

Microfinance: Helping to Create First-Time Entrepreneurs

September 8, 2011

Organized by the
Federal Reserve Bank of Richmond
in partnership with the
Federal Reserve Bank of St. Louis

The *Connecting Communities™* series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

WELCOME

Thank you to everyone for joining this session.

This call is being recorded.

An archived recording of this session will be available on our Connecting Communities™ website shortly after the session has taken place .

- www.stlouisfed.org/connectingcommunities

We will be taking questions via e-mail during this session.

These questions may be part of the recorded archive for this session.

- communities@stls.frb.org

In connection with this session, several of our Reserve Bank offices have posted links to a **variety of additional resources on this topic**. We encourage you to browse through this list and to contact your regional office if you would like additional information on any of these items.

LEGAL NOTICE AND DISCLAIMER

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

TODAY'S AGENDA

Welcome

Introductions

A History of Microfinance

Grameen America: One model

Q&A time

Wrap up and Thank You

TODAY'S PRESENTERS

- **Welcome**
 - Anna Alvarez Boyd, Senior Associate Director, Division of Consumer Affairs and Community Affairs, Board of Governors of the Federal Reserve
- **A History of Microfinance**
 - Tammie C. Hoy, Regional Community Development Manager, Federal Reserve Bank of Richmond
 - Video: "Lessons from Bangladesh: How Microfinance Can Work in America"
- **Grameen America: One model**
 - Kimberly Zeuli, Vice President and Community Development Officer, Federal Reserve Bank of Richmond
 - Molly McGrath, Vice President, Development, Grameen America
 - Agnes Ubalde, Vice President, Community Development Officer, Greater Bay Area & Northern California Region, Wells Fargo
 - Sarah Bennett, Senior Vice President, Wells Fargo Community Lending and Investment
 - Tracey Greene-Dorsett, Program Officer, Z. Smith Reynolds Foundation

A History of Microfinance

- Federal Reserve Bank of St. Louis Video:
 - “Lessons from Bangladesh: How Microfinance Can Work in America”

(link available at <https://www.stlouisfed.org/connectingcommunities/>)

Grameen America: One Model

- Molly McGrath
 - Vice President, Development, Grameen America



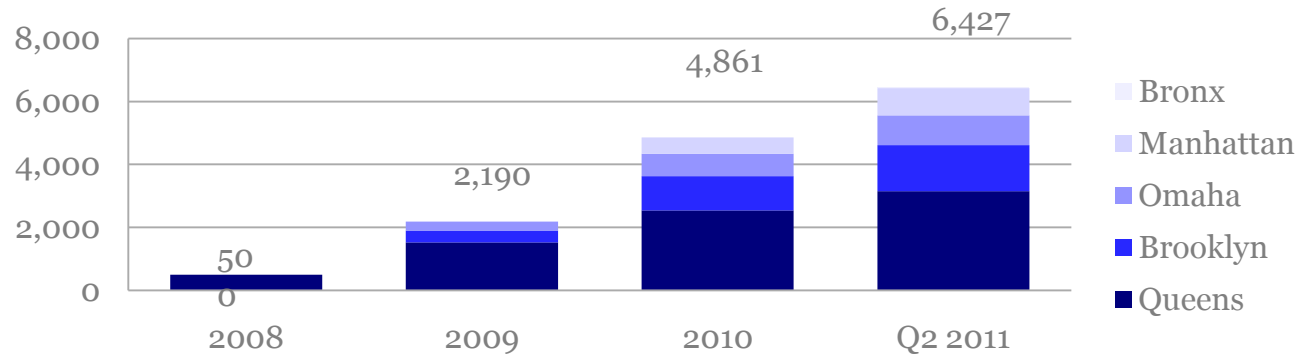
“When tiny, tiny things start happening a million times, it becomes a large thing. It lays down the foundation of a strong economic base. With women participating in building this economic base, it becomes the foundation for better social and economic future.”

