FINANCIAL INDEPENDENCE

Empowering Chattanoogans

Abstract
A multi-faceted approach for Financial Independence is offered: preventive measures to increase early financial empowerment to decrease future demand of predatory loans, a viable alternative to the loans, and supportive programs to encourage long-term financial stability and well-being.

Chattanooga Mayor's Council for Women – March 21, 2017

Carol Berz - Chairwoman

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Summary

When the Financial Independence work group was formed, our primary goal was to review and propose viable alternatives to payday lending. We reviewed many research sources to look at the current state of financial well-being in our community, state, and the broader region. While much more discovery is needed, several factors came to our attention.

We know that in lenient states, such as Tennessee, the use of predatory loans (payday loans, title loans, pawn shop loans, check cashing businesses, etc.) is double the rate of use in states with more restrictive legislation. We also know that women are more likely to be the consumers of these loans than their male counterparts. We know that our region is at the center of a dire financial picture for many families.

The solution we offer is multi-faceted. We believe that a combination approach is needed. In the following pages, we have outlined a three-pronged approach: preventive measures to increase early financial empowerment and decrease future demand of these loans, a viable alternative to the loans, and supportive programs to encourage long-term financial stability and well-being.

We would also encourage state legislators to consider the actions taken by our neighbors in North Carolina and Georgia to ban the most egregious rates that are currently allowed under Tennessee law, and to allow traditional financial services institutions the ability to provide a broader range of services to reduce our 'unbanked' population.

Current State of Financial Independence

In 2015, the United States poverty rate was 13.5%. This rate equates to 43.1 million Americans living beneath the poverty threshold.[1] Varying demographics are represented among these citizens, and the impact on these citizens varies as well. Along the lines of gender, 12.2% of men were impoverished compared to 14.8% of women. Single-parent households echo the same gender disparities. The poverty rate for families headed by a man without a wife was 14.9% while the poverty rate for families headed by a female without a husband was 28.2%.[2]

Poverty varies by characteristics other than gender, as well. Regionally, the South has historically had the highest rate of poverty. The southern region of the United States had a poverty rate of 16.5% in 2014 – a rate that equates to more than 19.5 million people.[3] In the state of Tennessee, an estimated 18.2% of its

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[1] http://www.census.gov/library/publications/2016/demo/p60-256.html

[2] http://www.povertyusa.org/the-state-of-poverty/poverty-facts/

[3] http://www.irp.wisc.edu/faqs/faq3.htm (region)

residents were impoverished. In Hamilton County, an estimated 15.9% of its residents were impoverished.[4]

There are many reasons why Americans find themselves living in poverty. Among those reasons are job loss, medical and other unexpected expenses, and divorce/separation. These reasons, along with poor or excess use of credit, comprise the top five reasons individuals file some form of bankruptcy.[5]

The Administrative Office of the U.S. Courts reports there were 818,783 filings of all chapters of bankruptcy in fiscal year 2015. Chapters 7 and 13 are most often filed by individuals. While the overall numbers of those cases are on the decline from 2010-2015, Chapter 13 filings are on the rise at 34% in 2015 compared to 31% in 2014. Chapter 7 filings decreased from 68% to 65% of those totals in 2014 and 2015, respectively.[6]

Currently, the top three states holding the highest rates of personal bankruptcy filings are found in the southern United States. Tennessee leads the states with a filing rate of 610 cases per 100,000 people. Georgia and Alabama, both bordering Tennessee and minutes from Chattanooga, Tennessee, follow with the next highest rates of 524 and 519, respectively.[7]

Rates of poverty and bankruptcies are certainly presenting challenges to achieving financial independence for our communities, and in the 1990s, another challenge began to grow – payday lending. From storefront providers to online lenders and banks that offer deposit advance loans, this alternative form of lending has become a resource to meet short-term financial needs. However, the already burdened borrower is often unable to repay the loan when due. Renewals are obtained and fees are assessed that turn this temporary solution into a long-term problem that is difficult to overcome and prolongs the achievement of financial independence.

Approximately 12 million Americans use payday loans per research conducted by Pew Charitable Trusts. It is reported that 5.5% of all Americans have utilized a payday loan with the most common borrower being a female and white. Fifty-two percent of borrowers are between the ages of 25 to 44; 58% are renters; 85% do not have a college degree; and, 72% reside in a household with less than $40,000 in income. These characteristics are also common to our most impoverished citizens.

It has been found that the majority of borrowers use payday lending for recurring, rather than unexpected, expenses. However, the cost and frequency of payday loans present further challenges to those already having difficulty meeting everyday expenses. The average number of loans per borrower is eight per year. The average loan amount is $375 each with an average interest total of $520 annually. Average fees per loan vary depending on the fees permitted by the state with ranges being seen from $55 to $100. It is possible to see these ranges for a loan for the same amount from the same company based on the state of loan origination.

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[4] http://www.census.gov/did/www/saipe/data/interactive/saipe.html?s_appName=saipe&map_yearSelector=2014&map_geoSelector=aa_c&s_measures=aa_snc&s_county=47065&s_state=47

[5] http://www.investopedia.com/financial-edge/0310/top-5-reasons-people-go-bankrupt.aspx

[6] https://www.justice.gov/ust/annual-reports-significant-accomplishments

[7] http://www.worldatlas.com/articles/highest-personal-bankruptcy-rates-in-the-us-by-state.html

