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Building financially strong families and communities

Appendix:

Case Studies of Financial Institutions that Offer Alternative Small Dollar Loans

Appendix to
Alternative Small Dollar Loans: Building the Business Case

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This paper is an Appendix to the IABG paper, *Alternative Small Dollar Loans: Building the Business Case*, and provides case studies of financial institutions that currently offer an alternative small dollar loan product—many that are based in Illinois. These case studies provide examples of various strategies to implement an alternative small dollar loan program. Additionally, the data from these programs can begin to build a business case for this product.

Participating Banks in the FDIC Small Dollar Loan Pilot Program

One important program yielding promising and valuable information in favor of offering alternative small dollar loans is the FDIC's Small Dollar Loan Pilot Program. The FDIC began a pilot program in February 2008 in an effort to help banks create responsible small dollar loan programs as an alternative to high cost products such as payday loans.¹ Twenty-eight banks from diverse geographic areas across the United States with assets ranging from \$28 million to \$10 billion participated in the two year study.² One of the main goals of the FDIC pilot study was to assess banks' business practices in developing and offering profitable small dollar loan programs alongside other mainstream services.³ The FDIC developed guidelines for the participating banks, including:⁴

- Loan amounts of up to \$1,000;⁵
- Amortization periods longer than a single pay cycle and up to 36 months for closed-end credit, or minimum payments that reduce principal for open-end credit;
- Annual percentage rates below 36%;
- No prepayment penalties;
- Origination and/or maintenance fees limited to the amount necessary to cover actual costs; and
- An automatic savings component.⁶

Below are data from six of the participating banks—Amarillo National Bank, Citizen Trust Bank, Bank of Commerce, Lake Forest Bank and Trust, Mitchell Bank and Wilmington Trust—regarding their participation in the FDICs Small-Dollar Loan Pilot Program.⁷

1. Amarillo National Bank: Amarillo, Texas⁸

Amarillo National Bank offered an alternative small dollar loan with a minimum amount of \$500. By the end of the first year of the FDIC's pilot, the bank originated 1,074 small dollar loans under \$1,000. All loans are closed-end and the terms are generally between 9 to 12 months. The average interest rate is about 14%, with a maximum rate of 18%. There is no origination fee. The bank offered discounts for customers who chose to have their payment automatically debited from their checking account.

To obtain the loan, the bank required proof of income, identity, and an address. A credit report is also obtained as part of the underwriting process, but the bank does not require a minimum credit score for loan approval. Once all necessary documents are in order, a loan can be processed in under one hour.

2. Bank of Commerce: Stilwell, Oklahoma⁹

Bank of Commerce's alternative small dollar loan program offers loans ranging from \$200 to \$1,000, and all loans are closed-end with a 12-month term. Although the interest rate varies in accordance with the bank's general interest rate policy, no interest rate for these loans exceeds 13.75%. There is an origination fee ranging from \$25 to \$50.

In order to obtain an alternative small dollar loan the applicant must demonstrate proof of income, identity, and an address. A credit report is obtained as part of the underwriting process, but the bank does not require a particular credit score. If all documents are provided during the initial appointment, a loan can be underwritten in less than one hour. A centralized loan officer approves all of the alternative small dollar loans. In addition to a linked savings account, the bank strongly encourages borrowers to open a checking account. If they choose, borrowers may have their loan payments debited from their checking account.

3. Citizens Trust Bank: Atlanta, Georgia¹⁰

Citizen Trust Bank's alternative small dollar loan product is called the "Community Relief Loan". In the first two months of the program, the Community Relief Loan campaign originated 81 loans totaling more than \$116,000. The Community Relief Loan ranges from \$500 to \$1,500 and each loan has a \$48 origination fee and 15% interest rate. The maximum term on a \$500 Community Relief Loan is six months; one year is the maximum term on larger loans. To qualify for the loan the customer must have the following:

- FICO credit score of at least 500,
- Proof of regular income for six months,
- No outstanding liens or judgments, and
- Have been at their current address for at least one year.

Borrowers with no credit history or a thin credit history have alternative requirements: the borrower must provide proof of employment for the previous six months and show an alternate form of an acceptable credit history, including proof they pay their rent or utility bills on time for the previous six months.¹¹ The maximum loan amount for these applicants is \$500. All alternative small dollar loan recipients are encouraged to authorize automatic debits of loan payments from a checking or savings account.

4. Lake Forest Bank and Trust: Lake Forest, Illinois

Lake Forest Bank & Trust, a wholly owned banking subsidiary of Wintrust Financial Corporation, with branches in the northern suburbs of Chicago as well as North Chicago, started its alternative small dollar loans program to meet the needs of low and moderate income people who lived in the service area of their North Chicago branch and were patronizing payday loan businesses.¹² All seven of Lake Forest Bank's branches offer the small dollar loan product.¹³ As of December 31, 2009, the bank had a loan portfolio balance of \$88,000 and one hundred loans had been approved in 2009.¹⁴ Lake Forest Bank reports that losses on this product are no higher than those on other consumer loans and that the bank has earned a profit on the loans.¹⁵

The small dollar loan amount is up to \$1,000.¹⁶ The APR is 5% plus prime, which has been about 8.5% since the loan product was implemented.¹⁷ The interest rate is reduced by .25% if the borrower elects payroll deduction or auto-debit payments.¹⁸ The bank requires one

year of continuous employment, one year of residence at the same address, and proof of income (in the form of two most recent paychecks or the most recent tax return or W2) for loan approval; it does not require a credit score.¹⁹ There is an annual income limit of \$70,000.²⁰ This underwriting process allows for the borrower to receive loan approval within 24 hours.²¹ The loan term is up to 24 months but the loans are paid off in an average of 18 months.²²

