Microloan, Big Payoff: Alternate funding method provides financial flexibility for businesses


BY: KYLE BOAZ, REPORTER*kboaz@sbj.net*

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A funding mechanism for startup and small businesses is making big dividends as an alternative to traditional loans.

Microloans, federally defined as small-business loans under $50,000 and underwritten by the U.S. Small Business Administration, can be used when banks deny a traditional loan or when a small amount of capital is needed.

“Nobody knows about them. The biggest thing is just talking about it and making sure people are aware,” said Mary Overbey, Missouri outreach manager for Small Business Majority. “It starts at $500 normally, and those a lot of the time are credit-building loans.”

Brandon Taylor, chief financial officer and chief operations officer at Legacy Bank & Trust Co., said startups use microloans as seed capital and smaller, established businesses use the loans for cash flow, equipment purchases or expansion.

“Microenterprise loans may mirror traditional loans in many ways, but oftentimes the small businesses who seek this type of financing may not have sufficient collateral, credit history or there may be other factors that make traditional financing difficult,” he said.

While microloans have been around since the early 1990s, their use is beginning to trend upward.

SBA data show a 48 percent increase in the number of loans nationwide to 5,459 microloans in 2018 from 3,682 in 2015.

“More people are getting them and are talking, so it’s that word of mouth and networking,” Overbey said.

Microloans are available locally through four entities, including Community Development Financial Institution-certified banks Legacy Bank & Trust Co., and its parent company Ozarks Heritage Financial Group, and Century Bank of the Ozarks, according to the CDFI fund website.

A St. Louis-based company, Justine Petersen Housing and Reinvestment Corp., covers the Springfield area through its Great Rivers Community lending organization, and San Antonio-based LiftFund has a representative that covers Missouri, with an average loan of $17,000-$18,000, Overbey said.

While those entities provide microloans, the partial government shutdown has made an impact on issuance, with SBA offices currently closed and the CDFI Fund’s website stating its services are currently unavailable. No loans have been issued since the shutdown went into effect Dec. 22, 2018.

“You have SBA lenders that have a backlog right now of business owners who have put in their applications. Nothing is getting processed,” Overbey said.

A bank can become CDFI-certified by applying through the CDFI Fund’s Awards Management Information System. Certain criteria, like having a primary mission of promoting community development, need to be met.

Taylor said Legacy Bank issued nearly 300 business builder loans, its name for microloans, in the last 12 months, totaling nearly $5.8 million.

Overbey said Justine Petersen Housing and Reinvestment Corp. focuses on loans to support individuals who may not qualify for funding from a traditional bank.

“Justine Petersen will work with someone with a low credit score,” she said. “Their whole role is to help people get bank ready.”

The average interest rate for microloans, Overbey said, is in the 6-9 percent range, with payback terms between two and five years.

Lending in action

English Apparel & Promotional Materials LLC uses microloans as working capital for larger inventory orders.

Owner Angie Bellanti went through Legacy Bank.

“They make it very easy to operate,” she said of the loans. “As a small business, it’s not easy when you have a $30,000 order.”

The microloan acts like a line of credit, Bellanti said, for English Apparel to fill large orders, and allows a 90-day window to float the money.

“That’s where it helps,” she said. “Essentially, it helps with cash flow.”

Bellanti said English Apparel averages $10,000-$15,000 per loan but will borrow up to $40,000 on occasion.

The company had used lines of credit previously through BXS Insurance Inc., starting in 2016, but switched to Legacy Bank in July 2018.

The company sometimes takes two or three microloans out at a time, using the inventory on order as collateral.

“It was fairly straightforward since we have a proven track history,” she said of the process.

Bellanti said the company went through a buyout of former partners Paul Sundy and Mike Heslin on Aug. 1. She used a microloan to help fund the purchase.

“If I didn’t have the opportunity for these loans, I probably wouldn’t have been able to take the leap I did,” she said. “It was a godsend to us, basically.”

Tracey Withoelder, co-owner of The Urban Cup LLC with her husband Cory, went through Justine Petersen for a $25,000 microloan.

“It was pretty standard loan stuff,” she said, likening the process to buying a house. “We weren’t sure in the beginning if we were going to have employees or remodeling, but we wanted to have that money just in case. We wanted to have some form of backup.”

She said the loan ended up being mostly for working capital.

Withoelder sought out a traditional bank loan at first, but due to the infancy of the business, not having a revenue history and asking for a small amount, a loan couldn’t be secured.

“If we didn’t need to borrow that much, we didn’t want to borrow that much,” she said.

For the little guy

While the loan amounts for microloans are smaller than traditional business loans, they act in similar ways, said Brett Magers, chief lending officer at Legacy Bank.

“It’s a customized product, not one size fits all,” he said.

Applying for a microloan also has similarities to the process for standard loans.

“You want to have your financials in order, you want to have a business plan,” Overbey said. “Each microlender is probably going to have different requirements.”

Some applications may be available online, depending on the lender.

“They’re going to want to look at your collateral, so you want to have a really nice list of your assets, your inventory, your real estate,” Overbey said. “You want to have a financial projection. The more prepared you are, the more likely you are to get that loan.”

Microloans also can help businesses establish credit or recover from a bad credit score.

“If you do have bad credit, a microlender is your only option,” Overbey said. “But it actually can help get you to where you have other options.”

Microloans must be paid back within six years and can only be used for working capital and acquisitions of materials, supplies, furniture, fixtures and equipment, according to the SBA.

Taylor said underwriting costs for a bank are tied to the complexity of the loan, rather than the amount, adding costs can be the same for a loan for $50,000 or $5 million. He said Legacy Bank offers microloans as a way to build relationships and help small businesses grow.

“We are a true community bank, so we believe that small business is the lifeblood of the community, and we want to give back and help those businesses grow,” he said. “It’s a good foot in the door to developing a relationship for years to come.”

Though microloans are a good fit for burgeoning businesses, they may not fit every business’ needs.

“Some people really do need that large-scale bank loan. Microloans, though, can be a really good building point for a small business,” Overbey said.

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