

DEBT MATTERS:

Raising the Profile of Household Debt in America

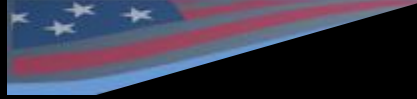
Credit Unions: A Different View

Debt is Good!

- Mortgages for Homes
- Student Loans
- Vehicle Loans

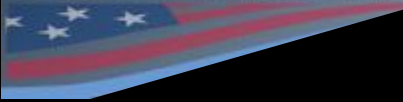
... Let the individual decide

So, what's the problem?



The system is rigged!!

Let's take a look....



FRICITION

The “Old Fashioned” Way

**The Pool Of
Credit Worthy Borrowers**

... Same rate for all!

A Class System ...



A good way to put people in their place!



Is there a difference?

B
+1.25%

C
+3.00%

Rate:

+1.25%

+3.00

: Rate

FICO:

679-640

639-600

: FICO

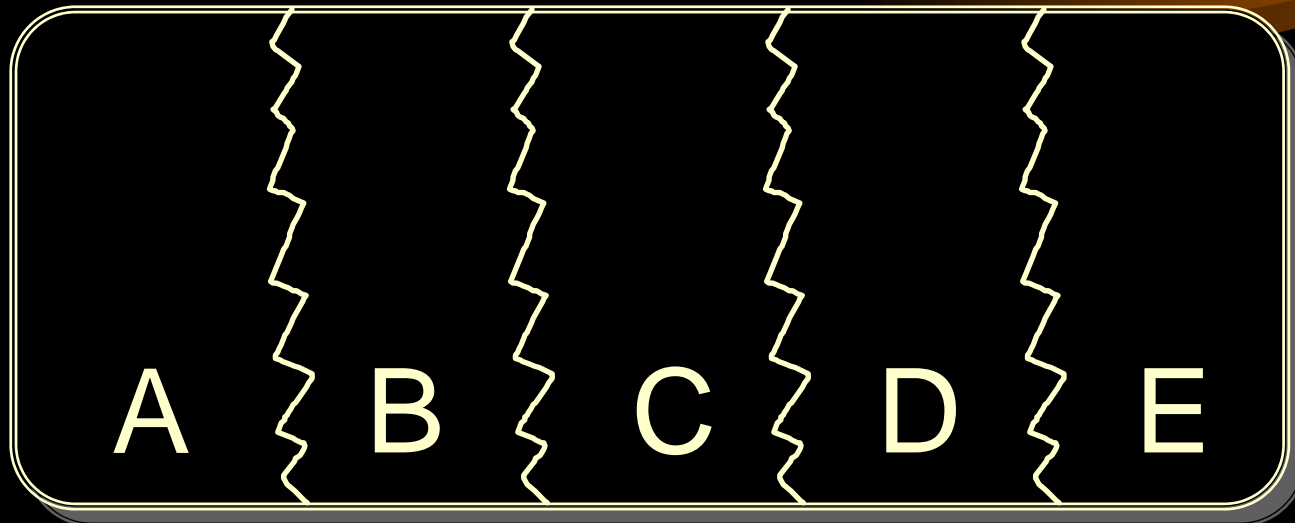
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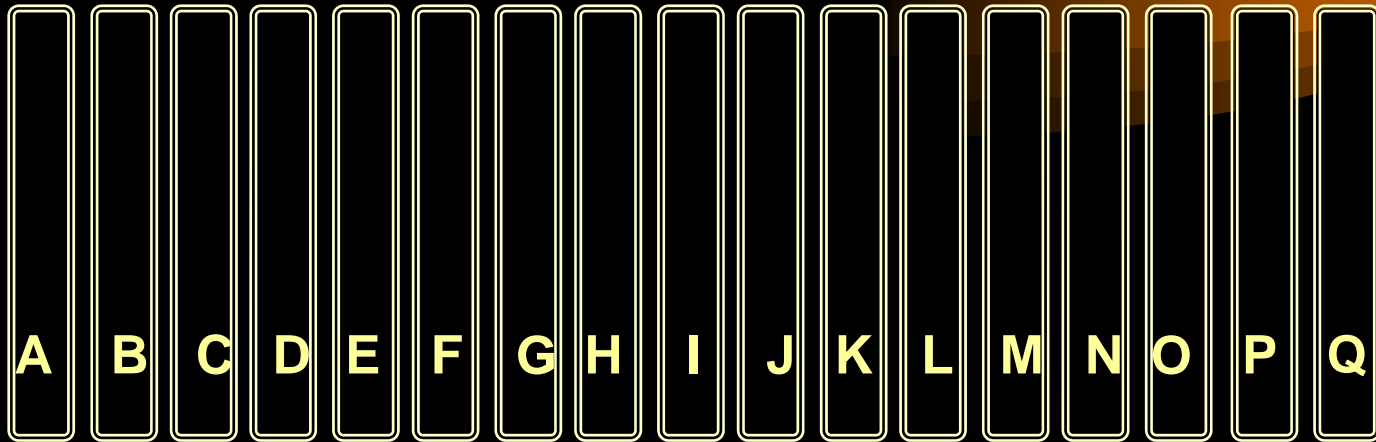
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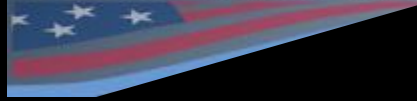
Social/Organizational Friction



