

New CRA Investment Opportunities in Retail Finance

2010 National Interagency
Community Reinvestment Conference

March 14th – 18th, 2010
New Orleans, Louisiana



Federal Reserve CRA Conference

March, 2009

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Not having a credit score is like...

***...NOT LIKE HAVING
A FACE.***

Progreso Financiero: Helping underbanked Latinos build credit, move up the financial ladder and achieve their lifelong aspirations



AMERICAN BANKER

A Twist on Reaching Out to Unbanked Hispanics

September 21, 2009

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

La Opinión

Progress Financial Is a Small Lender Leading the Way in Southern California

December 20, 2009

"Out of the eighty million marginalized in the banking system in the U.S.; 25 million are Hispanic... His (James Gutierrez) response to that neglect was Progreso Financiero, an institution based on a model that not only offers microloans, but also aims to help clients build a credit history."



Progreso Financiero: Offering underbanked Latinos a responsible alternative to payday loans and additional banking products



The Washington Post

'Unbanked' but No Longer Ignored; Regulators, Firms Take Aim At Payday-Lending Market

October 13, 2009

"... start-ups such as Progreso Financiero in California are targeting new niches. James Gutierrez founded Progreso in 2005 to make short-term unsecured loans of \$250 to \$2,500 to Hispanic families lacking credit scores and banking records. The company charges 36 percent interest, **significantly less than payday lenders charge...**"

San Francisco Chronicle

25% of U.S. households have limited bank access

December 3, 2009

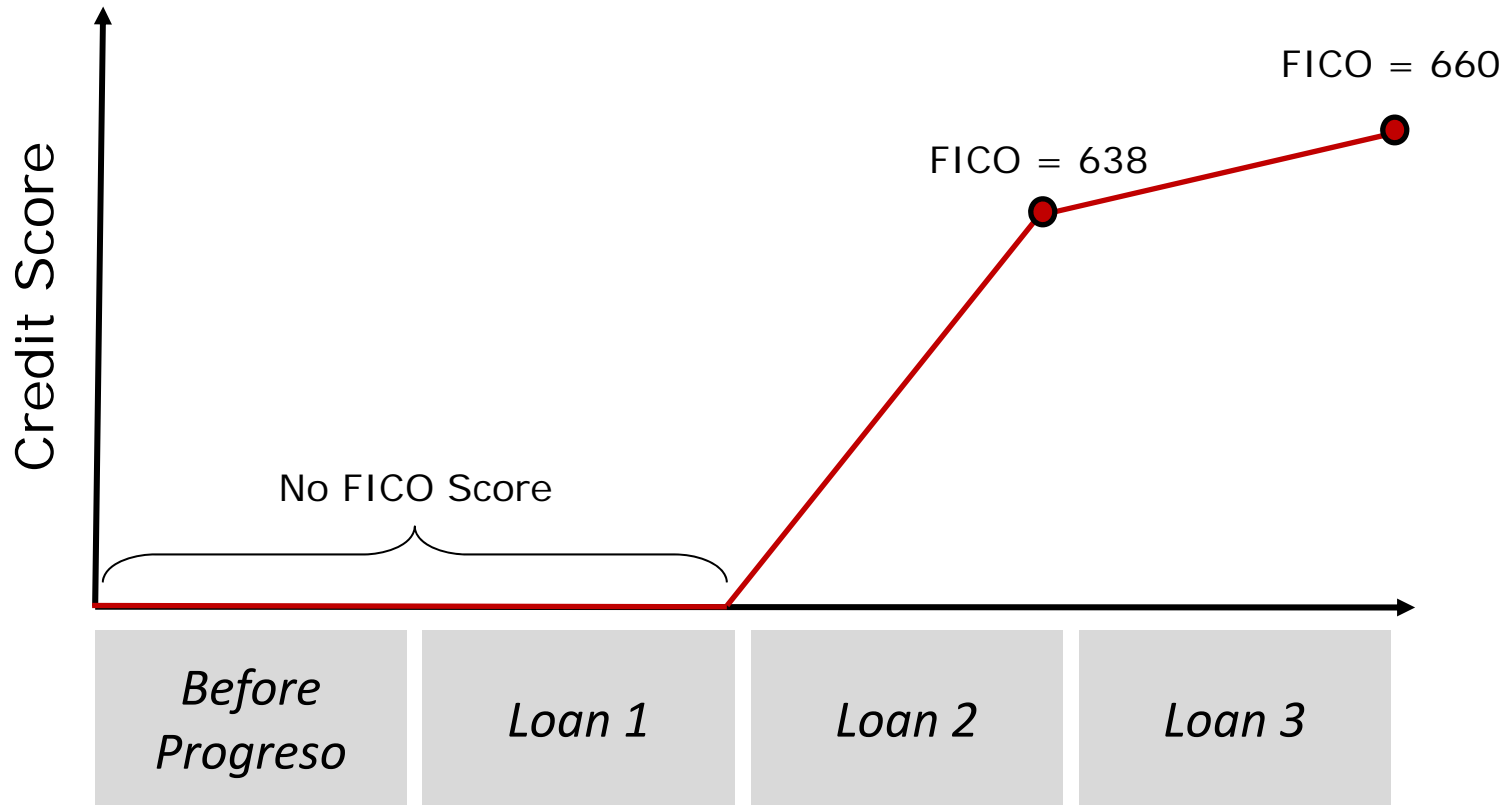
"About 7.7 percent of U.S. households have no checking or savings accounts, while an additional 17.9 percent have such weak ties to banks that they use payday loans and pawnshops to meet their financial needs, says a report issued today by the Federal Deposit Insurance Corp... *Progreso makes loans from \$350 to \$2,500 financed at 36 percent annual percentage rates, **compared with more than 400 percent for payday loans***"



