



# Returning Citizen Entrepreneurship

**ENHANCING**  
Support

**INCREASING**  
Opportunities

**DEEPENING**  
Success



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*Enhancing Support,  
Increasing Opportunities,  
and Deepening Success*

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# About AEO

The Association for Enterprise Opportunity (AEO) is the leading voice of innovation for microfinance and microbusiness. Our mission is to create economic opportunity for underserved entrepreneurs throughout the United States. We engineer transformational change through research, convenings, incubation, and advocacy to foster a robust and inclusive market place. To learn more about AEO, visit [aeoworks.org](https://aeoworks.org).

# Executive Summary

With support from Capital One, AEO launched its Endeavor Ready initiative to identify solutions needed to successfully prepare returning citizens for entrepreneurship. The initiative's goal is to inform and advance the path to entrepreneurship for returning citizens so they can more effectively access the economic mobility and wealth creation that entrepreneurship can provide.

Entrepreneurship can effectively address the underlying causes of the high recidivism rate, while also providing a promising career and life path. However, the difference between success and failure for these fledgling entrepreneurs may lie in three key strategies: early credit development, right-fit capital, and trauma-informed care. When training programs add these strategies into their curriculum, they can deliver even greater success and impact for participants. These training strategies provide program participants with the knowledge, resources, and emotional and financial strength to overcome obstacles that often stand in their way of successfully reestablishing careers and lives after they have paid their debt to society.

This paper also shares experiences of how people are realizing their dreams of long-term career and life success, and how new programs are enabling them to do so.

# Introduction

What happens to the more than 650,000 U.S. prisoners every year who are released into their communities?<sup>1</sup> Do they typically find well-paying jobs, continue their education, and receive support services that enable them to live thriving, healthy lives?

Not even close.

The reality is that 68% are rearrested within three years of being released.<sup>2</sup>

For these 442,000 individuals, their opportunity to restart and build a successful life goes tragically unfulfilled. After paying their debt to society, they fall victim to circumstances that are difficult to overcome and instead face a future far different than the one they envisioned when they were released.

In addition, as a society, we pay a high price for recidivism—beyond the \$31,000 per inmate annually.<sup>3</sup> Crime hurts communities through lower property values, reduced business investment, and lost economic opportunity.

This situation, however, is reversible. Solutions exist to stem the tide and stop this large population—equal to that of the city of Oakland, California—from returning to prison.

It starts with stabilization. Stabilization services help returning citizens find housing, employment, food, clothing, and receive substance abuse counseling

if needed. These efforts may begin before an individual is released and should continue thereafter in order for released citizens to succeed.

The next step is employment, but returning citizens often find it difficult to find quality, well-paying jobs that can set them on the right path. A criminal history and lack of recent work history are just a few of the obstacles these individuals face.

Entrepreneurship provides an alternative job path. Working for themselves or launching a small business can provide a path to wealth creation that might otherwise be unavailable.

However, making that leap is a challenge for returning citizens. Their jobs may not provide enough money for survival; they may have family support and mentors, but not the right guidance and social capital; and, they may have the drive and tenacity required to start a business, but need access to resources and solutions.

Entrepreneurial training programs for returning citizens are one method to support their dreams and potential. These programs provide the guidance and structure to explore and pursue opportunities.

How can we increase the success rates of trainees and help them overcome obstacles to entrepreneurship for returning citizens?

<sup>1</sup>Prisoners and Prisoner Re-Entry. Retrieved from [https://www.justice.gov/archive/fbci/progmenu\\_reentry.html](https://www.justice.gov/archive/fbci/progmenu_reentry.html).

<sup>2</sup>Alper, Mariel, Ph.D., Durose, Matthew, & Markman, Joshua. (2018). 2018 Update on Prisoner Recidivism: A 9-year Follow-up Period. Retrieved from [www.bjs.gov](http://www.bjs.gov).

<sup>3</sup>Henrichson, Christian & Delaney, Ruth. (2012). The Price of Prisons: What Incarceration Costs Taxpayers. Retrieved from [www.vera.org](http://www.vera.org).

The opportunity exists for stabilized returning citizens, and for our society in turn, to benefit from entrepreneurship. This paper addresses three key strategy enhancements for post-release entrepreneurial training programs that can make the difference between an individual's dreams and their reality:

- ① **Early credit-building strategies** to better position returning citizens' ability to secure capital
- ② Partnerships with institutions that provide **access to right-fit capital** for program participants
- ③ A **trauma-informed approach** in program delivery to help participants gain the confidence and capabilities to proceed on their own

Combined, these program strategies can broaden and deepen the impact of entrepreneurial training programs. Likewise, they can increase the chances for returning citizens to build productive and fulfilling lives, while stemming many of the factors that can lead to a return to prison.



# How Entrepreneurship Addresses Key Factors that Contribute to Recidivism

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Recidivism is the tendency of a returning citizen to reoffend, increasing the chances of returning to prison if convicted. Multiple studies confirm that the odds of an individual being rearrested and returning to prison are high.<sup>4</sup> The reasons for recidivism are complex and involve a combination of economic, sociological, personal, and lifestyle factors.

<sup>4</sup> Alper, Mariel, Ph.D., Durose, Matthew, & Markman, Joshua.(2018). 2018 Update on Prisoner Recidivism: A 9-year Follow-up Period. Retrieved from [www.bjs.gov](http://www.bjs.gov).

Returning citizens confront immense barriers when reintegrating into society, such as overcoming stigmas and discrimination to secure steady employment.

People of color, especially those without high school credentials, face the most obstacles. Low education levels, a history of incarceration, racism, and gender biases contribute to even higher rates of unemployment amongst people of color.

Women of color face the highest unemployment rates: 60% of Black women and nearly half of Hispanic women returning citizens are unemployed.<sup>5</sup>

Entrepreneurship can decrease the likelihood of recidivism because it addresses many of these interrelated obstacles, particularly: low education levels, low-wage jobs, unemployment, and mental health challenges, which often exacerbate the situation for many individuals.

## **FACTOR:** *Low Levels of Education*

People who have served time in prison are often on the lowest rungs of the educational ladder. More than half only hold a high school diploma or GED, and a quarter have no credentials.<sup>6</sup>

Recent research shows that more than a decade after the Great Recession began in 2007, employment rates remain low for uneducated workers.<sup>7</sup> For those who do find work, people with low levels of education typically qualify for low-skill, low-paying jobs that do not pay a living wage.

