

**From:** Alley Murphy <alley.murphy@tristar.bank>  
**Sent:** Thursday, January 03, 2019 5:59 PM  
**To:** Comments  
**Cc:** Ted Williams  
**Subject:** RIN 3064-ZA04  
**Attachments:** FDIC request for info on small dollar lending- TriStar Bank.pdf

Please see attached.

## **Alley Murphy**

### **Administrative Assistant**

719 East College Street, Dickson, TN 37055-7026  
615-326-0512 (direct office) | 615-326-0552 (fax)



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**\*\*Beginning January, 2018 my email address has changed to [Alley.Murphy@TriStar.Bank](mailto:Alley.Murphy@TriStar.Bank)\*\***

**\*\*Please update my contact information in your address book\*\***

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**FEDERAL DEPOSIT INSURANCE CORPORATION**

**RIN 3064-ZA04**

**Request for Information on Small-Dollar Lending**

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Notice and Request for Information.

SUMMARY: The FDIC is seeking comments and information from interested parties on small-dollar lending, including steps that can be taken to encourage FDIC-supervised financial institutions (banks) to offer small-dollar credit products that are responsive to customers' needs and that are underwritten and structured prudently and responsibly.

DATES: Comments must be received by [60 days after date of publication]

ADDRESSES: You may submit comments, identified by RIN 3064-ZA04, by any of the following methods:

- *Agency Website:* <https://www.fdic.gov/regulations/laws/federal/>. Follow the instructions for submitting comments on the Agency Website.
- *Email:* [Comments@fdic.gov](mailto:Comments@fdic.gov). Include the RIN 3064-ZA04 in the subject line of the message.
- *Mail:* Robert E. Feldman, Executive Secretary, Attention: Comments, Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429.
- *Hand Delivery:* Comments may be hand-delivered to the guard station at the rear of

the 550 17th Street, NW, building (located on F Street) on business days between 7:00  
<sup>3</sup>“2017 FDIC National Survey of Unbanked and Underbanked Households,” Federal Deposit Insurance Corporation, October 2018.

a.m. and 5:00 p.m.

*Public Inspection:* All comments received must include the agency name and RIN for this rulemaking. All comments received will be posted without change to <https://www.fdic.gov/regulations/laws/federal/>—including any personal information provided—for public inspection. Paper copies of public comments may be ordered from the FDIC Public Information Center, 3501 North Fairfax Drive, Room E-1002, Arlington, VA 22226 by telephone at (877) 275-3342 or (703) 562-2200.

FOR FURTHER INFORMATION CONTACT:

Paul Robin, Section Chief, (202) 898-6818, [probin@fdic.gov](mailto:probin@fdic.gov).

SUPPLEMENTARY INFORMATION:

The FDIC is responsible for maintaining stability and public confidence in the nation’s financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protection, making large and complex financial institutions resolvable, and managing receiverships. As discussed further below, the FDIC is soliciting public comments on issues related to small-dollar lending by banks. Specifically, we are requesting information on the consumer demand for small-dollar credit products, the supply of small-dollar credit products currently offered by banks, and whether there are steps the FDIC could take to better enable banks to provide such products to consumers to meet demand.

<sup>3</sup> “2017 FDIC National Survey of Unbanked and Underbanked Households,” Federal Deposit Insurance Corporation, October 2018.

## **Overview of Request for Information**

The Federal Deposit Insurance Corporation (FDIC) is issuing this request for information (RFI) to seek public input on 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. This effort is consistent with the FDIC's commitment to increase transparency, improve efficiency, support innovation, and provide opportunities for public feedback on issues affecting FDIC-supervised institutions and their customers.

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The FDIC recognizes the important role small-dollar credit products can play, as part of the 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. Recent research from the FDIC indicates that 20 percent of U.S. households reported that their income varied “somewhat” or “a lot” from month-to-month.<sup>1</sup> Moreover, according to research from the Federal Reserve, if faced with a hypothetical \$400 expense, 4 in 10 U.S. adults in 2017 would borrow, sell something, or not be able to pay.<sup>2</sup>

Given the unique role banks play in the communities they serve and the benefits to consumers of having a relationship with an insured financial institution, banks are well-positioned to address the credit needs of their customers in a responsible manner. While some banks currently offer small-dollar credit products, there may be additional opportunities for banks to address unmet demand for consumer credit in their

<sup>3</sup> “2017 FDIC National Survey of Unbanked and Underbanked Households,” Federal Deposit Insurance Corporation, October 2018.

communities. For example, research from the FDIC suggests that in 2017, 14.8 million or nearly 13 percent of U.S. households may have had unmet demand for small-dollar credit from banks. A majority of these households reported staying current on bills in the prior year. Although the vast majority (nearly 9 in 10) of these households had a bank account, fewer than one in three applied for credit from a bank.<sup>3</sup> Some of these households may present opportunities for banks to extend credit in the form of small-dollar loans.

