



**Federation**

# **Borrow & Save**

**A Toolkit for Small Dollar Lending Success  
at Credit Unions**



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About the Federation: The National Federation of Community Development Credit Unions (Federation) is a certified CDFI Intermediary representing more than 250 community development credit unions (CDCUs). The Federation's member CDCUs provide credit, savings, transaction services and financial education to more than 2.5 million residents of low-income urban, rural and reservation-based communities across the United States, and hold over \$19 billion in community-controlled assets.

Founded in 1974, the Federation is headquartered in Lower Manhattan with offices in Colorado Springs, CO and Madison, WI. The Federation offers a wide range of advocacy, educational, training, investment, marketing, and outreach programs to support and assist CDCUs. For more information about the Federation and its programs, please visit: [www.cdcu.coop](http://www.cdcu.coop)

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## Introducing Borrow and Save

Borrow and Save is a safe, convenient small dollar loan that includes mandatory savings. This 3-12 month loan the loan proceeds available on approval and places the remainder in a locked savings vehicle to be released at maturity. Borrowers can access the funds they need, build savings and increase their credit score. This toolkit is a resource for credit unions interested in offering a safe, profitable, small dollar loan product that also builds savings.

Borrow & Save is a foundation product for credit unions that helps low- and moderate-income members build financial security, while helping credit unions build profitable member relationships. Key reasons to offer Borrow & Save at your credit union include:

- ***Provides access to small credit***
- ***Strengthens the borrower's financial condition***
- ***Builds member loyalty and attracts new members***
- ***Easy to implement***

In this toolkit you will find everything necessary to set up your credit union's Borrow and Save loan program. The product is simple to implement and does not require a major investment in technology or infrastructure. We also provide access to spreadsheets and an interactive calculator to help you market a product that is consumer-friendly and easy to understand.

Borrow and Save grew out of a need identified by Federation's member Community Development Credit Unions (CDCUs) for an affordable, effective small dollar loan product, underwritten on the basis of the member's ability to pay, with an asset-building component. The Federation launched the Borrow and Save pilot in 2011 with the goal of developing an alternative loan product that increased the economic security of credit union members and had the potential for industry-wide adoption. This tool kit reflects the best practices identified by pilot participants; read the full report, *Borrow & Save: Building Assets with a Better Small Dollar Loan*, at [www.cdcu.coop](http://www.cdcu.coop).

*One young member had just entered the job market. He was very excited to be working and depended on his car as a crucial component of his ability to work and provide for his family. Having no credit history it was an almost debilitating challenge when he needed \$1,000 for repairs to pass inspection. He was having no luck in getting help until he learned about Borrow & Save. With this one partially secured loan he was on his way back to work, repairing his vehicle, paying back his debt and saving up for future vehicle maintenance issues that will no doubt come along the road.*

*-from Freedom First Federal Credit Union in Roanoke, VA*

## The Real Cost Of High-Cost Borrowing

A look at the state of financial services nationwide suggests that access to responsible, affordable credit continues to be a serious problem in low-to moderate income communities. Payday lenders, whether store front or online, sap wealth from people of modest means. Every year over 12 million Americans become trapped in a cycle of debt as a result of predatory payday loans with interest rates that can exceed 400%. At the same time, there is clearly a demand for small dollar loans that can fill an emergency need or bridge a gap between paychecks. In the wake of the recession and the explosion of consumer indebtedness, credit unions want to promote affordable loans and effective models for accessing credit and building savings.

In addition to steering people away from high cost predatory products, credit unions are looking for responsible and affordable products to meet the immediate credit needs of borrowers who may not be eligible for the institutions' other loan products. Credit unions are looking for products that bring members into the financial mainstream, help bolster credit scores and encourage the savings that will allow members to bridge an income shortfall or weather an emergency. And credit unions need to do all of this profitably.

Borrow and Save fulfills all these prerequisites for a responsible small dollar loan alternative:

- ✓ Keeps members out of high-cost alternative products
- ✓ Fills the immediate credit needs of borrowers
- ✓ Provides a solution for borrowers not eligible for other credit union products
- ✓ Puts borrowers on a continuum toward accessing all credit unions products
- ✓ Improves the economic well-being of the community
- ✓ Fosters savings
- ✓ Does not require major investment
- ✓ Generates revenue

Credit unions benefit from offering small dollar loans by serving as an advocate for sound financial practices for low- and moderate-income clients, and profiting, in a responsible way, from current demand for such a product. Small dollar loans are a growing part of many traditional lenders' portfolios. Institutions looking to attract and retain loyal customers, cross-sell additional products, and/or promote a positive community image will want to consider small dollar loans.

Credit unions see small dollar loans as the cornerstone of long-term relationships, generating goodwill with customers in their community. Some financial institutions have transitioned small dollar loan customers into more mainstream credit union products.

## What Distinguishes Borrow & Save from Other Small Dollar Loans?

Credit unions are offering small dollar loans and alternative-to-payday products with features that make them affordable. Many of these products share some basic underwriting with Borrow and Save, including eligibility based on the borrower's ability to repay, limited repeat loans, terms that are not "too" short-term and rates below the regulatory interest rate cap.