In addition, many returning citizens have been excluded from higher education opportunities before, during, and after incarceration and rarely get the chance to make up for this inequality. This heavily impacts their chances of successful reentry. Job seekers lacking a college degree face an uphill climb competing in an economy that increasingly demands highly skilled, credentialed workers.<sup>8</sup>

<sup>5</sup> Couloute, L. (2018). Getting Back on Course: Educational Exclusion and Attainment among Formerly Incarcerated People. Retrieved from [www.prisonpolicy.org](http://www.prisonpolicy.org).

<sup>6</sup> Couloute, L. (2018). Getting Back on Course: Educational Exclusion and Attainment among Formerly Incarcerated People. Retrieved from [www.prisonpolicy.org](http://www.prisonpolicy.org).

<sup>7</sup> Donovan, S. and Labonte, M. (2018). Labor Market Patterns Since 2007. Retrieved from [www.fas.org](http://www.fas.org)

<sup>8</sup> Couloute, L. (2018). Getting Back on Course: Educational Exclusion and Attainment among Formerly Incarcerated People. Retrieved from [www.prisonpolicy.org](http://www.prisonpolicy.org).

**HOW ENTREPRENEURSHIP HELPS:** Owning certain types of businesses can have minimal educational requirements.<sup>9</sup> Entrepreneurship provides an avenue for people to convert a hobby or skill into a career that is not contingent upon formal education. For instances, when higher-level courses or academic tutoring can be advantageous to enable an entrepreneur's success, entrepreneurship training can include such educational components.

## **FACTOR:** *Low Incomes*

The likelihood of returning to prison directly correlates to income levels.<sup>10</sup> Predicted probabilities of re-incarceration are:

- 8% for those earning more than \$10 per hour;
- 12% for those earning \$7 to \$10 per hour; and,
- 16% for those earning less than \$7 per hour.<sup>11</sup>

Returning citizens have the same needs as anyone else—to make a living for themselves and their families. Since many have limited formal education, they may only be able to find work in low-income jobs, such as food service or construction, making it hard to survive.

**HOW ENTREPRENEURSHIP HELPS:** Owning a business can be an additional or primary source of income, contributing to economic stability and wealth creation. Median microbusiness wages are greater than—sometimes even double—the minimum wage returning citizens often earn in low skill jobs.<sup>12</sup>

<sup>9</sup> Bigger Than You Think: The Economic Impact of Microbusiness In the United States. Retrieved from [aeoworks.org](http://aeoworks.org).

<sup>10</sup> Visher, Christy, Debus, Sara, & Yahner, Jennifer. (2008). Employment after Prison: A Longitudinal Study of Releases in Three States. pg. 8. Retrieved from [www.urban.org](http://www.urban.org).

<sup>11</sup> Visher, Christy, Debus, Sara, & Yahner, Jennifer. (2008). Employment after Prison: A Longitudinal Study of Releases in Three States. pg. 8. Retrieved from [www.urban.org](http://www.urban.org).

<sup>12</sup> Microbusinesses are enterprises with less than 5 employees. Given the low barriers to starting a microbusiness, it is very likely that many returning citizens will start as microbusiness owners.

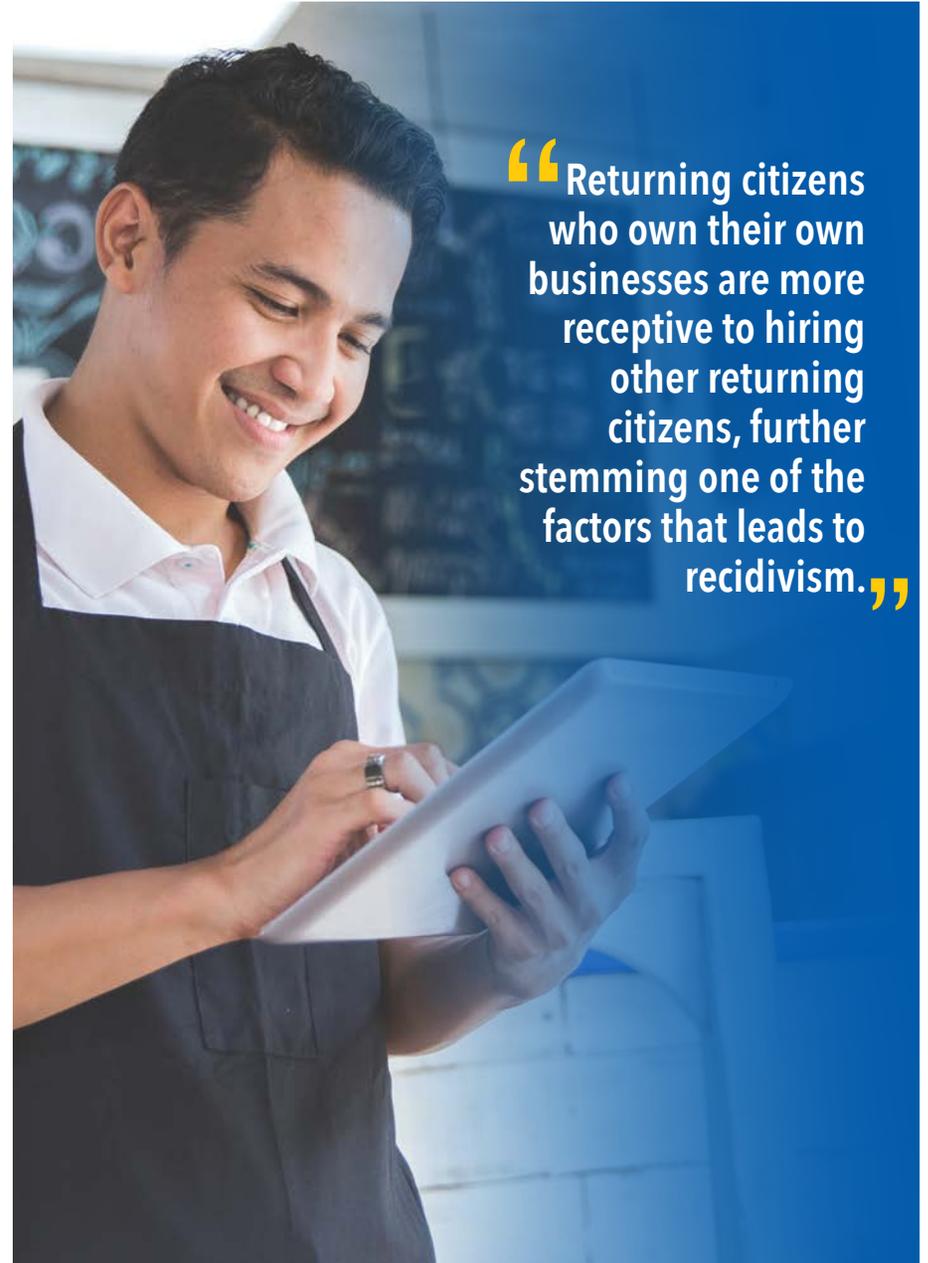
## FACTOR: *Unemployment*

Results from an Indiana Department of Corrections study revealed that a returning citizen's post-release employment was "significantly and statistically correlated with recidivism."<sup>13</sup>

