



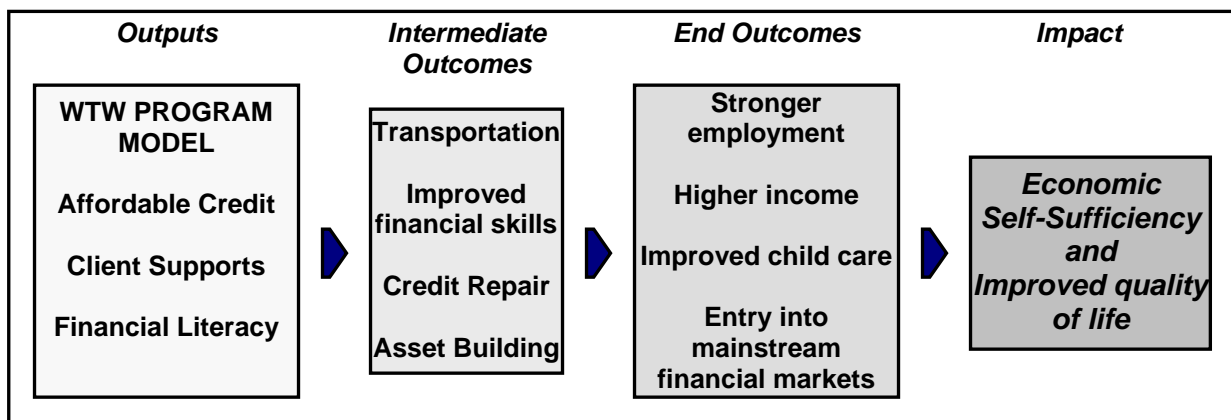
Program Description

Last modified November 7, 2007

WAYS TO WORK PROGRAM MODEL

The WtW program model integrates three major components within an innovative and holistic solution that addresses multiple needs of low-income families to help them move out of their cycle of poverty and dependence towards greater financial stability. The combination of affordable credit with real-world expectations for repayment, a high-touch approach, and financial literacy education generates intermediate outcomes - reliable auto transportation, improved financial skills, repaired credit and asset building.

As clients leverage their increased transportation capacity and financial skills, they are shown to stabilize their existing jobs or access better paying jobs, increase their income, improve care for their children, and begin working with mainstream financial institutions. Together, these outcomes allow families to begin moving towards self-sufficiency and an overall better quality of life.



PROGRAM MODEL COMPONENTS

Affordable, but Real-World, Credit

The WtW program model is centered on an affordable loan that allows working poor families to keep or obtain better employment or education. Loans are demand-driven and largely applied towards used car purchases, with occasional use for other expenditures such as auto repair, mortgage or child care assistance. The acquisition of an automobile increases program participants' job security by cutting down on lateness and absenteeism, and helping them move forward in their careers by giving them access to better paying jobs. The cars also help struggling families to stabilize their lives and transport their children to child care, school, and doctor appointments. The WtW base auto loan's eight percent interest rate makes it a much more affordable alternative to predatory and sub prime lenders who typically offer lending rates

of 25 to 50 percent. Consequently, clients save \$750 to more than \$2,000 in interest expense over a \$4,000, two-year loan.

WtW Base Loan Attributes

- \$4,000 upper limit
- Eight percent interest
- Two-year term
- \$181 average monthly payment plus liability insurance

A fundamental characteristic of the lending service is to closely simulate the real world that clients will encounter after their WtW loan, albeit in a supportive environment. Thus, WtW maintains a realistic but affordable interest rate and real world expectations for full and on-time payments.

This approach better prepares WtW clients to access mainstream financial markets over time and promotes long-term self sufficiency while supporting WtW's own financial sustainability. When necessary, program offices employ a set of collections procedures including calling clients and mailing payment reminders, renegotiating loan terms, providing incentives for repayment, and occasionally repossessing cars in the case of loan default.