Borrow and Save's unique characteristics make it even more attractive to borrowers than other credit building loans, because:

- borrowers have immediate access to necessary funds
- the savings requirement provides a better opportunity to break the cycle of repeat borrowing and indebtedness
- loans are not tied to a next paycheck

Borrow and Save is more attractive than other loans to lenders as well as borrowers:

- 1) Borrow and Save loans meet a critical need with a reasonable and responsible amount of risk.
- 2) Borrow and Save is a sustainable product, with ample room to set a rate that is reasonable for consumers and profitable for the credit union, while serving the asset building mission of the institution.
- 3) Borrow and Save loans can fill several important member needs and can be positioned and marketed to serve multiple purposes from basic savings to credit-building and first-time home buying accounts.
- 4) The savings generated by a Borrow and Save loan provide a risk cushion for the lender.
- 5) Borrow and Save positively impacts the economic prospects of individual borrowers as an effective asset building tool. Credit unions report that borrowers have added to their savings and that credit scores show marked improvement for members using Borrow and Save.

# Borrow and Save Product Design

As you begin the process of integrating this product remember that support from your board, upper management and frontline staff is critical. Staff will be the most important source of loans. Also remember that it is important to create a streamlined underwriting process that will help to lower risk and staff expense. Permeating all the decisions about underwriting Borrow and Save is the ability of borrowers to pay the loan in full and on time. After all, what we are trying to achieve with this product is an end to high cost borrowing and the beginning of a credit path.

Based on the Federation pilot and the results at participating credit unions we have developed the optimal parameters for Borrow and Save to maximize impact and minimize risk.

## The “Save” in Borrow and Save

The required savings is one of its distinguishing features and a critical component of this product. A fixed amount in a frozen savings account can cushion against losses for the credit union as it fosters member savings.

### Optimum Savings:

- ✓ range from 25-50% of loan
- ✓ are frozen in an account and are only available, with accumulated interest, when the loan is paid in full
- ✓ transition to a “next step” product to encourage further savings (such as a low-entry CD)

In determining optimal required savings, the difference in monthly payments are relatively small, as seen in Chart # 1, but still must be affordable.

Chart 1 Effect of Required Savings on Monthly and Total Payments									
% Required Savings	Term and Rate	Loan Amount	Loan Plus Savings	Monthly Payments Loan no Savings	Monthly Payments Loan plus Savings	Monthly Interest Loan no Savings	Monthly Interest Loan plus Savings	Total Interest Payment Loan w/ no Savings	Total Interest Payment Loan plus Savings
50%	1 year, 18%	\$1000	\$1500	\$91.68	\$137	\$8.35	\$12.50	\$100	\$150
25%	1 year, 18%	\$1000	\$1250	\$91.68	\$114	\$8.35	\$10.43	\$100	\$125
10%	1 year, 18%	\$1000	\$1100	\$91.68	\$100	\$8.35	\$ 9.18	\$100	\$110

Note: In our pilot the credit union that required that highest percentage of savings experienced the lowest write-offs.

How will borrowers respond to the required savings? Each of the credit unions in the Federation pilot reported that there was no “push back” from borrowers; members understood the benefit to themselves of the requirement. The savings also provides the credit union a cushion against losses.

To use the Federation’s Borrow and Save profitability calculator [CLICK HERE](#) or go to: [www.cdcu.coop](http://www.cdcu.coop).

## The “Borrow” in Borrow and Save

Below we give you optimal parameters for the loan product and the rationale for each component of product design.

### 1. Analyzing Borrower’s Ability to Repay

The goal of this product is to borrower and institutional success. Underwriting based on your member’s ability to repay should include a review of the following types of documentation:

- ✓ **Proof of employment**
- ✓ **Recent pay stubs**
- ✓ **Previous year's W-2's**

### 2. Loan Size

#### ✓ **\$300-\$1000**

By definition small dollar loans are less than \$1000, and given the proposed interest rates should allow for manageable payments. Loans below \$300 increase the likelihood of repeat borrowing for the member and underwriting costs for the credit union. In Chart 2 below we see that pilot participant North Side FCU increased the terms for larger loans in order to insure that borrowers could afford the payments.

Chart 2 Borrow and Save at North Side FCU		
Borrower Income	Size of available Loan	Terms
\$1,000	\$500	6 months
\$1,500	\$1,000	6 -12 months

### 3. Pricing the Borrow and Save Product

- ✓ **Interest Rate: 12-28%**
- ✓ **Fees: none-\$20/loan for a closed-end loan**

Small dollar loans can only be cost effective for credit unions if priced appropriately. Later in this guide we will give you an annotated excel spread sheet for use in determining costs and pricing. There are, however, several givens for the product: 28% is the allowed regulatory interest rate cap (without fees) so credit unions should have sufficient room to offer the product profitably. At the same time there is no need for credit unions to feel any mission “disconnect” about interest rates that are higher than other credit union products. When compared to high-cost alternatives and relative to the level of risk, this is a product that requires this level of risk pricing.

It is important that the entire product is transparent and credit union should explain the “all in” interest rate if fees are included. While some credit unions have refunded this fee at pay-off there is nothing in the pilot to suggest that this has incentivized payments. The fee should be considered revenue by the credit union.

