AIL CREDIT UNION CENTER

CREDIT Union Lines

TOOLS AND RESOURCES FOR CREDIT UNIONS • MAY 2014

THE BLUE PAPER of the Month

"Payday Loan Hawkers Are Adding Sophisticated Features To Their New Sales Pitch"

Payday loans are illegal in 15 states.

The problem is that they are still legal in 35 and their hawkers have become very savvy in marketing techniques.

But, not surprisingly, Credit Unions are benefiting from this.

Recently, a letter went to residents in a variety of states from a company called Rise Financials, offering a "pre-approved" loan for $2,600. The fine print, of course, reveals that the rate is 174.54%, the payback is almost $7,000, and Rise Financials is a payday lender.

David Lazarus recently wrote a column in the *Los Angeles Times* stating, "Welcome to the new-and-not-so-improved world of payday lending, which has adopted more sophisticated sales pitches" to lure the unwary into "loans that can trap them in endless cycles of debt. However, recent publications, including the *Los Angeles Times*, have suggested that the borrowers consider instead a short-term loan "from their Credit Union."

Even the Federal Trade Commission suggests six "alternatives to payday loans." The first item on the agency's list of alternatives to consider is "a small loan from your Credit Union."

Read about all of this in the May issue of the AIL *Blue Paper*. It's titled, "Payday Loan Hawkers Are Adding Sophisticated Features To Their New Sales Pitch," hiding not only their rates but also that they are payday lenders."

For your complimentary copy, just contact your AIL representative or call the AIL Credit Union Center at 800-278-6661.

Trends and Topics

Consumers Are Back to Paying Mortgages Ahead of Credit Cards

Consumers are once again prioritizing their mortgage payments ahead of their credit card payments, according to a new study by TransUnion. This reverses a trend that began in September 2008, when the mortgage crisis drove consumer payment preferences toward paying credit cards ahead of mortgages. The study also found that, since at least 2003, consumers have been putting an emphasis on paying their auto loans before their mortgages and credit card payments.

"One of the biggest impacts of the Great Recession to the credit system was its influence on consumer payment patterns," said Ezra Becker, co-author of the study and Vice President of Research and Consulting for TransUnion. "As unemployment rose and home prices cratered, increasingly more consumers were faced with financial constraints and had to make difficult

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Inside This Issue

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Trends and Topics

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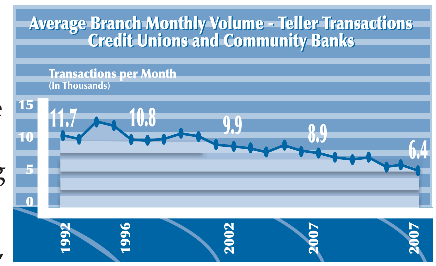
choices — and many chose to value their credit card relationships above their mortgages."

Major variances were found across the country, with cities such as Los Angeles — which was hit hard by the mortgage crisis — experiencing consumer payment patterns that were very different from cities such as Dallas, which had a more stable housing situation.

"It's been well documented that the Great Recession impacted different areas of the country to varying degrees," said Becker. "While unemployment generally went up throughout most of the country, some areas saw more job losses than others. Markets that experienced extreme housing value increases and declines also saw the biggest shifts in payment dynamics. As unemployment gradually improves and housing prices recover, we expect every major metropolitan city will revert to the traditional payment hierarchy." ◆

Branch Use Decline Requires New Look at Staff Productivity, Study Advises

As branch traffic declines, so too does the productivity of branch employees, according to FMSI's recently released 2013 *Teller Line Study*. In comparing the 2013 study with its 2011 *Branch Workforce Utilization Study*, FMSI found that the percentage of employees' work time in which they are effective decreased to 79 percent from 82 percent for tellers in the top-performing shops examined.



The 2013 study also indicates that branch transaction volumes are continuing a year-over-year decline that FMSI identified more than a decade ago. According the study, branch transaction volumes have dropped more than 45 percent since 1992.

FMSI counsels credit unions to look closely at their offices to evaluate scheduling practices, the role of front-line personnel, and even branch design.

The study states: "With all the challenges facing FIs in today's environment, it is imperative to get the most out of every investment, especially the branch staff."

FMSI Financial Management Solutions, Inc. Stronger Performance, Sharper Earnings

It suggests a scheduling system designed to "optimally align branch staff to actual account holder traffic patterns, based on an institution's core transaction data. This lean staffing approach ensures the precise number of staff for both peak and idle periods in transaction activity — resulting in better service and a material reduction in labor cost." ◆

Technology Report

CU Closes First E-Signed FHA Mortgages

Mountain America Credit Union in West Jordan, Utah has become the first credit union to sign FHA mortgages electronically under the Federal Housing Administration's new e-sign policy.

