



Stretch Loan, ASI Federal Credit Union

A low-cost payday loan alternative that provides ASI members with a choice and reduces their need for payday loan outlets

Realizing that many of its members were frequently using payday loan outlets, ASI Federal Credit Union (FCU) a low-income community development credit union with branches throughout Southern Louisiana,

started offering the Stretch Loan Program in 1999. This program is designed as a safety net that credit union members can use to tide them over until their next paycheck by accessing between \$200 and \$500 from a line of credit. ASI charges an annual interest rate of 12 percent and a weekly fee of \$3 on these loans. Compared with the typical fees charged by local payday lenders, ASI's Stretch Loan is an attractive low-cost alternative. For example, a \$200 loan with a two-week term would cost Stretch Loan customers \$8 instead of the \$45 charged by a local payday lender.

ASI's Stretch Loan Program also provides additional transaction services that are beneficial to low-income consumers at no charge or at a reduced fee. As part of the plan, members receive a free 10-minute phone card, a free checking account, free use of ATMs, overdraft protection, and free money orders. As of January 2003, 4,550 members had participated in the ASI Stretch Loan Program, with loans totaling \$2 million. The average loan balance is \$350. ASI does not require a credit check for customers to obtain a Stretch Loan. The only requirement is that the member be on direct deposit for at least six months (with ASI or another financial institution).

Name and Location ASI Federal Credit Union, Southern Louisiana

Business Model A credit union offering a payday loan alternative

Services Offered Payday loan alternative coupled with transactional and basic banking services

Constituency Served 70,000 credit union members throughout Southern Louisiana

Success and Outcomes to Date

- ▼ About 4,550 members have taken advantage of the Stretch Loan Program.
- ▼ For a cash advance of \$200 with a two-week term, customers save at least \$37 by getting a Stretch Loan instead of using a local payday lender.
- ▼ Enrollment in the Stretch Loan Program provides customers with additional low-cost or free transactional services, including a free 10-minute phone card, free traveler's checks, free money orders, free checking and ATM usage, and overdraft protection for their checking accounts.

The loan is an open-ended line of credit in that borrowers can increase the loan amount up to \$500 as long as their payments are current. Because direct deposit is a requirement, withdrawals are made automatically and applied to the loan balance, thus preventing rollovers. ASI requires a one-time initial application for members to enroll in the program. Subsequently, they can request loans over the phone and withdraw funds at ATMs, thus eliminating trips to credit union offices.

To date, ASI's experience with the Stretch Loan Program has been very positive. It has generated a profit since the number of loans in the portfolio reached 1,000. ASI's business model for the Stretch Loan, especially the open-ended aspect and the telephone access, keeps operating expenses low. An

important goal for ASI is positioning the Stretch Loan Program as an entry into longer-term asset building and financial self-sufficiency for its members. ASI has attracted many customers to this and other less costly loan products, thus promoting savings. The credit union also offers seminars on personal finance management, and one-on-one counseling is available for members who would like help managing their finances.

The Stretch Loan Program is an attractive low-cost alternative to payday loans whose annualized interest rates can rise to several hundred percentage points and trap households in a vicious cycle of debt through rollovers. The program's success has led ASI to consider other alternatives to services offered by fringe providers.



History

ASI Federal Credit Union began operations in 1961 in a small frame building on the Avondale Shipyard property and operated out of that building until 1986. Since then, ASI has opened 13 other offices and now serves more than 70,000 members in Southern Louisiana. Founded as an employer-based credit union, ASI today is a federally chartered low-income community development credit union with \$180 million in assets.

President and CEO Audrey Cerise realized that many members were using local payday loan outlets when representatives from these outlets came into branches with envelopes full of checks written by ASI members. The credit union began working on an alternative to payday loans and introduced ASI's Stretch Loan Program in 1999. ASI researched all applicable federal and state regulations, and the program complies with Regulation Z and state laws.



Business Model

Program/Product Description and Outcomes

The Stretch Loan Program is designed as a revolving line of credit offering from \$200 to \$500; it requires members to be on direct deposit at the credit union or another financial institution for at least six months. The program is intended to be a safety net for members, to tide them over until their next paycheck and reduce their need for payday lenders.

The minimum Stretch Loan is \$200 and the maximum is \$500. Members do not get charged late fees as long as the loan is repaid out of withholding.

