

# Youth Loan Manual

## Guidelines for Success

From the Financial Education Council of the  
Michigan Credit Union League

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## **PURPOSE & ACKNOWLEDGEMENTS**

The intent of this manual is to provide inspiration, examples and procedural assistance to credit unions in creating or improving a youth lending program. It has been written and updated by staff members of Michigan credit unions who generously volunteered their time to research and share information and best practices concerning youth lending.

### **The Financial Education Council**

This manual is a project of the Michigan Credit Union League's Financial Education Council. The Financial Education Council is comprised of enthusiastic and experienced credit union financial educators working to help credit unions expand their commitment to financial education by assisting credit unions with adult and youth educational resources, classroom presentations, student branching and credit union youth clubs/programs. The Financial Education Council believes that it is important for credit unions to implement a youth lending program to give young members a solid background in the wise use of credit. Learning how to obtain credit and the importance of making regular, on-time payments early in life, will likely help young members avoid serious credit problems in the future and become valuable lifelong credit union members.

### **Credit Union Commitment to Youth**

"Credit unions began in the early 1900s to serve and empower members and at that time pioneer Alphonse Desjardins helped create youth savings clubs and in-school 'banks.' As we find credit unions ideally positioned to help consumers weather today's turbulent economy, we have even more reason to extend service and reassurance to youth. They are searching for answers and tools for their financial futures, and our cooperative roots provide the trustworthy foundation from which they can learn, grow and thrive."

Brandon Pugh, Chairman  
National Youth Involvement Board  
[www.nyib.org](http://www.nyib.org)

"Helping today's youth become financially savvy individuals and loyal credit union members."

## PREFACE

The concept of cooperatives was first introduced in Rochdale, England in 1840, and led to the foundation of the first cooperative credit society in Germany in 1850. In 1901, Alphonse Desjardins organized the first cooperative financial institution in Canada. The U.S. credit union movement has always drawn inspiration from its Canadian partners, and the story below is just one example of why.

**S**everal years ago in Canada, an 11-year old newspaper boy was making his early morning deliveries with his dog. Canadian mornings are known to be darkly frigid, bringing arctic winds that limit visibility. That morning, a car struck the boy's dog and the boy was heartbroken. He took his dog to the veterinarian for treatment. The bill came to \$24, not a small sum for a newspaper boy.

The boy asked his credit union for a loan to pay the veterinarian. South Windsor Catholic Parish Credit Union granted the loan because the boy's employment was solid. He paid it back at the rate of one dollar a week while his dog recovered.

Fifteen years later, married with a family, the grown man never forgot the credit union's practical kindness to an 11-year old boy and arranged a mortgage for his home through his credit union. Childhood memories are defining moments, vivid impressions lingering on, helping to form a person.

The lesson of the newspaper boy holds more than the rewards of loyalty to a financial institution. Its importance lies in the "belief" that young credit union members typically become adult members. The numbers back this up: Canadian credit unions have one of the highest population penetration rates in the international movement. Almost one in two Canadians belong to a credit union. In Quebec province, almost 65 percent are members of a *caisse populaire*, or credit union.

A large part of the reason for the Canadian movement's success is that children are taught the credit union values of cooperation, regular savings and the wise use of credit. A growing number of American credit unions are also benefiting from the lessons of their northern neighbors. U.S. credit unions offering youth programs are finding that these programs provide benefits to both the community and the bottom line.

## **CHAPTER ONE: ADVANTAGES AND CONTROVERSIES**

### **Youth Lending is a Controversial Subject**

There's no denying that a loan issued to a member under the age of majority is not a legally binding contract. However, that fact alone should not discourage a credit union from implementing a youth lending program. A carefully planned program can be a very positive and financially rewarding experience for the credit union and its members.

For those who are uncomfortable with the legal and compliance issues related to lending money to a minor, the next chapter details the risks and rewards, compliance, collection and delinquency issues.

For clarification, this manual is designed to assist credit unions that wish to establish a youth loan – not a student loan – program. The loans described are issued to minors, not to their parents. Some credit unions do require a parent or guardian to cosign such loans. Others ask only for the parents' consent before the loan is issued. To assist you in determining which policy is best for your credit union, both types are addressed in this manual.

**Challenging issues are not ignored in this manual.** They are addressed in a straight-forward manner so that your credit union can make the final decision as to the best way to serve your members' needs.

When the topic of youth lending comes up in a conversation with credit union people, it's not unusual to hear a wide range of comments and opinions. Some credit union professionals and volunteers are strongly opposed to the idea of lending money to teens. Others feel that lending money to young adults is a unique way to increase membership and the credit union's future loan portfolio. Still others may not be familiar enough with the concept to render an opinion.

Your credit union will realize the benefit of long-term member commitment and future loan potential. Chapter 7 of this manual is devoted to spotlighting the success of Michigan credit unions with youth loan programs.

### **An Overview of Youth Lending**

Credit unions commonly offer youth loans for proms, camp, cars, clothing, computers, higher education or "any worthwhile purpose." Some credit unions also grant youth loans for employment-related purposes, such as snow blower for a teenage entrepreneur.

Youth loans are generally short-term and issued for as little as \$100 or as much as \$5,000. Cosigners may or may not be required based on the dollar amount. The goal of a youth loan program is not to increase the credit union's loan portfolio, but to

educate the young member to become a wise consumer who understands the benefit of establishing good credit.

Nonetheless, a carefully implemented program can generate loan volume, increase savings deposits, develop long term loyalty and enhance your credit union's image as a family financial institution. Credit unions with youth loan programs report low delinquency rates, so it is possible to gain the benefits of this service with **very limited risk**.

### **The Marketing and Educational Perspective**

This manual is written under the assumption that credit unions consider youth loans from a marketing and education perspective and *not as a source of income* for the credit union. Why? The most obvious reason is that in most states, loans to minors are considered uncollectible. However, this fact does not mean that young people are poor credit risks. Experience indicates that teens are a *better* credit risk than the majority of adult borrowers.

Ideally, youth loans should be part of the credit union's marketing plan and budget and/or classified as member education. Issuing a loan to a 14-year old is not initially a profit making venture. By educating younger members about the benefits of establishing good credit and by giving them the opportunity to prove they are capable, youth loans can establish a strong foundation for your credit union's future. Youth borrowers will most likely return to their credit union for their first car loan, credit card, mortgage and more.

Make no mistake; there are many creditors out there waiting to grab your members once they attain legal age. Today's youth live for instant gratification and credit is the avenue they will use to get it. Credit unions have the responsibility to educate them to become wise consumers. What better opportunity than when a member is first learning the importance of good credit?

### **The Benefits of Education**

The need for credit education has never been greater. When this manual went to press, the U.S. Bankruptcy Court reported that in 2007 there were 850,912 cases of bankruptcy in the United States. In Michigan, there were 46,190.

Bankruptcy means lost dollars for credit unions. Educating members about the negative side effects of bankruptcy may help reduce the number of bankruptcy filings. Unfortunately, bankruptcy has been made to appear as the easy way out of a difficult situation. Until members fully understand all sides of the issue they are more apt to file without concern for the long-term effects.

It's becoming increasingly common for young people to incur heavy debt loads and credit problems very quickly. Lending personnel report seeing young couples, earning

\$45,000 a year, bombarded by credit card promotions that appear to be the answers to their cash flow problems. These “answers” can become \$30,000 or more in credit card debt.

What can your credit union do to help young people? Start small by including brief education articles in your credit union’s newsletter. In the articles, explain that bankruptcy stays on your credit report for up to ten years; it’s difficult to get some type of job after you’ve filed, and it can raise auto insurance rates. Also explain that poor credit or bankruptcy can make it hard to rent an apartment or to get a mortgage. When writing newsletter articles, focus on the following:

- Keep the article short.
- Use a conversational tone – don’t preach.
- Provide real-life examples.
- Relate it to the individual member. “How does this affect me?”
- Emphasize helping the member, not the credit union.
- Don’t talk about the general economy or larger issues.
- State the consequences of filing.
- Specify alternatives to filing.
- Explain the member may be denied services as a result of causing a loss to the credit union.
- Be consistent. Include an article in every newsletter.

Credit unions that combine credit education with lending gain new loans that are successfully repaid. They increase their marketing opportunities for membership growth and help create loyal and educated members. Youth lending can be a win/win situation for both the credit union and its members.

Members benefit from credit education because they are better able to budget and plan for their future. They understand credit reports and creditworthiness. Members learn to understand the real cost of credit and when its use is appropriate. This helps them handle financial problems wisely if and when they occur. It’s proven that members who can live within a budget have a greater ability to survive difficult times. Education plays a *critical* role in the youth lending process.

## CHAPTER TWO: COMPLIANCE AND LEGAL ISSUES

### Risks and Rewards

Understanding the philosophy behind youth loans is only part of the picture. How a credit union chooses to balance the legal and marketing issues will have a significant impact on the program and its results. The legal aspects should not create any obstacles great enough to hinder a program.

If a credit union chooses to use every rule in the book, it could develop a policy to minimize the amount of loans it would potentially have to write off. It could mean that every youth loan has a cosigner. In this case, the credit union risk is minimal, but the teenage member may reject the idea if mom or dad has to be in on the big picture too. The risk in a policy emphasizing legal details would be minimal, but so would the reward.

On the other hand, if a credit union decided to use youth loans to encourage loyalty, it may write a policy that is more liberal. Its policy might not require a cosigner or have a higher loan limit. A student who receives a \$300 loan for a flute may have a wonderful dream come true and will always remember who helped make that dream a reality. That young adult may one day take out loans for college, a new car, home mortgage and so on. Then again, that student might not pay off the loan for the flute, or might move out of state after college and close their account.

Risk is always present; how much a credit union will accept must be decided in the beginning. Following are some comments on general legal concerns you may have. If you have questions that are not covered or areas that need clarification, contact your league or your credit union's attorney.

