MIAMIBEACH

City of Miami Beach, 1700 Convention Center Drive, Miami Beach, Florida 33139, www.miamibeachfl.gov

COMMITTEE MEMORANDUM

TO: Finance and Citywide Projects Committee Members

FROM: Jorge M. Gonzalez, City Manager

DATE: October 27, 2011

SUBJECT: **DISCUSSION REGARDING A PAYROLL DEDUCTION LOAN PROGRAM FOR EMPLOYEES**

BACKGROUND

This item was referred to and briefly discussed at the June 23, 2011 Finance and Citywide Projects Committee (FCWPC) meeting. At that time, the FCWPC opted not to move forward with offering a payroll deduction loan program to City employees. Since then, the FCWPC Chair asked that this item be placed again on the FCWPC agenda for further discussion.

ANALYSIS

BMG Money offers all active full-time and part-time employees voluntary employee emergency loans through a program called "Loans At Work."This program provides employees the opportunity to obtain the credit they may need to cover unexpected or emergency expenses.

The City currently has one option for City employees who may need an emergency loan that can then be paid off through payroll deductions. This option however is only available for those employees who may have a voluntary deferred compensation account through either ICMA-RC or Nationwide (the City's vendors who provide voluntary supplemental retirement accounts to our employees). In addition, City employees who are members of the Dade County Federal Credit Union are able to apply for loans which are then paid off through payroll deductions (although these loans tend not to be emergency loans but, rather, auto loans, home equity loans, mortgages, etc.).

The Loans At Work program is a direct-to-consumer loan, designed for employees who do not have access to traditional credit options, such as banks, credit unions, credit cards, deferred compensation and/or retirement accounts. These loans are unsecured and based on the following: (1) employee's employment; (2) employee's bi-weekly net take-home pay; and (3) the ability for the employee to repay the loan. Although the program does not verify the employee's credit, it does however provide the opportunity to build good credit, as the loans are reported to the credit reporting agencies when paid off. If the employee separates from City employment, that employee is fully responsible for the full repayment of the loan with the City bearing no responsibility or liability at all for the repayment of the loan.

A copy of the BMG Money Loans At Work program description is attached (Attachment A).

Through the BMG Money Loans At Work program, an employee:

- May borrow up to 20% of their net take-home pay (minimum of $500 to a maximum of $5,000) with interest computed daily and based on the amount of the loan (interest ranges from 23.75% to 29.75%);
- Pays a $25 loan application fee (per loan);
- Selects their repayment period, at either 6, 12, 18 or 24 months; and
- Can pre-pay the outstanding loan amount at any time without penalty.

If the City were to offer this program, then our Human Resources Department would need to provide BMG a data file of active City employees, including the name, address and salary of the employees; create the appropriate payroll deduction code in Eden (the City's payroll system) for any approved loans; and collect and wire the bi-weekly payroll loan payments to BMG Money. At present, the City would incur the current SunTrust Bank wire fee of $5 for each wire sent. However, should there be an interest in this program, this cost would be negotiated with BMG Money so that they would pay the cost of the wire transfer. This program can be made available to employees at any time, requiring only a 30 day set-up period.

Currently two (2) other municipalities in Miami-Dade County (Cities of Sweetwater, Doral and Hialeah Gardens) offer their employees the BMG Loans at Work program. In addition, BMG has advised us that a number of other cities in Miami Dade County are currently considering offering this program.

CONCLUSION

This program provides a voluntary payroll deduction loan program to employees through a non-traditional, unsecured loan to cover unexpected financial emergencies, with repayment provided through payroll deduction. If offered, this would be an option for employees who have no credit and are unable to secure emergency funds through traditional financial outlets. The City would not bear any responsibility or liability this program; however, there is a current wire transfer fee that would be paid by the City unless that fee is negotiated to be paid by BMG.

