LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 95: ANDREA JUNG

Welcome to the Lend Academy podcast, Episode No. 95. This is your host, Peter Renton, Founder of Lend Academy.

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Peter Renton: We have a very special guest on the show today. Andrea Jung is the CEO of Grameen America. Prior to that though, she was the CEO of Avon, a Fortune 500 company, publicly traded company. She is currently on the board of General Electric as well, a position she has held for 19 years and she's also on the board of Apple, a position she's held since January 2008, over nine years now, so she's clearly one of the leaders in business in this country.

She has chosen to work now for the non-profit side of things, Grameen America, which is an offshoot of Grameen Bank which was started by Muhammad Yunus, the Nobel Peace Prize winner. We talk today a lot about the work that they're doing with Grameen Bank, why it's important, how effective it is and what their potential is for the future. It was a fascinating interview, I hope you enjoy the show!

Welcome to the podcast, Andrea.

Andrea Jung: Thank you, Peter, nice to be here with you.

Peter: Okay, so let's get started. You've had quite an interesting career, why don't you give the listeners a little bit of background about yourself before you came to Grameen?

Andrea: Sure, yes, I think my background has been an interesting journey all the way here to Grameen. I spent the lion share of my career on the for-profit side of the equation and mostly in strategy and marketing. I was in retailing in the early part of my career and went to Avon in the very late part of 1993/1994 where I started off as a mid-level executive in marketing and strategy in the US division and grew through the ranks to become the first woman CEO there in 1999. I was able to have the privilege of running this Fortune 300 company for 13 years and I stayed until five years ago in 2012 and had the opportunity to...you know, be a public company CEO, one of the few women leaders who had the opportunity to run, in our case, an enterprise devoted to promoting entrepreneurship for women in hundreds of countries plus.

Peter: So then you moved straight from Avon to Grameen, is that right? What was the reason for joining Grameen?

Andrea: I would say straight would be missing sort of a little bit of the real deliberation in my life about how I wanted to take on the next chapter. I had a tremendous passion for women's entrepreneurship and at Avon we had, again, millions of low income, self-made entrepreneurs who really found the alternative and an opportunity to…and I saw first hand the opportunity to change women's lives in countries all over the world through the ability to be and to be taught to be entrepreneurs.

So that always was something that had great power to me and I saw that they not only impacted their own lives and their own businesses, but it had an impact on their families and the community so I've been a big believer in women's entrepreneurship. So in the period of time before I joined Grameen, I knew that I wanted to do something to give back, I knew that I wanted to be involved in social good, but importantly for me, I really didn't want to work just for...when I say this, I say it with a tremendous amount of respect when I say a typical non-profit. But, I mean, there are many, many incredible non-profit organizations, but most of them are not sustainable so they don't have an economic model that can in fact self-sustain and I have always believed in social impact models, social businesses that actually have a sustainable, scalable model and they're hard to find.

So when I had the opportunity to talk to Muhammad Yunus in 2013 about really scaling micro finance in the United States, it was a collision of my passion for women's entrepreneurship that I had spent two decades on with Avon, but also my deep belief that financial inclusion and the ability to access capital if it could be done in a scalable, sustainable model would really solve one of the big national issues that's in front of us so that is why I decided to join Grameen America.

Peter: Okay, so then let's just talk a bit about the model because I didn't know about how the model worked until fairly recently so why don't you through and just describe how Grameen America works?

Andrea: Absolutely, so how Grameen America works is that we are an organization that gives non-recourse loans to women in poverty in the United States. We are the fastest growing micro finance organization aimed to offer financial inclusion so we give access to the loan capital itself for entrepreneurs, we help them asset build, meaning, we, while we are not a bank, we help them partner with a financial institution whereby they can save money every week because we think asset building is important and then, very importantly, we also think that credit building is important so we partner with several credit agencies to make sure they have a nationally reported credit score and build a record of positive credit for themselves as well.

So if you are a Grameen America member and you join us within the first six months of the program you can get your first access to a loan for your business. You can also open a savings account, a concessionary savings account, a no fee account where you can save every week and at the end of that six month first loan cycle, if you’ve had perfect repayment history on that loan, you can have a credit score that is in that 670 range which by any standard is very respectable. So we feel that those are pretty great takeaways after just even six months of being in the program for women defined as "in poverty" in the United States.

