From: Kent Franzen [mailto:kfranzen@hendersonstatebank.net]
Sent: Thursday, November 15, 2018 5:37 PM
To: Comments
Subject: Regarding the Request for Information RIN 3064-ZA04

To Robert E. Feldman, Executive Secretary, Attention: Comments, Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429

Dear Mr. Feldman,
Regarding the Request for Information RIN 3064-ZA04 I have the following comments in italics after the questions asked by the FDIC.

Consumer Demand

1. To what extent is there an unmet consumer demand for small-dollar credit products offered by banks?

There will always be demand for this lending that is not met because a significant share of the potential borrowers in this market want and or need more funds than they can afford to repay on a reasonable schedule. I believe the welfare system has proven that this demand cannot be satiated in full, double-digit increases in this spending in the past has been unable to quench this particular thirst. And to a certain extent this attitude continues with the lower income strata of borrowers, speaking collectively.

2. To what extent do banks currently offer small-dollar credit products to meet consumer demand?

We are being careful to tailor loans within the ability to repay, within prudent collateral margins and to avoid "evergreen" situations. Otherwise we are doing what we can to allow flexibility or repayment to the extent possible or permitted with established customers.

3. To what extent and in what ways do entities outside the banking sector currently satisfy the consumer demand for small-dollar credit products?

I believe the MSBs and payday lenders have taken the place of bank lending in this market to a great extent. They offer increased speed, little if any credit checks or underwriting questions or paperwork as compared to our mandated process. The cost is of little consideration for a large part of this market in my opinion. I do ***not*** *advocate that they be regulated up to our level as they do offer a desired service some prefer.*

4. What data, information, or other factors should the FDIC consider in assessing the consumer demand for small-dollar credit products?

Loss ratios, profitability, collection expense, underwriting expense, mandated compliance related costs, limitations on financial return, regulatory risk. These are the reasons I do not want my bank to expand our small dollar lending beyond where we are right now.

5. What are the potential benefits and risks to banks associated with offering responsible, prudently underwritten small-dollar credit products?

After reading your questions the answer is the credit risks are no different. The potential benefits in terms of ROI are not sufficient to encourage us to increase this area, nor is the compliance risks associated with these loans.

6. What are the potential benefits and risks to consumers associated with bank-offered small-dollar credit products?

I would think we offer a less risky alternative for consumers than the Payday or MSB services or the Credit Card alternatives. Otherwise the risks to the consumer are fairly consistent between creditors in my opinion.

7. What are the key ways that banks offering small-dollar loan products should manage or mitigate risks for banks and risks for consumers?

Making sure the debt does not overload the debt service ability of a customer. We use 40 to 43% DTI.

8. What are the potential benefits and risks related to banks partnering with third parties to offer small-dollar credit?

Because of the vendor management requirements put on by regulation I would not look at such an arrangement until it had become widely used and I was sure of the regulatory acceptance of the vendor.

9. What steps could the FDIC take, consistent with its statutory authority, to encourage banks to develop and offer responsible, prudently underwritten small-dollar credit products?

Under the current laws I do not think the FFIEC participants have the ability to make things simple enough to entice our bank to even look at such a partnership.

Challenges

10. Are there any legal, regulatory, or supervisory factors that prevent, restrict, discourage, or disincentivize banks from offering small-dollar credit products? If so, please explain.

Credit Reporting regulations, Credit Denial requirements, Military Active Duty regulations, Equal Credit Opportunity regulations, Fair Lending Regulations, BSA/AML Regulations, E sign Regulations, UDAAP regulations, and other legal requirements including collection regulations making us responsible for what a third-party contractor does. All of these add to the disincentive to make small dollar questionable collateral costly to collect small dollar loans. When you look at these as a forest and not as trees how can I tell my board we should go deeper into this mess? Each one of these regulations have a noble goal on their own, but the accumulation of their individual requirements and costs kills small dollar lending with a thousand cuts.

11. Are there any operational, economic, marketplace, or other factors that prevent, restrict, discourage, or disincentivize banks from offering small-dollar credit products? If so, please explain.

Credit Reporting regulations, Credit Denial requirements, Military Active Duty regulations, Equal Credit Opportunity regulations, Fair Lending Regulations, BSA/AML Regulations, E sign Regulations, UDAAP regulations, and other legal requirements including collection regulations making us responsible for what a third-party contractor does. All of these add to the disincentive to make small dollar questionable collateral costly to collect small dollar loans. When you look at these as a forest and not as trees how can I tell my board we should go deeper into this mess? Each one of these regulations have a noble goal on their own, but the accumulation of their individual requirements and costs kills small dollar lending with a thousand cuts.

12. What factors may discourage consumers from seeking responsible, prudently underwritten small-dollar credit products offered by banks?

It is not fast enough and it checks for debt service, asking information they do not wish to give. In addition, once turned down too many assume, they will be turned down for years to come.

