



# Micro-Lending by Credit Unions

Massachusetts Credit Union  
League, Inc.



# Micro-Lending by Credit Unions

1. Emergency Loans
2. Auto Loans
3. StretchPay
4. Mortgages

# 1. Emergency Loans

- Goal: to reach consumers in the community eligible for credit union membership that had yet to be introduced to the possibility that a credit union could help them achieve their financial goals.
- Structure: partnerships with local social service or community organizations.
- Partnerships: initiated by credit unions, welcomed by agencies and organizations, difficult to identify potential members

# 1. Emergency Loans

- Operation: credit unions set aside a specific pool of money for members facing financial crises.
  - Loans are small: usually \$1,000.00 or less for periods of 12 months or less
  - Loans are for a specific purpose: utility payments, auto repair, medical expenses, heat

# 1. Emergency Loans

- Partnership: credit unions review the applications and the non-profit partner performs extensive borrower counseling, once borrower is approved. Applicants are identified and prescreened by social service agencies. Techniques for saving funds to make regular loan payments are taught.
- Total Financial Commitment: \$35 million, 5 year commitment. Participating credit unions establish an annual cap to commit to the loan program annually. 400 loans have been made totaling nearly \$350,000.00 in three years.

## 2. Auto Loans

- Car Loans And Counseling (Bonnie CLAC)
- Founded in 2001 as a 501(c) (3) non-profit.
- Have facilitated over \$13 million in loans.
- Have helped 900 people buy cars.
- Over 75% of clients are women.
- Now have 6 offices throughout NH.

## 2. Auto Loans

### Services Offered to Clients

- 10 hour Financial Fitness Class including auto education, budgeting, money saving techniques, and understanding credit.
- Bridge program – uses donated used vehicles and allows clients to use them for monthly fee.
- New Vehicle – pre-negotiates auto purchase transactions, together with warranties as well as insurance and provides financing options. Provides clients with a “Fair Deal.”

## 2. Auto Loans

### Lender Aspects of Program

- All applicants must have completed the 10 hours of Financial Fitness training.
- The budget worksheet must demonstrate the ability to pay.
- Applicants must have regular income, verification typically comes with the application.
- Some leniency is allowed on credit issues as long as explanations are provided.



## 2. Auto Loans

### Lender Aspects of Program

- A fee is paid to BonnieCLAC by all borrowers and is included in the loan.
- A favorable interest rate is provided.
- The non-profit provides the Credit Union with a partial guarantee in the event of a deficiency after a repossession.
- BonnieCLAC assists in collection efforts in resolving any delinquency.

## 2. Auto Loans

### Results after 18 Months

- Delinquency has been higher than regular auto portfolio but there have been no losses.
- Two repossessions have been remarketed to other BonnieCLAC clients.
- About \$1 million in loans has been granted to 75 borrowers.
- Profile of borrowers has largely been single mothers with low income.
- Helping these clients has been rewarding as all have a demonstrated need.

# 3. StretchPay

## Payday Lending



# 3. StretchPay

What is a Payday Loan?

- Using a post dated check as “Collateral” consumer can borrow a small amount of money
- Usually 15 to 30 days
- Very high costs
- BUT very convenient

*Cost is **NOT** the primary Concern  
**ACCESS is!!!***

# 3. StretchPay

## *What is StretchPay*<sup>SM</sup>

- A special line-of-credit loan to make it easy & less expensive for members to obtain affordable short-term credit.
- An alternative to expensive for-profit payday lenders.
- A credit union salary advance alternative.
- Originated in Ohio... StretchPay now being offered by Credit unions in multiple states.

# 3. StretchPay

One Very Important Difference....

- A borrower must repay their entire outstanding balance, plus interest, within 30 days before any more advances are permitted.

# 3. StretchPay

## Less Expensive than Traditional Loans

- Borrowers pay a \$35 annual fee for a \$250 line of credit.
- Or \$70 for a \$500 line of credit .
- and no more than 18% interest (or the state usury rate, whichever is applicable) on their advances.

# 3. StretchPay

Measure the Difference

**A Stretch Pay borrower who takes 12 advances on a \$250 line of credit will pay around**

***\$77 in fees.***

**While a traditional payday loan user could pay 26 payments x \$37.50 in interest**

***\$975 in fees.***

Through the internet? (\$30/\$100)

***\$1,950***



# 3. StretchPay

## Minimal Underwriting Criteria

An applicant must

- Be a CU member for at least 60 days and not be delinquent on existing loans or negative in any share account.
- Be at least 18 years old.
- Have verified income, not be in the process of filing for bankruptcy and not caused any participating CU a loss.

