

Technical Assistance for Delinquent Clients

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Takashi Koseki, University of Pennsylvania

koseki@sas.upenn.edu

Introduction

- * **Microenterprise Development Organizations (MDOs)** provide microloans, business training and technical assistance (TA) to disadvantaged micro-entrepreneurs.
- * MDOs have issues of **delinquency and charge-offs**. Microloan borrowers need TA services to avoid such issues.
- * **How should the delinquent clients be assisted? Is TA effective in helping them?**
- * --Yes, but it is complicated...



Portfolio-at-Risk, Net Charge-offs and Restructured Loans (%)

Year		2008	2009	2010
Number		34	28	25
Portfolio-at-Risk	Average	11	11	11
	Median	9	9	10
Loan Loss Rate	Average	8	12	9
	Median	6	6	7
Restructured Loan Rate	Average	12	10	13
	Median	7	9	10

Source: "Lending Performance Annual Reports," FIELD at the Aspen Institute. <http://microtracker.org/analyze/resources/2>

Method

- * **Case study** at a MDO in Philadelphia, PA in the US
- * **TA project** to provide one-on-one consulting and referrals to the delinquent clients
- * **12 clients** in the treatment group, and **16 clients** in the control group/ consulting for one year
- * **Outcome indicators:** delinquency level & sales amount

Treatment Group

12 clients
(Consulting provided)

Control Group

16 clients
(No consulting)

Profile of the clients

Demographics		Industry
Treatment Group (N=12)	Microenterprise Census**	Retailer (art, clothes, cakes, import, etc.)
Female 67%	Female 41% (N=238)	Building management
Minority 80%	Minority 53% (N=186)	Childcare
Low-income *92%	Low-income* 56% (N=117)	Hair salon
		Massage
		Others (pet training, insurance, IT, etc.)

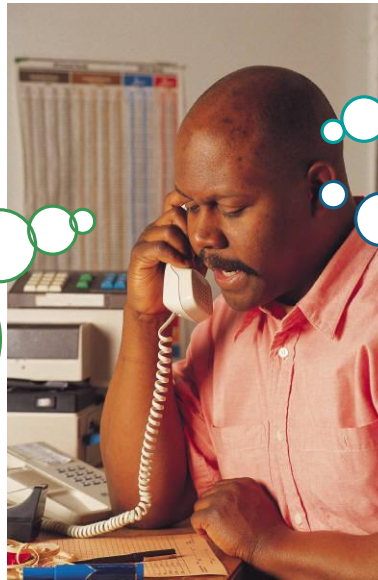
* Household incomes at or below 80% of the HUD median for their location.

** Source: “2011 US Microenterprise Census Highlights,” FIELD at the Aspen Institute.

<http://microtracker.org/assets/default/2d/2ddb0dc52bf35144572b64e9e30a139e2288ed76/original.pdf>

Findings

- * **The issues that the clients had**
 - * Insufficient sales
 - * Stakeholder relationship
 - * Family issues
 - * Other issues



Findings

- * **The consulting that was provided to the clients**
 - * Marketing
 - * Referrals to other professionals
 - * Financial management
 - * Remaining issues



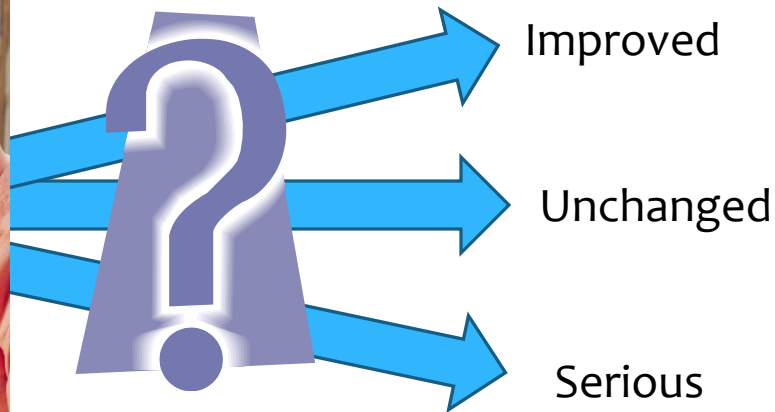
The change in the clients

	Treatment Group		Control Group	
Improved	4	33%	1	6%
Unchanged (not serious)	5	42%	2	13%
Unchanged (serious)	1	8%	6	38%
Worse	0	0%	4	25%
Charged-off	1	8%	3	19%
Paid in Full	1*	8%	0	0%
Total	12	100%	16	100%

* This client failed to start her business and ran out of money. Her relative paid the loan on behalf of her. Therefore, this is not a successful case.

