The High Cost of Payday and Title Loans

Social Science Research is showing that personal financial instability is a contributing factor in workplace stress, resulting in lower productivity.

- Financially stressed workers have lower quality and quantity of work
- Financial duress linked to stress-related illness and employee absenteeism
- Financial stress blamed for tardiness, conflicts, accidents and incomplete tasks
- 12,000,000 Americans have turned to payday lenders for help
- Typical payday borrower takes 9 loans per year at 400% interest
- Workers suffering from stress cited with higher health care costs
- Distressed workers struggle with irritability, anger, fatigue, sleeplessness and lower workplace morale
- Presenteeism - dealing with personal problems on the job which are unrelated to work-costs employers $180 billion each year
- HR Managers: distractions from financially stressed workers costs 10% of typical HR Dept. budget
- Financial assistance fringe benefit reduces employee turnover

The Community Loan Center is a free Employer Benefit that can help address these issues in the workplace.

Investment Opportunities

The CLC program is designed to be financially self-sustaining once sufficient loan volume is established. We estimate that once a CLC local lender can originate between 110 and 125 loans per month, that the organization should have enough revenue on a monthly basis to break even. However, it will take participating locations time to ramp up to this volume of loans. Therefore, the program will require financial investment and support initially.

At this time, TCC is in discussion with funders regarding four main types of support, including

- TCC Statewide and Regional Loan Pools. Each local lender will be responsible for raising loan capital locally to support their lending activities. TCC will need to raise loan funds to serve employees outside of the local CLCs areas.
- Texas Community Capital Administration. TCC estimates that it will need to raise roughly $400,000 over two years to bring the CLCTX program to fruition.
- State and Local Loan Loss Reserve. It is important to recognize that the CLCTX Program will experience losses and TCC and each local CLC will need to prepare to replenish their loan pool and account for losses. TCC estimates that each organization should anticipate having five percent available for loan losses.
- Local CLC Administration. Each local CLC lender will have startup and administrative costs associated with the program before they can become sustainable. The cost for each organization will largely depend on salary and capital costs.

Advisory Committee

As part of TCC's efforts to expand the program statewide, we have formed and Advisory Committee of professionals interested in seeing the CLC Program Loan Center succeed. These members represent funders, policy advocates, CLC participants, and regulators committed to providing ongoing guidance and support to the program. Current members include:

Ann Baddour, Texas Appleseed (Chair)
Woody Widrow, RAISE Texas
Nick Mitchell Bennett, Rio Grande Valley Multibank
Tom Wilkinson, Brazos Valley Council of Government s
Kevin Jewell, Consultant
Debbie Taylor, Citi
Susan Hoff, United Way of Metropolitan Dallas
Eliza Platts-Mills, University of Texas Community Development Law Clinic
Alfreda Norman, Federal Reserve Bank of Dallas
Shannon Van Zandt, Texas A&M, Housing & Urban Development
Catherine Meyrat, InnoStratX
Edwina Carrington, Consultant

COMMUNITY LOAN CENTER

Affordable Small Dollar Loans

Texas Community Capital (TCC) will expand an employer-based small dollar alternative loan product currently being piloted in the Rio Grande Valley of Texas to additional markets in Texas. The goal is to provide a sustainable and scalable low-cost market based alternative to very high priced consumer loans in Texas. When this expansion pilot is proven successful, we will further expand the program across Texas and eventually into other states.

The Problem

There is a crisis in communities across Texas where scarce assets are being stripped away from lower-paid workers through high costs loans. Most of us occasionally require additional money for unbudgeted expenses such as car repairs, medical payments, education, rental deposits, etc. Lower-paid workers often don't have the means to save even one thousand dollars as a reserve for these unexpected needs, so when the need arises, a loan is required. However, Texas has some of the most lenient payday and auto title lending regulations of any state. Payday and auto title lenders have targeted low-income areas with marketing campaigns for quick loans that end up costing the equivalent of 400-700% in interest and fees, placing a huge burden on those borrowers who can afford it least. These excessively expensive loans strip assets from lower-paid Texas workers and trap inexperienced borrowers in a cycle of debt that is extremely difficult to pay off. Social researchers report that payday and car title loans with excessive fees and interest create financial burdens, additional stress, increased absenteeism from work and school and even bankruptcies, especially for lower paid families. These inexperienced borrowers become trapped in a cycle of debt and a better alternative is needed for small-dollar, short-term loans.