High-Touch Approach

While affordable credit in itself addresses a fundamental unmet need in many communities, a high-touch approach in providing the loan is critical to client success in the context their challenging life circumstances. Although they are employed and financially able to make payments, Ways to Work clients typically live in a roller coaster-like state with a very high probability of negative occurrences, and frequently deal with job issues, health care problems, housing challenges, etc.

At any point in time, approximately 20% of clients are in a state of loan delinquency. Furthermore, nearly all clients fall into some level of delinquency at some point during their 24-month loan term. WtW's high-touch approach helps participants to weather short-term crises, change habits, improve the ability to repay their loans successfully, and consequently build greater financial capacity throughout their lives.

On average, this service costs \$2,400 to \$2,500 per client, spread across the two years that they are in the program. This approach helps WtW to sustain a 24-month loan repayment rate of nearly 90 percent across the network. It also enables WtW to provide financial literacy to all those who complete loan applications (over three times the number of individuals actually receive loans). Loan counselors spend about half of their time providing client support, generally managing a portfolio of 80 to 140 client loans at any one time.

- Car-related support includes assistance with car and insurance shopping, inspection, and maintenance. Loan counselors support clients by developing relationships with, and providing referrals to, recommended auto dealers, insurance providers, and dependable mechanics within the community. This area helps to ensure that clients are able to secure affordable and reliable vehicles, and keep them running.
- Case management addresses the multiple associated needs of low-income families that often accompany the need for affordable credit. Loan counselors integrate a case management approach by assessing the individual needs of each client and making appropriate referrals to ancillary services as necessary. Services are provided by either host agencies or external organizations, and can include employment services, education, life skills, family counseling, day care, and help with access to public benefits, affordable housing and medical services. Case management may also require arranging an intermediate loan "workout" or other accommodation to help a participant get back on their payment schedule.

Financial Literacy Education

As a requirement of loan approval, loan counselors guide every loan client through financial literacy education to improve the fundamental financial management skills critical to becoming creditworthy and financially self-sufficient. Education delivery includes formal classroom sessions run by either loan counselors or local financial institution partners as well as ongoing informal education by loan counselors in one-on-one sessions throughout the application process and term of the loan.

The greatest value of WtW's financial literacy education is the direct application of topics and practical experience gained by taking on and paying off an actual loan in a real-world environment. Key topics that are covered by both formal and informal education include:

- Completing a household budget
- Financial goal setting
- Tracking expenses
- Developing a spending plan
- Reviewing the credit bureau report
- Emphasizing the importance of saving
- Local community financial/credit resources

PROGRAM MARKETING

The majority of inquiries received by Ways to Work program offices come through word-of-mouth referrals. The availability of low interest car loans for low-income, credit-distressed borrowers typically spreads rapidly through a community. Often the primary marketing challenge is to communicate the eligibility requirements to help reduce the number of loan inquiries from ineligible residents.

Program offices employ a range of targeted marketing techniques to reach potential clients, focusing on outreach and referral partnerships with local government and private social service agencies including welfare offices, workforce development programs, and the program office's own host agency. Occasionally, agencies must resort to mass media outlets to better communicate the availability and requirements of the program. The combination of these methods allows program offices to maintain a high level of inquiries with a minimum of marketing expenses.

LOAN APPROVAL PROCESS

Upon receiving an initial inquiry, a loan counselor begins a rigorous, one to two month loan approval process in order to assess a potential client's eligibility and optimal fit for the program. The nature of the Ways to Work program requires a larger upfront time investment than is typical for mainstream lenders. Given a client target population that is defined by poor credit scores, Ways to Work can make only limited use of an applicant's credit score as a metric to assess risk. Program offices, therefore, employ a character-based lending approach that maintains program efficacy and a low default rate by ensuring that, *before the loan is approved*, clients have the commitment and potential to be successful. Overall, six percent of inquiries and 31 percent of applications result in funded loans.

