

November 10, 2014

Robert deV. Frierson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., N.W.
Washington DC 20551

RE: Docket No. OP - 1497

Dear Sir,

The Center for Financial Services Innovation (CFSI) is submitting this letter in response to the request for comment by the Federal Reserve Board, published on September 10, 2014. We appreciate the opportunity to respond to the Board's request for comments on proposed revisions to the Interagency Questions and Answers Regarding Community Reinvestment. Like you, we recognize that financial services and financial service providers continue to evolve and provide new opportunities for consumers and that these changes need to be reflected in Community Reinvestment Act evaluations.

CFSI is a national authority on consumer financial health. We lead a network of financial services innovators committed to building higher quality products and services. CFSI informs, advises, and connects its network to seed innovation that will transform the financial services landscape. We believe that finance can be a force for good in people's lives and that meeting consumer need responsibly is ultimately good for both the consumer and the provider.

CFSI is interested in assuring that financial service providers are able to continue to innovate as technologies and markets evolve. Our vision is to see a strong, robust, and competitive financial services marketplace, where the diversity of consumer transaction, savings, and credit needs are met by a range of providers offering clear, transparent, and high-quality products and services at reasonable prices. This vision is guided by our Compass Principles – Embrace inclusion, Build trust, Promote success, and Create opportunity. These principles are built on a solid foundation that recognizes the core market values of profitability and scalability, deep customer knowledge, safety, variation and choice, consumer-provider relationships, and cross-sector participation.

Access to Banking Services

(Q&A §_24(d)(3)–1. How do examiners evaluate alternative systems for delivering retail banking services?)

CFSI believes that access to high-quality financial services is necessary for consumers' financial health and any clarity that the CRA Interagency Questions and Answers can provide in §_24(d)(3) – 1 is welcome. We also recognize that in today's financial markets a “one size fits

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all” approach will not work. Data from the FDIC’s [2013 National Survey of Unbanked and Underbanked Households](#) show that while more than three-fourths (78.8 percent) of households access accounts via bank tellers, online banking is the leading “main” method consumers use (32.9 percent compared with 32.2 percent for tellers). In today’s market, access may be via traditional branch banks, but is more likely to be via online, mobile, self-serve kiosks, and hybrid-video ATMs, as well as other future access and delivery systems. “Access” goes beyond locations and the dollar cost of services – consumers consider the cost of their time, convenience, and the privacy and security of their data. Also, access may imply an ability to open accounts and apply for credit via mobile devices or online, away from the traditional branch office. Examiners will need to account for these variations in their evaluations on how financial institutions are providing access and delivering retail financial services.

Meeting the Liquidity Needs of Consumers

(Q&A §.22(b)(5)–1: What do examiners consider in evaluating the innovativeness or flexibility of an institution’s lending under the lending test applicable to large institutions?)

Since its inception, CRA has been about meeting the credit needs of communities, including low- and moderate-income neighborhoods. However, in today’s financial market, those needs extend beyond lending for mortgages and small businesses to include small-dollar loans that provide important liquidity for consumers.

Beginning in 2012, CFSI undertook an extensive project to understand the small-dollar credit (SDC) needs of consumers and to work with innovative financial service providers to develop and test high-quality SDC products. Through consumer surveys and in-depth interviews, we sought to understand the complexities and varieties of small-dollar credit.¹ Next, we turned to the financial services market to develop the [Compass Guide to Small-Dollar Credit](#), consulting with more than 50 agencies, organizations, and firms to craft an application of the Compass Principles to SDC products and services. We are currently engaged with several institutions to “[Test and Learn](#)” how the applications of these principles will work in the marketplace.

CFSI is concerned that small-dollar loan program discussion (§.22.(b)(5) – 1, third bullet) may be too vague and subject to interpretation and that it will not stimulate institutions to provide this line of SDC products. We believe a higher level of specificity would be helpful here. For example, CFSI’s [Compass Guide to Small-Dollar Credit](#) established seven guidelines for high-quality small dollar loans as ones that:

1. Are made with a high confidence in the borrower’s ability to repay
2. Are structured to support repayment
3. Are priced to align profitability for the provider with success for the borrower
4. Create opportunities for upward mobility and greater financial health
5. Have transparent marketing, communications, and disclosures
6. Are accessible and convenient
7. Provide support and rights for borrowers

¹ See [A Complex Portrait – An Examination of Small-Dollar Credit Consumers](#), [Know Your Borrower: The Four Needs Cases of Small-Dollar Credit Consumers](#), [Design Matters: Learning from Consumers’ Experiences with Small-Dollar Loans](#)

Underwriting

Within each of these guidelines, we present core practices and provide examples to help providers design products and services. We believe some of these additional details could be helpful in the answer for the Q & A. For example, under guideline number one – made with a high confidence in the borrower’s ability to repay – the first core practice and examples are:

Use the best available underwriting techniques to ensure a borrower’s ability to repay without re-borrowing and while still meeting basic needs and financial obligations.

