

## **MITCHELL BANK**

### **PAYDAY ALTERNATIVE LOAN (PAL)**

There is an increasing demand for an affordable, lower-cost alternative to predatory payday loans. Mitchell Bank offers this small dollar loan product to low-and moderate income bank customers, the underserved market and customers with limited or poor credit histories, with the objective of helping consumers avoid reliance on high-cost debt. It is believed that providing a reasonably priced payday alternative loan to our existing customers will help retain these customers, assist in building multiple account relationships with them and provide new and expanded opportunities for financial education.

Most consumers turn to high-cost payday loans because they are easily accessible, strategically marketed and provide quick access to needed cash. Because of a lack of alternative bank products, they are forced to borrow at excessive interest rates and are subject exorbitant fees for loans of short duration. Mitchell Bank offers this payday alternative loan as a cost-effective, responsible, safe and sound product that is responsive to customer's needs.

### **PRODUCT DESCRIPTION**

The following is a description of the product terms and features:

#### **Loan Amounts:**

Minimum loan amount of \$300.00

Maximum loan amount of \$1,000.00

*Amount of loan can be any dollar amount between the minimum and maximum loan amount in one hundred dollar multiples.*

#### **Loan Term:**

6 months with full monthly amortization; **or**

12 months with full monthly amortization.

#### **Annual Percentage Rate (APR):**

The APR will range from 15% to 22% dependent on credit score and other underwriting criteria.

*Loans to individuals having a credit score between 570 and 620 will have an APR of 18.5%; Loans to individuals having a credit score above 620 will have an APR of 15.0%.*

*Loans to individuals with a credit score below 570, if offered and qualified as set forth below, will have an APR of 22.0%.*

*If an individual has an insufficient credit history to produce a credit score and in the absence of an alternative negative credit history, including a CCAP search, the loan may be approved and will have an APR of 18.5%.*

*If there are co-applicants a credit report will be obtained for both applicants and the interest rate will be based on the higher of the two credit scores, subject to the bank's discretion to deny the loan and/or impose additional conditions or criteria, including a higher interest rate, if either applicant's credit score is below 570.*

**Application/Origination Fees:**

\$8.00; an additional application fee of \$8.00 will be assessed if there is a co-applicant. *Application/Origination fees are assessed to cover the cost of obtaining credit reports.*

**Prepayment Penalties:**

None

**Security/Collateral Required:**

None

**Annual or Maintenance Fees:**

None

**Late Fees:**

\$10.00

*Late fee assessed on loan payments which are 10 days delinquent.*

**Type of Loan:**

This is a fully amortizing installment term loan.

For the purpose of the pilot program, the only loan offered will be a closed-end credit (term loan). An open-end credit may be offered at a later time depending on the customer demand and bank management deeming such a product necessary. The bank is also considering offering a very short term (60 day) single payment non-amortizing loan limited to \$300.00 for designated emergencies such as vehicle repairs, medical and other documented short term financial emergencies.

**Loan Restrictions:**

A borrower can have no more than two Mitchell Bank payday alternative loans within a 12 month period. There will be no additional loan approved unless and until the prior

loan has been paid in full. There will be no rollover, renewal, refinancing or other extension of the terms of the loan.

**Minimum Customer Tenure:**

6 months

Applicant must be and have been a Mitchell Bank customer with a checking and/or savings account for a minimum of six months to qualify for the Mitchell Bank pay day alternative loan. This tenure requirement may be waived based upon a higher credit score (over 670), a stable work history and satisfactory debt to income ratios.

**Direct Deposit and Automatic Transfer of Loan Payments:**

Borrower must have direct deposit of a payroll or benefit check to their Mitchell Bank checking or savings account. The borrower will be encouraged to authorize automatic transfer of monthly loan payments from borrower's Mitchell Bank account. In the event that automatic transfer of loan payments from the borrower's account is not authorized, the interest rate will increase by 2%.

If the customer is not currently set up for direct deposit for payroll or other benefit receipts, then the bank representative must complete the direct deposit forms at time of application.

**Savings Component:**

Mitchell Bank will require that the borrower set aside 10% of the amount borrowed in a designated savings account with withdrawals restricted and requiring prior authorization. The funds in this designated account will become available to the customer once the Mitchell Bank pay day alternative loan has been paid off. However, the customer will be encouraged and perhaps offered an incentive to keep the saving component in the designated account after repayment of the loan.

