REPORT OF ACTIVITY OF NONPROFIT ORGANIZATIONS FACILITATING ZERO-INTEREST CONSUMER LOANS

Calendar Year 2016

California Department of Business Oversight
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STATE OF CALIFORNIA
EDMUND G. BROWN JR., Governor

BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY

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INTRODUCTION

The Legislature and Governor in 2014 enacted a statute that allows certain nonprofit organizations to originate consumer loans from $250 to $2,499 without having to comply with the California Finance Lenders Law (SB 896, Correa). The law, found in Financial Code section 22066, took effect January 1, 2015.

To gain the exemption, nonprofits must be organized under section 501(c)(3) of the Internal Revenue Code. The consumer loans they originate under the program must meet certain requirements. Among the major requirements:

- The loans must be zero interest and unsecured.
- The term cannot be less than 90 days for loans under $500, 120 days for loans from $500 to $1,499, and 180 days for loans of $1,500 or more.
- The lender can charge an administrative fee that depends on the size of the loan, as well as a delinquency fee of up to $10.
- The lender cannot pay a broker's fee in connection with any loan made under the program.
- The lender cannot make a loan if the borrower's total debt service, including the debt service on the loan, exceeds 50 percent of the borrower's gross monthly income.
- The lender must report borrowers' loan payment performance to at least one credit reporting bureau.
- Before making a loan, the lender must either offer the borrower a credit education program or seminar, or invite the borrower to such a program or seminar conducted by an independent third party. Under either option, the program or seminar must be approved by the Commissioner.

The statute has no income eligibility requirements for borrowers.

Financial Code section 22066(c)(5) requires exempt nonprofit organizations to file annual reports with the Commissioner of the Department of Business Oversight (DBO) that provide information related to their lending activities under the program.

Financial Code section 22067 requires the Commissioner, on or before July 1 of each year, to post a report on the DBO website that summarizes the information provided in the annual reports. This report was produced in compliance with section 22067.

Three nonprofit organizations applied to the DBO for exemptions in 2016. The DBO approved all three applications. Those three organizations comprised the total number of program participants.

Two of the organizations submitted their annual reports. The statute grants the Commissioner authority to suspend or revoke the exemption of any participating nonprofit that does not file its annual report.

Financial Code section 22066(d) allows exempt nonprofits to partner with other 501(c)(3) organizations to facilitate making loans under the program. Those partners also are exempt from the CFLL. In 2016, the program participants entered into such partnerships with 23 organizations.

DATA

Overall Lending Data

A total of 944 borrowers applied for loans under the program in 2016. Of those applicants, 689 received loans. The approved loans represented 73% of total applications.

The aggregate principal of approved loans totaled $718,715. Following is a breakdown of the length of loans made under the program:

- 180 days to 1 year – 636 loans (92.3% of total loans)
- 120 days to 180 days – 34 loans
- 1 year to 18 months – 16 loans
- 90 days to 120 days – 3 loans

Multiple Loans

A total of 241 borrowers obtained more than one loan under the program in 2016. The breakdown follows:

- Two loans – 124 borrowers
- Three loans – 57 borrowers
- Four loans – 27 borrowers
- Five loans – 13 borrowers
- Between five and 10 loans – 20 borrowers

Based on information provided by at least one credit reporting bureau, 34 of the borrowers who obtained more than one loan saw their credit scores increase. That works out to 14.1% of the total multiple-loan borrowers. The credit score increases averaged 43.53 points.

Borrower Income

Following is a breakdown of 648 borrowers' monthly income at the time their loans were originated:

- $1,000 or less – 132 borrowers
- $1,001 to $2,000 – 145 borrowers
- $2,001 to $3,000 – 170 borrowers
- $3,001 to $4,000 – 99 borrowers
- $4,001 to $5,000 – 45 borrowers
- $5,001 to $6,000 – 29 borrowers
- $6,001 to $7,000 – 7 borrowers
- $7,001 to $8,000 – 8 borrowers
- $8,001 to $9,000 – 7 borrowers
- $9,000 to $10,000 – 0 borrowers
- More than $10,000 – 6 borrowers

The number of borrowers who obtained more than one loan and lived in a low-to-moderate income Census tract totaled 209.

Purpose of Loan

The following shows the purposes for which program borrowers used their loan proceeds:

- Build or repair credit history – 520 borrowers
- Finance purchase of non-vehicle goods or services – 74 borrowers
- Consolidate debt – 11 borrowers
- Other than personal, family or household purpose – 6 borrowers

- Pay bills – 3 borrowers
- Vehicle purchase – 2 borrowers
- Medical – 1 borrower
- Nonmedical emergency – 1 borrower
- Other – 18 borrowers

Borrower Bank Account Status

A total of 602 borrowers reported they had a bank account at the time they applied for a loan. Fifty-one reported they had a bank account and also used check-cashing services, and 31 said they did not have a bank account.

Late Payments

Following is information about borrowers who, in 2016, had at least one payment past due for seven or more days and subsequently brought their loan current:

- Between 7 days and 29 days
  - Number: 49
  - Percentage of all borrowers who had at least one payment past due for this length of time: 72.06%
- Between 30 days and 59 days
  - Number: 2
  - Percentage of all borrowers who had at least one payment past due for this length of time: 15.38%
- 60 or more days
  - Number: 1
  - Percentage of all borrowers who had at least one payment past due for this length of time: 10%

Meanwhile, 20 borrowers with at least one payment past due for seven or more days did <u>not</u> subsequently bring their loan current. That represented 29.41% of all borrowers who were seven days or more late on their payment at least one time.

Among borrowers who had at least one payment past due for seven or more days, the average number of times such late payments occurred in 2016 was 1.58.

Violations and Complaints

The DBO in 2016 received no complaints about exempt nonprofits or their partners, found no violations of the statute by either exempt nonprofits or their partners, and did not suspend or revoke any participating nonprofit’s exemption.

Recommendations for Improving Program

The limited participation has provided insufficient information to adequately assess the program. Additionally, the program is only two years old. Given these factors, the DBO believes making recommendations for improvement is premature at this time.