Payday Loans, Debt and the Underbanked

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Summary

The issue of pay day lending and other high interest installment loans for mostly low income people with poor credit has become a major issue throughout the country. Community Development Finance (CDF), the operator of the only nonprofit check cashing store in the country and an experienced nonprofit lender, offers both types of loans. We developed an analysis of the debt of our installment loan borrowers to date to investigate the main sources of high debt. CDF has believed for some time that the focus on payday loans, while clearly a problematic financial product, nevertheless has been over-emphasized from a policy perspective as most low income households with poor credit scores have other, much greater debt that far outweighs payday debt. This hypothesis was confirmed by our study, although the results are considered preliminary due to limitations of the data. Assuming these conclusions stand as more data is included, CDF believes that a greater policy focus on the much larger debt issues facing low income households is needed. CDF is working on one possible approach.

Introduction

Community Development Finance (CDF) operates a nonprofit check cashing store which opened in May 2009 in the Fruitvale neighborhood in Oakland, California; it is the only nonprofit check cashing store in the country that we are aware of not connected to a credit union. We charge much lower fees and prices, and we offer other services, including financial coaching, small business services, referrals to banks and credit unions, and policy development. We estimate that our lower costs and financial coaching annually save people at least $150,000 to $200,000, and perhaps more, with a cumulative savings total of about $1.2 million since we opened.

CDF also operates two lending programs for the underbanked, targeting mostly low income people with credit scores between 400 and 650. We use the payday loan structure for smaller loan amounts, but we charge much less – a maximum of half the market rate – and a lower rate for many others. We also use the payday loan structure for our Credit Repair Loan which offers a 12% APR for borrowers who are in our financial coaching program. We also try to talk people out of this type of borrowing including taking smaller loans, less frequent loans and stopping altogether. We have had a lot of success with these methods. In total, we have made 4,111 loans for $1,071,150 through October 31, 2015. We underwrite the loans and our loss rate is under 0.75%, although the delinquency rate is much higher.

We also offer larger, longer-term, lower-interest rate loans through our installment loans. We started the program in 2012, making only 8 loans; the program was problematic and we suspended the program in early 2013. In 2014, we started lending again in partnership with a tech startup, SimpleFi. The program required the borrower to receive financial coaching by our staff to qualify for loan consideration. We developed the necessary methodologies,

documentation, procedures and understanding of borrowers' needs through this process. The tech startup stopped and started the program a few times in 2015 until they suspended the program completely in July while they focused on their own core lending program. We made 76 loans under this partnership totaling $241,896. When the partnership was suspended, CDF raised some capital and started lending on its own, with some variations.

CDF analyzed the 76 loans made during the partnership. We had credit reports plus the borrowers' information about other debt. We are presenting the results in this report. More information about CDF's lending is presented in Appendix I. Notes on data and methodology are shown in Appendix II.

Results

CDF measured the debts of the borrowers in three ways. First, much of the debt showed up in the credit reports that were pulled on each borrower. Second, some other debts were revealed when we took each borrower through our very detailed budget used in our financial coaching. Third, the reasons for the loan request revealed additional debt information on the borrowers.

We separated the debt into specific categories whenever possible. The following categories were used: Payday loans, personal installment loans, student debt, small business loans, credit card debts, real estate loans, auto loans, medical debt, collections debt, and overdrafts/ NSF charges from banks. The total debt for all the CDF borrowers was $2,572,892, or $33,854 per borrower. But these figures included real estate debt, which was held by just a few borrowers and skewed the numbers – $1,088,326 in debt by 8 borrowers. The total debt excluding real estate debt was $1,484,566, or $19,534 per borrower. This was the primary debt that we used in the analysis.

