



HAWAII'S  
COMMUNITY  
LENDING

# 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)

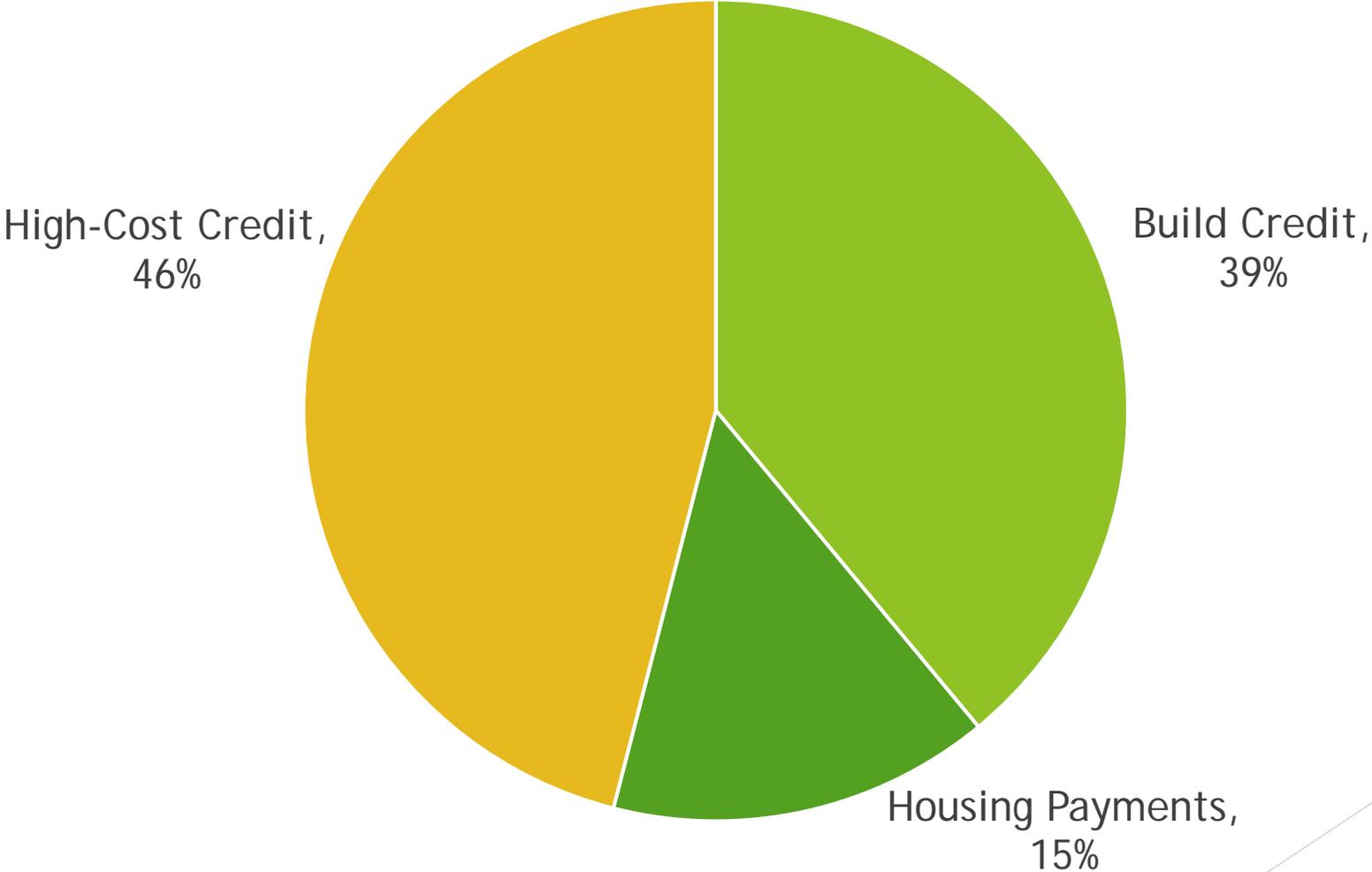
# Borrower Profile

- ▶ 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
<b>Total Revenue</b>	<b>\$263,212</b>
Expenses	
Personnel (salary, fringe benefits)	\$184,245
Occupancy (rent, utilities, telecommunications)	\$18,236
Professional Services	\$2,722
Office/Administration	\$29,336
<b>Total Expenses</b>	<b>\$234,539</b>
<b>Total Profit (Loss)</b>	<b>\$28,673</b>

