FEDERAL RESERVE BANK
OF SAN FRANCISCO

Community Investments Vol. 11, Issue 1
Technology and Targeted Loan Products

Author(s): Alan Fisher, Executive Director, California Reinvestment Committee and Lucio Reyes, Secretary-Treasurer of Teamsters Union Local 601

Winter/Spring 1999

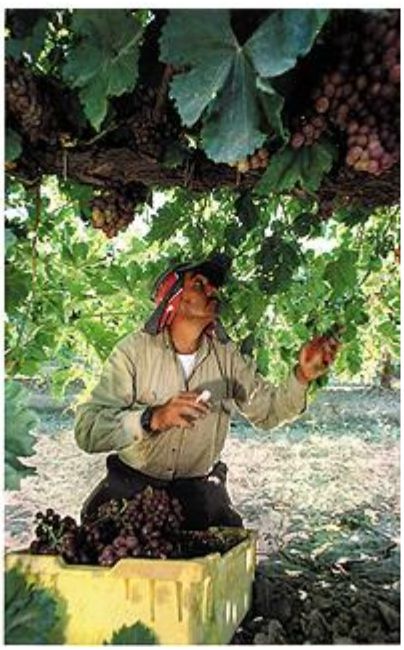

Photo by: Carlos Gonzalez, San Francisco Chronicle

We live in a time when the use of advanced technology is replacing human interaction in a number of service industries, including banking. ATMs are replacing tellers, electronic banking is supplanting branches, and automated phone lines are replacing customer service representatives.

The high-tech vs. high-touch approach to banking continues to be debated, but the fact is, technology is being increasingly used by financial institutions.

The critical issue is whether banks use technology only for purposes of cost-cutting and the development of massive, generic loan products, or whether they creatively use technology to expand access to credit for everyone. We know that technology is being used to target market niches in middle- and upper-class neighborhoods. Products can also be designed to meet the unique needs of traditionally underserved markets.

Bank regulations such as the Community Reinvestment Act, Equal Credit Opportunity Act and the Home Mortgage Disclosure Act have improved access to credit for low-income people and people of color, but many of these customers continue to be relatively neglected. While finding lending and investment opportunity in low-income or minority communities takes considerable research and a creative, open mind, the customers in these communities offer potentially profitable market niches.

The Case for Seasonal Loans

In San Joaquin County, California, the Coalition for Fair Banking became concerned about branch closings due to a series of bank mergers and about possible redlining by several local lenders. To research and address the problem, the coalition formed a partnership with the California Reinvestment Committee and set about conducting a preliminary needs assessment of San Joaquin County.

San Joaquin is a rural county with much of its production dependent on seasonal workers who staff the canneries and harvest the crops. Many of them have been employed by the same company for years, have joined local unions, and have established long-term residence in San Joaquin County. They are stable wage earners, but earn most of their annual pay during a six- to nine-month planting and harvest period.

Next to housing, transportation is a critical issue for farm workers. Since agricultural fields are not generally served by public transportation, workers will often buy a used car from a dealer who makes additional money by securing a loan through a finance company. The loan is difficult to repay because it often carries an exorbitant interest rate and demands the same monthly payment whether or not the worker is in their earning season. Ultimately, many seasonal workers lose their cars during the off-season, damage their credit ratings, and then find it difficult to secure work because they lack transportation.

As CRC staff and coalition members discussed this vicious cycle, someone asked, “Why can’t banks lend in a way that matches income?” In response to this question, the coalition designed a consumer loan product that matches loan payments to income stream. It is a concept that has some precedence. For example, there are balloon loans that receive interest-only payments in the early life of the loan until a “balloon” payment is due at the end of the term. There are “risk- adjusted” loans where computers analyze risk to determine approval and the level of interest rates.

Using the computer to establish payment cycles, a loan product could be developed to match payment schedule with income stream. The loan would receive the same aggregate repayment annually, but its structure would allow for lower or interest-only payments during the borrower’s off-season. When the borrower is in his “earning season,” payment rates would increase accordingly. This approach has tremendous potential for both the borrower and the bank.

As noted earlier, many potential borrowers under such a program are established employees who have worked for the same employer for years. Many are members of local unions that track their dues and can vouch for their work record. To enhance bank outreach efforts, the seasonal loan could be developed as an “affinity loan product,” and marketed through the unions and/or local employers.

The original discussion of seasonal loans focused on agricultural workers, but the product has broader applicability to other industries across the nation, including lumber and fishing. Lenders interested in discussing this loan concept and other program ideas are encouraged to call Alan Fisher, executive director of California Reinvestment Committee at (415) 864-3980.

About the Authors

Alan Fisher has served as executive director of the California Reinvestment Committee (CRC) since 1992. CRC is a coalition of nearly 200 community-based organizations advocating for increased community reinvestment, particularly for low-income and minority communities, from financial institutions in California. Mr. Fisher's previous background includes work as a labor and community activist, small business owner and management consultant. Currently, he serves on the board of directors of the national CRC, the Bernal Heights Housing Corporation and other California organizations. Mr. Fisher holds an M.B.A. from the University of California at Los Angeles.

Lucio M. Reyes currently holds the elected position of secretary-treasurer of Teamsters Local Union 601. As such, he represents approximately 10,000 cannery workers and other seasonal workers employed in San Joaquin County's canneries and warehouses. He is also a member of the board of directors of the California Reinvestment Committee. Mr. Reyes has served in various elected posts including president of the advisory board of Legal Aid of Stockton and the Emergency Food Bank of Stockton. Mr. Reyes attended San Joaquin Delta College.