

Testimony of SHARE
Before the House Select Committee on Hunger
April 14, 1988

Good morning. We are here representing the Self-Help Association for a Regional Economy, known as SHARE, located in Great Barrington, Massachusetts. It is a privilege to be able to present the SHARE program to the members of the House Select Committee on Hunger and its distinguished chair, Mickey Leland, whose work in Congress on behalf of the poor and the hungry we greatly respect. We appreciate the opportunity to speak with you this morning, and appreciate the good work of your committee in investigating the causes and possible solutions to the problem of hunger in this country.

The Berkshire Hills of Massachusetts are known for their beauty and summer cultural attractions. The Southern Berkshires are a rural area with small hill towns centering around Great Barrington in the Housatonic River Valley. There are a few large paper mills, but the major industry is still tourism, which means seasonal employment and low paid employment to those who service that industry. There is a rapidly escalating second home and vacation home market for run away urbanites and this provides steady employment for carpenters, plumbers and electricians, but at the same time it creates a rise in housing costs that is pushing year round residents further and further from their place of employment in an effort to find housing that they can afford.

Two incomes to a household are necessary to make the rent payments and do the shopping, but well paid employment opportunities are scarce.

The English economist, E.F. Schumacher, author of *Small Is Beautiful*, suggested a regional approach to the solving of economic problems. He pointed out that the creation of many small businesses that produced products in the region of their consumption, would facilitate more diversified jobs that would foster greater flexibility in times of economic crisis and so lead to a more sustainable regional economy than the development of large, centralized, high technology dependent industries.

Schumacher's ideas inspired the creation of the SHARE program. SHARE is a non-profit open membership organization which grew out of the concern of Berkshire residents to find a way to provide much-needed, low-cost credit to emerging small businesses. We discovered that in rural areas, where many small businesses begin in the home as cottage industries, a very small amount of capital will go a long way in providing new jobs and encouraging the local production of goods formerly imported from outside the region. A knitting machine for the mother working in the home while caring for a family, a table saw for the carpenter, and an institutional-size oven for the local baker are all low-cost technologies that are quickly repaid with the increase in productivity.

However, the increasing centralization in the banking industry, where small local banks are bought up by large holding companies, has tended to drain rural areas of deposits for pooling in urban investment. After all, from one point of view, it is more efficient to take on a \$250,000 loan than it is to make one hundred \$2,500 loans. The small rural borrower, often without established credit references, finds himself or herself competing with international corporations for financing. When the small loan is approved, it is at the penalty of a higher interest rate – a rate so high as often to make the emerging business unfeasible.

We also identified in our region a number of investors who wanted to know where their money was invested. They were seeking a financial vehicle with criteria which reflected their social and environmental values. These socially concerned investors were not satisfied with the assurance that their money was being lent in a “good” way; they wanted to “know what their money was doing tonight,” their human interest was aroused. They wanted to know the story of the business: How did it start, whom does it employ, what are its new products, where are they sold? They were seeking more than an 8% clean return. They sought to bring a human face back into financial affairs.

We explored the possibility of starting a credit union, but we found the overhead costly and found that even the Community Development Credit Unions were reverting to consumer loans. Our priority was new businesses, and that meant productive commercial loans. Following E.F. Schumacher’s lead, we judged the simplest solution to be the most appropriate. So we decided to work with a local bank on the program, asking the bank to manage the deposit accounts, and reserving to SHARE and its members the decisions as to which local businesses would receive low interest loan collateralization support.

We asked each bank in town for its Community Reinvestment Act Statement and Annual Report. The one bank which was still fully owned locally proved to have the best record of reinvesting in the local area. So we approached it first.

Six of the founding members of SHARE sat down with the president and four vice presidents of the bank to discuss the proposal. “Too costly to manage,” we heard from the vice presidents, “Small deposits and small loans. Just a lot of bookkeeping.” Our hopes faded. But then the president spoke up. He had been raised in the area, had worked his way up in the bank from a position as teller, and could remember the time when loans were made on the character of the borrower, with little paperwork. He instructed his vice presidents to “work out all the details of the proposal with these people, so that we can have the SHARE program at this bank. They are planning to do what we should be doing and are no longer able to do. They should have our encouragement.”

In a month’s time, the details of the program were in place, and we found our first depositors and first borrower. Anyone in the Berkshire area wishing to become a

member of SHARE simply goes to the service desk of the local bank and opens a 90 day notice certificate of deposit account that is written as a joint account with SHARE. The account earns 6% interest and is fully owned by the depositor. The depositor, however, contracts with SHARE that the account may be used to collateralize loans not normally qualifying for a bank loan, but meeting SHARE's social, environmental and financial criteria. The passbook is left at the bank for SHARE to collect.

On approval of a loan collateralization request, a SHARE board member goes to the bank with the applicant and enough passbooks to stand security for the loan. The bank actually makes the loan and handles all the paperwork, charging a low 10% interest to the borrower and keeping the 4% spread over the cost of the money for its fees in servicing the loan.

There are now over 70 depositors in the SHARE program. We thought at first that the depositors would be the wealthy members of the community, putting aside a portion of their funds into social investment. But instead we found that the majority of SHARE depositors are poor people who have taken their full \$500 savings to open a SHARE account. The reason is simple. They see that the SHARE program has made a difference for people like themselves, and they want to participate. Their savings are no longer just a small drop in a large investment pool, but a significant amount in a new effort to build their community. As depositors in SHARE, they are members of SHARE and can elect the Board of Trustees and help shape loan collateralization criteria.

