Feature Article:

The FDIC's Small-Dollar Loan Pilot Program: A Case Study after One Year

The FDIC's Small-Dollar Loan Pilot Program began in February 2008. The pilot is a two-year case study designed to illustrate how banks can profitably offer affordable small-dollar loans as an alternative to high-cost credit products, such as payday loans and fee-based overdraft protection.[1] This article summarizes results from the first four quarters of the pilot, highlights factors that have contributed to the success of participating banks' programs, and presents the most common small-dollar loan business models through case study examples.

During the first four quarters of the pilot, participating banks originated a total of 16,000 loans with an aggregate principal balance of $18.5 million. Bankers cited a number of common factors that contributed to the success of their loan programs, including strong senior management and board support; an engaged and empowered "champion" in charge of the program; proximity to large populations of consumers with demand for small-dollar loans; and, in some rural markets, limited competition.

Only a few participating banks have indicated that short-term profitability is the primary goal for their small-dollar loan programs. Rather, most pilot banks are using the small-dollar loan product as a cornerstone for long-term relationship-building that also creates goodwill in the community. Moreover, a few banks' business models focus exclusively on building goodwill and generating an opportunity for positive Community Reinvestment Act (CRA) consideration.[2] Regardless of business model, all of the banks have indicated that small-dollar lending is something they believe they should be doing to serve their communities.

Background

Thirty-one banks are currently participating in the pilot program.[3] The banks, which are headquartered in 15 states, range in asset size from $26.0 million to $10.0 billion and have a total of 446 banking offices in 26 states (see Table 1). To be considered for the pilot, banks were required to meet certain supervisory criteria and to submit applications describing their small-dollar loan programs.[4]

A primary goal of the pilot is to observe and report on ways banks can successfully offer affordable small-dollar loans. Therefore, the FDIC encourages innovation in program design and execution, and provided only general guidelines for banks that volunteered for the pilot. The FDIC anticipated that most programs would be consistent with the Affordable Small-Dollar Loan Guidelines (SDL Guidelines), but banks are allowed some flexibility. The primary loan product features described in the SDL Guidelines include the following:

- Loan amounts up to $1,000
- Payment periods beyond a single paycheck cycle
- Annual percentage rates (APRs) below 36 percent
- Low or no origination fees
- Streamlined underwriting
- Prompt loan application processing
- Automatic savings component
- Access to financial education

[1] See "An Introduction to the FDIC's Small-Dollar Loan Pilot Program," *FDIC Quarterly,* vol. 2, no. 3 (2008), http://www.fdic.gov/bank/analytical/quarterly/2008_vol2_3/2008_Quarterly_Vol2No3.html, which summarizes the key parameters of the pilot, the proposals that participating banks described in their applications, and the first quarter 2008 results.

[2] The extent to which an institution's small-dollar loan program may be subject to positive CRA consideration is described in the FDIC's Affordable Small-Dollar Loan Guidelines issued on June 19, 2007, which can be found at http://www.fdic.gov/news/news/press/2007/pr07052a.html.

[3] As expected at the outset of the pilot, the composition of pilot banks has changed somewhat, but the overall number of participants has remained at 30 or above.

[4] The pilot is open to additional volunteer banks. For more information about the small-dollar loan pilot program application process, see the FDIC's Small-Dollar Loan Pilot Program Web site at http://www.fdic.gov/smalldollarloans/.