Lake Forest Bank also works with a local municipality to offer small dollar loans repaid through automatic payroll deductions to its employees to help reduce their reliance on payday lenders.²³ The bank also is the first financial institution approved by the Illinois State Treasurer's office in their Micro Loan program.²⁴ The Treasurer's Micro Loan program aims to provide affordable capital to financial institutions in Illinois in order for the institutions to offer affordable alternative small dollar loans.²⁵

5. Mitchell Bank: Milwaukee, Wisconsin

Mitchell Bank markets its Payday Alternative Loan small dollar loan product to low-and moderate income bank customers, the underserved market, and customers with limited or poor credit histories in order to help consumers avoid reliance on high-cost debt.²⁶ The Payday Alternative Loans can be any amount between \$300 and \$1,000 in one hundred dollar multiples.²⁷ The loan term is six or twelve months with full monthly amortization.²⁸ The APR will range from 15% to 22% depending on the credit score and other underwriting criteria.²⁹ There is an \$8 origination fee assessed to cover the cost of obtaining credit reports.³⁰ There are no prepayment penalties and no security or collateral is required. A late fee of 5% of the unpaid loan amount or \$10, whichever is less, is assessed on loan payments that are 10 days delinquent.³¹

The Payday Alternative Loan is a fully amortizing installment term loan. A borrower can have no more than two Payday Alternative Loans within a 12 month period and there are no additional loans approved until at least three months after the prior loan has been paid in full.³² There is no rollover, renewal, refinancing or other extension of the terms of the loan.³³ The borrower will be encouraged to authorize an automatic transfer of monthly loan payments from his/her account to the Mitchell Bank account. If automatic transfer of loan payments is not authorized, the interest rate increases by 2%.³⁴ Customer service representatives are authorized to pull the borrower's credit report, verify income and make the loan. No social security number is required for the loan. In order to qualify for a Payday Alternative Loan, the borrower must:

- Be and have been a Mitchell Bank customer with a checking and/or savings account for a minimum of six months.³⁵ This requirement may be waived based upon a higher credit score (over 670), a stable work history, and satisfactory debt to income ratios.³⁶
- Have direct deposit of a payroll or benefit check to their Mitchell Bank checking or savings account.
- Have documented minimum monthly income of \$1,000.³⁷ The borrower is required to provide Mitchell Bank with at least the last two pay check stubs from her/his current employer or evidence of the receipt of other benefits for the last two months. This pay check stub or benefit receipt requirement may be waived if the customer is already set up with direct deposit and the bank can verify a consistent (three months or more) deposit of sufficient funds into her/his account from his/her employer or benefit provider.³⁸
- Sign a pledge that he/she will not incur another payday loan during the term of the Mitchell Bank loan.³⁹

- Warrant and represent that he/she is not currently in bankruptcy proceeding or intending to file for bankruptcy or insolvency.⁴⁰
- Allow Mitchell Bank to obtain a credit report.

Mitchell Bank also requires that the borrower set aside 10% of the amount borrowed in a designated savings account with withdrawals restricted and requiring prior authorization. The funds in this designated account will become available to the customer once the Mitchell Bank Pay Day alternative loan has been paid off. However, the customer will be encouraged and perhaps offered an incentive to keep the saving component in the designated account after repayment of the loan. After one year of the program, the bank reports that, "What we really want them to do is keep adding to the account so they don't have to come back for a payday loan, and they're doing that. By and large, about 80 percent to 90 percent of the accounts remain open."⁴¹ The designated saving account has an interest rate 1% higher than the applicable interest rate on the bank's passbook or statement savings accounts. This higher interest rate will continue on the balances maintained in the account after the loan has been repaid.⁴² Over six out of every ten savings accounts opened through the mandatory savings component of the small dollar loan program stayed open after the loan was paid off.⁴³

If the borrower's credit score is below 570, the borrower is referred by the bank to the Consumer Credit Counseling Service of Greater Milwaukee (CCCS) for face-to-face counseling and a written assessment of her/his financial situation. The borrower is required to complete the recommended counseling, provide a written assessment of her/his financial situation, and establish an acceptable financial plan and budget documenting the ability to make the required monthly loan payments before the loan can be approved.⁴⁴ If the bank makes a loan to an individual with a credit score below 570, the borrower will be required to set aside 20% of the amount borrowed in a designated savings account. These funds will serve as a pledge against the loan and are subject to the bank's right to set off.⁴⁵

6. Wilmington Trust: Wilmington, Delaware

In an effort to enhance the accessibility of credit for low- to moderate-income borrowers in Delaware, Wilmington Trust collaborated with West End Neighborhood House (WENH), a large community organization, to offer the Worker's Loan Program, which is a small dollar loan product.⁴⁶ All of the loans are fully guaranteed by WENH and there is a loan loss reserve pool funded by program partners and other donors to back the loans.⁴⁷ The Worker's Loan Program provides loans between \$250 and \$500 at interest rates ranging from 12 to 15%.⁴⁸ Loans are repaid in a maximum of four installments based on the borrower's pay schedule.⁴⁹ WENH screens the loan applicants, performs the underwriting (based on bank-approved criteria), and then faxes the loan application to the bank for final processing.⁵⁰ To qualify for a loan, applicants must present:

- A recent bank statement showing no overdrafts,
- Recent pay stubs,
- A driver's license or state photo identification card, and
- A current utility bill.⁵¹

Once approved, the borrower is directed to a Wilmington Trust branch to collect the loan proceeds.⁵² Qualified borrowers submit post-dated checks for each planned installment to WENH at the time the loan is approved and WENH deposits the checks to Wilmington Trust on the payment due dates.⁵³ Through WENH, all borrowers receive credit and budget education, in addition to case management, crisis intervention, and other services.⁵⁴

Beverly Bank & Trust: Chicago, Illinois⁵⁵

Beverly Bank & Trust Co., a wholly owned banking subsidiary of Wintrust Financial Corporation, has offered their alternative small dollar loan product—the “Everyday Loan”—since April 2009 as an alternative to payday lenders. In fact, a payday loan store is located just a few blocks from their main branch. Since the launch of the Everyday Loan, Beverly Bank has originated 62 loans.

