

# Turning payday into savings day

*SECU's alternative to payday loans promotes financial responsibility*



## By Judy Tharp

In the last four and a half years, State Employees Credit Union (SECU) of Raleigh, North Carolina, has made more than one million small cash advances that members might otherwise have gotten from payday lenders at exorbitant rates. And SECU's Salary Advance Loan program provides more than quick cash — it establishes savings accounts for each borrower and guides habitual borrowers to a free credit counseling service.

SECU (\$12.6 billion assets) surveyed members in 2000 and discovered that more than 4,000 were using check cashing or payday lending services, says Phil Greer, senior VP of loan administration. "We did some investigation into processes and fees and became incensed at the way our members were being abused. Fees can be equivalent to an APR of 200% to 900%," Greer says.

## Direct deposit is the key

The CU launched Salary Advance Loans in 2001. Any member who has a paycheck direct-deposited into a SECU account may secure a loan of up to \$500 at 12% interest, with no fees. The balance must be repaid via funds transfer on the next pay date.

"We receive payment on payday, before anyone else," Greer says. "The process is fully automated for members, from application to receiving funds. It's all done with very little labor."

While SECU initiated the Salary Advance Loan as a way to provide for and protect members, it also sought to help members break away from reliance on these loans. The CU offered members an educational resource through a vendor partner, "Balance," which provides credit and "financial fitness" counseling confidentially and at no cost to members.

## Create a safety net

SECU found that the counseling service alone didn't appear to be changing behavior; however, many members continued to rely on regular advances,

Greer says. To help members break this cycle, SECU decided to require that members have a special savings account to receive Salary Advance Loans.

Five percent of each Salary Advance Loan is set aside in a savings account for the member. As the savings accumulate, the account provides a safety net that ends the need for emergency loans.

The savings belong to the member, but if those funds are withdrawn the member may not receive another payday loan for six months. "It's an effective deterrent," says Greer. "A number of members now have more than \$1,000 in their savings accounts and for many, this is the first savings they have ever had. They like that."

The savings accounts also mitigate risk for SECU. The balance in a savings account can be used to offset default losses.

## Socially responsible doesn't have to mean unprofitable

Despite the risky nature of this market, the program has succeeded. Members have opened more than 51,000 accounts and drawn advances totaling \$397 million from 2001 through June 2005, according to SECU statistics. The loans have produced \$2.5 million in interest, with 2,753 defaults and \$870,000 in net charge-offs.

Many other credit unions are introducing payday loan alternative programs. Greer urges them on. He advises newcomers to this market to automate the application and underwriting process to compete with the convenience of payday lenders, and to require direct deposit of loan payments. This reinforces a financially responsible lifestyle, as does requiring a savings account and offering credit counseling. "This has been a very socially responsible program for us," Greer says.



**Judy Tharp** is VP of solutions development for CUNA Mutual Group.  
([judy.tharp@cunamutual.com](mailto:judy.tharp@cunamutual.com))