LONGER TABLE
LENDING

Strategizing Under Uncertainty

Capstone Paper

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List of Acronyms

ACH: Automated Clearing House
APR: Annual Percentage Rate
CBA: Credit Builders' Alliance
CDFI: Community Development Financial Institution
CFPB: Consumer Financial Protection Bureau
FDIC: Federal Deposit Insurance Corporation
LTL: Longer Table Lending
MJFLA: Milwaukee Jewish Free Loan Association

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Executive Summary

Payday lending services are used by people who do not have access to mainstream, short-term, personal loans in times of financial need. However, predatory terms such as interest rates as high as 1000% and astronomical fees often leave people more financially unstable and unable to pay off their loans, thus leading to an endless cycle of compounding debt. While the federal government has not played a large role in regulating payday lenders, states and cities across the United States have taken action to reverse their negative impacts. Fifteen states have prohibited extremely high cost payday lending, and over 160 cities have passed local ordinances to control or limit the number of payday lending institutions in their communities. Outside of the policy realm, nonprofit organizations and religious institutions have attempted to meet the financial needs of community members in order to prevent the usage of predatory payday loans.

In 2017, an estimated 330,000 Minnesotans took out payday loans to address short-term financial needs. Mount Olive Lutheran Church saw a need for a 0% interest, micro-lending program in their community in South Minneapolis, and started the Longer Table Lending (LTL) program. LTL's implementation and kick-off has faced much delay due to issues obtaining an Automated Clearing House (ACH) service and countless internal decisions about operational options. With so many uncertainties, this problem required a scenario planning approach. By defining predetermined elements and uncertainties, we analyzed the factors influencing LTL and produced three future scenarios for LTL to choose from. Our approach also included a cost-benefit analysis of the LTL program so that the scenarios could be paired with a quantitative analysis of cost. We provided LTL with this cost-benefit analysis spreadsheet tool to utilize in future decision-making processes. The cost-benefit analysis rendered a large benefit-cost ratio, but the costs and benefits are modest estimates. Our approach resulted in three possible scenarios:

1. Mount Olive Operates LTL Independently
2. Mount Olive Partners with External Lender to Administer LTL
3. Mount Olive Pivots

Our team's final recommendations are for Mount Olive staff and task force members to have internal discussions in order to collectively choose a scenario that will best serve LTL's mission. First, they need to set a deadline by which to make a decision. Then, they should determine a governance structure for decision-making. For example, will the task force be making the final call, or does that come down to staff who will be managing the program? By focusing on deadlines and clarifying decision-making power, Mount Olive can take control of the situation despite the many variables involved.

Once the decision-making framework has been established, we advise walking through each of the three scenarios to anticipate necessary steps and evaluate which one would best serve LTL's mission. For example, Scenario 1 would require the acquisition of ACH service. Program staff would need to decide how long they are willing to wait for ACH approval, and if they do not receive it, decide on a vendor (alternate bank or DownHome Solutions). The cost-benefit analysis tool would be used to calculate potential program costs. If Mount Olive were to consider Scenario 2, they would want to have an initial conversation with Exodus Lending to estimate cost-sharing. They can use the cost-benefit analysis tool to anticipate cost. They can quantitatively compare scenarios, which would complement staff and task force members' dialogue and discussion as they move forward or pivot funding to another purpose.

Introduction

Mount Olive Lutheran Church is seeking to build a community of abundance in which individuals and families experiencing financial emergencies and hardships do not feel shame and are not taken advantage of by predatory lenders. The church will do this by launching Longer Table Lending (LTL), a program providing alternative zero-percent interest micro-loans, and act as a means to advocate for broader systemic policy reforms that protect households experiencing financial emergencies from being further harmed by abusive loan products. In their pursuit of developing the LTL program, Mount Olive has entered into new regulatory spaces and encountered new challenges, such as the ability to acquire ACH services and pending payday lending legislation at the Minnesota legislature.

Mount Olive resides in the South Minneapolis neighborhood, Powderhorn Park. Although a majority of the congregation is made up of people living outside the neighborhood, the LTL program is intended to primarily serve those in the Powderhorn Park, surrounding southern Minneapolis neighborhoods (Phillips, Whittier, Seward, Longfellow), and the greater Twin Cities metro area. The Powderhorn Park neighborhood consists of about 9,700 people with a majority of people of color (54.5%) (Minnesota Compass, 2019). The median household income is about $55,900, with the highest percentage group falling under the less than $35,000 household income group (27.3%) (Minnesota Compass, 2019). (See Appendix 1 for additional demographics.)

The idea for the LTL program originated from Mount Olive staff's experiences with people in need within the community. Through their community programming (Neighborhood Ministries) and partner organizations/churches, they learned that residents of South Minneapolis are in need of short-term, low-interest credit options to meet urgent and/or basic needs. They found that people who are experiencing financial hardship do not have adequate financial resources and the consequence is that vulnerable households access credit with unfair, abusive or deceptive terms that perpetuate economic instability and crisis by obscuring the true costs and risks associated with high fees and interest rates. This was an opportunity for Mount Olive to live its faith values by creating alternatives to unethical lending practices in Minnesota through LTL, and taking part in advocacy efforts to promote economic justice across the region.

LTL has received funds through donations and a grant from Minneapolis Synod for operation costs and loan distribution, but they have been unable to lend money to borrowers at this time. At the beginning of this project, LTL was set to start a pilot program and were waiting on their bank to approve the use of an ACH service. This project was originally meant to evaluate the success of the pilot program and provide recommendations moving forward. Due to uncertain conditions and circumstances decided by outside entities, LTL has struggled to get the program up and running. The project has shifted from one with a program evaluation approach to providing recommendations for future implementation.

The purpose of the project is to build the capacity of Mount Olive Church's leaders in launching the LTL micro-loan program and advocacy efforts by providing the following: research on the current small-scale loan regulations and laws, assessment of loan pool sustainability, recommendations on program implementation pathways, and a scan of current advocacy efforts to reform laws that address predatory lending. Our work provides a series of next steps for Mount Olive in their pursuit of meeting community needs despite the many uncertainties surrounding program development and implementation. Equipped with scenario planning and cost-benefit analysis, Mount Olive staff and task force members will be well-prepared to forge ahead with a clear vision of what they want to achieve, and more importantly, how they will go about achieving it. Our work not only serves as a set of tools to help Mount Olive work through the upcoming months, but will continue to be useful in the coming years as regulatory and political environments change.

Literature Review

Defining Payday Lending and its History

Payday lending is a type of "fringe lender," which is a firm that lends to underserved borrowers (McLean, 2016; Smith, 2003). A "payday loan" is a short-term loan for a small amount, typically less than $1000, with fees ranging from $15 to $30 on each $100 advance (Stegman, 2007). The median size of a payday loan is between $300 to $350 (Consumer Financial Protection Bureau Report, 2013; McLean, 2016; Stegman, 2007). When the fee for a payday loan is translated into an annual percentage rate (APR), the implied interest rate ranges from 400 to 1000 percent, which lies well above both state and federal usury limits (Baradaran, 2013; Stegman, 2007).

Small-loan lending was established during the early decades of the 20th century when many wage-earners needed small loans but lenders were unable to profitably meet these needs due to low state usury rates (Smith, 2003). State regulators and the small-loan industry worked with the Russell Sage Foundation to pass legislation to allow lenders to provide small loans based on income rather than assets (Smith, 2003). Over time, these loans were unable to keep up with the growing needs of borrowers. In the 1980's, federal monetary deregulation opened the door to payday lending services (Baradaran, 2013; McLean, 2016; Smith, 2003). There was an estimated increase in payday loan from $8 billion in 1999 to between $40 million and $50 million in 2004 (Stegman, 2007). In 2005, there were more payday lending stores nationwide than there are McDonald's, Burger King, Sears, JCPenney, and Target Stores combined (Stegman, 2007).

Scale of the Problem

With a growing wealth gap in the United States, there has been a parallel growth and persistent use of payday lending services (McLean, 2016; Smith, 2003). As many as 76 percent of Americans live paycheck to paycheck without any savings or resources to cover unexpected expenses (McLean, 2016). This reality leads many individuals and households to seek personal loans; however, many do not qualify for traditional loans from mainstream banks (Baradaran, 2013; McLean, 2016; Stegman, 2007). More than 19 million American households utilize payday lending services (McLean, 2016). Payday lending is not a one-time use for many of its consumers (Baradaran, 2013; CFPB Report, 2013; McLean, 2016; Pew Charitable Trust, 2017; Stegman, 2007). According to the Consumer Financial Protection Bureau (CFPB), payday lending services are structured for short-term credit needs, but are often used as a solution for chronic cash-flow shortages (CFPB Report, 2013). Many borrowers repeatedly roll over or take out additional loans, accumulating additional fees and interest (often taken out on the same day as the previous loan is repaid) (CFPB Report, 2013). The sustained use of payday services is often due to a consumer's inability to pay back the entire loan plus the interest, and have enough left over to meet their other financial obligations (Baradaran, 2013; CFPB Report, 2013; McLean, 2016; Pew Charitable Trust, 2017; Stegman, 2007). Additionally, default rates are high on payday loans, with defaults accounting for 20 percent of operating expenses at payday lenders (McLean, 2016).