Accordingly, the FDIC invites public comments on the full spectrum of issues related to the role banks can play in offering small-dollar credit, obstacles – regulatory and non-regulatory – that banks currently encounter in offering such credit, and whether there are steps the FDIC could take to enable banks to better serve this market.

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<sup>2</sup>“Report on the Economic Well Being of U.S. Households in 2017,” Board of Governors of the Federal Reserve System, May 2018.

<sup>3</sup>“2017 FDIC National Survey of Unbanked and Underbanked Households,” Federal Deposit Insurance Corporation, October 2018.

## Suggested Topics for Commenters

The FDIC encourages comments from all interested members of the public, including but not limited to insured depository institutions, other financial institutions or companies, individual depositors and consumers, consumer groups, trade associations, and other members of the financial services industry. Please be as specific as possible to allow the FDIC to evaluate comments more effectively. In particular, the FDIC requests input on the following more specific topics and questions:

### *Consumer Demand*

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

**If banks were encouraged to set up small-dollar loan programs without concerns of regulatory burden, as in fair lending laws, they could capture a lot more of the market of the check-cashing industry. These loans would be higher-priced than most bank loans but would save the consumers a lot of money.**

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

**Smaller community banks may have a low minimum on loan amounts, but they will need to be able to adjust underwriting criteria to make the small-dollar lending portfolio profitable.**

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 check-cashing industry, satisfies the majority of the consumer demand, however, because the cost to the consumer of up to 500% APR and the lack of regulations on the check-cashing industry, has been to the detriment of the consumer. Banks have been pushed out of overdraft programs that provided short term borrowing at a lesser cost than consumers can receive today.**

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

**Examine the volume of business performed by check-cashing companies.**

*Benefits and Risks*

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

**The biggest risk associated with small-dollar credit products is the risk of violating fair lending laws. Banks would need to lower their lending standards for this product and be able to increase their pricing to make the small-dollar loan market profitable for banks. The potential benefits are that consumers receive lower cost with short-term borrowing and banks grow client base and profitability.**

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

**An important benefit to consumers would be their ability to save money during a time of financial stress, as well as work with entities that can help them build credit.**

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

**Identify technology solutions for quick approvals and originations.**

8. What are the potential benefits and risks related to banks partnering with third parties to offer small-dollar credit?

**Underwriting criteria too lenient is a risk. Potential benefits would be to generate the volume needed to make it profitable.**

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?

**Exempt small-dollar loans from fair lending examinations. Allow banks pricing to make the market profitable.**

*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.

**See previous answers. Usury laws are too restrictive in some states. Reduce restrictions on overdraft programs to help fill this void.**

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.

**It is difficult to generate a lot of volume in this business. Finding technology to approve and originate quickly would drive volume and make it worth a bank's time and effort.**

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

**Most consumers believe that a bank can't help them. Changing the mindset is difficult.**

*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?

**Short-term loan products are challenging in a typical banking environment.**

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?



**Banks will need to get comfortable with charging more and charging off more than typical bank loans.**

*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).

**For this to be successful, a bank will need to embrace some technology. This will only be profitable with a certain level of volume. Technology is the best way to achieve volume.**

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?

**Not aware of any.**

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?

**Just level the playing field on regulations. Banks will find the ways to grow the business if it can be made profitable.**

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

**Technology should be quicker, cheaper, and easier to close loans, and as well as provide more privacy.**

*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?

**Customers used to handle temporary short falls in cash flow with overdraft products that bank regulators have eliminated. Reducing restrictions in these products would help consumers save money**

*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?

**Not that I can suggest.**

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

**Work with the FFIEC to obtain some change in this area. All regulators will need to get on board to really impact positive change.**

Dated at Washington, DC, on [date], 2018.  
Federal Deposit Insurance Corporation.

**Robert E. Feldman,**  
*Executive Secretary.*