ASSET FUNDERS NETWORK | Grantmakers Advancing Economic Equity

MEMBERS MAKING IMPACT

Asset Funders Network's Members Making Impact: Case Studies for Change & Innovation is a series that spotlights peer-driven investment strategies fueling systemic and policy change across AFN's eight issue areas. Through this series, members will:

- **Discover** innovative mechanisms to advance wealth-building initiatives aligned with AFN's issue areas.
- **Meet** new potential partners in crafting new grants, policies, and partnerships that support their mission.
- **Elevate** awareness of the intersection between AFN's issue areas and wealth-building opportunities.

NUSENDA CREDIT UNION

Nusenda Credit Union's Microlending Program

From Trust to Transformation: A Model for Community Wealth Building

AFN research shows that business owners have a median net worth nearly 2.5 times higher than non-business owners. The impact is even more profound for people of color: Black women who own a small business have more than 10 times the net worth of those who do not, while Latino men see a fivefold difference. AFN member Nusenda Credit Union understands how small business ownership and equitable access to capital can build wealth that uplifts families and communities now and for generations to come.

In 2018, New Mexico-based Nusenda Credit Union launched their Microloan Program to meet a critical need for capital within the communities they serve across New Mexico, West Texas, Colorado, Arizona, and the Navajo Nation. Recognizing the state's entrepreneurial spirit—New Mexico had the nation's second-highest rate of entrepreneurship in 2021, according to the Kauffman Indicator of Entrepreneurship—Nusenda saw the opportunity to make a meaningful impact. By combining philanthropy, community partnerships, trust, and financial expertise, they are fortifying communities and have ambitious plans for further growth.

Prioritizing Character and Community Over Credit Scores in Underwriting

Traditional loan underwriting relies on the "5 Cs of credit": capacity, capital, collateral, (market) conditions, and character. In this model, "character" is typically assessed through credit scores and payment history rather than a broader understanding of individual circumstances. The "5 Cs" framework can often be exclusionary and compound economic inequities for people of color, Native Americans, and immigrants, who have less access to intergenerational wealth, financial tools, and education. Additionally, many unbanked or underbanked individuals may avoid approaching banks or credit unions due to shame about their credit scores or past negative experiences with predatory lenders.

Recognizing that traditional underwriting practices contributed to these challenges, Nusenda modified the traditional lending model to intentionally expand access to capital for underserved communities and foster financial inclusion.

This innovative program introduces two key differences from conventional lending. First, loan eligibility is determined through a relationship-based model rather than relying on credit scores. Second, loans are disbursed through trusted community partners—local organizations, nonprofits, and schools—who have established relationships with borrowers. These community-based partners play a critical role in supporting individuals who may lack connections to traditional financial institutions and are often underbanked or unbanked.

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1) Loan eligibility is determined through a relationship-based model rather than relying on credit scores.

2) Loans are disbursed through trusted community partners who have established relationships with borrowers.

Nusenda collaborates with 20 community partners specializing in climate change, computer coding, agriculture, arts, culinary, and more. These organizations center the lived experiences of their members, valuing their insights and expertise to build a foundation of trust and support within lending relationships. Nusenda requires its partners to offer wraparound services, including financial literacy education, business technical assistance, and repayment planning, to the borrowers they serve. This high-touch, holistic approach helps proactively identify and address potential challenges, setting borrowers up for greater long-term success.

Nusenda's reliance on community partners is key to the efficiency and success of its Microloan Program, enabling the Credit Union to operate with limited designated staff and keep overhead low. This partnership model supports financial sustainability and empowers the organizations connected to borrowers. When bringing in a new partner, Nusenda collaborates to establish lending guidelines, but it doesn't dictate who receives loans or how funds are distributed. Instead, Nusenda provides resources on financial capability while each partner takes responsibility for direct borrower interactions and loan underwriting.