Peter: Right and it's interesting that...everyone knows Muhammad Yunus obviously and the work he's done internationally starting off in Bangladesh so I'm just curious then, is your model the same that Muhammad Yunus really started in the 1970s or if it's not, how is it different?

Andrea: I would say that the structural mission is very similar to the original Grameen Bank in that we believe in social capital and having groups of women getting together offering sort of peer groups. They are not combined loans so you're not being one of five women doing the same business with one joint loan, you have your own individual loan, but you are getting together in groups and in centers with other peer entrepreneurs every week and that mentorship and that sharing is very much part of the alchemy of the Grameen model that's very similar to Bangladesh.

What is different, I would say, what are the kind of unique country differences in the United States, the size of the loans are different obviously given sort of the average income, etc. in this nation so our loan sizes are larger than the average of the bank in Bangladesh. We are actually not a bank. The Grameen Bank itself is a certified financial institution so they take the deposits and the savings accounts are actually managed by themselves.

We are not a bank, we are a 501(c)(3) so we can not take deposits so our savings are just done as a service by partnering with great bank partners like Citibank or Capital One, Wells Fargo. And then we, which I think is pretty specific to the United States, have a big importance in our program on building credit and having a credit score which is a very uniquely US thing that is different than in Bangladesh.

Peter: Sure.

Andrea: So the asset building and the credit building are done slightly differently, the loan sizes are different, but the fundamental structure of the model is fairly closely replicated. And I think that's the beauty of it, Peter, is that a lot of people know the extraordinary story of the Grameen Bank and the Nobel Prize awarded to Professor Yunus as well as the Grameen Bank for the very counter intuitive thought by lending very small, non-recourse loans to the poorest of the poor who technically would be the biggest risk have yielded sort of the highest repayment rates and that was the poorest country on earth.

I think that what is wonderful is that sort of the reverse innovation theory that an opportunity to really address poverty alleviation could really come off a model from the poorest country to what's arguably still the richest nation in the world.

Peter: Right, right. So I'm curious, about your core customer. Obviously, it's a female entrepreneur, but...

Andrea: Yes, I mean, go ahead...

Peter: How do you find them? I know you have this sort of group model where you have like five women together, how...

Andrea: They are finding us in droves. Yes, our core borrower for Grameen...our members are women that live at or below the poverty level in the United States who've got entrepreneurial drives to either continue to grow a business or start a business. Many of them come, they already have entrepreneurial endeavors, but they are not included in the financial system so they are not able to get a loan from the formal capital markets and some of them don't have a business yet, but this encourages them to be entrepreneurial as opposed to going to get a minimum wage job.

So, obviously, that is a large percent of women in the United States that have this opportunity. Forty-three million people live in poverty in the United States, women are disproportionately affected and from a financial inclusion point of view, only 4% of money given out for entrepreneurship are given to women in the United States last year which is a pretty daunting statistic in a country like ours. So we are extraordinarily passionate about being able to resolve this inequality issue on the lending front and make sure that they have access to capital.

They find us through a variety of ways, but I would say it's a very, very high social capital model with word of mouth. We have loan officers who we call center managers in every city associated with all of our branch operations who find groups of women, whether it is in their churches, in their community, in the neighborhood and they come together and very quickly, once we get a few hundred members the word of mouth is so strong because I have branch locations now out in Jackson Heights, Queens, for example where almost every other storefront if you go along some of the major avenues in that community, those store owners and entrepreneurs have gotten a Grameen loan and clearly share that with each other and bring others into the program.

Peter: This brings up a good point. What are the typical businesses that these women...are they retail businesses, I mean, what are they that they are actually taking these loans?

Andrea: They're really split between products and services so we have typical businesses on the service side would be food services, catering services, salon services, hairdressing, cleaning services so we do have a lot of members who participate in the service economy. We also have a great deal of participation in product sales, thrift shops, selling jewelry, lots of people who have storefronts, you know, food services which range from food carts all the way up to restaurants with several employees. This is what you're going to see within the Grameen membership.

Peter: Okay, so you know, it's interesting, you talk about oftentimes these women want to start a business and haven't and that's one of the tough things. I mean, most people who are not below the poverty line they start a business and they get money from friends and family or from their own savings and obviously for a lot of these women that's not possible, but the reality is you would think it's a very high risk proposition to give someone a loan to start a company. It's a first time entrepreneur, I mean, you'd never get that from OnDeck or Funding Circle or any of the other major online lenders here, so I'm curious to know…well let's just firstly talk about...do you give anyone a loan or what kind of process do you go through to decide whether or not someone gets a loan?