Attachment A

BMG Money
Loans at Work

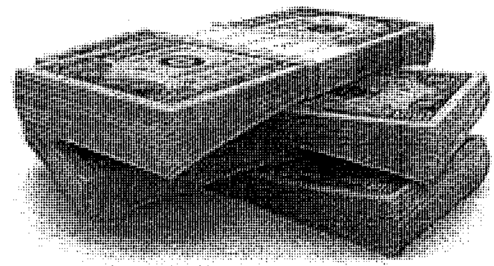
BMG Money

LOANS AT WORK

Credit that works for you

www.bmgmoney.com

www.loansatwork.com



Consumer credit is difficult to get today – even for people with good credit

- Due to the current U.S. financial crisis, consumer finance options have greatly declined
- Banks and credit card companies have increased underwriting standards and have cut lending to many people
- A decline in home values have made home equity lines of credit a thing of the past
- Many traditional consumer finance companies have closed
- More than 20% of the population uses "alternative" (i.e., high cost) short term loans*
- Alternative loans are poorly structured, too expensive, and trap people in a cycle of debt

*Alternatives include bank overdrafts, payday loans, car title loans, pawn and installment loans, refund anticipation loans, buy here pay here car dealers, rent to own centers, national banks' own payday loan products and credit card cash advance loans

LOANS AT WORK

Presented by: BMG Money

More than 25% of Americans today use expensive alternative financial products

FDIC

December 2, 2009

"The Federal Deposit Insurance Corporation (FDIC) today released the findings of its FDIC National Survey of Unbanked and Underbanked Households, breaking new ground in gaining understanding of which Americans remains outside of the banking system."

"The study, which is the most comprehensive survey to date of the unbanked and underbanked, reveals that ***more than one-quarter (25.6%)*** *of all households in the Unites States are unbanked or underbanked and that those households are disproportionately low-income and/or minority." State by state data available*

Public employees are representative of the population at large

BMG Money

BMG Money offers a microfinance solution – Introducing LoansAtWork

- LoansAtWork® is a brand new direct to consumer microfinance loan product that will change the way consumers borrow.
- Credit is granted based on job stability and cash flow – not credit history
- Direct to consumer loans are accessible through an employee benefit program, designed to help the employees who have the fewest options, and who need it most
- An easy way to help employees manage their personal finances and improve their credit
- Everyone can agree that consumers who have access to traditional, long term, secured and unsecured credit options should use them as their first choice for borrowing. The FDIC supports this and so do we at BMG Money.
- LoansAtWork is designed to help those with limited options for personal credit.

LOANS AT WORK

Presented by: BMG Money

LoansAtWork fits within the guidelines established by the FDIC for a well structured financial product

FDIC

A Safe, Affordable, and Feasible Template for Small-Dollar Loans

Product Element	Parameters
Amount	$2,500 or less
Term	90 days or more
Annual Percentage Rate (APR)	36 percent or less
Fees	Low or none; origination and other upfront fees plus interest charged equate to APR of 36 percent or less
Underwriting	Streamlined with proof of identity, address, and income, and a credit report to determine loan amount and repayment ability; loan decision within 24 hours
Optional Features	Mandatory savings and financial education

The template above was created by the FDIC as a best practices illustration of a model for safe, affordable, and feasible small-dollar lending. This is not as favorable as the terms offered by LoansAtWork

BMG Money

LOANS AT WORK

Presented by: BMG Money

Offering employees the benefit of a convenient and fair loan program can improve performance at work

Program Features

- Easy enrollment process
- Eligibility requirements and loan terms are simple to understand
- Apply confidentially online with immediate approval
- Cash is funded within 24 hours
- Full customer service team support

Product

- Loan terms of 6 – 24 months
- Fixed payment installments with no hidden fees
- Complete budget worksheet and financial education program
- Payments limited to no more than 20% of net pay
- Helps consumers rebuild their credit

Together with BMG Money,
employers can help their constituents rebuild their financial health

