2023

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

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EXECUTIVE SUMMARY

The Department of Financial Protection and Innovation (DFPI) protects consumers, regulates financial services, and fosters responsible innovation. 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 access 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 law applies 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, 2023.

Key Findings

- 3,749 borrowers applied for loans under the program in 2023, **a 14 percent increase from 2022**.

- 50 percent of the loans in 2023 were to borrowers with monthly incomes of $1,001 to $3,000 compared to 53 percent in 2022, **representing a 3 percent decrease from 2022**.

- Fifteen borrowers obtained more than one loan under the program in 2023, compared to 16 borrowers who obtained multiple loans in 2022.

To learn more about the California Financing Law, visit the DFPI website at [dfpi.ca.gov/california-financing-law.](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 DFPI Commissioner. Qualifying organizations under Senate Bill 896 are exempt from this licensing provision. The law, found in Financial Code section 22066, took effect January 1, 2015.

To qualify for 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 2023, there were three exempt participating nonprofit organizations which partnered with 11 organizations to provide loans under this program.

Exempt Organizations:

- Latino Educational Fund
- Mission Asset Fund
- One Planet Research Foundation

Organizations partnered with Exempt Organizations:

- Brown Boi Project
- Canal Alliance
- Casa Familiar
- East LA Community Corp.
- Community Action Partnership of Orange County (CAP OC)
- East Oakland Collective
- LIFT Inc.
- MAAC
- Peninsula Family Service
- San Francisco LGBT Community Center
- 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 the Department 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 [dfpi.ca.gov/california-financing-law-publications/.](https://dfpi.ca.gov/california-financing-law-publications/)

Overall Lending Data

A total of 3,749 borrowers applied for loans under the exempt nonprofit provisions in 2023, a 14 percent increase from the 3,283 who applied in 2022. Of those applicants, 1,773 (47 percent) received loans. There were 1,788 approved loans in 2023 with an aggregate principal amount of $2,363,764.

Multiple Loans

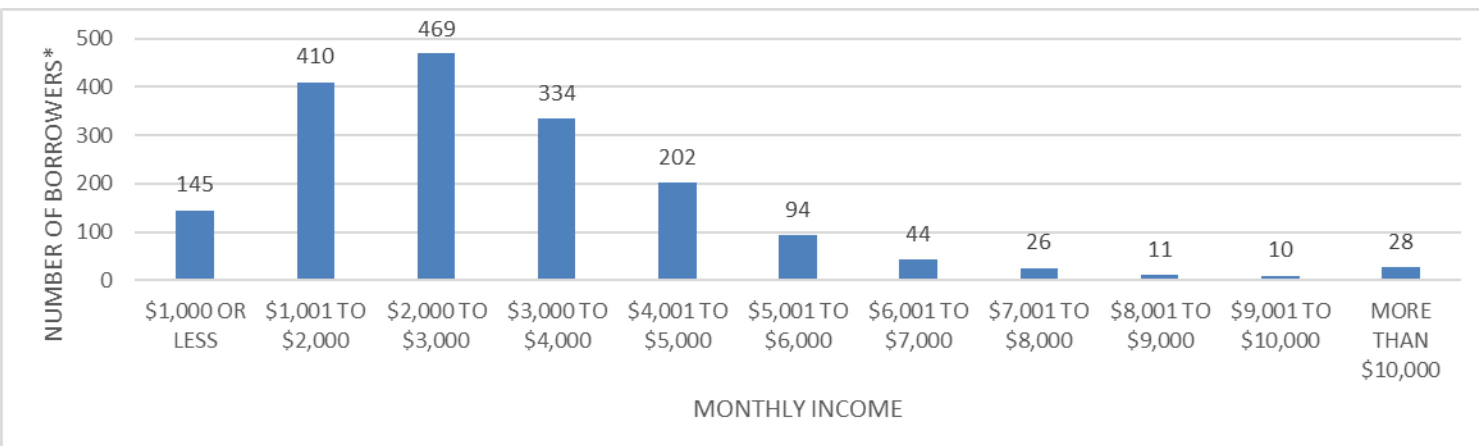
There were 15 borrowers who obtained more than one loan, and all 15 borrowers received two loans.

Borrower Credit Scores

Of the 15 borrowers who obtained multiple loans, seven (47 percent) saw their credit score increase. Credit score increases averaged 29 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 borrowers' monthly income at the time their loans were originated:



Of those 1,773 borrowers who received loans, 44 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 – 480 borrowers
- Consolidate debt – 12 borrowers
- Finance purchase of non-vehicle goods or services – 888 borrowers
- Medical – 2 borrowers
- Other than personal, family, or household purpose – 133 borrowers
- Other – 255 borrowers
- Pay bills – 2 borrowers
- Vehicle purchase – 1 borrower

Borrower Bank Account Status

Of the 1,773 borrowers who secured loans through the program, 851 reported having a bank account at the time they applied, no borrower reported having a bank account and using check-cashing services, and 679 reported not having a bank account.

Late Payments

Of the 1,773 borrowers who received loans, 20 percent had late payments.

Below is a breakdown of borrowers who had at least one payment past due for seven or more days in 2023 and subsequently brought their loan current.

Between 7 and 29 days:

- 154 borrowers, or 43 percent of all those who had at least one payment past due.

Between 30 and 59 days:

- 15 borrowers, or 4 percent of all those who had at least one payment past due.

There were 188 borrowers, or 53 percent of all those who had at least one payment past due for seven or more days, who did not bring their loan current.

Among borrowers who had at least one payment past due for seven or more days, late payments occurred an average of 2.93 times in 2023.

EXAMINATIONS, VIOLATIONS, AND COMPLAINTS

In 2023, the DFPI did not receive any complaints about exempt nonprofits or their partners.

The DFPI did not conduct any regulatory examinations of such companies in 2023.

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 prevents 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. Lender participation levels have remained the same 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.

DFPI

DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION

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