Payday lending services are considered "predatory" because they disproportionately target communities in poverty, specifically communities of color (Baradaran, 2013; Massey &

Rugh, 2018; McLean, 2016; Smith, 2003; Stegman, 2007). However, according to Pew Research Center, payday lending is utilized most by white women between the ages 25 and 44 (Pew Charitable Trust, 2017). Advocates for payday lending argue that it is a necessary service for those who need it and its regulation or elimination would be detrimental to those who use it (Baradaran, 2013; McLean, 2016; Stegman, 2007). According to Pew Research Center, a majority of Americans (70 percent) who use payday lending services support more regulation of payday lending and seven in ten Americans want banks to offer small loans to borrowers with poor credit (Pew Charitable Trust, 2017). Additionally, 80 percent believe that allowing people who use payday loans more time to repay their loans but with no change to the current high annual interest rates would result in a mostly bad outcome (Pew Charitable Trust, 2017). Despite the high number of consumers, a majority of Americans believe that payday lending needs to be regulated (or eliminated) and mainstream banks should provide low-interest loans to individuals with bad credit (Pew Charitable Trust, 2017).

Federal Policy Reform

While short-term payday loans began as a financial tool for households to make ends meet, they have evolved into predatory products that charge triple digit interest rates and trap lenders in endless cycles of debt. Federal regulation of the payday lending industry, however, was non-existent until the Consumer Financial Protection Bureau's (CFPB) oversight began in 2012. Originally established after the 2008 financial crisis, the CFPB is a government agency is tasked with protecting consumers from unfair, deceptive or abusive practices and take action against companies that break the law.

In 2015, the CFPB issued a study of the practices of payday lenders under the premise that lenders structure loans with payments that are beyond a consumer's ability to repay, thus forcing the consumer to choose between default and repeated borrowing. This pattern in the industry creates conditions in which payday lenders succeed even when consumers fail, which upends notions of traditional lending that are based on mutual risk and incentives (Consumer Financial Protection Bureau, 2015a). Following this eye-opening study, the CFPB proposed new regulations that would be implemented in 2019. The proposed rules approach the elimination of debt traps through prevention and protection (Consumer Financial Protection Bureau, 2015b):

- Full payment test: lenders would be required to conduct this test to ensure the borrower can afford to pay off the loan and still meet basic living expenses and major financial obligations; requires income verification and borrowing history (similar to underwriting process)
- Frequency cap: after three loans in a row, all lenders would be prohibited from making a new short-term loan to the borrower for 60 days
- 60-day cooling off period: lenders would have to wait 60 days between loans to the same individual borrower, and document that the borrower's financial circumstances have improved enough to repay a new loan without re-borrowing
- Initial loan conditions: the loan could not exceed $500, last longer than 45 days, carry more than one finance charge or require the consumer's vehicle as collateral
- Affordable repayment: the second and third consecutive loans would be permitted only if the lender offers an affordable way out of debt

It was predicted that the impact of these regulations would be a large disruption in the market and lead to a 67% decline in total payday loans (Puzzanghera, 2017). Unsurprisingly, when President Donald Trump appointed a new CFPB Director, Kathy Kraninger, she sought to significantly weaken the rules by eliminating the full payment test, claiming there was "insufficient evidence and legal support for the mandatory underwriting provisions" (Puzzanghera, 2019). Under her direction, the CFPB delayed the compliance date for the full payment test to 2020. However, the remaining rules will go into effect in August 2019.

State Policy Reform

Although federal regulation has moved forward at a slow pace, elected officials and policymakers have been using state and local rules and regulations to limit the harm inflicted by payday lending for the past twenty years. Preemption, which is the rule that federal law is supreme over state law on the same subject, plays a large role in limiting the state powers. Due to a fear of preemption challenges, states influence payday lending through legislation. According to the Consumer Federation of America, as of 2018, eighteen states and the District of Columbia prohibit extremely high cost payday lending (three of which permit lower-cost payday lending), and thirty-two states authorize high-cost payday lending. Policies of states in which payday lending are permitted tend to focus on the following avenues of regulation:

1. Reducing serial borrowing
2. Applying usury laws (which are usually applied to banks) to non-depositories (which are overwhelmingly payday lenders), ultimately putting a cap on interest rates

Many regulatory reforms to payday lending revolve around efforts to reduce serial borrowing by limiting the number of advances a borrower can have at any one time or limiting the rollover of loans. For example, New Mexico state law limits consumers to just two back-to-back renewals at a maximum fee of $15.50 per $100 advanced, with the maximum advance set at a total payment not exceeding 25 percent of the borrower's gross monthly income (New Mexico Regulation & Licensing Department, 2019). Furthermore, Indiana has a mandatory "cooling-off" period of seven days after five consecutive loans are repaid (Stegman, 2007). Illinois goes beyond that; not only do they have a loan cap dollar amount, they have also created a central database in which lenders are required to report customer loan information (Pestine, 2005). The database requires lenders to recognize patterns of serial borrowing, and thus, prevent them from perpetuating.

Another approach to regulating payday lending is through what policymakers refer to as the "nuclear option" because it would simply end the feasibility of payday lending. States can do this by effectively nullifying one of the key mechanisms of payday lending: extremely high interest rates. While FDIC-insured banks such as U.S. Bank and local credit unions must operate under state usury laws that limit interest rates, payday lending institutions (sometimes referred to as "non-depositories") are not. Some states, such as Georgia in 2004, applied pre-existing usury laws to payday loans, ultimately capping interest rates at an annual percentage rate of 60 percent, and making payday lending operations much less profitable (Georgia Department of Law, 2018). Using legal reasoning that the payday lending business is based on a fraudulent premise, North Carolina used its pre-existing bad check law to shut down the payday loan industry (Moss, 2000). The bad check law prohibits "any person, firm, or corporation to solicit or to aid or abet any person writing a check knowing or having reasonable grounds for believing at the time of the soliciting that the marker or drawer of the check or draft has not sufficient funds on deposit in, or credit with the bank or depository with which to pay the check or draft upon presentation." Examples from both Georgia and North Carolina demonstrate how, even without outright banning payday lending, states can create policy environments in which payday loans cannot earn a profit, and thus, are unfeasible business operations. The following tables provide a summary of the state laws in place to limit payday lending.

Table 1: States that Prohibit High-Cost Payday Lending

State	Summary
Arizona	Small loan rate cap is 36% per year + 5% fee; however, "flex loans" are products that use loopholes to get around caps
Arkansas	Usury cap set at 17% per year
Connecticut	Interest rate caps: 30.03% APR or $17 per $100 loaned up to $600; $11 per $100 loaned up to $1,800
District of Columbia	Small loan rate cap 24% per year
Georgia	Criminal usury law caps at 60% for loans $3,000 or less
Maryland	Interest rate caps: 2.75% per month, 33% per year
Massachusetts	Interest rate caps: 23% + $20 administrative fee
Montana	APR capped at 36%
New Hampshire	Annual interest rate cap is 36%
New Jersey	Criminal law sets usury cap at 30% per year
New York	Criminal law sets usury cap at 25% per year
North Carolina	Small loan rate cap is 36% per year
Pennsylvania	$9.50 per $100 loaned per year interest + service charge of $1.50 per $50 loaned per year
South Dakota	APR capped at 36%
Vermont	Small loan rate cap: 18% per year
West Virginia	Small loan rate cap 31% per year on loan of $2,000 or less

Table 2: States that Permit Lower-Cost Payday Lending

State	Summary
Colorado	Maximum loan: $500, Minimum term: 6 months Still have high monthly maintenance fees and annual interest rates (45% if $300-$500)
Maine	Capped at 30% per year on amounts up to $2,000 or tiered fees $5-$25 based on loan amount
Oregon	Maximum APR is 153.77% if lender charges max interest rate (36%) and max origination fees

Table 3: States in which Payday Lending is Legal

State	APR for 14-day $100 Loan Based on Maximum Allowable Fees
Alabama	456.25%
Alaska	520%
California	459%
Delaware	No limit to interest rates or fees
Florida	419%
Hawaii	459%
Idaho	No limit to interest rates or fees
Illinois	403%
Indiana	390%
Iowa	433%
Kansas	390%
Kentucky	459%
Louisiana	780%
Michigan	390%
Minnesota	390%
Mississippi	520%

