Using Local Microfinance to Assist Transitions Out of Homelessness

A Report on the Pilot Launch of the Community Empowerment Fund

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Abstract: This paper explores the applicability of microfinance to the needs of the homeless in Orange County, North Carolina by reviewing the pilot launch of a program called the Community Empowerment Fund (CEF). While literature abounds comparing the success of international microfinance to the opportunities and challenges for replication domestically, this paper focuses on the value of microfinance from the perspective of a team of volunteers working on-the-ground to provide homeless individuals with access to loans, savings opportunities and supportive financial services. The study reviews the need for domestic microfinance; documents the successes, weaknesses, innovations and challenges of the CEF pilot launch; and catalogues case studies of the first borrowers. Reflection incorporates loan officer and borrower feedback, reported in a narrative style to convey as completely as possible the experiences of the pilot team. The paper concludes with an outlook for CEF's future role in the homeless and at-risk community, including plans for continued evaluation.

Recognizing the value of similar reports to CEF's initial development, CEF has committed to make this paper open for public review. However, as the CEF pilot is an ongoing process, volunteers and borrowers have continued to evaluate program structure and methods have been updated accordingly, resulting in significant program changes in 2010. This paper should thus be considered a working paper. If after reading this report the reader is interested in more information on the CEF program, please contact the researcher at maggiemwest@gmail.com or CEF staff at thecef@gmail.com.

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Hope is a natural, possible, and necessary impetus in the context of our unfinishedness."
Paulo Freire

Preface

The first borrower to graduate from the Community Empowerment Fund coined a phrase that keeps coming to mind as I write this report. We were together in a borrower group meeting and were all comparing life histories, as many of our families had been touched in some way by the debilitating nature of substance abuse. A moment passed following our discussion, and the borrower smiled and looked up and said, "Well, we all went to different schools together."

I refer to this now to try to capture the nature of the pilot experience with the Community Empowerment Fund (CEF). Essentially, all of us—the pilot volunteers and the first clients—spent our summers going to different schools together. Getting schooled in life just as well as we were schooled in community, public policy, welfare, healthcare, investment, business, inequality, communication, banking, drugs, recovery, and trust. The opportunity to document this learning process in research form has been critical, and in the end, I simply hope to document the fact that though CEF is a "work in progress," it is nonetheless at work.

The second quote that has driven my thoughts as I write has been an adaptation of a poem by Antonio Machado, which in Spanish reads "Se hace el camino al andar," and Paulo Freire translated as "We make the road by walking" in his book with Myles Horton by the same name. The opportunity to grow the pilot as we "walked" allowed for an openness to change that guided this initial program development, and is how we as an organization continue to move forward. Beyond the scope of this report, members continue to work to find ways to address unequal access to opportunity and financial services for homeless and low-income families in North Carolina, and continue to do so by learning as we go, and by building capacity both with and for community.

With that mindset, the Community Empowerment Fund changed the program model following the experiences of the pilot. The program components described herein were characteristic of the CEF model from May 2009—January 2010, but were changed as a result of program evaluation and refocus. The program changes the group implemented in 2010 were molded directly from the lessons that we all learned while "going to different schools together" during the pilot, and were a part of a learning process which will continue, and if successful, never get beyond the beauty of being "unfinished."

II. Deepest Thanks and Acknowledgements

To the Pilot Borrowers, for your courage, conviction and resiliency; for putting up with us all; for pushing us to be better; and for sharing, always.

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Housing for New Hope
RBC Centura
Self-Help Credit Union
JobLink and the Skills Development Center
Orange County Literacy Council
Project Homeless Connect
Durham Rotary
Durham Department of Social Services
Durham Affordable Housing Coalition
Orange County 10-Year Plan to End Chronic Homelessness

And finally, to all of the current and future members of the Community Empowerment Fund, for everything we still have to learn.

III. Introduction

In the summer of 2009, a group of students, shelter residents, faculty, and community members in Chapel Hill launched the Community Empowerment Fund to address the systemic financial barriers faced by the homeless and working poor in the United States. CEF was founded on the idea that small amounts of capital coupled with social support, savings opportunities, financial education, and positive community could facilitate transitions out of homelessness.

This report cannot in the end come to any conclusions about the overall relevance of microfinance as a poverty alleviation tool in the United States, but seeks to tell the story of how and with what results shelter residents and students came together during a summer to create a program that sought to achieve such an end. Based on primary results and the short-term impact of the CEF pilot, this study proposes that microfinance is a feasible and valuable answer to the needs of the homeless and at-risk populations in the United States in terms of personal empowerment and community development. The extent to which this value can significantly increase the purchasing power of program participants is to be determined, and could not be adequately judged in the research term of this study. Primary arguments that this research will propose include:

1. Ample opportunity exists for the application of microfinance to the needs of homeless and at-risk communities in the United States. This opportunity is strengthened by the existence of strong social networks and interpersonal relationships that create opportunity for identifiable accountability within the homeless community.
2. In the domestic context and specifically within CEF's target populations, opportunities for participation in safe, convenient savings programs that incorporate strict budget oversight and financial literacy training may ultimately overshadow the demand for small loans.
3. Major limitations include the expense of time dedicated to case management and community development efforts, the need for targeted face-to-face outreach, the potential for situational client instability, and the complexity of both personal and systemic issues associated with the homeless population.
4. As a student-run microfinance organization, CEF student volunteers are effective loan officers and are capable of marshaling a wide range of University, personal, and community resources. Students also benefit immensely from the opportunities within the program to learn alongside program participants and apply academic coursework to real world learning experiences.
5. Research and constant evaluation are integral to the success of the CEF model—both as a student-run organization and as a lending institution that works with especially vulnerable, financially marginalized populations.

In addition to these five core arguments, this study will discuss the initial results of the CEF pilot program launch by detailing programmatic experiences and borrower case studies.

<u>Summary of the Pilot Program Results:</u>

- There is a demand for small loans within the homeless community and amongst low-income households in Orange County. Loan size ranged from $150 to $300 initially.
- Garnishing repayments on a consistent basis proved difficult, pushing CEF to restructure the process by the end of the pilot term and begin to require savings program participation or graduation from CEF's small business training prior to loan approval.

- Social ties and networks within the target community provided opportunities for borrower outreach and significant peer pressure amongst program participants.
- A larger percentage of applicants was interested in housing assistance, while a smaller percentage was immediately interested in small business investment or employment assistance.
- The program was successfully able to recruit interested male and female applicants and has a vested interest in creating more methods of recruiting youth and Spanish-speaking applicants.
- All borrowers interviewed cited their relationships with student volunteer loan officers as the greatest benefit of being involved in the program and as CEF's strongest assets.
- Loan officers benefit from opportunities to interact with the target population outside the confines of the loan, building accountability to effectively encourage repayment.
- Within the term of the summer pilot, CEF received 18 complete applications. CEF approved 5 loans in the pilot—4 to men and 1 to a woman.
- In addition to loan funds, CEF volunteers supported all applicants through resume-building, job searching, connections to services, computer literacy, and much more—all of which significantly increased the true loan value and provided opportunities to applicants not approved for a loan.

IV. Methodology

The data in this report was gathered through a community-based research process, the results of which have been an integral part of pilot program development. As such, the pilot participants were continually and deeply involved in the research and progressive evaluation. Borrower feedback was gathered throughout the term of the pilot through formal one-on-one interviews, group sessions, and daily observation. Loan officer feedback was gathered through weekly meetings, several focus groups, a record of the group's decision-making process, and group discussions on proper program structure. Research further included a period of critical analysis with the loan officers, during which all the summer volunteers completed a written analysis and participated in an intensive focus group to evaluate the pilot program's progress from beginning to end.

The limitations of this report include narrow quantitative analysis and a small initial sample size. As a result this research primarily documents decisions made by program members and the reasoning behind those decisions, without basing this discussion in statistical or economic impact analysis.

Throughout this process, I acted as a participant-observer. During the course of my research, I participated as a member of the founding body and in decision-making processes, while documenting the efforts of all loan officers and borrowers involved in the program.

V. Income, Savings, and Inequality in the U.S.

Low-income communities are home to thriving underground economies characterized by informal lending, licit and illicit trade, socially-rooted business networks, and neighborhood entrepreneurs (Venkatesh, 2006). However, the underground nature of these economic activities limits the potential for upward mobility for even the most successful participants. Poor households do not have equal access to the financial resources for credit and savings utilized by higher-income communities. The resulting decrease in access to capital and credit limits a family's ability to meet basic needs, maintain employment and gain higher income. Meanwhile, decreased opportunities to save hinder a family from accumulating resources to provide for the immediate future, smooth income, or invest in long-term opportunities. These factors combined have a financial ripple effect on low-income households—rendering the "unbanked" more vulnerable to small fluctuations in income and family emergencies. While the welfare system was created to address these vulnerabilities, welfare has been shown to restrict low-income households' ability to build meaningful assets capable of facilitating transitions out of poverty. Beneficiaries face disincentives to gaining increased income or building personal savings, restricting families to a subsistence lifestyle and longer-term public benefit dependency (Yunus, 1998).

Nonetheless welfare and supportive social services are vital to the needs of families in the U.S. According to a November 2009 article published in the New York Times, one in eight Americans and one in four children depend on Food Stamps (Deparle and Gebeloff, 29 Nov 2009). Without programs such as Food Stamps, Work First, Medicare, Section 8, and other government-sponsored public assistance, basic needs would go unmet. Meanwhile, barriers to enabling an individual to meet his or her own household's needs without social support are a complicated result of systemic challenges that prevent the poor from becoming otherwise. These include: the lack of affordable housing, the constraints of credit, the limited availability of living wage employment, the opportunity costs of education, the bureaucratic and sometimes backward nature of welfare, the constant battle against drugs and addiction in low-income neighborhoods, the debilitating impact of a criminal record, the barriers to safe and convenient savings, and the difficulties of existing in a financial system that is not built for you or your household.

The Potential Applications of Domestic Microfinance as a Poverty Alleviation Tool

Obstacles to overcoming poverty in the U.S. both necessitate and hinder opportunities for domestic microfinance. The perception that any capable citizen can and should be able to make the best for themselves, that bootstrap dreams are one shoelace away from reality, and that opportunity is equally distributed has led American culture to label the poor as categorically unproductive members of society who choose to remain dependent on public benefits. These stereotypes and public perceptions of welfare policy have slowed the definition of the domestic microfinance market and the ability of this market to reach the majority of households who are marginalized by private and public finance.

The international success of microfinance tells a different story of poverty and opportunity. By successfully lending to the "uncreditworthy poor" with overall repayment rates upwards of 98 percent, microfinance has caused a shift in the development paradigm towards models of poverty alleviation that emphasize client empowerment rather than basic needs dependency. Yet in the United States, microfinance has seen limited successful adoption and has not been able to reach the level of financial sustainability experienced in the developing world. Analysts have cited the following challenges to replication: greater operating costs, borrower outreach, group accountability, the need for human capital and training, strength of the target population's communal ties, competitiveness and scale of the retail market, small business and housing regulations, and additional restrictions on the economic activities characteristic of microfinance (Schreiner and Morduch, 2002). Loan sizes in the U.S. have also been significantly larger than those in the developing world, reflecting the larger relative costs of opening a micro-enterprise and of paying microfinance institution staff (2002).

The microfinance market is in many ways currently being captured by credit cards and alternative financial services (AFS). AFS providers charge high rates relative to the financial institutions utilized by moderate-income families—providing services such as check-cashing, bill payment, short-term loans, tax preparation, money orders, and payday loans. These services target the short-term financial needs of low-income households while charging these households a premium price for the products (Schreiner and Morduch, 2002). The demand for payday loans is high—according to a report by Dr. Michael Stegman, the Director of Housing and Policy at the MacArthur Foundation, 80% of payday loans in the U.S. are reportedly less than $300 (Stegman, 2007). Furthermore, Dr. Stegman reports that while as recently as 15 years ago almost no payday lenders existed, today, "there are more payday loan and check cashing stores nationwide than there are McDonald's, Burger King, Sears, JC Penney, and Target stores combined (2007).

By profiting off of the short-term credit needs of low-income households and otherwise severely credit-constrained individuals, payday lenders charge exploitative rates and incentivize serial borrowing—deepening the indebtedness of at-risk households. And business is booming; industry loan volume has grown "from about $8 billion in 1999 to between $40 and $50 billion in 2004" (2007). Since Stegman's report, the Center for Responsible Lending and others have championed a campaign to kick payday lenders out of statewide markets, resulting in the expulsion of such lenders in several states, including North Carolina.