Social Impact = Building an initial credit history: Progreso helps its customers build to a 660 FICO score

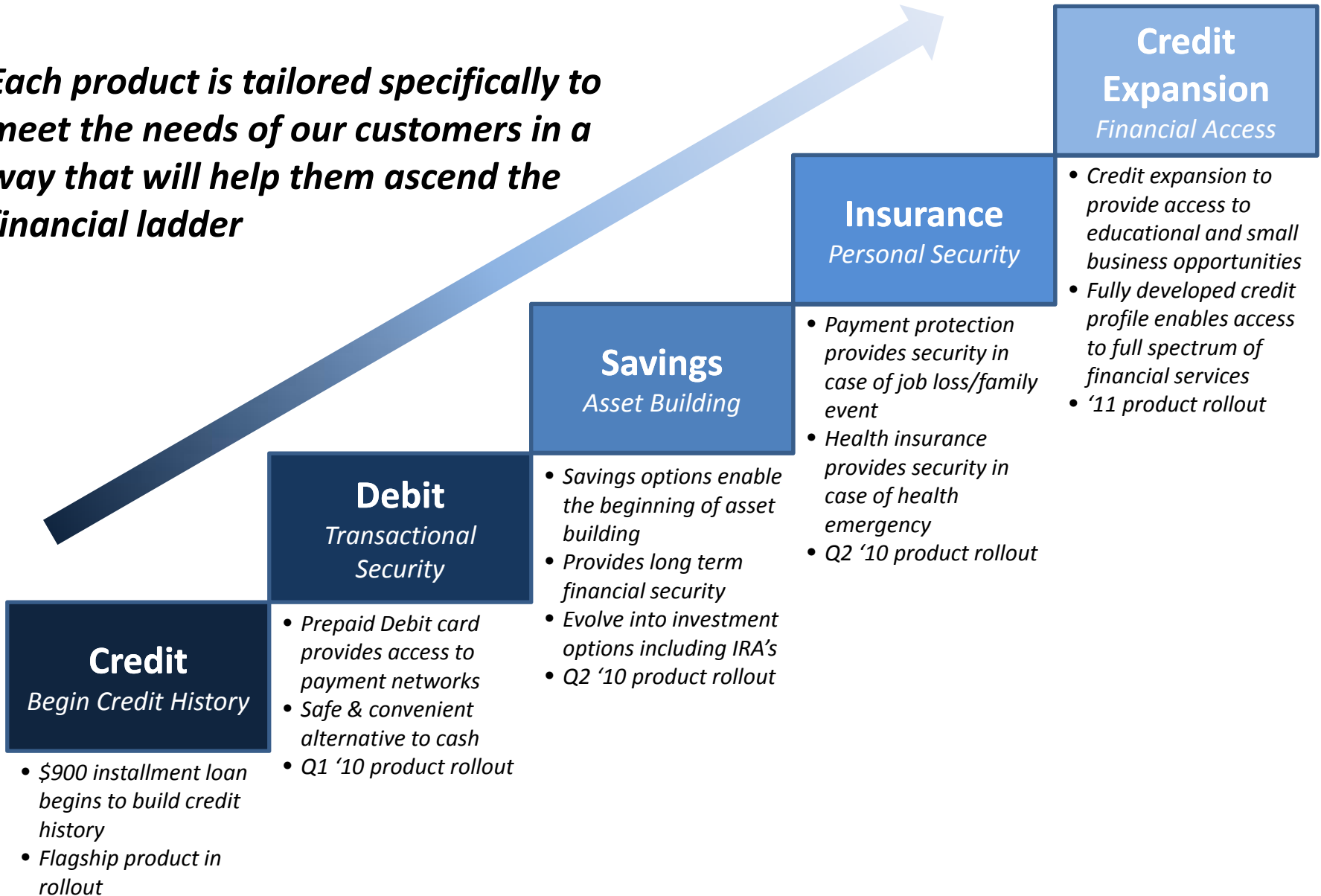
Impact of Progreso Relationship on Customer Credit History

