

City of Chicago Department of Business Affairs and Consumer Protection

**Request for Qualifications (RFQ)
For Initial Microlender Trainee Candidates**

of The Chicago Microlending Institute (CMI)

**Issued: Tuesday, February 7, 2012
Application Period Ends: Friday, March 9, 2012 at 5:00 p.m.**

RFQ Purpose

On January 18, 2012, the City Council of the City of Chicago enacted an Ordinance to (i) inaugurate a microlender training program, (ii) authorize the formation of The Chicago Microlending Institute (“CMI”), in which both the City and an existing microlender, ACCION Chicago, will participate, as a first-in-the-nation Institute that will train new lenders to make microloans to the City’s smallest businesses, and (iii) provide City funds to capitalize the loan funds of the newly-trained microlenders.

CMI is designed to better ensure a fair and vibrant access-to-capital marketplace for Chicago’s smallest businesses. In Chicago, more than 20 percent of the City’s residents work for firms with five employees or less, and many of these businesses are located in low- to-moderate income neighborhoods. These businesses have real difficulty accessing capital from traditional lenders. The City estimates that there is an annual unmet demand of nearly \$26 million in microloans from smaller businesses.

CMI’s mission is to become a highly effective means for Chicago to create a scale-advantaged network of well-trained non-profit microlenders to more fully meet the credit needs of Chicago’s smaller businesses than is possible now. To do this, CMI will undertake the following in its first year:

- Recruit up to six high potential organizations interested in becoming microlenders, and offer best practice forums and general training to all six over a 12 month period;
- Select two of the six for intensive training for one year (as “Core” trainees) and provide those two with access to grant funding, with a target of having the Core trainees initiate lending after the first 90 days of training,
- In the first program year, disburse up to \$1 million in designated City funds through ACCION and the two Core trainees as new microloans to small businesses located and operating within the City of Chicago
- It is anticipated that the following outcomes will be realized:
 - Make at least 100 new loans to small businesses,
 - Create or maintain 200-300 jobs within the small business borrowers,
 - Facilitate \$3-5 million in payroll within the small business borrowers,
 - Facilitate \$10-15 million in annual business revenue within the small business borrowers, and
- Develop a formal outcomes measurement tool working with the University of Chicago.

CMI will be fine-tuned at the end of the first year in an effort to enable the program to continue for up to three additional years.

The Department of Business Affairs and Consumer Protection of the City of Chicago (“BACP”) will be the City’s primary participant in CMI and is issuing this request for qualifications, inviting applications for microlender trainee candidates.

RFQ Overview

BACP seeks applications from not-for-profit institutions interested in becoming initial microlender trainees in CMI. Up to six institutions will initially be invited to train at CMI for a minimum one-year term, beginning on or about April 2, 2012. Of the selected applicants, two (“Core”) trainees will be selected for intensive technical support and will be provided with access to City-funded loan capital. The remaining trainees (“Affiliates”) will be asked to join regularly scheduled best practice forums to better prepare themselves for more in-depth future participation.

RFQ Applicant Eligibility

Organizations applying to become CMI trainees must be non-profit institutions headquartered in the City of Chicago. Applicants will be assessed for their fit with CMI’s mission and objectives. The following criteria in order of importance will be applied to qualify initial organizations as trainee candidates of CMI:

- An applicant’s Board of Directors, executive management and staff must be committed to entering the microlending business and seeking to achieve a reasonable scale of activity. Among other things, an organization must be prepared to establish the necessary governance for this activity and to make it a strategic priority.
- An applicant must be in sound and sustainable financial condition to absorb the risks of microlending and be able to access incremental loan and grant capital as required.
- An applicant must have a history of consistent and ongoing executive leadership.
- An applicant must have a strong, diverse board with a record of sound, successful decision making.
- An applicant must have a history of successfully launching and implementing new products and services; prior lending experience is not required.
- An applicant must have a minimum 2 year track record demonstrating increased, diversified levels of fundraising.
- An applicant must possess (or have access to) a level of infrastructure upon which to build a robust microlending operation. This infrastructure includes trainable and interested staff, and managerial, analytical, operational, technical, and administrative/processing capacities and capabilities adaptable to, or complementary with, microlending.
- An applicant should currently offer products complementary to microlending to a moderate-income urban population, and deliver products to a substantial portion of the City. Current activities and products do not need to be directly related to small

businesses. Organizations should have a strong community presence in order to help facilitate loan applications and networking.

