Bridging the Capital Access Gap

A Curriculum for Lenders, Business Development Organizations, and TA Providers

LISC ICIC

Main Topics

CHAPTER 1

Lending Landscape

(Modules 1 - 4)

CHAPTER 2

Underwriting Basics

(Modules 5 - 8)

CHAPTER 3

The Best Version of the Business

(Modules 9 - 14)

CHAPTER 4

Preparing for the Next Level

(Module 15)

CHAPTER 5

Resources for Professional Development

(Module 16)

CHAPTER 3

Best Version of the Business

(Modules 9 - 14)

Quality Applications (Module 9)

Startups vs. Existing Businesses (Module 10)

Loan Ready vs. Not Qualified (Module 11)

Improving Credit (Module 12)

Improving Debt Service Coverage (Module 13)

Collateral (Module 14)

Loan Ready vs Not Qualified

11

Loan Ready vs. Not Qualifying: What You'll Learn

- What does 'loan ready' mean?
- How is that different from not qualifying?
- Why it is important to determine the difference.

Loan Ready *and* Qualified

- A client can be “loan ready” but still unable to qualify for a loan.
- Underwriting criteria can set a high bar for loan qualification.
- Loan applicants who don’t meet this criteria could, nevertheless, be successful borrowers.

A credit score does not necessarily predict the probability of default.

If a lender uses a cut-off score of 670, the group being narrowly rejected by the cut-off has a bad rate of 4.9% — which means that of all the applicants in the 651–670 pool being declined by this lender **95% would most likely not default**

Alternative Data & the Unbanked, Oliver Wyman

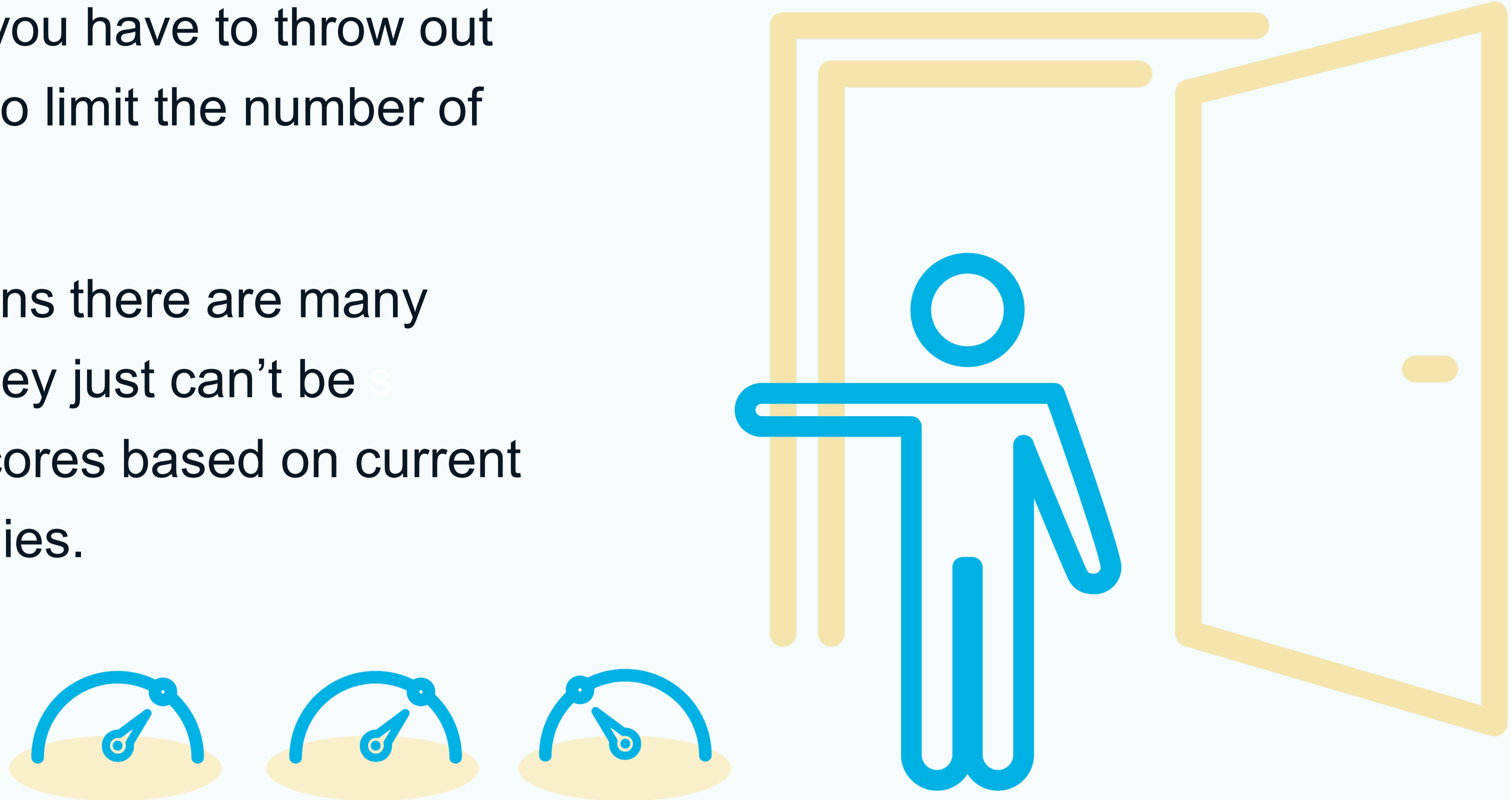
Exhibit 2: Illustrative bad rate by credit score interval

