

From Bangladesh to Bank Town Microlender Extends Credit to the Entrepreneurial Poor

Charlotte, N.C., is home to Bank of America, which holds more than \$2.2 trillion in assets. The nation's second-largest bank will soon be joined there by a bank that operates on a micro scale: Grameen America, an outgrowth of the Bangladeshi microfinance institution Grameen Bank, plans to open a Charlotte branch in mid-2012.

Grameen America offers loans of \$1,500 or less to individuals living below the federal poverty line — \$22,314 for a family of four — who want to start a business, but typically don't have access to traditional credit. In Mecklenburg County, where Charlotte is located, the poverty rate is about 14 percent, close to the national average.

Most of the “microenterprises” opened by Grameen borrowers are services related to food, beauty, or clothing, such as a salon or a tailoring business. Grameen America has disbursed more than \$20 million to nearly 7,000 borrowers so far, with a repayment rate of more than 99 percent, according to the organization. The organization opened its first U.S. branch in January 2008 in Queens, N.Y. Since then, it has expanded to the Bronx, Brooklyn, and Manhattan; Indianapolis, Ind.; and Omaha, Neb., where Warren Buffett's daughter provided the seed money. Additional openings planned for 2012 include San Francisco and two more in New York City.

The secret behind the high repayment rates is the group lending model developed by economist

Muhammad Yunus in Bangladesh in 1976. Yunus received the Nobel Peace Prize in 2006 for his work in microfinance. Each prospective borrower finds four friends or family members who also want to take out loans to start their own businesses. This group then goes through a week of mandatory financial education, after which they meet weekly with other borrower groups. The goal is to create a “culture of financial responsibility” and provide opportunities for advice and encouragement. Every borrower also is required to save at least two dollars per week during the loan term. Grameen America can't accept deposits, but it partners with commercial banks to offer savings accounts to its borrowers.

Before the Charlotte branch can open its doors, organizers need to raise another \$1 million, in addition to the \$2 million raised so far, according to Joe Mynatt, the Charlotte campaign co-chair and the managing director of U.S. corporate banking at Wells Fargo. Wells Fargo has donated \$1 million to Grameen America, including \$500,000 for the Charlotte branch. Grameen America is not-for-profit, so new branches rely on donations to get started, with a goal of becoming self-sustaining within five years.

Microcredit has helped many Grameen borrowers start businesses in the developing world, where there is a large, informal microenterprise sector that operates free of regulation and taxes. In the United States, however, even operating a food cart requires a license, a health department inspection, and a permit. And unlike in developing countries, new U.S. businesses compete with established retailers, rather than against other microenterprises. Still, many are enthusiastic about the possibilities.

“We'll have families building their own business, working themselves out of poverty, in a way they never would have been able to otherwise,” says Mynatt. Given that jobs today are scarce and the national poverty rate is rising, many families hope he's right.

— JESSIE ROMERO

PHOTOGRAPH: COURTESY OF GRAMEEN AMERICA



An entrepreneur at the Grameen America Borrower's Market at St. John's University in New York City.

Signal Strength

Maryland Firm Adds Mobile App to Analytic Array

Suppose advertisers want information about how often the video game Angry Birds is downloaded to mobile devices. Or perhaps they're seeking information about mobile Facebook use. To help advertisers learn what users are watching and doing on mobile devices, the radio ratings company Arbitron of Columbia, Md., has acquired technology that measures such wireless audience preferences via smartphones and tablets. Selected panels of consumers opt in to participate.

Arbitron last summer acquired a Finnish company, Zokem Oy, with the technology to tap such preferences for market research firms in the wireless, Internet, media, and marketing industries. Arbitron reports that it paid \$11.7 million in cash, with possible additional payments of up to \$12 million based on performance. The company is now known as Arbitron Mobile.

Arbitron currently supplies radio audience ratings to advertisers, marketers, and radio stations. Its Portable

People Meter, or PPM, is the size of a pager, and tracks exposure to radio and television as participants wear it during the day. In October, CNBC and ESPN separately signed with Arbitron to measure content viewing outside the home using the PPMs, which were rolled out in 2006. (Some Arbitron survey participants instead use a paper-based system in which they record their listening habits in diary fashion.)

Arbitron Mobile is currently used in about a dozen countries, but as of yet has no syndicated panel in the United States. Arbitron Mobile spokeswoman Kim Meyers says demand for the application is growing, and the company will build out its use, through opt-in participant panels, in an as-yet undetermined time frame.