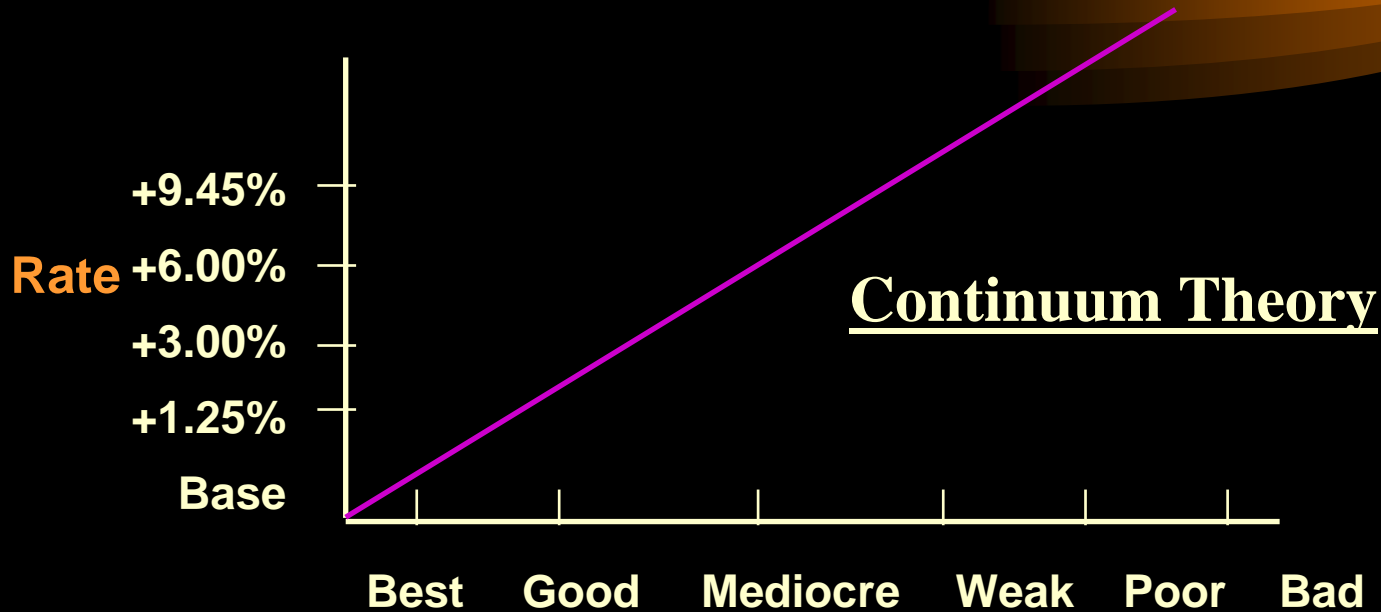
**Don't want "good" borrowers
"subsidizing" the bad!**



*If fairness is the issue, why not a segment of one?
Only want to be fair “to a point”?*



FICTION



Credit Worthiness = FICO Score



Applying the wrong logic!

Lending is “Yes” or “No”...

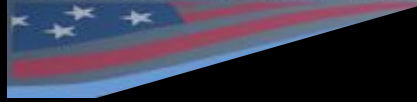
Discrete event not continuing

Fairness

<u>CLASSES</u>	<u>RATE</u>	<u>WORST CASE</u> <u>LOAN</u> <u>LOSSES</u>
A	Fair Base	.50%
B	+1.25%	1.75%
C	+3.00%	3.50%
D	+6.00%	6.50%
E	+9.45%	9.95%

<u>CLASSES</u>	<u>MEMBERS PAY</u>	<u>MEMBERS DON'T PAY</u>
A	99.50%	.50%
B	98.25%	1.75%
C	96.50%	3.50%
D	93.50%	6.50%
E	90.05%	9.95%

... See any problem?