Your Door to FHA HOMEOWNERSHIP

The credit union closed two loans, one refinancing and one purchase mortgage, using a combination of technologies. The closings offer a glimpse of how electronic signing is expected to streamline industry operations in the future. The process took about 15 minutes for each loan — compared with the hour-long process of ink-signing 100 to 200 pieces of paper on the day of closing. The e-signing process also speeds up funding of the housing transaction.

The new FHA policy, effective January 30, allows mortgage lenders and servicers to use e-signatures on the FHA's documents for insurance endorsements, servicing and loss mitigation, insurance claims, and real estate owned property sales. Over the long term, the policy is expected to cut costs and simplify processes for mortgage lenders.

"By extending our acceptance of electronic signatures on the majority of single family documents, we are bringing our requirements into alignment with common industry practices," said FHA Commissioner Carol Galante.

Mountain America Credit Union

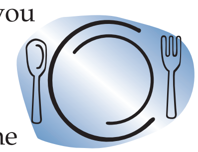
"This extension will not only make it easier for lenders to work with FHA, it also allows for greater efficiency in the home-buying and loss mitigation process." ◆

Dinner Enticement Boosts Mobile Deposits

Point West Credit Union in Portland, Oregon is using the popularity of a local restaurant to promote its mobile deposit service, launched January 10. On January 27, the CU sent an email to members that read:

"We are so happy to see that so many of you have already taken the Mobile Deposit plunge. But we know that many more of you out there could benefit from this great new service as well — and we're happy to entice you to try it!"

"When we hit 1,000 mobile deposits received, we'll be giving away a $100 gift certificate to Portland's award-winning Le Pigeon restaurant. How do you enter? Simple — just make a mobile deposit via the Point West Mobile Banking app, and with every successful deposit, you're automatically entered. The more deposits you make, the more entries you receive!"



Soon after the mailing went out, the number of mobile deposits doubled, according to the credit union. "The promotion is doing exactly what we wanted it to — it is increasing the number of people using mobile deposit and the frequency it is being used," said Steve Pagenstecher, the CU's Marketing and Member Experience Manager. ◆

PointWest Credit Union

Marketing Tips of the Month

Campaign Follows CU Members on Their Way to Financial Success

In an effort to increase consumer's awareness of personal financial literacy, Wichita area credit unions are partnering with the Kansas Credit Union Association and the Consumer Credit Counseling Service on consumer financial literacy campaign called "Money Possible: Destroy Debt."

The campaign, launched in March 2014, follows credit union members on their way to financial success using an integrated approach that includes:

- Weekly television segments on the KAKE-TV (ABC) 4 p.m. newscast
- Quick tips available on the website and YouTube
- Blog updates
- #moneypossible hashtag to follow on social media
- 30-second commercials on the value of credit unions as strong financial partners

The program is designed to be a learning experience for everyone, not just participants. "In the spirit of social media, people are living their lives more publicly now," said Susan Dyer, Communications Director for the KCUA.

Kansas Credit Union Association

"People relate to other people, and if they see that someone else was able to pay down loans or cut their debt in half, they may be inspired to do the same. We are using multiple platforms including television, a blog, and social media, allowing us to reach farther than just Wichita or Kansas, and keep credit unions top of mind." ◆

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Legislative Dispatch

Senate Committee to Mark Up Housing Finance Bill

The Senate Banking Committee is set to mark up its bipartisan proposal to reform the nation's housing finance system at the end of April. Known as Johnson-Crapo for Banking Committee Chair Tim Johnson (D-SD) and ranking member Mike Crapo (R-ID), the measure is largely based on a bill fashioned by Senators Bob Corker (R-TN) and John Warner (D-VA).

In a joint statement, Senators Johnson and Crapo said, "The proposal is designed to protect taxpayers from bearing the cost of a housing downturn; promote stable, liquid, and efficient mortgage markets for single-family and multifamily housing; ensure that affordable, 30-year, fixed-rate, prepayable mortgages continue to be available, and that affordability remains an important consideration; provide equal access for lenders of all sizes to the secondary market; facilitate broad availability of mortgage credit for eligible borrowers in all areas and for single family and multifamily housing types."

The bill has drawn critics from both sides of the political spectrum but appears to have the 12 votes needed to be reported by the committee. Sponsors say that they need a bigger number than that to convince Senate Majority Leader Harry Reid (NV-D) to bring it to the floor, however.

