Via Electronic Mail

January 22, 2019

Federal Deposit Insurance Corporation
Attention: Robert E. Feldman, Executive Secretary
550 17th Street, N.W.
Washington, D.C. 20429

Re: Request for Information on Small-Dollar Lending (Docket No. FDIC-2018-25257; RIN 3064-ZA04)

Ladies and Gentlemen:

This letter is submitted on behalf of Regions Financial Corporation[1] ("Regions") in response to the Request for Information ("RFI") issued by the Federal Deposit Insurance Corporation ("FDIC") on November 14, 2018. The notice states the FDIC is seeking public comments on ways financial institutions can offer "responsible, prudently underwritten small-dollar credit products that are economically viable and address the credit needs of bank customers," and is seeking feedback on the "full spectrum of issues" related to banks offering small-dollar credit, including regulatory and non-regulatory obstacles for banks, as well as actions the FDIC could take to assist banks in serving the small-dollar market. Regions is an Alabama banking corporation and member of the Federal Reserve System. While the FDIC is not Regions' primary federal banking regulator, we appreciate the opportunity to comment on small-dollar credit products.

From 2011-2013, Regions offered a deposit advance product called "Ready Advance," which was launched to address customer needs as determined by direct feedback obtained from our customer satisfaction surveys conducted by Gallup. Our customers informed us they were being offered this type of credit elsewhere—from other lending institutions to payday lenders - but not from their own bank. As a result, we developed Ready Advance to meet our customers' demands.

During the tenure of our product offering, our customer satisfaction scores for Ready Advance ranked among the highest in overall satisfaction of any product offered at Regions. Customers rated their experience with Ready Advance at 4.62 on a 5-point scale, a very strong score. Customers cited the lower cost, convenient access to credit, flexible repayment

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[1] Regions Financial Corporation (NYSE:RF), with $123 billion in assets, is a member of the S&P 500 Index and is one of the nation's largest full-service providers of consumer and commercial banking, wealth management, mortgage, and insurance products and services. Regions serves customers across the South, Midwest and Texas, and through its subsidiary, Regions Bank, member FDIC and an Equal Housing Lender, operates approximately 1,500 banking offices and 1,900 ATMs. Additional information about Regions and its full line of products and services can be found at www.regions.com.

options, privacy, and the fact that "their bank" offered such a product as some of the many reasons for their satisfaction. Customers often noted the reasons for needing access to short-term funds included, "meet[ing] daily living expenses, unexpected expenses, utilities, and medical bills."

There is a real need in the marketplace for small-dollar credit, and consumers expect their financial institution to meet their credit needs. Unfortunately, for a variety of reasons, banks have long overlooked these needs and forced consumers to find solutions from non-regulated industries such as payday lenders. The economic environment has greatly intensified the need for short-term liquidity, but many institutions are reluctant to offer products to meet the need for fear that any small-dollar product will be labeled as "deposit advance" or "payday lending." It is critical for the banks and regulators to work together to find solutions that are beneficial for all parties. More specifically, we urge the regulatory agencies to review such products on an individual basis, giving emphasis to the voice of the customer. And while many banking institutions, including Regions, are continually exploring new ways to meet customers' borrowing needs, and while the regulatory guidance may help in some ways to freely develop new strategies, we believe burdensome guidance hinders innovation. The technology, infrastructure, and additional overhead necessary to comply with the regulatory requirements are often too costly to justify the deployment of capital for these types of credit products.

The following are key areas for your consideration:

Underwriting

The ability to repay requirements often found in small-dollar guidance are typically centered around underwriting in the same fashion as larger, more complex, loan types. Implementation of a prescriptive ability to repay analysis, including mandating credit bureau usage, reduces the population of eligible borrowers, as currently defined by banks, and would most likely eliminate from eligibility the consumers who most need access to this type of credit. Consequently, less small-dollar credit will be available to consumers from banks, fewer consumers who need it will be able to obtain it, and those seeking credit from traditional payday lenders will pay significantly more for the credit.

Further, these requirements disrupt a financial institution's ability to provide an automated customer eligibility process – a process that reduces overhead and allows financial institutions to offer a lower cost credit product as a result of the streamlined process. And, extensive underwriting requirements create additional adverse action compliance responsibilities that further increase the overhead costs for financial institutions. We respectfully recommend that banks be allowed to develop and manage their own reasonable underwriting guidelines. Banks can leverage the customer's information that they have collected and any other relevant data that they feel is needed to have safe and sound policies and procedures without excluding most of the customers who need the product.

Cooling-Off Periods

Regulatory guidance often emphasizes the need for product constructs to include a provision that requires consumers to have a "cooling-off" period (typically of 30-days) following repeat usage of small-dollar credit products. The rationale for the cooling-off period is the valid belief that some consumers are vulnerable to cycles of debt. However, while our Ready Advance product had such a provision, we also are concerned that cooling-off periods can have unintended consequences. Cooling-off periods can incentivize customers to take the maximum available advance each time they use the product because they know they will be forced into the "cooling off" period in the next cycle. As a result, consumers will pay more in fees because they advanced more money than they actually needed. More importantly, during the time they are unable to use their product, they are forced to look to alternative providers of short-term credit because their need for liquidity still exists. Regions' experience has been that customers use a line of credit product on an "as needed" basis, meaning they take only the smallest advance needed during a certain period of time.