- An applicant, its board and its key program personnel must have not, within a five-year period preceding the date of the application, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud; embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property

Applicants may be asked to permit a “site visit” for CMI trainers to meet with key staff and board members.

The Chicago Microlending Institute Activities

ACCION Chicago will provide training and program administration of CMI. ACCION Chicago is Chicago’s largest and most experienced microlender, representing more than 90% of the microloan volume in the City of Chicago. The organization was recognized in 2011 as one of the 10 largest microlenders in the nation. Since 1994 ACCION Chicago has disbursed more than \$17 million to over 2,300 clients. ACCION Chicago is part of the ACCION U.S. Network, which is the largest microfinance network in the U.S.

CMI will operate as a distinct training entity housed within ACCION Chicago, focused on building future microlenders in Chicago. CMI will be governed by a separate Advisory Board, comprised of representatives selected jointly by the City and ACCION Chicago. The Advisory Board is anticipated to have representatives of BACP, ACCION Chicago, additional Funders of CMI (e.g. Citibank), the University of Chicago, and others.

CMI will choose which of the successful applicants under this Program will become Affiliate Trainees (maximum of four), and which will become Core Trainees (maximum of two). Trainees cannot hold dual status. This selection process is expected to take place within fifteen days of the close of the application period, estimated to be before March 9, 2012. Core trainees successfully passing initial training sessions, as well as ACCION Chicago itself, may apply for sub-grants (see next paragraph) of certain City funds thereafter for lending out under CMI supervision. Core trainees will continue to receive intensive training for twelve months (estimated to run from April 2, 2012 through April 2, 2013), at which time they graduate from being a Core trainee.

CMI will serve in an advisory capacity to ACCION Chicago regarding the administration of \$1 million that the City granted ACCION Chicago through an agreement. Most of that money will be delivered to the Core trainees through temporarily restricted sub-grants from ACCION Chicago as loans are initiated, for the sole purpose of funding the principal of those loans. (The remainder of that money will be eligible for use by ACCION Chicago itself for the sole purpose of funding the principal of new microloans that ACCION Chicago will be making within Chicago.) Thus, all of the money granted through the City under this program will be used as loan capital for small business microloans.

Further, under a memorandum of understanding among ACCION Chicago, CMI and the University of Chicago, the University's Booth School of Business is expected to provide support on the measurement of outcomes, advice on project direction and structure, and offer volunteer resources to help measure and focus the training and lending process.

Curricular Responsibilities of Trainees

In order to maintain trainee enrollment status at CMI, a successful applicant organization must:

- Actively participate in all CMI's training offerings.
- Successfully complete (as determined by CMI trainers) all CMI training activities.
- For CMI to create a robust and diverse database of the microlending landscape, all participants, including ACCION Chicago, must provide all of their lending activity and portfolio quality information on all lending activities undertaken by the participant to CMI, whether done as part of or outside of CMI, limited only by the need to adhere to client privacy requirements.

Core trainee graduation requires Core trainees to have attended all CMI-sponsored training symposiums and successfully completed (as determined by CMI trainers) all activities prescribed. Core trainee graduates will be expected to pursue their best efforts to continue microlending activities, including attempts to achieve greater loan volume, for a minimum of three years following graduation. A long run business plan will be jointly created with CMI and the Core Trainee for ratification by the trainee's Board of Directors.

Financial Responsibilities of Trainees

All selected applicants (whether applicants become Affiliates or Core trainees) are required to allocate sufficient personnel and/or resources to ensure attendance at all CMI-sponsored training activities. In addition, every applicant should assume it may be selected as a Core trainee when responding to this RFQ. Applicants may express their preference to apply only for Affiliate trainee status if they prefer not to be considered for Core status in 2012.

CMI estimates that the following will be required of Core trainees only. These will change based on trainee's actual characteristics and existing resources. All trainees should expect to raise and spend their own resources to make their participation successful.

- At best, over the long run applicants should expect 50% of total program expenses to come from earned portfolio income, with much lower rates in initial years. Additional funding will need to be raised to maintain and/or grow the program.
- Unrestricted capital of approximately \$65,000 (none of which can come from ACCION Chicago or the City loan capitalization funds) may be required for start-up funding to execute a successful launch. Increased funding will be required in subsequent years to continue to grow loan production and mission outcomes.
- Staffing of the microlending operation in Year 1 should be anticipated to consist of up to 2 full time employees. Staffing costs will expect to increase in future years as additional staff members are hired to accommodate higher loan volumes.

