MARKET-BASED ALTERNATIVES TO PAYDAY LOANS

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This brief outlines current alternatives to payday loans, examines any evidence for the ability of these alternatives to fulfill the need for short-term credit, and seeks to provide an initial evidence-based framework for providers venturing to overcome the challenges in providing this credit.

The majority of payday loan alternatives in the marketplace are provided by:

- **Credit Unions:** Short-term, small-dollar loan programs are offered in hundreds of credit unions across the nation and in many credit unions in the NWAF states.
- **Banks:** Some banks offer small-dollar loan products in an attempt to meet the need for short-term credit, particularly because payday borrowers are by nature already linked to a bank account.
- **Targeted Financial Institutions:** Some community development organizations offer payday loan alternatives to specific populations that they serve. In particular, Hispanic and Native communities have received attention as populations potentially targeted by payday lenders, who are now being served by small loan programs.

The payday alternative products offered vary widely but generally fall within a range of terms:

- **Interest rate:** 18 percent to 36 percent with APR of 20 percent to 150 percent
- **Principal amounts:** $200 to $2,000
- **Term:** One to six months
- **Application fee:** Minimized to cover costs of loan
- **Optional additions:** Savings component and financial education

The programs vary widely in their terms and scale. However, there is little evidence that credit unions, banks, and community financial institutions scaled or marketed these programs to the degree necessary to meet the demand for short-term credit, or that these programs are economically beneficial for loan providers.
Payday Lending and the Market for Low-Cost Alternatives

Payday lending has become one of the most widely used forms of short-term credit: An estimated 19 million households, or 5 percent of the U.S. population, borrowed approximately $50 million in payday loans in 2007. In the last several years, payday lending has received significant scrutiny and states have regulated the payday loan industry in a variety of ways. As a result, payday lending is now effectively banned in 13 states and the fees and interest rates associated with payday lending are restricted in others.

There is evidence, however, that restrictions on payday lending do not necessarily improve the financial security of borrowers, many of whom are low-income, who previously relied on this credit and are forced to turn to potentially more costly alternatives when payday lending is restricted. Many previous payday borrowers bounce checks or rely on overdraft protection; resort to paying bills late, which threatens utility shut-down and further credit problems; or turn to pawnshops, which often charge rates that are comparable to payday loans. Additionally, internet payday loans have gained prevalence in recent years, limiting a state’s ability to restrict payday borrowing for its residents.

Unless restrictions on high-cost credit products are linked to efforts to improve the availability of lower-cost alternatives in the market, borrowers who rely on high-cost sources of credit may actually be worse off when these credit solutions dry up. However, there is little evidence that good substitutes for payday loans currently exist in the marketplace. Because payday lenders do not appear to charge rates exorbitantly higher than their short-term lending costs, other private sector lenders would likely have difficulty providing this credit at reduced rates, while maintaining the convenience and other characteristics that make payday loans popular with borrowers.

This report considers the potential for credit unions and banks to offer short-term loans with the potential to match payday lending, but without some of the most problematic features, such as high interest rates and fees, unlimited rollover loans, and very short loan terms. These institutions are natural providers of short-term loans, as payday borrowers are required to have a bank account and employment at the time of the loan. Community development organizations (CDOs) are also cited as institutions that can provide loans to specified populations, although there is less evidence about small-dollar loan programs offered by CDOs.

It is possible that payday loans may be profitable only because of the features that create problematic consumer debt: loan rollovers (continuations) for multiple periods and collateral from a bank account that could create bank overdrafts. However, a 2005 study argued that credit unions and banks can provide low-cost alternatives to payday loans because they have preexisting facilities and an established consumer base, minimizing capital and marketing costs. The study argues that if credit unions and banks match the speed and convenience of payday lenders, these institutions could be well-positioned to capitalize on the market for short-term credit.

There are many reasons, aside from economic benefits, for credit unions to offer small-dollar loans. Providing short-term credit to individuals without access to other forms of credit help credit unions fulfill their mission to provide services to underserved or low-income populations—and might help build
and expand membership base. Access to the short-term loans might also improve customers’ credit scores, allowing them to access more traditional credit products and build cross-product demand. Additionally, banks that provide low-cost small-dollar loans, or partner with credit unions to provide capital financing, may be eligible for additional Community Reinvestment Act funding provided to banks that broker loans to low-income individuals. Such funding could make short-term loans more economically viable for banks.

