

Memorandum



CITY OF DALLAS

DATE October 31, 2014

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair),
Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT **Community Loan Center of Dallas**
A Low-Cost Alternative to Payday & Auto Title Loans for Dallas County

On Monday, November 3, 2014, the Budget, Finance & Audit Committee will be briefed on Community Loan Center of Dallas A Low-Cost Alternative to Payday & Auto Title Loans for Dallas County. The briefing will include information presented by Rosa Rios Valdez, President and CEO of Business & Community Lenders (BCL) of Texas. Briefing is attached for your review.

Should you have any questions, please contact me at (214) 670-3296.

A handwritten signature in blue ink, appearing to read 'Ry - S. E.', with a horizontal line extending to the right.

Ryan S. Evans
First Assistant City Manager

c: Honorable Mayor and Members of City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Mark McDaniel, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Karl Zavitskovsky, Director, Office of Economic Development
J. Hammond Perot, Assistant Director, Office of Economic Development
Elsa Cantu, Assistant to the City Manager



COMMUNITY LOAN CENTER
OF DALLAS
Affordable Small Dollar Loans

A LOW-COST ALTERNATIVE TO PAYDAY &
AUTO TITLE LOANS FOR DALLAS COUNTY

Budget, Finance and Audit Committee
November 3, 2014

*Rosa Rios Valdez, CEO
Community Loan Center of Dallas,
a program of Business & Community Lenders (BCL) of Texas*



BCL of Texas
Business & Community Lenders

The Toll of Payday & Auto Title Loans in Texas



Texas is one of 27 states with permissive lending regulations.

Texan borrowers get larger loans and pay higher fees than consumers in the nation as a whole.



3,590

Payday and Auto Title Lenders



\$1.47 Billion

Fees charged



36,800

Cars repossessed

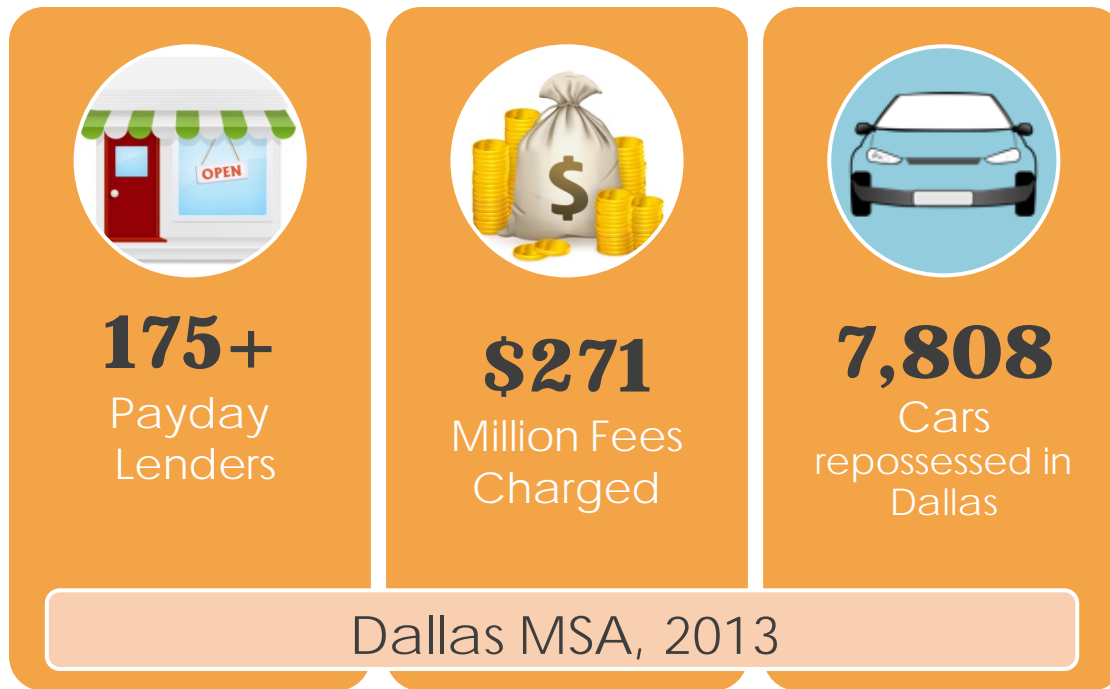
\$5.9 Billion

The industry of payday and auto-title lending in our state

Sources: Center for Public Policy Priorities; Texas Tribune



The Toll of Payday & Auto Title Loans in Dallas



Source: Center for Public Policy Priorities; The Texas Tribune



A \$1,000 loan costs
the borrower
\$775 in fees



Why is Dallas vulnerable to payday lenders?

