

December 3, 2021

Via E-mail to sdlp@cdfi.treas.gov

Ms. Tonya McInnis
Program Manager for the Depository Institutions Initiatives
CDFI Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Re: Notice and Request for Public Comment, Community Development Financial Institutions Fund, 86 Fed. Reg. 54,787 (Oct. 4, 2021)

Dear Ms. McInnis:

The American Bankers Association¹ (ABA) appreciates the opportunity to provide comment on the Community Development Financial Institutions (CDFI) Fund's Small Dollar Loan Program Application (Application).² The Small Dollar Loan Program (SDL Program) provides grants to eligible recipients – either a CDFI or a partnership between a CDFI and another depository institution – for loan loss reserves and technical assistance, to support small dollar loan programs.³ Congress authorized the SDL Program in order to expand consumer access to mainstream financial products and help unbanked and underbanked consumers build credit.⁴

ABA supports the SDL Program and the CDFI Fund's mission to expand consumer access to affordable credit. Consumers unquestionably need access to small dollar credit. According to the Federal Reserve, 36 percent of Americans could not cover an emergency expense of \$400 exclusively using cash, savings, or a credit card paid off at the next statement.⁵ Pandemic-related job losses, furloughs, and reduced work hours have increased the small dollar credit needs of many.

The SDL Program provides an important source of funding to encourage small dollar lending, and we appreciate the fact that banks can join with non-CDFI banks to participate in the

¹ The American Bankers Association is the voice of the nation's \$23.3 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard \$19.2 trillion in deposits, and extend nearly \$11 trillion in loans.

² Notice and Request for Public Comment, Community Development Financial Institutions Fund, 86 Fed. Reg. 54,787 (Oct. 4, 2021) [hereinafter, Request for Comment].

³ Community Development Financial Institutions Fund, FY 2021 Small Dollar Loan Program Application (2021), [https://www.cdfifund.gov/sites/cdfi/files/2021-04/FY %202021_Small_Dollar_Loan_Program_Application_Instructions.pdf](https://www.cdfifund.gov/sites/cdfi/files/2021-04/FY%202021_Small_Dollar_Loan_Program_Application_Instructions.pdf) [hereinafter, Application].

⁴ Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 1206, 124 Stat. 1376 (2012) [hereinafter, Dodd-Frank Act]; *see also* Request for Comment, 86 Fed. Reg. at 54,788.

⁵ Bd. of Govs. of the Fed. Reserve Sys., Economic Well-Being of U.S. Households in 2020, at 33 (2021).

program. Indeed, banks are well situated to meet consumers' needs for affordable short-term credit. These loans not only help consumers navigate liquidity shortfalls, but also provide a pathway for consumers to access other bank products. When loans are repaid as agreed, consumers can build or improve their credit scores and graduate to other credit products. Expanding access to small dollar credit also supports economic activity in the communities where these borrowers live.

Our comments are intended to strengthen the SDL Program in order to encourage more banks and other depository institutions to apply for funding under the Program. We recommend the CDFI Fund streamline the Application by asking only for the number and dollar amount of small dollar loans that the applicant made, and for the number and dollar amount of loans that the applicant had to write off, for the preceding two years.

In addition, we recognize that funding under the Program is limited, and not all banks that seek to establish or expand a small dollar loan program will be able to receive a grant award. Therefore, we offer feedback on the performance metrics that banks should track on the small dollar loans they make under the Program. We believe that the publication of these data in the aggregate would encourage and inform the establishment or expansion of fair and sustainable small dollar loan programs outside of the Program, which would further expand consumer access to credit within the banking industry. These data also may help policymakers create a regulatory regime that supports banks offering small dollar loans.

I. The Application Should be Streamlined to Encourage More Banks to Apply

The Application for a grant award under the SDL Program is lengthy. It requests information on the applicant's business strategy, existing small dollar loan product(s), and track record making small dollar and other short-term unsecured loans. The Application also asks how the applicant would use a grant award to establish or expand a small dollar loan program and about the impact a grant award would have on the applicant's community. Several questions ask for 3,000-4,000-character narratives.