For consumers the pricing is a small percentage of what they would pay for fringe financing. Larger loans, in this small dollar framework, require only marginal additional payments, but generate a meaningful amount of savings.

### 4. Terms

- ✓ **90 Days to 1 Year**
- ✓ **Installment payments with no balloon payment**

The goal is to set terms that provide the borrowers the wherewithal to repay. We are looking for borrower success, not a cycle of repeat borrowing, i.e. borrowing loan # 2 to pay off loan # 1 and on and on. That is why we take “short-term” out of our definition for these loans and focus on small dollar.

### 5. Number of Loans in a 12 month period

- ✓ **A maximum of three loans per/year with one annual fee**
- ✓ **Loan must be paid in full in order to access the next loan**

The Borrow and Save paradigm is based on meeting immediate credit needs and supporting the accumulation of adequate savings to minimize repeat borrowing. Studies have shown that given the opportunity to access multiple small dollar loans within a year, consumers will continue to borrow even when they have adequate savings to cover expenditures. If a member is failing to

build a savings habit through this program, the credit union should look for other options for the borrower.

## 6. Loan Underwriting Criteria

- ✓ **Proof of Income/ Minimum Monthly Income relative to the size of the loan (get this from the CUs)**
- ✓ **Photo ID**
- ✓ **No prior membership requirement**
- ✓ **No minimum credit score (credit reports pulled for informational purposes)**
- ✓ **Checking and direct deposit required for payments**

Proof of income protects the institution and the borrower and is consistent with the mandate to underwrite on the basis of the borrower's ability to make timely payments.

Success with the loan means improved credit and the opportunity to access other credit union products.

In the Borrow and Save pilot, duration of membership did not correlate with lower rates of delinquencies or write offs. Competing in the marketplace means ease of access and bringing in new members via this product.

Borrow and Save is designed for borrowers with challenged credit. With direct deposit, the risk cushion provided by the savings requirement and underwriting as outlined above, Borrow and Save can help members build credit with an acceptable level of risk for the institution.

## 7. Risk Mitigation

The Federation offers to members credit unions the option to apply for a "Shared Risk" deposit, with the Federation potentially absorbing up to 25% of losses on Borrow and Save loans. For more information about the Federation's Predatory Relief and Intervention Deposits (PIRDE™) go to: <http://www.cdca.coop/investing/investment-offerings-for-credit-unions/>.

Borrow and Save was developed with risk mitigation in mind; including direct deposit, proof of income, financial counseling, and underwriting with ability to repay helps manage risk.

## 8. Collections

Because loan terms do not extend more than one year and can be as short as 90 days, it is important to get a jump on delinquencies almost immediately with a courtesy reminder. At the time of closing encourage borrowers to let you know as soon as possible if there is a problem with repayment. Be sure that borrowers understand that the savings in their account will not be available until the loan is paid in full.

Institutionally, set a date to reexamine underwriting relative to delinquencies and charge offs; use this review to determine if the product's pricing needs to be adjusted.

Chart 3 Comparing Regulatory Requirements for Small Dollar Loans and the Borrow and Save product		
	NCUA	Borrow and Save
Interest Rate	Up to 28%	Between 12 and 18%
Fees*	Up to \$20	Up to \$20
Terms	One to six months	One to twelve months
Amounts	\$200 - \$2,000	\$300-\$1000
Rollovers	None	None
Maximum Loans in 12 month Period	3	3
Credit reports	Not Required	Informational Purposes Only
Required Savings	NA	25% to %50
Financial Literacy or Coaching	Not Required	Available and Recommended

\*According to NCUA regulations, fees charged are excluded from the finance charge calculation. These are not included in the APR. Fees can be charged on a per loan or annual basis. If, however, fees are charged and then refunded based on a member's usage of the product, these fees would have to be included as a finance charge.

## 9. Understanding the Regulatory Environment

In Chart 3 below you see the NCUA's Small Dollar Loan parameters and a comparison with the recommended design for Borrow and Save. Borrow and Save falls well within NCUA guidelines while including specific terms that further the product's goals.

# Key Program Components

## 1. Financial Counseling

Financial counseling is a key component of this program. Counseling will maximize the impact of the product, representing the credit union's commitment to the member's success and the borrower's commitment to making beneficial financial choices. Whether the counseling is compulsory or mandatory it is important not to slow the process down; therefore counseling at the time of loan closing is optimum. Credit unions offering Borrow and Save have required financial counseling for repeat borrowers within the confines of the maximum number of loans allowed per year.

## 2. Incentives

Several credit union in the Borrow and Save pilot offered incentives for participation and timely repayment. While there is no empirical evidence that these incentives affected uptake or repayment success, the credit union may want to include incentives for a limited time period as part of roll out or a way of fostering additional savings. Incentives might include:

- original application fee added to savings upon repayment of the loan
- interest paid on savings portion of Borrow and Save added to savings upon repayment of the loan
- preferred rate for Borrow and Save members who move their savings into an investment product

## 3. Education and Training Credit Union Employees

Taking the time to educate staff about the importance and mechanics of Borrow and Save are key to successful implementation. Included in training should be the following:

- Why is the credit union introducing this product?
- What roll does Borrow and Save play in institutional and member success?
- What additional products should be offered after the successful completion of Borrow and Save?