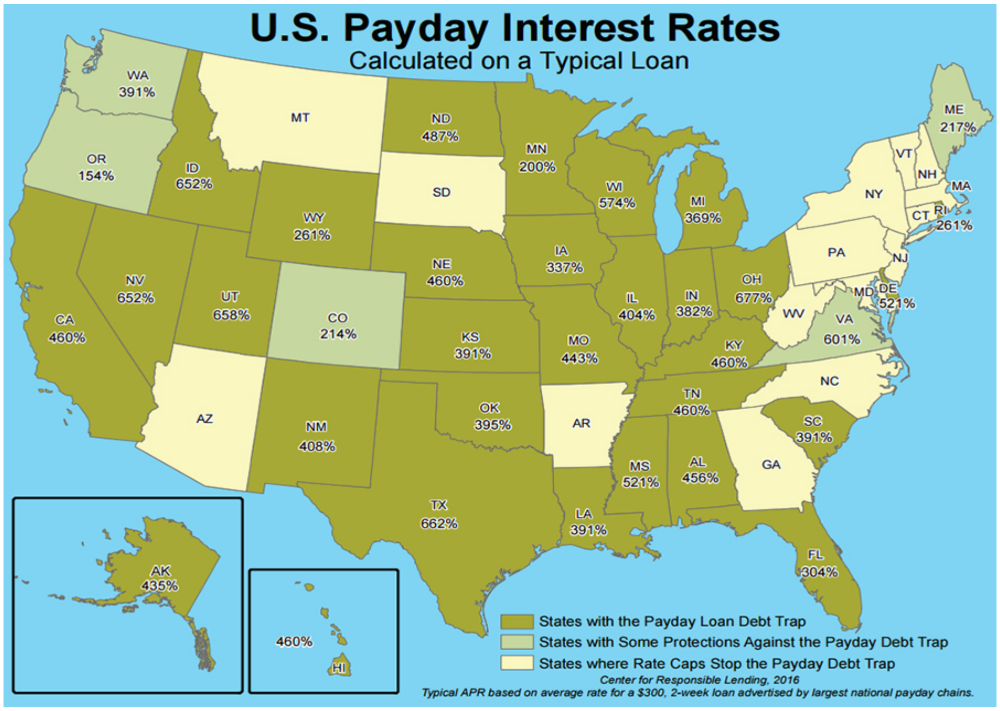
Another variance among states is the amount of regulation on this form of lending. There are three state law types: permissive, hybrid, and restrictive. Permissive states have the least amount of regulation. Initial fees of 15% or higher of the borrowed amount may be charged. An Annual Percentage Rate (APR) ranging from 391% to 521% is the usual range. A hybrid state allows fees and even triple-digit APRs, but caps on fees, the number of loans per borrower, or an increase in the number of pay periods for loan repayment may be implemented. A restrictive state either does not permit payday lending or establishes APR caps that have served to decrease the presence of payday lending institutions in these states.

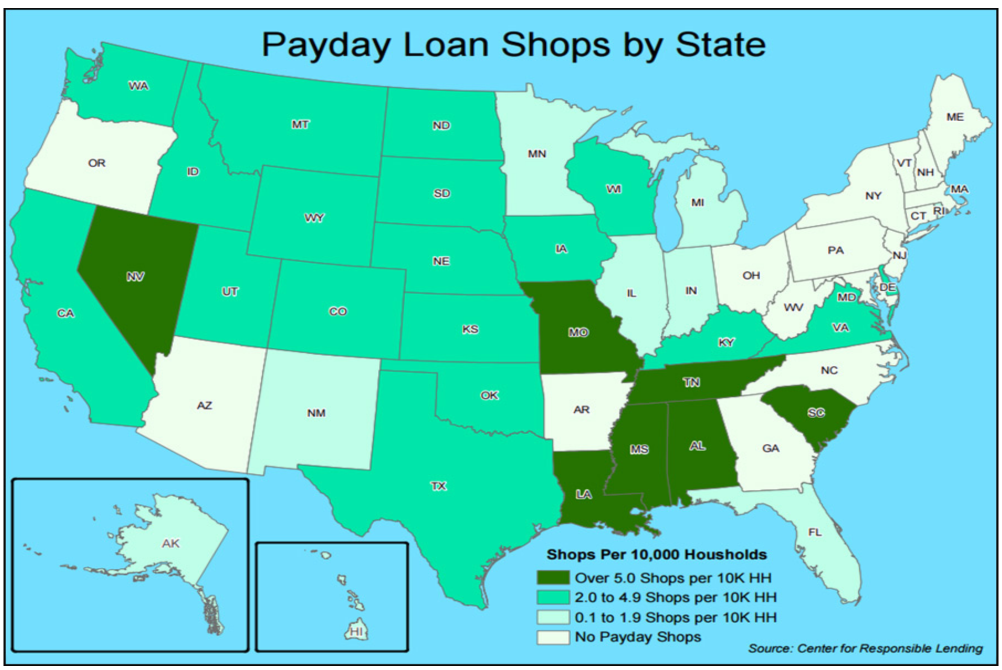
Tennessee is one of the 28 permissive states in the US. While online lending is an option for borrowers in restrictive states, only 2.9% of adults report usage in these states. Hybrid states see a rate of 6.3% usage. Permissive states see the highest amount of usage at 6.6 %, and therefore, the highest amount of challenges to financial independence from this resource.

Location, impact, and trends of predatory lending

A University of Tennessee at Chattanooga Solution Scholars class researched predatory lending in Chattanooga and alternatives that are being used in other communities. They offered an industry and regional overview, consumer demographics, community map overlay, alternative models, and suggested best practices and partnerships.

They found that the southeast accounts for 28.6% of payday lending establishments in the country. The southeast has a large consumer base, but disposable income levels for consumers in the region are lower than for the country as a whole. Tennessee has one of the highest per capita payday lending store-to-household ratios in the nation.





The ratio of lending store-to-households in 2014 in Chattanooga is **1:1,519** (46 stores to 69,890 Households)[8]