Muhammad Yunus, Nobel Laureate & Founder Grameen Bank

Thirty years ago, Professor Yunus gave \$27 to 42 poor villagers in Bangladesh, all of them paid back. This inspired him to create the Grameen Bank, which has reached over 8 million borrowers, changing their lives and those of their families. Today, **Grameen America applies the identical program** to change the lives of thousands of Americans living in poverty.

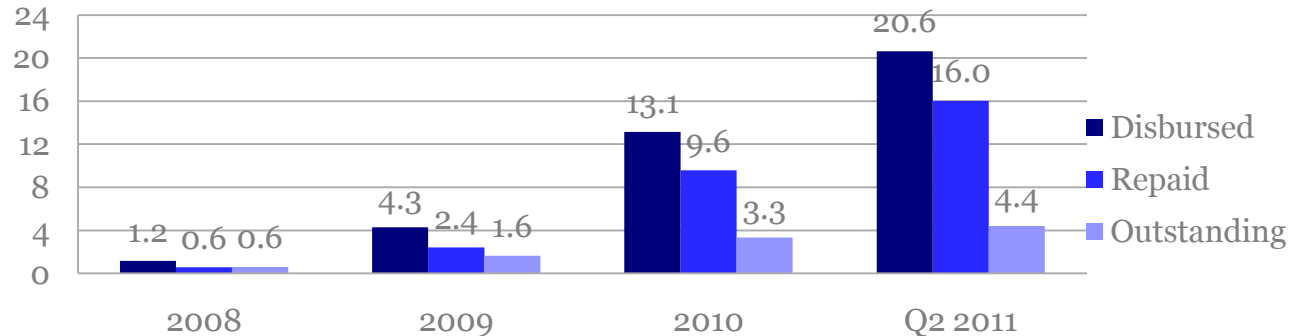
Grameen America's Organizational Growth Overview

Growth in Membership



- Since 2008, Grameen America has expanded to six branches
- 2011 Q4/2012 Q1 plan to launch four new branches:
 - Bay Area, CA
 - Charlotte, NC
 - Brooklyn, NY (2nd)
 - Queens, NY (2nd)

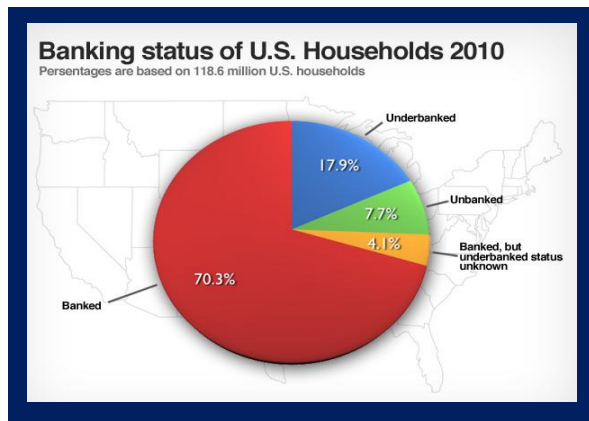
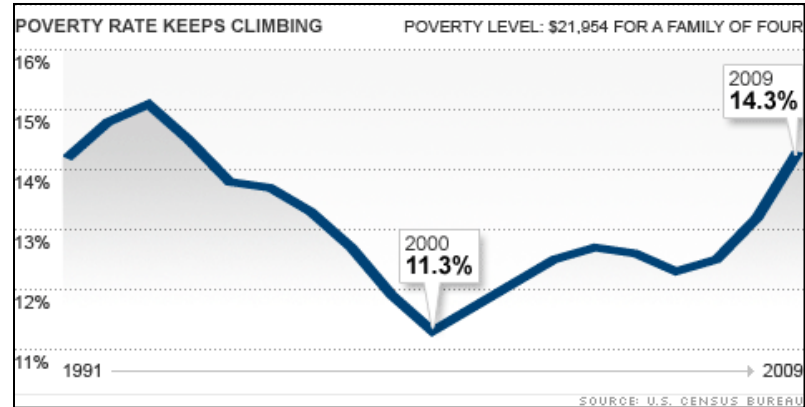
Growth in Loan Portfolio (\$MM)



