

# High-APR Payday-Style Loans Launched by Nonprofit Community Development Credit Unions

Payday loans by nonprofit organizations will compete with Traditional Consumer Installment Loans to fill small dollar consumer credit needs and require taxpayer support and funding.



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The National Federation of Community Development Credit Unions (CDCUs) recently announced that some of its nonprofit credit unions will offer a payday-style loan program with interest rates that far exceed 36 percent. This has drawn attention from the traditional consumer installment loan industry. It's being pointed out that, while the estimated 48 percent APR on the new CDCU loans will be lower than most payday loans, they still will carry many of the same terms that hurt consumers, such as balloon payments, no credit bureau reporting, and minimal underwriting. The CDCU loan will require consumers to open a restricted savings account that the credit union will control and hold as collateral for the loan.

"Credit union industry advocates have questioned traditional installment loans for their interest rates, which are generally lower than the new CDCU program," says Chris McKinley, a member of the North Carolina consumer finance association, RLNC. "Therefore, it's hard to understand why taxpayer-supported CDCUs would now feel that it's appropriate to roll out a 48 percent APR loan."

"There's an important need among consumers for responsible small dollar loans, especially in this economy," McKinley continues. "For over 100 years, traditional installment loans have filled this consumer need. As the NC banking commissioner recently reported, these loans have proven to be a safe and affordable credit option. It's clear that non-profit CDCUs wish to eliminate this essential option for consumers and take over this market under their own taxpayer-subsidized programs. It's disingenuous to consumers to offer a loan carrying a higher APR than a traditional installment loan, while carefully avoiding any mention of APR in their press releases. Yet when they feel it's to their advantage, they are quick to use APR references against other lenders."

McKinley is referring to an ongoing debate in the North Carolina legislature about proposed changes to the Consumer Finance Act. Legislators and supporters of the consumer installment loan industry have sought to update the 1983 law in order to keep the loans available to consumers. According to the NC Commissioner of Banks' 2010 annual report, this industry's health is declining, despite high satisfaction ratings and low levels of customer delinquencies. Many of these companies have already left the state, creating a void for consumers.

Self-Help Credit Union's lobbying affiliate, the Center for Responsible Lending (CRL), has opposed any legislative relief for the installment loan industry. RLNC president Vic Barr explains, "The CRL and taxpayer-subsidized credit unions stand to benefit greatly by attacking what they view as competition in the small dollar loan market. Since the industry has such high satisfaction with consumers and an extremely low complaint record with the state, nonprofits are trying to eliminate this consumer option by keeping 1983 pricing in place and running the industry out of business. If they eliminate private-enterprise credit options, they can continue their campaign with Washington to press for more taxpayer funding and loan-loss bailout money (under Title XII of Dodd-Frank). When we're already having trouble paying teachers and firefighters, taxpayers clearly can't handle an added burden of paying for subsidized lending. We have to limit these programs, not expand them."

For information contact: [crproduction@charter.net](mailto:crproduction@charter.net), 828-230-8137