WORKING POOR AMERICANS AND CREDIT: THE RELATIONAL LENDING MODEL

A THESIS

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By Brian Hall

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Working Poor Americans and Credit Markets: Predatory Lending and the Relational Lending Alternative

Brian Hall

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Abstract

The working poor in America face many challenges. Traditional lenders refuse to serve them because they are high-risk, leaving them vulnerable and reliant upon predatory lenders such as pawnshops, payday lenders, and rent-to-own centers. This paper argues that predatory lending fills a necessary void but can be replaced by a more socially responsible and equitable alternative model. By promoting relational lending, risk can be minimized and the lives of working poor people in America can be improved.

Key words: Working Poor, Micro-credit, Relational Lending

ON MY HONOR I HAVE NEITHER GIVEN NOR RECEIVED ANY UNAUTHORIZED AID ON THIS THESIS.

Brian Hall

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Chapter One

Introduction

Whether it is putting food on the table, having enough money to pay the cell phone bill, or paying off the bills from an un-insured family member's funeral, the working poor in the United States face many challenges. When financial challenges present themselves they impact every aspect of their lives. Consequently, if one wants to improve the quality of life for a working poor person they must focus on their financial situation. This is not a new idea, as the government has instituted many programs and charities have sprouted up to address financial concerns. Unfortunately, few have focused on providing more than just education or financial handouts. This does little to encourage progress.

To clarify the group we are looking at, a person is considered to be "working poor" if they consistently maintain a job but are still living below or near the poverty line, which in 2007 was 20,650 dollars for a family of four.[1] In 2006, there were 36.5 million people in below the poverty line in the United States.[2] The number of people eligible for the federal Earned Income Tax Credit (EITC) is a popular figure when discussing what

[1] United States Department of Health and Human Services. "HHS Poverty Guidelines," http://aspe.hhs.gov/poverty/figures-fed-reg.shtml, (accessed October 9, 2007).

[2] United States Census Bureau. "Poverty: 2006 Highlights," http://www.census.gov/hhes/www/poverty/poverty06/pov06hi.html, (accessed October 9, 2007).

percent of the 36.5 million are working poor persons. In El Paso County there are 7,859 "working" poor persons, or 13.2 percent of those in poverty.[3] If one takes into account the number of children living in a "working poor" household the number rises even higher. Politicians are unsure what to do to help them, and the average American may harbor deep misunderstandings about them. One group that will be involved throughout this paper is America's Family, a nonprofit designed to provide assistance to working poor persons by offering financial literacy counseling as well as small loans. This multi-faceted approach is crucial to any organizations ability to impact this market, as one will see after discussing the marketing and culture of the working poor in the United States.

Micro-credit--or small loans often associated with poorer persons who do not have access to traditional credit or banking markets--is a tool used by organizations all over the world. Microfinance is a related term, and it involves small loans to persons who are seeking to invest it in capital of some sort, often an entrepreneurial venture.[4] This paper will focus chiefly on micro-credit, as one major difference in America is that a large number of poor people actually hold a job. The first step to a more secure life is not necessarily finding work where they can use their skills but rather finding financial services that will not soak up their disposable income. By understanding the potential of micro-credit and what it can and likely cannot do in the United States, one can have more realistic expectations and proper goals for what this popular tool can accomplish. This paper will look at the current state of micro-credit in the United States and then move on

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[3] America's Family. *Poverty Elimination Program for the Colorado Springs and the Denver Metropolitan Area,* Statistics gleaned from the El Paso Department of Health and Human Services and the U.S. Census Bureau, (2007).

[4] Beatriz Armendariz de Aghion and Jonathan Murdoch. *The Economics of Microfinance* (Cambridge, MA: MIT Press, 2005), 14.

to examine how it can be improved. The discussion of improvement will center around two topics: reducing the need for credit and providing less expensive credit services.

Motivation

Imagine your name is Robert Jackson. You get up at 5 a.m. each day to spend the next eight or nine hours picking up people's garbage. Hardly anyone sees you and nobody thinks to say "Thank you" for doing a job that must be done. Your wife, Denise, works at McDonald's on the night shift so she can pick up your two kids from school. Your budget is tight and just putting food on the table can be a challenge. Your parents taught you one thing about finances: the rich keep getting richer and the poor keep getting poorer and there is nothing you can do about it. You never really bought this argument, but when your uninsured father died last month and left you with hundreds of dollars in funeral expenses you began to think he could have been right. You went to the local pawnshop and pawned off the computer you recently bought and received 500 dollars for it even though you already paid eight of the monthly installments of 47 dollars, or 376 dollars. You still owe another 28 payments, or 1,316 dollars. Your wife went to the payday lender down the street and borrowed 300 dollars, with her next paycheck as collateral plus interest of 30 dollars. When annualized, this amounts to an interest rate of 120 percent.

You covered the cost of the funeral, but your wife's next paycheck is owed to the payday lender. And did you think the 1,700 dollars you still owed for that computer would magically disappear? Sadly, in about two months the store will be taking you to court as they seek to garnish your wages unless you can come up with a payment plan.

Unfortunately, this story is based on actual events. It only takes one emergency to financially cripple a working poor person in the United States. Once they sink into debt it simply prolongs the rough times and sinks them deeper into debt. Many Americans are working hard but coming up with nothing but debt to show for it; successful ones often just break even.

Hypothesis

Conducting financial literacy education and providing relatively low-interest loan products can increase the disposable income of a working poor person in the United States. Unfortunately, there is much more to be discussed in proving this hypothesis. The marketing plans of businesses currently serving the working poor, the culture of the clientele, and the rationality of their current decisions must all be addressed. One payday loan institution, Advance America, does a wonderful job of reaching out to their prospective clients. Their marketing flyer reads:

> Whether you're a mailman or a marketing representative,
> A beautician or a bus driver,
> You do what it takes to get the job done.
> So for all those days when the hours are long but your wallet's coming up short,
> We're here for you.
> Because you ADVANCE AMERICA.[5]

The non-profit and government sectors must compete with effective marketing such as this while also dealing with the social capital that has already been developed between

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[5] Advance America. "Marketing," http://www.advanceamerica.net/ (accessed October 6, 2007).

the for-profit lenders and the working poor. Without an in-depth understanding of the current market environment, the culture from which working poor persons come, the necessary education that many lack, and alternative loan products no organization can effectively increase the disposable income of working poor persons in the United States.

Method

The research was conducted in ways fitting for each issue. Surveys and data collection were done in order to understand if there was potential demand for credit amongst working poor persons. To better understand the culture of the working poor, surveys were distributed and personal interviews were conducted. One of the most important parts of the project involved the analysis of statistics concerning a working poor person's income. By evaluating the current costs of their lifestyle—whether it be frequenting a rent-to-own store, pawn shop, or payday lender—and then evaluating the costs of an alternative lifestyle following financial literacy education and the use of alternative loan products, the researcher sought to illustrate whether or not their disposable income could be increased and by how much. By working with average incomes and expenses of the average working poor person the researcher sought to illustrate how education and an alternative loan product could improve their disposable income without forcing them to switch jobs or become entrepreneurs.

Data/Evidence

Data and evidence was collected from surveys of poor persons, payday lenders, and by interviewing the staff of America's Family on their alternative model.

Results

The expected result was that a working poor person's disposable income could be greater than their expected disposable income would be if they were to frequent the average payday lender instead.

Chapter Two

Literature Review

The economic lives of the poor are quite interesting and often difficult to fully comprehend. Much of the existing research on the working poor focuses on the ways they are either exploited by predatory lending or the potential for microfinance. One of the more complete discussions of the economic life of a working poor person is *The Poor and Their Money* by Stuart Rutherford. He maintains that the poor truly want to and try to save money, but keeping it safe from being used by needy relatives, demanding children, or creditors is difficult. An emergency car repair or visit to the doctor can financially impair a poor person, as their only way to finance such a large expenditure is by selling assets, mortgaging the assets, or by turning their small savings into a large lump sum.[1] In Rutherford's discussion of how financial services could better serve the poor, he discusses the importance of being able to save in small sums while being able to access large sums when needed. The location and delivery of these services is also crucial. Paperwork must be avoided, the savings must be readily accessible, affordable, and timely, and lastly the service must be transparent and able to be understood by persons who have received little education.[2] The products must be formulated with the working

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[1] Stuart Rutherford. *The Poor and Their Money,* (Oxford: Oxford University Press, 2000), 2.

[2] Ibid., 104.

poor in mind, and efforts must be made to understand what other financial services are already available to them and why they prefer these services. Rutherford maintains that one-track minds will not succeed in helping the working poor, as they need savings and loans, not just one or the other.[3]

Armendariz de Aghion and Murdoch discuss the motivation for intervention in *The Economics of Microfinance*. Poor people are seen as vulnerable because they lack options when it comes to obtaining credit, and out of necessity must subject themselves to the abnormally high interest rates charged by money lenders.[4] In poor neighborhoods there is often an oversupply of payday lenders and they rarely compete with others by lowering their rates. Each lender must charge high interest rates because there are too few clients and the lender is not able to reap the benefits of returns to scale.[5] Drake discusses how such a market could be penetrated in *The Commercialization of Microfinance*. She explains the importance of having an extensive network of services, experience in offering these services, and access to resources necessary for establishing a micro-credit program such as physical service centers. Drake points to current banking institutions as ones who could readily offer the service of microfinance to poor persons, while also remaining cautious about the threat of "over-lending" to a poor consumer and burdening them with too much debt.[6]

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[3] Stuart Rutherford, *The Poor and Their Money* (Oxford: Oxford University Press, 2000), 110.

[4]Beatriz Armendariz de Aghion and Jonathan Murdoch, *The Economics of Microfinance* (Cambridge, MA: MIT Press, 2005), 27.

[5] Ibid., 33.

[6] Deborah Drake and Elisabeth Rhyne, *The Commercialization of Microfinance* (Bloomfield, CT: Kumarian Press, 2002), 8.

The Federal Deposit Insurance Corporation (FDIC) promoted discussion of how to reach "unbanked" persons by holding a symposium called "Tapping the Unbanked Market" in 2003. Any discussion of the unbanked is also pertinent to discussions on the working poor, as many times they are one and the same. In other words, the people earning money that they could potentially deposit in a bank are the same ones who are working but still poor for a variety of reasons. While estimates vary, it is generally accepted that there are 10 million unbanked households in the United States.[7] Experts brought up an interesting idea: poor people know they are being charged incredibly high rates of interest, but the "soft issues" such as a welcoming atmosphere and trust between the customer and lender play a large role in their decision. The stuffy "suit and tie" atmosphere of a traditional bank may be enough to turn working poor persons away even though the interest rates are much better. Other lenders, meanwhile, have better geographic locations, hours, a welcoming exterior, and employees who are from the neighborhood. The importance of approachability when trying to reach poor persons was stressed emphatically.[8]

One community bank in Chicago found minimum deposits and balances serve as barriers for poor people looking to open an account so they have done away with both and work on a case-by-case basis.[9] Many poor persons often cite the fact that they have low incomes and the high cost of accessing banking services as reasons they avoid

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[7] "Tapping the Unbanked Market," Symposium conference proceedings from November 5th, 2003, http://www.fdic.gov/consumers/community/unbanked/tumtranscript.html, (accessed April 17th, 2007).