The Everyday Loan amount ranges from \$500 to \$1,000, with a fixed interest rate of prime plus 5% (average interest rate is 8.25%); no fees are charged for the Everyday Loan. The loan term is for 12 or 24 months and is close-ended. The average loan term is 24 months and the average dollar amount is \$1,000. The applicant usually receives a decision within a few days of submitting an application and disbursement is within five days.⁵⁶ The bank reports that borrowers most commonly use the loan for car repairs, home improvement, and utility bills. Beverly Bank has distributed promotional materials about the Everyday Loan to local community groups and municipal offices. The product is also marketed via a direct mail program to low- and moderate-income households located within the bank’s assessment area.

The underwriting process for the Everyday Loan reviews the applicant’s previous payment pattern with other creditors over the last 24 months and calculates the applicant’s debt-to-income ratio based on the open trade accounts noted on the borrower’s credit report and any other monthly obligations the applicant chooses to disclose on the application. To verify income, the bank requests the applicant’s most recent tax return, a current pay stub or social security awards letter, and a pension statement. The applicant must provide documentation that will support the required loan payment in addition to all other monthly obligations. A credit report is pulled for every applicant at no cost to the applicant. According to Beverly Bank, while the minimum credit score for the Everyday Loan is 550, they will take mitigating factors into consideration. If the applicant has had a previous bankruptcy filing, they must first re-establish a positive credit record and maintain a positive payment history. Also, the applicant will not be approved if he or she has a current unpaid judgment, an item in collection process (excluding medical debt) or an open bankruptcy. Applicants who do not qualify for the Everyday Loan are offered the “Borrow-n-Save Loan” product, which is designed to help re-establish or improve credit scores and build savings.

Beverly Bank reports that the cost-per-loan-approval is currently \$109.60, down from \$195.89 in December 2009. Of the 44 loans originated, nine (20%) have been charged off due to non-payment (three or 7% in 2009 and a greater number so far in 2010). The bank currently has one loan that is 60 days past due payment date. The bank’s Chief Executive Officer reports that the charge-off rates are “insignificant in terms of the bank’s big picture loan portfolio.” To minimize cost associated with this product, the bank does not use debt collection services.

Beverly Bank recommends to other financial institutions considering offering an alternative small dollar loan product to have streamlined procedures in place that will allow the institution to respond to a credit request within a short timeframe. Also, the bank advises to be prepared to make collection calls prior to a loan becoming thirty days delinquent in order to lessen the likelihood of charge-offs; they also advise having alternative products to offer if the customer does not meet approval guidelines for the alternative small dollar loan. The bank further recommends that the institution periodically review underwriting guidelines and the loan portfolio in order to better understand borrowers’ characteristics. The bank has been very pleased with the Everyday Loan program so far. As the Chief Executive Officer states, “If you have low- and moderate-income people in your assessment area, why wouldn’t you want to meet their needs?”⁵⁷

Blackhawk Area Credit Union: Savanna, Illinois⁵⁸

Blackhawk Area Credit Union (BACU) has offered an alternative small dollar loan program—the “PayDay Loan” product—since April 2006. The maximum PayDay Loan product amount that a borrower can request is 50% of the most recent payroll deposit, with a minimum loan of a \$100, and a maximum loan of a \$1,000; there is a repayment term of 60 days by payroll deduction. In order to qualify for the loan, the borrower must be a member of the credit union for at least ninety days and must have direct deposit with the credit union. If direct deposit is not available, the borrower must provide his/her most recent 30 day pay statement. The borrower must also be employed for at least six months and must be a “member in good standing” with no delinquent loans, missing titles, no insurance or overdrawn accounts with the credit union. A credit report is not required for a PayDay Loan. The product has an interest rate of 17.95% and a loan processing fee of 10% of the loan amount with a maximum of \$25 to be paid up front. If the borrower is late on paying off the loan, on the 61st day, and each additional month thereafter, a late charge of \$25 is applied to the unpaid balance of the loan. Since launching the product, BACU has averaged about 19 loans on the books at all times. A member may only have one PayDay Loan outstanding at a time.

Blackhawk Area Credit Union also offers a Credit Builder loan for members who may not qualify for any other type of loan and wish to establish a credit history or to improve their credit score. The purpose of the loan is to assist members in establishing credit and encouraging a savings habit. The loan proceeds are deposited into the member’s primary checking or savings account. The full amount remains pledged until the loan has been repaid.

Citizens Equity First Credit Union: Peoria, Illinois⁵⁹

Citizens Equity First Credit Union (CEFCU) was founded in 1937 to serve employees of Caterpillar. CEFCU now has more than \$4 billion in assets and in addition to Caterpillar, serves the employees of more than 500 companies, totaling more than 260,000 members in 50 states and several foreign countries. Individuals may also join CEFCU if they reside in a fourteen county area in central Illinois.

