THE BLUE PAPER

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# It's Time To Re-Examine "Payday Loans" (Especially The New Credit Union Versions)

## In Difficult Times, These Loans Offer A Service To Members And A Powerful Marketing Opportunity

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*Millennials (those 18 to 35 year olds) are some of the biggest users of payday loans.*

Recent studies about payday loans have revealed quite a few surprising facts.

One surprise was that Millennials (those 18 to 35 year olds) were some of the biggest users of theses loans.

Why? The study reasoned that no group has suffered from the current recession more than those under 35. According to the U.S. Census, the median net worth of this group fell 37% in the last five years. (By comparison, those older than 65 had a lesser decrease in net worth of 13%.)

Another factor is the high unemployment in this age group (nearly 50% above the national average).

It quickly becomes obvious that there are more payday loan users than previously thought — and not just among Millennials but among all age groups.

## THE SURPRISING EXTENT OF STOREFRONT PAYDAY LENDERS

Nationwide, the storefront lenders now have more than 20,000 locations making almost $40 billion in loans each year. (That's *billion* with a *B*.)

Recent studies have found that the average loan is $345. But if one includes rollovers and new loans, the typical payday borrower takes out about $2,000 a year in total loans.

*And the staggering interest rates at storefront payday lenders continue to range from 300% to 600%.*

In San Francisco alone, there are more payday lenders and check cashers than there are Starbucks and McDonald's *combined*.

## SO WHERE ARE THE CREDIT UNIONS?

*CUs had $18.7 million in payday loans at the end of 2011, compared with $8.9 million the year before.*

Credit Unions are, however, now offering more and more payday loans.

According to the *Los Angeles Times* (March 12, 2012), "The biggest new increase has come from Credit Unions. The number of Credit Unions offering payday loans jumped from 250 to 400 in the last year, attracted by a 2010 change in regulations that boosted the maximum interest rate on payday loans from 18% to 28%."

CUs had $18.7 million in payday loans at the end of 2011, almost doubling the $8.9 million the year before.

From the Member's viewpoint, there is a real need for Credit Unions to offer this service. According to Lauren K. Saunders, National Consumer Law Center, "There are people who wouldn't walk into a payday loan store but think that if a bank or Credit Union is doing it, it must be safe."

Banks and Credit Unions have been searching for new ways to boost revenue in this down economy in which interest rates for loans are historically low. That, combined with the fact that many of our Members are scrambling to make ends meet, has made many Credit Unions realize that payday lenders must be onto something — something that our Members need and want, as well as something of value to the Credit Union.

*Many of our Members are scrambling to make ends meet.*

According to a CUNA Mutual white paper, approximately 16% of all Credit Unions are now offering some form of payday loan. And many CUs are giving this service their own spin.

## THE NEW "PAYDAY ALTERNATIVE LOANS" (PALs)

Some of the more inventive Credit Unions have developed creative new versions of this age-old product. Many CUs call their product "The Payday Alternative Loan" (PAL).

According to Callahan & Associates, Liberty Savings Federal Credit Union, Jersey City, New Jersey, is offering a short-term loan option with a lower rate. "The new product has significantly strengthened the Credit Union's loan portfolio."

Liberty Savings learned that its Members were paying as much as 391% interest at the storefront lenders. Consequently, the CU developed the "Paycheck Advance Loan," with which the Member can get up to $1,000 with terms up to 12 months at 18% fixed.

Karen Velasquez, Business Development Officer, stated, "We're doing this to meet the needs of our community." These small signature loans have significantly benefited the Credit Union's total loans, which increased 7.35% in the first quarter when the nationwide average increase was only 2.1%.

Vons Employee Federal Credit Union, El Monte, California, began offering payday loans last year with a $750 limit, an annualized interest rate of 27.9%, and up to six months to repay.

In 2009, the city of San Francisco began a citywide program titled "Payday Plus SF," designed to provide alternatives to storefront payday lenders. As part of the program, Community Trust CU, San Francisco, offers $500 Payday Plus loans at 18% interest and a 10-month repayment plan.

## AND OTHER CREDIT UNIONS ARE JOINING IN

More and more Credit Unions are beginning to offer payday loans, and they're coming up with a variety of creative names for them.

*Credit Unions have come up with a variety of innovative names for their versions of payday loans.*

Virginia Community Credit Union, Charlottesville, Virginia, goes with the name Payday Alternative Loans, marketing them with this statement: "Whether you're stuck in the payday loan cycle or facing an unexpected expense, our PALs Program can help."

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*Credit Union Members in Pennsylvania can easily see that there is no competition between their Credit Union and the local storefront.*

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USC Credit Union in Los Angeles offers their Members what they call a FlexPay Line of Credit "for small, short-term emergencies" with a minimum payment due at the Member's next payday.

In Pennsylvania, 79 CUs are participating in a program called "Credit Union Better Choice." It offers a 90-day repayment plan with an 18% APR. This loan comes with two added benefits: a built-in savings benefit and optional financial counseling. Credit Union Members in Pennsylvania can easily see that there is no competition between their Credit Union and the local storefront "PaydayMax" offer of *485.45% interest*.

## BUT THE WORLD IS BECOMING AWARE OF THESE EVILS

A July 28, 2012, *New York Times* editorial pointed out the evils of storefront payday lenders. It stated, "Struggling workers who borrow a few hundred dollars at a time are frequently unable to pay on time, which means they must borrow again right away or pay extension fees that enrich the lender but are not applied to principal. ... In some cases, people might … borrow from one payday lender to pay another, digging themselves ever deeper into debt."

The editorial argued persuasively against Congress allowing any acceleration in "… payday-style lenders who peddle predatory loans that can carry interest rates of 400 percent or more."

## CONCLUSION

There could hardly be any better program to exemplify the Credit Union mission than offering our Members a respectable version of the payday loan.

This program offers them an escape from the outrageous charges of storefront lenders and gives them the dignity of dealing with an establishment of which they can be proud.

Yes, Credit Unions are once again the guys in the white hats. ◆