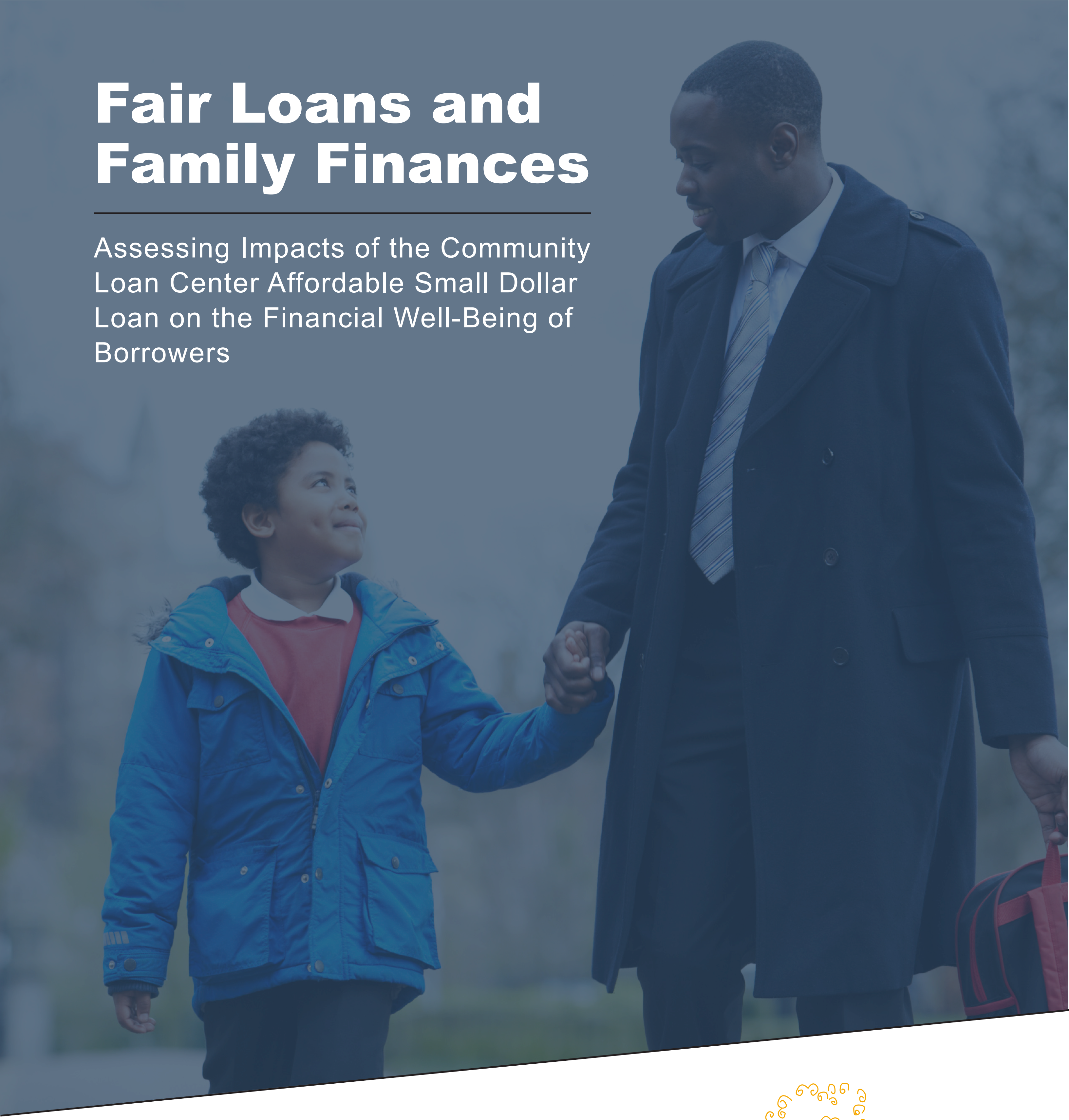

Fair Loans and Family Finances

Assessing Impacts of the Community Loan Center Affordable Small Dollar Loan on the Financial Well-Being of Borrowers

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Primary Author
Yamanda Wright, Ph.D
Director of Research

With Contributions From
Ann Baddour
Director of Fair Financial Services Project

Texas
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Fair Loans and Family Finances:
Assessing Impacts of the Community Loan Center's Affordable Small-Dollar Loan on the Financial Well-Being of Borrowers

Overview

Reducing low-income borrowers' reliance on payday and auto title loans requires improved access to low-cost responsible loans. The Community Loan Center (CLC), launched in Brownsville, Texas, in 2011, was created to meet the short-term credit needs of payday loan borrowers with fair rates and affordable terms through partnerships with employers. The CLC offers a $1,000 maximum loan, payable over 12 months, at 18% interest plus a $20 fee. Starting in 2014, the program expanded by adding new franchises in Texas. The program is now also expanding into other states.

Texas Appleseed examined the financial stability and asset building impacts on CLC borrowers of having access to a low-cost, affordable small-dollar loan by surveying borrowers of the first three CLC franchises that completed one full year of operation—the CLC of the Rio Grande Valley, the Brazos Valley CLC and the Dallas CLC. We collected borrower data over a one-year period that started in November of 2014.[1]

Data from Borrower Survey: Who uses the Community Loan Center?

- The mean age for our study sample was 41 (ranging from 21-64 years old).
- Our survey participants were also majority female (60%) and Latino (59%).
- Fifty-six percent of survey participants had family incomes less than $40,000 in 2015, of which the largest group reported incomes in the $20,000-$29,999 range.
- Ninety-one percent of survey participants had a checking account before taking out a CLC loan, and 67% had a savings account.
- Eighty-eight percent of survey participants were "asset poor" (meaning they did not have enough money to cover 3 months of expenses in an emergency).
- Only 11% of borrowers had participated in some type of financial education or asset building program prior to applying for a CLC loan.
- Less than half of survey participants knew their credit score. Among them, most had scores in the 500 to 619 range (considered "Bad" or "Poor" by credit reporting agencies).

[1] Data collection periods were staggered based on lending activity at the Community Loan Center location. The first period of survey collection started in November of 2014 and ended in April of 2015. The second survey went out six months after the first, from May to October of 2015. The third survey was sent out between November of 2016 and April of 2016 and the final surveys were received in May of 2016. Each participant filled out three surveys over a one-year period as part of the evaluation.

Data from Borrower Survey: Why do people need loans?

- Top **immediate reasons** for taking out CLC loans were to pay bills (44%), to cover special occasions (29%), or for car repairs (17%).

- In the **long term**, most survey participants were focused on saving for emergencies (63%) and paying down or paying off other debts (55%).

The findings of this study reveal that CLCs offer manageable loans to borrowers with similar profiles to payday and auto title loan borrowers. But borrowers incur much less in interest and fees than typical small-dollar loans. The CLC loans also rarely end in default. Ultimately, study participants paid only about $122 over one-year for their $1,000 loans—just under 22% APR—which is less than one-twentieth of the cost of a typical payday loan in their metropolitan areas.

Access to the CLC loan did not correspond to increased assets, but did correspond to reduced financial setbacks. Borrowers had fewer bounced checks, received less communication from debt collectors, and had fewer challenges covering food expenses. More than half of the surveyed borrowers reported reducing debt by the end of the study period and 89% reported that they were unlikely or very unlikely to use a payday or auto title loan in the future. Additional findings highlight an opportunity to better connect borrowers to financial empowerment services offered by the local CLC. The study showed interest in these services on the part of borrowers, but little utilization of the services during the study period. Overall, the findings point to the CLC loan as an affordable, viable, and scalable product that helps borrowers improve financial outcomes.

Methodology

Texas Appleseed examined whether individuals participating in three CLC programs were financially “better off” after one year. We defined “better off” as having experienced (1) improved assets or improved financial stability, (2) reduced debt or fewer financial setbacks, (3) greater interest in asset building resources, or (4) diminished interest in future payday or auto title loans.

Texas Appleseed assessed participants’ firsthand experiences with CLC loans using the *Community Loan Center Evaluation Survey*, developed by Ann Baddour of Texas Appleseed and Dr. Shannon Van Zandt at Texas A&M University. In collaboration with three CLCs in Dallas, Bryan, and Brownsville, Texas, we invited borrowers to complete an initial survey following submission of their loan applications in November 2014 through April 2015 and then followed up with them every 6 months for a year (3 total assessments). In addition, Texas Appleseed obtained participants’ de-identified loan application data from each CLC.

Participants completed the initial survey online and the follow-up assessments either online or by mail. Upon completing each round, participants received $10 gift cards by mail, totaling

$30 in compensation across the three time points. Participation in the study was entirely voluntary and confidential, and all CLC loan applicants were considered eligible for inclusion in the study.

The Survey

The *Community Loan Center Evaluation Survey* is a 55-item measure that assesses borrowers' self-reported financial stability, assets, debt, reliance on payday and auto title loans, satisfaction with their current loans, and demographic characteristics. Texas Appleseed administered the survey to participating CLC borrowers three times, starting on a rolling basis in November 2014 and ending in April 2016. Final surveys were received in May of 2016. The first installment (T1) established baseline rates; the second survey (T2) was identical to the first except for minor changes in wording (e.g., "Have you ever" versus "In the past six months, have you"); and the third survey (T3) was identical to the second except for five additional questions assessing participants' overall satisfaction with their loans after one year in a program. Participants typically completed each survey within 30 minutes.

Overview of Analyses

In the following section, we present both descriptive and inferential results from the present study. Inferential results with significant p-values ($p<.05$) are described as "statistically significant" or simply "significant."

For inferential tests, three different statistical methods were used depending on the nature of the independent and dependent variables of interest (e.g., based on whether dependent variables were continuous or categorical).

Test criteria and example analyses are described below. All analyses of survey and loan data were performed in R and R Studio.

Test	Independent Variable(s)	Dependent Variable(s)	Example
Chi-square test of independence or McNemar's chi-square test	1 predictor	Categorical	Comparing the proportion of participants who had savings at T1 to the proportion able to save money by T2 (Yes/No)
Logistic regression	> 1 predictor	Categorical	Assessing the relative effects of age, gender, race, and family income on whether participants were able to save money by T3 (Yes/No)
Analysis of variance (ANOVA)	> 1 predictor	Continuous	Assessing the relative effects of age, gender, race, and family income on participants' interest in payday or auto title loans by T3 (rated 1-5)

Participants

Texas Appleseed administered the *Community Loan Center Evaluation Survey* to **398 borrowers** (60% female, 40% male; *M* age = 41.33 years) participating in CLC programs based in Dallas, Bryan, and Brownsville, Texas. Survey participants were socio-economically and racially diverse, with a self-reported median family income in the $30,000-$39,999 range and a majority of participants self-identifying as Latino/Hispanic (59% versus 26% Black/African American, 12% White, 3% Other/Unidentified).