Since 2007, CEFCU has offered a Quick Advance Loan to help their members with their need for short-term credit. Since then, over 9,000 Quick Advance Loans have been originated. To qualify for the loan, applicants must have at least a three-month credit union membership, proof of a pay check and direct deposit with automatic transfer from the account. The loan amount available ranges from \$50 to a maximum of \$500 and has an 18% APR with no fees. For a six month loan, the monthly payment is \$87.76 with a total interest cost of \$26.58 over the life of the loan. Citizens Equity First Credit Union’s Manager states that while the credit union does not conduct a credit check, if it had, the average credit score for Quick Advance Loan borrowers would have been 523. The Manager notes that the Quick Advance Loan borrower is often someone who would benefit greatly from financial skill building and that CEFCU offers free financial counseling to members.

Central Illinois Credit Union: Champaign-Urbana, Illinois

Since July 2005 Central Illinois Credit Union (CICU)⁶⁰ has offered the Payday Alternative Loan (PAL) to its members as a way to help them establish positive credit and build savings habit while also providing an alternative to high cost credit.⁶¹ The portfolio balance for the PAL program started at \$5,000, and by the end of 2009 had increased to \$50,000, due to its strong performance.⁶² In order to qualify for the loan the PAL borrower must:

- Be age 18 or older and a CICU member for 6 months,
- Be able to show proof of income of at least \$1,000 per month (submit a paycheck stub),
- Have established payroll deduction or direct deposit with CICU (which occurs at least twice before the PAL is disbursed),
- Be employed at her/his current job for the last six months,
- Disclose the purpose of the loan,
- Not have had any other loans at CICU in last 60 days nor any overdrawn CICU accounts,
- Not have been discharged bankrupt in the last year, and
- Must not be participating with any credit counseling service.⁶³

There is a required processing fee of \$20.00, which is paid at the time the application is submitted. The maximum amount for the PAL is \$300, which may be increased to \$500 after the member has demonstrated the ability to repay.⁶⁴ The APR is fixed at 21% and there is a repayment plan in place for up to 6 months.⁶⁵ For a \$300.00 loan, this translates into monthly payments of about \$53.11 or \$38.68 in total over the life of the loan, including the \$20 origination fee.⁶⁶ Over 90% of the borrower's payment is paid towards lowering the principal on the loan.

The PAL product is unsecured and there is not a credit check or debit ratio calculation.⁶⁷ Rewriting and extensions of loans may be done at the discretion of CICU's President after the loan balance is under \$250.⁶⁸ The PAL borrower may only have six extensions per year and/or six loans per year.⁶⁹ There have been some borrowers that have needed their PAL loan extended due to inability to pay, but the majority of borrowers pay on-time. Overall, the PAL program is considered a success by the credit union.⁷⁰

Generations Credit Union: Rockford, Illinois⁷¹

Since 2007, Generations Credit Union offers an alternative small dollar loan product named the Qwik Cash Loan to its members. The Qwik Cash program has generated 62 loans thus far: 25 in 2007, 18 loans in 2008, 16 loans in 2009 and 20 loans as of June 2010. The Qwik Cash Loan is marketed to members by word of mouth as well as through non-profit partners. The prospective Qwik Loan borrower must:

- Be a Generations Credit Union member
- Show proof of a social security number or an ITIN number;
- Provide proof of income verification through pay stubs.

The maximum loan amount for the Qwik Cash Loan is \$500 at a fixed APR of 18% for a maximum loan term of six months. The \$50 origination fee is deducted from the loan amount. The Qwik Cash Loan is open-ended to allow the borrower to take out a Qwik Cash Loan even if he/she already has an existing Qwik Cash Loan. Generations' loan officer does run a credit report to see if a member qualifies for a traditional loan product. There is not a required minimum credit score for the Qwik Cash Loan, but the member cannot be in bankruptcy nor have had fraud indicated.⁷² Members can receive the loan within twenty minutes of applying.

Illinois Community Credit Union: DeKalb, Illinois⁷³

Illinois Community Credit Union (ICCU) offers its Payday Alternative Loan product as an unsecured, revolving line of credit up to \$1,000 with a 22.9% APR and a \$10 loan advance fee. ICCU has originated from 109 to 186 loans per month since the program's inception five years ago. The portfolio balance as of April 2010 was approximately \$350,000. The prospective borrower must be an ICCU member and establish direct deposit with ICCU. The credit union does request the borrower's credit history, but does not require any certain score. The default rate on the product is approximately 12.5% and the return on investment is approximately 15.4%. The credit union reports \$36,000 in charge offs in 2009. The credit union also provides a free book on budgeting and savings for members who are having difficulty repaying their loan obligation.

North Side Community Federal Credit Union: Chicago, Illinois⁷⁴

In 2002, North Side Community Federal Credit Union (North Side CFCU), recognizing the preponderance of predatory payday lenders in its community and the impact high interest debt had on its members, decided to develop its Payday Alternative Loan (PAL) program.⁷⁵ In the past eight years, North Side CFCU has made over 5,600 PALs, disbursed over \$2.5 million in PAL loans, and has saved community residents over \$5 million in fees and interest from traditional payday loans.⁷⁶ Loans in the PAL program are \$500, repaid during a six-month term, and have an annual percentage rate of 16.5%.⁷⁷ There is also a \$30 application fee, a \$10 late fee, and \$75 is frozen in the borrower's account until the loan is paid off.⁷⁸