Compare the volume of payday lending with the current capacity of the domestic microfinance industry. Globally, microfinance is a $30 billion a year industry; ACCION Chicago reports that U.S. microfinance groups make up a "small portion" of that amount and quotes New York University professor Jonathan Morduch saying, "Strong microfinance companies in south India add one customer every 10 minutes. For most American MFIs, getting 100 new customers a year is really good" (ACCION Chicago, 2010). Meanwhile, if one considers payday lenders to be the U.S. equivalent of the exploitative Bangladeshi loan sharks who prompted Muhammad Yunus to found the Grameen Bank, then the domestic microfinance market has potential to be equally expansive. Research shows that "high-cost financial services, barriers to saving, lack of insurance, and credit constraints increase the economic challenges faced by low-income families" (Barr and Blank, 2009) while high relative costs reduce take-home pay and decrease the purchasing power of low-income households.

The overwhelming demand for payday loans implies not a need for a microfinance industry that replicates or adapts the exploitative services of payday lenders, but a need for reform in the provision of financial services to low-income neighborhoods and households. Barr and Blank report that 25 percent of households are unbanked while an even larger percentage are "underbanked," or do not have their financial services needs met to the extent that the realization of assets and financial security can become an immediate or projected reality (2009). Barr and Blank propose that "bringing low- and moderate-income families into the banking system can help reduce some of these high transaction costs, substantially increasing the purchasing power of these families" (2009). Concurrent demands for depository services and financial literacy signify the immediate need for innovation and exploration in the domestic microfinance market to test the applicability of financial services to the process of enabling low-income households to achieve financial self-sufficiency.

Microfinance, Entrepreneurship, and the Homeless Community

Households experiencing or at-risk of experiencing homelessness are particularly vulnerable to fluctuations in income and situational instability or crises. Small fluctuations can have a financial ripple effect on a household due to limited opportunities to save for emergencies or insure against economic disasters. Shelter residents, and especially those who remain unbanked, face heightened risks of theft and vulnerability to addictions and relapse. Transitions out of homelessness in a town like Chapel Hill, North Carolina can cost upwards of $1,000.00 with all deposits included, and saving for periods of transition or to hedge against periods of limited resources can require a savings buffer above and beyond this amount, especially to prevent later losses of housing (personal communication, CEF borrower). The situational instability of living in the shelter or in low-income housing requires fluctuating and high expenses associated with costs such as transportation, healthcare, job loss, communication, and more—further placing individuals in these communities at a high risk of experiencing economic crisis.

Meanwhile, the skills, resourcefulness, and entrepreneurial capacities of homeless and at-risk communities cannot be doubted. Steve Balkin completed a study of the homeless community in 1990 documenting the entrepreneurial activities of homeless men, and found shelter residents to participate actively in the retail of everything from single, hand-rolled cigarettes to newspapers, and the provision of services from childcare to car repairs (Balkin, 1990). Sociologist Sudhir Venkatesh added significantly to this study, living and working and researching in the South Side of Chicago, Illinois to document the nature of the underground economy in a low-income neighborhood. Not surprisingly, Venkatesh found an expansive and fully-functioning underground economy grounded in licit and illicit trade, and formal and informal finance. As this paper will demonstrate, the experience of CEF further supports arguments that skills and entrepreneurship are abundant in homeless and at-risk communities. This paper will further argue that the ability of members of these communities to achieve financial self-sufficiency rather depends on the removal of the systemic barriers to opportunity, the organization of cooperative groups to mitigate the difficulties associated with formalizing the informal, and the connection to social support and a positive community.

VI. The Foundation of the Community Empowerment Fund

The idea for a local microfinance initiative in Chapel Hill was rooted in two campus initiatives: the interpersonal relationships built between members of Homeless Outreach Poverty Eradication (HOPE) and the local homeless community, and the knowledge of and experience in international microfinance held by members of the Carolina Microfinance Initiative (CMI).

During the two years prior to the launch of CEF, members of HOPE worked in both the men's and women's shelters through two main avenues: documentary projects and a writing group for a literary magazine entitled "Talking Sidewalks." The documentary projects compiled interviews and stories from shelter residents, while "Talking Sidewalks" began in the fall of 2008 as a bi-annual publication to compile writings, art and photographs by individuals living on the street or in the shelter. To publish Talking Sidewalks, HOPE held weekly writing workshops in the men's shelter and area coffee shops to encourage residents to write, peer-edit, and share their stories with each other and the community-at-large. As this paper discusses in later sections, these relationships and related outreach activities were integral to the success of the CEF pilot.

Initially, these and other HOPE programs were primarily focused on the value of storytelling and inclusive community development to understanding and addressing issues faced by the homeless on a daily basis. However, these stories and the people who shared them gave members an appreciation for the diversity of knowledge and potential held by members of the homeless community. Secondarily, these projects defined the homeless community as just that—a community. An often loosely-applied term, community is herein defined as a group with common customs, relationships, a shared history, and a system of social support. Members of HOPE found all these characteristics and more to be present in the interpersonal relationships that constitute life in the shelter and on the streets.

Upon building a greater understanding of the complex and individually-specific nature of journeys in and out of homelessness, the next question for members of HOPE was simple: where do we go from here? The group wanted to find the most direct method possible of creating new opportunities to assist transitions from homelessness, while learning about those methods and resources that already existed. Writers for "Talking Sidewalks," residents of the shelter, and individuals living on the street advised the group both formally and informally, anecdotally recounting times in their life that small amounts of financial assistance would have been crucial, or inquiring among members as to where they could get funding to purchase small goods that would go a long way (i.e. cell phones, work boots, bicycles, tools, etc.).

Meanwhile, the Carolina Microfinance Initiative (CMI) was born. Founded in 2006, CMI brought high levels of awareness to campus on the overwhelming success of microfinance in the international arena. Members traveled abroad to intern with notable MFIs and brought the lessons from these experiences back to the UNC campus. Workshops, educational events, academic components, and international opportunities organized by CMI geared student action and awareness to the strengths of microfinance as a poverty alleviation tool. The concept of providing small loans to empower individuals to help themselves out of poverty resonated exactly with the feedback HOPE was getting from the poor in the local community.

Thus, with two organizational backgrounds that led to a common conclusion, CMI and HOPE began their work to bring microfinance to the Chapel Hill homeless community. In November of 2008, the UNC Law School Center on Poverty, Work & Opportunity joined the partnership to bring an institutional backing and academic foundation to the group's work. Seven months, three grant applications, one fundraiser, several community focus groups, and many meetings later, the Community Empowerment Fund launched the summer 2009 pilot program.

VII. Summer 2009 CEF Pilot Program

The Community Empowerment Fund began operations in May of 2009 with the launch of the pilot program. The initial team of eight loan officers entered the summer with an open-ended question: How should CEF, as a small microfinance initiative, be structured to best meet the needs of the homeless and at-risk communities in Orange County?

The focus groups and planning meetings throughout the year prior to the pilot launch gave members the opportunity to lay ground rules and define the target population, outreach techniques, and guidelines for application processing. However, in the end, we all knew that we had little to no idea what we were doing and just needed to give ourselves the opportunity to learn from our community—applicants, borrowers, partners, and each other—and that given the task at hand, we had no better way to find the answers to our operational questions and challenges than to try things out. Hence, members initiated the pilot in order to apply CEF's methods on a small scale to learn from and adapt to those experiences.

When the pilot group of loan officers received the first application and sat down together to discuss the viability of the proposal, everyone passed the completed form around, read it through, looked at each other, and said, "Well, what do we do now?"

From that point on, every action was a first, every process a pilot, every decision a precedent, and every mistake an opportunity to learn. The openness, or, to use the words of Paulo Freire, the "unfinishedness," of this initial period allowed staff to ask questions, confront challenges, try new approaches, take risks, and just see what happened—prompting the extension of five very different loan packages to five unique people from five distinct backgrounds. It was through these relationships and experiences that CEF progressed from an idea to a functioning program in the course of three short summer months. This section thus begins by outlining the characteristics of the resultant model. The subsequent section describes specific aspects of the program in detail and reports on the experiences of the first borrowers and applicants—whose feedback and involvement ultimately defined the characteristics reported herein.

Importantly, the following characteristics solely define the program as it stood during the period from May 2009 through January 2010. In early 2010, CEF incorporated lessons learned from consistent evaluation to restructure the program. The characteristics described herein are thus reported primarily to document this learning process and the ways that changes developed over the term of the pilot in response to borrower feedback.

Characteristics of the Community Empowerment Fund: *May 2009—January 2010*

Please refer to Appendices A and B for program characteristics beyond the pilot period—revised and enhanced to accommodate lessons learned during the first stage

Program Staff:

- CEF staff members are all volunteers. The majority of the staff is students, at both the undergraduate and graduate level, but further includes recent graduates and non-student community members.
- Volunteers who work individually with applicants are designated as Loan Officers.
- Additional volunteers work specifically in one of four committees: Outreach, Resource Development, Fundraising, and/or Education.
- Two loan officers are assigned to each applicant. Throughout their involvement with clients, Loan Officers work to build an "accountability partnership"—a relationship that aims to co-define goals, steps, and dreams and provide support to the borrower as he/she works to achieve these.
- Volunteers receive training in microfinance best practices, homeless outreach, social work and available resources, basic accounting and business planning, as well as CEF policies and safety guidelines.
- Following completion of the Loan Officer Certification and Orientation program, new Loan Officers are paired with Senior Loan Officers to continue to learn in greater detail.
- Student staff members come from a wide range of academic backgrounds, including fields such as Public Policy, Business, Comparative Literature, Environmental Studies, International Studies, Photojournalism, Nursing, and Anthropology.

Applications:

- The application process begins with a written application and intake session and includes a follow-up in-person interview, at which both loan officers must be present.

- The application process includes a screening for supplemental services, through which applicants are connected to other agencies that can provide services either in place of or in addition to loan funds. Thereby, CEF ensures that the price of the loan is as low as possible and borrowers benefit from the highest potential value.

Loan Qualities:

- CEF issues individual loans, which are allocated in monitoring and mentoring groups. Initial loans are limited to a maximum of $300.00.

- Loans funds are available for the advancement of greater or more stable self-employment, employment or housing.

- An initial savings deposit at ten percent of the full loan value is required prior to loan disbursement.

- The full loan value may be disbursed as a line of credit, through which the borrower is approved for a total loan of $300.00 but receives the funds in increments as needed.

- Loan disbursements are never made in cash form; loan officers write checks directly to landlords, go to stores with the borrower to make purchases, pay bills directly, or order wholesale products online, rather than allocate cash to borrowers.

Repayment and Borrower Groups:

- Borrower groups are not self-selected, and function primarily as a source of information on resources and opportunities, in addition to social support and relation through common experiences.

- CEF uses a group model that in microfinance industry language is termed "monitoring and mentoring groups." These function without a joint-liability agreement, but "provide mutual assistance and guidance through the vetting of each member's loan-funded activities and through remedial help if things go badly for a group member" (Von Pischke, 2002).

- Borrowers make weekly or biweekly payments, which both contribute to loan repayment and add to an internal savings account. A typical repayment plan includes a weekly sum of $15.00, of which $10.00 goes towards repayment and $5.00 is deposited in savings.

Savings Support:

- Prior to loan funds disbursement, all borrowers must make a savings deposit greater than or equal to ten percent of the full loan value.

- All savings internal to CEF, including the initial deposit and the weekly allotments, are matched dollar-for-dollar up to $100.00.

- In the case of default, the unpaid difference can be reclaimed from internal savings.

- In 2010, CEF will launch two savings programs to operate both alongside and in addition to the loan program. These programs—Safe Savings and Micro-Development Accounts—are discussed in greater detail in subsequent sections.

Additional Programmatic Qualities/Requirements:

- In addition to loan funds, CEF volunteers support all applicants through resume-building, job searching, connections to services, computer literacy, and much more – all of which significantly increase the true loan value and provide opportunities to applicants not approved for a loan.

- Borrowers are required to meet weekly with their loan officers on an individual basis and with their borrower group.

- CEF offers monthly or bimonthly skill-building workshops focusing on topics such as financial literacy, small business ideas, computer skills, and basic budgeting.

- In times of demonstrated need, borrowers have the opportunity to defer repayment through sweat equity projects by volunteering with several supported programs.