Table 1

Small-Dollar Loan Pilot Program Participants			
Bank	**Location**	**Total Assets ($000s)**	**Number of Branches**
Amarillo National Bank	Amarillo, TX	2,782,020	15
Armed Forces Bank	Fort Leavenworth, KS	833,062	51
Bank of Commerce	Stilwell, OK	92,014	3
BankFive	Fall River, MA	707,596	13
BBVA Bancomer USA	Diamond Bar, CA	148,467	27
Benton State Bank	Benton, WI	43,997	3
Citizens Trust Bank	Atlanta, GA	403,740	10
Citizens Union Bank	Shelbyville, KY	634,107	20
Community Bank & Trust	Cornelia, GA	1,272,478	44
Community Bank of Marshall	Marshall, MO	90,612	6
Community Bank - Wheaton/Glen Ellyn	Glen Ellyn, IL	308,019	4
The First National Bank of Fairfax	Fairfax, MN	26,049	1
First United Bank	Crete, IL	470,955	5
Kentucky Bank	Paris, KY	679,193	16
Lake Forest Bank & Trust	Lake Forest, IL	1,519,128	8
Liberty Bank	New Orleans, LA	404,104	17
Liberty National Bank	Paris, TX	248,375	3
Main Street Bank	Kingwood, TX	325,283	3
Mitchell Bank	Milwaukee, WI	76,209	11
National Bank of Kansas City	Kansas City, MO	748,438	6
Oklahoma State Bank	Guthrie, OK	42,549	4
Pinnacle Bank	Lincoln, NE	2,390,981	55
Red River Bank	Alexandria, LA	733,932	14
State Bank of Alcester	Alcester, SD	86,646	1
State Bank of Countryside	Countryside, IL	976,088	6
The Heritage Bank	Hinesville, GA	839,552	29
The Savings Bank	Wakefield, MA	398,397	9
Washington Savings Bank	Lowell, MA	160,150	3
Webster Five Cents Savings Bank	Webster, MA	550,939	8
White Rock Bank	Cannon Falls, MN	151,049	7
Wilmington Trust	Wilmington, DE	9,956,298	44

Source: FDIC.

Note: Participants and data are as of first quarter 2009.

Some exceptions to the SDL Guidelines exist among the loan programs of participating banks. For example, depending on their business plan and consumer demand, a number of banks in the pilot originate loans larger than $1,000. In addition, while several participating banks require automatic savings linked to small-dollar loans, others encourage but do not require savings.

Pilot banks are asked to provide quarterly information to help identify best practices related to successful small-dollar loan programs. The pilot is a case study and not a statistical sample, but some information, such as the total number and dollar amount of loans made, is relatively straightforward for participating banks to report and for the FDIC to aggregate. Other useful information cannot be collected in a standardized fashion because it is more subjective, difficult for banks to calculate, or anecdotal. To obtain information that is difficult to quantify, the FDIC has engaged in extensive one-on-one discussions with bank management to help identify important elements related to program feasibility.

Year One Financial Results

Pilot banks provide separate data on two categories of loans: small-dollar loans (SDLs) up to $1,000 and nearly small-dollar loans (NSDLs) over $1,000 and up to $2,500. The SDL threshold of $1,000 was chosen for consistency with the FDIC's SDL Guidelines and to determine whether $1,000 can be viewed as a "bright line" for a replicable small-dollar loan program template. As a result, more detailed data for SDLs have been collected thus far.

Table 2

Small Dollar Loan Pilot Cumulative Originations			
Statistics 1Q08 – 4Q08			
		SDLs	NSDLs
1Q08	Number	1,523	1,617
	Volume	$1,013,118	$2,696,996
2Q08	Number	2,388	1,918
	Volume	$1,495,661	$3,202,358
3Q08	Number	2,225	2,113
	Volume	$1,502,456	$3,651,934
4Q08	Number	2,210	2,033
	Volume	$1,492,273	$3,434,906
Total	Number	8,346	7,681
	Volume	$5,503,508	$12,986,184

Source: FDIC.

Note: SDLs are small-dollar loans of up to $1,000. NSDLs are nearly small-dollar loans over $1,000 and up to $2,500.

During the first four quarters of the pilot, participating banks originated 8,346 SDLs with a balance of $5.5 million and 7,681 NSDLs with a balance of $13 million (see Table 2). At the end of the fourth quarter, 5,550 SDLs totaling $2.5 million and 5,679 NSDLs totaling $7.9 million were outstanding. The total dollar amount of SDLs delinquent 30 days or more at the end of the fourth quarter was $184,636, or 7.3 percent of loans outstanding. The total dollar amount of SDLs charged off to date was $187,378, or 3.4 percent of loans originated under the pilot.[5] A few banks indicated that job losses and other economic problems in their market areas have recently led to increases in delinquencies and losses across loan categories and to a general reduction in the pool of acceptable borrowers.