- ▶ A 2012 CFED study reports that **39%** of the City of Dallas populations are households in **asset poverty**.
- ▶ The City of Dallas population is **68% minority** compared to 30% in the U.S. and the Dallas **income poverty rate is two times higher** than the U.S. income poverty rate.
- ▶ The number of **Dallas unbanked households is two times higher** (15.6% vs 7.7%) than U.S. unbanked households. The **homeownership rate** of Dallas families is **21% lower** than the U.S. homeownership rate and the **uninsured rate** for Dallas low income families is **50.4%**.



Problems with payday loans

- ▶ **Targets.** Borrowers tend to be low-income, young, people of color, females, renters, separated or divorced. Payday lending storefronts are more likely to locate in neighborhoods of color.
- ▶ **Lack of underwriting for affordability.** The payday lending business model depends on borrowers' inability to afford their loan and their subsequent need to borrow—paying more fees—multiple times.
- ▶ **High fees.** Payday lenders typically charge the maximum possible rate allowed in a state. As a result, the annual percentage rate (APR) on payday loans is often 400% or higher.
- ▶ **Short-term due date.** Most borrowers cannot repay their payday loan principal within a two-week period—let alone the principal plus a fee. In fact, some payday lenders offer a “free” first payday loan with no fee, knowing that borrowers who cannot afford to repay the principal in two weeks will incur many repeat borrowings and fees in subsequent pay periods.

