Replicating Lending Circles

Lessons Learned from Five Bay Area Communities

Belinda Reyes
Elías López
Sarah Phillips
Kurt Schroeder

César E. Chávez Institute
College of Ethnic Studies
San Francisco State University

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Executive Summary

Mission Asset Fund's Lending Circles program is successfully helping low-income people, particularly immigrant women, gain access to the financial mainstream by providing them with an innovative social lending product coupled with financial education. The model is now underway in 16 community-based organizations in six U.S. states (California, Oregon, Nevada, Washington, Minnesota, and Massachusetts).

In this report, we analyze the implementation of lending circles at five Bay Area communities who piloted the program in 2011. We examine whether the improvement we found in credit scores at the Mission Asset Fund in the Mission District in San Francisco continues when the program is implemented in other communities with other low-income populations. MAF partnered with five Bay Area agencies for the 18-month pilot study. These agencies received seed funding, training, information, and additional support to implement lending circles in their communities. The organizations were: the San Francisco LGBT Community Center, APA Family Support Services, Chinese Newcomers Service Center, Community Housing Development Corporation (CHDC) Richmond, and the Fremont Family Resource Center.

For this analysis, we selected a sample of 269 clients at MAF and the community-based organizations (CBOs) in our pilot study. These clients had started on their first lending circle (LC) between January 2011 and December 2011 and had completed their LC by January 2013. We developed a multivariate regression model to examine the factors that led to increases in credit scores, taking into account the characteristics of the clients and the elements of the program. Moreover, we conducted interviews with 16 LC clients to learn their views of the program and the effect of the LC on their financial situations. In addition, we interviewed staff members who were the main managers of the day-to-day operations of the lending program at the five organizations in the pilot study and at MAF. Interviews with staff were conducted twice, once when the LCs were formed, and again at the end of the evaluation period. These interviews explored their experiences in setting up and implementing the program, as well as noting their recommendations for improvement.

The highlights from our analysis are as follows:

- Lending circles are leading to increases in credit scores at all CBOs implementing the program. Significantly fewer clients had no score at the end of the program (8%) than at the beginning of the program (19%), and a greater share had scores above 620 points at the end of the lending circle (64%) than at the start (52%). However, the improvement was less dramatic than at MAF.

- Lending circles are reaching an ethnically and economically diverse population at partner sites. Close to 20% of LC participants at partner CBOs were African American, and significant shares were Latino (29%), Asian/Pacific Islander (24%), and white (14%). These sites serve more U.S.-born clients. Moreover, the majority of the clients at partner CBOs were employed full-time. Only 20% had no credit score at the start of the program (as compared to almost 30% at MAF) and a larger share had scores above 720 (20% compared to 13% at MAF). These disparities might have led to differences in outcomes at partner sites. For example, credit scores might not have improved as much at partner sites because clients at these sites started out with slightly higher credit scores on average than at MAF.

- Offering help with credit-building was the most successful approach for recruiting people into the program and led to the strongest results, especially if provided with financial education. On average, clients who started without scores improved their scores by almost 600 points. People who saved, invested, or created a budget in the 3 months prior to joining the program improved their scores by more than their counterparts, while those who engaged in risky behaviors, such as going to pawn shops, experienced less of an improvement than their counterparts. Financial education provides information to help participants change their financial behavior. In interviews with clients we learned that they are more aware of strategies to improve their situation and feel a sense of confidence after participating in LCs.

- Clients felt that nonprofit organizations were ideal for the implementation of lending circles. Community-based agencies provide services and help people access programs that work together to improve people's standards of living. Clients felt that these organizations were concerned with their overall well-being, and they joined the program because of the trust they had in the agency. Agencies that offer in-house financial services were seen as better able to implement the program, since they have an easier time recruiting clients among their existing constituents. In these cases, it is possible to combine the lending circles with other programs, and the staff at these agencies are more knowledgeable about credit and financial matters, enabling them to better help their clients.

- Raising funds to sustain the program past the expansion period proved to be a hurdle for some of the agencies. The CBOs that are not continuing the program mentioned limited resources or a perceived difficulty in generating funds as factors in their decision. Fundraising efforts require a buy-in from directors, managers, and staff, as well as a clear understanding of the benefits of the program. This was hard to achieve for some, given the newness of the program and the uncertain funding stream. Agencies also expressed concern that they would be competing with one another for the same few funders. More information about the effectiveness of the program and about funding opportunities could be made available to help address some of these concerns. Also, a pool could be created to support Lending Circles locally or nationally, allowing agencies to support one another rather than compete.

- MAF support for loan processing and servicing was critical. Everybody involved felt that some form of ongoing support from MAF or a central agency to handle loan-processing issues and requirements was necessary. Recruiting clients, managing LCs, and integrating services proved to be enough work for the agencies to handle without taking on additional tasks.

- Many factors are involved in assessing a community agency's ability to implement the program. The pilot project suggests that the following aspects be considered:

    - Sufficient infrastructure to support an additional program.
    - Buy-in from directors, management, and staff regarding the benefits and value of the program.
    - Access to a sizeable community interested in establishing or improving their credit scores.
    - Relationship of trust between the community and the agency or provider.
    - Technological skill or the ability to acquire it.
    - Understanding or interest in financial matters, such as credit and loan processing.

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cestas populares

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Introduction

In 2008, Mission Asset Fund (MAF) began piloting the Lending Circles (LC) model, a social loan program for building credit, in San Francisco's Mission District, a historic immigrant gateway community where 44% of households have no credit histories (Social Compact, 2008). Rooted in tradition, the model formalizes the social loans among low-income, underbanked individuals that were previously informal and unreported. The program helps participants build their credit scores, learn to use credit wisely, increase their overall financial security, and save for long-term goals.

