VELOCITY
SOLUTIONS

January 21, 2019

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

Re: RIN 3064-ZA04, Small-Dollar Lending

Dear Mr. Feldman,

We are pleased that the FDIC has requested information on small-dollar lending from banks. As a leading technology and service provider to regional and community financial institutions, we have unparalleled expertise and insight into deposit account activity and transactional trends. We service the transaction accounts of over 30 million consumers and business owners, and our innovative technology ensures seamless implementation and the highest levels of data security.

For most financial institutions, introducing a traditional small-dollar loan program is a cost-prohibitive process – not only operationally, but also from a staffing standpoint. From the cost of loan officers and underwriters to the overhead of paper and manual processes to additional slowdowns in branch traffic, the reality is that it would take time and resources that many banks simply do not have.

But one of our newest solutions, CashPlease (please see www.CashPlease.com), is an automated small-dollar, short-term lending platform that allows financial institutions to provide loans that are responsible, compliant and dramatically more efficient than manual solutions. It allows banks and credit unions to provide their account holders with easy access to cash at affordable interest rates while remaining compliant. We have several clients who have been using our small-dollar lending technology through a bundled solution to offer short-term loans for a number of years. We recently introduced CashPlease as a standalone solution to broaden the availability of an efficient, technology-driven small-dollar lending option for financial institutions.

The CashPlease program provides a turnkey white label website and mobile app using the bank or credit union's logo and colors. It is fully automated, so no loan officers are needed. It integrates with an institution's core system and mobile banking via single sign on (SSO). Loans can be automatically booked to the bank or credit union's core system.

Consumers gain the ability to apply for a loan from their smartphone or computer 24 hours a day, including weekends. There is no traditional credit check, with CashPlease instead relying on proven underwriting based on the account's transaction history. The charge off rate is typically only around 3%, which has been validated over several years of experience. The website and app are easy to use, making this option more convenient than payday lenders. The cash is deposited quickly and directly into consumers' checking

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accounts, and they can enroll in the "Easy Pay" option that deducts repayment automatically from their account, enabling them to succeed in repaying in installments over generally two to six months, while keeping losses low for providers.

This product is extremely well-suited to enabling banks to offer small-dollar loans, but most have chosen not to do so yet, in part because the FDIC has not provided clear guidelines for acceptable practices on originating, underwriting, and pricing small installment loans. While defaults are relatively low, banks that do not have experience in this space may believe that they need additional revenue as a cushion in case the losses from the loans end up being higher than expected. Clear supervisory expectations from the FDIC would address this issue, creating certainty that they can profitably lend small amounts at fair prices, without fear that it will be seen as a safety and soundness issue or consumer protection concern for regulators.

The slow pace of small-dollar lending uptake among banks to date is unfortunate, as some of their checking account holders go outside the depository relationship to borrow on predatory terms from payday lenders and other costly providers. We believe that the FDIC should allow viable small-dollar lending which is best facilitated by streamlined standards including:

- Pricing flexibility to allow for sustainable revenue
- Allowing the use of third parties to automate the processing of applications, underwriting, and originating loans
- Welcoming the use of automation to every aspect of the small-dollar lending process, which for all but large institutions, probably means working with a service provider
- Clarification that account transaction data, either from the financial institution itself or other sources, can be used for underwriting a small loan, and the use of traditional credit reports or paystubs is optional
- A line of credit option

Sustainable Pricing

The Pew Charitable Trusts' research has found that if depository institutions are permitted to offer small installment loans at double digit APRs, this lending can be profitable. At the same time, they have found that using 36 percent APR as a limit prevents banks from offering small loans profitably. We have run numbers on this pricing, and we concur with these findings. We are confident that if banks can offer small loans priced in the range U.S. Bank is using (a 3-month, $500 loan runs from $60-$75, or 71-88 percent APR), that will provide enough revenue that many more banks would begin offering small-dollar loans and would be profitable doing so.

While this pricing is about 5 to 8 times less than typical nonbank alternatives, banks' competitive advantages plus our automated processes can make this pricing work and offer a scalable alternative to high-cost loans. Pew also has recommended in its published standards using a payment-to-income ratio of 5 percent of each gross paycheck or 6 percent of deposits into the account as the amount of each installment payment, with the maximum term essentially capped by limiting loan costs to half of principal. U.S. Bank has adopted this payment-to-income ratio in its small loan, and we believe these recommendations would work well, making compliance simple while protecting consumers.