- An average loan size should be assumed to be \$8-10,000, with an average term of 18 months. Loan portfolios are projected to earn approximately 13% interest and 3.5% fees, annually. Net loan losses as a percentage of the fiscal year end loan portfolio are projected to grow slowly over time but should remain below 10% when operations stabilize. Repaid principal, while unrestricted, is expected to be recycled into new loans and in growing the loan portfolio.
- Programs should expect to originate approximately 25 loans in Year 1 with a commitment to substantial increases in loan volume in subsequent years as programs achieve scale. Growth in subsequent years may require leveraging CMI's unrestricted capital contribution through independently borrowing new loan capital to fund volume growth.

Contractual Responsibilities of Trainees

In order to maintain trainee enrollment status at CMI, a Core trainee will, as the time approaches for the receipt of sub-granted City funds from ACCION Chicago for loan capitalization, be required to verify or covenant compliance with various City requirements, including, but not limited to (i) conflict of interest avoidance, (ii) ethics compliance, (iii) drug-free workplace requirements, (iv) avoidance of business relationship with elected officials, (v) avoidance of political contributions to the City's Mayor or his political fundraising committee, and (vi) business insurance requirements.

Reporting Requirements

Each organization selected to participate as a CMI trainee (including non-Core trainees) will be required to collect detailed monthly loan portfolio performance data, demographic data and general financial data upon commencement of lending activity at CMI and report on all other lending activity undertaken not funded by CMI. Data will be submitted quarterly to CMI and BACP. Core trainees may also be asked to provide interim information as needed. Reporting will be required for the life of the program.

Subcontracting

Core trainee may not subcontract or outsource any lending or other activities associated with participation in the CMI program without prior notification and written approval from CMI.

Subsequent Core Trainees after 2012

Other organizations may be invited to become CMI affiliate trainees from time to time as selected and approved by the CMI Advisory Board, BACP and CMI trainers. Should the program prove successful and future funding be allocated, the entire Affiliate trainee population is eligible to be selected to receive Core training in both 2013 and in 2014 at the time of the conclusion of the 2012 training sequence. Core trainees are selected based the readiness of institutions to begin Core training. Decisions concerning readiness will be determined by BACP, CMI trainers and the CMI Advisory Board. Acceptance as an affiliate trainee of CMI does not

guarantee that such trainee will be selected to receive Core training during the 2013 or 2014 periods.

Materials Required to Complete RFQ

Please respond to the following questions, including documentation:

1. Please provide proof of licensure, accreditation or certification from a state or federal body allowing operation as a non-profit institution.
2. Please provide address of office in the City of Chicago.
3. Briefly describe the mission of your organization and explain how the addition of microlending to small businesses located within the City will complement your institution's existing service offering. Your answer should include details about current lending activities and how you intend to leverage your existing physical infrastructure, staff, board, distribution network, internal controls, customer base, etc. to provide microlending services.
4. Briefly describe the existing staff capabilities and financial resources your organization is willing to commit. Include resumes of relevant staff. If staff will need to be hired, please explain what that process will look like and how the program would be governed internally.
5. Please provide audited financial statements for the previous three years (including A-133 reports, interim unaudited financial statements, and a next fiscal year's budget).
6. Please provide a signed resolution from your Board of Directors or Executive Committee stating:
 - a. The organization's commitment to actively participate in the CMI's training offerings as an Affiliate trainee;
 - b. Willingness, or lack thereof, if invited to become a Core trainee, to be intensively trained in 2012 to enter the microlending business;
 - c. Upon graduation of intensive training if selected as a Core trainee, to make a best effort to continue microlending under a minimum three year business and financial plan to be developed in collaboration with the City and CMI and approved by your Board of Directors.
7. Please provide a hard copy of a fully completed, signed and notarized City of Chicago Economic Disclosure Statement and Affidavit, the form of which may be found at:

http://www.cityofchicago.org/content/city/en/depts/dps/provdrs/comp/svcs/economic_disclosurestatementseds.html

RFQ Submission Instructions

Please submit responses to:
Commissioner Rosemary Krimbel
ATTN: Microlending
Department of Business Affairs and Consumer Protection
City of Chicago
121 North LaSalle Street – Room 805
Chicago, IL 60602

Please direct questions to the following personnel at ACCION Chicago:
Jonathan Brereton at jbrereton@accionchicago.org or
Michael Traynor at mtraynor@accionchicago.org.

The absolute deadline for all Applications in response to this RFQ is March 9, 2012 at 5:00 PM.
Please submit three physical copies of the RFQ response and all supporting documentation.
Emailed responses will not be accepted. Proposals received after the deadline will not be considered.