If a first time borrower has a credit score below 600, he or she is required to meet with a housing counselor for a free financial education one-on-one session on understanding and rebuilding good credit.⁷⁹ In this session, the prospective borrower outlines his/her monthly expenses, defines his/her savings goals and prepares a personal budget.⁸⁰ Further, the borrower must provide proof of monthly income (earned or government subsidized), have a minimum monthly net income of \$1,000, pay the loan through direct deposit, and must have no outstanding loans at North Side CFCU.⁸¹

For those persons that have been members of the credit union for over one year, North Side CFCU also offers a Hot Funds Cold Cash Loan; this loan has a maximum amount of \$500, a \$10 loan application fee and a one year term.⁸² These borrowers are eligible for the Hot Funds, Cold Cash Loan twice per year.⁸³ Direct deposit is not required.⁸⁴

In July 2008, North Side CFCU launched its newest alternative loan product, the "Step-Up" loan. This product is a payday alternative loan of \$1000 available to members that have paid off at least five PALs. No credit check is required, and borrowers have the option to pay back the loan in six months or one year. Since the launch of Step-Up, within two years North Side has made over 1,000 loans.⁸⁵

Southern Illinois Area Credit Union: Swansea, Illinois⁸⁶

In March 2008, Southern Illinois Area Credit Union (SIACU) launched their Cash-Aid Loan program, which is designed to give credit union members an alternative to high cost credit and to help them build good credit. In addition, while using this loan product a member is also expected to learn about finances and savings. The credit union aims to balance between making the process quick and easy and keeping risk at a minimum. Since 2008, the credit

union has originated about twenty Cash-Aid Loans. The maximum amount for the Cash-Aid Loan is \$300 with a fixed 15% interest rate and a \$20 processing fee, which is paid when the loan application is submitted. Borrowers have up to six months to re-pay the loan. In order to qualify, a borrower must be a member of the credit union for six months, must show proof of monthly income of at least \$1,000, and must have proof of employment at her/his current job for at least six months. Additionally, a borrower must establish a payroll deduction or direct deposit that occurs at least twice before the loan is disbursed.⁸⁷ A borrower also cannot have any delinquent loans or overdrawn accounts at the credit union, nor can she/he be participating with any Credit Counseling Service, or have had a bankruptcy discharged in the last year. While there is no security required, there is a credit check for informational purposes, and borrowers must disclose the purpose of the loan. The credit union reports that while the program's loan volume is too small to be adding significant revenue at this time, it is considered a success.

State Employees' Credit Union of North Carolina⁸⁸

North Carolina's State Employees Credit Union (SECU) started in 2001 to offer Salary Advance Loans (SALO) after having many managers express concern over the growing number of checks being presented for payment by representatives of payday lenders. SECU sees the SALO loan program as also providing an "opportunity to build savings, re-establish a positive payment history, and to have free access to financial counseling."

Approximately 65,000 SECU members use the SALO each month, which represents 70% of members as of June 2009. Since the start of the program until June 2009, 110,497 members had used a SALO, with 76,870 SALOs in June 2009. SECU found that the typical member making use of the SALO loan program had a monthly gross income of approximately \$2,125. Over a third (35%) of borrowers are between ages 26-35, and almost another third (29%) are ages 36 to 45, and almost another third (29%) are 46 years of age and older. SALO borrowers' credit scores average 537, while almost one-third (31%) have credit scores of 560 or above. SECU states that the SALO product is used by borrowers to address financial "bumps in the road" and to provide a financial bridge until the next payday.

The SALO application process consisted of requesting the members' name, address, social security number, place of employment, and a recent paycheck stub verifying that the paycheck was on direct deposit at SECU. Applicants cannot be in bankruptcy proceedings nor have previously caused a loss to SECU. The maximum amount for the loan is \$500 and the average loan amount is \$375. The loan term is one payday cycle, and the average length of the advance is 17.5 days. The loan is repaid by an internal automated transfer from the deposit account to the loan. The interest rate is 12%, which is 1.25% above the normal unsecured loan rate for SECU. The maximum interest charge is about \$5.00 per month, depending upon the date of the advance. SECU has a relationship with the counseling services of Balance, a financial education provider, where SECU members can receive free budget counseling.

St. Louis Community Credit Union: St. Louis, Missouri⁸⁹

St. Louis Community Credit Union offers the "Freedom Loan"—an open line of credit aimed at payday loan borrowers who need a short-term cash infusion to help bridge a financial emergency. The credit union states that a 90-day Freedom Loan saves members—who would otherwise rely on payday loans—over \$560. Of the credit union's over 14,000 members with checking accounts, 1,375 (over 9%) have borrowed a Freedom Loan. The Freedom Loan is not available to members using the credit union's "second chance" checking product. If a member

has direct deposit with the credit union then the interest rate for the loan is 25%, with a \$25 annual fee; otherwise, without direct deposit, the interest rate is 27% with a \$40 annual fee.⁹⁰ These fees are automatically withdrawn from members' checking accounts. The Freedom Loan maximum loan amount is \$500 with a maximum term of 90 days. In order to qualify for the loan, the member must have a checking account in good standing (no negative activity) that has been opened for at least 90 days, and have a direct deposit averaging at least \$400 monthly. There is no credit check for the Freedom Loan.

In order to help reduce the borrower's future reliance on short-term loans, each Freedom Loan advance requires a 10% deposit into a restricted access savings account at the credit union until the loan is paid in full. However, the credit union is investigating ways to improve the savings component, including ways to prevent the borrower from paying off the loan, withdrawing the amount in savings, and then borrowing a loan again. Additionally, the credit union makes available free financial counseling to its members.