[8] Ibid.

[9] Ibid.

traditional banks. Bob Hope may have been right when he said "A bank is a place that will lend you money if you can prove that you don't need it."[10]

Financial literacy was also discussed. Representative Ruben Hinojosa said "Our overall financial literacy strategy should combine coordinated government efforts...with the best of these targeted non-government programs to provide a continuum of education that starts in the schools, but continues into adult life as people's financial needs change." [11] Others touched on tax preparation services offered to poor persons as having been a problem in the past but potentially part of the solution in the future if they could help working poor persons realize the benefits of the Earned Income Tax Credit and other benefits.

Wright thoroughly discusses both the benefits and potential drawbacks of microfinance in *Microfinance Systems: Designing Quality Financial Services for the Poor.* He wisely points out that observers should exercise some caution and not believe all of the diverse benefits many proponents claim. Some skeptics have gone so far as to claim that microfinance fails to reach the extremely poor, has a minor impact on income, does not address the social cause of poverty, and does not provide the poor with crucial services like health care and education.[12] Wright, Rutherford, and others stress the importance of offering a variety of very flexible financial services to the poor to meet their diverse needs. While Wright calls this microfinance, others may label it micro-credit. In the end the confusion is unnecessary. The terms microfinance and micro-credit

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[10] Jeremy Smith, "One Small Loan for Man...," *World Trade*, October 2006, 66-75.

[11] "Tapping the Unbanked Market," Symposium conference proceedings from November 5th, 2003, http://www.fdic.gov/consumers/community/unbanked/tumtranscript.html, (accessed April 17th, 2007).

[12] Graham Wright, *Microfinance Systems: Designing Quality Financial Services for the Poor* (New York: Zed Books, 2001), 5-6.

are actually interchangeable when it comes to most of the literature. The term microfinance has become more popular because the word "credit" has more negative connotations, but each term essentially means the offering of a financial service to a person in some state of need who should have the ability to re-pay the lender at some point in time.[13]

Wright points out that the field of research on microfinance is relatively young, with the first study covering the Grameen Bank in Bangladesh and conducted by Mahabub Hossain in 1984.[14] One big difference between the founding of Grameen and microfinance programs in the Unites States is that over one-third of Grameen's members were unemployed when they joined. While Muhammad Yunus and Grameen have been extremely successful and even won a Nobel Peace Prize, Wright stresses the importance of caution and careful thought as opposed to exact replication of a previous model. What he calls the "Grameen Gospel" regarding microfinance models is not to be exactly replicated but carefully considered and used only when applicable.[15] There is also the issue of what he perceives as a pre-occupation with raising poor people's income, stating that the truly important topics are "increasing net wealth and income security".[16]

Wright goes on to discuss the steps one should take when attempting to implement a new model. While somewhat basic, the steps laid out are worth considering. The identification of a communities needs and opportunities should come first, followed

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[13] Graham Wright, *Microfinance Systems: Designing Quality Financial Services for the Poor* (New York: Zed Books, 2001), 7.

[14] Ibid., 14.

[15] Ibid., 109-110.

[16] Ibid., 38.

by model design and a pilot program, monitoring and evaluation of the pilot program, and finally a process of refinement and large-scale implementation.[17]

The vast majority of the literature has avoided discussion of the specific services currently offered to the poor and why they choose these services such as pawnshops, rent-to-own stores, and payday lenders. Brown gives a good overview of pawnshops in *Poor Credit: An Exploration of Microcredit, Pawnbroking, and Poverty.* Pawnshops spread rapidly during the 1980s,[18] similar to the recent spread of payday lenders. An interesting point made by Brown is the importance of the relationships or social capital developed between pawnbrokers and customers. One manager who was interviewed specifically stated, "...You've got to have compassion in this business to stay in business."[19]

While few scholarly articles have been written on the subject, the news media has picked up more quickly on the issue. Also, politicians who saw the way many members of the military were becoming enslaved to the debt brought on by payday lenders recently passed legislation requiring payday lenders to refuse service to members of the military. This law is effective in October of 2007, but it remains unseen what impact this will have on the industry. Also, some members of the military maintain that the military's pay

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[17] Graham Wright, *Microfinance Systems: Designing Quality Financial Services for the Poor* (New York: Zed Books, 2001), 145-147.

[18] Aaron Brown, "Poor Credit: An Exploration of Microcredit, Pawnbroking, and Poverty" (undergraduate thesis, The Colorado College, 1998), 45.

[19] Ibid., 56.

schedule is the real problem: most soldiers do not get paid until the fourth day of the month and may be unable to pay bills due at the first of the month.[20]

Some of the most valuable viewpoints are the ones that disapprove of microfinance. Many proponents of microfinance may quickly dismiss criticism, but if one desires to implement a successful microfinance program it can be extremely useful to understand its criticisms. Karnani broadly criticizes microfinance, saying that it does not cure poverty and recommending instead that stable jobs are the best cure.[21] Of course, when dealing with the working poor in the United States this can be a mute point. Karnani does go on to discuss the few studies that have been done on the effectiveness of microfinance, most of which suggest that microfinance has a positive impact but not one of epic proportions.[22] Bethell takes on Grameen's somewhat misleading accounting, including the way they sometimes ignore clients that are overdue on their payments. At one point, 19 percent of Grameen's loans were overdue.[23] Grameen also counts donations as a portion of their profit, resulting in more condemnation from Bethell.[24] Woolcock does not criticize microfinance but instead investigates the times it has failed. He looks at the importance of relationships and shows how difficult it can be to be a loan

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[20] Terri Verrette, interview by author, Colorado Springs, CO, September 2, 2007.

[21] Aneel Karnani, "Microfinance misses its mark," http://www.ssireview.org/articles/entry/microfinance_misses_its_mark/, (accessed October 4, 2007).

[22] Ibid.

[23] Tom Bethell, "Micro Man," *The American,* May/June 2007, 31-36.

[24] Ibid., 38.

administrator. Most of them enjoy their work but are constantly stressed. Working with uneducated poor people may be rewarding, but it is not easy.[25]

Many articles on the working poor focus on the travesty that one could be a hard-working American and be poor. Many discuss people who work but still have to visit food pantries at the end of the day.[26] Take one example from Schwartz in his article *Work and Poverty*:

> A run-down apartment can exacerbate a child's asthma, which leads to a call for an ambulance, which generates a medical bill that cannot be paid, which ruins a credit record, which hikes the interest rate on an auto loan, which forces the purchase of an unreliable used car, which jeopardizes a mother's punctuality at work, which limits her promotions and earning capacity, which confines her to poor housing.[27]

This is an excellent and interesting summary of how quickly matters can implode on a working poor person. Even more intriguing are the glamorous stories of how such a person was able to begin living the American dream with just a small amount of help from an organization doing microfinance. Very little discussion has centered around the failure of microfinance to become a profitable industry that is equitable, efficient, and able to compete with the current credit market.[28]

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[25] Michael Woolcock, "Learning from failures on microfinance," *The American Journal of Economics and Sociology,* (January 1999): 17-42.

[26] Anna Quindlen, "A New Kind of Poverty," *Newsweek*, December 1, 2003.

[27] Joel Schwartz, "Work and Poverty," *Public Interest*, Fall 2004.

[28] Beatriz Armendariz de Aghion and Jonathan Murdoch, *The Economics of Microfinance* (Cambridge, MA: MIT Press, 2005), 72.

The literature discussed has done little to understand how and why predatory lenders are so successful. The fallback answer has been that they offer credit to people who must have credit and are unable to get it from anywhere else. This overlooks several crucial aspects including the social capital developed between the lender and the customer. The marketing done by lenders promotes camaraderie and trust. It would be foolish for a non-profit, for-profit, or government entity to think they can improve the economic lives of the working poor without first understanding how the atmosphere of equality and understanding was developed by the lenders currently succeeding in the market. This paper will seek to address the oversights of prior research by explaining the current credit market for the working poor and specifically addressing the steps one could take to increase the disposable income of the working poor.

Chapter 3

Survey and Data Analysis

When the average middle-class American sees a poor person they may assume that they are lazy and just looking for a handout. Or, they may wonder if the poor person just made a few unwise decisions and ended up struggling to put food on the table. Few would see a poor person and say they do not have any needs. However, quantifying the needs of poor people can be very difficult. It is unlikely that a middle or upper-class American would see a poor person and immediately wonder if an unexpected doctor's bill or car repair forced them into a vicious cycle of debt. Understanding poor people and their needs can be a struggle, especially if you are trying to figure out something more subjective such as what amount of poor people possess the motivation to improve their circumstances if given the chance. Simply targeting the working poor is not enough, one must find a sample that is simply poor people if it is to be truly significant. The poor are a highly transient population that can be enticed by immediately realized incentives. The majority struggles to access the internet and email regularly, their cell phone numbers are routinely changing or being shut off, and they do not have a central gathering location that would be conducive to conducting a survey. While there are many community organizations that could significantly help a poor person if they could be connected, figuring out how to connect them is not always easy. Figuring out how and where to administer the survey was a challenge until an unusual turn of events occurred.

Conducting the Survey

The Bob Telmosse Christmas Giveaway had been held for the past 24 years in Colorado Springs. With the death of Mr. Telmosse in 2006 his foundation announced they would be unable to hold the event in 2007. The giveaway had provided food, clothing, and toys with the only qualification being that participants had to be with a child. The event traditionally served around 5,000 underprivileged members of the community. When Steve Bigari heard of plans to cancel it he decided something had to be done, and began feverishly working to pull off the event at Mr. Biggs Fun Center in Colorado Springs. Ticket distribution was done thru local organization that work with the poor, with many being handed out by the United Way to people who would not have had the funds to otherwise buy toys. 3,000 tickets were given out, with ticket-bearers earning the right to spend time in Mr. Biggs Fun Center for free, eat a turkey dinner, and pick out toys and clothing after the session was over. Tickets were split into two sessions, with 1,500 given out for the morning session and 1,500 for the afternoon session. People who did not have a ticket could still attend the giveaway but could not use the fun center. Clothes, toys, sacks of food, and turkeys were given away to anyone who came but did not have a ticket.

By working together with Mr. Bigari, a survey was developed and handed out at the event. The survey was optional but was available for people waiting in line to enter the event as well as to those without tickets. The survey was one page and simply asked the subject to circle what needs they might have, whether or not they were employed, how one could contact them, and allowed to list "other" needs. The survey was printed double-sided on single pieces of paper, with one side in English and the other side in Spanish. Completed surveys were placed into a collection box. The survey's English version is on the following page.

FAMILY INFORMATION AND SERVICES FORM

Mr. Biggs believes that Christmas should be celebrated year-round—not just in December. In that spirit, we wanted to know if you need any additional help. This simple form will help us get to know you better. **We hope we can connect you with a service provider sometime in the next few months...we'll do our best!**

This form will be shared with local agencies and churches who are in a position to help you and your family, and data will be used to help us figure out what needs really need attention and how many people share certain needs. Completing this form is OPTIONAL.

