



Recession ups U.S. demand for microloans

Would-be borrowers turn to Third World-style lending system

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NEW YORK - When Amy Sokoloff and John Powell were trying to start their art restoration business in New York City, they needed some working capital. But banks weren't willing to take a chance on them.

"We didn't own anything — no houses, no cars, we had no collateral," Sokoloff said. Powell added, "No one wanted to talk to us. They were not interested, and they were not nice about it."

Sokoloff and Powell ended up on the doorstep of ACCION USA, a not-for-profit group patterned after the Third World microfinance institutions best known for providing money to Moroccan farmers for breeding chickens or to Bangladeshi women for weaving supplies.

The \$15,000 loan they got in 2005 — which they paid back in two years — got them the sunlit studio where their Chelsea Restoration Associates brings aged, damaged oil paintings back to life. Last fall, after the U.S. recession began to cut into their business, they went back to ACCION USA for a \$25,000 loan, "a tremendous help for cash flow" with an affordable 10.9 percent interest rate, Sokoloff said.

Sokoloff and Powell are among thousands of Americans using microcredit, a financing system originated in the Third World, to help open small businesses or get through rough spots. While the dollar amounts are much bigger in the U.S. than the tiny loans in developing countries — some for less than \$10 — the principle is the same: a financial stake that lets people in need better their lives.

Now, with the recession deepening, U.S.-based microlenders say they are seeing an increase in inquiries from would-be borrowers, including startup entrepreneurs seen as too risky by banks and other traditional lenders.

And the still-small U.S. microcredit sector hopes for a boost from the new administration of President Barack Obama.

Obama's secretary of state, Hillary Clinton, is a big supporter of microfinance, praising it during her confirmation hearing for its ability to "raise standards of living and transform local economies" overseas. Obama also has a personal link to the industry because his late mother, Ann Dunham, was involved in microfinance in Indonesia.

A staple of developing countries

These connections gave raised hopes among microloan advocates that some money from the administration's \$787 billion economic rescue package will filter into their programs. U.S. microlenders already get support from the Small Business Administration and a Treasury community development fund.

"We're hoping for more funding" from government, said Wendy K. Baumann, vice chairman of the Association for Enterprise Opportunity, an advocacy group for microfinance based in Arlington, Virginia.

Microloans have been made in developing countries for more than 30 years. Bangladeshi economist Mohammed Yunis made the first one of about \$27 from his own pocket to 42 women hoping to buy bamboo to make furniture. He later formed the Grameen Bank, which is now one of the world's largest microlenders and shared the 2006 Nobel Peace Prize with the founder.

In 2007, microloans went to some 154 million people worldwide, according to the Microcredit Summit Campaign. Estimates vary, but there are believed to be some \$25 billion to \$30 billion in small business loans outstanding globally.

In the United States, by contrast, an estimated \$100 million in microloans were provided to 13,000 clients by some 250 microlenders in 2007, according Elaine L. Edgcomb, director of an Aspen Institute project on the small loan movement. The average for these loans is about \$8,000 in the U.S., she said.

Microlending groups estimated defaults were a manageable 6 percent to 8 percent before the economy fell into recession but have grown since.

Gina Harman, president of New York-based ACCION USA, the country's largest microlender, said that nonprofit groups like hers were "very hands on" with borrowers and admitted "we're working harder these days to keep people current."

Harman said that in addition to the unemployed and the underemployed, a big market for microloans in the U.S. is the

immigrant community.

"Self-employment rises in importance for recent immigrants because their alternatives for jobs are limited," Harman said. Many don't know English and lack business connections, but come from cultures with strong entrepreneurial skills, she added.

Slow growth

Still, the growth of microfinance in the U.S. has been slow.

Jonathan Morduch, a professor of public policy and economics at New York University's Wagner Graduate School of Public Service, says one reason is that it's hard being an entrepreneur in America.

"It's a lot easier to go to work for someone else, get health benefits and collect a salary," Morduch said. "And starting a business can be especially hard in the United States because there's a lot of regulation you don't have in other places."

Microfinance experts like Alex Counts, president and chief executive of the Grameen Foundation, a Washington, D.C.-based microfinance support group, believe more could be done in America if more money was provided by foundations, wealthy donors and government agencies.

And many entrepreneurs need help getting started, he added.

"In a country like Bangladesh, the key constraint in capital," Counts said. "In the United States, capital is also a constraint. But there's also licensing and regulation ... and exposing people to business contacts who can buy their products, sell for them."

As a result, many of the most effective microfinance programs in America have a training component, he said.

"If you support people in developing networks and skills, say in going through the licensing process ... then loans in the range of \$1,000 to \$3,000 are often enough to jump start a small business," Counts said.

He said, for example, that such loans could help a laid-off cook start a home-catering business, or a fired daycare worker develop a home-based care service.

Supporting small business

Baumann of the Association for Enterprise Opportunity believes more money will become available for microloans.

"Credit is tightening, and more people are coming to us," she said, adding that this should prompt banks and other big financial institutions "to wake up and figure out how we can partner with them" to support small business.

Baumann, who heads the Wisconsin Women's Business Initiative Corp. in Milwaukee, Wisconsin, said that about 70 percent of the group's microloans are for startup businesses, with the rest going to small businesses that are growing or facing cash-flow problems. Despite its name, about a quarter of borrowers are men.

"We fund a lot of service companies — child care, food-related businesses, restaurants," she said. But there also are manufacturing and construction companies and community-based residential facilities for the elderly.

One recent borrower was Vasyl Lembersky, who immigrated to the U.S. from Ukraine about seven years ago. He lost his first restaurant when the landlord sold the building it was in; a second restaurant failed.

Last year, he and his partners got a \$57,000 loan from Baumann's group to open the Transfer Pizzeria Cafe, which relies on local products for its 50-some varieties of pizza.

He was happy dealing with a microlender because he was treated so well.

"They care about new business coming to this city, they care about making a better business environment in Milwaukee, they care about you," Lembersky said.

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