The Solution

People need short-term loans that are quick and easily accessible. The proliferation of payday lenders proves this without a doubt. However, small dollar loan borrowers should have access to funds with reasonable terms. Texas Community Capital (TCC) will expand statewide an employer-based small dollar loan program currently operating in the Rio Grande Valley. The program allows employees the opportunity to borrow up to $1,000 at 18 percent interest and a small fee of $20.

Texas Community Capital is creating the Community Loan Center Small Dollar Loan Program to provide access to affordable credit for workers who may otherwise turn to expensive payday and auto title loans. TCC will recruit non-profit community organizations to operate the program in select markets. Each non-profit will recruit the local employers to participate in the program at no cost and will raise loan funds for the program, both locally and conjunction with TCC. TCC will contract with the current small dollar program administrators at the Community Loan Center of Rio Grande Valley (CLCRGV) to process and service the loans. CLCRGV staff is contracted from the Community Development Corporation of Brownsville, the largest provider of affordable homeownership in the Rio Grande Valley.

Small Dollar Loan Program Relationships

The Program

To address this rapidly growing problem with high cost lenders, The Rio Grande Valley Multibank CDFI (RGVMB), created the Community Loan Center (CLC) of the Rio Grande Valley, an employer-based short-term consumer loan program. Texas Community Capital is expanding this program statewide. The goal of CLC is to provide workers with an alternative to predatory loans and demonstrate that an inexpensive, small-dollar loan product can be a successful social enterprise for nonprofits. Investment capital is solicited for lending capital and local employers are recruited into the program at no cost to the employer. Employees may borrow up to $1,000 at 18% interest, with a $20 processing fee, up to 12 months to repay (no prepayment penalty), no credit reports, quick approvals, no collateral, and repayment through convenient payroll deductions. Employees will apply for the loan online and access their account anytime with easy-to-use, web-based software. Loan proceeds are wired directly into the employee's bank account, usually within 24 hrs., and loan payments begin with the next paycheck. Loan processing and loan servicing are done at the Rio Grande Valley Multibank.