### The Regulators

How do regulators view youth loans? This is a simple enough question and one of the first many credit unions ask. The difference in viewpoints on this topic is extreme. Youth loans are a matter of marketing money versus investment money. Just as different credit unions will have various opinions on their strategy, so regulators may have different views on the youth loan program.

To be sure, any review of the safety and soundness of a youth loan program by Michigan's Office of Financial and Insurance Regulation (OFIR) would be tied to the level of risk the credit union is taking on AND its ability manage, monitor and control that risk. OFIR wants to see that the credit union has a plan and has accounted for the risk in making these loans. They also want to see that there is a cap on the amount of the loans. For example, a credit union could have a plan that allocates \$100,000 for youth loans which is five percent of its capital. Although there are **no special requirements** regarding reserves on youth loans, it is wise to set up an allowance account for the loans since they are not legally collectible.

As for the National Credit Union Administration (NCUA), Section 1 of Article XV of the Federal Credit Union Bylaws (revised May 2008) states *“Minors permitted to own shares. Shares may be issued in the name of a minor. State law governs the rights of minors to transact business with this credit union”*. **There is nothing in NCUA’s regulations to prevent credit unions from making loans to minors.** State law is not a problem in most cases.

During an examination, the examiner will ask to see the credit union’s policies and procedures first to determine if the credit union is using safe practices. If there are extreme losses and high risk, the credit union would be written up. However, credit unions that use youth loans to *educate* its young members and have sound policies should not have a problem. At the time this manual went to press, **not one Michigan credit union actively issuing youth loans was challenged by the regulators for their program.**

The credit union should have sound policies in place along with approval from its Board of Directors. A sound policy includes having a set dollar amount to be offered for these types of risk based loans, a tracking and review system in place, and reserves set aside for these loans for anticipated losses.

First and foremost, both OFIR and the NCUA are concerned about safety and soundness. A credit union should not have any problems with a youth loan program because of the concept itself. As long as sound policies are in place and risk is accounted for with these loans, credit unions can successfully use youth loans to reach their younger members. For clarification, youth loans are not “illegal loans,” they are simply not enforceable.

### **Youth Loans...Totally Uncollectible?**

Minors cannot legally obligate themselves except for “necessities.” It is unlikely that any loan made by a credit union to a minor would be deemed for “necessities” in a court of law. What this means is that minors **CANNOT** be forced to pay loan and time purchase obligations. Minors cannot be sued and collateral cannot be repossessed in order to force payment of a debt. You cannot transfer funds on deposit in a share account to a minor’s delinquent loan. In fact, all you can do is attempt to persuade the minor to honor the obligation they have with the credit union.

How successful you will be in this effort is probably going to be based on how good the loan was at the time it was granted. Your best collection efforts should be at the time of application. The only chance you will have to collect on a bad loan from a minor is if they fail to renounce the debt within a reasonable time (generally one year) after reaching the age of majority. Failure to renounce the debt typically means the minor becomes legally bound to honor it.

## Reducing Collection Efforts Through Education

How much an effort your Collection Department puts into the collection of youth loans may be an issue decided by your Board of Directors. They may feel that your youth loan program is a marketing effort and uncollectible loans, if any, are simply a marketing cost. In that case, the loan officer or credit committee will need to do their best to be sure the young borrower is credit worthy.

The borrower must understand the seriousness of the obligation. They need to realize that their first experience with credit is a foundation for their future finances. They need to fully understand the value of credit in their life and the difficulties they will face going through life with a poor credit rating.

It is suggested that the credit union research the character of the young borrower. Talk to adults who know them. Teachers, counselors, religious leaders and employers can all give insight into the maturity and honesty of the borrower. Of course, the parents or guardians should be involved as well. You may not want to grant loans to minors without the permission of the adults who supervise them.

If the parents or guardians are willing, you may want to ask them to sign on the loan with the minor. If the minor knows the adults are obligated to repay the loan, it may inspire better payment performance by the young borrower.

## Collateral: Necessary or Worthless?

All other types of collateral are, in effect, worthless, since the credit union cannot take possession of the collateral to force the minor to repay the loan. It is not recommended that a youth loan be secured by anything other than an adult cosigner.

In the unlikely event of default by a young borrower, actual collection activities are somewhat limited. Credit unions may contact the borrower to request payment. Phone calls and letters are acceptable. Leaving messages with the borrower's parent or guardian is permitted as long as the credit union does not disclose why they need to talk with the borrower, unless the parent or guardian is a cosigner on the loan. You may also leave messages with the borrower's place of employment until either the employer or the borrower asks you to stop. It is not recommended that you leave messages at the borrower's school.

If the borrower fails to respond to collection efforts, the credit union may not have any other recourse, because you may **NOT**:

- File suit against a minor.
- Repossess collateral.
- Transfer funds on deposit in the credit union to pay on the delinquent loan.
- Call or write to the borrower if he or she tells you they will not be able to repay to the loan and asks that you cease all collection activity.

The good news concerning collection activity on youth loans is that it **is very rarely necessary**. Credit unions which have such programs have had an overwhelming success in getting loans repaid. Most young borrowers realize the importance of these loans to their future and are very diligent in making payments as agreed. Delinquency is nearly non-existent because of the strong education emphasis.

### **A Word About Credit Reporting**

Youth loans should **not** be included in your reports to any credit rating service. Some credit unions, however, do report loans in an effort to help young borrowers establish a good credit history. **Under no circumstances should a delinquent youth loan be reported**. The decision to report a youth loan to the credit bureau should be determined by your credit union's Board of Directors and/or Senior Management Staff.

### **Collection Summary**

As is the case in all lending programs, a sound policy needs to be established *before* your program is put into effect, and the policy should be reviewed by the credit union's attorney. The guidelines discussed in this chapter should be considered as suggestions only and are not legal advice. A youth lending program will be a benefit to your credit union and will assure you a strong base for future borrowers. Members will most likely thank your credit union for its trust.

### **Compliance and Collection Questions and Answers**

**Q: Can a minor grant a lien on a car or other property that the minor owns?**

**A:** No. Like any other contract, one granting a security interest is not binding for a minor.

**Q: If a minor requests a loan and agrees to pledge shares equal to the amount borrowed, wouldn't that loan be without risk?**

**A:** No. Not only can the minor disaffirm his/her loan obligation, he/she can also disaffirm the pledging of the security.

**Q: Can youth loans be reported to a credit bureau?**

**A:** It is not recommended during minority. If the loan is current (and always has been) reporting on the 18th birthday should be okay. If delinquent, hold off until the minor has reached the age of majority, and then report only if the loan has not been renounced (rejected) by the person involved. A delinquent youth loan should never be reported to the credit bureau.

**Q: Since a credit union cannot take legal action if a youth defaults on a loan, what can a credit union do to try to collect?**

**A:** A credit union can only give gentle reminders. If the loan is not renounced by the 18th birthday, then you may try the usual collection methods.

**Q: What must an individual do to renounce a youth loan?**

**A:** Any communication, verbal or written, from the person to the credit union before age 18 or a reasonable time thereafter (generally one year) will renounce the loan. A person cannot renounce a loan if the person has previously confirmed the loan in writing at any time after his/her 18<sup>th</sup> birthday.

**Q: What happens to the credit union if an individual renounces a loan before turning 18 years of age?**

**A:** The credit union loses its rights to collect and must write off the loan. Also, the credit union cannot report the loan to anyone.

**Q: Is a minor's loan agreement binding upon him or her if his or her parents or guardians co-sign the note?**

**A:** No. A distinction must be made between the minor and the co-signer(s). The minor still has the right to disaffirm the transaction but any adult co-signers remain liable.

**Q: Where else can I go for more information?**

**A:** Contact your League's Compliance Helpline for support and assistance

The following "You Asked Us" information about youth lending is from the 3<sup>rd</sup> Quarter 2007 Contact Magazine, a publication of the Michigan Credit Union League.

*You Asked Us" is a regular feature of Contact Magazine, featuring questions frequently directed to MCUL Regulatory Affairs by member credit unions. Questions are chosen for publication on the basis of timeliness and those most frequently asked, with answers provided by MCUL staff. If you have a specific question you'd like to see addressed in a future "You Asked Us," send it along with your name and the name of your credit union to MCUL Regulatory Issues, "You Asked Us," P.O. Box 8054, Plymouth, MI 48170-8054. Questions can also be e-mailed to [monitor@mcul.org](mailto:monitor@mcul.org) or faxed to (734) 420-1540. Names and credit unions will remain confidential; this information is needed in case the question requires further clarification.*

***Q: I understand that minors do not have the legal capacity to enter into binding contracts. If this is correct, isn't our credit union at risk if we agree to open even a simple share account for a minor?***

**A:** In opening share accounts in the name of a minor, the credit union has to balance any risk it may be assuming with the potential benefits of attracting young people to the field of membership. The risk of loss is often minimal with small sums of money involved and credit unions have the opportunity to build lifelong financial relationships. Although contract law states that a contract by a minor is voidable at the election of the minor, both the Federal Credit Union Act and Michigan Credit Union Act provide an exception to this general rule insofar as share/savings accounts are concerned. On the other hand, there is no exception in either of the credit union acts for draft/checking accounts and thus these accounts are voidable at the election of the minor.

***Q: We have a number of high school students who are interested in obtaining loans. Isn't making a loan to a minor illegal?***

**A:** No, it is not unlawful to make a loan to a minor. However, the law gives the minor the right to disaffirm the loan obligation subject to certain exceptions. If the minor elects to disaffirm his/her loan obligation, then the minor only needs to return what consideration (i.e., money or property) still remains in his or her possession. Of course, your credit union can accept any payments the

minor makes, but you should realize that the minor may disaffirm the loan obligation any time before or within a reasonable time after his/her 18th birthday.

