Avoiding Predatory Lending

Case Study and Strategies for Guiding Small Business Owners out of, and away from, Predatory Lending

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About the Presenters

Paola Liendo
Manager, Family Prosperity Services, JPNDC
pliendo@jpndc.org

Carlos Espinoza-Toro
Director, Small Business Services, JPNDC
cespinoza@jpndc.org
8,000
Declined requests for business credit each day

$52 BILLION
Credit gap for loans under $250,000

2.2 MILLION
Businesses in low-wealth communities need financing annually
What is Predatory Lending?

- EASY access
- QUICK processing
- Low or NO requirements

- High interest rates
- High fees or hidden fees
- Unclear terms
- Unknown lender
- High penalty for early repayment
- Impossible to break contract

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Massachusetts Laws on Predatory Lending

• Small loans interest rate caps
  o 36% lending cap
  o 23% payday lending cap

• Loopholes in payday lending regulations
  o Internet Lending
  o National Banks

• Unregulated markets
  o San Susu, Sociedad o Pasanaku
  o Redito
Anne wants to buy a local salon. It will be her first business.
Case study

Rejection!
Reasons for denial

NOT ENOUGH MONEY TO PAY BACK THE LOAN
- Income insufficient to service debt
- Insufficient debt coverage of principal
- Insufficient source of repayment

NOT BANK READY
- Very new at management
- Business to be bought not profitable
- 2 major derogatories on credit report
- 4 active revolving credit accounts
Temptation of Predatory Lending

**Case study**

**TRADITIONAL**
- REJECTION
- CREDIT: 650+
- LONG PROCESSING TIME
- AGE OF BUSINESS
- SHOW PROFIT
- TAX RETURNS

**PREDATORY**
- EASY QUALIFICATION
- NO CREDIT? NO PROBLEM!
- QUICK
- DOESN’T MATTER
- DON’T WORRY ABOUT IT
- FORGET ABOUT IT

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Anne was denied a traditional loan for $70,000. She was crushed. She still wanted to buy her first business.

Are there alternative financing options to help Anne access $70,000 to establish her business?
Guiding Anne away from predatory loans
What JPNDC did

Your credit is terrible and you are never going to get a loan!!!

• I know you need the money now, but be careful of predatory loans
• Let’s explore OTHER FUNDING options
• Getting a bank loan takes time
• Let’s sit down and MAKE A PLAN for you to get there
• Along the way, we’ll help you build your credit, reduce expenses, increase your biz revenue
• Don’t worry. I’ll be with you at every step of the way...
October – December 2015

Helped Anne negotiate a 0% loan to buy her own business.

Result: On December 7th, Anne closed a $40,000 loan with 0% interest for 60 months.

• Let’s sit down with the seller and propose a 0% loan in exchange for him continuing to work as a stylist at your salon.

• He’d keep his income, would not have to worry about the operations anymore, and you will get a business.

• I’ll get the proposal done and set up a meeting for you, he and I to discuss.

• I’ll help with the negotiations...
What JPNDC did (cont.)

March 2016 – April 2016

Helped Anne get a $2,700 mini-grant (from the state) to hire a bookkeeper.

• I’ve prepared the paperwork for you to access a mini-grant to get a bookkeeper
  • You’ll get up to $3,000
  • You’ll only be responsible for 25% of the cost
  • I’ll send the paperwork for you to review
  • Once I get your green light we’ll sign it and submit it together
May 2016 – Present

Helped Anne be patient. Helped her trust the process.

Result: Anne starts learning how to use QuickBooks online, properly process payroll, read financial reports.

• Let’s reflect on the recent denials
• I know you need the money now, but let’s stick to the plan
• We want to be careful not to damage your credit score
• Let’s look at your Profit & Loss, see where your biggest expenses are
• Let’s see if you can negotiate a lower cost for your inventory
• Let’s pay closer attention to the payroll to see there are no leaks
What JPNDC did (cont.)

August 2018

Helped Anne get a microloan from JPNDC’s microloan fund in exchange for enrolling in personal financial coaching.

Result: Anne gets a $5,000 loan at 5% interest rate and she becomes a JPNDC Financial Coaching client.

- We just started a microloan fund at JPNDC
- We have designed all our loan products to help business owners like you
- You totally qualify
- One thing you have to commit to is financial coaching sessions
- At these sessions, we’ll help you separate your personal from your business finances
What JPNDC did (cont.)

September 2018 - Present

Helped Anne successfully complete financial coaching sessions.

Result: Anne stops using personal accounts for business purposes; creates a debt reduction plan for credit card debt, a household budget, an inventory management system.

- You are doing great!
- Your business is booming
- What’s next for you? A home maybe? Ha ha
- Don’t forget we have our usual 1-1 session next week...
Anne becomes bank ready!

- Pre-approved to buy her first home
- Improved personal credit score
- Separated personal finances from business finances:
  - Stopped using personal accounts and personal credit cards to pay for business expenses
  - Started paying herself biweekly
  - Her business lender lowered her interest rate, on a new loan, from 23% to 8.19%
  - Reported business profit on 2018 taxes
Lessons from our practice

- Talk to your client
- Commit to a long-term relationship, in good times and bad times
- Create a plan and stick to it
- ALWAYS provide alternatives to predatory lending
- Leverage your organization’s resources to the max
- Leverage all external resources to the max
- Be patient
- Celebrate big AND small accomplishments!!!
Thank you to our partners

- Eastern Bank
- Boston Private
- Credit Builders Alliance
- Massachusetts Growth Capital Corporation
- ACCION East
- Myra Vargas, Accountant
- Ann M. Taylor, CPA
Additional Readings

- Association for Enterprise Opportunity, Market failure on Main Street, https://aeoworks.org/capital-and-services/myway-to-credit/

- City of Boston, Predatory Lending, https://www.boston.gov/departments/consumer-affairs/predatory-lending

- Pay day loan consumer information, Massachusetts, https://paydayloaninfo.org/state-information/29

Do you (or someone you know) need help?

prosperityservices@jpndc.org