The stigma and discrimination associated with having a criminal record contributes to unemployment. The nonprofit Prison Policy Initiative found that the unemployment rate for returning citizens is more than 27%, which is more than five times higher than the unemployment rate for the general U.S. population (and substantially higher than the rate during the worst years of the Great Depression).<sup>14</sup> A 2015 Manhattan Institute study revealed that training for job placement drastically lowers the likelihood of recidivism for nonviolent offenders.<sup>15</sup>

**HOW ENTREPRENEURSHIP HELPS:** Self-employment through entrepreneurship offers an alternative to the traditional job market. Instead of relying on employers who may be reluctant to hire returning citizens, entrepreneurship gives them control over their employment and livelihood. Additionally, entrepreneurship can supplement or replace a low-paying job.

Furthermore, returning citizens who own their own businesses are more receptive to hiring other returning citizens, further stemming one of the factors that leads to recidivism.<sup>16</sup>



“Returning citizens who own their own businesses are more receptive to hiring other returning citizens, further stemming one of the factors that leads to recidivism.”

<sup>13</sup>Nally, John M., Ed.D., Lockwood, Susan, Ed.D., Ho, Taiping, Ph.D., & Knutson, Katie, M.P.A. (2012). The Post-Release Employment and Recidivism Among Different Types of Offenders With A Different Level of Education: A 5-Year Follow-Up Study in Indiana (Volume 9, No.1). Retrieved from [www.cjci.org](http://www.cjci.org).

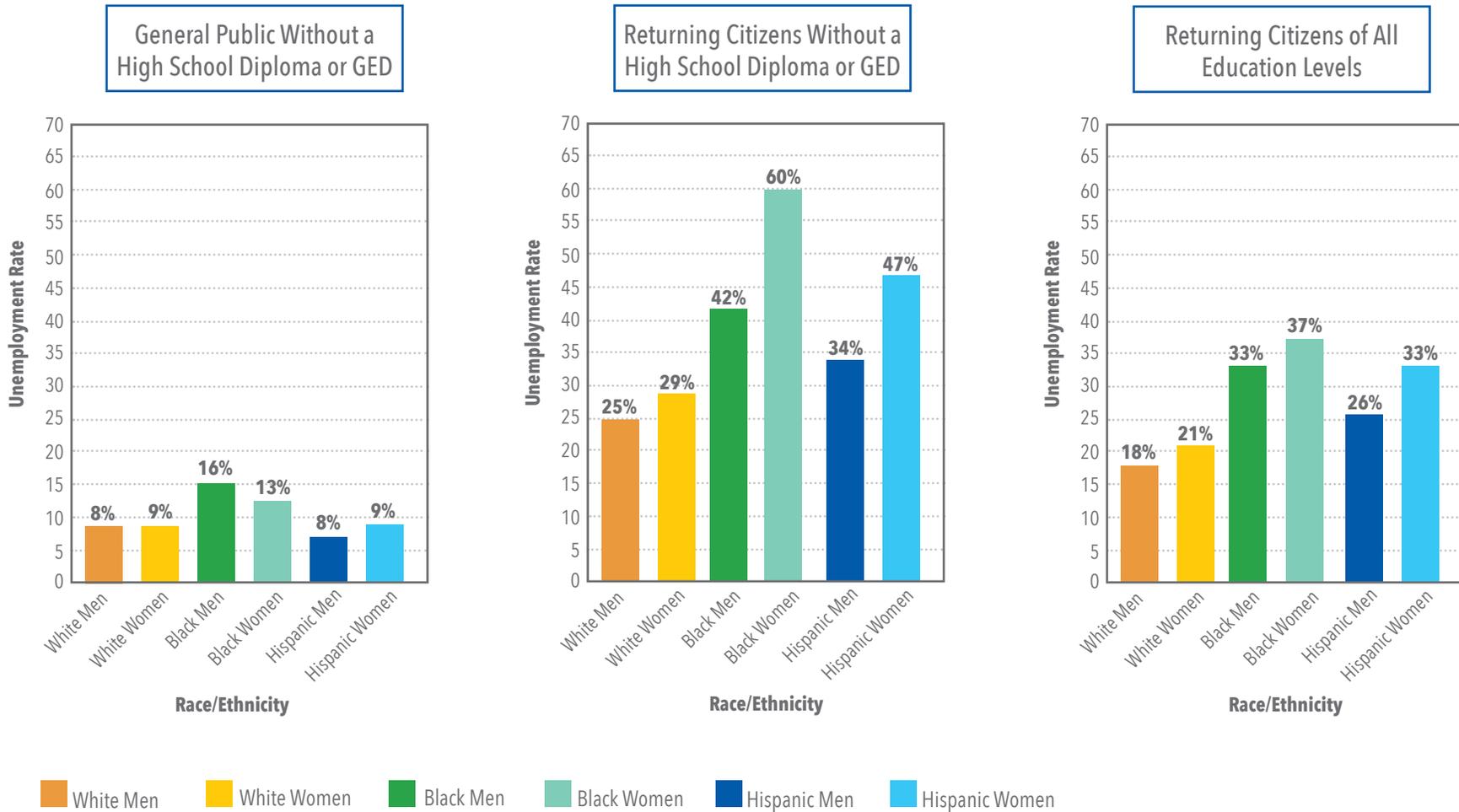
<sup>14</sup>Couloute, L. & Kopf, D. (2018). Out of Prison & Out of Work: Unemployment among formerly incarcerated people." Retrieved from [www.prisonpolicy.org](http://www.prisonpolicy.org).

<sup>15</sup>Bollinger, Christopher & Yelowitz, Aaron.(2015). Prison-To-Work: The Benefits of Intensive Job-Search Assistance for Former Inmates. Retrieved from [www.media4-manhattan-institute.org](http://www.media4-manhattan-institute.org).