BMG Money

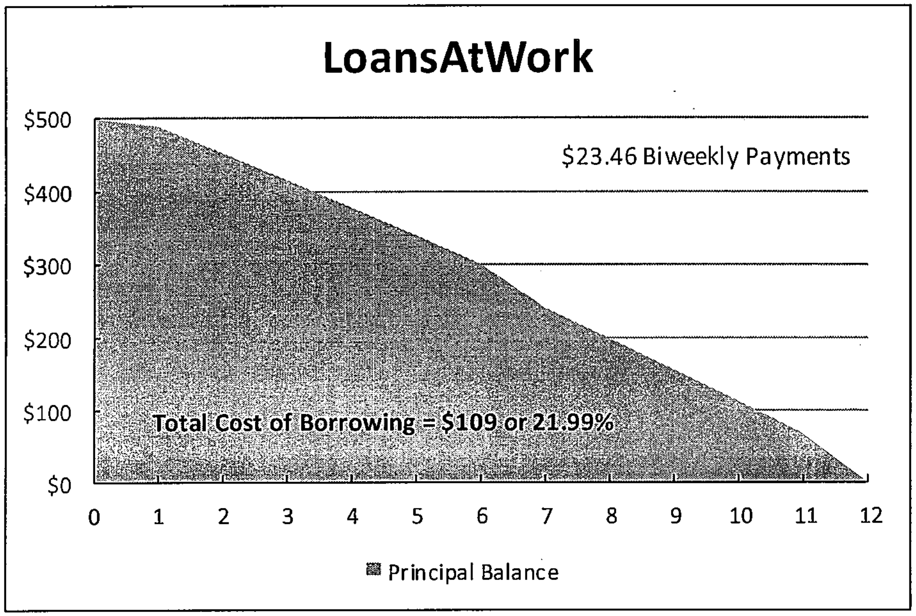
LOANS AT WORK
Presented by: BMG Money

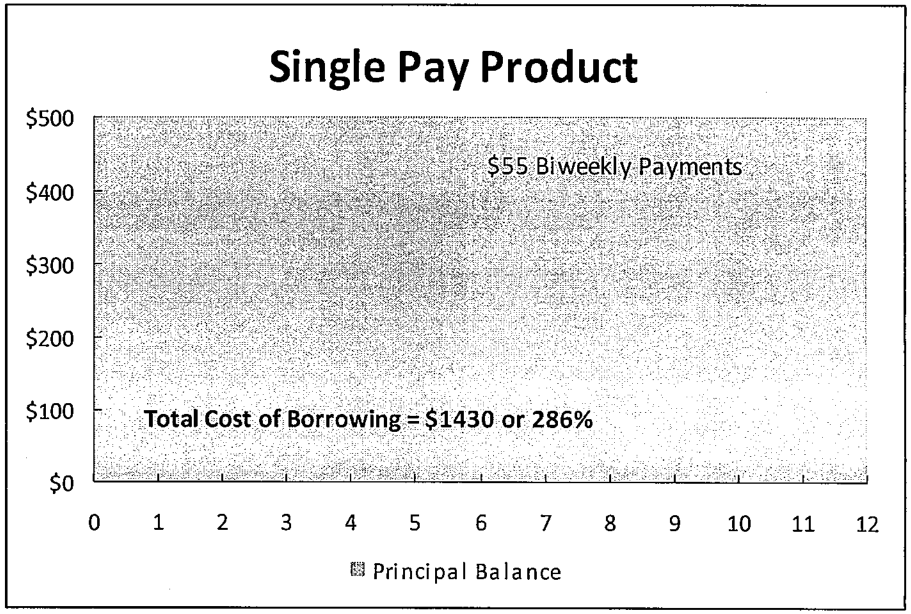
LoansAtWork has a lower cost to borrow than other short term unsecured loan options, regardless of one's credit history

