



Underwriting for Borrowers with No or Poor Credit, pt. 2

Lender Roundtable Series
October 15, 2019

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CBA's Training Institute



www.cbatraininginstitute.org



Save the Date!

10/17/19
2 pm ET

CBA Reporter:
**Credit Reporting for Clients with
Extenuating Circumstances**

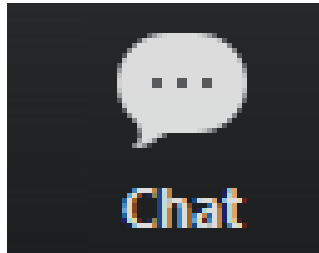
Register @
bit.ly/CBA_events

10/24/19
2 pm ET

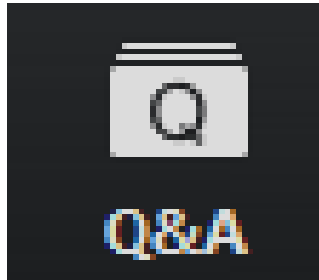
CBA Members-only:
**Addressing Coerced Debt,
A Newly Defined Form of
Identity Theft**



Reminder!



Tech questions? Chat the chair. If you choose to raise your hand, please still chat the chair.



Questions for the presenter? Type them into the Q&A box. These will be answered at the end.

Meet the Presenters



Andy Posner
Founder & CEO



Laura Rijos
Director of Loan Servicing

Agenda

- Quick overview of Capital Good Fund
- Portfolio data and analysis
 - Interest rates and default risk
 - Approval rates
 - Portfolio performance
 - Trends
- Underwriting policy and procedure
 - Bank Statements
 - The Credit Report
 - Ability to Pay
 - Lending Regulations
 - Underwriting Decisions
- Planning for Growth
 - Staffing and training
 - Technology
- Q&A



Capital Good Fund (“Good Fund”)

- Founded in 2009
- U.S Treasury-certified Community Development Financial Institution
- Mission is to create pathways out of poverty through equitable financial services
- Nonprofit “fintech”
- Small-dollar consumer loans and one-on-one Financial and Health Coaching to LMI clients
- Currently operating in DE, FL, MA, and RI; offices opening in IL and TX in the Fall



Our History and Growth

- Have financed 4,200 loans totaling \$8.6 million (96% repayment rate)
 - Avg. FICO of borrowers is 580; ~20% have no FICO
- Loans of \$300 - \$25,000
- Financial and Health Coaching – over 1,000 clients served
- 5 Core Loan Products
- 1,700 loans for \$4.7 million outstanding; 96% current
- 28 FTEs
- \$7.2 million in assets
- \$3.5 million budget
- 600% increase in assets and quadrupling of loan volume since launch of scaling plan in 2016

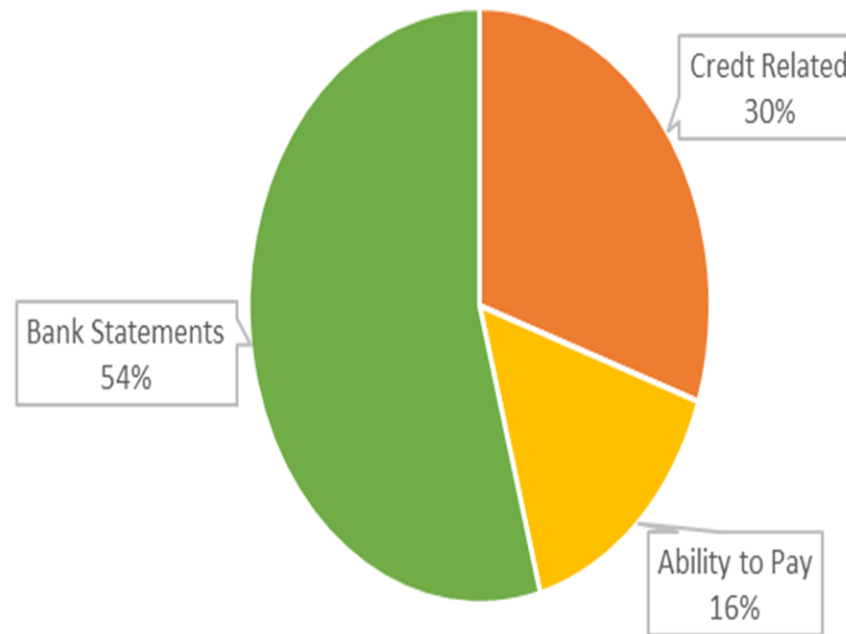
Portfolio Data

Product	Historical Default Rate	Product Range	APR	Term (years)	Secured?	Common Uses
Emergency	17.02%	\$300 - \$500	10%	1	No	Catch up rent or utilities, emergencies, pay off payday loan
Other Personal	9.50%	\$700 - \$2,000	24%	2	No	Security deposit, laptop, vehicle repair
Immigration / Unity	1.25%	\$2,000 - \$20,000	15.99%	4	No	Citizenship, green card, family petition, asylum
Auto Purchase / Refi	1.04%	\$6,000 - \$20,000	7% - 17.99%	5	Yes, Car Lien	Vehicle purchase or refinance
DoubleGreen	0.84%	\$500 - \$25,000	10%	2-7	No	Energy-efficiency upgrades—boiler replacement, insulation, etc.
All Time	3.42%					

Portfolio - Continued

- Overall approval rate of 36%
- Q: What is the greatest factor in causing the 64% of applicants to be denied?
 - It varies by product
- Q: What is your loan eligibility Criteria?
 - We have some basic criteria that applies to all loan products. However depending on the specific product, other eligibility criteria will apply. The next four slides provide more details.