State	APR for 14-day $100 Loan Based on Maximum Allowable Fees
Missouri	1950%
Nebraska	459%
Nevada	No limit to interest rates or fees
New Mexico	416%
North Dakota	520%
Ohio	APR is technically capped at 28%, but payday lenders are able to charge APR of 591% by getting licensed as "mortgage companies" and "credit service organizations"
Oklahoma	390%
Rhode Island	260%
South Carolina	390%
Tennessee	459%
Texas	No limit on interest rates and fees
Utah	No limit on interest rates and fees
Virginia	687.76%
Washington	390%
Wisconsin	No limit on interest rates and fees
Wyoming	780%

Local Policy Reform

As evident in Table 3, there are still many states that permit payday lending. In those states, communities must avoid state preemption by regulating articles that are not explicitly covered in state regulations. Across the U.S., over 160 cities have successfully intervened in payday lending markets through four main mechanisms (Martin & Mayer, 2017):

1. Licensing and registration regulation
2. Moratoria, permanent bans on lenders, permitting regulations
3. Caps on total number of payday lenders within a municipality or county through traditional zoning powers
4. Limiting the location of lenders in relation to one another and to other uses using traditional zoning powers

Licensing and registration regulations are the most common form of regulation, and require payday lenders to register their business and obtain a license from the local government to operate within city limits (Griffith et al., 2007). Often times, this can be an avenue to track industry growth and collect data to inform future - and stronger - regulations, because cities can require lenders to disclose loan information such as the number of loans administered, dollar amount of loans, and number of rollovers. The weakness of this mechanism is that if a locality has loose standards for business licensing, the regulation could potentially do very little to limit payday lending. Cities that have used licensing are Berkeley, Missouri and Bellwood, Illinois, both of which created a specific business classification for payday institutions that are separate from "financial institutions" (Teuscher, 2009).

Cities can also impose temporary or permanent moratoriums on new payday lending businesses. Temporary moratoriums take place while cities study the impacts of high-cost payday lending. While permanent bans do not affect pre-existing payday lenders, they do eliminate future ones from opening in a community. Multiple cities in California, including Long Beach and Norwalk, have imposed and renewed temporary moratoriums, whereas cities like Shawnee, Kansas have established permanent bans (Griffith et al., 2007). Next, municipalities can place a cap on the number of payday lenders within city limits or within a certain geographical location (such as a census tract or neighborhood). Over a dozen cities in Utah set their cap at one payday lender per every 10,000 residents, while multiple Arizona cities mandate that payday lenders cannot be located within a certain distance of one another (Martin & Mayer, 2017). These distances range from 1,000 feet to one mile of separation.

Lastly, cities can use their zoning power to restrict high-cost lenders from entering certain zoning districts of neighborhoods, the rationale for this being that lenders' existence in a space runs contrary to the stated purpose of the district (Griffith et al., 2007). For example, local ordinances can prohibit new stores within a certain distance of a residential district, residentially zoned parcel, school, park, playground, church or religious facility, and bank or savings association. San Jose, California went so far so to forbid payday lenders from locating in or near very low-income census tracts, which specifically protects populations vulnerable to predatory lending practices (San Jose, California Municipal Code § 20.80.1055(A)).

Payday Alternative Programs

There is a substantial amount of research done on payday lending, consequences of the model, and of payday loan borrowers. Outside of state and local government, non-profit organizations and religious institutions have attempted to meet the financial needs of community members and prevent the usage of predatory payday loans. However, there is limited scholarly work related to successful small-loan alternatives to payday loans. Additionally, the limited scholarly articles focus on micro-credit as a means to support entrepreneurship among low-income people versus very small loans addressing financial crisis. The limited research on peer-to-peer online lending evaluates the profitability of the platform (Klafft, 2008).

Mary Caplan provides a framework for community response to predatory lending. Caplan advances that there tends to be three approaches: 1) mainstream inclusion, which includes efforts to meet with banks to change banking policies help the unbanked secure bank accounts and safer loan products; 2) community-based alternatives, specifically, the work of Community Development Financial Institutions CDFIs and lending circles; and 3) community advocacy, this being community efforts to hold predatory lenders accountable or secure policy changes (Caplan, 2014). Approaches 2 and 3 have the strongest fit with the work of LTL. Lessons could be drawn from successful lending circle efforts to support a successful revolving loan programs since LTL is not a CDFI.

The other source of information are the programs themselves. There are a few local programs that offer alternatives to payday lenders. One is Exodus Lending, which offers loans up to $1000 to help individuals refinance themselves out of a payday loan. In Ohio, a Catholic Charity has supported Licking County's St. Vincent de Paul MicroLoan Program, which offers low-interest loans up to $500. The program is operated in partnership with a local credit union (King, 2018). The challenge is that each program is unique and require review to understand the potential value to LTL's program. LTL's work and this project could contribute to the general knowledge in this field.

Scan of Programs

LTL's effort are not unique, however there are only a few programs from which to draw comparisons. From the programs identified, there are three main themes that emerged amongst groups that provide personal microloans: (1) responding to predatory payday loans was a motivation for most; (2) nearly all efforts are informed by religion; and (3) most implement the program through a partnership with a community bank or credit union. Each organization has a unique story, indicating there is no right or wrong way to launch a microlending program.

Responding to Community Need and Predatory Practices

The organizations identified in the scan cite the predatory practices of payday lending as a driving factor in forming their microlending programs. Locally based Exodus Lending formed as a direct response to the abuses of payday lending. The only organization that did not cite payday lending as an instigating factor was Milwaukee Jewish Free Loan Association (MJFLA). MJFLA was formed in 2009 to serve the Milwaukee area with a commitment to "furthering the concept of Gemilut Chasadim (acts of loving-kindness)" and draws upon a 100-year history of Jewish and Hebrew Free Loan Association in the United States (MJFLA, 2019). In a different case, Columbia Love Inc. was approached by a local bank to explore a partnership to provide an alternative to payday lending which resulted in the development of their program (Frankel, 2018). Columbia Love Inc. is a faith-based nonprofit providing financial coaching and social service supports to those experiencing financial hardship and poverty.

Religious Principles as a Driver

A common principle opposing usury informed the decision to develop microloan programs. "In general, usury defined as the lending of money at high interest rates, is frowned upon by religion. The three Abrahamic faiths - Judaism, Christianity and Islam - take a very firm stance against it" ("Welby 'embarrassed' by Wonga link", 2013). The only group that appears to be secular providing personal loans is Sound Outreach. The examples of St. Vincent de Paul Diocese of Columbus (Ohio) and Love Inc. (Missouri) are part of larger faith networks. Their participation in larger networks has helped develop their over program offerings. In the case of the St. Vincent de Paul Diocese of Columbus, their microloan program has served as a model for society operations with the hope to expand to 23 Ohio counties (King, 2018).

Implementation: In-house and Banking Partners

The two programs that administer their loans internally are Exodus Lending and Milwaukee Jewish Free Loan Association. Exodus Lending contracts with DownHome Solutions which is a company that provides software designed for community development organizations servicing loans. Downhome Solutions provides clients the capacity not only to manage the loans, electronically collect funds and report to credit agencies.

The other programs partner with community banks or credit unions. The nonprofit markets the loan programs and manages the initial application process. The community bank or credit union processes the loan application and provides the loan. The nonprofit secures the loan and pays for the processing fees. The loan is zero percent interest because the nonprofit securing is the debt and paying the fees. The credit union or local bank collects on the loan and reports to the credit agency building the credit score of the borrower (Sherman, 2018) (King, 2018) (Sound Outreach Financial Products, 2019). This has the added benefit of separating the collection function from the nonprofit's activities.

The partnership with a lending institution has allowed the nonprofit to focus on the raising of funds through grants, corporate sponsorship, individual contributions and events to build a loan pool. Love Inc. worked with five local banks which contributed varying amounts to launch the initial $20,000 loan pool (Sherman, 2018). Sound Outreach also engages in a variety of fundraising activities to support overall programs but also to build their loan pool. This is also true of the MJFLA (Milwaukee Jewish Free Loan Association, 2019).

Table 4: Microloan Program Comparison

Microloan Program Comparison						
Program Feature	**LTL**	**Exodus**	**Love Inc.**	**St. Vincent**	**MJFLA**	**Sound Outreach*** **
Loan Amount	$500	$1000	$500	$500	$500+	Up to $3,000
Co-signer?	No	No	No	No	1 Co-signer*	No
Geographic Requirement?	No	Yes	Yes	Yes	Yes	Yes
Credit Counseling/ Educational Requirement?	No	No	Yes	No	No	Yes
Eligible Expenses	Housing, Transportation, Death/Funeral, Utilities	Payday Lending Debt	Car/Car Repair, Catch-up, Debt Relief, Emergency Rent or Utilities, Payday Debt	Car/Car Repair, Catch-up, Debt Relief, Emergency Rent or Utilities, Medical Education Home Repair	Car/Car Repair, Catch-up, Debt Relief, Emergency Rent/Utilities, Education, Medical, Divorce or Child, New Business, Mortgage	Car/Car Repair, Catch-up, Debt Relief, Emergency Rent/Utilities, Payday Debt
Interest/Cost/ Fee	None	None	Monthly $8.33	None	None	Varies
Credit Report	TBD	Yes	Yes	Yes	Yes	Yes
Administered In-house or Partnership	TBD	In-House	Community Banks**	Partnership w/Credit Unions**	In-house	Partnership w/Credit Unions**

*There are stipulations on who can be a co-signer. Additionally, MJFLA provides loans up to $3,600. Loans amounts $501-$3,600 require 2 co-signers. MJFLA also provides students loans up to $5,000.

