QCASH Financial
Enabling financial access

Robert E. Feldman, Executive Secretary
Attn: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington D.C. 20429

RE: Request for Information on Small-Dollar Lending, RIN 3064-ZA04

Dear Secretary Feldman,

QCash Financial, LLC (www.qcashfinancial.com) has extensive experience is delivering a small dollar, short-term credit lending platform to financial institutions since 2015. Our platform was originally incubated in 2004 by a financial institution in Washington State that saw a need in its customer base and developed a solution to pull these customers from high-cost lenders. They were very successful and decided that small dollar lending needs could best be solved by financial institutions. They started QCash Financial and launched the commercialization of the platform to help financial institutions responsibly deliver a sustainable small dollar lending program.

We have firsthand knowledge and experience in helping financial institutions responsibly deliver 300,000 + loans for over $200,000,000mm in 9 states across the U.S. The feedback provided is based on facts and experiences in helping financial institutions standup small dollar loan programs.

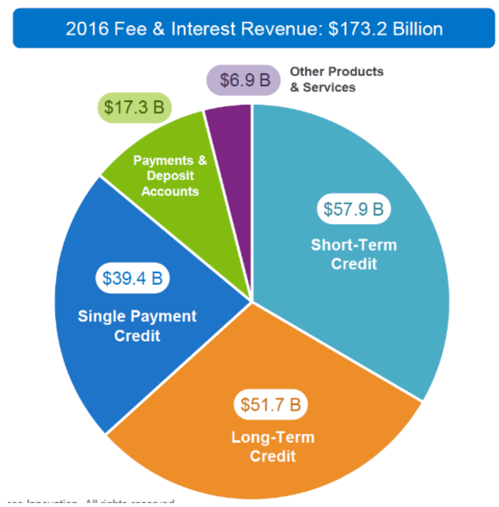
Respectfully Submitted,

Ben Morales
CEO
QCash Financial

Consumer Demand

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

According to the Center for Financial Services Innovation's 2017 Financially Underserved Market Size study[i] reports that spending by consumers on short-term credit was $173 Billion in 2016. This is broken down ino the following categories.



- **Single Payment Credit** Loan products for which payment is due in one lump sum, typically with terms of one month or less.
- **Short-Term Credit** Loan products that function on an installment basis with terms from several months to 1-2 years or as a line of revolving credit.
- **Long-Term Credit** Loan products that function on an installment basis with typical terms longer than 2 years**.**
- **Payments & Deposit Accounts** Products that enable consumers to transact, convert, send, receive, deposit, and hold funds.
- **Other Products & Services** Other personal financial management products and services.

A study published by the Pew Research Center in April of 2017 found that of those surveyed, 8 of 10 would prefer to borrow from a bank or credit union versus a payday lender if they were likely to be approved[ii].

The CFPB reported in its credit score research[iii]that as of 2010, 26 million consumers in the United States were credit invisible, having no credit score. This represents approximately 11 percent of the adult population. Further, an additional 19 million consumers, or 8.3 percent of the adult population, are not able to be credit scored through a commercially available credit scoring model. These consumers were evenly split between ones having no credit score due to an insufficient credit history (9.9 million) and ones with a lack of recent history (9.6 million). Small dollar, short-term credit, which isn't dependent upon traditional credit scoring, is a necessary product to meet the instant liquidity needs of consumers across the US. It fits a unique need that is not limited to the low-to moderate income.

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

It's been estimated by Filene Research institution, a credit union research firm, that less than 10% of credit unions currently offer a small dollar loan program. This low percentage is telling in the light that that credit unions already have enabling regulation to allow small dollar lending. Current FDIC guidance[iv] related to small dollar lending is prohibitive in its tone and banks are averse to creating further regulatory burden to their institutions. Given this fact, it is safe to assume that the number of banks offering small dollar loans is much less than 10%.

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

The alternative financial services industry has been successfully servicing this sector for many years. They have filled a need in the marketplace when financial institutions exited this business.

Often financial institutions want to solve this problem by issuing a credit card. Credit cards are complex financial instruments that require a lot of self-control to manage. Consumers who are in a moment of scarcity do not exhibit self-control and often misuse these products and become overwhelmed by the many types of fees that begin to show up (i.e. late fees, over limit fees, cash advance fees, etc).

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

There is no shortage of research or data to support the need for small dollar, short-term credit loans—regardless on which side of the fence you are on. Our recommendation is to assess the information sources/bureaus that maintain data for consumers using these products. These sources can quantify which financial institutions consumers are currently using to pull payments from.