***Q: Are there any exceptions to a minor's right to disaffirm a contract?***

**A:** Yes. A minor is liable for a debt incurred in the purchase of "necessities." Presumably, although untested in a Michigan court, a minor could also be liable for a loan made for the purpose of purchasing "necessities." In such cases, the minor would not have the right to disaffirm his/her contract or borrowing obligations — but remember, the right of the credit union to enforce collections will depend upon the decision of a court on whether the purchase was in fact a "necessity." Finally, if the minor does not disaffirm his/her liability within a reasonable time after turning 18, he is fully liable on the note as if it had been made by him/her after reaching 18 years of age.

***Q: If a minor requests a loan and agrees to pledge shares equal to the amount borrowed, wouldn't that loan be without risk?***

**A:** No. Not only can the minor disaffirm his/her loan obligation, he/she can also disaffirm the pledging of the security.

***Q: Is a minor's loan agreement binding upon him if his parents or guardians co-sign the note with him?***

**A:** No. A distinction must be made between the minor and the co-signer. The minor still has the right to disaffirm the transaction, but the adult co-signer remains liable.

***Q: What would be the safest procedure to follow when a minor applies for a loan?***

**A:** The safest procedure would be for the credit union to approve a loan application for a minor only when the minor can produce an acceptable adult co-maker. Be sure to remember that since the minor can disaffirm the loan agreement, the credit union is actually lending the money on the credit strength of the adult co-maker.

***Q: If minors can disaffirm the loan agreement, why would we want to consider making a loan to a minor without a co-signer?***

**A:** In connection with a credit union's financial literacy program involving children, loans to minors can generate goodwill and build a solid financial relationship, while enjoying minimal delinquency. Although creditors cannot report negative information on loans to minors, positive information is permitted and may help the minor establish a good credit history. The safest decision is not always the best procedure. It's often best to strike a balance between the risk involved and the potential goodwill generated.

## **CHAPTER 3: INITIATING A YOUTH LOAN PROGRAM**

### **Gaining Support for the Program**

Before you consider implementing a youth lending program in your credit union, you need to gain internal support for the idea. Although you may personally feel that youth lending is a positive and worthwhile service to offer members, not everyone at your credit union may agree.

It is necessary to gain support from management and staff, the Board of Directors and, in some cases, the regulators. Don't make the mistake of assuming that just because you are excited about starting a youth lending program, everyone in your credit union will be as well. It may take many months to develop the commitment and motivation to ensure the program's success.

### **Designing a Plan to Gain Support**

Before "selling" a youth lending program to management and the Board of Directors, do your homework. Request reports and review them to find out how many members at your credit union would qualify for the program and how much money they have on deposit. The information included in this manual will support your presentation. Even if you are asked to speak only briefly, be prepared with facts and be ready to address the controversial issues.

While gaining support for your new program be sure to **DO YOUR HOMEWORK!!** In addition to giving your credit union's current youth stats, be prepared with general stats, such as, the aging membership of credit unions, the purchasing power of youth/young adults, etc. For free information, statistics and youth materials, see the resource list in Chapter Six or contact your League. The following should be of assistance when gaining support for your program:

**Senior Management/Board of Directors** – It is essential to gain support from this group before implementing a youth loan program. Be prepared to discuss the impact on the "bottom line" including delinquency and charge-off statistics. Show how the program will benefit the credit union's goals and objectives both now and in the future. It may take many months to gain support. If you have not already done so, start a youth savings club to increase deposits, volunteer to speak in schools and encourage youth involvement.

**Loan and Collection Staff** – This group may be your hardest "sell." Many will see a youth loan program as the ideal way to reach the teen market. Others, however, will see it as more work to add to their already hectic schedules. Hold a brainstorming session and ask for suggestions on reaching the youth market. Hopefully, the idea will present itself. Show how a youth loan program educates members about the benefit of credit. This will create quality borrowers and habituate them to use their credit union as their primary lender.

**Other Credit Union Employees** – Ask employees for input and suggestions prior to introducing the program. Give them a chance to buy into and support the idea before it's announced.

**Parent's of your youth/young adult members** – You may have a member that objects to a youth lending program. The way to overcome any objections is to explain that the program benefits the teen, his or her family and the community as a whole. Explain how important it is for young members to develop strong financial skills so they may become responsible adults. Finally, explain that the youth lending program adheres to credit union philosophy and is intended to be an educational program, not a revenue source.

**Youth/Young Adult Members** – Since this is the group you are actually targeting, you will need their buy in. Granted much of their buy in will come from their parent's, however, if the program is not attractive to the youth themselves they are not going to want it. Look into putting together a youth focus group that you will be able to use from the beginning stages through the operation stages.

### **Internal Training**

After you gain support and approval for a program, establish a budget and a marketing plan, the next step is to train the credit union staff. This should be done prior to implementation. Training can be done in a variety of ways. How you train is not as important as making sure it gets done.

The points below will assist you with the process:

1. Make it fun! Use creative ways to educate employees. Offer prizes and play games that encourage creative thinking.
2. Provide an emotionally comfortable environment for employees. Allow them the freedom to share ideas, comments and concerns without fear of reprimand. Silly ideas often develop into productive ones. Share everything, within reason. Employees need to be familiar with all aspects of the program (including the challenges) to be comfortable selling it. Provide verbal and written explanations, policies and procedures. People are different and they learn in many different ways.
3. Discuss the big picture. Explain how the program will benefit the credit union and its members over the long term. Show how a loan issued to a 16-year-old could impact his or her future borrowing and saving habits and choice of primary financial institution.
4. Don't forget philosophy. Include service to members, building financial stability, on-going education and social responsibility in your discussion. Reinforce the concept that small loans will be issued based mainly on character, in accordance with credit union philosophy.

It's important to include all employees in the training process. Don't forget the volunteers, receptionist, maintenance staff, and back room staff. Each has the

opportunity to talk to family, friends and the community about the program. They should feel as comfortable as the front line staff. Make sure that if you ask for input from employees and volunteers that you listen to all ideas, and then respond accordingly. After your youth loan program has been operating for awhile, do some retraining. Think of it as a “shot in the arm” to generate new enthusiasm. You may wish to conduct the training just prior to a youth loan marketing campaign, or at the beginning of each school year.

### **Designing and Choosing Youth Lending Forms**

The type and style of your lending forms should also be determined prior to implementation. Some credit unions use their regular loan applications, while other design their own set of youth lending materials. To help you decide which is best for your credit union, samples are included in the Appendix.

**Lending Applications** – Designing your own forms may be less time consuming in the long run. As very few teens have a mortgage, extensive credit card debt or an auto loan, they won't need to complete those sections of the standard application. Don't make the application and process too simple, however. The members should realize the importance of the obligation. The application and initial interview will play a crucial role in establishing the proper attitude.

**Payment Books** – In addition to creating your own application and promissory note, you may wish to design a special payment book for youth loans. Payment books can teach good record keeping habits. It can be a very gratifying experience for the borrower to tear-off the payment ticket and hand it to the teller each month. Typically, youth loans have shorter repayment terms and require a smaller payment book. Even if the loan is only six months in length, a payment book should be issued and explained.

**Education Materials** – Educational materials, in addition to the application and payment book, may also be useful in explaining the positive benefits of establishing credit and reinforcing the magnitude of a lending obligation. It is important that all materials be written so that teens can easily understand and comprehend the documents. Include a glossary, or separate page of lending and saving terms for the teen to take with them. The National Youth Involvement Board and your League offer a variety of youth related materials at a low or no cost.

## **CHAPTER FOUR: WRITING POLICIES AND PROCEDURES**

### **Writing Lending Policies with a Philosophical Focus**

A sound policy must be established before a youth loan program is implemented. The program's success is dependent upon sound policies and procedures. Prior to writing policies, ask the Board of Directors, management and staff for their input. Then write the policies to meet your credit union's specific needs.

The lending policies suggested below should be used only as a **guideline**. Always have your attorney review the written policies *before* putting them into effect.

#### **Youth Lending Policy Guidelines**

**Age Limits:** Clearly define, by means of a written policy, what age group will be eligible for a youth loan. A youth lending program should be applicable to members *under* the age of majority.

**Dollar Amounts:** This could be done by age group, or based on an individual member's income. *Maturity does not necessarily come with age.* A 12 year old member may be more responsible than a 17 year old. For this reason, you may choose to set limits based on ability to repay (income) and character, rather than age.

**Minimum and Maximum Terms:** Minimum and maximum terms should be defined so that members can reach an obtainable goal. The terms could be based on dollar amounts. Consider lower payment options for younger members.

**Interest Rates:** Again, the purpose of these loans is to educate and encourage young borrowers. It is not intended to be a moneymaking venture for the credit union. The interest rate should therefore be a fixed rate, possibly lower than a regular signature loan rate, based on an index determined by the Board of Directors.

**Parental Requirements:** The issue of parental consent should be considered separate from the requirement of a parental cosigner. Nearly all credit unions issuing youth loans require written parental consent. Policies requiring cosigners vary. The experience is viewed by many credit unions as the opportunity to treat these members as young adults.

**Income Requirements:** A credit union should never issue a loan unless the member has visible means of income to repay it. Proof of income may be required in the form of a paycheck stub, record of regular deposits or written verification from the member's employer. Sources of income may include an allowance from the member's parents, income from a regular babysitting job, paper route or other part-time job. Build flexibility into your policy.

**Character Reference Requirements:** Since there is no credit report to verify repayment history or ability to repay a debt, the bulk of the decision should be based on the member's character. Using a character reference report or a reference credit

scoring sheet can be helpful. A scoring sheet could include points for responsibility, trustworthiness, accountability, integrity and honesty.

School attendance records and grades should also be considered. Recommendations by phone or letter from employers, teachers or school counselors may also be included.

**Character Reference Form:** Information should be documented by a loan officer on a predesigned form if taken by telephone, or put in writing by the school counselor and returned to the loan officer.