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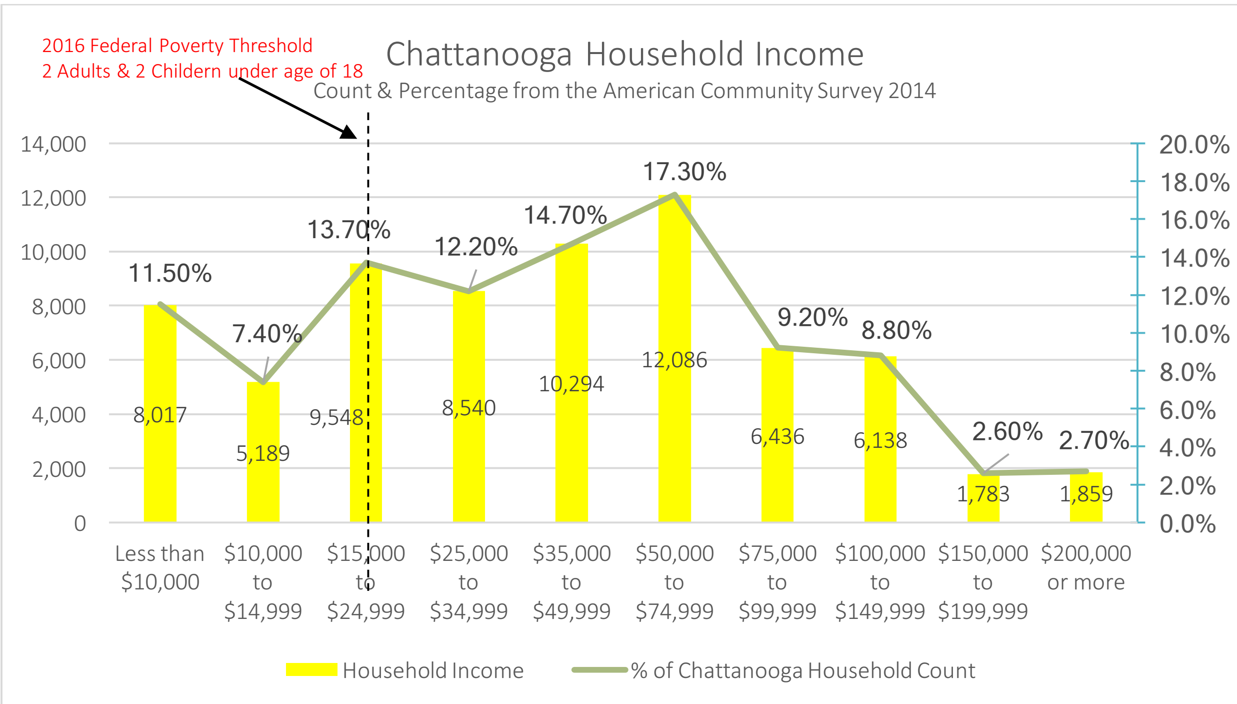
[8] https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=CF

During their research, they also discovered that the Median Income per household in Chattanooga is $39,683, while this is above the Federal Poverty Threshold[9], this can be a misleading indicator as it is the midpoint of the income scale and does not consider the extreme outliers at each end of the income spectrum. The Per Capita Income (average) in Chattanooga in 2014 was $24,134, almost the same as the state average of $24,811, but was lower than the national average of $28,555[10].

Using the Per Capita Income measure and data obtained from the 2014 American Community Survey, the number of households within each household income band was charted. 32.6% of Chattanooga households earned less than the two adults with two children under the age of 18 federal thresholds for poverty.



Their research sources were largely consistent with other payday lending reports, such as the 2012 Pew Charitable Trust Report, *Payday Lending in America: Who Borrows, Where They Borrow, and Why*. While the largest single percentage of payday loan borrowers are low to moderate income, there is a broad segment of borrowers that do not fit the stereotypical model. According to the *2015 IBIS World Report for Payday Lending Industry*, more than six percent of payday borrowers have income levels between $75,000 and $100,000.

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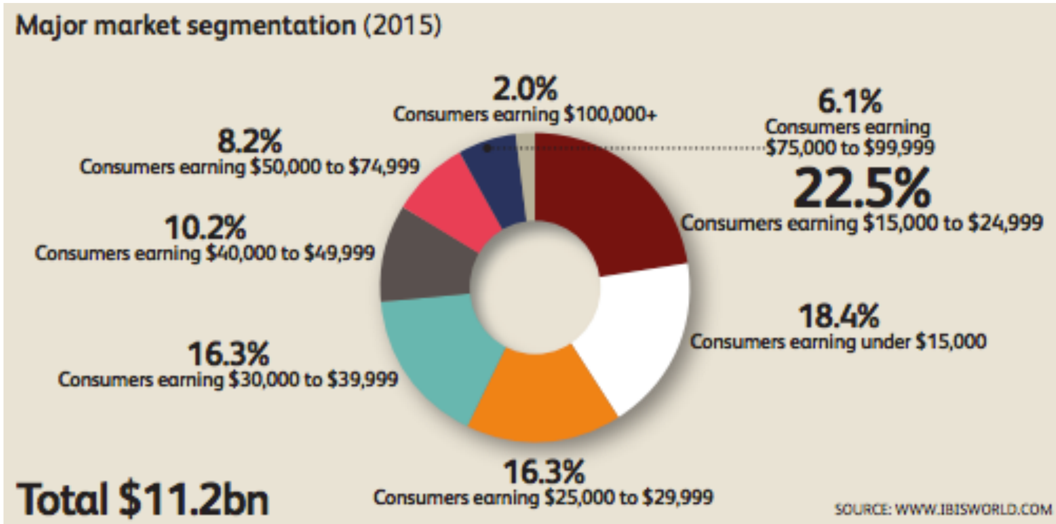
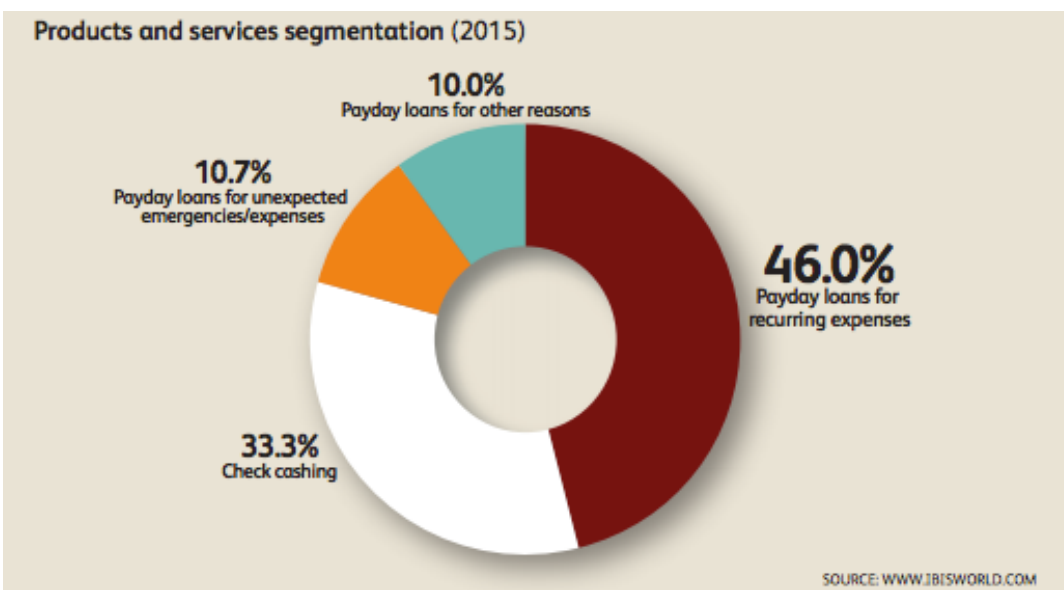
[9] https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html
[10] http://www.usa.com/chattanooga-tn-income-and-careers.htm



