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Credit Union Offers Payday Loans

By: Olivia Moran

Average payday lenders seem to be constantly linked to debt, which the UI Community Credit Union is aiming to avoid through a new version of quick cash.

The credit union is now offering a Payday Alternative Loan, which is a loan for as much as \$500, said Steve Quigley, the senior vice president of retail sales for the facility. Although the loan could seem as though it would bury customers in debt, it is actually intended to encourage saving habits, lenders said.

When a member takes out a loan, the credit union doubles the amount, placing half into a savings account. Quigley said the feature is intended to give a person a feel for savings.

"When the loan is paid off, you now have [extra money]," he said.

The credit union's objective is to help its members, especially those living paycheck to paycheck.

"There are a lot of people who go to [payday alternative loans] for things that come up unexpectedly," he said. "It could put a real dent in their budget if their water heater goes out, for example."

The loan has a 21 percent interest rate with no up-front fees - one of many slight differences in comparison with payday lenders.

Tom Rietz, a UI associate professor of finance, said that although he wouldn't recommend either type of loan, the credit union's is the safer choice.

"Going into debt always has cost and can always be abused," he said. "But 21 percent is an alternative to the rates charged by a typical payday loan center and is an awfully good deal."

While most lenders require borrowers to pay the loan back in only weeks - for example, one Check Into Cash business in Coralville gives its customers only until the next payday - the credit union allows a 12-month pay period, hoping to avoid forcing clients into a debt pattern.

"People [who use payday lenders] say, 'I just want to take this out for two weeks,' then next payday, they don't have the money," Quigley said. "They have to apply for a new loan, then there are new fees."

And new fees are burdens UI students do not want to deal with.

Graduate student Mark Bresnan says he knows all about student loans, and he said he

is trying to relieve his debt incurred during his years in school. But, he said, he likely would not use the Payday Alternative Loan - saying that its 21 percent interest rate seemed "too high."

"If you're a student, you should be able to get a better student loan from somewhere else," he said.

Although the \$500 limit prohibits most students from using the loan toward tuition, Quigley said the money could pay for books or a small portion of a U-bill. But, he added, the small amount is "really for an emergency."

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