Participant Characteristics by Metropolitan Area and Overall [2,3]

	Dallas, TX (n=153)		**Bryan, TX** (n=37)		**Brownsville, TX** (n=208)		**Overall** (N=398)
	Sample	*Pop.*	*Sample*	*Pop.*	*Sample*	*Pop.*	*Sample*
Gender							
Male	34%	49%	43%	49%	44%	48%	40%
Female	66%	51%	57%	51%	56%	52%	60%
Race							
Latino/Hispanic	19%	37%	38%	23%	92%	88%	59%
Black/African Am.	61%	23%	22%	11%	0%	1%	26%
White	14%	31%	41%	57%	5%	9%	12%
Other/Unidentified	5%	9%	0%	9%	2%	2%	3%
Median Family Income (Annual)	$45,000	$70,400	$45,000	$62,000	$35,000	$35,400	$35,000
Family Area Median Income (AMI) Level							
Very low	15%	.	19%	.	2%	.	9%
Low	61%	.	38%	.	48%	.	52%
Moderate	24%	.	24%	.	18%	.	21%
High	0%	.	19%	.	32%	.	19%
							.
Housing Status							
Own	56%	52%	49%	45%	26%	67%	39%
Rent	29%	.	32%	.	49%	.	40%
Live with family	11%	.	16%	.	19%	.	16%

Note: Median family incomes shown for study participants are the midpoints of each sample's median family income range. Population statistics are reported by the largest encompassing county for each metropolitan area (Dallas County for Dallas, TX, Brazos County for Bryan, TX, and Cameron County for Brownsville, TX) except for housing status (for which 2015 data by MSA were available). "NA" percentages are not shown.

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[2] Population estimates for gender, race, and housing status were obtained from the U.S. Census Bureau's "QuickFacts" database, available online at https://www.census.gov/quickfacts/

[3] Population estimates for median family income were obtained from the U.S. Department of Housing and Urban Development's "FY 2015 Income Limits Documentation System" database, available online at https://www.huduser.gov/portal/datasets/il/il2015/select_Geography.odn

Although our study sample was generally reflective of the area demographics, survey participants deviated from the local population in a few key areas. Most notably, study participants from the Dallas and Bryan CLCs had lower incomes than the general population in the Dallas-Fort Worth and Bryan-College Station metropolitan areas, typically reporting family incomes less than 75% of the area median income. Additionally, Black borrowers were over-represented in the Dallas CLC sample and female borrowers were over-represented across the three centers. However, these patterns reflect the general population of small-dollar borrowers in Texas, among which women, low-income, and racial minority individuals are frequently over-represented.

In addition, our study sample was generally representative of the full population of CLC borrowers considering socioeconomic characteristics. The following table shows that the sample distributions for family income and housing status reflect those of the full population of CLC borrowers in 2015 with a few exceptions. Borrowers in the $20,000-$29,000 income range are moderately under-represented, and higher income borrowers (with incomes over $50,000 per year) slightly over-represented compared to the full population of CLC borrowers.

Representativeness of Study Sample

	Sample (2015)	**All CLC Borrowers** (2015)
Family Income		
Less than $10,000	2%	0%
$10,000-$19,999	9%	9%
$20,000-$29,999	24%	44%
$30,000-$39,999	22%	24%
$40,000-$49,999	14%	12%
$50,000-$59,999	10%	5%
$60,000-$69,999	7%	2%
$70,000+	13%	2%
Housing Status		
Own	39%	41%
Rent	40%	39%
Live with family	16%	19%

Note. Full CLC population data for other demographic characteristics (e.g., gender, race) not publicly available.

Finally, overall, our study sample was fairly large compared to the total population of 1,277 Texas-area CLC borrowers initiating loans within six months of November 1, 2014. We maintained a retention rate higher than 50% throughout the study. Of the 398 participants who started the study, 53% continued to T2, and 71% of T2 participants (or 37% of the full sample) were still enrolled at the end of the study. Thus we were able to conduct inferential tests with sufficient statistical power.[4]

[4] An a priori sample size analysis determined that 296 respondents were needed to achieve sufficient statistical power for this study (using a 95% confidence level and a 5% margin of error).

Survey Participation Rate by CLC Location

	Dallas, TX		Bryan, TX		Brownsville, TX		Overall	
Sample Size at T1 (%)	153	(27%)	37	(86%)	208	(31%)	398	(31%)
Full CLC Population	569		43		665		1,277	

Results[5]

Loan Characteristics

As discussed previously, in addition to surveying participants about their firsthand experiences with CLC programs, we obtained information about their loans from CLCs, including de-identified application data and details regarding their loan terms, payment activity, and fees. Among the 379 participants (95% of sample) for whom we obtained loan data from CLCs, we observed the following trends:

- On average, study participants borrowed $941.30 with an APR of 21.85%.
- Participants' payroll deductions typically amounted to about $90.84 per month—or 3% of their gross monthly pay, which averaged $2,923.00.
- 14 participants (4%) made late payments.
- On average, participants who made late payments were charged $6.37 in late fees.
- 58 participants (15%) were "repeat customers" who had renewed a CLC loan prior to the study.

These loan outcomes are exceptional considering typical outcomes for small-dollar loans and that more than half of survey participants (61%) reported family incomes in the "low" or "very low" range by national standards.[6]

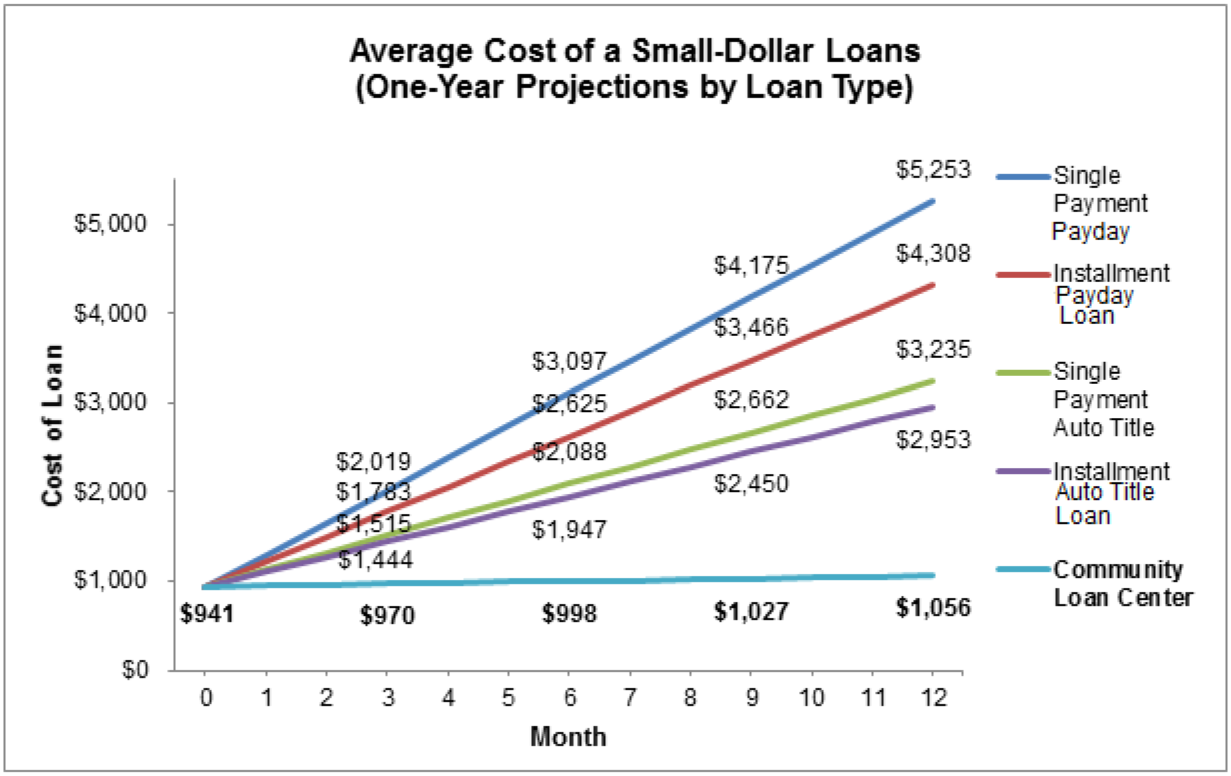
Over time, CLC loans' greater manageability likely translates to borrowers saving thousands of dollars in interest and fees compared to what they would have paid for payday or auto title loans. The following table shows the average monthly costs for CLC loans versus traditional small-dollar loans in the three metropolitan areas we surveyed.

Monthly Fee and Interest Cost to Repay a $941 Loan

	Loan Type				
Metropolitan Area	**Community Loan Center**	**Installment Payday Loan**	**Single Payment Payday**	**Installment Auto Title Loan**	**Single Payment Auto Title**
Brownsville-Harlingen, TX	$9.58	$292.49	$336.65	$152.79	$164.58
College Station-Bryan, TX	$9.58	$291.80	n/a	$179.73	$256.17
Dallas-Plano-Irving, TX	$9.58	$257.53	$382.02	$170.37	$152.81

[5] Full test statistics and associated p-values are presented in Appendix B.
[6] *See* American Community Survey 5-Year Estimates, 2010-2014 (2015)

Using the data above, we calculated the total cost each type of loan over the course of one year. Given current rates, CLC loans are without question the most economical choice. For instance, just one year out, CLC borrowers save more than $4,000 compared to a typical single-payment payday loan.



