

Payday Lending Options for Credit Unions

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What we are going to cover

- The first step is to ask the right questions
- The second step is to answer them
- Then you examine all your options
- Then you decide which option matches your answers
- And finally, you implement your payday lending alternative program

Ask the right questions

- Who do you wish to serve?
 - Existing members only
 - Potential members
 - Both

Ask the right questions

- What is your pricing strategy?
 - Make a modest profit
 - Break even overall
 - Only cover potential loan losses
 - Prepared to lose a modest amount

Ask the right questions

- What are your legal limitations?
 - Laws in your state
 - Are you a Federal Credit Union

Ask the right questions

- What issues are important to you?
 - Savings component – Mandatory/Optional
 - Education component – Mandatory/Optional

Options Available

- Members only, low risk, low price
- Potential members, high risk, high price
- Risk based, low to high risk, low to high price

Options Available

- Join an existing program
- Copy an existing program
- Build your own program

Members Only Program

- Need to have been a member for 60 days
- Direct deposit/regular check deposit?
- Application fee(\$20 - \$30)/Annual Fee (\$35 - \$70)
- 18% - 36% interest
- Loan repaid by next paycheck
- Low cost to member
- Limited risk to the credit unions

Members Only Program

Advantages

- Good way to begin a program
- Affordable alternative for members who are using payday lenders
- Low risk
- Low cost

Disadvantages

- Only helps existing members
- Doesn't attract new members
- Doesn't compete in a large way with Payday Lenders

Potential Members Program

- Can walk in the door, join credit union and take out a payday loan
- Varying repayment options?
- Fees around \$10 per \$100
- Loan repaid in 30 days
- Incentives for Savings and Education?
- Higher risk to credit union
- Higher cost to the member

Potential Members Program

Advantages

- Reaches out to potential members
- Competes directly with payday lenders
- Wider community service
- Potential growth for credit union

Disadvantages

- Is a high cost option for existing members who are low risk
- Is a higher risk

Risk Based Pricing Program

- Combines the best of both other options
- Existing members pay less, based on their lower risk
- New members pay more based on their higher risk
- New members get lower rates for savings and education components

Risk Based Pricing Program

Advantages

- Existing members are not overcharged
- Potential members are allowed to participate
- Cost to all is less than what they would pay at a payday lender
- The risk to the credit union is accounted for

Disadvantages

- A little more complicated for staff – more training required

Examples

Existing Members

- StretchPay (OH)
- Better Choice (PA)
- Core Plus CU (CT)
- Energy FCU (MD)

Potential Members

- Prospera CU (WI)

Risk Based Pricing Model

?????

Questions ?

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