"No File" Customer with No Delinquent Behavior

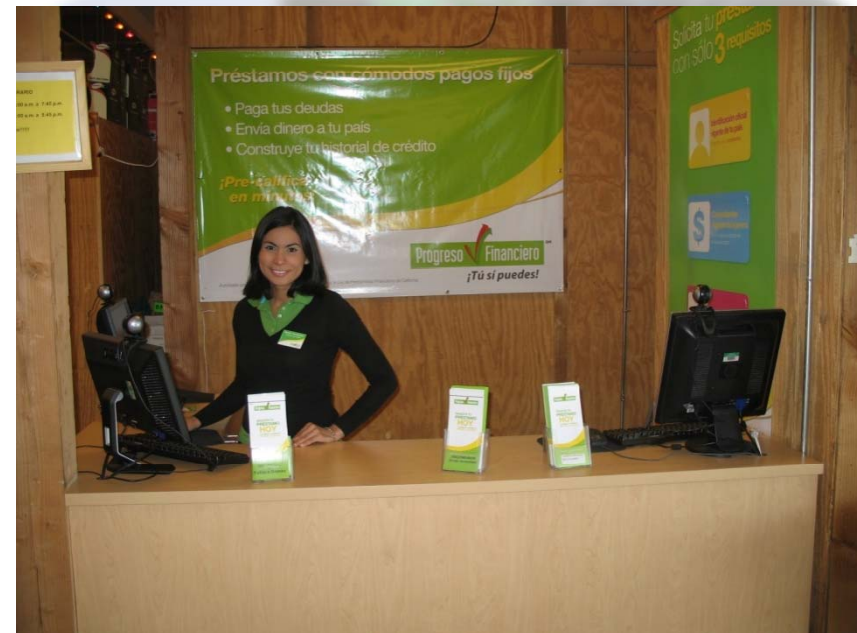


Progreso Financiero provides the building blocks that enable underbanked Hispanics to **climb the financial ladder**

Each product is tailored specifically to meet the needs of our customers in a way that will help them ascend the financial ladder



Progreso "Store in a Store" Locations



THE PROBLEM:
BIG AND GETTING
WORSE

America's Under-Banked: Large, Growing and Lacking Fair and Affordable Unsecured Credit Options

Problem Size

- 60 million: Lower-income, Latino, African American
- High cash economy (expenditure) penetration
- 20 million+ are Latino adults in the US

Increasing Due to Macro Shift

- Industry Loss Rates Trends, Pull-back in Credit
- Credit Card Act: Pricing & speed of compliance

Large, Underserved Segment with No Way Up = Opportunity for Social Impact

Progreso Financiero: About Us

- Founded in 2005 of Stanford MBA research project
- Investors: \$50mm from leading venture capitalists
- **Certified by US Treasury as CDFI in 2009**
- 26 Lending Locations in California, expanding to Texas
- ~40,000 loans (\$35MM) since '06; proven scoring models
- **Goal: Over 1 million borrowers by 2013**

Obama Administration supports Responsible, Credit Building Small Dollar Loans as key to addressing underbanked problem

Michael Barr, Assistant Secretary for Financial Institutions

"Community Development Financial Institutions (CDFIs): Their Unique Role and Challenges Serving Lower-Income, Underserved and Minority Communities" - March 9, 2010

Tough Reality Today: Credit is Tight, especially for Hard Hit Communities

"Now more than ever we need to support the continued growth and vitality of CDFIs...**some communities remain underbanked and underinvested**...CDFIs have seen a dramatic increase in request for lending services. However, their primary funding sources—banks—have all **decreased funding** available to community development lending."

Need for Innovative Solutions to Solving Underbanked Problem: Basic credit products

"...Bank on USA, which will promote financial education, broader access to bank accounts, **basic credit products**, and other financial services to help families meet their financial needs and build savings and **solid credit histories**."

"...this initiative will promote **much needed private sector innovation in the field of consumer finance** for low and moderate income households lacking adequate financial access."



