January 19, 2019

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Regarding: Request for Information on Small-Dollar Lending – RIN 3064-ZA04

Dear Mr. Feldman:

The Community Bankers Association of Illinois ("CBAI"), which proudly represents approximately 320 community banks, appreciates the opportunity to provide our observations and recommendations on the Federal Deposit Insurance Corporation ("FDIC") Request for Information on Small-Dollar Lending ("RFI"). CBAI acknowledges the FDIC is issuing this request for information to seek public input on the 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. We appreciate that the FDIC recognizes the important role small-dollar credit products can play, as part of a 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. We also appreciate the value the FDIC places in consumers having relationships with insured financial institutions.

CBAI is one of the largest state banking associations in the nation. CBAI is a professional trade association representing 320 Illinois commercial banks and thrifts, and their 880 Illinois bank branches. Its members have nearly $80 billion in assets and employ approximately 16,000 individuals. CBAI is headquartered in Springfield, Illinois, and was founded in 1974 to exclusively represent and serve the community-banking profession. For more information, visit www.cbai.com.

CBAI highlights the critically important role community banks play in the banking industry, financial system and economy. We urge the FDIC to support community banks in their small-dollar lending activity. Community banks have a long history of treating their customers and communities fairly and with respect and they deserve the cooperation of the FDIC in making small-dollar consumer loans and also expanding in this area of lending.

In a comment letter dated October 5, 2016, CBAI responded vigorously against the Consumer Financial Protection Bureau ("CFPB" or "Bureau") including community banks in proposed rules regarding payday, vehicle title, and certain high-cost installment loans. We stated that if the rules were implemented as proposed it would discourage community banks from not only expanding, but from even continuing their existing small-dollar consumer lending activity. CBAI recommended that the rules should be directed at the unfair and abusive practices of other lenders and we urged broad exemptions for community banks. In the unfortunate event exemptions were not granted, we provided the Bureau with numerous recommendations to mitigate the potential harmful impact on community banks.

Over a year later, the CFPB issued a 1,700 page final rule which included several exemptions for lenders making a small number of small-dollar loans. While these exemptions benefited many community banks the rules were not sufficient tailored to support community banks in their efforts to meet the small-dollar lending needs of consumers.

In addition, the CFPB's exhaustive payday rulemaking (which included proposals, consideration and reconsideration) represented a completely unnecessary additional regulatory burden on community banks. CBAI hopes that the FDIC's efforts regarding small-dollar lending will be mindful of the significant shortcomings of the CFPB's rulemaking process and will successful encourage community banks to offer small-dollar loans to consumers.

Suggested Topics for Comment

Consumer Demand - Questions 1, 2 and 3

Community banks typically offer a variety of small-dollar lending options to consumers, both in-house and in partnership with others, with secured and unsecured personal loans and credit cards. Community banks are just one part of a banking and financial services industry that offers small-dollar loans to consumers; other participants include: payday, vehicle title, and other alternative lenders ("Non-traditional Lenders").

The size of the consumer market that utilizes the available sources for small-dollar loans is significant and represents a considerable untapped market for community banks. Under the right circumstances, and with support and encouragement, these consumers can be best served, in a safe and sound manner, and at a lesser cost, by community banks.

Benefits and Risks – Questions 5, 6 and 12

The benefit to community banks for expanding small-dollar lending is that it will allow them to serve their communities more fully. Additionally, these efforts should be viewed positively for CRA purposes by the FDIC, consumers and the communities that the banks serve. The benefit to consumers will be a lower cost of credit than if they had used Non-traditional Lenders. An added benefit will be that consumers will either begin or more deeply develop a relationship with community banks which will benefit both of them now and in the future.

The potential risk for community banks is the increased costs of originating and servicing small-dollar loans and higher lending losses. The possible risk to consumers is a delay or not being able to satisfy a lending need with community banks which could be more quickly and easily satisfied, albeit at a greater cost, by Non-traditional Lenders.

Challenges – Questions 10 and 11

The primary challenge will be attracting consumers who do not have existing relationships with community banks but do have relationships with Non-traditional Lenders. Consumers' existing relationships with these lenders are at least tried-and-true, albeit costlier, than similar loans from community banks. It will likely be a slow process to attract these consumers to community banks to meet their small-dollar lending needs.

The marginal profitability of these loans could be another challenge for community banks. Profitability will likely be impacted due to: increased expenses from origination, underwriting, funding and administration; barriers to charging sufficient interest rate and fees; and higher loan charge-offs. Depending on the severity of these problems there could be a negative impact on a bank's results of operation and financial condition and could possibly be a cause for safety and soundness concerns by the FDIC.