ASI charges an annual interest rate of 12 percent and a fee of \$3 per week for membership in the Stretch Loan Program, thus making it a low-cost alternative to payday loans. A loan of \$200 over a two-week term costs about \$8 (\$6 in fees and \$1.96 in interest). According to ASI, the same loan would cost about \$45 at a typical payday loan outlet in Louisiana. Therefore, Stretch Loan customers save a minimum of \$37 per transaction. Since the program's inception in 1999, ASI has made the loan open-ended and increased the limit. If a member has participated in the program for six months and has a favorable payoff history, he or she can apply to increase the loan limit to \$500, the maximum on this line of credit at any given time.

The program also provides additional benefits to members, who receive a free 10-minute phone card, free money orders and traveler's checks, free checking and ATM use, free loan cancellation insurance, and overdraft protection for their checking account. Customers do not get charged late payment fees as long as they maintain their payroll withholding status and their loan is repaid out of that withholding. For delinquent borrowers, there are no in-house collection fees; these

will be charged only if the account is turned over to a collection agency, and then whatever fees the agency charges will be assessed (approximately 33.33 percent of the outstanding debt). In return, members are required to use direct deposit for the duration of their membership in the program. Payments are the first to be disbursed from the member's direct deposit.

ASI provides easy access to its Stretch Loan customers, who are required to come into one of the branches to fill out the initial paperwork and set up the account. Once an account is opened, the funds can be accessed or directed into an account by telephone or via an ATM. This is possible because of the credit union's existing infrastructure and the lack of a credit check. The only requirement is that a member have direct deposit.

The open-ended aspect of the loan and electronic and telephone access keeps operating expenses low.

At present, ASI has 4,550 outstanding Stretch Loans totaling close to \$2 million, with an average loan size of \$350. Members who have been making their payments on time for a year can advance to the next level: the Credit Enhancement Plan (CEP) or the Asset Builder Loan, which have higher loan limits and longer repayment periods.

ASI also has a number of other financial services intended to serve the needs of its low-income membership. For example, the credit union offers two financial products for automobile purchase. A service called AutoVantage helps consumers search for an affordable car, and the financial products are a traditional pre-approved loan and a financing/leasing service called Member Auto Payment Saver. Further, ASI provides many transactional services, such as money wiring,



bill payment, and check cashing, for its members at affordable prices (see the Products/Services and Pricing section).

A recent addition to ASI’s product portfolio is an Individual Development Account program for home-ownership, developed in partnership with Habitat for Humanity and supported by a \$10,000 grant from the National Credit Union Administration. The goal was to encourage families to save up to \$500; for every dollar they save, they receive \$2. Ten families, whose incomes were at 80 percent of the poverty level for their area, participated in the program, and each was able to save \$500, thus qualifying them for an additional \$1,000. ASI received another \$20,000 for this partnership and will now enroll 20 additional families in the program.

Products/Services and Pricing

Like all ASI members, Stretch Loan customers benefit from a number of services ASI provides free of charge to all members, such as ATM use, electronic and telephone banking, and overdraft protection for checking accounts. Fees for transactional services are relatively low, as can be seen in the table at the right, which provides a representative list of the different services and their costs.

Consumer Segment Served

ASI serves the parishes of Orleans, Jefferson, St. Tammany, and Lafourche in southern Louisiana. ASI is the primary financial service provider for St. Tammany and Lafourche parishes, which are smaller, and covers a significant segment of the population in Orleans and Jefferson parishes. ASI has over 70,000 members, and more than 50 percent of them are low income. According to Cerise, many are blue-collar workers employed in hotels, shipbuilding, hospitals, parish government, and small mom and pop businesses.