Program Graduation

- Upon full repayment and graduation from the program, borrowers receive access to their internal savings account and have the opportunity to apply for a larger loan.

- Graduated borrowers also have the opportunity to join the Loan Officer Team, Allocations Committee or Advisory Board.

VIII. CEF Program Structure

At the on-start of the pilot, CEF staff determined that efforts should be focused on individuals whose needs are not currently met by existing services and federal benefits, with loan funds targeted towards cases in which a one-time investment of a small amount of capital will either assist individuals in transitioning from their current situation or build upon an individual's own momentum by contributing towards further advancement. Appreciating that a smaller percentage of homeless and low-income individuals are ready to go into business for themselves, CEF designed the program to address the financial needs of a larger portion of the target population. As such, beyond the small business investment typical of microfinance, CEF extended loans to cover costs associated with employment and housing transitions.

For the purposes of the pilot, staff maintained an open and loose definition of what, exactly, constituted an eligible investment of loan funds. By erring towards hyper-flexibility, staff sought to ensure that the loan funds would come to fill the greatest needs that existed within our target population, and specifically, those for which funds were not available elsewhere. Leaving the application open for interpretation allowed applicants the opportunity to assist CEF in evaluating both the need for and interest in micro-loans, and helped staff to determine what constituted a sound and sustainable investment. Rather than decide beforehand to solely invest in either self-employment initiatives, job-seeking, or transitions into housing, piloting a diverse group of loans that invested in an individual's advancement in significantly different ways gave staff the opportunity to analyze which investments resulted in the greatest returns. However, the broadly defined terms necessitated case-by-case approval determinations, complicating application processing and steepening the learning curve experienced by the pilot program volunteers.

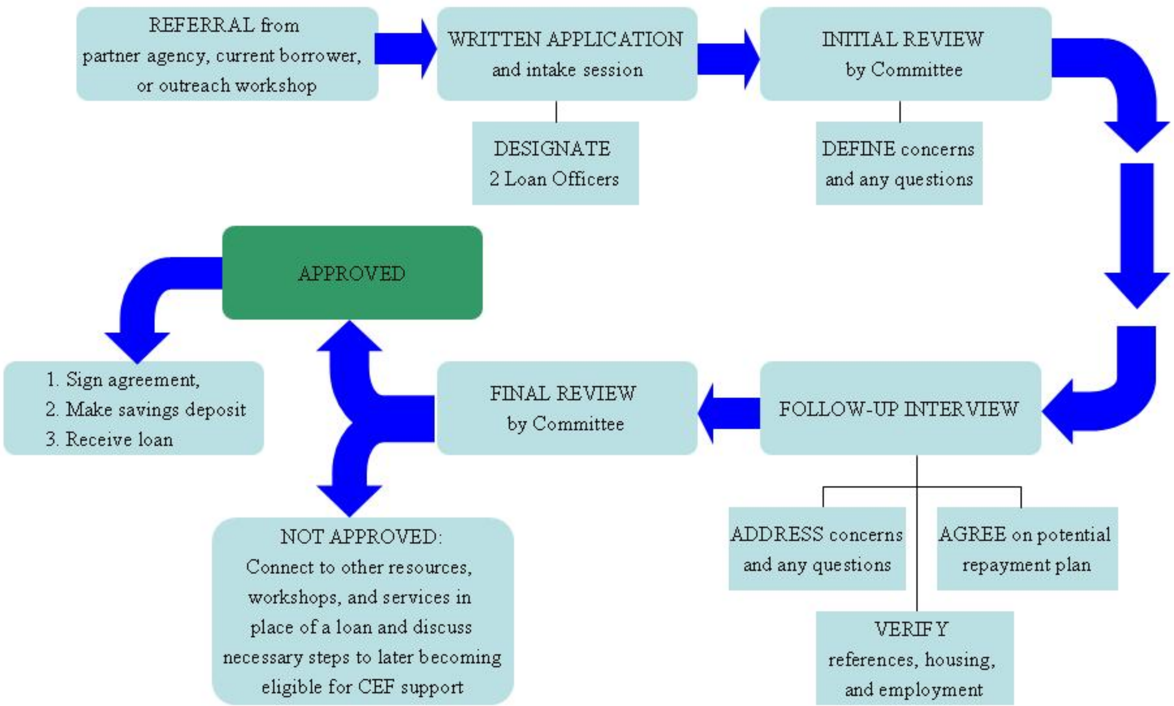
To identify who exactly the program would target, CEF staff sought advice from Chapel Hill's PATH street outreach worker, Solomon Gasana. PATH (Programs Assisting Transitions from Homelessness) is a program run by Housing for New Hope and operates under the Housing First model, working with individuals living on the street to move them directly into housing. PATH funding is specifically targeted towards homeless individuals with a history of substance abuse or mental illness. Solomon assisted volunteers in defining who within the homeless and at-risk population would benefit most from CEF services. He termed CEF's target population "the productive homeless"—individuals who are homeless due to bankruptcy, bad credit, or domestic issues and are business-minded and quick learners. He additionally saw opportunities for programmatic involvement with a population he termed "the working homeless"—who are homeless due to un- or under-employment and a limited access to affordable housing. Finally, in addition to individuals currently experiencing homelessness, both PATH and CEF saw opportunities for micro-lending to at-risk households and individuals who have recently moved out of homelessness, a population which includes PATH clients recently transitioned into housing.

The Application

With these criteria in mind, the next step was to create an application for borrowers that would be both informative for CEF staff and accessible to loan applicants. To do so, CEF gathered resources and advice from a variety of sources to determine the necessary elements of a strong application, consulting with the Inter-Faith Council for Social Services (IFC – Chapel Hill shelter), Vocational Rehabilitation, Inc., Triangle Residential Options for Substance Abusers (TROSA), Harvard Opportunities Program (HOP), and sample business loan applications from several micro-credit banks, including Washington CASH and Self-Help Credit Union.

The written application was designed to be the first step of the application process. From the submission of the written application, CEF staff worked to ensure that the applicant received the decision on the application within two weeks. Processing could take longer than two weeks, depending on the ability of loan officers to contact references, verify employment, and confirm additional situational data on the application. For example, an application may take longer to process if the loan is targeted towards a housing deposit and the applicant and loan officers are delayed in finding an apartment available for rent that fits the applicant's personal budget and is viable in the long term. To minimize the price of the loan, the application process in this case would further include an assessment of the applicant's eligibility for other area resources, including support from state-administered financial assistance, community-based nonprofits, and faith-based charity services. Once area resources have been exhausted and the fiscal viability of the plan has been verified, the application can reach a point of decision. The following diagram (Diagram 1) details the components of the full application process.

Diagram 1: Application Process



During the processing period, loan officers and CEF staff held multiple meetings with the applicant, both to form an initial relationship and personal understanding of the applicant's particular situation, and to establish the applicant's personal commitment to the program and dependability. In this period, built-in requirements are meant to make the process somewhat self-selecting, but not prohibitive.

The decision-making power in CEF lies in the Allocations Committee. Allocations is made up of the chairs of the five primary committees (Loan Officer Team, Education, Fundraising, Outreach, and Resource Development) and Senior Loan Officers, each of whom have one vote. Senior Loan Officers are those whom have worked with the program for one semester or more and who have successfully completed the Loan Officer Certification and Orientation program. Thus far, CEF Allocations Committee members have only approved a loan in the case that the vote is unanimously affirmative.

In terms of the application process and resulting status, three likely outcomes emerged for fully processed applications. The three cases below are based in experience from the pilot term and exemplify these three "status definitions:" approved, deferred, and not approved. All three examples revolve around applications for housing loans—generally the most contested applications.

APPROVED: Applicant Lucy Loaner applied for a loan for a housing deposit. She was living in the shelter at the time and had gotten a full-time job a month prior. Lucy had a history of substance abuse, but had been sober for eight years and wanted to get out of the shelter and off the streets to avoid the temptation to fall back into habits she hoped to break. CEF Loan Officers met Lucy through "Talking Sidewalks," and had known her for four months at the point of application. CEF approved her application because of a verified income stream that would enable both consistent repayment and rent payment monthly. Additionally, Lucy proved able to pull in additional resources to finance her utility deposits and her first month's rent. Glowing recommendations from shelter staff, outreach workers, and employers assisted in the approval process.

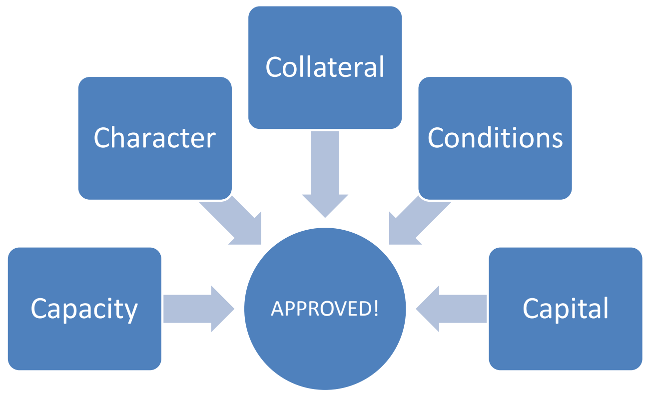
DEFERRED: Applicant Bianca Bank applied for a loan to fund a housing deposit. CEF members deferred her application because she has no current income and there is no way to verify that she would be able to afford the rental payments after the first couple months. CEF determined to work with Ms. Bank to find employment by first pursuing training as a Clinical Nursing Assistant. Ms. Bank was a CNA previously and simply needed to go through a recertification course. She was able to fully fund her course using another area agency, Vocational Rehabilitation, Inc. The CEF Allocations committee determined to defer her loan application until financial means to maintain the housing could be verified, but to continue working with her in the meantime to build her resumé, apply for jobs, and in general, be supportive through instability.

NOT APPROVED: Applicant Frederick Finance applied for a loan to fund his rent, which comes out to $100 per week. Frederick was living with an Oxford House, a recovery home and program that is self-governed by residents, and needed to pay off both back rent and upcoming weeks due or would risk losing his housing. Frederick was unemployed and had struggled to find work for some time. Frederick had taken advantage of several social service agencies to assist with rent payments, but not the full range. CEF determined not to fund rental payments in this case, but to connect Frederick to supportive services as much as possible and to assist in the job search process. The Allocations committee thus set a precedent to focus on housing loans that fund a period of transition rather than the status quo.

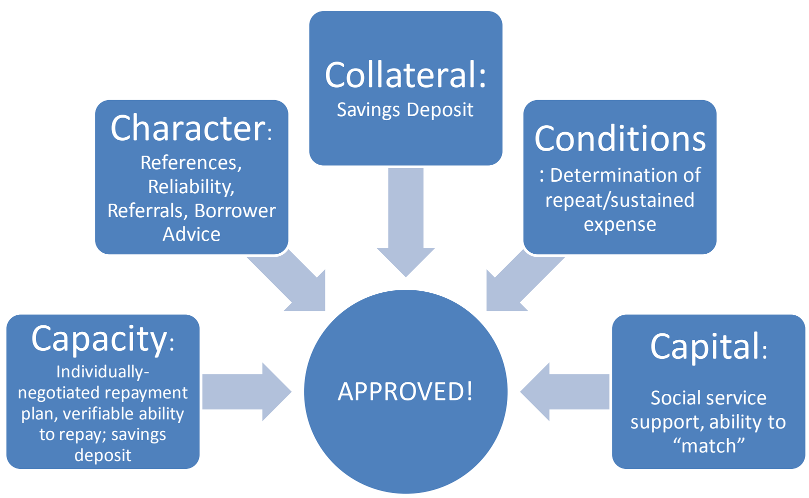
Criteria for Loan Approval:

In the commercial banking sector loans are approved on the basis of "the five C's"—character, capacity, capital, conditions, and collateral. Through the CEF application process program staff attempted to replicate these criteria. However, the nature of the target population necessitates the use of alternative measurements for all five. Within these measurements, CEF is working to find a balance between up-front requirements that can tie people to the program while allowing volunteers to measure repayment capacity internally, and a program that can remain flexible and responsive to each applicant's time constraints and particular circumstances. Figure 2 demonstrates the primary criteria for loan approval in the conventional banking sector, and the ways in which CEF has adapted to measure those criteria through unconventional methods.

