Emerging Opportunities for Innovation in Small-Dollar Credit

Pre-Conference Workshop on Findings From The Field - Consumers and Small-Dollar Credit

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Small-Dollar Credit Customers Hard to Find

Source: 2011 North Carolina Commissioner of Banks Consumer Banking and Finance Survey
CFSI’s Compass Principals for Credit Products

- Price fairly
- Report to credit bureaus
- Market transparently
- Support repayment
- Embrace inclusion
- Build trust
- Create opportunity
- Promote success
Very Short Term Loans = Too Short Term Loans

Low loan balance borrower can repay quickly

High fees so lender can achieve profitability
Disclosures Need Improvement

Customers who did not know loan cost in advance

- Payday loan
- Pawn loan
- Direct deposit advance
- Installment loan
- Auto title loan

Source: CFSI Research on Small-Dollar Credit
### How Much Will This Loan Cost?

#### Fee Schedule - Internet Lending

<table>
<thead>
<tr>
<th>Term in Days</th>
<th>APR</th>
<th>Fee for $100</th>
<th>Fee for $200</th>
<th>Fee for $300</th>
<th>Fee for $400</th>
<th>Fee for $500</th>
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<tbody>
<tr>
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<td>$25.27</td>
<td>$50.55</td>
<td>$75.82</td>
<td>$101.10</td>
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<td>$25.31</td>
<td>$50.62</td>
<td>$75.52</td>
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<td>$26.06</td>
<td>$52.12</td>
<td>$78.18</td>
<td>$104.25</td>
<td>$130.31</td>
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</tbody>
</table>
Design Your Loan Now:

Tell us How Much you want...

- $800
- $700
- $600
- $500
- $400
- $300

You'll Pay $42 /week

- Borrow up to $800
- Set your own payment
- Cash in your account in 24 hours
- Easy online application, no paperwork
- Up to 50% cheaper than a payday loan

...and How Long you need it.

Get My Money!
Convenience and Accessibility Are Important
Underbanked But Not “Under-Smartphoned”

48% growth in iPhone use in 2011

44% Minorities own smartphones

46% use mobile banking

25% Smartphone is primary internet connection

Sources: Fjord Consulting and Pew Research Center
Underbanked Borrowers Are Not High-Risk

55% paid at initial repayment date

38% extended loan

5% relinquished collateral item

2% complete default rate

Source: CFSI Research on Small-Dollar Credit
Most Existing Products Do Not Meet Consumer Needs

Consumer needs
- Reasonable cost
- Time to repay
- Installment payments
- Disclosures

Lender needs
- Profitability
- Long-term customers
- Cost covers risk
Strategic Partnerships Reduce Costs

Lender + Employer =

Lender + biller =
Technology Can Reach Underbanked Consumers

Payment apps

Google wallet

Loan apps?

Money management and savings apps

mint.com

e piggy

smartypig
Underbanked Consumers Operate Through Many Channels
Even Traditional Financial Institutions Can Succeed in Small-Dollar Credit

12% APR 
Includes savings

NC State Employees Credit Union Salary Advance Loan

< 0.2% default 
~200,000 loans/year
Research and Evaluation Are Crucial to Understand What Works