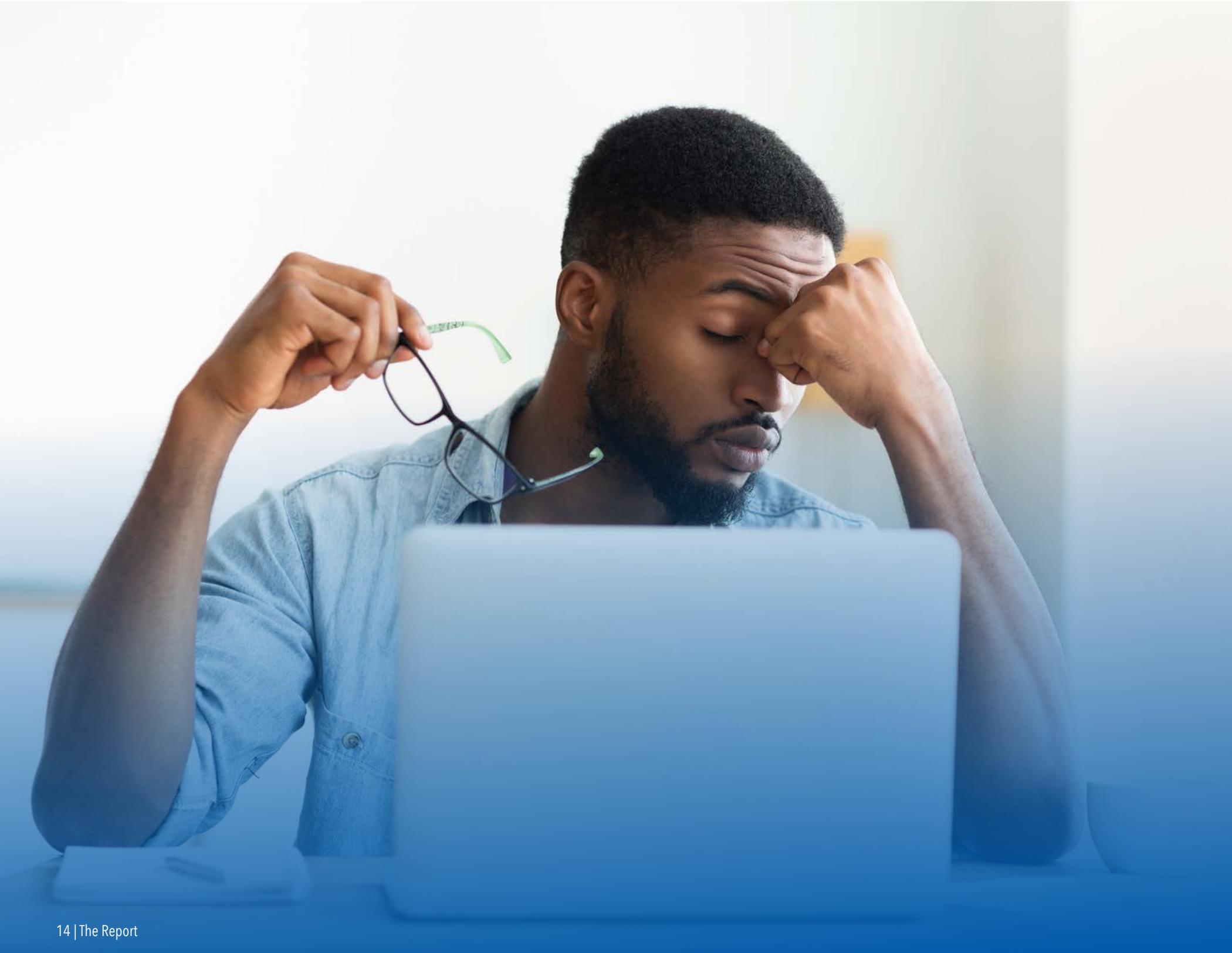
<sup>16</sup>W. Avila (Personal Communication, April 11, 2019), Founder of Clean Decisions who is a returning citizen, stated during a focus group that he personally recognizes the struggle of reentry and how easy it is for returning citizens to fall back into a pattern of bad behavior. Through his company his goal is to hire returning citizens helping them have stability as they reenter society.

# Unemployment Rate by Race/Ethnicity and Gender<sup>17</sup>

A combination of low education levels, history of incarceration, race, and gender contributes to much higher rates of unemployment for people of color without high school credentials.



<sup>17</sup> Couloute, Lucius. (2018). Getting Back on Course: Educational exclusion and attainment among formerly incarcerated people. Retrieved from [www.prisonpolicy.org](http://www.prisonpolicy.org).



## FACTOR: *Mental Health Challenges*

Unresolved trauma experienced before, during, and after prison contributes to a decline in mental health and an increase in recidivism.<sup>18</sup> A Center for Behavioral Health Services and Criminal Justice Research report found that more than half of male inmates (56%) reported experiencing childhood physical trauma.<sup>19</sup> Such trauma contributes to mental illness, such as post-traumatic stress disorder (PTSD). Almost three-quarters of incarcerated women have been diagnosed with some form of mental illness, such as PTSD, depression, and anxiety.<sup>20</sup> Additional literature suggests that simply being in prison can result in PTSD, panic attacks, depression, and paranoia, with the psychological effects of incarceration enduring well after an individual is released.<sup>21</sup>

**HOW ENTREPRENEURSHIP HELPS:** A report from the D.C. Policy Center found that many returning citizens with unresolved trauma lacked the processing or coping skills needed to be a good employee. As a result, they are often unable to work through common workplace stressors—such as making a mistake or having disagreements with colleagues—and end up reacting inappropriately or quitting.<sup>22</sup>

Entrepreneurship offers a way to earn a living while also working through the effects of trauma, without the pressure of having to perform in a specific way at a typical workplace.

Depending on the business, entrepreneurship might offer an opportunity to work mostly alone, which could be beneficial for people who have experienced trauma. For example, a leather goods craftsman works alone in a studio to fulfill orders received over the internet; a truck driver entrepreneur drives alone, focusing only on transporting goods from one place to another.

Overcoming trauma is a complicated process that takes guidance, support, and time. Business ownership can be a path to economic sustainability while also offering the flexibility that may be required to work through the emotional effects of trauma.