The designated saving account will have an interest rate 1% higher than the then applicable interest rate on the bank's passbook or statement savings accounts. This higher rate of interest shall continue on the balances maintained in the account after the loan has been repaid.

If the bank makes a loan to an individual with a credit score below 570, the borrower will be required to set aside 20% of the amount borrowed in a designated savings account. These funds will serve as a pledge against the loan and are subject to the bank's right to set off.

**Underwriting Criteria:**

In order to qualify for the Mitchell Bank Payday Alternative Loan, applicant must have been a customer of Mitchell Bank for a minimum of six months. Credit reports will be

required for every loan application (the minimum credit score to be eligible for standard pay day alternative loan is 570). If the credit score is below 570, the borrower will be referred by the bank to the Consumer Credit Counseling Service of Greater Milwaukee (CCCS) for face-to-face counseling and a written assessment of their financial situation. The borrower will be required to complete the recommended counseling and provide a written assessment of their financial situation. The borrower will be required to establish an acceptable financial plan and budget documenting the ability to make the required monthly loan payments before the loan can be approved. The borrower will also be required to comply with other terms and conditions as set forth below.

The borrower must have documented minimum monthly income of \$1,000.00. The borrower will be required to provide Mitchell Bank with at least the last two pay check stubs from their current employer or evidence of the receipt of other benefits for the last two months. This pay check stub or benefit receipt requirement may be waived if the customer is already set up with direct deposit and the bank can verify a consistent (3 months or more) deposit of sufficient funds into their account from their employer or benefit provider. Current employment or other benefit sources must be verbally verified by the bank at the time of application.

The bank will require borrowers to sign a pledge that they will not incur another payday loan during the term of their Mitchell Bank loan. The borrowers will also be required to warrant and represent that they are not currently debtors under any proceeding in bankruptcy or insolvency and that they have no intention to file a petition for relief under any chapter of the United States Bankruptcy Code.

### **Loans to Individuals with Less Than 570 Credit Score:**

Within its sole discretion, Mitchell Bank will consider making payday alternative loans to individual with credit scores below 570 based upon additional conditions and terms as set forth below:

1. The borrower must meet all underwriting and customer tenure criteria set forth above, with the exception of credit score;
2. The borrower will be referred to the Consumer Credit Counseling Service of Greater Milwaukee (CCCS) for face-to-face counseling and a written assessment of their financial situation. The borrower will be required to complete the recommended counseling and provide a written assessment by CCCS. The borrower will be required to establish an acceptable financial plan and budget documenting the ability to make the required monthly loan payments before the loan can be approved.
3. The loan amount is limited to \$500.00;
4. 20% of the loan amount must be pledged as security for the loan and deposited in a designated savings account.
5. Approval of the loan must be made by a loan officer of the bank;

6. The loan will have an APR of 22.0%;
7. The bank retains the right to deny the loan despite compliance with the additional criteria.

**Pay Day Alternative Loans to Non-Customers or Persons Not Meeting the 6 Month Customer Tenure**

Within its sole discretion and subject to the other terms and conditions set forth above except as modified herein, Mitchell Bank will consider making payday alternative loans available to non-customers and customers not meeting the 6 month customer tenure in a renewed pilot program for the next 182 days from and after 12/18/2008. The extension of these provisions will automatically sunset at the expiration of the 182 day period. Prior to the above expiration, management will present a report and review of the performance of the non-customer loans to the Board of Directors who will consider the reauthorization of the non-customer pilot. The non-customer pilot program will not be continued beyond the 182 day period unless extended by the Board of Directors of the bank.

**Direct Deposit and Automatic Transfer of Loan Payments:**

As a condition to the granting of the loan, all non-customers will be required to open and maintain an account with Mitchell Bank. This account can be the savings component account required above. Borrower must authorize direct deposit of a payroll or benefit check to their Mitchell Bank checking or savings account. The borrower will be encouraged to authorize automatic transfer of monthly loan payments from borrower's Mitchell Bank account. In the event that automatic transfer of loan payments from the borrower's account is not authorized, the interest rate set forth below will increase by 2%.

If the customer not meeting the 6 month tenure requirement is not currently set up for direct deposit for payroll or other benefit receipts, then the bank representative must complete the direct deposit forms at time of application.

