



Microlending grows small business in Pittsburgh

By Rachel Martin
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PITTSBURGH — In some of the careworn, left-behind neighborhoods of Pittsburgh, merely driving through can be a sobering experience.

But there are bright spots — some that came to life through innovative microfinancing.

Healcrest Urban Farm is just one. During the past decade, through its various incarnations, Healcrest Urban Farm has become a bit of an institution. And though it's certainly not a polished enterprise, it's a labor of love filled with beauty, care, insight and — let's not forget — a lot of bees.

While it began as a one-woman show, Maria Graziani is now primarily the “financial guru” of the operation. There is a staff of five, including Michelle Soto, who is one of the two farm managers.

Healcrest achieved some of its objectives through nontraditional financing, steering away from government grants and taxpayer giveaways.

Kiva City Pittsburgh allows borrowers to tell their stories and be crowdfunded by people locally and the world over — through small loans at zero interest.

Credit scores and capital aren't part of the application process. Instead, the application uses “trustees” — other business owners, community leaders and others — who publicly vouch for the borrower's character and business plan. But, borrowers first must solicit funds from people in their own social network, before applying to the world at large.

While the lending strategy may sound pretty far afield, the repayment rate is 89.5 percent. Compare that to Small Business Administration-backed loans, which have an 8.9 percent lower repayment rate, according to a 2011 study by the Cato Institute.

“We have moved away from the world where character mattered,” both in lending and generally, said Mark Calabria, director of financial regulation studies at the Cato Institute.

He said lenders should be more flexible and consider what's actually going on in a borrower's life when deciding creditworthiness.

It seems to work in Pittsburgh.

"We've had 41 loans fully fund in the Pittsburgh-metro area and have three fundraising publicly now," said Emily Keebler, Kiva City Pittsburgh's lead. These 41 loans total \$187,275.

How does it work?



Image by Kiva Zip

FOLLOW THE ARROW: This handy graphic shows Kiva's basic borrowing process.

Kiva allies often match donations individual lenders make through the project website. In Pittsburgh's case, "our primary source of matching funds is PNC Bank — specifically, the PNC Charitable Trusts and PNC Foundation," Keebler said.

Programs like Kiva have found success without relying on taxpayers, in contrast to SBA loans, where the agency and ultimately, taxpayers, are on the hook for up to 85 percent of the loan value if a borrower defaults. The Cato study estimates that SBA cost taxpayers about \$6.2 billion in 2011.

Cato's Calabria said he is "optimistic about these things but also realistic" when talking about Kiva. There certainly is a niche for borrowers who need such funding. Many small-business owners don't have the necessary credit, or a need for larger loans typical of traditional bank lending.

“I think it has a lot of potential — even though we might see some horror stories come out of it,” he said.

He said peer-to-peer lending should ease some of that risk because, “while the government’s not really good about picking winners and losers,” individuals are making their own assessments about which businesses and projects they want to support.

“We’ve had people tell us they feel more compelled to repay these, more than bank loans,” Keebler said, because individuals are digging into their own pockets to help them succeed.

Healcrest took out an initial loan of \$5,000 with Kiva Zip nearly two years ago and has already repaid it. A second loan of \$10,000 is in repayment. This follows Kiva Zip’s general loan structure, of increasing amounts and longer terms, when borrowers are fully compliant with earlier loans.

Healcrest has seen more than just business success. It’s breathed life into several abandoned and decayed inner-city lots — of which the neighborhood has many. After clearing away two houses, a concrete pad and lots of garbage, there is now an extensive perennials garden, a greenhouse and a chicken coop that neighborhood kids helped build.

As individual lenders have been able to help Healcrest with its objectives, Healcrest has also been able to invest in the community around it. In keeping with its history of community education, Soto said that this summer they partnered with the Garfield Gators summer camp and brought kids to the farm twice a week. Healcrest also regularly holds workshops and tours.

Asked about the presence of the urban farm, nearby resident Deborah Strother said, “I don’t know about other people, but it’s been good for me, and for my grandkids.” She has taken her grandkids to the farm, where they learned more about food and “what’s good for you.”

The farm also gave Strother tomato plants, which she’s planted alongside her house. She’s now considering getting chickens, as well. Strother also has taken a page out of Healcrest’s book, decreasing neighborhood blight by working on the abandoned, overgrown lots next to her own home.