SCORE INTERVAL	90+ DPD
811-850	0.1%
791-810	0.2%
771-790	0.4%
751-770	0.7%
731-750	1.1%
711-730	1.7%
691-710	2.6%
671-690	3.7%
651-670	4.9%
631-650	7.0%
611-630	9.2%
591-610	12.2%
571-590	15.5%
551-570	19.6%

More from “Alternative Data”

- With traditional credit scores you have to throw out a lot of likely ‘goods’ in order to limit the number of ‘bads’ you let in.
- Among the marginal turn-downs there are many more ‘goods’ than ‘bads’ — they just can’t be distinguished using current scores based on current data sources and methodologies.

— **Oliver Wyman**



Factors not recognized by some lenders

- As mentioned in Module 9 on quality applications, lenders rely on numbers when making decisions.
- Some underbanked and/or thin-credit file clients might:
  - – Have been running a business successfully for several years.
  - – Have a ‘sure fire’ opportunity to grow their business.
  - – Have done significant research on their project.

Thus, are loan-ready, but still do not qualify.

Important to differentiate:

- Between the clients who are not loan ready – don't have business ownership experience, have a record of not being profitable, real issues on their credit reports, haven't done their research, etc.

- And those who are quite ready for a loan, but do not meet lenders' underwriting criteria.

The former need coaching & training to improve their situation.

The latter need help finding a mission-based lender willing to look beyond thin credit history or to use projections to demonstrate cash capacity.

Finding a way

- We don’t want to label everyone who does not qualify as “not loan ready.”
- We need to recognize that some clients don’t qualify for loans due to structural or systemic inequality.
- The challenge for business development organizations is to find ways to get these clients capital.
- Mission-based lenders and start up capital suggestions in Module 10.

Look for mission-based lenders

Here are just three examples.

- **Mission Asset Fund** is a nonprofit organization that offers financial stability to low-income families by facilitating zero-interest lending and simultaneous credit building.
- **Inclusive Action for the City** runs a loan fund to support business owners who cannot secure capital from traditional lenders yet require support growing or formalizing their business.
- **Feed the Hunger Foundation** works with small food entrepreneurs.

CHAPTER 3

Best Version of the Business (Modules 9 - 14)

Quality Applications (Module 9)

Startups vs. Existing Businesses (Module 10)

Loan Ready vs. Not Qualified (Module 11)

UP NEXT

Improving Credit (Module 12)

Improving Debt Service Coverage (Module 13)

Collateral (Module 14)

LISC *Capital Access* Training Modules

CHAPTER 1

Lending Landscape

(Modules 1 - 4)

1 Lending Landscape
2 When to Borrow
3 Finding the Right Lender
4 Building Relationships with Lenders

CHAPTER 2

Underwriting Basics

(Modules 5 - 8)

5 What is Underwriting?
6 Five C's Overview
7 Understanding Credit
8 Debt Service Coverage

CHAPTER 3

The Best Version of the Business

(Modules 9 - 14)

9 Quality Applications
10 Startups vs Existing Businesses
11 Loan Ready vs Not Qualified
12 Improving Credit
13 Improving Debt Service Coverage
14 Collateral

CHAPTER 4

Preparing for the Next Level

(Module 15)

15 Preparing for the Next Level

CHAPTER 5

Resources for Professional Development

(Module 16)

16 Resources for Professional Development

Thank you for joining us!

Presenter: Susan Brown
Business & Nonprofit Development
Microlending & CDFI Capacity Building
Online Program Design
susanrileybrown.com

LISC

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