We first examined the credit-building aspect of the program by examining outcomes for a treatment group and a control group at MAF. We found that lending circles have a strong and significant impact on credit scores for low-income clients (Reyes et al., 2013). Credit scores improved on average by 168 points. Improvements in credit scores were most dramatic among those most in need. LC clients who either had no score or only a low score (less than 580 points) were almost twice as likely to establish credit as the control group. Additionally, LC clients experienced declines in outstanding debt. The average person in the control group increased their outstanding debt by almost $3,000, while, on average, those in the treatment group decreased their outstanding debt by over $1,000.

In recent years, MAF has made a focused effort to expand the program by partnering with organizations serving low-income populations in geographically and ethnically diverse areas. MAF is now working with 16 community-based organizations in six U.S. states (California, Oregon, Nevada, Washington, Minnesota, and Massachusetts)[1]. Not only has this partnership strategy been resource-efficient for MAF, it has enabled the organization to triple the number of individuals reached and achieve a much broader impact than the organization could ever have hoped to achieve on its own.

In this report, we examine the implementation of the Lending Circle Program at partner organizations to see if it is possible to replicate the program's success. In particular, to assess the scalability of the program, MAF partnered with five Bay Area agencies for an 18-month pilot study. The agencies received seed funding, training, information, and support to implement LCs in their communities. The original organizations were: the San Francisco LGBT Community Center, APA Family Support Services, Chinese Newcomers Service Center, Community Housing Development Corporation (CHDC) Richmond, Fremont Family Resource Center, and CEO Women. CEO Women closed its doors within a few months after launching the program.

[1]*Lending Circles are provided at the following partner organizations: Canal Alliance, CAPACES Leadership Institute, Chinese Newcomers Service Center, , Communidades Latinas Unidas en Servicio, , Family Independence Initiative, Financial Guidance Center of Nevada, Fremont Family Resource Center, Game Theory Academy, International Institute of the Bay Area, Latino Economic Development Center, Mission Neighborhood Centers, Inc., Pilipino Workers Center of Southern California, San Francisco LGBT Community Center, SparkPoint East Contra Costa, SparkPoint West Contra Costa, and Wardrobe for Opportunity.*

Of the five agencies that ended up implementing the program, three remained in the program for the duration of the evaluation period — San Francisco LGBT Community Center, Chinese Newcomers Service Center, and the Fremont Family Resource Center. In April 2012, CHDC Richmond and MAF agreed to terminate their partnership, due to difficulties in conducting outreach and capacity limitations. And in December 2012, at the end of the pilot study, MAF decided not to renew the partnership with APA Family Support Services.

The agencies were selected based on their mission, the demographics of the populations served, their experience with group-based direct services, their experience providing financial services and economic development programming, the plan they proposed for integrating Lending Circles into their services, and their staff capacity. The client base of each of the organizations selected was predominantly underserved, low-income people of color. APA Family Support Services, Chinese Newcomers Service Center, and the Fremont Family Resource Center provide programs specifically aimed at recent Asian and Latino immigrants. Each organization houses some type of economic development program that provides clients with opportunities to achieve financial self-sufficiency. These programs include financial counseling, income tax preparation,

individual development savings accounts, job placement, résumé preparation, and microenterprise services.

For this analysis, we selected a subsample of clients at MAF and partner CBOs who had started on their first lending circle between January 2011 and December 2011 and had completed their LC by January 2013. Moreover, we conducted interviews with 16 LC clients to learn their views of the program and the impact of the lending circles on their financial situations.

In addition, we interviewed the staff members who were the main managers of the day-to-day LC activity at the five organizations in the pilot study and at MAF. Interviews were conducted twice, once when the LCs were formed, and again at the end of the evaluation period. In these interviews, staff members recounted their experiences setting up and implementing the program, while offering recommendations for improvement.

María Luna

María enrolled in her first Lending Circle after hearing about the program during a presentation at another organization in the community. As a recent immigrant from Mexico, Maria had no credit history in the United States, making it difficult to accomplish her goals of buying a car and opening a business. She decided to join the LC to improve her credit and meet people in her community. She was touched by the community support that existed in her circle – A participant in María's LC needed money urgently, but someone else had been chosen to receive the first distribution: Hearing of her financial emergency, however, he gladly yielded the opportunity to her. When Maria joined the program she had no credit score and $800 in assets. She did the lending circle and participated in money management classes. Maria believes the program changed her financial outlook and habits. She is more mindful about her purchases and is saving about $1000 a month. She has established new financial goals, including saving for a down-payment on a home. Today, María has a prime credit rating of 755. She highly recommends the program and frequently tells others how Lending Circles helped her achieve her goals. She appreciated that the entire program and all materials were in Spanish. She believes the program provided the tools needed and she will continue to use them on her path toward financial empowerment.

Implementing Lending Circles

In MAF's Lending Circles program, clients are offered credit-building loans free of interest or fees. They join a group of four or more individuals in a lending circle, where each participant member pays an equal amount and receives the total sum in a rotation. The group decides on the terms of the contract, the duration of the loan, the loan amount, and the distribution of the funds. At some sites, the program is combined with financial education. For example, at MAF clients are expected to participate in two group financial education modules or receive individualized financial coaching.

Through a partnership with Citi, MAF processes the loans and distributes payments electronically. The payment activity is recorded and reported monthly to credit bureaus, thereby enabling participants to establish or improve their credit scores in the process. MAF secures each of the loans in case any participant defaults. MAF also provides technical assistance, guarantees and services the loans, and oversees back-end functions. The partnering agencies provide the front-end functions—they conduct the client outreach and recruitment, facilitate the LC formation and orientation, and provide financial education to support participants.

