PROFILE OF A NONPROFIT LENDER

Innovative Changes

OVERVIEW	Innovative Changes Security and Success Loans (SSLS)
Amount	$200-$1200
Interest Rate	5%
Term	24 months
Fees	■ Late fee: 5% of loan payment ■ Bounced check fee: $20 ■ Non-sufficient funds fee: $10
Eligibility & Underwriting Criteria	■ Must be a Section 8 voucher holder in Multnomah County ■ Income is 30% or more of the area median income ■ Working towards financial stability (minimal recent collections, no more than 3 overdrafts in past 3 months on bank account or prepaid card, room in monthly budget for loan payments, not facing any pending garnishments) ■ Has been at same job for the past 90 days or has another income source (SSI, SSDI, TANF, etc.)
Loan Loss Reserve	N/A
Charge off Rate	6% (up to 20% allowed in contract)

Organizational Background

Innovative Changes (IC$), a nonprofit CDFI based in Portland, Oregon, provides security deposit loans in partnership with the local housing authority, Home Forward (HF). HF staff saw that the success rate for Section 8 vouchers (defined as the ability to sign a lease on a place to live within 90 days of receiving the voucher or submitting a transfer request) was less than 80 percent, meaning that households were unable to use their vouchers because they did not have enough money for move-in costs. HF is a "moving to work" housing authority which means that it has access to flexible funding that can be used to address housing issues in innovative ways. HF decided to use these funds to create a loan program to help voucher holders cover move-in costs. It partnered with IC$ in 2016, and since then, IC$ has provided 50 Security and Success Loans (SSLs) to voucher holders, all but one of whom have been successful in attaining housing.

The loans can be used for any cost associated with moving, most commonly for:

- First and last month's rent
- Security deposits
- Moving truck costs

Loan Design

The funding for the loan program came with minimal limitations, so IC$ and HF leveraged each others' respective expertise in lending and housing to design a loan that would be a good fit for their target population. There are minimal fees for the loan—just a late fee, and fees to cover the fees charged by the bank for a bounced check or non-sufficient funds fee. Originally, HF advocated for a zero percent interest rate. Using insights from behavioral economics, IC$ convinced HF that a low interest rate of five percent would provide a measure of borrower "investment" in the loan, and potentially increase their sense of responsibility to pay back the loan.

IC$ and HF also wanted to incentivize borrower participation in the financial education classes offered by IC$. Initially, they structured the loan so that the borrower's last two loan payments would be paid by Home Forward if they completed IC$' four-part financial education series. IC$ and HF quickly learned that this delayed incentive was not effective, so they changed it to have more immediate benefits. Now, each time a borrower attends a financial education workshop, their next loan payment is discounted by half (with the other half paid to IC$ by Home Forward), for up to four discounted loan payments.

In creating the contract with HF, IC$ made sure they could cover their own lending costs. The funds for the SSLs are stored separately from the rest of IC$' portfolio. A portion of funds is earmarked for fees, incentive loan payments, and loan loss reserves, though the funds are stored in the same bank account.

Loan Implementation

Referrals, Application and Loan Closing

Section 8 voucher holders find out about the loan at their voucher orientation (if they are a new voucher recipient or transferring in from another county) or from their Home Forward housing specialist when requesting a transfer. If interested in taking out the loan, their housing specialist provides them with a copy of the application, which includes a checklist of the documentation they must gather. Once their application is complete, they set up an appointment directly with the IC$ loan manager to review their application, including budget and expectations for the loan, and a credit check is performed and shared with the client.

In reviewing loan applications, the IC$ loan manager says, "I look at these loans a little differently than others because these applicants are just on the edge—one incident away from financial instability. You have to learn to recognize who is chronically unstable, and who is on their way to stability." The loan manager reviews applicants' credit reports to ensure there are no recent collections or landlord debts, no judgments that could result in a garnishment, and that the borrower does not have a history of taking out consumer debt and not paying it. Applicants must supply bank and/or prepaid card statements (to the extent possible) to create a budget that is realistic.

All loans receive final approval by IC$' executive director. Once an applicant is approved, they return to IC$ for a loan closing appointment. The loan manager reviews the loan agreement with the borrower, answers any questions, and a check is given directly to the borrower. The loan manager says, "We write the check directly to the borrower, not the landlord, because we believe that if someone is approved for the loan, we trust them to use it for what they need it for." However, upon borrower request, the check may be written to the landlord if they will accept a third party check. This is common when the borrower does not have a bank account and does not wish to pay a fee to cash the check.

Servicing and Repayment

Borrowers receive monthly payment reminders and can pay back the loan through ACH, automatic bill pay, online, or by mail with a check or money order, or in person with a money order, cash, or check.

While this loan program is relatively new, it has had a high success rate in achieving the goal of getting voucher holders into housing with a charge-off rate of 6 percent. However, its current portfolio "at risk" (loans that are more than 30 days past due) is 40 percent. This is about 14 percentage points higher than the rest of IC$s' loan portfolio. Because of IC$' relationship with HF, a partner who cares more about the mission than loan profitability, loan performance will likely not jeopardize the sustainability of the program.