The Conventional Banking Sector's 5 C's



The Community Empowerment Fund's 5 C's



<u>Character:</u> One of the primary criteria throughout the CEF pilot, measurements of character were first based on contact with personal references listed on the application. Furthermore, in building a sufficient character reference CEF staff especially benefited from the opportunity to interact with applicants outside of the confines of the loan program. For example, interacting with an applicant at "Talking Sidewalks" writing workshops, through HOPE Soccer (a homeless soccer team), or working together in HOPE Gardens (community garden and transitional employment program) gave CEF volunteers a unique opportunity to get to know the applicant on a relational level, build trust, and engage in some form of cooperative activity.

Additionally, advice from current borrowers and other relationships within the homeless community were invaluable to CEF program officers in the process of approving a loan and taking the steps to disbursing the loan funds. These accumulated character references are one of the stronger determinants of loan approval within the CEF model, as personal relationships and civic involvement were important to measuring an applicant's personal community ties, degree of transience, and general attitude.

Collateral: Considering the financial constraints of the target population and the limitations of the formal credit-reporting system, collateral had to be built internally within CEF. To establish measurable collateral, the program required an initial savings deposit before issuing loan funds, the contents of which could be garnished in the case of default. The required savings deposit during the pilot term was valued at ten percent of the total loan price.

Capital: CEF utilized two primary mechanisms of assessing applicants' personal capital investments in loan funds. First and foremost, the $300 initial loan maximum typically only covers one aspect of the full cost to the borrower of any significant transition. Borrowers often contributed supplemental funds to the investment, or were able to show the capacity to contribute funds in the future to cover any repeat costs inherent to the loan conditions. This standard further included an initial assessment of the applicant's commitment to finding both requested and supplemental resources through other non-profits and social service agencies—especially in the case that the loan value combined with the person's expendable income would not cover the full cost of the investment. For example, if a Loan Officer refers an applicant to a social service agency for additional assistance and the applicant takes the initiative to follow through and pursues that assistance, then this capital is taken into consideration in the application process.

Conditions: Concerning the intended purposes of the loan and the perceived viability of the investment, conditions were more difficult to define and evaluate in the summer term. This was largely due to the pilot nature of the program, through which CEF chose to loosely define the range of investments that could qualify for CEF support, necessitating case-by-case determinations of an applicant's ability to meet criteria. The primary criteria became an emphasis on one-time investments which would not require repeat expenses on the part of the borrower, and the demonstrated lack of access to funding for the goods through existing service providers.

Capacity: The most critical of the five factors in the conventional banking sense, capacity was also the most difficult for CEF to measure. To meet this standard, CEF required that applicants have an immediate ability to repay their loan or a foreseeable plan to facilitate repayment in the short term. Assessing an applicant's capacity included verifying employment, pricing the loan appropriately, and completing a basic income and expenses balance worksheet. The up-front savings requirement was another indicator of capacity, affording the program a one to two-week grace period to test both the applicant's ability to come up with 10 percent of the full loan value as a deposit while assessing their commitment to program meetings and interviews.

A person's credit score is conventionally employed as an indicator of an individual's past capacity to repay. Since the conventional credit system would disqualify otherwise eligible applicants from participating, CEF dealt with questions of credit by building in a graduated loan process. Through this process, applicants are first eligible for a small loan of up to $300, and only become eligible to apply for a larger loan upon repayment of their first. Rewarding repeat borrowers with larger loans serves multiple proven purposes and is an opportunity for borrowers to build credit and acknowledged repayment capacity internally.

Finally, loans were denied on the basis of the inability or poorly defined ability of an applicant to meet any of these criteria. The goal through this process was to extend a loan to an individual only in the case that a loan was most appropriate, will not result in the incurrence of unnecessary debt, and that programmatic requirements are beneficial and not burdensome to the individual's personal advancement.

Though CEF may have the legal recourse to pursue repayment or asset foreclosure in the case of a faulty disbursement and subsequent default, this is not a foreseeable option for program staff. While limited enforcement techniques are incorporated into the program's structure, thus far and with current capacity, CEF has primarily been able to provide borrowers with a positive incentives system to encourage repayment. Staff depend on a variety of programmatic aspects to encourage borrowers to repay, including: the pre-approval screening process, peer pressure, social networks amongst borrowers, the promise of future and larger loans, and, most importantly, relational accountability between the borrower and his/her student volunteer loan officers. As noted in subsequent sections, these aspects differ in levels of effectiveness, reliability, and efficacy.

Typically, inability to meet the requirements of "the five C's" excludes the unbanked from participation in traditional financial institutions. By finding alternative means by which to evaluate an applicant's credit and enforce repayment, CEF was able to open new financial service options to historically unbanked and financially marginalized communities.

The following sections detail the opportunities and challenges CEF encountered as a result of the program's unconventional approach to application assessment, collateral, and accountability, and the degree to which the CEF model encouraged repayment and prevented default within the term of the summer pilot.

IX. Summary of Pilot Experiences

Over the term of the summer launch, CEF received 18 applications, 11 from men and 7 from women. Five of these applicants, four men and one woman, were approved for loans. The median age of applicants was 47, with ages ranging from 21 to 59. Of the entire applicant pool, 55 percent were African or African-American and 45 percent were white, while three out of the five program borrowers were African-American and two were white. Educational levels ranged from eighth grade to college graduate. Vocational skills included, but were not limited to: painting, sewing, machinery operations, counseling, management, writing, culinary arts, floor refinishing, sales, agriculture, construction, truck driving, and electric wiring.

At the point of application, 67 percent of the borrowers (12 out of 18) were staying in either the men's or the women's shelter. Eleven percent (two out of 18) were homeless but not staying in the shelter; 11 percent were in a supportive housing program; and 11 percent were in apartments of their own. Applicants faced a range of barriers to employment: criminal records, substance abuse, mental illness, physical disability, transportation, communication, unstable housing, computer illiteracy, and the lack of required trainings, certifications, or occupation-specific resources.

While some of these barriers could be directly addressed with financial resources and the efforts of student volunteers, CEF had to determine which of these barriers the program was equipped to tackle during the pilot.

The sections that follow compile profiles of the first five borrowers and proceed by detailing their personal feedback and specific aspects of their loan or programmatic involvement that have impacted CEF program structure. These experiences—some of which were bumps in the road while others were leaps forward—taught loan officers and borrowers about the realities of lending, saving, budgeting, and goal-setting on the domestic scene.

The first borrowers, in order of approval:
(To protect the privacy of pilot participants, all names and indentifying details of each case have been changed)

Youseff – Youseff was referred to CEF by the Chapel Hill street outreach worker for the Housing for New Hope program PATH (Programs Assisting Transitions from Homelessness). He had recently moved out of the shelter and into an apartment with support from this program, was working full-time, and sought an opportunity to increase his income through a small floor refinishing business. During his initial intake session, Youseff and his loan officers discussed the best use of the $300 initial loan. The three calculated that Youseff would need approximately $1,200 to start a floor refinishing business in addition to personal savings to prepare for additional needs. As this value is four times the initial CEF loan maximum, the group brainstormed other initiatives in which Youseff could invest $300. Youseff had the idea to start an aromatherapy business. As Youseff is Muslim and attends mosque every week, he participates in a community that has a high demand for aromatherapy products and scented oils. He decided to use his skills in packaging aromatherapy products into incense and soap to sell these goods at his mosque, and thereby generate additional income that he could save towards his ultimate goal of starting a floor refinishing business.

Youseff purchased $250 worth of wholesale oils, soaps, and incense and began packaging these goods for sale. He plans to sell this first cycle and reinvest in a second, following which he will have repaid his initial loan and be eligible for a second, larger loan.

Reggie – When he applied for his loan, Reggie was in the process of moving out of the shelter and into an apartment with support from PATH. He was working part-time for a janitorial service. Reggie heard about CEF through existing HOPE outreach activities; he was both a writer for "Talking Sidewalks" and took part in some of the initial focus groups held with shelter residents to discuss the appropriate structure for CEF. Financially, Reggie was seeking assistance with his first-month rent, but was primarily interested in programmatic support with budgeting and savings to ensure that he could pay bills on time and stay in his apartment. His initial loan application also included a request for finances to purchase furniture and household amenities. However, these furniture items were secured before the loan had even been fully processed as Reggie and his loan officers found these items for free by dumpster-diving and searching craigslist.

Reggie's final loan was for a value of $250 in the form of a check written directly to his landlord.

Jacob – Jacob has been a writer for "Talking Sidewalks" since the fall of 2008 and continued to be a part of the team even after he moved out of the shelter in the spring. He is a painter by trade, highly skilled and a hard worker. He generally worked with two or three bosses who hired him whenever they found jobs for him to do. His income was thus highly volatile and dependent upon his ability to stay in contact with his employers. He applied for a loan to replace a lost cell phone in order to maintain his main communication line and continue to get jobs. In his application, he also identified the need to move out of the apartment he was staying in at the time into a better, less drug-ridden environment.

Jacob's loan was for a value of $120 to purchase a new phone under his existing contract.

Vivian – Vivian became homeless after leaving an abusive living situation in Durham. Before leaving Durham, she had been a full-time student at the Center for Employment Training taking classes towards a certification in Medical Billing and Coding. She moved into the women's shelter in Chapel Hill and was thus no longer able to get to school and had to take a formal leave of absence from her classes. With four months left until the completion of her certification, she needed to find a way to afford transportation but had no income.

Thus, she applied for a loan for 4 months of Triangle Transit Authority (TTA) bus passes that would allow her to resume classes and finish her employment certification. The cost was $32 a month, for a total value of $128. An additional portion of her loan value was allocated towards textbooks, workbooks and training CD-ROMs. She was approved for a loan of the value of $300, but to be considered a line of credit which would be disbursed on a monthly basis rather than in one large sum.

Jack – A 21-year old, Jack came to CEF having recently relocated to Chapel Hill. A resident of the shelter at the time, Jack became homeless following the death of his mother and the bank's reclamation of all his family's assets, including their home. Jack was introduced to CEF at an outreach event held at the men's shelter, through which loan officers assisted participants in building a new resume.

The purpose of Jack's loan changed throughout the term of the application process. He initially applied for a scooter, a helmet and one month of his phone bill. He identified the phone as the more important of the two items as he was searching for a job and putting his resume and applications out everywhere in the community and needed a way to stay in touch with potential employers. His new resume helped him to get a job in a relatively short amount of time, as he was hired by the campus dining services within the next couple weeks. After getting hired and before his loan was fully through the approval process, he changed his application to be for a housing deposit and his phone bill. At this point, he and another applicant decided to apply for a joint-liability loan. As their relationship and personal circumstances changed however, Jack transitioned into an individual loan and his co-applicant decided that a loan may not be the best step for him at the time.

Ultimately, Jack was approved for a $300 loan: $162 towards his phone bills and $138 towards a housing deposit.

The following table (Table 1) categorizes the five pilot period loans and includes additional details on approval and repayment.

Table 1. Pilot Loans Summary

Name	Loan Category	Value	Item	Repayment Plan
Youseff	Business	$250.00	Scented oils and soaps	$15.00 / week ($10 R, $5 S)
Reggie	Housing	$250.00	Housing deposit	$10.00 / week ($7 R, $3 S)
Jacob	Employment	$120.00	Cell phone	$15.00 / week ($10 R, $5 S)
Vivian	Employment	$300.00	Textbooks, bus passes	$3.00 / week to start ($2 R, $1 S)
Jack	Employment	$300.00	Cell phone, plan, and 2 bills	$10.00 / week ($7.00 R, $3 S)

X. Pilot Evaluation

I will now transition to the use of the first person, as my ability to evaluate the CEF pilot is primarily through personal observation and interviews with both borrowers and loan officers. At the end of the summer term, all the members of the initial loan officer team underwent an internal critical analysis and contributed to a focus group on the experiences of the pilot program. In addition, I conducted individual interviews with the pilot group of borrowers to obtain an understanding of program significance from the borrower perspective. The following section incorporates these reflections into a literature review—focusing on the most significant topics discussed. By highlighting particular experiences, I aim to capture, and in a sense, do justice to the manner in which the Community Empowerment Fund grew from an idea in May to a program by August.

Overall, loan officers unanimously agreed that the pilot phase was invaluable to organizational development. Loan officers termed the period of summer 2009 a veritable "crash course," filled with moments that broke much more than stereotypes. Sections in this evaluation thus further note how loan officers and clients were able to trust in the process, make "mistakes," turn them into lessons, and direct CEF moving forward.

