Credit Unions Cannot Meet Payday Loan Customers' Needs

In his study, "Are Credit Unions Viable Providers of Short-term Credit?" Victor Stango, a University of California: Davis Assistant Professor at the Graduate School of Management, compared credit union short term loans to payday loans in terms of both fees and convenience. Stango recognized that credit union loans are often suggested as an alternative to payday loans. However, his research—compiled from data from credit unions, the National Credit Union Administration, and payday loan customers surveys—found that credit union rates are generally equal or higher than traditional payday lenders, that the loans are less convenient for borrowers, and that borrowers prefer traditional payday lenders to fill short-term credit needs.

Full study available at http://faculty.gsm.ucdavis.edu/~vstango/Credit%20union%20monograph.pdf

<u>The study found that:</u>

- **Few credit unions offer payday loans because they cannot profit from them.**

  "Very few credit unions currently offer payday loans. Fewer than six percent of credit unions currently offer payday loans, and credit unions probably comprise less than two percent of the national payday loan market."

  "Most credit unions do not offer payday loans because they see little chance to break even on a low-priced payday advance product - either because the rates/fees they would charge are too low, or because payday loans are too risky."

- **Credit union fees on short-term loans are generally as or more expensive than traditional payday loans.**

  "Despite much lower nominal loan APRs, credit union payday loans often have total fee/interest charges that are quite close to (or even higher than) standard payday loan fees. Further, credit union payday loans have tighter credit requirements, which generate much lower default rates. Together, the combination of only slightly lower total charges and significantly lower default rates raises the possibility that risk-adjusted prices on credit union payday loans are no lower than those on standard payday loans. That also suggests that current payday loan fees may be at break-even levels."

- **Borrowers prefer the convenience and privacy of payday loans over credit union loans.**

  "Credit unions typically have locations and business hours that consumers find less convenient than those of commercial payday lenders".

  "Application times are longer at credit unions. And, default on a credit union payday loan may harm one's credit score, while default on a standard payday loan does not harm one's credit score."

  "Most payday borrowers indicate a strong preference for a less restrictive but higher-priced standard payday loan; very few prefer the credit union version of a payday loan."

  "Borrower's distaste for the credit union payday loan is driven most strongly by credit unions " shorter hours of operation, a lack of privacy conferred because credit union payday loans do not "keep my payday borrowing separate from my other banking, for personal reasons," and the fact that defaulting on a credit union payday loan harms one's credit score."

Highlights prepared by:

CFSA

- **It is difficult to compare credit union and payday loans, but overall they appear to have the same break even rate.**

  "The practical obstacle to offering payday loans is profitability. Most credit unions do not offer payday loans because at below-market fees/rates, it is too difficult to offset default risk…It appears that break-even fees are no lower for credit unions than they are for payday lenders."

  "To offset lower loan APRs, credit unions do two things: they offset low explicit APRs with per-loan processing fees or annual loan program fees, and they impose restrictions on loan terms and access."

- **A typical payday loan costs $15 per $100 borrowed with a loan period of two weeks. In comparison, Stango revealed the following terms on credit union loans:**

Table 1. Terms of Credit Union Payday Loan Alternatives.

	Fee	APR	Term	"Savings" held back
Better Choice (80+ Cus)	$35/$70 per year	18%	90 days	5%
Stretch Pay (100+ Cus)	$25 per loan	18%	30 days	10%
ADVANCPay	$60/$70 per loan	none	2 weeks	none
GoodMoney	$9.90 per $100	none	2 weeks	none
Rivermark	$15 per loan	25%	30 days	none
1st Financial FCU	$50 per loan	10%	30 days	none
Four Corners	$20	18%	120 days	none

Sources: http://www.ohiocreditunions.org/StretchPay/CUInfo.htm,
http://www.pacreditunions.com/betterchoice.html,
http://www.realsolutions.coop/assets/2009/3/24/REAL_Solutions_Payday_Loan_Toolkit_v032309.pdf.

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