Borrow and Save Success Stories

-Dave Prosser
Senior VP of Community Development

Where people bank for good
Who We Are

Mission:
Helping people prosper, helping our communities thrive

• Headquarters: Roanoke, VA
• Year Chartered: 1956
• Charter Type: Community
• Assets: $331M
• Membership: 46,000
  – (66% low-income)
• Designations:
  – NCUA Low Income, 2010
EXHIBIT 4:
MOST BORROWERS USE PAYDAY LOANS FOR RECURRENT EXPENSES

Reason for first loan

- Recurring expenses: 69%
- Regular expenses*: 53%
- Rent/mortgage: 10%
- Food: 5%
- Unexpected emergency/expense: 16%
- Something special: 8%
- Other: 5%
- 2% don’t know

*E.g., utilities, car payment, credit card

Source: Pew Charitable Trust
MAJORITY OF PAYDAY BORROWERS HAVE TROUBLE MEETING BILLS AT LEAST HALF THE TIME

FREQUENCY OF TROUBLE MEETING BILLS:

- 14% Never
- 23% Every month
- 42% Less than half the time
- 58% Half the time or more
- 14% Most months
- 21% About half the time

Source: Pew Charitable Trust
A Challenge and a Market Opportunity

8.2% Unbanked Households

- 1 in 12 households in the nation
- 10 million households
- Approximately 17 million adults

20.1% Underbanked Households

- This represents 1 in 5 households,
- 24 million households
- 51 million adults
Many alternative to payday products exist that can save borrowers $$$ by offering affordable small dollar loans

What they do not Address:
• The inability of people to make ends meet
• Lack of savings for an emergency

What they do not Accomplish:
• Build assets
• Break the borrowing habit
• Foster a savings habit
• Provide a gateway to other asset and investment products
Problem:
Every year over 12 million Americans become trapped in a cycle of debt as a result of predatory payday loans with interest rates that can exceed 400%. At the same time, there is clearly a demand for small dollar loans that can fill an emergency need or bridge a gap between paychecks.

Solution:
Financial institutions offer an affordable small dollar loan that fosters savings and can break the cycle of high-cost and repeat borrowing and be sustainable for the institution.
What Makes Borrow & Save Different from Other “Responsible” Small Dollar Loans

• Borrowers have immediate access to needed funds
• Loans are not tied to a next paycheck
• Keeps members out of high-cost alternative products
• Fosters savings
• Provides a solution for borrowers not eligible for other credit union products
• Puts borrowers on a continuum toward accessing all credit unions products
• Does not require major investment on the part of the credit union
• Generates revenue for the credit union
• Improves the economic well-being of the community
Why FFCU likes the product

- Meets a critical need with a reasonable and responsible amount of risk
- Sustainable product, with ample room to set a rate that is reasonable for consumers and cost effective for the credit union
- Can fill more than one purpose—from basic savings to credit-building
- The savings provides a risk cushion for the lender
- Borrow and Save positively impacts the economic prospects of individual borrowers as an effective asset building tool.
• Program Design
  – 12 – 36 month repayment period
  – $250 - $5,000
  – Max 18% APR
  – No Application Fee
  – 50% of loan amount into locked savings account, released at maturity, for planned savings
• 315 loans: $572,703
• 315 savings accounts: $292,395
• DQ Ratio: 1/2%
• 18 Charged off: $14,904
• Average borrower income: $28,800/year
• Average credit score: 576
• 95 had no credit score
• Weighted average rate: 15.91%

• Program successful for meeting immediate credit need
• Longer-term savings accumulation and asset acquisition as goals
• Is it helping? Next steps for evaluation:
  – Savings balances after loan closing
  – Credit scores (similar credit builder program shows improvement in scores in 6 months)
  – Conventional product take-up
• Originally conceived as small $ credit to fill an immediate need and build savings and to break the repeat borrowing cycle
• Credit unions have found additional uses for Borrow and Save:
  • Alternative to predatory product
  • Credit Builder Loans
  • Debt Consolidation Loan
  • First-time Homebuyers
  • Gateway to other credit union loan and investment product
Wanda needs to consolidate bills

Utilizes Borrow & Save for paying off delinquent debt

Strengthened Credit

Qualifies for Responsible Rides Auto Ownership Program

Reliable car for work results in promotion and a raise!

Savings available for insurance premium
Eminent domain resulted in displacement from long-term rental home

Smaller medical collections and limited credit made homeownership a far-reaching goal, but VDOT providing down payment assistance

Borrow and Save issued to pay off collections, save for home purchase

Credit Score improved, qualified for Affordable Housing Loan Program

Home purchased through AHP program, received $30,000 in DPA from VDOT that could not have been accessed if renting
Keys to Success

- Financial Education/Development Services
- Hardship Letter & Alternative Underwriting Guidelines
- High touch exposure
- Keep it simple
- Cross-sell; access to other Impact Banking Products
- Ultimate goal of transitioning to Conventional Products
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