Examples:

- Consider the borrower’s overall relationship and history with the financial institution.
- Collect and analyze information about the borrower’s other outstanding debt.
- Collect and analyze information about the borrower’s total monthly income and expenses.
- Safely incorporate data not captured by traditional credit reporting.
- Analyze the borrower’s deposit account inflows and outflows, either through the lender’s own institution or through a third-party API.
- Develop a secondary scorecard that enables the institution to consider borrowers without a traditional credit profile.

These underwriting techniques incorporate many of the aspects of alternative credit histories as suggested later on in the draft Q & A. In our Test and Learn Working Group, Kinecta Federal Credit Union is piloting a payday consolidation loan that will allow customers to convert multiple outstanding payday loans into a single installment loan. LexisNexis Risk Solutions is offering its RiskView score to underwrite this loan. We believe it is possible to use alternative underwriting to provide high-quality SDC products to a deeper segment of consumers, while recognizing that alternative underwriting alone is not sufficient to make a loan high-quality.

Flexibility

With respect to flexible lending programs, one of the core practices under the guideline number two – structured to support repayment – is to

Provide support to borrowers when they have trouble repaying.

Examples:

- Accept partial payments when a borrower has trouble repaying.
- Design flexible repayment plans for responsible borrowers facing difficult financial circumstances.
- Allow borrowers to put payments temporarily on hold when facing difficult financial circumstances.

And one of the stretch practices (suggestions that are over and above practices that CFSI considers core) is to

Allow flexibility in setting repayment schedules that match income schedules.

Examples:

- Set loan payment due dates to correspond with the borrower’s pay schedule or receipt of other income.
- Allow borrowers to choose their own loan payment due dates and/or to reschedule them (within a reasonable grace period) at any time.

One member of CFSI’s Test and Learn Working Group is Enova, who is offering consumers a new feature that allows consumers to customize their loan payment amount and duration. Using sliders within the online application, consumers select how much they want to borrow and how much they want to pay bi-weekly – the higher the desired payments, the shorter the loan term. The screen shows the interest charges and total amount of the loan plus interest for given principle and payment amounts. This flexibility allows consumers to control more aspects of the transaction.

We recognize that flexibility may introduce an element of subjectivity into the management of these credit products, and that may be problematic for both financial service providers and examiners. There are other ways in which financial services can structure their products to provide flexibility – for example, they could

- Allow borrowers to customize the amount borrowed, loan term and payment amount up front in order to design a loan that fits their budgets, within ranges that underwriting suggests the borrowers can afford.
- Set defaults that encourage borrowers to pay off the loan as quickly as they can afford to do, to help them get out of debt faster.

Adding some of these specific guidelines to the Q&A for this section would result in greater certainty for institutions and a higher probability of high quality small-dollar credit loans being offered.

Financial capability

Including financial literacy in this section is not particularly innovative – in fact, it may make SDC products difficult to deliver profitably and may push consumers away. However, lenders could build education and engagement into the product design itself and create timely incentives. For example, providers could monitor loans and offer coaching or counseling to those who appear to be having problems.

One of the stretch practices in our Guide is to provide borrowers with information about their credit reports and credit score at key moments over the life of the loan so they can observe in real-time how repayment behavior affects their credit profiles. Lenders could provide an opportunity to discuss elements of their credit report with a financial coach (and from a research perspective, it would be helpful to keep track of consumers who actually use this option). Lenders could also incentivize positive loan payment behaviors by offering better rates as borrowers pay on time, or offering rate discounts if borrowers take short training modules.

Borrowing and saving

Adding a savings element to small dollar loans is one of CFSI's "next generation practices" in our Guide: Combine small-dollar loans with savings opportunities and incentives, helping borrowers improve their ability to manage future emergencies or cash shortfalls. As part of one of our Financial Capability Innovation Fund pilots, Self-Help Credit Union is testing different approaches to encourage savings as part of term loans offered to members. One option is to deposit 25 percent of the loan payment amount into savings and another is to make a pre-commitment to make deposits into savings account equal to 25 percent of the monthly loan payment after loan is paid off. The Kinecta pilot also requires a savings account, which is funded with \$5 when the customer takes out the loan. Although still in the early stages of this pilot, Kinecta finds that this feature is popular with borrowers, as it makes the credit union seem more caring.

Conclusion

The financial services landscape has changed substantially since the CRA was initially enacted in 1977. We applaud the agencies for revising the CRA Question and Answer document to reflect issues of access, innovation, and flexibility that will enable financial institutions to receive appropriate credit for their efforts in these arenas. We also recognize the important role of the examination staff and their ability to deliver consistent examinations both within and across the agencies. We are hopeful that this new and revised guidance will encourage financial institutions to provide innovative products and services that enable consumers to gain financial health.

Sincerely,



Jennifer Tescher
President and CEO
Center for Financial Services Innovation