

Belton City Council Workshop Meeting
October 11, 2016 – 4:30 P.M.

The Belton City Council met in workshop session in the Smith Room at the Harris Community Center with the following members present: Mayor Marion Grayson, Mayor Pro Tem David K. Leigh (via telephone) and Councilmembers Craig Pearson, Jerri Gauntt, Paul Sanderford and Dan Kirkley. Councilmember Guy O'Banion was absent. Staff present included Sam Listi, Gene Ellis, Amy Casey, Brandon Bozon, Charlotte Walker and Paul Romer.

1. **Call to order.** Mayor Marion Grayson called the workshop to order at 4:30 p.m.
2. **Receive a presentation on Community Loan Centers and discuss the City of Belton being a participating employer in the Community Loan Center of the Heart of Texas.**

Stephanie O'Banion, Executive Director of United Way Central Texas, introduced representatives from the Heart of Texas Goodwill and Helping Hands Ministry of Belton. She then turned the presentation over to Shannon Kendrick-Wittmer, Vice President, Mission and Workforce Advancement who provided information on the development of community loan centers (CLC) throughout Texas as a way to compete directly with payday and car title lenders (see Exhibit "A").

Councilmember Dan Kirkley said that at the Texas Municipal League annual conference, he sat in on a session regarding community loan centers. He said that during the session two City Managers spoke highly of the community loan center concept and said that it was working well in their cities.

Councilmember Jerri Gauntt asked what the average income was for the people taking out the payday title loans. Ms. Kendrick-Wittmer said that she did not have an average since the program was currently being administered by the Texas Community Capital - Community Loan Center.

Mayor Pro Tem David K. Leigh said that this type of program was definitely needed. He asked what fees were being recovered by the software company. He also wanted to know what is done to prevent someone who is about to be terminated from taking out the loan and then not making the payments. Ms. Kendrick-Wittmer said that all the fees received from the payback of the loan are cycled back into the program to allow for more loans to be made. She stated that maintaining a good relationship with the HR departments at participating organizations would be paramount to preventing an employee from taking out a loan when he or she is about to be terminated.

Dan Nisley, President/CEO, of HOT Goodwill said that the CLC is a 501(c)3, and its purpose is not to make money. He added that the \$20 fee paid by borrowers is split between the local CLC and the Rio Grande Valley CLC who originated the program and developed the software. Mr. Leigh asked if anyone was receiving an administration fee. Ms. Kendrick-Wittmer said that HOT Goodwill is administering

the program, and they are receiving \$10 of the \$20 origination fee. Mr. Nisley added that some of the interest pays the salary of the staff administering the program. He said that their margin is approximately 6.5%. Steve Wolfe, Chairman of the CLC HOT Board of Directors, said that they try to maintain the 6.5% margin to put back into the pool.

Councilmember Kirkley left the meeting at 5:04 p.m.

Mr. Leigh asked who was the governing body of the program. Mr. Nisley said that there was a local board of directors and then also the IRS. Mr. Leigh asked if this local Board of Directors was also the same group who makes the money off of the margin. Mr. Nisley said yes, but he clarified that in a 501(c)3 organization, board members do not receive any funds. He said the only place to put the money is back into the pool or to pay the staff that administers the program. Mr. Wolfe added that they would have audited financials. Mr. Nisley stated that they have also invited each participating employer to have a representative on the board.

Councilmember Paul Sanderford said it sounds like this model is catering to people with stable employment. He asked about the program's ability to reach those with less than stable employment who he considers to be more "at risk." Ms. Kendrick-Wittmer said that they are not targeting anyone, they are simply offering this as an alternative to payday lending. She added that once the program has built up enough with stable employers, the CLC hopes to be able to offer the program to those with higher turnover rates.

City Manager Sam Listi asked if there was a process to determine an applicant's need, and Councilmember Craig Pearson added, "... and their ability to repay the loan." Mr. Nisley indicated that only the HR Department can decline the loan. Ms. Kendrick-Wittmer said that the HR Department is only checking the basic information that has been provided by the employee. Mr. Nisley said there is no risk to the employer. If the employee leaves the employer, then the CLC will try to recoup the money through other means.

Councilmember Jerri Gauntt said that she is concerned for the City's HR/Payroll employees. She said that it seems that the HR Department will be put in the role of approving or denying loans. Mr. Nisley said that the only time that HR would decline a loan would be if they knew some adverse employment action was about to be taken against the employee applying for the loan. Ms. Kendrick-Wittmer said since actually they are just verifying the information provided by the applicant, the HR Department would not be declining the loan. Director of Finance Brandon Bozon asked, "What would be the basis for declining the verification if all the information provided is correct?" Mr. Nisley said that is where the partnership comes into play; otherwise, there would be too many defaulted loans which could kill the program. He said that he would not want the City to submit the loan information if they knew that the employee may be terminated in the near future. City Clerk Amy Casey asked if there was a time limit on verifying the loan application once it has been

submitted. Ms. Kendrick-Wittmer responded that there is no time limit, and HR could just not act on the application, leaving it in the queue.