This amount appears to be lower than averages in the U.S.:

> "Borrowers with a FICO credit score of less than 650 owed roughly $48,000 on average across all debt obligations, including mortgages, as of October 2014, according to San Jose, Calif.-based Fair Isaac Corp., whose FICO credit scores, which range from 300 to 850, are used in most consumer-lending decisions. That figure was roughly $55,000 in October 2012 and about $61,000 in October 2008." "Lenders Step Up Financing to Subprime Borrowers", By Alan Zibel and AnnaMaria Andriotis**,** Feb. 18, 2015**,** Wall Street Journal.

Our results for these debt categories, excluding real estate, are shown in the following table:

Type of Debt	Percent of total debt	Number of Borrowers	Avg Debt/ Borrower	Total Debt
Personal/Install	16.12%	63	$ 3,798	$239,263
Student Loans	9.09	5	26,997	134,986
Credit Cards	8.38	39	3,191	124,461
Auto	48.13	34	21,016	714,531
Medical	0.92	8	1,699	13,594
Small Business	0.81	1	12,000	12,000

Collections	13.83	48	4,277	205,296
Overdrafts/NSF	0.52	40	288	7,707
PayDay Loans	1.52	35	646	22,600

The category with the highest debt other than real estate was auto loans; 34 borrowers had auto debt, an average of $21,016 for those borrowers with auto debt, and the total auto debt of $714,531 represented 48% of the total debt of the borrowers excluding real estate. These numbers are somewhat skewed as some people bought expensive cars or trucks. Many borrowers (13) had auto debt $25,000 and up, and some had debt for two autos. But automobiles are crucial to a household's existence in today's world and, as a large number of borrowers had auto debt, we left this category in our computations. (There has been some discussion of a possible lending bubble developing in auto loans as terms are stretched and credit requirements are loosened. The average loan term for car loans is now very high along with the average amount financed and the average monthly payment; the percentage of loans received by deep subprime, subprime and near or non-prime borrowers is increasing.)

The debt category with the most people was Installment Debt; 63 people had this type of debt and averaged $3,798 debt per person who had installment debt. The next category with the most people was debt in collection; 48 people had collection debt, averaging $4,277 per person. The next category was overdrafts/NSFs in terms of numbers – 40 people in total had debt in that category. But the total overdraft debt was relatively small and constituted 0.52% of the total debt; on the other hand, it was more of a problem for the smaller number of people with multiple overdrafts, which conforms to other reports showing that "multiple over-drafters" suffer greatly from this product. These categories were followed by credit card debt (39) people; payday loan borrowers (35 people); and auto loan borrowers (34 people).

The average debt carried by borrowers in each category and the total amount of debt reflect some difficult issues facing borrowers:

Type of Debt	Total Debt	Rank	Avg Debt/Borrower	Rank
Auto	$714,531	1	$21,016	1
Installment	239,263	2	3,798	3
Collections	205,296	3	4,277	2
Credit Card	124,461	4	3,191	4

Auto loans, personal installment loans (some of which contained highly predatory terms through unsecured signature loans and secured car title loans obtained from check cashing stores, internet lenders and others), credit cards and debt in collection were the major issues for large numbers of borrowers and constituted relatively high debt amounts, in addition to auto debt. It should also be noted that we refinanced 11 installment loans ranging up to $7,000 from "friends", which is all that the applicants would tell us; we believe that these lenders were illegal based on the rates they charged (10% to 20% per month) and the informal nature of these arrangements. Payday lenders often say that, if their product is eliminated, their customers may turn to worse

alternatives; we found some evidence that this condition may occur although it was limited in scope for our borrowers.

These four categories were the most significant debt categories and impacted the largest number of borrowers for the most amount of debt – both on average for each borrower and the total amount of debt that had been amassed. They constituted significant issues for people trying to make a living while creating extensive pressures to go into debt to obtain needed items. For the most part, these households were earning $25,000 to $35,000 per year; they were mostly older as well – mostly 38 years old and over.

The amount of student, small business and medical debt was very difficult to pull out of the data sources we had access to. In addition, there were relatively few people impacted by these debts and the numbers were skewed by one person or a relatively small number of people. It is very possible that medical debt, in particular, is a large burden for many households in our sample or the larger community in general, but we were unable to pick up that information in our data. (See appendix II for more information on data.)