As of December 2009, Freedom Loan balances totaled \$648,000, or an average of \$471 per borrower.⁹¹ Loan charge offs for 2009 were approximately 11% of the Freedom Loan portfolio; the delinquency rate ranged from 4% to 7%. When a member is more than two days past due on the loan, any over the counter transactions are stopped until the loan is current.

Table 5: Financial Institutions that Offer Alternative Small Dollar Loan and Features of the Product

Bank and Feature	Amount	Loan term	Security	Underwriting	APR	Fees⁹²	Checking or Savings account required?	Automatic debit required?	Financial education or savings?	Economic Benefit to institution:
Amarillo National Bank	\$500 to \$1,000	9 to 12 mos.	None	Proof of income, identity, and an address	14%-18%	None	Unknown	No, but discount for automatic debit	N/A	Low charge off rate; cross sell products
Bank of Commerce	\$200 to \$1,000	12 mos.	None	Proof of income, identity, and an address	13.75% or less	\$25-\$50	No, but strongly encourages borrowers to open a checking account	No	N/A	Low charge off rate; cross sell products
Beverly Bank and Trust	\$500 or \$1,000	12 mos. or 24 mos.	None	Proof of income, previous payment verification, credit report,	Prime plus 5%	None	No	N/A	None	Create goodwill in the community
Citizen Trust Bank	\$500 to \$1,500	6 mos. for \$500 loan; 12 mos. for > \$500	None	Credit score of 500, proof of income for 6 months, no outstanding liens, & reside at current address for 1 year	15%	\$48	N/A	No, but encouraged	N/A	Cross sell products

Bank and Feature	Amount	Loan term	Security	Underwriting	APR	Fees	Checking or Savings account required?	Automatic debit required?	Financial education or savings?	Economic Benefit to institution:
Lake Forest Bank & Trust	Up to \$1,000	Up to 24 mos.	None	One year continuous employment, one year residence at same address, proof of income	5% plus prime	None	N/A	N/A	None required	Report profit; cross-sell products; attract & retain customers; positive image
Mitchell Bank	\$300.00 to \$1,000	6 or 12 mos.	None	Minimum monthly income of \$1,000; credit report	15% to 22% ⁹³	\$8 ⁹⁴	Yes	Yes	Yes financial education and saving component	Report cross sell products; positive image
Wilmington Trust	\$250 and \$500	N/A	None	Proof of no overdrafts, recent pay stub, state photo identification, & current utility bill	12 to 15%	N/A	N/A	N/A	all borrowers receive credit and budget education	Low charge off rate; cross sell products; generate positive image

Bank and Feature	Amount	Loan term	Security	Underwriting	APR	Fees	Checking or Savings account required?	Automatic debit required?	Financial education or savings?	Economic Benefit to institution:
Blackhawk Area Credit Union	\$100 to \$1,000	60 days	None	More than six months employment; member in good standing	17.95%	10% of loan, no > than \$25	Yes	Yes	N/A	Builds members' credit and develops savings habit
Citizens Equity First Credit Union	\$50 to \$500			At least a three-month membership; proof of a pay check	18%	None	Yes	N/A	No saving component but offers free financial counseling	
Central Illinois Credit Union	\$300 to \$500	6 mos.	None	Six month membership, proof of monthly income of \$1000+; job for last 6 months, no CICU loans in last 60 days, no overdrawn accounts, no bankruptcy in 1 year, no credit couns.	21%	\$20	yes	Yes		Report profit; cross sell products; attract & retain customers; positive image

Bank and Feature	Amount	Loan term	Security	Underwriting	APR	Fees	Checking or Savings account required?	Automatic debit required?	Financial education or savings?	Economic Benefit to institution:
Generations Credit Union	\$500	6 mos.	None	Credit Union membership, Social security number or an ITIN number; proof of income	18%	\$50	Yes	N/A	N/A	Reports cross-sell products; retain customers; positive image
Illinois Community Credit Union	Up to \$1,000	6 mos.	None	Credit history	22.99%	\$10	Yes	Yes	No formal financial ed., but provides budgeting & savings book if difficulty paying loan	return on investment is approximately 15.4%
North Side Community Federal Credit Union	\$500	6 mos.	None but \$75 is frozen in the account until the loan is paid off	Proof of monthly income; a minimum monthly net income of \$1,000; no outstanding loans at North Side CFCU	16.5%	\$30	Yes	Yes if credit score is < 600	Financial education is not required, unless borrower has credit score <600 personal budget	Report retain customers; cross sell products; positive image

Bank and Feature	Amount	Loan term	Security	Underwriting	APR	Fees	Checking or Savings account required?	Automatic debit required?	Financial education or savings?	Economic Benefit to institution:
Southern Illinois Area Credit Union	Up to \$300	6 mos.	None	Six month membership; proof of monthly income of \$1,000+, of employ for 6 mos. +; no delinquent loans or overdrawn accounts, no credit couns. or bankruptcy in past year	15%	\$20	Yes	Yes	N/A	Builds members' credit scores
State Employees Credit Union	Up to \$500	One payday cycle	None	Proof of address and employment; recent paycheck	12%	None	Yes	Yes	Financial education voluntary	Profit; low charge offs

Illinois Asset Building Group: The Illinois Asset Building Group (IABG) is a diverse statewide coalition invested in building the stability and strength of Illinois communities through increased asset ownership and asset protection. Made up of community leaders, service providers, researchers, advocates, financial institutions, and business leaders, IABG seeks to expand asset building opportunities in Illinois through effective policy and system changes with a specific focus on individuals, families and communities that are disenfranchised from the financial mainstream, including communities of color, people with low-incomes and their communities.

