

Serving Those of Modest Means: Five Financial Products Aiming to Make a Difference

Filene Research Institute 

Cynthia Campbell / CynthiaC@Filene.org
608-661-3755 / www.Filene.org

WE ARE A
NONPROFIT * INDEPENDENT
THINK & DO TANK

EVERYTHING
WE DO

STARTS WITH RESEARCH



Financial Stress and Workplace Performance: Developing Employer-Credit Union Partnerships

A Colloquium at the University of Wisconsin-Madison



The Center for Credit Union Innovation, LLC

2012 FINANCIALLY UNDERSERVED MARKET SIZE STUDY

DECEMBER 2013

CFSI
Center for Financial Services Innovation
SPONSORED BY
Morgan Stanley

INSIDE:

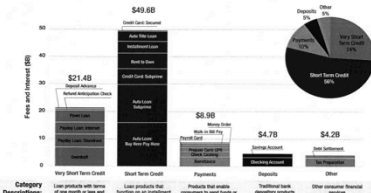
Key Findings in an \$89 Billion Market:

- The financially underserved market generated approximately \$89 billion in fee and interest revenue in 2012 from a volume of approximately \$792 billion in principal loaned, funds transacted, deposits held, and other financial services provided.
- The financially underserved market saw annual growth in revenue of 8% from a previous total of \$82 billion, while the volume of business conducted grew 7% from \$740 billion in 2011.
- Steady, moderate revenue growth occurred across all product categories: Short Term Credit grew by 10% from 2011 to 2012, Very Short Term Credit and Payments each grew by 7%, Deposits grew by 4% and Other services by 6%.
- The strongest growth segments in 2012 included: open-loop prepaid cards – both Payroll (32.7%) and General Purpose Reloadable (28.5%), Refund Anticipation Checks (25.3%) and Subprime Auto Loans (23.5%).
- Indicators project the financially underserved market will maintain a steady growth rate of 8% in 2013, reaching a total of \$95 billion in revenue.
- Subprime Auto Loans are likely to be the highest growth product segment in 2013 with a projected growth rate of 23.1%.

Industry Revenue by Category and Segment	page 1
Revenue Growth Rate by Category	page 2
Revenue Growth Rate by Product Segment	page 3
Product Segments to Watch	page 3
A Closer Look at Four Years of Growth	page 4
Appendix: Methodology and Data	page 5

Industry Revenue by Category and Segment in 2012

Financially Underserved Market Revenue: \$89 Billion



Note: Figures based on available market data and CFSI's proprietary analysis; calculations and assumptions; for general use only and not for individual product segments.

The Economics of Serving Low-Income Employees at Tax Time: Implications for Credit Unions

John Hoffmire, PhD

Director of the Center on Business and Poverty
University of Wisconsin-Madison, Wisconsin School of Business
Chairman, Progress Through Business

Thomas Harms

Progress Through Business

filene
RESEARCH INSTITUTE



The Economics of Payday Lending

John P. Caskey, Swarthmore College

Prepared for the Center for Credit Union Research



University of Wisconsin-Madison
School of Business

and the

Filene Research Institute
P.O. Box 2098
Madison, Wisconsin 53701-2098
(608) 231-8550
www.filene.org

Filene Research Institute



\$700,000

**SIZE OF FORD FOUNDATION GRANT TO
LAUNCH AN ACCESSIBLE FINANCIAL
SERVICES INCUBATOR**



The Accessible Financial Services Incubator

WHAT:

\$700,000 / 30 month grant to develop and implement an Accessible Financial Services Incubator to scale five financial innovations that benefit low-and-moderate-income (LMI) and un/under-banked consumers in a profitable and sustainable way.

BENEFITS:

The LMI consumer benefits because the products being incubated are designed with them in mind. Benefits will be greater access, convenience and lower expenses associated with banking. The financial institution benefits because they are extending their reach and serving more of their current members and gaining new members along with new loans.

WHO:

**The Ford Foundation. Amy Brown, Program Officer - Financial Assets
Filene Research Institute, Cynthia Campbell, Director of Innovation Labs
Credit Unions from around the country willing to test the products!**



The Accessible Financial Services Incubator

The five products that we are testing are:

Employer Sponsored Small Dollar Loans

Pay Yourself Back

The Trust Card

Non-Prime Auto Lending

Borrow and Save



WHAT IS THE MARKET OPPORTUNITY?