**Educational Requirements:** Consider requiring the student to attend basic courses in life skills and money management prior to issuing a youth loan. Courses may include the benefits of saving, budgeting and life skills. Similar educational opportunities could be offered to teens interested in opening a checking account, obtaining an ATM or credit card, and more. Once courses are completed, a certificate of achievement can serve as documentation, and it can also provide a tangible sense of accomplishment for the teen.

It is critical that the borrower understand the seriousness of the obligation. It is important the member fully understand the effects of going through life with a poor credit history. One-on-one counseling should be conducted during the initial interview. The loan officer should explain the lending process and the advantages of establishing good credit early in life. *The best time to prevent a loan from defaulting is at the time of application.*

**Savings Requirements:** A minimum share/savings balance may be required before borrowing. The purpose is to help members establish a systematic savings plan in conjunction with the loan. However, the savings account cannot be used as collateral for the loan.

**Collateral Requirements:** A loan to a member under the age of majority is, for the most part, an unsecured loan. Requiring some type of collateral such as the goods being purchased or a savings account is of little use in the collection process. While you can accept or require collateral on a minor's loan, the collateral cannot be seized.

**Down Payment Requirements:** Down payments can be effectively used in a variety of ways. Rather than turning down a questionable loan, you may ask for a down payment. A down payment could also be used to make a loan amount and monthly payment more affordable to a younger borrower. A down payment may also motivate the borrower to repay as they have a vested interest in the process. Again, these and other issues are at the discretion of the credit union's management and Board of Directors.

### **The Loan Interview Process**

The loan interview may be the most critical part of the lending experience. This is the ideal time to educate members on the advantages of establishing good credit in addition to explaining lending basics. These include loan requirements, repayment terms and penalties and procedures.

When explaining the process, speak directly to the youth member even if their parents are present. This will help to develop the teen's self-esteem. It may also increase the chance that the loan will be repaid, as the member may take ownership of the obligation if treated more like an adult. It is also important to make the experience as stress-free, interesting and educational as possible. Even adults get apprehensive during a loan interview. Treat the young member with the same level of professionalism that you would any other prospective loan applicant. Do not talk down to the member and respect that the purpose for their loan is very important to them.

**Most Teens Are Consumer Illiterate**– Despite their incredible spending power, statistics show that today's teens are "consumer illiterate" and they are the age group least likely to join and use a credit union. For these reasons, an introduction to credit union philosophy during the interview process is essential. Teens enjoy being part of something, and ownership in a cooperative is very appealing to them.

**Cooperatives Are Appealing** – A brief explanation of the philosophical focus of credit unions may be all that is necessary. Simply explain that credit unions are organized as member-owned financial cooperatives that operate democratically (one member, one vote) with a "not for profit, not for charity, but for service" focus. Explain how they will benefit from the unique way credit unions operate, including having voting rights, paying lower fees and service charges, earning higher rates on savings and paying lower rates on loans.

### Denying a Loan Applicant

Even when circumstances require you to deny a loan, the educational process need not be lost. Instead, consider offering educational opportunities in the form of classes and seminars. This type of educational experience helps to increase the teen's awareness and understanding. It may assist in his or her receiving a loan approval at a later date.

When it is necessary to turn down a young member for a loan, it is important to be especially tactful. This may be their very first experience applying for credit. This experience will leave a lifelong impression of you and the credit union you represent. Think about the first time you applied for a loan. Do you remember where it was and how you were treated?

Make the loan interview process a learning experience by offering suggestions to improve their chances for the next time. Whenever possible, make a counteroffer such as offering a loan for a lower amount, requiring a down payment or recommending the teen complete a series of educational courses before they reapply. If the reason they are being denied is because of academic status or attendance record, give them a chance to improve their status, and then reevaluate the situation after one semester.

Reassure the young member that the denial of the loan "at this time" does not make them a bad person. By following your advice, their chances for being approved for a loan the next time will be greatly increased. If handled properly, the education and experience they receive will be a valuable asset to them in the future.

## **CHAPTER 5: MARKETING YOUR YOUTH LOAN PROGRAM**

(Chapter references are listed on page 24)

A large part of the credit union's future membership potential rests in the current teen market. There are currently 31.3 million teens (age 12 to 19) living in the U.S. - which makes up 11% of the total population.<sup>1</sup> According to a recent Harris Poll young adults ages 13 to 21 spent nearly \$120 billion dollars in 2007.

If you question the profitability of the teen market consider this:

- 48% have part-time jobs<sup>2</sup>
- 26% receive regular allowances<sup>2</sup>
- 37% get money from their parents when needed<sup>2</sup>

Parents, gifts, odd jobs, part-time jobs, and allowances are main sources of income for 12 - 19 year olds. Tweens aged 9 - 13 receive \$35 a week (during summer), primarily through chores and gifts. This drops to \$11 during the school year. Teens age 14 - 18 receive \$70 a week (during the summer) relying on jobs and asking their parents for money. This drops to \$30 during the school year.<sup>3</sup>

### **The Earning and Spending Power of Teens**

Today's teen spends an average of \$101 per week. In 2006, teens spent \$195 billion of their own money (compared to just \$94 billion in 1999) on top of what they spent of Mom and Dad's.<sup>1</sup> What do they buy? 1/3 of U.S. teens own iPods, and 60% own cell phones. They also spend money on fast food, clothing, movies, snacks and video games.<sup>4</sup>

**Teens and On-Line Spending:** 84% of youth have access to home computers<sup>2</sup> and 36% of ages 13 – 17 year olds have internet access in their bedrooms.<sup>4</sup> Nearly 9 out of 10 teenagers (ages 12 to 17) now use the internet regularly. Teenage girls are the heaviest users of e-mail, instant messaging, text messaging, and search engines. In general teens devote an average of 17.3 hours a week on the Web with the majority visiting games sites and music sites.<sup>5</sup> 26% of teens age 13 – 17 spend an average of \$50 a month for on-line shopping. Some of the most popular items they purchase include clothing, shoes, and accessories.<sup>4</sup> Of those teens do retail shopping, 61% say they will research a product on-line prior to making a purchase.<sup>6</sup>

### **Understanding the Teen Market**

The best way to understand the teen market is to listen to and talk directly with teenagers. You may wish to form a focus group of 6-8 teens that represent your credit union's field of membership. Make sure to include teens from various social backgrounds. Use the session to ask a variety of questions to learn their level of financial knowledge and awareness, and to learn their likes and dislikes. You may wish to pay each participant a small fee for their time. Focus groups are an easy, low-cost way to learn more about the teen market.

By paying close attention to the following issues, your youth lending program will be easier to implement by knowing and understanding the teen market.

- Teens want self-respect, power and status.
- More than 60% of today's teens are "consumer illiterate" and unfamiliar with even the *basics* of money management. Conversely, most teen are very familiar with new technology and computers.
- To avoid appearing foolish or ignorant, teens will pretend they know something when in fact they do not. It is the credit union's obligation to help them learn and understand.
- Teens can be hard to reach. They expect convenience and live for instant gratification. They want it *fast* and they want it *now!* They grew up with remote controls, plastic cards, computers, cellular phones, the Internet, and instant downloads.
- Sadly, today's young adults may be the first generation not to realize a better lifestyle than their parents.
- This age group prefers to be called young adults or teens, instead of children or kids. Remember that teen styles and terminology change rapidly.
- Today's teens age 16 and 17 are already active users of financial services:
  - 65% of teens have a bank account<sup>2</sup>
  - 56% have savings accounts<sup>2</sup>
  - 19% have a checking account<sup>2</sup>
  - 10% have a credit card<sup>1</sup>
- Of those who have these financial services:
  - 6% do not use cash at all<sup>7</sup>
  - 12% never use any checks<sup>7</sup>
  - 69% use credit cards<sup>7</sup>
  - 53% use debit cards<sup>7</sup>
  - 58% make direct payments<sup>7</sup>
  - 69% use electronic bill payment<sup>7</sup>
- Teens think big and have ambitious plans:
  - 90% plan to go to college<sup>8</sup>
  - 86% want to buy a house<sup>8</sup>
  - 82% want to get married<sup>8</sup>
  - 31% want to have their own business<sup>8</sup>

### **Youth Loan Marketing Issues**

The marketing issues listed below should be considered and addressed **before** you begin to market your youth loan program.

Develop a marketing plan and strategies for your youth loan program. Define your market. Who are you trying to reach? What specific age group? Define the geographic area.

Establish a youth marketing budget. An easy way to start is by creating a calendar of events and estimating the costs and expenses associated with each event and/or promotion. Discuss the most cost-effective method to reach this market. Keep an on-going list of expenses to assist with the budgeting process for the next year.

Research and understand the youth market. What motivates teens? How can you create your program to appeal to their wants and needs?

Determine who will be responsible internally for implementation and promotion of the youth program.

### **Establishing Marketing Goals**

When establishing goals for a youth lending program, keep in mind the basics of goal setting:

1. Goals must be **measurable**. Each goal should have a target date for completion and should include numerical benchmarks tracked on an on-going basis. For example, establish the number of youth loans to be issued, the number of teens to be educated and the number of accounts to be opened, etc.
2. Goals should be **realistic**. It takes time to build a successful youth lending program. For the first few years, goals that focus on education and promotion may be more realistic than the number of loans issued.
3. Goals must be **obtainable**. Focus on positive goals that are challenging but possible.
4. Set yourself up to be successful the first year instead of establishing lofty goals that may take 3-5 years to attain.

### **Youth Marketing Tips and Ideas**

Tie the loan program with a youth savings program. If you don't have a savings program, coordinate one *first*. You should teach your young members the importance of saving before they are taught to borrow.

Coordinate marketing materials to include an educational brochure focusing on the importance of savings and establishing good credit. Consider direct mail pieces geared specifically to youth, their parents and grandparents. Create lobby posters to help build awareness and increase the number of participants in your youth program.

Create a logo that is easily identifiable. Use the logo consistently in all promotions and publications.

Include articles in your monthly or quarterly newsletter (if applicable). Design a special newsletter for teen/young adult members.