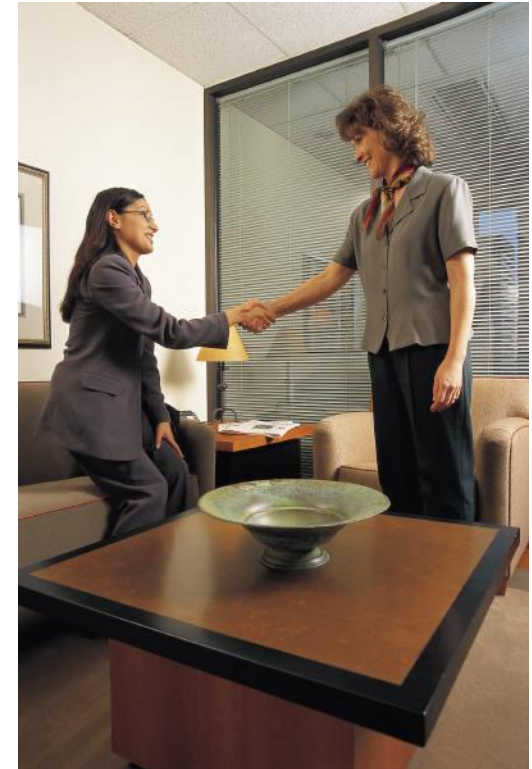
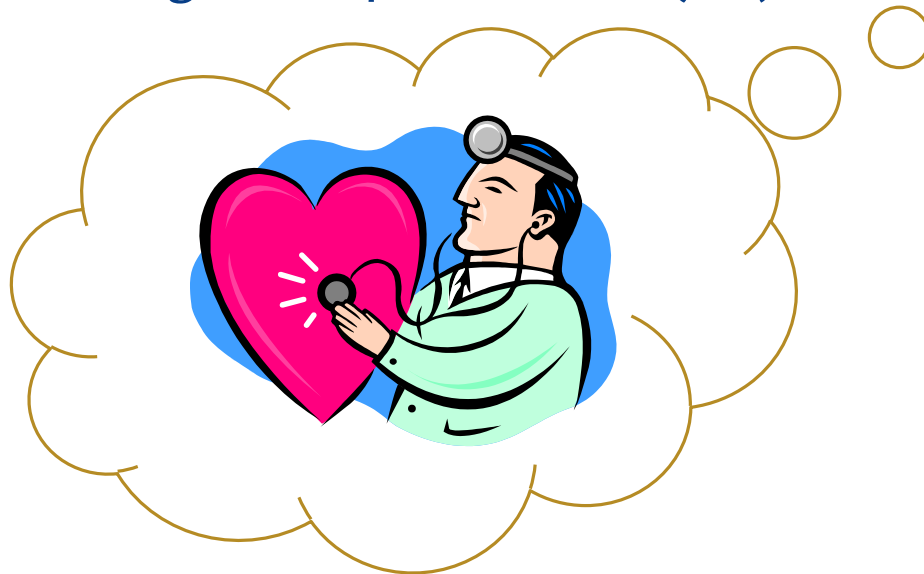
The outcome

- * **Why improved?** – sales / loan payments
- * **Why unchanged?** – more time until successful
- * **Why serious and charged-off?** – difficult to handle
- * **Start-up and business status** – highly risky



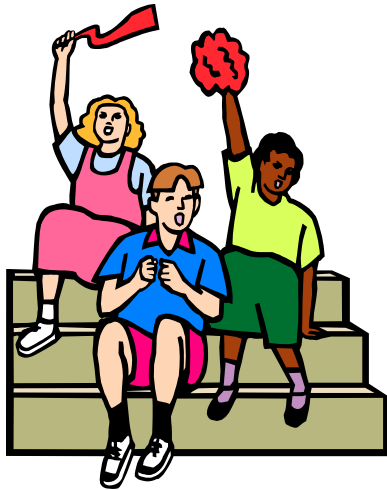
Discussion

- * **Difficulty in consulting**
 - * Clients: reluctant to answer, family issues, etc.
 - * Consultants: two roles, time limitation
- * **Role of consultants**
 - * Different from normal consulting
 - * Role of general practitioner (GP)



Discussion

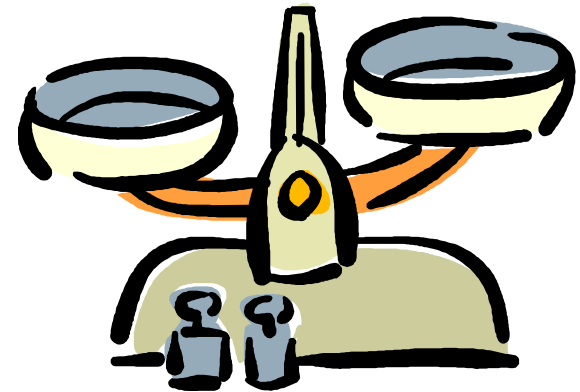
- * **Possible solutions**
 - * Organizing a support team
 - * Building a trusting relationship
 - * Cost and benefit



Support Team



Trust



Cost & Benefit

Thank you

- * Please see the full paper for the details.
- * Please ask any questions and give me your comments.
koseki@sas.upenn.edu