Market Demand for CEF Loans: Defining a Niche

The applicability of microfinance to the United States has been questioned on the premise that the obstacles to starting small businesses are much larger, the microenterprise sector smaller, and the competition from large retailers too stark. Citing a study that suggests microfinance may assist 1 in 100 displaced workers become self-employed who otherwise would not have, Schreiner and Morduch argue that "[e]ven with effective, universal microfinance, the most common routes out of poverty will remain finding a good wage job and acquiring more human capital" (2002, 54). The added level of "formality" within the American economy and the significantly diminished degree of informal economic activity in the U.S. contribute to these differences in the U.S. context of microfinance.

In recognition of this dynamic, CEF loans were structured to finance both formal sector employment and individual entrepreneurship, and in some cases supported housing transitions.

Loans for purchases related to formal sector employment included financing for cell phones and bus passes. Loans for housing transitions financed portions of housing deposits or, interchangeably, the first month's rent. In all of these cases, where financing could be found elsewhere either in full or in part, loan officers made significant efforts to access these social services and were able to decrease the price of the loan to the borrower. The pilot loan issued for self-employment was for a very small enterprise to supplement that individual's formal sector wages.

Formal Sector Employment Loans: Access, Connections, and Income

Loan officers struggled with the dynamics of loans targeted for purposes related to formal sector employment. In one case, a loan for a cell phone resulted in the first program graduation, greater personal savings, and full repayment. In another case, the cell phone successfully connected the individual to employment but external factors related more closely to criminal records and situational instability resulted in the program's first default. Thus, the success of the investment is not necessarily related to the object of the investment, but to the individual and his/her own motivation to succeed. However, in both cases the cell phone and the individuals' resulting increase in communicability did result in more rapid access to employment opportunities—both part- and full-time.

Also important to note at this point is the particular climate in which the CEF pilot launched. CEF began operations during a period termed "the Great Recession," characterized by unemployment rates upwards of 13 percent, higher than the Chapel Hill area has seen since the early 1980's. Loans for formal sector employment were thus a challenge by nature. With no financing available to developers, construction jobs were null, and with decreased spending, consumption of goods and demand for the service sector were equally limited. Employment in everything from housekeeping to landscaping to catering was affected as individual household demand for these services decreased significantly. Entry or mid-level living wage career opportunities were additionally impacted by a surplus of over-skilled workers unemployed from other sectors.

Looking Forward:

Throughout our experience, and equally with borrowers in all loan categories, formal wage employment made the difference between persisting need and potential self-sufficiency. For this reason, CEF began to lean towards working more closely as a workforce development organization and pursuing tasks similar to a staffing company. Loan officers found that potential employers, and especially those willing under certain circumstances to hire individuals with barriers to employment, saw great value in CEF as a background screening, skills assessment, and referral service. Though staffing and formal career development may not fall under the general realm of microfinance, in the domestic context where the micro-enterprise sector is smaller and wage employment is more accessible, small capital investments in either venture are only effective when a market for the product or the individual's skills can be sufficiently promoted.

Therefore, to promote the viability of investments in both formal and self-employment, loan officers determined following the pilot that it is to the benefit of the program to incorporate significant organizational branding, community marketing, and employer referrals into the programmatic structure.

Small Business Loans: Entrepreneurship in the Homeless Community

Barriers to enterprise in the homeless community are financial, situational, educational, relational, and more. Likewise however, opportunities for enterprise in the homeless community are abundant and grounded in rich histories of experiences, deep skill sets, and resourcefulness akin to that of any of the highest-grossing stock brokers on Wall Street.

Youseff was the only CEF pilot program participant who employed his loan funds to begin the process of building a micro-enterprise. With five children and a wife, his micro-enterprise selling scented oils and soaps was a way to supplement income he earned working full-time as a supervisor in an elderly care facility. His business plan was simple and involved buying oils and soaps wholesale and selling them person-to-person to individuals in his mosque, home, and work community. Reflecting on his business, he noted:

> "Business is going well. I'm selling well, I'm marketing, and also, you know, I'm having fun. I'm looking down the road – I want to set up shop, somewhere down the road here, because you know this is a very Afro-centric community…I know that I don't want to pay my loan back with my paycheck, I want to pay my loan back with the money I get from the oils"

Youseff invested his full $250 loan in wholesale items, purchased online. He was able to turn his products around quickly, but his loan officers found garnishing repayments difficult. He made his savings deposit in two installments before purchasing his products, but by the end of the summer pilot loan officers had yet to receive any further payment from him. Youssef's loan officers thought this difficulty seemed to stem primarily from a need to budget well enough to accommodate for Youseff's vastly fluctuating expenses, a need characteristic of providing for a family of seven on minimum wage. Routinely, other expenses came up that took natural priority over loan repayment, such as rent, car insurance, or gas. As weeks passed,

Looking Forward:

Both in spite and in recognition of this pilot experience, CEF envisions incorporating a greater emphasis on small business and micro-enterprise loans in the future. Plans to do so include the launch of a small business training module and accompanying loan program similar to a program at Brigham Young University, which requires potential borrowers to attend a nine-week module before becoming eligible for a $500 small business loan (Woodworth, 2009). By the end of the pilot term, loan officers were in accord that a preliminary, attendance- and participation-based requirement would significantly aid in the allocations process without becoming overly prohibitive. The opportunities loan officers identified in the inclusion of a training module include the ability to foster more viable micro-enterprises, prepare entrepreneurs for business, assess accountability and programmatic commitment prior to loan approval, and leverage a training to front-load requirements.

These shifts in programming were motivated by the lessons learned in disbursing Youssef's loan funds. While his business idea was strong and had the potential to build into a sustained micro-enterprise, the opportunity to solidify that plan into a working operation while incorporating significant enough support from CEF loan officers in the right areas and the highest need was limited by the lending relationship. While "the record abroad suggests that loans and classes do not mix…that good teachers were not always good lenders and vice versa," (211) this statement does not translate exactly in the domestic context. Programs such as the business classes offered by Brigham Young University, Rutgers University and the Yale University Elmseed Enterprise demonstrate ways of incorporating training, taught not necessarily by the lenders themselves but by program associates, to significantly enhance program impacts. Schreiner and Morduch write:

> Microenterprise is often more complex in the United States. In Bolivia, a woman can watch someone sell oranges from a box on the sidewalk and then buy some oranges and sell them herself. Few U.S. microenterprises are so simple, and examples or mentors, although believed to be crucial for success are few and less visible. Furthermore, many of the U.S. poor have access to microfinance through credit cards or other sources, so human capital may indeed eclipse financial capital as the greatest constraint on U.S. microentrepreneurship. (Schreiner and Morduch, 2001)

Training thus evolved as a natural response to human capital and accountability needs in CEF's adaptation of microfinance as a poverty alleviation tool in Orange County, North Carolina. CEF's post-pilot focus on training specifically for small businesses came out of the many positive experiences loan officers had in working with Youssef on his business but in recognition of the challenges to garnishing repayments. At his best and highest period of involvement in the CEF weekly programs, Youssef encapsulated all that could be good in domestic micro-enterprise. While not necessarily providing a full income at the outset, micro-enterprise on this scale could foreseeably afford a household the flexibility in finance to save. He was taking ownership over his sales, vision, and enjoyed the opportunity to be his own boss. However, in the U.S., as Schreiner and Morduch put it, "entrepreneurs must be decathletes who excel in many tasks…Not everyone, however, can come up with a business idea, produce a good or service, market it, deal with suppliers, keep the books, and manage a host of other activities" (19). Training can provide loan officers (who do not themselves come from business backgrounds) and borrowers alike with the skill sets essential to enterprise development in the price-focused and scale-driven U.S. market.

Following the pilot, CEF aims to provide greater opportunities for borrowers like Youssef to really make their business work and for loan officers to become true partners for all CEF clients in building towards economic self-sufficiency. Thus, looking forward CEF foresees building partnerships with UNC Kenan-Flagler and the Duke Fuqua Schools of Business to create and implement a small business training program catered specifically to our population. The training will work to recognize the range and depth of entrepreneurial skill sets within the homeless and at-risk communities in order to build on these skills and foster entrepreneurial "decathletes" equipped to compete, gain new skills, and only grow in capacity.

<u>Education Loans: Payment Deferral and Career Advancement</u>

CEF approved one loan related to education, which Loan Officer Alexis Seccombe reflects on here:

> The day [Vivian] arrived at the shelter, CEF was conducting a résumé workshop and providing information about the micro-loan program. She

> expressed interest in our program and immediately applied for a loan. Her loan was for transportation to school. Because she had chosen to move to Homestart, she was forced to take a leave of absence from school. She had no money and no means to get to Durham each day. With the loan, she was able to go to school and at the end of October, she graduated with straight-A's. Because she demonstrated diligence and a willingness to improve her situation, her name climbed rapidly up the Section 8 waiting list and she was able to leave the shelter and move into her own one-bedroom apartment in November. Currently, she is unemployed. Since she has left the shelter, she and I have worked on furnishing her apartment and finding work.
>
> From a programmatic standpoint, Vivian is an exception because we approved her loan knowing that she had no form of income to meet the weekly payments. Indeed, repayment has been a problem. At this point, she has borrowed $140 and paid back $35. There was much discussion at the time as to how CEF should address this type of loan. Should CEF approve a loan when there is no secure form of income to pay back the loan? If so, should there be weekly payments immediately? Sweat equity? How do we keep the applicant engaged and giving back to the program if they cannot do so monetarily for an indefinite period of time?

In Vivian's case, the loan was both timely and relevant to future ability to generate substantial income. In the context of the program however, payments made little sense on a weekly basis when the benefits of her loan would not come until several months later on, if then. Weekly support in meetings, ties to community with other borrowers, and education through CEF workshops all became resources for Vivian and she remained heavily involved even though she could not make payments regularly. And her ability to continue attending classes did make a financial difference in her life ultimately as her attendance and high performance rocketed her up the Section 8 waiting list, but did not necessarily make a difference in terms of earned income.

Looking Forward:

As Alexis notes, CEF is unsure of future programmatic stances on payment deferral in the case of education loans. Following sections will discuss the foundations of CEF's savings programs to be initiated in 2010, which aim to address some of the issues education and housing loans brought to bear on the program's future.

Housing Loans: Shelters, Rent & Affordability

Housing loans for apartments are a difficult venture, though termed by the loan officers from the summer period and the borrowers alike as worthwhile investments. One borrower cited the value of housing loans as being primarily related to the need for a hastened transition in the case that an individual or family has become recently homeless and is subject to greater vulnerability as a result. Supporters of the Housing First model would agree. Housing First proposes that once an individual is in a stable housing situation, employment and wellness follow more naturally. According to the National Alliance to End Homelessness, under Housing First "there is a focus on helping individuals and families access and sustain permanent rental housing as quickly as possible and the housing is not time-limited" (NAEH 2009). The alliance notes that "this approach has the benefit of being more consistent with what most people experiencing homelessness want and seek help to achieve" (2009).

Yet Housing First implies that in some cases the household does not have an immediate form of income to sustain the housing without continued aid. With the Community Empowerment Fund's first housing loan, loan officers found that in order to remit housing loans income must be verified extensively to ensure that the individual can maintain the housing beyond the transition period (and especially in months immediately following transition). In Chapel Hill and many cities in the U.S., this task alone is formidable. Housing units affordable to individuals living on less than $1,000 a month are few in number, and those that are available are situated in communities populated by substances our borrowers in recovery seek to avoid.

