

Small Loans: Credit Union Solutions El Paso, TX

**NACEDA-
People and Places
Conference**

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Presented by

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Why Credit Unions get involved in making Small Loans

- **Philosophical:**

- Credit Union philosophy of “people helping people”—
- The right thing to do for members



- Especially those financially vulnerable
- Many Low Income members are not qualifying for home loans due to issues with High Cost Loans
- Protect members from abusive loans and practices

Why It Makes Sense

- **Operational Advantages:**

- Experience in making loans
- Economies of scale that make product delivery less expensive:
 - Advertising & marketing
 - Loan processing
 - Collections
 - Charge-offs
- Online & mobile technology to minimize operational expenses & increase footprint
- Good Business – new members, loyal members

Credit Union Small Loan Solution

Why is this solution relevant?

For over 30 years, we listened to our members and their specific needs from a small loan solution:

- We heard:
 - What our members needed from a small loan,
 - What was considered affordable, and
 - How to deliver it.
- Three main sources of information:
 - Signature Loan applicants.
 - Financial Education participants
 - Housing Counseling/Credit Counseling participants

Solution Based on:

Member responses during 15 years of delivering housing and credit counseling, financial education, 20+ years of lending signature loans, and lending an alternate small loan product to thousands of members.

Who did we talk to?

- **Housing Counseling:** 28,000+ participants of Housing Counseling for mortgage readiness—including Credit Counseling, family budgeting, and high cost loan mitigation.
- **Financial Education:** 20,000+ participants of Financial Education. The majority of counseling clients were single Latino women households with children at or below the poverty level, most with one or multiple payday loans.
- **Signature Loan applicants:** Thousands of signature loan applicants.
- **Small Loan applicants:** 17,000+ applicants. The small loan applicants were usually low income (minimum wage), unfamiliar with the mainstream finance systems, low English proficiency, had no credit or bad credit, outstanding medical debts, and NSF balances (many times caused by Pay Day Lender ACH withdrawal attempts)

What we heard: Why the loans were needed

Emergency expenses:

- Auto repairs, medical needs, property taxes, home repairs, fines and warrants, payday loan payment

Align Income with expense due dates for the following:

- Rent, utilities, auto insurance, loss of income

Lack of access to mainstream capital:

- Not familiar with financial system
- Low credit scores (medical expenses)
- Non-English speaking borrowers

To cover overdrafts (with fees higher than a Pay Day Loan)

Planned major expense:

- Social event (Quinceanera), school tuition or books, used car or a trip

What we heard: What worked for our members

- Relaxed qualifying- alternate credit and no credit score
- Loan amount to satisfy immediate need, (at least \$625), but do not over-lend (no more than \$3,000 over 3 years)
- Monthly payment limited to approximately \$20 wk. (\$100 month)
- Terms 6 months or greater (2 years could be suitable)
- Low or no fees
- Promoted in English and Spanish

continuation

What we heard: What worked for our members

- Access to loan through all channels:
 - Can apply and repay loan at offices, online, mail, teller, voice-phone call, and mobile app.
- Offer 1 extension in case of emergency
- English and Spanish documents
- Credit builder program opportunity
- Lender will not offer Small Loan Program if borrower can qualify for a mainstream loan

A Credit Union Small Loan Solution

Loan Characteristics*:

- Terms 6 months to 36 months
- 18-28% interest—may charge one-time \$10 or 20 fee (not APR finance fee if charged to all applicants)
- **Loan Amount: Sufficient loan amount to meet need: \$200-\$3000.**
 - Capped by 5% of Annual Gross Income (AGI) for first time borrowers
 - Capped at 10% AGI for borrowers that have successfully repaid one loan
- **Payment Amount:**
 - Capped by 7% of Monthly Gross Income (MGI) for all borrower
- Ability to offer **one term extension**, up to 24 months
- **One loan allowed** at the same time per income earner
- Make **Savings feature add-on available**
- **Report payment history** to credit bureaus

*Loan will not be offered if borrower qualifies for a mainstream CU loan

Community Development Qualities of a Loan Solution

Ability to Repay satisfied by Annual Gross Income maximum loan amount limitation (5% AGI Maximum loan amount-for first time borrowers, and 10% AGI Maximum loan amount for borrowers that have repaid a loan), in addition to a 7% Monthly Gross Income maximum loan payment limitation, (historically LMI borrowers can afford \$20 Wk. or \$100 Mo.)

Maximum Amount formula satisfies minimum loan amount needed by our community and easy to repay. (\$625 for 6 Month term and up to \$3,000 with 3 yr. term.)

Flexible application and repayment channels

Credit History: Use Alternate Credit for underwriting, and use risk management data analysis tools and non-trade-line data.

Credit Reporting: Lender must report Small Loan borrower payment history and on a timely basis.

Alternate Documentation: Accept Matricula consular & similar identifications to satisfy BSA and AML/CIP and ITIN for IRS purposes.

