SMALL-DOLLAR BANK LOANS

A Safe Alternative to Payday Loans

CBA | CONSUMER BANKERS ASSOCIATION

THE STRONG NEED FOR SMALL-DOLLAR CREDIT

Millions of Americans live paycheck to paycheck, leaving consumers with less cushion for emergencies, strained credit scores, and fewer credit options. According to the Federal Reserve, nearly half of all American adults say they cannot cover an unexpected expense of $400. The need for access to reasonably priced, short-term liquidity products has become more important than ever.

46% of American adults cannot cover a $400 emergency expense.

THE ELIMINATION OF DEPOSIT ADVANCE PRODUCTS

Prior to 2013, some banks offered short-term, small-dollar lending products, known as the Deposit Advance Product (DAP), to meet overwhelming consumer demand for access to emergency credit. Unfortunately, 2013 FDIC and OCC guidance effectively eliminated the ability of heavily regulated financial institutions to offer a viable alternative to compete with payday lending. The FDIC and OCC guidance recommended the use of underwriting that is more appropriately applied to a much larger mortgage loan and placed soft caps on percentage rates banks could offer consumers. This, combined with a low interest rate environment, has made small-dollar credit unviable and has forced banks to exit the market.

Since 2013, access to small-dollar credit through traditional banking systems has diminished, while simultaneously the payday lending market has increased significantly.

Small-Dollar Bank Loans	Payday Loans
1. Pre-existing customer relationship.	1. Zero customer relationship before taking out a loan.
2. Limitation on loan amounts and built in “cooling off periods” to limit the number of loans.	2. Most lenders placed no limits on loan amounts or the number of payday loans taken out.
3. Ability to repay analysis based on customer maintaining a checking account in good standing and having regularly scheduled deposits.	3. Little to no ability to repay analysis to determine whether a consumer will be able to pay back the loan.
4. Greater account security of sensitive financial information.	4. Less security as customers provide sensitive bank information to third-party financial service providers.
5. Extensive banking disclosures, detailing terms and conditions and requiring customer signature.	5. Little to any disclosures explaining the payday loan terms and conditions.

CFPB OUTLINE OF NEW RULES

CBA appreciates the Bureau’s work to level the playing field across bank and non-bank providers; however, the conditions outlined in the CFPB’s outline will make providing loans to consumers challenging to bank providers:

- Debt trap prevention requirements for short-term and longer-term loans: The ability to repay requirements under the proposal are as comprehensive and rigorous for a $500 small-dollar loan as the underwriting required for a $500,000 mortgage. This is a non-starter for most banking institutions. Underwriting standards need to be automated and flexible to achieve the goals of this type of lending: quick, easy to access, and affordable.

- Debt trap protection requirements for short-term loans: The $500 cap restricts access to credit to higher income borrowers; the rollover limitations are too strict for weekly and bi-weekly paycheck borrowers; full cooling off after only three cycles will prove frustrating to borrowers; the limit on maximum days in debt of 90 in a 12-month period is overly burdensome on the borrower’s access to credit, especially if they have several episodes of cash flow shortfalls over the course of a year and cannot access credit when needed.

- Debt trap protection requirements for longer-term loans: There is some optimism that banks could develop a viable 6-month term loan product under this proposal. However, there is less demand for longer-term options, especially with overly restrictive limits on draws (e.g. 2 in a 12 month period). Additionally, the small allowable percentage for payment-to-income ratios would need to be increased to provide for a sustainable product that customers would want to use.

WHAT WE ARE ASKING

We ask that Congress encourage the CFPB to work in coordination with other financial services regulators to create a consistent regulatory environment conducive to small-dollar lending, as opposed to one that pushes already heavily regulated banks out of the short-term liquidity market.

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