Co-Chairs:

Heartland Alliance for Human Needs & Human Rights

Sargent Shriver National Center on Poverty Law

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¹ See “A Template for Success: the FDIC’s Small Dollar Loan Pilot Program, Vol. 4, No. 2 FDIC Quarterly 2010, available at: http://www.fdic.gov/bank/analytical/quarterly/2010_vol4_2/FDIC_Quarterly_Vol4No2_SmallDollar.pdf. “Susan Burhouse, Rae-Ann Miller, and Aileen G. Sampson, The FDIC’s Small-Dollar Loan Pilot Program: A Case Study after One Year,” Vol. 3, No. 2 FDIC Quarterly 2009, available at: http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_2/smalldollar.html.

² FDIC Case Study After One Year, *supra* note 1.

³ *Id.*

⁴ *Id.*

⁵ Although the FDIC originally suggested providing loans up to \$1,000, the pilot has included “nearly small dollar” loans up to \$2,500.

⁶ Haralson, Lyn. As explained in “Fringe Banking and Payday Loan Alternatives.” Presentation at the National Community Tax Coalition’s Annual Meeting. May 2008. Some community credit unions have developed an alternative repayment structure for their alternative small dollar loans. Instead of simply paying off their principal and interest of the loan, the consumer agrees to save an additional amount of money, which is collected in conjunction with their loan repayment. This feature helps consumers work towards self sufficiency and avoid dependency on small dollar loans.

⁷ These six banks were chosen for inclusion in this paper as the FDIC included lengthy case studies on four of these banks in their report of the first year of the pilot and the two banks—Lake Forest Bank and Trust and Mitchell bank—generously shared data with the authors.

⁸ FDIC Case Study After One Year, *supra* note 1.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² “Small Dollar Loans,” Presentation by Casandra Slade, Vice President CRA Officer, Lake Forest Bank and Trust, October 29, 2009, on file with author.

¹³ Template for Success, *supra* note 1.

¹⁴ Interview with Casandra Slade, Vice President CRA Officer, Lake Forest Bank and Trust, May 5, 2010, on file with author.

¹⁵ Template for Success, *supra* note 1.

¹⁶ Lake Forest Bank and Trust webpage as of May 4, 2010, available at: <http://www.lakeforestbank.com/personal/loans/smalldollarloan.html>

¹⁷ "Small Dollar Loans," Presentation by Casandra Slade, *supra* note 12.

¹⁸ Template for Success, *supra* note 1.

¹⁹ "Small Dollar Loans," Presentation by Casandra Slade, *supra* note 12.

²⁰ Lake Forest Bank and Trust promotional flyer "Need Help Paying for the Unexpected?," distributed May 2010.

²¹ Template for Success, *supra* note 1.

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ See Illinois State Treasurer's website for more information, available at:

<http://www.treasurer.il.gov/programs/opportunity-illinois/community-development-loans/credit-unions.aspx>.

²⁶ Mitchell Bank's Payday Alternative Loan Policy, received from Chairman James Maloney, on file with Author.

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.* Loans to individuals having a credit score between 570 and 620 will have an APR of 18.5%; Loans to individuals having a credit score above 620 will have an APR of 15.0%. Loans to individuals with a credit score below 570, if offered and qualified as set forth below, will have an APR of 22.0%. If there are co-applicants a credit report will be obtained for both applicants and the interest rate will be based on the higher of the two credit scores, subject to the bank's discretion to deny the loan and/or impose additional conditions or criteria, including a higher interest rate, if either applicant's credit score is below 570.

³⁰ Email correspondence with Jamie Maloney, Chairman, Mitchell Bank, August 16, 2010, on file with author.

³¹ *Id.* This late fee was changed from \$10.

³² Mitchell Bank's Payday Alternative Loan Policy, *supra* note 26.

³³ *Id.*

³⁴ *Id.*

³⁵ *Id.*

³⁶ *Id.*

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Id.*

⁴¹ "Banks Experiment with Small Dollar Loans," Laura Bruce, www.bankrate.com, available at:

<http://www.bankrate.com/finance/personal-finance/banks-experiment-with-small-dollar-loans-1.aspx>.

⁴² Payday Alternative Loan Policy as of March 2010, received from Mitchell Bank, on file with Author.

⁴³ Presentation by James Maloney, CEO and Manager of Mitchell Bank at the Woodstock Institute's "Beyond Foreclosures: The Impact of the Financial Crisis on the Wealth Gap and Economic Opportunity" event, June 3, 2010.

⁴⁴ Mitchell Bank's Payday Alternative Loan Policy, *supra* note 26.

⁴⁵ *Id.*

⁴⁶ FDIC Case Study After One Year, *supra* note 1.

⁴⁷ Template for Success, *supra* note 1.

⁴⁸ FDIC Case Study after One Year, *supra* note 1.

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.*

⁵⁴ *Id.*

⁵⁵ Email correspondence with Teresa Handley, First Vice President, Beverly Bank & Trust Company, July 15, 2010, on file with author. Telephone conversation with Michael B. Johnstone, Chief Executive Officer, and Teresa Handley, First Vice President, Beverly Bank & Trust Company, July 15, 2010.

⁵⁶ Email correspondence with Teresa Handley, First Vice President, Beverly Bank & Trust Company, July 15, 2010, on file with author.

⁵⁷ Telephone conversation with Michael B. Johnstone, Chief Executive Officer, Beverly Bank & Trust Company, July 15, 2010.