The MAF payment process is very efficient, providing triggers to help clients that need additional support[2]. The contribution amount is electronically withdrawn on the 17th of every month from every lending-circle loan. If there are insufficient funds or the account is closed, MAF contacts clients to address the issue. For clients in partner agencies, the follow-up process varies across organizations and provides an opportunity to address particular issues confronting participants. After a month of nonpayment at MAF, clients are asked to speak to a financial coach to ensure that they get the support they need to address their financial hardships, make a plan, refinance the loans, or withdraw. In five years, only 11 loans have been reported to the credit agencies as defaults because of lack of payment for more than 90 days (0.7 of LC loans, which is half of the post-recession S&P/Experian Consumer Credit Default Composite Index of 1.55), and only 40 people have withdrawn from the program.

[2]*There were almost 600 lending-circle loans active per month in the last 10 months.*

Analyzing the impact

To assess the success of the program, we looked at the clients who benefited the most from being in a lending circle and examined the elements of the program that most improved credit scores. For this analysis, we selected a subsample of 269 new participants enrolled in lending circles, 209 at MAF and 60 at partner CBOs. We collected credit reports at the beginning and end of the program, and we had clients fill out an in-person questionnaire when they registered. The survey gathers information on personal characteristics, current economic and financial situation, financial assets, investments and accounts, financial goals, expectations, and behavior (for example, had clients used a pawnshop in the last 3 months, did they have enough money saved for an emergency, could they get a loan for $1,000 in an emergency, and were they motivated to change their financial situation).

We then examined the implementation of the program by conducting interviews with clients and the staff. The purpose of conducting qualitative interviews was to document the perceptions and benefits of the program.[3] We interviewed 16 LC participants at the end of their lending circle. We asked about their motivations to join the program, their feelings about banks and financial institutions, and whether they would have enrolled in the program if it were offered at a financial institution or if there had been a fee to join. Program participants for the qualitative interviews were randomly selected. Thirty were selected at MAF and six at each of the three partnering CBOs that completed the pilot study.[4] These clients were used as the basis for recruitment for the final sample. The final sample included 16 clients, ten from MAF and two from each partner organization.

[3] *The qualitative surveys used are included in the Appendix.*

[4] *The three partnering CBOs were the Chinese Newcomers Service Center, the San Francisco LGBT Community Center, and the Fremont Family Resource Center.*

Program respondents were compensated with a $25.00 Amazon gift card for participation.

In addition, we interviewed the staff members who were the main managers of the day-to-day LC activity at the five organizations in the pilot study and at MAF. Interviews were conducted at two time periods, once when the LCs were formed, and again at the end of the evaluation period. These interviews explored the staff's experience in setting up and implementing the program. The topics included recruitment efforts, outcomes, opportunities, challenges, and costs. Agencies were additionally asked to provide feedback about the program and to suggest changes that might make the program function more effectively.

Jessica

Originally from Peru, Jessica used to be just like the one out of every 10 Americans living on the fringe of financial stability. Without a credit score, checking account, or savings, Jessica used to pay exorbitant fees to access her money from check cashers and payday lenders. These lenders continued to erode the assets she needed to overcome poverty.

A self-employed house cleaner, Jessica was limited to working in areas along the public transit line. Her equipment was aging and needed replacing, but she had no way to obtain a loan. She had never applied for a loan before because her business started small and she paid for everything in cash. Because she had never used a bank and had not built a credit score, Jessica joined a Lending Circle. With her peer loan, she bought new equipment and marketed her business. She even applied for a secure credit card from the local credit union.

Nine months later, Jessica's hard work paid off. MAF pulled her credit report and score: 623. Jessica was so happy when she received the news that she cried. For the first time, she felt visible and recognized by the system. By year's end, Jessica was approved for a car loan from the local credit union for a business vehicle, and her credit score soared to 703.

Jessica did not expect she would enjoy the Lending Circle group so much. After the first circle ended, she joined another peer loan group with her sister and her best friend. With a series of small loans to invest in her business, Jessica's enterprise is growing. She even had enough cash flow to hire her first employee.

What leads to improvements in credit scores *for Lending Circle participants?*

We used multiple regression analysis (OLS) to examine the possible factors that led to improvement in credit scores for a sample of 269 LC clients at MAF and partner sites. We developed the following model:

$$Y = \beta 0 + \beta 1 * \text{No credit pre} + \beta 2 * \text{financial indices pre} + \beta 3 * \text{personal charact pre} + \beta 4 * \text{Lending Circle} + \beta 5 * \text{MAF} + e$$

where Y is the credit score improvement from the beginning to the end of the program. The variable *No credit pre* controls for having no score at the start of the program, since results differ for the people with and without a score (Reyes et al., 2013). *Personal charact pre* includes controls for education and immigration, as well as dummy variables for whether the person is Latino, is employed full-time, is female, owns a car, or owns a home at the start of the program.[5] *Financial indices pre* are 10 indexes[6] that capture asset holdings, financial behavior, and financial motivations and attitudes.

The variables that comprise each index are described on the next page:

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[5]*Since our sample was small, and we did not want to lose additional observations due to missing values, we assigned a value where missing. We then converted the variables into scales to smooth out the distribution of responses.*

Education is a 5-point scale, 1 = six years or less of primary school; 2 = more than 6 years, but didn't graduate from HS; 3 = high school diploma or GED; 4 = technical/vocational school or some college; 5 = university degree (4 years) or more; and 0 = if missing.

Immigrant is a duration variable, as well as an immigration variable. The higher the number, the longer someone has been in the U.S. or, at the highest, the person was born in the U.S.: 1 = prefer not to answer; 2 = 2006 to present; 3 = 2000–2005; 4 = before 2000; 5 = not an immigrant; and 0 = if missing.