Name: ______________________ **Phone:** ______________________

Address: ______________________ **E-mail:** ______________________

City: ______________________ ______________________

State: ______________________ **Employer Name:** ______________________

Zip: ______________________ **Employer Phone:** ______________________

My family needs help with the following: (Circle ALL that apply)

Financial/Credit Counseling

Mini-loans

Automobile / Transportation

Health Care (child)

Health Care (adult)

Job Skills Training

Literacy

Tutoring (child)

Substance Abuse

Counseling/Therapy

Domestic Violence

Legal Representation

Bankruptcy/Collections

Employment/Job Opportunities

Home Repair/Fix-Up

Clothing

Food

Housing

Computer Skills/Computers

Other:______________

The survey had two stated goals: to connect people in need with the organizations that could potentially help them, and to gather data on the needs of underprivileged. The data gathered was put into an Excel spreadsheet for analysis and distribution to the United Way, which will reach out with specially tailored information depending on what needs a person expressed. For the purpose of this thesis, the names of all survey participants will be kept confidential. The data will be used to understand what needs a working poor person may have, and how the existence of a credit market could help such a person.

Survey Results and Analysis

Over 5,000 people attended the event at Mr. Biggs Fun Center on December 24th. 591 of them filled out a survey, resulting in a rather large data set. 23 of these people filled out the form using the side written in Spanish, which was much lower than expected. This could be for several reasons. Spanish-speakers may have had enough bi-lingual skills to recognize what the form was asking for, they may have chosen not to fill out the form, or they may have been afraid to fill out the form for other reasons. While the survey was not randomly conducted, it serves the purpose of focusing on the segment of people that are underprivileged. The surveys were filled out by people not just from Colorado Springs (510) but also Agate (1), Calhan (6), Cripple Creek (1), Elbert(1), Falcon (1), Florissant (1), Fountain (22), Ft. Carson (2), Manitou Springs (4), Manzanola (2), Ordway (2), Palmer Lake (1), Peyton (9), Pueblo (3), Rockvale (1), Security (1), Widefield (1), and Woodland Park (1).

The needs that people circled and whether or not they were employed is the most relevant data. Figure A shows how many times each need was circled. Figure B shows the top needs that were circled as a percent of all survey responses.

Figure 3.1

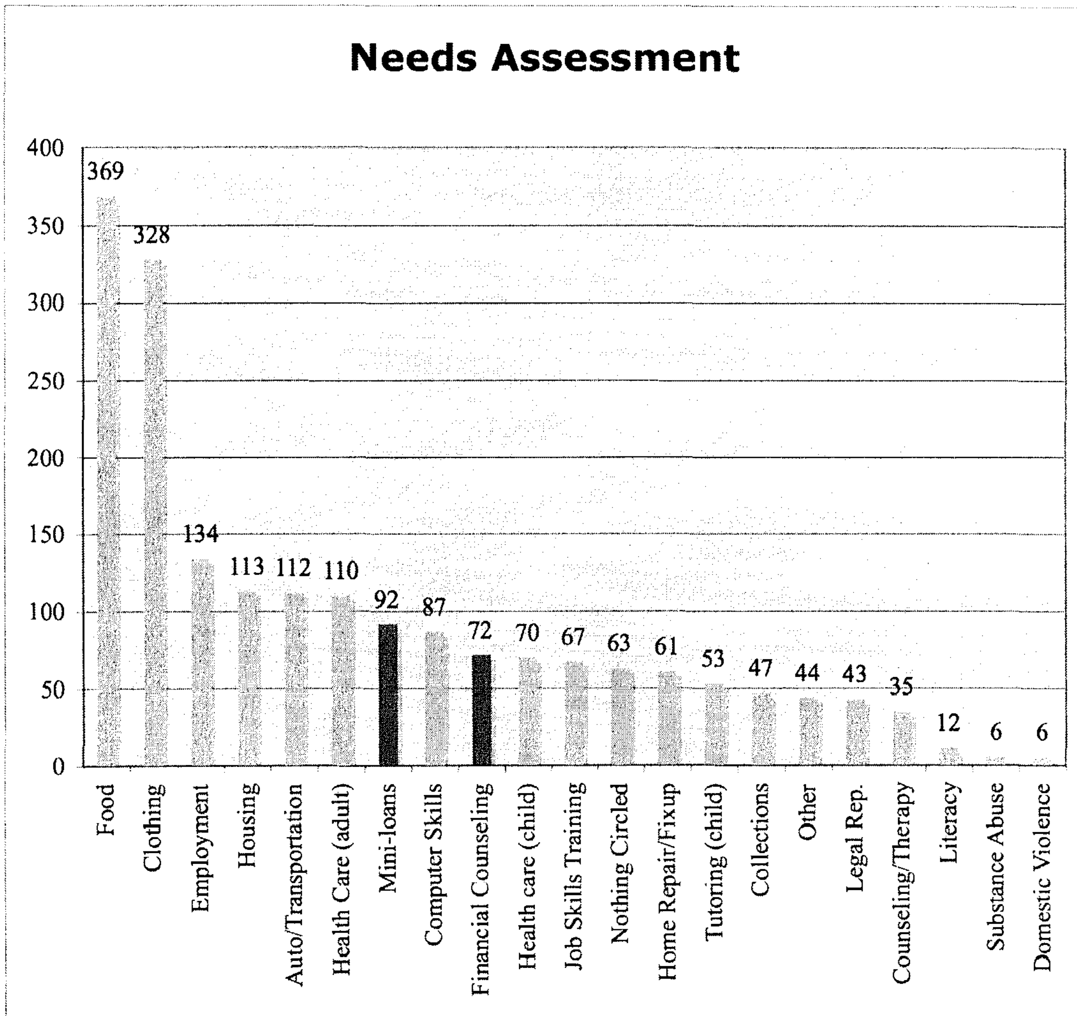
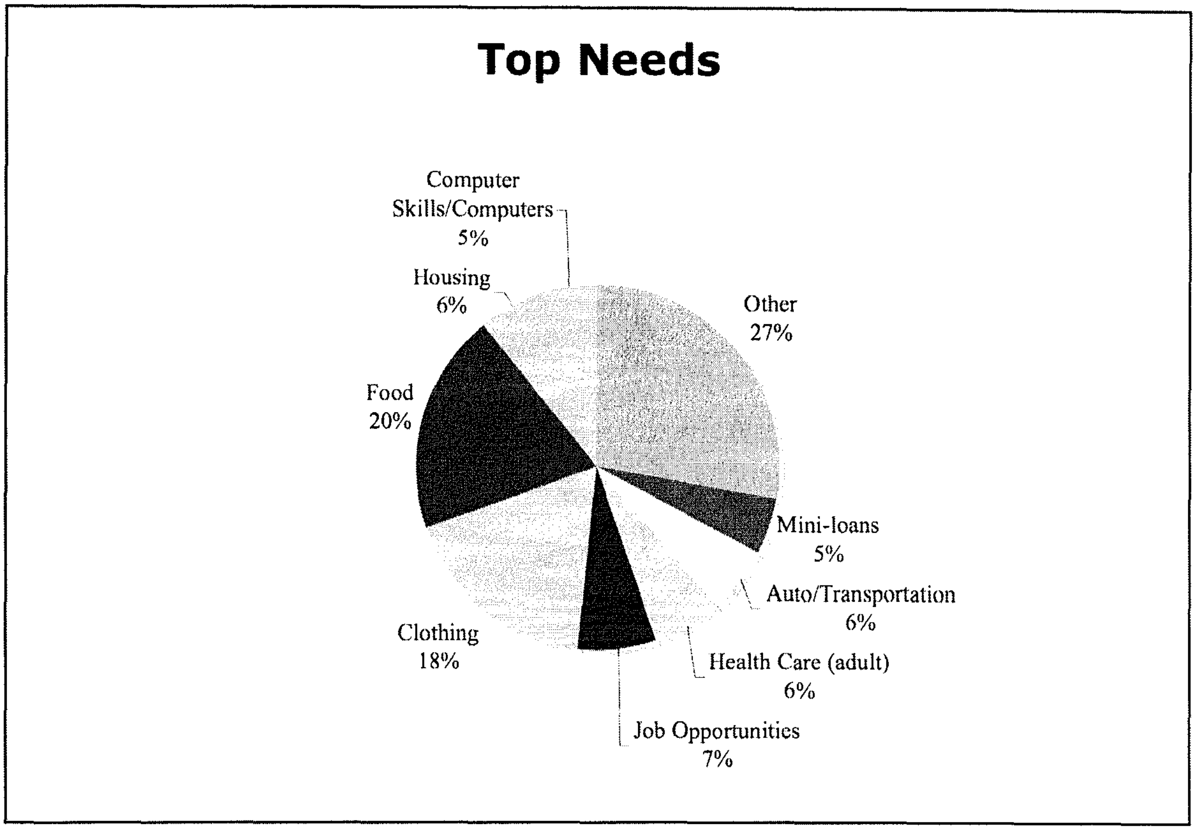


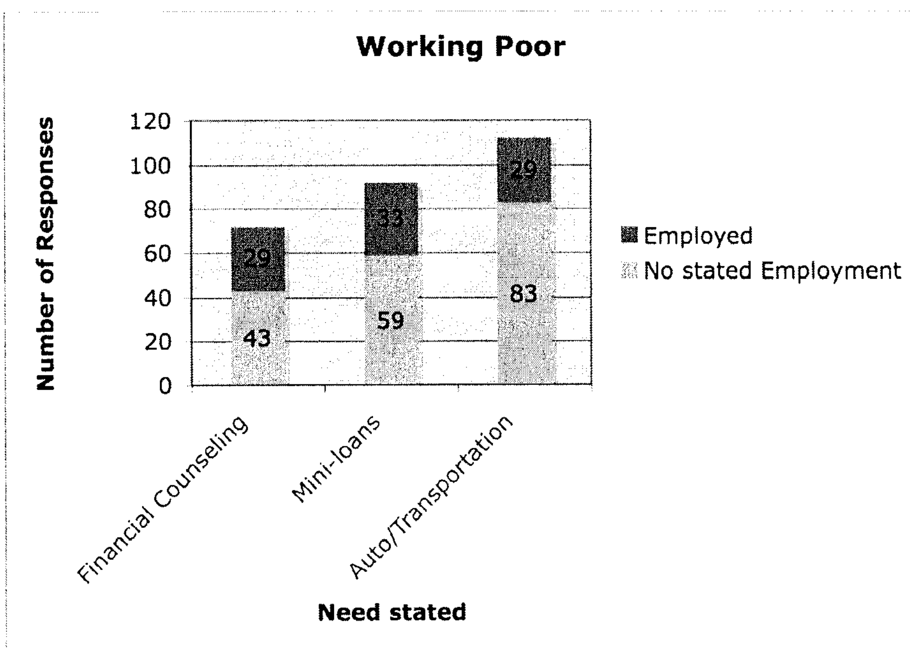
Figure 3.2



Food was circled 369 times and clothing was circled 328 times, making them the most commonly circled needs. This data could be interpreted in one of two ways. Either people are truly desperate and it is tragic that so many need clothing and food, or possibly people believed they might receive more free clothing and food if they circled both. Financial counseling or tutoring may not have been as attractive to those who simply wanted another handout. It could be that poor financial decisions are the reason people feel they do not have enough money for food or clothing. The history of survey participants would have been difficult to discuss and receive honest answers, as those being surveyed may be ashamed of their past decisions. Nobody is proud to admit they are in debt, or how they got into debt in the first place. However, the variety of needs and employment status can shed light on much more and leaves less up for discussion.