The Federation has produced a Borrow and Save webinar that can help introduce staff both to the issues that propelled credit union participation and the opportunities the product creates for the credit union and members. The webinar can be accessed at: XXX. In addition, the Federation can customize and present a webinar or in-person training on Borrow and Save for staff. The Federation can also provide the credit union with an Emerging Market Review to look at Borrow and Save, other credit union products and the changing needs of your marketplace.

## Product Uses

Originally designed as a way to offer small amounts of credit to fill an immediate need and build savings and as a way to limit the need for repeat borrowing, credit unions have found additional uses for Borrow and Save:

- Alternative to predatory products— Borrow and Save is structured as an accessible and responsibly priced alternative to payday loans, pawnshops and rent-to-own stores.
- Credit Builder Loans – Unlike traditional credit builder loans, Borrow and Save’s proceeds are not held by the credit union for the duration of the loan; payments, however, are reported to credit agencies.
- Debt Consolidation Loan – Loan proceeds can be used to pay off existing higher cost debt. Remaining outstanding debt can be paid with the accumulated savings.
- First-time Homebuyers – Paying off outstanding debt and using the savings as a basis for building toward a down payment.
- Gateway to other credit union loan and investment products—Build into your program a plan for accessing a continuum of products, including less expensive term loans and low-entry CDs. This works both as a low-cost incentive for the borrower and a longer-term income generator for the credit unions.

*Rodriga C. age 86, was receiving \$458 in Social Security and \$347 in Supplemental Security Income. This monthly income is supposed to cover rent and all personal expenses. Rodriga had a family emergency; she came to the credit union requesting a loan because her brother was ill. A Borrow & Save loan was offered and she opened a savings club account where she has accumulated savings. Upon paying her loan in full, the \$20 loan application fee was refunded to Rodriga’s saving account.*

-from Union Settlement  
Federal Credit Union in New  
York, NY

## Working With Board and Staff

National statistics tell us that many low-and moderate-income consumers are using high-cost fringe loan products. Anecdotally you may know that your members and people in your community are doing the same. You may look out your office window and see payday lenders and pawn shops down the block. But making a decision about a new product requires more than anecdotes-it requires board and staff buy-in.

Review the landscape for high-cost fringe financial services in your community:

- Determine how many payday lenders, pawn shops or other fringe financial storefronts are within your credit union's geography.
- What does existing research tell you about the profile of payday borrowers<sup>1</sup> and the volume of payday lending in your community?
- What is the volume of ACH withdrawals at the credit unions from payday stores and internet payday lenders and what can those members tell you about their credit needs?
- Are payday lenders calling tellers to verify checks?
- What do members using payday lenders tell you about their credit needs?

The process of asking these questions will not only tell you something about member borrowing habits—it will also begin the process of alerting staff to the importance of this issue. You want staff to be able to introduce borrowers to Borrow and Save and ultimately to other savings and loan opportunities at the credit union.

With an understanding of the needs of customers and the impact of predatory lending on your members on your community, management and the Board union will review the structure and the pricing for this product. The credit union will look to balance affordability with the management of risk.

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<sup>1</sup> See Resource Guide for a list recent studies of the payday lending industry and the profile of borrowers

## Bottom Line Calculations

While Borrow and Save can be positioned as part of a credit union's suite of impact products, it needs to be priced for sustainability and scale. On the following spreadsheet you can calculate income, expenses and product profitability. You can input data into the attached spreadsheet or the spreadsheets on the Federation's website.

### Information You Will Need for a Profitability Analysis<sup>2</sup>

- Average Loan Amount:
- Average Loan Outstanding: Average outstanding balance of single loan, using amortization formula.
- Total Number of loans: The total number of loans for the analysis period.
- Portfolio Balance: Principal balance of loans originating during the analysis period.
- Actual Losses: The value of the total unpaid balance charged off.
- Term (months): The average term in months of loans of that type originating during the period.
- Interest Rate: Annual Percentage Rate charged, not reflective of origination or late fees.
- Cost of Funds: Interest rate paid for the use of funds (e.g. deposits,) lent to borrowers.
- Actual Losses per Loan: Actual losses divided by the total number of loans originating during the period.
- Delinquency Incident Rate: Frequency with which loan repayment was delinquent
- Late Fee: Fee charged for the late payment on a loan.
- Interest paid on savings portion
- Servicing Cost Per Loan: A pro rata share of the loan servicing expense for the entire loan period.
- Fixed Expenses per Loan: Fixed expenses include the sum of operating expenses. Fixed expenses for the loan type's portfolio reflects total dollar value of the portfolio as a percentage of the institution's total average assets for the analysis period. Fixed expenses per loan is the quotient of fixed expenses per loan divided by the number of loans.
- Personnel Cost Per Loan: A function of personnel cost per hour (salary, benefits, training) multiplied by the number of personnel hours spent per loan, multiplied by the number of loans.
- Application Fee: Fee charged for the origination of the loan.