Credit union members who use direct deposit for their paychecks or government benefits are eligible to

Pricing of Services at the ASI FCU

TYPE OF SERVICE	PRICE
Stretch Loan	\$3 weekly surcharge on loans, plus a 12 percent annual interest rate for loans between \$200 and \$500
Savings	\$8 monthly fee (average daily balance of less than \$200); \$6 monthly fee (\$200 to \$499); no fee (\$500 or more)
Overdraft protection on checking accounts	No fee
Loan cancellation insurance	No fee
Wire transfer	\$12 (domestic); \$35 (international)
Temporary checks (set of eight)	\$3
Certified check	\$7
ASI official check (third party)	\$5
Check cashing <i>(the fee applies when the member does not have a share draft account or has less than \$100 on deposit)</i>	\$3 per check
ATM/ASI check card withdrawal	No fee
Money orders	50 cents (\$0 to \$99); \$1 (\$100 and over); no fee for Stretch Loan participants
Traveler’s checks	1 percent of the total value; no fee for Stretch Loan participants
DASI (Dial-ASI–telephone banking)	No fee

participate in the Stretch Loan Program. A new participant must show proof that he or she has had direct deposit at ASI or another institution for the past six months, but no credit check is required. Participants' income ranges from \$8,000 a year to \$8,000 a month, although many who use Stretch Loans are low- and moderate-income workers who need additional funds at a particular time.

Technology

Dial-ASI (DASI) is a convenient telephone banking system that operates 24 hours a day, seven days a week. DASI can service balance inquiries, make transfers, make loan payments from share accounts, and much more.

Technology electronically links all customer accounts and allows for transfers and withdrawals from each. An ASI ATM card allows members to verify balances or get cash 24 hours a day, seven days a week, worldwide at all ASI FCU ATMs or networks, which include Credit Union 24, Interlink, Pulse, and Plus.

ASI also has electronic banking services available for members. Electronic-ASI (EASI) allows members to access their ASI accounts from their home computer at no charge. Members can view account balances, download transaction histories into home software finance packages, and make account transfers 24 hours a day, 365 days a year.

Members must be registered with the DASI service and can use their personal identification number and ASI member number to access their accounts from home.

Location and Hours

ASI has 14 branches located throughout Southern Louisiana; each has ATMs. Most branches are open from 9 a.m. to 5 p.m. Monday through Friday, except

for holidays. ASI has later hours for the drive-through windows and Saturday hours as well.

Education/Outreach/Marketing

ASI offers one-on-one counseling to members who would like help in managing their finances. It also gives seminars on personal finance management.



Bottom Line

Financial Costs and Profitability

This program is mostly due to Cerise's efforts, and the start-up costs consisted largely of her time. She and ASI have been working with low-income populations for a long time and are familiar with their needs. She realized that a problem existed, researched the relevant legal and regulatory issues, designed the loan program, and implemented it.

To date, the Stretch Loan Program has been well received and is fairly successful. Even though it requires direct deposit, delinquencies and defaults can occur if direct deposit stops for some reason, such as the loss of a job or the onset of an illness that requires a leave of absence from work.

Write-offs on these loans average about \$5,000 per month. While some industry participants may consider this high, ASI sees it as

The cost of write-offs is more than offset by the fees the program generates.

normal, given that the people who use these loans tend to be transient and frequently change jobs or residences. According to Cerise, the fees generated by this program more than offset the write-offs, especially given that operating expenses for the program are very low. Indeed, ASI finds these loans more profitable than its other signature loans.



Major Findings

Cerise offers three pieces of advice to other credit unions that might consider offering alternatives to payday lenders in their local markets.

- ▼ *It is essential to price the product correctly.* ASI makes a profit on Stretch Loans. The fees generate profits and give ASI a cushion on the monthly write-offs. Cerise stresses the importance of creating the correct fee structure to maintain the loan program and keep it viable as a safety net for her members. Because of the very low loan balances, interest income on these loans is negligible, however.
- ▼ *The institution must be prepared for substantial write-offs.* Many financial institutions do not want to write off loans, but to replicate a program like Stretch Loans and serve a highly mobile, low-income population, write-offs are necessary. If the fees are set correctly, as Cerise suggests, the income earned will more than offset the cost of the write-offs.

- ▼ *The loan program should be an open-ended one.* ASI is able to make these small loans because they are open ended and have minimal paperwork and service associated with them. Once members have established these loans, they use ATMs, phones, and the Internet to access and manage their funds.

The number of Stretch Loans provided to members has increased steadily, so it is evident that ASI is serving a real need. From the credit union's perspective, Stretch Loans are a win-win situation. Participating members are not charged high fees, and the credit union is able to increase the number of loans at minimal cost. Through the Stretch Loan Program, ASI offers members a viable alternative to payday lending outlets—a loan product that helps them manage from one paycheck to another.

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