However, credit unions face considerable obstacles to offering alternatives to payday loans—especially in matching their convenience. A survey with 40 payday loan borrowers conducted in 2009 indicates that given a choice between identical products offered between a credit union and payday lender, borrowers are likely to choose payday loans even when they are more expensive than the alternative because they are more convenient, not tied to mandatory savings or credit scores, and can be rolled over. Credit unions and banks must streamline approval processes and make loans more convenient in order to meet the demand for payday loans. Users of payday loans also may appreciate the anonymity that a payday lender provides—the ability to default without having credit scores affected may be attractive to borrowers with unstable financial situations.

With or without regulation of payday lenders, credit unions and banks must offer loans that are qualitatively similar to payday loans, but at lower cost to borrowers, in order to improve long-run financial security for borrowers. It remains unclear if these products can be scaled to a degree that meets the demand for short-term credit: Alternatives to payday loans do not appear to exist at a large scale in the marketplace.

This report describes small-dollar loan programs offered by credit unions, banks, and community development organizations. Where possible, evidence of the scale of these programs is provided and case studies of loan programs present an overview of the characteristics and scope of alternatives to payday loans.

Credit Unions

Credit unions are regularly identified as potential providers of small-dollar loans, for several reasons. Credit union members are already linked to the banking system (a requirement for borrowing a payday loan) and one study suggests that some credit union members already use payday loans: Approximately 20 percent of the checks used to collateralize payday loans are written on credit union checking accounts. In addition, the missions of credit unions often include goals of community and member financial security. Regardless of current membership use of payday loans, credit unions may have a role to play in alleviating the strain of short-term financial crises through short-term small-dollar (STSD) loan programs.

Credit Union Loan Products in Market

The National Credit Union Administration (NCUA) regulates the terms of small-dollar loan programs offered by federally insured credit unions. Until 2010 the interest rate allowed for small-dollar loans provided by credit unions was capped at 18 percent. However, many credit unions added fees on loans
that increase the effective APR (which includes both interest and fees), to above 36 percent. In October 2010 the NCUA amended its lending rules to allow federally insured credit unions to provide members with “payday alternative loans” at 28 percent APR, provided the credit union met the following conditions:

- Principal amounts of $200 to $1,000
- Terms of one to six months
- Eligibility limited to credit union member of at least 1 month
- Application fee limited to $20
- Rollovers prohibited (loans carried for multiple terms)

Under NCUA rules, credit unions cannot mandate automatic electronic payments from member accounts as a condition of credit—however, interest rates can be higher for borrowers without automatic payments, to compensate for the higher default risk. Credit unions can also require that borrowers participate in payroll direct deposit as a way to reduce risk.

The NCUA gathers data through quarterly reports on the amount and type of loans provided. In 2011, 5.8 percent, or 374 of the 6,493 credit unions reporting data provided short-term small-dollar loans. In comparison, there were over 24,000 payday loan vendors operating in 2010.

A total of 103,301 small-dollar loans were provided by credit unions at an overall principle of $57.4 million. The average loan was $555. The NCUA data also indicate that more credit unions offered short-term small-dollar loans in 2011 than in 2010, when only 231 credit unions offered such programs (compared to 374 in 2011). In 2011 nearly 20,000 more STSD loans were given for a total loan balance of $15 million more than in 2010.

It appears that many of the credit unions reporting STSD loans utilize the new payday loan alternatives to charge a higher interest rate. In 2011 over half of the 374 credit unions offering STSD loans did so at an interest rate higher than 18 percent and nearly a third (104) offered loans at the top rate allowed, 28 percent. The average interest rate charged for an STSD loan in 2011 was 21.4 percent. It is important to note that the NCUA data includes STSD loan interest rates, but not APR. Even at the top rate of 28 percent, credit unions are allowed to charge a fee of $20, which increases the APR for these loans to 133 percent for a one month loan. This information is not reported and likely varies widely across loan programs.