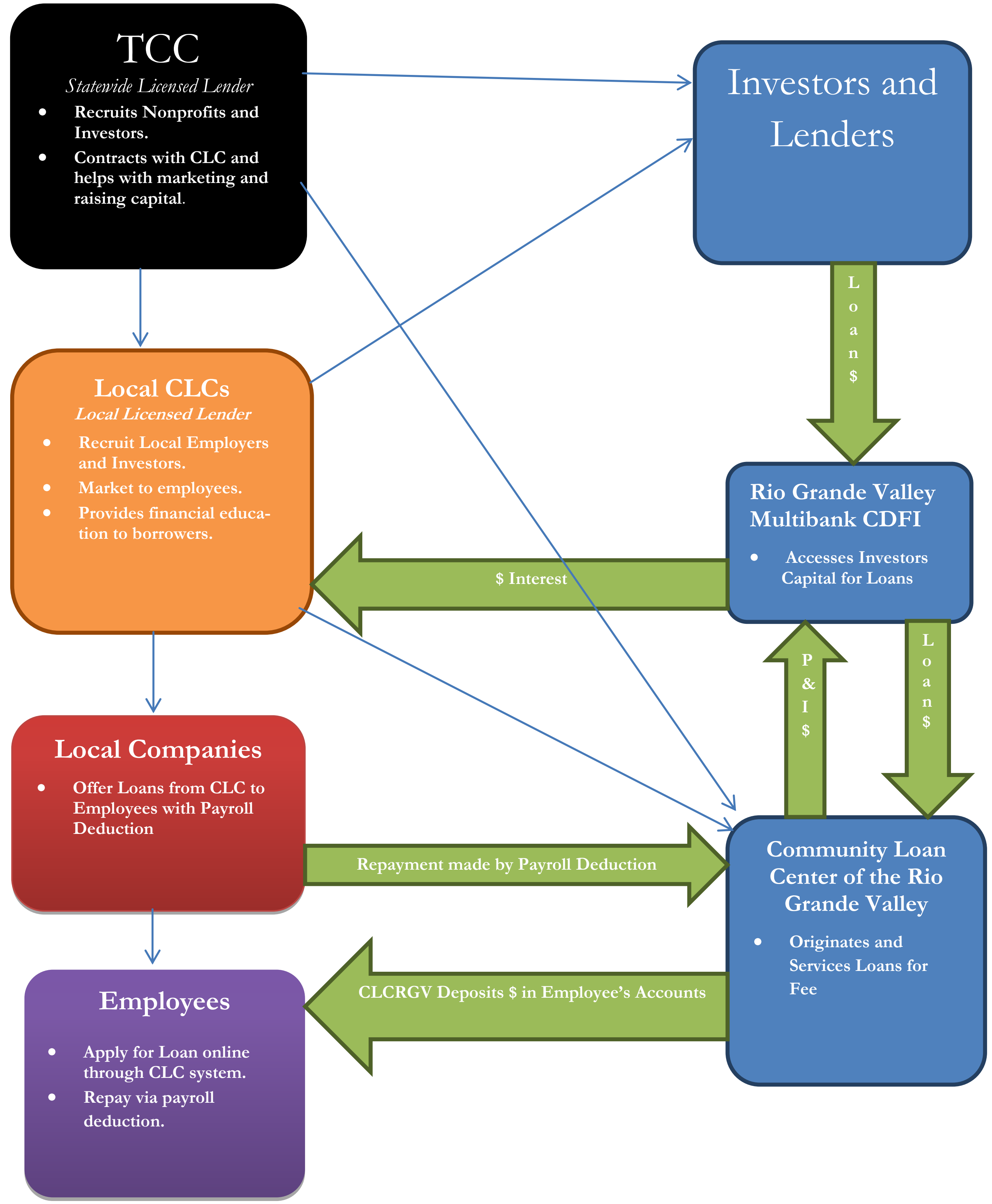
Small Dollar Loans Comparison

	Affordable Small Dollar Loan	Payday Loans
Loan Amount	$1,000	$1,000
Administrative Fee	$20	$0
Term	12 months	14 to 30 days
Interest Rate	18%	n/a
Financial Fee	n/a	$300 * / $600**
Total Interest/Fees	$122.16	$900
Annual Percentage Rate	21.8321%	782.14%
Monthly Payment	$93.51	$1,300 due in 14 days

*1st 14 day fee is $300, if renewed an additional $300 fee is required.
**If loan is extended (as indicated by research) two times.

Pilot Results to Date

During the first two years of operation, RGVCLC's pilot program originated over 1,800 loans through 30 employers with 3,135 total employees. The program initially broke even after ten months. Current default rate is 5 percent. Loan payments are made via payroll deduction. Payments remain low and affordable typically due to the low interest of 18 percent, low loan limit of $1,000, and a one-year repayment term, which is long by current small dollar loan standards. Additionally, financial counseling is available free of charge to anyone taking a loan through the program.



The Opportunity

Texas Community Capital is currently working with organizations in Houston, Dallas, Austin, Laredo, Odessa, and the Brazos Valley in order to expand the program with the goal of originating the first loans outside of the Rio Grande Valley in 2014.

The Innovation

The CLCTX model is innovative compared to other small dollar loan products in a few key ways.

- ***No Storefront.*** By working only through employers, the CLCTX program limits the overhead costs that other groups have incurred by opening up their program to any member of the public. A storefront model may ultimately prove sustainable, but the growth and capital needs will be less predictable compared to recruiting clients through an employer-based model where growth can be better managed.
- ***Limited Personal Interaction.*** Most other small dollar loan programs are either tied to a credit union or storefront operation where borrowers can make payments, etc. For financial institutions and credit unions, this may make sense as they are potentially taking a loan on the loan product to gain a new client for other services. By contrast, our program is employer-based and encourages borrowers to make payments through payroll deduction. By limiting the interactions with the borrower in person, the loans can be services more efficiently and the savings can be passed on to the borrowers through the low interest rate of 18 percent.
- ***Employer-based borrowers.*** The key concept for our program is that borrowers must work for a company that has signed onto our program. Working directly with employers allows us to market to a large number of employees efficiently through the employer. By working through employers, we provide borrowers with the option to make payments more convenient for borrowers.

Prospective Locations

At this time, TCC is working with non-profit organizations in Houston, Laredo, Austin, Bryan/College Station, Dallas, El Paso, Midland/Odessa and Beaumont to expand the program into these markets. In Houston, Austin, and Dallas the Local Lenders are a partnership between United Way and a local community development corporation. In Bryan/ College Station, the partner will be the Regional Council of Government.

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