

## OneCalifornia ▶ In the News

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by Anne Stuhldreher

### ▶ Traditional Lending Goes Mainstream

A whopping 44 percent of Mission District residents don't have low credit scores. They have NO credit scores. Without them, the only loans they can get are the loans no one wants - those with pricey interest rates and harsh terms. And if doors to affordable credit seemed closed to these consumers before the financial meltdown, they're slammed shut now.

Unless that is, you're friends with someone like Maria del Carmen Torres. In between serving up pupusas and plantain chips at local farmers' markets, she runs an informal lending circle with 12 friends. Every Saturday and Sunday, they stop by her Folsom Street apartment to drop off \$200 in cash. And on Mondays the whole pot - \$2,600 - goes to one person until everyone has their turn.

When the money comes to Torres, she uses it to pay her big expenses - bills and taxes. There's only one drawback. None of the payments Torres and her friends make into the lending circle is reported to credit bureaus. So they may have a long history of paying on time but their credit scores don't exist or, if they had bad credit in the past, don't improve.

Jose Quiñonez, executive director of the newly created Mission Asset Fund, wants to change that.

He's gotten Oakland's OneCalifornia Bank to be the nation's first financial institution to house payments from lending circles and pay out the pot. The bank will report what happens to credit bureaus as bona fide financial activity so participants can establish or improve their credit scores.

"A credit score is the passport to the financial services mainstream," said Jennifer Tescher, director of the Center for Financial Services Innovation. "What they're doing is truly pioneering."

Their efforts build on something that already works and recognizes how a lot of people manage to buy homes or start businesses - by working with others.

They're calling the lending circles *cestas*, which means baskets in Spanish. Lending circles go by different names and exist in every neighborhood with large immigrant populations. They can have as few as four people or as many as 30. An estimated 20 percent of Americans - 54 million people - lack credit files that can be scored, usually because they haven't made payments (typically on credit cards or loans) that are reported to credit bureaus. Not surprisingly, they tend to be lower income people. A low score or no score can mean you pay thousands of dollars more for your mortgage or car loan. Not having a credit score can also make it harder to get a job or rent an apartment because employers and landlords increasingly require them.

People who form *cestas* can have an account at any bank. On a designated date, OneCalifornia Bank will automatically withdraw the agreed upon amount from each *cesta* member's account. The withdrawals go into a master account owned by the Mission Asset Fund, which then directs OneCalifornia Bank to pay the pot out to the *cesta* member whose turn it is.

Any commercial bank can do this, says Jeffrey Cheung, president and CEO of OneCalifornia Bank. And that's exactly what the Mission Asset Fund is hoping for.

Quiñonez thinks the cestas could help banks expand the pool of creditworthy and small business customers.

The preliminary results are promising: After four months, the cesta women's scores have gone up about 50 points on average - from a mean credit score of 609 to 661. That means the women have generally moved from having "bad" credit (a score of 600-650, according to Credit.com) to having "fair" credit (a score of 650-700). Except for one cesta member, who is going through a foreclosure, they've reduced their debt by \$600 on average and are making all payments on time - into the cesta and for other obligations.

Some immigrants may want to stay in the shadows but Quiñonez bets that most are looking for ways to access mainstream financial services - still the surest route to building wealth, he explains. "That's the main reason they come here."

He hopes cestas will demystify credit scores. "People shouldn't think this is a number that comes down from on high but is something they understand and affect." It's too early to tell if this will move beyond a lone partnership between a community group and bank. Most banks chase after larger customers, explained Cheung. One California Bank is different because it has what Cheung calls a double-bottom line - to both be profitable and expand economic opportunity. And right now, financial institutions can barely extend credit to their higher-end customers. Also, every community doesn't have a group like the Mission Asset Fund, which has the trust of local residents and will assume the risk of being the cesta leader.

But Tescher thinks cestas can be a first step to figure out products that facilitate people working together.

Cesta participant Ingrid Orellana isn't going to wait for that. She got the 12 women in her group to let her put twice as much money into the cesta so she will get paid out twice as much and move her toward her goal of opening a fruit and vegetable stand off Geary Boulevard. "I'm tired of cleaning houses," she said.

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