Andrea: Yes, and so the answer is no, we don't give anyone a loan. What our underwriting thought process is I think is innovative and different and which is what I feel the magic of the program. It is less important what business they are in, which may not be the case with your traditional underwriting, than their commitment to discipline.

So in order to get a loan from Grameen, you have to participate for a full week coming to get some basic financial training and learning about the program. By definition, if you can not invest that time before you get the loan we make the assessment that you're going to be a higher risk because time investment and discipline has been the key for this member to being successful more than anything else. It is less important whether she's a flower shop owner or has a food cart than that she understands the discipline of what it takes to be a micro entrepreneur in the US economy.

Secondly, she has to attend a meeting every single week. So at 7:00 on a Tuesday morning, before she opens her flower shop or goes and opens her restaurant, she is attending a meeting with approximately 25 to 30 other entrepreneurs in her community and they share and that peer pressure, peer mentorship and peer sharing is a very big component and they meet their loan officer at that meeting every single week.

That sense of social belonging and camaraderie and mentorship is really the glue that takes the percentage of underwriting versus relationship and flips it upside down. We spend less time on the underwriting and all of our time on the relationship. The decision to give you $2,000 is far less important than the time spent with you after I give you that $2,000 to make sure you A, pay it back and B, know how to use that loan.

And I think that's the difference because at the end of the day, I do think that there are a lot of organizations and software programs that spend so much time on the front end where the dispersement of that loan or the decision to grant that loan is at the end of the process. For us, it's just the beginning and therefore, the default rate, in my mind, rides wholly on the fact...which I think most people would kill for, on the fact that that relationship is so strong, there is such gratitude and the relationship begins the day, not ends the day to finish the underwriting process.

Peter: Right, right. So let's just talk about the default rate, can you share what your actual default rate is?

Andrea: Absolutely, I mean, I can actually tell you that we've dispersed over $620 million of loan capital and written off less than $750,000. You know, the default rate is so infinitesimal at 0.3%.

Peter: Wow, wow, I mean, that's...

Andrea: And over nine years, over a large portfolio, over 13 cities so we don't think that this is sort of a one-off that is unusual, but might not be replicated. You know, Charlotte, North Carolina is very different than East LA, is very different than Harlem and in every single case we're seeing the same thing and that is because of the power and their relationship with that loan officer and the discipline of the system.

Peter: Right, there are plenty of small business lenders that have default rates 50 times that and they certainly would kill for something...

Andrea; That's the beauty of it, and again, I think that is the essence of the Nobel Prize that has now proven itself out in a very, very different set of circumstances in the first world which is trust, loyalty and gratitude and a consistent discipline have everything to do with the success of repayment that other traditional factors prior can't capture. There's no possible way to capture that.

Peter: Right, right. So you've talked about $1,500, $2,000, what are the loan terms? Are they 6 month loans, a year, what's the interest rates?

Andrea: Ninety five percent of our loans are at 6 months so now I would just say, just call it 100%. We started off with some loans that were longer, but over time, we found that the sweet spot was a 26 week loan. People want them for six months, the interest rate is 18% on a declining balance. So essentially, because they are 6 month loans, you know, you're paying less than 10%.

The APR itself is 18% which we think is, certainly from a micro finance organization and if you look at a lot of other lending institutions, a very, very fair and affordable interest rate and that is a standard loan that starts no higher than $1,500 on your first cycle. But we do have loans well up over $10,000 for members who have been with us for many years, and who've got established businesses, who've got perfect credit and perfect discipline with the program so I have members who have taken $80,000 to $100,000 in cumulative loans, but they've been small loans, 6 months at a time with the discipline required at every cycle to ensure they stay within the boundaries of good credit discipline.

Peter: Are these monthly repayment loans?

Andrea: Weekly, they are weekly repayment loans which I think is part of what some people get awed by. We found it to be an extraordinary continued measure of discipline and social connection. There are members who don't want to miss that meeting because they see their friends, their peers, they learn. Entrepreneurship is hard.

Peter: Right.

Andrea: We've had people start off with one kind of business and through the learnings from others switched to...for us, it's not about you write a Harvard Business School type of plan for business X where you're going to buy...I mean, it may not work out, but the ability to learn from others and switch to a different kind of business, it comes from each other more than it comes from us and therein lies the beauty of the program.

