Feature Article:

A Template for Success: The FDIC's Small-Dollar Loan Pilot Program

Introduction

The Federal Deposit Insurance Corporation's (FDIC) two-year Small-Dollar Loan Pilot Program concluded in the fourth quarter of 2009. The pilot was a case study designed to illustrate how banks can profitably offer affordable small-dollar loans as an alternative to high-cost credit products such as payday loans and fee-based overdraft programs.[1] This article summarizes the results of the pilot, outlines the lessons learned and the potential strategies for expanding the supply of affordable small-dollar loans, and highlights pilot bank successes through case studies.

Since the pilot began, participating banks made more than 34,400 small-dollar loans with a principal balance of $40.2 million. Overall, small-dollar loan default rates were in line with default rates for similar types of unsecured loans. A key lesson learned was that most pilot bankers use small-dollar loan products as a cornerstone for building or retaining long-term banking relationships. In addition, long-term support from a bank's board and senior management was cited as the most important element for programmatic success. Almost all of the pilot bankers indicated that small-dollar lending is a useful business strategy and that they will continue their small-dollar loan programs beyond the pilot.

A Safe, Affordable, and Feasible Template for Small-Dollar Loans

The pilot resulted in a template of essential product design and delivery elements for safe, affordable, and feasible small-dollar loans that can be replicated by other banks (see Figure 1). While each component of the template is important, participating bankers reported that a longer loan term is key to program success because it provides more time for consumers to recover from a financial emergency than the single pay

Figure 1

A Safe, Affordable, and Feasible Template for Small-Dollar Loans

Product Element	Parameters
Amount	$2,500 or less
Term	90 days or more
Annual Percentage Rate (APR)	36 percent or less
Fees	Low or none; origination and other upfront fees plus interest charged equate to APR of 36 percent or less
Underwriting	Streamlined with proof of identity, address, and income, and a credit report to determine loan amount and repayment ability; loan decision within 24 hours
Optional Features	Mandatory savings and financial education

Source: FDIC.

cycle for payday loans, or the immediate repayment often required for fee-based overdrafts.

FDIC Chairman Sheila C. Bair has expressed a desire to determine how safe and affordable small-dollar lending can be expanded and become more of a staple product for all banks.[2] Pilot banks have demonstrated that the Safe, Affordable, and Feasible Small-Dollar Loan Template is relatively simple to implement and requires no particular technology or other major infrastructure investment. Moreover, adoption of the template could help banks better adhere to existing regulatory guidance regarding offering alternatives to fee-based overdraft protection programs.[3] Specifically, this guidance suggests that banks should "monitor excessive consumer usage (of overdrafts), which may indicate a need for

[1] See previous articles on the Small-Dollar Loan Pilot Program, "An Introduction to the FDIC's Small-Dollar Loan Pilot Program," *FDIC Quarterly* 2, no. 3 (2008), http://www.fdic.gov/bank/analytical/quarterly/2008_vol2_3/2008_Quarterly_Vol2No3.html; and "The FDIC's Small-Dollar Loan Pilot Program: A Case Study after One Year," *FDIC Quarterly* 3, no. 2 (2009), http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_2/smalldollar.html.

[2] See opening comments from FDIC Chairman Sheila C. Bair at the December 2, 2009, FDIC Advisory Committee on Economic Inclusion Meeting, at http://www.vodium.com/MediapodLibrary/index.asp?library=pn100472_fdic_advisorycommittee&SessionArgs=0A1U0100000100000101.

[3] "Overdraft Protection Programs, Joint Agency Guidance," Financial Institution Letter, February 18, 2005, http://www.fdic.gov/news/news/financial/2005/fil1105.html.

Table 1

Small-Dollar Loan Pilot Program Participants

Bank	Location	Total Assets ($000s)	Number of Branches
Amarillo National Bank	Amarillo, TX	2,792,382	16
Armed Forces Bank	Fort Leavenworth, KS	862,852	52
Bank of Commerce	Stilwell, OK	93,672	3
BankFive	Fall River, MA	708,545	13
BankPlus	Belzoni, MS	2,144,987	61
BBVA Bancomer USA*	Diamond Bar, CA	139,327	25
Benton State Bank	Benton, WI	45,780	3
Citizens Trust Bank	Atlanta, GA	387,130	11
Citizens Union Bank	Shelbyville, KY	715,927	18
Community Bank of Marshall	Marshall, MO	98,478	6
Community Bank - Wheaton/Glen Ellyn	Glen Ellyn, IL	340,628	4
The First National Bank of Fairfax	Fairfax, MN	27,539	1
Kentucky Bank	Paris, KY	676,239	15
Lake Forest Bank & Trust	Lake Forest, IL	1,816,422	8
Liberty Bank and Trust Company	New Orleans, LA	423,624	24
Liberty National Bank	Paris, TX	245,262	3
Mitchell Bank	Milwaukee, WI	73,623	5
National Bank of Kansas City	Overland Park, KS	708,191	6
Oklahoma State Bank	Guthrie, OK	43,228	4
Pinnacle Bank	Lincoln, NE	2,538,702	57
Red River Bank	Alexandria, LA	795,889	16
State Bank of Alcester	Alcester, SD	94,263	1
State Bank of Countryside	Countryside, IL	913,111	6
The Heritage Bank	Hinesville, GA	982,012	32
The Savings Bank	Wakefield, MA	417,081	9
Washington Savings Bank	Lowell, MA	164,724	3
Webster Five Cents Savings Bank	Webster, MA	559,762	8
Wilmington Trust	Wilmington, DE	9,609,666	44

Source: FDIC.

Note: Data as of fourth quarter 2009.

*BBVA Bancomer USA merged into Compass Bank (Birmingham, AL) in September 2009. Data shown are the latest available for BBVA, as of June 30, 2009.

alternative credit arrangements or other services, and inform consumers of these available options" that could include small-dollar credit products.

Background

The Small-Dollar Loan Pilot Program pilot began with 31 banks, and several banks entered and exited as the pilot progressed. The pilot concluded with 28 participating banks ranging in size from $28 million to nearly $10 billion (see Table 1). The banks have more than 450 offices across 27 states. Before being accepted into the pilot program, banks had to submit an application, describe their programs, and meet certain supervisory criteria.[4] About one-third of the banks in the pilot had existing small-dollar loan programs at the time of their applications, while the rest instituted new programs in conjunction with the pilot. The FDIC anticipated that most programs would be consistent with the Affordable Small-Dollar Loan Guidelines (SDL Guidelines), but it offered banks some flexibility to encourage innovation.[5]

The pilot was a case study and does not represent a statistical sample of the banking universe. Pilot bankers provided some basic information about their programs each quarter.[6] Some data, such as number and volume of loans originated, were relatively straightforward to obtain and aggregate. To obtain more subjective or

[4] "An Introduction to the FDIC's Small-Dollar Loan Pilot Program" described pilot program application parameters. See footnote 1.