Payday loans, in contrast, were held by 35 people, with a total debt amount of $22,600, or an average of $646 per borrower, and accounted for 1.52% of the total non-real estate debt. And this number was skewed by 12 people who had payday debt over $900 outstanding (3 or more payday loans) for a total of $12,900 out of a total of $22,600. Those who were caught in the debt trap with larger debt amounts clearly faced important debt issues. But, payday loans overall, while clearly structured in a problematic manner, were not as significant in the debt burdens of the borrowers in our analysis; other debts were much more problematic and need much more attention.

Discussion: PayDay Loans

The issue of pay day lending in particular and other high interest installment loans for mostly low income people with poor credit has become a large issue throughout the country. The Consumer Financial Protection Bureau (CFPB) has brought this issue into even greater focus recently with the announcement of its intention to issue new regulations for pay day and installment loans. Much of the discussion hinges on ways to curb these loans to the point that they may become economically infeasible, which may eliminate many existing lending sources. However, we believe that it is crucial to develop alternatives to increase access to credit for those with limited options. Based on our experience, we believe that low income people with low, unbankable credit scores (roughly 400 to 600 or 650) desperately need access to fair sources of credit and that alternatives are possible.

The focus on pay day loans tends to miss the even greater need within this population for much higher amounts of borrowing; they most often are deeply in debt, often under very onerous terms. While pay day loans represent a very dangerous loan structure that indeed does trap many people, the total amount of debt is usually relatively low compared to other debt; people with payday debt often have other, much higher debts, and these debts also often have very predatory rates and terms – such as personal installment loans, credit card, medical, student, and auto debt in addition to large amounts of debt in collections and sometimes loans from illegal lenders. As a

borrower, if you owe $5,000 to $15,000 or more to these sources at high rates, some predatory, plus have other debt in collection, then paying out $300 or $400 more per year for pay day loan fees certainly may be worrisome on some level, but not as problematic.

For those people we have seen in counseling and looked at their budgets and credit reports, the pay day loans mostly are a relatively small issue and the deep focus on these loans is therefore over-emphasized to some degree. And even those borrowers in our analysis who had a high amount of payday debt mostly had much higher additional debt. Twenty-four borrowers of the 35 had payday debt under 10% of their total debt and 20 of those were under 6%. Of those with payday loan debt, 13 owed $300 or less, 10 owed $300 to $600 and 8 owed $600 to $900. The remaining four borrowers owed $1,200 to $1,800. Our installment loans refinanced payday loans for 19 of the 35 borrowers with payday loan debt. Other means, such as our Credit Repair loan, could have assisted most of the others. Those with larger amounts surely found them burdensome, without doubt. But the relative burden tended to be much less compared to other debt. This analysis does not conclude that payday debt is inconsequential only that it is not as great a burden as the policy focus would suggest.

The present political and policy agenda nevertheless focuses on pay day loans, perhaps because they represent an easily identifiable product throughout the country, have a relatively uniform structure, and represent a widespread loan type for small loans. They are a relatively easy target. The other, usually much larger debt, is very diverse and comes in many different forms, comes from a wide range of sources, is often less obvious and identifiable, is often predatory and sometimes illegal. These debt sources are more difficult to find and address with a single alternative policy, regulatory approach or loan structure. These types of debt therefore seem to escape or have a lesser spotlight shining on them compared to the one focused on pay day loans.

But constructive policies and programs also need to be developed to address some combination of credit cards, medical debt, school loans, car title loans, installment lending, illegal lenders, etc. as well. Many different types of debt will require many different types of efforts and strategies to address them. Therefore, it is much more difficult to find solutions for these issues, but that is exactly what is needed: a national effort to address the true debt needs of low income households. (CDF has developed one approach described below, that can be used for this effort.)

