


## Emergency Loans

The CPFCU Alternative to Payday Lenders



The logo for Community Plus features the word "Community" in a bold, sans-serif font, with "Plus" in a smaller font below it. To the right of "Community" is a small graphic of a stylized house or building, and to the right of "Plus" is a small graphic of a plus sign.

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## How This Began

- Awareness began in 1990's as Payday Lenders popped up like mushrooms
- Legislation did not seem to have any effect
- Much discussion at conferences, trade publications, listservs, etc as to possible solutions
- Many credit unions seemed interested in a payday loan type product that was more fair to the member

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## Catalysts to Action

- "The Money Trap" video produced by the Annie E. Casey Foundation in 2003
- Partnering & Leadership Successes (PALS) workshop by NCUA in April, 2005
- "Antidotes to Payday Lending" seminar by National Federation of Community Development Credit Unions held in conjunction with the PALS
- Spring, 2005 presentation by University of Illinois Law School to Chapter about study they did

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## Catalysts to Action



- When I testified before a legislative hearing, Former Illinois Representative Tom Dart asked, "What are *you* doing about payday lenders?"

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## Initial Decisions

- How to structure the loan
  - Like a payday loan, but reduced fee
  - "Salary advance" to checking account
  - Open end line of credit
  - Closed end, with one pay or equal monthly payments
- Loan maximums
  - Per member
  - Maximum exposure for the credit union to this type of loan

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## Key CPFCU Policy Elements

- Maximum per member household is \$500
- Purpose must be for a financial emergency
  - Documentation frequently requested
  - Checks made payable to 3<sup>rd</sup> party
- Closed-end, monthly payments up to 6 mo.
- 30 day waiting period between loans
- 18% APR (maximum for a federal credit union)
- \$20 application fee

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### Key Policy Elements

- Credit report not used for underwriting
- Must have been a member for 6 months
- Minimum gross household income is \$1,000
- Direct deposit required, if available
- Valid home and work phone numbers
- No bankruptcy in last 12 months
- Can not have overdrawn shares, delinquent loans, or unpaid loss with us
- No debt ratio or minimum credit score

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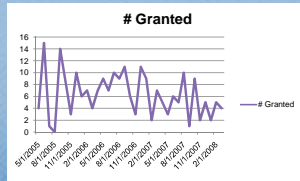
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### Financials

- 212 loans granted May, 2005 through March, 2008
- \$94,230.40 granted in that time period
- Average outstanding balance \$9,396.36




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### Financials

Interest earned	4,884.29
Less: COF	643.62
Less: Net Charge-offs	6,117.69
Net Interest Income	-1,877.02
Loan Application fees	3,920.00
Net Net Income	2,042.98
3 Year Loan Loss Ratio	21.70%

Period 5/05 through 3/08

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### Charge-offs

- 20 loans have been charged-off for total of \$6,224.55
- 7 loans totaling \$3,310.70 were charged off after receiving only one payment or less
- Only \$106.86 received in recoveries

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### Current Portfolio

Rating	Score	Quantity
A +	720 or above	0
A	680 or above	0
B	679 – 640	2
C	639 – 600	1
D	599 – 550	7
E	549 or less	16

Currently 28 loans with average score of 539

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### Central Illinois Credit Union

	2005 (July – Dec)	2006 (Jan – Dec)	2007 (Jan – Dec)	2008 (Jan – May)
Interest Income	\$525.71	\$2,786.77	\$4,128.29	\$1,998.90
Late Loan Payment Fees	\$0.00	\$81.61	\$115.16	\$54.88
PAL Application Fees (\$20 per app)	\$1,190.00	\$3,120.00	\$4,360.00	\$1,860.00
Recovery on Charged Off Loans (one loan)	\$0.00	\$0.00	\$419.21	\$0.00
<b>Total PAL Loan Income</b>	<b>\$1,715.71</b>	<b>\$5,988.38</b>	<b>\$9,022.66</b>	<b>\$3,913.78</b>
Charged Off (Bky – three loans 05-08)	\$0.00	\$553.31	\$167.23	
Write off (Skip – thirteen loans 05-08)	\$0.00	\$419.72	\$2,036.84	\$1,417.13
<b>Total PAL Loan Expenses</b>	<b>\$0.00</b>	<b>\$973.03</b>	<b>\$2,204.07</b>	<b>\$1,417.13</b>
<b>PAL Net Income/Loss Per Year</b>	<b>\$1,715.71</b>	<b>\$5,015.35</b>	<b>\$6,818.59</b>	<b>\$2,496.65</b>
<b>PAL Net Income/Loss since July 2005</b>	<b>\$16,046.30</b>			

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