

Taking a lesson from Korea for lending in the inner city

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Bankers brainstorming for a way to make good loans in inner-city neighborhoods might want to borrow an idea from Korea and Korean-Americans.

Koreans regularly organize a type of lending club known as a keh (pronounced key). Each member makes a monthly contributions. When the pool gets large enough, a vote is held to award a loan to the member with the best idea for a new business venture.

William Michael Cunningham, president of **Creative Investment Research** in Washington, is promoting a variation of the keh that he believes would create more credit for the poor - while reducing risk for banks.

The consultant said banks' participation would also improve their Community Reinvestment Act ratings.

The American keh, as envisioned by Mr. Cunningham, would be organized directly by a bank. Members from inner-city neighborhoods would contribute to a bank account each month until the pool reached sufficient size.

The the bank would lend to one of the members, using the pool as collateral. If the borrower defaulted, the remaining members would have to cover the shortfall.

"That way, there is an incentive for the members to monitor the pools," Mr. Cunningham said.

The program would require a third party, such as the Small Business Administration or a municipality, to guarantee pool loans. Then, the loans could be sold in the secondary market.

Under Mr. Cunningham's program, banks would charge a fee to maintain pool records and review the creditworthiness of applicants for both loans and membership in the pool.

Habits of Thriftiness

Individuals with modest credit needs would form small pools, while businesses and individuals seeking bigger loans would be directed to larger pools.

The keh concept works for Koreans because they "have a strong cash flow to begin with," Mr. Cunningham said. The savings habits of other minorities might be an impediment, he added.

Mr. Cunningham noted that a minority-owned in Los Angeles has expressed interest in piloting a loan pool of this kind with a Korean banking partner.

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