Table 3 shows loan volume data for fourth quarter 2008 by originator size. Because several banks with long-standing programs have disproportionately large origination volumes, results for banks originating 50 or more loans per quarter are isolated from the rest of the group to prevent skewing the loan volume. Smaller originators made, on average, 9 SDLs and 13 NSDLs in the fourth quarter. This compares with an average of eight SDLs and eight NSDLs in the first quarter.

All banks in the small-dollar loan pilot offer only closed-end installment loans. In addition, all of the pilot banks' SDLs and NSDLs are within the recommended 36 percent maximum APR, including origination or similar upfront fees. Basic loan characteristics, such as interest rates, fees, and repayment terms, do not vary between banks that make a few loans and those that are large originators. Therefore, there is no distinction between large and small originators in the fourth quarter loan term data shown in Table 4.

Loan terms have remained fairly consistent quarter to quarter. For example, the average size of SDLs has hovered around $675, the interest rate has remained at about 15 percent, and loan terms have ranged from 10 to 12 months in each of the first four quarters. Similarly, for NSDLs, the average size has been close to $1,700, the interest rate has remained between 14 and 15 percent, and the term has ranged from 14 to 16 months.

While underwriting processes vary somewhat among pilot banks, most use streamlined underwriting criteria. All pilot banks require proof of identity, address, and income, and a credit report to determine loan amounts and repayment ability. Of the few banks that use credit scoring in the underwriting process, most call for a minimum Fair Isaac Corporation (FICO) threshold of 500 to 550. All pilot banks can underwrite SDLs and NSDLs within 48 hours, and many indicate that loans can be processed in less than an hour if the borrower has the appropriate documentation. The bank's size and business model determine whether the bank uses a centralized approval process or vests lending authority with branch managers or similar personnel.

Ten banks require SDL customers to open a savings account linked to SDLs, while nine encourage, but do not require, customers to open a savings account. For fourth quarter 2008, 339 new linked savings accounts were opened with a balance of $78,000 at the end of the quarter. Many banks have reported that their programs provide good opportunities to cross-sell other products and services. Although it can be difficult to track and quantify, a majority of participating banks reported selling other products to SDL customers. The most commonly cross-sold products were checking accounts.

Elements Related to Program Feasibility

According to bank interviews, a number of overarching elements directly affect the feasibility of SDL and NSDL programs. For example, almost all banks in the pilot indicated that strong senior management and board of directors support is a key factor in ensuring the

[5] Charge-off and delinquency data for NSDLs have not been tracked for purposes of the pilot. Industry-wide results showed that 2.6 percent of loans to individuals were 30 to 89 days past due in fourth quarter 2008, and 3.4 percent were charged off. See "Quarterly Banking Profile Fourth Quarter 2008," *FDIC Quarterly*, vol. 3, no.1 (2009), http://www2.fdic.gov/qbp/2008dec/qbp.pdf.

Table 3

Small-Dollar Loan Pilot Program 4Q08: Summary of Loan Number and Volume Data

	Number of Banks Reporting	Total	Average	Minimum	Maximum
Loans Up to $1,000					
All Banks					
# of Notes	24	2,210	92	1	1,548
Note Volume	24	$1,492,273	$62,178	$900	$1,019,450
Banks Originating Fewer Than 50 Loans					
# of Notes	19	179	9	1	39
Note Volume	19	$137,234	$7,223	$900	$34,900
Banks Originating More Than 50 Loans					
# of Notes	5	2,031	406	60	1,548
Note Volume	5	$1,355,039	$271,008	$27,950	$1,019,450
Loans Over $1,000					
All Banks					
# of Notes	15	2,033	136	1	849
Note Volume	15	$3,434,906	$228,994	$2,550	$1,379,266
Banks Originating Fewer Than 50 Loans					
# of Notes	10	129	13	1	39
Note Volume	10	$216,261	$21,626	$2,550	$62,135
Banks Originating More Than 50 Loans					
# of Notes	5	1,904	380	86	849
Note Volume	5	$3,218,645	$643,729	$177,064	$1,379,266

Source: FDIC.