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<sup>2</sup>Source: A Guide to Creating a Profitable and Consumer Friendly Product, Illinois Asset Building Group

Calculations for Borrow and Save Worksheet

Income Inputs:

Loan Amount (\$300-\$1000)  
Days in the loan term (90-360)  
Days between Payments (30)  
Loan /annum (1-4)  
Interest Rate (12%-18%)  
CU Cost of Funds  
Application Fee (\$0-\$20)\*  
Late Fees

Expenses Inputs:

Credit Check (for informational purposes only)  
Time to Generate Loan  
Time to Service a Loan  
Hourly Salary  
Other Expenses (interest on savings, financial counseling)  
Delinquency Ratio  
Collections Time  
Loan Loss Ratio  
Interest on Savings

Additional Portfolio Calculations

Inputs:

Average Loan Amount  
Average # of Loans /year (1-3)

## Sample Excel Spreadsheets

<b>Borrow and Save Sample Worksheet 1</b>			
Average Principal Loan Amount (loans plus Savings)	\$500		
Total Number of Loans	\$500		
Losses Per Loan (Actual or Projected)	\$20		
Term (months)	9		
Interest Rate	18%		
Cost of Funds	2%		
Delinquency Incident Rate	5%		
Late Fee	\$10		
Personnel Expenses Per Loan	\$10		
Servicing Expenses Per Loan	\$9		
Fixed Expenses Per Loan	\$10		
Origination Fee	\$15		
YOUR PORTFOLIO			
Principal Balance of Portfolio	\$ 250,000		Avg loan amt. X # of Loans
Portfolio Average Outstanding Balance	\$ 141,645		Total \$ loans/# loan periods/yr
Total Portfolio Losses	\$ 10,000		Loan loss*# of loans
LOAN TERMS	Small Dollar Loan		
Loan Amount	500		
Term (months)	9		
Interest Rate	0.18		
Average Outstanding Loan Amount	\$ 283.29		
LOAN REVENUE		% of avg. loan	
Interest Income	38.24	.18	Avg outstanding X APR
Origination Fee	15	.07	
Late Fee	0.5	.002	
Non-Interest Income	15.5	.07	
Total Revenue	53.74	.25	

LOAN EXPENSES		% of avg. loan	
Cost of Funds	\$ 4.18	0.02	
Net Interest Income	\$ 49.57	0.233	
Loan Loss	\$ 20.00	0.094	
Net Interest Income Net of Charge-Offs	\$ 29.57	0.139	
Personnel Expense	\$ 10.00	0.047	
Interest on Savings	\$ 1.00		
Fixed Expenses	\$ 10.00	0.047	
Servicing & Collection Cost	\$ 1.00	0.005	
Non-Interest Expense	\$ 21.00	0.099	
Total Expense	\$ 46.58	0.213	
CONSUMER COST			
Cost to Consumer over Term	\$ 53.74		
APR to Consumer	\$ 0.25		
Monthly Payment	\$ 59.80		
PROFITABILITY			
Pre-Tax Profit Per Loan	\$ 7.57		
Pre-Tax Total Profit	\$ 3,700.14		

<b>Borrow and Save Sample Worksheet 2</b>			
Average Principal Loan Amount (loans plus Savings)	\$1500		
Total Number of Loans	250		
Losses Per Loan (Actual or Projected)	\$10		
Term (months)	12		
Interest Rate	18%		
Cost of Funds	.8%		
Delinquency Incident Rate	5%		
Late Fee	\$10		
Personnel Expenses Per Loan	\$5		
Servicing Expenses Per Loan	\$1		
Fixed Expenses Per Loan	\$5		
Origination Fee	\$20		
YOUR PORTFOLIO			
Principal Balance of Portfolio	\$ 375,000		Avg loan amt. X # of Loans
Portfolio Average Outstanding Balance	\$ 208,666		Total \$ loans/# loan periods/yr
Total Portfolio Losses	\$ 2500		Loan loss*# of loans
LOAN TERMS	Small Dollar Loan		
Loan Amount	\$1500		
Term (months)	12		
Interest Rate	0.18		
Average Outstanding Loan Amount	\$ 834.67		
LOAN REVENUE		% of avg. loan	
Interest Income	150.24	.18	Avg outstanding X APR
Origination Fee	20	2.4	
Late Fee	0.5	.1	
Non-Interest Income	20.5	2.5	
Total Revenue	170.74	20.5	

LOAN EXPENSES		% of avg. loan	
Cost of Funds	\$ 6.15	0.02	
Net Interest Income	\$ 164.23	0.233	
Loan Loss	\$ 10.00	0.094	
Net Interest Income Net of Charge-Offs	\$ 154.23	0.139	
Personnel Expense	\$ 5.00	0.047	
Interest on Savings	\$		
Fixed Expenses			
Servicing & Collection Cost			
Non-Interest Expense			
Total Expense			
CONSUMER COST			
Cost to Consumer over Term			
APR to Consumer			
Monthly Payment			
PROFITABILITY			
Pre-Tax Profit Per Loan			
Pre-Tax Total Profit			

# Marketing

One of the elements that distinguishes Borrow & Save from other small dollar loan products is the savings component. A key message is that in addition to an affordable loan, Borrow & Save can also create an asset path. The messaging underscores the opportunity to change the course of a member’s finances and signals that the credit union is willing and able to help the borrower get there.

