MarketWise
COMMUNITY

Federal Reserve Bank of Richmond 2015

The West Virginia Loan Fund Collaborative: Small Business Lending in Underserved Areas

"I really find it rewarding to be able to assist a small business owner to get funding for their business and see the process from inception to operating a successful business — and once you are a part of that — you have a friend for life."

Jim Gordon
Kanawha Institute for Social Action and Research

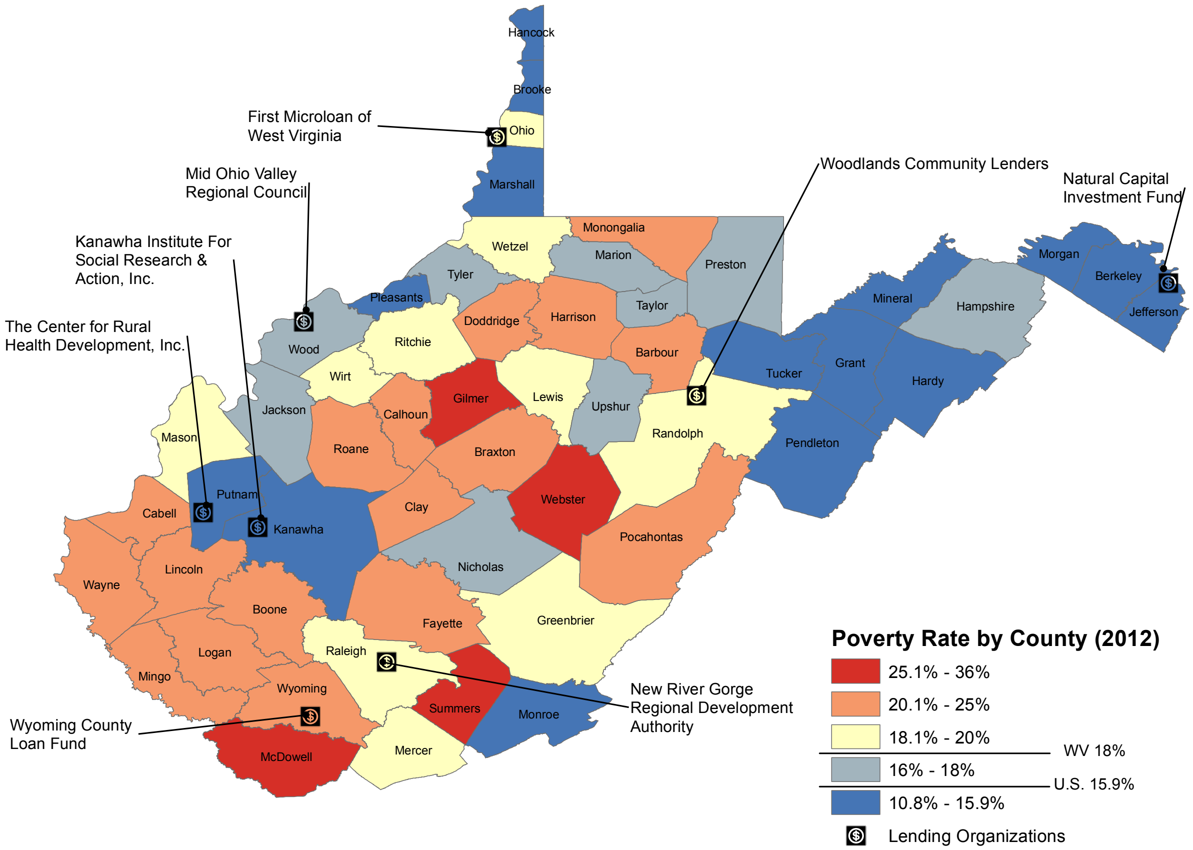
Introduction

The Federal Reserve Bank of Richmond in partnership with the Claude Worthington Benedum Foundation and the West Virginia Community Hub (WV HUB) has developed a multiyear relationship with eight West Virginia loan funds to investigate credit access and deployment to rural-based small businesses. The loan funds are part of the landscape of so-called "alternative lenders," which are nonbank lenders that extend credit or provide loans but do not hold depository accounts. Through a series of meetings that began in 2012, this voluntary group of community loan fund managers, community development financial institutions (CDFIs) and microlenders came together to form what is known today as West Virginia Loan Fund Collaborative (WVLFC).

West Virginia provides an interesting study of rural capital deployment because the state is hard to serve on several fronts. It is a mountainous state with low population, high poverty, and many distressed and underserved areas (see Map 1). The eight organizations that compose WVLFC vary in organizational structure, capacity and lending focus. All of the loan funds participating in the collaborative have community-minded missions with small and microloan programs that direct their lending activities to businesses in distressed or underserved areas.

This issue of *MarketWise Community* provides a brief history of the formation of WVLFC as well as an analysis of how WVLFC members deploy capital to small businesses. The Richmond Fed's analysis — based on an online lender survey, meeting discussions and loan fund data — found a general lack of existing industry group information about loan fund activities in West Virginia. There was no organizing body tracking the funds' type of lending or maintaining a directory of funds and where lending was targeted. Staff members from the different loan funds did not regularly engage with one another. Once loan fund lending activity was mapped by the Richmond Fed as part of the engagement with WVLFC, it became apparent that

Map 1: Poverty Rate in West Virginia by County, 2012



Source: U.S. Census Bureau, Small Area Income and Poverty Estimates; FFIEC.

small business loans were being deployed in all reaches of the state, including several "hot spots" of loan activity. Finally, the analysis revealed a need for educating traditional financial institutions about the work of alternative lenders and the opportunities for collaboration. The development of WVLFC and its ongoing work may serve as a model for other states to understand alternative lending activity within their borders.

Alternative Lending

Alternative lending is the industry term used to refer to nontraditional bank sources of credit. The players in this industry include small-dollar consumer lenders, for-profit commercial microlenders, peer-to-peer lenders, large retailers, and other alternative commercial lenders.[1] These alternative lenders tend to specialize as sources of credit for microloans, which are relatively small dollar amount loans — for example, $50,000 or less — used to start or expand a small business. Alternative lenders distinguish themselves from traditional lenders in several ways, including the terms of their loans (length and interest rate), how they assess an applicant's credit worthiness and their sources of capital to fund loans. For example, a traditional lender will look at an applicant's credit score, financial statement, tax return and business plan before rendering a decision; in contrast, alternative lenders have been known to use less conventional measures such as real-time shipping schedules, social-media traffic and records in accounting software to qualify a loan.[2]

Other players in the alternative lending space are mission-driven nonprofit lenders that offer access to credit for the underserved. They typically offer other services to applicants, including business counseling and credit coaching.[3] Further, unlike many of the alternative lenders who conduct business solely through an online platform, these nonprofit lenders develop long-term relationships with their clients.[4] In the long run, the goal for nonprofit lenders is that their clients will be able to receive loans from traditional lenders.[5]