THE PROBLEM:

**Hard to offer and price
unsecured credit
without a credit file...**

...or with impaired credit

WHY?:

Largely lacking credit files or low FICO...

(using data on Progreso Financiero's 100,000+ credit applicants...)

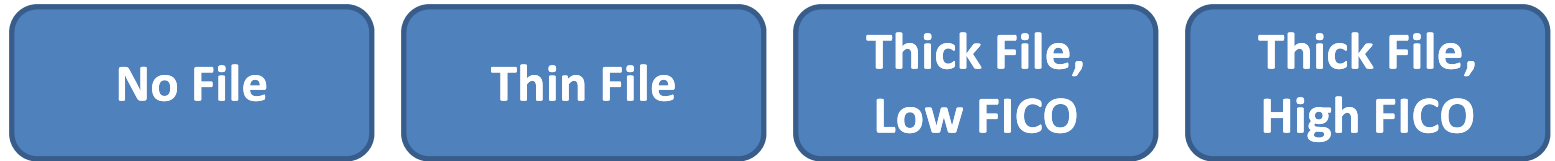
97% Left Behind by Banks: 44% lack sufficient credit history altogether and 53% have an average FICO of 545



	No File	Thin File	Thick File, Low FICO	Thick File, High FICO
Definition	No record on bureau	< 5 tradelines <i>mainly inquires</i>	FICO < 680	FICO > 680
Distribution	21%	23%	53%	3%
Avg FICO	-	557	545	723
Tradelines	-	1.2	15.8	17.9
Gross Income	\$24,000	\$23,000	\$28,000	\$32,000
Revolving Balance	-	\$559	\$4,351	\$11,209
Installment Balance	-	\$3,071	\$12,403	\$7,299

POST CRISIS:
THE SITUATION IS
GETTING WORSE

The situation is getting worse: Credit options have shrunk for the 97%, *leaving pay-day = only option*



	No File	Thin File	Thick File, Low FICO	Thick File, High FICO
Definition	No record on bureau	< 5 tradelines <i>Mainly inquires</i>	FICO < 680	FICO > 680
Distribution	21%	23%	53%	3%
Credit Options: <u>Pre-Crisis</u>	PAYDAY LENDERS		Orchard Bank (HSBC) First Premier Bank CompuCredit Capital One	Citibank Chase American Express Capital One HSBC Bank of America
Credit Options: <u>Post-Crisis & Card Act</u>	PAYDAY LENDERS			Citibank Chase American Express Capital One Bank of America

The Solution—Progreso’s Loan Product: Easy to understand, convenient for budgeting, and credit building

- Fully amortizing installment loan – \$900 over 9 months (avg.)
- Payments designed for easy budgeting and financial planning
- All payments reported to credit bureaus
- No prepayment penalty
- Credit education provided at teachable moment
- 26% interest rate + origination fee = 36% APR
- Lower rates on subsequent loans



\$1000 Loan: \$58 x 20 payments



Total Repayment = \$1160

Total Cost = \$160



Fair Marketing = “Loans Made Simple”: Make loans and their cost easy to understand (like a Starbucks menu)

- “\$1000 loan will cost you \$58 every two weeks for 9 months...”
- “...You will repay \$1160 at the end of 9 months, so your actual cost is \$160 or \$18 per month”


Sample loan chart


The following chart is a sample of the loan amount and terms given, depending on credit qualifications:



	Loan Amount	Months	Bi-weekly Payment	Total Repayment	Monthly Cost
A	\$500	9	\$29	\$585	\$9
	\$500	12	\$23	\$603	\$9
B	\$800	9	\$47	\$930	\$14
	\$800	12	\$37	\$958	\$13
C	\$1,000	9	\$58	\$1,160	\$18
	\$1,000	12	\$46	\$1,192	\$16
D	\$1,400	13	\$59	\$1,644	\$19

> EVERYTHING IS FIXED: Your payments are always fixed. FIXED INTEREST RATE charged on balance: 22.5% - 27.1%.
 > APR: A (36.9%-39.6%) B (36%-38.7%) C (35%-37.7%) D (29.7%).
 > APR is the interest plus the administrative fee that represents the total cost of a loan in terms of a yearly rate. The administrative fee is 5% or \$50 for loans above \$1,000.

Call toll free
1 866 488 6090
www.progressfin.com


We are at Sears in:
San Jose | Hayward | Salinas | Oakridge
Bakersfield | Fresno | Los Angeles


And at Kmart in:
Floodwood, CA | Watsonville | Salinas
Delano | Bakersfield | Clovis | Cudahy
Visalia | Commerce | Los Angeles


Progreso  Financiero
¡Tú sí puedes!

