culturally-relevant services necessary to connect with Latino-owned businesses do not offer loans over \$100,000.

Acceso Loan Fund provides NALCAB Network Lenders the opportunity to broker loans for clients that they would not otherwise be able to serve, as well as continue to serve established borrowers as their capital needs grow along with their businesses.

Over the course of the first three years, the *Acceso* Loan Fund is anticipated to deploy over \$27 million in loans, supporting the growth of approximately 186 small businesses and producing more than 500 jobs. More than 60% of the borrowers will be Latino and more than 80% will be minorities. More than 60% of the borrowers will be businesses with less than \$1 million in annual revenue. NALCAB Network Members that provide culturally-relevant small business development services will refer potential borrowers to the Fund or sell the Fund portfolios of existing business loans.

THE POWER OF COLLABORATION

Through the development and implementation of consortia, NALCAB has seen convincing demonstrations of the power of well-structured collaborations, as described below.

Consortia Provide Investors With a Viable Opportunity to Have Impact at Scale, Across Multiple Geographies

By bringing together CDFI lending institutions that have proven track records serving the Latino small business market, NALCAB has been able to present a compelling opportunity for investors to have scaled impacts in Latino communities. In each of the three examples, the consortia include organizations operating in diverse geographical areas, including both urban and rural communities.

NALCAB has been able to leverage its brand value with the brands of the affiliated organizations to attract capital from national foundations, banks and other social investors. By making coordinated grant requests to support the same business model, potential national investors are not limited to a single request

from a single entity, and have significant flexibility to distribute capital among the participating NALCAB Network Lenders. For the *Acceso* Loan Fund, for example, no single NALCAB network lender could present such a powerful value proposition alone, but collectively, it is a credible and scalable investment opportunity available to grant makers and capital providers seeking to invest in Latino small business growth.

Consortia Can Build Capacity While Achieving Scaled Impact

In the NALCAB Network Small Business Lending Consortium, NALCAB found that working as a financial intermediary with less experienced lenders provided an opportunity for intensive technical assistance around issues including timely reporting, covenant monitoring, working out troubled loans and executive succession. Not all the sub-borrowers were tracking the same data, and some did not have the capacity to collect all the information needed. NALCAB utilized industry standard metrics and guidance from the larger lenders in the consortium to build the forms and processes to collect this information. As a result, participation in the consortium improved organizations' reporting and tracking efforts for their overall portfolios. It is vital that nonprofit organizations have consistent and strong reporting and tracking methods, not only to report back to funders, but also to have a story to tell to attract new capital and grow their programs and services.

In the NALCAB Network Small Business Lending Consortium, three of the four lenders were experienced, U.S. Treasury-certified Community Development Financial Institutions (CDFIs) and deployed the loan capital in less than a year. MEDA of San Francisco is a high-capacity provider of small business development services that sought to launch a new small business loan fund – The Adelante Fund. The Surdna PRI investment helped MEDA's Adelante Fund to develop the track record needed to secure the important CDFI designation. In addition to the \$500,000 PRI to begin making loans, NALCAB provided support to MEDA in 2016 to secure a CDFI Technical Assistance grant from the U.S. Treasury CDFI Fund to build their lending capacity. In April 2017, MEDA was able to obtain CDFI certification. MEDA has since leveraged this early stage investment to dramatically grow its small business loan portfolio.

Consortia Efficiently Replicate Best Practices

The Affinity Group Lending (AGL) Consortium with FINANTA is perhaps the best example of how a consortium led by an experienced lender can be used to efficiently replicate a proven best practice among other organizations. FINANTA is one of the top five SBA microlenders in the country and pioneered the use of SBA funds through the AGL model. SBA leadership has shown support for this model and its proven track record of expanding access to capital to those entrepreneurs who need it the most. NALCAB leveraged this momentum by applying for a SBA PRIME grant in partnership with FINANTA to support FINANTA's efforts to expand this innovative model to other small business lenders across the country, which was awarded in September 2019.

NEXT STEPS

The NALCAB Network Small Business Lending Consortium, FINANTA Affinity Group Lending Consortium and The Acceso Loan Fund are clear examples of how small business lending consortia can increase capital available to deploy to underserved borrowers, help Latino and immigrant-serving CDFIs meet demand, expand the creative use of traditional sources of capital and allow for increased financial stability of consortium members.

Challenges still remain for CDFIs seeking to serve Latino and immigrant small business owners. For example, among NALCAB's membership one of the largest challenges has been staff retention, particularly given the competitive salaries offered by more traditional lenders compared to mission-based nonprofits, and front-line lending staff who are able to provide culturally-relevant lending services are in high demand. Additionally, leadership transitions have been a challenge, particularly in Latino-led CDFIs, which are often led by the founder of the organization.

NALCAB will continue to invest in consortium models and encourage peer-to-peer learning, the exchange of best practices, and the replication of successful business models among consortium members to address these issues, and to provide technical assistance that is flexible enough to meet the unique needs of participant. Together, we have created a greater impact on our communities, reaffirming NALCAB's motto, *Juntos Somos Más* - together, we are more.



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