The great emphasis on pay day loans in the national discussion misses a lot of the total credit problems facing low income and unbanked people in several other important ways as well. For example, there is an entire range of financial institutions that serves the unbanked population; together, these institutions are much more expensive than the traditional sources and make it much more difficult for low income people to advance economically, as the cumulative fees and rates can be very high.

These financial services not only include pay day loans, but also car title lending, unsecured personal installment loans, rent-to-own, pawn stores (there may be many more pawn loan borrowers than pay day loan borrowers, and pawn loans are very predatory in many states), subprime credit and debit cards, RALs, etc. Therefore, the core debt issue involves much more than pay day lenders and check cashers.

Further, it may be useful to separate financial services for low income, unbanked or underbanked people into two types of products: credit and non-credit financial services. Non-credit financial services include check cashing, bill payment, money orders, money transfers, etc. They have fixed fees for the most part and their impact, while substantial relative to other options such as banks and credit unions, are known and, relatively, tend to be not as great as the credit services which comprise the larger issue and, in contrast, are much more expensive and dangerous to the financial well-being of people with bad credit and few credit choices. Although it may help in some ways, a focus on pay day loans alone – whether eliminating them or trying to appropriately regulate them – will not fully solve the problematic nature of these other credit providers and their products and ultimately will not solve the credit access problems of low income people.

Market segmentation is also a potentially important issue. In the discussion on pay day loans in particular, borrowers are often presented as a single stereotype based on averages of data collected. In our experience, borrowers do not pose a monolithic structure and it may be possible to use different products and approaches for different parts of this market and for people in different situations. CDF has observed different market segments, but uses credit scores as a key demarcation. Bank credit and other financial services providers now tend to have a minimum credit score requirement, between 580 to 680, depending on the financial product. For example, Wells Fargo Bank has increased the required minimum credit score for loans insured by the Federal Housing Administration to 640 from 600. For many credit card companies, prime rates start at 660. It may be necessary to target any assistance, minimally, according to credit score.

Financial Coaching is also a key consideration. The large majority of our customers – and most especially the pay day loan borrowers – is completely uninterested in financial coaching. We explain that we believe that pay day loans may not be a good product for them and that we have the capacity to assist them to get out of some of the financial problems they may find themselves in if they will enter our financial coaching program. But most of our customers are unrelentingly disinterested. However, we have been able to reach many more people informally through discussions at the teller window and many do become motivated to change their pay day loan borrowing: many have lowered the amount they borrow, reduced the frequency of their borrowing, and in many cases, stopped borrowing altogether either over a short period of time or right away if they are able to do so.

In contrast, the people involved in our larger, installment loan program face a different requirement than the pay day loan borrowers. We require installment loan borrowers to have financial coaching with us in order to qualify for consideration for a loan – and they have all been very interested, or at least willing to go into the program. Many were pay day loan borrowers in the past, many with deep debt problems, as noted above. The difference, we believe, is that they could see the value of coaching with a large loan that could have a true impact on their financial lives that a smaller payday loan could not accomplish. We have already witnessed credit score improvements and increased cash flows for some of our borrowers. Many have modified their financial behavior in other positive ways as well.

Finally, it is important to mention bank overdrafts (OD) which, like pay day loans, cover shortfalls in small levels of cash availability for a short time period; they are both, in effect, short term loans. Although they, too, are relatively ignored in most policy discussions compared to pay

day loans, they often are far worse in many ways: they have much higher APRs; account holders cannot control them the way they can control pay day loans; they may not be very transparent; the average amount that is overdrawn to incur a fee is about $40 compared to an average payday loan of $263 in California in 2013; ODs can wreck someone's credit while defaulted pay day loans do not, as they apparently are not reported; a bank account holder with numerous ODs can be placed on ChexSystems, which keeps someone from getting a bank account for 5 years; the banks make far more money in fees from ODs than pay day lenders make from their loans (roughly $30 to $32 billion per year in all types of OD fees compared to about $9 billion in pay day loan fees [DL, check numbers]), although only a slightly higher number of people use pay day loans (about 19 million compared to 15 million people who overdraft).