Licensed by the Department of Corporations pursuant to the California Finance Lenders Law.

Simple Spanish Disclosures: Progreso goes beyond the legal requirements to make loans simple and easy to understand

Prestamo	<input type="text" value="900"/>
Meses	<input type="text" value="8"/>
Dia del Pago	Sabado
Periodo de Pago	Semanal
Dia del prestamo	01-Sep-07
Utimo Dia del Pago	11-May-08
Interes Anual (APR)	25.9%
Tasa por mes	2.13%
Tarifa	\$45.00
Total No. de Pagos	17
SU PAGO REGULAR	\$61.00

Easy to Understand (banking in 1950s):

- Fixed payments ("cuotas"), fixed APR
- Match payments to paychecks, budgets
- Every payment reduces balance to \$0

Total de:	
Pagos	Interes
\$1,041.15	\$96.15

Calendario de Pagos			
Numero de Pago	Fecha de cobranza	Dia de semana	Por Pagar
1	30-Sep-07	Sabado	\$71.00
2	14-Oct-07	Sabado	\$61.00
3	28-Oct-07	Sabado	\$61.00
4	11-Nov-07	Sabado	\$61.00
5	25-Nov-07	Sabado	\$61.00
6	9-Dec-07	Sabado	\$61.00
7	23-Dec-07	Sabado	\$61.00
8	6-Jan-08	Sabado	\$61.00
9	20-Jan-08	Sabado	\$61.00
10	3-Feb-08	Sabado	\$61.00
11	17-Feb-08	Sabado	\$61.00
12	2-Mar-08	Sabado	\$61.00
13	16-Mar-08	Sabado	\$61.00
14	30-Mar-08	Sabado	\$61.00
15	13-Apr-08	Sabado	\$61.00
16	27-Apr-08	Sabado	\$61.00
17	11-May-08	Sabado	\$55.15

Composicion de Pagos			Balance despues de Pago		
(=)	(+)	(+)	(-)	(=)	(=)
El Pago:	Cantidad: Interes	Cantidad: Capital	Saldo Inicial	Cantidad: Capital	Saldo Final
71.00	19.41	51.59	945.00	51.59	893.41
61.00	8.86	52.14	893.41	52.14	841.27
61.00	8.34	52.66	841.27	52.66	788.61
61.00	7.82	53.18	788.61	53.18	735.43
61.00	7.29	53.71	735.43	53.71	681.73
61.00	6.76	54.24	681.73	54.24	627.49
61.00	6.22	54.78	627.49	54.78	572.71
61.00	5.68	55.32	572.71	55.32	517.39
61.00	5.13	55.87	517.39	55.87	461.52
61.00	4.58	56.42	461.52	56.42	405.10
61.00	4.02	56.98	405.10	56.98	348.11
61.00	3.45	57.55	348.11	57.55	290.57
61.00	2.88	58.12	290.57	58.12	232.45
61.00	2.31	58.69	232.45	58.69	173.75
61.00	1.72	59.28	173.75	59.28	114.48
61.00	1.14	59.86	114.48	59.86	54.61
55.15	0.54	54.61	54.61	54.61	<input type="text" value="-"/>

Every customer is taken through our credit education process as they take their first step on the financial ladder

Amortization Schedule

"12 Puntos"

Progreso Financiero
Calendar of Payments

Applicant: _____
Co-Applicant: _____

Amount Financed (c) **\$ 1,200.00**
Administrative Fee (e) **\$ 50.00**
Total Loan Amount (g) **\$ 1,250.00**

Months: **12**
Period of payment: **Semi-monthly**

Date of loan: **10-Mar-09**
First Payment Date: **01-Apr-09**
Last Payment Date: **12-Mar-10**

Loan interest rate (of unpaid balance) (h): **23.95%**
Monthly interest rate (i): **1.97%**

Total of:
Total No. of Payments: **24**
Regular Payment: **\$59.00**
Payments (d) Interest: **\$1,414.47 \$164.47**

