

Microfinance California 2009

Microfinance: It's Happening in Our Backyard

Opening Remarks by Emmett D. Carson, Ph.D.

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Stanford, California

Good morning and welcome to Silicon Valley! Silicon Valley Community Foundation is proud to co-host this event with Opportunity Fund and Kiva, the first-ever statewide conference on microfinance.

Let me begin by telling you a bit about the Silicon Valley region and the strategies we are following to try to improve economic outcomes for our most vulnerable neighbors. Later this afternoon we'll have the opportunity to go beyond these walls to meet some of the people who have benefited from microenterprise programs and I encourage you to see first-hand what we are doing on the ground.

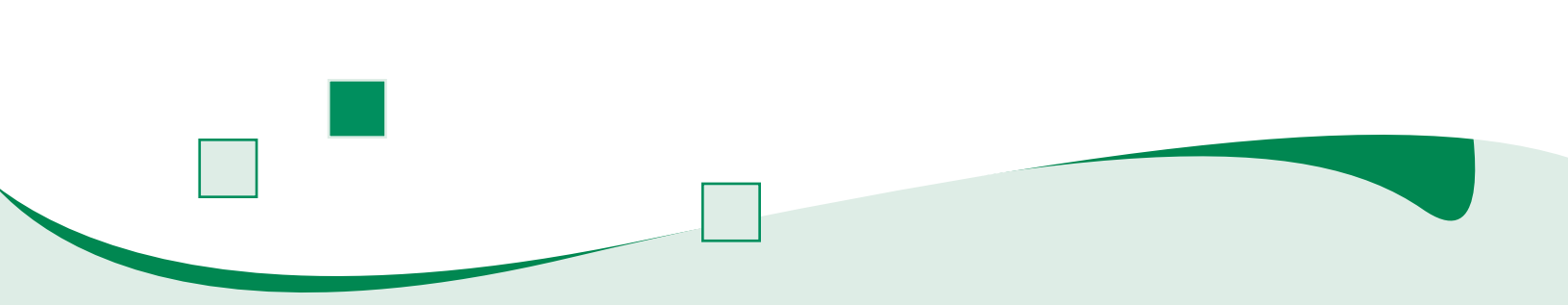
Like communities across the nation, Silicon Valley is feeling the effects of the economic and financial crisis, and our more vulnerable residents feel the crunch more immediately than others. While more than half of Valley households have incomes of \$100,000 or more, 20% of households earn less than \$35,000 annually. And the current economy is only widening this income divide.

As we meet here on this magnificent campus, the low-income residents of our region face a triple threat. We have one of the highest costs of living in the country, making it impossible to get by on a minimum wage job. Meanwhile, California has the highest unemployment rate we have seen in years, over 11%. And many of our residents continue to struggle due to the ongoing foreclosure crisis. It is predicted that 6.5 million Americans will lose their homes to foreclosure in the next five years. A quarter of all foreclosures in the country are right here in California, with seven California cities among the top 10 nationwide for foreclosures. Millions of Californians are at risk of losing their homes in the coming months and years. Santa Clara County residents, for example, received 7,300 notices of default by the end of 2007 and these

numbers continue to rise. In Silicon Valley, Latinos were four times more likely than white borrowers to receive high-cost subprime loans. What makes this even more disturbing and worthy of investigation is that this disparity appears not to be based on credit risk, but rather on profiling.

Not only do the poor face higher rates for home mortgages, many also conduct their financial lives outside the economic mainstream. Rather than depending on direct deposit and online bill-paying, the poor rely on check-cashers and money orders for their financial transactions. Statewide, nearly one million households do not have a checking or savings account and nearly 900,000 of the 'unbanked' in California are African American or Latino. Nearby, in San José, the percentage of residents without any formal banking relationship is estimated to be between 12 and 26 percent. The costs of being 'unbanked' are clear. For example, check-cashing fees at non-bank storefronts in the city of San José totaled more than \$14 million in 2006. These and other 'fringe' financial services fees can consume up to 5% of a family's annual income. A recent Brookings Institution report calculates that by using a checking account rather than a check-casher and by putting the money saved on fees into savings, a full-time worker could potentially increase their wealth by \$90,000 over the course of their working lives.

At the community foundation, we see an important role for financial education to improve the financial security of vulnerable families. Financial education holds the power to transform a cycle of poverty into a cycle of prosperity by teaching people the skills they need to budget, save, invest and avoid predatory financial services. Through asset-building programs – like Individual Development Accounts – we know that Californians



can succeed in building wealth that protects them financially today and provides a foundation for the next generation. Together, financial education and asset-building are two strategies Silicon Valley Community Foundation pursues through our economic security grantmaking.

Although California has 1 million ‘unbanked’ residents and our cities rank among the highest in foreclosure rates, we are proud that California is home to two of the largest IDA programs in the nation and has a growing network of microfinance institutions. This morning you will hear from leaders in the private and non-profit sectors; they represent institutions at the forefront of innovation in this field.

Unfortunately, the demand for microfinance is not met by the current supply. The Aspen Institute estimates supply to be meeting only about 2 percent of demand. In the current economic crisis, many microfinance institutions see demand for their loans rising as small businesses are turned away from banks. In this climate, we are encouraged that the number of small businesses continues to increase in California and that these businesses are increasingly women and minority-owned. Microfinance can change the face of poverty and inequality in California. Many of you in this room know that best because you are making it happen.