**Organizations partner with Credit Unions or Community Bank. The nonprofits secure the debt through a revolving fund. The Credit Union administers the loan. The nonprofit raises funds through individual donations, corporate sponsorships, events, and bank donations.

***Sound Outreach provides multiple loan products administered through Harborstone Credit Union. Sound Outreach secures all or a substantial portion of the participants loan and provides counseling.

Methodology

Cost-Benefit Analysis

The cost-benefit analysis tool was originally created in an Excel worksheet, with fillable cells so that users could see the outcomes of adjusting certain factors, such as hourly wage or hours worked. While the figures below do not have active cells or formulas, the client will be provided with the Excel version so that they can get the most use out of the tool.

Discussion of Costs

In estimating the costs of the LTL program, several aspects need to be considered. Labor is sometimes thought of as a benefit, but it is a cost (Boardman et al., 2011). First, we need to assess the cost of labor per hour and annually. Then, we can estimate the true cost per loan using the estimated hourly cost of an employee.

Cost of an Employee

For the early stages of the LTL program, they will need at least one part-time employee. They have indicated that they want to pay the employee $15.00 per hour and anticipate the hours per week of the employee to be between eight and ten hours. As their budget grows as well as the demand for the program, the number of employees and hours worked per week will increase. Figure 1 shows an estimate of 520 hours worked annually with a cost of $7,800.

Figure 1: Annual Cost of an Employee

	Number of Employees	**1**
Hours		
	Average Hours Worked per Week	10
	Weeks Worked per Year (1-52)	52
	Annual Hours Worked	520
Labor Cost		
	Employee Hourly Rate	$15.00
	Annual Hours Worked	520
	Annual Employee Labor Cost	**$7,800.00**

However, when estimating the cost of an employee, taxes and overhead costs must be accounted for (Quickbooks, 2018). LTL would have to pay an annual Social Security Tax of 6.2%, Medicare Tax of 1.45%, and Minnesota Unemployment Tax of 0.1%. Figure 2 shows the annual cost of taxes per employee.

Figure 2: Annual Cost of an Employee Post-Tax

	Annual Employee Labor Cost	**$7,800**
Taxes		
	Annual Social Security Tax (6.2%)	$483.60
	Annual Medicare Tax (1.45%)	$113.10
	Annual State Unemployment Tax (0.1%)	$7.80
	Annual Payroll Taxes Paid per Employee	**$604.50**

Overhead costs include facility costs (rent, utilities), equipment and supplies (office supplies, locked filing system), annual insurance paid, annual benefits paid (not applicable until they have a full time employee). Since LTL is currently working out of Mount Olive Church, there are no overhead costs at this point in the program development. Figure 3 shows the true hourly cost per employee as $16.16 and annual cost after accounting for tax and overhead costs as $8,404.50.

Figure 3: Total Cost of an Employee

	Annual Employee Labor Cost	**$7,800.00**
	Annual Payroll Taxes Paid per Employee	$604.50
True Cost		
	True Cost of an Employee per Hour	$16.16
	True Cost of an Employee per Year	**$8404.50**

Cost of a Loan

Once the hourly cost of an employee is determined, it can be used to calculate the average cost of time spent by the employee on a single loan, otherwise described as the cost per client served (Ponce de Leon Barido, 2017) or resource cost (Boardman et al., 2011). The average annual hours spent per loan includes the initial referral, review of application, a required in-person meeting with the borrower, and maintenance throughout the year. The Mount Olive Church staff who created the program estimates an average of 6 hours per year spent on each loan, but this is a conservative estimate. The church employee discussed the estimated hours spent per loan with another program in the metro area called Exodus Lending. However, Exodus Lending is a different kind of program. They pay off payday loans for clients and then the clients pay back the principal value of the loan to Exodus with 0% interest. Because Exodus employees have to deal with a third party (the payday lender), as well as physically going to the lender to pay off the loan, their estimates of hours spent per loan are higher than what is anticipated for LTL. With this estimate, Figure 4 shows the cost of an employee per loan as $96.98.

Since LTL is supposed to receive the loan amount back in full with 0% interest, the amount they lend is not a cost. However, the present value of the cost needs to be calculated and considered in the program's costs (Boardman et al., 2011). The standard discount rate adjusting for inflation is 3% but in also considering annual changes in labor costs (around 2%), the discount rate used in this case is 5% (Boardman et al., 2011). In Figure 4, the example loan amount used is $390, which is the average amount borrowed from payday lenders in Minnesota (Pew Charitable Trust, 2017). The present value of the cost of the loan with a 5% discount rate is $371.43, meaning the cost per loan for LTL is $18.57. As Figure 4 shows, the resource cost per loan is $96.98 (cost of labor per loan) and $18.57 (5% discount) for a total of $115.55 per loan.

Figure 4: Calculating Resource Cost per Loan

Average Hours Spent by Employee per Loan	6
Cost of Employee per Hour	$16.16
Cost of Employee per Loan	$96.98
Loan Amount	$390.00
Present Value of Loan (5% discount rate)	$371.43
Loan Amount – Present Value of Loan	$18.57
True Cost per Loan	**$115.55**

Discussion of Benefits

Microlending programs like LTL have direct and indirect benefits to society (Hishigsuren, 1999; Melzner, 2011; & Ponce de Leon Barido, 2017). In the case of LTL, the best quantifiable benefit is the savings to the borrower from not using a payday lender. However, there are other benefits that are not as easily quantified, such as social capital, that would increase the benefits of this program greatly.

Savings to the Borrower

In the state of Minnesota, if a payday loan is $350 or less, there is a sliding-scale maximum interest rate and fee amount that payday lenders are required to abide by. Figure 5 shows the maximum interest rate and fee for payday lenders based on the loan amount.

Figure 5: Minnesota Interest Rate/Fee Sliding-Scale for Payday Lending

Loan Amount	Fee
$50 or less	$5.50
$50.01-$100	10 percent, plus a $5 fee
$100.01-$250	7 percent (minimum of $10), plus a $5 fee
$250.01-$350	6 percent (minimum of $17.50), plus a $5 fee

(Retrieved from the Minnesota Office of the Attorney General's website (n.d.) at https://www.ag.state.mn.us/Brochures/pubPaydayLoans.pdf)

For loans between $350.01 and $1,000, payday lenders cannot charge more than 33% annual interest plus a $25 fee (MN Office of the A.G., n.d.). Using the average loan borrowed from payday lenders in Minnesota, $390, the 33% interest plus a $25 fee applies in this cost-benefit analysis. Figure 6 shows the estimated benefit per loan using the payday lending interest rate and fees.

Figure 6: Calculating Benefit per Loan

Loan Amount	**$390.00**
Average Annual Payday Lending Interest Rate	33%
Payday Lending Fee	$25.00
Average Annual Payday Lending Cost for Borrower	$153.70
Average Total Savings to Borrower Using LTL	$236.30

With the cost of giving a $390 loan being $115.55 and the benefit being $236.30, the Benefit-Cost Ratio would be 2.05. This means there is a substantial benefit to the borrower. LTL considers the borrower's benefit to be the program's benefit, so this is also a substantial benefit to the borrower. However, this is a modest estimation of the benefit.

Additional Benefit Measures

Another benefit measure to consider in the current estimation is if the borrower would likely incur additional fees for late payments due to not being able to afford the high-interest payments. According to the Consumer Financial Protection Bureau (2013), four out of five payday loan borrowers default on their loan or renew their loan over the course of a year. The benefit measure could also include the damage the borrowers are avoiding to their credit score if they default on the payday loan. Additionally, the savings for borrowers who rollover (or renew) their payday loan with another payday loan and accrue more fees/debt/interest could be included as a benefit in this analysis as well.

Past cost-benefit analyses of microlending programs emphasize the benefit of social capital that is not always quantifiable monetarily. Hishigsuren (1999) describes the possible benefits of a microlending program as poverty reduction, employment, and empowerment. Melzer (2011) estimates the effect of payday loan access based on different aspects of economic hardship: delay of needed health care due to lack of money; difficulty paying mortgage, rent and utilities bills; household food insecurity; going without telephone service; and moving out of one's home due to financial difficulties. Robinhood Foundation (n.d.) uses metrics for different social capital benefits of programs similar to LTL. In order to better quantify the effect of LTL, we would need to know the primary reasons people utilize microlending programs.