Arbitron moved its headquarters from New York to Columbia in 2009; the company employs roughly 950 people there, and a total of about 1,500 worldwide.

— BETTY JOYCE NASH

Moving Money

Some Customers Switch Banks Over Fee Flap

Credit unions got a boost in membership as consumers reacted last fall to proposed fee hikes at several large banks.

Credit unions, community banks, and small regional banks have steadily gained market share in recent years. By 2011, the smaller banks held 65 percent of the checking market, up from 55 percent in 2009, according to Moebis Services, a financial services economic research firm in Illinois.

Mark Wolff of the Credit Union National Association says the trade group's surveys indicate credit unions got 40,000 new members on Nov. 5, "bank transfer day." This social-media protest urged customers of the nation's biggest banks to move accounts to neighborhood institutions.

However, if customers who move to credit unions hold small balances and don't buy the banks' products, then the banks may not miss them much, analysts say. It costs more money for big banks to maintain checking accounts, \$350 to \$450 compared to \$175 to \$250 for smaller banks, according to Moebis.

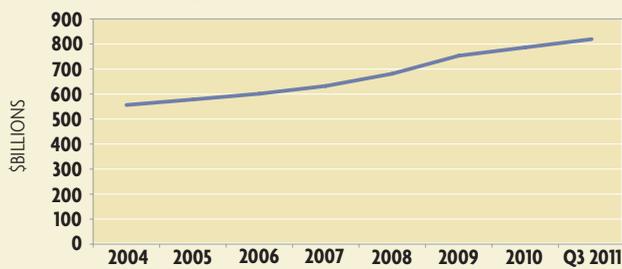
Credit unions want the business, especially that of

young people. The average age of a credit union member is 47, according to Wolff. Young people have been opening more accounts as of late, and as they mature, they'll need services. "These young people will be moving into their borrowing years," he says.

Members Credit Union in Winston-Salem, N.C., had already started a "Break Up With Your Bank" ad campaign well before November. Located in the Piedmont Triad, where furniture and textile manufacturing continue to fade, the credit union has lost members in recent years. (Some of its 450 firm affiliates are manufacturing firms in those traditional industries.)

New checking accounts are valuable, according to credit union officials. "If you're doing your primary checking with us, you're probably going to come to us with your loans," says Joe Mecca, Coastal Federal Credit Union's marketing manager. Coastal is based in Raleigh, N.C., and opened more than twice its usual number of checking accounts in October 2011 — 1,800 compared to a typical 800 per month. During the fourth quarter, Coastal opened 4,100 new checking accounts, a 57.6 percent jump over the previous quarter and a 101.7 percent

Credit Union Deposits



SOURCE: National Credit Union Administration

increase over fourth quarter 2010.

West Virginia Credit Union League members reported scant new business, according to Rich Shaffer, vice president. He speculates that it's because there are relatively few big bank branches in West Virginia.

Credit unions return profits to members in the form of more services and lower fees — they don't have shareholders and don't pay federal income taxes. About 91 million people are members of the 7,794 credit unions nationwide; credit unions have held roughly 6.7 percent of

household assets over 25 years. Credit unions are comprised of members who share geographical location, employment, or an association membership.

Whether the number of exiting customers is large enough to hurt the big banks remains to be seen; analysts say it's unlikely. But consumer preferences may be changing. "There's enough retail dissatisfaction out there, especially regarding the big banks, in the wake of the mortgage crisis and ensuing recession, to suggest a structural change in consumer behavior regarding bank price increases," says Tony Plath, associate professor of finance at the University of North Carolina at Charlotte.

Bank of America doesn't break out checking account numbers, according to spokeswoman Betty Riess; overall deposit balances in the fourth quarter of 2011 were up \$25 billion over the same period in 2010.

— BETTY JOYCE NASH

Checkout Change

West Virginia Plans Food Tax Phase-Out

Shoppers in West Virginia pay lower taxes on food these days. On Jan. 1, 2012, the 3 percent sales tax on groceries fell to 2 percent; on July 1, it will drop to 1 percent, and then disappear entirely on July 1, 2013, provided that the state's rainy-day fund meets requirements. The general sales tax will remain at the current rate of 6 percent.