Survey Outcomes

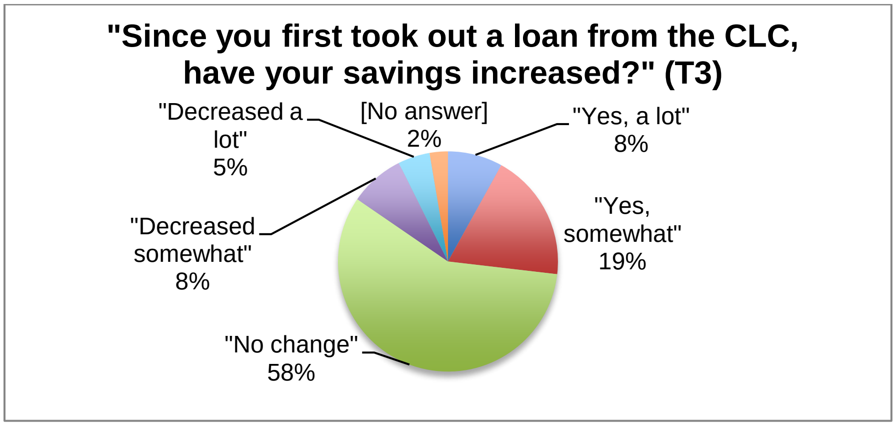
In addition to obtaining borrowers' financial information from CLCs, we asked and answered four main questions about their firsthand experiences with CLC loans (T1-T3):

1. **Did access to CLC loans coincide with improved assets or financial stability?**
Answer: Not exactly. Borrowers' assets did not *improve*—but they did remain relatively stable during our yearlong study.

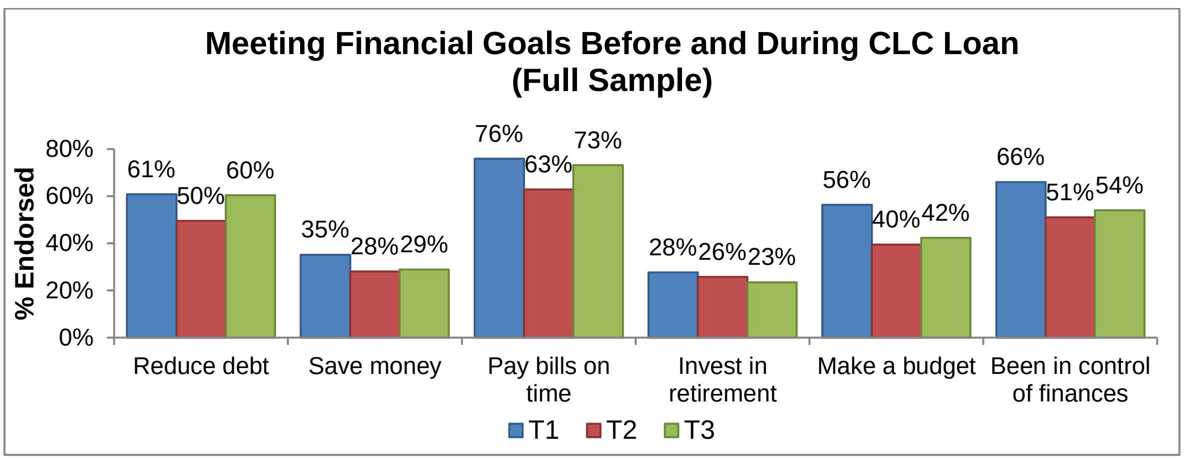
First, it is important to note participants' widely varying assets and financial stability before receiving CLC loans. At the start of this study, a majority of participants (91%) reported having a checking account, and 83% of those participants had held their checking account for longer than one year, which is typical in the United States.[7] However, our study population was considerably "asset poor" in terms of savings and other assets. Only about two-thirds of participants owned savings accounts at the beginning of the study (67%), at T2 (67%), and at T3 (64%), which is markedly lower than the national rate (79%).[8] And only 12% had enough savings to cover three months' emergency expenses.

[7] *See* FDIC National Survey of Unbanked and Underbanked Households (2013)
[8] *See* gobankingrates.com/savings-account/62-percent-americans-under-1000-savings-survey-finds/

Thus we were not surprised that participants did **not** report increased savings after just one year in a CLC program. By the end of the study, 29% of participants reported saving money. Furthermore, when asked at the end of the study whether their savings had *increased* over the course of their CLC loan, most participants (58%) selected “No change.” Among the survey participants who were able add to their savings by the end of the study, most reported saving less than $300. There were no revealing differences based on income or demographic characteristics showing who was most likely to save.[9]



We also asked about changes in participants’ ability to meet specific financial goals during the program. Across time points, “[paying] bills on time” and “[being] in control of finances” stood out as the most commonly achieved financial goals, but participants’ perceived ability to meet financial goals remained relatively flat over time. Rather, as shown in the graph below, participants reported only sporadic changes in their ability to meet financial goals from T1 to T2—and mostly null results from T1 to T3.

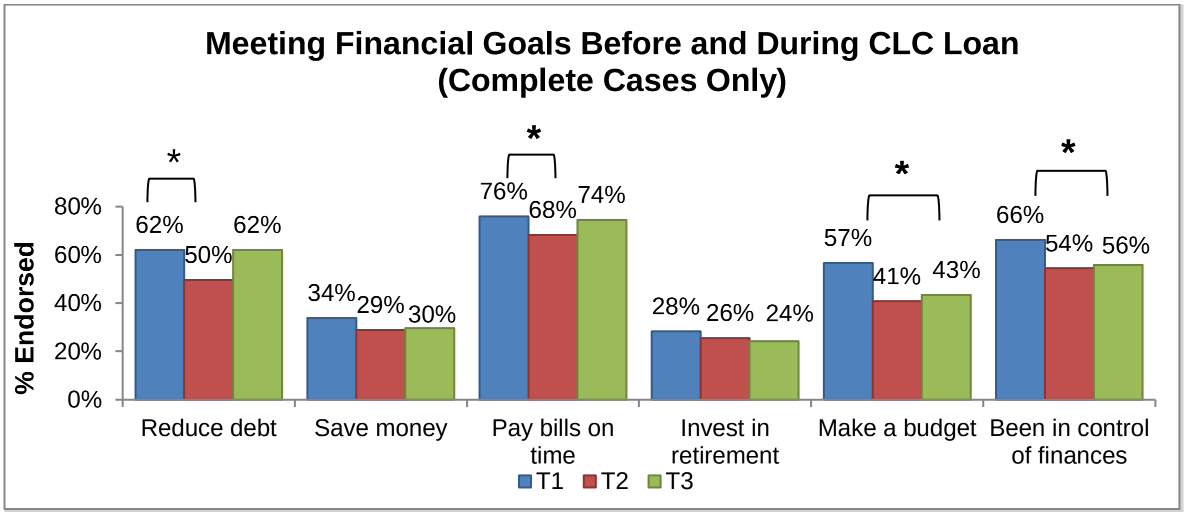


A second graph showing the same trends among complete cases only, where the same borrower filled out all three surveys, appears next. We used these pared down data to assess the statistical significance of any apparent changes over time. In the following table, looking only at participants with complete data across the three time points,

[9] An ANOVA test of the effects of age group, race, gender, and family AMI on perceived savings revealed no significant main effects.

perceived ability to make a budget and be in control of finances *decreased* from T1 to T3, but the perceived ability to meet the four other goals did not change from T1 to T3.[10] In addition, participants reported temporary decreases in their perceived ability to reduce debt and pay bills on time, but those disappeared by T3.

Interestingly, in most areas, demographic characteristics and financial predictors like income level and housing status did **not** predict CLC borrowers' ability to meet financial goals by T3. The only exception was that participants with higher incomes were significantly more likely than lower-income participants to report investing in retirement by the end of the study.[11]



***** Indicates statistical significance.

In addition, as at T1, by the end of the study, very few participants held enough in savings to cover unexpected expenses. At T3, only 6% reported having a three-month emergency fund (down from 12% at T1) and only about 20% could cover an unexpected car repair or other emergency expense (up from 16% at T1).

2. Did access to the CLC loans coincide with decreased debt or fewer challenges to making ends meet?

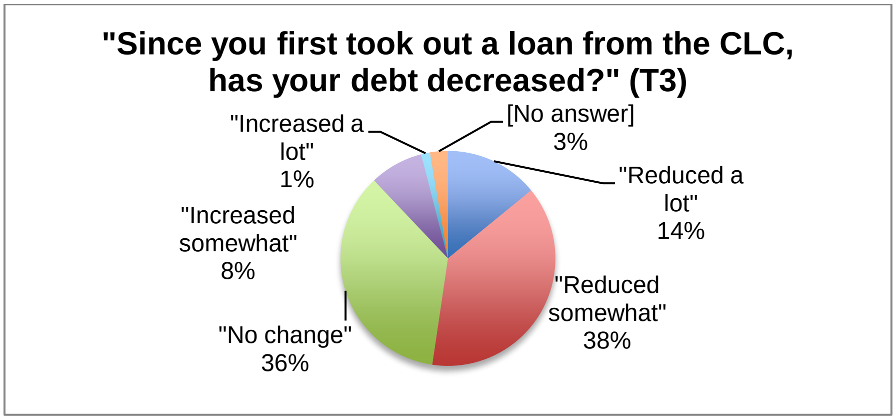
Answer: Yes—participants experienced some improvements in their debt management by T3.

We asked whether participants' debt decreased after taking out CLC loans. At T3, many participants (36%) reported "No change" in their debt after participating in a CLC loan program, but another large group of (52%) reported that their debt had "reduced somewhat" or "reduced a lot" over the past year. As with assets, however, there were no

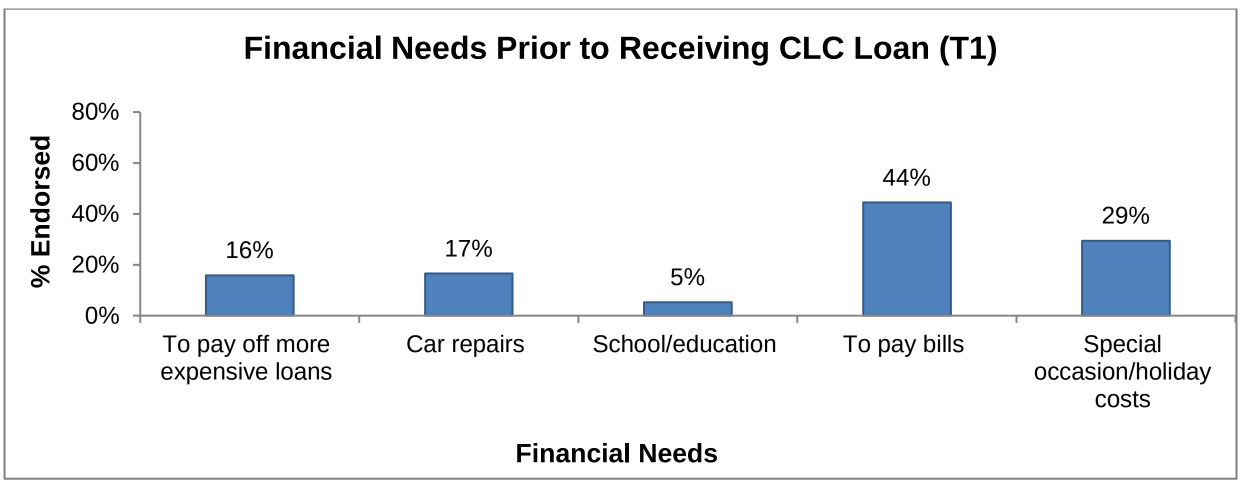
[10] Considering participants with complete data T1-T3 only, we ran separate McNemar's chi-square tests comparing T1 and T3 responses for each goal. The tests revealed that participants' perceived ability to make a budget and control their finances decreased from T1 to T3 ($p<.01$ and $p<.05$ respectively).