An impact evaluation for this program would be useful but it could prove to be too arduous. It would be challenging to complete a randomized control trial in this instance. LTL could keep data on why their borrowers are using the program in order to measure the social capital benefits. However, this would not include a control group, or, in other words, individuals who could have used LTL but did not. An additional hurdle would be the uncertainty that the reasons reported by borrowers to LTL are true. Money management issues and seeking help for money trouble is taboo and often associated as a shameful experience. For this reason, Mount Olive Church has vocalized their concern with asking for this information and have decided not to do so, making an impact evaluation seem even more difficult.

Scenario Planning

The context in which Longer Table Lending exists is one full of uncertainty. There is a high level of need for the service they seek to provide, but at the same time, resources are limited, regulatory environments are changing, and the tools they need to succeed – mainly, ACH service – are difficult to obtain. The other micro-lending programs described above were started and sustained in their own unique conditions, therefore it would not make sense to recommend a path identical to any of theirs. Furthermore, even if we did have the resources and capacity to collect data about current financial needs in the Powderhorn Park community, that data would not give us any indication about the future implementation of LTL. We needed an approach that would take into account the variables and uncertainties specific to LTL's future. Therefore, our team's methodology consisted of two components; the first is scenario planning, which involves qualitative data collection, and the second, a cost-benefit analysis, which is a more quantitative approach. Combined, these methods provide a well-rounded analysis of the many factors influencing LTL. The community benefits analysis tool and presented scenarios will help LTL's leaders adapt to complex environment and could be revisited as the program grows.

Scenario planning aims to define critical uncertainties and develop plausible scenarios in order to discuss the impacts and responses to give for each of them. It operates under the assumption that if one is aware of what can happen, one is more likely to be able to respond with action and not be paralyzed by the unknown. The strategy was originally created in the 1950's for use in American wars, such as examining the possibility of nuclear war during the Cold War and forecasting potential societal changes amidst the Vietnam War and Civil Rights era (Van der Heijden, 1996). Over time, its use expanded to the corporate world. Scenario planning became a way for businesses to conduct long-range planning that considered political, economic and technological factors (Chermack & Lynham, 2002). As Michel Godet defined, "a scenario is simply a means to represent a future reality in order to shed light on current action in view of possible and desirable futures" (Godet, 2001). One of scenario planning's strengths is that it stimulates strategic thought and communication within companies, which enables dialogue between people instead of relying only on a data-driven analysis (Godet, 1996).

The first step in scenario planning is to identify driving forces, such as shifts in society, economics, technology and policy. Then, these forces are sorted into two categories: predetermined elements and uncertainties (Wack, 1985b). Predetermined elements are events that have already occurred, or that almost certainly will occur, but whose consequences have not yet unfolded, whereas uncertainties remain unknowns. By differentiating between the two, we can simplify our options. Rather than crisscrossing variables and producing dozens of outcomes, we can create a few focused and more realistic pathways (Wack, 1985a). The final step is to develop a range of plausible scenarios from those predetermined elements and uncertainties, and discuss the implications of those scenarios for future action. The process is not about finding one "correct" scenario, but to be intentional and attentive to the process itself as we understand the forces driving the scenarios.

In order to identify the driving forces influencing LTL, we took the following steps:

- Conducted in-person interviews with LTL staff and task force member
- Reviewed internal documents pertaining to program development, grant compliance, etc.
- Tracked the progress of relevant state legislation pertaining to payday lending
- Conducted an in-person interview with potential program partner (Exodus Lending)

Meeting with multiple people provided us with valuable perspectives on driving forces. Uncertainty was interpreted differently by different parties, and this shaped our understanding of the factors influencing LTL. This will be further discussed in our results section.

Driving Forces

Based on the conversations we had with Anna Scott (LTL/Mount Olive Staff) and Carol Martinson (Task Force Member), as well as Sara Nelson Pallmeyer (Executive Director of Exodus Lending), our driving forces were narrowed down to the four presented below. These factors emerged as driving forces due to the enormous impact their consequences would have on program implementation and success.

- Automated Clearing House (ACH) access through U.S. Bank
- Organizational capacity of Mount Olive Lutheran Church
- Minnesota payday lending legislation
- Time pressure from funders

ACH Access

ACH, an electronic funds transfer system that would allow LTL to withdraw monthly payments directly from borrowers' bank accounts, has been a constant barrier to progress. U.S. Bank denied Mount Olive's initial request and first appeal, and they are awaiting word on a final appeal. Mount Olive would prefer to get their ACH service through U.S. Bank because it is also the institution at which they currently keep the banks funds, however, U.S. Bank is being very difficult and inflexible.

Exodus Lending originally accessed ACH services through Sunrise Banks. Last year, Exodus decided it wanted to start credit-reporting, which would give borrowers the benefit of having their credit scores improved if they made loan payments regularly and on time. In starting the process of credit-reporting, Exodus learned from the Credit Builders' Alliance that in order to do so, they would have to go through a middle-man entity for ACH. In order to fulfill that requirement, Exodus recently switched their ACH from Sunrise Banks to DownHome Solutions, a loan management software designed specifically for community development lenders. Currently, DownHome is used for ACH, and it reports directly to the Credit Builders' Alliance, thus allowing for credit-reporting. It is important to note that Exodus has spent several thousands of dollars to get ACH and credit-reporting started. Sara also mentioned over a dozen attempts to get DownHome Solutions' ACH connection to work. Exodus has committed a large amount of upfront investment, both in time and money, to get this infrastructure established. LTL should anticipate the same learning curve if they choose to pursue ACH and credit-reporting.

Organizational Capacity of Mount Olive

Mount Olive staff dedicated to Longer Table Lending currently has multiple responsibilities and demands on their time. It is important to keep their workload manageable so that the can serve the community to the best of their ability. Mount Olive discussed the possibility of hiring a part-time staff member to handle the administrative functions of LTL in order for existing staff to take on more of a leadership role. Even with an additional staff member, there will be a steep learning curve as this person inherits current staff's deep institutional knowledge of LTL and creates an infrastructure for its implementation. This will impact Mount Olive's organizational capacity to keep the momentum moving forward. While the task force has played an important role in shaping LTL, we acknowledge that they are volunteers and cannot be expected to perform daily functions necessary to operate LTL. These limitations to capacity should be considered before implementation.

Minnesota Payday Lending Legislation

On February 26th, 2019, State Representative Laurie Halverson introduced a bill to the House Commerce Committee concerning payday loans, which would be the first of its kind in Minnesota's history. HF 1501 would regulate interest rates for consumer short-term and small loans, including a 36% effective interest rate cap. If this bill passed, Minnesota would join the 18 states that currently prohibit high-cost payday lending (see Table 1). This bill received support from many influential organizations and institutions, with testimony from the following individuals:

- Carly Melin, Legislative Director, Office of Attorney General Keith Ellison
- Eric Howard, Exodus Lending
- Missy Juliette, Exodus Lending
- Samantha Pree-Stinson, Village Financial Cooperative
- Diane Standaert, Director of State Policy, Center for Responsible Lending
- Ann Svennungsen, Bishop, Minneapolis Synod ELCA
- Attorney General Keith Ellison

The only person who testified in opposition to the bill was a representative of Payday America. This bill has not made it out of the Minnesota House of Representatives and into the Senate yet. With the legislative session ending in May 20, it is uncertain whether the bill will move forward quickly enough, if at all.

Sara did not express any concerns regarding how Exodus Lending's trajectory would be impacted by the passage of legislation. If payday lending is restricted in Minnesota, they anticipate that people will still need to be refinanced out of their pre-existing payday loans, and that the need for emergency cash will still be high. Furthermore, the Exodus Lending board of directors has discussed future ideas for meeting community needs, such as helping people refinance out of predatory contract-for-deed loans or providing first and last month's rent for people coming out of the prison system.

Time Pressure from Funder

In September of 2018, Mount Olive received a $10,000 Ministry Imagination grant from Minneapolis Synod to operate LTL. While the grant agreement did not explicitly state a date by which funds had to be used, there may be concerns considering the progress made thus far. It has been over 7 months since the grant was received, and based on what we learned from Exodus

Lending's experience, LTL may need much more time to establish infrastructure such as ACH and credit-reporting. Furthermore, the budget submitted with the grant may have to be updated if ACH service through U.S. Bank does not pan out.

Predetermined Elements and Uncertainties

The next step in our scenario planning process is to categorize our driving forces as "predetermined elements" or "uncertainties". We classified ACH approval as a predetermined element due to the likelihood of U.S. Bank giving Mount Olive a final "no". Organizational capacity is also a predetermined element due to existing staff capacity and limited resources for additional staff time. This constraint impacts ability to navigate time-consuming barriers and the staff available on a part-time basis will likely have a learning curve adding to implementation timeline. We consider Minnesota's payday lending legislation an uncertainty for two reasons; the first is that we have no way of knowing whether the bill will be passed this session, and the second is that we do not anticipate the policy having a large impact on the need for emergency cash. Lastly, we classified time pressure from the funder as an uncertainty because we are unclear if it will emerge as a concern. From these driving forces, our team analyzed the situation and produced three scenarios. The scenarios are outlined in the following section, and followed by detailed descriptions and implications.

