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

**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

‘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

Credit Score

Before Progreso  Loan 1  Loan 2  Loan 3

FICO = 638  FICO = 660

No FICO Score
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.

- **Credit**
  - **Begin Credit History**
    - $900 installment loan begins to build credit history
    - Flagship product in rollout
  - **Credit Expansion**
    - Financial Access
    - Credit expansion to provide access to educational and small business opportunities
    - Fully developed credit profile enables access to full spectrum of financial services
    - ‘11 product rollout

- **Savings**
  - **Asset Building**
    - Savings options enable the beginning of asset building
    - Provides long term financial security
    - Evolve into investment options including IRA’s
    - Q2 ‘10 product rollout

- **Debit**
  - **Transactional Security**
    - Prepaid Debit card provides access to payment networks
    - Safe & convenient alternative to cash
    - Q1 ‘10 product rollout

- **Insurance**
  - **Personal Security**
    - Payment protection provides security in case of job loss/family event
    - Health insurance provides security in case of health emergency
    - Q2 ‘10 product rollout
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

• 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

• 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

<table>
<thead>
<tr>
<th>Definition</th>
<th>No File</th>
<th>Thin File (&lt; 5 tradelines mainly inquires)</th>
<th>Thick File, Low FICO (FICO &lt; 680)</th>
<th>Thick File, High FICO (FICO &gt; 680)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distribution</strong></td>
<td>No record on bureau</td>
<td>21%</td>
<td>23%</td>
<td>53%</td>
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<tr>
<td><strong>Avg FICO</strong></td>
<td>-</td>
<td>557</td>
<td>545</td>
<td>723</td>
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<tr>
<td><strong>Tradelines</strong></td>
<td>-</td>
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<td>15.8</td>
<td>17.9</td>
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<tr>
<td><strong>Gross Income</strong></td>
<td>$24,000</td>
<td>$23,000</td>
<td>$28,000</td>
<td>$32,000</td>
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<tr>
<td><strong>Revolving Balance</strong></td>
<td>-</td>
<td>$559</td>
<td>$4,351</td>
<td>$11,209</td>
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<tr>
<td><strong>Installment Balance</strong></td>
<td>-</td>
<td>$3,071</td>
<td>$12,403</td>
<td>$7,299</td>
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</table>
POST CRISIS: THE SITUATION IS GETTING WORSE
The situation is getting worse: Credit options have shrunk for the 97%, *leaving pay-day = only option*

<table>
<thead>
<tr>
<th>Definition</th>
<th>No File</th>
<th>Thin File</th>
<th>Thick File, Low FICO</th>
<th>Thick File, High FICO</th>
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</thead>
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<td>Distribution</td>
<td>21%</td>
<td>23%</td>
<td>53%</td>
<td>3%</td>
</tr>
<tr>
<td>Credit Options:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-Crisis</td>
<td>PAYDAY LENDERS</td>
<td></td>
<td></td>
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<tr>
<td>Credit Options:</td>
<td></td>
<td></td>
<td>Orchard Bank (HSBC)</td>
<td>Citibank</td>
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<tr>
<td>Post-Crisis &amp;</td>
<td></td>
<td></td>
<td>First Premier Bank</td>
<td>Chase</td>
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<tr>
<td>Card Act</td>
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<td>CompuCredit</td>
<td>American Express</td>
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<td>Capital One</td>
<td>Capital One</td>
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<td>HSBC</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Bank of America</td>
<td>Bank of America</td>
</tr>
</tbody>
</table>

16
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 Starbuck’s 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”

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Months</th>
<th>Bi-weekly Payment</th>
<th>Total Repayment</th>
<th>Monthly Cost</th>
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<td>$500</td>
<td>9</td>
<td>$29</td>
<td>$585</td>
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<td>$800</td>
<td>9</td>
<td>$47</td>
<td>$930</td>
<td>$14</td>
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<td>$800</td>
<td>12</td>
<td>$37</td>
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<td>$1,000</td>
<td>9</td>
<td>$58</td>
<td>$1,160</td>
<td>$18</td>
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<tr>
<td>$1,000</td>
<td>12</td>
<td>$46</td>
<td>$1,192</td>
<td>$16</td>
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<td>$1,400</td>
<td>13</td>
<td>$59</td>
<td>$1,644</td>
<td>$19</td>
</tr>
</tbody>
</table>
Simple Spanish Disclosures: Progreso goes beyond the legal requirements to make loans simple and easy to understand.