[5] FDIC, "Affordable Small-Dollar Loan Guidelines," news release, June 19, 2007, http://www.fdic.gov/news/news/press/2007/pr07052a.html. The primary product features described in the guidelines included loan amounts up to $1,000, payment periods beyond a single paycheck cycle, annual percentage rates below 36 percent, low or no origination fees, streamlined underwriting, prompt loan application processing, an automatic savings component, and access to financial education.

[6] The information collection request complied with the Paperwork Reduction Act; it did not include account-level information, in accordance with the Right to Financial Privacy Act. See the *Federal Register* citation at http://www.fdic.gov/regulations/laws/federal/2007/07noticeJune7.html for a description of the information collection process.

otherwise difficult-to-quantify information, the FDIC held periodic one-on-one discussions and group conference calls with bank management.

The pilot tracked two types of loans: small-dollar loans (SDLs) of $1,000 or less and nearly small-dollar loans (NSDLs) between $1,000 and $2,500. Data collection was initially concentrated in the SDL category, in accordance with the SDL Guidelines. Data collection was expanded for the NSDL category after the first year of the pilot, when some bankers relayed to the FDIC the importance of these loans to their business plans. In particular, they indicated that some of their customers needed and could qualify for larger loans and that these loans cost the same to originate and service as SDLs, but resulted in higher revenues. Some bankers conducted only SDL or NSDL programs, and some conducted both types. In this article, the terms "small-dollar lending" and "small-dollar loans" refer to banks' overall programs, regardless of which category of loan they originated.

Pilot Results

During the two-year pilot, participating banks made more than 18,100 SDLs with a principal balance of $12.4 million and almost 16,300 NSDLs with a principal balance of nearly $27.8 million (see Table 2). As of the end of the pilot in fourth quarter 2009, 7,307 SDLs totaling $3.3 million and 7,224 NSDLs totaling $9.2 million were outstanding. Quarterly origination volumes were affected by seasoning of newer programs, periodic changes some banks made to their programs, banks exiting and entering the pilot, seasonality of demand, and local economic conditions.

Loan Volume

Table 3 shows loan volume data for fourth quarter 2009 by originator size. Because several banks with longstanding programs had disproportionately large origination volumes, results for banks originating 50 or more loans per quarter were isolated from the rest of the group to prevent skewing the loan volume. Interestingly, several banks with new programs produced enough volume to move into the large originator category.

Smaller originators made, on average, 10 SDLs in fourth quarter 2009, compared with 9 SDLs in the third quarter, 13 SDLs in the second quarter, and 15 SDLs in the first quarter. Smaller originators made, on average, 11 NSDLs in fourth quarter 2009, versus 18, 13, and 13 loans in the third, second, and first quarters of 2009, respectively.

Table 2

Small-Dollar Loan Pilot Program Cumulative Statistics

	SDL Originations		NSDL Originations	
	Number	Amount ($)	Number	Amount ($)
1Q08	1,523	1,013,118	1,617	2,696,996
2Q08	2,388	1,495,661	1,918	3,202,358
3Q08	2,225	1,502,456	2,113	3,651,934
4Q08	2,210	1,492,273	2,033	3,434,906
1Q09	1,650	1,079,999	1,745	2,943,952
2Q09	2,229	1,553,296	2,389	4,135,785
3Q09	2,928	2,135,767	2,178	3,744,603
4Q09	3,010	2,168,295	2,301	3,972,694
Total	**18,163**	**$12,440,864**	**16,294**	**$27,783,227**

Source: FDIC.

Loan Characteristics

While the application process did not preclude open-ended credit, all banks in the pilot offered only closed-end installment loans. Basic loan characteristics, such as interest rates, fees, and repayment terms, did not vary between large and smaller originators. Therefore, there is no distinction made for origination volume in the fourth-quarter loan characteristics data shown in Table 4.

Loan terms remained fairly consistent from quarter to quarter. For example, the average loan amount for SDLs was approximately $700, and the average term was 10 to 12 months. The average loan amount for NSDLs was approximately $1,700, and the average term was 14 to 16 months. Average interest rates for both types of loans ranged between 13 and 16 percent, and the most common interest rate charged was 18 percent. About half of the banks charged an origination fee (the average fee was $31 for SDLs and $46 for NSDLs), and when this fee was added to the interest rate, all banks were within the targeted 36 percent annual percentage rate.

Loan Performance

The delinquency ratio for SDLs climbed to 11 percent in fourth quarter 2009 from a relatively stable rate of about 9 percent for much of 2009.[7] The fourth quarter increase in SDL delinquencies is attributed largely to adverse economic conditions in bank communities. The delinquency ratio for NSDLs has also been high, though somewhat volatile, again due to adverse local economic conditions. As of fourth quarter 2009, the NSDL delinquency ratio was 9.4 percent compared with 10.9 percent in the third quarter, 6.4 percent in the second quarter, and 6.6 percent in first quarter 2009. Delin-

[7] Delinquency refers to loans 30 days or more past due.

Table 3

Small-Dollar Loan Pilot 4Q09: Origination Data by Program Size	Number of Banks Reporting	Total	Average	Minimum	Maximum
Loans up to $1,000 (SDLs)					
All Banks					
# of Notes	22	3,010	111	1	1675
Note Volume	22	$2,168,295	$98,559	$500	$1,140,660
Banks Originating Fewer Than 50 Loans					
# of Notes	15	146	10	1	26
Note Volume	15	$99,880	$6,659	$500	$15,800
Banks Originating More Than 50 Loans					
# of Notes	7	2,864	409	51	1,675
Note Volume	7	$2,068,415	$337,437	$38,700	$1,140,660
Loans over $1,000 (NSDLs)					
All Banks					
# of Notes	12	2,301	192	1	1,151
Note Volume	12	$3,972,694	$331,058	$1,200	$1,942,837
Banks Originating Fewer Than 50 Loans					
# of Notes	7	78	11	1	38
Note Volume	7	$135,064	$19,295	$1,200	$64,868
Banks Originating More Than 50 Loans					
# of Notes	5	2,223	445	109	1,151
Note Volume	5	$3,837,630	$767,526	$193,355	$1,942,837

Source: FDIC.