Results

Our team explored several likely scenarios for Mount Olive Lutheran Church to move forward with the LTL program employing a thorough analysis of each predetermined element and uncertainty informed by interviews, literature review and scan of the existing micro-lending programs. We forecasted possibilities, anticipated how predetermined elements and uncertainties would interact with one another, and discussed the pros and cons of each path. Ultimately, we narrowed down these possibilities into the most realistic and achievable scenarios. These scenarios are presented below, accompanied by a set of external conditions that would make each scenario desirable, as well as a list of internal decisions that would be necessary if the scenario were chosen.

Table 5: Scenario Planning Outcomes

	Scenario 1: Mount Olive Operates LTL Independently	**Scenario 2: Mount Olive Partners with External Lender**	**Scenario 3: Mount Olive Pivots**
External Conditions	- ACH is approved by U.S. Bank OR: - ACH is denied by U.S. Bank	- ACH is denied by U.S. Bank - Lack of organizational capacity to develop infrastructure - Donors are waiting	- ACH is denied by U.S. Bank - Donors are waiting - Mount Olive is unable to negotiate reasonable terms with Exodus - There is internal disagreement about project implementation
Internal Decisions	- How much time does Mount Olive spend waiting for U.S. Bank? - Which bank should Mount Olive pursue ACH service with next? - Which DownHome Solutions services do they want to pay for?	- Is Mount Olive willing to give up complete programmatic control? - What is Mount Olive willing to negotiate in a partnership agreement?	- What options are there with the funder to repurpose funds internally? - What options are there with the funder to dedicate funds to an external cause, such as advocacy efforts?

Scenarios

Scenario 1: Mount Olive Operates Longer Table Lending Independently

The external conditions dictating this scenario involve LTL's ability to purchase and use an ACH service. Once LTL gains access to an ACH service, they are free to move forward with lending while utilizing Mount Olive Lutheran Church's building and office space. Currently, LTL is awaiting final word from U.S. Bank on whether or not they can move forward with using their ACH service. If they are officially denied, they have two options to consider. The first is that they can attempt to get an ACH service from another bank. LTL has indicated that they would likely move the church's bank account as well, if this is the option they take. However, they can get a separate bank account at another bank without having to change the church's bank as well. The other option is to get ACH service through DownHome Solutions. DownHome Solutions offers ACH services for a monthly fee. The current subscription rate is $100 a month (or a discounted rate if paid annually) and each service module is an additional charge (DownHome Solutions, 2019). However, the initial set up cost and training package is $1800. To add the ACH service module, it would cost $15 and they have the option of adding credit reporting services as well for $20 (DownHome Solutions, 2019).

Given each possibility in this scenario, LTL has internal decisions and implementation steps to consider. Internal decisions for this scenario require answering the following questions:

1. What is the deadline LTL wants to set for a U.S. Bank final decision before moving on with another option?
2. If moving to a new bank, which bank does LTL want to work with?
    a. Would they also move the church's bank account or just open an LTL account?
3. If moving to DownHome Solutions, would LTL like to add the credit-reporting module along with the ACH module?

Implementation steps for the program once ACH services are obtained include:

1. LTL must hire a part-time staff to accept applications, conduct required in-person interviews with borrowers, and manage the loan until full repayment is achieved.
2. If using DownHome Solutions for ACH services, LTL must meet DownHome Solutions/Credit Builders' Alliance requirements.

Figure 7 below shows the cost of an employee and cost per loan after the added overhead cost of DownHome Solutions for the first year (without the credit reporting module), as well as the new cost-benefit ratio of $1.71. The cost-benefit ratio would still be greater than $1; in other words, the benefits still outweigh the costs. Something to consider is that estimated costs (such as employee hours spent per loan) may be lower than what they will be in implementation. Likewise, the estimate of the benefits in this tool are quite modest. Therefore, the cost-benefit ratio is likely larger in reality.

Figure 8 below shows the cost of an employee and cost per loan after the added overhead cost of DownHome Solutions for the first year (with the credit reporting module), as well as the new cost-benefit ratio of $1.70. The cost-benefit ratio would only decrease by $0.01. Considering the benefit to borrowers of having the chance to improve their credit scores, this seems like an additional cost that would balance itself out. Just as in Figure 7, the estimated costs and benefits are modest estimates and therefore, the cost-benefit ratio is likely larger in reality.

Figure 7: Cost-Benefit Analysis of Scenario 1 without Credit Reporting

Overhead for DownHome Solutions (without Credit Reporting)	
Annual ACH Costs (first year)	$1980.00
Annual Equipment and Supplies	$ -
Annual Insurance Paid	N/A
Annual Benefits Paid	N/A
Annual Overhead per Employee	$1980.00
New Costs	
True Cost of an Employee per Hour	$19.97
True Cost of an Employee per Year	$10,384.50
True Cost per Loan	**$138.39**
Benefit-Cost Ratio	**$1.71**

Figure 8: Cost-Benefit Analysis for Scenario 1 with Credit Reporting

Overhead for DownHome Solutions (with Credit Reporting)	
Annual ACH Costs (first year)	$2040.00
Annual Equipment and Supplies	$ -
Annual Insurance Paid	N/A
Annual Benefits Paid	N/A
Annual Overhead per Employee	$2040.00
New Costs	
True Cost of an Employee per Hour	$20.09
True Cost of an Employee per Year	$10,444.50
True Cost per Loan	**$139.08**
Benefit-Cost Ratio	**$1.70**

The scenario of Mount Olive operating LTL independently is not impossible or unreasonable. What LTL needs to consider in this scenario is how much they value their autonomy. While this scenario would eventually lead to high autonomy (and therefore, more responsibility), the steps to get there would mean less control, and much depends on decisions made by outside entities (U.S. Bank, the church changing banks, DownHome Solutions approval to start services, etc.). Along with this dependence, the timeframe in which LTL begins operating is likely a longer process than LTL would prefer. Since the process for beginning LTL operations has already faced much delay, this is an important consideration. Depending on negotiations of a partnership (as discussed in Scenario 2), this scenario may be the most expensive option. If LTL's main goal is to lend as much money as possible to borrowers in need, they will have to weigh the pros and cons of an expensive option such as this one.

Scenario 2: Mount Olive Partners with an External Lender

Scenario 2a: Partner with Exodus Lending to Administer LTL

This scenario involves Mount Olive partnering with Exodus Lending to administer LTL. The external conditions that would lead Mount Olive down this path are if ACH is denied by U.S. Bank, and they lack the organizational capacity to create the infrastructure necessary to start programming within a reasonable amount of time. The benefit of partnering with Exodus Lending is that they have already gone through the arduous and resource-consuming process of setting up ACH and credit-reporting. This would not only save Mount Olive money, but it would accelerate the speed at which programming could start. Staff at Exodus Lending mentioned that if they did partner with LTL, Exodus would buy loans from LTL and service them through their ACH service with DownHome Solutions. Partnership would require a very open and honest conversation about the terms of their collaboration. Questions to answer for a successful negotiation include:

- Would Mount Olive pay a per loan fee? If so, how much would that be?
- Would Mount Olive's payment contribute to rent, equipment, and operational costs? If so, how would that cost be determined?
- Would Mount Olive still be in charge of application intake and loan origination?
- Which entity would be responsible for interacting with the client when issues arise?

These costs are unknown to us, and we did not want to step on any toes by starting a conversation about partnership fees, so we cannot provide a complete cost-benefit analysis for this scenario. However, once the above questions are answered, LTL staff can use the Excel worksheet to conduct a cost-benefit analysis. For example, if Exodus Lending were to charge a $75 fee per loan, this amount could be added to the "Resource Cost per Loan" calculation in Figure 4. If the partnership resulted in Mount Olive hiring new staff for fewer hours than originally anticipated, this could be reflected in the "Annual Cost per Employee" calculation in Figure 1. All of these costs can be incorporated into the cost-benefit analysis once confirmed through negotiation. Furthermore, LTL staff can use the tool to strategize prior to negotiation. For instance, the lowest cost of using DownHome Solutions in Scenario 1 is about $10,400 a year to operate, they can use the cost-benefit analysis to calculate how much they are willing to pay Exodus Lending in Scenario 2 to keep their costs below $10,400 a year. If it is any higher, they would be better off operating the program independently.

Partnering with Exodus Lending is likely to get money out the door faster because so much of the lending infrastructure has already been built. However, there are other factors to consider. Having loans serviced through Exodus would mean that LTL has less oversight of day-to-day operations. These are considerations that LTL staff and the task force will have to reflect on before making a decision.