Use incentives for savings, including prizes that are geared to young people: compact disc (CDs) giveaways, concert and movie tickets, mall coupons, amusement park or entertainment coupons, and tickets to sporting events.

Step “outside the box.” Consider alternative ways to communicate the program and to reach teens. If you have access to the Internet, use it both to gain and get information. Investigate debit and smart cards, computerized banking and touch-screen terminals to give teens the high-tech service they have come to expect.

Get into and support area schools. Give classroom presentations to all age groups. Get involved in community projects such as Adopt-A-School, Partners in Education, Distributive Education Clubs of America (DECA), and Junior Achievement.

Report your classroom success. The National Youth Involvement Board (NYIB) tallies credit union classroom presentations and awards annual scholarships to the National Youth conference to the top two presenters. Every credit union presentation conducted (to 5 or more students under the age of 25) is recognized at the state and national level, get the credit you deserve! For details on the NYIB, youth involvement, leadership development, or classroom presentation reporting, go to [www.NYIB.org](http://www.NYIB.org) or contact your League.

Consider sponsoring or organizing a youth credit union. There are 169 credit unions across the U.S. that are sponsoring school branches that are run by and for young people. Under the guidance of helpful adults, youth ages 7 to 24 serve on the board of directors of these credit unions to set policies and grant loans. Young people also serve as volunteers, paid tellers, managers and officers. For more information, contact your league.

Give tours of your credit union.

Participate in career shadowing programs.

Hold parties, seminars and youth related events at the credit union. Make it fun for both the teens and the credit union.

Keep the staff involved. If done regularly, educating staff and sharing good new stories about the success of the program can be an excellent motivator.  
Get the parents involved!

Consider offering special financial services and/or programs to teen members. In addition to special savings accounts with higher rates, some credit unions offer share draft/checking accounts with lower minimum balance requirements (if applicable). Others offer credit cards with limited lines of credit.

Share your success! Invite the media to a press conference when you introduce your program. Include good news stories of successful youth loans experiences in your newsletter. Share your success (and failures) with other credit unions. Contact your league for assistance with press releases and media notification.

Coordinate promotions with school activities such as back to school, homecoming, winter and spring break or prom. Promotional opportunities can be easily planned by following educational calendars. CP Federal Credit Union in Jackson, Michigan issues a prom loan “special” in April and May to help with the cost associated with buying flowers, dresses, renting tuxedos, limousines, and dinner.

### **Using a Youth Marketing Calendar**

Plan lending ads and promotions according to typical school calendar activities:

#### August/September

- Back to School Clothes
- Books
- Senior Pictures
- Band Uniforms and Instruments
- Sports Uniforms
- School Lunches

#### October

- Homecoming
- Class Rings
- Fall Festivals
- Sporting Events

#### November/December

- Holiday Shopping
- Hanukah Celebrations
- Holiday Vacations

#### January

- Winter Dances
- Ski Trips

#### February

- Valentine’s Day Dances

#### March/April

- Spring Break

#### May

- Prom
- Graduation
- End of School Events/Parties

#### June

- Summer Trips
- Used Cars

### **References**

<sup>1</sup> Teen Research Unlimited

<sup>2</sup> Simmons

<sup>3</sup> C & R Research

<sup>4</sup> The Intelligence Group

<sup>5</sup> Harris Interactive

<sup>6</sup> Jupiter Research

<sup>7</sup> Filene Research Institute “Attracting Young Adults: What Do We Know About Their Use of Financial Institutions and Payment Behaviors?” 2008

<sup>8</sup> MRI Teenmark – 2007 Survey

\*Special thanks to James Flores and Subcat Marketing for helping to compile these statistics.

## **CHAPTER SIX: MORE ON EDUCATING YOUTH**

### **The Credit Union's Educational Responsibility**

In 1984, the World Council of Credit Unions adopted an International Set of Operating Principles. These principles are founded on the philosophy of cooperation and its central values of equality, equity and mutual self-help. Recognizing the varied practices in the implementation of credit union philosophy around the world, at the heart of these principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community.

One of the social goals detailed in the International CU Operating Principles is **on-going education**, and it reminds us that: "Credit unions actively promote the education of their members, officers, and employees, along with the public in general in the economic, social, democratic and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members are essential to the dual social and economic character of credit unions in serving member needs."

Given the historical hostility of the banking industry, it's especially important to provide on-going education to members. The sooner you start, the more effective you will be in helping them avoid habits that could lead to overspending and excessive use of credit.

### **Credit Education Ideas to Get You Started**

While the example above may be innovative, it may not be financially feasible for all credit unions. There are a variety of simple and inexpensive things that your credit union can do to start educating its members about wise money management. For example, consider the following:

- Start by educating your staff. Include financial education as part of your orientation and training requirements. Hold quarterly staff meetings on fundamental savings and money management issues so they will be better able to help members who need help. Often employees need the same type of assistance, but are fearful of asking. The Michigan Credit Union League offers free presentation materials for an employee financial education course on their website [www.mcul.org](http://www.mcul.org). You may also consider using portions of the NEFE material – [www.nefe.org](http://www.nefe.org)
- Create a literature rack for your lobby filled with pamphlets and brochures on the wise use of credit, the hidden costs of bankruptcy, how to repair a credit report, basic budgeting, saving money on auto insurance and more.
- Include articles in your member newsletter. Focus on consumer issues. To gain credibility, avoid a sales-pitch for your product or service.

- Designate specific time periods (month, season or year) to focus on one particular service. For example, designate the summer for credit education, the fall for how to balance a checkbook, the winter for basic budgeting, etc.
- Hold free, on-site 45 minute, brown-bag lunch or evening seminars conducted by your collection, loan and/or marketing staff. The seminars could be advertised in your credit union's newsletter and held in your lobby, or other on-site or low-cost location.
- Network with other credit unions and community organizations to gain information.
- Regardless of what you decide to do, small, consistent educational efforts will pay off in the long-run!
- Work with community partners to provide seminars for your community. When work with the public library, for example, they will put the seminar in their newsletter broadening your reach. Other partners can be County Extension offices, the United Way, Habitat for Humanity and the Salvation Army. Look in your area for other resource organizations.

### **Credit Education Resources**

A variety of information, hand-outs and materials are available, and can be ordered at low, or no cost from the following sources:

- Consumers Information Catalog – (888) 8 PUEBLO, [www.pueblo.gsa.gov/catalog.pdf](http://www.pueblo.gsa.gov/catalog.pdf);
- CUNA & Affiliates –Personal Finance Initiative – (800) 356-8010, <http://www.cunapfi.org>
- The Michigan Credit Union League 1(800)262-6285, [www.mcul.org](http://www.mcul.org), or your state's league.
- Michigan Credit Union League's Financial Education Council- [http://www.mcul.org/Financial\\_Literacy\\_653.html](http://www.mcul.org/Financial_Literacy_653.html)
- National Youth Involvement Board (NYIB), [www.nyib.org](http://www.nyib.org)
- National Endowment for Financial Education (NEFE), (303) 741-6333, [www.nefe.org](http://www.nefe.org)
- National Jump\$tart Coalition for personal financial literacy - [www.jumpstartcoalition.org](http://www.jumpstartcoalition.org)

- *Home and Family Finance* – (800) 356-8010, then press 2; [www.cuna.org](http://www.cuna.org) , CUNA's personal finance magazine has delivered consumer advice to credit union members for over 39 years
- National Foundation for Consumer Credit – (800) 388-2227; [www.nfcc.org](http://www.nfcc.org)

### **Parental and Adult Responsibilities**

As parents, we want the best for our children. Often, parents and schools are not teaching money management skills that are critical to a child's future. Some say, "Let them enjoy their childhood, they'll learn about it soon enough." Others believe it's in bad taste to talk about money at all, let alone with their children. And others argue that any effort made today would be wasted.

Schools are not all required to teach personal finance. Teachers committed to enhancing the student's knowledge will often teach personal finance in addition to the state requirements. Your credit union can be a great resource to your area teachers as your staff already has expert advice.

The MCUL's Financial Education Council (FEC) strongly supports and encourages education for members of all ages. The earlier your children learn about the benefits of using money wisely and establishing good credit, the better they will be able to handle the challenges they will face in adulthood. Children are learning all the time, even when adults aren't trying to teach them. They watch their parent's behavior and imitate it, so like it or not, attitudes and habits will rub off. Poor consumer habits are among the most contagious of financial diseases.

Money isn't the most important thing in a child's life. However, learning how to use and save money is important at any age. Sadly, young people today don't save as they should, and many don't do it at all. It's important that parents encourage children to save, regardless of the amount. Putting money away for some later expenditure is a powerful experience on many levels. For teenagers, being in control of their savings can give them the important feeling that they are in control of (at least) one aspect of their life. Teaching young adults to save consistently is one of the keys to helping them develop good savings habits that will last a lifetime!

### **Money Tips for Youth Age 13 to 18**

CUNA has a brochure called "Teach Children About Money" stock # 20875-PRO, with tips for parents.

The following tips are offered by the National Youth Involvement Board, to help teach children about money:

- At age 13, begin to discuss savings plans for long-term goals, such as college and cars.

- Consider giving teens a seasonal clothing allowance, beyond their regular allowance. After setting guidelines and limits, let them make their own choices.
- Consider helping financially responsible teens get their own share draft/checking account.
- Consider letting financially responsible older teens use your credit card, or get them one of their own from their credit union.

### **Encourage Saving**

- The most important thing to teach children is to pay themselves first!
- Help them pick a dollar amount to save regularly.
- As an incentive, consider matching amounts children put into their savings account.
- Teach older children savings account concepts such as compound interest, dividends, safety and liquidity.
- Help children set goals. Hang up a picture of an item they want to save for on the refrigerator or bulletin board, along with a calendar and container to hold their money. For older children, use a savings account and longer time frames.
- Allow children to withdraw money from their savings account for appropriate reasons to demonstrate the purpose -and benefit - of savings.
- Encourage teens to build an emergency fund to use when unexpected emergencies pop up, like car repairs.
- Help children set realistic savings goals that allow them enough spending money to enjoy themselves while sticking to their savings plan.