Importance of Small Businesses

Small businesses employ a large segment of the U.S. workforce, generating considerable interest in small businesses' access to credit. The standard definition of a small business used by the U.S. Small Business Administration (SBA) is any business with 500 or fewer employees. According to the U.S. Census Bureau's *Statistics of U.S. Businesses*, 48 percent of the U.S. private workforce in 2012 was employed by a small business. For West Virginia, the share is even larger at 51 percent.[6] For both the United States and West Virginia, it is the businesses with fewer than 100 employees that employ the largest share of workers across all small businesses.[7] Among that group, it is businesses with between one and 19 employees that make up the largest share.[8]

The economic success of small businesses has been touted as one strategy for ensuring the economic recovery out of the Great Recession is sustained. This success is measured by the development of new small businesses and the hiring of additional workers by existing small businesses. Based on data from the U.S. Census Bureau's *Business Dynamics Statistics*, small businesses generated slightly over 2.4 million net new jobs nationally in 2012; West Virginia experienced a net gain of 9,637 new jobs.[9] Despite its net jobs gain across the small business category, West Virginia had a net loss of 250 jobs for small businesses with 250–499 employees. This points to the fragility of this segment of small businesses in West Virginia given that the employee size category saw the net creation of 305,240 jobs nationally.[10]

Recent Small Business Lending Activity Trends in the United States and West Virginia

A constant refrain throughout the Great Recession and continuing through the recovery has been the difficulty that small businesses face in obtaining credit from financial institutions. The Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia found that 44 percent of the firms that applied for financing in the first half of 2014 were not approved for any funding.[11] For the financial sector, a small business loan is defined as a commercial real estate (CRE) loan or commercial and industrial (C&I) loan that is $1 million or less in value. According to a 2014 analysis conducted by the SBA using June 2013 Call Report data,[12] the volume of small business loans was 22.9 million, which is still below the high reached in June 2008 of 27.2 million.[13] The value of small business loans outstanding in 2013 was $585.3 billion, a slight decline of less than 1 percent from the value in 2012.[14] The value of loans has been on a downward trend since reaching $711.5 billion in 2008.[15]

It is interesting to note that if small business loan volume is broken into lender asset size categories, it is the largest lenders ($50 billion in assets or more) that have matched their pre-recession (June 2007) volume and actually exceeded it as of June 2013.[16] In contrast, lenders with assets under $1 billion in aggregate have seen continual declines in small business loan volume since 2010.[17]

As of June 2013, 61 financial institutions headquartered in West Virginia reported small business loan activity.[18] The number of financial institutions for West Virginia has declined every year by at least one bank since 2009.[19] Of the banks headquartered in West Virginia, 40 fall into the asset size category of $100 million to $500 million and 13 banks fall in the second most prevalent category of less than $100 million in assets.[20] The state does not headquarter any banks with assets of $10 billion or more.[21] Because Call Report data is based on a bank's headquarters location rather than the location of actual lending, another data source is required to understand lending activity within a geographic area. According to a 2014 analysis conducted by the SBA using Community Reinvestment Act (CRA) data for 2012, the top small business lender in the state was BB&T Corporation based in Winston-Salem, North Carolina, with $252.3 million in outstanding loan value across 2,672 loans.[22] Although the second highest lender, United Bankshares, is headquartered in West Virginia, its outstanding value ($157.3 million) and volume (1,087) lag considerably behind the top lender.[23]

When small business loans are categorized by loan amount into micro business lending (less than $100,000) and macro business lending ($100,000 to $1 million), out-of-state banks dominate both categories.[24] The list of the top nine micro business lenders in West Virginia includes only two banks headquartered in West Virginia (United Bankshares and City Holding Corp.).[25] The top six macro business lenders list includes three banks headquartered in West Virginia (United Bankshares, City Holding Corp. and Wesbanco).[26]

The discussion of small business lending so far has focused on traditional sources of lending. In July 2013, the Appalachian Regional Commission (ARC) released a report looking at access to capital and credit in Appalachia, a region that includes the entire state of West Virginia.[27] Table 1 shows the activity level in West Virginia for different sources of financing in 2007 and 2010, i.e., pre- and post-recession. The major source of financing outside of traditional banks has been credit cards. With the exception of SBA's microloan program, there is a clear decline in the number of small business loans awarded to small businesses in West Virginia. ARC found fluctuations in venture fund investments in West Virginia, too. A venture fund is a pool of money raised from multiple investors such as pension funds, foundations, etc., which is then managed by a fund manager who invests the funds in businesses run by other individuals. In 2007, there were five separate investments across three counties in the state.[28] In 2010, there were four separate investments across four counties.[29] Another potential source of capital is angel investors.[30] According to the Angel Capital Association, West Virginia has one angel investment group located in Marion County.[31] Research on angel investors, however, has found that they prefer to invest in groups close to them — for example, a drive of less than four hours away and usually closer to only one hour.[32] Finally, small businesses may look to revolving loan funds from economic development associations for assistance. As of 2011, there were nine located in West Virginia with a current capital base of roughly $23 million.[33]

When small business lending activity in West Virginia is examined at the county level and compared to other geographies across the United States, the National Community Reinvestment Coalition (NCRC) found that all counties in West Virginia could be considered small business lending "deserts."[34] Using a combination of private sector (CRA) and public sector (SBA and CDFI) lending activity data, every county in West Virginia fell in the lowest quintile for access to loans.[35] These

Table 1: Small Business Lending Trends in West Virginia by Loan Type, 2007 and 2010

Loan Type	2007		2010	
	Number of Approved Loans	Total Dollar Amount of Loans	Number of Approved Loans	Total Dollar Amount of Loans
Small Business Loans	45,315	$1,275,403,000	15,565	$905,585,000
Small Business Loans to Businesses with Revenues less than $1 million	17,590	--	6,483	--
Small Businesses in LMI Tracts	7,752	--	2,604	--
Credit Card Business Loans	23,300	$162,032,000	8,628	$58,136,000
SBA MicroLoans	1	--	6	--
SBA 504 Loans	9	--	9	--
SBA 504 Loans to Minority-Owned Businesses	0	--	0	--
SBA 7a Loans	313	--	154	--
SBA 7a Loans to Women-Owned Businesses	62	--	35	--
SBA 7a Loans to Minority-Owned Businesses	41	--	4	--
CDFI Lending	111	$10,000,000	104	$6,600,000

Source: Appalachian Regional Commission. 2013. Access to Capital and Credit in Appalachia and the Impact of the Financial. Crisis and Recession on Commercial Lending and Finance in the Region. Washington, D.C.: July.

results suggest a challenging environment for small business credit access in West Virginia. A potential strategy to overcome access issues is to seek credit from nontraditional sources.

Formation of the West Virginia Loan Fund Collaborative

The origins of WVLFC stem from a November 2011 meeting on rural capital organized by Community Development staff from the Richmond Fed in collaboration with the WV HUB and the Claude Worthington Benedum Foundation, both of which had community development expertise in the state and an interest in alternative lending as a strategy for investing in rural West Virginia. Attendees included loan funds with lending activity in West Virginia as well as interested representatives from the SBA, the Small Business Development Center (SBDC) and a regional bank. The initial group of attendees was generated through word-of-mouth and social connections. At this first meeting, participants provided details about their organization, lending activity and funding sources. There was also a wider discussion about current opportunities and challenges and the future of rural lending. It was during this wider discussion that the participants saw an opportunity to become more organized as a group, including meeting regularly, growing attendance by other organizations, establishing a statewide presence, developing a consistent message and recognizing the need to work collectively. Multiple meetings were convened in 2012; by 2013, the group began to formally call themselves the West Virginia Loan Fund Collaborative with two formal meetings per year that rotate in various locations across West Virginia.