Also, either entering into or expanding small-dollar lending could conceivably have adverse CRA and fair lending compliance implications for community banks. Many individuals that need small-dollar loans and use Non-traditional Lenders are likely have one or more underwriting issues and may be unlikely to have an existing relationship with a community bank. Community banks will need the understanding and cooperation of the FDIC in their good-faith efforts to lend in these more challenging circumstances. Without a safe-harbor to protect community banks as they make what they believe are appropriate decisions in small-dollar lending, progress on this front will be problematic. Ultimately, banks will have to make lending decisions as well as business decisions to enter, participate and/or expand small-dollar lending. The FDIC should not second-guess or penalize community banks for making or reversing decisions in this lending area.

Product Features - Question 9, 13 and 14

An essential element of small-dollar consumer lending for community banks is the flexibility to design products with features that fit individual circumstances (i.e., amount, interest rate, fees, term, payments, etc.), and make exceptions to policies and practices, as community bankers deem appropriate for both consumers and their community banks. Highly restrictive and/or prescriptive consumer lending regulations will hamper community bankers' ability to serve consumers and expand small-dollar lending.

Innovation – Question 15 and 17

Much has been said recently about innovation in the banking industry particularly with the advent of fintechs either in competition or partnership with community banks. Innovation in consumer lending may be helpful by assisting potential borrowers who are either reluctant to visit a bank or those who would rather complete the process through a mobile device to reach an expedited lending decision. There are, however, potential shortcomings with innovation in lending.

The advantage of working with a community bank is the personalized attention the borrows receive. The downside of a highly automated lending process is the lack of personal contact between the lenders and borrowers, which can create a less than optimal loan structure and no personal contact to prevent and address problems in the future.

The cooperation, support and flexibility by the FDIC, as community banks explore fintech opportunities, will help facilitate the appropriate adoption of innovation in small-dollar lending.

CBAI urges the FDIC to work with and not second-guess or penalize community banks for making business decisions in their investigation and adoption of innovation.

Other – Question 20

CBAI urges the FDIC to be aware of the differences between community banks and the national largest banks, and Non-traditional Lenders, in how they analyze potential lending opportunities. Implicit in how community bankers underwrite loans, including small-dollar loans, is the important role that character plays in the lending decision process. Character is one of the most important aspects of community bank lending, because if a borrower is not intent on honoring the obligation and repaying the loan, then the existence of sufficient collateral, cash flow, capacity, and favorable conditions are almost irrelevant. There is also a type of loan which is informally called a "Character Loan" which is most prevalent in consumer lending because of the small dollar amount at risk, and they are made to individuals in the community that are well known to their community bankers

The problem with highly prescriptive and/or restrictive consumer lending regulations is that it negatively impacts the flexibility of community bankers to consider and rely on "Character" as one of the most important factors in their lending decision, and their inability to make "Character Loans". The FDIC must respond to the colorful kaleidoscope of consumer lending needs and opportunities that exist for community banks by allowing community bankers to offer more than loans that are the color beige. Not providing this flexibility will be harmful to community banks and the consumers and communities they serve.

Community banks have typically not developed sophisticated lending models designed to eliminate the human element from consumer lending. It is widely acknowledged that lending is best accomplished with face-to-face interaction between lenders and borrowers. Community bankers are particularly adept at understanding the human element of lending in meeting the financing needs of consumers. It will be truly unfortunate if this interaction and skill is ever deemed unimportant or marginalized through inappropriate regulations.

For this FDIC initiative to be successful it must not only maintain community banks' ability to make small-dollar loans but also enhance that ability, particularly if there will be more consumers seeking loans from community banks because of a restrictive impact of regulations on payday/vehicle title and Non-traditional Lenders. These consumers are best served, if possible, by community banks and should be encouraged to begin or expand a traditional banking relationship. However, if regulations are simultaneously reigning-in the payday/vehicle title/Non-traditional Lenders and restricting the ability of community banks to offer small-dollar loans, the result will be disastrous for consumers and a missed opportunity for community banks to help this important and often times more vulnerable segment of consumers.

In conclusion, while there are challenges in banks expanding small-dollar lending they can be overcome by the understanding, support and encouragement of the FDIC. Community banks have historically treated their customers fairly and with respect and have earned long-overdue, well-deserved and meaningful regulatory relief. CBAI specifically urges broad exemptions for community banks from onerous regulations to enable them to expand their small-dollar consumer lending.

Thank you again for this opportunity to provide our observations and recommendations to this RFI. If you have any questions, please feel free to contact the undersigned at 1-847-909-8341 or at davids@cbai.com.

Sincerely,

/s/

David G. Schroeder
Senior Vice President
Federal Governmental Relations