CASE STUDY

ACCION TEXAS INC.

November 2013

IMPACT INVESTING 2.0

ORGANIZATION HEADQUARTERS	San Antonio, Texas, U.S.
YEAR FOUNDED / LAUNCHED	1994
LEADERSHIP	Janie Barrera, President and CEO
DESCRIPTION OF PRIMARY ASSET CLASS	Micro and small business loans (ranging from $500 to $250,000)
TOTAL LOANS UNDER MANAGEMENT	$29,782,0421 (as of December 31, 2012)
GEOGRAPHIC FOCUS	U.S.: Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Missouri, Tennessee and Texas
SECTOR FOCUS	Micro and Small businesses (no specific industry focus)
SUMMARY OF IMPACT AREAS	Job creation and economic revitalization for small, minority, women-owned businesses and low-to-moderate income communities
FINANCIAL PERFORMANCE	2-3% return to investors
SOCIAL PERFORMANCE	Since inception, the organization has made over 13,400 loans totaling $145 million, and has preserved or created 13,000 jobs. In 2012 alone, ATI disbursed 919 loans totaling $18 million.
BORROWER COMPOSITION	63% of ATI's investees identify themselves as Hispanic, 16% are African-American and 15% are Anglo-American. 40% are women.

Colby Dailey and Brenna McCallick were the lead authors of this case. This case study is part of The Impact Investor, a research partnership between InSight at Pacific Community Ventures, CASE at Duke University and ImpactAssets from 2012-2013. The Impact Investor project team was co-led by Cathy Clark, Jed Emerson and Ben Thornley. More in-depth impact investing fund case studies, practitioner blogs, videos from expert convenings, as well as project reports, are available at: http://bit.ly/impinv and at the twitter hashtag #impinv2.

INTRODUCTION

ACCIÓN Texas Inc. (ATI) is a microfinance organization and Community Development Finance Institution (CDFI) based in San Antonio, Texas. Since its launch in 1994, it has grown into the largest microfinance institution in the United States (in terms of gross loan portfolio), serving entrepreneurs throughout eight states in the Mississippi Delta region: Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Missouri, Tennessee and Texas.

In the U.S., microfinance institutions, both for-profit and non-profit, are defined as organizations that "seek to empower self-employed individuals with affordable and accessible business capital" through loans typically ranging from $500 - $35,000.[1] ATI's primary purpose is to provide financing to entrepreneurs who cannot obtain loans from traditional banks due to their poor or nonexistent credit. Since inception, the organization has made more than 13,400 loans totaling $145 million, and has preserved or created 13,000 jobs.

> "You've heard that metaphor about giving a man a fish; our work is helping people buy the pond and the fishing poles with which they fish."
>
> JANIE BARRERA, PRESIDENT AND CEO OF ATI

The organization's roots serve as a testament to its overall approach to microlending, combining a willingness to take risks, faith in individuals' character, and a commitment to serving the poor in a just, sustainable way. Founded in San Antonio in 1994, ATI has thrived and remained true to its mission under the steady leadership of CEO Janie Barrera. A former sister with the Sisters of Charity of the Incarnate Word, Barrera's deep experience in the social sector has undoubtedly enriched the culture and practices of the entire organization. However, it is precisely due to her nontraditional background that she was almost passed over for the position of CEO.

In truth, when she applied for the job Barrera did not have the business credentials typical of a leader of a financial institution. She had only recently acquired her MBA and had never worked formally in financial management. After receiving an initial rejection, Barrera leveraged her connections in San Antonio to secure an interview with Al Martinez-Fontz, the then President of what is now Chase Bank, and the lead organizer for ATI. Barrera explained to Martinez-Fontz that though she had never worked in banking, she was well-versed in the needs of small business owners. She had personally lived through the uphill battle most small business owners face, working as a waitress in her parents' restaurant and watching them struggle to retire 20 years later with significant tax obligations and without pensions. Seeing her capability and passion firsthand, Martinez-Fontz agreed to bring Barrera on board. She quickly proved to be the right choice.

"You can learn the banking stuff," says Barrera, reflecting on her tenure as CEO. "What you need to find are leaders who want to make an impact, who surround themselves with other smart people to complement them." This is the very strategy she has embraced throughout her 19 years with ATI. It has enabled her to lead the organization to become the largest microfinance institution in the U.S., helping thousands of people achieve financial independence in the process.

Integral to Barrera's strategy is the goal of making ATI self-sufficient, meaning interest from the loan portfolio would support 100 percent of the organization's operating costs. Self-sufficiency would allow the organization to set its own priorities for how best to impact the communities it serves and the microlending industry at large. That vision permeates the ATI culture and is reflected in the business processes, strategic plan, and staff goals.

[1] ACCION USA 2013. "Microloans in the United States." http://www.accionusa.org/home/support-accion/learn/microlending-in-the-united-states.aspx

To this end, the organization's focus is two-fold; not only is ATI committed to serving people in need, it is committed to building a sustainable business model through product diversification. These two goals underlie all of ATI's products and practices and the organization's leadership strives to bring in more revenue through diverse loan products and other service offerings. Their focus is on increasing the loan portfolio while simultaneously leveraging technology to keep costs down.