Aside from short-term loan programs, the NCUA data indicate that 509 credit unions offered payday loan programs in 2011. As defined by NCUA, a payday loan differs from a more broadly defined short-term loan in that loan amount must be less than $2,000, include a term of no more than 90 days, and be secured by a personal check. Short-term loans, on the other hand, can include a term of up to six months and do not require a check or electronic repayment to secure the loan. Thus, while many payday loan programs also qualify as short-term loans, not all short-term loans qualify as payday loans. No

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1 In 2011 there were 6,493 state- and federal-chartered credit unions, with a total of 7,094 branches. Only 146 credit unions nationwide were not federally insured.
information is provided in NCUA call reports regarding the number, amount, or interest rates of these payday loan programs.

The NCUA also outlines “best practices” and guidelines for credit unions offering small-dollar loans. These guidelines are designed to help credit unions interested in pursuing small-dollar lending programs for their members in an attempt to increase the amount of small-dollar credit (Table 1).

<table>
<thead>
<tr>
<th>Topic</th>
<th>Guideline &amp; Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application Process</td>
<td>Streamline approval to within 24 hours and preferably within one hour</td>
</tr>
<tr>
<td>Convenience</td>
<td>Strategically expand hours (evenings and days later in the week) to meet demand</td>
</tr>
<tr>
<td>Savings Component</td>
<td>Require or encourage linked savings account at 5% to 10% of principal</td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td>Require minimum membership term of 60 days</td>
</tr>
<tr>
<td></td>
<td>Require employment term of at least 30 days</td>
</tr>
<tr>
<td></td>
<td>Use FICO credit score to set loan amount</td>
</tr>
<tr>
<td></td>
<td>Require or encourage financial education for low credit score or after delinquency</td>
</tr>
<tr>
<td></td>
<td>Encourage automatic deduction at reduced interest rate</td>
</tr>
<tr>
<td></td>
<td>Pool risk with partnership small-dollar loan programs, such as Better Choice or StretchPay</td>
</tr>
</tbody>
</table>

Most credit unions do not currently offer products that are comparable to payday loans because of the risks of these types of loans. And those credit unions that do offer such loans may screen out the riskiest users in an effort to reduce the costs of lending, sometimes by requiring longer membership, savings accounts, or financial education. Lending to a less risky set of borrowers might allow credit unions to break even on these loans, but may screen out those who most need payday loans.

**Banks**

Some banks also offer small-dollar loans in an attempt to meet the need for short-term credit. Because a bank account must be used to borrow a payday loan, the bank may be able to market short-term loans to its current customers, or to bring in a new set of account holders by marketing short-term loans. While there is no central data specifying how many banks offer such small-dollar loan products, two programs offer some insight into potential products.

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2 Better Choice and StretchPay are pooled risk programs offering financing of small-dollar loans for credit unions in exchange for a $20 fee per loan. Better Choice includes 80 credit union members and StretchPay includes 31 credit unions. Both programs require savings components, cap maximum loan amounts at $500, limit interest rate at 18 percent, and require a membership term of 120 days.
FDIC Pilot Program

Beginning in 2008, the FDIC began a two-year pilot project in 28 banks to assess the potential for affordable and cost-effective small-dollar loan programs in financial institutions. The loans were up to $2,500 and provided under the following terms: 36 percent APR, minimum term of 90 days; application approval within 24 hours; and optional linked savings accounts and financial education.

During the two-year pilot, participating banks made more than 18,100 loans under $1,000 with a principal balance of $12.4 million and almost 16,300 loans over $1,000 with a principal balance of nearly $27.8 million.

According to the FDIC Final Report, the basic loan characteristics, such as interest rates, fees, and repayment terms, did not vary between large and smaller banks. Data from the fourth quarter of the study indicate average loans amounts, terms, interest rates, and fees for both loans under and over $1,000 (Table 3).

<table>
<thead>
<tr>
<th></th>
<th>Loans up to $1,000</th>
<th>Loans over $1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amount</td>
<td>22</td>
<td>$724</td>
</tr>
<tr>
<td>Term (months)</td>
<td>22</td>
<td>12</td>
</tr>
<tr>
<td>Interest rate</td>
<td>22</td>
<td>14.09%</td>
</tr>
<tr>
<td>Fees</td>
<td>9</td>
<td>$31</td>
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Twenty of the participating banks required or encouraged some form of savings component and eighty percent of the loans made during the pilot program were from these banks. The amount of savings required varied widely, ranging from 5 percent of principal to up to 25 percent of repayment.