# 3. StretchPay

## Specifics on StretchPay Loans

- Advances must be paid in full within 30 days ... prior to new/additional advances.
- 18% Interest Rate (or the maximum permitted by applicable law, whichever is lower).
- Payroll deduction is encouraged but not required.
- Credit unions emphasize/provide financial counseling to StretchPay borrowers.

# 4. Mortgages

Credit Union  
HLPR Mortgage

Home Loan Payment Relief

# 4. Mortgages

**A “No Gimmick” low-rate mortgage  
for first-time homebuyers.**

**Helping members buy homes by lowering  
monthly payments.**

# 4. Mortgages

## Credit Union HLPB Mortgage

- With rising home prices and monthly payments, many first-time and modest means buyers become frozen out of the market.
- Credit unions cannot produce more affordable housing, but they can reduce monthly payments, enabling more borrowers to qualify.

# 4. Mortgages

## Credit Union HLPB Mortgage

- Serving those of modest means has always been part of the credit union mission. The Credit Union HLPB Mortgage program is another step in demonstrating commitment to that mission.
- Credit unions commit to making at least \$2 billion available under special, attractive terms to qualifying members.

# 4. Mortgages

## Program Highlights

- **Participating credit unions offer one or more of the following mortgage products to their qualifying members:**
  - ***The original HLPR loan*** is a three-year adjustable rate mortgage tied to the nationwide average of the three-year adjustable rate mortgages with a rate discount of 1%. Loans to be 3/1 ARMs. Rate fixed for three years, then adjusted annually to the 1-Year Treasury with a 2.75% margin. Annual adjustments capped at 1%. Lifetime cap of 5%.
  - ***Fixed-rate option*** Credit unions may now offer their qualifying members a 30-year fixed-rate HLPR loan that features a 3-year 1% buydown. Credit unions may use either their own standard 30-year mortgage rate, or a national 30-year rate that CUNA will publish weekly similar to the national average 3/1 ARM rate.

# 4. Mortgages

## Program Highlights

- **40-year term loan** Credit unions may offer HLPB loans with a 40-year amortization.
- **5/1 and 7/1 ARMS** Credit unions may offer longer term ARMs with a 0.50% buydown based off their standard 5/1 and 7/1 ARMS.
- **97% loan to value.** Down payment assistance from friends, family or grants permitted.



# 4. Mortgages

## Program Highlights

### **Credit unions are encouraged to:**

- Underwrite loans and require documentation to meet MyCommunity (Fannie Mae) or HomePossible (Freddie Mac) standards.
- Offer financial counseling to HLPR borrowers.
- Seek lower closing costs wherever possible.
- Offer the loans with reduced or no private mortgage insurance.
- Expand Payment-to-Income Ratios – Ratio of housing and debt expenses to gross income permitted to 42%, compared to 38% for comparable Freddie or Fannie programs.

# 4. Mortgages

## Borrower Eligibility

- Owner Occupied – Principal Residence
- First-time Homebuyer
  - Other modest means homebuyers may qualify
- Property types:
  - Single family
  - Two family
  - Condos, co-ops
  - Income Limitations –100% of Area Median Income (or High-Cost Area Override)

# 4. Mortgages

## Local Credit Union Options

- Permit lower down payments.
- Extent of any closing cost and PMI reductions.

# 4. Mortgages

## Pricing

- Each month/week, rate will be announced at 1% below the national average for 3/1 ARMs and 30-year FRMs during the preceding month/week.

# 4. Mortgages

## Origination Process

- All loans processed and funded by originating credit union.
- Applicants lock the interest rate at time of application
  - No Rate Lock Fee required

# 4. Mortgages

Benefits to the Borrower:  
Qualify for a Larger Mortgage

Annual Household Income	\$40,000	\$70,000
Maximum Mortgage at Market	\$130,000	\$230,000
Maximum Mortgage With HLPB	\$165,000	\$285,000

# 4. Mortgages

Benefits to the Borrower:

Lower Income Required for a Given Mortgage

Size of Mortgage	\$130,000	\$230,000
Income Required at Market	\$40,000	\$70,000
Income Required with HLPR	\$32,000	\$56,500



Questions?