Chapter 8

The Family Loan Program As a Public-Private Partnership

Susan E. Doyle
Michael J. Austin

Recent federal welfare reform legislation has transformed the way counties approach serving their low-income populations. San Mateo County has responded to these changes with a series of programs designed to address the changing needs of clients. This case study highlights one such innovative effort, the Family Loan Program, which was established in January 1998 and is operated by the Family Service Agency of San Mateo County. This program is a replication of a family loan program developed by the McKnight Foundation in Minnesota in 1984. It reflects a public-private partnership to serve clients in three critical ways: (1) alleviating hardship and facilitating the parents' ability to work, (2) providing education and training in real-life skills, and (3) contributing to the family's asset-building ability. This case study covers the first eighteen months of program implementation (January 1998-July 1999). The case study includes the following sections: a review of the literature; the development and implementation in San Mateo County; a description of program operation; a discussion of lessons learned; and the identification of future areas for expansion.

REVIEW OF THE LITERATURE

Federal welfare reform has focused on getting welfare recipients into employment as soon as possible. However, the jobs former welfare recipients can expect to find are primarily entry-level, service-sector positions without many benefits or job security (Jones and Wattenberg, 1991). Therefore, the working poor seeking to become self-sufficient are still often vulnerable to large, unexpected expenses (such as car repairs) due to a lack of

savings (Jones and Wattenberg, 1991; Raschick, 1997; Berde and Mueller, 1996). Low-interest loan programs are one way of addressing this issue.

Access to reliable and flexible transportation, in particular, has emerged as a vital component of a family's ability to attain and maintain employment or education. Transportation difficulties result, in part, from a persistent spatial mismatch between job seekers concentrated in inner cities and employment growth which is primarily in the suburbs. Irregular shifts, dropping children off at child care, and weekend work hours further exacerbate the situation (Reichert, 1997; Berde and Mueller, 1996; Lambert, 1998). Initiatives aimed at resolving the transportation crisis of the working poor include both asset-building activities, which promote automobile ownership, and direct transfers, such as bus and gas vouchers (Reichert, 1997). Low-interest loan programs focus on helping low-income populations build assets, which have been shown to contribute to improved life satisfaction and self-efficacy, the development of human capital, increased community involvement, and the enhanced welfare of children (Finn, 1994; Page-Adams and Vosler, 1995; Page-Adams and Yadama, 1997).

ORIGINS OF THE PROGRAM

The original Family Loan Program was established in Minneapolis in 1984 by the McKnight Foundation, a private foundation committed to enhancing the abilities and productivity of the poor and disenfranchised. The idea started simply with a dinner party hosted by the McKnight Foundation and attended by ten low-income families from Minneapolis. The parents were asked what would most help them manage their lives better and increase their ability to be self-sufficient. Overwhelmingly, these parents expressed a need for financial assistance to address large, one-time expenses that were keeping them from being able to get better jobs or pursue educational opportunities. These unexpected expenses (related to car repair, child care, or car purchase) often result in lost jobs and family deprivation. In addition, these parents wanted assistance in the form of a loan, not a grant, because they wanted the self-respect that goes with being self-sufficient and honoring one's obligations.

The mission and philosophy of the new program were based on the views expressed by the low-income parents. What emerged was a public and private partnership that blended banking and social services to enable clients to build assets and repair damaged credit histories by learning real-world skills related to borrowing and budgeting. The following core values reflect the philosophy of the family loan program (Alliance for Children and Families, 1999):

- Recognizing that small amounts of money at the right moment can make a real difference in moving working low-income families along the path to self-sufficiency and away from welfare and dependency
- Welcoming and supporting applicants who exhibit a potential for success in work or school even though they may have had limited success with past credit experience
- Assuming the best about loan applicants, treating them with dignity and respect, and supporting them in living up to their highest aspirations
- Recognizing that creating a climate of mutual support and responsibility within informal local communities can provide built-in incentives for borrowers to repay loans from a revolving loan fund that serves others within that community

The original Minnesota program was called the Single Parent Loan Program when they handed out their first loans in 1984. The program expanded to include two-parent families in 1991 and the name was changed to the Family Loan Program. The program grew dramatically, and twelve expansion sites within the state of Minnesota were proposed and implemented by 1994. Beginning in 1995, the McKnight Foundation initiated their collaboration with the Alliance for Children and Families (formerly known separately as Family Service America, Inc., and the National Association of Homes and Services for Children) to help coordinate the national replication of the program.