Client Eligibility Criteria

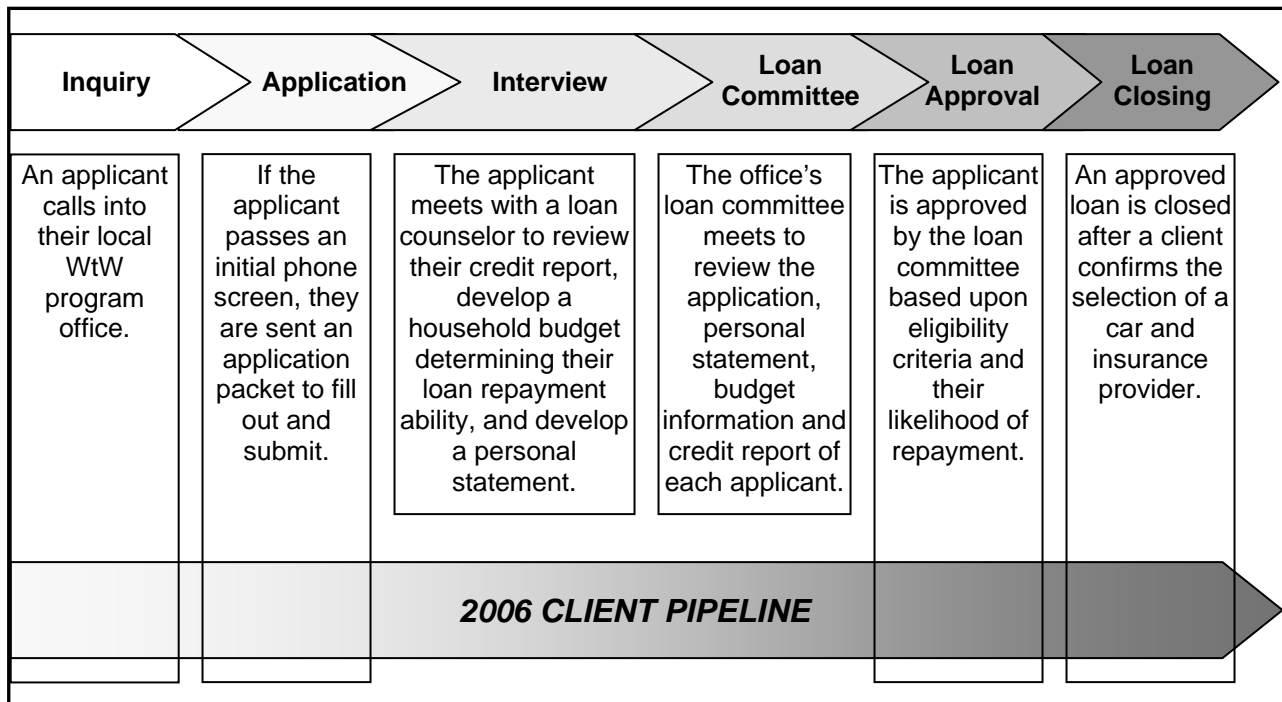
- Income less than 80% of area median
- Employed for at least 6 months or enrolled in education/training
- Involved parent of at least one child
- Distressed credit history
- Cash flow to repay loan

Loan counselors spend half of their time on loan production, working with six to seven applicants for every loan that is funded. Applicants work with the loan counselor to build and refine a family budget, review and plan repairs to their credit report, and produce a personal statement of intent. Because of the integration of financial literacy training with the application process, all applicants benefit from some level of family budgeting, credit repair discussions, or other associated education. This multiplies the number of families touched by the program far beyond the number that ultimately receive loans and full access to program services and benefits. For example, in 2006, 5,485 families benefited from financial literacy training through the application process, *over three times* the 1,735 families who actually had loans funded.

Client Underwriting

Five to eight community volunteers meet on a regular basis to review applications. This volunteer loan committee typically includes representatives of the host agency, local financial institutions, local funders, and other community representatives. In evaluating applications, loan committees carefully weigh the recommendations of the loan counselor and the applicant's overall financial status, character, debt history, and employment status.

