January 21, 2019

To Robert E. Feldman, Executive Secretary

Attention: Comments Regarding the Request for Information RIN 3064- ZA04 Federal Deposit Insurance Corporation, 550 17th Street, NW, Washington, DC 20429

Dear Mr. Feldman,

My answers to the questions as posed in the RFI are based on our experience and our opinion of conditions in our small marketplace; Columbia County, Arkansas. Thank you for the opportunity to comment.

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

   Since Arkansas outlawed payday lending several years ago, we see many customers obtaining payday-lending-type loans by going across the state border, or going online. I would guess that most of these customers can't qualify for a credit card. There is also heavy usage of overdraft privilege, showing that despite the efforts of regulations to educate and encourage consumers to avoid using ODP, they still find it an acceptable and affordable alternative to other options. We conclude that there is a significant unmet demand for reasonably-priced small-dollar loans (SDL). These customers are in general higher risk for repayment and therefore consumer protection laws and limits on fees and interest rates make it impossible to fully serve this niche profitably.

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

   Proportionate to our size, our bank probably does a significant amount of small-dollar lending compared to most other banks. We are small, and we serve a LMI clientele which also includes a higher share of minority customers. In a less regulated environment, we could do much more.

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

   Payday and online lenders, pawn shops, and probably loan sharks, are the current sources that try to satisfy the demand, that I am aware of. The demand is strong and consumers find their best deal wherever it may be. The lengths consumers are willing to go to proves that there is a strong demand for SDL. Laws and regulations restricting access to credit products at banks, including usury laws, drive consumers to less scrupulous sources.

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

A. Ask for a show of hands for which banks serve these types of consumers, and conduct interviews with them. I know many times bankers with the "boots on the ground" experience feel ignored by policy-makers.

B. Observe the prevalence of the entities currently satisfying the demand.

C. The free market should determine what products are available, and the terms of those products. Any artificial limits on the free market just create work-around situations, and open the door for more illegal and dangerous activity. Setting a price cap on a product at a price below the cost of that product or service assures consumers that none of that product or service will be available. We see recommendations for restrictions and price limits from consumer-advocate groups who are well-meaning, but don't seem to understand that businesses are unable to stay in business unless they can make a profit.

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

   Benefits to banks: building customer relationships and loyalty; more profits and stronger bank if we're allowed to charge enough to make it profitable
   Risks to banks: credit quality could go down; administration costs could be under-estimated; bank could be subject to examiner criticism for having less-than pristine credit quality

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

   Benefits to consumers: better terms/costs; fairer treatment, better service, and more convenient than current providers
   Risks to consumers: can't think of any

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

   Maintain the intended underwriting standards; realize that lending money to a consumer doesn't always help – sometimes it's detrimental; charge enough to cover costs and make a fair profit so that the service can continue

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

   We don't have experience in this, so can't comment

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?

Change some of the expectations on ratios for banks who provide this service: allow higher L/D ratio, higher past due rate, higher past due numbers. Understand that banks who provide this service are dealing with net-borrowers and in some cases have to obtain funding from outside their deposit base.

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.

    Yes, and we have a lot of experience with this. Our customer base is LMI, disproportionately high minority, generally high maintenance, low tech, and more costly to serve than average. Although legislators and regulators give lip service to serving the under-served, current laws and regulations prevent, restrict, discourage and disincentivize us from offering not only small-dollar credits, but all kinds of credits.

    The brokered deposit and rate cap regulations, which thankfully are being given a second look through the recent ANPR, not only do all of the above, they actually have a disparate impact on our LMI and minority clientele. They basically require us to do more business with "wealthy" depositors and less business with "not-wealthy" consumers due to the bias towards loans being funded by local depositors instead of through wholesale markets. Removing the stigma from brokered deposits, and understanding that in MANY ways brokered and wholesale funding are SUPERIOR to local funding, would allow us more freedom to lend to our net-borrower customer base.

    Usury laws can sometimes prevent small-dollar loans from being priced high enough to be feasible. Besides that, the overwhelming multitude of laws and regulations complicate every service that a bank tries to offer. Instead of punishing the bad actors, who make up only a small percentage of bankers, the 90+% of good guys are drowning in regulations. Consumers end up not being served, and paying for the increased costs of compliance.

    In our state, banks aren't allowed to use the Small Claims Court avenue, so in order to obtain a judgment or garnishment, a civil case is required and would cost more than it's worth. Small dollar borrowers know that there is very little we can do to collect if they decide not to pay, so this discourages us from making small loans.

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.

    I would only say that they are labor intensive and costly to administer, and current laws don't always allow high enough fees and rates to make small loans profitable.

12. What factors may discourage consumers from seeking responsible, prudently

underwritten small-dollar credit products offered by banks?

Availability is one problem, and qualifying for the loan at the bank would be more difficult than the sources now being used.

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?

    I would think the key feature would be an affordable monthly payment.

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?

    The key to this is making loans of a high enough quality so that losses don't erase the income from the product line. Also, absent of losses, the income has to be high enough to cover expenses associated with the product plus provide a return on investment.

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

Right now there are 13 other comments, and I've read them all. I agree whole-heartedly with the comments submitted by Kent Franzen of Henderson State Bank, especially for question 21. All banks need regulatory relief, and especially small banks, who are struggling to survive and are disappearing at the alarming rate of almost one each and every business day. If that doesn't say it all, I don't know what will.

I am encouraged at the approach Chairman McWilliams is taking! The mountain of regulations is daunting, but it looks like we may have some hope that improvements will be made. Small banks are not a different animal from large banks; we are a different species. We should be treated much differently.

Thank you,

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