The McKnight Foundation provides local sites with a matching grant and the Alliance offers technical support for the program's implementation. The matching grants are designed to cover $150,000 of the approximately $500,000 needed to start a loan program and operate it for three years. The remainder of the funding comes from a variety of local sources, including private foundations, the banking community, and the public sector. Nationally, a significant amount of local funding has come from the public sector, namely the Community Development Block Grant (CDBG) and similar welfare-to-work initiatives. State and local governments in such states as Virginia, New York, and Colorado have recognized the value of a low-interest loan program in removing barriers to employment and have dedicated some of their welfare reform money to these programs. However, one of the appealing features of this program is the involvement of the private sector. The program in San Mateo County operates solely with private funding.

At the time the original national expansion grants were made available, it was projected that five sites would be established in the first five years of the effort. In reality, local agencies had little difficulty raising the matching funds and those five sites were established in the first year. As a result, the Alliance approved the addition of more sites, and the McKnight Foundation

committed the funds to provide additional matching grants. The program's name has gone through another change as well and is now known nationally as Ways to Work: A Family Loan Program.

IMPLEMENTATION AND DEVELOPMENT IN SAN MATEO COUNTY

In the fall of 1997, the director of the human service agency in San Mateo County heard about the Minnesota Family Loan Program. The Peninsula Community Foundation was asked to investigate the program and the possibility of bringing it to California. The foundation quickly discovered the availability of the matching grants being offered by the McKnight Foundation and applied to become one of the national replication sites. Within a few weeks, the Peninsula Community Foundation, along with the David and Lucile Packard Foundation, was able to raise the additional funding needed for the program from a variety of private sources.

Once the funding was secured, the human service agency approached the Family Service Agency (FSA) of San Mateo County to administer the program. The Family Service Agency is a private, nonprofit organization which provides comprehensive and ongoing services to the families of San Mateo County (counseling program, senior service program, child care, a visitation center, and child abuse treatment). The Family Loan Program represents a new direction for an agency focused mainly on counseling and support services.

Once the Family Service Agency was committed to the project and the funding was in place, the next step was to recruit a director for the new program. In keeping with the program's history of blending business and social services, the director was recruited from the private sector. The program's first and only director brought with him a background in finance and a business-oriented approach to the provision of social services, which he describes as

> very business-oriented, kind of like "tough love." This is not a warm and fuzzy program. We provide a service that educates clients on how things work in the real world. Some clients are used to a lot of handholding. With this program, clients need sufficient motivation and follow-through. The more work they do, the more likely they will succeed.

One additional part-time support staff position was provided and the program was fully staffed.

The final piece to the puzzle was to bring the local banks into the equation. The Family Service Agency approached local banks in November 1997 and asked them to administer the loan funds for clients of the Family Loan Program. A partnership was established quickly with three local banks (Bay Area Bank, Borel Bank and Trust, and Liberty Bank) and within three months, the first loan had been handed out. As a representative of the Peninsula Community Foundation noted, "This was philanthropy at the speed of light."

PROGRAM DESCRIPTION

The Family Loan Program in San Mateo County officially began on January 7, 1998, and the first loan was given out in February. The program offers loans of up to $3,000, at a low interest rate of 4 percent, for up to a maximum of twenty-four months, to help low-income families attain or maintain economic self-sufficiency. The applicant must show the loan committee how the loan will enable him or her to start or keep a job or further education goals. The most common uses of the loan money are for car purchases, car repairs, tools and uniforms for work or trade, help with housing costs, and child care. In addition to the loan money, the program also provides assistance with establishing and maintaining a realistic budget.

According to the program guidelines, clients must meet the following requirements to apply for a loan:

- employed or enrolled in vocational training at least twenty hours a week and been at their present employment or vocational training three months or longer;
- pursuing post–high school education (at least nine credits per semester);
- other loan sources exhausted and unable to qualify for conventional financing;
- sufficient disposable income (no less than eighty dollars per month);
- must be resident of San Mateo County (for at least three months);
- families must demonstrate the ability to make monthly payments;
- custodial parent of child(ren) under seventeen years of age, living in household (or eighteen if child is in high school);
- loans must be related to helping parents make employment or education a success; and
- loans are available to qualifying families regardless of race, sex, or religious affiliation.