Scenario 2b: Partner with a Local Community Bank or Credit Union to Administer LTL

Scenario 2b shares the same external conditions as scenario 2a. This is a scenario that could be pursued on its own or if scenario 2a is unable to advance. In this scenario, LTL works directly with a community bank or credit union using the models of Sound Outreach, Columbia Love Inc, and St. Vincent de Paul Diocese of Columbus. In this approach, LTL would secure the microloan debt of the borrower and pay any servicing fees making the loan zero percent interest. If this option is pursued, it is recommended to talk directly with the example organizations and their lending partners while also including the potential local lender in any conversation. Partnership would require a very open and honest conversation about the terms of their collaboration. Questions to answer for a successful negotiation include:

- How much would the origination and service fees be?
- Would Mount Olive still be in charge of initial application intake?
- Which entity would be responsible for interacting with the client when issues arise?

Scenario 3: Mount Olive Pivots

This scenario involves Mount Olive deciding to pivot away from launching a microloan pool program to focus on other programmatic activity that benefits or limits the harm to households experiencing financial hardship. The external conditions that would support this scenario include: 1) Continued challenge securing an ACH, 2) inability to negotiate a cost effective partnership, or 3) on-going delays due to barriers or lack of capacity that raise concerns by the grantmakers or congregation members.

It is important to consider the pros and cons of the decision to not move forward. The decision to launch a new program has had opportunity costs. Volunteer and staff time dedicated the LTL program could have been spent on other initiatives or projects such as advocacy, service projects, working with local lenders to develop alternative programs.

LTL leadership would need to take into consideration the impact their energy and time may have had on other efforts including advocacy or mitigating the impacts of financial hardship through direct support or financial counseling. The funder of the initiative could be approached and asked to change the terms of the grant. Often times grant-makers are open to grant modifications if the intended beneficiaries are still receiving benefits. There could be an expansion of Mount Olive's emergency assistance. Mount Olive could also decide to transfer funds to another organization doing similar work. Funds could also be returned to the grantmaker allowing other projects to receive financial support. Again, this would require conversation with the grantmaker.

There are two primary challenges substantially changing direction. First is letting down congregation members who may have been committed or excited about a potential microloan program. This could undermine future initiatives or risk-taking on innovative projects. The second is potentially harming the relationships with the groups that are funding the effort.

Grantors rarely want to take resources back and are open to renegotiating how funds are used. The Minneapolis Area Synod is explicit in their grant agreement letter "if you do not foresee being able to complete your project with the funds provided, we request that you not accept the funds in the first place…" The Minneapolis Area Synod also request that funds are returned if there is a balance remaining or funds are not spent on the original purpose. This is risky because the relationship with the funder could be harmed undermining future Church efforts.

Before taking this path, there would need to be a very honest discussion among LTL leaders regarding time spent and the additional amount of time needed to launch the program compared to reallocating the dollars to another initiative or simply freeing up volunteer capacity.

Engaging in Policy Advocacy

A critical part of LTL's work is to continue engaging members of the congregation in building a movement towards economic justice. While there is progress being made at the state level for policies to address payday lending, there are unexplored avenues for taking action at the local level. LTL should consider pursuing policies at the municipal level to intervene in the payday lending markets in their own neighborhood. As discussed in the literature review, there are multiple ways to halt the addition of new payday lenders into the community. Over 160 cities have enacted local ordinances targeting payday lenders, and a 2017 report funded by the Silicon Valley Community Foundation provided the following best practices for passing them (Mayer & Martin, 2017). These tips are paired with potential actions specific to the Twin Cities metro area.

Table 6: Local Ordinance Campaign Best Practices

Best Practice	Applied to a Minneapolis Context
1. Form a **strong broad-based coalition** and develop rules for its operation.	Sectors to engage: ● Anti-poverty organizations ● Social service organizations ● Faith-based institutions ● Local credit unions ● Neighborhood associations ● Legal advocates
2. Move beyond abstractions like "500% interest" or "debt traps" and **gather stories from actual borrowers** about the effects of these loans on their lives. Seek the help of social service providers who are part of your coalition in gathering these stories and empowering borrowers to share them at public hearings.	Potential Sources of Stories: ● Lutheran Social Services ● Exodus Lending ● Village Financial
3. Involve faith leaders in a meaningful and ongoing way early in any campaign.	Check!

Best Practice	Applied to a Minneapolis Context
4. Cultivate **strong working relationships with the press** and create a detailed strategy for working effectively and consistently with members of the local media.	Local Newspapers to Target: ● Southwest Journal (Editor Dylan Thomas: dthomas@swjournal.com) ● Southside Pride (Editor Ed Felien: edfelien@southsidepride.com) ● Minnesota Spokesman-Recorder (Senior Editor Jerry Freeman: jfreeman@spokesman-recorder.com) ● City Pages (news@citypages.com)
5. Identify and **cultivate a member of the City Council to serve as your campaign's "inside champion."** In some instances, more than one potential champion may be necessary.	Potential Champions: ● Council Member Alondra Cano (Ward 9) ● Council Member Andrea Jenkins (Ward 8)
6. Identify and **schedule meetings with decision makers well in advance of any key votes or hearings**. Be prepared in these meetings to present strong arguments in favor of any ordinance. Under some conditions, the negative impact on borrowers will be most persuasive. In others, the impact of payday lending on local economies will be most effective.	CM Cano and CM Jenkins do not currently have regularly scheduled constituent office hours. Ward 9 Staff Contacts: ● Ahmed Hirsi (Senior Policy Aide): ahmed.hirsi@minneapolismn.gov ● Graham Faulkner (Policy Aide): graham.faulkner@minneapolismn.gov Ward 8 Staff Contacts: ● Deebaa Sirdar (Senior Policy Aide): deebaa.sirdar@minneapolismn.gov ● Zoe Bourgerie (Junior Policy Aide): zoe.bourgerie@minneapolismn.gov
7. Carefully prepare to respond to industry arguments, especially the argument that there are no alternatives to payday loans. **Develop a concrete list of payday alternatives** that can be shared with members of the public as well as policymakers early in the campaign.	Payday Loan Alternatives: ● Exodus Lending ● Village Financial ● LTL ● Payday Alternative Loan (PAL) offered by Sunrise Banks
8. Once one ordinance or law passes, **help other municipalities or states pass their own**.	Target cities with a strong organizing presence and population vulnerable to payday lending, such as cities in the Twin Cities inner suburbs.
9. Use the power of your coalition to **press for further state and federal payday loan reform** in partnership with the many organizations across the country that are seeking to do the same.	Use local success to demonstrate to state policymakers that when they move too slowly, community members will step up to get the job done!

Recommendations

Our team's final recommendation consists of three parts: clarifying loan terms with the funder, setting a frame for decision-making, and deciding on a scenario for implementation. Step one addresses the one uncertainty that Mount Olive Lutheran Church is capable of influencing; it will be critical to turn as many uncertainties into predetermining elements as possible in order to reduce unknowns. Step two requires Mount Olive Lutheran Church staff and task force members to openly communicate and discuss their decision-making process moving forward. Having these important conversations will not only create trust within community, but also enable Mount Olive to make decisions about the future of LTL with confidence. Our final recommendation is to go through a series of guided steps to compare and contrast the benefits and disadvantages of each scenario so that Mount Olive can make a fully informed decision.

Recommendation #1: Clarify Loan Terms with the Funder

Mount Olive staff should have a conversation with their grantor, Minneapolis Synod, regarding the status of their grant. They should discuss what a desirable implementation timeline is for Minneapolis Synod, and take that expectation into account in further decision-making. Also, they should clarify if partnership with other organizations, such as Exodus Lending, is a possibility for grant expenditure.

Recommendation #2: Set a Frame for Decision-Making

Mount Olive staff and the task force should set themselves up for success before entering the decision-making process. First of all, they should establish a deadline by which to make a decision about LTL's implementation. The longer this is delayed, the longer implementation will take. Then, they should determine a governance structure for decision-making. For example, will the task force be making the final call, or will that come down to staff who will be managing the program? By clarifying deadlines and decision-making power, Mount Olive will be more focused entering the decision-making phase.

Recommendation #3: Decide on a Scenario for Implementation

Mount Olive should select one of the three scenarios presented above. This conversation should involve a thorough walkthrough of each scenario to gauge reactions and willingness to act. The cost-benefit analysis tool should be used to explore the cost implications of various pathways. Most importantly, they will need to decide which scenario best serves LTL's purpose and mission. Is it more important that Mount Olive operate LTL so that they can better serve their community, or is their priority to save as much money on operating costs so that LTL can serve more borrowers in need? Next steps are outlined below for assessment of each scenario.

Recommendation #4: Adapt to Evolving Environment

Mount Olive and Longer Table Lending leadership should be open to adapting their program activities and overall strategy based on lessons learned during implementation, the evolving environment related to regulations or funding, and opportunities to scale program services to meet the needs of households. There are other examples of revolving micro-loan programs, but LTL appears to be unique in Minnesota. As the program grows, it will require program leaders to incorporate learnings to improve the program effectiveness. There are external factors that could change LTL's environment, resulting in the reduction or significant increase in the need for their program. Lastly, the current needs of households far exceed the proposed size of the program. If successful, LTL will need to consider scenarios for scaling their work through internal expansion or collaboration to fully live their faith value of opposing usury.