Product Features

13. Are there specific product features or characteristics of small-dollar loan products that are key to meeting the credit needs of consumers while maintaining prudent underwriting?

Automation could provide some answers here but I have not seen a system that is affordable for community banks that provides the underwriting, security and legal standards we would need to consider it. In addition, the collection *laws and systems will need to be changed to be more cost effective for lenders to make this level of lending attractive to Banks at anything near reasonable interest margins.*

14. Are there specific product features or characteristics that are key to ensuring the economic viability to a bank of responsible, prudently underwritten small-dollar credit products?

A legal priority on collection directly from wages and a central filing system for judgments that would ensure collect-ability between employer changes without additional expense to lender.

Innovation

15. How can technology improve the ability of banks to offer responsible, prudently underwritten small-dollar loan products in a sustainable and cost-effective manner?

Please specify the technology or technologies and the use case(s).

Automation could provide some answers here but I have not seen a system that is affordable for community banks that provides the underwriting, vendor management, security and legal standards we would need to consider it. In addition, the collection laws and systems will need to be changed to be more cost effective for lenders to make this level of lending attractive to Banks at anything near reasonable interest margins.

16. Are there innovations that might enable banks to better assess the creditworthiness of potential small-dollar loan borrowers with limited or no credit records with a nationwide credit reporting agency?

Undo the separation of Public Records from credit reports that was forced under the Obama Administration. It has rendered Credit Scores all but meaningless. I have read about using social media evaluations as an alternative credit scoring system but I do not believe this has had enough real-world testing and statistical analysis to be viable yet. What would this do to people who do not use social media?

17. What role should the FDIC play, if any, in supporting innovations that enhance banks' abilities to offer responsible, prudently underwritten small-dollar loans? Are there specific barriers that prevent banks from implementing such technologies or innovations?

Credit Reporting regulations, Credit Denial requirements, Military Active Duty regulations, Equal Credit Opportunity regulations, Fair Lending Regulations, BSA/AML Regulations, E sign Regulations, UDAAP regulations, and other legal requirements including collection regulations making us responsible for what a third-party contractor does. All of these add to the disincentive to make small dollar questionable collateral costly to collect small dollar loans. When you look at these as a forest and not as trees how can I tell my board we should go deeper into this mess? Each one of these regulations have a noble goal on their own, but the accumulation of their individual requirements and costs kills small dollar lending with a thousand cuts.

18. How can technology be leveraged to improve consumers' experiences and reduce potential risks to consumers associated with small-dollar credit products?

Automation could provide some answers here but I have not seen a system that is affordable for community banks that provides the underwriting, vendor management, security and legal standards we would need to consider it. In addition, the collection laws and systems will need to be changed to be more cost effective for lenders to make this level of lending attractive to Community Banks at anything near reasonable interest margins.

Alternatives

19. What other products and services that supplement or complement small-dollar credit offerings should banks consider? Are there other ways that banks can help consumers address cash-flow imbalances, unexpected expenses, or income volatility besides small-dollar credit products?

I was going to say that a small dollar open end credit note that had reduced or streamlined regulatory requirements. I will not suggest that however as I believe the percentage of the market that needs this type of request is not capable of avoiding an evergreen balance on such a product.

Other

20. Are there any distinguishing characteristics of particular institutions, such as a bank's size, complexity, or business model, that the FDIC should consider, and if so how?

Yes, as a community banker the last thing I want is a low profit area that increases my compliance risk, increases my consumer complaint risk, increases servicing, increases collections expense and headaches. The big banks just write off the credit card losses, community banks cannot afford such luxurious practices. So, regulators, give us a reasonable chance to make a profit under an acceptable overall risk and we will offer a reasonably priced product that serves a reasonable customer's need or want. Keep the deck stacked against us like it currently is regulatorily and legally, and we will keep our money in our pocket. Let's face it, the cost to underwrite, close, and service a $45,000 pickup loan is within a few dollars of filing fees as a $450 unsecured loan. If you were on my board which one would you direct me to go after first? That is your challenge as regulators and or legislators, make this low dollar market profitable again.

21. Please provide any other comments or information that would be useful for the FDIC to consider.

Legislators and Regulators in my opinion, severely underestimate the expense and disincentives of their regulations, especially to community banks and the discouraging effect they have. For example, we left the student loan and education loan market due to the compliance burden. We do not offer HELOC's either for this same reason. We want to service our customers in a fair and honest manner. If we do not, we will not keep them. I have been banking since the early 80's and in that time the recent reductions in the call report asking's is the one and only concrete step at actual relief that has made anything close to a significant difference in the community bank's burden. I have spent most of my adult life asking for some real reduction in this situation and I do so again now. I hope someone will listen and take action.

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Kent M. Franzen VP
Henderson State Bank
PO Box 605
Henderson NE 68371
Phone 402-723-4441

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