Loan Process

As reflected in Figure 8.1, referrals in the first three months of the program were accepted only from the human service agency (HSA). The HSA sent information about the program to all of their CalWORKs clients each month (approximately 3,500/month). Starting on April 1, 1998, applications were made available to all residents of San Mateo County. Starting in January 1999, the HSA also began mailing information about the program

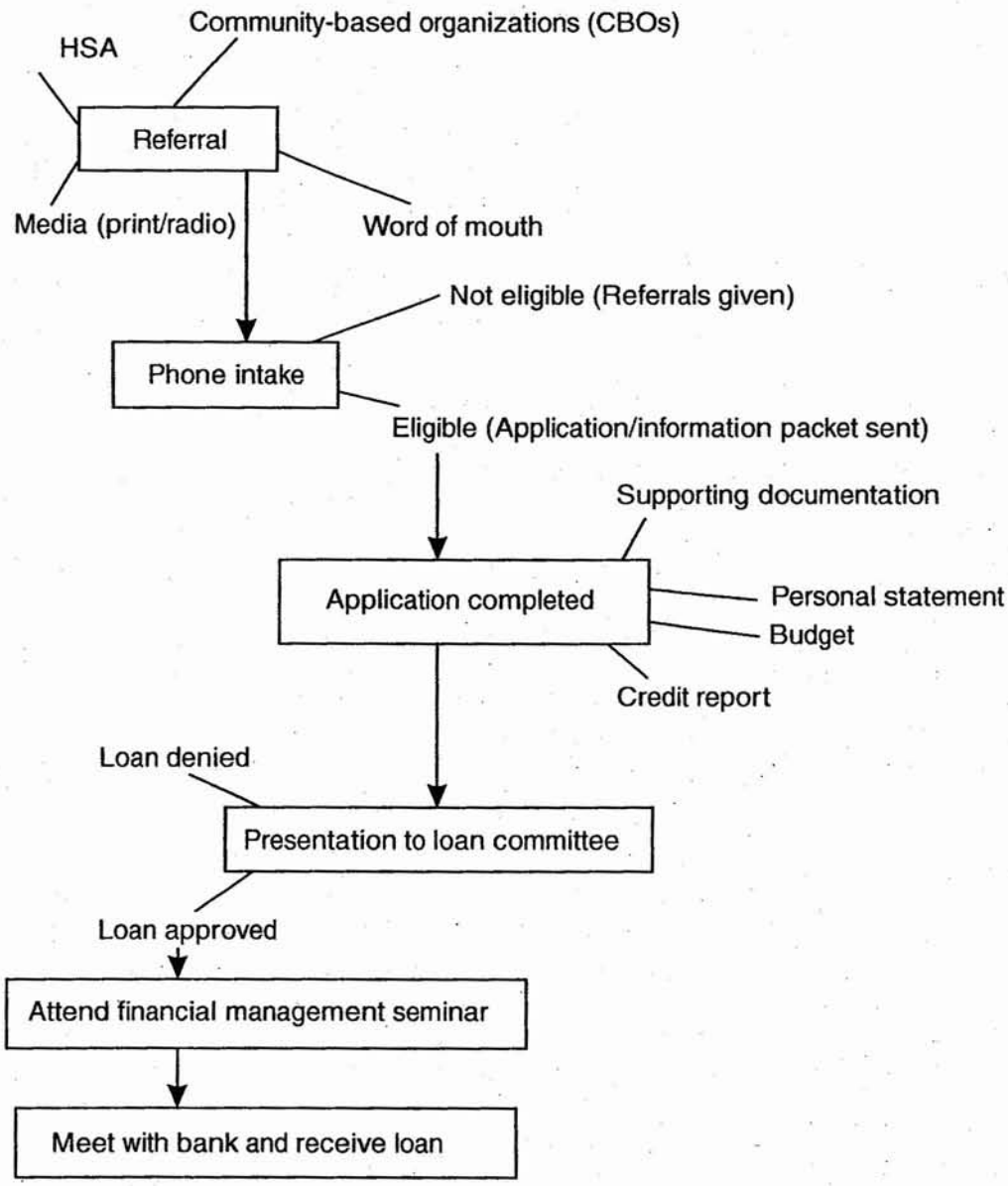

FIGURE 8.1. The Loan Process

to their Medi-Cal clients (approximately 1,100/month). County residents generally learn about the program through the HSA and other CBOs, print and radio media, and word of mouth. When potential loan applicants call the program, they go through an initial phone intake to determine if they meet the eligibility requirements for the program. Eligible applicants are then sent an application packet with various forms to complete. If, after the initial phone conversation, the program cannot serve the client, he or she is given information on what to do to become eligible or is referred to other county resources. When the application has been returned with all the appropriate supporting documentation (pay stubs, tax forms, residency verification, etc.), the file is turned over to the director for review and presentation to the loan committee.