Total cost of loan clearly highlighted

Cost of Loan:
Total (d) Monthly APR (a)
\$214.47 \$17.87 \$1.99%

Calendar of Payments			Composition of Payments			Balance After Payments			
No.	Date of Payment	Day of Week	Payments Amount	Payment (c)	Interest (i)	Principle (j)	Initial Balance	Principle (k)	Ending Balance
1	1-Apr-09	Tuesday	\$59.00	\$59.00	\$18.05	\$40.95	\$1,250.00	\$40.95	\$1,209.05
2	15-Apr-09	Wednesday	\$59.00	\$59.00	\$11.94	\$47.06	\$1,209.05	\$47.06	\$1,161.99
3	1-May-09	Thursday	\$59.00	\$59.00	\$11.38	\$47.62	\$1,161.99	\$47.62	\$1,108.27
4	16-May-09	Friday	\$59.00	\$59.00	\$10.91	\$48.09	\$1,108.27	\$48.09	\$1,060.18
5	31-May-09	Saturday	\$59.00	\$59.00	\$10.44	\$48.56	\$1,060.18	\$48.56	\$1,011.61
6	15-Jun-09	Sunday	\$59.00	\$59.00	\$9.98	\$49.02	\$1,011.61	\$49.02	\$962.57
7	30-Jun-09	Monday	\$59.00	\$59.00	\$9.48	\$49.52	\$962.57	\$49.52	\$913.05
8	15-Jul-09	Tuesday	\$59.00	\$59.00	\$8.99	\$50.01	\$913.05	\$50.01	\$863.09
9	30-Jul-09	Wednesday	\$59.00	\$59.00	\$8.50	\$50.50	\$863.09	\$50.50	\$812.59
10	14-Aug-09	Thursday	\$59.00	\$59.00	\$8.03	\$51.00	\$812.59	\$51.00	\$761.58
11	29-Aug-09	Friday	\$59.00	\$59.00	\$7.50	\$51.50	\$761.58	\$51.50	\$710.02
12	13-Sep-09	Saturday	\$59.00	\$59.00	\$6.99	\$52.01	\$710.02	\$52.01	\$658.01
13	28-Sep-09	Sunday	\$59.00	\$59.00	\$6.48	\$52.52	\$658.01	\$52.52	\$605.49
14	13-Oct-09	Monday	\$59.00	\$59.00	\$5.98	\$53.02	\$605.49	\$53.02	\$552.45
15	28-Oct-09	Tuesday	\$59.00	\$59.00	\$5.44	\$53.56	\$552.45	\$53.56	\$498.89
16	12-Nov-09	Wednesday	\$59.00	\$59.00	\$4.91	\$54.09	\$498.89	\$54.09	\$444.80
17	27-Nov-09	Thursday	\$59.00	\$59.00	\$4.38	\$54.62	\$444.80	\$54.62	\$390.18
18	12-Dec-09	Friday	\$59.00	\$59.00	\$3.84	\$55.16	\$390.18	\$55.16	\$336.00
19	27-Dec-09	Saturday	\$59.00	\$59.00	\$3.30	\$55.70	\$336.00	\$55.70	\$279.32
20	11-Jan-10	Sunday	\$59.00	\$59.00	\$2.75	\$56.25	\$279.32	\$56.25	\$223.07
21	26-Jan-10	Monday	\$59.00	\$59.00	\$2.20	\$56.80	\$223.07	\$56.80	\$166.25
22	10-Feb-10	Tuesday	\$59.00	\$59.00	\$1.64	\$57.36	\$166.25	\$57.36	\$108.90
23	25-Feb-10	Wednesday	\$59.00	\$59.00	\$1.07	\$57.93	\$108.90	\$57.93	\$50.97
24	12-Mar-10	Thursday	\$51.47	\$51.47	\$0.50	\$50.97	\$50.97	\$50.97	\$0.00

Note: The amount of interest charges listed above assume that payments are made on the specified dates

12 Key points to know about managing your credit

- Interest charges will start on the day after you receive your loan.
- Interest charges apply only for the time the loan is outstanding.
- The initial balance that appears in your Calendar of Payments includes the processing fee.
- If your pay date coincides with a holiday you may pay on the next business day. However, if you pay on the day before the holiday, you will be charged less interest on your loan.
- Any payment delay may incur in higher interest charges than those shown in your Calendar of payments and potentially also incur in penalty fees.
- You may pay down the principal at any time as long as you are current in your payments.
- You may pay down your loan completely any day, with no date restrictions. There is no prepayment penalty.
- Additional fees due to exceptions:
a. If you pay by check and it is returned by the bank, you will have an additional returned check fee of \$15 on top of any late payment or interest fees
b. If you lose your check and/or purchase card(s), you will have an additional cancelled check and/or purchase card(s) fee of \$20, and you will need to sign an affidavit of veracity
- Your loan is considered disbursed when you sign these documents and Progreso Financiero hands you your check and/or payment card. From that moment you will be responsible for covering:
a. A Processing Fee
b. Interest generated according to point 1 in this document
- Your payment receipt shows your principal balance after having applied your payment.
- You may make your payment at any of Progreso Financiero's locations.
- It is your responsibility to ask for and keep your payment receipts. It is the only document that proves your payment.

