

Testimony of Lonny Maurer,
President/CEO, Belco Community Credit Union
On behalf of the
Pennsylvania Credit Union Association
Before the
Pennsylvania Senate Banking and Insurance Committee





Testimony of Lonny Maurer, President/CEO, Belco Community Credit Union,
Regarding Senate Bill 1071, Payday Lending and the *Credit Union Better Choice* Program

Good morning, Chairman White, Senator Stack and members of the Committee. Thank you for providing me the opportunity to participate in this hearing today on payday lending, Senate Bill 1071 and how credit unions created an alternative payday lending program for consumers. My name is Lonny Maurer and I am the President/CEO of Belco Community Credit Union.

Belco Community Credit Union is a full service community chartered credit union serving seven counties in central Pennsylvania. We have assets of \$320 million and serve 50,000 members with twelve offices throughout our market area. Two of our offices serve low income neighborhoods, one in downtown Harrisburg and the other in Lancaster City. Our Operations Center is located at 449 Eisenhower Boulevard in Swatara Township, Harrisburg. As a cooperative organization, our core purpose is solely to help members achieve their financial well-being by providing savings and transaction accounts, lending products, other low-cost financial services, and financial education and planning.

The payday lending industry has grown substantially from when it became a prominent alternative financial service for consumers in the 1990's. The 200 payday lending outlets that existed at that time have today grown to over 20,000 payday lending facilities nationwide¹. These

¹ Community Financial Services Association of America (CFSA). About CFSA. Retrieved from: http://www.cfsa.net/about_cfsa.html.

lenders and the business model they use have been criticized for their abusive lending practices that keep consumers in an expensive cycle of short-term loan dependency and debt.

Recognizing that there was a market need for short-term loans, the Pennsylvania Credit Union Association, the premier trade association for the Commonwealth's credit unions, wanted to encourage a consumer friendly alternative to payday lending. Through a joint effort between the Pennsylvania Credit Union Association, the Pennsylvania Treasury Department and the Pennsylvania Department of Banking, the *Credit Union Better Choice* program was instituted for credit unions to help working, low and moderate income families to manage their finances and meet their short-term unexpected cash flow needs in a safe, transparent, fair and supportive way. Due to the notable achievements of this program, the FDIC and U.S. Treasury has used the *Credit Union Better Choice* program as an example of alternative payday lending programs that other financial institutions can implement for consumers without increasing their risk or jeopardizing their safety and soundness.

Belco Community Credit Union is one of the eighty one credit unions in the state that offer the *Credit Union Better Choice* program. This program provides short-term installment loans with a maximum term of 90 days, a maximum 18% APR interest and a maximum \$25 application fee. When comparing this program to the payday lending industry, borrowers face a loan term usually of two weeks, interest rates between 300%-1200% and application fees of \$50 or more².

For those borrowers who are unable to pay off their payday loan in its entirety are often required to extend, or "roll over," their loan. This process results in the accrual of additional fees and costly interest rates to the borrower. The *Credit Union Better Choice* program was specifically

² Fox, J. (2009 February 18). *Research Findings Illustrate the High Risk of High-Cost Short-Term Loans for Consumers*. Consumer Federation of America. Retrieved from: http://www.consumerfed.org/elements/www.consumerfed.org/File/CFA_Fringe_Loan_Product_Harm_Research.pdf.

designed to ensure that borrowers would not be at risk for entering this form of a debt cycle that occurs with these types of transactions. Loan rollovers are avoided because the program requires the borrower to pay off each loan in its entirety before taking out another loan. It also prohibits the borrower from taking out more than one loan out at any given time.

What makes the *Credit Union Better Choice* program stand out from payday lenders and other alternative payday lending programs is the mandatory financial savings component. Upon approval, 10% of the requested loan amount will be deposited into a savings account in the name of the borrower, or member. The member cannot withdraw any portion of that deposit, or close the account, until the loan is paid off. The interest that the member pays on the amount deposited into a savings account will be rebated to the savings account of the member upon payoff.

For example, a typical \$500 payday loan costs consumers \$15 for every \$100 borrowed for two weeks, or approximately \$450 over 90 days. A \$500 *Credit Union Better Choice* loan costs consumers approximately \$42.50 for the same 90 days and at the end of the loan term, the consumer has \$50 in a savings account. The savings component accompanied by financial education efforts provided by the credit union assist the member to develop a savings habit and help them make better informed financial decisions.

Belco Community Credit Union has seen great success with this program and their members who use it. Latest reporting data shows that we issued 516 loans totaling \$230,720 in the second half of 2009. This number nearly doubled the total number of loans and dollar amount issued from what was reported in the first half of that year. Of these 516 borrowers, 159 were repeat borrowers which clearly indicate this service is needed and used in our area. This number also reflects how the financial literacy efforts provided by the credit union has educated the borrower that a credit union is a safer and less expensive option for their credit needs. In addition, and most importantly in my opinion, those 516 borrowers that took out a *Credit Union Better Choice* loan from our credit

union are either holding a savings and/checking bank account for their first time or have expanded upon their use of other traditional banking services.

One example that I am very proud of and would like to use to illustrate the success of the *Credit Union Better Choice* program is a story about a member of ours from an underserved area in the Allison Hill area of Harrisburg. This young man is slightly impaired and came into our Harrisburg office on Second Street asking if we could help him. He needed a small loan to tide him over until he got paid at the end of the week. He worked at McDonald's on Allentown Boulevard and rode his bicycle back and forth to work from Allison Hill daily. He needed \$45.00. We explained the program to him and made the loan. That following Friday, just like clockwork, this young man came into the credit union and paid his loan in full. Today, this young man has managed to save several thousand dollars in his savings account. I could go on with more stories like these but due to our limited time I would like to focus on statistics Pennsylvania has seen with this program.

From the inception of the *Credit Union Better Choice* program in 2006, 81 credit unions throughout the state have made more than 28,000 loans totaling more than \$13.4 million. Pennsylvania consumers saved an average of 80 cents in loan fees and costs for every dollar borrowed through a *Credit Union Better Choice* loan rather than through a typical loan from a payday lender. More importantly, nearly \$10 million was saved by borrowers compared to a traditional payday lending product and they were also able to place \$1.3 million into savings accounts.

A breakdown of savings to customers is provided in the testimony you received to further illustrate:

Total Number of Loans Issued (10/19/06-12/31/09)	Total \$ Amount of Loans Issued	Total \$ Amount of Consumer Savings vs. Payday Lender	Average Loan \$ Amount
28,238	\$13,319,285.04	\$9,640,798.40	\$471.68

As written, Senate Bill 1071 exempts depository institutions, including credit unions, which reassures us that those institutions that offer the *Credit Union Better Choice* program will continue to be able to provide this safe and alternative service to their members. The priority of any credit union is to their members and is why they have been considered consumer based financial institutions. If the Commonwealth has found the current scheme of oversight of short-term lenders needs enhancement, we support improved consumer protection.

The goal of the *Credit Union Better Choice* program is to provide a safe alternative for the credit needs of consumers while providing them financial education so one day they can become smart financial decision makers, build upon their wealth and remain self-sufficient. It's fair to say that the Commonwealth's credit unions are noticing this trend and want to continue to be a safe alternative solution for consumers. I hope the information I presented before you today was beneficial. Again, Chairman White and members of the Committee, I thank you for this opportunity to present what I believe is a safe alternative lending program for consumers to utilize for their short term credit needs. I am more than happy to answer any questions you might have at this time.