



January 22, 2019

By Electronic Delivery to [Comments@fdic.gov](mailto:Comments@fdic.gov)

Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, N.W.  
Washington, DC 20429

**Re: Request for Information on Small Dollar Lending, RIN 3064-ZA04**

Ladies and Gentlemen:

This letter is submitted by Visa Inc. (“Visa”) in response to the request for information (“RFI”) by the Federal Deposit Insurance Corporation (“FDIC”) on small-dollar lending.<sup>1</sup> The FDIC is seeking public input on the consumer demand for small-dollar credit products, the small-dollar credit products currently offered by financial institutions, and steps it can take to encourage institutions “to offer responsible, prudently underwritten small-dollar credit products that are economically viable and address the credit needs of bank customers.”<sup>2</sup>

For more than 50 years, Visa has enabled people, businesses and governments to make and receive payments across the globe with credit, debit and prepaid products. Although Visa is a retail electronic payment system, and does not itself issue credit, debit, or prepaid products or set the rates and fees on those products, Visa plays a pivotal role in advancing payment products and technologies worldwide by enabling tens of millions of daily transactions through our core processing network – VisaNet.

Visa welcomes the FDIC’s release of this RFI and its long-standing recognition of the need for affordable small-dollar lending, and in particular the role financial institutions can play in providing affordable alternatives to what can be higher cost loans provided by certain non-bank lenders. For example, the FDIC hosted a conference for bankers to discuss the need for affordable small-dollar credit and asset-building strategies for the military in December 2006, during which a template for an affordable, small-dollar loan program was developed for military customers.<sup>3</sup> Even today, close to a decade after the financial crisis, the FDIC’s ongoing research

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<sup>1</sup> See Request for Information on Small-Dollar Lending, 83 Fed. Reg. 58566 (November 20, 2018).

<sup>2</sup> *Id.* at 58567.

<sup>3</sup> See Affordable, Responsible Loans for the Military: Programs and Stereotypes, Military Small-Dollar Loan Template (December 6, 2006), available at [www.fdic.gov/news/conferneces/militaryloans/military\\_small\\_dollar\\_loan\\_template.pdf](http://www.fdic.gov/news/conferneces/militaryloans/military_small_dollar_loan_template.pdf).

into unbanked and underbanked households indicates that nearly 15 million households continue to have unmet demand for high-quality, affordable credit from banks.<sup>4</sup>

Helping people and businesses to access secure, convenient and affordable payment and other financial services and use them to meet everyday needs and long-term goals is at the core of Visa's commitment to financial inclusion. Visa partners with private companies, governments and non-profit organizations to reach underserved communities worldwide to help build solutions necessary for financial inclusion. In this regard, small-dollar lending products, if responsibly offered and well-managed, can provide both consumers and businesses alike a critical option for addressing their credit and microfinancing needs to, for example, manage household income volatility, purchase tools and equipment to start a new small business, or help with unanticipated financial issues that may arise.

To further study the potential benefits of small-dollar credit products for consumers and businesses and how these products can enable financial institutions to offer a pathway to financial well-being for their community, Visa has partnered in the United States with leading non-profits to fund research into developing programs and industry insights to find innovative ways to meet the credit needs of people who may be otherwise excluded from the financial ecosystem. Visa's comment is primarily focused on sharing findings from two of our key research partnerships in the hopes that the research may help guide the FDIC's consideration of this critical issue.

### **Reaching Minority Households Incubator**

As part of a multiyear partnership starting in 2016, Visa collaborated with the Filene Research Institute and the Ford Foundation to explore the extent to which mainstream financial institutions could offer alternative lending options that can provide consumers affordable solutions that they may not otherwise have access to and help them get one step closer to financial stability. To test the hypothesis, Filene created the Reaching Minority Households Incubator to identify programs aimed at serving the needs of minority households with demonstrated success on a small scale; test each program with other financial institutions for financial viability, scalability, consumer impact, and both financial institution and consumer demand; and package the products into a business case and guide to provide tools to other institutions for use for turnkey implementation. Over 18 months, Filene worked with 40 credit unions to test five products which ultimately led to almost 60,000 loans being made totaling nearly \$85 million in funds disbursed. The resulting report, Reaching Minority Households Incubator, was released in August 2018.<sup>5</sup>

