



## **Starting and Growing Micro Businesses in Asheville and Buncombe County**

### **A Request to Buncombe County**

January 17, 2014

#### Summary of Request

Mountain BizWorks requests \$50,000 to increase our micro lending to low-income and unbankable entrepreneurs in Buncombe County – entrepreneurs who are starting and growing small businesses that have the potential to create jobs in Buncombe County. We will use these funds to make at least 25 microloans to small businesses in Buncombe County over the next year, loans ranging from \$2,500 to \$50,000. As borrowers repay their loans, we will relend the funds.

#### Allocation of Funds

The \$50,000 will be used specifically for lending in Buncombe County.

\$45,000 will serve as the loan loss reserve requirement for the Small Business Administration (SBA) Microloan Program and enable us to access \$300,000 from the SBA microloan program.

In brief, Buncombe County will turn \$45,000 into \$300,000 in loan capital. Mountain BizWorks was recently approved for additional funding (a total of \$1 million) from the SBA Microloan Program. In order to leverage or draw down these funds, we must provide a 15% match and fund a loan loss reserve for any amount we request. The \$45,000 from Buncombe County will fund the match and loan loss reserve requirement so that we can access \$300,000 in SBA funds, which we will use to make loans to entrepreneurs in Buncombe County.

These borrowers will also have access to unlimited, free business consulting and technical assistance, as described on page 3.

The remaining \$5,000 will be used to establish a fund to buy down rates for the approximately 25 entrepreneurs who borrow SBA loan funds from Mountain BizWorks. This means borrowers may have access to rates that are lower than rates typically associated with Mountain BizWorks' typical loans.

For example, and as described on page 2 of this proposal, the interest rates for Mountain BizWorks loans range from 7.5% to 11%, depending on the risk of the loan, the amount of time required to service and administer the loan, and the technical assistance and training required by the borrower. In

keeping with our normal loan process, we will charge borrowers a rate of 7.5-11%, but we may use the fund described above to pay a portion of each borrower's monthly payment, essentially charging them a lower rate. We will work with Buncombe County to determine the rate threshold for this fund.

Additionally, if Mountain BizWorks is awarded this \$50,000, we will work with Buncombe County to develop a contract or agreement to ensure that the \$50,000 is used as described in this section of the proposal.

### Statement of Need

In the absence of larger employers, Buncombe County has a robust entrepreneurial culture. However, low-income entrepreneurs find it difficult to access capital to launch or grow their businesses, and thus create living-wage jobs for themselves and others over time.

Low-income entrepreneurs have specific needs for loan capital, but many are unable to access bank financing. In many cases they lack the financial track record required by banks; have limited business experience; have blemished credit or no credit scores at all; lack the collateral necessary to access bank loans; or are considered "high risk" due to the nature of the business they operate (a restaurant is an example of a high-risk business).

Mountain BizWorks fills an important niche in the community through our micro lending, as many entrepreneurs who seek smaller sums of capital (\$50,000 or less) are unable to access bank financing. Our micro lending enables us to place smaller sums of capital in the hands of low-income entrepreneurs as quickly as possible so they can start or grow their businesses.

### Mountain BizWorks Loans

MBW provides term debt up to \$50,000 (or more, in some cases) to a range of small businesses – from micro or start-up businesses that create jobs for the business owners, to existing small businesses that have the potential to create jobs for others. Our loans can be used for acquisition capital, working capital/inventory, cash flow/receivables, equipment purchases, business expansion, or a combination of these items.

Mountain BizWorks loans are the only alternative to bank loans when low-income entrepreneurs cannot obtain financing from friends or family. We use projected cash flow, among other criteria, and rather than business experience or credit scores, to make loan decisions. Mountain BizWorks has loaned over \$7 million to small businesses since 2007, and our loan loss rates are consistently under 2%. We attribute our low loan loss rates to the provision of our training and technical assistance for

borrowers, as well as the strong working relationship we form with our borrowers, and our ability to modify terms during the life of the loan should circumstances call for adjustments to meet the needs of our borrowers and help them succeed.

The interest rates for our loans range from 8% to 11%, depending on the risk of the loan, the amount of time required to service and administer the loan, and the technical assistance and training required by the borrower. Because we make loans to start-up and higher-risk small businesses that banks will not lend to, our interest rates are higher than rates available at banks.

Mountain BizWorks has almost 25 years of experience making loans to these types of small businesses while mitigating risk. We follow board-approved underwriting policies to ensure quality and consistency, and maintain a detailed electronic and paper trail of business and borrower performance and communications, including collateral and loan documentation.

We realize that a borrower's profile and market conditions change over time. This is especially true for low income borrowers who have little financial cushion to withstand a personal crisis or business hiccup. Therefore, our staff monitors loans on a regular basis and adjusts services and loan terms as circumstances change.

### Technical Assistance for Borrowers

In addition to providing loans, Mountain BizWorks provides its borrowers with training and technical assistance to ensure their business success. Our training and technical assistance help entrepreneurs address specific business issues, e.g. analyzing cash flow, forecasting profit and loss, identifying break-even points, navigating difficult industry issues, getting products to market, growing and marketing lines of business, and validating business models.