Table 4

Small-Dollar Loan Pilot Program 4Q08: Summary of Loan Characteristics

	Number of Banks Reporting	Average	Minimum	Maximum
Loans Up to $1,000				
Loan Amount	24	$675	$399	$1,000
Term (months)	24	12	3	24
Interest Rate (percent)	24	15.34	3.25	32.00
Non-zero Fees (dollars)	12	$28	$1	$70
Loans Over $1,000				
Loan Amount	15	$1,690	$1,350	$2,550
Term (months)	15	16	7	36
Interest Rate (percent)	15	14.04	8.00	30.00

Source: FDIC.

programs' success. In addition, all participants expressed a strong commitment to their communities and felt that offering SDLs and NSDLs is part of that commitment. Pilot banks also cited the importance of having an engaged "champion" in charge, preferably with lending authority, significant influence over bank policy decisions, or both.

Bank location was also linked to program feasibility. Nine pilot banks consider their market areas to be rural, with limited competition for SDL and NSDL products. Eleven banks target SDL and NSDL customers by offering small-dollar products in offices with large populations of low- and moderate-income (LMI), immigrant, and military households that may have a greater demand for these products. In addition, many of the banks, regardless of location, cite the importance of strong partnerships with nonprofit community groups to refer, and sometimes qualify, potential borrowers.

Moreover, banks indicated that these partnerships foster word-of-mouth advertising for their SDL and NSDL products. As the pilot has progressed, word of mouth has emerged as the predominant marketing method. However, some banks also use radio, print, and billboard advertising; statement stuffers; branch brochures and placards; and outbound calling based on purchased customer lists to promote SDL and NSDL products.

Business Models: Case Study Examples

Generally, the SDL and NSDL programs offered by pilot banks can be categorized into three business models, depending on the bank's program goals. While some banks have overlapping goals, most have designed their programs to be long-term, relationship-building tools that also create goodwill in the community. Some banks are engaging in SDL and NSDL lending exclusively for the goodwill aspect and the opportunity to receive positive CRA consideration. Finally, a few banks report that SDL and NSDL programs have been designed to generate short-term profits. The following section summarizes the three business models and features case studies of banks operating under each model.

Long-Term, Relationship-Building Business Model

Nine banks in the pilot were already operating SDL/NSDL programs—some for 20 years or more—prior to the start of the pilot. Banks with existing programs were the most likely to report that overall relationships with SDL and NSDL customers are profitable. These banks indicate that costs related to originating and servicing an SDL or NSDL are similar to other loans. However, given the small size of SDLs and to a lesser extent, NSDLs, the interest income and fees generated are often not sufficient to achieve short-term profitability. Nevertheless, banks with existing programs have been able to generate long-term profitability through volume and by using the SDL and NSDL products to cross-sell additional products.

For example, as described in the text box on page 35, Amarillo National Bank in Amarillo, Texas, has been offering SDLs and NSDLs for more than 100 years.[6] The bank has not officially tracked the profitability of its SDLs and NSDLs or the number of additional products sold to SDL and NSDL customers. However, bank management firmly believes that offering these products has resulted in strong and profitable business and community relationships through cross-selling over the long term.

Twenty-two of the pilot banks operate new SDL/NSDL programs. While they are beginning to attract new customers and cross-sell other products, on a standalone basis, most new programs are not yet profitable. Most of the banks with new programs are interested in the long-term, relationship-building model. One such bank is Citizens Trust Bank in Atlanta, Georgia, (see text box on page 36). The bank recently revamped its SDL/NSDL program by broadening its target market from military personnel to the general population, including the military, after encountering strong competition and modest consumer interest in its initial program. Bank management also modified underwriting, advertising, and the approval process, among other areas. Although the long-term profitability and feasibility of this new program are still being assessed, Citizens Trust Bank has experienced a robust consumer response to the revamped SDL/NSDL product.