169 of those surveyed stated they were employed and provided their work location. While this is only 28.6 percent of those surveyed, it is likely there were more employed but they chose to not provide the information. For example, only six percent of the needs circled were "Job Opportunities", which is a low response if the majority of people are unemployed. Some of the more interesting analysis involves looking at the responses of the employed persons to see if the number circling a specific need is greater than or less than the representative percentage. This requires a discussion of Figure C.

Figure 3.3



If a person is poor but holds a job, the possibility that they could be given credit certainly exists. Knowing that 33 of the 92 people that asked for mini-loan assistance are employed effectively places them in the "working poor" category. Instead of discussing 30 million working poor persons around the nation, 33 real people have not only been identified but also specifically asked for the service. It is likely that these people have very poor credit scores, though they may not know what it is exactly. Of the 72 people that circled financial counseling, 29 were employed. Furthermore, 23 of the 72 did not circle either clothing or food as a need, which could be viewed as a "hand-out" kind of need. This speaks to the true motivation of people circling these needs. They know they need help with finances and would like to be helped. There may be more that would like help with financial counseling but did not circle it as a need because they did not realize how they could benefit from financial counseling or felt it would be an uncomfortable invasion of their privacy. While one can not say how large this group is, it certainly exists and figuring out how to reach it is one of many challenges that must be addressed.

The percent of employed people represented in the smaller categories is not drastically different from the number that employed people make up of the entire sample population. For example, while employed persons make up 28.6 percent of the entire sample population, 35.9 percent of the people seeking mini-loans are employed. 25.9 percent of the people circling transportation as a need were employed. The data proves that while not every poor person may be employed or interested in financial services, there is certainly a group of working poor persons that wish to have assistance when it comes to financial issues.

Chapter 4

Relational Lending[1]

Predatory lenders justify high interest rates by explaining the high risk involved with the people to whom they are lending. Traditional banks base their decision to lend on credit scores and set standards. In the life of a working poor person, there is little chance for hard-working people to become financially secure if an emergency arises. Many people talk about how terrible predatory lending is, but few people realize that payday lenders do fill a void that no other entity is willing to fill. A new model must be developed, and the model must take into account the high risk associated with extending working poor persons credit while also realizing the importance that fair credit markets exist.

Steve Bigari, a Colorado Springs entrepreneur and innovator, started America's Family. The goal of America's Family is to provide help and direction to working poor people. The goal is accomplished in several ways, but the main focus is currently on offering financial counseling and small loans to employed persons whose credit scores or

[1] Information in this chapter has been compiled thru interviews with America' Family staff from May 2007 to February 2008. Staff members Steve Bigari, Terri Verrette, Matt Van Auken, Tim McDonald, and Natalie Igou of America's Family were interviewed and provided documentation as well as information into the reasoning behind their decisions. Skip Wells of Ent Federal Credit Union was also interviewed from November 2007 to January 2008, as he was influential in drafting the legal and non-legal documents to guide the loan process.

past history have kept them from doing business with traditional banks. The credit market for working poor people in Colorado Springs revolves around three types of businesses: payday lenders, pawn shops, and rent-to-own centers. While poor people certainly do have emergencies and need credit extended, they pose a high enough risk that lenders charge incredibly high interest rates. Many authors have rightfully pointed out the unfairness of the high interest rates, yet few alternatives have been created. State and federal legislators have tried to regulate the industry, but instead of helping poor or financially insecure people this has simply caused the elimination of credit for groups of people. America's Family seeks to be a socially responsible alternative to payday lenders and a bridge between the traditional and non-traditional banking sectors. Over the past couple years America's Family has sought to understand, serve, and educate hard working but less fortunate members of the Colorado Springs community. The America's Family model has undergone several revisions, but the current model shows promise.

America's Family relational lending model has two main facets, lending and counseling. By first discussing lending and then moving on to a discussion of the counseling program one can better understand how this model could be exported to other American cities to create fair credit markets for working poor people in America and increase their disposable income.

Location and Staff

Before discussing lending and counseling, one should consider the location and staff of America's Family offices are located next to Mr. Biggs Fun Center in Colorado Springs. The location is a half mile from Interstate 25 and in between two other major arteries, Garden of the Gods Road and Woodmen Road. However, the location is not used to catch passers-by as most payday lenders and fancy neon signs are not used. The location serves as a headquarters for operations and a meeting place once clients have a loan. Clients generally hear about America's Family through word of mouth, either from their employer or a fellow employee. America's Family is mobile, and would not be harmed by moving because clients are not attracted by the office location.

The staff at America's Family is relatively small and includes several members who multi-task between it and Mr. Bigari's other business ventures. Stellar Restaurant Solutions, Mr. Biggs Fun Center, and I3 Consulting are Mr. Bigari's other ventures, and all are housed in the office space available at Mr. Biggs Fun Center. While this can have its disadvantages, it also allows for America's Family to share resources such as a copier and fax machine instead of each buying its own.

America's Family currently has eight employees, but only two and half full-time equivalents. The CEO is Steve Bigari, and he donates all of his time. While he has self-funded much of the organization in the past, he is now looking to expand the funding sources and eventually make the organization self-sustaining with the help of loan interest income. His role as CEO is generally to provide assistance to his employees that will allow them to succeed. That can mean calling other organizations in for a meeting to discuss collaboration with them, calling an employer to tell them about our program, or doing a speaking engagement to bring donations into America's Family. Bigari is also the main source of inspiration, excitement, and instigation. If the program is not progressing, he will do whatever he can to eliminate roadblocks or change the model to make it more effective.

The COO is Matt Van Auken, and he is one of the people who splits time between America's Family and Bigari's other businesses. He has the authority to make major decisions and is mainly in charge of making sure that communications between every employee are going smoothly. On an unofficial level, he is in charge of helping to keep the CEO in check when he tries to move things along at a pace that is too fast to be effective. Roughly five to ten hours of Van Auken's week are spent addressing America's Family issues.

Terri Verrette is the Program Coordinator and is currently the lone full-time employee at America's Family. She oversees the lending side of the program, and works to ensure potential clients are properly screened before a loan is granted and monitors client's balances on their loans. Verrette walks clients thru the necessary paperwork and is always on hand to answer the phone and refer potential clients to other resources that may be of better use to them. She also works to develop the counseling materials.

Brian Hall is the Client Services Coordinator and works 10 hours a week. He is in charge of recruiting, training, and utilizing volunteers. He is mainly in charge of administering the counseling program and answering questions for clients, which requires him to coordinate between clients and volunteer's schedules.

Tim McDonald is contracted for ten hours a week and is in charge of collections, publicity, and fundraising. Much of his work involves finding both partner employers and donors.

Matt Monberg is contracted for five hours a week and is in charge of grant writing. He works closely with each member of the staff to provide the proper information to potential donors.

Natalie Igou is the Executive Assistant for Mr. Bigari and splits time with his other businesses. While she only spends roughly 5 hours of her week directly working on America's Family issues, she is available full time and fully trained on how to deal with potential clients in case Terri is unavailable.

Heather Wiley is the accountant for all of Mr. Bigari's ventures. While she spends very little time with America's Family outside of payroll, she is always available as support staff if any problems arise with the software that America's Family uses in its loan administration.

Lending

The lending side of the America's Family model has undergone many changes as the organization has tried to figure out the best way to help the largest amount of people. To fully understand lending, one must look at the lending procedure, underwriting guidelines, rates and charges, incentives for payment, penalties for non-payment, and potential roadblocks to success.

Lending Procedure

A prospective client may call or stop by the America's Family offices, as their employer generally refers them. The first step to securing a loan is to go thru a brief discussion about why they need the loan and an explanation of the application as well as letting them know there is an application fee. The America's Family staff member may ask them to pay $10 of the $25 fee if they feel the applicant might otherwise be unable to apply for the loan, but they are encouraged to let them know they are being lenient and trying their best to help them by lowering the fee. The next step is for the potential client to fill out the application and approve the pulling of their credit report. Once the credit report has been pulled, the conversation can continue using the underwriting guidelines that are included below. If the loan is approved, an Automated Clearing House (ACH) authorization must be completed and the loan document must be filled out and signed. All of this can be accomplished in a single meeting if the client is prepared, though the signed loan document must be turned into the America's Family office to receive a check.

AF SOLUTIONS - Client Loan Application

Must be 18 to apply. Please complete fully and initial any changes

Personal

		Social Security Number	
Last Name		First Name	Middle (Optional)
Home Phone # ( )		Street Address	Apt #
Zip	City		State
Months at Address	Own Your Home? Yes No	Alternate Contact Number (where we could leave a message for you)	
Driver's License # (Or other govt issued photo id)		State	Date of Birth
Current Bankruptcy? or Plan to File Within the next 30 days?		Yes	No

Any Garnishments? Or Legal obligations such as Child Support? ___ Yes (Amount Per Paycheck ______________) ___ No

Intended use of Loan Funds?
Are you currently enrolled with America's Family Financial Counseling Program? ____Yes ____No

Employment

__Full-time Employed __Part Time Employed __Other	
Employer (or income Source)	
Work Phone	Ext
Months at Job	
Pay Frequency __Every two weeks __ Monthly __ Twice Monthly Weekly	
Next Pay Date	Monthly Take Home Pay
Job Title	Work Hours (Shift)
Supervisor Name	
Previous Employer (If less than 6 months at current)	

Additional Income (If Applicable) *

__Full-time Employed __Part Time Employed __Other	
Employer (or income Source)	
Work Phone	Ext
Months at Job	
Pay Frequency Every two weeks Monthly Twice Monthly Weekly	
Next Pay Date	Monthly Take Home Pay
Job Title	Work Hours (Shift)
Supervisor Name	

*Income from alimony, child support, or separate maintenance payments need not be revealed if you do not wish to have it considered as part of your application.

Vehicle Information

Car Make	Car Model
Year	Color
Tag/License #	State

References/Additional Contacts

1. Name (Parent or Nearest Relative Not Living With You) Relationship Phone #
2. Name Relationship Phone #
3. Name Relationship Phone #

PLEASE Read Before Signing:

I certify that the information supplied by me is true and correct. I authorize verification of the truthfulness of all information contained herein including cerification of income and banking information. I expressly authorize contact with any person or company identified above to verify any of the above information or to leave a message for me. I expressly authorize access to my credit report. Any false statement made by me shall be sufficient basis for rejection. I have read and understand the above statements.