[11] Separate logistic regressions of the effects of income and housing status on each goal at T3 showed a significant main effect of income on participants' self-reported ability to "invest in retirement" at T3, $p<.05$.

differences based on income or demographic characteristics in participants' debt outcomes.[12]



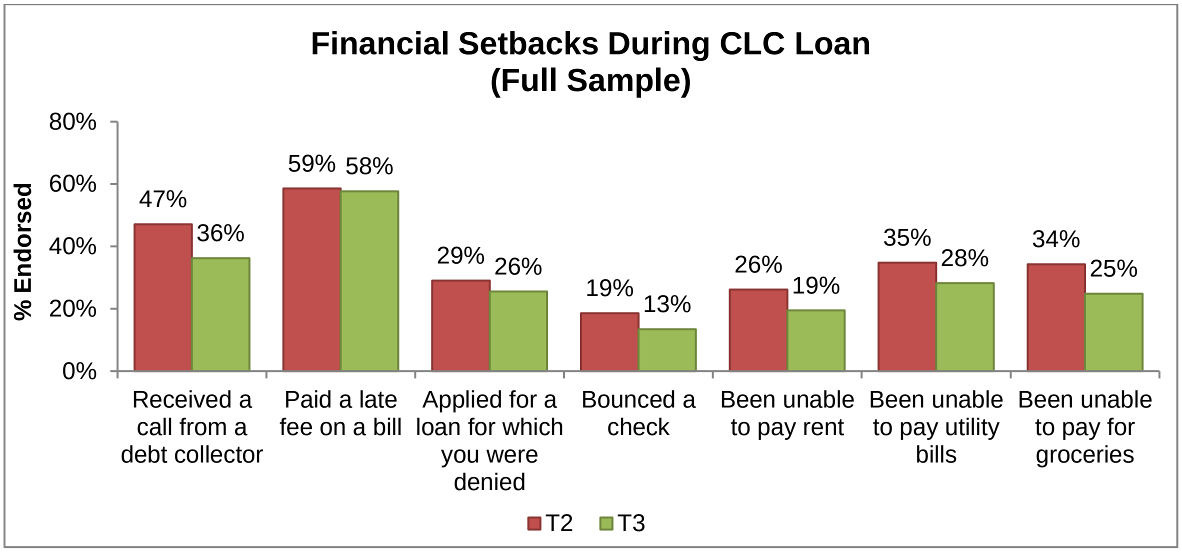
We also asked if CLC loans helped participants meet specific financial needs. At the start of the study, participants identified "paying bills" (44%) and "special occasion/holiday costs" (29%) as the top reasons why they initially sought CLC loans. Women were more likely than men to select "paying bills" as their reason for taking out a CLC loan, whereas men were more likely than women to select "special occasion/holiday costs" as their reason for taking out a CLC loan.[13] The remaining financial needs showed no differences by gender, age, race, or family AMI level.



Next we asked about participants' progress regarding specific financial challenges at T2 and T3, looking for reductions in financial setbacks that coincided with receiving a CLC

[12] An ANOVA test of the effects of age, race, gender, and family AMI level on perceived change in debt revealed no significant main effects.
[13] Chi-square tests of independence for each financial need revealed effects of gender on participants needing CLC loans to "[pay] bills" and for "special occasions/holiday costs" ($p>.05$ and $p>.01$ respectively).

loan. Overall, the percentage of participants experiencing of financial setbacks tended to be higher at T2 than at T3.



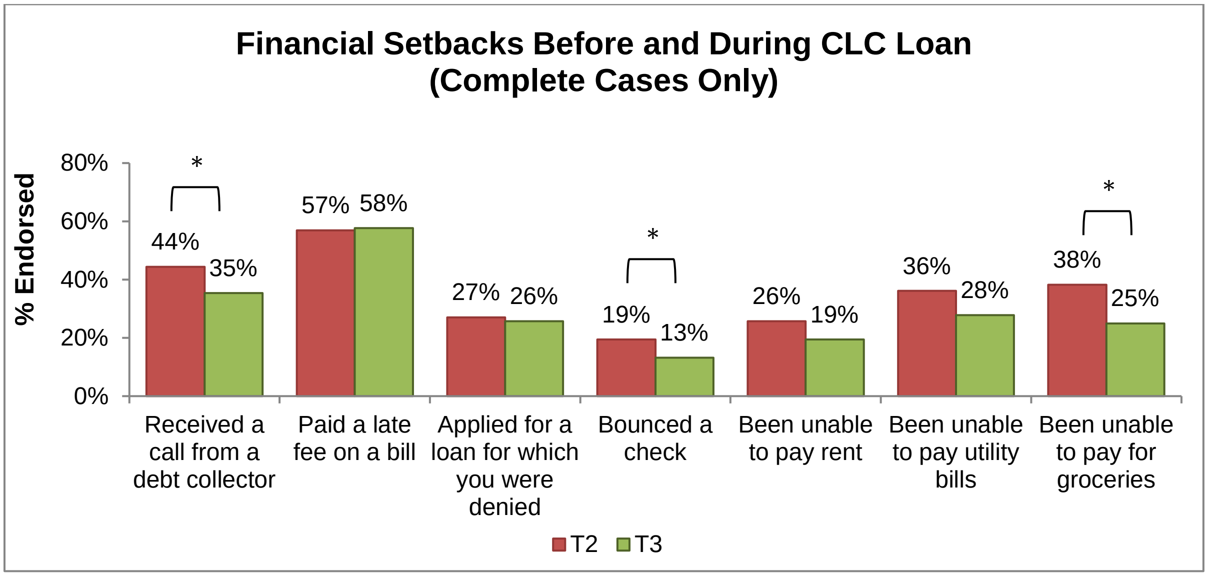
Three categories showed statistically significant change. Again, we isolated participants with complete data across the three available time points and used only their data to assess statistical significance. Looking only at complete cases, about half of the setbacks were significantly reduced by T3 (shown next). Specifically, participants were less likely to “[receive] a call from a debt collector,” “bounce a check,” or “[be] unable to pay for groceries” by the end of the study than at T3. Other setbacks remained stable over time.[14]

Also, as with financial goals, demographic characteristics did not predict participants' perceptions of their setbacks, and financial predictors only predicted T3 setbacks in a few areas:

- Income level was negatively associated with participants' ability to pay their rent or mortgage on time at the end of the study. In other words, the higher participants' incomes the less likely they were to miss a housing payment after one year in a CLC program.[15]

- Participants who rented their homes were significantly more likely than participants who owned a home or paid a mortgage to report using a pawn shop loan by T3.[16]

[14] McNemar's chi-square tests of complete cases only revealed that participants were less likely to receive a call from a debt collector ($p<.05$), bounce a check ($p<.05$), and not have enough money for groceries ($p<.01$) at the end of the study than at T2.
[15] Separate logistic regressions of the effects of income level and housing status on each setback showed a significantly negative main effect of income on reportedly “[being] unable to pay for rent at T3 ($p<.05$).
[16] Separate logistic regressions of the effects of income level and housing status on each setback revealed a significant positive effect of housing status on “using a pawn shop loan within the past three months” at T3 ($p<.05$).

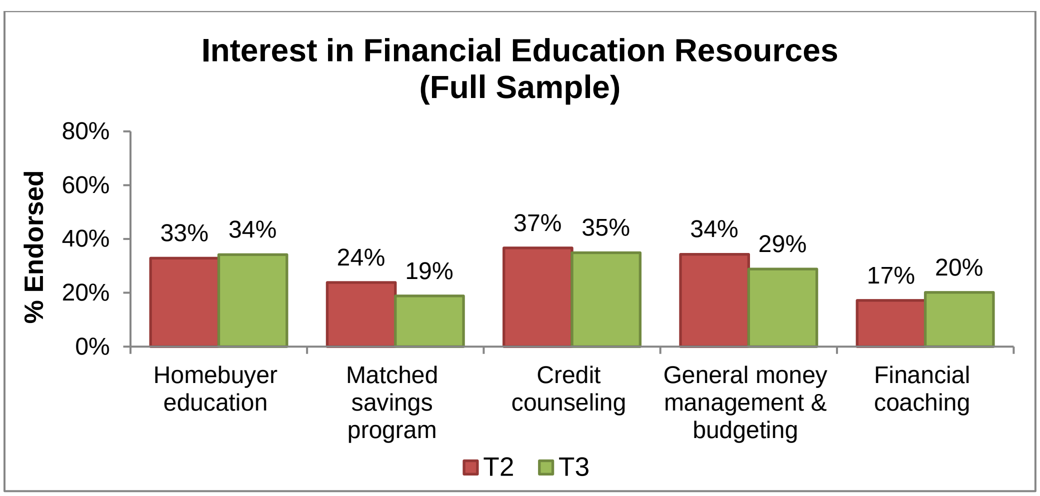


* Indicates statistical significance.