Mayor Marion Grayson said that she was hearing a lot of the bad scenarios that could take place, but she also knows that there is good in the program. She likes the fact that these loans are reported to the credit bureaus which helps improve an applicant's credit score.

Mr. Nisley concluded his presentation by saying that HOT Goodwill only receives direct reimbursement for payroll costs and other expenses related to the program; Goodwill does not receive an administration fee for his salary. The charges include one employee's salary and copies, and Goodwill is not charging for use of office space by the CLC.

He added that there is also a financial literacy component to this program. Financial literacy will be offered by us and our partners; however, we cannot require applicants to take the course.

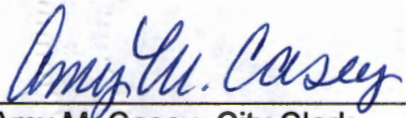
City Manager Listi asked what the group was expecting from the City of Belton. Mr. Nisley said they would like the City of Belton to be a participating employer. Director of Finance Brandon Bozon asked what happens if an employee who originally elected to make payroll deductions tells the HR Department that he or she no longer desires to have payments payroll deducted. Mr. Nisley responded that the City just needs to inform the CLC. They will pursue payment through ACH or other means.

3. **Adjourn.** The Mayor adjourned the workshop at 5:22 p.m.



Marion Grayson, Mayor

ATTEST:



Amy M. Casey, City Clerk



COMMUNITY LOAN CENTER

OF THE HEART OF TEXAS

Affordable Small Dollar Loans

Presentation By:

Shannon Kendrick-Wittmer,

Vice President, Mission and Workforce Advancement

Daniel Nisley,

President/CEO

A program administered by:



**Heart of Texas
Goodwill Industries, Inc.**
Serving the community since 1955



Exhibit "A"

THE PROBLEM: PAYDAY & AUTO TITLE LOANS



\$5.78 Billion

The industry of payday and auto-title lending in our state



3,153

Payday and Auto Title Lenders



\$1.67 Billion

Fees charged Texans in 2015



37,296

Cars repossessed in Texas in 2015

Our Community



36

Payday & Auto
Title lenders



\$10

Million
Fees charged



600+

Cars
repossessed

Waco MSA in 2015 (estimated values)

Sources: Office of Consumer Credit Commissioner website

Millions of dollars are stripped from our community every year!

A \$1,000 loan
costs a borrower in
Waco

664% APR



**EMPLOYEES'
FINANCIAL STRESS**

Payday & Auto Title Lending Impact on Consumers

- Loan rate of upwards of 500% APR
- The average payday borrower in Texas pays \$840 for \$300 loan
- Many payday borrowers take out additional loans to cover previous loans in a vicious cycle

(Anti-Poverty Coalition of Greater Dallas, 2013)


A Solution: Community Loan Center

- The Community Loan Center (CLC) concept was originally created to help individuals meet monetary needs with quick and easily accessible short-term loans.
- It was designed to provide an alternative to local payday and auto title lenders who offered loans with high interest rates and fees.

A Solution: CLC continued.....

- **Alternative: Market-Based Approach**
 - Fairly priced small-dollar loans with reasonable terms
 - Direct competition to high costs lenders
 - Employer based loan to workers
- **Sustainable and Scalable**
 - Need a program that can outgrow the need for subsidy and generate revenues
 - Program designed to be replicated

Small Dollar Loans Comparison

		Affordable Small Dollar Loan	Payday Loans
Loan Amount		\$1,000	\$1,000
Administrative Fee		\$20	\$0
Term		12 months	14 to 30 days
Interest Rate		18%	n/a
Financial Fee		n/a	\$300 * / \$600**
Total Interest/Fees		\$122.16	\$900
Annual Percentage Rate		21.8321%	782.14%
Monthly Payment		\$93.51	\$1,300 due in 14 days
<p>*1st 14 day fee is \$300, if renewed an additional \$300 fee is required.</p> <p>**If loan is extended (as indicated by research) two times.</p>			