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

# 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**

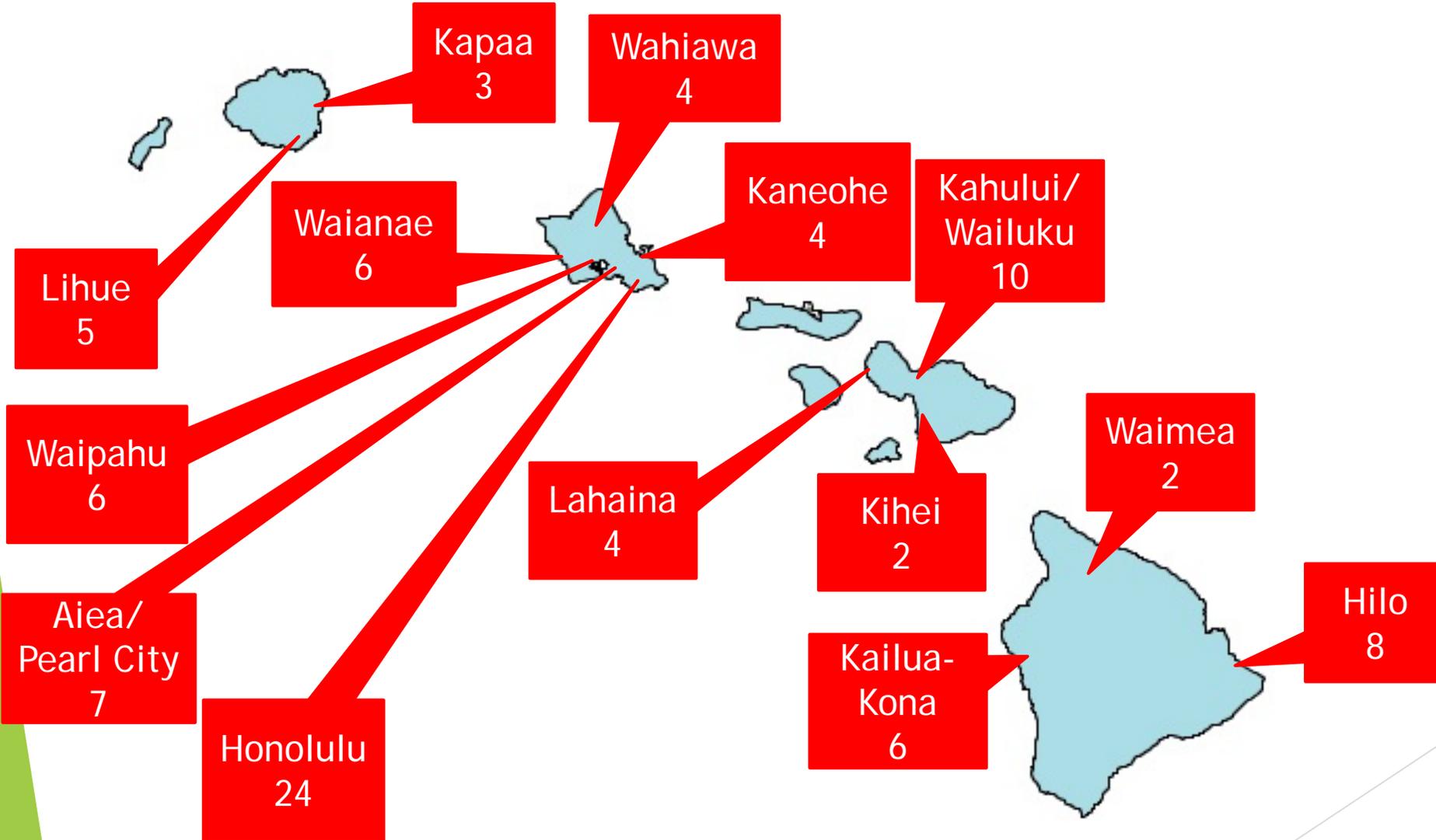
Borrower Savings

**\$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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