There have been some measures of people called multiple over-drafters – those people who overdraft a minimum of six to ten or more times a year. Generally, those people tend to be far worse off with a checking account and over-drafting multiple times than getting pay day loans. Yet there is not nearly the same emphasis or focus on overdraft fees as there is on pay day loans despite how much more damaging they are.

The issue of credit access for low income people with bad credit is complex. There are many issues involved that severely impact people. The solutions are also complex and require a more comprehensive approach, if possible.

Proposal

The payday loan campaign needs to be expanded with a much greater focus on the much larger debt issues facing low income households with bad credit. There are many possible approaches. Regulation is one approach. One regulatory effort could be directed at high-rate installment loans with the same intensity that is directed at payday loans. While their rates are somewhat lower, their impacts can be much greater since the loan amounts are so much higher.

For example, there are two primary types of loans – pay day loans and installment loans – that are available in check cashing/lending stores in California. A payday loan is smaller and is available up to $300 maximum with slightly higher amounts – sometimes up to $500 and occasionally higher in a few states. They are short term, usually up to one month but more typically 2 weeks and the fees normally are $15 per $100 borrowed, although the fees also can vary by state.

The second type of loan is much larger. One type is unsecured – signature installment loans, which start at $2,501 and tend to go up to $5,000 with APRs of 152.39% to 185.56% while secured (usually via auto title) installment loans go up to $25,000 with APRs of 130.84% to 142.09%. The term for both types of installment loan is 3 years. In between these amounts – i.e. between $301 and $2,500, there is a cap on the rate of 36% and these lenders are not making loans in this range. Below $300 and over $2,500, there are "exemptions" of one sort or another.

These loans deserve a major regulatory focus. Rather than try to outlaw them, a cap on the rate could be considered. This cap is 36% in many states; however, it may be too low, especially for

lower loan amounts. Perhaps some sort of sliding rate scale based on loan amount may be part of an effective way to provide more structure to these loans.

Other approaches may also be possible: financial literacy training (with more of a focus on people in greater debt and with very low credit scores); creation of new financial institutions with the capacity to financially assist people facing these debt issues; ways to increase incomes (a good part of the problem is the lack of income needed to live in today's United States); etc. offer some possibilities of new approaches. The existing, legitimate debt consolidation and debt management organizations and strategies either have not worked well enough, are too few in number, or have not tried or cannot reach adequate scale; they can be supported in an effort to expand their impact. Financial training programs could look at becoming more active; for example, they could negotiate directly with debt holders on behalf of debtors, something which they sometimes tend to avoid, but which CDF has successfully undertaken. Perhaps a guarantee or risk sharing program can be developed for people who are more deeply indebted. Specialized proposals and programs can be developed for student loans and medical debt.

Still other approaches are possible, including new lending approaches. CDF is working on one possible approach to counter the types of predatory loans now available. Based on our extensive lending experience to date, CDF has developed a two-tier lending program that, with the appropriate support, potentially can reach a large scale, be operationally self-sufficient once it reaches scale, and offer fair products to replace predatory payday, car title and installment loans, which form the core of existing lending available today.

As noted above, there are two primary types of loans – pay day loans and installment loans – that now are available in check cashing/lending stores in California. They have very high rates and do not cover loan amounts between $301 and $2,500.

Many public officials, politicians and advocates understandably have long wanted banks and credit unions to make alternative loans at reasonable terms and to replace pay day lenders. A $260 loan at 18% for 3 months is usually considered to be an example of a favorable alternative for the average pay day loan. However, this solution is unlikely for a large number of reasons. One reason is economic. For example, a $260 loan at 18% for 3 months generates $7.84 in interest; at 36%, the same loan generates $15.75. For a six month term, a $260 loan generates $13.84 at 18% and $28.00 at 36%. These returns are not viable revenues for a lender to make these loans on any meaningful scale. And there are several other, equally problematic reasons making it difficult for regulated institutions to make these loans.