Who we work with



The Players

- Rio Grande Valley CLC
 - Contracted to Originate and Service All Loans
 - Developing Software and Intellectual Property
- Texas Community Capital
 - Sublicenses Software and IP to Local CLC Lenders
 - Recruit New Local Lenders Into CLC Program
 - Create Intellectual Property, including Marketing Materials, Co-Branding, and Program Guidelines
 - Also a Licensed Lender in Balance of State Areas
- Local CLC Lenders
 - Recruit Employers to Participate in Program
 - Raise Loan Capital to Fund the Loans
 - Become a Licensed Lender via Texas OCCC

HOT Goodwill & the CLC

- Citizens for Responsible Lending group
- “Alternatives” Committee presented information about the CLC
- Goodwill is approached to lead project
 - Citizens for Responsible Lending
 - Prosper Waco leaders
 - City of Waco representatives
- Community Loan Center of the Heart of Texas (CLCHOT) is a 501c3 entity, administered by Heart of Texas Goodwill
- Territory includes 13 counties in Central Texas

CLC HOT Board of Directors

- Steve Wolfe (Chairman), Extraco Banks
- Janie Martinez (Vice Chair), CareNet of Central Texas
- Mike Stone (Secretary), Waco Community Development Corp.
- John Kinnaird, City of Waco Councilman
- Kristen Bulgrien, Helping Hands Ministry
- Dillon Meek, City of Waco Councilman
- Ernie Fletcher, Baylor University

How it Works

The process is simple:

- Employer Based—This is free to the employer, marketed as a benefit
 - An employer is recruited by the local CLC, who then becomes a participant in the program, and whose employees are immediately eligible to access the available loan product
 - An employee goes online and fills out a request form, providing details such as start date, hourly wage, and bank account information
 - The employer's HR department receives the request and verifies employee's identity and the details provided by the employee
 - Once done, the funds are then transferred to the employee's bank account for immediate use
 - Payroll deduction is the preferred method of repayment, however, an employee may elect to pay via ACH

The entire process and product are meant to be streamlined and create as few barriers as possible. There are no credit checks, no collateral required, or no prepayment penalties. Free financial counseling is also available upon request.

Community Loan Center Terms

- \$1,000 Loan Maximum
 - Or up to half of borrower's monthly gross pay
 - One Year Loan term
- 18% Interest (21.83% APR)
- \$20 origination fee
- Relaxed underwriting
- No collateral
- No Prepayment Penalties
- Reports to Credit Bureaus (In process)
- Repayments \$23.38/week or \$94/month

Who can borrow?

- Employer must sign up for program
- Minimum age of 18
- Currently working on the job for three months
- Must have a bank checking account
- Valid picture ID and social security card
- Four personal references

System Structure

- **Online Application**

- All applications are completed by borrowers through the CLC's website

- **Employer Portal**

- Employers will have access to CLC's KENN system to verify identity of employees

- **Administrative Portal**

- CLC will have a dedicated staff person to regularly maintain flow of loans

- **Jobs and Processes Automated for Efficiency**

- All applications are automatically routed to a queue for verification; once verified, funds are automatically transferred to employees bank account

Where do employers come from?

- Must be recruited by staff and board
- Must have stable workforce – high turnover means problems collecting
- Currently have agreements with the City of Waco and Waco I.S.D.

Loan Data Through 9/22/2016

City of Waco

# of Loans	289
Total Loan Amount	\$265,465

Waco ISD

# of Loans	628
Total Loan Amount	\$582,156

Total # of Loans	917
Total Loan Amount	\$847,621

Where does the money come from?

- The CLC is responsible for raising the necessary capital that will be needed to make loans in their franchise area.
- Heart of Texas Goodwill Industries, Inc. has committed \$150,000 for future loans. In-kind contribution to the initiative include CEO and VP Mission and Workforce Advancement staff time. A Full Time CLC Liaison is paid by Goodwill until the CLC generates money to fund the position.
- Funding made available for loans through the CLC can be received through charitable gift, loan, or investment. As a qualifying 501(c)3 non-profit corporation, the CLC is able to receive charitable gifts and grants that are deductible for tax purposes by both individuals and corporate entities.
- Bank investments for Community Reinvestment strategies

Current Status

- Goodwill, on behalf of CLCHOT, is working with TCC-CLC of Texas on a plan to take over the outstanding loans for WISD and City of Waco
- Projected take-over date is November 1st
- Current outstanding balance: \$393K
- Communication with employees about take over, new web portal, contact at Goodwill
- Funding Sources:
 - McLennan County: Goodwill (\$150k), City of Waco (\$200k), Loan from CLC of Texas (paid back as loans are collected)
 - Bell County: Helping Hands Ministry (\$25K), United Way of Central Texas (\$40k)
- Immediate capital needed: fund loans for employees of current employers; to add new employers