The program director reviews each case thoroughly, paying particular attention to the budgets provided by the client. Several follow-up calls are usually needed to complete a file for presentation to the loan committee. For example, if the client's budget is not realistic, budget counseling is provided to make the application stronger and determine if they truly have the disposable income to support the loan repayment plan. Clients are also encouraged to include in their budgets a savings plan in addition to the repayment amount. At this point in the process, one of the program's employees commented:

> The very last thing I do with a case is pull the credit history. I know there will be problems on it and I don't want to prejudice myself against them before I look at the other pieces. When banks make loans, they look at the credit report to measure character; in this program, character is based on how well the clients communicate their needs and plans.

The next step is the confidential presentation of the file to the loan committee, which meets twice each month. After the director presents the relevant facts of each file, the merits are discussed among members and the loan is either approved or denied. The loan committee consists of a diverse group of three to six individuals and includes banking professionals, counselors, community volunteers, and social workers. The goal in forming each committee was to involve the community as much as possible. In the first year and a half of program operation it has taken an average of fifteen days from receipt of the application to review by the loan committee.

If a loan is approved, clients then attend a mandatory one-and-a-half-hour financial management workshop covering a variety of money-management topics with the following curriculum:

1. Developing a budget
   - Calculating income
   - Current expenses
   - Projected expenses, including savings and loan repayment
2. Where do you spend your money?
   - Bill-paying system
   - Adjusting your budget
   - Having fun
3. Money-saving tips

After attending the workshop, clients bring to the Family Loan Program proof, such as an invoice, for how the funds will be used. The entire file is then sent to the bank located closest to the client's residence for processing and the client becomes a bank customer. The bank services the loan in the same way as any other personal loan, except that the loan check is made out to the client's vendor. The client then receives monthly loan payment slips to send with payment to the bank.

CLIENT POPULATION

A typical loan recipient is a single mother with two children who needs a car, or serious car repairs, so that she can get her family back and forth between work, school, and day care. Based on demographic information collected by the program, the typical loan recipient is a thirty-five to fifty-four-year-old, Caucasian woman with an annual income of less than $25,000. The demographics of the client population, however, do not provide a complete picture of the families served by the program; the following are two illustrations:

Alicia, a forty-three-year-old mother of five, cares on her own for her two youngest sons, Pedro, ten, and Francisco, two. (The three older children have all graduated from high school.) Alicia worked two jobs to care for her family until she fell ill and was forced to rely on public assistance for a time. Last September, she got off welfare and secured a job as a bank teller. Though it took her two buses and forty-five minutes to get to work, she knew she was on her way back to self-sufficiency. Then a co-worker offered to sell her a car. It seemed like the perfect solution to her transportation issues, especially since an older daughter with asthma often needs emergency medical care.

Alicia came to the Family Loan Program in February buried under the weight of $500 monthly payments to her co-worker. She received a loan of $3,000 to pay off the car and to pay for six months of auto insurance. After signing her loan documents at Liberty Bank, she grinned and sighed with re-

lief. "I feel like a million bucks," she said, knowing that now her family would be able to make ends meet.

Anne is a thirty-four-year-old mother whose priority is caring for her five-year-old son, Robert. Until recently a recipient of public assistance, Anne now works two jobs to make ends meet. Anne came to the Family Loan Program after a roommate left her stuck with a bill for back rent and her car needed expensive repairs. The Family Loan Program approved Ann for just over $1,500 to settle her obligations. She is now pursuing the possibility of a move to a better neighborhood for her son.

