Investing in People Through Personal Finance

Andy Posner was working on a master’s degree in environmental studies at Brown University when the Great Recession started. He began hearing about high-interest lending practices and families spending as much on financial services as they did on food. During his final semester, Posner established The Capital Good Fund, a U.S. Treasury-certified community development financial institution offering personal loans ranging from $300 to $25,000 to people with low and moderate incomes, at much lower annual interest rates than the payday lending industry. Ten years later, the nonprofit lender has administered 4,200 loans for a total of $8.8 million to residents of Massachusetts, Florida, Delaware and Rhode Island.

Continued on Page 2

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Q: Why did you establish The Capital Good Fund?
A: It was a confluence of factors. I moved to Rhode Island in 2007 for grad school at Brown, and I got interested in financing mechanisms for energy efficiency. I don’t have a background in financial services, so I was really interested in how a financial product enabled someone to afford making a home more efficient. Two other things happened around this time. One, of course, was that the financial system collapsed, and the other one was that I learned about Muhammad Yunus who won the 2006 Nobel Peace Prize and is considered the father of microfinance.

As I started looking into the financial collapse, I saw that there really wasn’t anyone offering an equitable alternative to high-interest products. That was the impetus for starting the organization in February of 2009 and then when I graduated in May, I decided to give it a try to see if it would have momentum. And 10 years later, we’re one of the fastest growing nonprofit lenders in the country.

Q: What loan products do you offer in Massachusetts?
A: We began lending in Massachusetts in early 2016. It’s definitely a wealthier state than Rhode Island or Florida, which means that we do a lot of our larger loans. We do energy efficiency loans of up to $25,000 in the state. This year we have already done $600,000 of those in Massachusetts. The flip side is that housing is expensive, and as a result, we see a lot of people struggling with housing. We do a lot of loans for security deposits and catching up on rent or utilities.

Q: How is your organization funded?
A: In some ways we’re a very traditional nonprofit, and then a couple ways, we’re not at all. On the operating side, about 60 percent of our funding last year came from traditional grants and donations — including JP Morgan, Citizens Bank and HarborOne Bank — as well as community foundations, individuals and the U.S. Treasury, which has a grant program for organizations like ours. At the same time, we also charge interest on our loans, and last year 35 percent of our expenditures were covered by earned income. Our goal is to get that to 100 percent by 2024.

In terms of the money that we lend, we borrow it predominantly from financial institutions. They lend us that money, and we lend it out. As it gets paid back, we lend it out again. One thing that’s unique is we actually enable people to invest in us. Individuals, businesses, foundations and family offices can lend us money and earn a decent rate of return and, of course, have the impact of our making those loans directly to low-income folks in various communities.

Q: How do you decide who will receive a loan?
A: Because the people that we lend to have bad credit – the average FICO is 580 and 20 percent of our borrowers don’t have a FICO score at intake – we obviously can’t base our underwriting on credit. Instead, it’s very sound, basic relationship-building underwriting with a slight twist. The first thing that we do is an ability-to-pay test, where we just make sure that when you subtract expenses from income, there’s enough liquidity to cover loan payments. The second factor and the most important one is banking history. What we’ve found is that even if people have no or poor credit, if they manage their bank account well, if they tend to have a good balance in there, then when we go to pull the loan payments, the payments will go through.

Q: After getting a loan, do your customers move to traditional banking products?
A: One of the most important impacts that we have is we report all loan payments made by our borrowers to all three credit bureaus. Because 96 percent of our loans are paid off on time, 96 percent of our clients see an increase in their credit, and that increase averages 75 to 90 points depending on the product. As people build their credit, increase their savings and improve financially, they become more bankable and can start to take advantage of other products that financial institutions offer.

Q: What have you learned over the past 10 years at The Capital Good Fund?
A: My biggest insight has been that people are not poor because they don’t know how to manage their money, but because they don’t have enough money to manage. Not having grown up poor myself and living in a country that really stigmatizes poverty, it took me awhile to realize that. Once you realize that, it really informs how you do everything. We inculcate that philosophy and that knowledge into our staff, and it drives how we interact with our customers, how we treat them, how we design our products and services.

Another insight – and this one might sound obvious – but it’s really hard to do good. If you’re trying to solve an issue like a $200 billion predatory industry, there’s a reason no one’s really done anything about it, because it’s not easy to solve. But more specifically, it’s not that one can’t solve it sustainably in its scale, but that doing so isn’t as profitable as people would normally expect.

POSNER’S FIVE FAVORITE LEISURE ACTIVITIES:

1. Spending time with his wife, infant son and beagle
2. Climate change activism
3. Bicycle road racing
4. Writing poems and essays
5. Reading history, science and psychology books

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