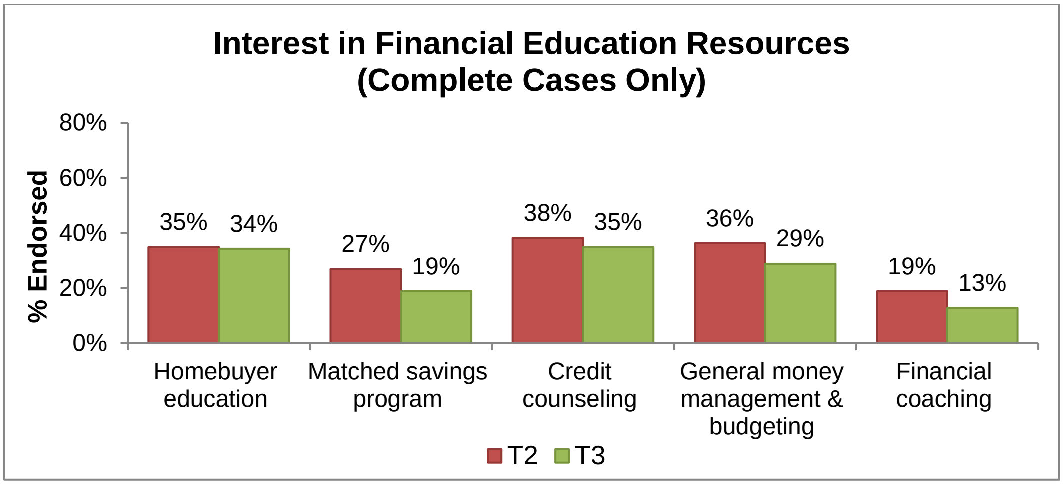
3. Was the CLC loan program effective at connecting borrowers with other community asset building resources?

Answer: No—neither interest nor participation in community asset building resources improved throughout the study.

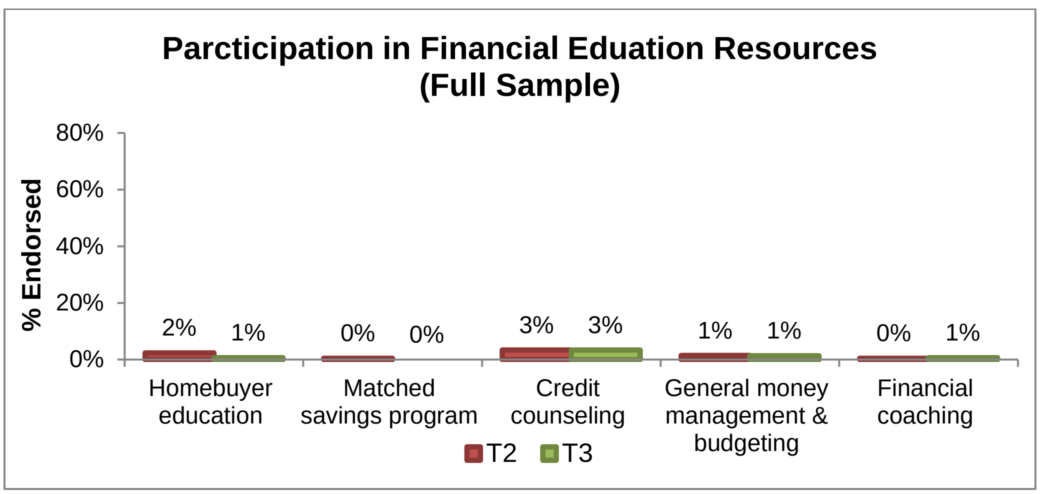
Throughout the study, participants expressed moderate interest in community asset building resources designed to help them endure financial setbacks and reach financial goals—particularly homebuyer education (33-34% endorsed), credit counseling (35-37% endorsed), and general budgeting resources (29-34% endorsed).



Participants' interest in such programs did not increase as they progressed through CLC programs. Looking at participants with complete data from T2 to T3 only, there were no significant changes over time in their interest in community asset building resources.[17]

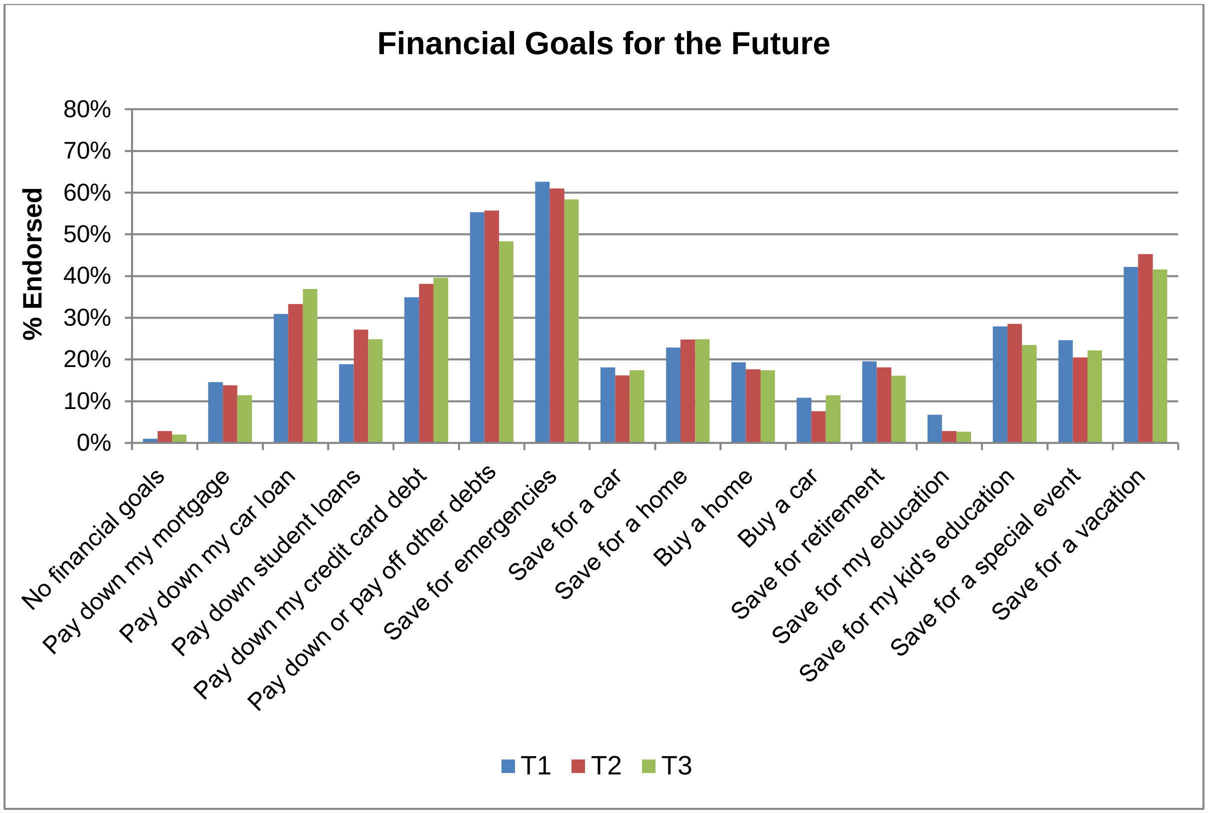


Nor did survey participants' actual participation in financial education programs change from T2 to T3, as illustrated below.[18] This is perhaps unsurprising as only 11% of participants had participated in any sort of financial education program prior to taking out a CLC loan.



[17] Considering complete cases only, we ran five separate McNemar's chi-square tests comparing participants' T2 interest in financial education to their T3 interest in financial education (one test for each type of resource). The tests confirmed that interest did not change significantly from T2 to T3.
[18] Considering complete cases only, we ran five separate McNemar's chi-square tests comparing participants' T2 participation to their T3 participation (one test for each type of resource). The tests confirmed that interest did not change significantly from T2 to T3.

Still, these findings point to CLC programs as opportunities to engage in financial education, as more than a third of our survey respondents reported being interested in community asset building resources throughout the study. They also point to actionable insights regarding how to market financial education to borrowers, perhaps by highlighting resources that speak to their most common short- and long-term goals. As shown below, when asked about their financial goals for the coming year, most participants expressed interest in “paying down debts” and “saving for emergencies.”

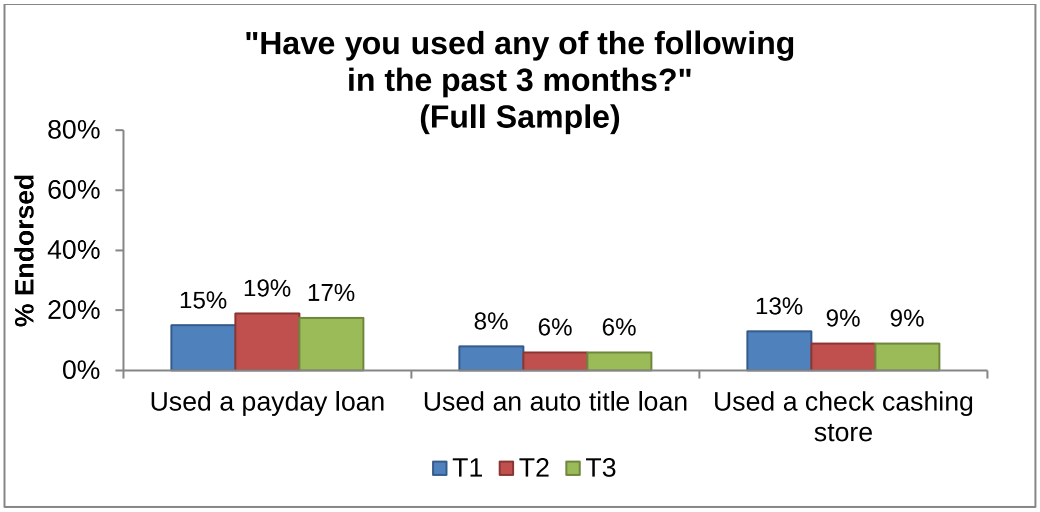


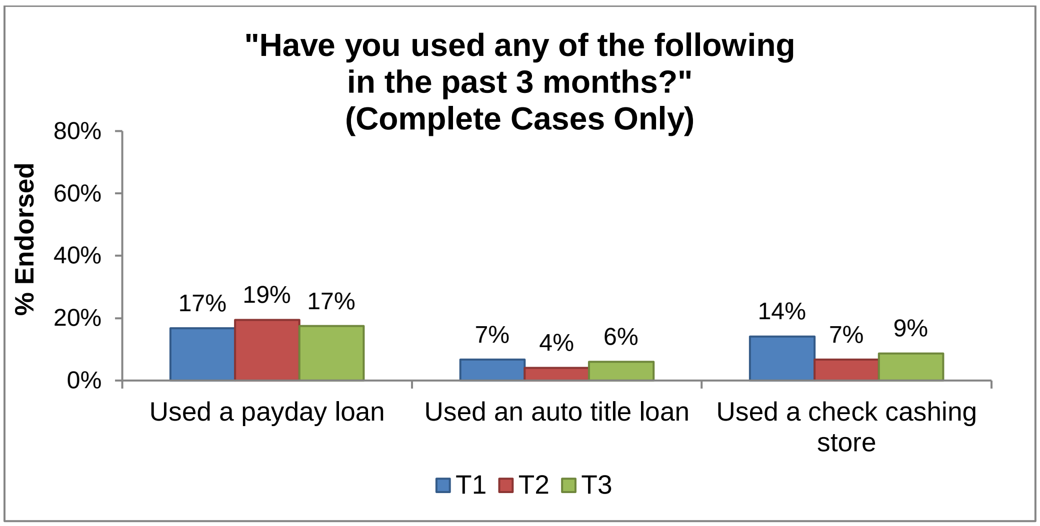
4. At the end of the program, were participants hesitant about using payday or auto title loans?