**Pay Day Lending
on the Internet
alone grew
18.75% from
2011 to 2012.³**

- ✓ The financially underserved market generated approximately \$89 Billion in interest and fee revenue in 2012.³
- ✓ The financially underserved market saw annual growth in revenue of 8% and projections indicate continued growth.³

³ *2012 Financially Underserved Market Size Study - CFSI*

LEARN

JOIN

LEAD



2014 OFN CONFERENCE

OCTOBER 14–17, 2014 • THE SHERATON DOWNTOWN DENVER, COLORADO

SERVING THOSE OF MODEST MEANS: FIVE FINANCIAL PRODUCTS THAT MAKE A DIFFERENCE

Borrow & Save: Helping Members Plan for The Future

Sarah Marshall

North Side Community Federal Credit Union

North Side Community Federal Credit Union



History & Background:

- 40 year old CDFI credit union
- 8 full time/2 part time employees
- Serving 4 zip codes on the north side of Chicago
- 9.8 million in assets and 3300 members
- Over 50 Select Employer Group partners, and 70% of partners work w/LMI clients
- 4 In-house Housing/Financial Counselors: HUD sub-grantee thru NFCDCU

Why offer the loan?

- Members love the loan; they are excited about the savings component.
- Members can access a higher \$\$ loan than they would if they did not save part of their income (North Side requires five \$500 loans to be repaid before members can access \$1000 loan if they do not save additional funds).
- Savings is an essential part of asset building; North Side wanted a product that helps members begin to plan long term.
- Loan performs well and is partially secured by savings if member defaults.

Developing the Product

- Staff Collaboration
- Tiered Loan Amounts to Income Structure
- Separate Savings Account for Borrow & Save Funds
- Education/Training for Tellers
- Learning from Members (member surveys).
- Referrals to Credit Counseling

Comparison	Initial Pilot	Current Product
Loan Amount	\$500, \$750 or \$1000	\$500, \$750, or \$1000
Rates/Terms	16.5% APR, up to 1 year. 1 Loan/Member Annually	18 % APR, up to 1 year. Loan Term must be completed before reapplying
Additional Requirements	Financial Counseling if credit is below 600	Financial Counseling if credit is below 600
	Savings Incentive: if borrower pays & saves as agreed, North Side reimburses 50% of application fee & 6.5% interest	Savings Penalty: No incentive. If member withdraws from savings early, a \$15 penalty applies
	Tiered income requirements for different loan amounts	Tiered income requirements for different loan amounts

Loan Amount	Term	Required Savings	Net Income	Savings Outcome	Approx Finance Charge
\$500	6 months	25.00	\$1000+	\$150	\$25.00
\$750	9 months	\$30.00	\$1250	\$270	\$57.00
\$1000	6 mos-1 year	\$40	\$1500	\$240 or \$480	\$53.00 or
					\$100 (1yr)
Application fee	\$15 early withdrawal penalty	*Direct deposit			

Current Loan Performance

YTD:

- 85 loans disbursed, \$63,295 currently outstanding (76 loans disbursed in initial pilot).
- 6 delinquencies - .07% of portfolio
- 0 charge offs (loan is a newer product; first loans are set to be paid off in November 2014).
- \$775 average loan size.



- ✓ **Need an emergency loan?**
- ✓ **Want to start on the road to savings?**
- ✓ **Does your employer offer direct deposit?**
- ✓ **Are you looking to build credit?**

\$500 for
6 months

18% Interest Rate

\$30 Application Fee

Average Savings at
Loan Payoff:
\$150

Monthly Net Income
Requirement:
\$1000 +

*Direct Deposit Required

Financial Education Provided

\$750 for
9 months

18% Interest Rate

\$30 Application Fee

Average Savings at
Loan Payoff:
\$270

Monthly Net Income
Requirement:
\$1250 +

*Direct Deposit Required

Financial Education Provided

\$1000 for
6 months or
1 year

18% Interest Rate

\$30 Application Fee

Average Savings at
Loan Payoff:
\$240 or \$480

Monthly Net Income
Requirement:
\$1500 +

*Direct Deposit Required

Financial Education Provided

How does a Borrow and Save Loan Work?

- ❖ You pick the amount you want to borrow
- ❖ Your direct deposit is split between the loan payment and the savings minimum requirement
- ❖ Along with every loan payment, money is automatically transferred into a savings account
- ❖ Once you finish paying off the loan, you may have \$150 or more in savings!

Marketing the Loan

- Lunch & Learn w/Community Partners
- Email newsletters, flyers etc
- ** Up-sell at the Teller line:
“You’re eligible for a \$1000 loan if you agree to save an additional portion every pay period.”
- Word of Mouth
- *****Key Difference in 1st and 2nd Pilot:**
(85 loans in first six months vs 76 loans in 18 months, w/no incentive).

In 2nd pilot, if members are income qualified and applying for any small dollar loan, they are *always* asked if they want to save \$\$ and move to higher loan amount.

Support Services

- Counselors offer First-Time Homebuyers Workshops and Personalized Counseling, Foreclosure Prevention Services, Credit & Budget Counseling, and Financial Education Workshops.
- In 2013, North Side counselors saw over 250 workshop participants and held over 80 personalized financial counseling sessions.
- Members work on building credit, disputing inaccurate records on credit report, and are referred to credit union for products such as Borrow & Save.