Many people in prison experience all or a combination of these factors before entering prison. After release, a criminal record magnifies these challenges and increases the obstacles to social and economic reintegration. Between 40-60% of prison inmates live below the federal poverty line at the time of their most recent arrest;<sup>23</sup> people coming out of prison face higher unemployment rates than the general population, which keeps them living in poverty.<sup>24</sup>

The large returning citizen population combined with the major intractable, interconnected problems they experience—such as unemployment, homelessness, debt accumulation, and persistent poverty—requires vast, impactful solutions that offer a path forward for a new life. Entrepreneurship is one solution that can tackle many of these problems simultaneously.

<sup>18</sup>Incarceration and Mental Health. (2019). Retrieved from [www.prisonerhealth.org](http://www.prisonerhealth.org).

<sup>19</sup>Wolff N., Shi J., & Siegel J. (2009). Patterns of Victimization among male and female inmates: Evidence of an enduring legacy. *Violence and Victims*, 2009; 24:469-484. doi: 10.1891/0886-6708.24.4.469.

<sup>20</sup>Incarceration and Health: A Family Medicine Perspective. Retrieved from [www.aafp.org](http://www.aafp.org).

<sup>21</sup>DeVeaux, Miika'il. The Trauma of the Incarceration Experience, 48 *Harv. C.R. -C.L.L. Rev.* 257 (2013) Provided by: Glasgow Caledonian University pg. 259

<sup>22</sup>Selwitz, Robin. (2018). Obstacles to employment for returning citizens in D.C. Retrieved from [www.dcpolicycenter.org](http://www.dcpolicycenter.org).

<sup>23</sup>Miller, J. (2018). Entrepreneurship and Returning Citizens. [Web log post] Retrieved from [www.anotherpanacea.com](http://www.anotherpanacea.com).

<sup>24</sup>Couloute, L. & Kopf, D. (2018). Out of Prison & Out of Work: Unemployment among formerly incarcerated people." Retrieved from [www.prisonpolicy.org](http://www.prisonpolicy.org).

**““ Overcoming trauma is a complicated process that takes guidance, support, and time. Business ownership can be a path to economic sustainability while also offering the flexibility that may be required to work through the emotional effects of trauma.””**



# Barriers to Returning Citizen Entrepreneurship

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While entrepreneurship has great potential to reduce recidivism, returning citizens must overcome many barriers to succeed. Examples include business licensing restrictions, parole terms that can restrict business ownership, and limited social capital. However, our research reveals three overarching barriers that can explicitly be overcome within entrepreneurial training programs to best position participants emotionally and financially to launch a business.

## **CREDIT:** *Bad or Insufficient*

Bad, thin, or non-existent credit history can make it very difficult for returning citizens to secure loans to start a business. People in prison are especially vulnerable to circumstances that may hurt their credit. Identity theft—often by family members who take advantage of the prisoner’s absence—and the inability to make payments on revolving credit accounts are but two examples.<sup>25</sup> The lack of credit history from dormant credit activity can also restrict capital access, as lenders have no reference for creditworthiness.

## **CAPITAL:** *Obtaining Appropriate Support*

Typically, more than 75% of all microbusiness owners use personal savings for startup capital.<sup>26</sup> However, for returning citizens, the likelihood of them facing low wages and high debt means that personal savings may be more the exception than the norm. A limited supply of programs offering capital specifically for returning citizens, coupled with a lack of awareness of capital access options from community development or mission-based lenders, leaves these citizens with few options. Most are forced to turn to solutions ranging from crowdfunding to predatory lending.

## **CARE:** *Mental Health Challenges*

Returning citizens who have unaddressed trauma, which may have resulted in conditions that led to prison in the first place, may have difficulty completing a program and launching a business. The trauma-related cognitive and behavioral barriers that impact program engagement can include:

- Weakened executive functioning skills, such as impulse control;
- Working memory and mental flexibility;
- Challenges with organization; and,
- Psychological hindrances to learning.

Intentionally addressing these barriers can lead to more successful business ventures and wealth creation.



**of all microbusiness owners use personal savings for startup capital.**

<sup>25</sup> Achieving Credit Strength, A Toolkit for Supporting Returning Citizen Entrepreneurs. Retrieved from [cbatraininginstitute.org](http://cbatraininginstitute.org)

<sup>26</sup> Bigger Than You Think: The Economic Impact of Microbusiness In the United States. Retrieved from [aeoworks.org](http://aeoworks.org).

# Credit, Capital, and Care: A Solution Addressing These Barriers Leads to Deeper Impact

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Returning citizen entrepreneurial programs have been effective but can—and should—broaden and deepen their impact with enhanced training.



Enhanced entrepreneurship training incorporates three strategies into standard curricula:

1 Early credit building

2 Access to right-fit capital

3 Trauma-informed approach to training and service delivery

These three crucial strategies work together to conquer the key barriers to entrepreneurship, and in turn tackle some of the overarching recidivism factors of low education, low income, unemployment, and mental health challenges. Including these three strategies into entrepreneurial training programs positions returning citizens for a greater likelihood of success.

## Strategy 1: Start Early to Build or Repair Credit

Early credit building helps returning citizens secure seed capital and future funding for their ventures. However, lenders are hesitant to provide loans to individuals without an active credit history, and building or repairing credit can be a lengthy process, typically taking at least six to 12 months.<sup>27</sup> More than 71% of reentry practitioners who responded to a Credit Builders Alliance (CBA) survey stated that thin credit—no or minimal credit history—is a key barrier to entrepreneurship.<sup>28</sup>

As such, introducing credit building at the onset of a training program is very important. This will keep program participants on track with their entrepreneurship plans and help them avoid less-favorable financing products, particularly those with high interest rates or predatory loans.

CBA defines credit building as the act of making on-time monthly payments on a financial product, such as an installment loan or a revolving credit card that is reported by the creditor to at least one of the major consumer credit bureaus.<sup>29</sup> Non-profit lenders and entrepreneurial programs should help returning citizens with credit-building approaches such as:

- Consolidating legal financial obligations into low-interest loans from community lenders or providing small loans to lower and eliminate debt. In just six months, for example, on-time payments reported to the credit bureaus on an installment loan as small as \$100 can help an individual with a low credit score increase their score by an average of 35 points—and move an individual with no credit score to a prime credit score;<sup>30</sup>
- Using a savings account to secure and pay back a loan;
- Offering secured credit cards for daily obligations. A secured credit card requires a refundable security deposit, the amount of which becomes the credit limit; and,
- Coordinating with housing providers to report rent payments as credit-building activity.<sup>31</sup>

Lenders to returning citizens should report their loans to both business and consumer credit bureaus for maximum impact. Not doing so affects the entrepreneur's ability to secure business financing long-term or capital from more traditional sources.<sup>32</sup>

Focusing on credit building early in the entrepreneurial training process helps secure the right seed capital after completing a training program and increases the likelihood of securing loans throughout the life of a business. As one community lender said, "If we're not improving a participant's credit by the end of the program, we're not fulfilling our mission."<sup>33</sup>

<sup>27</sup> Achieving Credit Strength, A Toolkit for Supporting Returning Citizen Entrepreneurs. Retrieved from [cbatraininginstitute.org](http://cbatraininginstitute.org).

