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## PORTALS

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### Silicon Valley Moguls Support Microlenders, Just Not in the U.S.

**T**HIS OUGHT TO BE the perfect time to be Silicon Valley's biggest microlender, making small, business-oriented loans to poor people, the part of the population usually considered credit risks by banks. It's a popular subject today. Its most famous advocate, Muhammad Yunus, just won the Nobel Peace prize for his efforts in the rural villages of the developing world.

Prof. Yunus has given presentations to the richest tech moguls in Silicon Valley. They were heartened by the notion that a small loan can kindle an entrepreneurial spirit even among the world's most disadvantaged. But these same moguls have been less enthralled by the microlending that happens in the U.S., including in Santa Clara and San Mateo counties, the geographical home of Silicon Valley.

Eric Weaver, a Harvard graduate and Stanford M.B.A., runs the 13-year-old Lenders for Community Development in San Jose, a nonprofit that makes microloans as one of its programs. A typical example: the \$3,300 it lent Teresa Ceja, a 37-year-old mother of five who two years ago needed a van for a home day-care service she was opening. The van is now parked in front of her house, Mrs. Ceja's business is booming and the loan is being repaid.

LCD, as the nonprofit is known, is set to make nearly 200 similar loans this year. It's the biggest such operation in the area, and one of the larger ones in the country. On average, loan recipients see a 33% increase in income in the two years after a loan is made.

One would assume that Mr. Weaver, as a local boy made good in the world of microfinance, would be the toast of Silicon Valley philanthropy. He isn't. The reason is that he happens to come out on the currently unfashionable side of a philosophical debate about how such programs should function.



By Lee  
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**T**HE ISSUE: SHOULD, or even could, microlending operations make money? More broadly, should philanthropists expect to do well while also doing good?

Most of the tech world's fans of microlending answer yes to those questions. For many of the super-rich of the dot-com-era, profitability has become a philanthropic litmus test. Any endeavor that can't at least support itself, or better yet make some money, is considered an old-school "charity" that does nothing to get at the roots of poverty.

Overseas, a number of the better-known microlending operations say they are profitable, with administrative costs more than covered by the interest charged on the loans. For that reason, they are doubly appealing: They are philanthropic undertakings that also can generate returns.

In the U.S., however, Mr. Weaver's operation, like most others in the country, loses money and requires traditional donations to keep going. It isn't that borrowers default. The loans themselves are paid back, with interest, with remarkable regularity. Default rates are around 15% on the small loans and close to zero on large ones—loans most banks would never make at all.

And LCD runs a tight ship; M.B.A.s from Stanford and Berkeley regularly do internships, and Mr. Weaver won this year's Leadership Award from the James Irvine Foundation, which cited the way he "blends a social mission with sound business practices."

Interest payments, however, don't cover the cost of operations. As a result, many mogul checkbooks snap shut. "It's very frustrating," says Mr. Weaver. "I'll tell people in Silicon Valley that we do microlending, and the first thing they say is, 'But microlending doesn't work in the U.S.' What they mean is that it's not profitable here."

**T**O UNDERSTAND WHY, take a look at the guest lecture Mr. Weaver gave to a business class at the University of California, Berkeley. (Microfinance has become a popular subject in the country's elite business schools.) The students had spent the semester learning about famous microlending operations, like Prof. Yunus's Grameen Bank. Mr. Weaver had to explain why that model doesn't work in the U.S., and why those operations can't make the same sort of profit as those abroad.

One of the reasons is that interest rates at overseas microlenders are higher—running to double and even triple digits. While such high rates are still lower than what the local village loan shark would demand, they couldn't be levied in the U.S., if only on account of usury laws. What's more, overseas microlending operations have minimal marketing or administrative expenses. Lenders can just show up in a village or densely populated urban neighborhood and find plenty of qualified applicants to borrow all of the bank's loan reserves. Try that in San Jose, a sprawling city, about 15% the size of Rhode Island.

Mr. Weaver complains that people don't expect job-training programs or affordable-housing initiatives to make money, and they don't consider them expendable. He might also have mentioned elite universities, which rely on donations for many programs.

"If markets can solve poverty, why haven't they?" Mr. Weaver asks. "Poverty is getting worse in this country. Don't forget that Bill Gates doesn't expect his health-care programs around the world to make any money. And Bill Gates is a pretty smart guy."

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