LESSONS LEARNED

Since 1984, the approval and repayment rates of the national Family Loan Program have all increased significantly, from 46 percent to 70 percent (Berde and Mueller, 1996; Jones and Wattenberg, 1991; Raschick, 1997). The San Mateo County program has benefited greatly from the experience of the national model, demonstrating similar successes as follows:

- Of the 203 applications received, eighty-nine (44 percent) were approved.
- 71 percent of approved loans were for car purchase. The remaining funds were used for housing-related expenses and child care.
- Average application processing time was fifteen days.
- 97 percent of those receiving loans are women.
- Average loan size was $2,594.
- Repayment rate is 91 percent (compared to the national rate of 70 to 75 percent).
- Clients report a 89.9 percent decrease in work time missed; a 92.61 percent reduction in travel time to work; and a 25.9 percent increase in attendance in job-related educational activities.

In addition, clients continue to state that the program was the "booster" they needed to overcome unexpected expenses. The primary strengths of the program include (1) the quality of the relationship formed between the program and the client; (2) the careful and fair judgment of the loan committee; (3) the development of community partnerships; and (4) the continuous program assessment and evaluation. Based on these strengths, four major lessons have been learned.

1. *A trusting relationship between the program and clients needs to be established in order to promote successful participation and high repayment rates.* The quality of the interactions between the program and the client has been shown to be critical to the successful repayment of loans (Berde and

Mueller, 1996). In San Mateo County, the program-client relationship develops from the very first phone call and involves a balance between being supportive and demanding accountability. The program reports a 91 percent repayment rate on its loans, which is significantly higher than the national average (approximately 70 percent). If a client runs into a problem with loan payment, the program-client relationship appears to be strong enough to discuss any difficulties. In return, the program treats each client with dignity and considers each recipient on an individual basis. If a payment is missed, the bank will contact the client in an attempt to collect the money. If, after sixty days, the bank is unable to recover the loan payment, the Family Service Agency buys the loan back from the bank and starts collection procedures themselves. In the first eighteen months of operation (January 1998 through June 1999), only three out of eighty-nine loans granted (3.4 percent) have been charged off. The bank was repaid from the loan pool and the program was unable to recover the money from the client or is pursuing recovery through small claims.

2. *Loan committee members need to be carefully selected because the program relies heavily on their judgment of client risk related to repayment.* One unique feature of this program is the autonomy given to the loan committee in approving and denying loan applications. The task of assessing risk in these applications is difficult and relies heavily on the committee's experience and knowledge of the issues facing low-income populations. Some of the factors that might cause an application to be denied are recent credit problems (within the previous six months); insufficient proof of need; loan seemingly unrelated to employment or education; insufficient disposable income; and inconsistencies in the application. In a regular loan process, banks judge an applicant by the "4 Cs": collateral, credit, cash flow, and character. With the Family Loan Program, demonstration of character is the largest part of the decision to approve or deny an application, as described by one loan committee member:

> I'm not only looking for a hard-luck story because everyone has one. The three things I look for are (1) the client's goals and goal-oriented activity, (2) how the loan will help the individual like nothing else can, and (3) an indication of being a responsible person.

The committee's overall goal is to encourage clients to focus on positive outcomes as they struggle to attain self-sufficiency. When a loan application is not strong enough for immediate approval, the committee often approves it on a provisional basis. If clients are able to meet the additional conditions set by the committee, they will receive their loan. In this way, the client is given some control over the process.

3. *Strong working partnerships need to be established with local banks and businesses.* The Family Loan Program relies greatly on the partnerships it has developed with public and private agencies for each step of its operation. As a referral source, local agencies are indispensable for getting the word out about the program. The banking partnerships provide the vehicle for dispensing loan funds and an opportunity for clients to learn real-world skills. Community collaborations are also essential to making the loan experience a positive one for clients by linking them with additional resources in their community. One of the program's employees noted that "no Family Loan Program can operate as a stand alone CBO. Community involvement and support is necessary for it to fulfill its mission. There are two types of partners: banking partners and community partners."

- *Banking partners.* Participation in the Family Loan Program is attractive to financial institutions for several reasons. It does not create a heavy burden for the banks, it represents a sign of good will to the community, and it qualifies the bank for federal funding under the Community Reinvestment Act (CRA).

  The San Mateo County program could be developed and implemented quickly because the banks are able to treat Family Loan Program clients like any other bank customer. Participation in the program does not require the hiring of new bank staff or developing new products or procedures. It should be noted, however, that it does require a significant commitment of bank resources and personnel time. A loan officer at each bank volunteers his or her time to serve on the loan committee as well as service the loans for clients once they are approved. The banks do not charge the program for servicing the loans, although each installment loan, regardless of size or interest rate, incurs a minimum cost (excluding staff time) to the bank. These costs are not covered by the client's interest payments, but financial institutions are willing to incur them as a way to give back to the community.