[6]*Cluster Analysis was used to create the indexes with the responses from 32 variables in the pre-test. This analysis generates clusters of correlated variables that are combined into an index that capture financial behavior, asset ownerships or attitudes. The entire MAF sample (control and treatment) was used and the results identified the variables along with the weight appropriate for each variable in the index. We examined the internal validity of the index and of the ten indexes, four showed strong internal consistency measured by Cronback Standardized Alpha Coefficient of 0.65 or more. This included Index 1 (Financial Protection), Index 4 (Auto), Index 8 (Value of Financial Services 2), and Index 10 (Value of Financial Services 1). Another four of the indexes had a Cronbach Alpha Coefficient above 0.5 but below 0.65: Index 2 (Financial Struggles), Index 5 (Bank Holdings), Index 7 (Financial Planning), and Index 9 (Financial Confidence). Showing the least internal consistency (alpha less than 0.5) were Index 3 (Financial Control), Index 6 (Predatory Lending). A low alpha does not necessarily mean the cluster is not correlated, missing data and the small sample size affects the consistence of the indexes, but they show promising results in the analysis. More research is needed to assess their predictability.*

Asset Holding Indexes

Financial Protection – Indicates whether a participant owns investments, retirement accounts, life insurance, and health insurance at pre-test.

Auto – Indicates whether a participant owns a car and car insurance.

Bank Holdings – Indicates whether a participant has a checking account, savings, or money saved for 3 months.

Financial Behavior Indexes

Predatory Lending – In the last 3 months, did the participant use a check cashing facility or a payday loan?

Financial Struggles – In the last 3 months, was the participant contacted by a bill collector, denied a loan, or required to pay late fees? Did the participant go to a pawn shop?

Financial Control – In the last 3 months, did the participant decrease his or her debt and pay bills on time? Does the participant feel in control of his or her finances?

Financial Planning – In the last 3 months, was the participant able to save, able to invest, make a budget, or use autopay?

Financial Confidence, Motivation, and Attitudes Indexes

Financial Confidence – Can the participant borrow $1,000 in an emergency? Is the participant comfortable at a bank, sure that he or she can get a loan, not worried about the future, and confident things will improve?

Value Basic Financial Service – What are the participant's views about the importance of having a checking account, a savings account, and health insurance? What is the participant's level of motivation to improve his or her financial condition in the next 12 months?

Value Higher Financial Service – What are the participant's views about the importance of having investments, retirement accounts, life insurance, and auto insurance?

The term *Lending Circle* includes the number of participants in the LC and whether the person underwent some financial education (orientation, workshop, financial education, or coaching while in the LC), and MAF is a dummy variable that captures whether the LC was done at MAF.[7] The results of the regression models are shown in Table 1, below.

Table 1
Results from Multivariate Regression of the Improvement in Credit Score

Variables	Model 1	Model 2
Intercept	-92.3 (78.7)	-60.6 (85.3)
No Credit Score	624.8 *** (26.6)	630.3 *** (26.5)
Financial Protection Index	65.3 **(30.4)	71.6 ** (30.3)
Financial Struggles Index	-10.4 (32.9)	7.7 (33.6)
Financial Controls Index	49.1* (25.6)	48.6 * (25.8)
Bank Holdings Index	-15.3 (27.8)	-10.4 (27.7)
Predatory Lending Index	-66.9* (37.5)	-57.6 (37.5)
Financial Planning Index	-18.5 (30)	-6.9 (30.2)
Financial Confidence Index	1.8 (10.6)	7.1 (10.8)
Value Basic Financial Services Index		-31.4 ** (13.7)
Value Higher Financial Services Index	-3.3 (8.5)	6.3 (9.4)
Auto Index	27.7 (26)	18.3 (26.1)
Number of Participants		2.9 (4.1)
Coaching/ Training	26.5* (13.8)	19.5 (14.5)
Employed Full-time	16.2 (25.6)	21.6 (25.7)
Education	-12.2 (9.3)	-12.4 (9.3)
Own Home	-7.8 (53.1)	-20.9 (53.1)
Immigrant	6.4 (7.9)	7.4 (7.9)
Female	-16.7 (25.6)	-11.7 (25.6)
Latino	-61.5* (33.6)	-48.6 (33.8)
MAF Dummy	36.7 (36.6)	25.1 (36.4)
R Square	.7096	.7162
Number of observations	269	269

Notes:
Standard errors in parentheses.
****p < .01*
***p < .02*
**p < .05*

[7] *We also included the number of months of the LC, but the variable was correlated with the number of LC participants, and we chose to include only one of them.*

At MAF and partner CBOs, we consistently find greater improvements in credit scores for people at the bottom of the credit distribution.

Figure 1 shows a simulation of the increase in score for the average lending circle participant who started without a score: their scores improved by 598 points.

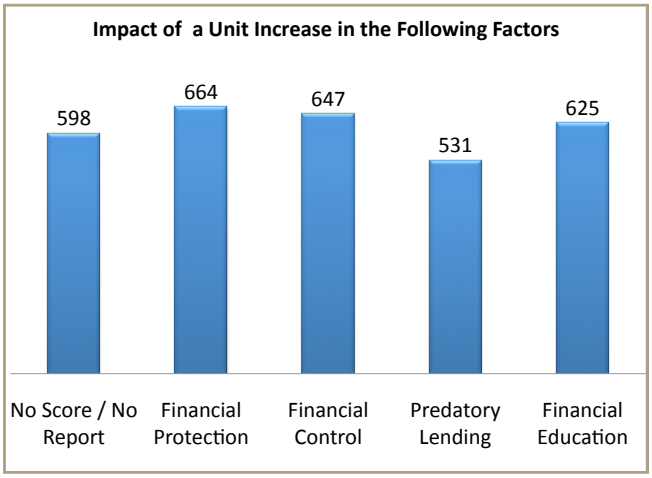
Two other groups benefited more or were better able to improve their credit scores than their counterparts. First, people who had assets at the time of the pre-test (in other words, financial protection such as retirement accounts and investments) did better than their counterparts. Because they had more financial resources, it's likely that they were more financially knowledgeable than their counterparts. As we can see from the figure, increasing the financial protection of clients by one unit improved their scores to 664, instead of 598.

