

Lender embraces Latino immigrants

The start-up doles out small sums, trusting borrowers who have only 'moral collateral.'

E. Scott Reckard

Customers jam the lime-green booth at a Latino supermarket near downtown Los Angeles. Clutching pay stubs and IDs, they're applying for small loans, enough to cover a car repair or an emergency trip to Mexico or El Salvador.

Standing behind counters, tapping furiously on laptop computers, three polo-shirted account executives do the initial screening in about two minutes. "How many dependents live with you?" they ask in rapid-fire Spanish. "How often do you send money home?"

Latino immigrants are at the center of one of the nation's most heated political debates. But for James Gutierrez's young company, Progreso Financiero, they are the heart of a booming business.

At a time when many banks are grappling with mountains of bad debt and foreclosures on million-dollar homes, Gutierrez's company is growing fast by making loans with no collateral to dishwashers, factory workers and others, regardless of their immigration status.

"We're solving a gap in the market," the 32-year-old entrepreneur says.

Gutierrez started Progreso Financiero — whose name translates to Progress Financial — as a "social entrepreneuring" research project six years ago while earning an MBA at Stanford University.

The proposition: If poor people from Bangladesh to Bolivia can be good credit risks, as a global boom in so-called microlending has proved, why not the millions of immigrants working in the United States?



Ricardo DeAratanha
Los Angeles Times

KIOSK: James Gutierrez, second from right, started Progreso Financiero five years ago. This location in an L.A. market is one of its 39 in California and Texas.

Gutierrez was convinced he could find enough low-income customers with the "moral collateral" to pay him back.

He made a believer out of JetBlue Airways Chairman Joel C. Peterson. A private equity investor who teaches entrepreneurship and leadership at Stanford, Peterson made a small investment in the project and started talking it up. That was pivotal in helping Gutierrez raise additional capital.

"One of the first things I noticed was how politically clever he is," Peterson said. "He's a good listener and he's someone you instinctively trust. I could see him running for governor of California in 20 years."

Gutierrez made his first loans sitting with a laptop in a San Jose market with Mexican music blaring. These days, he's backed by \$50 million in venture capital, mainly from Silicon Valley, and a credit line from Silicon

Valley Bank. Based in Mountain View, Calif., the 5-year-old firm will have made 100,000 loans, averaging \$1,000 each, for a total of \$100 million by the end of this year, Gutierrez said. Of those, 70% will have been made in 2010, "our breakthrough year."

Progreso's typical 26% interest rate, plus its \$50 origination fee for loans, works out to an average annual percentage rate of 36%. That's twice the average APR for bank credit cards. But it's well below interest rates that can top 450% at some payday lenders or pawn shops, often the only options for low-income borrowers.

Mexican immigrants Alejandra and Antonio Guerrero recently stopped by the Progreso kiosk inside the Liborio supermarket in L.A.'s low-income Pico-Union neighborhood. They needed about \$900 for car repairs and new tires so they could continue their business cleaning private homes and small companies. They got the loan.

Most mainstream lenders avoid such small sums, finding them more hassle than they're worth.

Gutierrez says Progreso is using proprietary software to drive down costs and weed out bad risks, enabling the company to screen customers quickly in grocery stores and pharmacies, without the expense of branches.

He offers few clues on this "secret sauce" of vetting borrowers, except to say Progreso has narrowed the initial screening to a dozen telling questions. Only borrowers who pass muster have their information fed into computers for further processing.

Unlike payday lenders, Progreso won't replace an unpaid loan with a new loan, a practice that can create a hard-to-end cycle of debt. The company also reports payments to credit bureaus. Gutierrez says some customers take out loans just to establish or improve their credit.

"Then they can move up, have a ticket to take them to Main Street," Gutierrez says.

Progreso, with 210 employees, lends money at 39 locations in California and Texas, with an additional 10 scheduled to open in the next two months. Its revenue, growing 10% to 15% a month, is flowing in at an annualized rate of more than \$20 million, Gutierrez said. The company has yet to turn a profit, although he said he expects to break into the black in the second quarter next year.

Progreso is licensed as a consumer finance lender by the California Department of Corporations, where spokesman Mark Leyes said it was in good standing with no record of complaints.

Borrowers such as Manuel Chacon typically show up in person every two weeks to pay their installments in cash. Chacon, who works for a car-rental company, was in the Liborio supermarket location recently, clutching a statement showing he had repaid all but \$163 of a \$1,000 loan that financed a trip last year to his native Honduras. He and his wife were paying Progreso about \$150 in interest, plus the \$50 origination fee, over the course of a year to retire the debt, which worked out to an APR of 34.51%.

"This loan is better than we can find anywhere else," he said.

Gutierrez, the grandson of a Mexican immigrant, was raised in Chino. A standout at Damien High School, an all-male Catholic school in La Verne, he wound up at Yale, where he captained the club wrestling team.

He continues to set his sights high. Small-dollar loans are just the first piece of Gutierrez's master plan for "hyper growth, like Amazon." He wants to offer additional financial products, such as savings accounts and insurance, to 1 million of the 23 million Latinos he estimates have limited or no contact with mainstream financial firms.

The challenges are huge. Gutierrez said the loss rate on Progreso loans is 5% to 10%, which some experts say is too high. Some community activists complain that Progreso is designed to enrich private investors at the expense of the working poor. Gutierrez has made no secret of his goal to become a public company or sell Progreso to a mainstream bank.

The nonprofit Opportunity Fund, meanwhile, makes loans to fledgling minority businesses at an annual rate of 17% — half what Progreso charges, said Jose Quiñonez, a member of the Northern California-based fund's board. He added, though, that its operations are largely underwritten by charitable donations.

Quiñonez criticized Gutierrez for not lowering rates for borrowers who repay one loan successfully and then apply for another.

"It's one rate for all — the highest possible," he said. "And when he says he's targeting markets that wouldn't have access to capital except for him — that's exactly the same argument that subprime lenders used to make in 2007 when they were making loans to the Latino and African American community."

Gutierrez says he's phasing in lower rates for borrowers who successfully repay loans, aiming to keep them as customers as they enter the financial mainstream.

"This is not a transaction, this is a relationship," he said. "We want to be their financial partner for life."