For ATI, however, the goal of attaining self-sufficiency does not preclude the utilization of government policies that support community development organizations. In fact, ATI attracts investment predominantly by way of the Community Reinvestment Act (CRA), a federal mandate enacted in 1977 requiring depository banks to invest part of their resources in institutions serving local low-income populations where they have branch locations.[2] ATI has established itself as a channel in this process, and CRA funding from local banks continues to make up the bulk of the investment capital in ATI's loan fund. Furthermore, ATI is a certified CDFI, meaning it can apply for grant funding from the U.S. Treasury's CDFI Fund. A CDFI is defined as "a specialized financial institution that works in market niches that are underserved by traditional financial institutions."[3]

ATI has emerged as a leader in the U.S. microfinance sector both by embracing entrepreneurial innovation in its product development and by taking full advantage of community development policy in its fundraising. These two foundational practices have enabled ATI to advance its mission "to provide credit and services to small businesses and entrepreneurs who do not have access to loans from commercial sources and to provide leadership and innovation to the microlending industry." The organization provides financing through various loan products and technical assistance (or "business support") to borrowers and potential borrowers. ATI has also developed an online platform and associated services to help other microlenders around the country process loan applications.

ORIGINS

After decades of working to empower impoverished people in Latin America through microlending, the nonprofit organization ACCIÓN International expanded its reach to vulnerable communities in the U.S. In 1990, ACCIÓN International piloted a successful microlending program in Brooklyn, New York, before spreading the initiative to cities across the country with large Hispanic populations: Albuquerque, Chicago, San Diego and San Antonio.[4]

Today, there are five ACCIÓN organizations within the U.S. ACCIÓN network, each operating independently as a separate 501(c)(3) non-profit. All of the organizations are formal members of the national network and share a common mission. ATI is the product of the program launched in San Antonio. It was officially established as a 501(c)(3) in 1994 to address the urgent need for economic growth in the severely impoverished regions of South Texas.

The introduction of ACCIÓN's microlending model to San Antonio in the early 1990's immediately attracted the attention of local financial institutions. Then chairman of the Greater San Antonio Chamber of Commerce and President of Chase Bank, Al Martinez-Fontz, championed ACCIÓN's mission in the community. He brought together a group of San Antonio

2 The Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations. It was enacted by the Congress in 1977 (12 U.S.C. 2901) and is implemented by Regulation BB (12 CFR 228). See http://www.federalreserve.gov/communitydev/cra_about.htm.

3 U.S. Department of the Treasury - Community Development Financial Institutions Fund. "CDFI Certification - Overview." http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=9

4 "Our History." ACCIONtexas.org. Accessed on January 15, 2013. http://www.ACCIONtexas.org/our-history.html.

banks including Chase, Frost, Wells Fargo and Broadway to contribute the initial funding for the organization. The banks contributed a combined $125,000 of lending capital at zero percent interest. Additionally, the Levi Strauss Foundation, granted ATI $50,000 for general operations (Levi Strauss & Co. operated a factory in San Antonio at the time).

Today, the organization still maintains its headquarters in San Antonio, though it has expanded its reach to communities in the states of Louisiana, Mississippi, Alabama, Arkansas, Kentucky, Missouri, and Tennessee. ATI caters many of its services to minority groups and women, both of which are largely underrepresented as business owners in the U.S. The organization takes a holistic approach to small business lending by offering business support including education and business advising to borrowers. In this way, ATI lowers the risk of default by helping to ensure borrowers' success, all while increasing economic activity in the communities it serves.

ATI EXPANDS BEYOND SAN ANTONIO

The organization earned a reputation as an engine for small business growth early in its history, yet ATI's expansion has been very strategic. The organization purposefully branded itself as ACCIÓN Texas rather than ACCIÓN San Antonio, to enable expansion beyond the city and throughout the state. In 1996, ATI branched out into the Rio Grande Valley region of Texas at the behest of one of their funders, the Levi Strauss Foundation. The foundation asked ATI to teach its successful lending methodology to organizations in the San Antonio area. CEO Barrera responded by requesting a grant to open another branch in the region instead. The Foundation agreed, and ATI launched its second office location.

Looking to grow further, Barrera approached Citibank and Chase for help developing an expansion strategy and running cost projections. The banks advised ATI to open separate branch offices rather than individual 501(c)(3) organizations in each area of expansion. ATI took this advice and maintains this branch model today; Barrera estimates that it has saved the organization about $500,000.

Fueled by Barrera's relationships, ATI continued to expand. The organization was given free office space at Chase Bank in McAllen, Texas. The organization then responded to a Request for Proposal (RFP) for a microlender issued by the City of Dallas. Next ATI opened in Austin at the request of local community leaders. The organization received further funding for growth from the U.S. Department of Housing and Urban Development (HUD), opening offices in Corpus Christi and Laredo. In 1998, they merged with another ATI branch that had been operating as a separate institution in El Paso.

Across Texas, communities were eager to have ATI work with their local markets. Community leaders throughout the state recognized the value in ATI's work in support of small businesses, and banks saw the market opportunities: many successful ATI borrowers eventually become eligible for traditional bank financing. As ATI helps small businesses build the credit scores they need to become "bankable," traditional banks can refer customers whose loan requests are too small or where bad credit makes them high-risk. At the same time, ATI's presence gives banks a vehicle through which to fulfill the requirements they have under the CRA to provide services to underserved populations.

Whereas ATI's expansion throughout Texas has been strategic, expansion to the Delta has been more opportunistic and, as it turns out, more challenging. In 2011, ATI received a call from a professor at a university in Missouri running an entrepreneurial camp in the eight Delta states. The professor approached ATI as a potential lender of capital for participants who completed the program. The ATI Board approved licensing in seven states under the Delta Regional Authority and opened four offices with the expectation that the camp would serve as a feeder for ATI loans. Unfortunately, all did not go according to plan. Many of the entrepreneurs who completed the camp decided not to start businesses after all, and ATI discovered that many participants were in fact intermediaries such as technical assistance providers and incubators. These factors, combined with the challenge of establishing new relationships and networks in the expansion areas, prevented the projected pipeline from materializing. ATI has been forced to close some offices and move away from rural areas (e.g. moving its Missouri office to St. Louis, and moving the Arkansas operations to Memphis to avoid shutting down service).