<sup>28</sup> Achieving Credit Strength, A Toolkit for Supporting Returning Citizen Entrepreneurs. Retrieved from [cbatraininginstitute.org](http://cbatraininginstitute.org).

<sup>29</sup> Achieving Credit Strength, A Toolkit for Supporting Returning Citizen Entrepreneurs. Retrieved from [cbatraininginstitute.org](http://cbatraininginstitute.org).

<sup>30</sup> Chenven, Sarah. (2014). The Power of Credit Building: Credit Building Strategies for Funders. Retrieved from [www.assetfunders.org](http://www.assetfunders.org).

<sup>31</sup> CBA's Rent Reporting for Credit Building consulting service supports mission driven affordable housing providers to implement rent reporting for credit building initiatives in order to help their residents build credit histories and offer them a positive incentive for on-time rent payment.

<sup>32</sup> Achieving Credit Strength, A Toolkit for Supporting Returning Citizen Entrepreneurs. Retrieved from [cbatraininginstitute.org](http://cbatraininginstitute.org).

<sup>33</sup> Boyle, R. (2019, September 26). Justine PETERSEN Capital Recommendations for Returning Citizens. (L. Jackman, H. Vassell, & K. Turner, Interviewers)

## R3 Score

After recognizing the need for a better risk model to assess the one-in-three Americans with a criminal record, mother and daughter team Teresa Hodge and Laurin Leonard built R3 Score to expand access to jobs, entrepreneurship, and financial products.

R3 Score is a platform that provides prospective employers, banks, lenders, landlords, and others with a more accurate method to assess the potential risk of applicants with a criminal record. The system provides two unique scores that contextualize a person beyond a standard credit score and background check. The first score interprets the contents of a criminal background screening report and provides an assessment score on a scale of one to 10 (one being the least risky and 10 being the riskiest).

The second and more robust score is most helpful in financial services. It is a FICO-like score ranging from 300-850 that indicates the stability of the loan seeker so that a lender can better understand where a person is in their reentry process. The score is derived from examining alternative data sources, as well as data across several categories, and enables decision-makers to assess risk without filtering out otherwise qualified candidates.

R3 Score is currently being tested with a database of 100 people (with arrest or conviction records), two Community Development Financial Institutions (CDFIs), and a startup. The results will be announced in 2020, when the platform will be available to the public.

“Over 71% of reentry practitioners stated that thin credit–no or minimal credit history–is a key barrier to entrepreneurship.”

# Success Story



**Steven Davis**  
*Owner, Paragon Logistics*

While Steven Davis was incarcerated, he requested his credit report from the major credit bureaus. He quickly discovered some negative items that he had no prior knowledge of that were contributing to a bad credit score.

"I'd been gone so long and people were using my name for all kinds of things that showed up on my report," he said. He kept writing to the credit bureaus to contest the entries and finally they were removed.

Still, Davis did not have much credit history, which he soon learned would negatively impact his ability to secure a loan from a traditional lender or for a credit card or renting a home.

Upon release in 2017, he connected with the Safer Foundation, a returning citizens support organization in Chicago. A \$5,000 government grant from the Workforce Innovation and Opportunity Act enabled him to enroll in truck driving school, acquire a commercial driver's license, and begin working for a trucking company.

The Safer Foundation also helped Davis obtain a secured credit card to build his credit score. A secured credit card requires a refundable security deposit, the amount of which becomes the credit limit; this prevents overspending and payment history is reported to the major credit card bureaus every month, just like unsecured credit cards.

Davis used the secured credit card for a year and paid it off. Then he opened an account at a credit union and got another secured credit card, used it for a year, and paid it off. His credit score began to rise, and when it reached 660, he applied for a regular credit card. When his score reached 720, he opened more lines of credit and started driving for companies that paid him a higher salary.

Eventually, Davis was able to buy his own truck and go out on his own. Even with his excellent personal credit, he faced demanding requirements for a large commercial loan, especially in a volatile industry like trucking which many lenders did not feel was a secure investment.

"Many lenders also want you to have five to 10 years behind the wheel," says Davis, "and all I had was two years. But I knew I could make this work." He focused first on saving to make a large down payment on a truck and then taking out a smaller loan for the rest. The steps came together—which might not have happened had he not started to build his personal credit early in the process—and he purchased his first truck in May of 2019. Now, opportunities are opening up.

"Once you get this first purchasing experience, it's easier to buy more trucks and build your payment history."

Davis wants to eventually own his own fleet of trucks and hire other returning citizens. "They're used to confined spaces and being alone—qualities that make an excellent truck driver," he says. "It's hard to get on your feet and if I can help them like I've been helped, I want to do that."

Davis credits patience, tenacity, and a valued mentor with his success. "Save your money," he says. "Don't be too quick to hop in the game and take off. You've got to take the time to learn."

## Strategy 2: Right-fit Capital for All

Right-fit capital is a loan that specifically meets the borrower's need. It is capital that builds credit and has favorable rates, terms, and conditions for specific business needs. Without right-fit capital, returning citizens often struggle to launch businesses and build credit and can easily fall victim to predatory lending practices, such as significantly higher interest rates and unnecessary costs, putting them further behind in obtaining economic independence.

Ideally, entrepreneurial readiness programs provide access to right-fit capital for participants. However, many programs can only offer a handful of entrepreneurs seed capital via prizes in business plan competitions or grants. While helpful in the short term for a few entrepreneurs, prizes or small grants do not help most returning citizens build or rebuild the credit history necessary to secure loans. As one program leader said, "There is no shortage of entrepreneurship curricula out there. What there is a shortage of is capital."<sup>34</sup>

To offer access to capital for all eligible returning citizens, entrepreneurship programs should partner with mission-driven community lenders like CDFIs. CDFIs are private financial institutions dedicated to helping low-income and underserved people and communities join the economic mainstream by offering affordable lending options. CDFIs can also support returning citizen entrepreneurs long-term with technical assistance and subsequent financing.<sup>35</sup>

If CDFIs are not an option, entrepreneurship training providers should aggressively seek partnerships with alternative financing institutions to provide participants with financing options that can assist them. In addition, traditional lenders may have a community partner or other specialized programs that may lend to and support returning citizens.