The pilot loan issued for a housing deposit was termed an appropriate investment at the time, but characterized by situational instability similar to that of one of the pilot formal sector employment loans. Loan Officer Amanda Saunders worked with Reggie, the first CEF borrower to receive a loan for a housing deposit. The program itself and the relationship that developed between Amanda, her co-Loan Officer Andrea Ramos, and Reggie became more impactful than the capital for Reggie, demonstrated here by Amanda:

> One moment that sticks out in my head is when my co-loan officer and I were helping Reggie work on his resume and apply for new jobs. At the time, Reggie was working a job doing manual labor. But upon going over his resume we realized that he had a very strong background in working with children with developmental disabilities, and was incredibly knowledgeable and passionate about the subject. Yet Reggie did not seem to recognize his worth, and only saw himself as an old man working a dead end job without any real hope that anything would ever be different. After this experience my personal goal became to help him find a job that would tap into his interests and skills and help him achieve a stronger sense of self-worth.
>
> My goal has not yet been realized due to a few very adverse situations that have arisen. Reggie's son has been living with him since summer as he was having behavioral issues that Reggie's ex-wife could no longer handle. Reggie has been making incredible progress with his son – he enrolled him in an excellent afterschool program, has taken him to see a counselor, and they work together in a community garden on the weekend. But Reggie's ex-wife was going to have to start paying child support payments, instead of receiving them, as she was no longer the primary care provider for her son. This was not something she wanted to do, so came and took their son back to live with her, against both Reggie's and the son's wishes. During this controversy it came out that Reggie owed a large amount of back child support, which led him to be arrested. He was then forced to use his rent money to get out of jail, leading to a very precarious housing situation. Losing his son, being thrown in jail and knowing that he would potentially lose his apartment lead him to relapse and begin drinking again.
>
> Talking to Reggie after this happened was probably one of the most heartbreaking experiences of my life. He told me that he had been trying so hard to be a good person, to work hard, stay sober, and do right by his son. But after all this hard work his feet were just swept out from under him, and there was

> nothing he could do about it. He was so beaten down, and I could not think of a single inspiring or motivational to say, as everything he said was so true. Even though he worked hard and tried to live a good life, there were still roadblocks in his life preventing him from moving on from his past and getting ahead in life. This was a very demoralizing time period for both of us.
>
> But after his brief relapse Reggie was once again able to get himself back together, and persevere despite the hits he had taken. His resilience is incredibly inspiring, and because of this I know that he will be able to make it through anything. He has already attended a hearing regarding his housing status and found out that he will be able to keep his apartment. The utter happiness in his voice when he called me after the hearing, and the fact that I was the one he wanted to tell this good news to, was incredibly rewarding and satisfying. We are still not completely out of this rough spot, but I am confident that from here Reggie will be able to complete his loan repayments and continue on the positive track he was on before the controversy with his son.

As with Reggie, the relationships we developed with individuals who were in transition from the shelter into housing, or vice versa, were invaluable. Transitions such as these are characterized by indelible insecurity and instability. The consistent presence of a loan officer in this process became one area of life, though small, in which stability could pervade. Leaving the community of the shelter is no less significant a loss of community, regardless of the fact that the transitional space was a shelter. One's identity changes automatically and by definition; after self-identifying as "homeless," moving into housing means abandoning that identity and assuming ownership of a new space, self, and path. For CEF's pilot borrowers, moving into housing meant, to differing extents for different individuals, severing ties with peers from former spaces of community. Part by regulation, as former shelter residents do not have access to the services available to current residents, and part by choice, as former residents express a need for distance, social ties are lost or become difficult to maintain. As Amanda demonstrates, loan officers become a significant source of consistency for residents in transition.

Looking Forward:

Loan officers left the pilot period "on the fence" about the financial impact of loans expended for housing deposits. The value of transitions out of the shelter, speaking mentally, economically, and socially, is indefinite. In accordance with the Housing First model, loan officers did experience the benefits that a stable housing situation could bring to the advancement of an individual's situation. According to one borrower, his own transition out of the shelter aided him in the continuation of his recovery and his employment. Likewise, the value of preventing foreclosure or eviction is high, preventing costs associated with shelter living, new deposits, bad credit, and the assets and momentum lost in transition.

Realistically though, if income could not be verified to cover future rent payments and plans could not be made to patch income in a way that housing could become affordable on a monthly basis, loan officers found loans for housing payments to be unviable. Individuals living on earned income experienced particular challenges to maintaining housing. The cost of living in Chapel Hill is high; housing expenses are 75 percent higher than the national average and the University community deepens this tension by inflating the central housing market. "Affordable housing" in Chapel Hill is qualified by draft Town ordinances as particularly targeted towards residents with an annual income that is at or below 65 percent of area median income, which at the time of this report is equivalent to $57,000 for a family of four. CEF borrowers during the summer pilot made on average a little over $1,000 per month, and held a median gross income of approximately $1,150. Pilot applicants declared earnings between $0 and $24,000 a year, or far below the prescribed bracket for affordable housing in Chapel Hill.

Pilot participants thus confronted a lack of affordable housing options which only further aggravated the difficulties associated with moving out of homelessness. For example, when Loan Officers Naomi Fernando and Alex Pritchett were working to move their borrower, Jack, out of the shelter they sought out affordable apartments on the bus line to allow Jack to consistently get to work on time. They discovered that one corporation owned all the main apartment complexes which offered monthly rates below $500, and also that the corporate landowner would not allow any renter with a criminal record, no matter the degree. Jack was automatically disqualified, and the search began for a private landlord that would be lenient enough to allow Jack a second chance and offer a rate he could afford.

Other borrowers, living in the more low-cost one-bedroom units in town, spent as low as 25 and as high as 60 percent of their monthly income on housing and utilities. Thus, in the process of budgeting, paying bills, and home-searching with borrowers, we learned that asset inequality goes much deeper than income inequality in Orange County. Making ends meet on a monthly basis can consume all (and more) of an individual's income, leaving limited room for the realization of long-term goals such as homeownership and career development. Amanda reflects on this above, noting the tension that exists between holding a *job* to pay bills and working towards a *career* that could realize a person such as Reggie's full potential. Likewise, the lifelong trials associated with paying rent, which generates no long-term return to the renter, are notably different from the benefits of paying off a mortgage or financing similarly stable assets.

Moving forward, clients of service agencies that follow Housing First models and provide continued financial assistance post-transition are optimal candidates for CEF program participation. CEF envisions working more closely with agencies administering stimulus funds under the Homelessness Prevention Rapid Re-housing Program (HPRP) and agencies or programs such as Section 8 that provide households with assistance that is not time-limited. CEF further envisions exploring means of increasing the accessibility and relevance of Individual Development Accounts (IDAs) for households in the group's target population.

The questions we left our experience in the Chapel Hill housing market with include: What are the components of the financial system and real estate development in Chapel Hill that create disparities in access? How can CEF best employ financial services to mitigate these disparities in housing access? And finally, how can we develop meaningful assets with our clients to lessen evidenced asset inequality?

Domestic Microfinance and Savings

At the end of the summer, loan officers came to the conclusion that while micro-loans provide a veritable point of entry into the program and may continue to be the program's base, micro-savings would likely come to overshadow the value of the loans. This conclusion is supported by an argument proposed by Von Pischke, who wrote that "most people want to save most of the time, whereas some people want to borrow some of the time" (Blank and Barr, 2009). While simple enough, this framework is too true. Shelter residents with volatile income streams based on day-to-day job-finds have trouble harnessing income towards moving (and staying) out of the shelter. Once out of the shelter or similar facilities, social service agencies find that without financial oversight or budgeting accountability following move-in, fewer transitioned residents are able to maintain housing (personal communication, Gasana 2010).

The experiences of CEF thus support an argument proposed by Schreiner and Morduch in 2001, who concluded that "developing inexpensive saving services for the 'unbanked' appears to have greater potential for cost-recovery in the United States, and this could open up opportunities for poor households that are poorly served by existing for-profit and non-profit financial institutions" (2001, 6). In the pilot experience, loan officers reflected that the lack of formal bank accounts and complementary financial management exposed participants to significant financial and social risk. With cash in hand, participants risked being taken advantage of or becoming susceptible to past or persisting addictions. Without a savings account, weeks with less work or temporary imprisonment could result in income-expense imbalances large enough to end in eviction. Connecting individuals who are either shelter residents, in transition, or even those in housing to institutional opportunities to save can mitigate some of these risks.

However, simple connections between low-income customers and financial services are not enough. As Schreiner and Morduch argue, "the right institutional structure is particularly important for low-income families because they have little financial slack in their lives" (Blank and Barr 2009, 10). The pilot experience of CEF attests to the importance of the structure of both the account and the financial institution. Loan officers found that debit accounts that allow for the occurrence of overdraft and, likewise, savings accounts that have no limitations on withdrawals provide the customer with less actual opportunity to accumulate savings. In sum, "getting banked" does much less for a customer if the enrollment in formal financial institutions is not linked to some level of budgetary oversight and initial assistance in money management.

So how did loan officers come to these conclusions? How did the students and borrowers involved in the pilot of CEF come to shift a paradigm away from micro-loans to move towards micro-savings? Importantly, CEF's innovations in savings services came directly out of our relationship with one borrower, whose courage and conviction in the process of recovery and coinciding struggle with drugs, cash, and housing demonstrated a need and a means to providing such services.

"We all went to different schools together:"The way we learned

Jacob relapsed. He blew hundreds of dollars in a matter of hours, and sold the cell phone his loan had paid for. Coming out of his relapse, Jacob went to detox and then called us, his "support team," to set up a time to talk and to begin the process of rebuilding.

The very next morning, his loan officer Jon Young and I sat with him in a coffee shop on Franklin Street. It was July now—halfway through the summer, halfway through the pilot—and the three of us had come to the bottom of the breakdown together. Relapse is something that happens, and is a part of the process of recovery, and was something that we knew we should expect and be prepared to handle. But as much as we may have acknowledged the circumstance as a possibility, and been prepared to step in as friend, supporter, and advocate, I do not know that we could ever have been ready for that much reality.

Jacob had fought and fought. In a letter he presented us that morning, he wrote, "Bottom line is if I didn't have a heart I would probably do just fine. But I'm stuck with it." Even when he had felt strong in his recovery, Jacob's compassion for others as a self-proclaimed "King of Empathy" had driven him to maintain relationships with friends from the Chapel Hill shelter and elsewhere who had not yet overcome similar struggles. As much as he relied on these friendships, some long-standing, to maintain his sense of community, these relationships situated him in communities populated by the substances he sought to avoid and the habits he hoped to break.

As for Jon and I, we had come to know and trust and believe in Jacob and his potential. He had become an incredible mentor. His example had shown us how to balance caution with compassion, and empathy with action. His relapse became somehow representative of our own shortcomings, as individuals and as a program. We came face-to-face with the notion that through CEF we were helping him to make money, but that this was secondary when juxtaposed with the fact that he was still in a negative place mentally. After hearing about Jacob's relapse, we had to ask ourselves: Why should CEF aim to increase income if better standards of living do not necessarily make people all that much happier anyway? To believe that simply getting a stable job, a nicer house, a bigger paycheck, and a savings account could be enough was to cheapen the "humanness" of it all. We were forced to reckon with the fact that we are *not* a bank, that what is good about our work *is* the community and relationship development, and that if $300 really could by itself change a life, it would in many ways be a sad statement. We realized that in the end, we do not really care about ending poverty—that ending poverty was too shallow a goal. Loan Officer Alexis Seccombe put it well—we want to enable people to "actualize their desired quality of life," whatever that may be. We want to build a community that is healthy and supportive, mentally and physically, and that is a joy to be a part of. We want to not just *recover*, but to *thrive*.

Meanwhile, together we discovered that while the need for healthy environments played a significant role in Jacob's journey, the demand for accessible financial services was just as pressing. Jacob had never had a bank account before and did not really trust them, which meant that he had no institutional means of accumulating savings for emergencies. In this emergency in particular, limited savings left him with no financial buffer, on the brink of losing his housing, and without sufficient funds to secure a new apartment.

Two weeks prior, Jacob had introduced us to the idea of saving through CEF. His loan officer, Jon Young, recounts that first "unofficial" deposit:

> "That week my borrower gave me a weekly payment of $320; that was $305 more than he had decided on in his repayment plan and $200 more than the value of his loan. I wasn't sure if I should take it, but he said he wanted to put it in his savings. He needed to, and that was the start of it."
>
> (Jon Young)

Jacob shared that in his battle against addiction, the times at which he is most secure in his recovery and least likely to relapse are also those times when he has no money. Well, the point of a CEF loan was to help him make more money, so now we were faced with a very basic but complex problem. Though Jacob wanted to keep his job, stay out of the shelter, and ultimately move into a better apartment, cash was a trigger for him. The deposit he had made with Jon two weeks prior was a way of getting his paycheck off his hands.

Jacob came to our meeting the morning following his relapse with a proposal. His plan for the rest of his recovery was a two-part process, which began with "Just by not giving up for one," and:

> Secondly, find a person I can really trust and let them be my accountability partner with this money matter. Just to let someone know what day I'll be paid and find some way to get this money off my hands. It's really a trigger. Sometimes I can handle it; other times it's almost the devil itself. When I find myself tired, this is the most dangerous time for me. I'm really seeking this recovery with all I have, and all I have is all I get.

His loan officer, Jon, became that person who he could trust to hold him accountable to his own finances.

