



INNOVATOR

Barrera's Pioneering Microlender Expanding its Mission

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By [Marissa Fajt](#)

Through innovation, technology, and pure determination, Accion Texas has made microfinance work in the United States.

Since it started serving people who would not qualify for a bank loan, the San Antonio nonprofit has been led by Janie Barrera, its president and chief executive officer and the winner of *American Banker's* 2008 Innovator Award.

"What we do here is make loans, but what we really do here is change people's lives," said Ms. Barrera, a former Catholic nun who has a master in business administration degree. "Because when you are able to succeed in your business, you are not only helping yourself, but you are hiring people, and you are helping other families, and they can help other families."

Accion Texas has come a long way since 1994, when it lent about \$200,000 in its first year of operation. Today it is the nation's largest microfinance lender, extending an average of \$1.4 million a month.

Its \$20 million portfolio has a 95% repayment rate.

Now Accion Texas is bringing scale to microfinance by leveraging its platform and back-office operations for other microlenders around the country. For a fee, it makes the underwriting decisions and services the loans.

The new business is attracting attention from companies like Citigroup Inc., which has agreed to buy \$30 million of Accion Texas's loans over the next three years.

"They built a very interesting technology platform," said Robert A. Annibale, the New York company's global director of microfinances. "It allows them to not only process and service their own loans, but they built a capacity to take on others, as well. ... That means every institution doesn't have to build the back office or the underwriting. They can focus on their clients."

Citi may partner with other microlenders using Accion Texas's underwriting services, Mr. Annibale said. "We know there is a significantly underserved community in the U.S. ... and there is an enormous need for groups like Accion Texas."

In a speech at a conference the nonprofit sponsored late last year, Federal Reserve Board Chairman Ben Bernanke encouraged bankers to partner with microfinanciers.

"By partnering with a microlender that incubates very small businesses, mainstream institutions can gain new customers when the borrowers 'graduate' from the microfinance program and seek larger loans," Mr. Bernanke said. "Such partnerships serve as two-way referral systems between the microlenders and large banks and help break down the barriers between mainstream institutions and underserved entrepreneurs."

Microfinance got its start in developing countries about 30 years ago and came to the United States in the early 1990s. But the step and peer group models, which U.S. lenders initially borrowed from other countries, did not work here. Step lending starts by giving a borrower a very small amount of money and gradually builds to larger sums as a track record of repayment is established. With peer group lending, a number of entrepreneurs extend credit to and collect credit from one another.

"We started making loans just like they make in Guatemala," Ms. Barrera said. "After a few months, we weren't getting many takers."

Accion Texas talked to clients about their needs. Eventually, it reworked its products and started educating people about credit and building a business.

(Accion International has helped nonprofits like Accion Texas get started in countries around the world. Today, Accion Texas operates as an independent organization.)

The nonprofit, which has about 45 employees, also started collecting information on clients' backgrounds and their repayment

rates. It took years, but the data finally helped Accion Texas determine what criteria are the most important in gauging a borrower's ability to repay.

"We have a system, a platform, that is able to take information. ... We have been making more than 10,000 loans over the last 15 years ... and from that data we have created a scorecard," Ms. Barrera said. "We can say to someone that is applying within minutes if they are going to qualify for a loan, and then we take them through the process."

This year Accion Texas started marketing that borrower-qualification platform to other nonprofits. So far half a dozen have started using it.

"Not only are we part of the experiment, but now we have created this engine," she said. "It works, and we keep fueling it, and it is becoming more efficient. ... Our goal is to bring other people to scale, too, using our platform."

The average loan is roughly \$16,000, but Accion Texas will lend as little as \$500. Because of demand, in August its board doubled the maximum loan amount, to \$100,000, and since then it has made several loans that large. The average interest rate is 12%, and the 95% repayment rate is made all the more impressive by the fact that the average borrower's FICO score is 575. (Most banks have a much higher threshold for lending.)

Ted Terrazas, the chairman and CEO of the San Antonio medical technology company TerraHealth Inc., says he knows how important microfinance can be for an individual and a company.

Shortly after starting his company in 2001 with \$20,000 borrowed from his family, he was having a hard time meeting payroll obligations. After going to seven banks and hearing "no" seven times, Mr. Terrazas learned of Accion Texas through the Hispanic Chamber of Commerce, and was able to get a \$10,000 loan.

"It was at a critical point for payroll," he said. "If we hadn't had it, we probably would have been out of business, because there was no more family money, and nobody would give us money."

Now TerraHealth has a monthly payroll of \$2 million and 400 employees in 32 states, and Mr. Terrazas said it puts money back into the community to support other small businesses.

"Our company buys a lot of services from San Antonio. We give back to the community, and we pay a lot of good taxes," he said. "Without the \$10,000, that whole chain would have never occurred."

His company currently has a \$5 million line of credit with JPMorgan Chase & Co.

"When you look at all the things that banks are asked to give to, I'd have to say this is the best bet for getting a return on investment," Mr. Terrazas said. "A lot of times their money goes in one direction, and it is gone. This one comes back threefold."

Cullen/Frost Bankers Inc. in San Antonio was one of the first banking companies to provide capital to Accion Texas. The \$14 billion-asset Cullen/Frost still supports the lender, and Donna Normandin, a senior vice president and the Community Reinvestment Act officer for its Frost National Bank, serves on the nonprofit's board.

She said Cullen/Frost supports Accion Texas with both people and financial resources, because the nonprofit has proven itself with positive results for the community and the economy.

"It is great source for us for two reasons," Ms. Normandin said. "We have a lot of people that come into our bank that aren't bankable to us. They aren't ready for a mainstream commercial line, but we can still help them by sending them to Accion Texas. Plus, it's just a great thing to do for the community. People have dreams, and some need a little help getting there."

Ms. Barrera has a dream, too — self-sufficiency by June 2010.

About 35% of Accion Texas' budget comes from donors, grants, and investors who earn a 5% return. Ms. Barrera says she needs to raise \$30 million, so it can double its loan portfolio, to \$40 million; at that point, interest income would cover its expenses.

"On my tombstone, I want it to read that Accion Texas was the first microlender in the United States to become self-sufficient," she said. "So every day when I wake up, it is part of my thinking: 'How are we going to do this?' "

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