

GRANTEE LEARNING BRIEF

## Mountain Association for Community Economic Development (MACED)

### *Providing a payday lending alternative to low- to moderate-income workers in rural Appalachia*

There are few affordable short-term, small-dollar credit products in the marketplace that meet borrowers' immediate needs and that help put them on a path toward financial prosperity. Consequently, many low-income underbanked consumers turn to high-interest payday loans, often to the detriment of their financial well-being.

MACED, through its Common Cents Financial Initiative and Save It! Loan, introduced in May 2007, spent more than two years testing a potentially scalable alternative to payday lending particularly suited to rural communities. In addition to providing emergency credit, the program connected borrowers with other financial services to help them save, build assets, and break out of the cycle of debt.

In August 2009, MACED canceled the program. Although MACED had made over 400 loans and helped many borrowers address short-term credit needs, the loan product was not viable in its existing form to either MACED or the financial institution partner, Appalachian Federal Credit Union (AFCU).

#### The Save It! Loan

The program was offered through an innovative distribution channel—employers. Employees applied through the Save It! Loan website for an unsecured loan up to \$500 (depending on income) with a 10-month payback period at 18 percent APR, and a pre-funded savings account that was repaid along with the loan amount that totaled an additional 50 percent of the principal amount borrowed.

For example, with a \$500 loan, the borrower would repay \$500 plus interest, plus an additional \$250 toward savings. The savings amount was deposited into an account at the financial partner, the Appalachian Federal Credit Union, and was available to the borrower only after the loan was repaid in full. Loans could be disbursed to a bank account or a prepaid card typically

within 48 hours and were repaid through payroll deduction, helping borrowers stay current with payments and reducing risk for the lender. Employees of participating companies also received access to free financial education, including printed materials, phone-based financial counseling and the Save It! Loan website.

#### Top Reasons for Borrowing

MACED borrowers gave several common reasons for needing a Save It! Loan:

- Unexpected expenses
- Regular bills
- Health care expenses
- Vacation or entertainment
- Pay off a payday loan
- Improve credit rating

#### About This Learning Brief

In September 2007, the Center for Financial Services Innovation (CFSI) received a two-year, \$2 million grant from The Walmart Foundation to create the Nonprofit Opportunities Fund. The fund provides innovative nonprofit organizations with the funding, partnerships, and peer learning they need to connect their un- and underbanked constituents with financial services and asset-building opportunities.

This Learning Brief describes the experiences of one grantee, MACED, through fall 2009.

#### About MACED

The Mountain Association for Community Economic Development (MACED) works with people in Kentucky and Central Appalachia to create economic opportunity, strengthen democracy, and support the sustainable use of natural resources. Founded in 1976, MACED serves individuals, businesses, and communities; conducts research; and demonstrates effective economic development efforts.

#### About CFSI

CFSI's mission is to transform the financial services marketplace to help underbanked consumers achieve financial prosperity.

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## Successes

**Distribution channel:** MACED effectively reached borrowers through employers using an online application. Neither the internet nor the workplace served as a deterrent, and in a dispersed rural community, this approach made loans more accessible and convenient. Employers viewed the program as a valuable benefit and, having faced many requests for payroll advances, understood the need. Onsite employer coordinators promoted the loan product and the associated financial education materials and verified borrowers' employment status.

**Consumer impacts:** Through post-loan surveys, 85 percent of borrowers reported they were satisfied with their Save It! Loan experience. Reasons included the savings component, ease of access, and simplicity of payback through payroll deduction. Seventy-five percent of borrowers said they expected to keep their savings accounts open after the loans were repaid, and many repeat borrowers took out additional loans in order to keep saving. In addition, although the sample size is too small to be conclusive, payday loan use appeared to drop by a third among employees exposed to the financial educational materials.

## Challenges

**Financial viability:** Per-loan revenue averaged \$25.73, and AFCU received \$33 per loan originated, with MACED also providing a loan-loss reserve. MACED covered the difference and its operating costs with foundation grants. The program was not sustainable with the original pricing model.

**Defaults and debt collection:** Write-off rates (actual principal lost net recoveries) were close to 7 percent of principal lent. The primary reason for write-offs was a change in work status. Problem loans that required extra management ran closer to 20 percent, and MACED had to

handle many of them. This raises a question about whether the loan-loss reserve provided a disincentive for the financial institution partner to do collections work.

**Technological capacity:** Loan management was particularly cumbersome, as the process between MACED and AFCU was not automated. Paperless processing and an electronic file upload system were needed to make the process more efficient and cost-effective.

**Lending model:** MACED reviewed several lending model options to enable the program to scale, including becoming a consumer lender itself. MACED decided to keep with the financial institution model primarily because of the risks, liability, and regulatory burden involved in becoming a consumer lending entity.

**Financial institution recruitment:** Scaling the model would have required additional financial institution partners that were (a) interested in the product; (b) technologically savvy; and (c) willing to learn and adjust with MACED. None of the regional banks or credit unions MACED approached expressed enough interest to make the necessary investment.

## Looking Ahead

MACED's staff is reflecting on the experience, preparing a final report that will be publicly available, and contemplating its future work in the underbanked financial services space. MACED believes that with the right technology and meaningful cross-selling opportunities, a similar product, designed to meet consumers' needs, could be successfully offered by a financial institution or other financial services company.

## For More Information

Contact the Mountain Association for Community Economic Development at 859.986.2373, or visit [www.maced.org](http://www.maced.org).

## For the Record

*Statistics at the time of cancellation:*

Employers offering the Save It! Loan: **11, representing nearly 1,300 employees**

Loans made: **410**

Average size of loan: **\$325**

New savings generated: **\$66,670**

Average interest rate: **18%**

Default rate: **7%**

## What Borrowers Said

There was significant demand for Save It! Loans, and many borrowers reported that it had made a difference in their lives:

- "My transmission went out of my car, and the loan helped me pay the repair costs. I would not have been able to have the repairs done if it were not for the Save It! Loan."
- "My loan helped me pay the Check Exchange off, and I didn't have to come up with money for this loan every two weeks."
- "It was quick and easy, and I also have a savings account open now that I never had before."