

1. Introduction

Estimates of payday loan volume vary between \$28 billion and \$40 billion per year with consumers paying between \$4 billion and \$8 billion in fees each year for a loan that generally lasts two weeks. Despite its expensive costs, the industry has experienced exponential growth since 1990.

Are credit union members using payday lenders? Research says they are and in larger numbers than anticipated. It's estimated that 10% to 20% of credit union members choose to use a payday lender for their short-term cash needs. Whereas many of these members may qualify for the credit union's better-rate personal loan, many credit unions either won't make loans for less than \$500, or if available, don't advertise such loans. And many credit union members/consumers admit they don't trust themselves with a \$500 or \$1,000 line-of-credit. The temptation to use it for wants – not needs – can be overwhelming and costly. The result can be another loan payment when living paycheck to paycheck is already tenuous.

Credit unions can be part of the solution to high cost payday lending by offering the right product at a price that is a good value for the member, but still sustainable for the credit union. Alternative payday lending products enable credit unions to reach out to those who are struggling financially and help them break the cycle of debt that grips them.

This payday loan implementation guide is intended to help credit unions develop solutions that are appropriate for the credit union and its members. It is not a turn-key answer, but some turn-key products are featured as examples. Other successful one-of-a-kind models are also featured along with loan results, collection techniques, sample procedures and marketing materials. Credit unions can use the implementation guide to help create a payday loan alternative that is both a good deal for the member/consumer and also sustainable from a business perspective.

If your credit union is just beginning to consider a payday loan alternative, you may want to start with the first section: Implementation Considerations. If you already have given some thought to an alternative product but are struggling with pricing or policy issues or want to know how to market your new product, you can go directly to those sections.

This implementation guide complements a white paper entitled, [Payday Lending: The Credit Union Way](#) that can be accessed at the REAL Solutions® Impact Center at www.realsolutions.coop. The implementation guide will not necessarily repeat or copy information that is included in the white paper. We suggest that credit unions use both resources as they design their payday lending alternative product.

The final sections of the implementation guide cover training staff, educating members, and measuring the success of your payday-alternative loan product. The intended readers for this guide are credit union managers and board members who wish to implement a payday loan product. Therefore, acronyms and jargon may be used that assume familiarity with credit union operations. A separate page listing acronyms used and their meanings has been included as part of the appendices.

The credit union models included in this implementation guide were selected to provide a broad array of pricing structures, loan features, underwriting criteria and time-tested results. Readers may find some of the pricing formats more objectionable than others. However, this guide avoids making judgment as to what rates or fees are appropriate, given the fact that pricing can and should vary considerably depending on how much risk the credit union is willing to undertake.