Expansion into Louisiana resulted in another hard-learned lesson for ATI. In 2010, ATI was awarded $2.4 million from the State of Louisiana to offer microloans in the state through the Community Development Block Grant (CDBG) program.[5] Several issues quickly arose: first, the State wanted to provide loans of $75,000 and greater, whereas ATI's average microloan size is $15,000 and is capped at $50,000; second, the risk appetite of Louisiana was much lower than the typical population that ATI serves.

To make matters worse, ATI had brought on separate program and reporting staff in Louisiana to run the program, giving the core management team less direct visibility into the problems. In the end, ATI could find no way to deploy the state's CDBG funds due to the discrepancy between the state and ATI's target markets. As of September 2013, ATI had officially closed the program.

Learning from these strategic missteps, the organization implemented procedural changes to avoid similar mistakes in the future. ATI has centralized all program management and reporting with the management team. The organization has also instituted a monthly check-in system using green, yellow, and red color codes to ensure that all programs are following lending guidelines and meeting organizational requirements. Using this system, management can quickly identify potential problems and make better-informed decisions about programmatic expansion.

ATI's current three-year strategic plan does not include additional expansion. According to CFO Tom Clausen, the organization's goal is to become more established in existing locations, assimilating with local culture and values, working with partners to provide business support to ATI borrowers, and providing additional outreach.

Working in impoverished regions throughout eight states, ATI strives not only to provide credit and services to small businesses and entrepreneurs who do not have access to loans from commercial sources, but also to provide leadership and innovation to the microlending industry as a whole – all while reaching its self-sufficiency goals. To this end, ATI has been hugely successful. A drive to achieve self-sustainability through innovation has led the organization to develop efficient, lucrative new technologies and lending practices that they now share with other lending institutions.

FUNDRAISING: THE ROLE OF PHILANTHROPIC SUPPORT

To support each of its 17 office branches, ATI has an operating budget of approximately $14 million, which is currently covered by an estimated $7 million in interest from the loan portfolio and another $7 million from philanthropic and public sector fundraising. In ATI's language, it is nearly 50 percent self-sufficient.

[5] The Community Development Block Grant (CDBG) program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Beginning in 1974, the CDBG program is one of the longest continuously run programs at HUD. The CDBG program provides annual grants on a formula basis to 1209 general units of local government and States.
See http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs.

Given the organization-wide focus on downsizing its dependence on grant subsidy, the development team is relatively small; only two staff members work full-time to raise the $7 million in philanthropic funding ATI requires.

Barrera recognizes that her single-mindedness in ending all reliance on grants is unusual. "It's true, if you go out and interview other MFIs [microfinance institutions], the sole focus is the mission of trying to serve as many people as possible. But not for us."

Undeniably, ATI's mission is to serve "unbankable" populations – and, indeed, as many of them as possible – but Barrera is adamant that the organization focus just as rigorously on increasing its own financial independence through product innovation and diversification.

Notably, Barrera does not view bank loans received as a result of the federal CRA mandate as subsidy. As the organization's largest source of investment into ATI's loan fund, CRA bank loans provide liquidity; however, the banks maintain the authority to call back notes, in which case ATI is required to return the full principal with any interest earned. "The [CRA] investment piece has a cost to it," Barrera explains. "It's an expense line item and liability on our books." For this reason, Barrera does not see CRA funds as concessionary to the market. "When I talk about subsidy," she says, "I'm talking about 100 percent grants." In other words, the only subsidies ATI receives – and therefore the only funding sources that undercut self-sufficiency – are philanthropic grants.

In 2012, ATI did not receive its expected funding as a CDFI from the U.S. Treasury Department – a $2 million contribution. The organization suffered this same setback in 1999, 2002, 2003 and 2005, but the loss in 2012 came as a surprise. "We actually focused on the Delta as the case for funding [in 2012]," says Celina Peña, ATI's Chief Program Officer, who attributes the Treasury's lack of funding to ATI's expansion plan. "We were shocked – and still are – that it wasn't funded to build capacity in that area," she adds. Hit hard by this loss, the organization moved quickly to balance its budget by dramatically reducing costs in the last two quarters of 2012 and instituting a hiring freeze. For ATI leadership, this unexpected loss underscored the need to accelerate the move to self-sufficiency and to diversify income sources.

THE ORGANIZATION

ATI is presented here at the organizational level, rather than at the fund level, because as an organization it acts much like a fund, aggregating investment capital to operate multiple loan product lines. For the most part, an ATI investor invests in ATI, which in turn deploys the funding through its various loan products. Therefore, from an investor perspective, the investment is in ATI, not in particular products. Throughout ATI's history, there have been a few specialized products which have been investor specific and targeted to investor interest, but these have been limited and relatively small in dollar value. More so, ATI has diversified its loan product lines, added Microloan Management Services™ (MMS) and business support, and expanded geographically over time in order to support and scale a high volume of microloans. The organization's culture of service and hard work permeates all aspects of its growth as demonstrated in its loan approval mechanism, leadership and team development, high touch client management, and product innovation.

LOAN APPROVALS: USING TECHNOLOGY FOR EFFICIENCY

Efforts to balance a mission of serving people in need with the long-term goal of becoming a self-sufficient organization create an undeniable tension within ATI. The organization strives to reach as many people as possible through its lending and education programs, especially those individuals who face the greatest obstacles to financial inclusion. However, Barrera and her team recognize the need to generate a steady stream of revenue – and the reality that microloans serving disadvantaged communities are not likely to be profitable. This tension pushes the organization to think creatively about developing new products that bring in profits, granting ATI the space to continue operating its more mission-oriented programs.