Company	Loan Amount	Period	Interest Rate	Annual Cost	Ending Balance*
LOANS AT WORK (BMG Money)	$1,000.00	12 Months	29.75%	**$186.78**	**$0.00**
Capital One No Hassle Cash Rewards Card	$1,000.00	12 Months	24.90%	$270.36**	$875.87
citi PlatinumSelect Master Card	$1,000.00	12 Months	25.24%	$298.80**	$896.07
Regions usbank	$500.00	12 Months***	120.00%	$1,156.80	$500.00
Advance America Cash Advance	$500.00	12 Months***	286.09%	$1,430.00	$500.00
plain green	$1,000.00	12 Months***	239.33%	$1,445.39	$0.00

*Assumes minimum required payments are made for 12 months; **Includes cash advance fees of 3% for CapitalOne and 5% for Citibank
***Assumes that the loan is rolled over each term for up to one year

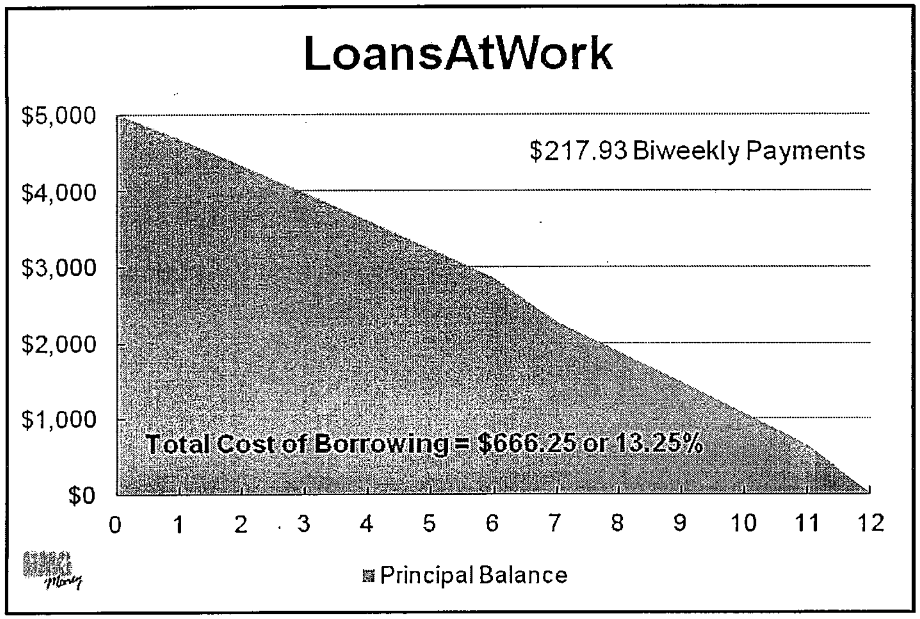
Single pay products are far more expensive and cannot compare to LoansAtWork's lower payments, lower interest costs, and full principal amortization