Answer: Yes. By the end of the study, participants reported little interest in taking out additional payday or auto title loans.

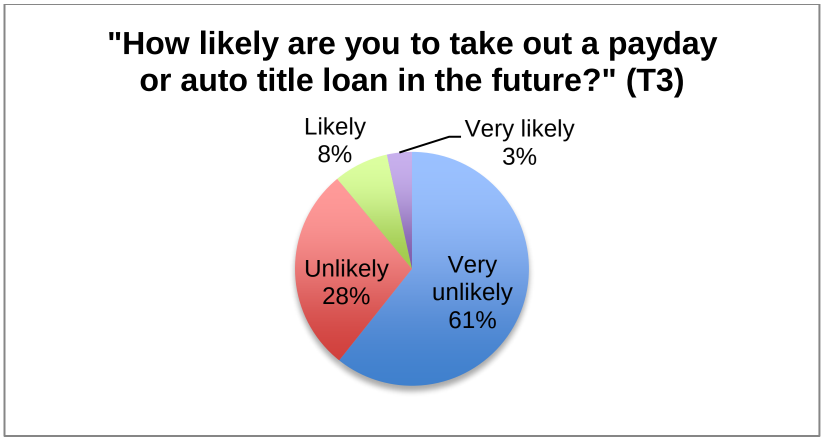
Throughout the study, participants’ use of traditional, higher-cost small-dollar loans remained low—and participants were no more likely to take out payday or auto title loans at the end of the study than they were at the beginning.[19]

[19] Considering participants with complete T1-T3 data only, three separate McNemar's chi-square tests revealed that participants’ use of (a) payday loans, (b) auto title loans, and (c) check cashing stores did not change significantly from T1 to T3.



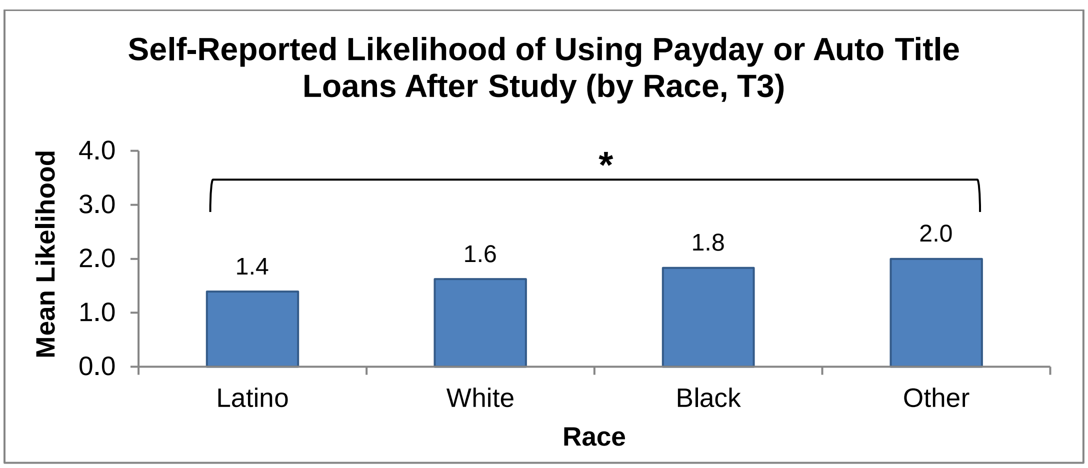


Finally, we asked participants to rate their interest in taking out future payday or auto title loans on a scale from 1 ("Very unlikely") to 4 ("Very likely"). Encouragingly, participants' final, self-reported attitudes about payday and auto title loans suggest that most CLC borrowers are dissuaded from using traditional payday or auto title loans. As shown in the following chart, by T3, the vast majority (89%) of participants reported that they were either "Very unlikely" or "Unlikely" to take out a payday or auto title loan in the future.



We explored this item further by examining whether there were demographic differences in participants' attitudes about payday or auto title loans at T3. Participants' race and family Area Median Income (AMI) level—but not gender—significantly predicted participants' likelihood of saying that they would continue to use payday or auto title loans after the study.[20] The next chart shows the mean of participants' responses, by race, to the question: "How likely are you to take out a payday or auto title loan in the future?" (on a 4-point scale). Low means indicate a low likelihood of taking out payday or auto title loans in the future, and high means indicate a high likelihood of taking out payday or auto title loans in the future.

Considering race, Latino participants reported the lowest interest in future payday and auto title loans.



* Indicates statistical significance.

Considering family income, high-income participants reported the lowest interest in taking out payday or auto title loans in the future.

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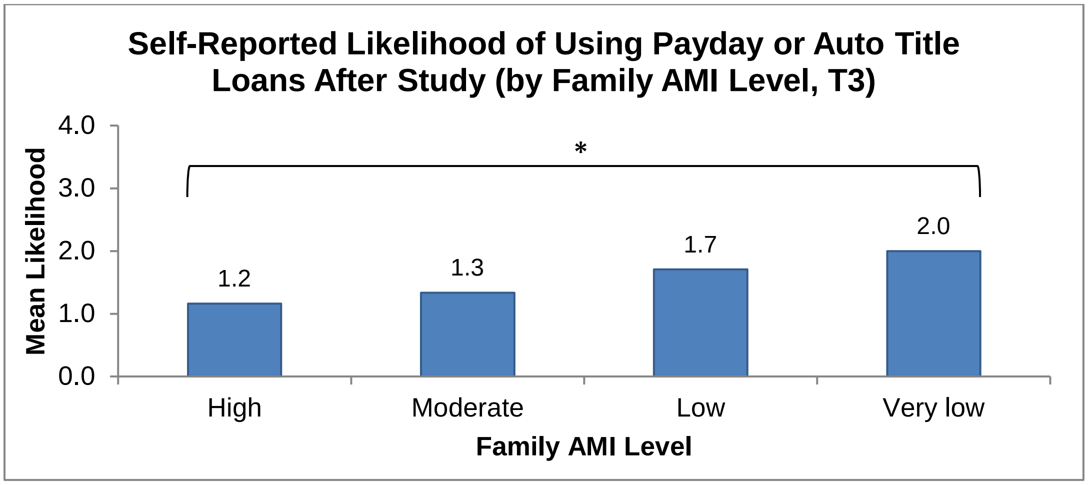
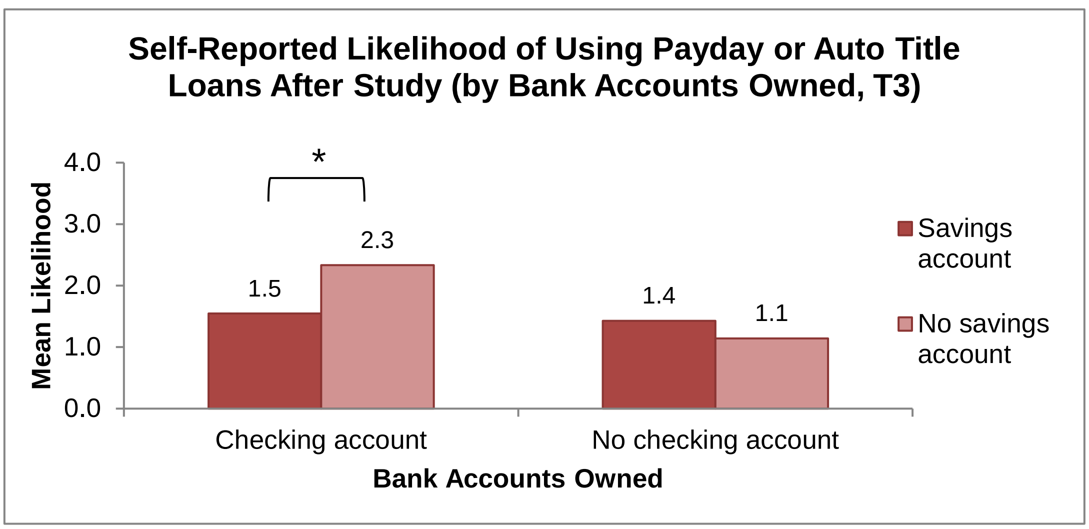
[20] An ANOVA test of the effects of race, gender, and family AMI on endorsement of this item revealed significant main effects of race ($p<.05$) and family AMI level ($p<.01$) on participants' end-of-study interest in future payday or auto title loans. There were no significant interaction effects.



* Indicates statistical significance.

We were also interested in examining if financial factors predict participants' interest in using payday or auto title loans after the study. We ran a separate model with five financial variables (checking account, savings account, housing status, prior payday loan use, and prior auto title loan use), many of which predicted the outcome[21]:

- <u>Having a checking account:</u> Although having a checking account (alone) did not predict whether participants would continue using payday or auto title loans, the combination of a checking account and a savings account predicted the outcome. Among participants *with* a checking account, those who did not have a savings account were most likely to continue using payday or auto title loans. Among participants *without* a savings account, there was no difference in the outcome.

