

## Staff Report

**EDUCATIONAL PROGRAMS ON ALTERNATIVES TO PAYDAY LENDING**

July 24, 2012

In April, Council adopted a zoning text amendment that severely restricts the ability of new payday lenders to locate in the City. At that time, Council asked for a report on what agencies the City could partner with on an outreach program to help at-risk borrowers learn about lending alternatives.

**Local Agencies**

Mid-Iowa Community Action (MICA) is a non-profit organization funded by the City through the ASSET process to provide financial information assistance to low-income individuals. Certified counselors provide information on budgeting, debt reduction, use of financial institutions, credit, home ownership preparation, and other topics. MICA also assists low-income families in setting up Individual Development Accounts (IDAs), which can provide low income individuals or families with a \$1-\$2 match on every dollar saved up to \$4,000 per family. Those accounts can then be used for certain purchases such as buying a vehicle or home, or starting a micro-enterprise.

In 2010/11, MICA provided 6,442 hours of family development programming to 257 individuals (62 families) in Story County. The City will support this program with \$6,932 for 2012/13. This program is not currently available due to staffing changes, but MICA intends to be able to provide services in this area during this fiscal year.

Consumer Credit Counseling of Northeastern Iowa has an office in Ames. This agency provides financial counseling, debt management and other services at free or reduced costs to low-income individuals. This agency has partnered with a variety of local governments and non-profits in Iowa to develop programs that assist those in need.

A variety of other credit counseling services exist in the area, although the extent of the educational component of the counseling varies. Most of these other agencies are focused on mediating new payment terms between borrowers and lending companies.

**Local Financial Institutions**

There are few programs available in local banks to provide short-term loans. The recent financial downturn has caused many banks to tighten conditions on loans, making high-risk individuals less likely to qualify for credit or to open accounts. However, some area banks provide at least one low- or no-minimum balance account option. These are primarily available in locally-owned banks.

Some local credit unions offer second-chance accounts for individuals who may have been turned down for checking or savings accounts before. Several local credit unions offer a low- or no-minimum balance account, in addition to educational programs on lending and credit.

### **Programs Outside Iowa**

In an effort to reduce low income individuals' reliance on payday lenders, in 2010 the City of San Francisco created the "Bank on San Francisco" initiative, which partners with local banks to reduce barriers to opening bank accounts and accessing credit. Participating banks agree to provide at least one account plan in which there is no minimum balance and the first set of overdraft fees are waived. The program also includes educational and outreach components. An auxiliary program, "Pay Day PlusSF," is a partnership between local credit unions to provide loans of up to \$500 for up to six months at 18% APR or less. These rates are significantly more favorable to the consumer than a typical payday loan.

The Bank On program has been replicated in 65 cities or states in the U.S. in partnership with the National League of Cities. Bank On's website, using data from the *2009 FDIC National Survey of Unbanked and Underbanked Households*, provides estimates on the proportion of unbanked households (no checking or savings accounts) and underbanked households (has a bank account, but relies on payday loans, pawn shops, or other short-term loan services) in cities across the nation. According to this web site, an estimated 6.9% of households in Ames are unbanked and 15.8% are underbanked. The U.S. Treasury is in the process of developing a "Bank on USA" program to provide resources to expand the Bank On program to other communities.