The Need

Poverty Facts ¹

- 44 million people (1 in 7) in the U.S. live in poverty
- 24 million (55%) are women, many of them heads of household
- 1 in 4 African Americans and Latinos live in poverty



Banking Facts ²

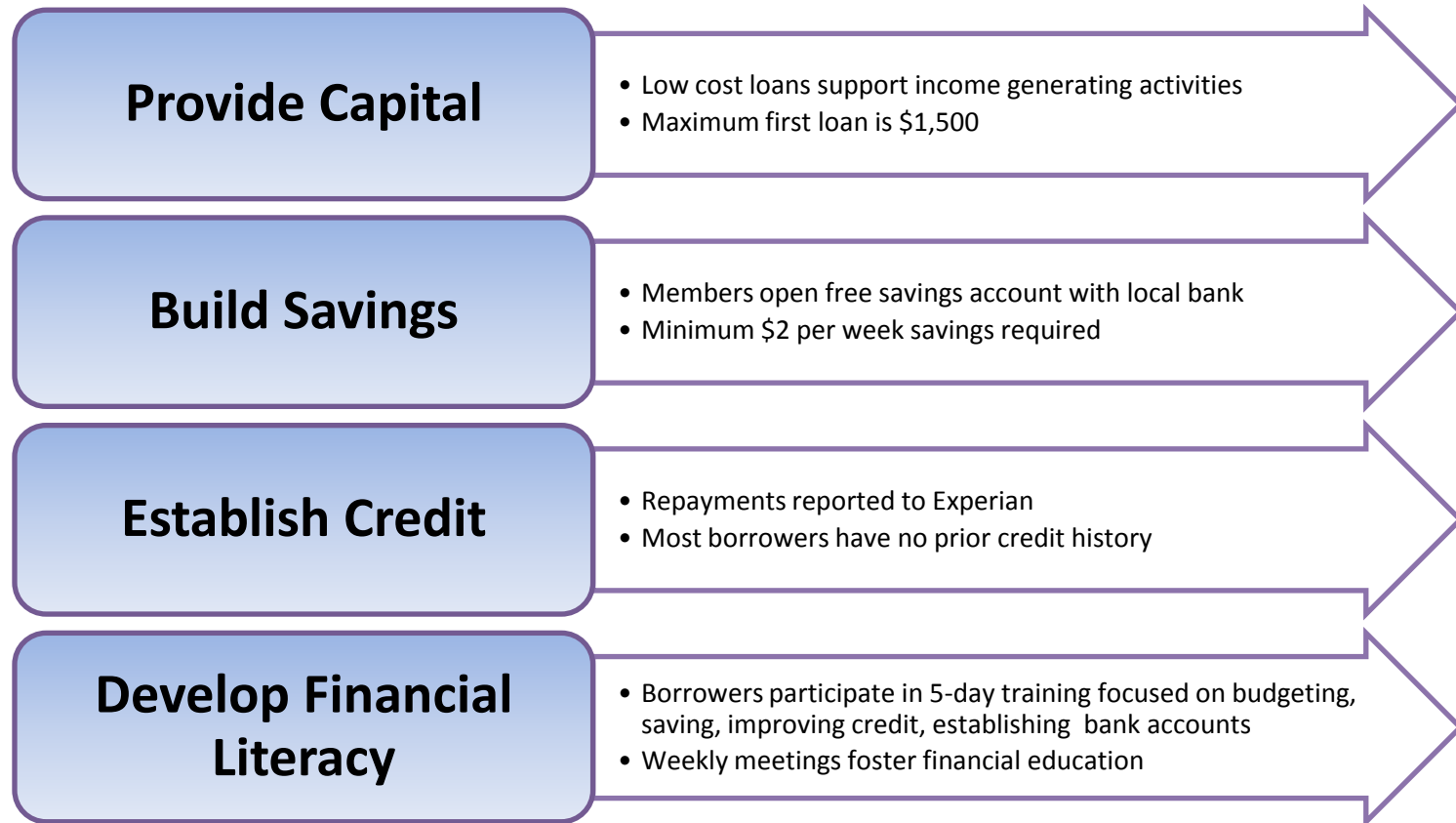
- 60 million American adults are unbanked or underbanked
- With more than 20 million microenterprises in the U.S., less than 1% are receiving financing
- Predatory lenders charge interest ranging from 400% to 3,000% APR