The committee reviews all applications on a blind basis – that is the applicants name is replaced with a code number on all documents reviewed by the committee. If an application is declined, the applicant receives an adverse action notice from the local WtW office. If approved, they receive an approval notice. It is common for the Loan Committee to issue conditional approvals with specific issues to be addressed by the applicant prior to loan closing. It is also common for rejected applicants to be offered the opportunity to reapply when specific issues on their application are addressed.



Post-Approval

If approved for a loan, an applicant must then locate a car for purchase and arrange for insurance before the loan is finalized and loan funds are disbursed. Most agencies have identified preferred car vendors to assist applicants with the car buying process. Nearly all agencies require a pre-purchase inspection prior to closing.

Case Management during Loan Term

A key differentiation between WtW and most other car acquisition programs is that WtW's case management method and high-touch approach help to ensure that clients themselves have the motivation and capacity to pay back their loans. Individualized troubleshooting, ongoing education, and referral to complementary services all help clients to navigate the very circumstances that make them eligible candidates. This is a key success factor for the WtW program model - by paying back their loans in full and on time, clients demonstrate the potential to later access credit from mainstream financial markets.

PROGRAM MODEL EFFECTIVENESS

The effectiveness of the WtW program model has been validated by a 2006 external evaluation of the WtW national network, conducted by the OMG Center for Collaborative Learning (OMG). The WtW evaluation documented a notable and statistically significant set of

outcomes for program participants in multiple areas of interest. Summarized in the table below, these outcomes are linked to the \$2,400 to \$2,500 worth of support services that WtW provides to each client.

Selected Outcomes from WtW 2006 Evaluation and 2007 Credit Score Study

Income and Self-Sufficiency

- Almost three-quarters of participants report higher net monthly income
- Borrowers average a 41% increase in income (take-home pay)
- 87% of borrowers continue to sustain themselves without public cash assistance despite receiving it before entering the program

Employment

- 90% of borrowers report their WtW car allowed them to maintain or improve their employment circumstances
- 55% have found more responsibility or higher pay

Education

- 50% of borrowers accessed further education or job training thanks to their WtW car

Credit Score Improvement

- WtW clients show credit score improvement during and after their participation in the program

Departure From Predatory Lending

- Two-thirds of all borrowers have initiated a new account (checking, savings, credit card) or obtained a new loan since receiving their WtW loan

Care of Children

- Nearly all borrowers find that the car enhances their ability to make sure their children get to school on time, take them to medical appointments, and access better child care services

WAYS TO WORK LENDING MODEL

WtW enables its program offices to provide affordable consumer loans via a robust lending model that facilitates the transfer of loan capital from the national level to clients in local communities. From WtW's founding in 1984 until 2007, the lending model has evolved through two major generations.

Demonstrating a commitment to innovation and continuous improvement, WtW is currently implementing a third-generation lending model to prepare for and manage future growth. This new model will help attract and deploy new investment capital and serve as a springboard for potential program enhancements.

