



Innovative lending vs. taxpayer-backed loans: A look at two Pittsburgh restaurants

By [Rachel Martin](#)

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The Steel City has bountiful food options — and taxpayers may not realize how they’re helping make small businesses make it work, or that innovative options are out there.

[Kiva](#) loans are one such option, and they’re different enough from traditional bank loans as to hardly seem related. They are a type of microfinancing — small-scale lending — in which people across the globe can back projects by as little as \$5 apiece.

“I think it’s a really good resource for small businesses that can’t get traditional loans,” Alyssa Davis told Watchdog.org. She’s assistant manager at the [Pittsburgh Public Market](#).

“It’s nice to have that option, that is based on your character.”

These loans also have a much better track record than taxpayer-guaranteed loans through the [Small Business Administration](#), which fail 19.4 percent of the time, according to a [2011 report](#) from the Cato Institute. Christopher Hatch, regional spokesman for the SBA’s mid-Atlantic region, wasn’t able to provide more current SBA default rates in time for this report.

In stark, perhaps strange contrast, given that Kiva loans don’t require a credit check, only [2 percent](#) of Kiva loans fail.

Even a riskier subset of Kiva loans — including those as diverse as a [woodworking business in Nairobi, Kenya](#) — only has an 10.8 percent failure rate.

[La Palapa Mexican Gourmet Kitchen](#) has humble beginnings. It began as a booth in the Strip District’s Pittsburgh Public Market in fall 2012. La Palapa’s brand of gourmet through “grandma recipes” was popular, and it moved to a brick-and-mortar restaurant the next fall.

The business has grown incrementally, and microfinancing through Kiva has played a part in that.

As Watchdog described in a [story last summer](#), Kiva loans don’t focus on credit ratings and are far from traditional. They tend to be much smaller than bank loans, and they’re zero interest.

While lenders can ultimately be located anywhere, would-be borrowers have to get friends and family to lend first, before a project can proceed.

Loans also have to be endorsed by local organizations or business leaders who vouch for the lender and its business plan. Pittsburgh Public Market endorsed both of La Palapa's Kiva loans. Its ninth endorsed loan, for [GetMoMuffins](#), is 54 percent funded with a month left to go.

La Palapa got its second Kiva loan, for \$3,500, in April, to help get a food trailer rolling. The loan had 69 backers, from people as far-flung as a Swiss fellow currently living in Norway.

In contrast, taxpayers had no choice when they backed Brett Weinheimer's [\\$594,000 loan from the SBA last year](#). He bought the historic building that's housed his Jimmy John's sandwich shop for several years.

Weinheimer said the loan allowed him to buy the building he's been operating out of for years, and to restore and preserve it.

He wasn't aware of the SBA's high default rates: "I can't imagine defaulting on one of these loans," he said. "We have a perfect track record," he said of the prior SBA loans he's had.

"Maybe we're an anomaly."

Weinheimer said he and his business partner have seven Jimmy John's franchises: four in Pittsburgh and three in Philadelphia. He estimates they employ 150 people, including management.

"I look at this as a real success for the the SBA," Weinheimer said, but agreed that other companies who seem to [misuse the program](#) could hurt those who need it.

Al Silvestri, a quality assurance manager for local health-care giant [Highmark](#), was sitting across from this Jimmy John's whistling on the warm, sunny day as this reporter snapped pictures.

After a conversation about the two lending models, Silvestri summarized, "I think both have merit ... but I like the first one."