

\$25 loans add up to an education; Vittana connects students in developing nations with tiny lenders worldwide.

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Start Page:B.1Section:Business; Part B; Business Desk

As she stood onstage at her graduation ceremony in Managua, Nicaragua, Luceymi Maria Lopez Lopez described how the diploma felt in her hand.

"Grandioso," she said. "Superbien."

"I never thought I would be able to finish," Lopez said.

Two years ago, she might have been right. Until 2009, the loans that financed her college education didn't exist.

But these days, thanks to the efforts of 27-year-old Southern California native Kushal Chakrabarti, a nonprofit is tapping the microcredit market to fund loans for low-income college students in developing nations -- a need that has been largely unmet by traditional banks.

Vittana, named after a Telugu word for "seed," pools funds from Internet users worldwide and then partners with local microfinance banks in countries such as Nicaragua and Vietnam to provide loans to students when typical banks won't.

Banks may see these students as risky prospects. But Chakrabarti, chief executive of Seattle-based Vittana, sees just one difference between these students and himself -- and it's not one of drive or intelligence.

Chakrabarti says he would have failed math and science at Cerritos High School if not for tough love from his teachers. In college, he again put his graduation at risk.

And yet the UC Berkeley alumnus went on to lead the design and development of Amazon.com's popular "You might also like" feature, a personalized recommendations engine, before co-founding Vittana in 2008.

The reason for his unlikely success, he said, was support: "I had a lot of people willing to take a risk on me. And a lot of these students are asking for the same thing."

Large, traditional banks will readily dole out hundreds of thousands of dollars to finance a home or a company, but generally avoid giving small loans to poorer clients. A microcredit bank doesn't deal in such large amounts -- it may lend a total of \$300 to, say, an enterprising mother who sets up a business sewing clothes. The payoff may be lower, but so is the risk.

But students carry high risk of default, need large loans and often can't repay until they find a job, said MIT economist Abhijit Banerjee.

In an unstable country without a robust credit market, Banerjee said, "no lender wants to take that risk on someone for so long."

With such limited access to credit, students such as Lopez often see little choice but to drop out.

Los Angeles Times

Two years after she began studying systems engineering in 2005, political shifts in Nicaragua cost Lopez, 24, a scholarship that covered nearly half of her \$40 monthly tuition. Then there was the \$900 fee many Nicaraguan students must pay to complete a thesis and obtain a diploma. She didn't have that kind of cash.

But Lopez knew that without an engineering degree, she could hope only to make about \$200 a month. With it, she could earn five times as much.

She considered putting school on hold to earn the money, but her older brothers, Jose Nadir and Oscar, had already given up on their degrees to pay the bills. And in countries such as Nicaragua, student loans have not "even entered into the collective consciousness," said David Close, a political scientist at Memorial University of Newfoundland.

"One, it takes a sophisticated banking system to make it work," he said. "Two, it's extra money governments don't want to spend. And three, I'd be worried about getting it paid back."

But when Chakrabarti looks at Lopez and other struggling would-be students in developing countries, he sees a good bet.

The idea behind Vittana is simple, Chakrabarti explained. A bank might not be willing to hand out the average \$657.50 that students listed on Vittana's website need to get their degree, but maybe a couple dozen people would be willing to lend \$25 or \$50 each, with a 97% chance they'll get it back.

Like the San Francisco-based nonprofit Kiva, Vittana funnels money from lenders to microfinance banks so that they can make microloans to people who need them. Vittana also works with the banks to design the ideal student loan.

The microfinance institutions Vittana works with charge interest, typically 12% to 15%. Students are required to start paying that interest during an extended grace period, to get them in the habit of repayment. The loan must usually be cosigned by a family member, preferably the student's mother.

The model only works in countries that show signs of a welcoming job market, a mature vocational education system and national economic stability, Chakrabarti said.

"There's some inherent value to an education, but the model doesn't work unless students can repay the loan," he said. "And if a student didn't get to eat in the morning, then his first priority is not class."

Classes weren't always a priority for Chakrabarti, who admits that in school he often "was an idiot. I was just screwing around." He credits teachers such as Rod Ziolkowski for helping him shape up when his grades slipped at Cerritos High.

"A lot of kids that you bring along, you see a little spark in them," said Ziolkowski, who now teaches science at nearby Whitney High. "Do a little something different, and that diamond is going to show amid the rocks."

UC Berkeley professor Lior Pachter later recruited Chakrabarti as a sophomore for a genetics project.

"Kushal was not a good student overall," Pachter said. "He had a tendency to drop the ball on things he wasn't passionate about."

Identifying a problem and devising a potentially groundbreaking solution is what seems to make Chakrabarti tick. He said he tackled student microloans because "I don't know how to solve malaria, I don't know how to solve world hunger -- but I can solve this."

Los Angeles Times

If the model succeeds and draws other microfinanciers and larger investors into the student loan business, so much the better, Chakrabarati said.

"We want to ultimately be a very small part of this," he said. "There are so many students out there who want to go to college."

So far, Vittana has funded 339 students in Peru, Paraguay, Nicaragua, Vietnam and Mongolia who are repaying the loans. The program is expanding to Cambodia in July, and Vittana is working on partnerships in Bosnia, Georgia, Jordan, Lebanon, Nigeria and the Philippines.

Lenders seem to be putting their faith in Vittana. At the beginning of March, the nonprofit passed the \$100,000 mark on money lent through the site. Then it brought in an additional \$50,000 in March alone. Vittana passed \$200,000 in May, the same month it celebrated its one-year anniversary funding student loans.

Those loans were made by people such as Tiago Wright, one of the 18 lenders who funded Lopez's \$900 fee.

"It's a \$25 loan," the Los Angeles resident said, pointing to Vittana's 97% repayment rate. "I think the reward is worth the risk."

Wright, who grew up in Brazil, has never met Lopez. But he recalled how his friends would stop attending class when they reached middle school to work or care for younger siblings.

He couldn't help them then, he said, but he can help other struggling students now.

"It's really cool that we can be this community and make a difference in someone's life," he said.

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