West Virginia Loan Fund Collaborative Members

WVLFC is a voluntary pilot effort of eight active lending organizations that all have community-minded missions to direct lending activities to businesses in rural, underserved areas. At this time, WVLFC's membership does not include every active loan fund operating within West Virginia.[36] WVLFC members vary by organizational structure, programs and lending focus (see box below for more details). The oldest began originating loans in 1988, while the youngest began in 2011. Only three out of the eight organizations are certified CDFIs. One organization was a certified CDFI but found it unnecessary to renew its certification to support its lending activity. Another organization is exploring the idea of becoming a certified CDFI.

Table 2 shows that the members' pools of funds for loans range from less than $1 million to close to $10 million. At the time of the last data collection in July 2014, the majority of the organizations still had funds available to lend. Those funds that reported an overall default rate for their loans have default rates that are well below the average rate of 12 percent estimated by SBA for its microloan program in 2007.[37]

Members of the West Virginia Loan Fund Collaborative

First Microloan of West Virginia

The First Microloan of West Virginia program, a division of Washington County Council on Economic Development (WCCED), originated in Pennsylvania serving four counties within the state. Now serving 21 counties in the state of West Virginia, the program offers commercial loans ranging from $5,000 to $50,000. Providing financing at a fixed interest rate, the program has loaned over $1 million to new and current business owners since 1994. Eligible uses of loans include opening a new business or expansion of a current business, purchasing inventory and equipment, and supplementing working capital.[38]

Kanawha Institute for Social Action and Research

The Kanawha Institute for Social Action and Research (KISRA) located in Dunbar, West Virginia, is a 501(c)(3) organization established in 1993 by Ferguson Memorial Baptist Church. The organization offers a statewide microloan program that provides loans to business owners who generally would not be able to qualify for conventional loan programs. Loans range from $1,000 to $50,000. To qualify, businesses must be small in nature (25 or fewer employees), have a current business license, and pay taxes and workers' compensation premiums. Eligible uses of loans include renovations, buying inventory and equipment, and supplementing working capital.[39]

Mid-Ohio Valley Regional Council

The Mid-Ohio Valley Regional Council (MOVRC) offers a revolving loan program that assists businesses in West Virginia with full service in eight counties and limited offerings in four other counties. The program loan amounts range from $2,000 to $250,000, with a combined total of over $17 million disbursed since the loan program's inception. To qualify, businesses must demonstrate that they are prepared to use the loans properly for growth and additional revenue creation, which helps to avoid the loan from resulting in additional debt. Businesses are not eligible for loan funds from the MOVRC if they are able to receive full funding from another financial institution, such as a credit union or a local bank.[40]

Members of the West Virginia Loan Fund Collaborative *(continued)*

Natural Capital Investment Fund

Natural Capital Investment Fund (NCIF) is a 501(c)(3) organization founded in 2001. NCIF offers loans to small and emerging natural-based businesses that focus on the "triple-bottom-line," or the generation of social and environmental benefits along with economic returns. Loans from the NCIF vary based on borrower's need with amounts up to $500,000. NCIF is certified by the U.S. Treasury as a CDFI.[41]

New River Gorge Regional Development Authority

The New River Gorge Regional Development Authority (NRGRDA) is the economic development organization for Fayette, Nicholas, Raleigh and Summers counties in West Virginia. The NRGRDA supports community and economic development efforts within these counties through its revolving loan fund program. This program helps to partially fill the gap between the loans available from other lenders and the needs of new and existing businesses.[42]

The Center for Rural Health Development, Inc.

The Center for Rural Health Development, Inc. (the Center) is a nonprofit organization in West Virginia that has provided assistance on rural health issues since 1994. Among its options to improve West Virginia's health care delivery system, the Center offers the West Virginia Rural Health Infrastructure Loan Fund (the Fund). Initiated in 2001, the Fund has strengthened rural health infrastructure by offering loans that are both flexible and affordable to health care providers in West Virginia. Any licensed health care provider operating within West Virginia, except those operating within Charleston, Huntington, Wheeling, Parkersburg and Morgantown, is eligible to receive loan funds.[43]

Washington County Council on Economic Development

The Washington County Council on Economic Development (WCCED) is the economic development organization of Washington County in Pennsylvania. Created as public-private partnership in 1989, the WCCED began to address economic problems created by the departure of major industry. Realizing that new and current businesses were being affected by lack of access to capital, the WCCED created its first loan program, the Washington County Gap Fund. They have added five more loan programs since that time, with the WCCED becoming the first SBA microlender to offer its program across state lines, crossing into West Virginia in 1996. The WCCED has invested in over 375 new and current businesses and has helped to create or sustain over 3,035 jobs in the region during the past 25 years.[44]

Woodlands Community Lenders

Woodlands Community Lenders (WCL) is a nonprofit organization that offers low-interest loans to qualified businesses and communities in the Randolph, Tucker and Barbour counties of West Virginia. WCL offers loans up to $100,000 to help cover costs associated with start-up or expansion. WCL also provides assistance to support day-to-day and overall functions, such as marketing, accounting and business plan development.[45]

Wyoming County Economic Development Authority

The Wyoming County Economic Development Authority (WCEDA) is the economic development organization of Wyoming County, West Virginia. The WCEDA offers loans and technical assistance to new and existing businesses in Wyoming County. The loans that the WCEDA offers are open to new and existing businesses to cover current and future needs in amounts ranging from $300 to $150,000. Technical assistance includes support and referrals on daily functions such as taxes and workers' compensation.[46]

Table 2: Key Features of the West Virginia Loan Fund Collaborative Members as of July 2014

Loan Fund	Origination Year	Historical Fund Size Amount	Certified CDFI?	Funds Available to Lend	Default Rate
First Microloan of West Virginia	1996	$4.5 million	No	$500,000	3.56%
Kanawha Institute for Social Action and Research	2008	$750,000*	No	--	--
Mid-Ohio Valley Regional Council	1988	$6.7 million	No	$184,577	--
Natural Capital Investment Fund	2001	$14.7 million	Yes	$4.3 million	--
New River Gorge Regional Development Authority	2000	$2.1 million	No	$80,000	1-5%
Woodlands Community Lenders	2011	$340,800	Yes	$70,385	1%
The Center for Rural Health Development, Inc.	2001	$8.75 million	Yes	$3.5 million	0%
Wyoming County Economic Development Authority	2001	$7 million	No	$500,000	1.25% – 9%

* Amount reported is from the 2012 round of data collection.
Source: Data provided by lending organizations.

Early Assumptions

When the partnership of the Richmond Fed, WV HUB and Claude Worthington Benedum Foundation organized the first meeting on rural capital in November 2011, they did so with several assumptions in mind. The first assumption was that the loan managers of the various funds were familiar with each other and possibly already working together with certain clients. The second assumption was that the loan funds were funding constrained and needed additional capital to meet the needs of their current and future clients. The final assumption was that the organizations with loan funds were located primarily in high population areas of the state and that their lending was clustered within these same areas. Using a mix of survey responses,[47] meeting discussions and loan fund data, we will discuss below how these assumptions were proven false.