Borrowers must only have an Individual Taxpayer Identification Number (ITIN); U.S. citizenship or a Green Card is not necessary. Upon approval, borrowers become Credit Union members, allowing them to build a credit history with each repayment. To monitor loan health, Nusenda sends each partner a weekly payment status report, enabling early intervention if a borrower encounters challenges. Nusenda reports positive credit actions to the credit bureau to further support asset building without penalizing borrowers by reporting late payments or write-offs. Additionally, the Microloans are collateralized jointly by the Credit Union and the partner organization, reinforcing the shared commitment to borrowers' financial success.

MEMBERS MAKING IMPACT

Unlocking Potential: The Ripple Effect of Microloan Support

Since 2018, Nusenda has loaned $2.4 million to borrowers specifically to support microbusiness development and smaller broader community stabilization loans. An impressive 97% repayment rate confirms the strength of the relationship-based lending model. The loans have positively impacted borrowers, their families, and the community by providing critical asset growth resources for people otherwise left out of the process. In addition, the increased access to technical support, wraparound services, and financial literacy is changing the trajectory of people's lives.

> "We are able to fund demographics that are not able to receive funding from the SBA, such as ITIN holders and previously incarcerated citizens. By providing financial support through the Microloan Program, we've been able to foster economic empowerment and inclusivity within these underserved communities."
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Key Learnings

1. **BUILDING A SUSTAINABLE MICROLOAN MODEL: LESSONS IN FUNDING AND RISK MANAGEMENT** When Nusenda launched the program, managing financial risk and securing loan collateral were primary concerns. To mitigate these, they initially relied on external philanthropic funding. The original funding breakdown in 2018 was 70% external funders (program-related investments), 20% Credit Union, and 10% community partner organizations. However, managing the reporting requirements for so many funders proved cumbersome and limited the number of community partners Nusenda could manage.

In 2020, the Credit Union committed to collateralizing up to 90% of the Program, with partners responsible for the remaining 10%. While Nusenda still seeks philanthropic funding to help partners build their capacity, its long-term goal is to make the program self-sustaining, eventually eliminating the need for external fundraising. This transition will fully institutionalize the Program within Nusenda's core operations.

2. **STRENGTHENING PARTNERSHIPS: ADAPT CONTRACTS TO SUPPORT COMMUNITY PARTNERS** Another area for improvement was managing a community partner who struggled with the program or could not provide wraparound financial education services. Initially, the contract between Nusenda and the community partner lacked the necessary language to support or redirect struggling programs. They have since adjusted the contract and developed a process to handle situations where a program or partner can no longer support the portfolio. Nusenda can now reassign borrowers to another community partner if needed.

3. **EXPANDING IMPACT: SCALING UP TO MEET GROWING COMMUNITY NEEDS** Over the past six years, Nusenda has collaborated with community partners to provide Microloans ranging from $250 to $10,000, with terms of up to 120 months, helping entrepreneurs launch and expand their businesses. While this foundational component of the program will continue, Nusenda is now planning a pilot for larger loan amounts—up to $50,000—that will be available through a select set of partner organizations as well as be underwritten in-house. This new offering is designed for Credit Union members who do not have a relationship with a partner organization or have "graduated" from the initial Microloan Program.

> "Our program graduates who access Microloans are able to scale up production and increase gross sales in their first year due to these loans. Gross sales and dollars spent on local ingredients are two of our main measures of success. Microloans greatly accelerate our program's outcomes."
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> **THREE SISTERS KITCHEN**

Sara Keller, SVP Community Engagement, and June Quintaña-Manning, Microloan Program Manager, view this initiative as a model for how community credit unions and financial institutions can deepen their service to local communities. They look forward to sharing their approach with AFN members, hoping to inspire others to incorporate similar programs into their financial services.

For more information about Nusenda's Microloan Program, contact Sara Keller, SVP Community Engagement, skeller@nusenda.org and June Quintana-Manning, Micro Lending Program Manager, jmanning@nusenda.org.

AUTHORS

DENA JACKSON
Strategic Project Direction
Asset Funders Network

SARA KELLER
SVP Community Engagement
Nusenda Credit Union

JUNE QUINTANA-MANNING
Micro Lending Program Manager
Nusenda Credit Union