**Underwriting Criteria**

To qualify for this loan, all non-customers must have a valid Social Security Number. The borrower must have documented minimum monthly income of \$1,000.00. The borrower will be required to provide Mitchell Bank with at least the last two pay check stubs from their current employer or evidence of the receipt of other benefits for the last two months. This pay check stub or benefit receipt requirement may be waived if the customer is already set up with direct deposit and the bank can verify a consistent (3 months or more) deposit of sufficient funds into their account from their employer or benefit provider. Current employment or other benefit sources must be verbally verified by the bank at the time of application.

The bank will require borrowers to sign a pledge that they will not incur another payday loan during the term of their Mitchell Bank loan. The borrowers will also be required to warrant and represent that they are not currently debtors under any proceeding in bankruptcy or insolvency and that they have no intention to file a petition for relief under any chapter of the United States Bankruptcy Code.

The maximum loan amount available to non-customers or persons not meeting the 6 month customer tenure requirement shall be \$500.00. The loan shall be a fully amortizing term loan of either 6 or 12 months. The minimum credit score required for approval of the loan shall be 580. If the credit score is below 580 the loan shall not be approved.

The interest rate on all loans approved under this pilot program shall be 18.5% APY. The borrower will be required to set aside 10% of the amount borrowed in a designated savings account. These funds will serve as a pledge against the loan and are subject to the bank's right to set off.

Non-customers will be required to provide all identification required by the USA Patriot Act and have a full CIP work up. A complete Wisconsin Circuit Court Access, Consolidated Court Automation Program (CCAP) search shall be performed on each borrower with the bank reserving the right to deny the loan within its discretion based upon the results of the search.

If there are any unsatisfied judgments or outstanding tax liens of any kind, as opposed to collections or late payments, reflected on either the credit report or the CCAP search, the loan will not be approved.

## **ITIN BORROWERS**

The bank is reauthorizing the change to the Small Dollar Loan Program by opening it up to ITIN customers under the same terms and conditions of the original program. The bank is aware and has considered that this feature and the borrower's profile involves additional risk so all bank personnel should be particularly vigilant to guard against any suspicious requests.

This will be a pilot program and the bank will continue to offer small dollar loans to ITIN borrowers for the next 182 days from 12/18/2008. This pilot program will automatically sunset after the 182 day period for review of performance of such loans. Prior to the above expiration, management will present a report and review of the performance of the non-customer loans to the Board of Directors who will consider the reauthorization of the non-customer pilot. The non-customer pilot program will not be continued beyond the 182 day period unless extended by the Board of Directors of the bank.

## **PRODUCT ADMINISTRATION**

### **Application:**

Borrowers will complete a short credit application with a Customer Service Representative (CSR), Branch Manager, or other Lender. Borrowers must also sign a *Borrower's Certification & Authorization*, allowing Mitchell Bank to obtain a credit report and other pertinent information. A copy of the payday alternative credit application is attached.

The goal is to make the approval process fast, convenient and efficient for both the borrower and the bank. To promote ease and accessibility, the customer service representatives on the floor will be empowered to approve loans meeting these guidelines without additional approval or oversight of the loan department.

### **Consumer Note:**

At time of loan closing, customer will sign a promissory note for the Mitchell Bank Payday Alternative Loan. The note will specify the APR, set forth a schedule for all monthly amortizing payments, all repayment terms, late fees, and all other appropriate terms and conditions. The note will indicate that there is no prepayment penalty, and should also include the appropriate legal terms giving the bank rights to offset any and all deposit accounts in the case the loan should become delinquent. A copy of the MB Payday Alternative Loan note is attached

### **Collection Procedures:**

In an effort to keep delinquencies on the pay day alternative loans to a minimum, a prompt intervention program for customers with late payments will be instituted. Collection procedures need to be in place starting with a phone call to the customer if a payment is missed or their bank account does not have sufficient funds to make the automatic payment. Collection efforts should be commenced as soon as a loan payment is three days late. If a loan is still past-due after three days, a notice needs to be mailed to the borrower requesting payment and that they contact the bank immediately.

Any and all collection efforts will be handled internally by appropriate bank representatives. *(Please note that all loans will have an automatic savings component with a hold placed on the funds until loan is paid in full. The note will also incorporate the feature of offsetting deposit accounts in the case of a collection).*

As an exception to our general loan policy, this loan is available to individuals who have filed either a Chapter 7 or 13 bankruptcy.

Revised: December 18, 2008

Approved by the Board: December 18, 2008

