

2020

California Department of  
Financial Protection and Innovation

# Annual Report of Non-Profits Providing Zero-Interest Consumer Loans

Report Required by Financial Code Section 22067

**PROTECTING CONSUMERS**  
FOSTERING TRUST & INNOVATION

**DFPI**  
DEPARTMENT OF FINANCIAL  
PROTECTION & INNOVATION



DEPARTMENT OF FINANCIAL  
PROTECTION & INNOVATION

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Financial Services

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## EXECUTIVE SUMMARY

The Department of Financial Protection and Innovation protects consumers and fosters trust by regulating companies and individuals offering financial products. The DFPI 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. In part, the small dollar loans are intended to allow consumers to establish and build credit histories or 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, 2020. Year over year decreases in the number of loans Californians borrowed show that the COVID-19 pandemic likely affected this industry as people postponed their spending habits.

### Key Findings

- 1,369 borrowers applied for loans under the program in 2020, **a 14 percent decrease from 2019.**
- 30 borrowers obtained more than one loan under the program in 2020 **compared to 2019 where 55 borrowers sought multiple loans.**
- 7 percent of the borrowers who obtained more than one loan in 2020 saw their **credit score increase by an average of 9 points.**

To learn more about the California Financing Law, visit the DFPI website at <https://dfpi.ca.gov/california-financing-law/>.

## 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 fee on the first loan. Administrative fees on second and subsequent loans are limited to 6 percent of the loan up to \$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, 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 Financial Protection and Innovation.

The statute has no income eligibility requirements for borrowers.

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 2020, there were two exempt participating nonprofit organizations that partnered with 12 organizations to provide access to loans under this program. Geographically, they served Californians in the San Francisco, Oakland, and Los Angeles counties.

Exempt Organizations:

- Latino Educational Fund
- Mission Asset Fund

Organizations that partnered with Exempt Organizations:

- Brown Boi Project
- Canal Alliance
- Casa Familiar
- East LA Community Corp.
- Free Form
- Good Shepherd Center
- LIFT Inc.
- Lift to Rise
- Peninsula Family Service
- San Francisco LGBT Community Center
- UpValley Family Centers
- West Oakland Job Resource Center

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

Financial Code section 22067 requires the Commissioner of Financial Protection and Innovation, on or before July 1 of each year, to post a report on the DFPI website that summarizes the information provided in the annual report filed by participating nonprofits. The statute states that the report shall also include complaints and violations reported to the Department, and recommendations, if any, for improving the program.

This report and prior years' reports can be found on the DFPI's website at <https://dfpi.ca.gov/california-financing-law-publications/>.

# LENDER PARTICIPATION AND ACTIVITY

## Overall Lending Data

A total of 1,369 borrowers applied for loans under the exempt nonprofit provisions in 2020, a 14 percent decrease from the 1,591 who applied in 2019. Of those applicants, 786 or 57 percent received loans. There were 815 approved loans in 2020 with an aggregate principal amount of \$687,600.

## Multiple Loans

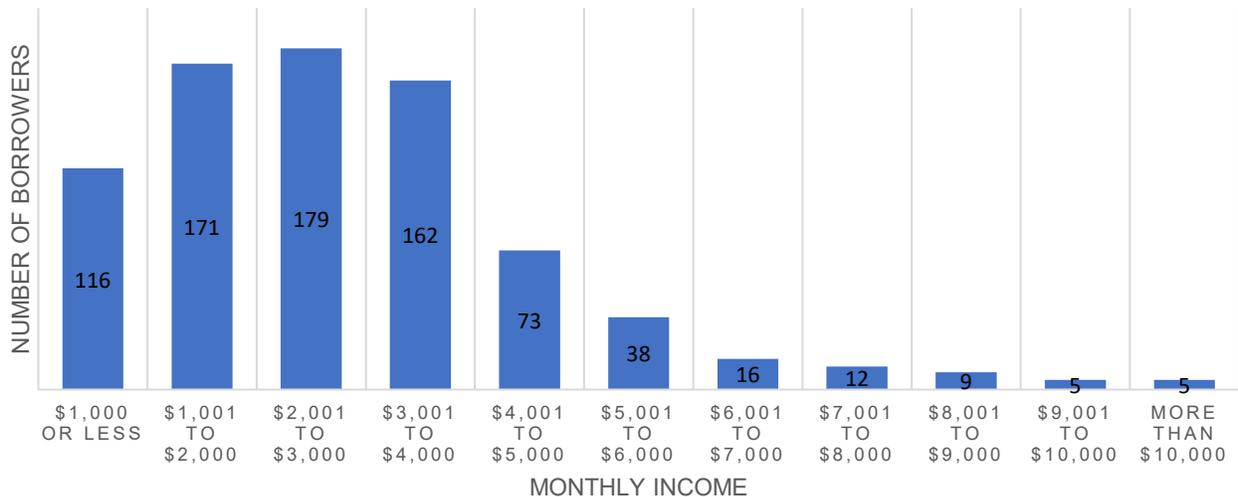
Of the 30 borrowers who obtained more than one loan, 29 received two loans and one borrower received three loans.

## Borrowers' Credit Scores

Forty-eight percent (48%) of the borrowers reported obtaining the loan to build or repair their credit scores. Of the 30 borrowers who obtained multiple loans and whose credit score is reported to the Department, just two or 7 percent saw their credit score increase. Credit score increases averaged 9 points. Credit score information is not required to be compiled by lenders for those borrowers who obtained only one loan.

## Borrower Monthly Income

The following shows the 786 borrowers' monthly income at the time their loans were originated:



Of those 786 borrowers who received loans, 41 percent lived in a low-to moderate income census tract.

## Purpose of Loan

Borrowers used loans for the following purposes:

- Build or repair credit history – 381 borrowers
- Finance purchase of non-vehicle goods or services – 322 borrowers
- Other than personal, family or household purpose – 41 borrowers
- Consolidate debt – 24 borrowers
- Other – 15 borrowers
- Pay bills – 1 borrower
- Vehicle repair – 1 borrower
- Medical – 1 borrower

## Borrower Bank Account Status

Of the 786 borrowers who secured loans through the program, 732 reported having a bank account at the time they applied, 13 reported having a bank account and also using check-cashing services, and 58 said they did not have a bank account.

## Late Payments

Of the 786 borrowers who received loans, 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 2020 and subsequently brought their loan current.

Between 7 and 29 days:

- 57 borrowers, or 68 percent of all those who had at least one payment past due for this length of time.

Between 30 and 59 days:

- 9 borrowers, or 28 percent of all those who had at least one payment past due for this length of time.

Of the 66 borrowers, 26 borrowers had at least one payment past due for seven or more days and did not bring their loan current. They represented 39 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 2.42 times in 2020.

## EXAMINATIONS, VIOLATIONS, AND COMPLAINTS

The DFPI in 2020 received no complaints about exempt nonprofits or their partners, and no examinations were performed.

## RECOMMENDATIONS FOR IMPROVING THE PROGRAM

The limited participation has provided insufficient information to adequately assess the program. Moreover, the inability to collect credit score data on one-time loan borrowers prohibits the Department from determining the effectiveness of the program. This program makes low-cost credit available to borrowers who may not otherwise have access to credit at a reasonable cost. Participation levels have declined since the prior year's report. The DFPI has no recommendations on how to improve the program at this time but encourages stakeholders to reach out to the DFPI with recommendations on how to grow participation in this program while continuing to protect borrowers from predatory lending practices. Recommendations and comments may be sent to the DFPI at [CFLInquiries@dfpi.ca.gov](mailto:CFLInquiries@dfpi.ca.gov).



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