

Impact Lending

Northeastern University and LISC Leading Investment in Small, Minority- and Women- Owned Businesses in Boston

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I. INTRODUCTION

Investing in small businesses is key to fueling local economies and creating opportunity. In Boston, the city's over 40,000 small businesses generate about \$15 billion in annual revenue and approximately 170,000 jobs. They represent 44% of employment and 37% of revenues for the city's private, for-profit businesses. Yet small businesses often struggle to access the capital they need to grow in the conventional market, challenges that can be magnified for minority and women-owned businesses. As a result, these businesses are not proportionally represented in our economy. Although minorities represent nearly half of the population of Boston, minority owned businesses only comprise a little more than 30% of city businesses, generate only \$2.7 billion of revenue and employ 32,400 people. Similarly, though women account for 52% of Boston's population, only 35% of Boston businesses are owned by women.¹

Recognizing these issues, Northeastern University, working with the City of Boston, sought to leverage its resources and its vendor contracting process to support small business growth in the neighborhoods adjacent to the University, with a particular focus on minority- and women-owned businesses. Northeastern engaged Next Street Financial to help design and plan a supplier diversity initiative, and Next Street identified Local Initiatives Support Corporation (LISC), a nonprofit that provides loans and advisory services to underserved small businesses, to partner with Northeastern on the initiative. Nationally and in its local office, LISC is particularly focused on minority and women-owned business development and entrepreneurship.

LISC and Northeastern developed the Impact Lending program in 2016 – a small business lending platform seeking to nurture the local economies of the neighborhoods that surround the University and position business owners to access new business opportunities at Northeastern and elsewhere, opening the doors to significant new growth opportunities. In particular, Impact Lending was geared to supporting women- and minority-owned businesses in low to moderate income communities with a full range of lending products to meet their capital needs. We sought to support emerging entrepreneurs other lenders may deem too risky and, in the process, help open doors for economic development, wealth building, social connection and creativity in neighborhoods.

This report summarizes the program as piloted, describes the program's impact, evaluates the program's successes and challenges, and sets forth some lessons learned to guide the participants' ongoing work supporting diverse small business owners and their communities.

II. BACKGROUND

Recognizing that its existing and future vendors located in Boston needed better access to financing to support their business operations and grow, in 2016 Northeastern University began working with

¹ City of Boston Small Business Plan, March 2016

Local Initiatives Support Corporation (LISC) to provide small business financing to minority-owned, women-owned and/or small businesses (known as “Targeted Businesses”) in its community. Northeastern was particularly interested in increasing the diversity of existing and potential Northeastern contract vendors, increasing its use of small businesses as vendors, and providing financial support for businesses that serve communities surrounding Northeastern.

“It is part of Northeastern’s ethos to invest in innovation and celebrate the entrepreneurial spirit, both within our community and through our partnership with the communities around us.”²

–Northeastern President Joseph E. Aoun

LISC and Northeastern entered into an agreement in July of 2016, pursuant to which Northeastern provided up to \$2,500,000 of financial support to guaranty small business loans, provide credit enhancement, write down interest rates, fund origination, servicing and loan fund administration, and provide match funding for certain microloans. The parties’ goals were to leverage Northeastern’s capital to offer loans with better rates and terms and broader eligibility standards than standard loans otherwise available to similar businesses in Massachusetts, while preserving the bulk of Northeastern’s principal for future investment.

II. THE IMPACT LENDING PROGRAM

Northeastern committed \$2.5 million in seed funding to the program, with LISC taking on the administration and oversight of the loans that could range from \$1,000 to \$1 million, using Northeastern’s seed funding as a guarantee and financial support to launch the program. LISC affiliate New Market Support Company (NMSC) administered the program on behalf of LISC. Impact lending staff was located in LISC’s Boston office but oversight and strategic leadership



² O'Neil, John. “Northeastern Launches Loan Program for Women and Minority Entrepreneurs.” *News@Northeastern*, 25 Oct. 2016, news.northeastern.edu/2016/10/25/northeastern-launches-loan-program-for-women-and-minority-entrepreneurs/.

for the program came from NMSC, which is headquartered in Chicago.

Under the Impact Lending umbrella, LISC assembled four different lending products to serve a wide spectrum of small business needs.