1. U.S. Census Bureau
2. FDIC

An opportunity can change everything. It gives a poor person a chance. It gives hope. Above all, it empowers a person, and in turn a family. Grameen America provides opportunity – an opportunity for the poor to earn a living and alleviate poverty.

Grameen America's Program and Results

Grameen America tackles the root causes of poverty in the United States by empowering low-income individuals to capitalize on their entrepreneurial skills to achieve a brighter future for themselves and for their families.



Grameen America Borrowers



Live below the poverty line



Typical family income is \$15,000



Mostly single mothers



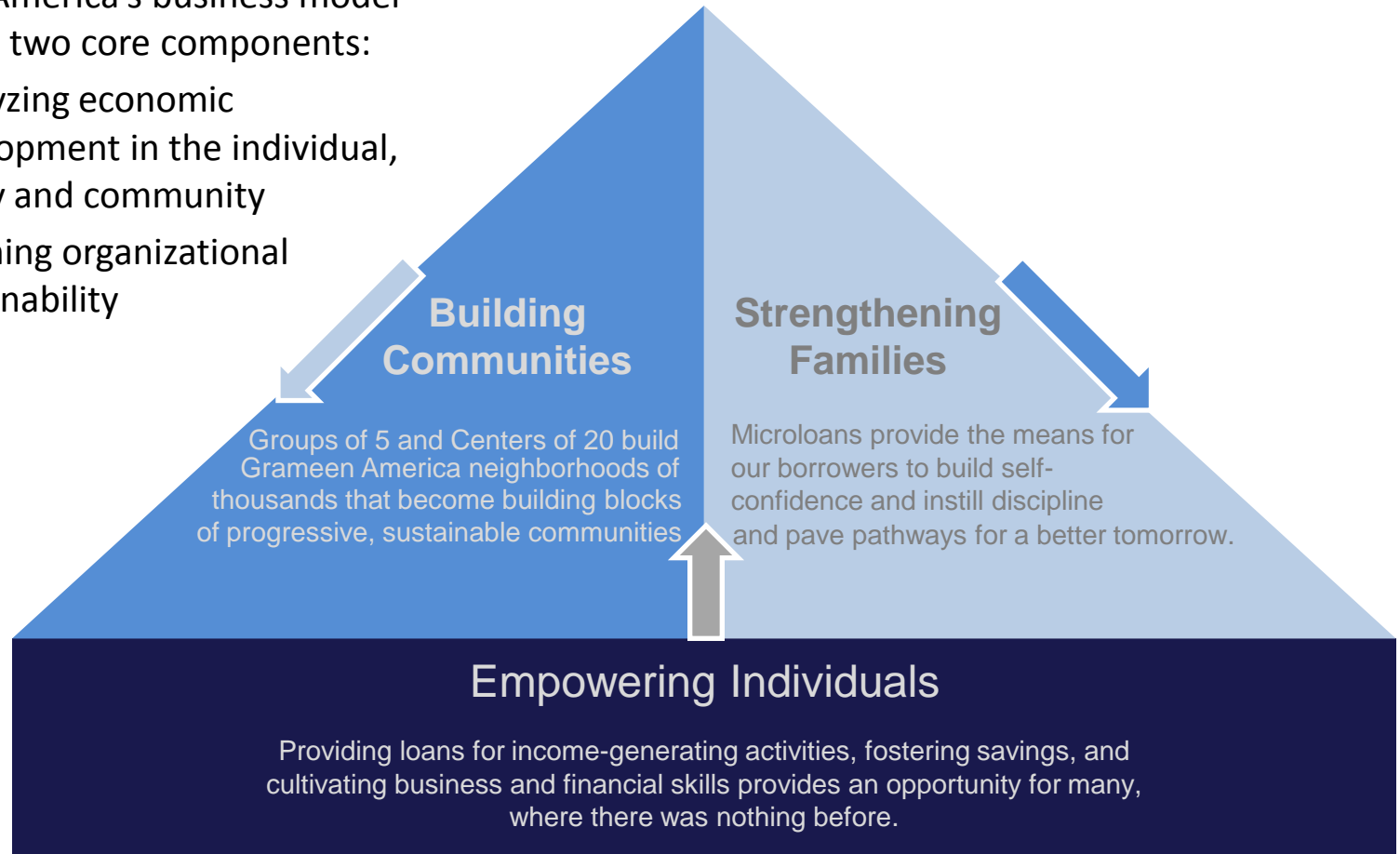
Desire and determination to start or grow a business