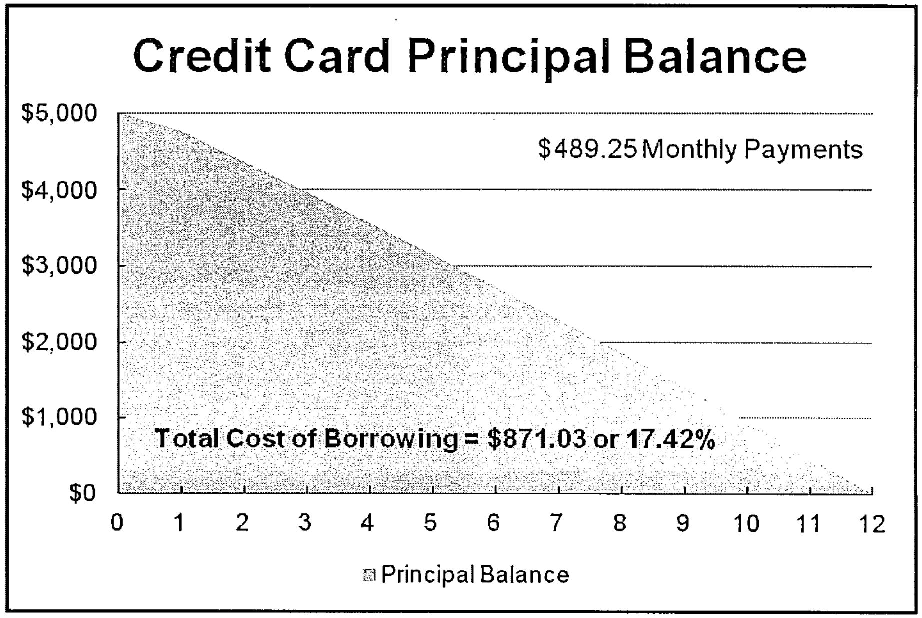




LoansAtWork calculates simple daily interest on a declining principal balance which means a lower cost of borrowing for the customer.

Cash advances on credit cards cost about a third more than LoansAtWork – but without a credit check





LoansAtWork's simple daily interest is the lowest calculation available to consumers.

For a $5,000 loan with an interest rate of 23.75% and a $25 fee from LoansAtWork, the CapitalOne No Hassle Credit Card (24.90% interest rate, 3% fee) costs the consumer $204.78 (or 31.5%) more than LoansAtWork, assuming comparable monthly payments.

LOANS AT WORK

Presented by: BMG Money

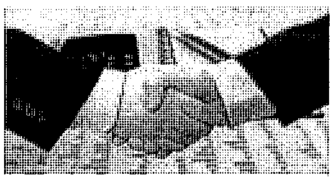
Employers can offer LoansAtWork as an added employee benefit at no cost to the employer and enjoy improved productivity

For the Employer

- ✓ Provides access to credit to employees who need it
- ✓ No cost to administer
- ✓ Improves morale and performance
- ✓ Increases productivity
- ✓ Provides financial education

For the Employee

- ✓ Automated qualification based on tenure and salary
- ✓ Easy budgeting via payroll deduction
- ✓ Affordable fixed interest rates with fixed payment amounts
- ✓ Private, quick funding
- ✓ Loan structure is easy to understand
- ✓ Builds credit



Employers and Employees Benefit

BMG Money

What do our customers look like?
What are the most frequent uses of proceeds?
What does our average loan look like?

Customer Profile

- Average income: $50,000
- Average tenure: 6-7 years
- Average age: 50 years old
- Primarily married with families

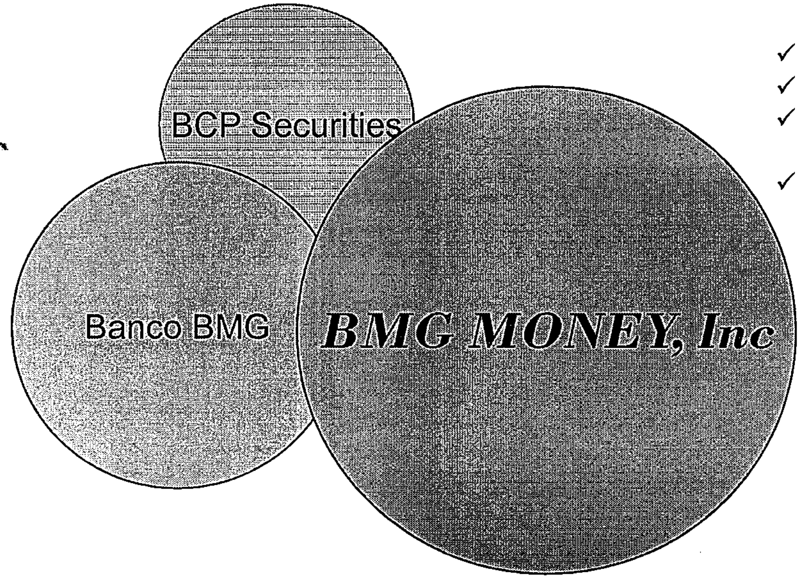
Primary Uses

- Out of pocket medical costs
- Unexpected home repairs (new air conditioning or kitchen appliance repairs, for example)
- Pay off higher rate debt
- Security deposit for a move into a new apartment