Findings

Loan Fund Interactions

The level of familiarity among the loan fund managers was minimal. In answering a survey question about the level of interaction between loan funds lending in West Virginia prior to the formation of WVLFC, Christy Laxton from the Wyoming County Economic Development Authority responded, "Before 2011, there wasn't much interaction between the loan funds. If you knew about someone's loan fund, you heard about it through word of mouth, at a meeting that you may have attended or by asking someone if they knew of loan funds available in those areas." John Reger of Capital Venture Consultants Inc., which does consulting work for The Center for Rural Health Development, Inc., wrote, "There was some level of interaction based on the personal or professional relationships of participants. Thus, the interaction was a [one-on-one] interaction based on those various personal or [professional] relationships of respective individuals representing the various loan funds." The lack of consistent interaction between the loan funds was compounded by the fact that there was no central organization or state agency tracking their lending or managing contact information. As a result, Carol Jackson from Mid-Ohio Valley Regional Council said, "Nobody really knew how much capital was available or what the loan base was." Further, rather than being able to make one phone call to a central point of contact, Laxton added that she would contact EDA directors in different areas of the state as well as the WV SBDC to find out who had funds available.

In the years since that first meeting, the majority of loan fund managers agreed that participation in WVLFC has had a positive impact on their organizations. The benefits have included making new contacts and rebuilding existing relationships, exchanging ideas around planning and organizational development, learning about new products and developing ways to work together to best serve client needs. For example, Dave Clark of Woodlands Community Lenders wrote, "Participating in the Collaborative gave us a much better understanding, for instance, of what technical assistance for potential borrowers was available and what was useful. We were therefore better able to craft our approach to technical assistance provision accordingly." The Richmond Fed has taken the lead on developing a community loan fund matrix based on self-reported data from the loan funds, including information such as fund names, origination date, initial funding sources, geographic lending areas, number of loan officers, lending constraints, total fund amounts, available funds, default rates and other comparable information.

Capital Needs

Initially, loan fund managers were not necessarily looking for additional capital. WVLFC had an estimated $8 million in lending funds available at the start of 2012 based on data collected from the loan funds that showed their combined availability of small business lending capital. So the consensus among the community loan fund managers between the first meeting in November 2011 and the second meeting in February 2012 was that the funds did not need more capital. This finding was contrary to other high level discussions around the capital needs of loan funds and CDFIs.

The bigger issue for the loan funds in regard to capital was the consistent deployment of existing capital. This was seen as a challenge because of the lack of a strong network of partners and intermediaries on the ground to give referrals and provide pre-loan technical assistance. The loan funds also have limited budgets to spend on hiring and funding staff, so there is some reliance on other organizations who work with small businesses to send potential clients to the loan funds. The capital deployment problem is then rooted in both internal and external capacity building issues. The establishment of WVLFC itself as a peer network for sharing expertise, referrals and loan partnership opportunities was a first step towards building internal capacity. The hurdle has been educating traditional bankers and others in the small business ecosystem about the work of the loan funds. The alternative lenders strongly stated that they would like to develop more partnerships with traditional lenders. This would involve engaging traditional West Virginia bankers in learning more about the alternative lenders in the state. If the traditional lenders and others in the small business assistance network are more aware of the loan funds, then the expectation is that more potential clients who cannot be served solely by banks will be sent to the loan funds for assistance.

WVLFC members sensed that traditional banks did not understand, use or leverage community loan funds to the extent that they could. In response to a desire to educate bankers, the Richmond Fed planned and hosted a nationally broadcasted webinar in January of 2014 titled "Participation Loans: How Bankers are Growing their Loans and Lending Partnerships" that featured both traditional bankers (Huntington National Bank and Davis Trust Company) and alternative lenders (WCCED and WCL) who have partnered on a small business loan in West Virginia. The webinar provided a forum for both financing organizations to explain how and why they each participated in the loan and in what ways it benefited them. The webinar was then shared with the West Virginia Bankers Association for inclusion in their banker education series as a free learning tool. Dan Reitz of First MicroLoan of West Virginia said, "There is still a need to … partner with traditional lenders, but things like the webinar … talking about how we did deals together is an excellent example of the results [WVLFC] is looking [to] achieve. … It is not competition, it is cooperation!"

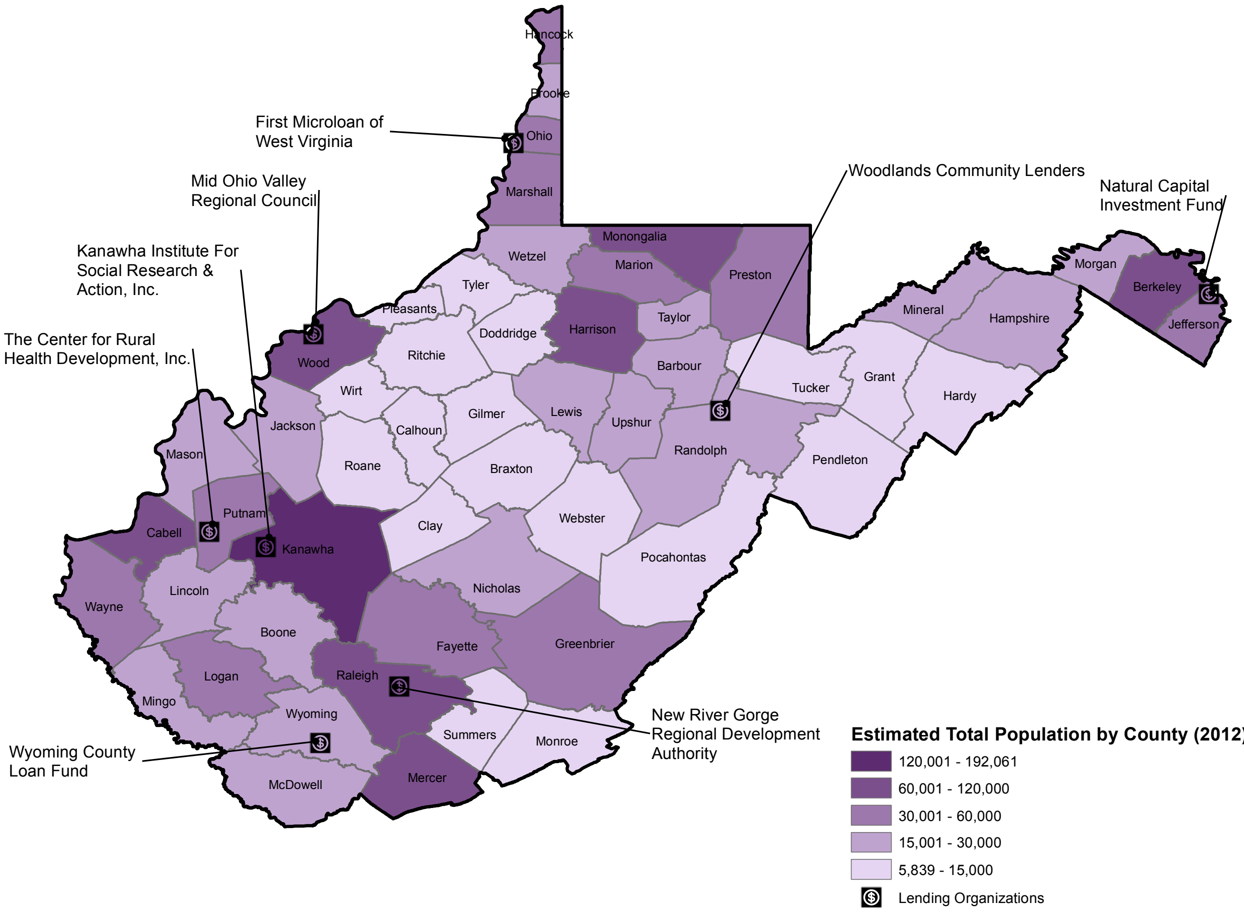
While in 2012 access to capital did not appear to be as much of an issue as previously thought, the loan fund manager survey results from August 2014 suggested that respondents see credit as a major challenge or barrier to continued loan fund lending in West Virginia. In answering the question "What do you see as the major challenges or barriers to continued loan fund lending in West Virginia?", Clark wrote "For us, accessing loan capital to meet the demand continues to be a hurdle. Many of the federal programs are based on very urban models, with rules or preferences geared towards funds with a large [and] dense base of potential borrowers." Laxton said, "One of the challenges that I foresee is the availability of loan funds. … [A]lot of lenders are running low on funds and additional funds are not available. The lenders must wait for the funds to revolve before being able to make additional loans and this will start to be a hindrance to businesses that need the funding quicker." Reger answered, "The major challenge or barrier to loan fund lending will likely be [the] capitalization needed to be consistently aggressive to meet the potential in the West Virginia market."