- **Contract Loans:** Targeted Businesses who entered into vendor contracts with Northeastern were eligible to borrow from \$50,000 to \$500,000 to enable them to perform the contract, with a loan maximum equal to 75% of the total value of the Northeastern vendor contract that secures the loan. Interest rates would be set at 7% fixed, with Northeastern guarantying up to 80% of the total principal of the loan. The term of the loan would be contiguous with the contract term, with a one-year renewal option. Impact Lending partnered with Massachusetts Growth Capital Corporation (MGCC), to provide up to \$2,250,000 in contract loans to targeted businesses, leveraging MGCC's experience with contract lending to minority and small businesses. Contract financing was intended to fuel growth by mobilizing projects, and bridging labor, materials and overhead costs before billing and being paid for work.
- **Micro Loans:** Targeted businesses were also offered microloans of \$10,000 to \$500,000 for a term of 2 to 5 years at fixed interest rates of 7%. Micro loans required the borrower's principal owner to guaranty the loan, but were also eligible for Northeastern guaranties. The program was limited to \$500,000 of microloan lending, in the aggregate.
- **Term Loans:** Medium to long-term loans between \$50,000 and \$1,000,000 were also included in the Impact Lending platform, with terms of 5 to 10 years and fixed or floating interest rates of 7%. Proceeds of term loans could be used for capital improvements, debt refinancing, working capital, equipment purchase or start-up costs were also included in the Impact Lending platform.
- **Character-Based Loans:** Finally, businesses needing very small loans were offered character-based, uncollateralized loans of up to \$10,000 via an Impact Lending agreement with Kiva. The loans provided through the Kiva platform were interest-free and charged no fees. The loans were 50% crowd-funded with the other 50% being matched by Northeastern's \$100,000 Impact Lending commitment. A number of local partners acted as Kiva "Trustees," providing a further layer of support and assistance to these small business borrowers.

“Ensuring that these local small businesses are able to expand will contribute to Boston’s economic growth. Diversity is key to our city’s success, and I’m proud to support Northeastern and LISC in the Impact Lending Program.”

— Boston Mayor Martin J. Walsh³

There was some flexibility for the partners to jointly agree to adjust underwriting practices and interest rates if needed to achieve program objectives. Northeastern’s total guaranty exposure was capped at \$1.9 million, and up to \$140,000 was available to subsidize contract and micro loans, and provide contract financing technical assistance, but preserving the principal was a stated objective of the program. The program was designed to be a pilot rather than a permanent program, with the program term set at approximately two years, with the parties having the option to agree to extend for a renewal term. The initial term of the program ended in October of 2019. This report will summarize key learnings from the pilot program.

II. IMPACT LENDING OUTCOMES

The Impact Lending program resulted in loans to 35 small businesses, and \$403,000 of total lending. Of those loans, 27 were character-based loans made through the Kiva platform and matched with Northeastern funding, for a total of \$165,000 advanced on Kiva loans, reaching 82% of the Kiva Lending goal of \$200,000. \$237,500 was advanced in 8 microloans, representing just over 47% of the total lending goal of \$500,000. This product proved difficult to deploy. Although nearly 200 potential borrowers opened online applications, many applications were never completed, or could not be approved due to poor credit, insufficient cash flow or financial strength to support loan repayment, lack of collateral or ineligibility for the program. While many applicants requested loans in excess of \$50,000, very few applicants could be successfully underwritten for loans of that size. Furthermore, we were excited to see that some businesses we lent money to went on to receive financing from conventional lenders. Helping these businesses establish themselves and providing them a path to traditional financing will help them grow and remain a part of the local community for years to come.

LISC responded to challenges deploying microloans at scale by aggressively marketing the program via more than 30 referral channels, including newspaper advertisements, outreach through City of Boston programs, Boston Main Streets programs, CDC partners, email campaigns, speaking engagements, radio appearances, and more. LISC Boston also participated in the City of Boston Small Business Center which launched in Roxbury and Mattapan. While results were modest, this

³ O'Neil, John. “Northeastern Launches Loan Program for Women and Minority Entrepreneurs.” *News@Northeastern*, 25 Oct. 2016, news.northeastern.edu/2016/10/25/northeastern-launches-loan-program-for-women-and-minority-entrepreneurs/.

outreach contributed to the high total number of applications started and to the 8 microloans that were made. While few were ultimately approved, we engaged with hundreds of potential borrowers, and over 184 potential borrowers started filling out online applications for microloans.

Serving Targeted Businesses: Of the lending that was done, the program was very successful at targeting the intended borrowers, both in terms of the diversity of ownership and the location of the businesses. The borrower profile included food service, distribution, service and construction businesses, seeking loans for working capital, equipment purchase, leasehold improvement, marketing support and expansion.