Signature	Date / /

AF Solutions

Consumer Installment Loan Agreement

Account Number:

LENDER	BORROWER
AF Solutions PO Box 26328 Colorado Springs, CO 80936 (719) 955-7138	Name: Address: City: SSN: Phone#

In this Consumer Installment Loan Agreement the words "you" and "your" mean the borrower. The words "we", "us" and "our" refer to AF Solutions.

You promise to pay us the amount financed plus interest at the Annual Percentage Rage based on the unpaid principal balance hereof from time to time, and other permitted charges, all as set forth below. On the dates stated in your Payment Schedule, you will pay us at the address indicated above, or at such other address as we direct you in writing, or via debit to your deposit account, the amount stated as set forth in the Payment Schedule.

TRUTH IN LENDING DISCLOSURES:

ANNUAL PERCENTAGE RATE	INTEREST RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate. ______	The cost of your credit as a percentage of the principal balance. ______	The dollar amount the credit will cost you. ______	The amount of credit provided to you or on your behalf. ______	The amount you will have paid after you have made all payments as scheduled. ______

Payment Schedule: __ payments, each in the amount of $______ beginning _______ and continuing according to your payment schedule with a final payment in the amount of $_____ due on ___________.
Prepayment: If you pay your account before the due date you will pay no penalty.
Late charges: If you fail to make all or any part of a scheduled installment on or before the 10th day after it's scheduled due date, you may be charged $10.
Security: This loan is not secured.
See the terms set forth below for any additional information about nonpayment, default, any required repayment in full before the scheduled date and prepayment refunds.

Prepayment: You will not incur any additional charge, feel or penalty if you prepay your obligations hereunder.
Automatic Payment: The Authorization Form you completed authorizes your financial institution to permit us to debit from the Account the amounts you owe on the Payment Dates and applicable late fees. You shall be solely responsible for maintaining funds in the Account Sufficient to pay the amounts due on the Payment Dates as set forth above. Any debits we complete that are less than the full amount will not release you from your obligation to pay the full amount due nor be deemed a waiver of our right to collect the full payment amount. Debits we make following the occurrence of an event of default will not be deemed to be a waiver of that event of default or otherwise

prejudice, in any manner, our rights hereunder. You hereby authorize us to debit the Account subject to any applicable cure periods or notice requirements, for any and all amounts outstanding following an event of default hereunder. If you wish to revoke your automatic payment you must notify us no later than three (3) business days prior to your regularly scheduled payment date.

Electronic Check Re-Presentment Policy: In the event we receive any payment from you in the form of a check, and such check is returned unpaid for insufficient funds, you authorize us to pre-present the check electronically.

Dishonored Payment Service Charge: You agree to pay a fee of $15.00 for each check returned unsatisfied because you do not have an account with the Financial Institution on which the check is written, or have insufficient funds in your account, or have insufficient credit with the Financial Institution.

Default: You shall be in default under this Agreement: (i) if the interval between scheduled payments of two months or less, to have an amount exceeding one full payment which has remained unpaid for more than ten (10) days after the scheduled or deferred Due Date (ii) if the interval between scheduled payments is more than two months, to have all or any part of once scheduled payment unpaid for more than 60 days after its scheduled or deferred Due Date (iii) if the transaction is scheduled to be repaid in a single payment to have all or any part of the payment unpaid for more than 30 days after it's scheduled or deferred due date, (iv) you fail to observe or perform any other covenants or duties contained in this Agreement.

Payment Deferment: At one (1) time during the term of this agreement you may receive a deferment of your payment provided you notify AF Solutions no less than three (3) days prior to the payment Due Date. Upon the approval of your deferment you will skip the immediate payment date and make payment on your next scheduled Due Date. The deferred payment will be added to the end of the term.

Remedies for Default – Attorney's Fees and Court Costs: If we obtain a judgment against you for default under this agreement, we may request an award of statutory costs and statutory attorney fees.

Assignment: We may assign or transfer this Loan Agreement or any of our rights hereunder.

Right to Rescind: Please note that you may prepay this loan without any costs by returning the full principal balance to us by the close of our next business day. We will refund the finance charge we have earned.

Please read and understand the terms of this Loan Agreement before signing. By signing this Loan Agreement you acknowledge that it was filled in before you did so and that you have received a completed copy of it. You also warrant and represent that you are not a debtor under any proceeding in bankruptcy and have no intention to file a petition for relief under any chapter of the United States Bankruptcy Code. You further acknowledge that you have read, understand and agree to all the terms of this Loan Agreement.

NOTICE TO CUSTOMER:

(A) DO NOT SIGN THIS BEFORE YOU READ ALL PAGES, EVEN IF OTHERWISE ADVISED.
(B) DO NOT SIGN THIS IF IS CONTAINS ANY BLANK SPACES.
(C) YOU ARE ENTITLED TO AN EXACT COPY OF ANY AGREEMENT YOU SIGN.

(D) YOU HAVE THE RIGHT AT ANY TIME TO PAY IN ADVANCE THE UNPAID BALANCE DUE UNDER THIS AGREEMENT AND YOU MAY BE ENTITLED TO A PARTIAL REFUND OF THE FINANCE CHARGE.

Borrower's Signature: ______________________________________ Date: ______________

AF Solutions Employee Signature: ____________________________ Date: ______________

AMERICA'S FAMILY

* INSTALLMENT LOAN***
PDD/ACH Authorization

I hereby authorize America's Family to initiate debit/credit entries to my account for all payments due, including any returned unpaid item fees due, on which the subject of this agreement is draw and from the Financial Institution at which the account described below is held. This authority is to remain in full force and effect until:

1. My account is paid in full.

OR

2. I have notified both America's Family and my Financial Institution in writing, at least three business days before the payment due date that I am terminating PDD/ACH Authorization.
    a. Termination of authorization does not relieve me of the responsibility to pay all amounts in full.
    b. I accept responsibility for any fees incurred by the early termination of this agreement including late fees for any payments not made on the due date.

Payment Authorization Chart

	Balance Due	Payment Amount	Withdraw Date
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			

AF Employee name: ______________________

Client Printed name: ______________________

Client Signature: ______________________

Social Security Number: ______________________

Date: ______________________

Name of Financial Institution: ______________________

Routing Number: ______________________

Account Number: ______________________

My signature attests that I have provided accurate information and have received the terms and conditions of PDD/ACH withdrawal processes. If at any time during this agreement my Financial Institution information changes, it is my responsibility to provide updated and accurate information to America's Family. If for any reason your ACH payment does not clear you are responsible for making your payment in cash. Fee for returned payment is $15. Due to non-processing days for ACH (Holidays and Weekends) your payment may vary by 1-2 days after your due date.

Underwriting Guidelines

At America's Family, underwriting is the process of deciding whether a prospective client will be approved for a loan. Legally, underwriting guidelines must be uniform across the board to avoid potential lawsuits concerning denial of a loan. By setting forth guidelines for the underwriting process, members of America's Family staff can be sure they are following the same procedures as every other staff member while also minimizing risk. Emphasis was placed on more relational aspects in the underwriting process for America's Family, whereas traditional banks simplify the process and greatly minimize risk by relying on a person's credit score and credit report. If working poor people had great credit scores they could get help from a traditional bank, but most of them know they have terrible credit scores and will not even try to get help from a traditional bank.

America's Family is focused on helping clients improve their lives, and this is shown in the underwriting guidelines. If it is worse for the client to assume more debt which they will simply be unable to pay off, the loan will denied. Loans of $100-300 can be approved by the Credit Director and will be a six month term. Loans from $301-500 can also be approved by the Credit Director, however they are for a 12 month term. Loans larger than $500 must have the Credit Director's approval as well as the approval of the V.P. or CEO. The monthly income of an applicant must be considered. If an applicant is earning less than $1,300 per month, they may only qualify for a $100 loan no matter how long the term is. If they are earning more than $1,300 they may qualify for a $100 loan over 3 months, a $300 loan over 6 months, or a $500 loan over 12 months.

There are several other considerations when attempting to figure out the risk associated with a potential client. If they have other debts it is important to figure out whether they are asset-related debt or unsecured and revolving debt. For example, a person could be $3,000 in debt. If the $3,000 is because they bought a car it may be an asset that they desperately needed and will eventually make them better off because they will be able to get to work and not get laid off. However, if they owe $3,000 to payday lenders for old loans or a rent-to-own center for a computer they bought but then pawned off, the debt is significantly more dangerous. If a client has more to lose by not repaying they are a lower risk. If the car is not simply a car but their means to a livelihood the risk is lowered.

Another number to consider is the post-debt ratio. One can find the post-debt ratio by adding the monthly rent or mortgage payment, other installments and credit card debt, and any other payments and then dividing the sum by net monthly income. If the post-debt ratio is less than 40%, there is a good chance that an additional loan would be paid off by the client and not lump on more debt to a situation that they are already struggling to control. This ratio and the suggested baseline of 40% was developed by the staff of America's Family during their pilot program after consulting with lending experts from Ent Federal Credit Union.

The client's willingness to participate in the AF education program is certainly a plus, as it is mandatory. If the nature of their job is seasonal, it may be difficult for them to make payments on a loan where the term is anything greater than three months. If there are late payments on the credit report that is an obvious red flag, and so is the existence of a cumbersome amount of payday loans or other relationships with high-risk lenders. If they have lived in the same location for an extended period it is a positive mark, as this means they have made payments and likely have a good relationship with their landlord.

In the end, an underwriter can use the "line in the sand" model. This is simply part of the underwriting guidelines document, and brings everything together. While the average applicant's past is generally riddled with mistakes and bad choices, this brings all the risks into perspective and offers a "line in the sand" that will help the underwriter make the final decision.

The are several problems that are deemed acceptable. A client may still be approved if:

1. They have a glitch in their payments. This is one missed payment or collection among many successful payments.
2. They are a sloppy payer. This happens when they pay everyone but are slow to make payments.
3. They have minor payments that are in the collection process. This could include medical, utility, or cell phone bills. All of their other bills are paid.
4. They have isolated credit problems and are mostly current on payments. Or, if the credit problems are isolated during one period of time such as immediately after a divorce.
5. They have declared bankruptcy once but re-established decent credit. Depending on the severity of the bankruptcy, it could be considered on the other side of the line in the sand.

And here is where the "line in the sand" is drawn. People on the other side of the line need to significantly change their ways before America's Family would be able to truly help them. People will fall to the other side of the line in the sand if:

1. They have significant charges and collections that have not been paid.
2. They have two problems in different time periods, such as two bankruptcies or one bankruptcy and a series of late payments at a different time.
3. Loans that are overdue.
4. Their credit report is very brief but they have current past due payments or collection issues.

Personal Loan Underwriting Guideline

Prepared by: Terri Verrette, Skip Wells, and Brian Hall Approved by: Steve Bigari, CEO

Guideline

$100 - $ 300	6 month term (Credit Director approval)
$301 - $ 500	12 month term (Credit Director approval)
$500 & greater	12-24 months term (V.P or CEO approval)

If a member is requesting additional unsecured funds it should be underwritten as a new loan for the entire dollar amount required to payoff the existing loan and provide the member with the dollar amount requested. The Time on Job (TOJ) is also considered when deciding the loan amount.