### **Checking Accounts and Credit Cards for Teens**

- Require teens to demonstrate they are responsible, regular savers before opening a share/draft checking account or getting a credit card.
- When your teen is ready to open a share draft/checking account, help compare account service charges, interest rates and minimum monthly balance requirements. Establish guidelines how much money your teen should keep in the account and its acceptable uses and limits. Teach teens how to use and maintain the account responsibility. Discuss fees, fines and safety precautions.
- When your teen is ready for a credit card, discuss the types of cards available and their differences. Explain and compare annual percentage rates, grace periods, credit limits and fees. Review the card's acceptable uses and limits and ways to protect the card from loss or theft. Require or encourage teens to pay the credit card balance in FULL each month to avoid interest charges and to keep debt from getting out of control.

### **Investing**

- Broaden children's lessons in money management by teaching how the economy works and how to invest. Consider buying shares of stocks or mutual funds for your children.
- Choose investments children can relate to, such as those in computer, toy, fast food or entertainment companies.
- Follow the investment's progress with your children.

### **Smart Spending**

- As a family, discuss and establish age-appropriate guidelines for purchases. For example, even though children may earn enough of their own money from a job

or gifts, certain purchases may be forbidden, such as vehicles or dangerous or destructive toys.

- Organize shopping trips to buy things children need or want. Help them comparison shop, and make decisions based on price, features, and quality. Share your expertise, **but whenever possible let them make the final decision.**
- Encourage children not to spend on impulse. Have them consider if they really want or need the item right now, and how long it took to earn the money they're about to spend.
- Allow working teens to spend their own money. However, require them to pay for more of their expenses to prepare them for going out on their own.

### **Youth Money Websites**

There are many resources available to teach children through web pages. CUNA has a program you can link to your web page called GoogolPlex. Here are some examples:

**U.S. Treasury—Money Factory** [www.moneyfactory.gov](http://www.moneyfactory.gov)

Look under Youth Education for fun and games related to U.S. currency

**Practical Money Skills for Life** [www.practicalmoneyskills.com](http://www.practicalmoneyskills.com)

Financial literacy resources for parents, children and teachers.

**Federal Reserve Education** [www.federalreserveeducation.org](http://www.federalreserveeducation.org)

Links to resources and education about the Federal Reserve and finances.

**Young Biz** [www.youngbiz.com](http://www.youngbiz.com)

Articles and information about youth and young adults in business and careers.

**Money Instructor** [www.moneyinstructor.com](http://www.moneyinstructor.com)

Worksheets, lessons and activities for teaching money, business and life skills.

**Thrive by Five- Credit Union National Association.**

[http://www.creditunion.coop/pre\\_k/index.html](http://www.creditunion.coop/pre_k/index.html)

Teaching your preschooler about spending and saving

**Invest Smart** <http://investsmart.coe.uga.edu/C001759/>

Free stock market game for individuals and teams

**Motley Fool for teens** [www.fool.com/teens](http://www.fool.com/teens)

Exploring different investments.

**Jump\$tart Coalition** [www.jumpstart.org](http://www.jumpstart.org)

Resources for personal financial literacy.

**Consumer Jungle** [www.consumerjungle.org](http://www.consumerjungle.org)

Promoting consumer literacy with resources for teachers, parents and students.

## **Credit Unions in School**

The National Youth Involvement Board (NYIB), [www.nyib.org](http://www.nyib.org) is a volunteer network of credit union professionals and volunteers dedicated to youth involvement and leadership development. Each year, the NYIB recognizes individuals across the United States who go into the classroom to teach young people about credit unions and consumer and financial issues.

League employees, credit union staff and volunteers are encouraged to enter data for each classroom presentation conducted. The numbers are tabulated and reported on a state and national level. Credit union personnel reported 11,360 presentations in 2007, reaching 376,062 students! Presenters are recognized for their efforts. Credit is given for the number of students reached and the number of presentations recorded. The numbers are used at the state and national level to show the credit union commitment to the next generation. Statistics have been used to help support legislation.

The numbers are impressive! However, the National Youth Involvement Board is confident that there are hundreds of people in the classroom that aren't reporting their efforts. Help your state and the national credit union movement increase these numbers by encouraging those doing presentations to report them! The NYIB gives scholarships yearly to the top national presenters to attend the National Youth Conference, typically held each summer.

For information on classroom activities, youth savings clubs, youth marketing support, leadership development, and a shared document section, go to the National Youth Involvement website at [www.nyib.org](http://www.nyib.org) .

## **CHAPTER SEVEN: CREDIT UNION SUCCESS STORIES**

Encouraging sound money management and providing on-going education have been part of the credit union philosophy of “people helping people” since its inception. Over the years, however, regulations have changed and it has become more challenging to issue loans to minors.

The credit unions spotlighted in this chapter have successfully overcome those challenges and obstacles. They have done an exceptional job at offering unique and productive services to young people. Each of the credit unions listed places a strong emphasis on the educational experience. In keeping with credit union philosophy, they lend the money based on character. By doing so, the teenager’s self-esteem is enhanced and the credit union’s relationship with the entire family is solidified.

From a historical perspective, one of the first credit unions to offer youth loans and put a youth loan program into place was **Ottawa County School Employees Credit Union, Currently NuUnion Credit Union**, in Grand Haven Michigan.

In 1977, Ottawa County School Employees Credit Union (OCSECU) issued its first youth loan to a member for the purchase of a school band instrument. After that experience, OCSECU became an active advocate of credit unions in the classroom by conducting classroom presentations. OCSECU’s success was remarkable. **The credit union had a 100 percent collectability rate and had never experienced loss.** The regulators were aware of the program and never challenged it.

The program’s success was attributed to its educational focus, and to the fact that loans were issued directly to the youth member without a cosigner. OCSECU added a savings component to its youth lending program to encourage consistent saving. Not only did students agree to obtain average grades and satisfactory attendance, they, also, agreed to a minimum contribution of 10 percent of their monthly income to be deposited into savings, in addition to their monthly loan payment. The program worked. In 2005, OCSECU merged with NuUnion Credit Union, and is currently in the process of revamping its youth loan program.

The following credit unions share their successes and failures in hopes that other credit unions will consider offering youth loans. Data listed was collected in 2008. Sample policies, applications and other lending forms are included in the Appendix.

### **Credit Unions with current youth loan programs**

## Extra Credit Union

- Address:** 6611 Chicago Road  
Warren, MI 48092  
(586) 276-3000  
Website: [www.extracreditunion.org](http://www.extracreditunion.org)
- Contacts:** Vice President of Operations: Denise van der Ster  
President/CEO: Deidra Williams
- Assets:** \$193 million
- Members:** 25,000
- Field of Membersip:** Employees, pensioners, members, students, parents and alumni of seven local school districts, Macomb Community College, Macomb county or neighboring county retirees and over 200 SEGs.
- Program start:** Unofficially in 1995; Excelled and named program in 2004.
- Program Profile:** Since 2004, we have had 328 students apply. We currently have 71 youth visas and 27 youth loans on the books. Many of our original students have since upgraded to get higher limits on their visas and have paid off their loans.
- Delinquency/Loses:** 2 loans are currently past due and we have had 5 chargeoff's totaling just over \$700.
- Age/Dollar Limits:** 13-15 credit limit up to \$300  
16-19 credit limit up to \$750  
16-19 credit limit up to \$5000 with qualified co-signer.
- Guidelines:** All students must go through a youth loan entrance counseling before obtaining their visa card or loan.
- Collection Efforts:** All visa's/loans are monitored on a monthly basis and calls are placed accordingly. All collection efforts are performed as applicable by law.
- Obstacles:** None
- Forms:** A youth visa/loan application.
- Youth Activities:** Loans available to students for proms, spring break, senior packages, cars, etc. in conjunction with the nine student-run branches.

## Besser Credit Union

<b>Address:</b>	1381 Bagley St PO Box 395 Alpena, MI 49707 Phone: 1-800-655-6508 Website: <a href="http://www.bessercu.com">www.bessercu.com</a>
<b>Contacts:</b>	CEO/President: Nancy Montie Loan Officers Julie Wozniak, Danielle Marek, & Lilene Utecht
<b>Assets:</b>	\$50 million
<b>Members:</b>	6,800
<b>Field of membership:</b>	Community based: Alpena, Presque Isle, Alcona, & Mt. Morency counties.
<b>Program start:</b>	April 2006
<b>Program Profile:</b>	8 Youth loans on the books. Loan is in youth's name with parent or guardian's co-signature. Goal: Build a good credit rating within Besser Credit Union to make it easier to get loans when you are an adult within the credit union. Also, have 4-H project loans; however none have been done.
<b>Delinquency/Losses:</b>	None
<b>Age/Dollar Limits:</b>	Ages 13-17 Minimum request \$100, no maximum. Ages 15-17--VISA Classic credit card with a credit line up to \$200 with parent/guardian as co-signer.
<b>Guidelines:</b>	Must have a co-signer on the loan. No reporting to the credit bureaus. Youth must qualify for amount requested.
<b>Collection Efforts:</b>	Parent is called FIRST because of co-signing, and then collection efforts are performed as applicable by law.
<b>Obstacles:</b>	None
<b>Forms:</b>	Use regular application from CU Answers but manually type the security agreement.
<b>Youth Activities</b>	<ul style="list-style-type: none"><li>• Finance Your Independence (FYI) Teen Club for ages 13-17. Includes Checking accounts with ATM Card only for ages</li></ul>

13-14 years and an ATM/Debit card for ages 15-17 with parent/guardian co-signing.

- Safari Youth Club for younger children up to age 13.
- Guided tours of the credit union.

