

Model 5: Better Choice A Credit Union Payday Alternative

Hershey Federal Credit Union

232 Hershey Rd.
Hummelstown, PA 17036
www.hersheyfcu.org

Assets: \$44.9 million

Members: 6,462

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The Credit Union Better Choice program was developed by the Pennsylvania Credit Union Association (PCUA) with the support of the Pennsylvania Treasury Department and the Pennsylvania Department of Banking. The Association provides marketing support and a fund to help offset loan losses. For more information, visit the Association's Web site at: www.pacreditunions.com/betterchoice.html. Participation in the program requires credit unions to agree to comply with basic loan features and to report to PCUA with volume and loss information semi-annually.

Hershey Federal Credit Union's (Hershey FCU's) Better Choice loan program was started in May 2007.

Hershey FCU's Better Choice Loan Features:

- Closed-end
- Minimum loan amount - \$100; Maximum loan amount - \$500
- 90-day maximum term, with weekly, bi-weekly, or monthly payments
- \$25 application fee – may be added to loan principal
- Loan must be paid in full prior to additional advances
- 10% of loan amount must be deposited into savings; interest paid on savings requirement will be rebated back to members' savings account upon timely loan payoff

Underwriting Criteria:

- Must be at least 18 years of age
- Be a member in good standing
- A credit union member for at least 90 days
- Employed by same employer for at least six months, or receiving verifiable fixed income for at least six months
- Provide proof of income with each advance
- Not in the process of filing for bankruptcy
- No minimum credit score is required

Procedures:

See Better Choice Processing Procedures (Exhibit 1)

Results for January through October 2008:

- Average number of outstanding loans per month: not tracked
- Total number of advances for period: 37
- Average \$ outstanding balances per month: \$3,618
- Total \$ loans advanced during period: \$20,150
- Average number of times members use Better Choice loan: 1.5
- Average Better Choice loan amount: \$545
- Total application fees collected (through 10 months): \$825
- Interest income earned on this portfolio of loans over same period: \$527
- Over same period, Better Choice losses were a total of \$800, with \$400 reimbursed from the loss fund and with an additional \$246 pending reimbursement.
- Better Choice delinquency as of October 2008:
 - 30 days 0
 - 60 days 0
 - 90 days 0

Collection Activity Procedures:

- Phone contacts are made when loan is two days past due
- Notice is sent after 15 days
- Loans are turned over to a collection agency after 30 days

Sample Forms Included:

- Processing Procedures (Exhibit 1)
- Hershey FCU's Better Choice Loan Policy (Exhibit 2)
- Hershey FCU's Better Choice Loan Guidelines (Exhibit 3)
- Hershey FCU's Cash Advance Application (Exhibit 4)

Additional Better Choice Samples:

- Better Choice Sample Brochure
<http://www.pacreditunions.com/CUBCBrochure.pdf>
- Better Choice Sample Stuffer
<http://www.pacreditunions.com/CUBCStuffer.pdf>

Exhibit 1: Better Choice Processing Procedures

1. Have member complete application and submit supporting documentation
 - a. Collect application fee
 - b. Current pay stub
 - c. Paystub or proof - 6 mos. on job
2. Post application fee and attached receipt to checklist.
3. Print Member inquiry from core system.
4. Verify date of membership (must exceed 90 days)
5. Determine payroll frequency – payment frequency must match
6. Pull credit report – verify no other better choice cash advances elsewhere or open bankruptcy
7. Calculate % of payment to net payroll (can't exceed 30%)
8. Send to Loan Officer
9. If Loan Officer approved:
 - a. Complete Loan and Security Agreement & Disclosure Statement
 - b. Cash Advance Program Penalties
 - c. Payroll Deduction form (if needed)
 - d. ACH authorization form (if needed)
 - e. Disburse funds to Members account
 - f. Increase minimum balance on share account by 10% of advance amount
10. Review for proper signatures and send member on their way with copies and receipts

When Advance has been repaid:

1. Reduce minimum balance required on Share account
2. Refund interest on 10% Savings Requirement

Exhibit 2: Hershey FCU's Better Choice Loan Policy

Better Choice Cash Advance Program

The Better Choice Cash Advance Program is a co-operative-based program developed by the Pennsylvania Credit Union Association to assist credit unions to serve their mission as pro-consumer financial co-operatives. The program positions credit unions as an alternative to the growing problem of payday lending activity in Pennsylvania. This program is supported by the Pennsylvania Treasury Department and the Pennsylvania Department of Banking.

- 1). The credit union agrees to provide short term cash advances in compliance with The Better Choice Cash Advance Program Agreement with the Pennsylvania Credit Union Association.
- 2). The credit union may limit the amount of advances made available under this program based on risk tolerance.