Table 4

Small-Dollar Loan Pilot 4Q09: Summary of Loan Characteristics	Number of Banks Reporting	Average	Minimum	Maximum
Loans up to $1,000				
Loan amount	22	$724	$445	$1,000
Term (months)	22	12	2	24
Interest rate	22	13.09%	4.00%	31.90%
Non-zero fees	9	$31	$8	$70
Loans over $1,000				
Loan amount	12	$1,727	$1,200	$2,070
Term (months)	12	15	10	24
Interest rate	12	13.99%	4.00%	33.53%
Non-zero fees	6	$46	$15	$70

Source: FDIC.

quency ratios for both SDLs and NSDLs are much higher than for general unsecured "loans to individuals." According to the FDIC Call Report, delinquency ratios for those loans were 2.5 percent in fourth quarter 2009, 2.6 percent in the third quarter, 2.4 percent in the second quarter, and 2.5 percent in the first quarter.

However, charge-off ratios for SDLs and NSDLs, although climbing, are in line with the industry average. For SDLs, the final, cumulative charge-off ratio was 6.2 percent as of fourth quarter 2009 versus 5.7 percent in the third quarter, 5.2 percent in the second quarter, and 4.3 percent in the first quarter.[8] These compare with ratios of 5.4 percent, 5.4 percent, 5.3 percent, and 4.9 percent for unsecured "loans to individuals,"

[8] Cumulative charge-off ratios for SDLs are calculated from the beginning of the pilot period.

according to fourth, third, second, and first quarter 2009 Call Reports, respectively.

The cumulative charge-off rate for NSDLs, at 8.8 percent, is higher than for SDLs and general unsecured loans to individuals.[9] However, the charge-off rate for these larger loans compares favorably with other types of unsecured credit. For example, the charge-off rate for "credit cards" on bank balance sheets was 9.1 percent as of the fourth quarter 2009 Call Report, and defaults on managed credit cards exceeded 10 percent throughout 2009.[10] Performance statistics of loans originated during the pilot show that while small-dollar loan borrowers are more likely to have trouble paying loans on time, they have a default risk similar to those in the general population.

Lessons Learned

Best practices and elements of success emerged from the pilot and underpin the Safe, Affordable, and Feasible Small-Dollar Loan Template. In particular, a dominant business model emerged: most pilot bankers indicated that small dollar loans were a useful business strategy for developing or retaining long-term relationships with consumers. In terms of overall programmatic success, bankers reported that long-term support from a bank's board and senior management was most important. The most prominent product elements bankers linked to the success of their program were longer loan terms, followed by streamlined but solid underwriting.

Long-Term, Profitable Relationship Building Was Predominant Program Goal

About three-quarters of pilot bankers indicated that they primarily used small-dollar loans to build or retain profitable, long-term relationships with consumers and also create goodwill in the community. A few banks focused exclusively on building goodwill and generating an opportunity for favorable Community Reinvestment Act (CRA) considerations, while a few others indicated that short-term profitability was the primary goal for their small-dollar loan programs.[11]

Program and product profitability calculations are not standardized and are not tracked through regulatory reporting. Profitability assessments can be highly subjective, depending on a bank's location, business model, product mix, cost and revenue allocation philosophies, and many other factors. Moreover, many of the banks in the pilot are community banks that indicated they either cannot or choose not to expend the resources to track profitability at the product and program level.

Nevertheless, as a general guideline, pilot bankers indicated that costs related to launching and marketing small-dollar loan programs and originating and servicing small-dollar loans are similar to other loans. However, given the small size of SDLs and to a lesser extent NSDLs, the interest and fees generated are not always sufficient to achieve robust short-term profitability. Rather, most pilot bankers sought to generate long-term profitability through volume and by using small-dollar loans to cross-sell additional products.

Board and Senior Management Support Was Most Important Element Related to Program Feasibility

According to interviews with pilot bankers, several overarching elements directly affect the feasibility of small-dollar loan programs. Banks indicated that strong senior management and board of director support over the long term is the primary factor in ensuring the success of small-dollar loan programs. They also cited the importance of an engaged "champion" in charge of the program, preferably with lending authority, significant influence over bank policy decisions, or both. One of the champion's key challenges was to convince branch staff, local loan officers, or similar personnel to promote the small-dollar loan product among the bank's many products and services.

Location was also linked to program feasibility. Banks with offices in communities with large populations of low- and moderate-income, military, or immigrant households tended to benefit from greater demand for small-dollar loan products. Banks in rural markets with few nonbank alternative financial services providers also benefitted from limited competition for SDL and NSDL products.

Banks, particularly those in suburban locations with less demand at the branch level, cited the importance of strong partnerships with nonprofit community groups to refer, and sometimes qualify, potential borrowers. These partnerships were especially useful for fostering word-of-mouth advertising for their small-dollar loan products.

[9] The cumulative charge-off ratio for NSDLs was calculated only for fourth quarter 2009 because data regarding NSDL charge-offs were not collected until 2009. The cumulative ratio for NSDLs is calculated from the beginning of 2009.

[10] "Credit Card Charge-Off Rate on the Rise Again," *Washington Post*, December 30, 2009. This article reports the results of Moody's Investor Service's Credit Card Index.

[11] The extent to which a bank's small-dollar loan program may be subject to positive CRA consideration is described in the "Affordable Loan Guidelines." See footnote 3.

While some banks used mass media, Web page links, and targeted promotional efforts, word of mouth emerged as the dominant form of advertising for small dollar loans, particularly for established programs.

Longer Loan Term and Streamlined but Solid Underwriting May Have Been Key Performance Determinants

Pilot bankers indicated that a longer loan term was critical to loan performance because it gave consumers more time to recover from a financial emergency than a single pay cycle for payday loans, or the immediate repayment often required for fee-based overdrafts. Several banks experimented with relatively short loan terms, largely in an attempt to mimic the customer's experience with payday lenders. For example, as described in the text box on page 39, Liberty Bank in New Orleans, Louisiana, initially required that loan terms coincide with three paycheck cycles, but found that borrowers often could not repay the loans on time and returned to the bank for multiple renewals.[12] To avoid the cycle of continuously renewed "treadmill" loans, Liberty Bank extended loan terms to a minimum of six months. For the pilot overall, a 90-day loan term emerged as the minimum time needed to repay a small-dollar loan.

