From: Scott Emmer <semmer@harfordbank.com>
Sent: Friday, November 30, 2018 10:32 AM
To: Comments
Subject: November 20, 2018 - Request for Information on Small-Dollar Lending; Comment Request (RIN 3064–ZA04)
Attachments: FDIC RFI - Small Dollar Lending.docx

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FEDERAL DEPOSIT INSURANCE CORPORATION

RIN 3064-ZA04

Request for Information on Small-Dollar Lending

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Notice and Request for Information.

SUMMARY: The FDIC is seeking comments and information from interested parties on small-dollar lending, including steps that can be taken to encourage FDIC-supervised financial institutions (banks) to offer small-dollar credit products that are responsive to customers' needs and that are underwritten and structured prudently and responsibly.

DATES: Comments must be received by [60 days after date of publication]

ADDRESSES: You may submit comments, identified by RIN 3064-ZA04, by any of the following methods:

- *Agency Website: https://www.fdic.gov/regulations/laws/federal/*. Follow the instructions for submitting comments on the Agency Website.
- *Email: Comments@fdic.gov*. Include the RIN 3064-ZA04 in the subject line of the message.

- *Mail:* Robert E. Feldman, Executive Secretary, Attention: Comments, Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429.
- *Hand Delivery:* Comments may be hand-delivered to the guard station at the rear of the 550 17th Street, NW, building (located on F Street) on business days between 7:00 a.m. and 5:00 p.m.

Public Inspection: All comments received must include the agency name and RIN for this rulemaking. All comments received will be posted without change to *https://www.fdic.gov/regulations/laws/federal/*—including any personal information provided—for public inspection. Paper copies of public comments may be ordered from the FDIC Public Information Center, 3501 North Fairfax Drive, Room E-1002, Arlington, VA 22226 by telephone at (877) 275-3342 or (703) 562-2200.

FOR FURTHER INFORMATION CONTACT:

Paul Robin, Section Chief, (202) 898-6818, *probin@fdic.gov*.

SUPPLEMENTARY INFORMATION:

The FDIC is responsible for maintaining stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, making large and complex financial institutions resolvable, and managing receiverships. As discussed further below, the FDIC is soliciting public comments on issues related to small-dollar lending by banks. Specifically, we are requesting information on the consumer demand for small-dollar credit products, the supply of small-dollar credit products currently offered by banks, and whether there are steps the FDIC could take to better enable banks to provide such products to consumers to meet demand.

Overview of Request for Information

The Federal Deposit Insurance Corporation (FDIC) is issuing this request for information (RFI) to seek public input on steps the FDIC could take to encourage FDIC-supervised institutions to offer responsible, prudently underwritten small-dollar credit products that are economically viable and address the credit needs of bank customers. This effort is consistent with the FDIC's commitment to increase transparency, improve efficiency, support innovation, and provide opportunities for public feedback on issues affecting FDIC-supervised institutions and their customers.

The FDIC recognizes the important role small-dollar credit products can play, as part of the spectrum of credit and savings products offered by banks, in helping consumers meet the need for credit for purposes such as addressing cash-flow imbalances, unexpected expenses, or income volatility. Recent research from the FDIC indicates that 20 percent of U.S. households reported that their income varied "somewhat" or "a lot" from monthto-month.[1] Moreover, according to research from the Federal Reserve, if faced with a hypothetical $400 expense, 4 in 10 U.S. adults in 2017 would borrow, sell something, or not be able to pay.[2]

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[1] "2017 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2018.
[2] "Report on the Economic Well Being of U.S. Households in 2017," Board of Governors of the Federal Reserve System, May 2018.

Given the unique role banks play in the communities they serve and the benefits to consumers of having a relationship with an insured financial institution, banks are wellpositioned to address the credit needs of their customers in a responsible manner. While some banks currently offer small-dollar credit products, there may be additional opportunities for banks to address unmet demand for consumer credit in their communities. For example, research from the FDIC suggests that in 2017, 14.8 million or nearly 13 percent of U.S. households may have had unmet demand for small-dollar credit from banks. A majority of these households reported staying current on bills in the prior year. Although the vast majority (nearly 9 in 10) of these households had a bank account, fewer than one in three applied for credit from a bank.[3] Some of these households may present opportunities for banks to extend credit in the form of smalldollar loans.

Accordingly, the FDIC invites public comments on the full spectrum of issues related to the role banks can play in offering small-dollar credit, obstacles – regulatory and nonregulatory – that banks currently encounter in offering such credit, and whether there are steps the FDIC could take to enable banks to better serve this market.

Suggested Topics for Commenters

The FDIC encourages comments from all interested members of the public, including but not limited to insured depository institutions, other financial institutions or companies,

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[3] "2017 FDIC National Survey of Unbanked and Underbanked Households," Federal Deposit Insurance Corporation, October 2018.

individual depositors and consumers, consumer groups, trade associations, and other members of the financial services industry. Please be as specific as possible to allow the FDIC to evaluate comments more effectively. In particular, the FDIC requests input on the following more specific topics and questions:

Consumer Demand

1. To what extent is there an unmet consumer demand for small-dollar credit products offered by banks? I don't think there is unmet consumer demand for small-dollar credit products. The issue is really the hoops a borrower needs to jump through to get a small loan.