(IBIS World Report for Payday Lending Industry)

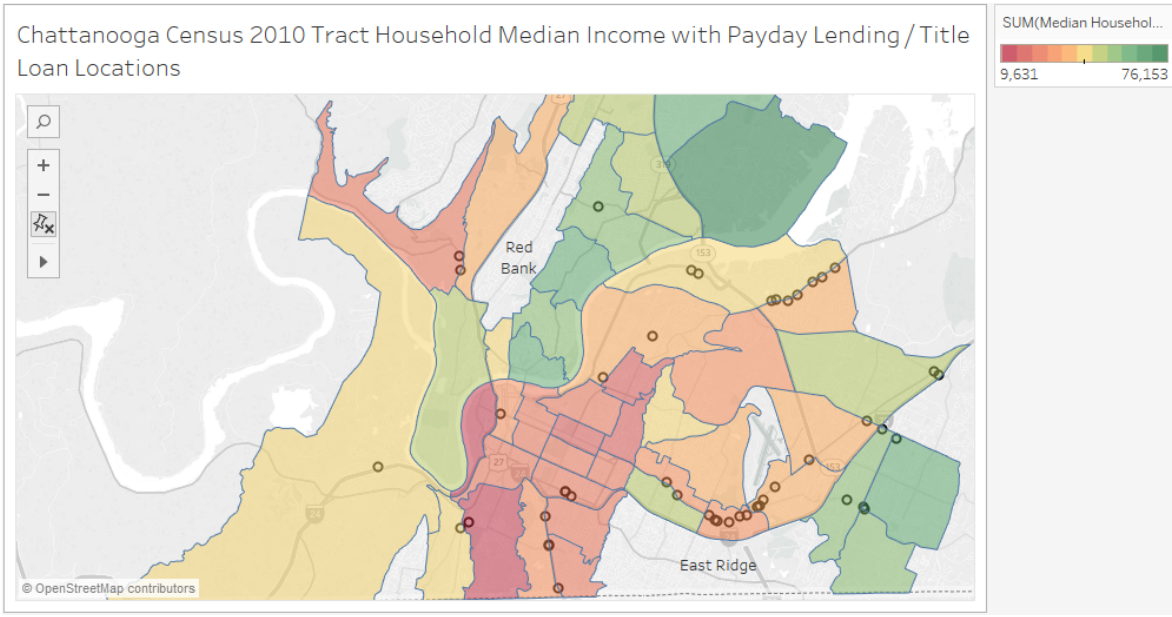
Comparing the market segment breakdown of consumer income to the household income of Chattanoogans, we can ascertain that 59.5% of Chattanooga households make an income of $50,000 or less, which correlates to 83.7% of the general market segment of payday loan borrowers. Quick, general calculations tell us that ~34,809 (49.8% of total households regardless of income) Chattanooga households with $50,000 income level or lower fall into the segment of households that use predatory lending.

Additionally, both reports identify recurring living expenses as a key driver for borrowing. The Pew report show 53% of first borrowers identifying regular expenses as the reason for their first payday loan, while The IBIS report cites that percentage at 46%.

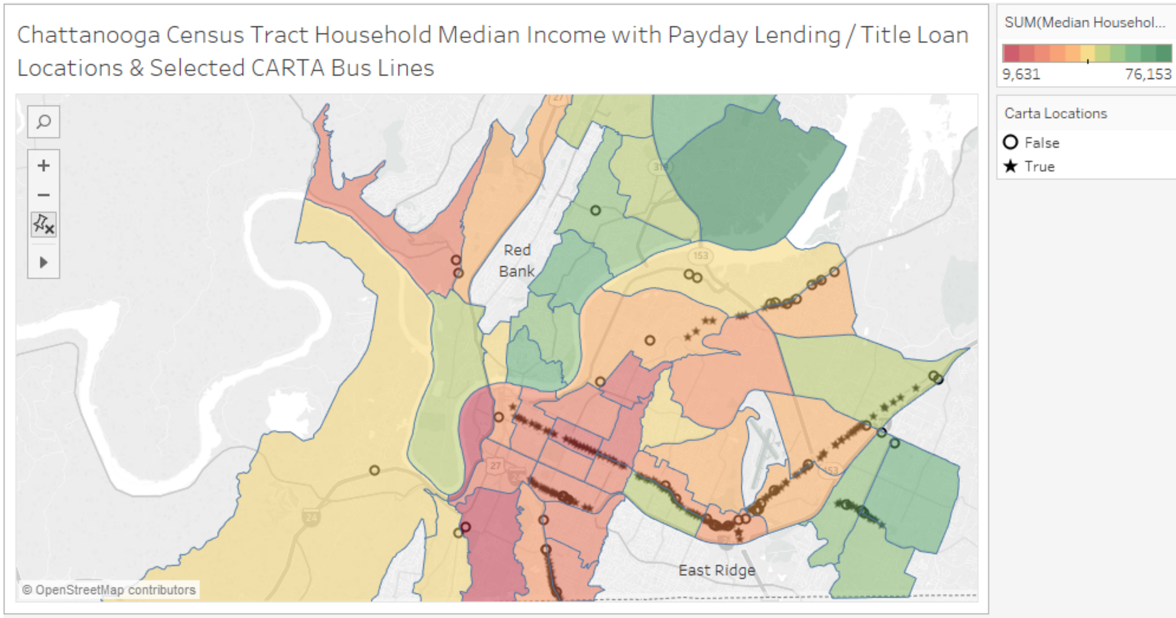


(IBIS World Report for Payday Lending Industry)