The information requested about the applicant's experience providing small dollar loans is particularly demanding. The Application asks for the following information about small dollar loans made by the applicant in each of the five preceding years: the aggregate dollar amount of closed loans, the number of closed loans, the 90-day delinquency rate, the default rate, troubled debt restructuring, number of loan workouts completed, dollar amount of loan workouts completed, total number of write-offs, total dollar amount of write-offs, amount of loan loss reserves, amount of recoveries, number of recoveries, number of staff supporting the bank's small dollar loan program, dollar amount spent on staff support, number of borrowers who received financial counseling, and average credit score of borrowers.⁶ The Application also asks for the same information for other short-term unsecured loans made by the applicant in each of

⁶ Application, *supra* note 3, at 45-47.

the five preceding years.⁷ Next, the Application asks the applicant to project these figures for the next three calendar or fiscal years (2022, 2023, and 2024).⁸

The CDFI Fund should streamline the Application to ask only for the information necessary for the Fund to determine an appropriate loan loss reserve award or technical assistance award for each grant recipient. We recommend that the CDFI Fund ask, with respect to the applicant's record of providing small dollar loans, only for the number and dollar amount of small dollar loans made during the past two years, and for the number and dollar amount of loans that the applicant had to write off during that time period. These data points will allow the CDFI Fund to calculate the amount of a successful applicant's technical assistance award (based on the applicant's total volume of small dollar loans) and the amount of the loan loss reserve award (based on the applicant's write-offs). A more streamlined Application may encourage other banks to apply to participate in the Program by reducing the amount of staff time the applicant needs to expend to submit an Application.

As stated above, the Application asks the applicant to project its loan figures for the next three calendar or fiscal years (2022, 2023, and 2024). We ask the CDFI Fund to allow successful applicants to update their projected loan figures. After the bank receives an award, it may have a better understanding of the number of small dollar loans it will make. The CDFI Fund should not hold the bank to its initial projection.

A second barrier inhibiting banks from applying for an award under the SDL Program is the Program's requirement that the applicant report small dollar loans to at least one of the consumer reporting agencies.⁹ This requirement adds significant costs and compliance burdens to a small dollar loan program, and it may not have the intended benefit for consumers. One ABA member reported that it does not report its small dollar loans to a consumer reporting agency because doing so would harm those customers who do not repay the loan. Consequently, the bank could not apply for funding under the Program. We recognize that the requirement to report small dollar loans to a consumer reporting agency is statutory.¹⁰ We suggest the CDFI Fund ask Congress to remove this requirement, to allow banks that do not report small dollar loans to participate in the SDL Program.

II. The CDFI Fund Should Publish the Aggregate Results of Small Dollar Loans Made Under the Program

Awards made under the SDL Program can provide funding for a limited number of banks to establish or maintain a small dollar loan program. However, the performance of loans made

⁷ *Id.* at 47-49.

⁸ *Id.* at 50-52.

⁹ Application, *supra* note 3, at 3.

¹⁰ *See* Dodd-Frank Act, § 1206.

under the Program may provide useful information to other banks that are considering establishing or expanding their small dollar loan program.

We recommend that the CDFI Fund ask each bank that receives an award to track the following performance metrics for the recipient's small dollar loan program, and that the CDFI Fund publish this information in the aggregate:

- Number of small dollar loans made;
- Median dollar amount of small dollar loans made; and
- Default rate.

When published, this information could help other banks determine how to establish or expand a small dollar loan program to be financially sustainable. It also may help policymakers create a regulatory regime that does not discourage banks from offering small dollar loans. Existing bank small dollar loan programs demonstrate that banks can provide affordable small dollar loans using streamlined underwriting processes to evaluate and provide credit. It is imperative that policymakers do not stifle this innovation.

Thank you for your consideration of this comment.

Sincerely,

A handwritten signature in black ink, reading "Jonathan Thessin". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Jonathan Thessin
Vice President/Senior Counsel
Consumer & Regulatory Compliance
Regulatory Compliance and Policy