SHARE has completed 14 loans of under \$3,000 each through this pool of credit. In addition, it has facilitated over \$250,000 of low interest loan money to the Community Land Trust in the Southern Berkshires for purchase and development of a 20 acre site for leasing to year round residents for affordable housing. The purchase of land is outside the criteria of the pooled Credit Fund of SHARE, but through its Direct Loan Fund, SHARE can link individual investors directly with socially responsible projects not qualified to apply through the Credit Fund. The risk on these loans is taken directly by the investors rather than spread among all SHARE members.

A sampling of the loans collateralized through the Credit Fund is representative of the diversity of small businesses in rural areas. Sue S. of Rawson Brook Farm makes a soft Chevre cheese from the milk of her dairy goat herd and the herbs which she has grown on her organic farm. She needed \$5,000 to complete her milking parlour and cheese room according to state standards, thus enabling her to sell the cheese through stores and restaurants. The loan was made over two years in five installments as the building proceeded. She now has a thriving business, and Monterey Chevre is popular in the area.

Jim G. has trained his two draft horses, Spike and Rosie, to haul timber and fire wood from the forest. In contracting work with forest landowners, Jim can assure the owner that the woods will be treated in an ecologically responsible manner without undue

stress on the land caused by heavy equipment. His loan was to complete a barn for the team.

Bonnie N. has a knitting machine in her home which takes bulk weight yarn. She knits sweaters, tights, leg-warmers and scarves for children and adults using her whimsical colorful designs. The first part of her loan was for \$400 to buy a bulk supply of yarn, thus lowering her overall costs and establishing credit with suppliers. When the loan was almost repaid, Bonnie came back to SHARE and asked for an increase in her loan, so that she could purchase a machine which could take lighter weight yarn for summer sweaters.

When this loan was almost repaid, she returned again to tell us that she now had a monthly contract to produce a certain number of sweaters of her design and that she would need another machine to employ a new worker. We told her that she did not need SHARE any more; she could go directly to the bank and request a loan. She was surprised because she had never had credit before. We explained that her last two loans had come from the bank, though collateralized by SHARE. All of her payments were on time, and the bank had a record of that payment schedule; so she now had credit. She called a week later, jubilant that the bank had given her a loan.

Marty G. makes house calls to repair washers and dryers, and he reconditions old machines in his shop for resale. His is a valuable service in a rural area which would otherwise be dependent on service people traveling some distance. Marty's loan was for a supply of extra parts for repairing machines.

Kites of the Four Winds produces large colorful kites from designs of its manager, Sally V. The business is labor-intensive and permits sewers to work in their own homes. One of her suppliers, discontinuing a line of fabric used in making the kites, offered Sally a quantity of material for half price. The \$3,000 loan, collateralized by SHARE, was paid off in six months, largely through the savings realized on the fabric.

While in form SHARE is simply a loan collateralization program, in practice it has proved much more. Members receive quarterly letters describing which businesses have received collateral support. They then take a personal interest in the business. They bring their grandchildren to see the new goat kids at Rawson Brook Farm; they root for Spike and Rosie at the local draft horse pulling event; they recommend Marty to a friend when a washing machine is in trouble; and they boast that Terry, whose loan went to buy a piano, is the best music teacher in the area. They choose Monterey Chevre cheese before national brands and ask for it at shops where it is not yet available. And they think of Bonnie's sweaters and Sally's kites at birthday times.

What began as an alternative source of funding for small businesses has taken on other dimensions, linking investor and borrower in human ties of mutual responsibility. When Sue S.'s house at Rawson Brook Farm burned down two winters ago, SHARE members formed a telephone chain to inform one another. The next day, she had a temporary place to stay, new clothing and household items, offers of hope

to design and build a new home, and an extension of her loans. Sue and Wayne have moved into their new house, the home also of their adopted daughter, Rain. The business was untouched by the fire, and Sue had the good courage to meet the challenge, with a little help from her friends. The SHARE loan is paid in full and Monterey Chevre is a Berkshire standard.

The success rate of SHARE collateralized loans has been 100%. Those 14 new businesses have created over 40 new jobs in the area. All this has been accomplished with private funds and volunteer help and an initial start-up grant of \$200.

Could we have done more? Certainly. With a steady outreach program, SHARE could have served more potential borrowers.

Are deposits a problem? No. There is such a quick turn-over on loans that the small pool of \$26,000 is sufficient to service a program with even three times the loan activity.

What else has SHARE accomplished? Over 15 SHARE members made low interest construction loans to the Community Land Trust totaling \$200,000. This enabled the Land Trust to reduce costs on the housing units it is building at its Forest Row site in Great Barrington. The first ten families have moved into these units, moving from a rising rental market into homes which, in some cases, they helped to build themselves. It was a big leap forward for some of these families and scary. But they saw that there were people in their town who cared enough about affordable housing to lend at below market rates. As a result, those families feel less alone, and they face the still significant work ahead of them with good spirit. Ties are made which build toward a permanent local community on a healthy economic basis.

In addition the Community Land Trust created a second mortgage pool known as the Fund for Affordable Housing. With loans of \$97,500 from 29 individuals, many of them owners of second homes in the area, the Fund was able to give additional financial help in the form of below market mortgage rates to five of the families at the Forest Row site. This participation of second home owners helped to heal the wounds between those with more than enough and those with too little.

Dorothy S. and John B., summer residents of the Berkshires, who helped with the organization of the Fund, wrote in a letter to Fund investors, "For ourselves, when the stock market crashed, we were pleased we had invested in the Fund for Affordable Housing!" They found that local investment also proved to be a secure investment.