> We met regularly to collect his paychecks from work and cash from odd-jobs, and then I'd dole out a small weekly allowance for the essentials. We made receipts, but I wasn't really sure what we were doing. I guess you could call that the pilot launch of the Safe Savings Program we're offering in 2010. It turns out cash-in-hand is a huge problem for a person with an addiction.
>
> (Jon Young)

Through the financial oversight, limited access to cash, and budgetary assistance this relationship facilitated, Jacob saved several thousand dollars during the next few months. With these savings he was able to move into housing in a drug-free environment, buy a van, get insurance, and more than make ends meet. The difference was as simple as creating a barrier between him and his money, and in creating this barrier, defining investments towards which he could target savings. The value of these savings quickly came to overshadow the amount of the loan itself, which was for just $120, and is testament to the need for financial services that can facilitate true personal investment and empower customers to use their assets, both existing and potential, to the best of their ability.

Looking Forward:

Thus, in response to his struggle, and not in a bank, a classroom, a meeting, a focus group, or anything of the like, but in a coffee shop on Franklin Street, Jacob created the concepts behind both Safe Savings and Micro-Development Accounts. At their core, both are simply savings accounts, but structured in a way that incorporates monitoring and restricts immediate access to withdrawals. The programs began as two new ways to conceptualize partnerships, accountability mechanisms, and the potential for self-empowerment through financial services. Jacob proposed this savings-based solution in part through necessity, but in larger part as the culmination of his journey out of homelessness and in the course of recovery, and held in company with his own hope, conviction, and ultimate resilience.

Two weeks later, one of our other borrowers who was himself recovering from a significant relapse independently proposed the same potential solution. With these two people in mind, CEF Loan Officers initiated partnerships with both the Chapel Hill branch of RBC Bank and Self-Help Credit Union in Durham to find a way to institutionalize a partnership between

CEF and our borrowers that could provide the necessary framework. We began to use a bank account to fill a gap between income and sustained recovery that, before the pilot and this moment of honesty with Jacob, we did not even know existed. Within the structure of "accountability partners," we had an approach that did not stray too far away from our role as a financial services provider, but also allowed the program the opportunity to be involved more integrally in building towards real goals, however large.

CEF and Inherent Social Work Components

During the pilot, loan officers assisted applicants in the following activities: building résumés, basic budgeting, searching for apartments, furnishing apartments, shopping for cell phones, acquiring transportation to and from work, applying for social services, accessing food and other basic needs, exploring credit options, acquiring needed technology, researching educational opportunities, marketing, pricing products, and more. All these services were provided by volunteer loan officers and for free, and thus significantly added to the value of a $120 or $300 loan. In terms of program time however, these activities dominate other loan-related activities. Loan officers reflected in interviews that these activities, though supportive and valuable, came to surpass the priority of repayment in borrowers' minds. When loan officers felt a borrower's participation "slipping," they responded by amplifying "social work" interactions and proving their value to the borrower. In this way, loan officers hoped to develop the caliber of relationship that could tie people to the program and incentivize rather than enforce repayment.

Depending on the borrower, social work and intensive time worked well as relational accountability. One borrower, Jacob, reflects on the impact of his relationship with his loan officers here:

> So, Friday rolls around again—time to make a payment. At about 4:30 pm on Friday, I go to the shelter to meet with a doctor about ADHD or ADD. I have my money with me. Start getting impatient. The rest is all about the choices I make. I get high. I sell my phone for some more damn dope. When it's all said and done I think about these two students that are giving up their time to help me. I felt so low I could have sat on a dime with room to swing my legs off. That, my good people, was a true wake up call for me. Slowly I begin to put Humpty Dumpty back together again.

His loan officers had developed a friendship with him based deeply in trust and accountability. As noted above, this trust led to the creation of our savings program and truly humbled his loan officers on a personal basis and the staff as a whole. We learned then what worked and was important, and were able to redefine our goals as a program in the process and for the better. We are not a bank in the traditional sense and thus our goals cannot be defined solely by the act of garnishing repayments on time (though this too could not be minimized). Our goals though had to be defined by the impact our financial services had on an individual, and the loan alone would not have cut it with Jacob, or anyone else involved in the pilot program. We had to be more than a lender, and loan officers had to be more than loan officers.

However, Von Pischke argues that "Debt collection is a long way from social work, and a lack of commercial values can complicate the task of achieving sustainability as an NGO" (87). Von Pischke recognizes that while "nonfinancial activities are often useful and laudable means of outreach…efforts to mix credit with social service and training may dilute the benefits of specialization" (87). This critique cannot be minimized; risks of focusing too heavily on social service and training are real and can dilute a program's operations as a financial institution. Nevertheless CEF staff determined at the current scale that social work not only minimizes the price of the loan for the borrower, but also creates an outlet for loan officers' skills and knowledge to be employed with people who are not approved for a loan In the context of CEF and our particular structure, this is "cost-effective"—it costs nothing to provide besides time, and can only increase the likelihood of repayment. Borrowers feel they are getting more bang for their buck and loan officers' skills have a wider impact. At the end of the pilot, loan officers drew much-needed boundaries on these activities to place a larger emphasis on repayment, but elected to maintain a role in connecting applicants to supportive services.

Ascertaining Accountability: Social Capital and Relational Ties in the Homeless Community

When considering the domestic microfinance market, analysts' first critique is often the inability to implement peer lending due to limited social capital and relational accountability in the U.S. society. Bhatt, Painter, and Tang wrote that "some have suggested that the reason why US programs have shied away from group lending is that many inner-city and low-income communities lack sufficient social capital for mutual support and monitoring to work effectively among group members" (2002).

In spite of this analytic perception, CEF found borrowers to be supportive in the group context. Groups were structured primarily as "monitoring and mentoring groups." Group member contact was often more valuable than loan officer contact in terms of the amount and utility of resources to which fellow borrowers could connect each other. For example, when one borrower's household situation changed and his son relocated to live with him, he could no longer afford his phone bill. His loan officers helped him to apply for a Safelink phone, which is a free phone service provided by the federal government to households in need. Safelink phones however take two to three weeks to arrive at your door, and in the meantime, another borrower loaned him *his* Safelink phone because he had been able to procure his own personal line since receiving the government-issued service.

Beyond the benefits of relationships within the group, pilot loan officers further attributed the ability to review applications to the interconnectedness of the homeless community. Borrowers became the best outreach mechanism for CEF, referring friends who they would consider to be reliable and who they knew significant background information on. While reviewing applications CEF members capitalized more heavily on anecdotal references from an applicant's friends and associates in the shelter than anything else.

Even with the evident social capital in homeless and at-risk communities, CEF has not yet been ready to apply group lending practices in our context. The one joint liability agreement that two applicants were prepared to enter into during the summer pilot fell through primarily due to circumstances particular to those individuals, but also for reasons associated with the applicants' relationship with each other. Nonetheless, in the final evaluation session loan officers expressed sincere faith in the strong community and relationships in the shelters and low-income neighborhoods of Chapel Hill. Pilot participants saw the peer construct to be applicable to low-income neighborhoods with less transience than the shelter, and especially in supportive housing communities such as Oxford Houses and drug treatment centers.

Sweat Equity and the Development of Alternative Capacity

Pilot borrowers completed all sweat equity requirements at HOPE Gardens, a community garden and urban farm in Chapel Hill. The choice of HOPE Gardens was based primarily in proximity and convenience, as loan officers already worked in the garden and was already a space made open and accessible to the homeless. When a borrower could not make a payment over the pilot term, loan officers volunteered with the borrower for one or more hours in the garden to defer payment. When asked about the effectiveness of this approach, loan officers defined the main benefit to be the opportunity to interact with the borrower outside the confines of the loan. According to response in interviews, working in the garden, creative writing in *Talking* Sidewalks workshops, playing soccer with HOPE Soccer—all of these activities built relationships that gave the loan officer a heightened sense of context with their borrower and the borrower a stronger sense of personal capacity and accountability.

The vision by the end of the evaluation session was for a sweat equity model capable of intentionally building participants' résumés and facilitating connections to potential employers vis-à-vis civic engagement. Law school graduates and landscapers alike are particularly hard-pressed in today's economy and encouraged to volunteer for a period with potential employers as a way of demonstrating dedication, maintaining skills, "staying fresh," and building social and professional networks that can support the acquisition of gainful employment.

Student Volunteers as Loan Officers

When asked to describe the most valuable component of the CEF program, all borrowers unanimously stated that the student volunteer loan officers were CEF's greatest asset and their strongest tie to the program.

Student Learning Experience

Student volunteer loan officers came from all across campus, reaching departments from environmental studies to business to comparative literature to photojournalism to public policy. As a multi-faceted role based partly in business but fully in relationships, students of all disciplines brought skills, knowledge bases, and perspectives that were valuable to the group process and their respective borrowers.

The students involved in the pilot (and afterward) made a group commitment to allow the program to develop "in process" and for the applicants themselves to identify the needs for financial services. In writing about the development of the Highlander Center, a research and education center in rural Tennessee, founder Myles Horton wrote:

> That's when I first understood that you don't have to look for a model, you don't get the answers from a book. You look for a *process* through which you can learn, read and learn. I was conscious at that time—slowly became conscious…that the way you really learn is to start something and learn as you go along. You don't have to know it in advance because if you know it in advance you kill it by clamping this down on the people you're dealing with. Then you can't learn from the situation, can't learn from the people. (Horton & Freire, 1990)

Not to in any way equate the initiatives of CEF with the brilliance of Highlander, but in much the same way, students involved in the creation of the Community Empowerment Fund made themselves vulnerable. Vulnerable to failure and without a model, the evolution of the group process is what truly came to define the growth of CEF and molded the group's ability to respond rapidly to changing needs. Thus, when borrowers relapsed or otherwise suffered large shifts in living situation, the program as a whole and the loan officers as individuals had the flexibility to adapt to changing contexts. This process recognized that the most important people to learn from were our applicants, and gave CEF the programmatic flexibility to offer a different service when a micro-loan was not at the root of a need. As reported earlier, loan officers assisted borrowers in accessing everything from cell phone contracts to government social services. Identifying and navigating these resources was one of the steeper learning curves which loan officers identified, in addition to being the most time-consuming aspect of the work.

Through this process, students benefitted immensely from an experiential learning program that had no holds barred. One loan officer reflected:

> I have never noticed the homeless shelter and was doing a lot of thinking about how many people pass by the shelter or homeless people (myself included) and never give them a second glance...I'm feeling really brought down by the reality and we live in a place where things aren't that bad. I've become very interested in microfinance and have been really gung ho to dive into this issue of poverty- but today was a huge wake up call for me. It's so incredibly different when you talk about it and theorize and come up with solutions but that is simply evading the entire problem.

This loan officer demonstrates the educational value of CEF from the student perspective. As a student-run microfinance organization CEF educates loan officers in the process of providing a real service to the community. Students involved in CEF attribute pivotal learning experiences to these opportunities to ground theory in practice, and practice in theory.

Student Capacity

Above and beyond the tangible resources which loan officers were able to connect borrowers with, all borrowers attributed the deepest value of loan officers to their contagious positivity. One woman who did not end up needing a loan with CEF but who regularly attended workshops and larger functions noted that all the CEF members were true motivators. She then went on to refer a friend who was unemployed and battling depression to the program because of her faith in "the power of positivity" to transform lives and direct journeys.

> In an article on microfinance in developing countries, Von Pischke wrote that: Managers of microfinance institutions are often not trained bankers. This appears to be no handicap, because banking in many poor and middle-income countries is so deeply rooted in collateralized lending that the creativity and feel for cash flow and character-based lending are not developed among bankers. What remains important is attention to detail, respect for clients and staff, and rapid response to any problems that arise or that threaten to arise. Consequently, and given comparatively simple lending technologies, relatively young and inexperienced

> staff with reasonable local academic qualifications can become effective loan officers within several months. (Von Pischke, 2002)

While Von Pischke directed this comment to bankers in developing countries, CEF and other student-run microfinance programs have sought to and arguably achieved a similar feat. In May, the student volunteers knew next to nothing about available social services, but by the end were able to effectively refer applicants to supportive agencies. Likewise, students went in to the summer knowing little about the housing market in Chapel Hill, but by the end knew all the search engines and the pros and cons of almost all residential communities within town limits and at least a little bit about their application process. Students learned about small business and the viability of micro-enterprise alongside CEF borrowers, participating together in educational workshops on credit reports, financing, and more.

