

## Look out, payday lenders

New low-income credit union changes game for poor

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Norma Hernandez was just 17 when she first walked into Seattle's Express Credit Union. She and her husband had come to deposit his first paycheck from a grocery-bagging job.

It was all of \$230, Hernandez says, but it was a start on building their future. The credit union later gave them their first credit card, lent them money to buy a car and, when they applied for a \$3,000 computer loan, showed great respect, she recalls, in turning them down.

The loan officer sat them down and walked them through what a high debt-to-income ratio means — that their credit card balances were ballooning past their ability to pay — teaching the couple that “just because we can get credit doesn't mean we should be using it,” Hernandez says.

It was a huge revelation, she says, for two people from poor families who had seldom used banks, much less had credit.

It's an education and set of financial opportunities that Hernandez has shared with many others since she started at the credit union as a teller in 1999. Today, as its chief operating officer, she is leading a makeover that will vastly expand financial services to the poor and homeless in a way Seattle has never seen before.

On May 30, Express Credit Union, which was founded in 1934 for transportation workers, is formally flipping the switch on a new business model, changing from a regular credit union into the city's first ever low-income credit union, one providing “community tellers” with regular hours at 16 different sites — including human services agencies and a homeless shelter — and low-cost loans, money wires and other services that give the poor an alternative to the high fees of the check-cashing and payday-loan shops that many use.

A person meeting with an Express teller at the YWCA's Opportunity Place in downtown Seattle, for instance, can open an account with as little as \$5 — the credit union is giving \$10 to the first 500 new members who sign up — or apply for a payday alternative loan of up to \$750 and walk away with a debit card loaded with the funds.

Where payday lenders charge up to 391 percent in interest and demand repayment in weeks, Express charges a flat fee of 15 percent and gives 90 days to repay. Other loans are geared to re-establishing credit, paying off debt, buying a car or even getting citizenship (a \$675 loan that Express offers covers the federal naturalization application fee), all with a commitment to showing respect for and educating members, Hernandez says.

“I know that without opportunities I wouldn’t be where I am at. Somebody explaining to me without embarrassing me about how things work, and what steps to take, and forms of savings and the proper use of credit — it’s huge,” she says.

For a variety of reasons, up to 10 percent of the U.S. population doesn’t use banks — a market that Express is nearly alone in trying to reach. It will be one of Washington’s few low-income credit unions, a regulatory category that requires at least half the credit union’s members to have incomes at or below 80 percent of area median, or \$47,200 in Seattle.

Express has nearly met the goal, with 47 percent of its existing 1,400 members at or below the mark, says David Sieminski, operations director of the credit union’s nonprofit arm, Express Advantage, which will arrange the community tellers’ hours at the sites of eight nonprofit partners, including the YWCA, Neighborhood House and Solid Ground.

The agencies, in turn, will provide financial literacy classes to help Express members and other clients learn to manage their money. The second time a person bounces a check, for example, he or she will be encouraged to take a course. In exchange, the credit union will refund the overdraft fee.

The idea to turn Express into a low-income credit union started with the Medina Foundation, which began studying the issue of the poor and financial services five years ago, says its executive director, Tricia McKay.

“We had a hypothesis that... traditional banks and credits unions weren’t reaching low-income individuals for financial services and, in that gap, predatory lenders were there and a lot of low-income people were falling prey to [them],” McKay says — at a high cost to what little money they have.

Besides payday lenders, check cashers take a large cut of a check’s value and money orders can cost as much as \$5, says Pat Tassoni, a founding member of the five-year-old Thurston Union of Low-Income People, or TULIP, a low-income credit union in Olympia.

TULIP was one of many organizations that Medina consulted or studied across the nation, eventually deciding to take a bold step, McKay says: Instead of making a grant, as it normally would, the human services foundation would start a low-income credit union on its own — a difficult task that it was spared in part by finding Express, which was looking to expand beyond its roots serving bus and train workers and their immediate relatives.

Seattle’s Community Capital Development stepped forward as the project’s fiscal sponsor and, as it had done with TULIP, the Boeing Employee Credit Union put up \$250,000 in starter capital and “incubated” the project, from converting Express’s information management system to offering assistance to remodel its Sodo storefront on Fourth Avenue S.

Brenda Kurz, Express’s chief executive officer, says it aims to sign up 1,200 members a year over the next two years and 1,000 a year after that — a goal made all the more

urgent by the current economic recession. Though TULIP has been losing money, forcing it to draw down capital, Sieminski says there's no better time to embark on fighting the high cost of being poor.

"People just need the opportunity to take the proper steps in their lives to move them forward," Hernandez says, "without the doors closing just because [they've] made a mistake."

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