



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



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8,000

Declined requests for business credit each day

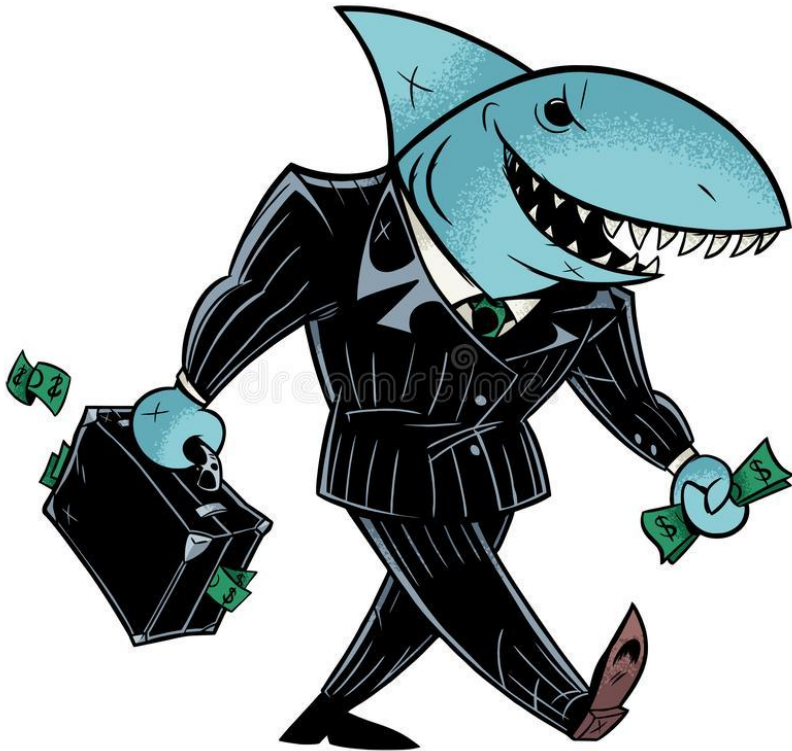
\$52 BILLION

Credit gap for loans under \$250,000

2.2 MILLION

**Businesses in low-wealth communities
need financing annually**

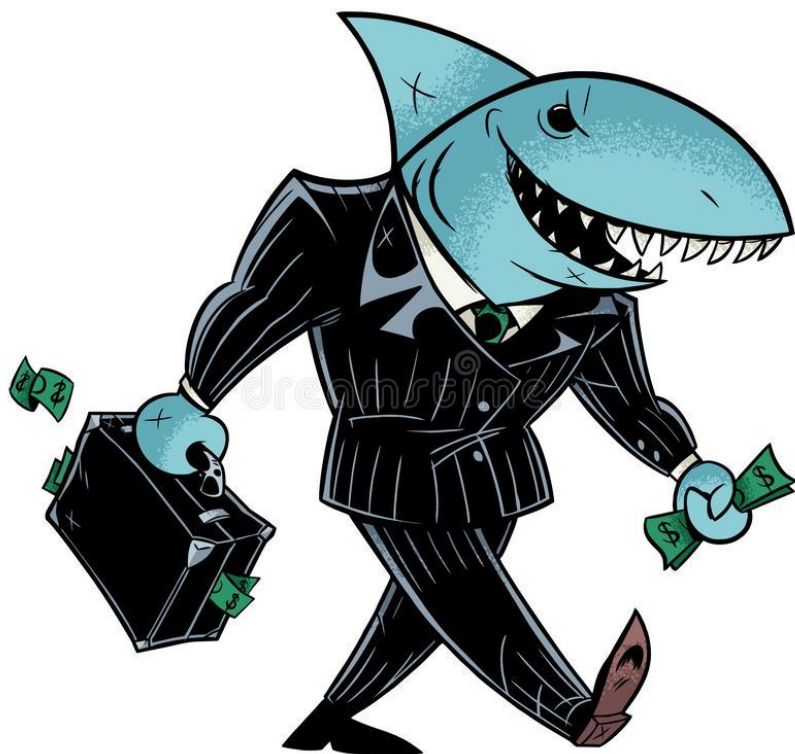
What is Predatory Lending?