An additional strength of student capacity originates in students' interconnectedness to online and University resources. When paired with individual borrowers or applicants, students can commit one to two hours a week with that individual seeking out resources and information for that individual which he or she often would not have had the time to research. One borrower, Abraham, demonstrated this in a group meeting, speaking to his loan officers Naomi Fernando and Alex Pritchett. He said, "You all should get a raise! This is all going way beyond the call of duty here. You found me a printer, you found my kids a school—you all aren't required to do that kind of stuff for me. You all should tell the people above you that you need a raise!" His loan officers tried to explain that "there are no people above us, this is it," but he just would not believe them.

However, the capacity of students is challenged by the same complex issues which challenge borrowers themselves. Members of CEF fought alongside their borrowers to mitigate the ripple effects of a criminal record, to advocate for Section 8, and to patch work together to make ends meet. Most significantly, loan officers struggled against addiction side-by-side with their borrowers, aware of relapse and unknowing of solutions or proper responses, and with no more "right answers" than the borrowers had themselves. Admittedly, we did not win those battles often. But loan officers did not give up the fight, and for this, they earned the respect of their peers and their borrowers, and were nonetheless there for the next fight.

Student Volunteers and Incentivized Repayment:

According to borrowers interviewed, the ties that bind are the relationships built among borrowers and their loan officers and the personal accountability that these relationships foster. While borrowers may have gone a couple weeks without being in good contact with the program, it was not pressure from creditors or any threat of foreclosure that pushed them to finally call their loan officers or make payments on their loan. Rather, the borrowers' relationships with the volunteers pushed them to attend meetings, make payments on time, and ultimately remain accountable to CEF. The weekly repayment was CEF's excuse for making contact on a weekly basis, but these regular check-ins meant much more to both sides of this partnership, and for this reason were able to incentivize repayment for individuals for which this relationship developed.

However, Schreiner and Morduch accurately summarize the experience of CEF in garnishing repayments here:

> And although most borrowers who repay their loans probably do so more because they are honest than because they fear the costs of default, incentives that increase the cost of default or increase the benefit of repayment can only improve repayment. (2002)

The ties of personal accountability alone did not work for everyone. Those who repaid, as Schreiner and Morduch argue, did so because they cared to and were honest and felt relational accountability. The cost of default included the inability to access future and larger loans and the loss of any accumulated savings deposits—arguably not substantial enough to monetarily enforce non-default. Those who ultimately defaulted did so and were able to sever ties and disconnect from the group by moving out of the state or moving jobs and homes. By this point, nine months after the beginning of the pilot, although one of the two individuals to have defaulted remains in touch, there is no immediate likelihood of repayment.

For those who did repay, the process of repayment was a strong means of ensuring that the investment was not perceived as a hand-out, but rather as an investment on the part of the borrower. The establishment of CEF as a micro-credit program and not a charitable organization was significant in two identifiable ways. The first was based in the building of a functioning partnership that placed borrower and loan officer on equal footing. Borrowers interviewed did not have the sense that CEF had "given" them anything, but rather that they had "worked for it all" (personal communication, Jacob). Borrowers rightfully owned all their progress; CEF as a program and loan officers as individuals were only present as partners and co-facilitators. Working with the homeless community and particularly with individuals disenfranchised in some way from opportunity, a loan with CEF and the opportunity that recognized had the potential to aid an individual in overcoming the sense of isolation and helplessness one can experience living in the shelter or otherwise on the margins. As a loan program, CEF aimed to turn systems of control on their head—putting the individual as in control of their own goals as possible.

Secondly, as a loan program, CEF was able to facilitate continued contact, motivation, accountability, and partnership beyond the point of the financial transfer. Based on all the feedback CEF has received from borrowers, the value of the CEF program is embedded in the relationship they have with their loan officers and not set in any particular way in the investment they made with their loan. Were CEF solely a cash assistance program, borrowers would simply have received the requested funds and these relationships would never have developed and the motivation they have fostered would never have been actualized.

Looking forward, CEF seeks to find ways to build these partnerships without extending faulty loans. Program changes in February of 2010 reflect this goal. Appendix A includes an outline of these changes and the resultant model. This second-round pilot program has included the development of Savings Circles, the opening of commitment-based savings accounts, a larger focus on human capital and training, potential for larger loans, and delayed loan eligibility.

Ongoing Evaluation

As a microfinance institution, CEF has outlined the factors by which the group will continue to evaluate their progress. Factors are based overall in the capacity to facilitate self-sufficiency, and will be measured by changes in savings, assets, and income. CEF began the process of building a data system capable of documenting these changes at the end of the pilot. To ensure that CEF becomes a program that does more than facilitate continued consumption, evaluation mechanisms will aim to measure the ways in which program participants build assets and undergo transitions (Sherraden, 1991). As a loan program, CEF evaluates program efficacy in terms of repayment rate, loan duration, and payment deferrals or defaults. As a community development organization, CEF will aim to focus evaluation especially on the consistency of group meetings, attendance, and the resources developed or shared within these groups which would have gone unrealized without this venue. And finally, as a student-run organization, the group will document the value to students of an experiential education, the impact of frequent leadership turnover, and the capacity to transfer institutional knowledge.

This report has incorporated limited quantitative analysis, though CEF members have expressed interest in these measures as the group's scale expands. Members will continue to measure the impact of the program as a whole through qualitative interviews and evaluation sessions with borrowers, applicants, and loan officers. Finally, members will continue to hold bi-semester program evaluations, and remain committed to adapting, refining, and evaluating approaches to the provision of microfinance, savings, trainings, and assertive support to the particular needs of communities in North Carolina.

XI. Conclusion

This report proposes first and foremost that the process of the Community Empowerment Fund pilot is unfinished. Microfinance as an industry has placed a significant emphasis on experimentation and learning (Schreiner and Morduch, 2002), an emphasis which members of CEF have integrated into daily program operations. In the context of the pilot launch, this report can only document the beginning of that formation.

By incorporating supporting evidence from industry analysts alongside programmatic experiences, this report aims to demonstrate that, in the process of the pilot, we gained several primary understandings which have informed program modifications since. First, by working in particular with the homeless population and at-risk households, the value of the Community Empowerment Fund lies primarily in the potential to develop truly supportive and opening networks amongst borrowers, savers, and applicants, and between them and their loan officers.

Secondly, we have come to understand to a greater extent that in the domestic context micro-credit can only be a piece of the answer. Micro-savings, trainings, community, supportive services, even government welfare—all these and more come in to play and must be taken into consideration in the formation of a group which aims to create avenues for upward mobility.

Third, we have formed an understanding of an organizational goal which goes beyond income and beyond making ends meet. We are trying to get at the deeper disenfranchisement, the overwhelming disillusionment, and the engrained hopelessness which characterize the uphill battle out of poverty in the United States, and to do so in a way that recognizes the whole of a person's potential. We have come to understand that we are all recovering from *something*. We want to recognize the resilience that recovering from cycles of often generational poverty requires, and enable the realization of a person's own convictions to better his or her own and their community's situations.

As we have noted in several different ways throughout this report, the continuation of the experiences of the pilot loan officers and partners all through the fall of 2009 and into the spring of 2010 pushed members of the Community Empowerment Fund to re-envision the role that the group could play in the community, and, consequently, to change just about everything. We remained committed to the publication of this report because it was precisely this process, these experiences, and far more even than could be imparted here that led us to put together what we believe to be a much stronger program.

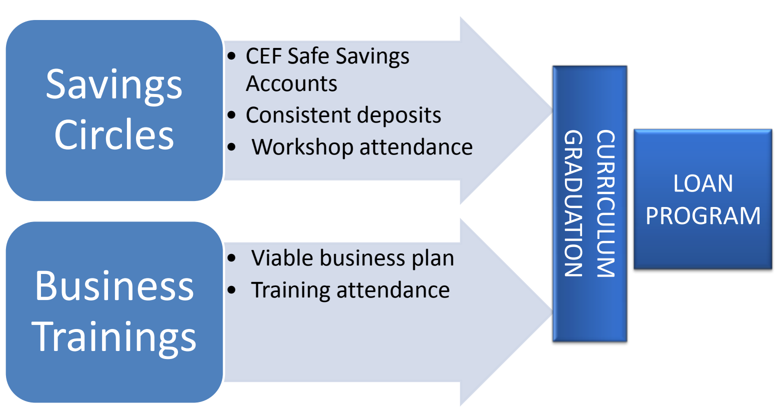
This research does not propose that microfinance as applied to the homeless community in the United States can make the route out of poverty either short or devoid of setbacks. Those who changed their lives while involved with the Community Empowerment Fund truly changed their own lives. Meanwhile, loan officers as individuals built relationships that go deeper than credit ever could and CEF as an organization became much more than a loan program. In conclusion, while the loan may have been our excuse for knowing each other and the point of entry, the value of the program to the borrowers and the volunteers was something very different than a \$300 check to a landlord.

Appendix A: Post-Pilot CEF Programs
Updated June 2010

Following the end of the pilot period, CEF launched two new programs to accommodate the lessons learned during the program's first year of operations. These included:

- A 6-week Small Business Training, covering a range of topics related to business management focused on the needs of the micro-enterprise in the United States. This program was based around ideas and utilized case studies of businesses started for under $500. The training covers:
  - Micro-business ideas
  - Customers
  - Pricing
  - Marketing
  - Bookkeeping
  - Legal issues
- The CEF Safe Savings Program, incorporating goal-oriented and commitment-based savings accounts with a 12-week financial literacy and job readiness curriculum into the context of a small Saving Circle. The training covers:
  - Goal-setting
  - Budgeting
  - Interview skills
  - Résumé building
  - Banking basics
  - Credit reports and building credit
  - Debt and debt management
  - Health literacy and nutrition
  - Smart consumer shopping
  - And more

Loan eligibility thus became dependent on the following items:



Both the business and the financial literacy training have provided an opportunity for CEF to screen clients for consistency, reliability, and personal commitment prior to the point at which they may be applying for a loan. The time spent together during the training allows student volunteer loan officers to build stronger relationships with clients while creating a collective history and understanding. The addition of deepened educational components to CEF programs has fortified loan officers' and borrowers' understanding of U.S. business and financial systems. Thus, the cumulative benefits from these program changes abound, and have yet to be fully analyzed or reported upon.

Appendix B includes a hand-out on the CEF Safe Savings Program that describes program details. Unfortunately, it is not within the limits of this report to describe the incredible learning that the development of the business trainings and the savings program has facilitated. This brief mention is included for the primary purpose of acknowledging the changes CEF put in place in response to strong borrower, loan officer, and community partner feedback following the pilot program.

Information on these programs is also included herein for the purposes of inviting feedback and response to members of CEF, who welcome questions and considerations from the readers of this report.

Appendix B: CEF Flyer on Safe Savings Program
Published June 1, 2010

The Community Empowerment Fund (CEF) works with you to achieve your goals. We provide savings opportunities, small loans, financial trainings, and small business courses. The active support of CEF creates new opportunities for career advancement, self-employment, and beneficial housing.

CEF SAFE SAVINGS ACCOUNTS: AN INTRODUCTION

Are you trying to save for…

- Car
- Cell Phone
- Equipment
- Travel
- Any Dream?
- Housing
- Emergencies
- Education
- Owning a business
- Debt reduction

Then think about joining CEF!

Why work with us?

- **Get a safe, responsible account**
- **Get matching funds. For example, if you save $1000, CEF will match $100.**
- **Get connected to community resources** for housing, jobs, transportation, health, food, and more
- **Become eligible for a small, no-interest loan**
- **Meet regularly with peers** in order to support and better enable your savings plan

*CEF will work to open Safe Savings Accounts for individuals **regardless of debt or credit history, providing an opportunity to build credit** while creating your own path to success.*

How do our accounts work?

Safe-Savings Accounts (SSA) are commitment accounts. You make a commitment to save towards your goal and withdrawals are restricted until you reach our goal. SSA's help you to budget monthly and increase take home pay, as well as help ensure you meet the goals you set for yourself.

Savings Circles are groups that meet once a week and cover a 10-week training in budgets, credit, and more, while providing one-on-one support. Once you meet your savings goals and have completed at least 8 of 10 Savings Circle workshops, you are eligible to receive Matching Funding of 10%.

How do you start?

Call CEF to make an appointment to find out more information, fill out a program application, set your savings goal, and join a savings circle.

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