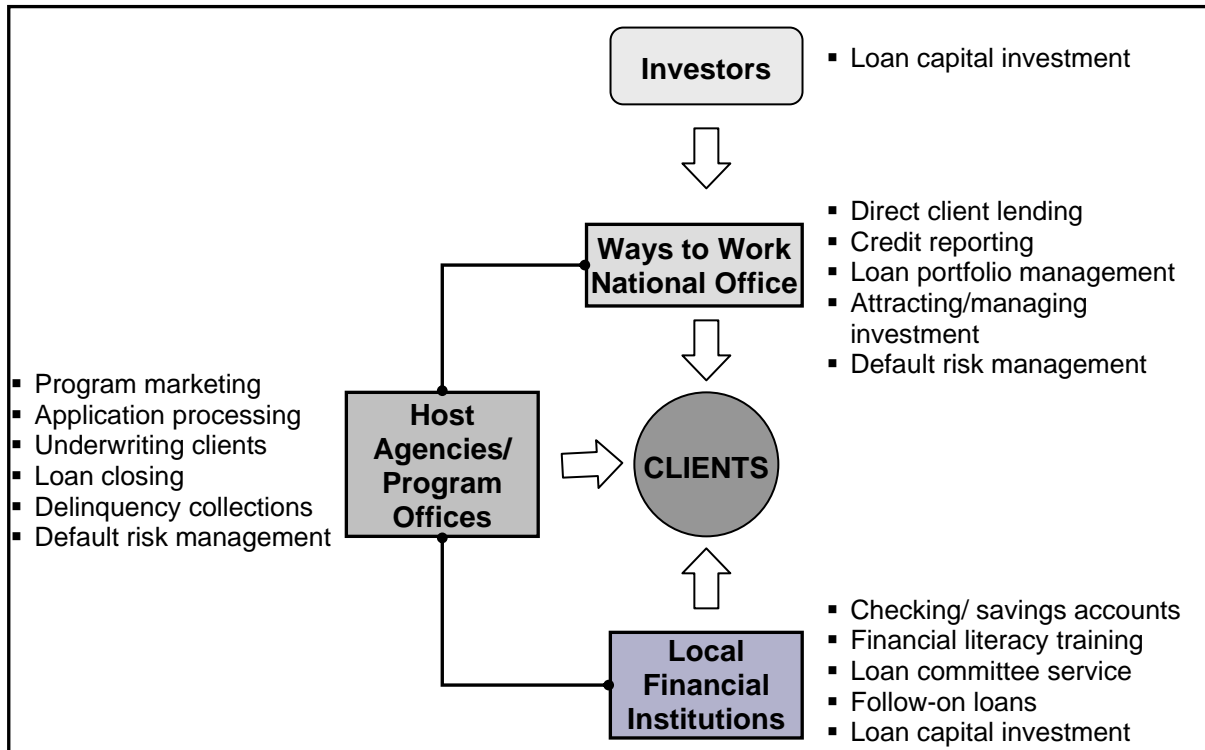
	First-Generation Model 1984 - 1998	Second-Generation Model 1998 - 2007
Lending Capital	<ul style="list-style-type: none"> ▪ Grant-based loan pools were provided to host agencies, mostly funded by McKnight Foundation ▪ Loans were originated, owned, and serviced by host agencies 	<ul style="list-style-type: none"> ▪ Loan pools are established via WtW National loans to agencies and/or matching federal funding ▪ Client loans are guaranteed by host agencies, but funded, owned, and serviced by local financial institutions ▪ Agency loan pools act as cash collateral for financial institutions ▪ Benefits to local banking partners focus on CRA credit
Client Lending Practices	<ul style="list-style-type: none"> ▪ Low-level enforcement of repayment expectations ▪ Loans often offered at zero interest to clients 	<ul style="list-style-type: none"> ▪ Strengthened enforcement of repayment expectations ▪ More professional, real-world borrowing experience, including modest interest charge ▪ Increased emphasis on financial literacy education for clients
Results	<ul style="list-style-type: none"> ▪ High loan losses ▪ Diminishing appetite for loan pool replenishment by funders 	<ul style="list-style-type: none"> ▪ Client repayment rate reaches 87% over eleven year period, 1996-2007 ▪ No agency defaults on \$25+ million in loan obligations since 1996

THIRD-GENERATION MODEL - CENTRALIZED, DIRECT LENDING

WtW's latest lending model builds upon the strengths of the second-generation model, the best practice examination in the 2006 Evaluation, modern lending industry technology, and WtW's strengths in risk management and direct-to-consumer lending. The third-generation model involves the transition from agency-based loan pools to a central loan pool, allowing WtW to manage its lending process at the national office and lend directly to clients by originating and owning client loans.