Participating CDCUs have effectively positioned this loan as a savings opportunity and a means to break a cycle of high-cost borrowing. Messaging should clearly delineate the differences in borrowing costs between Borrow & Save and predatory alternatives. (See the graphic below as an example of comparing Borrow and Save to payday loans.) To maximize the marketing effort it is important that staff understand the parameters and the value of the product. An expedited turn-around in loan approval is important and therefore ongoing staff training can be a key to marketing and deploying the product.



When members do not qualify for other loans, immediate outreach offering Borrow and Save as an alternative can be done by loan officers, tellers and member services personnel who are aware of needs and the member’s profile. The credit union may also proactively reach out to members who they have identified as users of payday and other high cost fringe products<sup>3</sup>. Newsletters, mailers, statement stuffers, website announcements, branch signage, and in-branch brochures will help market Borrow and Save more extensively to members.



CDCU Small Dollar Loan \$500 for 90 Days	Payday Lender \$500 for 90 Days
Average 18% APR \$25 Application Fee	Fees and Interest equal to \$15 per \$100 borrowed every 14 days
Total Cost for 90 Days \$40.07	Total cost for 90 days: \$450
Average Amount in Savings Account for Borrow and Save Product \$30	Amount in Savings Account: \$0
Financial Education Provided	No Financial Education
Confidentiality	Personal Information Sold



Broader marketing to the community should emphasize the way this product differs from high cost alternatives. The product will be a good fit with the work of existing and prospective community partner’s including faith-based organizations, asset building networks, state and local government and social service providers. Presentations and tailored materials to community partners will facilitate referrals. Success stories in the newsletters and local press can drive interest.

<sup>3</sup> If a member is overextended on outstanding payday loans, a debt consolidation loan may be an appropriate first step

## Measuring Success

The credit unions in the Borrow and Save pilot measured their success relative to implementation plans and projections, and by answering the questions below about the impact on the credit union, the membership and the community.

1. Has the product been understood by staff and successfully introduced and implemented?
2. Is the product sustainable and has the credit union met its projected income goals? If not, are there ways to change pricing and terms or increase volume to reach our income goals?
3. Are the losses as projected? Do we need to change our collections strategies?
4. Have savings been accumulated?
5. Has the Borrow and Save product brought new members into the credit union? Has it improved member retention? Has it moved existing credit union members along the financial security continuum?
6. Have we helped members avoid high cost alternative products at fringe institutions?
7. Have we helped diminish the need for repeat small dollar credit via the savings component of the product?
8. Have we moved borrowers into other, less expensive and longer-term credit union products?
9. Have we cultivated new community partners?
10. Has our mission been well-served?

*A Member came to the credit union to take out her first loan with the credit union, a Borrow & Save loan, to help pay school expenses. She filed bankruptcy in 2008 and had been steadily rebuilding her credit since the filing. She successfully paid off the Borrow & Save loan in six months and during those six months, her credit score improved from a 553 to a 631. Wanting to continue to build her credit, she decided to take out a second \$500 small dollar loan with the credit union. After having two loans paid in full, she decided to apply for a debt consolidation loan and was approved for a \$6000 loan to assist with paying off high interest credit card debt.*

*-from North Side Federal Credit Union in Chicago, Illinois*

## **Additional Resources**

Borrow and Save: Building Assets with a Better Small Dollar Loan, National Federation of Community Development Credit Unions, July 2013

<http://cdcu.coop/wp-content/uploads/2013/03/Borrow-and-Save-Final-July-30-2013.pdf>

The High Cost of Being Poor: Reducing the Costs of Living for Working Families, Brookings Institute

[www.brookings.edu/research/speeches/2006/10/13childrenfamilies-followes](http://www.brookings.edu/research/speeches/2006/10/13childrenfamilies-followes)

NCUA Rules and Regulations Small Dollar Loans

[www.ncua.gov/Legal/Documents/Regulations/FIR20100916SmAmt.pdf](http://www.ncua.gov/Legal/Documents/Regulations/FIR20100916SmAmt.pdf)

Payday Lending in America: Who Borrows, Where They Borrow, and Why, Pew Charitable Trusts, July 2012

[www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe\\_Small\\_Dollar\\_Loans/LOANS\\_Payday%20Lending%20Report%20Final\\_web.pdf](http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe_Small_Dollar_Loans/LOANS_Payday%20Lending%20Report%20Final_web.pdf)

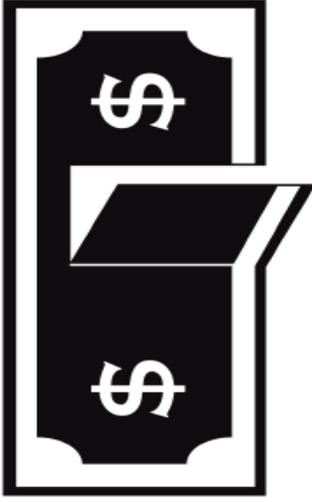
Triple Digit Danger: Bank Payday Lending Persists, Center for Responsible Lending, Borne, Rebecca and Smith, Peter, March 2013