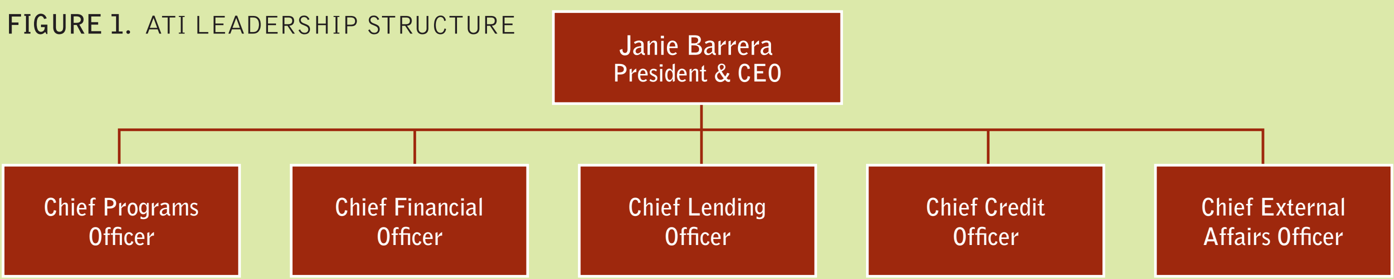
Like everything else at ATI, the organization's investment strategy is based on that tension. ATI employs an investment strategy that carefully considers the borrowers' eligibility, the borrowers' needs, the types of loan products that are in demand, and the technological systems required to streamline the loan approval process. ATI uses a sophisticated tier structure to evaluate the risk of each borrower. Interest rates and loan amounts are based on "the two C's" – credit and capacity. ATI can quickly identify eligible borrowers and make loans by automating a portion of the approval process through "auto-review."

The auto-review essentially minimizes the need for underwriters to evaluate application eligibility, and begins after the loan processor enters the application and credit report into the system. Through a customized algorithm, auto-review determines the applicant's status (green, yellow, or red). If the application is green, the applicant is approved for a loan at the amount requested, additional documents are collected, and the applicant is moved forward to the underwriters for review and approval. If the application is yellow or red, or if the loan amount approved through auto-review is less than the amount requested, the case moves to underwriting for a closer look at the two C's, after which the application is either approved to move forward or is declined.

LEADERSHIP AND TEAM DEVELOPMENT: A BUSINESS-MINDED APPROACH

With approximately 100 employees, ATI has a complex organizational chart with all major business lines falling under five executive offices: Finance, Programs, Lending, Credit, and External Affairs.

FIGURE 1. ATI LEADERSHIP STRUCTURE



The organization invests substantially in its employees, and takes a business-minded approach to staff development and incentives. For example, at time of hire, each employee undergoes a credit check and participates in a credit work plan for a probationary period, especially if the employee herself has bad credit. Employees are strongly encouraged to contribute to their 401k retirement plans. The employees themselves are committed to the cause and share passion for the work that they do. As an example, according to Barrera, when ATI saw delinquencies begin to rise at the beginning of the financial crisis , 100 percent of ATI employees stayed in their offices after work to make calls to all of ATI's 2000+ customers – whether delinquent or not – just to ask how they were doing.

ATI's Board of Directors is composed of 15 members, serving for a maximum of six years. The Board appoints and tracks the performance of the President and CEO and oversees the financial performance of the loan fund. They play a role in maintaining the quality and production of the portfolio. By 2015, ATI aims to have a Board member from each state of operation; currently the entire Board resides in Texas.

Barrera has led the organization through steady, but remarkable growth. She now oversees approximately 17 offices across ATI's regions of operation. Barrera has streamlined systems so that her only direct reports are her executive team, composed of a Chief Program Officer, Chief Financial Officer, Chief Lending Officer, Chief Credit Officer, and Chief External Affairs Officer. These officers oversee the various departments of ATI.

The leadership comes together frequently to discuss innovation and organizational growth. In 2012 the team led a rigorous strategic planning process resulting in a three-year plan with aggressive goals for increasing self-sufficiency (an additional 12 percent by 2015) and expanding the lending portfolio, Technical Assistance program, and MMS. As a whole, the team is united behind the vision of achieving self-sufficiency while upholding ATI's mission. On a practical level, the leadership understands that making strides toward both is a balancing act.

ATI's management sees the goal of self-sufficiency as essential to their organizational strategy – but also recognizes that such a strategy must be flexible. "To me strategy is never written in concrete," says Clausen, CFO. "It's a road map. You need to have flexibility with the vision, but you have to be cognizant of your end goal. As long as [your end goal] is within the framework, you keep moving forward."

While Clausen believes in the vision of self-sufficiency, from a practical standpoint he views it as unattainable if business remains the same. "I think it's a myth," he says. "That's what we're shooting for, but to get to 100 percent self-sufficiency and fulfill your mission, it's too labor intensive." While ATI recognizes the challenge, it continues to find ways to diversify its revenue through products and services to work towards this goal.

Clausen explains that the organization has been hovering at 50 percent self-sufficiency because it continues to direct much of its efforts toward geographical expansion and extending microloan products. He adds, "That's why we have all these other products to try to improve, [like] the MMS servicing and the [SBA] 504 Program. You'll never get enough [revenue] through microlending alone."

Barrera is the organization's primary visionary, fundraiser, and networker. Having recently served on President Obama's Advisory Council on Financial Capability, Barrera also provides her perspective to policymaking bodies, including the U.S. Treasury. While she presents ATI in her policy work as a model for innovation in microfinance, she is constantly scanning the field for methods to increase organizational sustainability.