Loan Applications Not Approved



Eligibility Criteria - Emergency and Other Personal Loans

- At least two months of bank or an *approved pre-paid debit card statements*
 - Most pre-paid debit cards do not allow for automatic ACH withdrawals
- Reside in Rhode Island, Florida, Massachusetts or Delaware (soon IL and TX)
- Have a current source income
- Q: Does requiring payment through ACH raise a regulatory issue? Issues with ECOA?
 - As of today none of the consumer protection laws limits or prohibits creditors from imposing this condition as long as it is applied equally to all borrowers.
Capital Good Fund:
 - Makes this provision part of the Loan Agreement as an ACH Authorization form that all borrowers must signed.
 - The Loan Agreement provides detailed information on how the borrower can suspend future automatic debits from their bank accounts.
 - Honors all request to cancel or stop future automatic payments in accordance with the Loan Agreement's provisions.

Eligibility Criteria – Auto Loans

- Auto Purchase
 - Have a current source of income
 - At least 3 months of bank statements
 - Reside in FL, MA or RI
 - Valid driver's license
 - LTV no greater than 115%
- Auto Refinance
 - Same as Auto Purchase, plus must have made at least three on-time payments on your existing auto loan
 - LTV no greater than 130%



Eligibility Criteria – Weatherization Loans

- Have bank account statements for the past three months
- Reside in Rhode Island or Massachusetts
- Have a current source income
- Be a homeowner and be current on your mortgage
- Be approved by National Grid for the HEAT Loan Program.



Eligibility Criteria – Immigration Loans

- Active Bank Account
 - Two months history for loans for less than \$2,000
 - Three months history for loans for more than \$2,000
- Reside in Florida, Rhode Island or Delaware
- Have a current source of income
- Immigration Referring Source



Bank Statements

- From Bank Statements, We Get:
 - Insufficient Balance Days
 - Recurring Transactions
 - Overdraft/NSF Fees
 - Red Flag Transactions
 - Cash Flow
 - Money Management Habits
 - Avg. Daily Balances
 - Income Verification
- Q: What are red flag transactions?
 - Transactions that pose a higher risk for default if the application is approved. For instance, recurring deposits and debits from high interest lenders, large cash withdrawals right after receiving deposits.

The Credit Report

Good Fund Does Not:

- Have a minimum FICO Score requirement for any loan product.
 - Penalize borrower for unpaid medical debt.
 - Consider paid collections as a negative remark.
 - Require a minimum amount of trade lines.
- We've worked extensively with applicants with thin files, no files.

Good Fund Will:

- Consider applicants with past bankruptcy cases, repossessions, charged off accounts, and other negative credit repayment remarks.
- Focus on trends rather than individual quantitative factors.

Credit Report – Cont.

- Q: How do you look at inquiries?
Too many or too few?
 - We mostly focus on open trade lines, instead of recent inquiries. For instance, when underwriting auto loans it is not uncommon to see a high amount of credit inquiries because the applicant might have been price shopping or might have not gotten approved by those lenders.
- Q: How do you determine a tax lien or civil judgement since they no longer show up on credit reports?
 - This information is self-reported by the applicants. Since we no longer have access to confirming it by using the credit report, we mostly look for clues that might be available on their bank statements or proofs of income. It is worth noting that even when this information was part of the credit report, it only affected a small number of applicants.

Let's Put It All Together

- Jane Smith is applying for a \$2,000 loan to cover the security deposit on her new place.
Jane Smith:
 - Has an active checking account
 - Is currently employed full-time at a local Attorney's office and has been there for the past 18 months.
 - [Credit Report](#)
 - [Bank Statement](#)

Underwriting Criteria and Loan Portfolio Performance

- This underwriting model requires for the performance of the loan portfolio to be consistently and regularly analyzed, and traced back to the specific loan applications.
- If done successfully, the findings will inform your current and future underwriting criteria, provide an appropriate level of risk, allow you to catch early trends and prevent further loan losses.



