



Communities Unlimited, Inc.

A number of years ago, the nonprofit Community Resource Group, Inc. (now Communities Unlimited, Inc.) using private (non-government) capital, launched a small dollar home improvement loan program targeted to *colonia* residents in Starr County, Texas.

The loan product offers an unsecured signature note of up to \$2500 to qualified homeowners at 12% for 24 months. There is no application fee, no late fees, or other hidden fees. A short two page application focuses on establishing borrower identification, proof of home ownership, and income and debt loads. Underwriting is completed quickly, with most loans closing in less than 5 days. Funds are distributed at closing where the borrower signs a promissory note. If repaid as agreed for 12 months, the borrower can apply to increase the outstanding balance to \$3500 to continue with other needed home improvements.

After 1750 loans and 4.5 million dollars, the data demonstrates that loan losses run 8% - which means on average loan losses are \$200 for each loan made. The marginal cost for underwriting and loan servicing is approximately \$135. Both loan losses and marginal underwriting costs are covered by the 12% interest charged on each loan. What is not covered is the cost of marketing, loan origination and collections.

As a market-based loan product the small dollar loan product does not break-even financially for the lender—which is one reason private financial institutions don't offer this size home improvement loan or single out areas of persistent poverty as their target market. However, the small dollar loan program, when compared to grant-based housing rehabilitation programs, is more cost efficient and scalable as repaid funds are “recycled” to assist other homeowners. This is social purpose lending at its best.

The HUD BCCI program is enabling Communities Unlimited to analyze results to date, re-imagine the loan product, refine and streamline delivery and test methods for scaling up the loan program by partnering with local institutions along the border that have an interest in improving housing conditions to market and originate loans and assist with collections.

Successes to Date

- Extensive analysis of hundreds of past loans revealed that the vast majority of loan losses are the result of unpredictable life events including, family break-up, death, and medical emergencies rather than borrower irresponsibility.
- Shortened loan application to fewer than two pages by analyzing contents and eliminating all “useful but not essential” questions.
- Developed and tested partnership agreement for use with local institutions (e.g. grassroots nonprofit, small municipality) covering roles and responsibilities for operation of loan program.
- Raised \$250,000 in non-government loan capital which we will seek to double by pledging as match for a government loan fund matching program in 2016.
- Have developed and executed two (2) new partnerships agreements-- one with a nonprofit membership organization serving low-income and colonia residents in Hidalgo County, Texas and one with a local community in Webb County, Texas that started as a colonia and over time incorporated. A third partnership (El Paso County) is currently being finalized two other small rural border communities (in Hidalgo and Willacy Counties) with high poverty have expressed interest in partnering to offer the loan product to their residents.
- Have completed development of mobile application loan application form for Apple and Android platforms. Tablets with Wi-Fi connectivity are currently being tested in two locations. The mobile application allows for photographing of documentation, electronic signatures and immediate and secure transfer of completed applications by loan originator to our underwriters.
- Communities Unlimited has been approved as a vendor by the national *Pay-near-me* cash payment platform that will allow borrowers to make cash payments at 7-11s and Family Dollar stores nationwide. Borrowers will receive a receipt at point of payment and funds are electronically transferred to Communities Unlimited with loan identification information attached to the fund transfer.

Challenges

The small home improvement loan program is not a grant disguised as a loan. And it is not a successful market-based loan product since it does require an operating subsidy or successful externalizing of some costs to local partners. Since it fails to fall neatly into either the grant or the loan sectors it is simply harder to raise the capital needed to achieve the scale required to make a significant impact on seriously substandard housing

in the colonias and regions of persistent poverty across rural America. The loan product works. We are challenged to raise sufficient loan capital to significantly provide access to home improvement credit with reasonable terms and conditions to low income homeowners with limited repayment ability.

We are working to reduce repayment barriers for borrowers without checking/savings accounts. The time it takes to purchase a money order, address and envelope, buy a stamp, and taking it to the post office, acts as a barrier for low income families without a checking/savings account. CU was recently approved by *Pay-near-me*, a third party payment systems that allow cash payments to be made at local retailers, such as 7-11 and Family Dollar stores. We are now focusing on strategies that will enable units of local government to accept loan payments using existing water/sewer/solid waste payment collection systems that have adequate internal controls in place to safe guard payments. We will be testing our belief that making it easier for borrowers to make loan payments will reduce loan losses. Finally, we will continue to maximize use of technology and telecommunications to reduce operating costs, processing/decision/payment time, and sending automated monthly payment reminders that are actionable, specific and timely to borrowers with smartphones. The cost of training potential partners, working on-site with those that elect to partner with us to deliver this program, and program evaluation still require grant-based subsidy.

We are challenged to maximize the use of technology at every step in the lending and servicing process which will enable us to increase loan volume, expedite underwriting and document preparation and improve collections while reducing operating costs.

What Lies Ahead

Our current efforts to use technology to develop and scale up an efficient and cost-effective home improvement loan program targeted to low income homeowners is focused on homeowners residing along the Texas-Mexico border. We expect to continue work on refining and testing our home improvement loan product in the colonias and over time rolling it out through partnerships with small communities, housing authorities, local nonprofits, and rural water and wastewater systems across our seven state service area which includes Texas, Oklahoma, Louisiana, Arkansas, Mississippi, Alabama, and Tennessee and is home to more than 60% of the USDA designated persistently poor counties. Rollout speed is dependent on our ability to secure the necessary loan capital to support increased home improvement lending.