Average Loan

- Loan Amount: $3,900
- Term: Two years
- Interest Rate: 25.79%
- Average Biweekly Payment Amount $94
- Payment as a percentage of net pay: less than10%

Our customers' feedback is positive: they appreciate the discipline of payroll deduction and the ease of use of the confidential, on-line approval process



Who we are

- ✓ **Licensed Consumer Finance Lender**
- ✓ **US company based in Florida**
- ✓ **Regulated by the Florida Office of Financial Regulation**
- ✓ **Owned by two trusted institutions**

- Based in Miami, Florida, BMG Money is owned by shareholders of Banco BMG, the largest privately held bank in Brazil and the leader in consumer loans repaid through payroll deductions, and by BCP Securities, a boutique investment bank based in Greenwich, CT, focused on Emerging Markets since 1989.
- This partnership unites two firms with solid reputations for providing creative solutions to financial situations faced by consumers across the globe, and a strong track record of being the market leader of consumer loans repaid through payroll deductions for more than 12 years.
- BMG Money is committed to responsible lending and its innovative loan product benefits employees, associations, and employers alike.

BANCO BMG

Banco BMG has earned favorable ratings from the institutional and consumer risk rating agencies internationally and at home

Agencies	Date [1]	Rating	Risk Analysis
FitchRatings	December 2010	Local Currency A- (bra) Foreign Currency BB-	Perspective Stable
STANDARD &POOR'S	December 2010	Local Currency brA- Foreign Currency BB-	Stable
Moody's	December 2010	Local Currency Ba2 Foreign Currency Ba2	Negative

(1) Report date

Full report www.bancobmg.com.br/IR

These awards are from:
Austin Rating: Brazil's largest risk agency
Gazeta Mercantil: Most traditional Brazilian Business Newspaper
Fundação Getúlio Vargas: Best Brazilian Business School
RiskBank: Risk Agency focused on the Brazilian Financial Market

Our Management Team Understands the Business and the Customer

Marion H. Mathes
Chief Executive Officer

Ms. Mathes is responsible for the strategic management of BMG Money. She has over 25 years experience in the consumer and mortgage credit markets. Prior to joining BMG Money, she spent ten years as Director at Sherman Capital Markets, an international consumer finance company, where she was responsible for the firm's liability management with focus on the payroll deduction lending operation in Mexico. Ms. Mathes's professional experience includes the roles of lender, borrower, issuer, bond issuer and investor, with prior senior level positions with FGIC Insurance Company, Financial Security Assurance, Mortgage Lenders Network and Saxon Mortgage Capital Corporation. She started her career with 8 years at Chemical Bank after graduating from Princeton University. She is a member of The Citizen's Board of the University of Miami.

Wayne Wood
Operations

Wayne Wood is Executive Vice President with responsibility for managing the overall Operations of BMG Money. Mr. Wood has had direct customer experience during his more than 20 years of management where he has had a consistent track record of positive results. His most recent experience is 8 years with QC Holdings, a publicly held consumer lending company, where he was Vice President of Eastern Regional Operations. While at QC Holdings, Mr. Wood was responsible for implementing a successful and aggressive growth strategy in terms of both operations and profitability. Prior to QC Holdings, Mr. Wood held various positions including Director of Operations at Advance America, Moovies and Movie Gallery, where his track record for successful expansion was demonstrated on multiple occasions. Mr. Wood is a graduate of Tidewater College.