- **77%** of all Impact Loans were made to **Boston-based businesses**, with the typical borrower profile being of a business from Dorchester, Roxbury or Hyde Park.
- **68%** of all Impact Loans were made to **minority-owned businesses**.
- **74%** of all Impact Loans were made to **women-owned businesses**.

Affordable Financing to Grow Small Businesses: The borrowers who used Impact Lending products were well-served by the program. 35 small businesses were able to grow or stabilize their businesses using Kiva loans or microloans. The Kiva lending platform was particularly popular. While limited growth can be expected to result from such small loans, LISC found that this character-based lending product was in the greatest demand in the target market. The loans made to these businesses enabled them to start marketing campaigns, purchase equipment, refinance more expensive debt, manage cash flow or expand their staffing.

Improving District Corridors: Many Impact Lending borrowers have storefronts, shops or restaurants along district corridors in the targeted neighborhoods of Boston, and the investments they made in their businesses are tantamount to investments in the communities themselves. These shops provide neighborhood-serving retail and create jobs, while animating the streetscape and driving social networking. Some of these impacts are highlighted in the attached borrower profiles.

Building the Future Small Business Pipeline: While the program identified very few businesses ready to take on financing in excess of \$50,000, the lending that was done through Impact Lending has the potential to build the future small business pipeline by investing in very early stage businesses, providing supports needed to stabilize their operations and seeding the early stage growth and financial stability needed for larger investments. The program particularly highlighted the need to build financial stability among start-ups and entrepreneurs. Close to 50% of the businesses we met faced financial challenges to their business's growth, with poor credit the most frequent barrier to financing. Local banks, business training programs and other service providers have affirmed our view of the need for credit counseling for this sector.

Profiles of some of the borrowers served by impact lending are included at the back of this report, with photos and headings indicating how the loan met one of the foregoing program goals. We are grateful to these borrowers for their willingness to let us share their stories.

Growing Diverse Northeastern Vendors:

Northeastern has made substantial investments in growing its contracting with diverse vendors, including through its participation in the Pacesetters program sponsored by the Greater Boston Chamber of Commerce. In addition, however, the University hoped to create the opportunity to use Impact Lending borrowers as contract vendors. In 2018 Northeastern issued a request for proposals (RFP) to renovate a garage located on campus. They actively pursued new local MBE vendors seeking the opportunity to work with the University. Local construction company OneWay Development, Inc. was selected as the bid recipient and was issued the contract for \$637,727. Northeastern plans to continue to working with OneWay Development, Inc. in the future.



In addition to this win, a significant effort was made to connect other potential vendors with contracting opportunities. LISC sponsored a procurement fair for vendors at Northeastern Crossing in 2017, and met numerous times to match potential new vendors with contracting opportunities. While significant purchaser commitment and flexibility can be required to create such opportunities, the early stage borrowers who participated in the program proved a difficult match for contracting needs at the university. Furthermore, the need for scale and the decentralized purchasing environment, given the size of the university, presented challenges for successful contract awards. In the end, only one new vendor obtained a contract with the University. While this is not the result the parties hoped for, it is unsurprising that contracting relationships would be difficult to forge in this context. Further work on this objective will require a specific and thoughtful strategy and a creative and committed partnership between businesses in one or more specific sectors (including, but not limited to Impact Lending borrowers), and the Northeastern parties with procurement authority in that area.

Balancing Flexibility and Diligence to Scale the Program: Since there were many applicants who did not ultimately qualify for an Impact Loan, the program was less successful than we hoped at meeting the needs of the full range of borrowers seeking capital. While four products were available, only two products, Kiva loans and micro loans, were used during the pilot period. Program staff found it challenging to identify Targeted Businesses that could meet underwriting or application standards for these larger loans. Many of the small businesses in the target geographies were unable to qualify for loans of this size. Those that were large enough to borrow at this scale seemed to be able to qualify for financing in the conventional marketplace.

While the need to provide technical assistance to potential borrowers was clear, the presence of credit enhancement in the form of Northeastern guaranties might have been expected to enable financing of more such borrowers. While some flexibility was structured into the program, it seems that the program was unable to stretch its underwriting criteria far enough to enable many otherwise unqualified businesses to qualify for Impact Lending loans. Put another way, while the amount of capital and credit enhancement pooled seemed a promising opportunity to seed small businesses at a significant scale, the apparent lack of growth-ready businesses resulted in not fully deploying the

available capital. Accordingly, LISC has sought to invest in building the strength of the businesses in the sector.