Nowadays there are not many jobs out there and we need to survive. We're making it and Grameen America has helped us do that. - Lisette, GA Borrower

Business Model

- Grameen America's business model focuses on two core components:
 - Catalyzing economic development in the individual, family and community
 - Reaching organizational sustainability



Investing in Microfinance

A Financial Institution's Perspective

- **Agnes Ubalde**
 - Vice President, Community Development Officer, Greater Bay Area & Northern California Region, Wells Fargo
- **Sarah Bennett**
 - Senior Vice President, Wells Fargo Community Lending and Investment

Mission Based Investing

Wells Fargo supports organizations that work to strengthen communities and keep them diverse and vibrant. We provide this support through our Foundation and Community Lending and Investment Division.

- Wells Fargo Foundation offers financial support coupled with team member volunteerism.
 - Three primary grant areas: Community Development, Education, and Human Services.
 - Volunteerism via direct service or through committee or Board membership.

In 2010, we invested \$219 million in 19,000 non-profits; of which \$61.1 million went to non-profits focused on community development in distressed communities.

- Wells Fargo Community Lending and Investment Division specializes in debt and equity capital for organizations that promote economic development, job creation, and affordable housing.

This past year, we made \$2.3 billion of community development loans and investments throughout our national footprint.

Why Invest in Microfinance

At Wells Fargo, we are committed to promoting the economic development of everyone in our communities, including those not yet able to access the traditional banking systems.

- We do this by investing in organizations that serve entrepreneurs and small business owners who do not have access to traditional bank financing.
- Wells Fargo has been a leading investor in microfinance for many years. We made our first equity investment in 2001 to support a microloan fund in rural Fresno, CA.
- Since then, we have invested over \$57 million in approximately 85 microlenders across our footprint.

Partnering with Grameen America

- In 2010, we provided a \$1 million EQ2 investment to Grameen America to expand its microlending model to Charlotte, North Carolina and the San Francisco Bay Area.
- This partnership also includes a \$25,000 grant to support Grameen's expansion into the San Francisco Bay Area; with a particular focus on the Contra Costa, Alameda & Santa Clara County areas of our CRA full-scope assessment areas.
- We also support Grameen's Nebraska operations by providing banking services and savings accounts to Grameen clients.

Partnership Results

- Increased job creation opportunities for LMI populations in key CRA assessment areas.
- Opportunities to partner with Grameen to provide our Hands on Banking – El Futuro en Tus Manos financial education curriculum to potential clients/customers of the program.
- Collaborative relationships and natural referrals transform between our existing non-profit technical assistance providers and microfinance organizations (e.g. Opportunity Fund in San Jose, Oakland Business Development Center & West Contra Costa Business Development Center in Richmond).