In 2013, there were 12,163,382 pay day loans made in California totaling over $3.165 billion. While there are certainly some interested credit unions and banks that might make some installment loans for three to six months at 18% to 28%, they likely would not make enough loans to cover the amount borrowed in the past due to costs of lending and regulatory constraints as well as other reasons. Even if the number of loans were around 1.2 million for California which would eliminate most of the loan rollovers, that level of lending also is unlikely to be achieved by institutional lenders or other lenders who are active in low income neighborhoods.

The proposals might work if the goal is to create a loan program that acts as a smaller demonstration and generates a reasonable number of loans from existing lenders including credit unions and banks. Some institutions will take up the challenge and offer a limited number of loans; in fact, scattered credit unions have been making small numbers of these loans around the country for years. But again, it is unlikely that the needed scale can ever be achieved by these programs.

An alternative, affordable, scalable, sustainable lending program needs to be created that will use much lower prices and address the entire loan size spectrum, not this patchwork approach. Based on our experience to date, CDF has designed a two-tier program to address this range of needs. The programs would use 1) a pay day loan structure for the lower loan amounts, but at a dramatically reduced rate (possibly between 25% and 30% of the market rate) and with no required financial coaching, combined with 2) an installment loan program for higher loan amounts at very reasonable rates with required financial coaching. This program, which we have implemented on a small manual scale can be scaled up very significantly, utilize automated systems for large parts of the work, operate on a sustainable basis and offer excellent, fair products to borrowers.

For the pay day loans, we believe that a rate of about $3.75 to $4.50 per hundred dollars borrowed for two weeks and perhaps $8.00 to $9.50 borrowed for 30 days could work if losses were kept to about 3% or less. These rates compare to $15 for two weeks and over $31 for 30 days, respectively, for existing pay day loan programs – our rates would be about 25% to 30% of the market rates. We know from our extensive experience that half the rate works adequately and we believe that, with enough scale and partly automated systems, the fee can be lowered further, close to these target levels. However, these numbers are preliminary and more feasibility analysis and market testing needs to be done.

We are presently making installment loans at 29% APR with the potential for rebates of some portion of the rate at the end of the loan term if all payments have been made on time and if the borrowers raise their credit scores. We believe that this rate may be reduced for borrowers of larger loan amounts who perform but also may need to be raised for lower loan amounts. The program requires financial coaching, which is time intensive and, therefore, costly. We are developing a sliding rate scale with lower rates as the loan amount increases. To date, the term has been up to two years with a maximum amount of $12,000 for the unsecured signature loans. More feasibility analysis needs to be undertaken to determine the final contours of this program as well, but this general guide has worked to date and appears to be achievable on a larger scale. Greater scale, partly automated systems, a new loan delivery system, and relatively low loan loss are keys to achieving these rates for both types of loans.

It is crucial to acknowledge the impact of other debt relative to payday loans and to modify the present focus on payday loans to address the much larger issue of much more substantial debt facing a large percentage of low income people with bad credit. We believe that this proposal can address some of these needs fairly, sustainably and on a large scale.

Appendix 1
Community Development Finance's Experience with Pay Day and Installment Loans

We offer most of the financial services that other check cashing stores offer, including check cashing and loans. Beginning in the summer of 2010, we started making pay day loans and we now have made 4,111 pay day loans through October 31, 2015 totaling about $1,071,150 over the last five years. We underwrite the loans and have to turn away many people; our loss rate is about 0.70%. We do not have the capital base to take more risk at this time as we cannot sustain large losses. Our loans tend to reach people who, as far as we can tell, are not only very low and low income but also have very low credit scores – typically between 400 and 600 or 650 – and who otherwise would not have access to credit through conventional sources or products. We charge a maximum of $7.50 per hundred dollars borrowed, half the permitted amount in the state, and we charge less to those people who cannot afford it. We also have a Credit Repair Loan for people who are in our financial coaching program; this loan product also uses the pay day loan structure, has a 12% APR and up to a six month term. We also have used our pay day loan structure to make a few loans to people who needed them for small businesses as there was no other credit source available to them. Through our financial coaching, we have talked to the borrowers frequently and enabled many of them to reduce their loan amount and/or the frequency of their borrowing and we have convinced many others to stop borrowing completely. However, the program is barely financially viable even with the low loss rate.