Short-Term Profitability Business Model

While most of the banks with new SDL or NSDL programs are interested in pursuing the long-term relationship-building business model, a few have achieved, or intend to achieve, short-term profitability from these programs. All of these banks are located primarily in census tracts with high concentrations of LMI households, immigrant households, or both, and have identified a need for small-dollar loan products among these consumers. In general, these banks are better positioned to generate higher transaction volumes and tend to impose interest rates and fees at the higher end of the range, although they remain within the recommended 36 percent APR limit.

For example, as described in the text box on page 37, Bank of Commerce in Stilwell, Oklahoma, identified a demand for SDL products among its large base of LMI customers by, among other things, observing that a number of its customers were writing checks to payday and similar lenders. Bank management leveraged this demand into a profitable program in the short term by designing a streamlined, reasonably priced SDL product, with linked savings and multiple opportunities for cross-selling products.

[6] Banks listed in this article are for illustration only. The FDIC does not endorse any bank or product.

Community Goodwill and CRA Business Model

A few banks in the pilot, both those with existing and new programs, offer SDL or NSDL products solely for the goodwill they generate in the community and the potential for positive CRA consideration. Most such banks are located in suburban areas with few LMI or immigrant-dense census tracts. These banks are likely to work primarily or exclusively with consumer and community groups that refer clients.

For example, as described in the text box on page 38, Wilmington Trust Bank, Wilmington, Delaware, offers its SDL program exclusively through a partnership with West End Neighborhood House, a social services organization that has worked with the bank on various projects for a number of years. The bank's goal is to enhance the availability of affordable credit to LMI consumers in its community, rather than to increase profitability or build customer relationships.

Conclusion

After one year, the FDIC's Small-Dollar Loan Pilot Program has provided evidence that banks can offer reasonably priced alternatives to high-cost, short-term credit. Most participating banks have determined that using SDL and NSDL products as a cornerstone for building long-term profitable relationships is the most feasible business model. Some banks believe that their location, underwriting processes, and pricing structures will allow for short-term profitability. Others focus solely on providing a service to the community by ensuring that reasonably priced credit is available to a broad range of consumers. The FDIC will continue to explore the feasibility of participant banks' programs as the pilot continues over the next year. Banks and others interested in the pilot can contact the FDIC at smalldollarpilot@fdic.gov.

Authors: *Susan Burhouse, Senior Financial Economist*

Rae-Ann Miller, Special Advisor to the Director of the Division of Insurance and Research

Aileen G. Sampson, Financial Economist

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Long-Term Feasibility through Volume and Relationships

Amarillo National Bank
Amarillo, Texas

Amarillo National Bank is a $2.7 billion, family-owned bank located in Amarillo, Texas. In addition to its main office, the bank has 14 branches, all of which are in, or close to, Amarillo. Located in the center of the Texas panhandle, Amarillo is the nation's 120th largest city. Amarillo has a diverse economy composed of farm and ranch operations, cattle feeding and processing operations, extensive cancer research and medical facilities, and petroleum-related industries. It is also the home of Bell Helicopter's Osprey production facility, as well as Pantex, a nuclear assembly and disassembly facility. The city's populace is diverse; about 26.3 percent of households are Latino or Hispanic, compared to the nationwide average of 14.7 percent.[a]

The bank's SDL/NSDL program has existed for more than 100 years, and bank management believes that making these loans is in line with the bank's local focus and desire to serve its community. There are no established parameters for loan amounts, but the standard minimum is $500. The bank may make loans exceeding $2,500 on a case-by-case basis, but it is only reporting loans up to this limit in accordance with the NSDL threshold. All loans are closed-end, and terms generally range from 9 to 12 months. The average interest rate is about 14 percent, with a maximum rate of 18 percent, and the bank does not charge an origination fee.

In addition, the bank offers a discount for consumers who choose to have their payment automatically debited from their checking account. Proof of income, identity, and address is required. A credit report is also obtained as part of the underwriting process, but the bank does not require a particular credit score. Underwriting is delegated to branch managers, and if the customer's documents are in order, a loan can be underwritten in just a few minutes.