All states in the Fifth District offer some form of tax relief on food purchased for the home. Maryland exempts it from taxation; North and South Carolina have no state tax on food but allow it to be taxed at the local level. Virginia taxes groceries at half the state's general sales tax rate of 5 percent. West Virginia's change marks its second foray into food tax exemptions. In the early 1980s, the state phased out sales tax on groceries, but later fiscal difficulties led to its reinstatement in 1989.

State legislators argued in favor of eliminating taxes on groceries on the grounds that they are regressive — that is, they have a disproportionately higher impact on low-income consumers who spend a greater percentage of their wages on basic needs. Food stamp users, however, are already exempt from paying the tax, notes Tom Witt, the director of the West Virginia University Bureau of Business and Economic Research. That shields the lowest-income consumers from the tax even without an across-the-board exemption. "So the food tax is not as regressive as some people would claim," he says.

From a revenue perspective, there are arguments for keeping the tax. Although revenue from the tax on groceries comprised only about 2 percent of overall state revenue for fiscal year 2009-2010, that revenue is fairly stable against swings in the economy, helping state revenue forecasters make more accurate estimates. (See "Toil and Trouble for Revenue Forecasters," *Region Focus*, Third Quarter 2011.)

"As revenue forecasters, we usually like sales taxes on groceries," says Mark Muchow, West Virginia's deputy secretary of revenue. "They're pretty dependable in good times and bad."

Increased revenues from severance taxes on the energy sector in the late 1970s spurred the state's decision to eliminate the tax on groceries the first time. The last decade has also been marked by rising energy prices. Muchow says West Virginia now has one of the healthiest rainy-day funds in the country. But will relying on less predictable sources of revenue force the state to reinstate the grocery tax if energy prices fall?

"I don't think that's something that's likely to happen anytime in the near future," says Muchow. He points to West Virginia's roughly \$1 billion in reserves, putting it in a much stronger financial position relative to 1989. "Until those reserves are fully exhausted, I don't see this tax coming back up, even if the energy sector were to collapse."

— TIM SABLİK

On a Roll SC Lands Two Giant Tire-Factory Deals

In the fall of 2011, two global tire manufacturers, Bridgestone and Continental, announced plans to expand aggressively in South Carolina.

Tokyo-based Bridgestone Corp. expects to invest \$1.2 billion over the next nine years to build a new plant and expand an existing facility in Aiken County. Meanwhile, Continental AG, based in Hanover, Germany, plans to invest \$500 million to build a new plant in Sumter County and expand its American headquarters in Lancaster County.

Bridgestone expects its new 1.5 million-square-foot plant, which would make tires for heavy trucks and equipment, to employ 330 workers by 2015 and 550 workers by 2020. The 740,000-square-foot expansion of Bridgestone's existing plant, which makes tires for cars and light trucks, would generate another 300 jobs by 2015.

Two weeks after Bridgestone's announcement, Continental Tire the Americas (CTA) unveiled plans to build a 1 million-square-foot plant and hire more than 1,600 workers by 2020. The company also expects to hire an additional 80 people at its CTA headquarters during the next four years.

"Increasing demand for Continental and General brand passenger and light truck tires in the United States, as well as the improved business results of CTA, has made this significant investment possible," says Nikolai Setzer, head of Continental's tire division.

South Carolina sweetened the deal with a \$31 million grant to help Continental purchase and prepare the site for the new plant, and Sumter County is tapping a \$4 million federal grant to improve infrastructure related to the project. Bridgestone also would benefit from similar grants

worth \$15.5 million and state job-development credits of unspecified value. At press time, a spokesman for the South Carolina Department of Commerce said the contract valuing the job-development credits would be exempt from public disclosure until it has been finalized and executed.

Incentives may have steered these latest expansions to South Carolina, but there seems to be a trend toward manufacturing tires closer to where they will be sold, says Saul Ludwig, a tire industry analyst and managing director at Northcoast Research, an equity research firm in Cleveland. In addition to the two South Carolina announcements, he points to recent or planned expansions in Illinois, Tennessee, and Georgia.

Ludwig attributes this emerging trend to four factors: two-tiered union contracts with lower pay scales for new workers, manufacturing processes that require less labor, higher transportation costs, and growing wages for Chinese workers.

"I think you can extrapolate [those factors] from tires to other industries," Ludwig says. "There is, in my mind, a tiny glimmer of hope for American manufacturing."

— KARL RHODES



Workers inspect tires at Bridgestone's Aiken County plant.