At the end of the pilot program, banks with required savings components had a lower average charge-off rate (amount of money not collected) of 1.6 percent than banks either encouraging savings (6.4 percent) or not offering a savings component (11.4 percent), and these rates were in line with industry averages for unsecured credit.

The FDIC’s Alliance for Economic Inclusion initiative has also begun collaborating with financial institutions, community organizations, and government agencies, to reduce the number of low income households who are unbanked and particularly to support banks in establishing small-dollar loan
programs. As of 2010, 48 Initiative banks offered small-dollar loans products. Data on the numbers of loan products offered in these programs is not available.

On the whole, a very small number of banks have begun to offer loans that might serve as alternatives to payday loans, but there may be potential for growth in the future, particularly as savings components may have the potential to reduce charge-off rates.

Recently, concerns have developed that banks have begun to offer short-term loans with rates and conditions similar to those of payday loans. A study conducted by the Center for Responsible Lending found that some banks offering short-term loan programs charged an average APR of 365 percent, comparable to payday industry rates. They also found that some banks may create terms that incur fees and facilitate customer debt by withdrawing funds for loan payments even if it overdraws the account. Thus, it appears that additional guidelines or regulations for banks offering short-term loan programs may be necessary.

Bank On Initiatives

Bank On programs are voluntary partnerships among government, financial institutions, and community-based organizations that provide low-income people with free or low-cost bank accounts and access to credit and financial education. As of April 2011, 32 cities, four states, and two regions had fully implemented Bank On programs, with an estimated 20 additional programs expected to be launched by the summer of 2012.

Each Bank On Initiative creates its own guidelines for loan programs and provides support on establishing these programs (See Appendix 2 for list of terms for one small-dollar loan program). In Seattle-King County, three Bank On partners (two banks and one credit union) are offering loans of up to $1,000 at 18 percent APR. Under San Francisco’s “Payday Plus” program launched in 2010, six financial institutions have made 300 Payday Plus loans limited to $500 or less. Because the Bank On lending programs are relatively new, data on number and amounts of loans provided is not currently available.

Bank On initiatives may be able to successfully market short-term loans by providing better visibility to those most likely to use the payday loans and information and support to institutions willing to provide the loans. In addition, the program encourages the development of loan products likely to encourage payday customers to develop long-term financial health.

Payday Alternative Loan Products for NWAF Target Populations

Northwest Area Foundation target populations present a unique challenge for providers of alternatives to payday loans. There is some evidence that payday lenders target low-income and minority populations and that payday locations are more likely to be in commercial areas with higher concentrations of racial minorities and lower income families. Minority populations are also more likely to be unbanked or to have bank accounts, but use alternative financial services for credit. Credit products that are tailored to meet the needs of minority communities may be more effective in
improving financial health. Below we describe two examples of programs designed specifically for Hispanic or Native families.

**Latino Community Credit Union**

Hispanic use of alternative financial services is likely driven by transaction services, such as money wiring and check cashing. However, because many non-bank stores that offer these services also provide payday loans, Hispanics may rely on these vendors for credit as well.

A survey conducted by the Federal Reserve Bank of New York found that both Hispanic and Native American families take out payday loans at a higher rate than whites, though other demographic and economic characteristics may account for these differences.20

One organization offering tailored services, including small-dollar loans, to the Hispanic community is the Latino Community Credit Union (LCCU) based in North Carolina. As of July 2005, LCCU had 35,000 members and $22 million in assets, and it was the fastest growing credit union in the United States.21 LCCU offers personal, unsecured loans of up to $500 at a 16 percent interest rate with a term of six months. LCCU identified the key components of achieving low delinquency rates: building relationships with borrowers and providing financial education.22

A study conducted in 2005 analyzing LCCU’s lending portfolio indicated that 1,671 small-dollar loans were provided during 2000–2003, and just over half of these loans (842) included no collateral. The loans that did not include collateral carried an average interest rate of 15 percent APR and the average loan was approximately $1,500. Between 7 percent and 11 percent of loans were delinquent and 2 percent of all personal and auto loans resulted in a charge-off. Spread over all LCCU’s loans, these charge-offs cost the credit union $37.31 per loan. Thus, while it appears that there are a variety of organizations attempting to provide small-dollar loans to Hispanic communities, it remains unclear if these organizations can scale their loan programs to the level of demand for short-term credit.