Of the five programs tested in the Incubator, four of them specifically addressed the need for small-dollar credit. Proving the strong customer demand for affordable credit, these

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<sup>4</sup> See Federal Deposit Insurance Corporation, "2017 FDIC National Survey of Unbanked and Underbanked Households" (October 2018), available at <https://www.fdic.gov/householdsurvey/2017/2017report.pdf>.

<sup>5</sup> See Filene Research Institute, "Reaching Minority Households Incubator" (August 2018), available at <https://www.filene.org/learn-something/reports/reaching-minority-households-incubator>.

programs were the more successful products tested, receiving very positive customer feedback and providing a higher rate of return on loan assets as compared to other current institution offerings. The most successful program offered credit access for immigrant households including non-citizens using an Individual Taxpayer Identification Number (ITIN). Other programs offered through the Incubator included one product which provided small-business micro-loans to entrepreneurs which was combined with a financial education component to assist businesses in managing their capital; and two products designed to help households avoid or transition out of high-cost payday loans: a mobile application-based small-dollar lending product which enabled loan underwriting and disbursement via the financial institution's application, and a payday loan consolidation product which leveraged alternative data for underwriting.

Key findings for the Incubator were that:

- 1) Traditional financial institutions, including credit unions, community banks and large banks can reach minority households;
- 2) Programs serving financially vulnerable populations create meaningful impact for minority households;
- 3) Serving minority households is not a one-size-fits all endeavor;
- 4) Programs should not stand alone, and should instead be part of a suite of services, rather than a one-time loan;
- 5) It is necessary to look beyond traditional measures of creditworthiness;
- 6) Financial institutions should give themselves permission to offer products with higher rates and fees compared to other products in their portfolio while always following fair lending practices;
- 7) Financial institutions need to create space for constant innovation.

To facilitate the scaling of the ITIN Lending product, Filene released the ITIN Lending Implementation Guide in October 2018 in partnership with Inclusiv (formerly known as the National Federation of Community Development Credit Unions), Coopera, a Hispanic consulting firm, and Policy Works. To further help financial institutions implement ITIN and microbusiness lending programs, Filene will be conducting regional workshops in 2019 to train financial institutions in both methodologies. Visa also provided an additional grant in 2018 to fund a second qualitative study on the small-dollar credit products tested in the Incubator, which will follow 20 consumers over the course of the next year and conduct interviews throughout with the objective of uncovering additional insights that could not be captured from the loan information and surveys collected in the Incubator.

Although each of the institutions participating in the Incubator were credit unions, Visa believes that Filene's research can ultimately benefit financial institutions of all types and sizes. Providing underbanked minorities with formal financial products and services designed for their unique needs contributes to greater financial inclusion, access to credit, and financial health, and helps banks and credit unions investing in these programs alike to tap into new markets.

## Secured Credit Cards

Visa's work with the Center for Financial Services Innovation ("CFSI") on secured credit cards highlights another route to accessing high-quality affordable credit, particularly for consumers with low and moderate income and/or thin credit files. In May 2015, the Consumer Financial Protection Bureau ("CFPB") issued a report on the so-called "credit invisibles", which estimated that there were nearly 45 million American consumers unable to access credit due to no or thin credit files.<sup>6</sup> For consumers with limited or damaged credit history, secured credit cards may potentially offer a beneficial way to both access credit and build or rebuild a positive credit record. To more fully explore this option, Visa partnered with CFSI shortly after the CFPB report's release to conduct research on whether secured credit cards can provide a path for financially underserved consumers to build credit on their way to better financial health.

