



# Stretch Pay Loans:

## An Alternative to Quick-fix Schemes

*With an eye toward social justice, students at the University of Dayton develop an alternative to expensive payday lending schemes.*



BY JOHN SCHROEDER

Joan C. is used to living on a fixed income and making her money stretch from month to month. But when an unexpected healthcare crisis hit three years ago and the bills started piling up, she panicked. “I felt overwhelmed,” says the 77-year-old Dayton resident who lives alone without the support of family nearby. In the past, when her house needed repair, Joan resorted to a quick payday loan to get by. “It was easy to get those loans, but the interest I paid on them was horrendous,” she says.

Payday lending is big business in the United States — accounting for an estimated \$50 billion in loans annually. With more than 22,000 storefronts nationwide (about double the number of Starbucks coffee shops), the stores are easily accessible for individuals like Joan and other hardworking people in need of a quick financial fix.

The trouble is, the loans are extraordinarily expensive — and become more so when they're rolled over from month to month. "The burden just keeps compounding," says Brother Victor Forlani, Marianist-in-residence for the School of Business Administration at the University of Dayton.

But today there's an attractive alternative for cash-strapped consumers thanks to a unique partnership between local credit unions, the Fitz Center for Leadership in Community at UD and a group of persistent students who took on a challenge in one of Brother Victor's management classes.

Brother Victor recalls: "About eight years ago, Dick Ferguson (Fitz Center executive director) and I got together at the request of a Dayton city councilman to look at the payday lending problem in local neighborhoods. We thought credit unions might offer a potential solution because of their nonprofit business model."

Executives at two of Dayton's largest credit unions — Wright-Patt and Day Air — expressed an interest early on, but with reservations. "They needed a business strategy, so I asked the students in my class to develop workable alternatives to the cash stores," Brother Victor says.

"It was a great exercise, because it introduced these college kids to the real world of finance," says Bill Burke, Day Air president and CEO. "We'd visit the class, listen to their ideas and critique them — all with the goal of developing a workable business plan."

After several proposals fell short, the students hit on a model that targeted people who were tempted to take out these loans — but were also potential credit union members. Joining a credit union made it possible for them to access loans with reasonable terms. For the credit unions, this approach eliminated the need to start a new business. They simply created a new line of business.

"That was a key insight," Burke says. "Brother Victor and the students helped us see that we didn't have to establish a new enterprise but could start small, performing tasks in which we had decades of experience, and gradually offer the Stretch Pay loans to more people."

## The long-term benefits

Today, the Stretch Pay loan — as it's called — is filling an important niche. After a successful pilot sponsored by Day Air and Wright-Patt in Dayton, the loan product is now being offered at credit unions in eight states and the District of Columbia.

It's making an impact, too: In 2009 (the last year for which results are available), participating credit unions made more than 86,000 Stretch Pay loans, totaling \$31.4 million. To service the loans, borrowers paid about \$794,000 in fees and interest — about six times less than the \$4.7 million they would have been charged by payday lenders.

Just as important, Stretch Pay borrowers are developing healthy financial habits,



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such as repaying their loans in full before they are eligible for another, and putting money each month into a savings account. "This isn't just about providing a less expensive way to borrow," Burke observes. "It also enhances our members' financial well-being for the long term."

Joan C., a member of Day Air credit union, was thrilled when she qualified for a Stretch Pay loan that offered the prospect of increasing her savings. "When I signed up for the loan, I had to agree to put 10 percent of my income each month in a savings account," she says. "Now I have money in escrow to pay my quarterly and annual bills."

That's a key lesson for UD and its students. "It's critical to organize something that's sustainable over time," says Brother Victor. "The Stretch Pay program does precisely that: It continues working to serve the real needs of people in our communities." ■

*John Schroeder is a freelance writer from St. Louis.*