Second, people who saved, invested, or created a budget in the 3 months prior to joining the program (Financial Control Index) experienced significantly larger improvements in their credit scores than their counterparts. It is likely that they were already on the path to improving their situation, and the program offered them an opportunity to achieve their goals. A one unit increase in this index increases the credit score improvement by 48 points, to 647.

On the other hand, people who engaged in risky behaviors, like going to a pawn shop, experienced less of an improvement. A one unit increase in the Predatory Lending Index reduces the credit improvement by 67 points, to 531.

The program also benefited people who had less information at the beginning of the study, as measured by how they valued basic financial services (such as checking and savings accounts) in one model and by the impact of financial education in the other model[8]. In Figure 1, we see the impact of financial education on the improvement in credit scores. Participating in one more financial education activity improved credit by 26 points on average. Those who valued these assets the least at the start of the program are the ones who benefited the most from the program. We will learn more about the impact of financial education from interviews with lending circle clients and the staff implementing the program. We describe the results of these interviews in the next section.

Figure 1
Simulation of the Credit Score at the End of the Lending Circle for Participants Who Had No Score at the Start of the Program



Notes: These simulations are generated from the results from Table 1. We used the coefficients in Model 1 and the mean of all the variables in the model. On average, the person had no credit score at the start of the lending circle; Financial Protection Index = 1.6; Financial Struggle Index = 1.8; Financial Control Index = 1.9; Auto Index = 1.4; Bank Holdings Index = 1.2; Predatory Lending Index = 1.3; Financial Planning Index = 2; Financial Confidence Index = 3.3; Value Basic Financial Services =5 ; Value Higher Financial Services = 3.3; Financial Training = 2.5; Full-Time employment = 0; Education = 3; Own Home = 0; Immigration = 2; Female = 1; Latino=1; and MAF = 1.

[8]*Our original plan was to randomize participants into circles with and without financial education. A number of those participants assigned to lending circles that were to include financial education did not participate in the workshops or coaching, however, while others who were not supposed to receive financial education did wish to receive it. We therefore decided to eliminate randomization.*

Views on the impact of Lending Circles

Both participants and agency staff members expressed the multidimensional benefits of LCs. Joining a lending circle provided a safe way for people to begin addressing their financial well-being with the support of their peers. For some, being in a lending circle was the first step in receiving financial help. One participant commented:

> *"The program helped me gain confidence. [I feel] that someone believes in me and will give me that chance. It also made me accountable to put in an amount every month that I wouldn't have saved otherwise."*

Overall, participants say they gained more awareness and control over their spending habits and felt more confident seeking and utilizing financial services.

> *"Participation in the program shows my creditworthiness... I feel more confident after the program that a loan would be approved."*

Many LC participants expressed a change in their financial knowledge and behavior.

> *"I have new goals. I also have more economic opportunity for my family, especially for my children and their studies. My finances are more reliable."*

Additionally, many clients expressed an increased understanding of the importance of budgeting and maintaining a positive credit rating.

> *"I have a hard time budgeting. I learned different techniques to budget my money... I now monitor my credit report. After participating in the LC, I have improved 65 points and my credit score is now 813."*

The credit-building aspect of the program appears to be the primary motivating factor for client participation. Using the message "to repair or establish personal credit" worked best to attract participants. This message had broad appeal for the diverse communities reflected in the pilot project, as well as for MAF clients. The motives to save or borrow money appeared to be secondary.

In some cases, emphasizing the loan aspect of the program resulted in attracting individuals who were less appropriate for the lending circles. That is, according to agency staff, advertising the loan aspect generated much interest. However, after screening applicants, it became apparent that those seeking loans quickly were not as flexible in the amount offered or in the timing of when they would receive their payments. They were interested in the loan amount being distributed immediately.

Financial education and coaching was deemed valuable by both agency staff and participants. One LC participant commented on her increased feeling of personal efficacy after receiving financial education.

> *"Financial education helped with understanding what I do that affects my credit score negatively. I feel my finances will improve, and I have new goals to save money for large item purchases."*

Other participants focused on the more practical knowledge they obtained.

> *"Financial education demystified how to set up a checking account and work with a bank, including information on 401Ks and financial profiles."*

Agencies saw the program as an opportunity to draw in people who need assistance and as another way to identify community needs. The selection process served as a direct opportunity for financial education. For community agencies, this fits in well with their mission to improve their community's overall well-being. Participants were grateful to know more about credit, and they valued information on how to make good purchasing decisions and how to avoid unnecessary spending. Agency staff realized that working with a financial coach to assess overall financial health is an ideal way to guide individuals to participate (or plan to participate) in lending circles at some point in the future when they have reached greater stability. However, this requires considerable skill and effort on the part of the program staff and adequate resources to provide this level of individual support.

Staff members say the program also benefited agency workers. They increased their knowledge about loan processing and credit, and they gained administrative skills and capabilities. They were pleased that the lending circles gave them the opportunity to offer a useful and effective program to their community that was closely aligned with their mission and that strengthened and complemented their existing services.

Replicating Lending Circles

Lending circles are reaching new populations at partner sites (see Table 2). As of January 2013, CBO partners were serving primarily women, as at MAF. However, they were reaching a more ethnically and economically diverse population than at MAF. Close to 20% of clients at partner CBOs were African American, and significant shares were Latino (29%), Asian/Pacific Islander (24%), and white (14%). The partner sites are also serving more U.S.-born clients.