III. ADDRESSING IDENTIFIED CHALLENGES

Small Business Technical Assistance: Impact Lending illustrated that there are many small, diverse businesses in need of capital, but that many of them need various types of technical assistance to develop a business plan, create single purpose entities and bank accounts, manage finances, build or improve personal and business credit, file tax returns, market products or services, and grow their businesses. In response to the need for technical assistance, in 2017 and 2018, LISC funded several community development corporations to provide technical assistance to Boston-based businesses, referring applicants in need of TA to providers in their neighborhood wherever possible. LISC also sponsored technical assistance programs in partnership with Northeastern Crossing in January and April 2017. MGCC receives state funding for small business technical assistance, and recently awarded nearly \$2 million in grants to nonprofits across Massachusetts, including LISC Boston, to provide small business TA. LISC and MGCC are working together, with other stakeholders, to build best practices for small business TA providers, and to develop robust platforms for making this training, and tools to facilitate small business growth, available at scale.

Credit Building for Small Businesses: LISC has partnered with the City of Boston and the United Way on Boston Builds Credit (BBC), the first-ever, citywide effort to “move the needle” on credit scores at the population level in the United States. The Federal Reserve Bank of Boston has found that poor credit can cost a person as much as \$200,000 over the course of a lifetime, due to higher fees and interest rates for products and services. BBC’s goal is to help 25,000 Bostonians build wealth and financial stability by achieving a prime credit score of 660 by the year 2025 in order to reach their financial goals. As part of the BBC initiative, LISC is leading efforts to build credit among entrepreneurs, as a direct result of what it has learned in the Impact Lending Program. We recently selected Boston Ujima Project as our partner to develop credit coaching for small businesses, and we expect to provide such counseling to as many as 100 small businesses during 2019 and 2020.

Addressing Gaps in the Small Business Ecosystem: Impact Lending is a model program in that it sought to tackle the ambitious goal of filling the gaps in the small, minority- and women-owned business financing ecosystem. Our experience with Impact Lending only underscores our conviction that such gaps are real and the barriers to overcoming them are great. On the financing front, LISC is applying what it has learned from Impact Lending to its small business lending model nationally. LISC recently acquired an SBA lending license and has launched an affiliate named [immito](#) to do small business lending in LISC’s markets. We are also exploring a middle market small business equity fund to invest in businesses creating living wage jobs with attractive benefits. We have expanded our Kiva platform, which is now available in all of our offices, and expect to continue the successful Kiva lending carried out under the Impact Lending program. We will also continue to

innovate to serve businesses with financing needs too big for Kiva and too small for SBA lending, with mission-oriented partners like Northeastern. Northeastern's willingness to use its resources to leverage small business growth in its community makes it a leader in this space. While all of the Impact Lending partners had hoped to leverage more lending and, accordingly, more business growth through this program, LISC's partnership with Northeastern in this program has served to inform and guide our work both nationally and locally to better serve Targeted Businesses.

Impact Lending has also demonstrated the need for financing to Targeted Businesses to be complemented by efforts to fill gaps in the system of accelerators, technical assistance, business relationships, and other supports. LISC's work on Impact Lending and our related initiatives has caused us to build relationships with others working to build entrepreneurship and wealth in Boston's underserved populations. While that starts with the many community development corporations who are our longstanding partners, it also includes banks, corporations and other institutions looking to invest more in building a more inclusive economy. Boston is home to a robust cohort of startups and those who cultivate, accelerate and finance such startups. We are working to broaden our relationships in this space to better leverage these resources for the benefit of all Bostonians.

V. LOOKING AHEAD

The Impact Lending program demonstrated the need for affordable, flexible, early stage financing to support the establishment and growth of minority and women-owned businesses. These businesses fuel neighborhood economies, enliven district corridors and create jobs. The successes of the businesses financed through the program, and the program's relatively low default rates, demonstrate the value of investing in this sector and the opportunity that lies ahead. The growth of entrepreneurship has the potential to drive economic growth and to contribute to bridging the racial wealth gap.

But our experience with Impact Lending also demonstrated the need to provide broader support to such businesses to seed stability and strength and build a pipeline of growth-ready businesses. Doing so will require ongoing commitment to creative financing, strong partnerships, and ongoing support and innovation from cross sector partners - institutions like Northeastern and LISC, Mass Growth Capital Corporation, local accelerators and technical assistance providers, as well as the City.

The local responses described here – scaling best practices in small business technical assistance and deploying resources to provide credit building support to entrepreneurs - are part of a broader endeavor of identifying gaps in the ways that emerging minority and women entrepreneurs are supported and taking steps to fill those gaps. LISC, with our many local and national partners, is committed to this work, and to developing the creative small business financing products and platforms that will fuel opportunity for these promising entrepreneurs to promote inclusive economic growth at scale.