Underwriting processes varied somewhat among pilot banks and were streamlined compared with other loans, but bankers reported that some basic elements were important in minimizing defaults. Notably, most pilot banks required a credit report to help determine loan amounts and repayment ability and to check for fraud or recent bankruptcy. Few banks used credit scoring in the underwriting process, but those that did had low minimum thresholds, such as a Fair Isaac Corporation (FICO) score in the low to mid-500s. In addition to the credit report, all pilot banks required proof of identity, address, and income.

Virtually all of the pilot banks could process loans within 24 hours, and many processed loans within an hour if borrowers had the proper documentation. Banks tended to have strong opinions about the merits of centralized versus decentralized loan approval processes, based on the bank's size and business model, but no clear link to performance under either method emerged. About three-fourths of banks offered borrowers the option of automatically debiting payments, and some provided interest rate discounts to encourage borrowers to choose this payment method. It is difficult to draw empirical conclusions about the effect of automatic payments on performance because not all borrowers chose this option. Nevertheless, pilot bankers in general believed that automatic repayments can improve performance for all credit products, not just small-dollar loans.

Pilot Bankers Had Mixed Views on Optional Linked Savings and Financial Education

As part of the pilot application process, the FDIC specifically sought to test whether savings linked to small-dollar credit and access to financial education would improve loan performance, and ultimately, build a savings cushion to reduce future reliance on high-cost emergency credit. Cumulatively, pilot banks reported opening more than 4,000 savings accounts linked to SDLs with a balance of $1.4 million. These numbers are likely understated because of the limited ability of some banks to track this information.

On the surface, it appears that default rates for loans made under programs featuring savings and financial education are lower than for programs without those features. To illustrate, about one-half of pilot banks required or strongly encouraged SDL customers to open savings accounts linked to SDLs.[13] About 80 percent of the SDL funds originated during the pilot were made by banks that offered and encouraged, but did not require, a linked savings account. The cumulative charge-off rate on SDLs was 6.4 percent at banks with optional linked savings versus 11.4 percent at banks that did not feature linked savings as part of their programs. Slightly more than 10 percent of SDL funds were originated by banks that required linked savings accounts; these banks had the lowest cumulative charge-off rate during the pilot period, at just 1.6 percent.

Almost one-half of pilot banks strongly encouraged or required formal financial education. Because many of the largest SDL programs had educational components, more than 90 percent of SDLs were made by banks that featured education as part of their lending programs. The cumulative SDL charge-off rate was 5.7 percent where financial education was featured compared with 12.0 percent where it was not.

Given the limited sample size and variances in the program requirements and other features, it is unclear

[12] Financial institutions, companies, community groups, and other organizations mentioned in this article are for illustration only. The FDIC does not endorse any individual organization or specific products.

[13] Performance data for linked savings and financial education components are limited to SDLs, as data for NSDLs were not collected until later in the pilot, which limited their usefulness.

whether linked savings or formal financial education directly affected loan performance. Moreover, it is uncertain whether these factors reduced future reliance on high-cost credit, particularly since reducing reliance on credit is a long-term goal that may extend beyond the pilot period and it is difficult to track based on data available to banks. Anecdotally, some pilot bankers indicated that some small-dollar loan borrowers subsequently used linked savings or financial management skills in positive ways.

All of the pilot bankers recognized the importance of both savings and financial education, but perhaps the most interesting finding regarding program design was the difference in opinion among bankers about the effectiveness of requiring or even strongly encouraging these features. Some bankers felt that linked savings and formal financial education must be hardwired into the small-dollar loan product to break the cycle of high-cost lending. Others believed that requiring extra features for a loan complicates the process and can drive an already stressed consumer to the ease of the payday lending process; these bankers thought that financial education counseling should be provided during the application process.

Small-dollar loan programs at two of the pilot banks—BankPlus in Belzoni, Mississippi, and Liberty Bank and Trust Company, of New Orleans, Louisiana—illustrate these differences in opinion. BankPlus required both formal education seminars and a significant savings component to qualify for its small dollar loan program (see text box on page 38). The bank strongly believed that these components were the driving factor in minimizing defaults and rehabilitating small-dollar loan customers with problematic credit histories into what it believes will be future mainstream banking customers.

On the other hand, Liberty Bank and Trust Company believed that its program's initial formal financial education and linked savings requirements introduced an unwanted level of complexity for borrowers already facing a financial emergency (see text box on page 39). Liberty reported a surge in loan demand when it removed these requirements. A common theme that Liberty and other banks cited was the importance of informal financial education and counseling as part of the loan closing process. For many small-dollar loan consumers, obtaining a loan from a bank is an exciting and sometimes life-changing event, and part of relationship building is capitalizing on a teachable moment—explaining the importance of repaying the loan—when the loan is delivered.

Strategies to Scale Small-Dollar Loans

Banks other than those in the pilot provide small-dollar loans, but it is likely that most banks do *not* offer these loans.[14] Pilot bankers and other banks that have started or have expressed interest in starting a small-dollar loan program indicated that the primary obstacles to entry are the cost of launching and maintaining the program and concerns about defaults. The strategies described below could help overcome these obstacles and increase the supply of small-dollar loans.

Highlight Facts about Existing Models

A straightforward way to encourage more banks to offer small-dollar loans is to emphasize the facts about successful programs. The key facts are that safe, affordable, and feasible small-dollar lending does occur in mainstream financial institutions; that small-dollar lending can be part of a cornerstone for creating profitable relationships; and that defaults on these loans are in line with other types of unsecured credit. Indeed, other small-dollar loan programs have reported loan performance results similar to those of the pilot.

For example, the Pennsylvania Credit Union Association's Credit Union Better Choice program reported an approximate 5 percent default rate as of third quarter 2009.[15] This program was launched in early 2007 in partnership with the Pennsylvania Credit Union Association and the State Treasurers' Office, and about 80 credit unions are currently participating. The maximum loan amount is $500, the maximum fee is $25, and the maximum interest rate is 18 percent. The loan term is 90 days, and financial counseling is offered but not required. At disbursement, an amount equal to 10 percent of the loan is placed in a mandatory savings account.

In another example, the country's largest microlender, ACCION Texas, also indicated its loss rate is about

[14] The FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked, published in December 2008 (http://www.fdic.gov/unbankedsurveys/), included a question regarding whether banks offer small-dollar loans. However, the response to this question was materially skewed, apparently by widespread misinterpretation by banks that believed small-dollar loans included standard overdraft lines of credit. This question will be clarified in subsequent survey efforts.