Meanwhile, the House Financial Services Committee version of a housing financial overhaul measure is substantially different, so even if the Senate were to overcome the odds and pass the bill, the measure's fate in the House remains uncertain, especially with so little time left before the start of the election season. ◆

CFPB Formulating Payday Lending Rules

The Consumer Financial Protection Bureau will soon propose the first nationwide rules for payday lending. The regulations will apply to the approximately 20,000 payday stores across the country and many more that exist online.

At a recent CFPB hearing in Nashville, payday loan industry representatives expressed concern that the agency will cap annual interest rates at 36 percent; however, the Dodd-Frank Act bars the CFBP from setting an interest rate cap. It is likely that the Federal rules will set a regulatory floor below which states may not fall. There is much variation in state laws governing payday loans: Nearly 20 states ban them entirely, and the rules in states that allow them vary considerably.

The issue is a top priority for consumer advocates, who are calling for an "ability to pay" standard requiring that all borrowers be evaluated for their ability to pay off loans before taking on new ones. They also argue that payday lenders have abused access to a consumer's credit union or bank account by tacking on confusing fees. CFPB Director Richard Cordray appeared to agree, saying that "some lenders use the electronic payment system in ways that post risks to consumers. These practices can hinder consumers from getting out of debt or can leave them unable to prioritize the payment of their various debts in ways that would leave them better off."

The rulemaking process could take a year or longer. It's expected that the agency will convene panels to assess the rule's potential process on small business, after which it will propose a rule and invite public comment before issuing a final version. ◆

Marketing Tips of the Month

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Microlending Program Helps Local Entrepreneurs

UT Federal Credit Union in Knoxville, Tennessee has introduced a new microloan program that combines new technology and the expertise of a small group of business people to increase a new enterprise's chance for success.

The program is called the Line 12 Microfund, after the line on the IRS Form 1040 where taxpayers must file income earned from their own business. Its advertisements claim that the UT FCU will "pump up your line 12."

UT Federal Credit Union
Your Community Credit Union

The program was launched to fill a void left by lenders who were unwilling to take risks on new ventures.

"There is no one who will provide an entrepreneur with a good idea the $5,000, $10,000, or $15,000 they need to get started," said Jonathan Patrick, the CU's Senior Vice President and Chief Lending Officer. "A credit union's job is to help build the community."

LINE12 PUMP UP YOUR LINE12

UTFCU has allocated $100,000 to provide low-interest loans to five to 10 companies in the first year. Loans can go up to $20,000, although Patrick says companies could apply for additional loan amounts under UTFCU's normal application process. The credit union UTFCU has created an advisory committee to screen applicants and provide mentoring to those selected for loans.

The fund and its online application went live on March 1. ◆

Serving the Community

Partnership Helps Students Prepare for College

TopLine Federal Credit Union in Maple Grove, Minnesota is partnering with Hennepin Technical College, Brooklyn Park Campus, in a program to help students and their families learn more about post-secondary education options, as well as financing.

The program, called Gaining Early Awareness & Readiness for Under-graduate Programs, or GEAR UP, is a seven-year grant from the U.S. Department of Education. It supports student academic performance and assists with college preparation, enroll-ment, and achievement with the goal of increasing the number of students who are academically and financially prepared for post-secondary education.

GEAR UP
RIGHT CHOICES FOR YOUTH

Recently, TopLine taught in-school sessions on finance basics to nearly 700 area middle school students and led a series of workshops for more than 75 attendees at the Fridley Middle School Parent Resource Fair called "College Now, College Later: It's Never Too Early to Talk About College."

The credit union received feedback from attendees about the value of the experience and an appreciation of the breadth of resources offered. ◆

"It's Where I Bank"
TopLine Federal Credit Union
SINCE 1935

CU Springs into Action for Household Items Drive

MSU Federal Credit Union in East Lansing, Michigan partnered with St. Vincent Catholic Charities to host the "Spring into Giving" household items drive to help local families. All Greater Lansing area CU branches collected new or gently used household items, such as lamps, alarm clocks, plates, silverware, towels, bed sheets, pillows, brooms, mops and other items.

STVCC

"At MSUFCU, it's our mission to provide superior service while assisting members and the community to achieve financial security, their goals, and ultimately, their dreams," said Patrick McPharlin, MSUFCU's President and Chief Executive Officer.

"Your support of our Spring into Giving drive is helping St. Vincent Catholic Charities provide those we relocate and resettle with the essential household items they need to begin rebuilding their lives in our community," said Andrea Seyka, CEO of St. Vincent Catholic Charities. ◆

MSU Michigan State University Federal Credit Union
Building Dreams Together

Comments? Suggestions? Questions?

Call the Credit Union Center Hotline:

1-800-278-6661

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