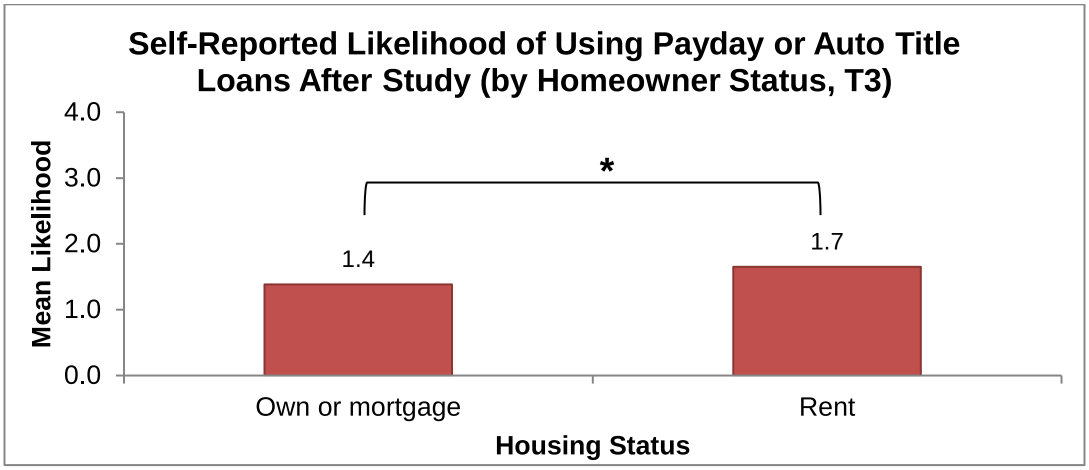


* Indicates statistical significance.

[21] An ANOVA test of the effects of (a) checking account status, (b) savings account status, (c) housing status, (d) prior payday loan use, and (e) prior auto title loan use on participants' end-of-study interest in future payday or auto title loans revealed significant main effects for all except (b) and (e) (all at $p<.05$). There was also a significant interaction effect of (a) and (b) ($p<.01$).

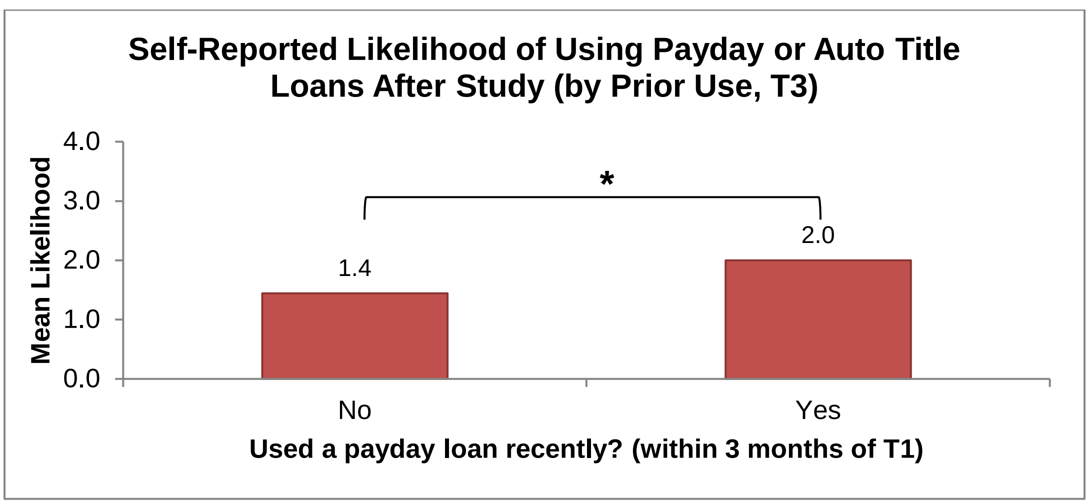
- Having a savings account: Having a savings account (alone) did not predict whether participants were still interested in using payday or auto title loans at the end of the study.

- Owning a home or having a mortgage: Participants who own their homes or had mortgages were slightly more likely to report avoiding payday loans after one year in a CLC program.



* Indicates statistical significance.

- Using a payday loan prior to study: Participants who used a payday loan less than three months before participating in our study were more interested in payday loans at the end of the study (compared to participants who had not used a payday loan recently).



* Indicates statistical significance.

- Using an auto title prior to CLC loan: Use of an auto title loan less than 3 months before participating in this study did not predict participants' self-reported interest in future payday or auto title loans.

Conclusion

The Community Loan Center loan product reached its target population, reaching borrowers with similar financial characteristics to payday loan borrowers in Texas. Based on the loan performance for the borrowers who participated in the survey, the loan was affordable—the vast majority of borrowers successfully made payments, with minimal late payments or defaults. These results alone, given the low credit scores reported by participants and low incomes, demonstrate a beneficial outcome for borrowers.

Looking deeper into borrowers' perceptions of their financial well-being indicates that access to a small-dollar loan over a one-year period has some financial stabilizing effects, but does not alone, help families build assets. Modest improvements in reducing debt and late payments are promising outcomes. The families accessing the loan program were financially vulnerable, with relatively low incomes. Given these characteristics, improvements in financial stability are positive outcomes, particularly compared to negative financial outcomes often associated with high-cost borrowing. The finding that borrower outcomes did not vary significantly by income within the survey group may indicate an opportunity for improved financial outcomes for borrowers by better connecting them to financial empowerment resources. More specifically, borrowers are having some success with their goals to pay down debt, but not with savings goals, which points to an opportunity to help borrowers with tools to save.

The analysis of borrower likelihood to use payday and auto title loans in the future after one year with the Community Loan Center offers some interesting insights. Though all borrowers indicated a low likelihood of using those high-cost products in the future, lower income and Black borrowers and those who identified as "other" were the most likely to say that they would consider a payday or auto title loan. These are also two populations disproportionately represented among payday loan borrowers in Texas. The finding that borrowers with both a savings and checking account were significantly less likely to indicate that they would use a payday or auto title loan in the future offers added support for the benefit of tools to help borrowers build savings.

Based on borrower experiences over the one-year period of this study, the CLC loan program offers an affordable product that sets borrowers up for successful repayment. Positive impacts in areas of reducing debt coupled with high rates of successful repayment demonstrate that meaningful benefits are offered under the current model. Opportunities exist to expand borrower use of financial empowerment tools offered by the CLC franchisees to broaden impacts to asset building, and particularly to help borrowers achieve goals of building savings.

Appendix A

The following frequency tables show participants' T1 answers for every item in the T1 survey. There was an error in the administration of the survey in T1, which caused the high no answer rates for Q46-Q56. The error was fixed in T2 and T3 of the study. The question numbering below reflects fields in the data table used for the analysis and not the actual question number. The order and content or the questions below mirror the questions from the survey.

Gender	**[Participant gender]**	
Male	159	40%
Female	239	60%
NAs	0	0%

Age	**[Participant age at T1]**	
Min.	21	
Median	41	
Mean	41.33	
Max.	64	
NAs	5	1%

Race	**[Participant race]**	
White	48	12%
Latino/Hispanic	235	59%
Black/African-Am.	103	26%
Other	7	2%
NAs	5	1%

RaceOther	**How do you identify yourself? [Participant race - Other]**	
Native American	2	1%
NAs	396	99%

Income	**What was your family income in the previous year?**	
Less than $10,000	9	2%
$10,000-$19,999	34	9%
$20,000-$29,999	95	24%
$30,000-$39,999	87	22%
$40,000-$49,999	56	14%
$50,000-$59,999	38	10%
$60,000-$69,999	27	7%
$70,000+	52	13%
NAs	0	0%

Region	Which CLC branch?	
Dallas CLC	153	38%
Bryan CLC	37	9%
Brownsville CLC	208	52%
NAs	0	0%

Contact	How would you like to receive the follow up survey?	
E-mail	300	75%
Mail	45	11%
Text message	53	13%
NAs	0	0%

Q1	Is this your first CLC loan?	
No	76	19%
Yes	322	81%
NAs	0	0%

Q3	If no, how many times have you used a CLC loan in the past?	
Once	35	9%
Twice	30	8%
3+ times	11	3%
NAs	322	81%

Q5	If no, are you renewing a CLC loan that you already have?	
No	11	3%
Yes	58	15%
NAs	329	83%

Q6	What financial need led you to take out this CLC loan? ["To pay off more expensive loans"]	
Selected	63	16%
NAs	335	84%

Q7	What financial need led you to take out this CLC loan? ["Car repairs"]	
Selected	66	17%
NAs	332	83%

Q8	What financial need led you to take out this CLC loan? ["School/education"]	
Selected	21	5%
NAs	377	95%

Q9	What financial need led you to take out this CLC loan? ["To pay bills"]	
Selected	177	44%
NAs	221	56%

Q10	What financial need led you to take out this CLC loan? ["Special occasion/holiday costs"]	
Selected	117	29%
NAs	281	71%

Q11	What financial need led you to take out this CLC loan? ["Other"]	
Selected	49	12%
NAs	349	88%

Q13	Have you participated in a financial education or home ownership program in the last year?	
Selected	45	11%
NAs	353	89%

Q14	If yes, check all that apply: ["Homebuyer education"]	
Selected	14	4%
NAs	384	96%

Q15	If yes, check all that apply: ["Matched savings program"]	
Selected	4	1%
NAs	394	99%

Q16	If yes, check all that apply: ["Credit counseling"]	
Selected	17	4%
NAs	381	96%

Q17	If yes, check all that apply: ["General money management and budgeting"]	
Selected	16	4%
NAs	382	96%

Q18	If yes, check all that apply: ["Financial coaching"]	
Selected	12	3%
NAs	386	97%

Q19	If yes, check all that apply: ["Other"]	
Selected	4	1%
NAs	394	99%

Q28	Did you have a checking account at a bank or credit union before you took out a CLC loan?	
No	36	9%
Yes	362	91%
NAs	0	0%

Q29	If yes, how long have you had that [checking] account?	
1-3 months	14	4%
4-6 months	19	5%
7 months to 1 year	27	7%
More than 1 year	301	76%
NAs	37	9%

Q30	Do you have a savings account?	
No	130	33%
Yes	265	67%
NAs	3	1%

Q31	Do you have a 401(k), IRA or other retirement funds?	
No	122	31%
Yes	273	69%
NAs	3	1%

Q32	Do you own any stock, bonds, or other investments?	
No	364	91%
Yes	34	9%
NAs	0	0%

Q33	Do you have a mortgage or own your home, or do you rent?	
Own or mortgage	190	48%
Rent	203	51%
NAs	5	1%

Q34	Do you have savings that could cover a car repair or other unexpected expense?	
No	333	84%
Yes	64	16%
NAs	1	0%

Q35	Do you have money set aside to pay for three months expenses in an emergency?	
No	350	88%
Yes	46	12%
NAs	2	1%