	TOJ = 3 mo	**TOJ = 6 mo**	**TOJ = 12 mo**
Monthly Income	Loan Amount	Loan Amount	Loan Amount
<1,300	200.	200.	200.
>1,300	200.	300.	500.

**These loan amounts may be exceeded per approval from America's Family V.P or CEO

Other Considerations for establishing risk

1. Consider overall make up of debt load: asset related debt vs. unsecured and revolving debt…high unsecured rev debt higher risk RDR = Total Rev debt/monthly income
   Over 4 higher risk.
2. DTI = Debt to Income Ratio **40% or below**
   Monthly rent/mortgage pymt + other installment & credit card debt + new pymt/net mo income = PDR
3. Nature of the derogatory credit – see Line in the sand summary below
4. Client willingness to participate in the AF education program
5. Nature and type of job/industry…seasonal?
6. Inquiries on the credit report?
7. Other high risk lenders?

Quick approval:

FICO Credit Score of 640 with the following attributes are eligible for $500.00.

- In same residence for 2 years or more
- In same job 2 years or more
- Max 12 month term
- DTI < 40% net
- Established Financial Institution relationship for 2 years or more
- Derogatory credit – but 1 year of reestablished/clean credit

Overall credit history will be factored in as reasons to deviate from the above guideline based on the Loan Underwriters discretion.

Typically clients are to have one signature loan at a time. Should a client request two separate personal loans the approval of CEO or VP will be required.

The following is a methodology for reviewing loans:

*****Affordability/Capacity*****

- DTI –Below 40/30

*****Stability/Character*** (Two out of three present)**

- Job/Industry
- Rent – longer the better in one location
- Homeowner

*****Credit*****

- Credit challenges on the upper end of "the line in the sand" (see below)
- If currently past due, considered the highest of risks
- Ideal is past credit problems but showing signs of improvement

*****Assets/Net worth*****

- Presence of assets are a bonus
    - Cash
    - Investments
    - Equity in auto

THE BEST OF THE WORST – A RANKING OF CREDIT CHALLENGES

1. **A Glitch** – one late or one collection acct among numerous positive trades

2. **Sloppy payer** – pays everyone but random and slow

3. **Minor (Medical/utility/cell phone)** collections – all other trades paid/paying as agreed

4. **Isolated credit problems** – paid or mostly paid

5. **Isolated credit problems** – confined to one period of time; credit pre and post problem era is good

6. **Credit problems not isolated to narrow time period** (risk mitigated by a lack of charge-offs/collections or minor in nature along with reestablished credit)

7. **Bankruptcy – Minimum of 1 year of well re-established credit.** (Consider type of creditor included in the BK – more serious BK's, where mortgage and installment debt is present, could push the risk below the Line in the Sand)

****************************Line in the Sand**************************

8. **Significant charge-offs/collections not paid**

9. **Two problems in different time periods (i.e. 2 BKs OR 1 BK and series of lates)**

10. **Overdue loans.**

11. **Thin file and current past due or any collection problem**

Rates and Charges

The interest rate and application fee for a loan from America's Family were figured out after considering the rates charged by others. By considering the interest rates charged by predatory lenders and credit card companies, America's Family was able to decide on a rate that would be beneficial and fair to all involved. Payday lenders charge rates that are simply outrageous and banks refuse to serve people with poor credit challenges because of the high risk. With this in mind, the discussion of what is a fair rate was framed.

America's Family will be charging a 19.9% interest rate when annualized. While this may seem high to some, it is roughly the rate that a high-interest credit card would charge. It is also far below the triple-digit annualized rates charged by payday lenders. While 10 percent was the initial figure thrown around and 16 percent was the rate charged on some initial loans, the 19.9 rate has been chosen as the set rate as the program seeks to scale up its lending model. Over the past year America's Family has made 26 loans, with 19 of them being car and consolidation loans larger than $700. The most recent loans have all been under $700. While the car loans will still be available to highly qualified borrowers who are unable to be helped by a traditional bank, the focus will be on providing loans of $500 and less. These loans will help a poor person in the event of an emergency such as a car repair or medical bill and the terms will be kept under one year. The focus will be on competing with and eliminating payday lenders who serve hard-working poor people in the community. If the default rate is kept below the targeted

10 percent of loans, the 19.9 APR may be lowered. Lowering the rate is obviously much more popular than increasing it, and the rate is still lower than the 36% rate that many lawmakers have sought to legislate in states and for members of the military.

America's Family will also make sure some of its costs are covered and the applicant is invested in the process by charging a $25 application fee. Applicants must be charged the fee upon application so that it is not rolled into the interest rate. This fee is not charged for additional loans. The other side of this will be the option of waiving the application fee. A fund called the "Application Fee Waiver Fund" will hold money that can be used in certain cases where the fee may be the roadblock to someone who really needs a loan. This fund can be donated to by outside parties and will only be used for the waiver of the application fee. The fee will cover a portion of the cost of processing the application, which includes a pulling of the person's credit report and an initial counseling session by a member of the America's Family staff. As of February 2007, anonymous donors had donated enough money to this fund to cover over 50 loans.

If a person is denied a loan, they still receive their credit report and get walked thru how they can improve it while also being offered the option of continuing on with financial counseling. They also receive a specially tailored community resource guide that has information on community organizations that may be able to help them in other areas such as health care, job skills, and home repair. If they are denied they will receive the "Denial of Credit" form on the next page.

Denial of Credit

AMERICA'S FAMILY

AF Solutions is unable to approve your loan request at this time due to:

1) Incomplete Application: see checkmark beside missing item(s)

    — Incomplete Personal Information
    — Picture Id
    — Social Security Number
    — Unable to Verify Bank Information
    — Unable to Verify Employment
    — Inadequate number of contacts provided

2) Negative information about your credit history which may have been provided all or in part by the agency named below:

Incentives for Payment and Loan Defaults

The incentives offered for payment boil down to one major issue: If you are current on your payments and do not default on your loan you will maintain a healthy relationship with America's Family and be eligible for help in the future. This could include a second small loan, a consolidation loan, or even a car loan.

If a client does not pay, you put a good relationship with America's Family in jeopardy. Because of the close relationship that is built with a loan applicant, the goal will be to increase their financial security and not hurt them further if something happens during their loan term. A loan payment can be delayed if the client contacts America's Family, but they must make contact before their payment is to be made. If a payment is not made, America's Family will immediately place a call to the client to figure out why the payment was not made. If the client does not answer, the staff member may call their other contacts to find out how they can get in touch or meet with the client. Because of the employer-partner relationship that has also been built, America's Family can even call them at work if they have not quit their job. If the client refuses to speak with America's Family, the loan will be considered in default after two missed payments. At this point, America's Family will inform them that their loan is in default and that they may either negotiate a payment plan or be taken to small claims court.

Once a loan is in default, America's Family will take their documentation to small claims court and ask for the client's wages to be garnished. If the client quit their job, the next time they are employed their wages will be garnished. America's Family knows their documents will hold up in court because they have already had the unfortunate experience of having a client default on their loan. The court generally orders that 25 percent of the clients paycheck be garnished until the debt is repaid. This is another reason for the client to avoid making America's Family take them to court, as America's Family would not ask for 25 percent of each paycheck.

Roadblocks to Success

America's Family lending program fulfills a crucial void by creating a fair and socially responsible credit market for working poor people. There are, however, many roadblocks to success. The first is that the potential clients live in a culture that promotes spending on credit and have often not been taught how to handle financial matters. When asked what her parents taught her about finances one client stated, "My parents taught me that the rich keep getting richer and the poor keep getting poorer and there is nothing you can do about it." The client followed that up by saying she never thought that was true, but trying to teach herself to save money has been difficult. Even if a poor child attends school, finances are not taught. Most of the clients that America's Family seeks to serve do not simply lack the proper knowledge, they have actually been trained to use money and services in ways that set them back.

Aside from the culture, the other main roadblock is communication. A client may choose to switch phones, apartments, or jobs, miss a meeting with their counselor, and lose contact with America's Family. While responsible clients will get in touch with America's Family, the simple task of communication can be a roadblock.

Financial Counseling

Without the counseling component, America's Family would simply be a payday lender with low rates. The financial counseling component of the program is crucial because it builds a stronger relationship with the client and equips them with useful knowledge. To understand how the counseling program works, one must look at the counseling program procedures, volunteer advisors, curriculum, meetings, incentives and penalties for attending, and roadblocks.

Program Procedures

Whether or not an applicant has been approved for a loan they are eligible for free financial counseling. In fact, over the past year America's Family had six such clients who simply wanted to participate in financial counseling but did not need a loan. However, once a client is approved for a loan they are required to meet with a financial advisor. The volunteer advisor and client decide upon the meeting time and place after the Client Services Coordinator matches them up. The match is made based upon where they live, their work schedule, and personal attributes. For example, a divorced mother may be placed with an advisor who is also a divorced mother and a young adult may be placed with a college student. The goal is for the client and advisor to build a relationship and learn from each other. If a client feels that the volunteer is simply preaching to them they will be less likely to listen. At the same time, if they feel they have similarities with their advisor they may be more open, willing to change, and accountable to their advisor. The advisor is accountable to the Client Services Coordinator and must let them know how their clients are doing and what ideas they have for improving the program. The counseling portion of the program may last as long as a year or be as short as 2 months.

Volunteer Advisors

Volunteer Advisors are crucial to America's Family, as they help build a strong relationship with the client and do not add any cost to the program. There are several groups of people that are targeted when seeking volunteers, and if anything the organization has had to deal with having too many volunteers rather than too few. There many people that need to learn about finances and yet so few volunteer opportunities for intelligent people in the financial sector to help that recruiting volunteers is actually rather easy. The organization seeks volunteers from several groups of people:

1. Retirees with a background in banking or other financial services.
2. Current employees of banks and other financial firms.
3. Graduates of the America's Family financial literacy program.
4. College students majoring in finance-related topics.

Volunteers are interviewed, screened, and then trained. They are constantly in touch with the staff of America's Family and meet with a staff member of America's Family at least twice a year. E-mail and phone communications are done on a regular basis.

Curriculum

America's Family developed the curriculum with a working poor person in mind. However, the entire curriculum does not apply to each client so it is up to the client and volunteer advisor to create a specially tailored set of curriculum out of the 16 units currently in existence. The advisor can also assign additional tasks, or offer assistance in areas where they are experts. We caution that they do not answer legal questions or offer professional advice but instead simply give suggestions or refer them to a professional. There are several sections that must be completed, but depending on the client this could be done rather quickly. All sections are listed below, with the first six being mandatory for all clients.

