



Today's Goal

Provide data gathered over 3-year period specifically on administering a small dollar, consumer loan fund for Hawaii residents to inform sound policy

Overview

- ▶ Organization
- ▶ Small Dollar Loan Pilot
- ▶ Findings

Hawaii Community Lending

- ▶ Founded in 2014 501c3 nonprofit revolving loan fund
- ▶ Department of Treasury certified community development financial institution
- ▶ Social enterprise of Hawaiian Community Assets
- ▶ 5-member Board of Directors
- ▶ Statewide service area
- ▶ Mission: To increase access to credit and capital for the self-sufficiency of economically underserved families and persons in the State of Hawaii

Philosophy

Access to the mainstream financial system is a bridge to affordable housing.

Affordable housing is the primary vehicle for Hawaii families to realize economic self-sufficiency.

Lack of access to the mainstream financial system places a strain on public resources, perpetuates housing instability, and strips capital from our local economy.

Products

- ▶ Credit Builder Loan - for clients with no or low credit scores
- ▶ Credit Repair Loan - for clients with collections, judgments, liens, payday loans, high-cost credit
- ▶ Emergency Loan - for clients in need of rent or mortgage payments to prevent homelessness

Standard Terms

- ▶ Type: Installment loan with fixed monthly payments
- ▶ Maximum Loan Amount: \$5,000
- ▶ Interest Rate: 8-16% fixed APR
- ▶ Term: Up to 36 months
- ▶ Debt-to-Income: 60% maximum back-end DTI
- ▶ Financial Education: Required

Services

- ▶ Borrowers assessed to determine qualification for no- or lower-cost capital
- ▶ All borrowers referred to Hawaiian Community Assets for free financial education
- ▶ Every borrower MUST complete financial education to receive a loan
- ▶ Includes group workshop and counseling: develop a budget, review credit report, and create action plan

Small Dollar Loan Pilot

Overview

- ▶ 3-year pilot launched in 2014
- ▶ Goal: To (1) gather borrower data by providing products and services, and (2) conduct landscape review of payday lending industry in Hawaii
- ▶ \$120,000 loan fund capitalized with grants from Office of Hawaiian Affairs
- ▶ Hypothesis: Installment loans can be profitable through a social enterprise model that does not require charging of excessive fees (i.e. 461% APR)