[15] Data regarding the Better Choice Program were reported to the FDIC Committee on Economic Inclusion on December 2, 2009, http://www.vodium.com/MediapodLibrary/index.asp?library=pn100472_fdic_advisorycommittee&SessionArgs=0A1U0100000100000101. See also the Better Choice Program Web site at http://www.pacreditunions.com/betterchoice.html.

5 percent.[16] Its maximum loan amounts are higher, up to $100,000, and the average amount is about $10,000, but 75 percent of its loans are for $1,500 or less. ACCION Texas's active portfolio was $24 million as of third quarter 2009, and loans are targeted to Latina women seeking to start or expand small businesses. Most applicants do not have a credit history, and the average FICO score is 575.

The FDIC has taken steps to highlight the facts about the small-dollar loan pilot program by releasing program results and lessons learned, as well as setting forth the Safe, Affordable, and Feasible Small-Dollar Loan Template. In addition, the FDIC has been discussing the pilot and template in speeches and public forums with a number of groups, including banks; other regulators; policymakers; academics; nonprofit, community, and philanthropic groups; and innovators in the small-dollar lending area.

Study Creation of Pools of Nonprofit Funds or Government Operating Funds to Serve as "Guarantees" for Safe Small-Dollar Loan Programs

Several existing small-dollar loan programs feature "guarantees" in the form of loan loss reserves or linked, low-cost deposits provided by government bodies or philanthropic groups. These guarantees provide important assurances to banks that are interested in offering small-dollar loans but are concerned about the costs of doing so.

For example, pilot bank Wilmington Trust in Wilmington, Delaware, originates small-dollar loans solely to clients of West End Neighborhood House (WENH), a social services nonprofit organization. WENH screens applications, performs loan underwriting (based on bank-approved criteria), and provides a full range of counseling and social services for prospective borrowers. In addition, all of the loans are fully guaranteed by WENH and backed by a loan loss reserve funded by grants and donations from other program partners.[17]

In another example, as part of the Better Choice Program, the Pennsylvania State Treasurers' Department has established a loan guarantee pool whereby $20 million in state operating funds are deposited in a corporate federal credit union and receive a market rate of return. The difference between that rate and the corporate credit union's earnings on the deposit is used to fund a loan loss reserve pool. Participating credit unions can apply to the pool to have up to 50 percent of their losses offset. While it is not a guarantee fund per se, the Pennsylvania Credit Union Association helps offset the cost of entry into small-dollar lending by paying for traditional advertising for credit unions that wish to enroll in the Better Choice Program.

In addition to guarantee programs, opportunities may exist to create larger and more broadly available guarantees. For example, recently proposed legislation would amend the Community Development Banking and Financial Institutions Act of 1994 to provide financial assistance to help defray the costs of operating small-dollar loan programs.[18] Elements of the Safe, Affordable, and Feasible Small-Dollar Loan Template were incorporated into this proposed legislation.

Encourage Partnerships

Pilot bankers and other successful small-dollar lending programs reported that partnerships with community groups were crucial to the success of their programs. Among other things, these partnerships can serve as an incentive to banks by providing client referrals and the opportunity for other parties to share in program costs. In some instances, the partnerships are direct and one-on-one relationships, such as the Wilmington Trust and WENH partnership described above. Other models, such as the state and local "Bank On" campaigns, use broad-based coalitions and strategies, which often include the provision of short-term emergency credit, to increase access to the financial mainstream.[19]

The Alliance for Economic Inclusion (AEI) is the FDIC's national initiative to establish coalitions of financial institutions, local policymakers, community-based and consumer organizations, and other partners in 14 markets across the country to bring unbanked and underserved populations into the financial mainstream. The focus is on expanding basic retail financial services, including savings accounts, affordable remittance products, small-dollar loan programs, targeted financial education programs, and asset-building programs, to underserved populations. The number of AEI members

[16] Ibid. See also ACCION Texas's Web site at http://www.acciontexas.org/.

[17] The partnership between Wilmington Trust and WENH was profiled in "The FDIC's Small-Dollar Loan Pilot Program: A Case Study after One Year," page 38. See footnote 1. See also WENH's Web site at http://www.westendnh.org/financial-management-services/# for more information about the program.

[18] S. 3217, 111th Cong. § 1206 (2010).

[19] See the National League of Cities Web site for a general description of Bank On campaigns at http://www.nlc.org/ASSETS/7E6FA32D3A364733B3172E44818A0CE3/IYEF_BankOnOnePagerFinal_4-10.pdf.

nationwide is 967, and 35 banks offer or are developing small-dollar loan programs.[20]

Study Feasibility of Safe and Innovative Small-Dollar Loan Business Models

The relationship-building small-dollar loan model is as costly to originate as other, larger loans because of the "high-touch" nature of the loan delivery process. Emerging technologies and delivery channels could reduce handling costs and, potentially, credit losses.

For example, employer-based lending is an emerging model whereby loans are delivered through the workplace as an employee benefit, like medical insurance or 401(k) plans. Banks or credit unions could process loans using employment information as a proxy for most of its underwriting criteria. That is, the employee's name, address, social security or tax identification number, salary, and length and status of employment would already be known, potentially reducing or eliminating the time a bank employee would spend gathering that information. Moreover, payments would be made automatically from payroll deduction, and features such as financial education screens and required savings could be factored into the loan origination process.

There are no large-scale examples of employer-based lending, but some organizations are experimenting with the concept. For example, Employee Loan Solutions (ELS) is a start-up company that has a patented process for delivering closed-end installment loans as an employee benefit.[21] According to ELS, underwriting costs would fall to virtually zero because of an automated process with no consumer interaction. Defaults also would be limited through automated payroll deduction for payments. While ELS has not had any practical application of its process yet, there are a few operating examples of employer-based small-dollar lending.

In July 2009 the Commonwealth of Virginia launched a pilot program, the Virginia State Employees Loan Program (VSELP), to deliver loans to state employees through its payroll system.[22] The program does not involve any state funds, and loans are funded by the Virginia Credit Union. An Internal Revenue Code §501(c) 3 nonprofit organization called the Virginia State Employee Assistance Fund (VSEAF) provided a $10,000 guarantee to fund a loan loss reserve. Previously, the VSEAF was being used for direct emergency aid to state workers, and the VSELP provided a way to leverage those funds to assist more employees who might need emergency funds.

