

Stanford SOCIAL INNOVATION REVIEW

Banking on Low-Income Families

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Banking on Low-Income Families

The Center for Community Self-Help provides financial services to those who can't afford to live without them **BY COREY BINNS**

NEON SIGNS FOR CAMBIO DE CHEQUES and Western Union glow in the front windows of a Micro Branch. But step inside, and the place looks nothing like the other check-cashing stores in East San Jose, Calif. Latin music fills the brightly painted room, children are playing at a small table in one corner, and a wall-mounted computer offers free Internet access.

At most check-cashing outlets, a customer has a brief interaction with a teller standing behind bulletproof glass, forks over a 5 percent fee, and heads back to his car. But at a Micro Branch, a customer rests in a plush blue upholstered chair, pays a 1 percent fee, and learns about financial services, such as checking and

Responsible Lending estimates that California families pay \$450 million in payday loan fees each year.

Instead of trying to change the banking behavior of the nearby immigrant Latinos who head to the check cashers each payday, Micro Branch is both a check casher and credit union, designed to invite customers looking for the typical check-cashing service. But the store provides more financial services than just check cashing to those who want them. In this way, customers decide whether to join the credit union in their own time.

Micro Branch is the latest of many developments from the Center for Community Self-Help, a nonprofit credit union, lender, and real estate developer founded in 1980.

Micro Branch in San Jose, Calif. is designed to attract customers looking to cash checks and use other financial services.

Its mission is to offer economic opportunities to minorities, women, people living in rural areas, and those with low incomes. In California, that's meant meeting customers'

immediate financial needs at Micro Branch as well as merging seven credit unions in the state to expand low- and moderate-income families' access to affordable financial services. These efforts in California serve the local communities, and Self-Help hopes they also form the foundation for much bigger change in the financial services world through replication and policy work.

SCALING SLOW AND STEADY

In 2011, Self-Help lent more than \$109 million to households, businesses, and nonprofits. Since its founding, it has lent almost \$6 billion to 71,000 individuals and organizations. But Self-Help has not always been a large national nonprofit. For almost 20 years, Self-Help operated solely in North Carolina. CEO and co-founder Martin Eakes's view was that the nonprofit couldn't be everything to everybody, and one of the ways he narrowed the scope was to focus on improving conditions for small groups. Eakes, a North Carolina native, studied law at Yale University and then returned to his home state to improve the lives of the poor. "That's not to say there weren't equally big needs elsewhere, we just couldn't meet them all," says Steve Zuckerman, who served on Self-Help's board before founding the organization's California office in 2006.

In 1994, the nonprofit started buying loans to provide liquidity to lend to low- and moderate-income mortgage borrowers in North Carolina. In 1998, Self-Help broadened its reach. Its early accomplishment with local secondary markets earned Self-Help a \$50 million grant from the Ford Foundation to help guarantee mortgages in a nationwide partnership with Fannie Mae. In



savings accounts, from a teller sitting behind a desk. "We try to serve people in a way that's sustainable and scalable as an institution for us over the long term," says Haydee Moreno, Micro Branch director.

In California, the unbanked population is exceptionally large. Sixty percent of low-income neighborhoods do not have a bank or credit union; tellingly, the state has twice as many check cashers and payday lenders as the rest of the country. Payday lenders charge 400 percent on loan interest rates, and check-cashing fees cost a family up to \$2,000 a year. In total, the Center for

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return, the Ford Foundation stipulated that Self-Help's progress be carefully measured in the hopes of disproving Fannie Mae's and most banks' preconceptions that low-income homeownership was a risky proposition for banks to embark on. For the past 12 years, social scientists at the University of North Carolina have collected data and researched Self-Help-enabled mortgages and the families who live in those homes.

The findings are surprising. The research shows that, even in the midst of the worst housing recession since the Great Depression, the families have managed to hold on to their homes. In fact, Self-Help, with fixed interest rate loans, free of refinancing penalties, has outperformed others offering subprime mortgages to much more affluent families. The default risk of Self-Help loans was three times lower than subprime loans made to similar borrowers between 2004 and 2008. Although the housing crisis has highlighted that homeownership does not guarantee rapid wealth building, Self-Help homeowners did accumulate more wealth than renters.