Research resources:

Pew Trust
https://www.pewtrusts.org/en/research-and-analysis/iss=e-briefs/2017/04/americans-want-payday-loan-reform-support-lower-cost-bank=loans
https://www.pewtrusts.org/en/resear=h-and-analysis/issue-briefs/2017/04/payday-loan-customers-want-more-protec=ions-access-to-lower-cost-credit-from-banks
https://www.pewtrusts.org/en/research-and-a=alysis/issue-briefs/2018/02/standards-needed-for-safe-small-installment-lo=ns-from-banks-credit-unions

Center For Financial Services Innovation
https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2014/11/24163022/Compass-Principles-Guiding-Excellence-in-Financial-Services.pdf
https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/02/27224444/CFSI_Compass_GuideToSDC.pdf
https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2015/10/27001552/Snapshot-of-SDC-Quality-and-Innovation.pdf
https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/01/26054909/Know-Your-Borrower-The-Four-Need-Cases-of-Small-Dollar-Credit-Consumers.pdf

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

The benefits to banks are:

- Re-capture its customers from high-priced lenders
- Create competition to drive prices down for consumers
- Creates more financially inclusive products for banks
- Enables financial stability, which reduces the impact on communities' social support systems. We strongly believe that financial health is a key determinant of overall health
- Increase operational efficiency—if appropriate technology is leveraged
- Create a sustainable new revenue stream

The risk to banks are:

- Consumer abuses due to an unmanaged small dollar loan program
- Excess losses if underwriting does not cover the spectrum of users
- Brand perception of being perceived as a predatory lender
- Regulatory uncertainty

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

The ability to create a more inclusive banking system by allowing banks to create flexible products that cover the wide spectrum of credit and need builds individual capacity that leads to resilience and opportunity. A flexible small dollar lending program can achieve a bank's mission to become a customer's primary financial institution by enabling them to mature their financial needs with the bank—beginning with a small dollar loan.

The benefit to consumers are:

- Becoming fully banked
- Increase likelihood to become financially healthy
- Build capacity to manage finances day-to-day

The risk to consumers are:

- Small Dollar loan products are not consistently available
- Increase of fees or other requirements
- Lack of other financial products that align with target market.

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

QCash Financial clients have over 10 years of experience is delivering over 300,000 small dollar short term credit loans through its platform to consumers across the U.S. We have helped our client financial institutions develop small dollar loan programs to help them effectively manage a program to achieve their stated goals. The leveraging of loyalty and relationship data models are very accurate in mitigating risks and lowering the cost of distribution.

8. What are the potential benefits and risks related to banks partnering with third parties to

offer small-dollar credit?

The benefits to banks of offering affordable small dollar loans is significant. The primary impact being a reduction in market pricing. More competition in the market will drive prices down for consumers. In order to achieve the scalability, sustainability and meet the quick access to cash requirements, partnering with proven solutions will be necessary. While small dollar lending has a huge impact on the lives of consumers, it's not a solution banks will want develop in house and be able to care and feed a solution for the long-term.

Additional benefits to banks offering affordable small dollar loans are as follows:

1) Increased operational efficiency
2) A new revenue line
3) Recapture customers from high-price lenders
4) More financially inclusive
5) Increase customer financial stability
6) Reduce the social impact in communities due to incomes and expense gaps.

The risks associated with offering a small dollar loan program can be mitigated by adopting business process automation, modern approaches to product delivery (i.e mobile) and real-time loan risk management. Business process automation eliminates the need for people to process loans, setup automated payments, and sign documents. Leveraging flexible online and mobile technology reduces overhead and increases speed of access, while applying customer relationship data analytics mitigates losses to sustainable levels.

Third-party solution providers that have focused on the small dollar lending space, understand the unique customer needs and is able to assist the bank in managing a small dollar program are key success requirements when considering a third-party solution.

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?

In order for the FDIC to encourage banks to consider a small dollar loan program, additional clarity, communication and education of examiners must occur. The more ambiguity there is around what's permissible and what existing guidelines apply to which type products, the less likely a bank risk officer will allow a small dollar loan program to be implemented.

The FDIC should apply a philosophical approach to small dollar product design and avoid being prescriptive. A perspective approach cannot address the unique needs of different markets. Providing emphasis and clarification that prices should not be higher than necessary to profitably make small credit available, but prices higher than the 36 percent rate used in the FDIC's Small-Dollar Loan Pilot are acceptable. The FDIC should be more explicit about acceptable pricing. If banks use automation to process applications, underwrite, and originate small installment loans, they can profitably do so at double-digit APRs, with rates declining as loan sizes increase. Further clarity around whether the FDIC's Deposit Advance guidance applies to small installment loans or lines of credit, or only to single-payment loans, and also what supervisory expectations the FDIC and its examiners have for bank-issued small installment loans and lines of credit.

Additionally, broad education of examiners and risk officers is required. These types of loans, behave and perform very differently than traditional consumer loans. Examiners may balk at seeing this type of annualized loss ratio and may inadvertently discourage banks from offering such credit. Similarly, examiners may not be used to seeing loans extended to customers with low credit scores, or loans issued using simple and automated underwriting. So setting supervisory expectations and communicating them to examiners will be crucial for the success of any small-loan program.

The ability to offer responsible, prudently underwritten small dollar credit while also being sustainable is likely to be done with new or emerging fintech companies. The FDIC should provide enabling vendor guidance to allow banks to partner with new fintech startups.

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.

The primary challenge we hear from prospective clients is regulatory uncertainty and lack of enabling guidance to banks on delivering a responsible, safe and sustainable small dollar loan program. Nobody wants to invest in developing a small dollar program that is under constant change.

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.