Over 40% of clients at partner CBOs were born in the United States. The majority of the clients at partner CBOs were employed full-time, and only 20% had no credit score or report at the start of the program (as compared to 29% for MAF clients). More participants had a score above 720 (20% compared to 13% at MAF). Some of these disparities could lead to differences in outcomes for clients at partner sites. For example, credit scores are not as likely to improve as much at CBOs as at MAF because clients start out with slightly higher credit scores on average.

Note: This data is for all lending circle clients at MAF and partner sites who started their first LC before January 18, 2013.

Table 2
Characteristics of Lending Circle Clients

	Partners	MAF	Total Clients
Gender			
Female	59.6%	62%	61.1%
Male	31.8%	30.1%	30.3%
Other or Blank	8.7%	7.8%	8.1%
Age *(Average age 40 years)*			
18 to 25	10.6%	11.4%	11.1%
26 to 45	50.7%	51.8%	51.4%
46 to 64	28.1%	27.5%	27.7%
65 or more	1.9%	1.9%	1.9%
Blank	8.7%	7.5%	7.9%
Ethnicity			
African American	19%	2.6%	8.9%
Asian/Pacific Islander	23.8%	2.7%	10.6%
White	14.2%	3%	7.2%
Latino	29.1%	66.5%	52.5%
Native American	0.2%	0	0.1%
Other	3.8%	1.2%	2.2%
Blank	10%	24%	19%
Employment Status			
Full-Time or More	50.7%	35.7%	41.3%
Part-Time	12.7%	11.4%	11.9%
In School Working or Not	7.7%	6%	6.7%
Self-Employed	8.2%	13.7%	11.6%
Unemployed	11.8%	9.4%	10.3%
No Answer or Blank	8.9%	23.6%	18.1%
Place of Birth			
Born in the U.S.	42.8%	12.5%	23.9%
Blank	10.1%	7.5%	8.5%
Children in Household	52.4%	36%	42.1%
Credit Status			
No Score or Report	19.5%	29.1%	25.5%
Less than 580	16.1%	13.4%	14.4%
581 to 619	10.10%	7.3%	8.4%
620 to 719	24.76%	25%	25%
720 or Better	20.2%	13.1%	15.8%
Blank	9.38%	12.1%	11.1%
Total	416	695	1,111

There were 203 LCs formed by January 18, 2013, at MAF and partner sites, for a total loan volume of $1.6 million (see Table 3). Eighty-five percent of the lending circles have been opened since 2011, but 90% of those at partner sites were started last year. The average LC client is in a group for 10 months with eight participants; they contribute about $100 per month and borrow about $900.

Lending circles last longer and clients contribute a larger amount at MAF than at partner CBOs, especially when we look at completed lending circles. The average person at partner CBOs is in a group with six people and the LC lasts 7 months, as compared to MAF, where clients are on average in a LC with at least eight people for 10 months. These differences could disappear as new sites become adept at providing LCs. Many of the partner agencies engaged in short cycles to learn how to implement the program.

Table 3
Characteristics of the Lending Circle Experience by the Average Client

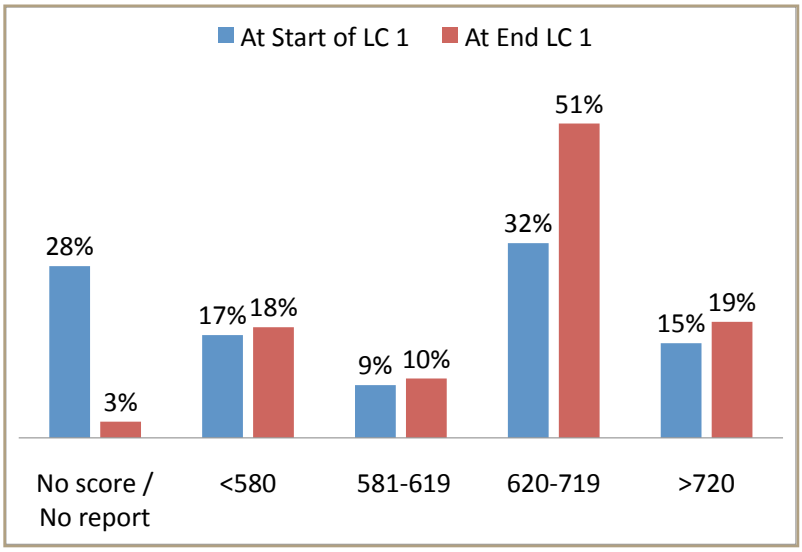
	Partners	MAF	Total
Number of LCs	87	116	203
Number of LCs in Progress	42 (48%)	37 (32%)	79
Year of Formation			
2008 or 2009	0	10.3%	5.9%
2010	0	14.7%	8.4%
2011	11.5%	22.4%	17.7%
2012 or 2013	88.5%	52.6%	68%
Average Duration	8.8 months	10.1 months	9.5 months
Completed	7 months	10.3 months	9.6 months
In Progress	8.1 months	9.6 months	9.2 months
Number of Participants	6.1	8.7	7.7
Completed	5.9	8.7	8.1
In Progress	6.3	8.9	7.9
Average Monthly Payments	$90.57	$108.04	$103.27
Completed	$90.70	$117.09	$111.85
In Progress	$90.48	$90.20	$90.30
Average Loan Amount	$833.80	$958.59	$901.53
Completed	$644.02	$1,427.68	$1,257.16
In Progress	$839.73	$940.33	$901.53
Loan Volume	$364,010.00	$1,238,450.00	$1,602,460.00

Note: This sample originates from Lending Circle files for those circles formed before January 18, 2013. Since LCs are of different sizes, we decided to examine the experience of the average person and not the average lending circle.

