

“Lending Circles” by Mission Asset Fund

Can social lending programs help consumers build credit scores and transition to the financial mainstream?

Lending Circles

Mission Asset Fund’s (MAF) Lending Circles provides a zero-interest loan to help consumers build credit and access an affordable small-dollar loan. This social lending program is designed to help low-income consumers build credit and transition into the financial mainstream. The program is supported with product-specific, mobile-accessible financial education that provides participants with information on a variety of topics, including building credit.

Lending Circles is based on an informal saving/lending practice common in many different immigrant communities. Participants take an online financial training class before joining a Lending Circle. Most Lending Circles have 10 participants for a loan of \$1,000. All participants make the same monthly loan payments ranging from \$50 to \$200. The first month, one participant receives \$1,000. And each month after that, the next borrower in line receives the loan until everyone gets a chance. In partnership with Citi, MAF processes the loans and distributes payments electronically. The organization records and reports monthly activity to major credit bureaus, helping participants build credit. MAF received funding from the Center for Financial Services Innovation’s Financial Capability Innovation Funds to evaluate the program. A partnership with a collaborative of funders led by the Citi Foundation, the Funds provided support to innovative projects designed to help low-income and underserved consumers adopt positive financial behaviors.



LendingCircles



Mission Asset Fund asked:

- » How does participation in Lending Circles impact a person’s debt levels and credit scores?
- » How does financial education in addition to Lending Circles participation impact consumer behavior and credit score?

Mission Asset Fund learned:

- » On average, clients increased credit scores by 168 points by participating in a 10-month Lending Circle. This includes people going from no score to having a credit score.
- » Lending Circles was most transformative for consumers that started with thin or no credit. 72% of those that started with thin or no credit had a score of prime or better by the end of the first Lending Circle.

- » On average, clients decreased debt by \$1,000 during their tenure in Lending Circles.
- » Participating in financial education in addition to Lending Circles increased clients’ credit scores outcomes by an additional 27 points when compared to clients that participated in the Lending Circle without the accompanying financial education.
- » Loan default rate in the Lending Circles program was less than 1%. Despite the low default rate, MAF secures each of the loans in case of default.

Lending Circles clients on average:

- » increased credit scores by 168 points
- » decreased debt by \$1,000
- » increased credit scores by 27 points

Future Applications

The Lending Circles model has shown great potential for improving credit scores for consumers, especially those with thin or no credit. The program suggests stronger success when it is paired with financial education. These results hold promise for helping consumers access mainstream credit options such as credit cards or auto loans. The model also allows for a large degree of specialization. For example, MAF's Lending Circles for Citizenship program enables immigrants to form peer lending groups to save for citizenship application fees while accessing a 25% matching contribution.

After completing its evaluation, MAF received a follow-on grant from the Financial Capability Innovation Fund to build an online client acquisition and servicing platform to allow other organizations to replicate the program. To date, over 45 organizations in 14 states now offer Lending Circles with the help of MAF.



Mission Asset Fund

Mission Asset Fund (MAF) is a nonprofit organization dedicated to helping low-income, financially excluded consumers enter the mainstream financial system. Its vision is to create

a fair financial marketplace for hardworking people.

MAF is expanding Lending Circles and other loan products throughout the U.S. The organization is building a network of nonprofit providers across the country to help build a brighter future for the millions of people who live in the financial shadows.

To learn more, visit missionassetfund.org or lendingcircles.org.

Read the full evaluation report at <http://bit.ly/20jgw8>.

The Financial Capability Innovation Funds

The Financial Capability Innovation Funds were supported by a collaborative of funders led by the Citi Foundation and also including Bank of America, the Capital One Foundation, Charles Schwab Bank, Charles Schwab Foundation, Experian, Morgan Stanley, NYSE Euronext Foundation, US Bank, and Visa.

From 2010-2012, the Center for Financial Services Innovation selected thirteen cutting-edge projects to receive \$4 million total in grant support, from among 373 applications totaling more than \$107 million in requests.

To learn more, visit cfsinnovation.com/Financial-Capability-Innovation-Funds.

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