LENDING STAFF: ORGANIZED FOR HIGH TRANSACTION VOLUME

On average, ATI's front line lending staff processes 400 applications and closes 80 loans per month. This group includes loan officers and loan processors working together to identify reliable borrowers and to create affordable loans.

Loan processors are responsible for inputting loan applications and making sure all of the application information is correct in the database. Loan officers are in charge of gathering all of the financial data, including credit reports and information on assets and collateral. They evaluate an applicant's credit and capacity. The five underwriters – all of whom are centralized in San Antonio and make the final decision on loan due diligence – also underwrite loans for each of the MMS subscribers for a total of 85 loans per week.

The high volume of applications requires exceptional focus and expertise. To keep the staff on track, every loan officer has an online "dashboard" that displays a conversion rate of applications that get approved for a loan. Officers must meet their target every month to earn their three to five percent commission. These targets reset every three months. The quarterly and annual goals are incentivized according to loan conversion rate.

HIGH TOUCH CLIENT MANAGEMENT: AN IMPACT-DRIVEN APPROACH

ATI manages a very high-touch relationship with each borrower from the initial application through to loan pay-off. When a borrower submits an initial application and a credit score is pulled, a loan processor will review it to flag anything that might prevent an approval from MMS. For example, if a loan processor sees that a potential borrower has an outstanding $200 bill that is 30 days overdue, she will instruct the borrower to make the payment. Once the payment has been made, the loan processor will rerun the credit report before the application is entered in the system and the "auto-review" process is initiated.

After loan approval, borrowers are encouraged to participate in Business Support services. In addition, successful borrowers "move up the chain" of ATI products such that a business entering the ATI portfolio with a microloan could graduate to a mid-sized loan before, ultimately, graduating to traditional lending. ATI works with the borrowers throughout each stage to support business sustainability and growth.

For the few borrowers who are not successful[6] or are at risk[7] of defaulting, ATI has instituted very elaborate asset protection and collections processes. In 2010, in the midst of the Great Recession, ATI put in place a new set of tools to ensure successful asset recovery. For example, it increased the use of attorney letters, began civil judgment proceedings on write-off or seriously delinquent accounts with large balances and weak collateral, began negotiating settlements for seriously delinquent accounts, and instituted a Flex Program which allows for a reduced minimum monthly payment due to temporary hardship.

PRODUCT DEVELOPMENT: ENCOURAGING INNOVATION AND INSTITUTIONALIZING KNOWLEDGE

ATI has systematized a way for employees across the organization to introduce and share new, innovative ideas. ATI has a forum on its "intranet" where any staff member can submit ideas, for example to improve efficiency or change underwriting processes. These ideas are filtered to a cross-department Innovation Committee that reviews them and decides whether or not each idea is feasible. This more formal system for capturing creative suggestions from across the organization also generates institutional knowledge by preserving ideas that have been floated before, the decisions made about them, and the reasoning behind those decisions.

One example of an innovative idea that became a reality is a product developed for taxi drivers in Louisiana. When a new state law required that taxicabs install specific equipment, the local ATI loan officer recognized the need for a product providing capital to cab drivers for purchasing the new devices. He submitted the idea to the Innovation Committee, conducted field research in the community, and created loan guidelines. ATI was able to implement the new product in a few weeks, allowing cab drivers to access the capital they needed to comply with the law and stay in service.

[6] In 2011, ATI reported 6.44% net losses calculated as the net losses for the fiscal year divided by the portfolio outstanding at year end (2011 Annual Report).

[7] In 2011, ATI reported 3.10% of borrowers at risk calculated as total value of outstanding loans past due more than 30 days divided by total portfolio (2011 Annual Report).

ATI has stretched programmatically in other ways, implementing new ideas and business strategies that include creative partnerships and loan products. In recent years, ATI has partnered with Kiva to use Kiva's online platform to match entrepreneurs in their communities with lenders from around the globe. ATI is also piloting a Promise Loan program to serve small businesses and startups that may lack capacity under ATI's traditional lending guidelines.

TECHNICAL ASSISTANCE: IMPROVING RESULTS THROUGH BUSINESS SUPPORT SERVICES

The TA service ATI provides through its Business Support division was not an original feature of the organization. ATI has always provided advising to its borrowers, but the organization did not have a formal program for TA until 2011. Barrera says she did not structure TA as a separate division right away because she felt it would drain already limited resources and undercut organizational self-sufficiency.

However, when ATI merged with the South Texas Business Fund and the Community Development Loan Fund in 2010, it acquired the staff, facilities and capacity to begin offering formalized educational services to borrowers on lending and business management. City public officials had promoted the merger, seeing it as a way to create "a centralized opportunity for entrepreneurs," according to Celina Peña, ATI's Chief Program Officer. "The two other funds were not performing in production at a rate that was sustainable," she explains, "and the city and community leaders believed ATI would be able to commit to growing the market and serving individuals who needed healthy alternative financing."

The merger successfully united ATI's efficiencies with the other two microlenders' technical assistance capacities. "At that point I saw the value [of offering technical assistance]," Barrera says, "because we can get grant dollars for TA, and it helps protect our portfolio." ATI makes up the full cost of operating the program through philanthropic fundraising and charging fees for classes.

The Business Support team, under the leadership of Chief Program Officer Celina Peña, supports the lending team through program offerings for borrowers and potential borrowers, including consultation and seminars. The team serves as an information resource to entrepreneurs and ATI staff, and designs responsive curriculum for the communities ATI serves.

The Business Support program currently takes the form of individual consultations and monthly information sessions for entrepreneurs on finance, marketing, legal structuring and business growth. The program has helped increase efficiencies within the organization, working closely and in tandem with the lending staff. When a loan officer discovers that a borrower needs business advice, she sends the client to an in-house advisor.

