

September 10, 2020

Ms. Mia Sowell, Acting Program Manager
Small Dollar Loan Program, CDFI Fund
US Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Dear Ms. Sowell:

Thank you for the opportunity to provide comments on the Small Dollar Loan Program (SDLP). I am writing on behalf of Opportunity Finance Network (OFN), a national association of 325 Community Development Financial Institutions (CDFIs) investing in opportunities that create affordable housing, vital community services, and entrepreneurial capital in rural, urban, and Native communities. OFN is pleased that the CDFI Fund is moving forward with this program which will help CDFIs establish safe and affordable small dollar loan programs for the communities they serve.

Given the COVID-19 pandemic and resultant economic disruption, many Americans are at a higher risk of turning to payday lenders and other high-interest small dollar loan products to meet emergency expenses. As mission lenders, CDFIs can offer responsible alternatives. Implementing the CDFI Fund's SDLP as quickly as possible will allow more CDFIs access to the loan loss reserves required to develop and offer small dollar loans to their customers in the challenging months to come. As a result of the COVID-19 pandemic and the economic disruption that it has caused, we anticipate that there will be an increased need for small dollar loans across nearly every market of the United States.

Small dollar loans can be challenging for CDFIs to make work under their business model. The loans take the same or more resources to underwrite, manage, and provide technical assistance for as larger loans with a much narrower margin. Additionally, the losses or defaults for these types of loans can be much higher than typical loans.

Currently, just over ten percent of our members offer small dollar loan products. An additional one percent of our members have offered small dollar loan products in recent years, but do not currently offer them. Among our members that do offer small dollar loans, there is a wide range of length of experience offering the product. Some of our members have offered small dollar loans for several decades and others have just begun offering this product within the past year. Our members also have a range of definitions for what qualifies as a small dollar loan, with some that would qualify under the \$2,500 cap that is used in the definition from the CDFI Fund and others that use a lower threshold of \$2,000.

Overall, despite this range in experience and product, there are some common themes among our members. Our members see small dollar loans are essential to help individuals avoid predatory lenders and build or preserve credit, particularly in light of COVID-19 and the resulting economic challenges. Our members also agree that these loans can be more difficult to make since they are seen as riskier and have a significantly narrower margin for a CDFI to break even. Finally, our members have expressed that despite the challenges present, they have seen the potential impact



that these loans can have in improving a borrower's quality of life, providing them with access to employment or allowing them to make needed repairs to stay in their homes. These themes emphasize the importance of help from the public sector, particularly around support for loan loss reserves.

In the Request for Information (RFI) the CDFI Fund has requested feedback on multiple aspects of the SDLP. Below are our responses to the various section of the RFI.

SDLP Application

The RFI asks for specific feedback on the structure and questions that should be included in the SDLP application. The application must be relevant to both CDFIs that have existing small dollar programs and those that anticipate creating a program using their award funds. In order to address these questions, OFN is providing suggestions on relevant questions for CDFIs with existing programs, those looking to establish programs and then overall comments that would be relevant for both groups of applicants.

Specifically, around the questions in the RFI covering the development of the SDLP application, the following questions would be appropriate for the application for CDFIs that have existing small dollar loan programs:

- Length of time offering the product
- Approval rate
- Number and amount loaned and losses
- Minimum and maximum loan size
- Rates and terms offered
- Loan performance

For organization that do not currently offer small dollar loans, the CDFI Fund should request information on:

- Projected loan volume
- Projected minimum and maximum loan size
- Requirements for small dollar loans
- Historical loan statistics for any similar products
- Target market
- Planned technical assistance or other requirements for borrowers

For both groups of applicants, the CDFI Fund should include questions regarding:

- Allowable use of the loan funds
- Policies related to late payments or delinquency

The CDFI Fund should also study whether the application and program regulations should include additional reporting or requirements surrounding maximum interest rates and collection practices.

Technical Assistance

CDFIs that are seeking to establish small dollar loan programs may need technical assistance themselves to be equipped to offer the product to their borrowers. They must also be able to



provide robust technical assistance or financial literacy training to their borrowers. OFN encourages the CDFI Fund to look at funding peer learning opportunities for CDFIs to share best practices regarding small dollar loan programs.

The establishment of a new small dollar loan program supported by this funding opportunity may also be a CDFI's first entrance into the consumer loan market. Technical assistance may be needed on the consumer regulations governing small dollar lending, especially at the state level and to help CDFIs research and understand how to market and support this new product in their target markets.

Among OFN members that provide small dollar loans, most require the borrowers to have some financial literacy training and provide hands-on service to ensure borrowers understand their loan obligations. These services are staff intensive and require additional resources. OFN encourages the CDFI Fund to allow technical assistance funds to be used to support these efforts.

Award Size

The appropriate minimum and maximum award size will vary based on the size of the organization, their capacity, and their projected loan volume. In general, OFN recommends basing the minimum and maximum award size on a percentage of the overall small dollar consumer loan portfolio for existing borrowers. Awards ranging from 10 percent to 50 percent of the overall small dollar loan portfolio would be appropriate to help with loan loss reserves.

For CDFIs with a limited or no track record of small dollar loans, the CDFI Fund should consider using either a percentage of their anticipated loan portfolio or establishing a minimum and maximum based on the overall asset size of the CDFI and an average of the dollar amounts of the loan portfolios outstanding of those CDFIs with small dollar loan programs. OFN also encourages the CDFI Fund to not establish a minimum portfolio size for small dollar loans. Organizations may be making loans in the hundreds of dollars rather than thousands and a minimum portfolio size would serve as a barrier to entry for some organizations.

Evaluation Criteria, Reporting and Performance Metrics

Reporting requirements, evaluation criteria and performance metrics must be in line with the CDFI Funds overall goals for the SDLP to "help Certified CDFIs address the issues of expanding consumer access to mainstream financial institutions and providing alternatives to high cost small dollar loans." To that end, it would be helpful for the CDFI Fund to require grant recipients to track:

- The number and dollar amount of loans made
- For CDFIs that already offer a small dollar loan product, how that loan volume has changed since receiving the award
- Demographic and geographic distribution of loans
- Loan performance

The CDFI Fund should also track the rates and terms offered by CDFIs and monitor collection practices to ensure participants are adhering to the goal of the SDLP, particularly in the case of a partnership between a CDFI and another institution. In the case of a partnership, this oversight can provide additional verification that the partner entity, who is not subject to the certification process that CDFIs are, is meeting the mission and goals of the program.



As for impact tracking, the CDFI Fund should examine ways to help CDFIs track the change in credit score of their borrowers at the time of the loan and at loan payoff. This will demonstrate what percentage of borrowers have been able to build credit during the loan period which will help them gain access to mainstream financial institutions in the future. However, this tracking will need to be done in a way that does not result in a hard pull on the borrower's credit report which could negatively impact their score.

Depending on the allowable uses of the loan, CDFIs could also track outcomes or uses of the loan from borrowers, such as whether the small dollar loan prevented them from seeking out a payday loan, allowed them to maintain or access housing, repair or access transportation or allowed them to pay down a higher cost loan.

Performance goals will need to be flexible and ensure that CDFIs can focus on the borrower and the community they serve. Small dollar loans are already more burdensome to underwrite and manage, so any additional reporting requirements need to be streamlined to not place additional constraints on CDFIs.

Thank you again for the opportunity to comment on this important program. OFN stands ready to assist the CDFI Fund in implementing the Small Dollar Loan Program. For more information, please do not hesitate to reach out to me at mshardwick@ofn.org.

Sincerely,

Mary Scott Hardwick
Senior Associate, Public Policy
Opportunity Finance Network