



PODCAST TRANSCRIPTION SESSION NO. 141-GINA HARMAN

Welcome to the Lend Academy Podcast, Episode No. 141. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt.

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Peter Renton: You know it's not often I have someone from the non-profit sector on the show, but there are many organizations doing great and important work here and one of those organizations is Accion so I wanted to get the CEO of the US Network for Accion, Gina Harman, on the show to talk about this important work that they're doing. Now this is the small business lending arm of Accion, part of the larger organization which we describe in some detail.

We talk about also who are the typical organizations they're serving, these are underserved communities for the most part and what their approach is to underwriting and how important they say it is to really get these small business owners a loan that is right for them. They do this really in a consultative approach where they're really working with these companies one-on-one; we talk about that in some depth. We also talk about the scale they're at, their surprisingly low default rates, given that these are subprime communities, and we talk about what excites Gina for the future. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Gina!

Gina Harman: Thank you, happy to be here.

Peter: So I like to get this things started by giving the listeners a little bit of background about yourself and what you've done in your career before you've come to Accion.

Gina: Sure, happy to do that. My career is bookended by time as I am today in a non-profit environment. In the middle of that, I took a 25 year timeout and worked in the private sector, in the hard goods area. It was a great learning experience and I'm sure much more relevant to what I do today than many people might expect.

Peter: Okay, so then what was it that brought you back to the non-profit sector and joining Accion?

Gina: I live in downtown Manhattan and frankly it was right after September 11th when the local business community was devastated, as were so many others and I started asking friends and contacts who were doing work to try and revive the small business community in Lower



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Manhattan and that's how I found Accion. So I joined as a board member in early 2002 and some seven years later when a vacancy was created by the departure of a CEO for the lending organization in New York, I took that position and have been with Accion ever since.

Peter: Okay, okay, so then for those of us who don't know what Accion does, I know it's a multi-faceted organization. I know that, I'm still trying to grapple all the different pieces myself, but can you tell us a little bit about the history of the organization and the different components and where your particular piece fits?

Gina: Sure, Accion has been operating around the globe for 55 years now and it began in Latin America as a project for reviving small villages through entrepreneurship and some 25 years later, Accion's work had grown throughout Latin America. The idea was to take the experience of working with Hispanic populations back to the United States where that was a growing portion of the population.

Today, I work in the domestic area working with lenders across the United States, but Accion's work globally has grown now to include Asia and Africa and working both through institutions, banking institutions, as well as through impact investment funds that are really targeting companies that are capable of creating greater opportunity for the disadvantaged around the world.

Peter: Okay, so your particular piece now...you're focused on the US and are you focused specifically on supporting those disadvantaged people or populations inside the US?

Gina: That's exactly right. We work with communities all around the country that are really defined by a few things. There are high immigrant populations, typically dense urban areas and what we're doing is providing capital and support through marketing, coaching, connecting folks to networks to create a greater likelihood that small business owners are going to have what they need to succeed.

Peter: And so you are a non-profit? Your organization is a non-profit as well?

Gina: That's correct, we are a non-profit, we are certified by the Treasury Department's Community Development Financial Institutions program that supports organizations like ours around the country with capital and technical support.

Peter: Okay, so you're a CDFI, what does it actually mean? When you said Treasury support, what does that actually mean?

Gina: As a CDFI we have a common commitment to working with communities of color and low to moderate income business owners. What it enables us to do is apply to the Treasury for funds. I think the largest award is a \$2 million award and Accion has received that capital and support for technical assistance in the form of grants for every year, I believe, since the CDFI fund was created. It's about a \$230 million fund annually in the US.



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Peter: Right, right, okay. So you're providing capital to these small businesses or small business owners? Like you said, I think you said capital and support, so what exactly do you provide?

Gina: So when business owners are working with Accion, there are several elements and I think as somebody very familiar with business this will ring quite true to you. It takes more than having the funds you need, but without them it becomes very difficult. So we focus on helping business owners understand the nature of their business, their cash flow, where the opportunities for growth are.

We do that through one-on-one programs and through coaching programs that are supported by the funds that we raise through philanthropy, but also through programs like Brewing the American Dream which we have been doing with the Boston Beer or brewers of Sam Adams Beer now for nearly ten years. So it's coaching around fundamental business principles, it is also about connecting people to markets and to networks.