While the program is fully operational, the officers continue to research and develop best practices to improve their model. Understanding that each market varies, ATI is studying the communities in each of their regions of operation to identify the most effective methods of providing business

Investment Profile: Vertical 1 Communications, El Paso, TX

Vertical 1 Communications, LLC, is a wireless telecommunications company founded in 2004. The company experienced early growth, expanding its offerings from site maintenance services to tower erection, management, service, and inspections. In 2008, Cecilia Dominguez, a company partner, approached several banks for a loan. The young business could only afford to take on a small amount of debt, and Dominguez's lack of experience with business lending left her disheartened and frustrated as bank after bank turned her away. Finally, one bank advised her to go to ATI for a microloan, giving her the contact information for lending officer Elvira Valles.

Valles helped Dominguez calculate the amount of capital the company needed and put her in touch with ATI's SBA affiliate. The SBA helped Dominguez develop a business plan for an initial $30,000 expansion loan through ATI. Two years later, Dominguez returned to ATI and refinanced the loan for $45,000. In 2012, the company took out a mortgage loan to acquire office facilities as part of the SBA 504 program. Accion and the SBA contributed 40 percent of the capital, First National Bank contributed an additional 50 percent, and the final 10 percent was in the form of a down payment from Vertical 1.

Since its first loan from ATI in 2008, Vertical1 has expanded its services and operations and hired an additional five employees. As Dominguez reflects on what makes ATI so distinctive from traditional lenders, she points to their culture of people-centric values. "Some banks just completely shut you down," she says. "They didn't take the time to see what we were about, what our vision was. ACCIÓN saw that we were going to add to the community and create jobs. They just got it."

support. Their work with the lending team includes collaborating on the design of program offerings that will bolster client success, which also protects the loan portfolio. Currently seven to ten percent of ATI borrowers receive Business Support. According to the new strategic plan, ATI hopes to provide Business Support to 20 percent of its borrowers by 2015.

MICROLOAN MANAGEMENT SERVICES™ (MMS): TECHNOLOGY AS A REVENUE SOURCE

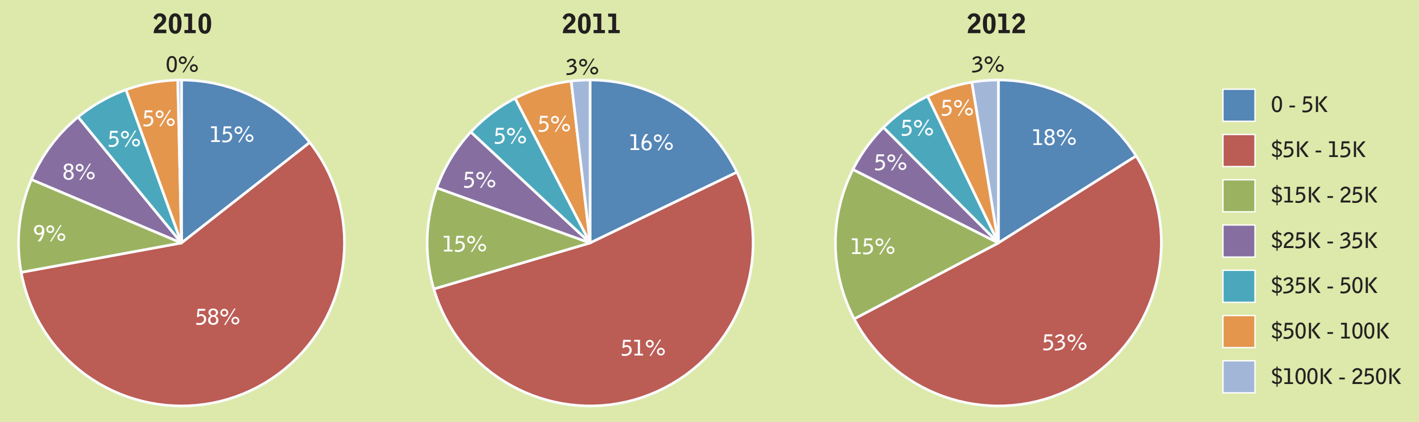
ATI has invested substantially in its technology. In 2004, Barrera tasked a summer intern to create a profile of "good" and "bad" customers using data collected from customer applications (ATI collects an application from each customer for each loan, and most customers take out two or three loans before graduating to traditional financing). These profiles became the foundation of the MMS software. In 2007 ATI applied for and received the Wachovia Bank and Opportunity Finance NeXT award which provided the grant funding – a total of $200,000 – needed to build out and establish MMS as a tool that could be shared among other CDFIs.

MMS reduces the need for extra staff by automating a series of mid-stream processes through "auto-review," and speeds up the application processing time considerably. According to Chief Lending Officer Dan Lawless, ATI owes its 50 percent self-sufficiency status in large part to the MMS software. "The single greatest element of our success is our technology," he says. Clausen adds that without the organization's use of technology, "[ATI] wouldn't have the same geographic footprint that we have." In addition to speeding up processes and lowering internal costs, MMS brings in revenue. To date, 13 other CDFIs have paid ATI to use the service. In 2012, MMS fees brought in $272,837 for the organization, or about five percent of its total revenue (excluding governmental grants and public donations) that year.

INVESTMENTS

In addition to Business Support and MMS, ATI operates two other lines of business that generate revenue: lending (micro and small business), and the SBA 504 program.

