

*Low-Income Credit Rationing and Social Return on Investment: Welfare-to-Work
Car Loans in the State of Vermont.*

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Abstract

This paper examines the Working Wheels Welfare-to-Work car loan program administered by the Vermont Development Credit Union, a low-income lender in Burlington, VT. Three primary questions are addressed: how are Working Wheels loans allocated, which Working Wheels loans are repaid, and what are the benefits of lending to low-income individuals through programs like Working Wheels? It is determined that while loan allocation bears some similarities to allocation in more traditional loan programs with regards to variables considered, the way in which several of these variables are considered for Working Wheels allocation is different from that of most lenders. Previous program experience, indicating that lender/borrower relationships are important, as well as “non-traditional references,” which illustrate the program’s willingness to forgo traditional risk measures in the presence of alternative assessments, are each found to be important determinants of Working Wheels qualification. Low-income status also has a positive effect on Working Wheels allocation, indicating that low-income individuals are more likely to obtain credit through the program than non-low-income applicants. Additionally, a good past mortgage and credit scores are important determinants of loan allocation. Due to a small data set, solid conclusions regarding Working Wheels delinquency could not be reached. However, a brief analysis of delinquent sample loans is included in the paper. An examination of quantitative as well as qualitative information indicates that the program is productive by both measures. Social return measures based on simple cost-benefit analysis are calculated at between 175 and 560 percent, meaning returns of \$1.75-\$5.60 per dollar spent are realized as a result of the program. Personal interviews with program participants confirm the efficiency and effectiveness of the program.

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*For the Vermont Development Credit Union and other
low-income lending institutions that defy convention in an
effort to “help people help themselves.”*

There were 360,000 miles on the Jeep Cherokee John was driving. The old car wasn't in great shape, but it was all he had and it got John to where he needed to go. It took him to the food bank in Brattleboro where he picked up the weekly meals the bank provided for him and the mentally ill woman he has been taking care of for the last twenty years. Because of a lack of donations the food bank can only provide them with three meals per week- but that is three more than they would have otherwise...The jeep also took him to the hospital, where he made frequent visits to the doctor helping him rehabilitate his recently broken neck. As a result of his injury, the time consumed by caring for his sick mother, and the basement full of unsold stock from the previous year's failed entrepreneurial venture, the already insufficient welfare payments became even further from adequate.*

And then the Cherokee stopped running. With this valuable asset gone and no funds with which to repair or replace it, John was left with nearly nothing. Now he was truly stranded; very little has become even less almost instantly. John could no longer get to where he needed to be. As result of this immobility, doctor's appointments were missed and food donations were not picked up. Alternative transportation options were limited and expensive. John's neck was not getting better and already limited food became very scarce. John and his mother went from "getting along, but barely" to being "in real trouble."

A visit to his local Community Action Agency put John in contact with Jason Baldasaro, the loan officer in charge of the Working Wheels program at Vermont Development Credit Union. After three near unbearable weeks of immobility, things took a turn for the better and Jason granted John a small car loan to repair the Cherokee.

Things are not perfect yet, but the Cherokee is running again. The restoration of mobility has meant a restoration of a means for survival for John. As he put it,

"They (VDCU) were absolutely terrific... without them we wouldn't be able to move, I don't know how we'd survive... They really changed my life... It's really tough out there...for a while we had less than nothing...but we're back to nothing now and we're just going to keep trying..."

*Name of client has been changed.

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