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## Credit union aims to help people break the payday-lender cycle

By Kristi Heim

Seattle Times business reporter

The rich have private bankers. The poor have payday lenders.

Five years ago Tricia McKay began asking how to turn that around to create a bank designed specifically to serve low-income people.

"It's like a failure of our free-market system," said McKay, director of the Medina Foundation. "Someone we supported would be coming out of a shelter, get a payday loan, start a cycle of debt and wind up right back in that homeless shelter."

A new bank aimed not at making profits but at helping people build financial stability makes its official debut in Seattle this week, one of the first such institutions in the nation. The program, which has been in a trial phase since February, combines a credit union with a nonprofit arm and community outreach. Its customers don't even have to visit a bank branch.

The Express Credit Union is targeting thousands of people not served by any traditional bank. An estimated 20 percent of Seattle adults don't have a bank account, according to a study by the Brookings Institution, for reasons ranging from past financial troubles to mistrust of banks among immigrant populations.

For many of them, check-cashing outlets and payday lenders are the only alternatives.

Payday lending in Washington state is a \$1.5 billion industry, according to a 2007 report from the Washington Department of Financial Institutions. More than 3 million payday loans were made in the state in 2007, with an average loan amount of \$428 over 18 days, and an average loan fee of \$56, according to the report.

As the economic downturn hits low-income residents hard, Express wants to bring back some of the best qualities of old-fashioned neighborhood banks and services to help people better manage their money.

It starts by bringing banking into local communities with mobile community-service representatives.

Express client Lonnie McGill doesn't have to travel to a branch to open an account. Now he can get his banking done at local nonprofits, including Hopelink, Solid Ground, YWCA, Catholic Community Services and Neighborhood House. Express will maintain regular hours at 16 nonprofit offices throughout the county, since getting to the bank is often one of the biggest hurdles for low-income clients.



COURTNEY BLETHEN / THE SEATTLE TIMES

Express Credit Union community-service representative Nathan Hawkins is shown at the YWCA downtown. Express is trying to reach people not served by a traditional bank.

### Express Credit Union

For more information, call 206-622-1850 or go to <http://expresscu.org>

"By meeting people where they are, and building on the trust our clients have already established ... Express is doing something that no other financial institution has ever tried," said Marilyn Mason-Plunkett, chief executive of Hopelink.

### **Different kind of bank**

McGill hadn't had a bank account in years, since he was rejected for bouncing checks in the past.

When he started a new job at the YWCA recently, he took his first paycheck to a check-cashing store. He was charged more than \$7 to cash a \$70 check, he said. "I told my wife, 'We keep cashing it here, we're just throwing money away.' "

Then he would carry the cash around with him. "You can't save money when it's on you," he said. "I'd always come up short on bills and spend more."

When he read about the Express program on a flier at the YWCA, he walked down the hall and sat down with Nathan Hawkins to talk about his finances and open an account.

The experience was different from a bank, he said. "You're just sitting there one on one," McGill said. "He's not a teller. To me he's like a friend."

Community-service representatives like Hawkins help people open accounts, deposit paychecks and apply for small loans, but they don't handle cash. Customers go to the bank's main office and a network of ATMs and BECU branches to get cash.

So far, McGill and his wife have been able to save \$200 toward a car. "Finally I have been able to pay my bills on time," he said. "It makes me feel good about myself."

### **A fresh start**

J.P. Benoit, another Express member, says the credit union offered a much-needed solution by consolidating his debt. "I had, like, seven or eight things I was paying off continuously," he said. "Paying each one of them off was adding up to almost \$1,000 a month, and I was just covering the minimum and interest."

The "Fresh Start Loan" reduced his payment to \$240 a month, which left him enough money to afford an apartment. He moved out of the Union Gospel Mission and had a home ready for his wife when she was discharged from the hospital after treatment for respiratory disease.

The loan has an annual interest rate of 15 percent, and a fee of \$25, which is refunded to people who attend financial education.

### **Savings emphasized**

Express bank accounts are designed to encourage and even enforce savings. Its certificates of deposit allow clients to add money in increments while maintaining the same fixed interest rate.

Its short-term loans have a 15 percent flat fee, but 5 percent of that goes into the client's savings account upon repayment. The loans can be paid off in 90 days, rather than the two weeks required by many payday-loan stores. Payday loans, by contrast, have interest rates as high as 390 percent.

Express customers are charged \$20 for bounced checks with a maximum charge of \$80 per day, but fees can be

waived if clients contact the bank or attend a financial-education class.

Benoit said he maintains accounts at two large commercial banks for paying his bills, but he has seen one bounced check spiral into \$150 in overdraft charges as the bank collected a \$35 fee each time the account fell below zero and a subsequent check didn't clear.

"You go and try to explain it to them and they don't want to hear about it," Benoit said. "As soon as the credit union is available where I can get to it, I'm not going to have anything to do with these guys."

A majority of Express customers must be low-income, which means earning about \$60,000 or less a year for a family and \$28,000 for an individual. Almost a third of county residents earn less than \$35,000 a year, according to census data. But customers of any income are welcome and will help the organization grow, McKay said.

Express will also emphasize personal relationships, said Chief Executive Brenda Kurz.

"Many people don't understand how financial services really work," said Kurz, who joined the credit union after a 23-year career with U.S. Bank. "The bank models are focused on efficient ways to do business. That's different than monitoring and assisting folks with unique needs."

### **Charitable support**

Express aims to expand to 7,500 members in King County in the next five years. It has raised \$2.29 million in charitable support. Most initial funding comes from the Medina Foundation, a Seattle family philanthropy that funds local human-service organizations, along with the Bill & Melinda Gates Foundation, Seattle Foundation, Safeco Foundation and Boeing. BECU is providing logistical support, such as legal, accounting and IT services, at no cost for up to five years. Boeing employees provided a grant for technology.

The credit union's goal is to become self-sustaining by its fourth year, Kurz says. By definition, credit unions are not for profit, and excess income is returned to members through better interest rates and other services.

The new organization's nonprofit arm, Express Advantage, can receive foundation money and make grants for financial education, credit counseling and case management.

Express Credit Union has been in existence for more than 70 years on a much smaller scale, serving 1,400 transportation workers from its building in South Seattle. It's now being reorganized and expanded.

### **Longtime loyalty**

The credit union's vice president and chief operating officer, Norma Hernandez, started out as a client.

"It's been my only financial institution and my only account," she said. More than a decade ago, when Hernandez and her husband were in their 20s, they applied for a loan from the credit union to buy a computer.

To their surprise, the loan officer turned them down. They already had two car loans and were making minimum payments on their credit-card balance.

The loan officer explained why they shouldn't borrow so much money, Hernandez said.

She hopes the new model will help change habits picked up from "generations of living from paycheck to paycheck," she said. "I can only imagine how many more we can reach who otherwise would never have thought of how to handle their finances. I know there's a lot of people like me out there."

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