In spite of the differences in client and LC characteristics, we observe the same pattern in credit score improvements for participants at partner CBOs and at MAF (Figures 2a and 2b). At the end of the first LC at partner CBOs, significantly fewer clients had no score (8% as opposed to 20% at the start of the program) and a greater proportion had scores above 620 points (64% compared with 52% at the beginning). However, the results are less dramatic than the results achieved at MAF. This is not surprising given their limited experience with the program and the small sample size of completed lending circles by the time of the study (only 18 clients started with a score of 581–619 at partner sites). In addition, as we discussed above, the LCs were shorter and the clients had slightly better scores at the start of the LCs at partner sites than at MAF. This may explain some of the differences in score improvements.

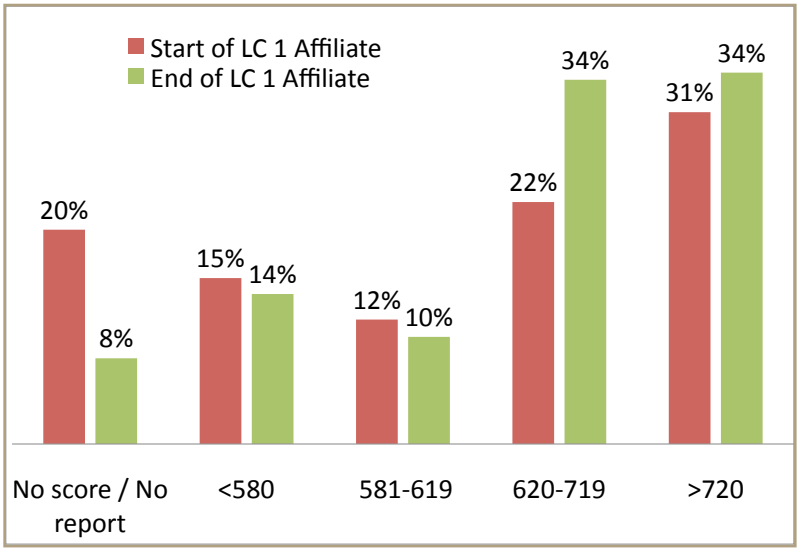
In the next section, we gather suggestions and insights from staff and clients.

Figure 2a
Distribution of Credit Scores at the Beginning and End of the First Lending Circle



Note: This data is for all lending circle participants at MAF only. We excluded participants whose lending circle was still in progress. For participants with multiple loans, we only evaluated their first lending circle.

Figure 2a
Distribution of Credit Scores at the Beginning and End of LC1 at Partner CBOs



Note: This data is for all lending circle participants at partner sites. We excluded participants whose lending circle was still in progress. For participants with multiple loans, we only evaluated their first lending circle.

How do we best replicate Lending Circles?

Agencies that focus on social services and support for individuals and communities are ideal for both the implementation and facilitation of lending circles. These agencies offer services and help people access programs that work together to improve standards of living and well-being on various levels. Participants in the Lending Circles program felt that these agencies were concerned with their overall well-being. Trust in the agency played a huge factor in getting clients to participate. The trust in the agency led to greater trust in the lending circles and the understanding that the program was in their best interest.

Organizing lending circles through agencies that offer in-house financial services is particularly beneficial. Examples of these include services are: SparkPoint, Volunteer Income Tax Assistance (VITA), and United Way. In-house financial services were a good resource for participants. Incorporating LCs into these agencies provided direct access to individuals who were already motivated to improve their financial situations and who already trusted the agencies. Less outreach effort was also necessary once the CBOs were able to create informed and established networks. Collaboration with programs offering financial assistance strengthened the lending circles program.

Community-based agencies were seen as more effective than traditional financial institutions at facilitating lending circles. Respondents expressed strong sentiments regarding banks. One LC participant commented, "Banks make loans, agencies make savings." Staff and participants felt that financial institutions were technically capable of implementing lending circles. However, they also expressed a belief that some banks placed a greater emphasis on making money and were not as concerned as community agencies in improving the financial well-being

of clients. In addition, many respondents felt that banks were not culturally competent. Credit unions were seen as having a greater interest than banks in supporting well-being. Having agencies in charge of recruiting and implementing lending circles allowed them to tailor both their marketing and administrative efforts, as well as their financial education programs, to match the needs of the communities they serve. This included translating materials into the appropriate language and using messages that were in line with the needs of the service population.

Not all agencies are suited for this program. Of the original six sites, one went out of business soon after starting the program, and two are not continuing to offer lending circles. Managing peer lending circles requires considerable administrative time and effort. This administrative effort continues even after the program is up and running. But, once the program is established, agencies are able to regulate how large to make the program, which can help keep the program manageable. Recruitment also becomes easier once networks are established and word-of-mouth referrals take effect. But the program requires a serious commitment to be adequately launched, and the agency has to be well prepared and financially stable.

Raising funds to sustain the program past the expansion period proved to be a hurdle for some of the agencies. The CBOs that are not continuing with the program mentioned limited resources or a perceived difficulty in generating funds as factors in their decision. But the challenge of raising funds was also mentioned by organizations that wish to continue the program. Fundraising efforts require a buy-in from directors, managers, and staff, and a clear understanding of the benefits of the program. This was harder to achieve for some, given the newness of the program and the uncertain funding stream. Agencies also felt they would be competing with one another for the same few funders. More information about the effectiveness of the program and funding opportunities could be made available to help address some of these concerns. Also, a pool could be created to support Lending Circles nationally, so that agencies can support one another rather than compete for limited funding.
Agency staff viewed effective logistics, database management, and experience with outreach as important for the implementation of a successful LC program. For agency staff, having a business and marketing background is helpful in setting up and implementing the LC program. However, these elements can be developed in the process of setting up lending circles with support from

an experienced source with adequate resources devoted to that purpose. Additionally, it is best for the full implementation of the program to have a location and office where people can meet for program administration and training. The program for the Oakland area was organized from the MAF offices after the original partner serving that area shut down its operations. People were able to form groups and fulfill the loan-processing requirements. With no office and minimal staff resources, financial education in Oakland was not offered and other logistical aspects of the program were more difficult.

