



Maine Credit Union League



To: Committee on Criminal Justice & Public Safety

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Cc: Will Tew, OPLA Analyst  
Bernice Nadler, Committee Clerk

Date: Wednesday, February 5, 2025

Subject: LD 97, An Act to Facilitate the Improvement of Credit Scores of Residents of Departments of Corrections Facilities

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This program already exists, and loans are already being done (LD 97) would enable it to be administered more smoothly.

Participation in the credit builder program is voluntary. It's something residents must actively choose to do and participate in, and it's combined with financial education.

These loans are available to anyone in the community, there is nothing unique about this loan except for it being available in the correctional facility.

Below are some answers to questions from the committee.

**Could this loan take advantage of residents or be considered predatory in any way?**

**No.** Credit builder loans do not contain any predatory components such as high interest rates, insurance requirements, pre-payment penalties, or high fees. These loans are low-cost, low-barrier options intended to support consumers in establishing, improving, or rebuilding their credit.

- The interest rate is clearly stated and provided to the resident. Currently, the interest rate on our credit builder loans is 3% above the dividend rate on the account securing the loan, which is transparent and predictable.
- The only potential fee is a \$25 late payment fee, which is clearly disclosed. This fee supports the benefits of direct deposit from the share account, ensuring timely payment transfers.
- The loan amount and terms are straightforward and affordable. Currently, the maximum loan amount is \$500 for six months, making it manageable for the residents.
- This loan is designed to be fair and supportive of the residents' financial goals.

**Do residents have to do anything in order to receive a benefit to their credit score?**



**Yes.** To benefit their credit score, residents need to take several steps. First, they must proactively seek out the opportunity and apply for the loan. Additionally, they are required to attend a financial literacy meeting with a CU employee. During this meeting, they discuss how the loan works and review the basics of credit, including the importance of on-time payments and how derogatory payments can impact their credit. Once the resident has applied for and been approved for the loan, the resident must initiate the movement of money from their commissary account, sign the loan paperwork and determine how payments will be made. Generally, the borrower/resident signs a transfer form to set up automatic payments, however, the resident may choose to have payments sent monthly. To benefit their credit score, residents must make on-time loan payments.

- Utilizing auto payments is a convenient tool to ensure payments are always on time, eliminating delays related to processing through the finance office or postal mail.
- If residents opt not to use auto payments, they will need to make a cash transfer request each month through the finance office to ensure timely payments.

#### **What happens if someone doesn't pay the loan?**

- Late payment notices are sent, and the manager overseeing the program is notified if an account becomes past due. The manager will meet with the resident to discuss the issue.
- If a payment is delinquent for more than 30 days, it will be reported to credit agencies. This is a standard practice and is explained upfront to residents, helping them understand the impact on their credit score.
- If the account remains delinquent, the funds securing the loan will be used to offset the remaining loan balance and any remaining balance due is charged-off. All derogatory history is reported to the credit bureau.

#### **Who uses credit builder loans/why do they even exist if they're not actually 'credit'?**

The Consumer Financial Protection Bureau (CFPB) reported in 2015 that 26 million Americans are "credit invisible" meaning they lack any credit history with one of the three nationwide credit reporting companies. An additional 19 million consumers lack enough credit activity for companies to be able to determine a score. Credit builder loans are particularly important for this segment of the population, which shares demographic similarities with the populations of residents of correctional facilities.

Credit builder loans are particularly useful for:

- Individuals with no credit, such as young adults, immigrants, or individuals re-entering society after long-term incarceration.
- Those looking to rebuild or improve poor credit due to past financial difficulties like bankruptcy.



- Individuals who want to establish or improve their credit history with minimal risk, offering a lower interest rate than traditional loans.
- Individuals who would like to borrow against their own funds for a lower interest rate.

**How will future lenders know this was a secured loan that involved no risk to the lender?**

Future lenders will know that this was a secured loan and involved little to no risk to the lender because the loans report to the credit bureaus as share secured loans. Lenders are able to view the original balance, term, and payment history. Lenders will utilize their underwriting standards to determine the risk posed to the institution, including the borrower's credit, capacity, ability to repay, and other relevant factors.

- The loan will appear as a secured loan, which are viewed more favorably on the borrower's credit report. Specific details regarding the loan's security would need to be requested from the borrower.
- Ultimately, future lenders will focus on the borrower's payment history, which will demonstrate the individual's ability to manage credit responsibly.