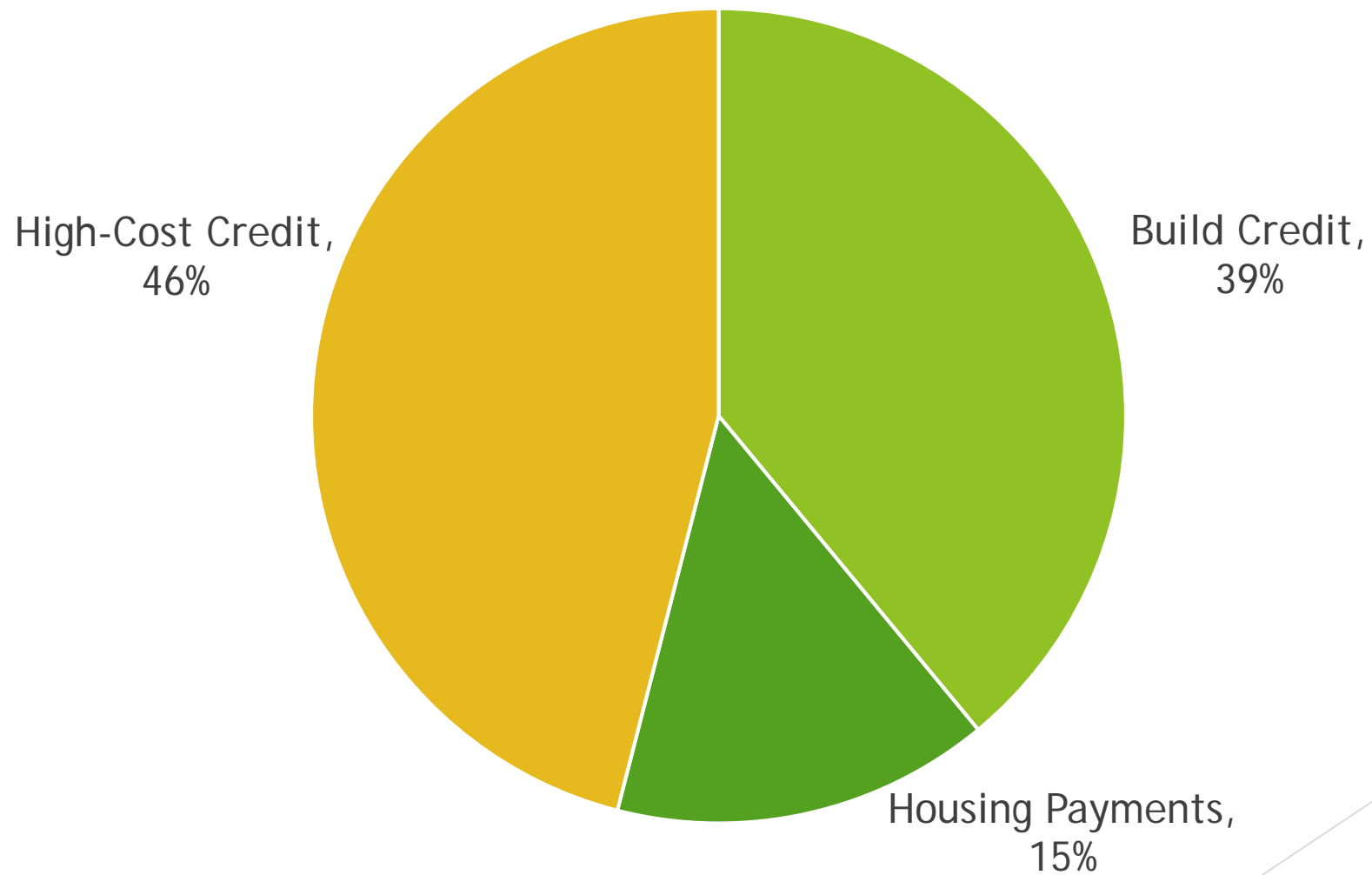
Borrower Profile

- ▶ Head of Household: 58% Female
- ▶ Household Income: \$44,531
- ▶ Household Size: 3.4 persons
- ▶ Savings: <\$500
- ▶ Debt-to-Income: >50%
- ▶ Credit Scores: 78% under 640
- ▶ Demographics: 76% Native Hawaiian



At intake the family had 1 checking account and no savings. Mother cashed her paycheck at Wal-Mart out of "convenience".

Use of Loan Proceeds



Primary Reasons for High-Cost Credit

Convenience

Payday loan stores located in communities of 92% of HCL borrowers

Not enough time to go to and from work AND bank

Lack of Awareness of Alternatives

Borrowers did not know about other no- or lower-cost capital sources available to them

Loan Portfolio

October 1, 2014 - September 30, 2017	
Loans	184
Average Loan Term	18 months
Interest Rate	8% APR
Total Capital Deployed	\$337,654
Average Loan Amount	\$1,835
Delinquency Rate	0-10%
Default Rate	< .5%

Financials

Revenue	
Grants*	\$234,539
Interest/Fees Earned	\$28,673
Total Revenue	\$263,212
Expenses	
Personnel (salary, fringe benefits)	\$184,245
Occupancy (rent, utilities, telecommunications)	\$18,236
Professional Services	\$2,722
Office/Administration	\$29,336
Total Expenses	\$234,539
Total Profit (Loss)	\$28,673

*Grant funds from “cross selling” financial education through Hawaiian Community Assets allowed HCL to reduce interest charged to its borrowers.

The background features abstract, overlapping green geometric shapes, primarily triangles and polygons, in various shades of green, creating a modern and dynamic visual effect.

Findings

How to Ensure Affordable Loans?

1. No more than 60% back-end debt-to-income (DTI) ratio

Back-End DTI = $\frac{\text{Housing Payment} + \text{Minimum Debt Payments}}{\text{Gross Income}}$

Gross Income

$60\% = \frac{\$1,000 \text{ rent payment} + \$500 \text{ minimum debt payments}}{\$2,600 \text{ gross income}}$