### **Advantage One Federal Credit Union**

**Address:** 23670 Telegraph Rd  
Brownstown Township, MI 48134  
Phone: (734) 676-7000  
Fax: (734) 676-7191  
Website: [www.advantageonefcu.com](http://www.advantageonefcu.com)

**Contacts:** CEO: Chris Corkery  
Branch Manager: Lara Kobrzycki

**Assets:** \$78 million

**Members:** 15,000

**Field of Membership:** Community charter—18 Downriver communities including; Trenton, Riverview, Brownstown, Flat Rock, Huron Township, Lincoln Park, Allen Park, River Rouge, Woodhaven, Wyandotte, Southgate, Gibraltar, Grosse Ile, Melvindale, Taylor, Romulus, and Rockwood.

**Program start:** September 2007

**Program Profile:** 6 loans currently, 9 out since start date.

**Delinquency/Loses:** None

**Age/Dollar Limits: Age Requirements:**

Youth lending will be considered for minors between the ages of 12 and 17.

**Dollar Amounts:**

- \$100-\$500: Granted with some source of income, at least average grades and good reference from parent or guardian.
- \$500-\$1000: Granted with a steady job, at least average grades, and good reference from parent or guardian.
- \$1000-\$2000: Granted with a credit worthy co-signer, steady job, average grades, good references from parent or guardian, and school counselor.

\*An average grade rating will be considered a C average, prove with report card (most recent).

**Minimum and Maximum Terms:**

- \$100-\$500: 6 to 12 months
- \$500-\$1000: 12 to 24 months
- \$1000-\$2000: 24 to 36 months

**Guidelines:**

**Interest Rate:**

3% above share rate (Shared secured loan rate).

**Parental Requirement:**

Parental consent must be given verbally for amounts \$100 to \$1000, and a co-signer must be obtained for amounts \$1000 to \$2000.

**Income Requirements:**

Sources of income considered are:

1. Part or full-time jobs
2. Regular allowance
3. Odd jobs for neighbors and family
4. Babysitting
5. Mowing lawns

Proof of income can include: pay stubs, regular deposits, or written verification from employer. (The employer could be family friends, neighbors, parents, etc.)

**Character Reference Requirements:**

Measuring the character of the minor in question would include: Verifying good grades and attendance record, and getting recommendations in written form from employers, teachers, parents, or school counselors.

**Educational Requirement:**

FSR's will be responsible for completing the closing worksheet with the member.

**Savings Requirement:**

All minor's granted a loan, must have a balance of at least \$25 in their share account, and will be encouraged to deposit 10% of their monthly income.

**The Loan Interview Process:**

Loan officers will be responsible for:

- ✓ Explaining the requirements of the loan; share balance, character requirements, employment, encouraged monthly deposits, and education.
- ✓ Gathering income verification, references from employer, parent, guardian, and counselor.

- ✓ Gathering grade and attendance records
- ✓ Explaining the lending curriculum to the minor.

**Denying a Loan Applicant:**

- ✓ Always try to offer the minor a loan for a smaller amount.
- ✓ Encourage the minor to work on the deficiencies that caused the denial, and to apply again in 6 months.
- ✓ Assure the minor that being turned down this time, does not make them a bad person; and that by following the advice of the credit union their chances of being approved next time are much higher.

**Collection Efforts:** No special collection practices other than those applicable by law.

**Obstacles:** Originally, it was receiving buy-in from management, staff, and board of directors.

**Forms:** Use regular loan applications. The member sits with a Financial Service Representative to complete the application. They, also, must fill out a questionnaire about their interest rate, payment amount, due date, and what their savings plan is going to be.

**Youth Activities:**

- Kirby Kangaroo program for young members
- CU Succeed program for youth/teen accounts
- e-Count program for young adults (online banking)
- 3 Student-run branches
- NEFE High school classroom presentations to 6 area high schools

**Portland Federal Credit Union**

**Address:** 9077 Charlotte Hwy (Main Branch)  
 Portland, MI 48875  
 Phone: (517) 647-7571  
 Website: [www.pfcu4me.com](http://www.pfcu4me.com)

**Contacts:** CEO/President: Gary May  
 VP: Harvey Hoskins  
 Loan Manager: Michele Makley

**Assets:** \$203 million

**Members:** 22,000

**Field of membership:** Ionia, Kent, & Barry counties and the city of Lansing

<b>Program start:</b>	Policy implemented January 2007
<b>Program Profile:</b>	Currently, there are 11 youth loans on the books since January 2007; but because the loan is based on the legal responsible party, there is no specific tracking.
<b>Delinquency/Losses:</b>	None
<b>Age/Dollar Limits:</b>	15-18 Youth loans 13-17 VISA card up to \$500
<b>Guidelines:</b>	No credit report is required if under age 18. A qualified co-signer is required on all youth loans and youth VISA. The loan decision is based <b>only</b> on the legally responsible party. The youth is given a “B” credit score rating with no credit. Youth cannot be on boat or RV loans. No reporting to credit bureau for the youth.
<b>Collection Efforts:</b>	Collection efforts are performed as applicable by law.
<b>Obstacles:</b>	Because approval is solely based on the legal responsible party, it is difficult to track how many youths are on the books.
<b>Forms:</b>	Use regular loan or VISA applications.

#### **Youth Activities**

- Dollar Duck youth program for ages
- Teen Connection youth program
- Classroom presentations and periodic financial workshops.
- Scholarship program giving 5-\$1000 scholarships to high school seniors.
- 4 Student run in school branches (1 high school, 1 middle school, and 2 elementary)

## **CHAPTER EIGHT: APPENDIX**

- Youth Lending Checklist
- Youth loan application from Extra Credit Union
- Youth loan verification form from Extra Credit Union
- Credit Union Magazine article: “Credit Cards without Co-Signers”

# Youth Lending Checklist

Offered to America's Credit Unions to review when considering a youth lending program, including specific questions to ask, discuss and define prior to implementation.

- Senior management and/or Board of Directors support – do you have it?
- Which credit union "portfolio" -- Marketing or Lending and why?
- Compliance, regulatory, co-signers and legal issues: Address them head-on prior to introducing the program to members and potential members.
- Loan applications: Will you use existing applications or create new ones?
- Payment books and/or coupons: Will you offer them?
- Education: What role will education play in the application, approval and issuing process? Who will do the educating on your staff (everyone or one person?)
- Classes: Will you require educational classes to “earn credit?” Who will pass?
- Marketing and promotional issues and plans: Create a marketing calendar that follows the school year.
- Goals and objectives: Make them measurable, realistic and obtainable. Consistently report results to board and management.
- Reporting to credit bureau(s): Will you do it? Reporting positive success only; what will you do when the member reaches the age of majority?
- On-going education: Member seminars, community education effort and/or classroom presentation -- How often; who will do it; what topics will you cover; and reporting result for education to members under age 25 at [www.nyib.org](http://www.nyib.org).
- Denying a loan request: Counter offers, offering chances for improvement in grades, attendance, income, etc. and parental issues.
- Lending limitations: Define “productive purpose,” and what to do when parents have the youth member apply for them because they were denied a loan.
- Youth advisory board(s) and focus groups: Will you use them, and if so, how?
- \_\_\_\_\_
- \_\_\_\_\_



# Youth Lending Checklist

## Youth Lending Policies & Procedures

Define the following (listed in no particular order):

- Age limits and dollar amounts: Minimums and maximums per age group.
- Loan terms: Minimums and maximums; by age or something else?
- Interest rates: Will they be less, the same, or higher than standard rates?
- Education programs: Will you offer ways to reduce potential interest rates by passing/attending education classes and/or member seminars.
- Parental requirements: Co-signers required; written consent, or none.
- Income requirements: What is acceptable, and how income will be verified.
- Character reference requirements: How verified and documented.
- Savings education: Consider a "forced savings" program with each payment (Example: \$5.00 added to each payment, for deposit into shares).
- Collateral requirements (for vehicle loans) if any.
- Downpayment requirements (if any).
- Other: \_\_\_\_\_



## Education and Training:

- Internal credit union staff training prior to implementation:
  - Loan Department Staff: Forms, teen communication, special considerations and program benefit and member loyalty.
  - Frontline Staff: Introductory, training kick-off and on-going education.
  - All Staff: Communicating with teens, overall program training, and on-going training, including sharing success stories (media & management).
- Member Education: Conduct classroom presentations and member seminars. Report classroom education efforts at [www.nyib.org](http://www.nyib.org).
- Parental Education: Invite them to educational sessions; include tips on how to "teach teens about money" in newsletters, and on your credit union's website.
- Product Knowledge Manual = Include a section on "Youth Services," including how to talk to youth members and the best way to reach teenagers, etc.
- Student-Run Credit Union: Will the program be offered (if applicable), and if so how will it be marketed and/or introduced with an "educational focus?"

## Youth Loan/Visa® Application

The information you provide on this application will be used to determine our ability to provide you with a loan or credit card and establish the terms of the loan or agreement. Check One:  Loan  Visa Amount: \_\_\_\_\_ Purpose: \_\_\_\_\_

Extra Credit Union wants to help you get started on the road to a bright financial future. That's why we have implemented our youth loan program - to prepare young members like you for what lies ahead on that path.

Hopefully, it will allow you to achieve a few short-term goals, as well as provide you with some of the tools and knowledge needed to someday meet your long-term financial dreams.

Here's how a youth loan can benefit you:

- It helps establish a positive credit history. It's incredibly important to be able to show potential lenders that you are trustworthy and represent a low-risk for defaulting on your obligations. Believe it or not, some decisions you make now (and within the next few years) can affect many of the things you'd probably like to accomplish in the future. For instance, buying a car, renting an apartment and sometimes even getting a job can depend on how good your credit is.
- It teaches you about the responsibility involved with borrowing money. There are companies out there that prey on young, inexperienced borrowers. They give young adults loans or credit cards with "generous" credit limits, then charge them very high interest rates and fees. They also encourage spending behavior that can lead to common credit traps, like running up a large balance and only being able to afford the minimum monthly payment, which ends up taking a long time to pay off and costing a lot more in interest.

