



Technical Briefs

*Federal Reserve Bank of Philadelphia
Community & Consumer Affairs Department*

Family Services Association Ways to Work Program

The McKnight Foundation in Minneapolis started a single-parent loan program in 1985 because of concerns that low-income women who headed households with children had limited opportunities for advancement. The program sought to help working-poor families in the Minneapolis-St. Paul area pay for unexpected expenses that would interfere with their ability to continue to work or pursue post-secondary education. The McKnight Foundation provided loan capital and administrative grants to enable five social-service agencies to implement the program, which was subsequently renamed the family loan program (FLP). In 1990, a nonprofit in Duluth, Minnesota, started an FLP that was co-administered with a local bank. In 1994, the nonprofit and five community action agencies made the FLP available in the entire state of Minnesota.

In 1996, Family Service America, Inc. (FSA), a national nonprofit association of family and child service agencies based in Milwaukee, started a pilot program to assist its member agencies in three cities to replicate the FLP. In 1998, FSA was renamed the Alliance for Children and Families, Inc. (ACF) and formed Ways to Work, Inc., a 501(c)(3) subsidiary that provides ACF member nonprofits with technical assistance in fundraising and program development, software, and matching low-interest loans to start local loan pools. ACF has steadily expanded replication of the FLP, which it renamed the Ways to Work (WTW) program, and is starting about eight to 12 new WTW sites each year. The McKnight Foundation has provided matching grants for loan capital to the first 20 ACF member agencies that started WTW programs.

In 1999, Ways to Work, Inc. was certified as a community development financial institution by the CDFI Fund. Ways to Work, Inc. has raised \$24 million in grants and loan funds from the Bank of America Community Development Corporation, U.S. Department of Transportation (DOT), CDFI Fund, the McKnight Foundation, the John S. and James L. Knight Foundation, and other sources. DOT grants totaling \$6.8 million have been approved for WTW programs in six states, including Pennsylvania.

WTW borrowers, including some making the transition from welfare to work, receive loans for up to two years at up to 8 percent interest primarily to buy or repair cars in order to maintain employment. At most ACF sites, one bank typically makes and services the loans, and the local nonprofit redeems any defaulted loans from a guarantee fund. Borrowers generally have impaired credit or no credit and receive intensive case management before and during the term of WTW loans.

Currently, 35 ACF member agencies operate WTW programs in 20 states. From 1996 to April 2002, the agencies made 2932 WTW loans totaling \$6,281,767, with a default rate of 14.1 percent of dollars lent. Of the loans, 88 percent were to buy cars.

Family Service Association, Inc. (FSA), a nonprofit in southern New Jersey that has 130 full-time equivalents and an \$8 million budget, started a WTW program in January 1999 with a loan pool of \$300,000 and operating funds of \$25,000. The loan pool was funded by a \$150,000 matching grant from the McKnight Foundation and other grants from 11 financial institutions, a utility, and a casino. Operating expenses were funded by many of the same banks that provided grants to the loan pool. The program, which serves a six-county primarily rural region, is operated by 2.5 full-time equivalents, including a loan coordinator and loan account specialist responsible for record-keeping and collections.

FSA's WTW loans are made in one of three ways: FSA makes and services the loans, banks provide lines of credit and FSA services the loans, or banks make and service the loans. All FSA/WTW loans have the same application and screening procedures and loan criteria. Typically, a prospective borrower calls FSA for information about WTW and completes an application. FSA's WTW loan coordinator meets with the client at a nearby FSA office where the loan coordinator and borrower jointly complete a budget. After a loan is made, the coordinator calls or meets with the borrower if the loan becomes delinquent or if the borrower encounters other financial difficulties.

Most of FSA's WTW applicants have been female heads of households, and 90 percent of the 72 loans have been used to buy a car. Applicants sometimes supplement FSA car loans with their own savings. Most applicants have needed credit repair and have obtained assistance from FSA's Consumer Credit Counseling Service of South Jersey (CCCSSJ).

To learn more about how to develop a program such as FSA's WTW program, please contact Keith Rolland, Community Development Advisor, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106; (215) 574-6569; e-mail: keith.rolland@phil.frb.org; web site: www.phil.frb.org/cca.

See program specifications on reverse side.

Use of Proceeds	FSA's WTW loans are made for car purchase or repair, job-related tools or machinery, and post-secondary education.
Loan Size	FSA's loan minimum is \$500; maximum is \$3000.
Product Type	Primarily car loans; personal loans may also be made for specific approved purposes. All of FSA's WTW loans are at 7 percent for a two-year term. No application, origination, or servicing fees are applied to the loans.
Risk Sharing and Collateral	Most of the FSA WTW loans made have been for car purchase. Borrower equity is not required on any of the loans. Both FSA and banks hold car title as collateral for their respective WTW loans.
Underwriting	FSA's WTW coordinator obtains a credit report, verifies income and employment, and presents the application to a loan committee. FSA has two loan committees, which serve different counties. The committees have representatives from banks and FSA. The Atlantic County Department of Family and Community Development is also represented on the committee serving that county. Most loans are made on the conditions that the borrower will meet with a CCCSSJ counselor and that he or she will implement a plan to pay outstanding debts.
Documentation	Approved car-purchase applicants must provide proof of car insurance, a signed agreement between the borrower and used-car dealer, and a signed checklist based on examination of the vehicle by a mechanic who is independent of the dealer. (FSA provides agreement and checklist to borrower.)
Applicant Requirements	Must be low-income resident of six-county region in southern New Jersey; be employed six months or longer with current employer and work at least 20 hours per week or be pursuing post-high-school education; be custodial parent of child 17 or younger; and have sufficient disposable income to make monthly payments. Bank turnaround letter is not required.
CRA Test	Financial institution participation has contributed to banks' meeting their lending, investment, or service tests. Institutions should ask their examiners for further information. The four federal bank regulatory agencies provided an interagency letter dated March 14, 1997, to Family Service America, Inc. on the CRA applicability of bank assistance to the FLP.
Program Performance	FSA made and serviced 58 loans totaling \$123,103 from inception in January 1999 to March 2002. Of these, 11 have been repaid. Four loans defaulted, representing 2.7 percent of dollars lent. FSA's 60-day delinquency rate of dollars lent was 9 percent as of March 2002. Two banks have also used lines of credit to make four loans totaling \$12,000. Of these, one has been repaid. One has defaulted, representing 5.8 percent of the dollars lent by the banks. In addition, three banks have made and serviced 10 loans totaling \$26,350. Of these, one has been repaid. Five loans have defaulted, representing 28 percent of the dollars lent by the banks.
Lenders	Eleven financial institutions have provided grants to FSA's WTW program. Five institutions have representatives on one or both of FSA's loan committees.
Marketing	FSA markets its WTW program through media coverage (including public-service announcements), local school districts, churches, human resource departments of nonprofit organizations and for-profit businesses, job fairs, and community events.
Program Information	To learn more about FSA's WTW program, contact Lolita S. Treadwell, Manager, Community Development, Family Service Association, 3073 English Creek Avenue, Egg Harbor Township, NJ 08234; (609) 569-0239, ext. 1182; fax: (609) 569-1802; fsac@worldnet.att.net; www.fsasj.org. To learn more about national WTW, contact Dan Magnuson, President, Ways to Work, Inc., 11700 West Lake Park Drive, Milwaukee, WI 53224; (414) 359-1040, ext. 3685; fax: (414) 359-1074; dmagnuson@alliance1.org; www.alliance1.org.