Key Components of EQ2 Investments

Structure	<ul style="list-style-type: none">• Subordinate, unsecured debt with general recourse to the organization
Terms	<ul style="list-style-type: none">• 5-10 years; Interest only with principal due at maturity
Amount	<ul style="list-style-type: none">• \$150,000-\$1.5 million
Key Underwriting Criteria	<ul style="list-style-type: none">• Liquidity, leverage, net worth, profitability and loan portfolio performance/loan loss reserves
Type of Borrower	<ul style="list-style-type: none">• Non-profits/government agencies with a minimum of three years lending experience

EQ2s are typically sourced in partnership with Wells Fargo Community Development Officers across our national footprint.

Supporting Microfinance

- Since 2000, Wells Fargo has provided 14 California based non-profits with a total of \$1.4 million in grants every other year through its California Technical Assistance Initiative.
- In Georgia, Wells Fargo sponsored the Small Business Development Center of Georgia's FastTrac New Venture workshop, a program to help new small business owners in low and moderate income communities develop a business plan.
- Wells Fargo's Business Insight Resource Center provides free access to a comprehensive online library of advice tools and information for entrepreneurs.
- Wells Fargo team members serve on the Boards and Loan Committees of microlenders across our national footprint.

Investing in Microfinance: A Foundation's Perspective

- Tracey Greene-Dorsett
 - Program Officer, Z. Smith Reynolds Foundation

Community Investing

- Z. Smith Reynolds Foundation has five focus areas: Community Economic Development, Environment, Pre-collegiate Education, Social Justice and Equity, and Strengthening Democracy. Through its Community Economic Development portfolio, the Foundation seeks to foster economic well-being, vitality and sustainability by promoting asset-building for individuals, families, and communities in North Carolina. ZSR has a focused agenda of addressing " the racial wealth and gender gap " in NC.

The foundation is continuing to think about and invest in opportunities that would assist in having the following types of impact: (a) Protect and increase the incomes and assets of low-income individuals and families, particularly among racial minorities; and (b) Increase community control of economic assets and economic independence for the benefit of low-income and/or rural populations.

- Presents an opportunity to explore scale and impact in an urban setting and think about both low-hanging and long-term opportunities that could create jobs, income, build assets and ultimately increase the wealth of communities of color in NC.

The Foundation has previously supported other initiatives that have a different supportive structure than Grameen, such as the Latino Credit Union and Mountain BizWorks.

Why Invest in Microfinance

1. For ZSR we see our support of microenterprise opportunities as a part of a larger exploratory process to invest in an inventory of tools and resources that will promote economic equity throughout the state and increase/create opportunities to build wealth in disenfranchised communities;
2. Provide a space for a conversation about how we could support such initiatives in urban and rural communities and to think about questions relative to replicability and relevance, given the current economic climate of the state.
3. This investment does not represent a typical investment of the Foundation, but we saw it as a unique learning opportunity to think about Microenterprise Development in a very intentional way as a potential tool and vehicle to address the widening racial wealth and gender gap in North Carolina; as well as to increase our impact in Urban communities/center.

Key Components of Investment

Structured as Patient capital

\$450,000 over two years, payable in two installments of 225,000 each with four contingencies:

- One on one match grants and gifts for year 1 and 2
- Commitment of granted and loan capital for year 1 and 2
- Agreement regarding outcomes measurements that are relevant to North Carolina
- Funds are used solely for the benefit of Grameen America's operations in North Carolina

Lessons and Learnings of Investment

- Tension between increase of income vs. livable wage, thus resulting in built assets
- Defining of success and appropriate indicators/evaluators outcomes to consider when thinking about whether an investment of this size is able to move the needle around asset building and wealth
- What will it take to sustain this work and the amount of investment and key partners that are required long-term to create a supportive infrastructure in the state
- Transferability of the traditional model that works with immigrant communities and the model in NC that will target women of color, particularly African Americans. The cultural, community, and historical implications as factors in the success of the Grameen model

QUESTIONS

QUESTIONS

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WRAP UP/CLOSING

Thank you to today's presenters and to all participants for joining this session!

All session materials are available on our website and we will be posting an audio file of today's session in just a few hours.

Additional Federal Reserve System resources related to this topic can be found on our website along with links to your local Federal Reserve Community Development office.

If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us.

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Thank you!

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