We're here to assist you in making the right decisions for your future. So, think of Extra Credit Union first for your financial needs.

By signing below, I hereby give consent for the school counselor named above, or any school official that the counselor may designate, to release information about my grades, attendance, behavior, etc. to Extra Credit Union for the purpose of assisting the credit committee in determining my eligibility for this loan. I also certify that my grades are at least average and that my school attendance has been satisfactory. I also agree to allow Extra Credit Union to contact my employer named above to verify employment and to contact my parent/guardian for consent. I certify that the information I have provided here is true and correct to the best of my knowledge. I agree the terms and conditions of this loan or credit card.

Information About Me			
Last Name		First Name	MI
Extra Credit Union Acct Number		Social Security Number	
Driver's License Number		Date of Birth	
Address		City	State
			Zip
Best Number to Reach You		Email Address	
I live with <input type="checkbox"/> Parents <input type="checkbox"/> Grand Parents <input type="checkbox"/> Legal Guardian <input type="checkbox"/> Other			
Name(s):			
Information About My Employment/Income			
Place of Employment		Phone Number	
Position		Start Date	
No. of hours Worked Weekly	Salary (per hour)	Gross Pay (before taxes) \$ <input type="checkbox"/> weekly <input type="checkbox"/> bi-weekly	
Allowance \$ <input type="checkbox"/> weekly <input type="checkbox"/> bi-weekly	From Whom		
Other Monthly Income	Source		
Information About My School			
Name of School		School Phone Number	
Name of School Counselor			
Joint Applicant Information (Optional)			
<small>If approved, joint applicant is jointly responsible for the financial obligations of this account.</small>			
Joint Applicant's Last Name		First Name	MI
Social Security Number		Date of Birth	
Address		City	State
			Zip
Home Phone Number		Work Phone Number	
Current Employer	Position	Length of Employment	
Gross Monthly Salary	Other Monthly Income	Note: Alimony, child support or separate maintenance income need not be disclosed if you do not wish to have it considered as a basis for repaying this obligation	

Applicant Signature

Date

Joint Applicant Signature

Date

CARD TYPE	PLATINUM	GOLD	CLASSIC	CREDIT BUILDER
ANNUAL PERCENTAGE RATE FOR PURCHASES (APR)	10.99%	13.84%	15.88%	15.88%
BALANCE TRANSFER & CASH ADVANCE APR	10.99%	13.84%	15.88%	15.88%
MONTHLY PERIODIC RATE	0.9158%	1.1533%	1.3233%	1.3233%
OTHER APRs	Default APR* 13.99%	Default APR* 16.84%	Default APR* 17.99%	Default APR* 17.99%
GRACE PERIOD FOR REPAYMENT OF THE BALANCE FOR PURCHASES**	YOU HAVE 25 DAYS FROM THE CLOSING DATE TO REPAY YOUR BALANCE BEFORE A FINANCE CHARGE ON PURCHASES WILL BE IMPOSED	YOU HAVE 25 DAYS FROM THE CLOSING DATE TO REPAY YOUR BALANCE BEFORE A FINANCE CHARGE ON PURCHASES WILL BE IMPOSED	YOU HAVE 25 DAYS FROM THE CLOSING DATE TO REPAY YOUR BALANCE BEFORE A FINANCE CHARGE ON PURCHASES WILL BE IMPOSED	YOU HAVE 25 DAYS FROM THE CLOSING DATE TO REPAY YOUR BALANCE BEFORE A FINANCE CHARGE ON PURCHASES WILL BE IMPOSED
METHOD OF COMPUTING THE BALANCE FOR PURCHASES AND CASH ADVANCES***	AVERAGE DAILY BALANCE METHOD INCLUDING NEW TRANSACTIONS	AVERAGE DAILY BALANCE METHOD INCLUDING NEW TRANSACTIONS	AVERAGE DAILY BALANCE METHOD INCLUDING NEW TRANSACTIONS	AVERAGE DAILY BALANCE METHOD INCLUDING NEW TRANSACTIONS
ANNUAL FEE	NONE	NONE	NONE	NONE
MINIMUM FINANCE CHARGE	\$0	\$0	\$0	\$0
LATE PAYMENT FEE	\$25	\$25	\$25	\$25
OVER CREDIT LIMIT FEE	\$25	\$25	\$25	\$25
RETURNED CHECK FEE	\$20	\$20	\$20	\$20
CARD REPLACEMENT FEE	\$5	\$5	\$5	\$5
PIN SELECTION FEE	\$2	\$2	\$2	\$2
BALANCE TRANSFER OR CASH ADVANCE FEE	NONE	NONE	NONE	NONE

\*In the event you fail to make a payment that is due for two (2) or more consecutive billing periods, your APR will go to the default APR for your specific card. Your APR will remain at that level until your payments become current for six (6) consecutive billing periods, upon which time your rate will return to its standard APR.

\*\* There is no grace period for repayment of your balance for cash advances and convenience checks.

\*\*\* Cash advances include advances taken by convenience checks, through automated teller machines (ATMs) or by balance transfer requests for APR, grace period and balance computation method purposes.

The information about the costs of the cards described above is accurate as of 01/08. This information may have changed after that date. To find out what may have changed, write to Extra Credit Union, 6611 Chicago Rd., Warren, MI 48092.

**Application for Youth Loan - Verification Form (For Credit Union Use ONLY)**

<b>CREDIT COUNSELING</b>	Emp. Initials _____
Credit Counseling was given on _____ <i>Date</i>	
Any additional comments: _____ _____ _____	

<b>Parental/Guardian Consent and Comments</b>	Emp. Initials _____
<input type="checkbox"/> A parent or guardian was with the student at the time of application. Name of parent/guardian: _____ <input type="checkbox"/> Approve of the application	
<input type="checkbox"/> A parent or guardian was contacted by phone on _____ <i>Date</i> Name of parent/guardian: _____ <input type="checkbox"/> Approve of the application	
Any additional comments: _____ _____ _____	

<b>Employer Contact and Comments</b>	Emp. Initials _____
<input type="checkbox"/> Employer was contacted by phone on _____ <i>Date</i> Contact name: _____ <input type="checkbox"/> Confirmed employment	
Any additional comments: _____ _____ _____	

<b>Counselor/School Contact and Comments</b>	Emp. Initials _____
Name of school reference: _____ Date: _____	
• Are the student's grades at least average? _____	
• Is the student's attendance satisfactory? _____	
• Has the student's employment negatively affected his or her attendance or grades? _____	
• Has the student ever had any known behavioral problems? <i>(If so, please explain)</i> _____ _____	
Any additional comments: _____ _____ _____	

<input type="checkbox"/> Loan Approved <input type="checkbox"/> Loan Denied      Conditions (if any): _____ _____
Loan Officer Signature: _____ Date: _____

# CREDIT CARDS WITHOUT *Co-signers*

by Kelly V. Schermerhorn

Let me introduce you to a member of my credit union: 18-year-old Cory Chapman. Cory is a founding member of our program, TeenPac. We designed this youth program to be different from its inaugural meeting — on September 11, 2001.

It's a great testament to the quality of character of teenagers like Cory that participation that night exceeded the number who had signed up to join the club. Although officials throughout the country were closing public buildings and sending kids home early, and employers were locking their doors, these teenagers were able to concentrate on their futures and have a productive meeting.

## An unusual youth club

TeenPac club members come to the credit union for a unique personal experience. Joining is simple: You must be 15 to 17 years old, have a job outside of the home, and be a member of the credit union. What you don't need is a parent's signature... for *anything*.

Learning requires motivation. What motivates TeenPac members is that, because there is no adult safety net, they understand that this is truly *their* checking account, *their* debit card, *their* Visa credit card — and their *responsibility*.

When I first proposed to the board of directors that we would begin lending to teenagers, who can't enter a legally binding contract, there was some skepticism. However, after looking at the numbers, the directors approved the program unanimously.

We expect no more than 100 kids to be involved at any one time because of the job requirement and

**Who can't afford to lose \$200 on a program that doesn't cost anything?**



Eighteen-year-old Cory Chapman, founding member of Harvest FCU's TeenPac program.

the lack of access to the general school population. Every club member begins with a credit limit of \$100. However, even if all 100 teenagers maxed out, our risk would be a mere \$10,000.

The board agreed that the likelihood of 100 participants maxing out the card and refusing to pay was nonexistent. All they asked is that if we have more than 50 participants at a time, that I report the program's performance on a separate line item in the financials.

## The teenagers come through

TeenPac's performance has been very good. Have our teenagers discovered that, as minors, they legally don't have to pay their bills? Oh, yes. So far I've seen a grand total of

about \$200 in unpaid balances.

I'll bet most credit unions wouldn't bat an eye about spending \$200 on incentives to get the teens to participate in a youth program. But a charge-off? No way!

Come on, folks, get real. You deal with costs and risks for adult members every day.

Shake your assumptions about minors and apply the same risk management principles to youth lending.

The two TeenPac members who took the easy way out and defaulted have learned a bad habit and won't be able to break it until their Fair-Isaac score suffers, and their cost of credit goes sky-high. But who can't afford to lose \$200 on a program that doesn't cost anything and that does so much good?

TeenPac has forever changed the lives of the other 38 club members for the better. They've learned how to buy a car and how the cost of insurance affects its overall cost. They've started an investment club to make their retirement much easier to fund. They've learned how credit cards work, and how not to fall into the trap of revolving credit.

I know that Cory and his fellow TeenPac members have already acquired and put into practice more financial knowledge than most adults. That's a huge return on a \$200 investment. \*

Kelly V. Schermerhorn  
(kelly@harvestfcu.org) is president/CEO of Harvest Federal Credit Union, Heath, Ohio.