\$2,600 gross income

2. Amortize, installment loan payments

Spreads interest over life of loan to prevent high upfront fees/costs

3. No prepayment penalty

4. Loan modifications in event of financial hardship

5. “Cross selling” of financial education to reduce interest charged to borrower

Impact

of Loans Originated

184

\$ of Capital Deployed

\$337,654

\$ of Mainstream Capital Accessed

\$1,312,780

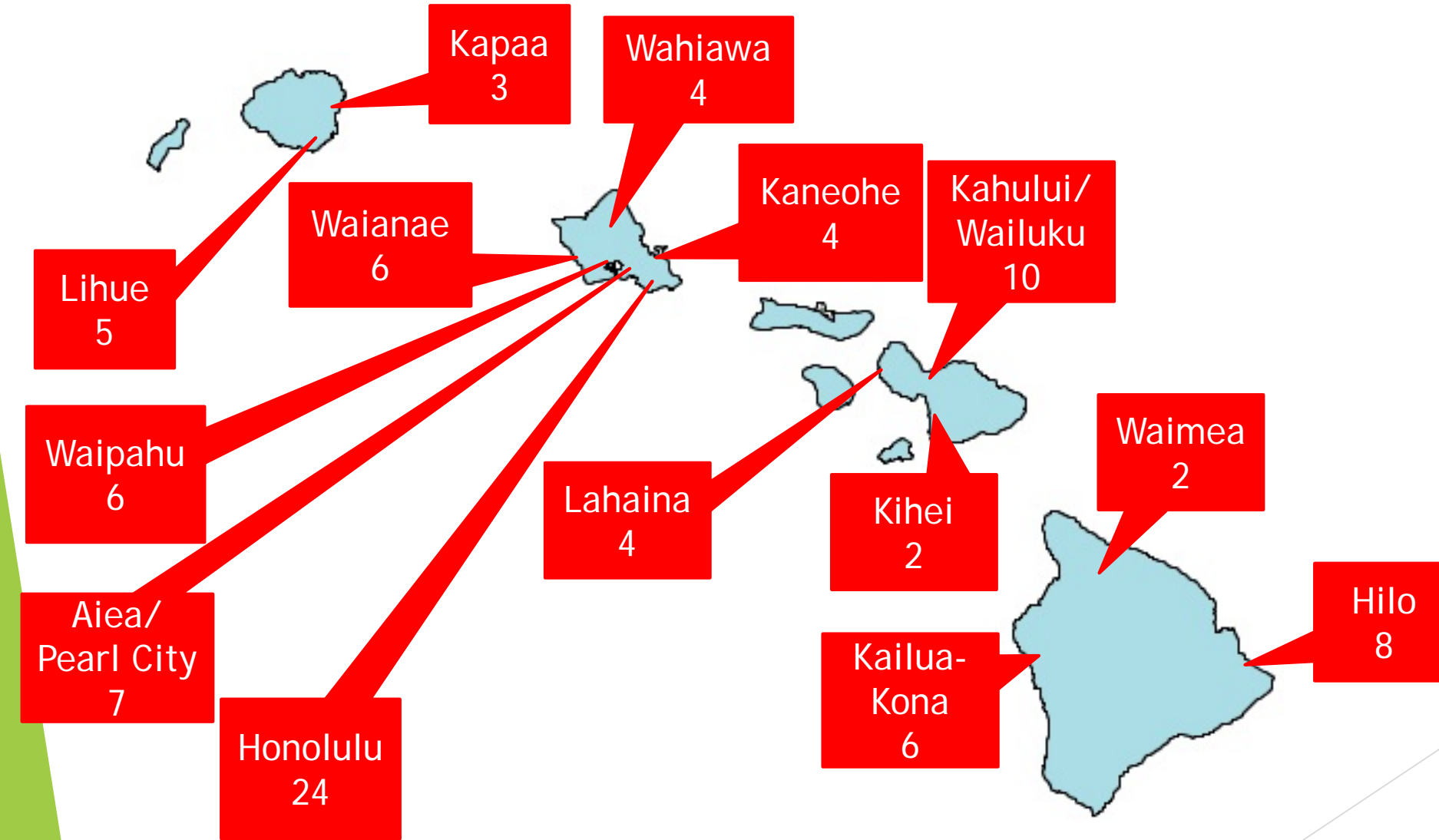
Borrower Savings

\$486,335

% Borrowers Who Secured or Sustained Housing

98%

Map: Payday Loan Stores



Prevalence of Payday Loans

Are there more payday loan stores, 7-11s, or Starbucks in Hawaii?

Prevalence of Payday Loans

Payday Loans Stores - 91

7-11s - 61

Starbucks - 32

Access to Capital

Where will Hawaii residents go if
payday loan stores go away?

Access to Capital

Every community with a payday loan store has at least 1 other **lending institution** that offers a payday loan alternative with an interest rate less than 36% APR.

Off-Shore Ownership of Payday Loan Stores

Which payday loan stores are owned by off-shore corporations?

Off-Shore Ownership of Payday Loan Stores

Easy Money - Delaware

Money Mart - Pennsylvania

Easy Cash Solutions - Texas

Lucky Check Cashing - California

First Money Center - Texas

Kihei Kash - Florida

Check N Go - Ohio

OneMain Financial - Indiana

\$\$ paid in high interest
to off-shore lenders
leaves our local
economy...



...results in less
money for local
families and the
State for priorities such
as housing.

Contact Information

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