

The New York Times

April 1, 2008

Lending Plan Won Prize, but Will It Work Here?

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The maroon couch was big enough to take up half the living room, but by the time the 10th woman arrived it could hold no more.

The room temperature was rising from all the body heat. Chairs were brought in from the kitchen. Even the floor was called into service.

“I’d like to start the collection,” Alethia Mendez announced after the last of the 15 women had arrived on a recent Saturday morning.

Therese Prentice counted out crisp bills, divided them, tucked them in envelopes and recorded the amount in a flimsy green book. The next woman repeated the exercise, until all 15 had made their payments for the week.

Then the money was handed to Ms. Mendez, the group’s 24-year-old banker.

“This is the way it was done in Bangladesh, so we do the same thing here,” Ms. Prentice said. “It’s our ritual.”

The women are clients of Grameen Bank, the international organization that pioneered “microloans” to third-world entrepreneurs and that, along with its founder, won the Nobel Peace Prize in 2006.

But the women were not in one of the abjectly poor villages in Bangladesh where Grameen usually does business; they were in a modest two-story brick house in St. Albans, Queens.

Since the beginning of January, 11 Grameen lending groups have sprung up throughout Queens in the bank’s first venture in the United States. They have lent more than \$250,000, in amounts ranging from \$500 to \$3,000, to more than 100 women for income-generating activity like elder care, housecleaning and flower-arranging businesses.

“Of the entire U.S. population, 40 percent is underbanked, and as a result end up using payday lenders, check cashers and other, more expensive services,” said Vidar Jorgensen, president of Grameen America. “We’re here to meet this huge need.”

If the program works well, Grameen intends to expand nationwide. But while it has flourished elsewhere, it is not clear whether Grameen’s model — which relies on peer pressure rather than collateral to make sure women repay their debts — will work here, and whether such small loans can actually help lift its borrowers out of poverty.

“In parts of the United States it may very well work, but I have real doubts about it working in places like New York City,” said David R. Jones, president and chief executive officer of the Community Service Society of New York.

His group gives cash grants averaging \$3,000 to city residents in financial distress — for instance, to people who have fallen behind on their rent or who cannot pay their medical bills. But Mr. Jones said that \$3,000 is generally not enough to stabilize a New York resident.

Still, Grameen’s experiment here is being closely watched. Elaine L. Edgcomb of the Aspen Institute in Washington, who co-wrote a 2005 study of more than 100 microlending programs in the United States, said that borrowers do “move out of poverty, and the business can be an important contributor to that, but it’s not always the only contributor.”

“For many families, the increase in income is sufficient to take them above the poverty line,” she said.

Grameen’s distinguishing feature is its mandatory weekly meetings at which borrowers learn money management skills from their banker and from one another and must make their payments in front of everyone else in the group. If one person defaults on a loan, Grameen will not call a lawyer or a collection agency or confiscate any assets. Instead, no one in the group will be eligible for a new loan.

“You have 30 eyeballs who are looking at you and making you accountable,” said Myriam Pericles, a 41-year-old first-generation Haitian-American, who will use her \$3,000 loan to expand her computer consulting business. She was a little skeptical about the process. “Maybe all this works in Bangladesh, but this is America, where people are different — our value system gets warped, our word is not our bond.”

Nicole Brown, 30, who immigrated from Jamaica as a child, is using her \$2,000 loan to start a day care business. “I didn’t have it in my head to start my own business, but if you want to be great in life, you have to have your own stuff,” she said. She added that she was drawn to Grameen through her sister, Wendy Brown, who is using her \$3,000 loan to expand her apartment-cleaning business, Meticulous Cleaning Service L.L.C.

As the other group members looked on, Wendy Brown, 36, made her first payment on the \$3,000 loan: \$60 toward principal, \$6 for interest and \$2 toward a savings account. If she makes all her payments, she will retire the debt within a year and be eligible for another loan. “It’s very simple, as opposed to getting it through a normal bank and going through the red tape and getting denied,” she said.

Grameen America’s managers, who are based in Jackson Heights, say that all the women in Queens are paying back their loans on time. But adapting its model to the United States has not been easy.

While Grameen officially requires a home visit to verify that borrowers are truly poor — they must fall below the [United States Census Bureau](#)’s poverty line, currently defined as \$21,027 for a four-person household with two children — some borrowers at the St. Albans meeting still had not received a visit. Grameen organizers said last week that all borrowers would receive home visits in the next few weeks.

Finding potential borrowers has been another challenge.

“Here, the women are not working in the community where they are living,” said Shah Newaz, the general manager of the Jackson Heights office, who has worked with Grameen for 26 years all over the world. It is hard to meet with the women “because they are not in their houses in the daytime, and in the evening they are very tired and preparing meals, taking care of children and getting ready for the next day.”

Grameen aims its loans at women, saying it has found them more responsible than men and more comfortable with the group model. So far, the Queens operation has lent only to women.

But the organization says it will lend to men here, and is aware that it cannot discriminate on the basis of gender. “We want a female candidate, but in the U.S. you can’t say that in advertisements,” Mr. Newaz said. “That is a problem.”

The idea behind Grameen Bank began in Bangladesh in 1976, when Muhammad Yunus, an economics professor, lent a total of \$27 to a group of 42 women in Jobra, a southern village. All of the women repaid their loans. Since 1983, when Mr. Yunus formally founded Grameen, it has lent \$6.8 billion to 7.4 million Bangladeshis; 97 percent of its borrowers are women.

Mr. Yunus tried to start a microlending program in the United States in 1985, when he was invited to rural southern Arkansas by [Bill Clinton](#), who was then the governor. But the program Mr. Yunus helped start, called the Good Faith Fund, failed. The group lending model never caught on. If given the choice, “any human being on earth would want to borrow as an individual rather than as a group member. It didn’t work very well in this country,” explained Mary Houghton, founder of ShoreBank, who helped advise the Arkansas experiment.

Another microfinance organization, Acción USA, which has lent money to more than 20,000 people since 1991, also attempted the group lending model in its early days. “We found that the group methodology did not work well because there was a general lack of trust among potential borrowers and an unwillingness to guarantee another person’s loan,” said Bill Burrus, president and chief executive of Acción USA. The organization has since adopted a more traditional individual lending model in almost all cases, and its default rate has ranged from 4 to 7 percent in recent years. Grameen says its default rate in Bangladesh was less than 1 percent, though higher in times of flooding.

Grameen America is aiming to reach 21,000 borrowers within five years, the number that its organizers say would allow it to break even. To improve its chances of success, it relies upon dense social networks, the kind often found in immigrant communities, to help form its groups of borrowers. The center in St. Albans consists predominantly of Caribbean and African-American women.

Not long ago, they would wait out winter afternoons between cleaning jobs on subway platforms, unable to afford lunch or dinner.

“We’d starve until we got home,” Nicole Brown said. The sisters, who had moved back in with their mother, did not want to ask for more help from her, so they turned to Grameen.

“Last year, I had \$3 in my pocket,” Wendy Brown said. “This loan could help be the turning point.”