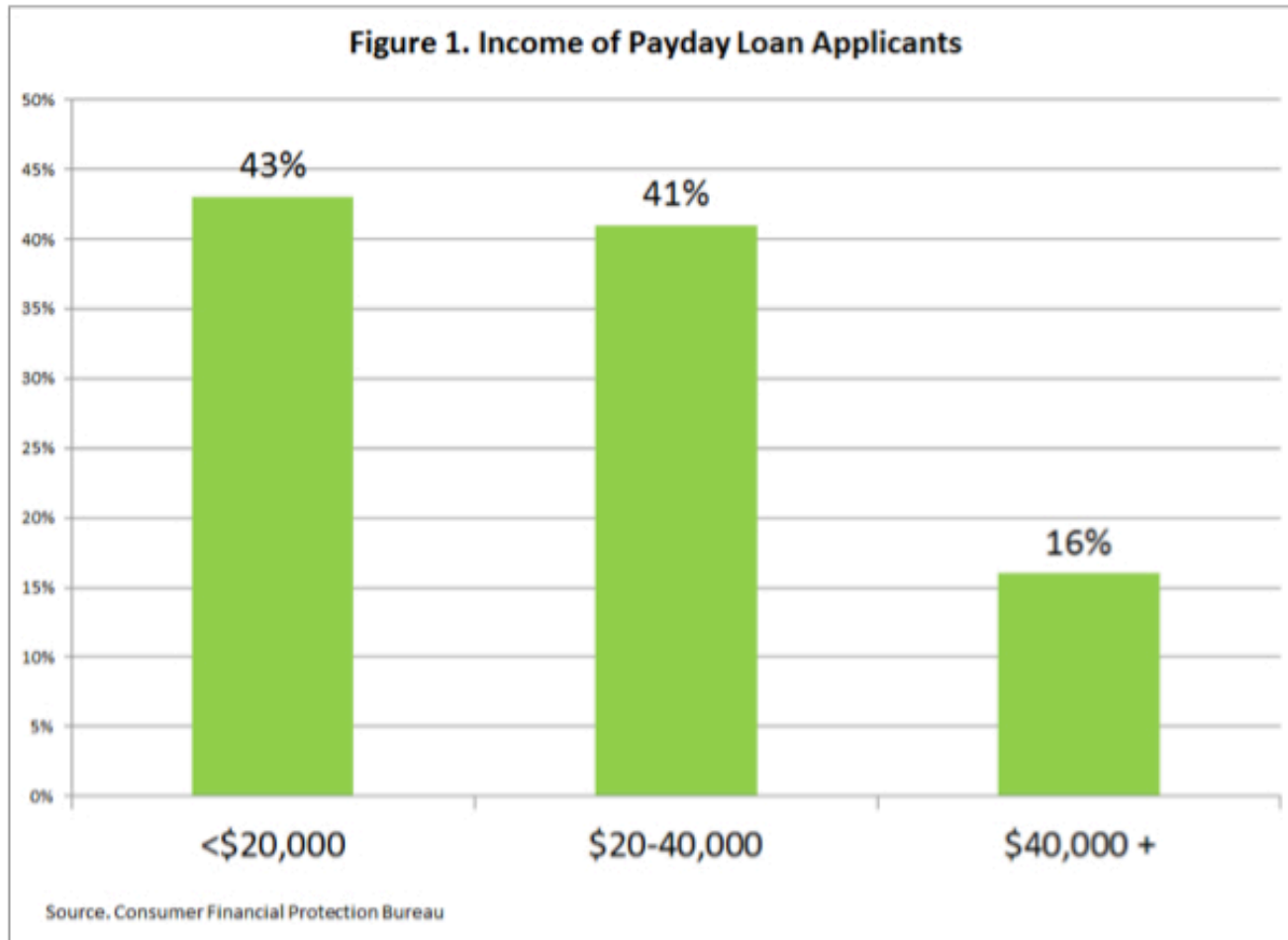


Problems with payday loans, continued

- ▶ **Borrowing cycle.** Rapid re-borrowing indicates that very few borrowers can clear a monthly borrowing cycle without borrowing again. According to CFED, 80% of borrowers will renew the first loan.
- ▶ **Lack of transparency.** In a time of business transparency, Texas payday lenders, a \$3 billion lending industry, now operate as “credit services organizations” (CSO’s), a model that carries few restrictions. CSO’s continue the practice of excessive fees and interest rates, loan flipping, aggressive and deceptive marketing to uninformed consumers without regard to the borrower’s ability to repay.



Income of Payday Loan Borrowers



The BCL of Texas Solution: The *Community Loan Center of Dallas*

▶ **Market-Based Approach**

- ▶ Fairly priced small-dollar loans with reasonable terms
- ▶ Direct competition to high costs lenders
- ▶ Employer based loan to workers

▶ **Sustainable and Scalable**

- ▶ Need a program that can outgrow the need for subsidy and generate revenues
- ▶ Program designed to be replicated across state and beyond



Community Loan Center

Terms

- ▶ \$1,000 Loan maximum *(or up to half of borrower's monthly gross pay)*
- ▶ One-year loan term
- ▶ 18% Interest *(21.83% APR)*
- ▶ \$20 Origination fee *(no other fees)*
- ▶ No collateral or credit check
- ▶ No prepayment penalties
- ▶ Reports to credit bureaus



Pilot Program Successes-

Community Loan Center of the Rio Grande Valley

- ▶ 792 Loans in first year 2011, of operation in Brownsville
- ▶ Active at 55 employers covering over 12,000 employees
- ▶ 5% Loan Loss
- ▶ Originated over \$3 million to date
- ▶ Saved borrowers over \$2 million in fees and interest



Projections: \$1 Million Base Capital

Month	Drivers	YEAR 1 TOTALS	YEAR 2 TOTALS
No. Loans Originated	100%	791	1046
Loan Amount Origination	\$ 900.00	\$ 711,900.00	\$ 941,400.00
Principal Repaid		\$ 295,902.62	\$ 919,824.99
Outstanding Balance		\$ 415,997.38	\$ 437,572.39
Allowance for Loan Loss	5.00%	\$ 35,595.00	\$ 47,070.00
Loan Pool Balance	\$ 1,000,000.00		
Revenue			
Interest	18%	\$ 40,168.73	\$ 86,531.49
Admin. Fees	\$ 10.00	\$ 4,053.33	\$ 13,558.33
Total Revenue		\$ 44,222.07	\$ 100,089.82
Expenses			
Admin. Expense (% of Salary Cost)	25%	\$ 3,750.00	\$ 3,750.00
Staffing (base, Fringe)	\$ 15,000	\$ 15,000.00	\$ 15,000.00
Servicing	0.3500%	\$ 18,750.00	\$ 20,507.64
capital cost	2.0%	\$ -	\$ -
Provision for Loan Loss	5.00%	\$ 23,445.00	\$ 46,530.00
Total Expense		\$ 60,945	\$ 85,788
Profit/Loss		\$ (16,723)	\$ 14,302.18



How you can contribute to the success of the program

- ▶ **Personally Donate** to the Texas Community Loan Center crowdfunding campaign at www.igg.me/at/communityloancenter
- ▶ Assist the Community Loan Center of Dallas to **enroll employers**
- ▶ Help identify funders to **help grow the capital base** from which to lend
- ▶ Explore **financial support for program administration and loan loss reserves**
- ▶ Help the Community Loan Center of Dallas **gain visibility**





BCL of Texas
Business & Community Leaders

Who we are

- ▶ A *501c3 nonprofit* community & economic development organization founded in 1990
- ▶ Promote *asset-building and community impacts* through financial empowerment, microentrepreneurship, small business & homeownership programs
- ▶ Opened *central Dallas location in 2008*
- ▶ BCL of Texas has:
 - ▶ Assisted *5,000+ to become homeowners* with homebuyer education from our NeighborWorks HomeOwnership Center
 - ▶ Assisted *150+ small businesses & microentrepreneurs* in Dallas with capital & technical assistance
 - ▶ Provided *down payment assistance loans to 134 families* to purchase Dallas homes through the NeighborhoodLIFT program



Contact info



Community Loan Center

Contact: Raquel Valdez

1322 Record Crossing Rd.
Dallas, TX 75235

(888) 241-2215

askus@clcofdallas.org

CLCofDallas.org

www.CLCofDallas.org



Rosa Rios Valdez, CEO

(512) 912-9884

rriosval@bcloftexas.org

BCLofTexas.org

