

AMERICAN BANKER®

THE FINANCIAL SERVICES DAILY

Monday, September 21, 2009

COVER STORY

A Twist on Reaching Out To Unbanked Hispanics

■ BY MARISSA FAJT

James Gutierrez believes he has found the key to reaching unbanked Hispanics — credit.

“In this country not having a credit score is like not having a face,” he said.

“What we try to do is build that face for customers. We start with credit and that makes us different.”

Fresh out of graduate school in 2005, Gutierrez started Progress Financial to give small loans to Hispanic customers with little or no credit history.

The San Jose company operates booths in 15 California grocery stores that target Hispanics, because, Gutierrez said, being in familiar settings is important to reaching the unbanked.

Now it plans to expand beyond its home state. The goal is to open booths in Texas over the next six months and to have 140 of them in several states with large Hispanic populations by the end of 2012.

Progress Financial, which has relied mostly on venture capital to fund the \$20 million of loans it has made in the past four years, also hopes to start working with banks. It has applied to be certified as a community development financial institution, and if it is approved, banks could earn Community Reinvestment Act credit for lending it money.

Observers say the specialty lender is likely to face challenges as it tries to expand.

In recent years several new banks, including the \$54 million-asset Libertad Bank in Austin and the \$57 million-asset Oasis Bank in Houston, set out to target Hispanics, one of the fastest-growing segments of the population, only to reconsider later.

Both the three-year-old Libertad and the two-year-old Oasis broadened their business plans last year, citing slower-than-



Gutierrez: “In this country not having a credit score is like not having a face.”

expected growth. They concluded that their customer focus had been too narrow.

But Gutierrez contends that offering the right product is key and, in his view, that would be loans.

Credit is needed to do almost everything in the U.S., from renting an apartment to buying a cell phone, he said. And because getting credit is difficult, Progress Financial customers are grateful and loyal.

“The solution is: Don’t go sell bank accounts and prepaid cell phones. Give them credit,” Gutierrez said.

Doing business as Progreso Financiero, the company makes uncollateralized loans of \$350 to \$2,500 and charges a 36% average annual interest rate.

A typical loan would be for nine months, with payments due every two weeks.

The company interacts with customers frequently to help them stay on track,

Gutierrez said. Customers even get a phone call before the first payment is due as a reminder. And when a loan is made, a family photograph is taken with the borrower holding the check, to celebrate the occasion and reinforce the importance of receiving credit.

Some observers said the timing of its growth initiative has the potential to work for or against Progress Financial.

With many lenders raising their credit standards, the company might pick up more customers now, said Ron Shevlin, a senior analyst at the Boston consulting firm Aite Group LLC. But it also might have to contend with more defaults because of the troubled economy.

Shevlin said maintaining credit standards as a company grows can be another challenge.

But the 32-year-old Gutierrez said a scoring system he built — and continually refines — has kept loan losses at Progress Financial low.

He would not specify the loss amount in dollars. But for the first half of the year the loss rate on its loan portfolio was under 10% of the overall dollar volume, even though 55% of the borrowers have no credit history, he said.

What’s more, the loss rate is down 20% from the same period a year earlier.

“In 2009 everybody else watched as their portfolio got worse, and our loss rates are not only single digits, but they are declining,” Gutierrez said. “That is pretty exciting for us.”

He said he developed the scoring system using research he did in Latin American countries. Borrowers must provide proof of income, and they are scored based on hundreds of fields of data from an application,

including cash flow and characteristics of stability, such as how long they have held a job or lived in a particular area.

Gutierrez said he considers the interest rate to be fair. He pointed out that the Federal Deposit Insurance Corp. set a limit of 36% annual interest for lending initiatives it tracks under its Small-Dollar Loan Pilot Program; so Progress Financial, though not part of the program, has a rate that is in line with those guidelines. The FDIC created the program to highlight best practices in making small loans and encourage banks to provide an alternative to payday lenders — which, consumer advocates say, charge an average of 400% annual interest, plus fees.

Observers said if Progress Financial is successful, it could help get unbanked Hispanics to start using mainstream financial services.

But providing borrowers with financial education is necessary to keep the pricey loans from becoming a permanent revolving door, as is common with payday loans, said Francis

Calpotura, an immigrants' rights activist and founder of the Transnational Institute for Grassroots Research and Action.

Janie Barrera, the president and chief executive officer of the microfinance lender Accion Texas in San Antonio, agreed.

Specialty Lender Focuses On Unbanked for Growth

Accion, a certified CDFI that specializes in making small loans to the unbanked and underbanked, charges 12% annual interest and has a 95% repayment rate.

“The financial literacy piece is very important,” Barrera said. “People need to be educated, and what we are talking about here is the immigrant population. They don't know how we work here in the United States. We aren't going to change the system,

so we need to teach them how the system works.”

Gutierrez said that, unlike a payday lender, his company does not allow an outstanding loan to be rolled into a new one.

It also incorporates financial education into the lending process.

Before a loan is funded, the company reviews with the customer a dozen points about financial literacy and explains how the loan amortizes.

Still, Progress Financial has a lot of repeat business.

To help keep it that way, Gutierrez said, he intends to introduce new loans at lower interest rates for customers who prove their creditworthiness.

Progress Financial also reports loan payments to the credit bureaus to help customers build credit.

“A number of our customers start out with no score and, after the third loan, they have a 640 FICO score,” Gutierrez said. ■

Media Contact:

Pete Hillan
Fleishman Hillard
(415) 318-4111
pete.hillan@fleishman.com

Sarah Livnat
Progreso Financiero
(650) 810-8802
slivnat@progressfin.com