VSELP loans are for amounts up to $500, and terms are up to six months with an interest rate of 24.99 percent. Loans are also conditioned on taking a short computer-based financial education course and passing a ten-question financial education quiz. After about three months, more than 2,000 VSELP loans had been originated with a cumulative balance of over $1 million; this represented about 2 percent of Virginia's 100,000 state employees who were using the loans. According to the Commonwealth of Virginia, borrowers are disproportionately minority, female, and low-income.

E-Duction is a for-profit company that offers open-ended loans through employers with credit lines delivered through MasterCard®. The maximum loan amount is 2.5 percent of annual pay, which, for example, would be $1,000 for an employee earning $40,000 per year.[23] There is no interest rate; rather, the company charges an annual fee, which as of late 2009 was $36 to $40 per year. Equal payments are made through payroll deduction over two to six months, depending on the type of expense. The company has been in business since 2002 and reports that it has about 18,000 accounts. According to E-Duction, about two-thirds of its borrowers earn between $20,000 and $40,000, and more than half have been employed for five or more years. Their average FICO score is 568.

Several pilot banks have been experimenting with innovative program features. For example, as described in the text box on page 40, Lake Forest Bank & Trust, of Lake Forest, Illinois, began working with a local municipality to offer small-dollar loans to city workers. These loans are structured along the terms of the bank's standard small-dollar loan but are repaid through automatic payroll deductions. As described on page 41 Mitchell Bank, Milwaukee, Wisconsin, created a unique low-cost financial education aspect to its loan program in which borrowers sign a pledge that they will not incur another payday loan during the term of their Mitchell Bank loan.

[20] Some of the AEI member banks offering small-dollar loans are also in the pilot. See the FDIC's Web site at http://www.fdic.gov/consumers/community/AEI/index.html for more information about the AEI.

[21] Information regarding Employee Loan Solution's proposed business model was reported to the FDIC Committee on Economic Inclusion on December 2, 2009.

[22] Ibid. See also the State of Virginia's Web site for more information about the loan program at http://www.dhrm.virginia.gov/vaemploan/.

[23] Ibid. See also e-Duction's Web site at http://www.e-duction.com/html2.0/index.html for more information.

Consider Ways That Regulators Can Encourage Banks to Offer Affordable and Responsible Products and That Small-Dollar Loan Programs Can Receive Favorable CRA Consideration

Pilot bankers and others have reported that a more flexible regulatory environment could encourage more banks to offer small-dollar loans. The SDL Guidelines and the pilot application process indicated that small-dollar loan programs can already receive favorable consideration for CRA purposes. However, several pilot bankers believe that small-dollar lending should receive more emphasis in CRA examinations, even if the program is relatively small. The FDIC is reviewing this suggestion and other types of regulatory and supervisory incentives to encourage small-dollar lending.

Conclusion

The FDIC small-dollar loan pilot program, conducted between December 2007 and December 2009, demonstrated that banks can offer alternatives to high-cost, emergency credit products, such as payday loans or overdrafts. The pilot resulted in a Safe, Affordable, and Feasible Small-Dollar Loan Template that other banks can replicate. Loans originated under the program have a default risk similar to other types of unsecured credit. Small-dollar loan programs can be an important tool in building and retaining customers, can be eligible for favorable CRA consideration, and could help banks' consistency with regulatory guidance regarding offering customers alternatives to fee-based overdraft protection programs. The FDIC continues to work with the banking industry, consumer and community groups, nonprofit organizations, other government agencies, and others to research and pursue strategies that could prove useful in expanding the supply of small-dollar loans.

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The authors would like to thank Jack Webb, Senior Executive Vice President and President–South Region, BankPlus; Kelly Dixon, Manager of E-Commerce and Howard Brooks, Executive Vice President, Liberty Bank and Trust Company; Cassandra Slade, Vice President, Lake Forest Bank & Trust Company; and James Maloney, President, Mitchell Bank for their contributions to this article, and all of the volunteer pilot bankers for their assistance in the successful execution of the pilot.

Financial Education, Savings, and Small-Dollar Lending at Work for Public Servants

BankPlus
Belzoni, Mississippi

BankPlus is a $2.1 billion institution headquartered in Belzoni, Mississippi. In addition to its main office, the bank has 61 branches throughout northwest, central, and southeastern Mississippi. BankPlus operates in a largely nonmetropolitan environment; of the bank's four designated assessment areas, only one is in a metropolitan statistical area (Jackson). The bank's business strategy of placing branches near businesses may provide banking services to residents of rural, sparsely populated environments who commute to work. For example, BankPlus operates a branch inside the Nissan plant in Canton, Mississippi.

The bank learned that there was a strong need for a small-dollar loan program after it opened branches in Jackson. As a result of the bank's community outreach and partnerships, it soon discovered that many local residents had not received financial education and, as a result, were unaware of the high costs of using alternative financial services. The bank studied the predominate users of payday loans in the local community and found that public servants such as teachers, firefighters, and police officers were particularly vulnerable to a cycle of high-cost lending.

The bank launched its CreditPlus program in April 2008. CreditPlus is a small, short-term loan product designed to encourage participants to break the cycle of high-cost debt while developing a regular savings plan. BankPlus opens a new checking and savings account for those approved for a CreditPlus loan. One-half of the loan proceeds are deposited into an interest-bearing personal savings account, and these funds are "on hold" until the loan is repaid. The bank encourages participants to use the remaining loan proceeds to eliminate outstanding debts to alternative financial services providers.

BankPlus reported that the educational component has been the "key to [the program's] success." Consumers must complete a three-hour seminar based on the FDIC's Money Smart financial education curriculum before they can apply for a small-dollar loan.* Owing to the popularity of the seminars, the bank capped registrations at 50 people per class. In fourth quarter 2009, the bank held 21 seminars and reached 667 people. Slightly more than half (51 percent) of those who attended the financial education workshops came to the bank for a small-dollar loan.

CreditPlus applicants also receive one-on-one credit counseling so they can better understand their credit report at the time of application. Bank staff also encourages CreditPlus customers to save 10 percent of their income each pay period through electronic transfer from the checking account into the savings account.

CreditPlus loans range from $500 to $1,000, and all are closed-end with a 12- or 24-month term (the average being 21 months). The interest rate is fixed at 5 percent. No fees are charged, and proof of recurring income (for at least 60 days), identity, and address is required. A credit report is obtained as part of the underwriting process, but the bank does not require a particular credit score. Rather, those with a FICO score above 500 receive a $1,000 loan, while those with a FICO score below 500 receive a $500 loan. If the customer's documents are in order, a loan can be underwritten in less than one hour after the financial education workshop is completed. The bank conducted training for loan officers so that the underwriting process could be decentralized and made in the community.