Location of Organizations and Lending

While lending tends to be clustered around a loan fund's service area, in the aggregate, there is broad dispersion of loan fund lending across the state. Map 2 displays the location of each loan fund and the population of West Virginia counties. Though none of the organizations are headquartered in the lowest population category (5,839 to 15,000 people), they are spread across each of the other population categories. This finding refutes the early assumption that the loan fund organizations were clustered in the high population areas of the state.

To assess lending activity in the state, each fund participating in WVLFC voluntarily submitted their active loan portfolio data to the Richmond Fed for mapping.[48] Two rounds of mapping were conducted using data from 2012 and then 2014. Although it was "point in time" mapping, the goal was to see what trends or patterns were visible when the loan data from all of the funds was combined into one map. For 2012, which included loans active as of March and June of that year, the Richmond Fed received information on 293 loans totaling $20.1 million. For 2014, which included loans active as of March and July of that year, 372 loans were geocoded and mapped totaling $28 million. Map 3 shows the zip code location of each active WVLFC loan as of 2014. This map conveys the presence of small business loans in all reaches of the state, which was a surprisingly expansive coverage of loans given the state's challenging topography and very low population density in certain regions. Two strong areas for small business loans were visible, which were around the City of Beckley (Raleigh County) and the Mid-Ohio River Valley (Wood, Jackson, Wirt, Roane, Pleasants, Ritchie and Calhoun counties, generally).

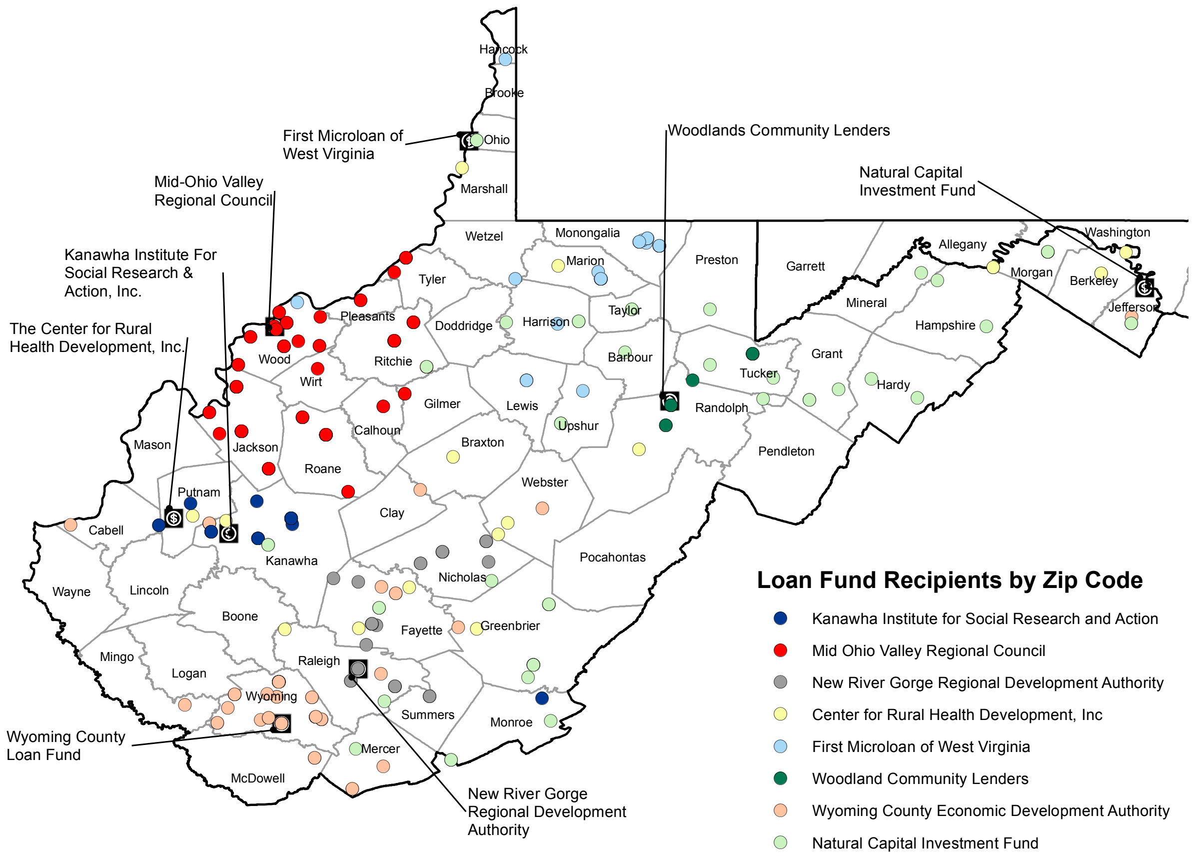
Map 2: Estimated Total Population in West Virginia by County, 2012



Source: U.S. Census Bureau, Small Area Income and Poverty Estimates.