**The FICO score can tell you
“on average”
how many members won’t
pay in a class?**



**Unfortunately, it
can't tell you which
members won't pay!!**

Fairness

<u>CLASSES</u>	<u>RATE</u>	<u>WILL PAY</u>
A	Fair Base	99.50%
B	+1.25%	98.25%
C	+3.00%	96.50%
D	+6.00%	93.50%
E	+9.95%	90.05%

Sounds like “profiling” to me...

Payday Lending in North Carolina

- Post Dated Check
- \$300 Maximum Loan
- Maximum Fee \$15 per \$100 Borrowed
- Term Generally 2-3 Weeks

Typical Payday Transaction

- Consumer Check Amount \$300
- Less Fee \$45
- Proceeds to Consumer \$255
- Interest Rate 300% to 600% APR
(Depending on Term of Loan)

Payday Lending in North Carolina

Annual Percentage Rate*	Finance Charge	Amount Financed	Total of Payment(s)	Number
456.25%	\$8.75	\$50.00	\$58.75	1
451.90%	\$13.00	\$75.00	\$88.00	1
456.25%	\$17.50	\$100.00	\$117.50	1
458.86%	\$22.00	\$125.00	\$147.00	1
456.25%	\$26.25	\$150.00	\$176.25	1
458.11%	\$30.75	\$175.00	\$205.75	1
456.25%	\$35.00	\$200.00	\$235.00	1
457.70%	\$39.50	\$225.00	\$264.50	1
460.08%	\$45.00	\$255.00	\$300.00	1
*Based on 14 day term				





SECU Salary Advance Program

- Maximum Amount \$500
- Maximum Term 31 Days
- Requires SECU Checking Account
- Requires Direct Deposit at SECU
- Breathing, Not Under Bankruptcy
- Interest Rate 12.00%

SECU Salary Advance Program

Annual Percentage Rate	Finance Charge	Amount Financed	Total of Payment(s)	Number
12.00%	\$2.50*	\$500	\$502.50	1

*Based on 15 day term

SECU Salary Advance Program

Basic Economics

Interest Rate	12.00%
(Loan Losses)	(4.00)%
	8.00%
(Cost of Funds)	(4.00)%
	4.00%
SECU Operating Costs	(2.00)%
To Retained Earnings	2.00%*

***Current SECU Overall Return on Assets (ROA) Target is 1.00%**

...a rate of 18% would be entirely conscionable!

SECU Salary Advance Program

Savings Enhancement March 1, 2003

- Supplemental Savings Account
- 5% of Proceeds to Savings
(Example \$100 Loan, \$5 Shares)
- Pledged Against Loan; SECU becomes a secured lender!
- If Withdrawn, No Salary Advance Loan for 6 Months
- Break the Cycle; currently \$10+ million in balances!

Let's calculate that difference...

- **Payday Lender**
 - \$15 per hundred borrowed or \$75 fee on a \$500 loan for 1 month.
- **SECU**
 - 1% of amount borrowed or \$5 in interest on a \$500 loan for 1 month.
- **40,000** SECU members use the salary advance loan each and every month.
- Each member “saves” \$70 each month (theirs \$75 – ours \$5!).
- **Monthly savings:** \$70 x 40,000 people = **\$2.8 million.**
- **Yearly savings:** \$2.8 million x 12 months = **\$33.6 million.**



... *One More Thing* ...

... Up to half the people who take out sub-prime loans could qualify for a prime loan which charges as much as **4%** less interest ...

(“Fannie Mae”, *Economist* 8/31/2002)

The Social Cost...

The social problem...

Loan Amount: \$100,000

RATE	15 YR TERM	30 YR TERM
7.75%	\$941.28	\$716.41
8.75%	\$999.45	\$786.70
9.75%	\$1,059.36	\$859.15
10.75%	\$1,120.95	\$933.48
11.75%	\$1,184.13	\$1,009.41
12.75%	\$1,248.84	\$1,086.69
13.75%	\$1,314.99	\$1,165.11

... the financial opportunity.

Other Opportunities

- Basic Transportation Loans (to \$15,000); Hertz/Enterprise.
- First Time Homebuyers Mortgage (102% Financing)
- Low closing costs; interest on escrow; no PMI; in-branch refinances.
- BALANCE Financial Counseling (No Cost); CCCS San Francisco.
- Check Cashing?? (Check Cashers Charging 1-3% !)
- Financial Planning – Members Trust/XCU Capital Financial Assessment Program; “Not Yet Wealthy”; “Special Needs”.

Credit Unions are not a four letter word...





The Credit Union Cooperative

...The right answer

**Members
Credit Union**



**Financial
Services**

The Original Idea!