Automation is probably the single most important factor to ensuring the success of a small dollar loan program. Processing applications, underwriting, and originating loans absolutely must be automated, or else the program will not achieve scale, will require very high prices, or will not be profitable. Pricing loans to allow for the mutual success of banks and customers is also critical. Banks that can't automate their program will likely not have a sustainable, long-lasting program.

We recommend that banks take a program approach to managing the expectations of this portfolio. While small in comparison (i.e. portfolio balances), the impact on consumers and communities is significant.

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

The biggest challenge banks will find in deploying a small dollar loan program is getting its existing and new customers to see them as a source of short-term credit. Financial institution brands do not speak to those consumers who are in need of fast, instant liquidity options that gets cash into the hands in minutes. Banks will need a very transparent fee structure and build highly automated solutions that are available through all digital channels that allows consumers to re-engage without the fear of being judged.

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?

Our experience in delivering small dollar loans since 2004 has identified specific characteristics for both the single pay and the interest-based consumer loan. Both are very important to meet specific needs of the consumer and market.

Single or lump sum payment loans meet a specific need to address a sudden gap in income and expense due to an unplanned event. These loans are able to fill the gap for a short time, while providing a window of time (60-90 days) to get their financial life back on track to pay off the loan. Furlough loans are a great use case of these types of loans. Single payment loans also appeal to those consumers who need a simple beginning and end to a loan to help them manage their day-today finances. For these folks, a credit card is far too complex of an instrument.

Interest-based loans allow those consumers to have an unplanned, larger emergency (i.e. auto failure, medical emergency, etc). Given the fact that research shows that American adults do not have large amounts of saving, the availability new small dollar loans to up $5,000.00 fit this category of consumer.

Other specific features are:

- Eliminating the use of credit reports
- Leveraging the customer relationship data and experience to underwrite
- Digital, digital, digital. Any type of manual signing, notifications, etc., that would extend the time to deliver a loan will create a barrier to product adoption.

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?

Our experience in sustainably delivering over $200,000,000 million and over 300,000 loans over the last 10 + years has proved that: 1.) Credit reports are not needed and 2.) Automation and speed is key to re-capturing the small dollar loan market.

Leveraging data and automation are probably the two most important factors to ensuring the success of a small-loan program. Processing applications, underwriting, and originating loans absolutely must be automated, or else the program will not achieve scale, will require very high prices, or will not be profitable

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).

The use of current technology that integrates with consumer banking channels to create a low-effort experience is key to delivering a sustainable small dollar loan program that customers will use. Our experience is that any barriers that inhibit access or speed will drive consumers to alternative sources.

QCash Financial has been delivering a commercialized digital small dollar lending solution tailored to banks and credit unions since 2015. Prior to that, this platform was developed and incubated at a financial institution since 2004. During this time, the platform has delivered over $200,000,000mm in loans.

For banks who want to capture customers' small dollar loans, the QCash product is a cloud based, white label, digital lending platform that provides instant access to funds in 60 seconds. The platform is able to integrate into core banking systems to pull in key relationship data to allow banks to design and manage products and underwriting.

Solution: QCash Financial, www.qcashfinancial.com 800.893.7893

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?

QCash Financial provides a white label platform that that can leverage banking relationship data, historical experience and other account attributes (as defined by the bank) to manage underwriting. The platform also allows for the use of predictive data analytic models for those institutions who want to develop a personalized model or purchase a predictive model from one of the bureaus. We have over 10+ years of loan performance to prove our underwriting engine.

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 provide enhanced guidance to banks to allow them to establish relationship with the startup fintech community to test and learn from new innovations in this space.

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

By leveraging technology to deliver small dollar loans, you can design the technology to manage the debt cycle. For instance the QCash platform provides the bank the opportunity to break into the loan small dollar loan process to present the customer bank summary data on cash flow, small dollar loan usage and additional financial coaching elements to build a customer's awareness and understanding around their current financial condition.

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?

Over the last 10 years QCash Financial has delivered small dollar loans across the U.S. and Canada. The feedback from our clients and their customers has allowed us to evolve our platform that helps encourage savings, reduces rates based on usage and performance and has the ability to target specific customers in a region that may be affected by regional event/ disaster and may need access to instant liquidity.

Additionally, we have learned that building financial stability and resilience requires more targeted support to help customers change behavior and get engaged in managing their day-to-day finances. As such, we believe that a digital financial therapy solution targeted to increase customer capacity, help build savings and includes in-app human-based financial coaching. This financial wellness app builds behavior change through targeted coaching, notifications and the ability to help them save more and spend less.

QCash Financial will be deploying a fully core banking integrated financial wellness app in the 2nd quarter 2019.

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?

Small dollar lending is needed in all markets. As such, a small dollar loan program should be considered by all size banks.

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

QCash Financial is open to providing one perspective to support the FDIC's learning. Please reach out if you have any follow-up questions.

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[i] https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2017/04/27001546/2017-Market-Size-Report_FINAL_4.pdf

[ii] https://www.pewtrusts.org/~/media/assets/2017/04/payday-loan-customers-want-more-protections

[iii] https://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf

[iv] https://www.fdic.gov/news/news/press/2013/pr13105a.pdf