



Federal Deposit Insurance Corporation
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Financial Institution Letter
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SMALL-DOLLAR LOAN PILOT RESULTS RELEASED

Pilot Study Results in Creation of Safe, Affordable and Feasible Template for Small-Dollar Loans

Summary: The FDIC has issued the attached report to summarize the final results of the FDIC's Small Dollar Loan Pilot Program, and outline lessons learned and potential strategies for expanding the availability of affordable small-dollar loans. The pilot was a two-year case study designed to illustrate the feasibility of banks offering alternatives to high-cost credit products, such as payday loans and fee-based overdraft programs. The pilot, which was completed in the fourth quarter of 2009, resulted in the creation of a template for safe, affordable and feasible small-dollar loans.

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Attachment:

FDIC Quarterly article, "A Template for Success: The FDIC's Small-Dollar Loan Pilot Program"
http://www.fdic.gov/bank/analytical/quarterly/2010_vol4_2/FDIC_Quarterly_Vol4No2_SmallDollar.pdf

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Highlights:

- At the conclusion of the pilot, 28 volunteer banks with total assets ranging from \$28 million to nearly \$10 billion were participating. Participating banks made more than 34,400 small-dollar loans with a principal balance of \$40.2 million. Small-dollar loan default rates were in line with default rates for similar types of unsecured loans.
- The pilot resulted in the development of a template of product design and delivery elements for safe, affordable and feasible small-dollar loans. Elements include loan amounts up to \$2,500; annual percentage rates of 36 percent or less; low or no fees; streamlined underwriting; and loan terms of 90 days or more.
- The template is an illustration of a best practices model for safe, affordable and feasible small-dollar lending.
- The template is reflective of the programs and products offered by pilot banks and is replicable. It is relatively simple to implement and does not require any technology or other major infrastructure investment.
- The template can help banks better adhere to existing regulatory guidance on offering alternatives to fee-based overdraft programs. Specifically, this guidance suggests that banks should "monitor excessive consumer usage (of overdrafts), which may indicate a need for alternative credit arrangements or other services, and inform consumers of these available options," which could include small-dollar credit products.
- The best practices and elements of success that emerged from the pilot underpin the Safe, Affordable, and Feasible Small-Dollar Loan Template. In particular: most bankers participating in the pilot indicated that small-dollar loans were used to develop or retain long-term relationships with consumers; long-term support from a bank's board of directors and senior management appeared to be most important for program success; and, loan terms longer than a few pay cycles, giving consumers time to repay, emerged as the most important product element.