Questions?

Sarah Marshall
North Side Community Federal
Credit Union
773-759-5800 or
s.marshall@northsidecu.org

Questions?

Sarah Marshall
North Side Community Federal
Credit Union
773-759-5800 or
s.marshall@northsidecu.org

Non-Prime Auto Lending

-Dave Prosser, SVP Community Development



Where people bank for good.®

Who We Are



Mission: Helping people prosper, helping communities thrive

- Headquarters: Roanoke, VA
- Year Chartered: 1956
- Charter Type: Community
- Assets: \$331M
- Membership: 45,800
 - (66% low-income)
- Designations:
 - NCUA Low Income, 2010
 - US Treasury CDFI, 2010, 2014

RESPONSIBLE RIDES

		Submitted Apps	Issued Loans	Issued Loan Rate
	2010	138	50	36%
	2011	88	30	34%
	2012	59	31	53%
	2013	145	81	56%
	2014	69	42	61%
2014	Jan	12	7	\$93,542.54
	Feb	11	8	\$73,624.67
	Mar	17	9	\$109,854.76
	Apr	10	6	\$90,138.89
	May	8	7	\$69,507.95
	Jun	11	5	\$53,131.60
	Jul			
	Aug			
	Sep			
	Oct			
	Nov			
	Dec			
	Totals	69	42	\$489,800.41
Total Since Jan 2010:		354	234	\$2,512,363.71



RESPONSIBLE RIDES



Total for RR Program since inception (January 2010)

Total Car Loan Dollars Issued	\$2,512,363.71
Average Car Sale Price	\$10,736.60
Avg. Yearly Income of RR Car Owners	\$18,726.04
Avg. Credit Score of RR Car Owners	575
RR Car Owners with No Credit History	62

Underwriting Guidelines



Credit History

- **No Bankruptcies filed in the last 12 months**
- **No total unpaid collections, exceeding \$1,500 (excluding medical collections)**
- **No more than two late mortgage payments of 30 days in the past year, or one late payment of 60 days in the past year**
- **Applicant must have 90 days continuous employment at time of application (not necessarily at the same job)**
 - **Two prior years work history (include any time unemployed and/or time as a student)**

Debt to Income Ratio

Debt to Income Ratio (DTI):

- Shall not exceed 45%, unless there are compensating factors in which case we will entertain a DTI of up to 55%

Compensating Factors

- Home ownership and/or equity in home
- One year consecutive employment
- Potential for increased earnings:
 - Current student or in work force development classes
 - Demonstrating the drive and intention to make themselves more marketable in the job market
- Ability to accumulate savings
- Demonstrate any financial education completed in the past
- Evidence of improved payment history
- Arrangements to satisfy past due accounts

WHAT IS CONSIDERED INCOME?

- **Payment from consistent employment**
- **TANF assistance**
 - **100% of monthly payment considered if received for 18-24 months out**
 - **50 % of monthly payment considered if received for 12-18 months out**
 - **25 % of monthly payment considered if received for 0-12 months out**
- **Social Security payments (disability, death benefits, etc.)**
- **Court ordered child support and/or alimony**
- **Military benefits**





WHAT IS CONSIDERED INCOME?

- Pensions
- Regular Insurance/Annuity payments
- Continuous interest/dividend income (with 2 year history/ documentation)
- Any other ongoing and continuous income stream with documentation



INCOME GUIDELINES



Federal Poverty Guidelines					
(All States except Alaska & Hawaii and D.C.)					
Family	2010	2011	2012	2013	2014
Size	HH Income	HH Income	HH Income	HH Income	HH Income
1	\$10,830	\$10,890	\$11,170	\$11,490	\$11,670
2	\$14,570	\$14,484	\$15,130	\$15,510	\$15,730
3	\$18,310	\$16,335	\$19,090	\$19,530	\$19,790
4	\$22,050	\$20,147	\$23,050	\$23,550	\$23,850
5	\$25,790	\$21,780	\$27,010	\$27,570	\$27,910
6	\$29,530	\$27,225	\$30,970	\$31,590	\$31,970
7	\$33,270	\$32,670	\$34,930	\$35,610	\$36,030
8	\$37,010	\$43,560	\$38,890	\$39,630	\$40,090



INCOME GUIDELINES FOR FREEDOM FIRST

2014 Poverty Guidelines for the 48 Contiguous States

Persons in Family/Household	Income Poverty Guidelines
1	\$35,010
2	\$47,190
3	\$59,370
4	\$71,550
5	\$83,730
6	\$95,910
7	\$108,090
8	\$120,270

WHAT IS NOT CONSIDERED INCOME?

Any assistance that cannot be expected to continue for 2 or more years.