Hurricane Irene Mutual-Aid Pacts Speed Power Recovery

Five days before Hurricane Irene slammed the North Carolina coast in August 2011, power companies along the Eastern Seaboard started asking for help from their counterparts in other states.

Mutual-aid agreements among electric utilities go back at least to the 1960s, but the scope of cooperation in the wake of Hurricane Irene was unprecedented in the Fifth District. Before the massive storm hit, convoys of bucket trucks and other equipment were en route from as far away as Minnesota and Texas.

Progress Energy Carolinas, which serves much of the North and South Carolina coast, employs about 300 line

workers. Following Irene, that small battalion swelled to 1,200 line workers and tree cutters, plus 1,000 support personnel, including reinforcements from Georgia, Arkansas, and Florida. The extra help allowed the company to restore power to nearly 440,000 customers in five days.

Progress Energy Florida sent 250 line workers and support personnel to its sister company. The company is a member of the Southeastern Electric Exchange (SEE), a consortium of electric utilities that help each other recover from major storms.

"Irene would have been a multiweek prospect for

Dominion without the help of mutual assistance crews and contractors,” says David Botkins, a spokesman for Dominion Virginia Power. But with assistance from utilities in 20 states, including Michigan and Indiana, Dominion was able to restore power to nearly 1.2 million customers in nine days.

Mutual-aid agreements allow members to base their employment and equipment levels on routine operating conditions. To recover from major storms, they can borrow resources from their neighbors and — in the case of Irene — from their neighbors’ neighbors. Host companies reimburse responding utilities on a break-even basis. Host companies honor the responding utilities’ pay scales and union agreements, and the responding utilities abide by the host companies’ work practices and safety procedures.

In the wake of Irene, mutual aid was especially important to Baltimore Gas and Electric (BGE). The storm affected 750,000 of its 1.2 million electricity customers, and some of them lost power multiple times. But the company fixed nearly all of the outages in five days.

“Well in advance of the storm’s arrival in Central Maryland, BGE proactively secured additional resources to ensure it could begin the monumental restoration effort as soon as it was safe to do so,” the company reported on Sept. 4. “In all, more than 2,300 external resources from 18 states have been actively engaged in the restoration effort.”

Three days after that announcement, more heavy rain inundated Central Maryland, and approximately 200 of the out-of-state linemen and support personnel extended their stays.

— KARL RHODES

The New Beetle A Pest Has Invaded the District

West Virginia and parts of Maryland and Virginia are under quarantine, along with 11 other Central and Mid-Atlantic states. Not because of a deadly new virus — instead, the threat is the spread of the emerald ash borer, an invasive beetle that has already killed more than 70 million ash trees in the United States. The borers may be as destructive as Dutch elm disease and chestnut blight, which brought those species to near extinction in Europe and North America.

Between June and October of 2011, the pest was found in 11 new counties in West Virginia, bringing the county total to 17 since 2007. It has been found in three counties in Maryland and three counties in Virginia since 2008. The borer most likely arrived in the United States via wood packaging in a shipment from Asia, and the first official sighting was in Detroit in 2002. The borer commonly hitchhikes on firewood and other wood products. Infested states prohibit interstate firewood transport, and require manufacturers to follow strict treatment guidelines before they can ship products out of state. Ash trees make up 10 percent to 40 percent of the canopy in many urban areas, including Baltimore, which borders infested counties.

The estimated “landscape value” of an urban ash tree — its aesthetic and ecological benefits — is about \$1,000, according to researchers at Ohio State University and the U.S. Department of Agriculture (USDA). One medium-sized tree is reported to increase a home’s property value



Adult emerald ash borers live for about three weeks and are less than half an inch long.

by 0.8 percent. Losses in the entire Baltimore metro area could total more than \$220 million, according to the USDA. Ash is also an important wood for flooring, furniture, farming tools, and sports equipment, including Louisville Slugger baseball bats. The ash trees in West Virginia’s forests have a market value of \$199 million, says Greg Cook, the state’s deputy forester.

Unfortunately, “there’s not a whole lot you can do for it,” says Sherrie Hutchinson, director of the Plant Industries Division at the West Virginia Department of Agriculture. Borers can kill a healthy ash tree in less than two years. While pesticide treatments can help protect against the borer, once a tree is infested, removal is usually the only option. According to research published in the journal *Ecological Economics*, the cost of treating and removing infested ash trees in developed areas could total \$10 billion by 2019.

— JESSIE ROMERO