I think a very important element of the work that we do is to help business owners break out of isolation. We talk a great deal about cash flow and all the things that a business owner can do to improve what their cash flow looks like. Sometimes that's connecting a business owner in one part of the country with a business owner in another, it might create an opportunity through contract sales to one of our supporting law firms. There are various ways in which we provide that support.

Peter: If I understand you rightly, you're providing support to all kinds of different businesses and is a subset of those people receiving capital as well or...

Gina: That is right.

Peter: Okay, okay, got it.

Gina: That's exactly right.

Peter: So can you just maybe give us a sense of who are these small business owners, just give us a sense of your typical clients.

Gina: Sure, typically for Accion, these are either sole proprietors or businesses with five or fewer employees, they can be much larger than that, but the core of our work would be with businesses about that size, revenues \$250,000 or below and a part of that is that our maximum loan size kind of dictates how large the business is that we're going to work with.

Our average loan across the country is about \$11,500 so if you do the math it makes sense all the way around. That's the kind of businesses we're supporting that would find that level of capital infusion really beneficial. It's everything from your local barbershop to food manufacturers. There's been a huge growth of microbrewers which Accion has supported, but also lots of smaller food companies, beverage companies as well. Lots of transportation, with



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the growth of the 1099 economy. If you look at companies like Uber or Lyft, the drivers are all using their own vehicles and that frequently requires a loan for the acquisition of that vehicle or sometimes for the insurance payments. It can be lots of retail, variety of services that communities depend on, local grocery stores, anything that makes a community flourish or community services, ones that are able to support a healthy and growing community.

Peter: Right, right. So then is there...I'm just trying to think about like established businesses, maybe those that are just looking for a \$15,000 loan or something, do you work with anybody who comes to you or you go and say look you're a 50 person business and you're just not really suitable for us. Is there sort of a vetting process?

Gina: There is a vetting process. About 50% of those we serve are referred to us by banking institutions, the kinds, it's either the nature of the business, an at home business, for example, you could well imagine a banker is not going to take the time to underwrite or to even try and understand the mechanics of it, it would be inefficient for them to do so. But we also are dealing with business owners who the scale of the business or the size of the loan they need just doesn't fit a traditional banking institution. Then there are those we serve who have not yet established credit or who have had damaged credit in the past and are not going to fill the requirements of traditional banking.

So since a great many of our referrals come from those institutions businesses could involve somebody who is employing 50 staff members, it's not likely. We're looking always to connect people to the right sources of capital so if people can do better by going to a bank, we may work with them to understand why they have chosen not to, but we wouldn't reject them on the basis of their profile not fitting what we do. They might not be happy with the amounts of capital we could provide and their decision might be to seek capital elsewhere.

Peter: Right, right, okay. So then beyond the banks that are referring these people to you, how are you finding these small business owners?

Gina: So there are three categories, referrals are one, the second would be from existing Accion clients or former Accion clients, word of mouth for our business. We're also developing a stronger presence online which is where a great many business owners are searching for capital these days so we are trying to be present in meaningful ways so that we're included in their search outcome.

The third is our connections throughout communities, whether it's the local business association, a Kiwanis Club or the US Chamber; it might be community organizations that are working on housing issues or health issues, it's a network of essentially trusted advisors connected throughout a community and across the country who refer folks whom Accion would refer someone if they needed a business plan prepared or they needed debt consolidation.

Peter: Okay, so then are you nationwide? I mean, are you in every state, where are you focused?



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Gina: Yeah, well we have essentially retail offices in 14 states in the country, but we are accessible online everywhere in the country with one exception only and that is the state of Vermont, where the rules around lending are restricted and expensive to operate and a state that for us just doesn't hold much opportunity, but yes, you can access Accion anywhere in the country.

Peter: Okay, so I want to talk about the loans themselves that you're offering. Can you give us some sense of the typical loan terms, you said like \$11,500 average. Are these one year, three year, and what are the interest rates, that sort of thing?

Gina: Sure, average term is about 24 months, average interest rate is just under 11% and as I said, the average loan size is about \$11,500. We are participants in a relatively new program through the Small Business Administration called Community Advantage where loans will go up to \$250,000 which is higher than where Accion has traditionally been, but with the support of the SBA we are now finding that that is a gap in many markets that Accion is able to fill.

Peter: Okay, and so that's a pretty low average interest rate from a small business loan. I'm curious about a couple of things, firstly, how do these loans perform? Accion has been around for a long time, you've obviously got some expertise in underwriting these things, but I would think it's a reasonably high risk population, can you give us some sense on how the loans are performing?