Based on CFSI's prior sizing of the underserved credit market, an estimated 108 million consumers either lack a credit score, or have one which prevents them from accessing affordable high quality credit when they need it. Yet, secured credit cards remain underutilized by the population that could most benefit from the opportunity to build credit. CFSI conducted interviews in 2015 with industry experts and a market survey of current secured card account holders to gather insights into the potential challenges to secured credit market growth and develop recommendations to overcome these challenges. The research culminated in CFSI's release in 2016 of a report entitled "Secured Credit Cards: Innovating at the Intersection of Savings and Credit".<sup>7</sup>

CFSI's paper listed the following among the key challenges to growth in the secured credit card market: the lack of consumer familiarity and knowledge of the product; difficulty in funding the deposit of typically \$300 or more; lack of optimal customer usage in a way that improves their credit score; and the lack of clarity on the issuer's graduation policies along with the possibility that competitors aggressively offer unsecured cards after taking note of the cardholder's improved financial health. CFSI's research and analysis ultimately led to a number of recommendations for expanding the adoption of secured credit cards, including increased marketing efforts; customizing the product to address specific concerns of the diverse customer base; developing a customer graduation strategy; and promoting the use of the security deposit as a savings tool.

Following the issuance of the paper, Visa and CFSI again partnered in 2016 to conduct focus groups to determine how to best message the benefits of secured credit cards to underserved consumers who need credit. The further research identified the need to: (1) understand that these consumers want to build credit but are concerned about getting into debt; (2) use transparent, simple messaging that explains the basic functionality of the product rather than make aspirational promises; and (3) build in features that matter most to this subset of

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<sup>6</sup> See Consumer Financial Protection Bureau Office of Research, "Data Point: Credit Invisibles" (May 2015), available at [https://files.consumerfinance.gov/f/201505\\_cfpb\\_data-point-credit-invisibles.pdf](https://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf).

<sup>7</sup> See Center for Financial Services Innovation, "Secured Credit Cards: Innovating at the Intersection of Savings and Credit" (May 12, 2016), available at <https://cfsinnovation.org/research/secured-credit-cards-innovating-at-the-intersection-of-savings-and-credit/>.

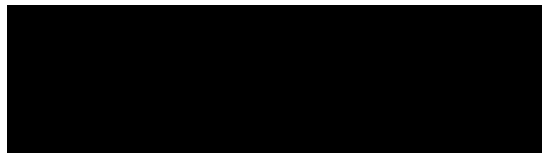
consumers such as a clear graduation strategy, paying interest on the deposit, and extending credit based on a partial deposit.<sup>8</sup>

In 2017, Visa and CFSI collaborated on a report entitled, “The Secured Credit Card Pathway: Opportunities in Serving Key Demographics,”<sup>9</sup> which focuses on opportunities to better support immigrant, minority and military households. In addition to its research partnership with CFSI, Visa has worked closely with a wide variety of issuers over the last three years to improve their secured card offerings. Through the implementation of the approaches identified in the CFSI research and other strategies highlighting the benefits and differences between secured and unsecured credit products, Visa believes that secured credit cards can provide a valuable pathway to strengthening the financial health of consumers and address their need for affordable, high-quality credit.

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Thank you for the opportunity to comment. If you have any questions, please do not hesitate to contact me at 202-419-4109 or [ktrantr@visa.com](mailto:ktrantr@visa.com).

Sincerely,



Ky Tran-Trong  
Associate General Counsel, Regulatory  
Visa Inc.

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<sup>8</sup> See Center for Financial Services Innovation, “Straight- Talk: Successful Messaging for Secured Credit Cards” (August 29, 2016), available at <https://cfsinnovation.org/research/straight-talk-successful-messaging-for-secured-credit-cards/>.

<sup>9</sup> See Center for Financial Services Innovation, “The Secured Credit Card Pathway: Opportunities in Serving Key Demographics” (July 2017), available at [https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/07/06210343/2017\\_Secured-Credit-Card-Pathway\\_Serving-Key-Demographics\\_Full.pdf](https://s3.amazonaws.com/cfsi-innovation-files/wp-content/uploads/2017/07/06210343/2017_Secured-Credit-Card-Pathway_Serving-Key-Demographics_Full.pdf).