The future is hard to predict. Report findings can be revisited to aid in future planning and decision-making. The three resources provided in this report that can assist in the evolution of the program include the following: 1) Cost-Benefit Analysis tool, 2) Scenario planning process as described, and 3) the proposed scenarios to assess future circumstances to inform organizational action. At any point in the future, leadership can use the resources to help clarify their new driving forces and develop recommendations that decision-makers can act upon.

Assess Scenario 1: Mount Olive Operates LTL Independently

1. Decide how much longer to wait for U.S. Bank's ACH decision.
   a. If not U.S. Bank, decide which bank or credit union to pursue ACH service with next.
   b. If not a bank or credit union, decide which services to purchase through DownHome Solutions.
2. Decide number of weekly hours for new program staff.
3. Discuss whether staff capacity exists to create program infrastructure needed to proceed.
4. Input cost estimates (based on staff and DownHome Solutions) into the cost-benefit analysis tool.

Assess Scenario 2: Mount Olive Partners with External Lender

1. Discuss what elements of program implementation Mount Olive is willing to share with an external lender (application intake, loan repayment troubleshooting, etc.).
2. Initiate conversation with Exodus Lending (or other external lender) to get a sense of shared costs and shared responsibilities.
3. Decide internally: does this shared cost/negotiation seem fair?
4. Based on conversation with Exodus, decide number of weekly hours for new program staff.
5. Input cost estimates (based on staff and shared costs) into the cost-benefit analysis tool.

Compare Scenario 1 and 2

1. Compare cost-benefit ratio of the two scenarios.
2. Decide internally: what is more important, keeping costs low or maximizing the cost-benefit ratio for community members?
3. Decide internally: what is more important, keeping program implementation internal or maximizing the cost-benefit ratio for community members?
4. Based on the answers to these questions, vote on a scenario.
5. If staff and task force members cannot arrive at an agreement, cannot negotiate a cost-effective partnership with an external lender, or continue to face challenges securing an ACH service, proceed to *Scenario 3.*

Assess Scenario 3: Mount Olive Pivots

1. Assess what options there are with the funder to repurpose funds.
2. Brainstorm other programmatic activity that would meet a similar goal of limiting harm to households experiencing financial hardship.
3. Decide internally: given all of the groundwork completed in pursuit of LTL, is it worth it to invest staff time and capacity in a new endeavor?

Final Steps:

1. Conduct a final vote on implementation.
2. Carefully record the thoughts, reasoning, and justification of everyone involved in decision-making so that there is an institutional history of this process. It will be important to be able to look back on this document in the future, especially if additional decisions need to be made regarding the LTL program.

Implications

Ultimately, we have created tools that can be used by Mount Olive to make sense of uncertainty. Rather than being overwhelmed by the many decisions that need to be made, Mount Olive staff and task force members should interpret the unclear path as an opportunity to create their own. There is no wrong or right way to implement a micro-lending program, as evidenced by the Microloan Program Comparison in Table 4. The most important part of the process is ensuring that strategic decisions are made in such a way that aligns with LTL's mission and values, and is sustainable for both LTL and Mount Olive.

By providing both a quantitative and qualitative analysis tool, our team ensures a balanced approach to decision-making. First, the cost-benefit analysis tool allows Mount Olive to use cost estimates to assess the financial implications of each scenario. Secondly, the scenario planning approach enables Mount Olive to have guided conversations within the organization to assess organizational capacity and willingness to take on new responsibilities for program implementation. Combined, the results of quantitative and qualitative assessments provide a clearer picture of what is possible given Mount Olive's limitations. Furthermore, the life of these tools extends far beyond LTL's initial implementation. Both the scenario planning approach and cost-benefit analysis tool can be modified to fit an endless number of challenges faced by the LTL program or Mount Olive so that they can continue to thrive and be in service to their community for years to come.

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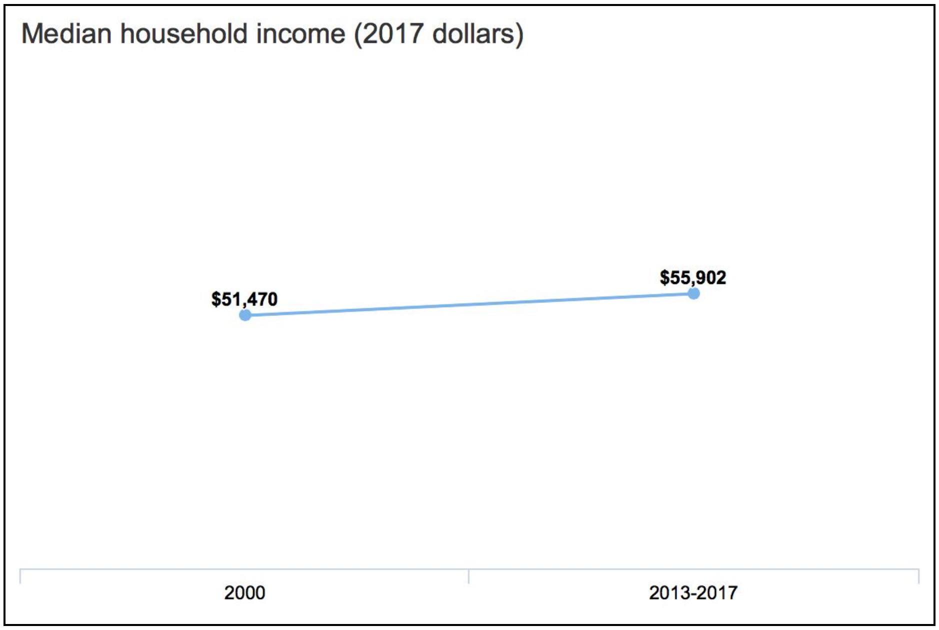
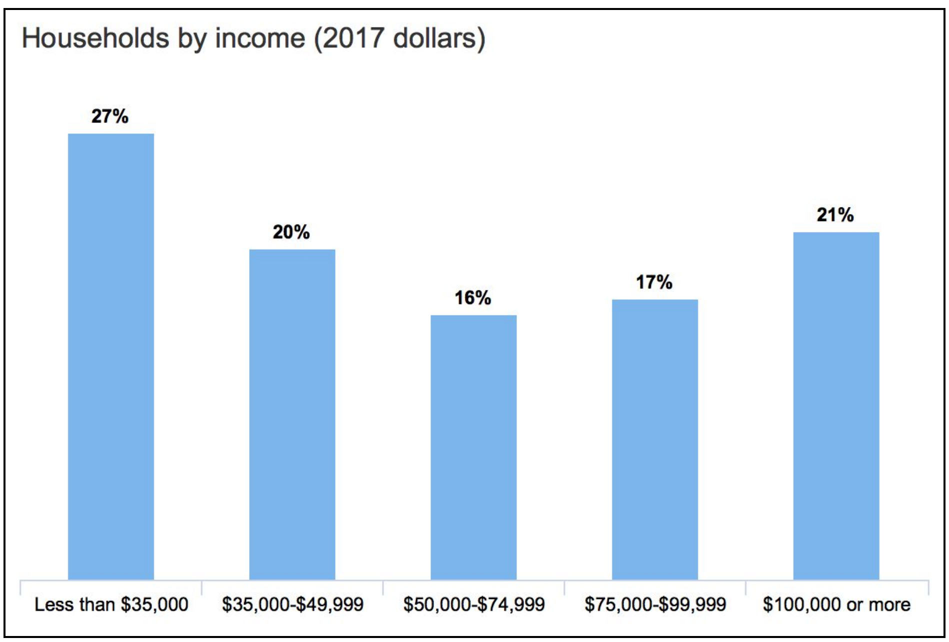
Appendices

Appendix 1: Demographics of Mount Olive's Neighborhood (Powderhorn Park)

Powderhorn Park Demographics		
Total population (2013-2017)		
Total population	9,760	100.0%
Gender (2013-2017)		
Male	4,880	50.0%
Female	4,880	50.0%
Age (2013-2017)		
Under 5 years	1,023	10.5%
5-9 years	725	7.4%
10-14 years	656	6.7%
15-17 years	401	4.1%
18-24 years	852	8.7%
25-34 years	2,368	24.3%
35-44 years	1,580	16.2%
45-54 years	748	7.7%
55-64 years	940	9.6%
65-74 years	384	3.9%
75-84 years	*suppressed*	
85 years and older	*suppressed*	
Race and ethnicity (2013-2017)		
White	4,441	45.5%
Of Color	5,319	54.5%
Black or African American	1,555	15.9%
American Indian and Alaskan Native	142	1.5%
Asian or Pacific Islander	103	1.1%
Other	*suppressed*	
Two or more races	294	3.0%
Hispanic or Latino	3,220	33.0%





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