COMMUNITY SPIRIT BANK®

December 6, 2018

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

Re: RIN 3064-ZA04
Comment Letter on Small-Dollar Lending

To Whom It May Concern:

I am in receipt of the FDIC's Request for Information on Small-Dollar Lending. I am responding to this letter because I want to encourage the FDIC to play a leading role in promoting community banks continuing to offer this service. As you know the CFPB attempted to put harsh regulations on small dollar lending a few years back and eventually gave good exemptions for community banks to continue offering these vital loans to the communities in which we serve. The request for information specifically deals with certain questions listed in your request for comment that I will respond to in my personal opinion as follows:

First and foremost, it was requested what the FDIC could do to encourage your member institutions to offer these type loans, and the short answer to that is fewer regulations. In addition, I would encourage the FDIC to be a champion for community banks and help tell our story to the CFPB (or other regulatory agency) to let them understand the impact of the rules they write and how they can negatively affect community institutions and our customer base in greater ways than the larger more complex institutions they were created to regulate. Finally, find a way to tailor compliance and fair lending exams to the specific bank. The fair lending laws as on the books now, in my opinion are very subjective and could discourage consumer lending; especially small dollar lending.

I will attempt to respond to your questions as posted in your request for comment document as follows:

Consumer Demand:
You asked a variety of questions regarding consumer demand and whether banks were meeting the needs of consumers, the risk associated with small dollar lending, and what the FDIC could do to encourage banks to develop small-dollar credit products:

I believe that most community banks like ours continue to offer true small-dollar loans to its customer base and communities because that is what we are in business to do; serve our communities. I believe that small dollar lending is available from community banks, however we must make sure that all of our small-dollar lending is in compliance with true safe and sound lending. We are responsible lenders as an industry and I don't believe we encourage debt that a consumer can't pay. I believe a community bank is in the best position to help consumers through challenges and our regulatory structure is such that we are not going to negatively treat applicants like some other industry do for consumers seeking this type of product.

You asked for steps that the FDIC could take to encourage banks to develop and offer responsible prudently underwritten small dollar credit products and my suggestions is as follows:

- Allow any and all small dollar loan to be given CRA credit for the institution regardless of what metric the institution is tested by.
- Exempt any and all small dollar loans from pricing restrictions as a part of fair lending laws subject to each states' own usury laws.
- Promote institutions use and offering of overdraft protection programs as a safe alternative for customers that might even be cheaper than an actual loan.

<u>Challenges:</u>
The greatest challenge to offering small-dollar credit products is currently written, and more importantly, enforced fair lending laws. The amount of compliance time of tracking, monitoring and measuring these type loans with regard to compliance and fair lending risk is much greater than any return on making them. Banks that make these loans know that they do so only to serve their communities, not to be a profit center, and to take the risk of compliance burdens along the way. Again, the FDIC should have enough faith and respect in its member banks to give CRA credit for providing said loans and to exempt them from pricing restrictions. I have no problem with the fair lending laws on monitoring loans on prohibited basis, but doing so on pricing is something that needs to be changed, and allow the bank to earn based on the risk it is taking; while serving its consumer base. I am confident any rate charged by a bank under state usury laws will still be lower than the title pawn industry.

One of the challenges that banks face is the ease of credit that consumers may feel they can get from other industries providing the same service. They know that regardless of credit, they can walk into a store, write a check and get the funds they need. A FDIC insured institution is always going to have to do its due diligence to feel comfortable the loan will be repaid. I can't see anything the FDIC could do to change that, nor should they.

The availability of products and services at the touch of a smartphone also makes it more difficult for community banks to provide "push button service". It is not clear that the fintech market has the same level of security and certainly not the same regulatory framework as a community institution. If the FDIC and other regulatory bodies held those fintech's and providers of small dollar loans to the same standards as a community institution; perhaps more people would seek a community bank for that service than those industries.

Innovation:

Innovation is great in the industry, however for a small community bank we are limited in our innovation techniques because of our size and because of our dependency upon third party vendors. As a community bank, my innovative offerings are limited to what is offered from my vendor. For instance, we don't have the budget, experience, or capability of creating our own technological advanced app that we can tailor for our bank. We are dependent upon solutions from vendors that appeal to the mass bank audience and thus there is little tailoring for specific bank needs. Even if we could come up with better ways to serve our customers with more internet offerings, again, we are stuck with the compliance burden that, before serving the customer with their needs, we always have to weigh the compliance risk in doing so. This again is where a community bank is hampered in its ability to serve its customers because of compliance burdens and risk.

If the FDIC really wants to promote small dollar loan lending, then come out and publicly promote partnerships between responsible fin tech companies and banks, and give public guidance and encouragement on how both can work together to provide solutions.

