



2019

California Department of Business Oversight
Annual Report of Nonprofit Organizations Facilitating
Zero-Interest Consumer Loans

Report Required by Financial Code Section 22067



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EXECUTIVE SUMMARY

The Department of Business Oversight (DBO) licenses and regulates finance lenders, brokers, and Property Assessed Clean Energy (PACE) Program Administrators pursuant to the California Financing Law (CFL). Recognizing that nonprofit organizations have an important role in helping consumers obtain access to affordable, credit-building small dollar loans, Senate Bill 896 was enacted in 2015 to encourage nonprofit organizations (exempt organizations) to facilitate zero-interest, low-cost loans that allow consumers to establish and build credit histories or to improve their credit scores. The legislation's provisions apply to consumer loans of \$250 to \$2,499. Loans made by exempt organizations are considered CFL loans. This report contains unaudited data provided by exempt organizations for the calendar year ending December 31, 2019.

Key findings of this report include:

- 1,591 borrowers applied for loans under the program in 2019, a 32 percent increase over 2018.
- Fifty-four percent of the loans were to borrowers with monthly incomes of \$1,001 to \$3,000.
- 55 borrowers obtained more than one loan under the program in 2019.
- 6.3 percent of the borrowers who obtained more than one loan saw their credit score increase by an average of 7.7 points.

Financial Code section 22067 requires the Commissioner of Business Oversight, on or before July 1 of each year, to post a report on the DBO website that summarizes the information provided in the annual report filed by participating nonprofits. The statute states that the report shall include:

- The number of organizations that applied for exemptions and that entered into partnerships with exempt organizations under the law.
- The number of organizations granted exemptions and types of exemptions granted.
- The number of borrowers who applied for loans through exempt or partnering organizations, the number of borrowers granted loans facilitated by exempt or partnering organizations, the total amount loaned, and the distribution of loan lengths upon origination.
- The number of borrowers who obtained more than one loan through an exempt or partnering organization and the number of loans per borrower.

- Of the number of borrowers who obtained more than one loan facilitated by an exempt or partnering organization, the percentage of those borrowers whose credit scores increased between successive loans, based on information from at least one major credit bureau, and the average size of the increase.
- The income distribution of borrowers upon loan origination, including the number of borrowers who obtained at least one loan and who resided in a low-to-moderate-income census tract at the time of their loan application.
- The number of borrowers who obtained loans facilitated by an exempt or a partnering organization for the following purposes, based on borrower responses at the time of their loan applications indicating the primary purpose for which the loan was obtained:
 - Medical
 - Other emergency
 - Vehicle repair
 - Vehicle purchase
 - To pay bills
 - To consolidate debt
 - To build or repair credit history
 - To finance a purchase of goods or services other than a vehicle
 - For other than personal, family, or household purposes
 - Other
- The number of borrowers who reported they had a bank account at the time of their loan application, the number of borrowers who reported they had a bank account and used check-cashing services, and the number of borrowers who reported they did not have a bank account at the time of their loan application.
- The performance of loans under Section 22066, as reflected by all of the following:
 - The number and percentage of borrowers who experienced at least one late payment lasting between seven and 29 days and who subsequently brought his or her loan current, and the distribution of principal loan amounts corresponding to those late payments.
 - The number and percentage of borrowers who experienced at least one late payment lasting between 30 and 59 days and who subsequently brought his or her loan current, and the distribution of principal loan amounts corresponding to those late payments.

- The number and percentage of borrowers who experienced at least one late payment lasting 60 days or more and who subsequently brought his or her loan current, and the distribution of principal loan amounts corresponding to those late payments.
- The number and percentage of borrowers who experienced at least one late payment of greater than seven days and who did not subsequently bring his or her loan current.
- Among loans that were ever late for seven days or more, the average number of times borrowers experienced a late payment of seven days or more.
- The number and types of violations of Section 22066 by exempt organizations, which were documented by the commissioner.
- The number and types of violations of Section 22066 by partnering organizations, which were documented by the commissioner.
- The number of times the commissioner suspended or revoked an exemption granted to an exempt organization pursuant to paragraph (4) of subdivision (c) of Section 22066 and the number of times a partnering organization was sanctioned by the commissioner pursuant to paragraph (5) of subdivision (d) of Section 22066.
- The number of complaints received by the commissioner about an exempt organization or a partnering organization, and the nature of those complaints.
- Recommendations, if any, for improving the program.

BACKGROUND

Senate Bill 896 (Chapter 190, Statutes 2014) allows certain nonprofit organizations to originate consumer loans from \$250 to \$2,499. The California Financing Law (CFL) prohibits an individual from engaging in the business of a finance lender or broker without obtaining a license from the commissioner. The exempt organizations are exempt from this licensing provision. 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, including:

- The loans must be zero interest and unsecured.
- The loan term cannot be less than 90 days for loans under \$500, 120 days for loans of \$500 to \$1,499, or 180 days for loans of \$1,500 to \$2,499.
- The lender can charge borrowers a 7 percent administrative fee or \$90 maximum on the first loan to the borrower. Administrative fees on second and subsequent loans are limited to 6 percent of the loan up to a maximum of \$75. The lender can also charge a delinquency fee of up to \$10.
- Lenders cannot pay a broker's fee in connection with any loan made under the program.
- Lenders 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.
- Lenders must report borrowers' loan payment performance to at least one credit reporting bureau.
- Before making a loan, the lender must 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 California Commissioner of Business Oversight.