**Native Communities: Citizen Potawatomi Nation Employee Loan Program and Lac Courte Oreilles**

Native Americans face considerable barriers to accessing the traditional banking system, particularly in accessing credit. Because of sovereignty and land trust complexities, few banks tend to locate on tribal land, and reservation residents tend to have limited experience with banks.23,24 These obstacles to building credit make

15 percent of American Indian/Alaskan households are unbanked.

28 percent of American Indian/Alaskan households have bank accounts, but still used an AFS in the past year.

*Source: FDIC*
payday loans an attractive or the only option for short-term credit.

Community Development Financial Institutions (CDFI) include community development banks, credit unions, and loan funds with a mission of improving economic conditions for low-income individuals and communities. CDFIs operating in Indian Country have begun to address concerns that payday lenders trap Native Americans in debt by providing these communities with lower cost, more easily accessed credit. As of March 2008, there were 47 certified Native CDFI’s providing financial services, including five banks, seven credit unions, and 35 loan funds.

There is no comprehensive data on which of these institutions currently provide small-dollar payday loan alternatives or the extent of lending. However, two programs serve as notable examples in their provision of small-dollar loans.

Citizen Potawatomi Nation Employee Loan Program, operating in Shawnee, Oklahoma, offers its members unsecured loans of up to $1,500 at an interest rate of 16 percent and a term of 12 to 24 months. Automatic payroll deduction and financial literacy training are required in order to receive a loan. In its first three years of operation, the program generated 611 loans for a total of over $500,000. The average loan amount was $843, and the median loan was $500. The number and amount of loans provided increased in each of the first three years of the program. The program brought in revenue in excess of program expense and thus benefited the CDFI’s self-sufficiency ratio.

Lac Courte Oreilles (LCO) is a Native Community Development credit union in Hayward, Wisconsin, that offers two small-dollar loan programs to Lac Courte Oreilles tribal members and employees. One credit product is called “Easy Money” and is for tribal employees who have been on the job for at least one year and work at least 32 hours a week. The program offer loans to borrowers of up to $500 without a credit check, and the money is paid back through payroll deduction. A second credit product, the “Get out of Debt” loan, is given to members in $500 increments and is designed to help people clean up their credit, so they can qualify for a larger consumer loan. The average loan across both programs is $600, and in 2006 over 22 percent of LCOFCU’s total loan portfolio was in these two programs.

The characteristics of Native CDFI’s offering small-dollar loan programs appear to differ from credit union and bank loan programs in two ways. First, these programs prioritize financial education as a requirement for borrowing. Both loan programs described here require financial education programs—this is in response to concerns that Native Americans, and particularly reservation residents, have less experience in the traditional banking system. Secondly, Native CDFI’s have emphasized case management component in their lending programs. This includes a specialized one-on-one approach to work with clients before, during, and after the loan is provided to identify areas of need, and to offer clients technical assistance, training, and consulting.

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3 A Native CDFI is defined as a Community Development Financial Institution that is at least partially owned or controlled by a tribe and meets requirements for supplying the Native community.
Conclusion

Overall, some credit unions, banks, and other financial institutions are providing small-dollar loan programs that seek to target payday loan borrowers. These programs have grown recently, primarily through credit unions and a number of pilot programs. A relaxing of regulations on credit unions’ interest rates, tightening restrictions on payday loans at the state level, and greater awareness of payday loan usage by minority groups likely have played a role in this increase. However, there is little evidence that these alternative loan programs are providing the number of loans commensurate with demand for short-term small-dollar loans currently being provided by the payday lending industry. Additionally, many of the products offered by banks and credit unions include interest rates or fees that approach the level of a payday lender, calling into questions their ability to offer economically viable short-term small-dollar loan programs.
Appendix 1. **Credit Union Small-Dollar Loan Programs**

The following information is reported by the National Credit Union Association 2011 Call Reports, for all federally insured credit unions operating in the United States.

