January 22, 2019

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

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

Dear Chairman McWilliams,

On behalf of the Mission Asset Fund (MAF), I submit this letter in response to the FDIC's request for information on small-dollar lending and how banks can offer them responsibly to consumers. MAF is a CDFI-certified community lender, based in San Francisco, CA. My comments below are informed by our long record of successfully working directly with low-income and immigrant communities to improve their financial well-being.

I strongly believe that banks have a great responsibility to provide affordable products to low-income consumers. Unfortunately, banks have not lived up to their responsibility particularly when it comes to meeting the credit needs of low-income communities. Instead of providing them with responsible small-dollar loan alternatives, they often leave vast underserved markets to nonbank lenders that provide high-cost products that entrap people with unmanageable debt. Nonbank lenders charge exorbitant prices, set loan terms with unaffordable payments designed to keep consumers in a cycle of debt, and take access to consumers' checking accounts, vehicle titles, or other essential collateral to maximize their ability to collect. This is not news. The Consumer Financial Protection Bureau (CFPB), and other academic research institutions have well documented how such loans harm consumers, triggering downward financial spirals for many people.

If that's not bad enough, nonbank lenders also harm low-income consumers in the long term. Typically, positive payment information from small-dollar loans like payday, rent-to-own, pawn, or auto title is not reported to credit bureaus, thereby eliminating the possibility of building credit reports and improving credit scores when clients pay on time.

Bottom line is that low-income consumers are ill-served by a bifurcated marketplace where they are ignored by banks, or served only by high-cost lenders with loans that can cause significant harm. It does not have to be so. I have seen first-hand the transformational power that well-designed small-dollar loans can have on a person's financial life through my work at MAF. For the past decade, MAF has helped over ten thousand consumers access loans ranging from $500 to $2,500 to meet their immediate credit needs through our Lending Circles program. Over the years, we have witness clients increase credit scores by an average of 168 points, lower their high-cost debt by over $1,000, all the while repaying their loans. I have seen clients weep with joy after seeing their credit scores for the first time, envisioning a world of opportunities that were out of reach before.

Well-designed loans can have dramatic impacts on consumers' financial lives, far exceeding their monetary value alone. In addition to accessing credit to address a pressing need, what also matters for low-income consumers is improving their credit scores so that they can access better loans in the future. With improved credit scores, Lending Circles clients access low-cost loans to buy cars, some may even get better insurance premiums with a prime score. With credit reports, they qualify to rent apartments, and some may even get jobs when employers authenticate their identity through their credit report. The list goes on.

Unbanked and underbanked Americans face complex and diverse financial challenges. Banks must step up and do their part, for no amount of good work from nonprofit CDFIs will ever be enough to meet the vast need in the marketplace. Banks have the capital, the scale, and technology to provide meaningful products that low-income consumers need. Fortunately, some are willing to do so if they receive clear guidelines from regulators. For example, the CFPB issued a strong, clear, and well-designed regulation for small-dollar lending in October 2017. The guidelines set strong safeguards to prevent consumers from being trapped in debt by single-payment loans and allowed leeway if consumers were permitted to repay in equal installments over more than 45 days. Similarly, the Office of the Comptroller of the Currency used the same 45-day standard to issue clear guidelines to its supervised banks in its May 2018 bulletin. After these two actions, U.S. Bank, where I serve on the Community Advisory Committee, began offering Simple Loan. The loan is repayable in equal installments over three months. Each payment is set at 5 percent of a consumer's income. The cost of a $400, three-month loan is $48 if customers agree to autopay. In California, this loan costs nine times less than payday loans.

I hope the FDIC will offer clear guidelines to help banks design sensible small-dollar loans to meet the credit needs of low-income consumers. The FDIC should plan to evaluate such products to determine what works in improving consumers financial well-being, and quickly communicate findings to the field so that others can follow best practices. It's important to note that the profitability of products should not be the only metric to determine success. In fact, banks should be encouraged to claim CRA credit for providing innovative services that may not be as profitable but are nonetheless proven to positively impact consumers' financial lives. Banks may be surprised by how consumers performed with a well-designed and delivered product. After ten years of delivering Lending Circles, our repayment rate stands at 99.3 percent. I am sure consumers will perform likewise to any well-designed, relevant, affordable, and timely bank products.

As part of any small-loan program, the FDIC should encourage banks to report small-loan payments to credit bureaus so customers can build a positive credit history. At the same time, I hope the FDIC will maintain its guidance to discourage harmful deposit advance loans. Single-payment loans with trip-digit APRs have no place in the banking system. I also hope the FDIC will insist that payments on small-dollar loans not trigger costly overdraft fees. And just as importantly, the FDIC should evaluate products to determine what works in helping improve consumers' financial lives. Lastly, the FDIC should be sure banks do not offer their charters to payday lenders to avoid state usury laws, doing so will severely undermine the hard work of rebuilding trust with low-income communities.

As Princeton sociologist Dr. Fred Wherry wrote in *The New York Times* several years ago, "If our banking system is going to become an inclusive one that works for everyone and not just the affluent, allowing banks to offer small installment credit would be a great place to start." I agree wholeheartedly.

Sincerely,

[redacted]

José Quiñonez, CEO
Mission Asset Fund