Timothy Cebulski
Information Technology

Timothy Cebulski is Senior Vice President with responsibility for Information Technology for BMG Money. Mr. Cebulski joined BMG Money from GMAC (now Ally Financial), where he spent more than 5 years in various positions managing strategic initiatives, including integrating Information Technology with Corporate Services and Treasury. He was responsible for managing the first Brazilian wholesale securitization for GMAC. Prior to joining GMAC, Mr. Cebulski was a Team Leader with Ford Motor Credit Company in their treasury global systems area, and has experience as a technical analyst with Comerica Bank and Electronic Data Systems. He holds an undergraduate accounting degree from Michigan State University and is a candidate for a Masters of Science in Information Systems from Walsh College.

THE WALL STREET JOURNAL.
WSJ.com

OPINION

DECEMBER 30, 2009, 11:27 A.M. ET

How Virginia Is Handling Payday Loans

The industry is a response to market demand.

By TIMOTHY M. KAINE

With the Obama administration carefully considering major reforms to the nation's financial system, one area that merits a closer look is the payday lending industry.

Averaging a 400% annual interest rate nationally, payday lenders have earned a bad reputation for good reason. From the triple-digit interest rates characteristic of these quasi-loans, to their disproportionate presence in working-class and minority neighborhoods, it's hard to argue the payday lending industry has any kind of positive impact. Families who take out payday loans tend to be lower income, younger, with less education, and are less likely to own a home.
Yet payday lending is an obvious consequence of free market forces responding to consumer demand. Payday lenders frequently justify their burgeoning industry on the grounds that they fill a liquidity demand for a constant class of workers unable to meet their borrowing needs in the mainstream banking and credit markets. While traditional lending sources have struggled through the downturn, payday lenders have seen an uptick as families managing through the economic crisis have sought relatively small loans on a short-term basis.

For state governments, the core challenge in addressing this issue has been finding a balance between capping the interest rate permitted on payday loans without driving the option out of the market altogether. In my state, Virginia, the debate over how to address the predatory nature and inherent racial disparities of payday lending led to legislative restrictions in 2008 that reformed the standards for lenders operating in the commonwealth. The legislation doubled the amount of time allotted to repay the loans and mandated the creation of a statewide database of payday loan transactions to ensure prospective borrowers hold no more than one loan at a time.

THE WALL STREET JOURNAL.
WSJ.com

How Virginia Is Handling Payday Loans - page 2 By TIMOTHY M. KAINE

While we should regulate payday lending and other forms of predatory lending, there is a strong need for people to have small-dollar loans in the marketplace. That's why Virginia pioneered a new strategy to offer more than 100,000 state employees a viable and cost-effective alternative to payday lending. In July, we established the Virginia State Employee Loan Program, a unique partnership between the Virginia State Employee Assistance Fund and the Virginia Credit Union.

Virginia's pilot program offers small loans ranging from $100 to $500 to state employees. The loans are offered at an annual percentage rate of 24.99% and are repaid via direct withdrawals from employee's paychecks over a six-month period. While there is no penalty for early repayment, employees are limited to one outstanding loan at a time and may apply for only two loans per 12-month period. Most significantly, to help keep state employees on sound financial footing in the future, the loan requires borrowers to become a member of the Virginia Credit Union and complete an online financial fitness course on money management or checkbook management.

The results of the Virginia State Employee Loan Program suggest that if individuals are offered an alternative to predatory loans, they take it. Just six months into the initiative, Virginia has already issued 2,794 loans to state employees totaling $1,373,400. Nearly half of these loans—1,310—came during the first month of the program's existence.

The overwhelming response to the program means that we are now exploring additional resources to fund these services. At the same time, other employers in Virginia offering similar programs are helping make the case that employer-based partnerships like the Virginia State Employee Loan Program are a viable service with a real consumer demand. Riverside Health System, a Newport News-based health-care organization, launched its own loan program in 2008 to help its employees pay off high-interest, short-term loans and is seeing similar success.

One thing is clear: As lawmakers craft their proposals for reforming America's financial system, payday lending should be part of the equation. In the meantime, the option remains open to employers both public and private to offer an alternative that guarantees a meaningful payoff for our families and communities.

Mr. Kaine, a Democrat, is the governor of Virginia.