

## Net Impact Berkeley Sample Round 1 Case: Microfinance

**Prompt:** Your client is OpportunityBank, a San Francisco-based microfinance organization that disburses small loans in the range of \$5,000 to \$20,000, focusing on increasing socioeconomic lift for its customers as measured by their credit scores. Recipients use loans to support their small businesses. Your client is interested in understanding which of their sector(s) to continue disbursing loans to.

### Question 1:

**What factors would you consider in advising the client on their decision?**

Sample Factors: Profitability - Costs (Fixed Costs, Variable Costs), Revenue, Customers (Behaviors), Regulatory Environment, Competitors (Best practices)

### Question 2:

**We have some information about our loans over the past 5 years. Based on profit for each sector, should we continue disbursing loans?**

#### Exhibit A: Opportunity Bank Loan Profitability by Sector

| Sector                      | Manufacturing | Retail   | Service |
|-----------------------------|---------------|----------|---------|
| Total Interest Paid on Loan | 20%           | 30%      | 20%     |
| Avg. Loan Size              | \$10,000      | \$20,000 | \$5,000 |
| Loans Repaid                | 200           | 300      | 500     |
| Loans Issued                | 230           | 380      | 600     |
| Avg. Credit Score Increase  | +80           | +15      | +5      |

#### Math Worksheet (Method 1 Answers):

| Sector                | Manufacturing                | Retail                         | Service                      |
|-----------------------|------------------------------|--------------------------------|------------------------------|
| Loan Size at Maturity | 120% * 10k = <b>\$12,000</b> | 130% * \$20k = <b>\$26,000</b> | 120% * \$5k = <b>\$6,000</b> |
| # Loans Paid          | 200 Loans Paid               | 300 Loans Paid                 | 500 Loans Paid               |
| Revenue               | \$2,400,000                  | \$7,800,000                    | \$3,000,000                  |
| Costs                 | \$2,300,000                  | \$7,600,000                    | \$3,000,000                  |
| Profit/Loss           | \$100,000                    | \$200,000                      | \$0                          |

#### Math Worksheet (Method 2 Answers):

| Sector                  | Manufacturing              | Retail                       | Service                     |
|-------------------------|----------------------------|------------------------------|-----------------------------|
| Interest Earned on Loan | 20% * 10k = <b>\$2,000</b> | 30% * \$20k = <b>\$6,000</b> | 20% * \$5k = <b>\$1,000</b> |

| # Loans Paid | 200 Loans Paid            | 300 Loans Paid              | 500 Loans Paid            |
|--------------|---------------------------|-----------------------------|---------------------------|
| Revenue      | \$400,000                 | \$1,800,000                 | \$500,000                 |
| Costs        | 30 * \$10,000 = \$300,000 | 80 * \$20,000 = \$1,600,000 | 100 * \$5,000 = \$500,000 |
| Profit/Loss  | \$100,000                 | \$200,000                   | \$0                       |

---

**Question 3: Our client has decided to specialize in disbursing loans to only one sector. Which one should they focus on? Why?**

*Some sample insights:*

- Manufacturing companies likely staff more individuals than retail jobs, so loans will impact more people overall by flowing downstream to employees
- There are more retail loans distributed than manufacturing loans, indicating that there is a greater demand from that sector.
- Manufacturing in the United States is waning as more and more jobs are outsourced – is it wise to invest loans into a waning sector?
- Retail and Service have higher delinquency rates – there are intrinsic characteristics about these sectors that drive instability: seasonality, economic sensitivity

**Question 4: The Chief Loan Officer has just arrived, and would like a final recommendation. Please deliver your recommendation to her.**