If programs are unable to provide access to right-fit capital access through a CDFI or other partner, they should provide trainees with information on securing capital on their own. This trusted guidance must come from someone who has earned credibility through shared experience and empathy, coupled with knowledge about access to solutions, loan management, and payback that meet the business needs and capabilities of the entrepreneur. Such guidance provides a support system that meets individuals where they are and empowers them to reach their goals.<sup>36</sup>



<sup>34</sup> Richmond, Riva. (2017). Entrepreneurship Provides New Hope for Former Prisoners. Retrieved from [www.thestoryexchange.org](http://www.thestoryexchange.org).

<sup>35</sup> Technical assistance refers to additional business development support including but not limited to: business planning, tax preparation, accounting, or legal assistance.

<sup>36</sup> Reimagining Technical Assistance: Shifting the Support Landscape for Main Street. (2016). Retrieved from [www.aeoworks.org](http://www.aeoworks.org).

## Funding Pioneer



**Erica King**  
*President, Chicago  
Neighborhood Initiatives  
Micro Finance Group*

The Chicago Neighborhood Initiatives Micro Finance Group

(CNIMFG) provides capital to small business owners who do not have access to traditional sources of financing. The microloans range from \$500-\$50,000 and feature flexible funding criteria to allow borrowers to start and expand their businesses.

After learning that some borrowers were returning citizens who may have ended up back in prison without their funding, president Erica King created Pathways to Enterprise for Returning Citizens (PERC). The multi-phase training program specifically lends and provides entrepreneurial training to returning citizens.

Approximately 100 people have gone through the program. King reports that funders such as Citibank Community Development and the Small Business Administration support the collaborative process that results in the launch of microbusinesses and stems a return to prison. "Listening to each individual about their strengths and ideas and then being creative and resourceful to match them with the right-fit product with the right terms can yield a successful outcome," she says.

Continuing to refine their model with each class of participants, CNIMFG hopes to triple the number of people in the program. "Our nation is faced with mass incarceration; prisoners are released and then do not have access to opportunity," says King. "Success for us is not only on an individual level, where a returning citizen starts a microbusiness or maintains steady employment, but on a national level, where other organizations around the country see that our model is working and want to start collaborating in their own cities to bring resources to entrepreneurs across the country."

## Capital Recommendations



**Robert Boyle**  
*Founder and CEO, Justine  
PETERSEN*

Justine PETERSEN is a St. Louis-based company that assists low-income individuals and families to develop, maintain, and increase financial assets. Founder and CEO Robert Boyle is also a founder and director of Great Rivers Community Capital, a CDFI that has loaned over \$2.6 million to 175 returning citizens.

Boyle's experience and commitment to this population has shown him both the potential and limitations to date in this arena.

While the mandate of CDFIs is to provide credit and financial services to underserved markets and populations, Boyle says it is still difficult to find capital sources that are specifically earmarked for returning citizen entrepreneurship. He offers some other specific recommendations:

- Grant funding for business development and other programming exists, but loan capital is in greater need;
- The Small Business Administration should dedicate funding for returning citizens; and
- CDFIs should segment and track loan capital for returning citizen entrepreneurs to demonstrate results in how these actions contribute to stemming recidivism.

"We also need a culture of collaboration with partners and a CDFI needs to be engaged in individual lives—especially returning citizens—to be effective," says Boyle. He recommends that CDFIs replace the typical culture of risk aversion with an innovative and entrepreneurial spirit to further assist these entrepreneurs with loan products.

## Strategy 3: Trauma-Informed Approach to Service Delivery

Rates of childhood and adult trauma are high among people in prison.<sup>37</sup> Trauma in childhood, whether physical, sexual, or emotional, has consequences across a person's entire life and has been found to significantly predict adult arrests for alcohol and/or drug-related offenses.<sup>38</sup> A high percentage of incarcerated people have experienced childhood trauma, and the harsh, punitive, and uncaring nature of prison life will often re-traumatize many of them.

For some prisoners, incarceration is so psychologically painful that it can cause a form of traumatic stress severe enough to produce PTSD symptoms upon release. Time in prison may revive not only the memories, but the disabling psychological reactions and consequences of earlier damaging experiences.<sup>39</sup>

As a result, providers should expect that most program participants have experienced some form of trauma in their lives. Wide-ranging effects of such trauma include changes to the brain and a multitude of stress responses that can result in reduced program participation.<sup>40</sup>

Trauma can affect the way a person learns, plans, and interacts with others. For example, adult learners who have experienced trauma may have an aversion to starting a new task, responding to questions, or considering alternative viewpoints.<sup>41</sup> This can have profound implications for how service providers interact with program participants.<sup>42</sup> As such, a trauma-informed approach to returning citizen entrepreneurship programs recognizes the signs and symptoms of trauma and responds in a way that facilitates program participation, and in some cases, can further recovery.

A trauma-informed approach, also known as trauma-informed care (TIC), was developed in response to research on the prevalence and impact of traumatic

stress on health, cognition, behavior, and even mortality.<sup>43</sup> According to the federal Substance Abuse and Mental Health Services Administration (SAMHSA), TIC is a strengths-based framework that:

- Realizes the widespread impact of trauma and understands potential paths for recovery;
- Recognizes the signs and symptoms of trauma in participants; and,
- Responds by fully integrating knowledge about trauma into policies, procedures, and practices, and seeks to actively resist re-traumatization.<sup>44</sup>

There are many ways to implement TIC strategies within an entrepreneurship program. Options vary, but at minimum, providers should understand the effects of trauma and adjust teaching and presentation styles to reflect this understanding.

If a provider does not have the resources to dedicate to understanding trauma, well-informed partners can fill in the gaps. Using technology to address some of the effects of trauma have also shown promise. Computer games specifically designed to engage trainees to improve memory, focus and attention, impulse control, organization, and problem solving are now widely available and are resulting in positive outcomes.<sup>45</sup>

Incorporating a care-centered framework into program delivery helps participants absorb and act on the material and for programs to have deeper impact. TIC creates more opportunities for trauma survivors to rebuild a sense of control and empowerment, and for program participants to gain more confidence and capabilities.<sup>46</sup>

<sup>37</sup>Shi, Jing & Wolff, Nancy. (2012). Childhood and Adult Trauma Experiences of Incarcerated Persons and Their Relationship to Adult Behavioral Health Problems and Treatment. US National Library of Medicine, National Institutes of Health. 9(5), 1908-1926. doi: 10.3390/ijerph9051908.