[a] U.S. Census Bureau, "2005–2007 American Community Survey."

In the first four quarters of the pilot, Amarillo National Bank originated 1,074 SDLs and 1,911 NSDLs. As of the end of the fourth quarter, 640 SDLs with a cumulative balance of $487,000 and 1,594 NSDLs with a cumulative balance of $2.8 million were outstanding. Twenty-one SDLs originated in the first four quarters have been charged off, and 155 were 30 days or more delinquent as of the end of the fourth quarter.

The bank does not require linked deposit products and does not formally track the profitability of SDL or NSDL products or overall relationships with these customers. Indeed, the bank only recently began to tally cross-selling of products for the purposes of this pilot; for the last half of 2008, the bank opened 64 savings and checking accounts for SDL customers. However, bank management strongly believes that providing SDLs and NSDLs is a service to the community that pays off over the long term through goodwill and stronger customer relationships. According to the program administrator, Vice President and CRA Officer Lilia Escajeda, "Amarillo National Bank has been making these loans for as long as I have been here [30 years], and I still see people with houses, successful businesses, kids in college, who tell me that the small-dollar loan I made to them was their first step in establishing a relationship with a bank."

Amarillo National Bank does not formally advertise its SDL and NSDL products. Rather, after many years of offering these loans, the bank relies on word of mouth in the community. Bank management also attributes the success of the program to the bank's strong commitment to and partnerships with civic and business organizations, schools, community groups, and other organizations. Many bank employees volunteer to work with these groups to provide financial education and promote the bank's relationship-based approach to banking, which includes SDLs and NSDLs.

Re-evaluating Program Features Based on the Marketplace

Citizens Trust Bank
Atlanta, Georgia

Citizens Trust Bank is a $348 million, African-American-owned bank in Atlanta, Georgia. In addition to its main office, Citizens Trust has seven metropolitan Atlanta branches; one branch in Columbus, Georgia; one branch in Birmingham, Alabama; and one in Eutaw, Alabama. Four of the Atlanta branches, both Alabama branches, and the Columbus branch are located in LMI census tracts. Columbus, Georgia, is a metropolitan area bordering Alabama and is close to a large military population at the Fort Benning Military Reserve.

Beginning in early 2008, through its Columbus office only, Citizens Trust Bank targeted military personnel at Fort Benning exclusively for its SDL product. After several months of advertising in the *Bayonet*—the Fort Benning newspaper—and airing radio advertisements, the bank originated only a few of the military-targeted SDLs. Originations were hampered by competition from programs offered on the military base that had already gained a large share of the market among Fort Benning consumers.

As a result of low loan volumes, management decided to significantly change its program by expanding the target market beyond military personnel to include the general public. In December 2008, the bank began offering a new small-dollar product called the "Community Relief Loan" at all of its branches. Citizens Trust Bank primarily used radio advertising and signs in bank branches to promote the product. According to Citizens Trust Bank's Assistant Vice President and Director of Consumer Lending Sharnell W. Reynolds, in the first two months of the program, the Community Relief Loan campaign had generated 574 applications and 81 originations totaling more than $116,000.

Unlike the military-focused loan program that required linked savings accounts, linked savings are optional under the Community Relief Loan program. Nevertheless, in the first two months of the program, Community Relief Loan customers had opened a total of 52 new savings and checking accounts. Borrowers are strongly encouraged to authorize automatic debits of loan payments from a savings or checking account. Although none of the loans were delinquent or in default as of the fourth quarter, the program is still very new.

The Community Relief Loan ranges from $500 to $1,500. Each loan carries a $48 origination fee, and the interest rate is 15 percent. The maximum term on a $500 Community Relief Loan is six months; one year is the maximum term on larger loans. To qualify, borrowers must have a FICO credit score of at least 500, proof of regular income for six months, no outstanding liens or judgments, and have been at their current address for at least one year. The bank also has alternative underwriting processes to accommodate prospective borrowers with thin or no credit histories. The maximum loan amount for these applicants is $500, and they must provide proof of employment for the previous six months and show an alternate form of good credit history. For instance, borrowers might provide proof that they have paid their rent or utility bills on time for the previous six months.