FIGURE 2. LOAN PORTFOLIO BY YEAR



LOAN PRODUCT LINES: DIVERSE OFFERINGS AND HIGH TRANSACTION VOLUME

ATI receives and processes over 5,000 applications per year, and approved about 20 percent, or over 900, in 2012. The average loan size across the ATI portfolio hovers around $15,000. This average has risen slightly in recent years due to growth in ATI's mid-sized loan program (loans over $50,000). However, ATI is committed to keeping loans larger than $50,000 to no more than 25 percent of its total portfolio, in keeping with its mission to serve the least "bankable" populations.

ATI lends to any legal small business in its service area inclusive of any profession or occupation, excluding adult entertainment businesses. The organization screens for veteran status, ethnicity and gender of its applicants, as well as the geographic location and eco-friendly status of businesses under consideration. Most ATI loans are used for working capital or equipment purchases. Approximately half (46 percent) of ATI's loans are made to businesses that are less than one year old, while approximately one-third (32 percent) are made to businesses that have existed for three years or more. The median asset level of borrowers' businesses is approximately $6,000. In terms of borrower composition, 63 percent of ATI's investees identify themselves as Hispanic, 16 percent are African-American and 15 percent are Anglo-American. Forty percent are women.

MICROLOANS The microloan portfolio is ATI's most diverse, with 16 different loan products existing or in development, including 12 that are available to all regions of ATI's operations. These loan products include start-up loans for businesses, lines of credit, vehicle refinancing, and other special purpose products. Over 90 percent of ATI's loans are what ATI defines as micro – between $500 and $100,000 (in contrast to the Small Business Administration (SBA), which defines microloans as up to $50,000). Interest rates range from 10.5 to 18 percent[8] based on a customer's risk profile, and terms range from five to 72 months depending on loan amount and purpose. Each of ATI's microloan products requires collateral which can come in the form of personal assets, vehicles, and income statements.

LARGE LOANS ATI established a new product in 2010 designed to help borrowers who need working capital, or who want to purchase heavy machinery equipment or commercial real estate for business operations. This product, which ATI has labeled "large loans," is available only to borrowers who use the financing to purchase assets in Texas and Louisiana. The loans range from $50,001 to $250,000, and terms vary (depending on the life of the assets financed) from 36 months to 10 years (for real estate). In addition, ATI's criteria for granting large loans include certain economic development goals as defined by ATI: entrepreneurs must be either female and/or from an ethnic minority group, create or retain jobs and/or operate their business in an economically depressed area.

SMALL BUSINESS LOANS ATI's Small Business loans are available to borrowers in the City of San Antonio and surrounding cities within the county district. Established in 2010, this product is similar to ATI's large loan offering, designed to help business owners who want to purchase commercial real estate for business operations, heavy machinery equipment, or who need working capital due to expansion or business growth. Unlike the large loan product, ATI's Small Business loans target businesses that are challenged to obtain 100 percent of the capital they need from traditional lenders, and are meant to help borrowers obtain reasonably-priced financing. The loans range from $50,000 to $250,000 and can work with ATI as the sole capital provider up to $250,000, or in tandem with a third-party lender.

Investment Profile: MaGi Foods, El Paso, TX

MaGi Foods LLC, a female minority-owned business, produces and markets two separate food brands. Founder and CEO Kathleen Mayes launched the company in 2007 after acquiring Louisiana Purchase, a brand of Cajun and Creole-inspired dishes. She has since created her own line of food products under the name Kathleen's. Kathleen and her husband sell their products to local grocery chains and military retail channels.

Launched in the midst of the global commodities crisis of 2007-2008, the Mayeses' business quickly felt the impact of the steep, worldwide spike in food prices. Aiming to consolidate processes and cut costs, the couple made the risky decision to acquire manufacturing equipment of their own. In 2009, Kathleen Mayes applied for a loan with Frost Bank, but was turned down. Mayes's business lender at Frost connected her with a lender at ATI, and in 2010, Mayes signed her first loan agreement for $40,000 through ATI's Small Business Loan program. She and her husband used the funds, along with a line of credit from Frost, to purchase additional equipment and raw materials to continue manufacturing. With the expansion of her business's operations, Mayes and her husband were able to hire four new staff members in addition to their initial three.

In 2011, Mayes began developing her own line of products and marketed them under her name. To finance the launch of MaGi's second product line, Mayes returned to ATI. She received a loan of $200,000, becoming the first borrower under ATI's new SBA 7(a) Community Advantage Pilot Loan Program. With the additional capital, Mayes acquired a secondary production line, moved to a larger facility that enabled the efficiencies to launch Kathleen's, and is now on the path to business profitability.

Mayes attributes much of her success to ATI's support. Without the initial loan for production costs, Mayes says, "We probably would have sold the company entirely." The SBA 7(a) loan was also instrumental in sustaining the business, as it helped solidify MaGi's ability to bring in capital from private investors. "[ACCIÓN] believe[s] that it's not only the numbers on a financial spreadsheet, but the content of character behind the people that operate the business," Mayes says. With loans and business support from ATI, and an ongoing relationship with Frost Bank, MaGi has been able to grow from a business valued at $500 thousand in 2010 to nearly $3 million in 2013.

8 Eighteen percent is the maximum allowed by Texas state law under Chapter 306 of the Texas Finance Code

In the latter case, the third party provides 50 percent of the capital, ATI provides 40 percent, and the borrower contributes 10 percent.