Gina: The loans are performing extremely well. I think we have not yet closed books on 2017, but typically, our annual write-offs are at or below 4% which is a really healthy portfolio. I think we come at this with the belief that it is our obligation to underwrite these loans fairly and with the understanding that a loan that goes bad for Accion is a financial hardship, but for the business owner that's a hardship that lasts a really long time.

You know, you can't access credit because your credit score or your credit performance is damaged; it's very costly. So we do a lot of that work upfront and our portfolio performs as a result of that. So we are working with what the industry would certainly describe as subprime clients and we are proving that looking simply at a credit score doesn't create the kind of opportunity that's justified in business owners' willingness and determination to pay back a loan.

Peter: Right, right. So then do you...if someone comes along to you and they've had a bankruptcy or there's some sort of red flag where obviously a more traditional lender would reject them. I'm just trying to get a sense of where you draw the line on these people as far as underwriting them.

Gina: So typically around the country if you have missed payments on any debt that you're currently carrying at about \$3,000 over the past six months, we're probably going to recommend that you work with somebody to get your overall debt better organized and then would welcome you as an applicant anew.



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If you've had a bankruptcy or you've lost your home within the last year, Accion is not going to be able to do more than help you work through the consequences of those episodes, we're not going to make a loan at this time.

But it's really important to us that very frequently and I think as an entrepreneur yourself you know it's sometimes much more difficult to say no than it is to say yes; no to projects that come your way that you probably shouldn't take on, but it's also about saying no to folks at the right time around credit, but creating an avenue for them to create a better time to come back and get the capital they need for their business.

Peter: Sure, and so do you have nationwide guidelines, you said you have like 14 offices, do you give those offices autonomy in making these decisions or is there really a nationwide guideline that everyone has to adhere to?

Gina: It's actually both. The level of risk is set locally because each of the organizations is responsible to a board that has fiduciary care over that organization's operation. So in one part of the country and depending on the financial health of the organization, willingness to take greater risk might exist and in others a lower appetite for risk, but by and large, we operate within about a tolerance for 8% of the portfolio being delinquent. That doesn't mean we look for it to be at 8%, but that's kind of the risk tolerance.

Accion has national financial standards that are monitored quarterly and annually that address things like the need to increase net assets on an annual basis or what portion of the portfolio is delinquent and what portion of it is being restructured and the object of that is to make sure that we're holding ourselves to a standard. That's at least as high as those we hold the borrowers to, but there are standards that allow us to operate a healthy organization.

Peter: Sure, sure. So then what about the scale, I mean, you've been around for a while, can you give us some sense of the number of loans you're doing annually and sort of the total volume?

Gina: Sure, we do about 4,000 loans a year as you can extrapolate to about \$44 million of disbursements a year. Our active portfolio is twice that size at a minimum. For us to get to those 4,000 loans we've probably worked one-on-one with four times that many business owners and either directed them through counseling, mentoring, marketing activities or decline them after a process of evaluating where their business stands.

Peter: So then it sounds like it is somewhat of a labor intensive operation, I mean, how many people do you have employed nationwide?

Gina: There are about 220 of us nationwide, it is very labor intensive, it's been one of the real struggles for Accion and one of the things that really appeal to me coming to work at Accion, that is to figure out how to scale the operations.



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Someone, very recently, who was familiar with our work but didn't understand it happened to have been Jamie Dimon whose own experience with the effort to get the funds for Entrepreneurs of Color off the ground in Detroit said to me, this is really a ground game and it's a hard slog, but the outcome of that effort is enormous. I think at that moment they had disbursed the entire fund they created for Detroit. He was amazed by how long and how hard an effort it was to get it done, but the loans were performing extremely well and that led subsequently, I think about a week later, to an announcement that they were doubling the funds.

It is a ground game, but it's a ground game that I think can be enhanced with technology investments by being smart about things that really need to be done face-to-face or one-on-one and getting all of the things that don't need to be done that way done with the benefits of machine learning and a lot of the investments that others have made to make the marketplace for capital bigger, broader, more expansive in the United States.

Peter: Right, right, okay. So then I'm wondering about how these loans are funded. I know that you talked about grant support and philanthropy...obviously you're making money back on the interest that these loans are paid back on, but can you give us a sense of where the money comes from, a breakdown of how they're funded?

Gina: Sure, so to keep an average loan interest rate at about 11%, we're raising about 40 cents of every dollar that we lend and we're doing that through financial institutions. Sometimes motivation for their support is described as fulfilling their CRA obligations, I think they also understand it's smart business.