The greatest assistance that the FDIC can have is to take a leading role in promoting the community bank model. This is a difference between community banks and the credit union industry. I truly believe that the credit union industry has the NCUA as their "cheerleader" whereas, the FDIC is merely our regulator. In reality, the FDIC, with its boots on the ground in our community banks has the best opportunity to promote an innovative environment that can help community banks, stay ahead of the technological curve in offering fin tech solutions to our customers while understanding the traditional compliance burden may not fit this new mode of serving our customers! I would suggest that the FDIC promote small dollar lending via its website and give consumers the option of exploring small dollar loan products by state, region, county etc., directing consumers to FDIC regulated institutions. The FDIC has the data and the resources to direct consumers to a respectable, regulated member bank via its on website and social media offerings. Again, this could be a great partnership between regulator and member bank where the consumer can benefit!

Alternatives:

Other ways in which banks can help address these issues, I believe, first begin with financial literacy. Our bank has been actively engaged in financial literacy at our local schools for over five years. However, we get no CRA credit for providing this important service to our communities.

The FDIC should immediately grant CRA credit and or compliance credit for this service. Many other banks are starting to offer financial literacy and what better way to help prepare consumers for cash flow imbalances in their life, than by teaching them how to better manage affairs at a young age!

The FDIC should continue to promote the utilization of overdraft services from its member banks, and work with banks to fight back against any proposed CFPB rules that would limit this service offered to customers!

The FDIC should allow banks open access to contact industries for payroll deductions that would go straight to a savings account that consumers could utilize in the event of cash flow short falls. At present, I have several credit unions that have this service available at industries in our area even though they have no physical office in my city and/or town. Again, this is another example where the credit union industry is able to serve my community better than me because my regulatory burden and compliance risk is obviously greater than theirs. The FDIC must do more to promote the community banking model and give greater flexibility in compliance burdens so we can do a better job of serving our customers for these short-term cash flow needs.

Other:

As with all regulations, the FDIC must always take a tiered and proportionate approach to distinguishing characteristics in our industry. A community bank, whose roots run deep in a community, whose principal employees, officers and executives live, work and play in that community have a vested interest in the success of that community. We don't need regulations and compliance burdens to tell us how to treat our customers; we are accountable to our customers everyday by how we treat them. As such, the FDIC must make certain that there are clear differences in regulatory burdens at a community bank versus regional, national or multinational institution.

In looking at our small dollar loans, which we define as loans below $2,000.00 I had my compliance officer to pull some data to share with you. Keep in mind that we are a small community bank serving primarily four counties in two states.

2018 Small-Dollar Loan Data as of 11/19/2018		
Loan amount $2,000 or less	**232 total loans**	
Average Loan Amount	$1,252.28	
Average Rate & APY	Rate: 13.38%	APY: 25.068%
Average Term	14 months	
Loan amount $1,000 or less	**114 total loans**	
Average Loan Amount	$781.23	
Average Rate & APY	Rate: 12.84%	APY: 29.994%
Average Term	10 months	
Loan amount $500 or less	**34 total loans**	
Average Loan Amount	$467.25	
Average Rate & APY	Rate: 10.44%	APY: 37.202%
Average Term	7 months	

2017 Small-Dollar Loan Data		
Loan amount $2,000 or less	**291 total loans**	
Average Loan Amount	$1,231.43	
Average Rate & APY	Rate: 13.72%	APY: 24.125%
Average Term	16 months	
Loan amount $1,000 or less	**131 total loans**	
Average Loan Amount	$716.08	
Average Rate & APY	Rate: 12.94%	APY: 30.430%
Average Term	10 months	

Loan amount $500 or less	**51 total loans**	
Average Loan Amount	$410.45	
Average Rate & APY	Rate: 12.47%	APY: 44.517%
Average Term	6 months	

Our total loan portfolio for the most recent month end was $97.4MM on 2,426 total loans. As you can see, the "small dollar lending" is not a huge part of the portfolio, nor is it a huge money maker, however it does provide a service to the community in which we serve and it is a service that needs to continue, but we do need the support of the FDIC to continue promoting the use and origination of these type loans.

<u>Conclusions:</u>
The FDIC is in an excellent position to promote small dollar lending by responsible community banks! The FDIC, as a part of CRA revitalization has an excellent opportunity to promote small dollar lending by giving CRA credit to banks who offer such a service, whether in the form of "formal programs", or just the fact that banks would do small dollar loans for its customer base. The FDIC should consider lifting or giving regulatory relief and lift some of the compliance burden from banks willing to offer this service!
The FDIC should fight against any CFPB rules that would limit a community banks ability to continue making these type loans!

I appreciate the opportunity to share my thoughts and concerns on this important topic. A community bank's core mission is the development and service of the communities in which we serve. We do this not because it is required by law, but because it is what is good for our communities. As such, we need an environment in which the regulators allow us to serve our communities, and any relief we are given in regard to small dollar lending will only allow us to serve our customers and our communities better!

Sincerely

[redacted]
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President/CEO/Sr Lender
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