**Easy to Understand (banking in 1950s):**

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

**Prestamo**
900

**Meses**
8

**Dia del Pago**
Sabado

**Periodo de Pago**
Semanal

**Dia del prestamo**
01-Sep-07

**Ultimo 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

---

**Calendario de Pagos**

<table>
<thead>
<tr>
<th>Numero de Pago</th>
<th>Fecha de cobranza</th>
<th>Dia de semana</th>
<th>Por Pagar</th>
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<tbody>
<tr>
<td>1</td>
<td>30-Sep-07</td>
<td>Sabado</td>
<td>$71.00</td>
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<td>2</td>
<td>14-Oct-07</td>
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<tr>
<td>3</td>
<td>28-Oct-07</td>
<td>Sabado</td>
<td>$61.00</td>
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<tr>
<td>4</td>
<td>11-Nov-07</td>
<td>Sabado</td>
<td>$61.00</td>
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<tr>
<td>5</td>
<td>25-Nov-07</td>
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<td>6</td>
<td>9-Dec-07</td>
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<td>7</td>
<td>23-Dec-07</td>
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<td>8</td>
<td>6-Jan-08</td>
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<td>9</td>
<td>20-Jan-08</td>
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<td>10</td>
<td>3-Feb-08</td>
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<td>13</td>
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<td>16</td>
<td>27-Apr-08</td>
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<tr>
<td>17</td>
<td>11-May-08</td>
<td>Sabado</td>
<td>$55.15</td>
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**Composición de Pagos**

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<tbody>
<tr>
<td>El Pago</td>
<td>Cantidad: Interes</td>
<td>Cantidad: Capital</td>
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<tr>
<td>71.00</td>
<td>19.41</td>
<td>51.59</td>
</tr>
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<td>61.00</td>
<td>8.86</td>
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<td>61.00</td>
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<td>61.00</td>
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<tr>
<td>55.15</td>
<td>0.54</td>
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**Balance despues de Pago**

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<tbody>
<tr>
<td>Saldo Inicial</td>
<td>Cantidad: Capital</td>
<td>Saldo Final</td>
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<tr>
<td>945.00</td>
<td>51.59</td>
<td>893.41</td>
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<td>893.41</td>
<td>52.14</td>
<td>841.27</td>
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<td>841.27</td>
<td>52.66</td>
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<td>788.61</td>
<td>53.18</td>
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<td>54.61</td>
</tr>
<tr>
<td>54.61</td>
<td>54.61</td>
<td>-</td>
</tr>
</tbody>
</table>
Every customer is taken through our credit education process as they take their first step on the financial ladder.

**Amortization Schedule**

- Total cost of loan clearly highlighted
- Ability to Pre-pay
- Payments aligned to customer’s paycheck
- Every payment reduces principal balance

**“12 Puntos”**

- Description of Interest Charges
- Description of payment responsibilities

**12 Key points to know about managing your credit**

1. Interest charges will start on the day after you receive your loan.
2. Interest charges apply only for the time the loan is outstanding.
3. The initial balance that appears in your Calendar of Payments includes the processing fee.
4. 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 interest on your loan.
5. Any payment delay may result in higher interest charges than those shown in your Calendar of Payments and potentially affect your credit.
6. You may pay down the principal at any time as long as you are current in your payments.
7. You may pay down your loan completely any day, with no late restrictions. There is no prepayment penalty.
8. Additional fees due to exceptions:
   1. If you pay by check and it is returned by the bank, you will have an additional returned check fee of $30 and a $10 service fee.
   2. If you return your check and/or purchase card, you will have an additional canceled check fee.
   3. If you return your purchase card fee of $25 and you will need to sign an affidavit of receipt.
9. Your loan is considered delinquent when you sign these documents and Progreso Financial offers you your check and/or payment card. From that moment you will be responsible for covering:
   4. A processing fee
   5. Interest generated according to point 1 in this document.
10. Your payment receipt shows your principal balance after having applied your payment.
11. You may make your payment at any of the Progreso Financial locations.
12. It is your responsibility to ask for and keep your payment receipt. It is the only document that proves your payment.
# APR & Fee Comparison: Progreso is the best alternative and is committed to responsible lending

<table>
<thead>
<tr>
<th>Interest Rates</th>
<th>Gross APR (Average Rates + Fees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31%</td>
<td>$200-5,000</td>
</tr>
<tr>
<td>36%</td>
<td>$250-2,500</td>
</tr>
<tr>
<td>63%</td>
<td>$2,600-12,000</td>
</tr>
<tr>
<td>85%</td>
<td>$250-1,000</td>
</tr>
<tr>
<td>110%</td>
<td>$100-3,000</td>
</tr>
<tr>
<td>392%+</td>
<td>$100-1000</td>
</tr>
</tbody>
</table>

**Secured credit card**
**Cash loans (US)**
**Sub-prime credit card**
**Personal loans (Mexico)**
**Payday 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.”

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%.”

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.”
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 1 million...
CHALLENGE (for Scale):
- *Lending Capital*
- *New Channels*
New CRA Investment Opportunities in Retail Finance

2010 National Interagency Community Reinvestment Conference
March 14th – 18th, 2010
New Orleans, Louisiana