The previous FDIC guidance linked repeat advances to poor underwriting; yet, it also required the underwriting criteria to be "designed to assure that the extension of credit can be repaid according to its terms." The alleged connection between repeat credit advances and poor underwriting seems odd for customers who have demonstrated an ability to repay. We know of no other consumer loan product in the industry where a borrower who has demonstrated a financial ability to repay a loan "according to its terms" is nevertheless restricted from using the product through repeated cooling-off periods and limitations on the number of advances. Repeat usage of a credit product does not necessarily indicate "a cycle of debt" for a consumer. Many responsible consumers regularly and repeatedly use lines of credit (including credit cards, home equity lines, unsecured line, etc.) as part of their ordinary financial management practices.

Lines of Credit Versus Closed-End Installment Loans

Regions did not design our Ready Advance product to be a feature of the checking account like some institutions. Rather, Ready Advance, was as an open-end line of credit. Regulation Z defines open-end credit as "consumer credit extended by a creditor under a plan in which...the creditor reasonably contemplates repeated transactions...the amount of credit that may be extended to the consumer during the term of the plan (up to any limit set by the creditor) is generally made available to the extent that any outstanding balance is repaid." In contrast, Regulation Z defines closed-end credit as any credit "other than open-end credit."

As such, a cooling-off period seems to preclude the classification of lines of credit, like Ready Advance and similar bank products, resulting in a default classification of the product as closed-end credit and the imposition of Regulation Z compliance responsibilities for closed-end credit. We strongly recommend that any guidance take into consideration the need for a true open-end credit product that allows consumers to access their credit when their need arises and as they repay their outstanding balances.

Additionally, a line of credit reduces the origination expenses associated with closed-end loans, thus making the narrow margins associated with small-dollar loan programs more attractive and sustainable. As publicly traded company, profitable and sustainable loans are critical to our success.

Consumers Choice of Repayment

Small-dollar repayments are often characterized as repaid from the proceeds of the next direct deposit or repaid in a lump sum in advance of the customer's other bills. However, this was not the case with Ready Advance where payment obligations were not given any precedence or priority over other debit items presented against the checking account at the same time. There was no certainty that a Ready Advance payment obligation would have been paid before the customer's other debit transactions.

As with any consumer loan repayment method, customers who do not wish to repay their monthly payment through automatic debits may elect to repay their balances manually from their statement minimum payment due. For our Ready Advance loan, this option was novel in the marketplace and offered customers flexibility with their repayment, while allowing them to have access to additional advances in the event a need arises.

Bureau Reporting

We know that our previous product helped customers rebuild, repair, and establish credit because we reported the consumer's Ready Advance usage and performance to all three major credit bureaus on a monthly basis. As with most credit products, as a consumer establishes a regular performing payment history, the assumption is the consumer's credit score will improve and the consumer will begin to be solicited for traditional credit products such as mortgages, auto and unsecured loans.

APR Constructs

While we understand that Annual Percentage Rate ("APR") is the universally accepted standard in the industry for measuring the cost of credit, it can be argued that APR does not fairly measure the cost of convenience that a consumer is willing to pay for a small dollar loan. Further, an APR calculation is difficult to perform on an open-end line of credit, such as Regions' prior Ready Advance product. Focusing on the APR also loses sight of the fact that these types of loans, including Regions' product, are less costly than small dollar loans from other sources such as payday lenders.

Agency Coordination

As the FDIC is aware, the Consumer Financial Protection Bureau ("CFPB") has issued a final rule on Payday, Vehicle Title, and Certain High-Cost Installment Loans, but is currently considering changes to that rule. Those proposed changes are expected soon. In addition, the Office of the

Comptroller of the Currency has revised its guidance on short-term, small dollar installment loans. As previously mentioned, Regions' regulator is the Federal Reserve. The Federal Reserve has not issued any rules or specific guidance on small dollar lending. In order to avoid subjecting banks to multiple inconsistent regulatory frameworks, it would be helpful if the agencies could coordinate their approaches to small dollar lending.

Conclusion

In closing, financial institutions spend a great deal of time addressing the credit needs of the small-dollar consumer. Unfortunately, they are spending even more time defending and explaining innovative products designed to help these consumers. When financial institutions are in a position to meet the liquidity needs of underserved consumers, they are able to deepen the banking relationship and provide consumers with alternatives to traditional payday lenders, pawn shops, and title pawn businesses. We are in favor of a collaborative effort between banks and their regulatory agencies for the establishment of a fair, responsible, and commercially viable framework for meeting the consumer need and demand for this type of credit. However, onerous regulatory requirements will certainly discourage banks from entering the marketplace for these products and will result in continued use by consumers of alternative credit providers. We urge all regulatory agencies to bear this in mind as they continue to formulate and issue guidance in this area.

Thank you for allowing Regions to provide feedback on our experience and philosophies related to small-dollar credit products and a financial institution's ability to offer "responsible, prudently underwritten small-dollar credit products that are economically viable and address the credit needs of bank customers." Should you have any questions regarding these comments, please do not hesitate to contact me directly.

Sincerely,

Rajive Chadha
Head of Consumer Products and Origination Partnerships