[www.responsiblelending.org/payday-lending/research-analysis/triple-digit-danger.html](http://www.responsiblelending.org/payday-lending/research-analysis/triple-digit-danger.html)

Wider Opportunities for Women Basic Economic Security Data, [www.basiceconomicsecurity.org](http://www.basiceconomicsecurity.org)

## Exhibit 1 - Sample Loan Application North Side FCU

### BORROW & SAVE



**BORROW  
\$500, \$750, OR \$1000**

**& BE ABLE TO SAVE  
\$25 PER MONTH!**

ONCE COMPLETED, GET REIMBURSED  
\$25-\$50\*

AND A CHANCE TO WIN AN  
**IPAD2 !**

\*DEPENDING ON AMOUNT BORROWED

#### *Don't Forget...*

- Provide two (or four) recent, consecutive check stubs with your application
- Bring photo ID when you pick up your loan
- There is a \$30 loan application fee
- If your credit score is below 600 you will have to schedule a one-on-one financial fitness session (for first time loans only)
- If you are a repeat borrower and have not had a financial fitness session in over one year, we recommend you schedule a one-on-one appointment.



## BORROW & SAVE



- Car Repair
- Insurance Payments
- School Expenses
- Security Deposits
- Other Emergencies

North Side Community Federal Credit Union is offering this Borrow and Save Loan incentive to those members who are interested in increasing their saving as they repay their loans.

### LOAN AMOUNT

- \$500 \_\_\_\_\_
- \$750 \_\_\_\_\_
- \$1,000 \_\_\_\_\_

## APPLICATION

(Please Print)

Account # \_\_\_\_\_  
 Date \_\_\_\_\_  
 SSN \_\_\_\_\_  
 Name \_\_\_\_\_  
 Address \_\_\_\_\_  
 City, State Zip \_\_\_\_\_  
 Home Phone \_\_\_\_\_  
 Employer \_\_\_\_\_  
 Position \_\_\_\_\_  
 Address \_\_\_\_\_  
 City, State Zip \_\_\_\_\_  
 Work Phone \_\_\_\_\_  
 Date Hired \_\_\_\_\_

Residence \_\_\_ Own \_\_\_ Rent \_\_\_ Other \_\_\_\_\_

Purpose of the Loan \_\_\_\_\_

In the event my request is approved and issued, I agree to read and comply with the terms of the agreement which will be furnished to me. I further agree North Side Community Federal Credit Union may contact any source necessary to determine my credit/financial responsibility. I hereby acknowledge that the above information is true and complete.

Member's Signature: \_\_\_\_\_

X \_\_\_\_\_

Date: \_\_\_\_\_

## Meet These Minimum Requirements

- Be a Credit Union member.
- Minimum monthly net income of \$1,000 & have \$100/month or \$50/every two weeks direct deposited into your Credit Union Account.
- By agreeing to this loan, you will make an automatic payment which will include an additional \$25 to be deposited into your Primary Share Account.
- Loan must be paid back within six, eight or twelve months depending on your loan.
- No current loans with North Side.
- **To receive this loan you need a credit score of 600 or higher. If your score is lower than 600 you will be required to attend our financial literacy workshop before receiving the loan.**

You must bring:

- 2 recent pay stubs if paid semi-monthly or every 2 weeks.
- OR
- 4 recent pay stubs if paid weekly
- **\$ 30 non-refundable loan application fee.**

### FOR OFFICE USE ONLY

Date Joined \_\_\_\_\_  
 Status \_\_\_\_\_  
 Loan Officer \_\_\_\_\_  
 Date \_\_\_\_\_  
 Term of Loan \_\_\_\_\_  
 Monthly Income \_\_\_\_\_

# Exhibit 2-Sample Borrower Survey North Side FCU

BORROW & SAVE



## Member Survey— LOAN MATCH

1) Have you received a loan from any of the following places in the past year?

(Check all that apply)

- Payday Lender
- Auto Title Lender
- Pawn Shop
- Internet Payday Lender
- Not Applicable

2) If you selected any of the above, how many of these loans do you currently have a balance?

- 1-3
- 4-7
- 8 or more

3) If you selected any of the above, what is the total you currently owe on these loans?

- Less than \$500
- \$501-\$999
- \$1,000-\$4,999
- Over \$5,000

4) If you selected any of the above, what is the interest rate you paid or are paying on the loans?

- Less than 15%
- 15-30%
- 30-50%
- 50-100%
- Over 100%
- Unsure/Don't Know

5) What are you using your savings and match for?

(Check all that apply)

- Auto Repair
- Rent
- Security Deposit
- Utility Bills
- Phone Bills
- Past Due Credit Card
- Past Due Loan
- Personal School Expenses
- Children School Expenses
- Vacation
- Other Expense (please list): \_\_\_\_\_

6) Would you be willing to participate in a focus group about your experience with this new loan and savings product?

- Yes
- No

Name: \_\_\_\_\_

Member #: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_

## Exhibit 3-Sample Impact Banking Loan Policy-Freedom First



# Impact Banking Loan Policy

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### Introduction

Our Impact Banking products and services are geared directly towards our target market. These financial products go hand in hand with our development services, as many require extensive financial education prior to loan approval. By pairing our financial products with financial education, we have developed specialized products directed at our members that can also assist the community at large to learn savings, asset building, and establishing or improving credit.