Peter: Right, right. So I want to talk a bit about scale because it's like you're running an offline business for the most part here and it does seem to rely on people on the ground so how are you able to scale, and what is your view on scale?

Andrea: You know, I think we have hit a very fascinating sweet spot where we're fairly efficient. We've got a 120 loan officers that take 2.5 million repayments a year so we would consider that a wow in terms of efficiency per employee. Our average loan officer can handle up to 450, I've seen as many as over 500 members per loan officer and that relationship, as I mentioned, is why we know we have this kind of almost perfect repayment rate.

So for us, we are poised even within our existing footprint to serve over 170,000 women by 2019. We will have a portfolio outstanding of over $100 million and program from inception through our 10th anniversary in 2018, we will disperse about a billion dollars of loan capital. We call that scale and we've been able to do it with the high touch piece of the equation intact. We've used technology and I mentioned this at the LendIt conference this week, we've used it to scale. The infrastructure and the cost of entry for us require technology in order to support the number of cities, the number of transactions.

We are low ticket loan size, frequent repayment and so that is volume with a capital V and in order to support that volume we needed the systems and the administration to be pretty seamless and so the investment in technology was really to enable what I would call the platform for scale, but the platform for success was that the technology allowed the human capital and our loan officers to spend all their time on the relationship as opposed to the administration.

Therefore, that loyalty and their ability to know where every single person's business is and their kids, and if they were sick with the flu, that magic happens because technology has freed up our loan officers from the weekly repayment administration of making sure that $63 and $120 was collected times 450 people.

Peter: Right, you shared at LendIt that...you gave the story where people used to come in and give you $20 bills and $1 bills...

Andrea: Yeah, absolutely.

Peter: Now you say you've now moved away from the cash based model.

Andrea: Absolutely, I mean, again, as a burgeoning non-profit organization we needed to rely on partners. We didn't have an endless IT budget, etc., but we have had extraordinary support in terms of partnering for cloud-based lending platforms with Mambu, with major financial institution partners like Citi and MasterCard who’ve helped us go from disbursing checks every week where they go and cash those checks across the street at a bank to being able to have a card essentially where they can essentially buy their inventory and business expenses without having to manage that in cash.

So I think that the concept of cashless and mobile banking world has definitively come to those low income members who we think having access to technology and tools is as important for their lives, not just their small businesses. This is something that we're offering as well; it's education and the power of a smartphone.

Peter: Right, so I want to talk just a little bit about the revenue model and obviously you're making money off the interest that can pay for your expense, I mean, what abut your funding? Obviously, you have donations I'm sure, but do you get...

Andrea: Yeah, so the basic revenue model is that it takes Grameen, in any given location, approximately five years. We've done it actually faster, but let's just say on average about five years to get to self-sustaining and that is with approximately 4,000 members and an outstanding portfolio of about $5 million with the interest rate I talked to you about and the staff that can support those 4,000 members in our model.

That's extremely replicable because we've seen now five times that once a program ages, we can then self-sustain and that obviously is a beautiful and incredible achievement that no other micro finance organization I know of in the United States has reached. So if we were just to sort of stay static and not expand, we could be completely self-sustainable, not just at the branch level, but at the total enterprise level probably in the 2018/2019 timeframe.

But, of course we want to expand so the philanthropy really helps us with new cities because for the first…it's the venture philanthropy, if you would, it's investing in a model that will turn positive and “profitable”, so to speak, with quotes around the profitable because all profits will go back into the program, but the funding really helps us launch and cover operating expenses and portfolio for the first five years of the program and that is a combination of major foundations, major financial institutions and major family foundations and individual donors.

We do have another piece of the model that's funded through friendly patient capital so in addition to outright cash grants, we take advantage of PRIs and loans to Grameen that have very low interest rates and long tenors that we can utilize and, again, we can cycle those loans, pay them back, but in the meantime have been able to garner our own income from the interest as they cycle through on a 6 month cycle. So we have a combination of friendly debt and philanthropic grants that fuel any given operation up until about five years.

Peter: Okay, so where are the locations you are operating in today and where are you looking to expand?

Andrea: We have 13 cities today. We have seven branches in the New York boroughs. New York was where we piloted the program in Jackson Heights, Queens and we are now serving almost 50,000 women in New York City which is pretty amazing. We are in Boston, we are in New Jersey now with two operations; one in Union City and one in Newark which just recently opened in November. We are in North Carolina, we are in Texas, we are in Nebraska, we are in Indianapolis, Indiana and we have four branches in California as well so we're truly national. The next branch we will open is Miami, Florida which will be sometime in mid-2017.