There are philanthropic institutions, foundations all across the country, some of which have very local interest points and some of which are national like the Kellogg Foundation that's been a big supporter and Sam's Club Foundation or actually, the Walmart Foundation has been a big supporter of Accion over the years and then there are individuals who see investing in small business as a good business move and consistent with their own personal belief. So it's government, financial institutions, philanthropy and individuals are really what make up our ability to do this work.

Peter: Right, so you don't actually have a funding line with a bank somewhere where you're paying for your capital that way?

Gina: Yeah, we do. Every national bank, in one way or another is supporting us, creating our liquidity, the interest rates for everybody have been, other than from the investment side have been very low over the last 8 to 10 years and we have benefitted from a very lost of capital and we'll see how that holds over the next period, but yeah, we have lines of credit and debt from every major financial institution across the country.

Peter: Right. I'm just thinking about the one-on-one kind of interaction you're having. So what happens when someone starts to get behind on their payments? Is this something that will come as a complete shock, or are these communications happening so it's not unexpected and what steps do you take once that happens?



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Gina: We have a pretty rigorous process for staying on top of loan repayments that's been developed and altered over the course of time through our understanding of our own performance and data that has us contacting a borrower before their first payment is due. History will say that if a loan is going to fail, a significant percentage of them are going to fail before the first payment and then anytime a loan has had any period of delinquency the frequency with which we are in touch with that borrower increases. Now we're evolving to using email and text reminders to make sure that we are top of mind, that people are managing their cash flow each month.

But loans go bad, people have unexpected occurrences, it could be health, it could be a car breaking down. I'm sure you're familiar with the statistics on how few Americans can handle a \$600 unexpected expense and that holds true for small business owners as well. You know, some of our loans are collateralized in traditional ways that really varies by geography. Very frequently we have cosigners on loans and we take the repayment of the loan as seriously as anybody else does. We've just adjusted our collection methodologies based on insights from our own data to make sure that the frequency of contact is high enough that the relationship with Accion makes us the top consideration when the payment is due.

Peter: Okay, so we're almost out of time so just one last question here. I'm curious about your role here and what you're personally working on right now that is exciting for you?

Gina: So as I mentioned a moment ago, my interest at being at Accion is a firm belief in our mission and that technology and smart investments that are available to us today can allow us to scale and serve tens of thousands of borrowers in a year versus 4,000 in terms of loan disbursement and that's really what's driving me. That means exploring what's happening in the marketplace, understanding what technologies are available, understanding how people are shopping for capital, what their expectations are.

As I said, I came out of a hard goods business where knowing your customer really was as important as it is in any business and it's just as important here. We have had to develop more sophisticated techniques for understanding where the opportunities are. A borrower today, unfortunately and in some ways fortunately, expects an answer within seconds, expects the process to be a very low lift and are good and bad making decisions very, very quickly. That's something that has the potential to affect their business' trajectory for a very long time. We may like it, we may not like it, but the fact of the matter is it's the way people feel about it today. I get 20 offers today for a small business loan that can be transacted, in the claims anyway, as quickly as 5 minutes. For Accion, you know, when I came to the organization I think it took us 35 days to make a loan decision.

Peter: Right.

Gina: And all of us know that's just not acceptable or not having presence where people are shopping and not being able to know the difference between a shopper and somebody who wants a loan this minute. These are all things that drive me because I believe they are



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all expectations that we can address. Addressing them is about being able to reach tens of thousands rather than a few thousand a year.

Peter: Right, right, okay we'll have to leave it there, it's fascinating. I really appreciate you being on the show today, Gina.

Gina: Thank you, I'm so glad you invited me.

Peter: See you.

Gina: Bye.

Peter: I think it's really important, the work that organizations like Accion are doing where they're providing financing to these underserved communities. Let's face it, these are entrepreneurs that would probably be rejected by OnDeck and Kabbage and other for-profit lenders or if they were accepted it would be at a much higher rate. So the fact that Accion can do this supported by philanthropy, I think, is a great thing because the urban areas, these underserved areas, I think for them to really regenerate and to thrive they need these small businesses getting access to capital.

They need a thriving small business community and that is what Accion is helping to provide. I really support their efforts, I mean, thousands of loans a year is making a big difference. It's great that Gina is focused on tens of thousands and scaling up to who knows even hundreds of loans a year because I think the more work that they can do in these communities, I think the better off this country will be.

Anyway on that note, I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.

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