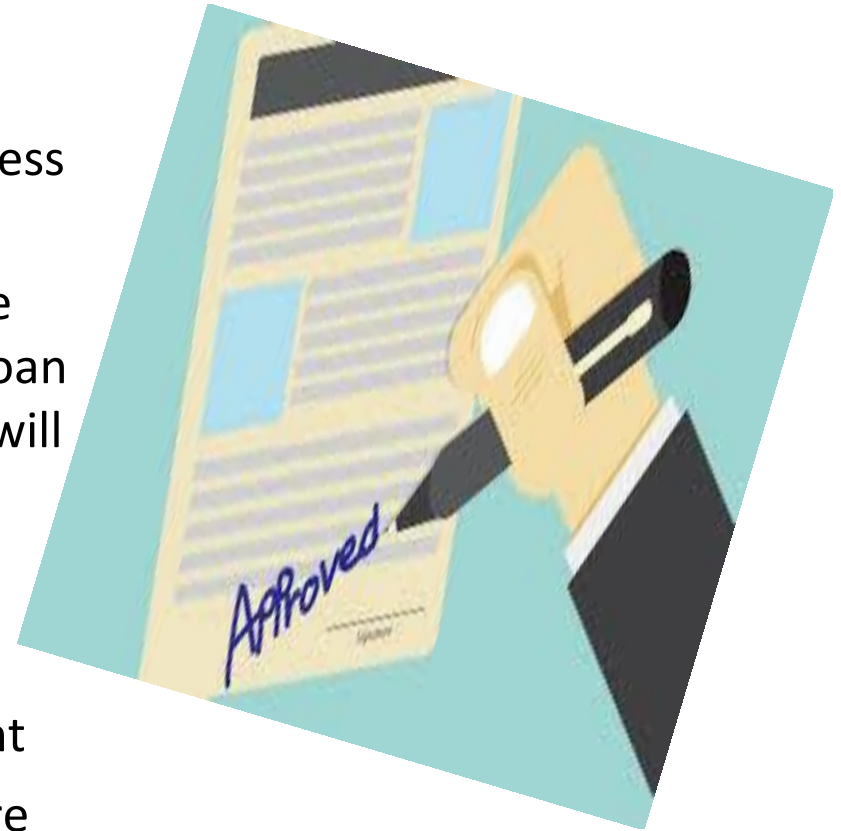
Important Lending and Consumer Protection Regulations

- Equal Credit Opportunity Act (ECOA)
- Fair Credit Reporting Act (FCRA)
- Truth In Lending Act (TILA)
- Fair Debt Collection Practice Act (FDCPA)
- Fair and Accurate Credit Transaction Act (FACTA)
- Bank Secrecy Act (BSA)
- State Specific Laws – Compliance of loan terms and loan servicing and debt collection Practice
- Seek Legal Counsel



Loan Approvals

- Loan Officers convey decisions using the applicant's preferred method of communication. An email notification is always sent if there is a valid email address on record.
- Closing documents are requested. These documents will vary depending on the loan product, however every approved loan will require the following in order to close:
 - Proof of Identity
 - Proof of address
 - Proof of income and/or employment
- Once the contract is signed, the loans are funded via ACH deposits or with a check.



Not Approved

- Loan Officers convey these decisions similarly to the decisions for approvals.
- Through this process, the applicant receives an adverse action notice. Besides containing the required regulatory information, this notice gives the applicant detailed information regarding the decision, ways in which they can increase their chances for approval in the future, other resources that might be able to assist them, and information on how/when to re-apply with us.



Co-applicants

- If a co-signer is necessary, the ECOA prohibits creditors from requiring the spouse as a co-applicant, and/or ask information about the spouse unless:
 - The spouse is in the application already
 - if the spouse will be allowed to use the account;
 - if the applicant relies on income or on alimony or child support income from a former spouse;
 - if you live in a community property state.
- Two applicants may choose to be reviewed together.
- Credit Officers may require for a co-applicant to be added to an existing application.
- Immigration loans related to removal proceedings from the United States require for a co-applicant with legal status if the person applying for the loan is the person who is in removal proceedings.



Planning for Growth

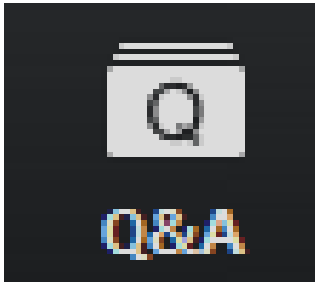
- Small-dollar consumer lending requires speed and efficiency:
 - Turnaround time of competitors
 - Technology to process quickly
 - Balance automation and impact
 - Funding for technology and staff can be harder in consumer
 - Must have staff and board buy-in
 - Consider pricing as it relates to loan capital and sustainability
- Q: What are the main marketing channels?
 - Google searches and Google AdWords; immigration attorneys; weatherization contractors; word-of-mouth; **targeted** community partnerships; earned media
- Q: When will loans be offered in Texas?
 - January 2020
- Q: And in Illinois?
 - Hopefully in November!



Planning for Growth - Continued

- Q: To process this volume with just two underwriters with a manual process what tools (i.e., templates, software, etc.) are used?
 - Salesforce.com, Cloud Lending, Magentrix, Ring Central
 - We are overhauling our technology, switching to Form Assembly and Salesforce Communities
- Q: Are there protocols in place for working with LEP (Low English Proficiency) clients)?
 - Everything is native-translated into Spanish; bi-lingual staff

Q&A



**Type your questions into
the Q&A box!**



Thank You!

cbafund@creditbuildersalliance.org

