

Small-Dollar Lending: Consumers will always need small-dollar, short-term credit. Banks want to offer safe, sustainable products that will serve customers' needs. Any rules for offering these types of loans need to provide for flexibility in underwriting and realistic expectations on product usage in order to meet a very specific need – fast, affordable, small-dollar loans.

Historically, federal banking regulators have encouraged banks to help finance these needs, and some banks have chosen to do so with deposit advance products – carefully designed loans with strong safeguards, but at reasonable prices for consumers and banks. Bank-offered deposit advance programs were well understood, well-liked by consumers who used them, and served as an important source of credit for consumers with short-term liquidity needs. These products had low default rates and offered protections that payday lending typically does not. In 2013, however, the OCC and FDIC proposed a very strict set of guidelines for banks that were offering deposit advance, and the new guidelines all but eliminated the product.

MYTH: *The ability-to-repay requirements outlined by the CFPB and other regulators will produce better loans for consumers.*

FACT: The ability-to-repay (ATR) requirements under the CFPB's outline and under prudential regulation guidance are as comprehensive and rigorous for a \$500 small-dollar loan as the underwriting required for a \$500,000 mortgage. This overly prescriptive ATR analysis would require manual underwriting, which would make small-dollar products cost-prohibitive and a non-starter for most banking institutions. An ability-to-repay analysis is critical for any loan product, but it should be appropriate for the product and not so restrictive as to make the product prohibitively difficult to provide. For small-dollar lending, ATR requirements should permit flexible, automated processes that will allow for quick lending decisions in order to meet a customer's emergency needs.

MYTH: *Regulations need to limit the number and frequency of loans so consumers do not get caught up in cycles of debt.*

FACT: Arbitrary limits on the frequency of borrowing will frustrate the utility of small-dollar loans and those customers that pay back their loans on time. The proposed limits on frequency are inconsistent with the structure of this type of lending. For example, a credit card issuer would not tell a cardholder that they can only use their credit card once a month. Like credit cards, small-dollar lending is an open-end line of credit that can provide customers with great value: quick, immediate access to the exact amount needed. If a customer can only use it once a month, that customer may take a larger amount than is needed "just in case," or simply go elsewhere, perhaps to an unregulated source, to meet their needs.

MYTH: *Deposit Advance Products are just payday loans offered by banks.*

FACT: Bank-offered deposit advance products and the services offered by non-depository payday lenders are very different. Unlike payday loans, deposit advance products have built-in controls designed to limit the usage of the product. These controls include an established customer relationship and an analysis of the customer's cash flow, limits on loan amounts, automatic repayment through a linked depository account, and "cooling" periods-- all designed to keep customers from relying too heavily on the product and to ensure the customer's ability to repay the loan.

MYTH: *Deposit Advance Products have resulted in many complaints and dissatisfied customers.*

FACT: There is no evidence of consumer dissatisfaction with bank-offered deposit advance products. The reality is consumer satisfaction with these products is often very high with below normal complaint rates. For example, in one bank's recent survey of deposit advance customers, 90 percent of respondents rated their overall experience with the product as "good" or "excellent." In another survey by a different bank, the customer satisfaction rating ranked higher for the bank's deposit advance product than any other product offered by that bank. Similarly, in yet another bank's survey, more than 95 percent of customers said they were "satisfied" or "highly satisfied" with the product.

Complaint levels for deposit advance products are extremely low across the board. One bank offering the product registered just 41 complaints over the course of a year, representing just .018 percent of all active users of that bank's deposit advance product. This percentage equates to roughly one in every 5,500 users. Whether taken together or considered separately, the high customer satisfaction ratings and low levels of customer complaint for deposit advance products refute claims that these products pose significant risk.