The statute has no income eligibility requirements for borrowers.

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

The data provided in this report complies with the requirements of Financial Code section 22067. It summarizes unaudited data submitted by two exempt participating nonprofit organizations. No new organizations applied to the DBO for exemptions in 2019.

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 (partnering organizations) to facilitate making loans under the program. Those partnering organizations are also exempt from the CFL and can facilitate zero- interest, low-cost loans. In 2019, the two exempt participating nonprofit organizations entered into such partnerships with 13 partnering organizations.

Exempt Organizations:

- Latino Educational Fund
- Mission Asset Fund

Organizations that partnered with Exempt Organizations:

- Brown Boi Project
- Canal Alliance
- East LA Community Corp.
- Fremont Family Resource Center
- Good Shepherd Center
- LIFT Inc.
- Lift to Rise
- Mexican American Opportunity Foundation
- Peninsula Family Service
- Rubicon Programs Richmond
- San Francisco LGBT Community Center
- UpValley Family Centers
- West Oakland Job Resource Center

I. LENDER PARTICIPATION AND ACTIVITY

Overall Lending Data

A total of 1,591 borrowers applied for loans under the exempt nonprofit provisions in 2019, an 85 percent increase from the 860 who applied in 2018. Of those applicants, 1,044 or 65 percent received loans.

Approved loans totaled 1,099 in 2019 with an aggregate principal amount of \$895,515. Of the total loans, 1,008 or 92 percent had a loan term of 180 days to less than 1 year. The loan terms are broken down as follows:

- 90 to 119 days – 0 loan
- 120 to 179 days – 53 loans
- 180 to less than a year – 1,008 loans
- 1 year and over – 38 loans

Multiple Loans

Of the 55 borrowers who obtained more than one loan, 52 received two loans and three borrowers received three loans.

Borrowers' Credit Scores

Of the 55 borrowers who obtained multiple loans, just three or 5 percent saw their credit score increase. The credit score increases averaged 8 points.

Borrower Monthly Income

The following shows the 1,044 borrowers' monthly income at the time their loans were originated:

- \$1,000 or less – 173 borrowers
- \$1,001 to \$2,000 – 258 borrowers
- \$2,001 to \$3,000 – 304 borrowers
- \$3,001 to \$4,000 – 158 borrowers
- \$4,001 to \$5,000 – 81 borrowers

- \$5,001 to \$6,000 – 33 borrowers
- \$6,001 to \$7,000 – 16 borrowers
- \$7,001 to \$8,000 – 6 borrowers
- \$8,001 to \$9,000 – 6 borrowers
- \$9,001 to \$10,000 – 3 borrowers
- More than \$10,000 – 6 borrowers

Of those 1,044 borrowers who received loans, 392 (37 percent) lived in a low-to moderate income census tract.

Purpose of Loan

Borrowers used loans for the following purposes:

- Finance purchase of non-vehicle goods or services – 552 borrowers
- Build or repair credit history – 382 borrowers
- Other than personal, family or household purpose – 78 borrowers
- Consolidate debt – 21 borrowers
- Other – 6 borrowers
- Pay bills – 3 borrowers
- Vehicle repair – 1 borrower
- Medical – 1 borrower

Borrower Bank Account Status

Of the 1,044 borrowers who secured loans through the program, 979 reported having a bank account at the time they applied, 46 reported having a bank account and using check-cashing services, and 61 said they did not have a bank account.

Late Payments

Of the 1,044 borrowers who received loans, 87 (8 percent) had late payments.

Below is a breakdown of borrowers who had at least one payment past due for seven or more days in 2019 and subsequently brought their loan current.

Between 7 and 29 days:

- 70 borrowers, or 59 percent of all those who had at least one payment past due for this length of time.

Between 30 and 59 days:

- 13 borrowers, or 22 percent of all those who had at least one payment past due for this length of time.

60 or more days:

- Four borrowers, or 10 percent of all those who had at least one payment past due for this length of time.

Of the 87 borrowers, 50 borrowers had at least one payment past due for seven or more days did not bring their loan current. They represented 57 percent of all borrowers who were seven or more days late on their payment at least once.

Among borrowers who had at least one payment past due for seven or more days, the late payments occurred an average of 2.52 times in 2019.

II. EXAMINATIONS, VIOLATIONS, AND COMPLAINTS

The DBO in 2019 received no complaints about exempt nonprofits or their partners, and no examinations were performed. In 2018 one nonprofit organization's exemption was revoked for failing to file an annual report.

III. RECOMENDATIONS FOR IMPROVING THE PROGRAM

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



California Department of Business Oversight

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