BankPlus joined the pilot in 2009 and originated 610 SDLs in fourth quarter 2009. At the conclusion of the pilot, 1,404 SDLs with a cumulative balance of about $1 million were outstanding. Only 58 SDLs totaling $34,000 were 30 days or more delinquent at the end of the pilot. The bank's cumulative charge-off rate during the pilot period was 1.8 percent.

Bank management indicated that SDLs are not profitable on a stand-alone basis but can help establish customer relationships and improve the bank's community, which benefits the bank over the long term. According to Senior Executive Vice President and President–South Region Jack Webb, "We see CreditPlus as an investment in the future—it is about building a relationship over the long term. Financial education improves habits, and the change of habits improves the future of customers." One of many success stories the bank cites is of a customer who had bad credit, received a CreditPlus loan, improved her credit score by making timely repayments, and was later able to qualify for a mortgage through BankPlus and become a first-time homebuyer.

* See the FDIC's Web site at http://www.fdic.gov/consumers/consumer/moneysmart/ for more information on Money Smart.

Product Simplification Leads to Small-Dollar Loan Success

Liberty Bank and Trust Company
New Orleans, Louisiana

Liberty Bank and Trust Company is a minority-owned $424 million bank headquartered in New Orleans, Louisiana. Liberty has 24 branches in six states. Ten branches are in New Orleans; four are in Baton Rouge; one is the New Orleans suburb of Harahan, Louisiana; and one is in Opelousas, Louisiana. The bank has two branches each in Jackson, Mississippi; Detroit, Michigan; and Kansas City, Kansas. It also has one branch in Kansas City, Missouri; and one in Houston, Texas. Most of the small-dollar loans made by Liberty are originated out of the New Orleans and Kansas City, Missouri, branches. With the exception of the Harahan branch, all of Liberty's branches are in urban areas, and most of the branches are in low- and moderate-income neighborhoods.

The bank did not have an active small-dollar loan product when it applied for the FDIC pilot. In its initial application, the bank cited providing affordable "anti-payday" loans to the qualified public, attracting new clientele, and increasing future cross-selling opportunities as its objectives for offering small-dollar loans. The pre-launch, conceptual product outlined in its application was called the Payday Assistance Loan. It featured a $300 to $1,000 line of credit, a $15 initial saving deposit, a $15 refundable financial literacy course fee, a $10 processing fee, a 17.99 percent interest rate, and a three-payment term structure incorporating a $15 savings deposit into each payment. The financial literacy fee was to be refundable upon completion of a literacy class within 30 days of application.

By the launch of the bank's small-dollar loan program in April 2008, the Payday Assistance Loan had been rebranded as the Liberty Bank Fast Cash Loan. The Fast Cash loan required a minimum FICO score of 525, the opening of a Liberty checking account with direct deposit, deposit of 9 percent of the loan amount into a Liberty savings account, completion of a 90-minute financial literacy course, and a $4.50 application fee. The loan had an 18 percent interest rate and was payable in three installments commensurate with the borrower's paycheck schedule. The minimum loan size remained $300, while the maximum was increased to $2,500. If all required customer documents were provided at the time of application, the Fast Cash approval process, featuring localized underwriting authority in most cases, was designed to take 15 minutes on average. A complete application consisted of the applicant's two most recent pay stubs, most recent mortgage statement, utility bills, and proper identification.

In response to customer needs, Liberty refined the Fast Cash program over the remaining quarters of the pilot. According to Kelly Dixon, Liberty Bank's manager of E-commerce, the savings component proved too complicated for potential borrowers. Thus, it was dropped before the end of 2008. Similarly, potential borrowers viewed the financial education requirements as too burdensome, and the bank modified them to allow customers to take out and repay two Fast Cash loans before completing a literacy class to qualify for a third loan. The three-payment term structure was dropped in favor of 6- to 12-month terms for loans up to $1,000 and 18-month terms for loans up to $2,500, to give borrowers more time to repay. Also, the small-dollar loan approval process was centralized and the underwriting guidelines were made more flexible. Rates on Fast Cash loans are 18 percent and fees are $4.50.

After implementing the program refinements, Liberty originated more SDL and NSDL loans in the first quarter of 2009 than it had in the previous three quarters combined. Liberty's marketing efforts initially included media advertising, point-of-sale displays, Web site advertising, and dissemination of information at local churches. As the pilot progressed, Liberty came to rely more on word of mouth and the dissemination of brochures at gatherings to market the program.

Subsequently, the Fast Cash program continued to evolve. By November 2009, the financial education component had been dropped altogether. The program was modified to accommodate more credit history "glitches," such as payment problems due to medical issues, job losses, hourly employment cutbacks, unexpected spikes in expenses affecting household budgets, and divorce, and to give greater consideration to borrowers using small-dollar loans to support educational purposes or to military families. According to Liberty Bank and Trust's Executive Vice President Howard Brooks, "We needed more flexibility to avoid pushing our low- and moderate-income consumers to high-cost-debt products such as payday loans. In particular, our customers told us that they don't have the time or the resources to fulfill mandatory financial literacy or savings requirements." He believes that the modifications to the Fast Cash program allowed Liberty Bank and Trust to be of greater service to its communities.

During the pilot, Liberty originated 102 SDLs and 82 NSDLs. In all, Liberty originated approximately $217,000 in small-dollar loans during the pilot. The bank did not report any charge-offs, and its 30-day delinquency rate was about 5.60 percent. The bank reported a positive net income on small-dollar loans.

Innovating to Build Profitable Relationships

Lake Forest Bank & Trust
Lake Forest, Illinois

Lake Forest Bank & Trust is a $1.8 billion institution headquartered in Lake Forest, Illinois, in the northern suburbs of Chicago. In addition to the main office, the bank has seven branches throughout the state. It is owned by the Wintrust Financial Corporation holding company, which also owns 14 other banks serving the Chicago, Illinois, and southern Wisconsin metropolitan areas.

To expand the bank's community reinvestment activities, Lake Forest initiated a small-dollar lending program in late 2008. The program was designed to meet the FDIC's Guidelines on Affordable Small-Dollar Loans, and the bank joined the ongoing pilot program in fourth quarter 2008. All seven of the bank's branches offer the small-dollar loan product. Lake Forest has encouraged its sister banks—which, including Lake Forest, have 84 branches—to offer the product as well, and many have started their own programs. Although Lake Forest was a relatively late entrant into the pilot program, the program has grown quickly, from 5 loans originated in its first quarter of participation to 51 in the final quarter of the pilot.