Locations



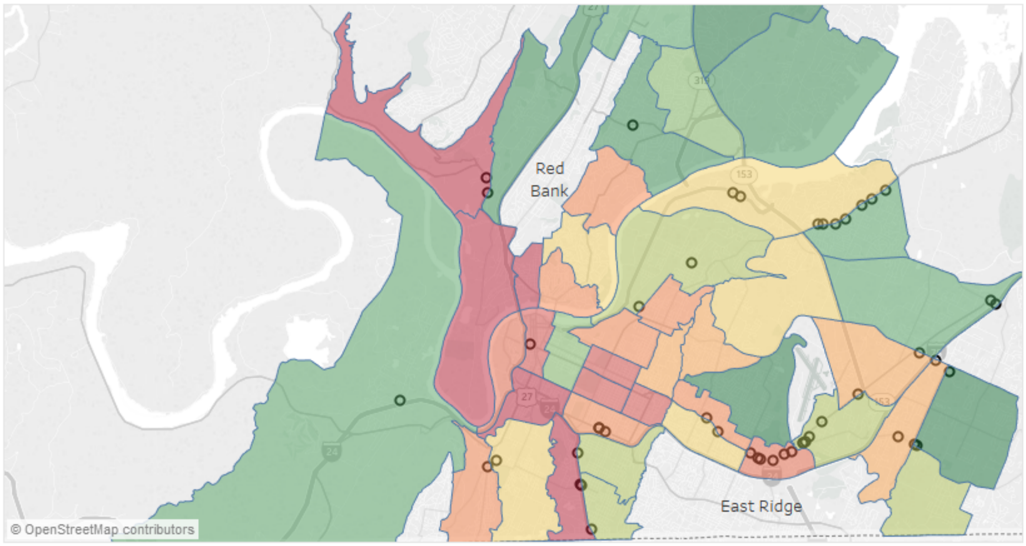
Using 2010 census data and Reference.gov to locate the locations of payday lenders in the Chattanooga area, they created a map showing Median Household Income by Census Tract and payday lenders (circles) as well. The map shows that payday lending locations are in areas where the median household income is lower than the midpoint of $42,892 (gold colored areas in at the midpoint. Returning to the fact that 83.7% of payday lending borrowers make less than $50,000 per year, the location of the lenders takes advantage of the surrounding areas lower income.



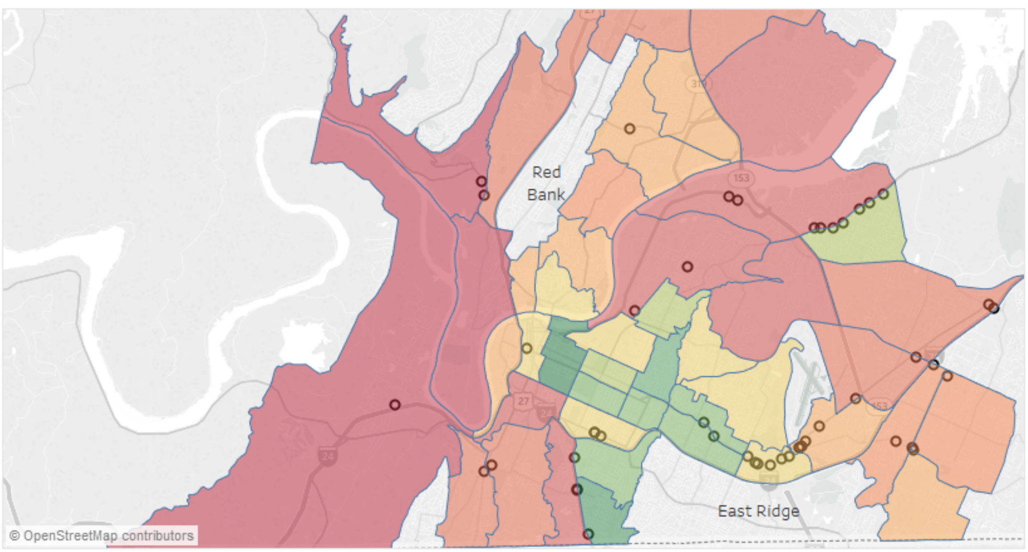
Examining the locations of payday lenders led them to consider public transportation routes and how they correlated to the locations of the payday lenders. Mapping the location of CARTA bus stops (stars on map) and laying that atop the payday lending location map it was found that many of the payday lending locations are along CARTA lines. Referencing the market segmentation data from IBIS World, 40.9% of payday lender borrowers have an income under $25,000. While anecdotal, this segment might be the most likely to not have access to reliable transportation and might rely on public transportation. Four major CARTA routes were identified where payday lenders were located, Brainerd Road, Highway 58, 23rd Street, and Rossville Boulevard.

After looking at the locations and public transportation, they looked at the total population by census tract and the population density per square mile (see below). There is a definite correlation between higher population density and lower median household income. Most of the payday lending locations in Chattanooga are in higher density areas, which in turns means they are in the lower socioeconomic areas as well.

Chattanooga Census Tract 2010 Total Population with Payday Lending / Title Loan Locations



Chattanooga Census Tract 2010 Population Density with Payday Lending / Title Loan Locations



Legislative Action in other States

In 2012, the Pew Research Center completed its Safe Small Dollar Loan Research Project. This project included a review of all 50 states' payday lending statutes and classification of each into the categories of restrictive, permission, and hybrid. These definitions from the project are found below:

- **Restrictive states** either do not permit payday lending or have price caps low enough to eliminate payday lending in the state. This rate cap is often 36 percent Annual Percentage Rate (APR). Generally, payday loan storefronts are not found in these states. This category includes states where deferred presentment transactions (post-dated checks) are not authorized, are not specifically exempted from general state laws on usury, or are explicitly prohibited by state statute. Twenty-nine percent of Americans live in the **14 states and the District of Columbia that have a Restrictive payday loan regulatory structure**.
- **Hybrid states** have relatively more exacting requirements, with at least one of the following three forms of regulation: (1) rate caps, usually around 10 percent of the borrowed principal, which are lower than most states but still permit loans to be issued with triple-digit APRs; (2) restrictions on the number of loans per borrower, such as a maximum of eight loans per borrower per year; or (3) allowing borrowers multiple pay periods to repay loans. Storefronts that offer payday loans exist in substantial numbers in these states, though the market may be more consolidated and per-store loan volume may be higher here than in less restrictive states. Sixteen percent of Americans live in the **eight Hybrid states**.
- **Permissive states** are the least regulated and allow initial fees of 15 percent of the borrowed principal or higher. Most of these states have some regulations, but allow for payday loans due in full on a borrower's next payday with APRs usually in the range of 391 to 521 percent ($15 to $20 per $100 borrowed for a two-week loan). Payday loan storefronts are readily available to borrowers located in these states. Most Americans—55 percent—live in the **28 Permissive states**.[11]

Pew's categorization provides summarized evidence as to the range of policy approaches states can take to regulate and restrict payday lending. Some states, like neighboring Georgia and North Carolina (restricted), have prohibited payday lenders from physically operating in their states. Other states, like Virginia (hybrid), have placed only limited restrictions on the lenders. Finally, most of the country's states are like Tennessee (permission) with very little, if any, regulation enacted to protect consumers.

For Tennessee legislators, the key takeaway from Pew's analysis may be that there are many opportunities to regulate payday lending in a manner that better protects consumers and maintains it as a credit "choice," a reason often cited for its existence. A list of these regulatory approaches is included below (listed in order of most restrictive to most permissive):

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[11] http://www.pewtrusts.org/en/multimedia/data-visualizations/2014/~/media/data%20visualizations/interactives/2014/state%20payday%20loan%20regulation%20and%20usage%20rates/report/state_payday_loan_regulation_and_usage_rates.pdf

- Prohibit payday lending
- Cap interest rates at 36% or less
- Prohibit post-date check use
- Payback period extension
- Cap interest rates based on a percentage of the loan
- Restrictions on number of loans or loan frequency
- Fee limitations
- Limit the duration of post-date check use

Before reviewing how three southeastern states choose to limit payday lending in their states, it is important to note that the federal government uniquely protects one group of Americans – Active US Military – from high-interest payday loans.

The Military Lending Act of 2006 (John Warner National Defense Authorization Act) capped interest rates at 36% for payday loans, vehicle title loans, and deposit advance products. The Act was extended in 2015 to include more types of consumer credit (effective October 3, 2016), including credit cards[12]. This means that for active members of the US military the following payday lending restrictions are in place:

> A 36% interest cap, which includes the following costs in calculating the interest rate (with some exceptions): finance charges; credit insurance premiums or fees; add-on products sold in connection with the credit; and other fees like application or participation fees, with some exceptions.[13]

The Military Lending Act itself was an encouraging development as it set a more reasonable interest rate for a sizable segment of the population (estimated to be more than 5 million individuals[14]) that may face frequent short term credit needs, inherently acknowledging the potentially predatory nature of more aggressive rates. The Act's expansion provides even greater protection to this consumer segment.

There are also federal efforts to afford consumer protection from aggressive payday lending interest rates to all Americans. After the Dodd-Frank Wall Street Reform and Consumer Protection Act granted payday lending oversight authority to the Consumer Financial Protection Bureau (CFPB) in 2010, the CFPB proposed a rule in June 2016 that would cap interest rates at 36% for all loans.

However, the fate of the proposed rule, for which the public comment period closed on October 7, 2016,[15] remains in limbo in part because the comments have not been addressed and the rule revised as necessary but moreover because the Trump administration threatened to weaken the Dodd-Frank Act.

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[12] https://www.consumerfinance.gov/askcfpb/1785/what-types-loans-are-covered-under-military-lending-act.html; https://www.federalreserve.gov/bankinforeg/caletters/Attachment_CA_Letter_16-6_MLA_Exam_Procedures.pdf; https://www.fdic.gov/news/news/financial/2007/fil07083.html; https://www.fdic.gov/news/news/financial/2015/fil15037.html

[13] https://www.consumerfinance.gov/askcfpb/1783/what-are-my-rights-under-military-lending-act.html

[14] https://library.nclc.org/military-lending-act-dramatically-expands-coverage-oct-3-2016

[15] https://www.consumerfinance.gov/policy-compliance/rulemaking/rules-under-development/notice-proposed-rulemaking-payday-vehicle-title-and-certain-high-cost-installment-loans/

Regardless of the future the CFPB or its proposed rule, it is clear that payday lending restrictions are necessary to protect consumers. Many states have long acknowledged this need and taken legislative action to ensure their states' citizens are protected. The following section provides simplified case studies of alternative approaches to protecting residents from predatory lending practices, all undertaken by southeastern states that share a border with Tennessee.

Georgia

Uniquely, Georgia first prohibited payday loans via a 1955 law, the Georgia Industrial Loan Act. However, enforcement of the Act was lax and payday lenders operated within the state. After recognizing the problem payday lending presents, four State senators sponsored the Payday Lending Act of 2004, which made payday lending a criminal offense.[16] The Act would go on to weather numerous lawsuits from lenders and payday lending continues to be prohibited in Georgia.