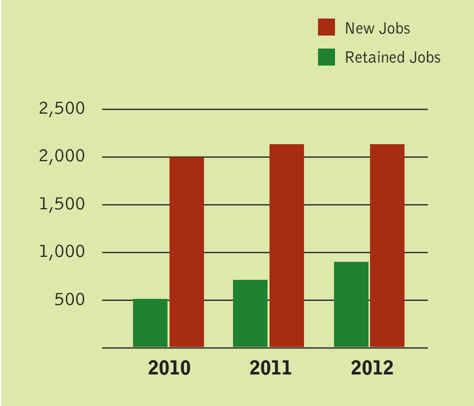
SBA 504 PROGRAM: THE LARGEST REVENUE STREAM

The 504 loan guarantee program operated by the U.S. SBA is the only truly profitable product at ATI. ATI began participating in 2009. As of 2013, the organization is in line to bring in between $400,000 and $500,000 in net revenue from the program. ATI became an SBA Certified Development Company[9] in 2008/2009 and, as such, became an official approver of SBA 504 loans. While not a lender in this program (the typical structure is that a bank provides about 50 percent and has the first lien, the SBA guarantees 40 percent as a debenture, and the borrower puts up 10 percent), ATI services the loan for a fee. ATI also receives a portion of the 1.5 percent fee paid by the borrower for the deal, and can also receive fees for packaging and processing. ATI currently charges a 0.5 percent fee for servicing SBA 504 loans, and has a $100 million SBA 504 portfolio, which is not insignificant, especially considering the lean staff of four employees designated to the program. Lawless, Chief Lending Officer, hopes to grow the program to produce over $1 million in revenue over the next three years with expansion throughout Texas and Louisiana and into parts of New Mexico. Currently, ATI has two staff along with three or four business development contractors scouting for deals. On these projects, the guaranteed portion can be up to $5 million, resulting in project costs as large as $124 million.

RESULTS

INDICATOR	2011
New clients	664
Number of Loans Disbursed	890
Amount loaned	$14,638,455
Active Portfolio	$26,267,412
Portfolio Under Management	$2,515,002
Total Portfolio	$28,782,414
Active Clients	2,268
Average Loan Balance	$12,691
Portfolio at Risk	3.10%
Net losses	6.44%

MICRO AND SMALL BUSINESS LOANS



ATI reports an average of a two to three percent return to investors, depending on the market. As shown below, other performance indicators include new clients, number of loans disbursed, and amount loaned. [10]

ATI charges an average 12.5 percent interest rate on loans. Interest can go as high as 18 percent, which is the limit based on Texas usury law.

A 2009 independent study of ATI's economic impact calculated that ATI's lending capital between 1994 and 2009 created economic activity of approximately $173.8 million. These results represent an estimated 60 percent economic return – every dollar lent creates an additional 60 cents annually in new economic activity.[11] Further, according to ATI's own literature, after three small loans with ATI, clients increase business equity by 22 percent, bring in 67 percent more in monthly business profits and increase take home pay by 44 percent. Between 2010 and 2012, the

[9] Certified Development Companies are authorized by SBA to market, package and service SBA 504 loans. See http://www.sba.gov/community/blogs/community-blogs/small-business-cents/cdcs-and-cdcs-community-development-corporation.

[10] Ibid.

[11] Social Science Research Network: "How Much does Credit Matter for Entrepreneurial Success in the United States?" http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2157707

total number of jobs created or retained among ATI micro and small business borrowers jumped over 20 percent from approximately 2,500 in 2010 to over 3,000 in 2012.

CONCLUSION

In its 19 years of operating, ATI has grown into the largest microfinance organization in the United States. With a loan portfolio of close to $30 million and an active client base of over 2,000 across eight states, ATI's investments have made a significant impact in the communities it serves. This impact has been achieved through a deliberate and disciplined business strategy using a diverse set of products to cross-subsidize and scale a high volume of microloans.

In order to ensure that ATI continues to reach its target populations and provide financing to those who need it most, the organization has locked in its commitment to keep the cumulative value of large loans at or below 25 percent of its total portfolio.

At the same time, ATI continues to explore ways to streamline its systems through technology and to cultivate new business opportunities. Looking forward, ATI has developed a detailed strategic plan for growing its portfolio, providing financing to more small businesses in need of assistance and strengthening its own revenue stream.

POST SCRIPT

LOOKING AHEAD: ATI'S THREE-YEAR STRATEGIC PLAN In an effort to make concrete strides toward realizing self-sufficiency, Barrera and her leadership team met in 2012 to develop a three-year strategic plan. They created a set of six goals designed to enable ATI to generate at least 60 percent of its required funding from its loan portfolio alone by 2015. The goals are as follows:

A **Increase loans outstanding to $53 million.** The organization plans to nearly double the size of its loan portfolio in three years. The pace of lending outside of Texas (five percent of the total portfolio in 2012) will mirror this growth, increasing to 10 percent. Leadership also aims to increase loan closing rates to 35 percent, while reducing loan loss rates to five percent across all states.

B **Raise the standard for the business microloan industry in the U.S. and facilitate the growth of domestic microlending through MMS.** ATI intends to achieve product profitability by the end of its 2014 fiscal year. By the end of its 2015 fiscal year, ATI aims to have 40 customers using the MMS service, targeting other microfinance institutions and CDFIs.

C **Assist 20 percent of all potential applicants, 35 percent of all applicants, and 20 percent of all borrowers through the Business Support Division by the end of 2015.** In 2012, ATI's Business Support Division was serving approximately two to five percent of potential applicants, one to two percent of applicants, and two to five percent of borrowers.

D **Develop the internal structures, systems, and staffing to support implementation of this plan.** ATI aims to grow its management team over three years in proportion to its organizational size and scope, while streamlining its reporting system among managers. ATI will likewise collect impact data on both borrowers and non-borrowers for use in influencing the CDFI industry at large.

E **Achieve representation on the Board of Directors for each state in which ATI has staff.**

F **Grow and strengthen ATI's financial position, such that net income grows each year of the plan by at least three percent, self-sufficiency has grown to 60 percent, and net assets to a minimum of 30 percent.**