MAF support for loan processing and servicing was critical for the successful implementation of the program at partner sites. Everybody involved recognized that some form of ongoing support from MAF or a central agency to handle loan-processing issues and requirements was necessary. Agencies generally felt that mistakes in processing were inevitable due to the complexity and precision of the requirements, as well as the need to address new situations as they arose. Recruiting participants, managing the lending circles, and integrating services was enough work for agencies to handle without taking on more tasks.

Agencies see great potential in the program and expressed a desire for expansion and enhancement, but they also said that they lacked the time and capacity to make this happen. Staff members talked about potential innovations in areas such as education, community building, and tailoring the program to their respective communities. They also spoke of the potential for building communication with other agencies implementing the program and for following up with clients after their circles end. However, many agencies are already functioning beyond their capacities and are not able to be innovative or offer assistance beyond the lending circles.

The community-building aspect of the program was seen as extremely valuable by agencies and participants alike. One participant commented,

> *When we met, we talked about our goals and what we were going to do with the money. I enjoyed the camaraderie among the women in our group… sharing and having faith in each other.*

Another participant added,

> *It was a community—everyone helping each other.*

Respondents overwhelmingly expressed a desire for more opportunities to strengthen this aspect of the program. Lending circles could offer more opportunities for participants to meet, connect, learn from each other, and provide moral support, making it more likely for participants to achieve their goals. For example, one participant felt the program would work better if the group leader were given an incentive, even a small one like a meal at a restaurant, for taking on leadership responsibilities. MAF has started offering clubs for this purpose (e.g., Savers Clubs and Credit Clubs).

There was an understanding of the importance of offering the service at no charge. Given the financial situations of the participants and the intent of the program to increase financial well-being, the fact that it was offered at no cost was important. Some participants said they would be willing to pay a small amount to participate, but felt that many of their peers would be discouraged by having to pay even a small fee. This is what we heard from one participant:

> *It's very important that it be offered for free… The program helps everyone build credit and become established. In order for people to participate it needs to be free – especially in San Francisco, people need help.*

Agency staff mentioned that some individuals may not be in the position to contribute even small monthly amounts, even though they might want to improve their credit. For example, one agency observed that some credit scores decreased during the program and concluded that some individuals were defaulting on other financial obligations even though they fulfilled their payments for the lending circle. This agency developed a budget sheet to help determine whether an individual had enough discretionary income to successfully meet the program requirements. Also, requiring proof of household income was useful in determining whether someone was an appropriate candidate. However, the outcomes that they observed may be because the partner site is actually too selective. As mentioned earlier, the Lending Circles program benefits people with marginal records or no credit record at all. It is the people who start the program with scores above 620 that experience a decline in scores or no change in scores. These clients, however, did decrease their outstanding debt (Reyes et al., 2013). While it is important that the client can pay and is ready to join the program, staffers need to be careful not to be too selective. Our indexes of Financial Control and Predatory Lending point to some possible questions to determine if someone is ready to join the program.

Specific Recommendations

Consider providing instructions on how the loans are processed as part of the initial training and set up.

During the implementation of Lending Circles, staff at partner locations learned as they went along about how loans are processed. Having this knowledge up front could better facilitate the initial phase of implementation.

Improve the application form and process to simplify and facilitate data entry and management.

It would be best if the process were tailored to the community or population being served and the organization implementing the program. Agencies are better able to understand and know what works best for the population they serve.

Consider reducing the requirements for repeat participants.

Both agencies and participants noted that reducing the requirements for repeat participants would facilitate the process for those looking to receive additional benefits from continued participation.

Send a detailed letter outlining the payment and distribution process.

A detailed letter would help to ensure that the decisions made during the formation session were understood. Many found that participants were surprised or had questions about the process during the lending circle period.

Improve the mechanism for checking credit scores.

During the expansion project, MAF had access to credit scores but agencies did not. This might be resolved in part by teaching participants how to check their scores (e.g., by using Credit Karma). Agency staff felt it was important to have that information for better assessment of programmatic and individual needs.

Use information technology to facilitate the formation of lending circles.

Information technology could be better utilized in areas of training, education, implementation, community building, and sharing information and resources. Improvements could also be made in integrating databases and streamlining data input (currently the same information is sometimes entered into more than one database).

Summary

Our analysis shows that the Lending Circles program helps low-income people gain access to the financial mainstream. A significant number of participants in the lending circles at the five Bay Area agencies in the pilot study improved their credit scores, indicating that the program could be replicated in other communities, although the results were not quite as dramatic as the results achieved by participants in the lending circles at MAF. The improvements were achieved across a diverse population of participants. Notably, the people who benefited the most were those who needed it the most—clients who had no credit history when they began the program. Likewise, clients with limited information about credit and financial assets showed significant gains, as did participants who had already saved some money or created a budget prior to entering the program. Combining social lending with financial education increased scores. Both participants and staff felt that CBOs were well positioned to implement the program, given their established involvement in their respective communities. To achieve results, however, agencies needed sufficient infrastructure, a sizeable community interested in establishing or improving their credit scores, and some understanding or interest in financial matters. The recommendations from staff and clients who were involved in the pilot study will further increase the program's effectiveness, helping new clients to build their credit scores, learn to save, and increase their overall financial stability.

cestas populares

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c é s a r e . c h á v e z i n s t i t u t e

college of ethnic studies • s.f. state university
1600 holloway avenue • ep103
san francisco ca 94132
cci@sfsu.edu • cci.sfsu.edu