Georgia's Act had sponsors from both the Republican and Democratic parties (Senator Don Cheeks [R], District 23, Senator Casey Cagle [R], District 49; Senator Bill Stephens [R], District 51; Senator Terrell Star [D], District 44) and received bipartisan support in its passage. It was signed into effect by Governor Sonny Perdue [R] in 2004.[17]

Georgia's state government website describes the payday lending laws as follows: "The Georgia Industrial Loan Act of 1955 essentially made payday lending illegal by requiring state licensing and registration and by imposing strict usury limits on small loans. In 2004, the Georgia General Assembly increased the fines and criminal penalties for people making small loans at illegal rates of interest. The law went into effect in May 2004, and has survived challenges in federal court. Referred to as the Payday Lending Act of 2004, this law authorizes misdemeanor charges against violators, as well as fines of up to $5,000 per violation and a possible jail sentence of 1 year."[18]

North Carolina

Like Georgia, North Carolina prohibits payday lending. However, the State's approach to arriving at increased protection for North Carolina's consumers was different. After enacting a law that permitted payday loans in 1997, the North Carolina legislature allowed the North Carolina Check Cashing Act to expire 2001, choosing to no longer permit these laws in the State. The paragraphs below, from a UNC Law and North Carolina Banking Institute paper - *Payday Lending in North Carolina: Now You See It, Now You Don't* – succinctly explains North Carolina's path to payday lending prohibition.[19]

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[16] http://www.responsiblelending.org/payday-lending/policy-legislation/states/pa-GeorgiaPayday-0606.pdf
[17] http://www.legis.ga.gov/legislation/en-US/display/20032004/SB/157
[18] http://www.consumer.ga.gov/consumer-topics/payday-loans
[19] http://scholarship.law.unc.edu/cgi/viewcontent.cgi?article=1224&context=ncbi

> Prior to October 1, 1997, North Carolina law did not expressly permit the making of payday loans. During this period, all short-term loans were subject to the North Carolina Finance Act and North Carolina's usury laws. On October 1, 1997, the North Carolina General Assembly passed the North Carolina Check Cashing Act (NCCCA). This Act permitted payday loans in North Carolina but required that they be no more than $300 including fees, contain a maturity date not more than thirty-one days after the loan was issued, and required that the total fees not exceed 15% of the face value of the check. Furthermore, the NCCCA required that all payday lenders be licensed by the state of North Carolina as check cashers. The NCCCA contained a "sunset date" of July 31, 2001. The North Carolina General assembly extended this date until August 31, 2001; however, the NCCCA was allowed to expire on August 31, 2001.
>
> During this four-year "experiment ' with payday lending, payday lenders operated under the "standard business model." Under the standard business model, payday lenders were properly licensed, used their own funds to loan money, and acted in accord with the regulations set forth in the North Carolina Check Cashing Act. The expiration, on August 31, 2001, of the NCCCA did not put an end to the payday lending industry in North Carolina.

After the NCCCA expired, North Carolina continued to face challenges with payday lenders operating outside of standard business models. A 2003 court ruling put an end to an alternative model that saw the lender purchase property from the borrower and then lease it back to him or her in exchange for a loan. In 2005, the North Carolina Commissioner of Banks prohibited the rent-a-charter or agency models for payday lending that proliferated in North Carolina following the NCCCA's expiration.

Virginia

Virginia permits payday loans. However, in 2008, the state added restrictions to increase consumer protection. The Virginia Payday Loan Act of 2008, which was an updated version of a 2002 law, includes the following provisions[20]:

- One Payday Loan at a time per borrower
- Database established to track and determine eligibility for payday loans
- Longer repayment term for payday loans. The due date for a Virginia payday loan from a licensee will now be based on two times your pay cycle. Thus, if you get paid once a week, you will have two weeks to repay the loan.
- Change in fees, charges & interest:
    - Interest – a maximum simple annual rate of up to 36%
    - Loan Fee – up to 20% of the amount of the loan (maximum of $100 loan fee on a $500 loan)
    - Verification Fee – up to $5.00 (database fee)

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[20] https://www.scc.virginia.gov/bfi/files/10vac5_200_notice.pdf; https://www.scc.virginia.gov/bfi/files/pay_guide.pdf

- Payday loan shall not be made on the same day one is paid in full
- Extended Payment Plan may be available on payday loans obtained after January 1, 2009.
- Extended Term Loan may be available on a 5th payday loan in a 180-day period obtained after January 1, 2009.

The Virginia Payday Loan Act of 2008 was sponsored by 14 Patrons from both the Republican (9 Patrons) and Democratic (5 Patrons) parties, with Delegate G. Glenn Oder [R], House District 94, as the Chief Patron.[21]

Existing Community Resources

The Financial Independence workgroup reached out to nonprofit organizations who offer some form of financial literacy, whether it is preventive or a support service. With 28 responses, the group learned that there is a gap in services for payday lending alternatives. The survey respondents identified additional gaps including: inequality in gender pay, availability of micro-lending, particularly to women, minorities and non-English speakers, lack of jobs and workforce development, predatory lending regulations, payday and title loan alternatives.

There are several current community providers of different aspects of financial independence resources. Their missions and target audiences are vastly different, but there is an existing network of resources both on the preventive and supportive resource targets.

There are very few viable alternatives to predatory lending. There are two listed below – both of which are part of a Credit Union programs.

This is not an exhaustive list.

Preventive Resources

A Step Ahead Chattanooga

Bank On Scenic City

Boys & Girls Club of Chattanooga

BrightBridge

Catholic Charities of East Tennessee

Change Your $tory

Chattanooga Area Chamber of Commerce

[21] https://lis.virginia.gov/cgi-bin/legp604.exe?081+mbr+HB12

Chattanooga Neighborhood Enterprise (CNE)

Chattanooga Room in the Inn

Common Cents Financial Literacy

Consumer Credit Counseling Services (CCCS) – Partnership for Families, Children, and Adults

Family Promise Greater Chattanooga

Girls, Inc.

Neighborhood University (at the Family Justice Center)

Northside Neighborhood House

Operation HOPE

Prosperity Unlimited

Southeast Tennessee Area Agency on Aging and Disability (SETAAAD)

Southeast Tennessee Development District (SETDD)

The Caring Place

The Chalmers Center

University of Tennessee Extension

UTC Financial Wellness Center

Support Services

Bethany Christian Services

Breast Cancer Support Services

BrightBridge

BrightBridge Women's Center

Catholic Charities of East Tennessee

Change Your $tory

Chattanooga Area Food Bank

Chattanooga Human Services

Chattanooga Neighborhood Enterprise (CNE)

Chattanooga Room in the Inn

Children's Advocacy Center of Hamilton County

Consumer Credit Counseling Services (CCCS)

Faith & Finances - The Chalmers Center

Family Promise Greater Chattanooga

Goodwill

green|spaces - Empower Chattanooga

Habitat for Humanity of Greater Chattanooga

Homeless Coalition

La Paz Chattanooga

Metropolitan Ministries

Momentum Network

Northside Neighborhood House

Operation HOPE

Prosperity Unlimited

Salvation Army

Southeast Tennessee Area Agency on Aging and Disability (SETAAAD)

Southeast Tennessee Development District (SETDD)

The Caring Place

United Way of Greater Chattanooga - 211 Support Service Centers

University of Tennessee Extension

Urban League of Greater Chattanooga

We would encourage the City to create opportunities for more communication among these preventive and support service providers. Coordination and meaningful interaction would benefit both the service providers and their clients. While the 211 system is a good start, we would like to see expanded hours and coordination of the referrals made through the system.