<table>
<thead>
<tr>
<th>NCUA Data on Credit Unions and Payday Loan Alternatives</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit unions providing short-term small-dollar (STS) loans</td>
<td>374</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of STS loan</td>
<td>103,301</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of STS loans</td>
<td>$57,381,036</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Loan amount</td>
<td>$555</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average interest rate</td>
<td>21.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit unions providing payday loan programs</td>
<td>509</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit unions offering both payday and STS loan programs</td>
<td>118</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The following presents the number of credit unions in the eight-state NWAF area offering payday loan alternatives. The credit union providing the most STS loan in 2011 was Missoula Federal Credit Union, which provided 1,475 loans at a rate of 18 percent, for a total principle loaned of $607,123.

<table>
<thead>
<tr>
<th>NCUA Data on Credit Unions and Payday Loan Alternatives in NWAF area</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit unions providing short-term small–dollar (STS) loans</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of STS loan</td>
<td>3131</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of STS loans</td>
<td>$1,498,840</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average loan amount</td>
<td>$478</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average interest rate</td>
<td>22.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit unions providing payday loan programs</td>
<td>58</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit unions offering both payday and STS loan programs</td>
<td>12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

While relatively few credit unions offered short-term or payday loans, several that did appeared to offer a significant amount of loans (Table 5).

Table 3. **Federally Insured Credit Unions With Providing the Most Short-Term Small-Dollar (STS) Loans in 2011**

<table>
<thead>
<tr>
<th>Credit Union</th>
<th>Number of STS Loans</th>
<th>Amount of STS Loans</th>
<th>Average Loan Amount</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tennessee Valley</td>
<td>9,269</td>
<td>$3,609,716</td>
<td>$389</td>
<td>18%</td>
</tr>
<tr>
<td>American Airlines</td>
<td>9,095</td>
<td>$4,399,157</td>
<td>$484</td>
<td>18%</td>
</tr>
<tr>
<td>Pittsburgh Central</td>
<td>4,586</td>
<td>$1,779,847</td>
<td>$388</td>
<td>18%</td>
</tr>
<tr>
<td>Eglin</td>
<td>3,821</td>
<td>$1,742,213</td>
<td>$456</td>
<td>17%</td>
</tr>
<tr>
<td>New Generations</td>
<td>3,202</td>
<td>$2,728,500</td>
<td>$852</td>
<td>24%</td>
</tr>
<tr>
<td>St. Thomas</td>
<td>3,092</td>
<td>$1,662,523</td>
<td>$538</td>
<td>28%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>2,824</td>
<td>$730,925</td>
<td>$259</td>
<td>15%</td>
</tr>
<tr>
<td>Carolina Cooperative</td>
<td>2,792</td>
<td>$837,150</td>
<td>$300</td>
<td>15%</td>
</tr>
<tr>
<td>Fort Financial</td>
<td>2,428</td>
<td>$1,213,950</td>
<td>$500</td>
<td>20%</td>
</tr>
<tr>
<td>Baptist Health South Florida</td>
<td>2,369</td>
<td>$1,184,421</td>
<td>$500</td>
<td>24%</td>
</tr>
</tbody>
</table>
Appendix 2. BANK ON INITIATIVE GUIDELINES FOR SMALL-DOLLAR LOAN PRODUCTS IN KING COUNTY

Product Requirements:\(^{33}\)

- Loans up to $1,000
- APR not to exceed 36 percent
- Payment periods beyond one paycheck cycle
- Closed-end loans must be paid in full before another advance
- No underwriting, but customer must show proof of income and qualify for a checking account under the terms of the Bank On Seattle-King County program

Product Recommendations:

- Encourage participation in financial education
- Encourage or require automatic savings component
- Encourage or require direct deposit of paycheck, SSI, or other source of monthly income
- Payments are encouraged or required to be automatically deducted from checking account or ACH transfer from other institution
- No minimum member/customer tenure—loans can be made immediately upon opening a checking account
- Other suitable loans should also be promoted, e.g., payday loan consolidation loans and credit builder loans
WORKS CITED


5 Stango, Victor. *Are Credit Unions Viable Providers of Short-term Credit?* Graduate School of Management, University of California, Davis. February 2010.

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