<u>Mandatory</u>

1. Dreams, Goals and Attitudes
2. Records, Budgets, and Spending Plans
3. Saving Money
4. Banking Basics
5. Raising the Score
6. Give Yourself Credit

<u>To be completed at the discretion of the advisor</u>

7. Love and Money (I, II, and III)
8. The Roof Over Your Head (I and II)
9. Lifestyle Management
10. Let the Buyer Beware
11. Just in Case
12. What's in a Name
13. Habit Forming
14. Don't Stop Thinking About Tomorrow
15. The End of the Day
16. Health Nuts
17. Who's the Boss
18. Upward Bound
19. Grand Opening
20. It's Not Just a Car

The America's Family counseling is unique not only because each section was written specifically for a working poor person, but also because the program itself is so flexible. The focus is on relationships, not testing specific knowledge. Saving money and making wise financial decisions involves a certain amount of knowledge, but in the end it requires mostly will power and self-control. Each advisor has different expertise. Currently there are advisors from all walks of life with different experiences. One is a recent college graduate who put together educational seminars on predatory lending, one is a divorced mother of three who is an insurance agent, and several others are retired bankers. America's Family pays them nothing, but the advisors greatly enjoy imparting their wisdom to people that can really use the help. The advisors share their experience with friends and colleagues who then come to America's Family seeking to offer their services. As the volunteer pool has grown, the wealth of knowledge available to clients and staff of America's Family has only grown. This wealth of knowledge adds value to establishing a good relationship with the organization and creates greater reliance among clients, only strengthening the relationship and decreasing the risk.

Meetings

The volunteer advisor and client generally meet every other week for 30-45 minutes. Many clients that are married or engaged want to bring their spouse or fiancé, and they are encouraged to do so. The goal of their initial meeting is to simply get to know each other. The advisor is to promote conversation by volunteering information about themselves for a brief time and then asking questions about their client. Asking about their family, if they have kids, what they like to do for fun, and what they do at work are all good questions. The second and more important part of asking a question is actually listening to the client's answer. The meetings may take place anywhere, though the conference rooms at America's Family and the satellite office at the Pikes Peak Workforce Center are the most commonly used. It is up to the advisor to decide whether they want to give their clients a reminder of any upcoming meetings, though it is recommended they do so.

During the pilot program in Colorado Springs the need for incentives for meeting attendance was realized. Relying on penalties that were imposed if a client missed multiple meetings was just not enough. While the thought of having class counseling sessions was considered, the need for one-on-one interaction overcame the attractive ease of combining clients into classes. The advisors administer the current incentive system. If a client is showing exemplary performance- by attending meetings on time, completing their work, working ahead, or bringing in questions- the advisor can recommend them to America's Family for recognition. Requests for recognition are not denied, and simply involve the advisor telling a staff member what their client has been doing. Partner employers donate some of the rewards, which include McDonald's gift certificates and Mr. Biggs' Fun Center passes. Members of the community that wanted to get involved with America's Family provide other rewards. All clients are also eligible for the "Client of the Year" award, which is given each year to a client that works hard to better their life and the lives of others. While the main penalty for not attending meetings is the loss of a good relationship with America's Family, the current application and underwriting process has helped to eliminate potentially unmotivated clients. Clients that are applying for the smaller loans are actually more interested in improving their financial well-being than some of the clients who received much larger car loans.

Roadblocks to Success

The roadblocks that could derail the counseling portion of the program lie with both the advisor and the client. If the advisor is so focused on teaching financial literacy to the client they may never develop the close relationship that is necessary if they are to help the client change their habits. This is why volunteers are sought that already work in or have knowledge of financial services. This means the volunteer training does not have to be as technical, but can instead be focused on how to develop a relationship with their client. Actually, very few of the questions the client will have involve highly technical issues. It is more important that they feel they can trust their advisor because they work in or study the financial sector.

Disposable Income

The goal of the entire program is to increase the financial security of working poor people. If they learn to save but have no money to save they are no better off. However, it is likely that once they are given a different option than payday lenders, pawn shops, and rent-to-own stores and taught to stop frequenting predatory lenders their disposable income will increase. Not only will the interest rate at America's Family be lower, the loan payments will be spread out over time and not rolled over into another loan, a common practice among predatory lenders. This will give the client the ability to create a habit of saving money.

The average size of a payday loan at Advance America, the largest payday lender in Colorado Springs, is approximately $300.[2] Assume that the working poor person in our scenario is earning $1,200 a month, or $14,400 a year. This would be equal to a wage of $7.50 an hour before taxes. Now assume the APR for America's Family loans is 19.9%

[2] Terri Verrette, Interview by Author, Colorado Springs, CO, November 7, 2007.

and the payday lender charges $15 for each $100 that is lent over a 2-week period. In other words, the APR for a payday lender is 360%. This is the lowest possible cost on the market in Colorado Springs currently, as most payday lenders have rates as high as $20 for each $100 dollars.[3] Also, the average payday loan is rolled over three times, meaning the charge is imposed four times. This means that in order to borrow $300 for eight weeks (or two months) it will cost them $180 at the cheapest payday lender.

If paid back to America's Family over 12 months, the amount of interest charged would be $33.36. Monthly payments would be $27.78, and the amount of interest charged would be even less if the client makes bi-monthly payments. Not only is the term of the loan longer, the payment plan is much more achievable than asking for the entire sum back plus a hefty interest charge as soon as the next payday rolls around. In total, the disposable income for a working poor person would increase by $86.64 if they got their payday loan from America's Family instead of a payday lender.

Now, instead of discussing the cheapest payday lender consider the average payday lender, charging approximately $20 for every $100 borrowed. A $300 loan would cost $60, and if it is rolled over three times the charge increases to $240. Keep in mind, the money has only been borrowed for two months. At America's Family, the cost will still be just $33.36. This means the client's disposable income will have increased by $206.64.

Taking the average amount charged by a payday lender for the average loan size and accounting for the average amount of rollovers, the disposable income for this client would be increased by $206.64. While this may only be 1.4 percent of their yearly income it is significant. One can understand this by taking a closer look at the average

[3] Survey of seven local payday lenders conducted by author during December 2007.

America's Family client. Assume they pay $400 a month for rent, not an overly large amount especially considering many have families and therefore larger apartments or even homes. Along with rent, they pay $250 a month for groceries, $70 a month for their cell phone, $100 for gas, and $75 a month for their utilities. Many of them are single mothers who have daycare costs as well, but we will leave that cost out for this analysis. They are spending $795 each month, or $10,740 for the year. This means their disposable income is $3,660. By switching from an average payday lender to America's Family their disposable income has increased by $206.64, or 5.6%. In fact, many clients are spending way more on their cell phone bills, utilities, and rent along with prior debt obligations because of predatory lending. The numbers being used are far from a doomsday analysis, and if anything are rather conservative. Also, the lowest cost payday lenders are only available online and charge $10 for every $100 borrowed. Physical branch locations in Colorado Springs rarely charge less than $20 for every $100 borrowed. For a working poor person, having an additional 5.6% of disposable income is significant because it could be the difference between saving some money for the next emergency or continuing to be tied down by the vicious cycle of debt.

The other ways which America's Family can increase a working poor person's income is thru the counseling program. Clients may not know about the Earned Income Tax Credit, utility bill assistance programs, Individual Development Accounts (IDAs) which can be used to multiply a client's savings for use in the purchase of an asset such as a home or education, and other community organizations such as the Pikes Peak Workforce Center that can provide scholarships for their education at local colleges.

Table 4.1

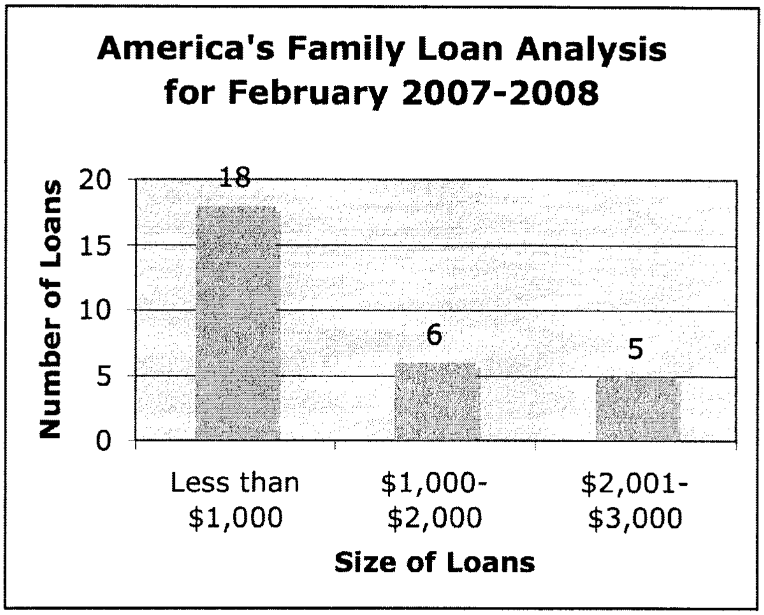
A Comparison of Payday Lender's and America's Family Loan Charges

	Charge for $300 Paid back in 2 Weeks	Charge for $300 paid back in 8 Weeks	Charge for $300 paid back in 52 weeks
$10 per $100 Online Payday Lender	$30	$120	$780
$15 per $100 Low-cost Payday Lender	$45	$180	$1,170
$20 per $100 Average Payday Lender	$60	$240	$1,560
19.9% APR America's Family	N/A	N/A	$33.60

Current Lending Assessment

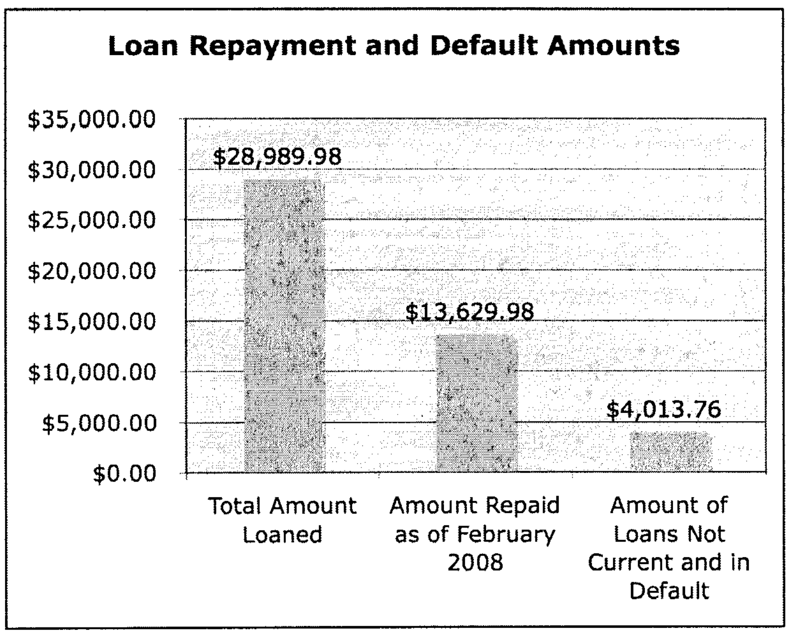
A discussion of America's Family loan portfolio can help one better understand and assess the performance of America's Family. For this discuss the time period from February 2007 to February 2008 will be analyzed. The total amount loaned to 29 clients was $28,989.98. The average loan amount was $935.16. There were five loans in the $2,000-$3,500 range, six loans in the $1,000-$2,000 range, and 18 loans made for less than $1,000.