Who Can Approve	See our Lending Authority Matrix If level 2 or 3 loan officer disagree with level 1 loan officer and want to reject the loan, they must first talk to the member.
Term & Rates	Maximum term of 3 months at 18%

Exhibit 3: Better Choice Loan Guidelines

The Better Choice Cash Advance Program

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The credit union agrees to provide the following:

1. Short Term Cash Advance Loan

- a) Offer a short-term cash advance loan with a maximum 90-day term.
- b) Do not utilize a credit check for approval. Obtain pay stub instead.
- c) Minimum loan amount is \$300. Maximum loan amount is \$500
- d) Monthly payment cannot exceed 30% of monthly net pay.
- e) Maximum APR – 18%
- f) Application fee - \$25 non-refundable
- g) Loan must be paid in full prior to other loans being disbursed.
- h) Payment by payroll deduction, auto draft or ACH origination only.
- i) Applicants must be employed for at least six months with the same employer.

2. Mandatory Savings

Deposit 10% of the initial loan amount in a savings account in the member's name. This amount is added to the loan balance, in addition to the requested loan amount and any application fee being financed.

- a) Interest paid on the 10% portion placed in savings will be made available to the borrower only when the loan is completely paid back as agreed.
- b) Prohibit savings withdrawals of the initial \$25 deposit **AND** the 10% placed in the account until the loan is paid in full.

3. Financial Counseling

a) After two Better Choice loans within a one year, financial counseling is required and approval for additional Better Choice loans will be decided by the Counselor and Loan Manager.

4. Reporting Requirements to PCUA

- a) Inform PCUA of the services being offered in conjunction with this program at the onset:
 - i. Loan terms
 - ii. Interest rate
 - iii. Application fee
 - iv. Financial Counseling provider

b) Provide PCUA with the type, pricing, number of transactions, number of participating members, dollar volume and losses for the service as of June 30 and December 31 each year.

5. Collection process

a) Send one reminder letter upon initial delinquency occurrence.

b) If the reminder letter elicits no response, loan is immediately sent to our collection agency. Prior to submitting to agency, initial deposit of \$25 and the 10% of the loan proceeds that had been deposited to savings will be withdrawn and applied to the delinquent loan balance.

Exhibit 4: Cash Advance Application



904 E. Chocolate Ave
Hershey, PA 17033
Phone (717) 533-9174
Fax (717) 533-5241
www.hersheyfcu.org

BETTER CHOICE - CASH ADVANCE PROGRAM LOAN INFORMATION

Amount requested \$ _____ (maximum amount is \$500.00)

Term _____ (must be paid back within 90 days)

Purpose _____

Applicant Information

Name _____

Address _____

City _____ State _____ Zip _____

Years and Months at Address _____

Date of Birth _____ Social Security No. _____

Employer _____

Employer Phone _____ Home Phone _____

Position _____

Years & Months on Job _____ Gross Monthly Wage _____
(must provide pay stub for proof of income)

Other Monthly Income _____ (provide proof)

Driver's License _____ State _____

Have you ever filed bankruptcy? No ____ Yes ____ Year _____

Do you intend to file Bankruptcy within the next 90 days? _____

Do you currently have a Better Choice Cash Advance or payday loan with another financial institution? No ____ Yes ____ If yes, explanation.

Have you now or have you ever had any Judgments, Garnishments, Legal Proceedings against you? No ____ Yes ____ Explanation:

Disclosures

The fee for this loan is \$25.00. This fee must be paid up front before the loan is granted, and the fee is charged regardless of whether or not the loan is approved.

10% of the loan amount will be added to the loan and will be placed on hold in a savings account until the loan is paid in full.

The interest rate of this loan will be 18%.

The applicant must be a member of the CU for a minimum of 90 days.

The applicant must be employed at least six months by the same employer.

You as the applicant may only have one Cash Advance Loan or CAP at a time. If we see that you have any other payday loans out there, you will not be eligible to receive any more CAP's from the Hershey FCU.

Your payroll must be direct deposited at a financial institution and the payments for this CAP must be drafted from that account.

SIGNATURE

I authorize you to investigate my credit record, to check statements I've made, to report your credit experience with me and keep the application.

ALL INFORMATION SET FORTH IN THIS APPLICATION IS DECLARED TO BE A TRUE REPRESENTATION OF THE FACTS FOR THE PURPOSE OF OBTAINING THE CREDIT REQUESTED AND ANY WILLFUL MISREPRESENTATION ON THIS APPLICATION COULD RESULT IN CRIMINAL ACTION.

Applicant's Signature

Date

THIS SECTION FOR CU USE ONLY

On _____, 200__ (I)(We) approved a loan in the amount of \$ _____ and on the condition requested by the above applicant, except as follows (list any changes in amount, terms, or conditions):

Comments: _____

APPROVED BY LOAN OFFICERS: _____

If application is rejected – reason for rejection _____

Signature _____ Date _____