WtW is currently in the implementation phase of converting existing offices from the second-generation to the third-generation model. All new program offices will be launched on the third-generation model beginning in mid-2007. Stakeholder roles and advantages of the lending model are described below.

Third-Generation Model - Stakeholders and Roles



Investors of loan capital, including commercial and philanthropic lenders, continue second-generation model of investing in Ways to Work at the national level. However, the new model now provides the opportunity for smaller, local financial institutions to become investors.

WtW National Office centrally originates, owns, and services loans. The national office manages the overall loan portfolio across the network, thereby supplementing the portfolio management responsibilities of the host agencies. The third-generation lending model improves efficiencies and provides cost savings opportunities for the national office and throughout the network of host agencies. In particular, it allows WtW and its offices to better manage loan losses through the greater standardization of the lending process and improved data flow.

To access a powerful financial services and data warehouse system, WtW has contracted with Metavante Corporation, a nationally recognized financial technology software and services provider. Metavante partially subsidized the system's development and is discounting the system's ongoing operational costs.

WtW is using Harland Financial Services' Laser Pro, a standard loan documentation package for the US lending industry, to generate all loan agreements. Laser Pro can provide loan documents for a large range of loans and ensures that WtW is compliant with consumer credit laws in all 50 states.

Host Agencies will still guarantee client loans, but do not need to maintain 100 percent cash collateral deposits at a local lending bank. Agencies remain responsible for their program offices' local lending operations including program marketing, application processing, underwriting, loan closing, delinquency collections, and default risk management.

Agencies will have reduced data management requirements and will receive increased risk management support from the National office. WtW continues to underwrite host agencies to assess their financial strength and their ability to repay WtW National if multiple borrowers default on their loans.

Local Financial Institutions transition from a lending partner to a financial services partner. Partners retain the opportunity to provide second-generation model services including serving on loan committees, providing checking and savings accounts, financial literacy education, and follow-on loans to WtW clients. Their participation costs are reduced replacing the resource-intensive activity of originating and managing a portfolio of numerous small, short-term, unprofitable loans with lower cost savings accounts.

Financial service partners are also given the opportunity to fund the loans via low risk investments in WtW's centralized loan pool, and receive CRA credit along with their investment rate of return. An investment in WtW affords bank investors CRA credit under both the investment and lending tests. In addition, an investment in WtW demonstrates innovation in consumer lending by offering an alternative to predatory credit for borrowers not previously served by mainstream institutions.

Third-Generation Lending Model Advantages

The features of the third-generation lending model offer significant advantages for Ways to Work National, program offices and their host agencies, investors, local financial institution partners, and clients. These benefits include:

- **Increased manageability.** Through centralized loan portfolio management and real-time loan information, Ways to Work will gain greater control and transparency over the flow of capital and program data. Through the central lending facility, Ways to Work can also ensure more consistent credit reporting to protect the interests of borrowers throughout the network.
- **Greater scalability.** The third-generation model eliminates the need to make agency loans and recruit local lending partners, thereby greatly streamlining the process of launching and managing new program offices.
- **Increased efficiencies.** The eliminated need for local lending partners frees local office staff from the time-intensive requirement of continually nurturing complex local lending partnerships. Additional efficiencies include greatly streamlined data entry processes at both the local and national levels, and allowing a seamless transition from application processing to case management for clients.
- **Increased ability to attract, deploy, and manage CRA-eligible investment from bank partners.** For national-level commercial bank investors of loan capital, the third-generation model maximizes CRA credit associated with loans by providing detailed information on exactly where capital is invested through geo-mapping.

- Increased financial sustainability. The associated earned income stream will fully fund the operational cost of the loan system within about two years and begin to contribute toward program sustainability. This business platform is adaptable to potential product extensions which promise to enhance the sustainability of the local agency offices as well as the national office.

- Improved risk management. The addition of real-time information on all loans in all locations allows for more effective case and risk management by providing direct access to the status of individual client loans, thereby allowing program offices to quickly take action on delinquent loans and high risk situations before they become defaults.