**REFERRAL FEES**

**Reaching Underserved:**

* Word-of-mouth is an important strategy for reaching underbanked immigrant and minority communities.
* One key method for reaching potential borrowers is through **referral fees** to people/businesses who refer successful loan applicants.
* Referrers may be local tax preparers/bookkeepers, licensed or unlicensed loan brokers, nonprofits or other business owners who have received a loan.

**Referral Fees are Effective:**

* Alternative lenders and banks commonly use brokers to reach potential customers. For alternative lenders brokers account for upwards of 45% of the financing they do.
* Referral fees are paid as a percentage of loan amounts (ranging from 1-1.5% for banks to 5-8% for alternative lenders).

**CHALLENGE**

**Referral Fees Restricted:** CA State Lender’s Law prohibits licensed lenders from paying referral fees to individuals or small businesses that do not have a broker’s license from the State.

**Uneven Playing Field:**

* Most brokers and referrers are not licensed by the state due to high licensing costs.
* Alternative lenders structure their products so they are not loans and therefore can freely pay referral fees to anyone.
* Microlenders who structure their products to ensure business owners build credit (and comply with state law) can therefore not pay referral fees for a majority of leads.
* Because of this uneven playing field, California businesses may not get the best financing available.

**RECOMMENDATION ON REFERRAL FEES**

By modifying the California Finance Lenders Law to allow business lenders to pay referral fees to their clients and partners (for successful business loan applications of $5,000 and above), it is possible to harness existing social capital to bring needed affordable financial capital to low income and minority communities.