The loan approval process is decentralized and managed at each of the bank's ten branches by Financial Relationship Managers. Each Financial Relationship Manager has Community Relief Loan approval authority and uses a standard underwriting checklist to guide routine application determinations. Those who recommend exceptions to the checklist guidelines route their requests to the corporate offices in Atlanta. With or without an exception, it generally takes less than 24 hours from the time an application is submitted to deliver a check to an approved borrower. If all of the required borrower documentation is on hand at the time an application is submitted, same-day delivery is possible.

Because the revamped program is still new, bank management continues to evaluate the program's success and ongoing feasibility. Going forward, they will assess its profitability, consider its usefulness as a tool for building new business relationships and cross-selling, and gauge how well it meets the needs of the communities served by Citizens Trust Bank.

Leveraging Location for Profits, Relationships, and Community Service

Bank of Commerce
Stilwell, Oklahoma

Bank of Commerce is a $92 million bank in Stilwell, Oklahoma. In addition to its main office, the bank has a branch in Stilwell and a branch in Park Hill, Oklahoma. Most of the bank's SDLs are originated out of the main office in Stilwell. Located in northeastern Oklahoma in southern Adair County (of which it is the county seat), Stilwell is east of Muskogee, Oklahoma, about seven miles from the Arkansas border. According to bank management, Stilwell is rural, with a large concentration of LMI households.

The bank's SDL program was new at the time it applied to the pilot program, and its application indicated that these loans would be an extension of the bank's desire to meet the needs of its customers. Loans range from $200 to $1,000, and all are closed-end with a 12-month term. The interest rate varies, in accordance with the bank's general interest rate policy, and currently does not exceed 13.75 percent for these loans. The origination fee is $25 to $50, depending on the size of the loan, which, combined with the interest rate, has resulted in an average APR of 25 percent. Proof of income, identity, and address is required. A credit report is obtained as part of the underwriting process, but the bank does not require a particular credit score. If the customer's documents are in order, a loan can be underwritten in less than one hour. A centralized loan officer approves all of the SDLs.

In the first four quarters of the pilot, Bank of Commerce originated 84 loans. As of the end of the fourth quarter, 41 loans, with a cumulative balance of $8,200, were outstanding. Two loans have been charged off to date, and two were 30 days or more delinquent as of the end of the fourth quarter.

Bank of Commerce encourages, but does not require, SDL customers to open savings accounts linked to their SDL. For linked savings accounts, the bank adds 25 percent to each monthly payment and deposits it into a savings account. For example, if a monthly payment is $50, the loan payment book or automated clearinghouse ticket reflects $62.50, with $50 debited for loan repayment and $12.50 applied to savings. As of the end of the fourth quarter, SDL customers had accumulated a total of $1,000 in linked savings.

In addition to linked savings accounts, the bank strongly encourages SDL customers to open checking accounts. Consumers may choose to have their loan payment debited from their checking account. The bank also attempts to graduate SDL customers to other credit products after satisfactory performance with SDLs. In the second, third, and fourth quarters of the pilot, Bank of Commerce reported that a total of 74 credit products were sold to SDL customers.[b]

Bank management has indicated that SDLs are profitable on a stand-alone basis and have provided a gateway to establishing customer relationships. Management attributes profitability to the bank's pricing structure, streamlined product design, attentive underwriting, and solid demand from a large base of LMI consumers. According to Vice President Jason Garhart, "We offer check-cashing services and see lots of folks that we'd like to have as customers, and we see our own customers writing checks to payday lenders and such. We thought that an affordable small-dollar loan product might be a good way to build relationships with new customers, strengthen our relationships with existing customers, and do some good for the community."

Bank of Commerce initially advertised its SDL program through a mass mailing to existing customers. Branch personnel have also been trained to discuss the SDL product with consumers and refer potential borrowers to the lending staff. Early in the program, bank personnel advertised SDLs in local newspapers, although they do not believe these advertisements yielded many potential applicants. A more effective method has been placing promotions for SDLs in a rotation of bank product advertisements on an electronic billboard located on a highway close to the bank's main office.