2. To what extent do banks currently offer small-dollar credit products to meet consumer demand? Most banks offer these products through their branch networks. It is tougher for small community banks to do this economically.

3. To what extent and in what ways do entities outside the banking sector currently satisfy the consumer demand for small-dollar credit products? Credit cards seem to be the first step or individuals and small business owners. They are much easier to qualify for (credit score only), and the turnaround time for approval could be hours instead of days.

4. What data, information, or other factors should the FDIC consider in assessing the consumer demand for small-dollar credit products? (1) Credit card applications and

usage focusing on consumers requiring multiple cards, including small business owners who are applying for consumer cards to use in their business; (2) Loan loss information from banks on small dollar lending; (3) Development of a universal credit scoring model for all banks to use in underwriting small dollar loans; (4) Restrictions on pay day lenders and the rates they charge.

Benefits and Risks

5. What are the potential benefits and risks to banks associated with offering responsible, prudently underwritten small-dollar credit products? In all honesty, there is no true benefit to a bank offering small dollar loans. The financial impact is negligible at best, and the loss/delinquency rates are magnified compared to the overall portfolio of larger loans.

6. What are the potential benefits and risks to consumers associated with bank-offered small-dollar credit products? The key benefit is the interest rate and how its calculated. A secondary benefit is they may become known to the bank, which could open doors for them expanding their relationship as a proven borrower and bank customer. The risk is the same as any debt incurred by a small dollar borrower. Delinquencies, credit scores, and the inability to obtain additional credit when needed.

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

be mitigated by more in-depth underwriting, enhanced credit scoring, or avoiding these loans altogether. More in-depth underwriting will consume valuable time of bank employees hurting profitability which in turn could create job losses as banks cut back to reduce expenses. For consumers, it is all about education and discipline. Maybe creating a required webinar or something like it for borrowers that are getting their first loans. I think that is where many of the risks exist especially for first time borrowers.

8. What are the potential benefits and risks related to banks partnering with third parties to offer small-dollar credit? I think that is the way to go. It is no different than small banks without their own credit card group outsourcing their card services to a third party. Determining who absorbs the risk is key. If the banks can offload their risk to the third party, then banks would be more inclined to do the small dollar consumer loan.

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? Encouragement is great, but the financial impact to banks of spending resources on small dollar loans with high delinquency histories is simply too big, especially given the way banks are regulated. However, if the FDIC and other regulatory entities did not focus on small dollar loans individually or as a pool, and the banks still adhered to REG B, it could work. I reiterate that someone needs to create a universal credit scoring model for all to use, acceptable to regulators, then

small dollar consumer lending could grow with consistency and hopefully fewer delinquencies.

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. Yes. Regulators tend to focus on a $10,000 loan at a community bank in the same way they focus on a $1MM loan. Makes no sense. Banks have often been told by regulators, both state and federal, that the $10,000 loan needs to be underwritten the same as a $1MM loan.

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. Yes. Time and energy of shrinking branch staffs must be better utilized. If a small dollar loan takes just as long as a high dollar loan to approve, and all the same regulatory issues exist, then it will hurt banks economically. In turn, that hurts the marketplace as bank branches close, and banks choose to move away from small dollar lending.

12. What factors may discourage consumers from seeking responsible, prudently underwritten small-dollar credit products offered by banks? Fear of a bank and being intimidated by its size relative to the consumers' small needs. Fear of getting turned down. These issues create a situation where the consumer is unwilling to give the

bank what it needs, and to be honest about their finances. Sometimes they fear that giving up too much information will hurt their chances for approval.

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? Not necessarily. Some request fixed terms and some need lines of credit. It is random.

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 high degree of confidence in a credit scoring model would significantly help banks' desire to fund small dollar loans. Reduced impact to capital allocation requirements would also help, such that the loss on a small dollar loan would not count, or would count at a significantly reduced percentage, to loan loss reserves and capital allocation.

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). See several answers above.

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?

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? The FDIC should sponsor the innovations and help create a universal methodology that could work for banks of different sizes.

15. How can technology be leveraged to improve consumers' experiences and reduce potential risks to consumers associated with small-dollar credit products? Technology to enhance data security and the sanctity of personal information is the most important thing that should be leveraged.

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?

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? It is much easier for large institutions to build scoring models for small dollar lending, and to pay for more experienced branch lending staff who can clearly explain credit terms and factors to a small dollar borrower. Community banks struggle with the time it takes to approve a loan because the loan losses will impact the community bank to a much greater degree than they would a larger bank. Also, some community banks struggle with attracting high quality branch employees because they simply can't pay enough nor attract the same level of talent due to benefit offerings, hours, etc.

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

Dated at Washington, DC, on [date], 2018.
Federal Deposit Insurance Corporation.
Robert E. Feldman, *Executive Secretary*.