Lake Forest's small-dollar loans range from $250 to $1,000. One of the most successful changes the bank made to its program over the past year has been reducing the minimum loan amount to accommodate borrowers who did not need large amounts of credit. The bank charges a fixed interest rate of prime plus 5 percent, which has hovered around 8.5 percent since it implemented the loan product, with no fees. Interest rates are reduced by 0.25 percent if the borrower chooses to use auto-debit payments or payroll deduction. Loans must be repaid within 24 months, but are paid off in 18 months, on average. The underwriting process allows for loan decisions within 24 hours at the branch level. There are no minimum credit score requirements. While the bank initially required a minimum credit score, it found this requirement was an obstacle for too many applicants. Underwriting processes now consist of completing the application for credit, which collects information on employment history, income, assets, and debts. A credit report is also ordered to help determine the borrower's ability to repay.

Since joining the pilot program, Lake Forest has made more than 100 SDLs for nearly $86,000. Forty-four loans had been paid off by the end of 2009. With just one loan delinquent and 11 loans charged off by fourth quarter 2009, the bank reports that losses on the SDL product are no higher than those on other consumer loans. In addition to the positive effect the SDL program has had on community development, the bank has been able to earn a small profit on the loans and intends to develop long-term relationships with performing SDL borrowers.

Lake Forest is also involved in several innovative approaches to its small-dollar lending. In fourth quarter 2009, the bank began working with a local municipality to offer workplace-based loans to city employees to reduce their reliance on payday loans and other alternative financial services. City workers can get a loan application directly from their employer, can fax the complete application to the bank, and will go in to the bank only to close the loan. The loans are structured along the terms of the bank's standard small-dollar loan but are repaid through automatic payroll deductions.

In addition, the bank is working with the State of Illinois on the Micro Loan Program and was the first bank approved by the state as a lender under this program. This program is designed to provide affordable capital to credit unions and community banks so they can make micro loans to low-income residents who might otherwise turn to payday lenders. If a bank is accepted into the program, the Micro Loan Program will deposit up to $250,000 at a reduced rate at the bank for one year. These funds are then used to make loans to borrowers. The bank plans to work on modifying its product to meet the state guidelines, and the state program will become a subset of the small-dollar loan program.

While these partnerships are successful in providing loan prospects for the bank, the majority of the small-dollar loan borrowers come from outside of these relationships. Lake Forest consistently advertises the small-dollar loan in a community newspaper, which is the biggest driver of applications. Program information and the loan application are also available on the bank's Web site, which is becoming a more important channel for applicants. Also, the bank's successful track record with the program is generating positive word of mouth that is reaching increasing numbers of potential borrowers.

A Pledge to Break the High-Cost Lending Cycle

Mitchell Bank
Milwaukee, Wisconsin

Mitchell Bank is a $74 million institution headquartered in Milwaukee, Wisconsin. In addition to the main office, the bank has four branches. The bank's main office and branches are located in communities with concentrations of Latino and low- and moderate-income households.

Mitchell Bank's small-dollar loan program was new when the pilot began in February 2008. The bank's goals for the program were to provide consumers with an alternative to high-cost credit, build multiple account relationships, and provide opportunities for financial education. Initially, loans were offered only to existing customers who had had an account for six months or more and also had a Social Security number. In 2009, Mitchell Bank relaxed the existing customer requirement but required borrowers who were new customers to open a Mitchell Bank deposit account and to have their payroll or benefits check direct deposited into the account. Because of its large immigrant customer base, the bank also altered its program requirements to allow customers who had only an Individual Taxpayer Identification Number (ITIN) to apply for a loan.

Loans range from $300 to $1,000, although loans up to $2,500 may be made on a case-by-case basis. The interest rates range from 15 to 22 percent, depending on the borrower's credit score; the average rate is about 19 percent. Each loan application requires a credit report. Generally, the bank requires borrowers to have a minimum FICO score of 570 but will extend loans to those below that threshold if the borrower agrees to a single financial counseling session. An $8 fee is charged to cover the cost of the credit report. Loan terms range from 6 to 12 months, with an average of 9 months. In addition, borrowers must have a minimum income of $1,000 per month and are required to provide Mitchell Bank with two months' evidence of payroll or other recurring income.

A unique aspect of Mitchell Bank's program is that borrowers must sign a pledge that they will not incur another payday loan during the term of their Mitchell Bank loan. The bank also requires that the borrower set aside 10 percent of loan proceeds in a savings account that is restricted until the loan is paid. The interest rate on the savings account is three times higher than Mitchell Bank's regular accounts to encourage small-dollar loan customers to add to savings and avoid future reliance on short-term credit. The bank also offers a 2 percent discount for customers who agree to have payments automatically debited from their accounts.

The bank made 84 SDLs and one NSDL during the pilot, with cumulative balances of about $56,000. Eight loans were charged off. The bank found that a borrower's status as an existing customer (versus a new customer) had little effect on loan performance. However, the lack of credit history, as opposed to a poor credit history, *was* correlated to performance. Of the eight loans charged off, six were ITIN loans whose borrowers, for the most part, had no credit score. Mitchell Bank also reported that loans that became 30 days delinquent were frequently charged off. Management attributed the correlation between late payments and default to state laws that limit the penalty for late charges.* Recent collection efforts have resulted in recovery and payment of three of the previously charged-off loans, and the bank anticipates collecting on several more.

In terms of successful program components, Mitchell Bank reported that extended loan terms significantly reduced the incidence of repeat customers. Several customers have taken two loans per year (the bank's maximum), but all have paid as agreed. The program also provides for a discount on subsequent loans if initial loans performed as agreed. Mitchell Bank indicated that the savings component was well received by consumers and resulted in substantial savings balances. Sixty-two percent of savings accounts opened by loan customers remained open at the end of the program, and most were active. Most accounts are in the $250 to $300 range, but several accounts are in the five-figure range. Overall, Mitchell Bank reported that its small-dollar loan program was profitable and met the emergency credit needs of the community it serves. Mitchell Bank plans to continue to offer small-dollar loans and will continue to develop and refine its program.

* The Wisconsin Consumer Act (§422.203(1) Wis. Stats.) limits late charges to the lesser of 5 percent of the payment or $10. A late charge may be assessed only once on an installment, however long it remains in default. A borrower who misses a $30 installment payment on a small-dollar loan will be charged a $1.50 penalty.