Peter: Okay, so basically, you're opening up a new area like once or twice a year, it sounds like?

Andrea: Yes, yes.

Peter: Before I let you go, just one last question. So what are you working on right now that excites you about the business? Is there anything new or is it just keeping on doing what you're doing?

Andrea: We are working on a lot of things that excite us. Let me just start this sort of…threefold I would just say. One is just expansion and geography; the second is just sort of technology and the third is just even mission-wise, a program. So what we're working on that excites me from a geography point of view is that, you know, I think it's no longer a pilot...I mean, we have a proof point that we can impact a material number of women and families in poverty through entrepreneurship and access to capital that can actually make a material dent in their pathway out of poverty as well as their ability to contribute in a major way to their neighborhoods and communities as burgeoning entrepreneurs and I feel like we've hit an inflection point that this is a scalable, national material impact.

So the cities, Miami is next, but we had a very powerful piece of pro bono help done with McKinsey back in late 2013, early 2014 that helped us identify where this program could grow and I think it would be of no surprise that there are many other additional cities, whether it's Houston and Dallas, whether it's Detroit and Philadelphia and Chicago, I mean, there are so many. Unfortunately, the issue of income inequality and dense poverty is a national issue and I am a big believer that our geographic footprint is a way to really continue this scaled approach to a material impact on the issue.

Secondly, from a technology point of view I think that chapter one was how would a technology make Grameen America more efficient so that we could scale, so that the infrastructure would allow us to handle this many transactions. You know, the next chapter that we're working on now is really how technology can impact and enhance each of their businesses. If they are running a restaurant, how does technology actually help them, how can we teach them tools, how do they understand how…whether it's social media, Yelp, I mean, all the things that we can do to help them grow their businesses through the power of technology. So it's access to technology and tools, not just for us as the organization, but for the members. That's really the next chapter that I think could be very exciting in terms of impact.

The third thing are other programatic...we're testing for the last year an extraordinary program that offers our members in our oldest branch, Jackson Heights, access to preventive health care and education. We have found some really outstanding outcomes that say, you know, is there the opportunity that Grameen America not only offers financial inclusion, but some education on other services, other benefits that are needed because we know that the pathway out of poverty is wholistic and not simply financial inclusion.

So this opportunity to introduce them to some basic health care, some navigation within their community if they've got issues to free services...I can give you just one quick example, there are many free services for women in poverty for a lot of diagnostic screenings for cancer; colorectal cancer, breast cancer, cervical cancer. Again, the fear, the lack of education and the ability of their trusted officer at Grameen to help navigate them, to take advantage of these services has gotten the participation up in the high 80s and 90s of some of our members to take advantage of some of these services which is 10 and 20 points above the actual cities average goal.

So this would be an example of a really powerful impact that we could expand now that technology has taken sort of the administration out of our hands. How do we use that time to effectively shape and introduce our members to really beneficial services that will help them even further.

Peter: Right, we're out of time, but geez that's a fantastic story, Andrea. I wish you all the best.

Andrea: Thank you so much, Peter.

Peter: You're really making a difference here and I think we need more organizations like Grameen America.

Andrea: Thank you so much. Thanks for the time.

Peter: Okay, see you.

Andrea: Bye.

Peter: Bye.

I just want to back to that 0.3% default rate. Let's just think about that for a moment. These are small business owners, sometimes with little experience in underprivileged neighborhoods that I imagine no traditional lender or even online lender would even consider lending money to most of these women, and yet Grameen America is doing it and they're doing it at a default rate that I would argue is better than any small business lender in the country.

Now they have an offline model, I realize that this is not an online lending business, however, I think there's a lot we can learn. What struck me is it's the social connections that these people make, not just the women with each other, but with their loan officer. That's something if we want to get in the online lending space down to that kind of default rate, we really need to sort of duplicate this offline connection that these people have duplicated in an online way. Now I know there are companies that are working on this, but I think Grameen America has a model that I think every online lending company should be paying attention to and seeing what can they do to actually create their business to be a little bit more like Grameen America.

Anyway on the note, I will sign off. I very much appreciate your listening and I'll catch you next time. Bye.

(closing music)