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An alternative to payday loans for the working poor

Tom Gallagher | Aug. 14, 2009

(Pat Marrin)

Mission Managment

Professor Muhammad Yunus, founder of Grameen Bank, was awarded the 2006 Nobel Peace Prize for pioneering the use of microcredit lending -- the making of very small loans with low interest rates -- to help the poor step out of poverty. With a 98 percent repayment rate, Yunus figured out that small Bangladeshi villages possess rules in which all borrowers are expected to repay their microloans for their own benefit and for the benefit of the community.

But can such organic, ground-up ?banking for the poor? work in the United States? In Belleville, Ill., a Society of St. Vincent de Paul council thinks it can.

The council wanted to address the needs of the working poor, specifically by addressing payday loans. ?These loans are really nothing more than legalized thievery,? said Pat Hogrebe, development director of the Belleville St. Vincent de Paul council.

Why is payday lending problematic?

According to the Consumer Federation of America, payday loans range from $400-$1,000 and have an average term of two weeks. This controversial lending practice usually attracts the working poor, who have few assets and usually do not qualify for traditional, low-interest forms of credit and live paycheck to paycheck. When the fees and interest are added together, the borrower is likely to face triple-digit interest rates.

?Payday loans prey upon people who are at their lowest point and feel trapped,? said Hogrebe, a registered nurse and trained adult educator. Groups like Consumers Union, AARP and Consumer Action agree and have proposed legislation to provide greater consumer protection.

Hogrebe?s council committee, Voice of the Poor, wanted to create an alternative to payday loans by creating a loan program that charges just 3 percent interest, and offers a flexible repayment schedule and finance education.

To get the program funded, the committee reached out to St. Vincent de Paul conferences -- local groups usually attached to a parish and who work with a diocesan-wide council -- and asked for funding and marketing support for this new loan program.

With $15,000 from conference donations, the St. Vincent de Paul council approached another organization, the Catholic and Community Credit Union, for help in implementing the program.

The origins of the Catholic and Community Credit Union would make Yunus proud.

In 1938, a priest at St. Mary Parish in Belleville asked Rose Nevener if she would help people learn to save money. After each Sunday Mass, Nevener would sit at a card table and accept deposits, update passport accounts, and eventually make small loans.

With $90 in hand, St. Mary?s Credit Union was formed. Soon other Catholic parishes in the diocese joined.

Meanwhile, Protestant churches established their own ?community? credit union.

In the early 1950s, the two credit unions merged to form today?s enterprise, which consists of approximately 10,000 members, three branches, 28 employees and $72 million in assets, serving St. Clair, Madison and Monroe counties.

The credit union is open to all residents in the three counties and is no longer formally Catholic or Protestant, though its mission statement would be acceptable to both groups.

At the time of Nevener?s death in 1989, the credit union had $8 million in assets. For her groundbreaking work, Nevener was posthumously inducted into the Illinois Credit Union Hall of Fame.

According to Callahan & Associates, a leading Washington, D.C.-based credit union research firm, there are 257 faith-affiliated credit unions out of a total of 7,909 in the United States. Some 58 are Catholic-affiliated. The average asset size of these faith-affiliated credit unions is just under $8 million.

Today?s collaboration between St. Vincent de Paul and the Catholic and Community Credit Union ?helps people who need just a little help,? said Vicki Westerfield, who leads the credit union marketing effort. ?Payday lending is a vicious cycle that is hard to break due to the high interest rates,? she said.

?We see the St. Vincent de Paul loan program as squarely within our mission of serving our members,? said Westerfield.

Potential borrowers go to St. Vincent de Paul and fill out an application. St. Vincent de Paul reviews that application with the assistance of the credit union loan officers. If approved, St. Vincent de Paul pays the $25 savings account fee or share fee of the credit union and a $300 loan is made to the borrower from the $15,000 fund.

Borrowers participate in a budgeting class and are taught how to save money. ?We really try to stretch their income as far as possible,? said Hogrebe. The program provides mentors for borrowers so they can learn new habits, she said. After successfully completing the budgeting class, the borrowers receive a $5 grocery store gift card.

The 3 percent interest will go back into the loan fund with the hopes of creating greater resources for more loans.

For those who don?t qualify due to enormous debt, no income or dishonesty, they are directed to consumer

credit counselors and other sources of assistance. ?They are not abandoned,? said Hogrebe.

The program is just beginning and is run in typical Vincentian style: lean. The program is run by the St. Vincent de Paul Council?s officers and Hogrebe, with the help of volunteers. ?We have to rely on the Holy Spirit to lead us,? said Hogrebe.

?Any program that helps the working poor avoid payday loans and begin to move from poverty into self-sustaining, small businesses is worth supporting,? said Roger Playwin, executive director of the St. Louis-based National Council of the U.S. Society of St. Vincent de Paul.

This past spring Yunus brought his lending philosophy and practical solutions to New York City. The first U.S. branch of Grameen Bank has lent $1.5 million to nearly 600 women with small businesses in Queens, N.Y. More proof that microcredit lending helps the working poor in the United States.

Grameen Bank has also applied for a U.S. credit union license.

On Aug. 12, Yunus, along with 15 other ?agents of change,? were awarded a Presidential Medal of Freedom by President Barack Obama, who has promised $100 million for microcredit lending in the Western Hemisphere.

Maybe next year?s recipients of the Presidential Medals of Honor will include Rose Nevener or Pat Hogrebe, or better yet, the National Council of the Society of St. Vincent de Paul, all change agents on behalf of the poor.

Tom Gallagher is a regular contributor to NCR. *Ideas for a ?Mission Management? story? Contact him at* tom@tomgallagheronline.com.

Online resources

The Society of St. Vincent de Paul, Belleville, Ill.
svdpsouthil.org [1]

Catholic and Communtiy Credit Union
www.catholicandcommunitycu.com

Grameen Bank
www.grameen-info.org

The Next Step FORWARD [2]

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