[b] Information regarding cross-selling of other credit products in the first quarter is not available.

Partnering with Nonprofits to Help the Community

Wilmington Trust
Wilmington, Delaware

Wilmington Trust Company is a $10 billion institution headquartered in Wilmington, Delaware, with 44 branches throughout the state. Wilmington Trust is a leading retail and commercial bank in Delaware and is one of the largest personal trust providers in the country. The bank is a wholly owned subsidiary of Wilmington Trust Corporation and has three major business lines: regional banking, corporate client services, and wealth advisory services.

To enhance the accessibility of credit for LMI borrowers in the Delaware market, Wilmington Trust has collaborated with West End Neighborhood House (WENH), a large community organization in the city of Wilmington, for about 15 years on a number of community initiatives. WENH is a nonprofit organization that delivers coordinated social services to help low-income and underserved individuals attain self-sufficiency. In late 2007, just prior to the start of the FDIC's Small-Dollar Loan Pilot Program, WENH created the Worker's Loan Program to compete with payday lenders and provide a more affordable option for individuals needing to borrow cash quickly.

The Worker's Loan Program provides loans between $250 and $500 at interest rates ranging from 12 to 15 percent with no fees. Loans are repaid in a maximum of four installments based on the borrower's pay schedule. To qualify, applicants must present the same types of information that payday lenders often require: a recent bank statement showing no overdrafts, recent pay stubs, a driver's license or state photo identification card, and a current utility bill. A unique feature of this program is that WENH screens the applicants, performs the underwriting, and then faxes the loan application to the bank for processing, all of which can be completed in less than two hours. Although customers apply for the loans at WENH, once approved, they are directed to one of Wilmington Trust's branches to collect loan proceeds. Qualified borrowers submit postdated checks for each planned installment to WENH at the time the loan is approved, and WENH deposits the checks to Wilmington Trust on the payment due dates.

One of the most important elements of the partnership between WENH and Wilmington Trust is that borrowers can receive a full range of social services from WENH that can enhance their ability to remain current on their loan payments. All borrowers receive credit and budget education, but clients can also receive case management, crisis intervention, and other services.

Throughout 2008, Wilmington Trust originated 238 Worker's Loans totaling nearly $100,000. At the end of fourth quarter 2008, 13 loans were delinquent and 14 had been charged off. Wilmington Trust Vice President and CRA Manager Beryl Barmore reported that the Worker's Loans have been performing somewhat better than might be expected given the borrowers' risk profiles, although not as well as the bank's other consumer loans. She noted, however, that the capacity of applicants to take on even small loans declined during the difficult economic environment in early 2009. All loans made through the Worker's Loan Program are fully guaranteed by WENH and are collateralized by a loan loss reserve funded by grants and donations from other program partners, including financial institutions and social service organizations.

The Worker's Loan Program is prominently featured on WENH's Web site (www.westendnh.org). The United Way of Delaware is working with WENH to implement a comprehensive marketing and public relations plan, in addition to helping WENH expand the program throughout the entire state. Wilmington Trust and WENH have observed, however, that careful attention must be paid to reaching the right target audience. For example, early efforts to publicize the program by broadly encouraging social services agencies to disseminate information were not successful because many clients at those agencies would not qualify for the loan program. Ongoing and future marketing strategies will make clear that, like payday loans, the Worker's Loan Program is targeted toward individuals who are employed and have a bank account in good standing.

Wilmington Trust does not assess the profitability of the program and has not sought to cross-sell or develop banking relationships with Worker's Loan Program borrowers, most of whom are not deposit customers of the bank. The Worker's Loan Program was developed to provide a reasonably priced alternative to payday loans in an efficient manner, and bank management believes it has succeeded. According to WENH, anecdotal evidence suggests that borrowers are using fewer high-cost debt products than they did before acquiring a Worker's Loan. In addition, several individuals in WENH's housing counseling program have been able to use this loan program to pay off small debts, improve their credit rating, and thereby qualify for a mortgage.