The pattern of lending "hot spots" was discussed by WVLFC as a reflection of the operations of higher capacity, limited region and older loan funds (New River Gorge Regional Development Authority and Mid-Ohio Valley Regional Council) as well as evidence of the ongoing need to identify important intermediaries such as the SBA regional staff and SBDC staff. WVLFC relayed the information that these locations were where the more effective SBDC staff were located and the important role they play in providing "on the ground" technical assistance and referral of business loans to the loan funds. Based on this information, WVLFC decided to take steps to begin to work more closely with the SBA and SBDC. WVLFC discussed the importance of having highly engaged and well trained SBDC staff on the ground, meaning a SBDC professional who could successfully provide both small businesses with technical assistance and loan referrals to the alternative lenders. Building on discussions and data, WVLFC was able to seize opportunities to share thoughts, ideas and support for more engagement with SBDC staff with the director of the WV SBDC. The SBDC introduced a new program to fund three "coach" positions in West Virginia that were charged with working regionally to build training and capacity within the SBDC staff to gain more momentum in this area.

Map 3: West Virginia Loan Fund Recipients by Lending Organization, July 2014

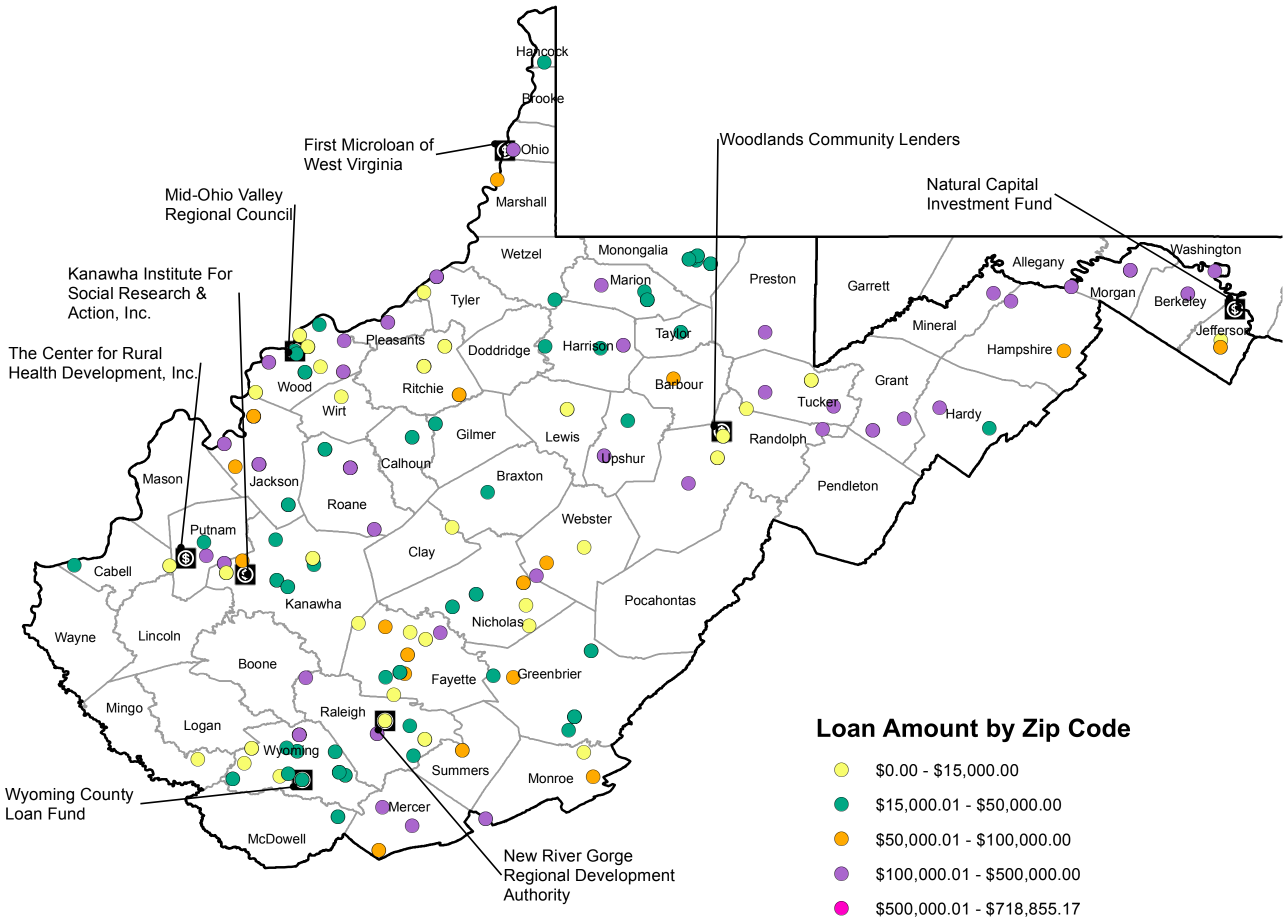


Source: Data provided by lending organizations.

In addition to seeing where each loan fund was lending as shown in Map 3, there was also interest in seeing how individual loan amounts were dispersed across the state. Map 4 presents the zip code location of each active loan as of 2014 by loan amount. The smallest loan amount was $2,223.82 and the largest was $718,855.17, with an average loan amount of $75,707.40. The most popular lending amounts were in the range of less than $15,000 (26 percent) and $15,000 to $50,000 (35 percent). These loan amounts are in the small loan and microloan range. Map 5 shows more clearly where there are dense areas of lending by the loan funds when the individual loans are aggregated up to the county total. Wyoming County slightly edged out Jackson County with a total of $2,778,645.87 and $2,777,125.28 loan funds received, respectively. Jackson County managed to come close to matching Wyoming County despite receiving 29 loans compared to 63 for Wyoming. Three loan funds are headquartered in three separate counties that border Jackson whereas Wyoming County has only one loan fund located within its own boundaries. Mingo County had the smallest county loan fund total at $7,600 from one loan. Ten counties had only one active loan for the time period with an amount ranging from $7,600 to $175,000. Nine counties across the state did not have any loan fund activity.

The mapping of WVLFC's loan data was a turning point in the group's collaboration. It was foundational to WVLFC's learning and understanding of themselves by showing the interrelatedness of their lending activity. Further, this first-ever visual depiction of their lending activity influenced WVLFC's decisions about which future roles to play.