Examples:

- Food stamps
- Unemployment compensation
- Gambling or lottery winnings
- Over Time (OT) income from employment
- Medicare/Medicaid
- Any temporary assistance from any other source that will not continue for two or more years



UNDERWRITING INTENT



- We are looking for information that would indicate that the applicant has already taken intentional steps toward:
- Self-sufficiency
 - Improving their employment and income situation
 - Improving their financial habits

PRE-QUALIFICATION DOCUMENTATION



- Copy of valid Driver's License
- Copy of Social Security Card
- 2 most recent paystubs (Must be on current job for 90 days)
- Other income sources: SSI/Disability, alimony, child support, and/or pension are all acceptable
- Verification of Rent (VOR)--(Signed by current Leasing Manager or Landlord) or most recent mortgage statement if you own your home
- Copy of 2 months bank statements (if applicable)
- Benefit Letter...How and why this will change your life
- If no creditors on credit report, you must provide 3 alternative credit sources (VOR and two other payment sources)
- Applicant must agree to attend the credit, budget, and car maintenance class (minimum of 3 hours)

NO CREDIT HISTORY

For applicants with NO CREDIT HISTORY, we will ask for non-traditional documentation to verify credit worthiness:

We will verify three non-traditional sources:

- Proof of consistent rent payments (Mandatory)
- Bank statements that show three or more months of paying utility bills or cell phone bills on time
- Proof of Insurance premium payments
- Proof of Child care payments



DELINQUENCY DATA

0.50% Charge Off Ratio

0.48% Reportable Past Due

Loan Terms

Rate: 9.99

Term: 60 Months

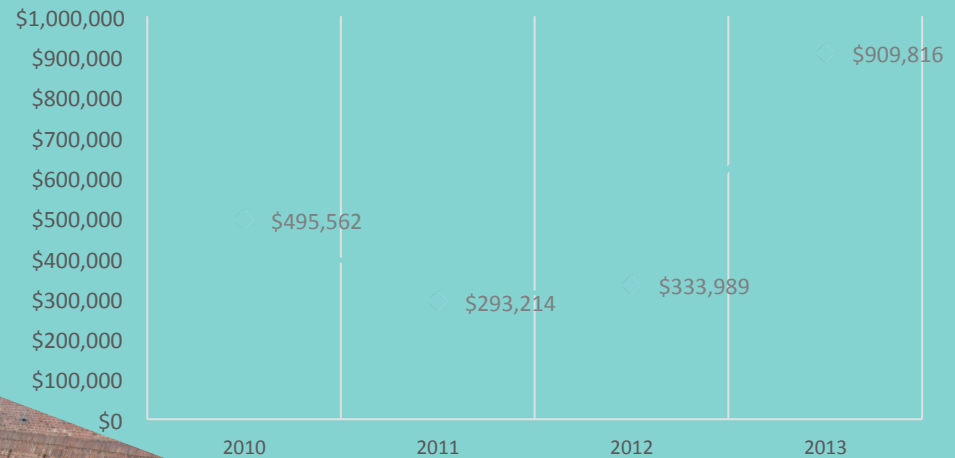
Application Fee: \$199

Will finance 1 year's auto loan insurance





RESPONSIBLE RIDES



IMPACT



Family Description	2010	2011	2012	2013	2014	Totals
Single Parent	37	15	10	34	10	106
Single Parent Female	36	15	10	32	7	100
Single Parent Male	1	0	0	2	3	6
Singles	8	8	17	28	9	70
Adults- No Kids	3	2	1	1	1	8
2 Parent Household	2	5	3	18	4	32
Total	50	30	31	81	24	216

IMPACT

	2010	2011	2012	2013	2014	Totals
Hispanic	1	3	0	3	2	9
Non-Hispanic	49	27	31	78	22	207
Total	50	30	31	81	24	216
Black	37	21	14	55	16	143
White	10	6	17	21	6	60
Mixed Race	1	0	0	2	1	4
Other	2	3	0	3	1	9
Total	50	30	31	81	24	216
Under 8				4	0	4
9-12: Non Graduate	1	4	0	1	1	7
High School Graduate/GED	15	20	10	33	13	91
12+: Some Post Secondary	13	5	9	13	8	48
2 or 4 Years College Graduate	6	1	6	24	2	39
Post-Graduate				0	0	0
Currently Enrolled				6	0	6
Education Not Reported	15	0	6	0	0	21
Total	50	30	31	81	24	216

Success Story

Wanda:



Wanda needs
to consolidate
bills

Utilizes Borrow
& Save for
paying off
delinquent
debt

Strengthens
Credit

Qualifies for
Responsible
Rides Auto
Ownership
Program

Reliable car for
work results in
promotion and
a raise!

Savings
available for
insurance
premium

Dave Prosser, SVP Community Development
540.378.8922
dprosser@freedomfirst.com



Where people bank for good