Banks' main costs in offering small loans via an automated process will be (a) servicing, (b) losses, (c) ensuring customers are aware of the program, and (d) paying a provider. Service providers will bear the costs of research, development, and investment in technology, sparing banks from costly buildouts. It is critical that prices not be limited to the 36 percent rate the FDIC has recommended in the past, or else it will not make sense for service providers to invest in lending automation and technology.

For our solution which automates small-dollar lending, we do not charge banks anything for reviewing an application – indeed, this is one of the benefits of an automated program – so we recommend that regulations around pricing structures not restrict fees based on a presumption that there always will be an application. Eligibility for CashPlease loans is pre-determined on a daily basis, so credit is quickly available for eligible consumers, and those unlikely to be approved are spared the time and expense of being declined.

We only charge providers for loans that are funded. We also do not charge to verify employment, age, and residence since the methodology of underwriting the loan relies on account activity and the customer's established relationship with the bank. Our charge to the bank is for this underwriting as well as offering a convenient way for the borrower to apply for and receive a loan electronically. We expect that others offering similar services would charge in a similar manner, and bank providers should be able to recoup that per-loan cost from the borrower if this product is to be viable for them. The bank also will need to earn enough revenue to cover implementation costs, customization/integration charges from their core software provider, electronic signature technology, and similar costs.

Underwriting

We encourage the FDIC to enable streamlined underwriting and avoid unnecessarily burdensome paperwork that would prevent automation. The cost to a bank of having its staff review paperwork, combined with the inconvenience to the borrower of providing them (not to mention the delay caused by such requirements), substantially reduces the viability of providing small loans. We believe that banks and their vendors should have clear authority for using account transaction data, either their own or from other sources, for underwriting the loan instead. The simplicity of using automated underwriting, perhaps including clear standards like a payment-to-income ratio, or the time that a customer has been with the bank, can also simplify the compliance process for banks and ensure that banks and examiners have the same understanding of acceptable practices.

Line of Credit

We also recommend that the FDIC provide flexibility for banks to structure small loans as lines of credit, both because open-end credit is operationally easier to provide, and because we see substantial income and expense fluctuations from month to month in consumers' accounts. A line of credit better aligns with the needs of millions of households who have multiple income sources or high volatility in their financial lives. If a line of credit is permitted, it does make sense to ensure borrowers are repaying principal in a reasonable amount of time.

Other Issues

We believe it is reasonable to require that loan payments do not trigger overdraft or NSF fees, so long as overdraft protection programs are not otherwise impacted.

We anticipate all bank providers of small-dollar loans will report loan repayments to credit bureaus.

We initially were concerned that the CFPB's proposed rule could harm this type of lending, but the final rule issued in 2017 does not impede loans repayable in terms of more than 45 days, so we do not see that rulemaking as an obstacle to small installment loans and lines of credit.

The loans we offer through CashPlease are small installment loans. They are not deposit advances. Nevertheless, banks may be hesitant to begin offering small installment loans or lines of credit because of the deposit advance guidance the FDIC issued. We recommend that the FDIC clarify that its deposit advance guidance does not apply to the small installment loans we have discussed in this letter. The CFPB limited the scope of its ability-to-repay restrictions to single-payment loans and those with terms of 45 days or shorter. If the FDIC did the same, that would provide banks and service providers with the regulatory certainty needed to know that small installment loans and lines of credit are not covered by the FDIC's deposit advance guidance.

Finally, we want to call attention to the human impact that action from the FDIC could have. Millions of Americans are being taken advantage of by predatory lenders today. The FDIC has played a leading role in documenting that 1 in 4 American households is unbanked or underbanked. Small installment loans from banks could change that.

The number of people who could benefit from better credit options goes far beyond the 12 million Americans who use payday loans annually. Half of the unbanked were previously banked. If those customers gained access to products that met their needs, we expect more of them would remain bank customers. Some of them likely lost their checking accounts because online payday lenders or other aggressive actors debited their accounts relentlessly. Keeping those customers in a safe, regulated environment by meeting their borrowing needs could go a long way toward achieving financial inclusion and boosting the financial health of millions of households living paycheck-to-paycheck.

While this lending isn't feasible at scale with APRs as low as 36 percent, offering loans at prices 5 to 8 times lower than what underbanked Americans are paying today along with a longer time to repay the loan would be a huge boost for those who most need help. With the FDIC's help, we know banks and service providers are prepared to meet that need.

Thank you for your consideration.

Respectfully,

VELOCITY SOLUTIONS, LLC

[redacted]

Christopher J. Leonard
Chief Executive Officer