ALL PAYMENTS SHOULD BE MADE IN ANY OF THE PROGRESO FINANCIERO STORES LOCATED INSIDE THE ESTABLISHMENTS LISTED IN THE DOCUMENT TITLED "LIST OF STORES"

Customer's Signature _____ Date _____

Co-Signer's Signature _____ Date _____

Progreso Financiero
¡Tú sí puedes!

Payments aligned to customer's paycheck

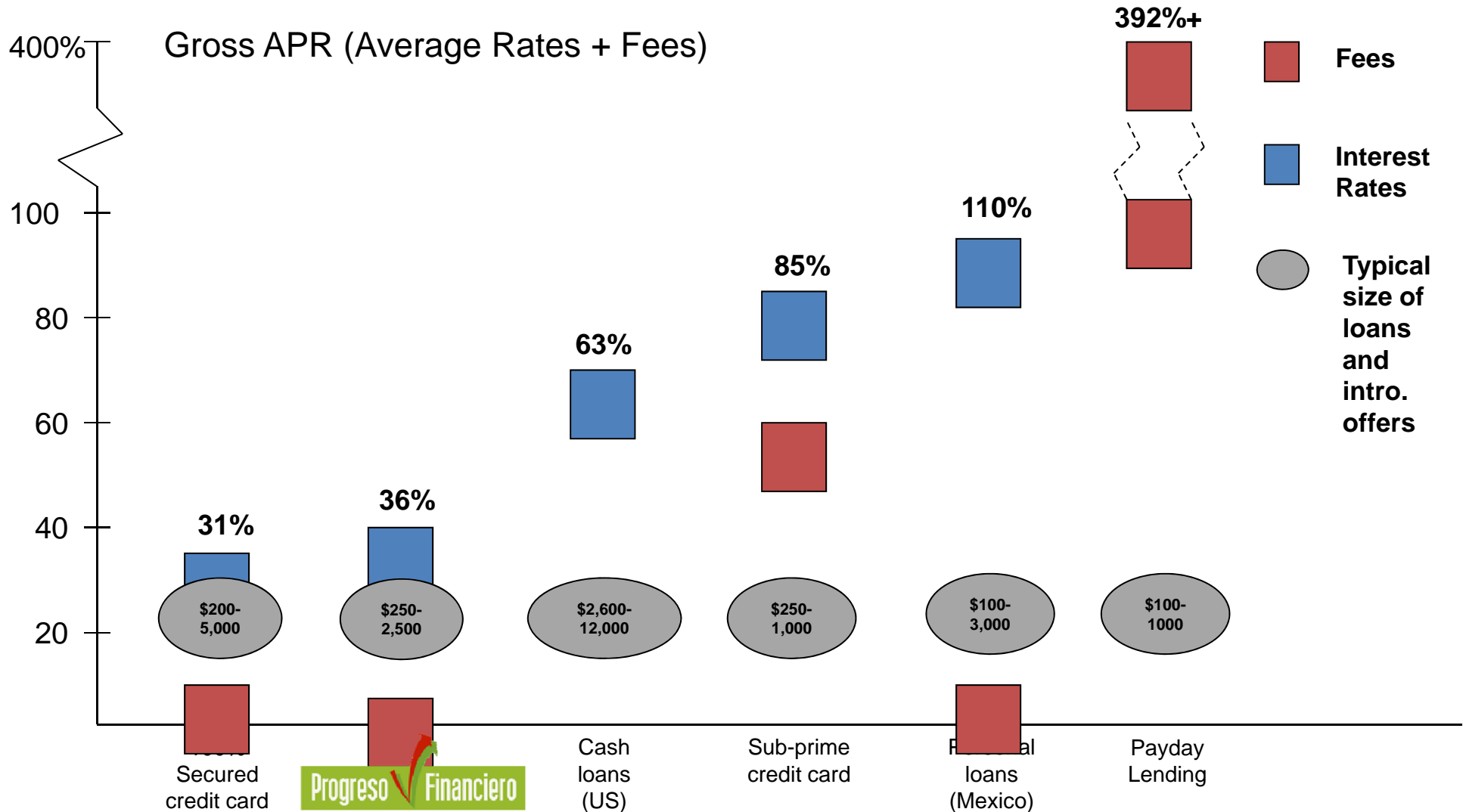
Every payment reduces principal balance

Ability to Pre-pay

Description of payment responsibilities

Description of Interest Charges

APR & Fee Comparison: Progreso is the best alternative and is committed to responsible lending