<sup>38</sup>Ireland, T. & Widom, C.S. (1994). Childhood Victimization and risk for alcohol and drug arrests. US National Library of Medicine. 29(2), 235-74. doi: 10.3109/1082608940907380.

<sup>39</sup>From Prison to Home: The Effect of Incarceration and Reentry on Children, Families, and Communities. (2001). Retrieved from www.aspe.hhs.gov.

<sup>40</sup>Trauma-Informed Care in Behavioral Health Services. Chapter 3: Understanding the Impact of Trauma. (2014). Retrieved from www.ncbi.nlm.nih.gov.

<sup>41</sup>Perry, B. D. (2006). Fear and learning: Trauma-related factors in the adult education process. In S. Johnson & K. Taylor (Eds.), *New directions for adult and continuing education: The neuroscience of adult learning* (Summer ed., Vol. 110, pp. 21-27). San Francisco: Wiley Periodicals, Inc. Retrieved from: <http://www.tracyschiffmann.com/blog/2016/11/4/how-trauma-impacts-the-brain-of-adult-learners>

<sup>42</sup>How Trauma Impacts the Brain of Adult Learners. (2016). Retrieved from [www.tracyschiffmann.com](http://www.tracyschiffmann.com).

<sup>43</sup>Babcock, Elisabeth. (2018). Using Brain Science to Transform Human Services and Increase Personal Mobility from Poverty. Retrieved from [www.mobilitypartnership.org](http://www.mobilitypartnership.org).

<sup>44</sup>Trauma. Samhsa-Hrsa Center for Integrated Health Solutions. Retrieved from [www.integration.samhsa.gov](http://www.integration.samhsa.gov).

<sup>45</sup>3 Reasons Why Neuroscience Should be Important to Title 1 Educators. (2019). Retrieved from [www.scilearn.org](http://www.scilearn.org).

<sup>46</sup>Babcock, Elisabeth. (2018). Using Brain Science to Transform Human Services and Increase Personal Mobility from Poverty. Retrieved from [www.mobilitypartnership.org](http://www.mobilitypartnership.org).

# From Trainee to Trainer

## **Pat McGee**

*Director of Prison Initiatives, Prison Entrepreneurship Program*

The Prison Entrepreneurship Program (PEP) in Texas is a men's reentry program that delivers entrepreneurial training, business plan mentoring, and a highly competitive business plan competition to returning citizens. Its 2,400 graduates have launched more than 400 businesses, including five that generate over \$1 million in gross revenue annually.

"We work on the individual first before any entrepreneurship training," says Pat McGee, the Director of Prison Initiatives. PEP takes a trauma-informed approach to programming. The first three months are spent improving men's self-esteem and changing their mindset so they are receptive to training. "Trauma shows up as fear or a disregard for authority," says McGee. "The person might not take direction or instructions very well. There's an inability to connect with family, loneliness, isolation, and depression. Before we discuss any business, they must take care of the business of themselves."

"A lot of people think the key to recidivism is employment and job creation, but it does no good to give a broken person a key to a gate," he continues. "If they can't manage their life, they can't manage anything else that they have. Teach them how to conquer their trauma and vices, and you actually create a whole new person."

Founded in 2004, PEP is one of the most successful reentry programs in the country and is expanding nationally. It is creating an affiliate model where participating states will handle staffing, financing, and business operations, while PEP provides curriculum and technical assistance.

McGee has worked with PEP since 2006 and became an employee after his own release in 2011. "We've all had internal things that we need to deal with," he says. "Instead of trying to equip a person to be a broken entrepreneur, we realized that the only way a person will ever be a successful entrepreneur is if they are successful as people."



# 04

## Conclusion

Providing enhanced entrepreneurial training—the combination of early credit building, right-fit capital, and a trauma-informed approach—prepares returning citizens psychologically and financially to successfully launch businesses.

When these three critical strategies are utilized together, training results in mentally healthier and stronger entrepreneurs who are better positioned to launch a business, stay out of prison, and contribute to society and their own families.

We must seize this critical opportunity to emphasize all three strategies in standard program delivery to increase effectiveness in combating recidivism. With guidance, support, and resources, returning citizens can launch new businesses. These businesses create jobs, benefit the community, and help returning citizens achieve their dreams.



# Further Recommendations

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To further ensure returning citizens are best able to start ventures, we recommend the following additional initiatives:

- **Support the NEW START Act**, which creates a reentry program within the Small Business Administration that awards grants to organizations, or partnerships between organizations, to provide business counseling and entrepreneurial development training to returning citizens.
- **Support the Next Step Act of 2019**, which would end the federal prohibition on marijuana, expunge records, and reinvest in the communities most harmed by the War on Drugs. This Act would also “ban the box,” which prohibits federal employers and contractors from asking job applicants about their incarceration history.
- **Create and support policies that consider how incarceration negatively affects credit scores.** For example, a credit history could be frozen if a person goes to prison. This would prevent missed credit card payments from having an effect on credit scores.
- **Lobby states to remove barriers for returning citizens** in obtaining certain business licenses, accessing financial funding for business ventures, and accessing financial aid at post-secondary educational institutions.



# Pilot

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With support from Capital One, AEO launched its Endeavor Ready initiative in April 2019 to identify impactful ways to successfully prepare returning citizens for entrepreneurship. Based on the research detailed in this report, we found that incorporating three strategies together—access to capital, credit building training, and a trauma-informed approach—can deepen the success of entrepreneurial training programs aimed at supporting returning citizens.

AEO partnered with three organizations to test the findings of this research. These organizations were:

- Justine PETERSEN, a St. Louis-based CDFI that operates the Aspire Entrepreneurship Initiative;
- The First 72+, a reentry service provider in New Orleans that offers returning citizens the opportunity to start small businesses; and,
- The Georgia Micro Enterprise Network, which operates the Reentry from Incarceration Through Entrepreneurship Services (RITES) Project to provide business development support services to returning citizens.

Throughout the pilot, subject matter experts advised on how best to tailor current curricula and programming. The results of the program will be available May 2020 and posted on [www.aeoworks.org](http://www.aeoworks.org).





# Returning Citizen Entrepreneurship

Enhancing Support,  
Increasing Opportunities,  
and Deepening Success

aeoinnovates@aeoworks.org  
202-650-5580  
aeoworks.org  
1310 L Street NW  
Suite 830  
Washington, DC 20005