Borrower Profile: Fresh Food Generation

Affordable Financing to Grow Small Businesses Building the Small Business Pipeline of the Future

A local food truck with Latin American and Caribbean cuisine, Fresh Food Generation experienced growing pains early on. Owners Cassandra and Jackson used a \$5,000 Impact Lending Kiva loan to purchase equipment and expand their marketing capacity. The company has expanded into catering and is on multiple marketing platforms, working to increase customers and improve operations.



Borrower Profile: Honeycomb Café

Affordable Financing to Grow Small Business Improving District Corridors (Dorchester/Savin Hill)

The owners of Honeycomb Café in Dorchester's Savin Hill neighborhood used a \$37,500 loan for construction costs to purchase commercial kitchen equipment in Dorchester. LISC partner Dorchester Bay Economic Development Corporation lent the owners an additional \$37,500 to reach their needs. Honeycomb Café was featured in a LISC blog post about Impact Lending on Small Business Saturday in 2017.



*"Well before we opened, we reached out to our neighbors to see if this was the kind of business that they wanted in the community; they made it clear that it was,"
Nicole Miele, Co-Founder
Honeycomb Cafe*

Borrower Profile: Blue Nile Restaurant

Affordable Financing to Grow Small Business

Improving District Corridors (Jamaica Plain/Hyde Square)

The owner of Blue Nile Restaurant knows how hard it can be to make a small business work – she had to close her prior restaurant because of increased leasing costs. A 30+ year Jamaica Plain resident, she received a \$7,000 Impact Loan to hire a marketing consultant to engage new vegetarian customers. Blue Nile has since been voted the Best Ethiopian restaurant in the city by Trip Advisor.



Borrower Profile: Caribbean Apparel

Affordable Financing to Grow Small Businesses Building the Small Business Pipeline of the Future

Despite national recognition of its brand, this company could not access affordable capital. A \$17,500 Impact Loan helped to refinance high interest debt, resulting in the company saving over \$2,000, which allowed the business to reinvest further in the company's growth.



“Impact Lending is important for Boston because it allows small businesses to grow, which is good for the community at large.”
Legrand Lindor, CEO of Caribbean Apparel

CARIBBEAN
APPAREL™

Borrower Profile: Elier Barbershop

Affordable Financing to Grow Small Business

Improving District Corridors: Dorchester - Bowdoin/Geneva

This owner built his company from the ground up, starting in 2013, when he had limited English but skills as a barber. He used a \$10,000 Impact Loan to invest in his business's future by updating his floors, purchasing new equipment and revamping his marketing. Elier Barbershop employs 5 local barbers and enlivens the Bowdoin/Geneva district corridor in Dorchester.



“Since receiving this Kiva loan I was able to buy new barber chairs and increase my business revenue by 10-15%. It is my goal to provide a first class barber shop experience at a reasonable price for my clients and a good looking shop for the neighborhood.”

Borrower Profile: Olio

Affordable Financing to Grow Small Business Building the Small Business Pipeline of the Future

Elie of Olio Culinary Collective is a Pop-up Filipino style cooperative food business that brings the values of social activism into the kitchen. Olio started as a group of community activist that shared their passion for cooking and soon grew into something much bigger. Olio used the \$7,000 loan to take the success of the pop up business and used for the design fees for their new restaurant opening in Somerville.



“Since the Kiva loan, we have received an \$80K investment from The Working World and plan to open up our restaurant in early 2019”

Borrower Profile: Buenas

Affordable Financing to Grow Small Business Building the Small Business Pipeline of the Future

Owners Melissa and Sebastien wanted to share the South American flavors they grew up eating to everyone's kitchen. Their products; empanadas, ready to go dough, and sauces started off in three local businesses can now be found across New England in more than twenty markets, shops and farms. The BUENAS team used a \$10,000 Impact Lending working capital loan for test production and purchasing equipment.



Borrower Profile: Sweet Teez Bakery

Affordable Financing to Grow Small Business Building the Small Business Pipeline of the Future

Teresa of Sweet Teez Bakery used a \$10,000 Impact Loan to grow her pie business, which she operates out of Commonwealth Kitchen, a shared commercial kitchen in Dorchester. Sweet Teez recently received a large contract to make thousands of pies for a large grocery chain for the 2018 holiday season, and is building on its Impact Lending foundation to scale its operations.



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