Map 4: West Virginia Loan Fund Recipients by Loan Amount, July 2014

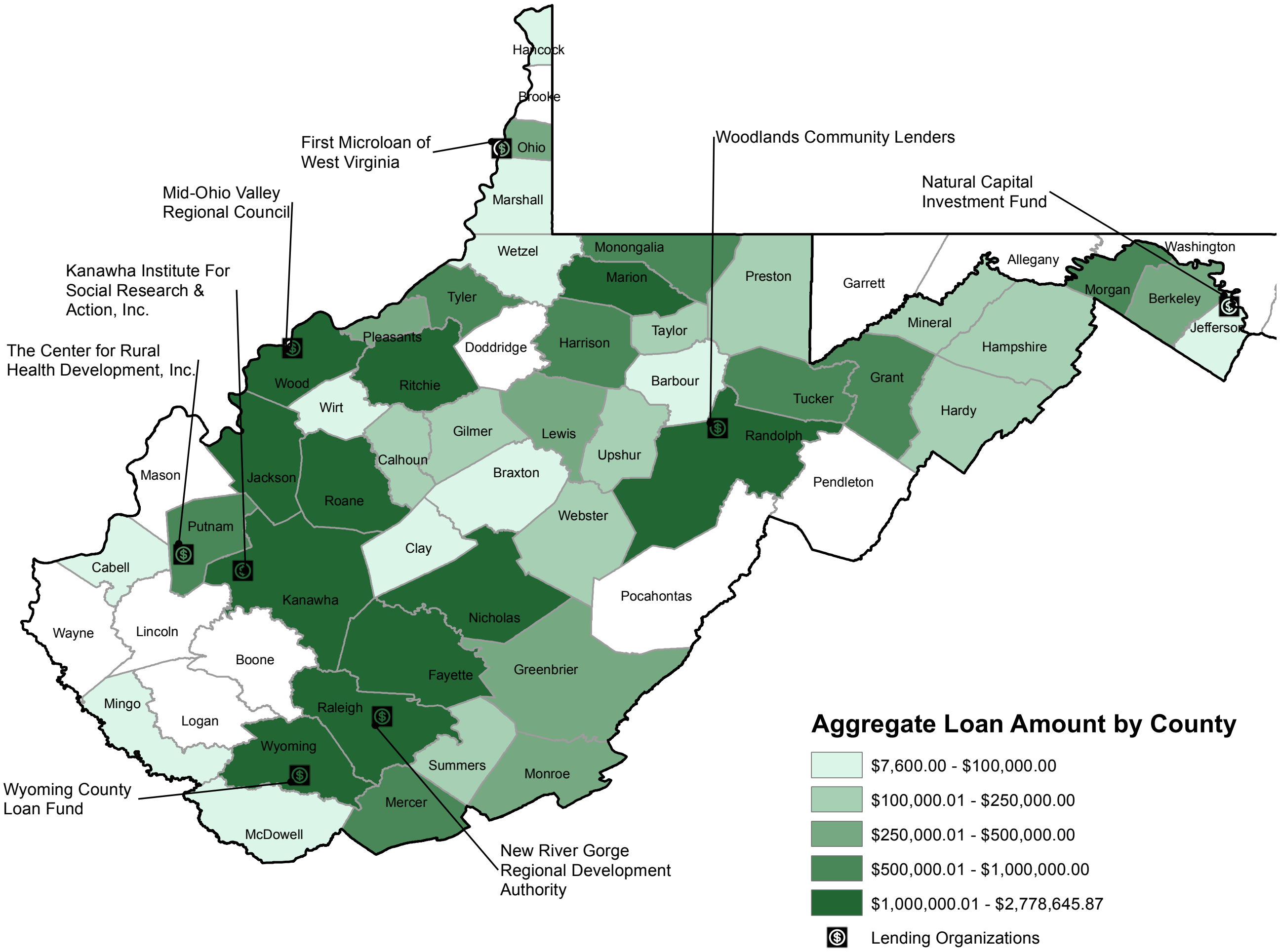


Source: Data provided by lending organizations.

Challenges to Loan Fund Lending

The loan fund managers see multiple challenges to continued loan fund lending in West Virginia besides the already discussed capital issues. One challenge is the clients of the loan funds — the entrepreneurs themselves. There is concern about the weak level of entrepreneurism around the state. Clark wrote, "In general, I think W[est] V[irgians] continue to be pretty risk averse. Encouraging entrepreneurship continues to be [a] struggle." Another challenge mentioned was the staff turnover both on the loan fund side as well as at traditional financial institutions. Jackson said that it has been a challenge "[w]orking with local banks with a revolving door in commercial lenders. Just when I get a good relationship with one, they accept a promotion and move out of state to [a] bigger bank." On the loan fund side, there will be the loss of experienced community development lenders as well as county EDA directors, which, according to Marten Jenkins of Natural Capital Investment Fund, will "require an infusion of funding for staff development and marketing and outreach at a time of diminishing resources to support efforts of this nature."

Map 5: West Virginia Loan Fund Aggregate Loan Amount by County, July 2014



Source: Data provided by lending organizations.

The other challenge mentioned in a variety of forms in the loan fund managers' survey responses deals with business development services and technical assistance. The importance of these services was mentioned earlier when discussing the keys to lending success in the hot spots of activity. Jenkins wrote, "Lack of funding for business development services such as the [WV SBDC] make putting together good loan packages a challenge, particularly in rural markets." Another response mentioned the impact of technical assistance on start-up businesses. Reitz commented, "There is also a clear lack of SBDC resources in our particular service area. The State can't seem to find qualified SBDC agents and we see less and less help for the start-ups. One of the three [tenents] of the SBDC program is assistance to start-ups which seems to be of little or [no] importance to the SBDC [in] our service area." The significance of this challenge may be best summed up by Reger's response that "[t]echnical assistance and business coaching are vital to the success of small business borrowers."

Future of Loan Fund Lending

Loan fund managers are optimistic about the future of loan fund lending in West Virginia. When asked about the future, their survey responses contained wording such as "tremendous opportunity," "great," "steady improvement," "promising," "continue to grow," "vital" and "essential." They acknowledge that this optimism is contingent upon increased partnerships with traditional lenders, referrals from technical assistance sources and improved communication. The importance of the loan funds is best summed up by Reger who wrote, "[L]oan fund lending by nonbank lenders is essential to grow small business in West Virginia. Flexibility with terms of financing including rate, term of repayment, collateral and loan covenants is essential to maximize the opportunity for small business growth in West Virginia. Loan fund lending is especially important as the transition from a coal economy in a large geographical portion of West Virginia occurs." While access to small business credit has not reached crisis level, Jim Gordon of Kanawha Institute for Social Action and Research stated, "[It's] becoming more difficult for the smaller business to receive funding from traditional lender institutions."

Conclusion

Alternative lending for small businesses in West Virginia is alive and thriving in the form of loan funds. These loan funds are one of the key means of deploying capital to rural areas. According to Laxton, they provide access to capital for "small businesses and entrepreneurs who otherwise wouldn't have had the opportunity to start their business." The formation of WVLFC has allowed loan funds in West Virginia to come together in an organized fashion to exchange ideas, advocate for change, develop deals and better understand their unified role in the small business credit market. The growth of these loan funds hinges on their ability to increase awareness among lenders, technical assistance providers and small businesses that they are a viable source for credit as well as a trusted partner for traditional lenders to work with on financing deals. In order to meet the anticipated growth, attracting additional capital will also be important for certain loan funds. This pilot project of West Virginia loan funds provided new learning opportunities about small business lending and could be used as a model for other states to engage with and better understand the important role of alternative lending in community and economic development.

Acknowledgements

Special thanks to Shannon McKay for writing this article. We also acknowledge the helpful contributions of Jack Cooper, Jen Giovannitti, Renee Haltom, Khris Taggert and Sandra Tormoen. We are grateful to the members of the West Virginia Loan Fund Collaborative for sharing their valuable perspectives and data with us.

Resources

For additional information on the organizations and resources mentioned in this article, please visit their websites.