### Overall Business Plan and Organizational Goals of Community Development Department

FFCU's mission is to help people prosper. Our mission is based on core values that serve as filters for decision making. Our values are to support the cooperative principles of self-help, self-responsibility, democracy, equality, equity, and solidarity; to guide our business practices with integrity and respect; to be a leader in corporate social responsibility; to be accountable; to build fair, lasting and equitable collaborations; and to address challenges with creativity and spirited teamwork. These values helped to shape our goals which are to: remain safe and sound; be a great place to work; improve the financial lives of our members and increase economic vitality, environmental quality, and equal opportunity within our market area; and preserve the not-for-profit credit union cooperative model.

### Scope of Services

Borrow & Save: A product to satisfy consumer demand with an asset-building product that is sustainable. An affordable small dollar loan that directly addresses the gap between earnings and expenses that can help break a cycle of high-cost borrowing and address asset building.

Affordable Housing Program (AHP): Based on the premises that families who pay more than 30 percent of their income for housing costs are considered cost-burdened; may have difficulty affording necessities; and realizing that lack of affordable housing is a significant hardship for low- and moderate-income households. This program allows for up to 30-year mortgages for purchase and refinance.

Responsible Rides (RR): Public transportation in our targeted market is unreliable and inefficient. RR addresses the needs by providing affordable transportation to low-income clients with required financial education and car maintenance training. Auto loans are available to individuals within 300 percent of the poverty level who attend financial education and car maintenance training. Clients first take classes in personal finance and car ownership. Once qualified to handle a car, they are connected with a below-market-rate loan and insurance and given a choice of pre-selected, safe and reliable vehicles to buy.

Credit Builder: Credit Builder uses loan funds to establish a savings plan. Members are not required to have a minimum credit score to access loan funds. This loan product is 100% secured.

PAL (Payday Alternative Loan): Provides an alternative to using payday lenders with no minimum credit score required. Residents can access up to \$500 in Payday Alternative loans up to twelve times per year at 18 percent interest with only \$35 in annual fees (which are placed in program reserves). This loan product provides an alternative to uncapped interest on small dollar loans and auto-title loans. Such limited interest rates and fees leave the member in a more secure financial state--resulting in a greater ability to develop savings, produce capital, and become financially self-sustaining.

Micro Loans: Micro Loans provide small unsecured loans ranging from \$250 to \$3,000 to meet unexpected needs such as medical and auto.

### **Loan Limits & Rates**

If not expressly outlined in Impact Banking Loan Policy or Procedures, then follow general lending limits as outlined in Loan Policy, Loan Rate Schedule, or Loan Procedures.

### **Loan Origination Standards**

Some borrowers do not fit in the traditional underwriting guidelines. For those individuals, FFCU has non-traditional pathways toward loan development. These individuals are typically low-income or credit challenged (no credit or bad credit). For these individuals, FFCU provides our Impact Banking suite of products.

The underwriting process starts with evaluating the borrower's credit history, capacity to pay and willingness to repay. Credit extension is not solely driven by credit scores; if scores are low, FFCU utilizes or overlays additional criteria to become comfortable with loan decisions. Freedom First's safety and soundness is dependent upon the successful repayment of the loans we grant. Subsequently, FFCU focuses on the following areas when underwriting a loan: that the loan will be repaid on schedule, the capacity to pay is present and that we have adequate collateral in the event payments cannot be made. Documentation may include, but is not limited to, an application, income verification, credit report, budget worksheet, appraisal evaluation, and financial statements. Documentation varies based on the product type.

**IN SOME INCIDENCES, OUR PRODUCT LINES REQUIRE A HARDSHIP LETTER FROM THE BORROWER. THROUGH THIS LETTER, WE TRY TO GAUGE INTENT. ADDITIONAL CRITERIA IS OFTEN ASKED FOR TO CREATE INTENTIONAL OBSTACLES. THIS HELPS TO UNDERSTAND IF THE BORROWER(S) IS WILLING TO WORK FOR THE LOAN (i.e. provides documentation, receipt of paid collections, ask them to pay-off collections before loan is granted,.....)**

The following Compensating Factors can be taken into consideration in making loan decisions:

1. Home ownership and/or equity in home
2. One year consecutive employment
3. Available credit limits demonstrating a 30 percent to 60 percent capacity of credit limit
4. 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
5. Ability to accumulate savings
6. Demonstrate any financial education completed in the past
7. Evidence of improved payment history
8. Arrangements to satisfy past due accounts

We are looking for information that would indicate that the applicant has already taken intentional steps toward:

1. Self sufficiency
2. Improving their employment and income situation
3. Improving their financial habits

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

1. Proof of consistent rental payments
2. Bank statements that show three or more months of paying utility bills, cell phone bills, or the like on time
3. Proof of insurance premium payments in history
4. Proof of child care payments in history
5. Any reoccurring monthly obligation that demonstrates pattern of behavior

**In the event changes/additions/deletions are made to this policy, the Board authorizes identical changes be made to related policies to ensure consistency.**