Mountain BizWorks is the only community lender in Buncombe County and Western North Carolina that provides its borrowers with these services.

Through almost 25 years of experience, we have learned that borrowers who receive regular technical assistance in conjunction with their loans have a higher rate of success. With access to competent technical assistance, borrowers can solve issues as they arise, thus creating both stronger businesses and more competent business owners. We understand that in order for our clients to succeed, we can't just lend money – we must also provide support through training and technical assistance to counter the pitfalls of business and to address in many cases our borrowers' limited business acumen.

We rely on experienced business professionals (contract business developers) to provide our training and technical assistance. Mountain BizWorks currently has 14 contract business developers who provide these services. Our business developers are experienced business professionals. At a minimum, they have owned a successful or profitable business; many have established and operated multiple businesses and served in management positions at major firms. We match our clients' needs with the experience and expertise of specific adjunct staff. As an example, a retail borrower may be paired with Helaine Greene, who grew a small retail shop to a 40,000 square foot manufacturing facility that employed 50 people.

Although there are a number of small business service providers in Buncombe County – organizations that we have good working relationships with and are proud to call partners – we must rely on our pool of business development contractors to provide our technical assistance due to the specific needs of our borrowers. Also, as a financial institution, we have access to certain financial information that cannot be shared with individuals outside of the organization.

### Results

Over the next year, Mountain BizWorks will lend the \$300,000 to micro businesses in Buncombe County. This represents approximately 25 business loans. As a result of our loans, these 25 businesses will create jobs for the owner and in some cases others. We anticipate that these 25 businesses will create or retain 40 jobs.

These jobs will provide regular and reliable wages that enable families to build assets, e.g. put money back into the business or into a savings account; buy a home; save for their children's education; or save for retirement. As families build assets, they will achieve a permanent foothold in the middle class; and the loss of a job, unforeseen medical expenses, or other unplanned expenses will not cause a catastrophic slide into poverty.

By the end of a two-year period, we anticipate that 40 individuals and/or their families will report that they are building assets in at least one of the methods identified above. Asset building is the focus and ultimate outcome of our work, as illustrated in our theory change: the provision of capital + business technical assistance = living wage jobs = asset building = permanent foothold in the middle class. This foundation of family security helps to stabilize and grow our local economy.

### Updates and Reports to Buncombe County

Mountain BizWorks will provide semi-annual reports to Buncombe County on increased lending resulting from this \$50,000. We will provide updates on our total lending (number of loans and



dollar amounts) as well as business-specific information (types of businesses that receive loans, jobs created and retained, etc.) and borrower profiles.

Consistent with many community development financial institutions, we currently use the number of businesses created or sustained and jobs created or retained to measure our success. Our lending staff collects client and business information during the underwriting process and on an annual basis via tax returns and other documentation.

### Organizational Sustainability

To ensure that Mountain BizWorks remains a permanent resource for entrepreneurs in Buncombe County and Western North Carolina, Mountain BizWorks recently restructured to be more streamlined, strategic and sustainable.

When Mountain BizWorks was founded in 1989, its primary focus was on learning. Gradually, that focus shifted to lending. Learning continued to play a significant role, however, through a wide range of classes, coaching and consulting services. A recent liquidity crunch exposed that this model was not sustainable.

As a result, Mountain BizWorks was forced to cut staff and restructure the organization. This new structure focuses on the greatest need of small businesses in Western North Carolina – lending – while also providing borrowers, potential borrowers and other groups of entrepreneurs with the support they need to succeed.

This structure also avoids duplication of services. Since Mountain BizWorks was founded, a number of organizations have stepped up to offer classes for entrepreneurs, including AB Tech, SCORE, Small Business and Technology Development Center and others.

Most importantly, the new structure will allow the organization to become more sustainable over time. Approximately 7 full-time and 14 contract business developers (compared to 15 full-time staff and 20 part-time staff under the previous model) will provide lending and learning services to entrepreneurs. Some of our programs under the previous model will be folded into the new structure while others will be dissolved. This is an important step for the organization, as it will enable Mountain BizWorks to reduce its reliance on grant subsidy over time. Previously, Mountain BizWorks required over \$1 million in grant or contributed support annually to support operations. Under the new structure, Mountain BizWorks will require just under half of this amount, approximately \$533,000.



This new structure will also enable Mountain BizWorks to reduce its administrative expenses over time. As noted in our 2012 audit, approximately 82% of our expenses (\$1,302,469 of the \$1,581,730 in total expenses) were allocated to program (lending and learning) services. The remaining 18% included administrative expenses, i.e. management/general, fundraising and operating/general expenses. Under the new structure, we have streamlined our operations and consolidated some positions while eliminating a few administrative and management positions. As a result, our administrative expenses should be at or under 15% going forward.

The Board and staff of Mountain BizWorks are working together to ensure that Mountain BizWorks remains a financially solid enterprise, one that can adapt to meet the ever-changing needs of entrepreneurs in Buncombe County and Western North Carolina. With the support of partners like Buncombe County, Mountain BizWorks can continue to meet its mission of creating economic opportunity by helping small businesses start, grow and create jobs through lending and learning for many more years to come.