  Participation in the Family Loan Program also qualifies banks to receive low-interest federal funding under the requirements of the Community Reinvestment Act. Under the CRA, banks receiving these funds must use a percentage of them for "qualified investments" in "community development" within the bank's assessment area. Qualified investments are defined as having the primary purpose of fostering community development by supporting community services targeted to low- or moderate-income individuals. The banks receive "positive consideration" by those who administer the Community Reinvestment Act as a result of their participation in the Family Loan Program. The positive considerations include (1) contributing to the program's loan

pool; (2) contributions to fund the program's administration; (3) providing low-interest loans to the program to expand the loan pool once the original pool is funded from other sources; and (4) servicing loans for clients of the Family Loan Program.

- *Community partnerships*. The collaboration between the Family Loan Program and the Human Investment Project (HIP) is one example of fostering new partnerships to serve low-income populations. Since 1972 HIP has operated a nonprofit organization that develops permanent housing options for low-income residents of San Mateo County. In 1998, they wanted to designate funds to be made available as loans to their clients for emergency expenses that were interfering with self-sufficiency, but could not find one that was willing to administer such a small amount of money. With the arrival of the Family Loan Program, HIP was able to take advantage of their banking relationships based on sharing a similar mission and philosophy.

4. *Continuous assessment and program evaluation needs to be built into the program model. This means that the program is accountable to itself, its public and private sector partners, and the clients that it serves.* Program assessment has been built into the national model for the Family Loan Program from the beginning. The San Mateo County program produces demographic and outcome data every six months as a way to measure its progress. Not only does the program know who they are serving but also who they are not serving. From this information, the program operation can be fine-tuned and new products and services can be developed.

Program assessment has led to the exploration of new ways to expand the Family Loan Program in the future by focusing on reaching the clients that currently cannot be served. As noted in the following list, there are a variety of reasons why a potential applicant might not be eligible for a loan.

Reasons for ineligibility*	**Percent of inquiries**
Work/school requirement not met	40 percent
Requested use of loan not appropriate	12 percent
No children or none in custodial care	11 percent
Resident requirement not met	9 percent
Currently receiving disability and/or unemployment insurance	7 percent
Request for information only	6 percent
Emergency need requesting twenty-four-hour turnaround	5 percent
Insufficient income	3 percent

*Random sample of 100 of the 505 ineligible inquiries.

In response to these factors, the program plans to develop new loan products that might be more helpful.

Several new products are currently being explored:

- *Higher-risk loans or emergency loans.* Clients would be able to get small loans at a higher interest rate. Positive repayment history would allow them to "graduate" to lower-interest loan products.
- *Individual development accounts.* A savings account for low-income individuals that matches the amount that they deposit.
- *Loan rebates.* Offer clients a rebate for a positive repayment history.
- *Additional locations.* Establish low-interest loan programs in different locations such as vocational schools and workplaces with high numbers of low-wage workers.
- *Public funding.* Increase the level of public-private partnership through increased use of public funding.

These products are an indication of the program's potential for future development, not a mandated path that the program must take. It is a priority of the current program director to pace the expansion according to a realistic time frame and not grow too quickly.

CONCLUSION

Low-income families face many challenges to self-sufficiency. Most notably, they find that large expenses, such as car repairs and child care, can hinder their ability to maintain employment or pursue further education. In response to this reality, low-interest loan programs across the country have been helping these families make ends meet since 1984. The Family Loan Program operated by the Family Service Agency of San Mateo County has been offering this service to low-income county residents since January 1998. In addition to providing financial assistance that would not otherwise be available to this population, this program offers clients an opportunity to expand their skills by providing training and support around budgeting and borrowing issues.

The undeniable success of this program can be attributed primarily to its ability to establish and maintain strong relationships with clients and community partners, to whom the program holds itself accountable. The high repayment rate reported in the first eighteen months of operation (91 percent) is one indicator of the strength of the program-client relationship. In addition, the dedication and expertise of the loan committee members, banking partners, and community agencies further enables clients to attain their goals and fulfill

their obligations. Given this proven track record, the Family Loan Program of San Mateo County can expect to continue to support its client families as well as expand and improve its countywide services.

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