Source: Company direct mail and marketing offers; PF analyses

Responsible Lending: Progreso's average APR and lending principals are in-line with the FDIC small dollar loan guidelines



Affordable Small Dollar Loan Guidelines

June 19, 2007

Affordability and Pricing

"As permitted by state law, we encourage lenders to offer small-dollar credit with **APRs no greater than 36 percent.**"

Encouraging Principal Reduction

"For closed-end products, loans should be structured to provide for **affordable and amortizing payments.**"

Financial Education

"Improving financial skills can help consumers reduce reliance on high-cost short-term credit. Moreover, institutions that monitor borrower use of credit and offer financial counseling or education when signs of financial stress are detected will help these borrowers become better customers and improve long-term relationships."

Congressman Jim Himes: *4th District of Connecticut* House Committee on Financial Services

October 21, 2009

"**There are wonderful organizations alleviating poverty all over the world;** Accion International, I met in my office yesterday with an entrepreneur starting a business called **Progreso Financiero, which is charging on average 36% interest, but taking people in minority communities who otherwise don't have access to credit** and taking many of them and **actually putting them into a position where they have enough credit history to actually apply for more conventional credit.**"

La Opinión

Predatory Lending has its Days Counted

November 14, 2009

"According to the Center for Responsible Lending (CRL), a **loan from a payday agency carried an annual interest of 400%** and ends up sinking creditors in a vicious cycle of debt. The typical client, said the center, ends up paying \$500 in interest on a loan of \$ 300. According to SDL criteria from the FDIC plan, a **reasonable annual interest rate (APR) should not exceed 36%.**"



Next Step: All loans will be disbursed on a **Reloadable Debit Card**, further integrating customers into the financial mainstream

Payment Access

- Retail Point of Sale
- Online Transactions
- ATM Cash Access

Security

- Less cash in wallet
- Dispute merchant transactions



Loyalty

- Local merchant discounts
- No overdraft fees
- No check cashing fees
- Financial Education

Convenience

- Direct Deposit
- Check Cashing
- Tracking personal expenses

PF Fee Structure

- **\$3-5 Monthly Fee**
- **No Activation Fee**
- **\$1 Pin Transaction Fee**
- **\$1 ATM Fee**

Alternative Products

- Bank Accounts: **+1000% APR** on overdraft fees*
- Prepaid**
 - **\$10 Monthly Fee**
 - **\$10 Activation Fee**
 - **\$1 Pin Transaction Fee**
 - **\$2 ATM Fee**

*FDIC Study of Bank Overdraft Programs

**Ready Prepaid debit fee schedule

Our Values: Progreso's 7 Tenets of Responsible Lending

- 1) Affordability:** Don't give loans to people who cannot afford to pay them; don't push people over the edge with debt
Progreso incorporates affordability into underwriting decisions. Those with significant debt, regardless of FICO score, or low cash flow will not be approved. Period.
- 2) Predictable Payments and Easy Budgeting:** Don't have variable payment amounts; make them easy to plan for, predictable and matched to one's actual budget
Progreso loans have fixed payments that match each borrower's scheduled payday in order encourage sound financial management and easy bi-weekly/weekly budgeting.
- 3) No Bait-and-Switch Marketing:** Market the true price of a loan (fees + interest rates) so customers can compare the true cost and make it simple to understand
All APR disclosures by Progreso include fees. Credit card disclosures do not.
- 4) Fair Rates:** The FDIC and consumer advocates have set a guideline for small dollar lending to underserved communities at 36%
- 5) Disclosures that Make Sense:** Use loan disclosures and agreements that actually help customers understand what they are signing up for
Progreso gives borrowers the exact payment schedule and dates of all payments, which shows how each payment is applied to interest and principal until the balance reaches zero.
- 6) Credit Education (at every opportunity):** Use every opportunity available to educate customers on what credit history means, how it can help them, what is FICO, and how to manage their loan responsibly
Progreso offers in-person credit education, including Progreso's "12 puntos", to every borrower while they are picking up their loan and trains all reps on how to administer credit education.
- 7) A Bridge to Other Mainstream Products:** Don't stop at credit. Start providing a bridge to upward mobility via more mainstream banking, savings and credit products, and other financial services
Starting with credit, Progreso is laying the foundation to offer additional banking and investment products to help customers "move up the ladder" and achieve their dreams.

RESULT:
Opportunities,
not Loans

"Tu Si Puedes...!"



*...But to make a dent, we
must serve 1million...*

CHALLENGE (for Scale):

- *Lending Capital*
- *New Channels*

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