We also have experience with the larger, lower interest, longer term installment loan programs that also exist in these markets. When we first decided to create a loan program, we went back and forth internally trying to decide between the pay day loan structure and the installment loan structure. We started with the pay day loan structure because people in the neighborhood understood the product and because we were concerned that we would suffer large losses if we opened up an installment lending program with larger loans to the general public. But we still wanted to see if installment loans could work, since it represents a superior loan product, and we knew some people who really needed them and asked us about this type of loan.

Therefore, we started an installment loan program in the second half of 2012 lending only to people we knew well and trusted to repay us. We also used the installment loan structure to make two smaller, pay day sized loans instead of a pay day loan – i.e. $300 loans with a one to three month term at a much lower rate. But every loan was delinquent and in some cases, severely delinquent. Moreover, not only were all the final loan repayments late, only two individual monthly payments out of the total number of loan payments were made on time. In total, we lent over $3,000 and we earned just over $160 in interest and fees. We charged an APR of 36% (the maximum allowed by California law) including an upfront fee and the interest rate, with a term up to six months. Our costs, even in that small time period, far exceeded the income we received. In addition, the required staff time was extensive and drained our capacity to work on other programs and administrative efforts. We suspended the program in early 2013.

We nevertheless retained an interest in offering installment loans. We started working with a local tech start-up involved with lending, SimpleFi, and we jointly initiated a new installment lending program in mid-2014. This partnership gave us the financial backing to support the staff work for the underwriting, servicing and financial coaching; furthermore, we did not have to raise more capital to lend or risk it on the loans. Through June 2015, we have made 76 loans, totaling $241,900, with a maximum loan amount of $12,600 and a minimum of $631; the

maximum term was two years. Several loans have already been repaid and there are several delinquencies with only a few that are substantial and problematic. We charge 29% including a 5% fee which can be included in the loan amount. Recently, we have begun including a partial rebate of interest to be paid to borrowers at the end of the loan term if they make all loan payments on time. And we are developing a sliding scale for the loans so that the larger loans will have a lower initial interest rate. The program requires financial coaching, which CDF provides. We work in detail with the borrowers including creating a very detailed cash flow, and create a loan payment and term that fits the cash flow and works for them, for us and for SimpleFi. As of July 2015, SimpleFi suspended the program in order to fully concentrate its capital and resources on its primary effort; CDF has raised a small amount of capital and is proceeding independently with a slightly modified program.

Methodology notes. Appendix 2.

- The number of loans – 76 – is not statistically sufficient to draw complete conclusions.
- Another data issue is that we don't have exactly the same data for all borrowers. Our understanding of the borrowers changed as we began lending and we added other formats during the process to obtain more information to assist our financial coaching and underwriting.
- The small numbers also skewed some of the results. Real estate debt was the largest issue where a few large debts created an imbalance in the numbers. So our numbers include conclusions with the real estate debt and without the real estate. But this issue occurred in other types of debt as well, including payday loans themselves in addition to student loans, medical debt and small business loans.
- We could not get much information on some kinds of debt. For example, our sense was that there was more medical debt than we found. It might be included in credit card debt as many hospitals try to get patients to charge their medical debts on their credit cards. (See " From Distrust to Inclusion: Insights into the Financial Lives of Very Low-Income Consumers"' January 2015, Kirsten Moy, National Federation of Community Development Credit Unions.) Similarly, other types of debt may not have been fully recorded or tracked by our methods.
- A few borrowers had two loans. They paid off their first loans and borrowed from us again. But their debt conditions changed during the term of their first loans, so the second loans were included as separate loans.