

Community Investments Vol. 15, Issue 1 Ways to Work

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With many of Hawaii's working poor teetering on the edge of being able to make ends meet, an unpredictable challenge such as a car breakdown, can plunge a family into crisis. In Hawaii's busiest and most popular tourist destination--the island of Oahu, many workers commute long distances by bus because they cannot afford to live near their jobs.



A Ways to Work loan has given Lynn Resurreccion the means to turn her life around. Resurreccion is pictured in front of her new, used car with American Savings Bank community development officer Elaine Hogue and loan officer Jerry Felipe. (Photo courtesy of Hawaiian Electric Industries.)

As of the 2000 census, 64.9% of Oahu's population is very low- to moderate-income. This statistic represents a considerable number of people that may at sometime have a need for a short-term loan. Consuelo Foundation (www.consuelo.org), whose mission is to improve the quality of life for disadvantaged children and families in Hawaii and the Philippines, recognized this need and began to look for a way to deal with an issue that presented a significant problem for many of the community's most financially vulnerable. Consuelo Foundation also wanted to find a solution that would embrace their philosophy of providing a "hand-up" rather than "a hand-out." The national Ways to Work family loan program appeared to be the right solution. Because of our strong track record of responsiveness on other projects, Consuelo approached American Savings Bank to take part in this innovative opportunity, and we responded with our resources to help bring the Ways to Work family loan program to Hawaii.

The Ways to Work loan program was started by the McKnight Foundation in 1985 in the Minneapolis-St. Paul area. Ways to Work loans are used to help low-income parents, who cannot get traditional loans elsewhere, pay for expenses that could interfere with their ability to keep a job or stay in school. Loans ranging from \$500 to \$4,000 help families purchase a used car, pay for car repairs, childcare, certain housing costs and other qualified purposes. In Hawaii, borrowers repay the loan at an affordable eight percent, which is also the program's national limit and well below the interest rate these families with poor credit would be charged by alternative lenders such as payday and pawnbrokers. Borrowers must meet certain requirements, such as being a custodial parent and Oahu resident. They must also be employed for at least 19 hours per week for six months prior to applying for the loan or be a post-high-school student with verifiable income. Beginning in 1996 and with the support of the McKnight Foundation, Ways to Work, Inc. launched the national expansion of this effective, outcome-driven program. As of 2002, 42 member organizations in 22 states made over 4,000 Ways to Work loans exceeding \$8 million. The national program

default rate of 13.2 percent is deemed exemplary, considering that the loans are to high -risk borrowers. 88 percent of borrowers utilized these loans to buy used cars. Many of the borrowers have also experienced dramatic decreases in use of public assistance.

In 2002, through Consuelo Foundation's Ways to Work program on Oahu, American Savings Bank funded \$82,375 to 33 families in need. With a default rate of 10.1 percent the Hawaii model compares favorably to the national experience and reflects many of the same positive outcomes. Of these customers, 73 percent are single mothers and 20 percent are self-reported victims of domestic violence. Preliminary outcomes show that 80 percent of borrowers improved their credit score since receiving their loans, 50 percent of borrowers increased their income and well over 100 families acquired money management skills through program training.

Consuelo Foundation manages the program and originates the loans through a loan program manager, a role that combines the skills of a banker and the attitude of a social worker. The loan program manager helps borrowers navigate the lending process from start to finish, offering necessary guidance along the way. Loan decisions are rendered by a committee of local volunteers from the social service, public administration, auto sales and banking professions with American Savings Bank providing two such volunteers.

Ways to Work, Inc. was established as a subsidiary of the nonprofit Alliance for Children and Families to help member organizations create loan programs in their communities. Ways to Work, Inc. provides initial and ongoing technical assistance with fund-raising, program development, program operations and customized software. As a federally certified Community Development Financial Institution, Ways to Work, Inc. also offers low-interest capital to start-up and existing programs. Member organizations wishing to replicate the program are typically required to raise a minimum of \$340,000 to fund a loan pool and loan loss reserve to be held at a financial

institution, plus funds to operate the program. However, Hawaii's program (one full year in the making) is unique.

Ways to Work provides ongoing technical assistance. Consuelo Foundation pledged up to \$90,000 of its own funds annually for five years for program operations and \$40,000 to fund a loan loss reserve. American Savings Bank committed a grant of \$100,000 to be paid out over five years to help start up and operate the program. Additionally, to provide Consuelo Foundation the funds for a back-up loan loss reserve, American provided a \$310,000 equity-like loan at three percent. The loan utilizes a uniquely crafted investment agreement that consists of a 10-year term with interest-only payments, a subordinate position on existing or future debt obligations, no prepayment penalty, and the option of extending the maturity date for an additional five-year term at the foundation's discretion. Now paid in full, this complex transaction resulted in American Savings Bank obtaining investment test credit during the relevant review period under the CRA.

The combination of continual hands-on guidance from Consuelo Foundation's loan program manager and Consuelo's commitment to purchase all loans over 60 days delinquent has enabled American Savings Bank to lend money directly to these high-risk borrowers. On our end, we had community-minded legal and loan servicing staff that were willing to set up special reporting and monitoring procedures to accommodate this special needs program. As a result, borrowers who maintain a good payment record can improve their credit score, and because the bank closes, funds, and services the loans, we are eligible to receive lending and service test credit under the CRA.¹

This program is a win-win-win! Hawaii's credit-needy working poor families get life-sustaining loans, Consuelo Foundation achieves its aim of improving the lives of women and families, and we at American Savings Bank meet our

goal of being a full-service bank that is responsive to Hawaii's community development needs both in policy and in practice.

For more information or advice on internal tools American developed to establish the Consuelo Foundation's Ways to Work program, contact [Elaine L. Hogue](#). To learn more about the national Ways to Work program, contact [Kevin P. Stewart](#), National Program Director, at Ways to Work, Inc., (800) 221-3726, ext. 3656; web site: www.alliance1.org.

¹ Service test credit was received for American Savings Bank senior management participation on Consuelo Foundation's board of directors.

Biography



Since 2000, **Elaine Hogue** has been in charge of American Savings Bank's community development and CRA program; helping the bank build strong relationships in needy communities throughout Hawaii. Currently, Hogue is the president of Hawaii's CRA Association. Previously, Hogue served as the grants administrator at the Harold K.L. Castle Foundation, as the annual giving executive at Castle Medical Center and as a paralegal with a large real estate law firm in downtown Honolulu. She resides in Kailua with her husband, state Senator Bob Hogue, and their four teenage children.