Figure 4.1



The amount repaid to date is $13,629.98. One loan is in collections, with the original amount being $1,410 and $1,280.94 the balance at the time of default. This amounts to 4% of the total amount loaned during the 12 month period. To provide a fair analysis, one must also consider the loans that are not current. As of February 2008, there were two loans that were not current on their payments and at risk of defaulting. The original amount of these loans totaled $3,521.41, with a current balance of $2,732.82. When added to the loan that has already defaulted, the total of loans in default and not current equals $4,013.76. This amount is 13.8% of the total amount loaned in the past 12 months, which is higher than the target default rate of 10% or less. Other micro-credit institutions, such as the popular Grameen Bank, will allow loans to not be current for one to two years before considering them to actually be in default, an accounting practice that has drawn criticism. Grameen's default rate is generally reported to be anywhere from 3-11%, but at times as much as 19% of their loans are not current.[4] By being completely transparent and honest about how many loans are not current, America's Family hopes to avoid a major criticism leveled against other micro-credit institutions. While this transparency may result in higher default rates than other micro-credit institutions, America's Family has placed great importance on transparency. As for the counseling portion, two of the clients were paired with a counselor who decided to stop meeting with his clients. The other was assigned to a counselor but the counselor was either not contacted or forgot to contact the client.

Figure 4.2



[4] Tom Bethell, "Micro Man," *The American,* May/June 2007, 31-36.

Five of the 29 loans were loans that enabled the purchase of a car. Seven of the loans were consolidation loans, allowing the client to consolidate several debts and pay a lower interest rate to America's Family. The majority of these debts were multiple payday loans taken out by the client. 17 loans were for an emergency, such as medical bills or car repairs. Several of these were to pay rent, which the client became late on because they had to pay a medical bill. There have also been 15 clients who enrolled in just the financial counseling portion of the program.

Suggestions for Future Assessments

America's Family must continually assess its model and look for ways to improve. To prove it is effective, America's Family should do several things. First, it should check new clients FICO score upon entrance into the program, at 6 months, and after one year. While checking this important indicator has not been done with previous clients, America's Family should be using it to assess the impact of the lending program. The FICO score is a rating used by lenders to determine a person's credit history and is an indicator of how likely it is that the person will repay a loan. The name FICO comes from the Fair Isaacson Corporation, the developers of the score. The scores normally range from 300 to 850, with the higher score meaning the client is more likely to repay the lender based on their past history. While clients may have a basic of idea of what improves or hurts their FICO score, the actual equation used for the calculation of the score is kept a secret.[5] For America's Family, the FICO score is a simple way to show the improvement of a client's financial security. Clients should be improving their score by

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[5] "What's in your FICO score," http://www.myfico.com/CreditEducation/WhatsInYourScore.aspx, (Accessed April 3, 2008).

making on-time payments, which are reported by America's Family to the Experian Credit Reporting Agency and factored into their FICO score. Looking at traditional indicators like the default rate can help to assess the loan portfolio. America's Family should also consider the number of new loans made and additional partner employers added.

The counseling program should also be reviewed. Having quarterly meetings with the volunteer counselors would be one way of accomplishing this. While these counselors are not and never should be collection officers, they can offer valuable information and feedback to America's Family. If brought together, counselors could share effective methods, discuss problems, and build a sense of community. The counseling program should also be reviewed on a monthly basis by the volunteer coordinator. A review should consist of touching base with counselors to see how their meetings have gone.

Lastly, America's Family should not forget to assess and compile the stories of the people they have helped at the end of each year. No statistical analysis can provide the powerful human story of certain clients. After all, America's Family is not simply in the loan business, but also in the business of seeking to help hard-working people who have run into difficult times. Their story cannot simply be told with numbers, though hopefully the numbers will also prove that relational lending is a viable model as the client's stories will have to be kept confidential within the America's Family organization.

Chapter 5

Conclusion

Predatory lending in America has grown rapidly, illustrating the desire and need poor people in America have for credit. There is most certainly a group of people that are both employed and in need of credit. While the average American may not understand this person's lifestyle, simple interaction with such a person will quickly change their perspective. Think of a time when you had an emergency. You likely dipped into your savings account. Now consider if you did not have enough money save, or if the best place to save it was underneath your bed because you were either turned down by or afraid of traditional banks. You would likely end up taking a personal belonging to the local pawnshop or promising your next paycheck to the nearest payday lender. The emergency car repair or doctor's bill could be paid, but the emergency is not yet over. The rate charged by the payday lender takes up the portion of your paycheck that should have gone to rent, and now you are in danger of having you and your two children kicked out of your apartment in the middle of winter. Unfortunately this story is too closely related to what really happens in Colorado Springs and America today. Sit down and hear the story of a working poor person and you will realize the savage realities that they face.

Payday lenders will rightfully assert that the risk involved in such loans is too great to charge a lesser rate, and the fact that they have customers proves they are fulfilling a need. Politicians seek to legislate predatory lending out of existence, which ignores the actual problem. If payday lending ceases to exist then poor people will simply turn to pawnshops for credit. There is an undeniable need for a socially responsible alternative.

The notion of relational lending is not new, simply forgotten. If anything, it has a longer history than the practice of lending to people with whom no relationship is built. America's Family is attempting to revive relational lending in Colorado Springs, and while it has hit certain road bumps it has also proven it could work. America's Family has sought to learn from its failures and promote the well-being of its clients by not only lending them money but giving them knowledge. By collaborating with other organizations in the community, they have begun to use payday lending as a way into the poverty-stricken communities that others had trouble reaching. Being there for a person in the event of an emergency is a powerful thing, and the relationship that can be built is lasting.

A person obviously benefits financially when they do business with America's Family instead of a payday lender. Their disposable income increases and they may even find they now have money to save. As the program ages, it is hopeful that the best success stories will not come from current clients who avoided financial ruin but rather from former clients who now have accounts with traditional banks and will never return to America's Family for another loan.

In conclusion, the current state of credit markets for working poor people in America is unfair and unjust. Legislation can not fix it, and sitting idly by will not help those in need. The best solution is to put support behind an alternative. Micro-credit in

America will look different than it does in developing countries, but the results may be the same. The extension of credit and education to working poor people can provide hope and help in times of need, allowing them to avoid being sucked into a vicious cycle of debt. Their disposable income will increase and their financial security will likely benefit. Many other benefits may arise, but there are certainly benefits that are identifiable and undeniable.

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Appendix

The appendix includes several additional documents used by America's Family. There is a referral form used when counselors have a client who would like computer, job skills, or other forms of training offered at the Pikes Peak Workforce Center. Secondly, there is a flier that is handed out to prospective clients which also includes a side-by-side comparison of America's Family and a payday lender. Lastly, there are some of the financial literacy sections that are used in the counseling program. Clients are assigned one of these sections to read and must complete the questions before their next meeting with their advisor.

List of Documents

1. Pikes Peak Workforce Center Referral Form

2. Recruitment Handouts
   a. Making a Difference in the Lives of Working Americans
   b. Payday Lender Comparison

3. Financial Literacy Sections
   a. Records, Budgets, Spending Plans
   b. Saving Money
   c. Dreams, Goals, and Attitudes
   d. Raising the Score
   e. Give Yourself Credit
   f. Banking Basics

America's Family 5825 Mark Dabling Drive Colorado Springs, CO 80919 719-955-7138

AMERICA'S FAMILY

PIKES PEAK WORKFORCE CENTER
Building a Better Workforce for a Brighter Future!

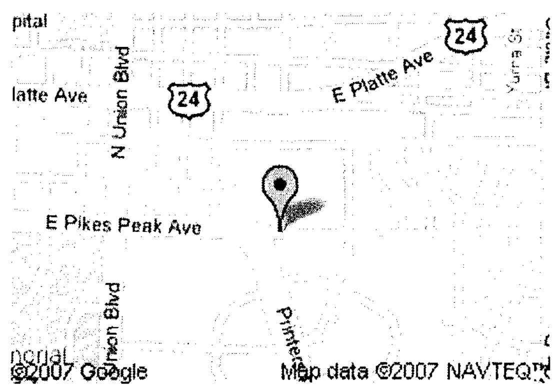
Pikes Peak Workforce Center Referral

Name: ______________________________ Date: ____________

Is referred to—
Pikes Peak Workforce Center
2306 East Pikes Peak Avenue
Colorado Springs, CO 80909
Ph. 719.667.3700
www.ppwfc.org

The PPWFC is located right off East Pikes Peak Avenue and Printers Parkway. It is on the north side of the street and is in the strip mall right behind a US Bank branch.

Hand this form to the receptionist when you enter and they will instruct you on what to do next.



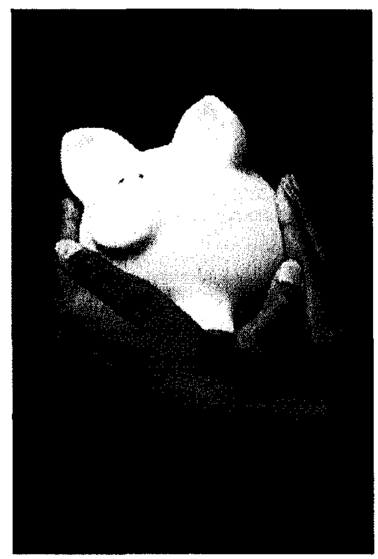
America's Family

Making a Difference in the Lives of Hard-Working Americans

The Great American Myth says "work hard and apply yourself and you will be successful." Many prominent Americans began life in humble circumstances, but their success stories are the rare exception to the norm.

Statistically, a hard-working but poor family remains financially insecure and unstable throughout its working life. This leads to generational poverty as their children fail to learn the habits that help families achieve success. We know that hard work combined with education and the right relationships can and will break the cycle of poverty.

- **Employer Partners**
  It starts with employers like yours who:
  - Provide direct deposit of payroll
  - Allow America's Family to use your existing communications structures to deliver information to your employees
  - Verify the employment and good standing of employees who apply for loans
  - Provide access for America's Family counselors to speak with employee/clients



- **Community Partners**
  America's Family works with an extensive network of private and government service providers to connect you with the products and services you need. From banking, to auto repair, medical support, and child care.

- **Direct Services**
  America's Family provides financial coaches who work directly with you to help solve your financial questions and get you on the road to security. In addition, we provide micro-loans ($250-$500) to address emergency needs and help build/rebuild creditworthiness so you can qualify for traditional financial services and loans and the best rates.

Value of the America's Family Loan Service vs. Payday Loan

	America's Family	Payday Lender
Loan Amount	$250	$240
Origination Fee	$0	$48*
Interest Rate	19.9%	--
Term	6 Months	14 days*
Total fees and Interest	$14.66	$96
APR	**19.9%**	**521%**
Credit Reporting	Included	N/A
FICO Score Improvement	Included	N/A
Financial Counseling	Included	N/A
Financial Mgmt Units	Included	N/A
Control of Finances	Included	N/A
Banking Relationship	Included	N/A
Community Referrals	Numerous Available	N/A

*Full amount of loan plus fee must be repaid in a single payment on the payday following the origination of the loan. Each client is allowed one "Roll-over" which extends the loan contract an additional two weeks before it must be paid in full.