Loan Alternatives

BlueCross BlueShield of Tennessee

Tennessee Valley Federal Credit Union

While these credit unions offer lending alternatives, their reach is limited and by admission the programs are not widely marketed.

Proposed Goals/Outcomes

1. Reduce the number in Chattanooga using high interest loans

   Our goal is to reduce predatory lending usage in Chattanooga to three percent or below through a combination of strategies: preventive education to stem the demand for future predatory lending usage, making alternatives to predatory loans more available, and leveraging a community network to provide ongoing support to prevent recurring usage of predatory lending.

2. Increase the number of individuals that have access to traditional financial services.

   Chattanooga is a participant in the "Bank On" program. Several local financial institutions are participating in the continued growth of this program.

   Bank on Scenic City

   Bank On coalitions are locally-led partnerships between local public officials; city, state, and federal government agencies; financial institutions; and community organizations that work together to help improve the financial stability of unbanked and underbanked individuals and families in their communities. The Bank On national initiative builds on a grassroots movement of dozens of coalitions in cities across the country; these first-generation banking access programs have already connected tens of thousands of people to safe and affordable accounts. In addition to connecting unbanked individuals to accounts, Bank On programs raise public awareness, target outreach to the unbanked, and expand access to financial education.

3. Create path for Tennessee to reduce and/or limit predatory lenders through legislative action, informed by action in other states, as listed previously in this report. Support the efforts to cap the interest rates at the level set by the Military Lending Act.

4. Encourage Tennessee to create opportunities for traditional lenders to offer a broader product mix, allowing more loan alternatives to more borrowers.

5. Funding support will be crucial in the early years of building a viable long term solution. We would encourage the City to support public-private partnerships in their review of viable alternatives. We would also support the creation of a community based task force to create synergy between existing resources and initiatives such as Chattanooga 2.0, Chattanooga Chamber of Commerce, and the existing resources listed in previous sections.

Proposed Lending Alternative

This team has reviewed several community solutions from across the country. After careful review, we are recommending that Chattanooga create a program modeled from Brownsville, Texas.

This program is made possible through agreements between a Community Development Financial Institution (CDFI), and local employers. Here in Chattanooga, our local CDFI is Chattanooga Neighborhood Enterprise (CNE). They have had representatives participate in this Financial Independence team and have added this alternative to their organization's strategic plan.

Here is a summary of the program, as highlighted on the Community Economic Development Association of Michigan[22]:

> If low-to-moderate residents need "quick cash," why not beat predatory lenders at their own game? TACDC and Citi Community Development researched alternatives to payday lending that could be brought to scale. They found one program at a local CDC in Brownsville, Texas, adapted it, used startup funds from Citi and piloted the **Community Loan Center Small Dollar Loan Program.**
>
> It's a market-based approach. There is no storefront. It's an employer-based loan to workers. They are fairly priced small-dollar loans with reasonable terms. It will offer direct competition to high cost lenders. It's nonprofit driven; that's the key component.
>
> These small loans work as follows: Texas Community Capital, a nonprofit loan fund TACDC started 10 years ago, operates the program and distributes the copyrighted loan software. TACDC then recruits local nonprofits to participate in the program. Each nonprofit is in charge of loan origination, processing and servicing. The nonprofits recruit local companies to participate in the program. Participating employers offer small loans to employees via payroll deduction, which is all done through computer software. Employees can apply online.
>
> Loan terms:
>
> - Max $1,000 loan (or up to ½ of borrower's monthly gross pay)
> - One year loan term, with no prepayment penalty
> - 18% interest
> - $20 origination fee
> - Repayments are $23/week or $94/month
> - May only take out one loan at a time
> - Can't refinance until six months later

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[22] http://cedam.info/2014/12/payday/

> No credit history is required, approvals are quick, there is no collateral and the loan money is placed directly into the employee's bank account usually within 24 hours. Free financial counseling is available to anyone taking a loan through the program.

While this program has been a success, it is still limited by being dependent upon employer participation. It is a viable alternative that can be licensed and implemented through the Brownsville group. We see this as an important step on the path to creating a more financially independent community, not an end state goal.

Community Wellbeing

Upon review of the data above, it is clear to see the need for more expansive lending alternatives, and for the City of Chattanooga and the State of Tennessee to act to improve our financial wellbeing as a community[23],[24]. There are many 'spot remedies' with very few complete solutions to our current state of financial instability.

There is a correlation between financial arguments among family members and divorce[25]. If we want strong families, we want them to be financially stable. If we want a thriving business development environment, we want more financial independence. If we want more a loyal, productive, and engaged workforce, we want more financial independence[26].

We cannot afford for our current trends to continue. Financial independence and well-being are about far more than dollars. It is about the creating an opportunity for families and our community to thrive!

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[23] http://info.healthways.com/hubfs/Gallup-Healthways%20State%20of%20American%20Well-Being_2016%20Community%20Rankings%20vFINAL.pdf?t=1488863538439

[24] http://info.healthways.com/hubfs/Well-Being_Index/2014_Data/Gallup-Healthways_State_of_American_Well-Being_2014_Financial_Rankings.pdf?t=1488863538439

[25] http://www.k-state.edu/media/newsreleases/jul13/predictingdivorce71113.html

[26] https://www.consumerfinance.gov/data-research/research-reports/financial-wellness-at-work/

Workgroup Membership

Domina Alford

Jennifer Harper

Dawn Hjelseth

Jennifer Holder

Tracee Smith

With Special Thanks to:

The University of Tennessee at Chattanooga Solution Scholars class of Fall 2016

Liza Soydan of Visionario

Nelson Gosnell