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 very convenient

Cost is **NOT** the primary Concern
ACCESS is!!!
3. StretchPay

*What is StretchPay?*

- 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 HLPR 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.
Serving those of modest means has always been part of the credit union mission. The Credit Union HLPR 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 HLPR 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.
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

<table>
<thead>
<tr>
<th>Annual Household Income</th>
<th>$40,000</th>
<th>$70,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Mortgage at Market</td>
<td>$130,000</td>
<td>$230,000</td>
</tr>
<tr>
<td>Maximum Mortgage With HLPR</td>
<td>$165,000</td>
<td>$285,000</td>
</tr>
</tbody>
</table>
4. Mortgages

Benefits to the Borrower:
Lower Income Required for a Given Mortgage

<table>
<thead>
<tr>
<th>Size of Mortgage</th>
<th>$130,000</th>
<th>$230,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Required at Market</td>
<td>$40,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Income Required with HLPR</td>
<td>$32,000</td>
<td>$56,500</td>
</tr>
</tbody>
</table>
Questions?