

Small Loan Credit Union Lending in El Paso, TX

2016 RAISE Texas Summit

Building Financial Success for
Texans: In Schools, the
Workplace and Our
Communities

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Federal Reserve Bank of Dallas
2200 N. Pearl Street
Dallas, Texas 75201



Why get Credit Unions 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
 - Substantial fees of High Cost Loans are keeping borrowers from saving
 - ACH draws from High Cost Lenders cause accounts to go insufficient
 - *ACHs sometimes initiated more than once in one day*
 - Members unable to catch up to pay entire debt plus fees & still pay living expenses.



Why get Credit Unions involved in making Small Loans

● **Philosophical:** Protect members from abusive loans and practices:



- Fees plus interest amount to triple digit APRs., usually around 500%
- An auto title loan is secured by a car title.
 - Members lose their vehicles to repossession.
- Members forced to refinance High Cost Loan numerous times before being able to pay off.
 - The average payday borrower pays \$840 for a \$300 loan

Why get Credit Union involved in making Small Loans

- **Operational:**

- A credit union may have economies of scale that make product delivery less expensive:
 - Advertising & marketing
 - Loan processing
 - Collections
 - Charge-offs
- Have online & mobile technology to minimize operational expenses & increase footprint
- Good Business – new members, loyal members

Why demand exists

- Perceived limitations of credit availability
 - Poor or no credit-Borrowers
- The majority of small loan borrowers are underbanked
- Borrow to payoff a High Cost Loan
- Unexpected expenses—
medical emergency, car repairs,
home repairs
- General living expenses are
consistently more than
earned income
- Income and Payments not aligned



Why Not Other Credit Venues?

- **Borrower comments:**

- Easy to obtain
- I can qualify for the loan
- It's quick and easy.
- No credit check
- Easy to do—few forms
- Staff is friendly
- Convenient store location
- Previously denied by bank or credit union.
- Know exact payments
- It's private—no questions asked.
- Credit cards are maxed out.
- No hassle—less documentation

- **Borrower Perception**

- No other alternatives
- Unfamiliar with mainstream process
- Need Perfect or Good Credit
- Need too much documentation



No Obligation Estimate
Bad Credit, No Credit - OK
Approval in Minutes
Low Payment Rates
APPLY NOW! →

GET A LOAN
NOW!
3 MINUTE
Start your application!

Privacy & Security PROTECTED

CREDIT UNION ALTERNATE SMALL LOAN PRODUCTS

Most Credit Unions provide a variety of affordable small loan products that serve as alternate to high cost, salary advance & auto title loans:

- Signature loans
- Credit Builder loans
- Lines of Credit
- Auto collateralized loans
- Low cost Salary Advance Loans
- ITIN Loans

For this type of loans, most do not use score, have APRs of 18% or less, terms of 6 to 12 months for signature loans and up to 60 months for the auto collateralized loans.



NCUA guidelines for Credit Union Small Loan:

- NCUA Regulator Small Loan Flexibility
 - \$200 to \$1,000
 - To members for at least 1 month
 - Application fee up to \$20
 - No Rollovers, but can extend
 - Can't have more than one Small Loan
 - 28% APR maximum
 - 1 to 6 month Amortization
 - Underwriting set by Credit Union
 - loan repayment must be structured for member to pay successfully
 - Can be offered to Military
 - 20% Aggregate of CU's net worth lending cap

FAST CASH - Why develop?



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Loan Characteristics

○ **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

GECU FAST CASH PERFORMANCE						
July 1, 2014 to March 1, 2016						
		# LOANS	\$ FUNDED	AVG. LOAN	AVG TERM IN DAYS	APR
Approx. Totals		17,377	\$ 10,794,138	\$ 621.17	85	27.9%
				% refinanced (1x)	19%	
				Avg.Credit Score of Borrowers with score	571	
				% without Score	25.47%	

FAST CASH

Impact on Community



GECU FAST CASH PERFORMANCE

July 1, 2014- March 1, 2016					
		# LOANS	\$ FUNDED	EST. SAVINGS TO COMMUNITY (minimum)	EST. SAVINGS TO COMMUNITY (maximum)
Approx. Totals		17,377	\$10,794,138	\$ 5,032,623	\$10,767,009

Texas OCCC Annual CAB report for El Paso MSA

	2014	2015	Change
Installment Payday Loans	\$ 11,743,730	\$ 9,828,866	\$ (1,914,864)
Installment Payday Loan fees	\$ 9,179,149	\$ 7,245,364	\$ (1,933,785)
Installment Payday Lenders reporting	79	67	(12)
Single Payment Payday Loans	\$ 25,438,141	\$ 21,136,256	\$ (4,301,885)
Single Payment Payday Loan fees	\$ 6,002,137	\$ 5,401,691	\$ (600,446)
Payday Lenders reporting	101	24	(77)

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
 - Regulators can provide guidance
- Work with Regulators for flexibility
- 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