Q36	Do you know your credit score?	
No	215	54%
Yes	183	46%
NAs	0	0%

Q37	If yes, what is [your credit score]?	
720+	4	1%
680-719	13	3%
620-679	40	10%
580-619	60	15%
500-579	58	15%
Under 500	8	2%
NAs	215	54%

Q38	Have you used a check cashing store in the past three months?	
No	345	87%
Yes	53	13%
	0	0%

Q39	Have you used a payday loan in the past three months?	
No	336	84%
Yes	61	15%
NAs	1	0%

Q40	If yes, how many [payday] loans?	
1-2	53	13%
3-4	6	2%
more than 5	2	1%
NAs	337	85%

Q41	How much did you borrow [through payday loans]?	
$399 or less	24	6%
$400-$599	20	5%
$600-$999	11	3%
More than $1000	7	2%
NAs	336	84%

Q42	Do you still have the [payday] loan(s)?	
No	23	6%
Yes	39	10%
NAs	336	84%

Q43	Have you used an auto title loan in the past three months?	
No	365	92%
Yes	33	8%
NAs	0	0%

Q44	If yes, how much did you borrow [through auto title loans]?	
$300 or less	3	1%
$301-$599	3	1%
$600-$999	7	2%
$1000-$1999	7	2%
More than $2000	13	3%
NAs	365	92%

Q45	Do you still have the [auto title] loan(s)?	
No	7	2%
Yes	26	7%
NAs	365	92%

Q46*	Have you received a call from a debt collector in the past three months?	
No	23	6%
Yes	9	2%
NAs	366	92%

Q47	Have you paid a late fee on a bill in the past three months?	
No	18	5%
Yes	15	4%
NAs	365	92%

Q48	Have you used a pawn shop loan in the past three months?	
No	30	8%
Yes	3	1%
NAs	365	92%

Q49	Have you applied for a loan for which you were denied in the past three months?	
No	26	7%
Yes	7	2%
NAs	365	92%

Q50*	In the past three months have you bounced a check or been worried you would bounce a check?	
No	27	7%
Yes	5	1%
NAs	366	92%

Q51	In the past three months, have you been unable to pay rent or mortgage or been worried about missing a payment?	
No	23	6%
Yes	10	3%
NAs	365	92%

Q52	In the past three months, have you been unable to pay utility bills or been worried about paying bills?	
No	25	6%
Yes	8	2%
NAs	365	92%

Q53	In the past three months, have you been unable to pay for groceries or worried about money to buy groceries?	
No	24	6%
Yes	9	2%
NAs	365	92%

Q54	Have you used a finance company loan (like Sun Loans or World Finance) in the past three months?	
No	23	6%
Yes	10	3%
NAs	365	92%

Q55	If yes, how many [finance company] loans?	
1-2x	10	3%
3-4x	2	1%
more than 4	0	0%
NAs	386	97%

Q56	Do you still have the [finance company] loan?	
No	15	4%
Yes	10	3%
NAs	373	94%

Q57	Have you been able to reduce your debt in the past three months?	
No	155	39%
Yes	242	61%
NAs	1	0%

Q58	Have you been able to save money in the past three months?	
No	258	65%
Yes	140	35%
NAs	0	0%

Q59*	Have you been able to pay your bills on time (rent, water, electricity, credit cards) in the past three months?	
No	94	24%
Yes	302	76%
NAs	2	1%

Q60	Have you been able to invest in your retirement (stocks, bonds, mutual funds) in the past three months?	
No	286	72%
Yes	110	28%
NAs	2	1%

Q61*	Have you made a budget to plan your expenses in the past three months?	
No	172	43%
Yes	224	56%
NAs	2	1%

Q62*	Do you feel you have been in control of your finances in the past three months?	
No	133	33%
Yes	262	66%
NAs	3	1%

Q63	In the next year, what are your financial goals? [“No financial goals”]	
Selected	4	1%
NAs	394	99%

Q64	In the next year, what are your financial goals? ["Pay down my mortgage"]	
Selected	58	15%
NAs	340	85%

Q65	In the next year, what are your financial goals? ["Pay down my car loan"]	
Selected	123	31%
NAs	275	69%

Q66	In the next year, what are your financial goals? ["Pay down student loans"]	
Selected	75	19%
NAs	323	81%

Q67	In the next year, what are your financial goals? ["Pay down my credit card debt"]	
Selected	139	35%
NAs	259	65%

Q68	In the next year, what are your financial goals? ["Pay down or pay off other debts"]	
Selected	220	55%
NAs	178	45%

Q69	In the next year, what are your financial goals? ["Save for emergencies"]	
Selected	249	63%
NAs	149	37%

Q70	In the next year, what are your financial goals? ["Save for a car']	
Selected	72	18%
NAs	326	82%

Q71	In the next year, what are your financial goals? ["Save for a home"]	
Selected	91	23%
NAs	307	77%

Q72	In the next year, what are your financial goals? ["Buy a home"]	
Selected	77	19%
NAs	321	81%

Q73	In the next year, what are your financial goals? ["Buy a car"]	
Selected	43	11%
NAs	355	89%

Q74	In the next year, what are your financial goals? ["Save for retirement"]	
Selected	78	20%
NAs	320	80%

Q75	In the next year, what are your financial goals? ["Save for my education"]	
Selected	27	7%
NAs	371	93%

Q76	In the next year, what are your financial goals? ["Save for my kids' education"]	
Selected	111	28%
NAs	287	72%

Q77	In the next year, what are your financial goals? ["Save for a special event"]	
Selected	98	25%
NAs	300	75%

Q78	In the next year, what are your financial goals? ["Save for a vacation"]	
Selected	168	42%
NAs	230	58%

Q79	In the next year, what are your financial goals? ["Other goals"]	
Selected	28	7%
NAs	370	93%

Appendix B

The following table presents statistics for significance tests described in the results section of this report. Findings and associated statistics are identified by the footnote ("FN") under which they appear in the text.

Statistically significant results are marked with asterisks at *p<.05, **p<.01, or ***p<.001.

FN	Finding	Test Statistic(s)	p-value(s)
9	There were no demographic differences in participants' ability to save money by the end of the study.	**Gender:** $F(1, 89) = 0.294$ **Age:** $F(4, 89) = 0.747$ **Race**: $F(3, 89) = 0.562$ **Family AMI**: $F(3, 89) = 0.184$	0.553 0.563 0.642 0.907
10	Participants' perceived ability to make a budget decreased from T1 to T3.	X^2 (1, N=145) = 7.681	0.006**
10	Participants' perceived ability to be in control of their finances decreased from T1 to T3.	X^2 (1, N=144) = 4.787	0.029*
11	Higher-income participants were more likely than lower-income participants to invest in retirement at the end of the study.	**Income:** B = 0.370; Odds Ratio = 1.448 **Housing status:** B = -0.355; Odds Ratio = 0.701	0.000*** 0.393
12	There were no demographic differences in participants' ability to reduce debt by the end of the study.	**Gender:** $F(1,89) = 0.026$ **Age:** $F(4, 89) = 1.967$ **Race:** $F(3, 89) = 0.055$ **Family AMI:** $F(3, 89) = 0.126$	0.872 0.106 0.983 0.945
13	Women were more likely than men to endorse "paying bills" as their initial reason for taking out a CLC loan.	X^2 (1, N=398) = 5.817	0.016*
13	Men were more likely than women to endorse "special occasion/holiday costs" as their initial reason for taking out a CLC loan.	X^2 (1, N=398) = 11.749	0.001**
14	Participants were significantly less likely to receive a call from a debt collector at T3 than at the beginning of the study.	X^2 (1, N=143) = 4.568	0.033*

FN	Finding	Test Statistic(s)	p-value(s)
14	Participants were significantly less likely to bounce a check at T3 than at the beginning of the study.	X^2 (1, N=142) = 4.765	0.029*
14	Participants were significantly less likely to be unable to pay for groceries at T3 than at the beginning of the study.	X^2 (1, N=144) = 10.314	0.001**
15	Income level was negatively associated with participants' ability to pay their rent or mortgage on time at the end of the study.	**Income:** B = -0.280; Odds Ratio = 0.756 **Housing status:** B = 0.249; Odds Ratio = 1.282	 0.019* 0.568
16	Participants who rented their homes were significantly more likely than other participants (who owned a home or paid a mortgage) to report using a pawn shop loan at T3.	**Income:** B = -0.126; Odds Ratio = 0.882 **Housing status:** B = 1.344; Odds Ratio = 3.834	 0.396 0.045*
20	Participant race and family Area Median Income (AMI) level—but not gender—significantly predicted participants' likelihood of saying that they would continue to use payday or auto title loans after the study.	**Gender:** *F*(1,121) = 0.645 **Race:** *F*(3, 121) = 3.780 **Family AMI:** *F*(3, 121) = 4.717 **Gender x Race:** *F*(3, 121) = 0.477 **Gender x Family AMI:** *F*(2, 121) = 2.202 **Race x Family AMI:** *F*(7, 121) = 1.709 **Gender x Race x Family AMI:** *F*(2, 121) = 0.298 No three-way interaction effects	0.423 0.012* 0.004** 0.699 0.115 0.113 0.743 //
21	Having a checking account at T1, housing status, and prior payday loan use significantly predicted participants' T3 interest in future payday or auto title loans.	**Checking account status:** *F*(1, 122) = 2.601 **Savings account status:** *F*(1, 122) = 3.763 **Housing status:** *F*(1, 122) = 5.454 **Prior payday loan use:** *F*(1, 122) = 8.731 **Prior auto title loan use:**	 0.109 0.056 0.021* 0.004**

FN	Finding	Test Statistic(s)	p-value(s)
"		$F(1, 122) = 0.720$ **Checking x Saving:** $F(1, 122) = 8.470$ **Checking x Housing:** $F(1, 122) = 0.203$ **Saving x Housing:** $F(1, 122) = 0.021$ **Checking x Payday:** $F(1, 122) = 0.148$ **Saving x Payday:** $F(1, 122) = 1.043$ **Housing x Payday** $F(1, 122) = 1.987$ **Checking x Auto Title:** $F(1, 122) = 5.700$ **Saving x Auto Title:** $F(1, 122) = 0.008$ **Housing x Auto Title:** $F(1, 122) = 0.942$ No three-way interaction effects	0.398 0.004** 0.653 0.885 0.701 0.309 0.161 0.018* 0.931 0.334 //