No prescription of overly burdensome compliance: Shuts out access to capital for payday loan borrowers, Latino, low credit score, underbanked, if product is viewed as not viable by CU and not available to meet need

Savings Component- attach to loan if possible

Sample Product Loan Solution: Maximum Loan Amount & Payment

determined by borrower Income and Small loan repayment history
(After one successful repayment)

Maximum Loan Amount Determined by 10% of Annual Gross Income (5% for first time borrowers or new members)

$\$7.25/\text{hr.} \times 2080 \text{ hours} = \$15,080 \text{ Annual Gross Income}$

Maximum loan amount: $(\$15,080 \text{ AGI} \times 10\%) = \underline{\$1508.00}$

Maximum Loan Monthly payment determined by 7% of Monthly Income:

$\$15,080 / 12 = 1256.67 \text{ Monthly Gross Income}$

Maximum Monthly loan pmt.: $(1256.67 \times 7\%) = \underline{\$87.97}$

Factoring the program interest rate, program term limits, monthly loan payment limit, and capped by the maximum loan amount, would yield minimum and maximum loan term, and a possible adjusted loan payment amt.

(for this example, at an 18% interest rate, since Max Loan amount is **\$1508.00**, a P&I payment of \$87.97 for this amount would yield a 20 month term. Or if the program term went 24 months, the maximum \$1508.00 would yield a monthly payment of \$75.29.)

El Paso, TX, Credit Union Small Loans Programs

GECU –

- \$2.5BB Asset CU
- 350,000 members
- **FASTCASH**

Mountain Star FCU

- \$30MM Asset CU
- 4,500 members
- **No Hassle Loan**

FAST CASH -



**GECU
FAST CASH™**



 **GECU**
WE'RE WITH YOU.™



FAST CASH

Loan Characteristics (as of 3/1/16)

○ **Characteristics:**

- Loan amount = \$200 - \$1,000
- 6 month term
- 27.9% APR (all interest, no fees)
- Can prepay at any time (no penalty)

○ **Needed to apply:**

- 2 current pay stubs
- 6 months proof of employment

○ **Delivery Channels:**

- Any CU Branch
- Online
- Mobile Phone



FAST CASH Performance

July 1, 2014 to March 1, 2016		
# Loans	Funded	
17,377	\$10.8 MM	
Avg. Loan	Avg. Term	APR
\$621	85 days	27.9%



FAST CASH Performance

July 1, 2014 to March 1, 2016	
% Refinanced	
1 X 19%	more than 1x <.5%
Credit Score	
Avg. 571	No Score 25.5%



FAST CASH Community Impact

July 1, 2014- March 1, 2016

**EST. SAVINGS
TO COMMUNITY**
(minimum- PDL loans amortized)

\$5 MM

**EST. SAVINGS
TO COMMUNITY**
(maximum-PDL loans not amortized)

\$10.8 MM



FAST CASH

Community Impact

TX OCCC data El Paso County TX	2014	2015	Change
Pay Day Loans	\$37,181,972	\$30,965,146	(\$6,216,826)
Pay Day Loan Fees	\$15,181,286	\$12,647,055	(\$2,534,231)
Totals	\$52,363,258	\$43,612,201	(\$8,751,057)
Installment Shops Reporting to OCCC	79	67	(12)
Single Pmt Shops Reporting to OCCC	101	24	(77)



No Hassle Loan

Avoid the PayDay Loan Trap!



**A No Hassle Loan Can Help You
Spring The Trap...
And **SAVE** money!**

No Hassle Loan Characteristics

- **Characteristics:**

- Loan amount = \$200 - \$1,000
- 6 month term
- 18% APR (all interest)
- \$10 application fee
- Can prepay at any time (no penalty)
- Credit Score not used for loan decision
- Maximum loan amount and payment based on income

- **Needed to apply:**

- 1 month current pay stubs
- 12 months proof of employment

- **Delivery Channels:**

- Any CU Branch
- Online



Mountain Star Fed Cr Union No Hassle Loan

June 1, 2016 to April 30, 2017		
# Loans	Funded	
103	\$66,196	
Avg. Loan	APR	Delinquency
\$642.68	18%	4.52%

A Non-Profit/Foundation can partner with a Credit Unions for Impact

○ Access Grants to fund CU:

- Loan Loss Reserve
 - Risk Mitigation will allow CU to deliver program
 - Leverage funds 10x, 20x, or more
- Marketing—leverage CU marketing
- Leverage CU Program Staff

○ Benefits to Non Profit/Foundation

- Leverage Impact exponentially
- Create program sustainability
- Increase Brand Exposure
 - Potential new source of revenue

Questions

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Why aren't more CUs offering Small Loans

- Mission commitment by
 - Board, Mgmt., Members
- Regulator scrutiny
- Size matters – economies of scale is a plus
 - Larger CUs usually have a better developed Infrastructure to decrease delivery and servicing costs:
 - Funds availability, delivery channels-multiple branches, on-line and mobile technology, advertising, collections, loan loss reserves

How Credit Unions can Participate

- Educate Board and Mgmt.-
 - Members must voice need
- Work with Regulators for flexibility
 - Regulators can provide guidance
- Form partnerships to develop economies of scale
 - Product Development
 - Advertising, Marketing
 - Loan Processing
 - online & mobile technology to minimize operational expenses & increase footprint
 - Servicing
 - Collections
 - Charge off reserves
- Grant subsidies can help deliver the product