First Microloan of West Virginia
http://washingtoncountypa.org/loan-programs/west-virginia-sba-microloan/

Kanawha Institute for Social Action and Research (KISRA)
http://www.kisra.org/

Mid-Ohio Valley Regional Council (MOVRC)
http://www.movrc.org/

Natural Capital Investment Fund (NCIF)
http://www.ncifund.org

New River Gorge Regional Development Authority (NRGRDA)
http://nrgrda.org/

The Center for Rural Health Development, Inc.
http://wvruralhealth.org/LF/

Washington County Council on Economic Development (WCCED)
http://washingtoncountypa.org/

Woodlands Community Lenders (WCL)
http://wdgwv.org/woodlands-community-lenders.html

Wyoming County Economic Development Authority (WCEDA)
http://www.wyomingcounty.com/loan-programs.aspx

CDFI Webinar Series — Participation Loans: How Bankers are Growing Their Loans and Lending Partnerships
http://www.richmondfed.org/conferences_and_events/community_development/2014/cdfi_webinar_20140128.cfm

Endnotes:

[1] Gomez, Luz and Elaine L. Edgcomb. 2011. "A Newly Crowded Marketplace: How For-profit Lenders Are Serving Microentrepreneurs." Washington, D.C.: FIELD at the Aspen Institute, March, accessed January 16, 2015, http://fieldus.org/publications/ForProfitLenders.pdf.

[2] Dugan, Ianthe Jeanne and Ruth Simon. 2014. "Alternative Lenders Peddle Pricey Commercial Loans." The Wall Street Journal, January 7, accessed June 6, 2014, http://online.wsj.com/news/articles/SB1000142405270230447704579256123272658660.

[3] Bernanke, Ben S. 2007. "Microfinance in the United States." Speech at the ACCION Texas Summit on Microfinance in the United States, San Antonio, Texas, November 6, accessed January 16, 2015, http://federalreserve.gov/newsevents/speech/bernanke20071106a.htm.

[4] Gomez and Edgcomb. 2011.

[5] Morris, Gayle A. 2013. "The Economic Viability of Microfinancing in Pennsylvania." Harrisburg, Pennsylvania: The Center for Rural Pennsylvania, September, accessed June 11, 2014, http://www.rural.palegislature.us/documents/reports/Microfinancing-2013.pdf.

[6] U.S. Small Business Administration. 2015. West Virginia Small Business State Profile. Washington, D.C.: Office of Advocacy, February 4, accessed May 5, 2015, https://www.sba.gov/sites/default/files/advocacy/WV.pdf.

[7] Ibid; U.S. Small Business Administration. 2015. United States Small Business State Profile. Washington, D.C.: Office of Advocacy, February 4, accessed May 5, 2015, https://www.sba.gov/sites/default/files/advocacy/US_0_0.pdf.

[8] Ibid.

[9] U.S. Census Bureau, "Data — Business Dynamics Statistics — Center for Economic Studies," accessed May 7, 2015, http://www.census.gov/ces/dataproducts/bds/data.html.

[10] Ibid.

[11] Federal Reserve Banks of New York, Atlanta, Cleveland and Philadelphia. 2015. "Joint Small Business Credit Survey Report, 2014." New York, New York: February 17, accessed February 17, 2015, http://www.ny.frb.org/smallbusiness/joint-small-business-credit-survey-2014.html.

[12] The Call Report is a compilation of data reported quarterly by deposit lending institutions and bank holding companies in the United States. The lenders report the stock of outstanding business loan balances by the location of the lender's headquarters.

[13] Williams, Victoria. 2014. "Small Business Lending in the United States 2013." Washington, D.C.: U.S. Small Business Administration, Office of Advocacy, December, accessed January 8, 2015, https://www.sba.gov/sites/default/files/2013-Small-Business-Lending-Study.pdf.

[14] Ibid.

[15] Ibid.

[16] Ibid.

[17] Ibid.

[18] U.S. Small Business Administration, "Table 3A Expanded. Small Business Lending Institutions in West Virginia Using Call Report Data, June 2013," accessed January 8, 2015, https://www.sba.gov/sites/default/files/WV.pdf.

[19] Williams. 2014.

[20] Ibid.

[21] Ibid.

[22] Ibid.

[23] Ibid.

[24] Ibid.

[25] Ibid.

[26] Ibid.

[27] Appalachian Regional Commission. 2013. "Access to Capital and Credit in Appalachia and the Impact of the Financial Crisis and Recession on Commercial Lending and Finance in the Region." Washington, D.C.: July, accessed January 7, 2015, http://www.arc.gov/research/researchreportdetails.asp?REPORT_ID=104.

[28] Ibid.

[29] Ibid.

[30] According to the Appalachian Regional Commission, an angel investor is a person who invests his/her own money in a business operated by an unrelated entrepreneur.

[31] Ibid.

[32] Ibid.

[33] Ibid.

[34] Pradhan, Archana and Josh Silver. 2014. "National Community Reinvestment Coalition Analysis Small Business Lending Deserts and Oases." Washington, D.C.: National Community Reinvestment Coalition, September, accessed January 7, 2015, http://www.ncrc.org/resources/reports-and-research/item/973-ncrc-analysis-small-business-lending-deserts-and-oases.

[35] Ibid.

[36] Examples of other organizations with active loans funds in West Virginia include Regional Economic Development Partnerships (RED) and INNOVA Commercialization Group of WV High Tech Foundation (INNOVA). RED, based in Wheeling, West Virginia (Ohio and Marshall counties), has lending activity in the northern region of the state. INNOVA is based in Fairmont, West Virginia (Marion County).

[37] The SBA microloan program's default rate has been called too low. For further information, see Dilger, Robert Jay. 2015. "Small Business Administration Microloan Program." Washington, D.C.: Congressional Research Service, March 20, accessed on May 8, 2015, http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R41057.pdf.

[38] Washington County Council on Economic Development, "About Us," accessed June 3, 2014, http://washingtoncountypa.org/about-us/.

[39] Kanawha Institute for Social Research and Action, "About KISRA," accessed June 2, 2014, http://www.kisra.org/index.html.

[40] Mid-Ohio Valley Regional Council, "Revolving Loan Program," accessed June 2, 2014, http://www.movrc.org/Programs/Revolving-Loan-Program.aspx.

[41] The Conservation Fund, "The Natural Capital Investment Fund," accessed June 3, 2014, http://www.conservationfund.org/our-conservation-strategy/major-programs/natural-capital-investment-fund/.

[42] New River Gorge Regional Development Authority, "About the NRGRDA," accessed June 3, 2014, http://nrgrda.org/who-we-are/about-the-nrgrda/.

[43] The Center for Rural Health Development, Inc., "West Virginia Rural Health Infrastructure Loan Fund," accessed June 3, 2014, http://immunizenow.org/LF/.

[44] Washington County Council on Economic Development, "About Us," accessed June 2, 2014, http://washingtoncountypa.org/about-us/.

[45] Woodland Community Lenders, accessed June 2, 2014, http://wclwv.org/.

[46] Wyoming County Economic Development Authority, "The EDA," accessed June 3, 2014, http://www.wyomingcounty.com/the-eda.aspx.

[47] An online survey was conducted between August and September 2014. The link to the survey was sent via email to a staff member from each loan fund that is a member of WVLFC. Responses were received from seven out of the eight loan funds.

[48] The data voluntarily provided by the loan funds to the Richmond Fed was not received by the Bank in any standard format or file type.