⁵⁸ Telephone conversation with Sandra Howard, Credit Manager, Blackhawk Area Credit Union, April 16, 2010, on file with author. Email correspondence with Sandra Howard, Credit Manager, Blackhawk Area Credit Union, April 16, 2010, on file with author. "Banks Experiment with Small Dollar Loans," Laura Bruce, www.bankrate.com, available at: <http://www.bankrate.com/finance/personal-finance/banks-experiment-with-small-dollar-loans-1.aspx>

⁵⁹ Citizens Equity First Credit Union (CEFCU) webpage, available at <https://www.cefcu.com/about/our-history.php>. Telephone interview with Bruce Addler, CEFCU Manager, April 27, 2010, on file with author.

⁶⁰ CICU is a community credit union with \$12.6 million in assets with 4,600 members.

⁶¹ Email correspondence with Cheryl Merkel, President and Manager, Central Illinois Credit Union, February 23, 2010; on file with author.

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ Fax correspondence with Cheryl Merkel, President and Manager of Central Illinois Credit Union, April 28, 2010; on file with author. For a \$300 PAL loan, there are five payments of \$53.11 and one payment of \$53.13. At 21% APR, the \$300 loan costs \$18.68 in interest over the life of the loan or \$38.68 when adding the \$20 origination processing fee.

⁶⁷ Email correspondence with Cheryl Merkel, President and Manager of Central Illinois Credit Union, February 23, 2010; on file with author.

⁶⁸ Email correspondence with Cheryl Merkel, President and Manager of Central Illinois Credit Union, March 3, 5, 2010; on file with author.

⁶⁹ *Id.*

⁷⁰ Email correspondence with Cheryl Merkel, President and Manager of Central Illinois Credit Union, February 23, 2010; on file with author.

⁷¹ Email correspondence with Karen Jurasek, President and CEO of Generations Credit Union, March 25, 2010, April 28, 2010 and June 8, 2010; on file with author.

⁷² *Id.*

⁷³ Telephone conversation with Bob Schroeder, Illinois Community Credit Union, April 13, 2010, on file with author. Email correspondence with Bob Schroeder, Illinois Community Credit Union, May 7, 2010, on file with author.

⁷⁴ North Side's 2009 annual report is available at:

http://www.northsidecommunityfcu.org/images/current_annual_report.pdf.

⁷⁵ Illinois Asset Building Group, Alternative Small Dollar Loans in Illinois, November 2009, available at:

<http://www.illinoisassetbuilding.org/policy/symposium-announcement/>

⁷⁶ Email Correspondence with Kristin Cox, Marketing and Community Relations Manager, North Side Community Federal Credit Union, August 16, 2010, on file with author.

⁷⁷ Illinois Asset Building Group, Alternative Small Dollar Loans in Illinois, *supra* note 100.

⁷⁸ North Side Federal Community Credit Union webpage as of May 6, 2010, available at:

http://northsidecommunityfcu.org/other_loan_products_servic.html

⁷⁹ Email Correspondence with Kristin Cox, Marketing and Community Relations Manager, North Side Community Federal Credit Union, August 16, 2010, on file with author.

⁸⁰ *Id.*

⁸¹ North Side Federal Community Credit Union webpage as of May 6, 2010, available at:

http://northsidecommunityfcu.org/other_loan_products_servic.html

⁸² *Id.*

⁸³ *Id.*

⁸⁴ Email Correspondence with Kristin Cox, Marketing and Community Relations Manager, North Side Community Federal Credit Union, August 16, 2010, on file with author.

⁸⁵ *Id.*

⁸⁶ Cash-Aid Written Policy as of April 2010, Southern Illinois Area Credit Union, on file with author. Telephone conversation with Mary Kamenec, President, Southern Illinois Area Credit Union, April 15, 2010, on file with author.

⁸⁷ If no Direct Deposit is available this requirement may be waived by the loan officer.

⁸⁸ Email correspondence with Phil Greer, Sr. V.P. Loan Administration, State Employees' Credit Union, May 5, 2010, on file with author.

⁸⁹ Real Solutions' Who's Doing It website page, available at:

<http://realsolutions.coop/solutions/products/products/53>. Leonard Riley, Vice President of Lending at St. Louis

Community Credit Union, stated in Real Solutions' Who's Doing It website page, available at:

<http://realsolutions.coop/solutions/products/products/53>

⁹⁰ With direct deposit, members are paying \$31.25 in interest for a \$500 loan for 90 days and a \$25 fee, totaling \$56.25. Without direct deposit, members are paying \$33.75 in interest for a \$500 loan for 90 days and a \$40 fee, totaling \$73.75.

⁹¹ *Id.*

⁹² This column refers to application or origination fees for the alternative small dollar loan.

⁹³ Email correspondence with James Maloney, Chairman, Mitchell Bank, August 16, 2010, on file with author. The APR ranges from 15% to 22% dependent on credit score and other underwriting criteria. Loans to individuals having a credit score between 570 and 620 will have an APR of 18.5%; Loans to individuals having a credit score above 620 will have an APR of 15.0%. Loans to individuals with a credit score below 570, if offered and qualified as set forth below, will have an APR of 22.0%. If an individual has an insufficient credit history to produce a credit score and in the absence of an alternative negative credit history, including a CCAP search, the loan may be approved and will have an APR of 18.5%. If there are co-applicants a credit report will be obtained for both applicants and the interest rate will be based on the higher of the two credit scores, subject to the bank's discretion to deny the loan and/or impose additional conditions or criteria, including a higher interest rate, if either applicant's credit score is below 570.

⁹⁴ Email correspondence with James Maloney, Chairman, Mitchell Bank, August 16, 2010, on file with author. This application fee was changed from the \$12 fee charged during the FDIC Small Dollar Pilot Study time period.