- 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

Massachusetts Laws on Predatory Lending



- Small loans interest rate caps
 - 36% lending cap
 - 23% payday lending cap

- Loopholes in payday lending regulations
 - Internet Lending
 - National Banks
- Unregulated markets
 - San Susu, Sociedad o Pasanaku
 - Redito

Case
study

Anne wants to buy a local salon.
It will be her first business.



Case
study

Rejection!



Case
study

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



Case
study

Temptation of Predatory Lending

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

Case
study

Alternatives?

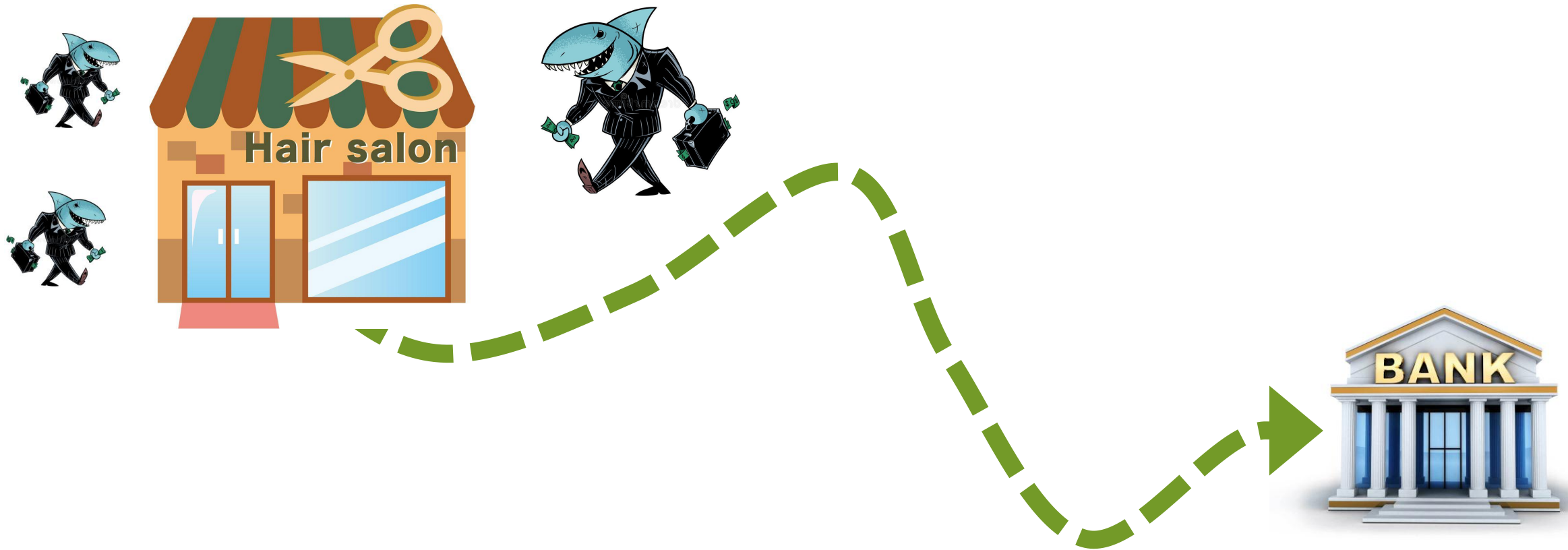
Anne was denied a traditional loan for \$70,000. She was crushed. She still wanted to buy her first business.

Are there alternative financing options to help Anne access \$70,000 to establish her business?



Case
study

Guiding Anne away from predatory loans



Case study

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...



Case
study

What JPNDC did (cont.)



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...



Case
study

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



Case
study

What JPNDC did (cont.)

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



Case
study

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



Case
study

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.

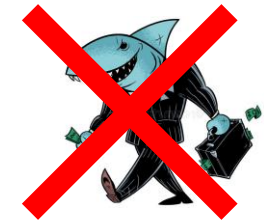
- You are doing great!
- Your business is booming
- What's next for you? A home maybe? Ha ha
- Don't forget we have our usual 1-1 session next week...



Case
study

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>
- National Consumer Law Center, 36% interest rate cap, <https://www.nclc.org/images/pdf/pr-reports/why36pct.pdf>

Do you (or someone you know) need help?

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