"It's the single best data source on low- and moderate-income homeownership in the country," says Frank DeGiovanni, the Ford Foundation's director of financial assets. "The research proved to be incredibly valuable because it's shown that mortgages to low-income families were not as risky as perceived, and the families received significant benefits."

The University of North Carolina results convinced Fannie Mae to double its commitment from \$2 billion to \$4 billion in 2003, without requesting additional funds from Self-Help to support the perceived risk of these mortgages. The results have also been useful for economists and bankers sorting through the debris of the foreclosure crisis. The research on Self-Help's program shows that low-income borrowers are good credit risks when they are offered responsible loans at fair rates. With fixed interest rates and the ability to refinance without incurring penalties, home loans to low-income households perform quite well, leading to both sustainable homeownership and sound business opportunities for lenders. The data have armed mortgage reform proponents with evidence supporting affordable loans for low-wealth people in presentations to the Federal Reserve and in recent debates.

The evidence also informs and supports Self-Help's own policy arm, the Center for Responsible Lending (CRL). Founded in 2002, the nonprofit, nonpartisan organization aims to influence policymakers to protect homeownership and family wealth by fighting predatory lending practices. In addition to the work CRL has done to improve the mortgage business for low-income consumers, it also focuses on credit cards, bank overdrafts, and payday lending. "Payday lending preys on low-income borrowers who get caught in a cycle of debt that strips away their hard-earned money," says Zuckerman. "We strongly support regulatory and legislative efforts in California that would address this problem."

CRL played a large role in supporting legislation that made payday lending illegal in North Carolina in 2006. Today, 18 states and the District of Columbia have prohibited payday lending. CRL was awarded a 2012 MacArthur Award to continue advocating for improved and fair financial services. Self-Help's success with credit unions and Micro Branch can only strengthen CRL's advocacy work.

"The fact that they run financial businesses on the ground makes their policy advocacy much more effective," says DeGiovanni.

LAB EXPERIMENT

Yet even with Self-Help's overwhelming success on a national scale, the organization's staff still pours itself into small pilot projects, as they've done with Micro Branch. "Micro Branch is our laboratory for innovation and experimentation, specifically with respect to unbanked populations," says Zuckerman.

Self-Help's California office faces the challenge of convincing people who are accustomed to operating paycheck to paycheck to avoid payday lenders and banks with exorbitant overdraft protection fees and to put their faith and hard-earned money into a credit union. Zuckerman, Moreno, and their colleagues spent 18 months conducting interviews, focus groups, and research on every aspect of Micro Branch's operations before opening the storefront in January 2010. "Self-Help is a learning organization that is clearly focused on responding to the needs of the population it's trying to serve," DeGiovanni says. "It doesn't come into an area with a standard set of products, it tries to understand what people need and to tailor products to meet those needs."

Moreno's team carefully considered what music should be playing in the store (La Calle 105.7 FM), the brand design, and the window signage. So far, these welcoming tactics are working: As of April, Micro Branch had served 1,524 customers—1,245 check-cashing clients and 279 new credit union members. Still, the customers aren't opening accounts as quickly as the team had expected or hoped, and Micro Branch is far from its goal of serving at least 5,000 families per branch.

One issue Moreno's team has run into is that the teller job as a check casher is difficult on its own, never mind weaving in a quick lesson on the importance of a savings account. Because they must count out cash perfectly, file paperwork, and move on to the next customer to compete with rival check cashers, tellers simply didn't have enough time to dispense much financial advice. Moreno, Zuckerman, and their team reevaluated the education component of the experience, and now the tellers pass along easy-to-read pamphlets, including one describing a new savings account program called 5 for Me. A customer who joins the credit union and opens an account will automatically have \$5 of each of her cashed checks deposited into the account.

Another issue, says Moreno, is that check cashing is a retail business, which requires dealing with all kinds of personalities. "Customers can be mad at you!" she says. Many people walk in the door expecting the unjust practices they've experienced at other financial institutions. But it's sometimes those customers who continue to cash their checks at Micro Branch, and who nine months later bring in paperwork to enroll in a savings account.

Just as Self-Help used its mortgage lending experience to expand responsible access to home loans, Zuckerman says, they have a shot at revamping retail financial services, too. "We want to stand up in Washington and Sacramento and other state capitals that regulate the banking industry and do what we did with mortgages—advocate for more responsible policy from the position of experience. Our efforts in California are not only helping hard-working families, but also building on that experience." ■