



Why Consumers Turn to Small-Dollar Credit

To see the report, visit our website <http://www.cfsinnovation.com/content/know-your-borrower-four-need-cases-small-dollar-credit-consumers>

Small-Dollar Loans 15 Million Americans Use Them

With limited access to traditional lines of credit, about 1 in every 11 low and moderate-income Americans turns to small-dollar loans for quick access to cash. These loans can be expensive and difficult for consumers to repay. Some small-dollar loans require full repayment within 2 weeks and charge fees or interest as high as 400% APR.



Types of Small-Dollar Credit Consumers

Consumer research identifies four major reasons why borrowers use small-dollar loans.*



*Includes multiple reporting of credit needs

Know Your Borrower Four Types of Small-Dollar Credit Consumers

Understanding the needs of borrowers is a first step in developing higher-quality small-dollar credit products.

UNEXPECTED EXPENSE Borrowers

BORROWER PROFILE

WHO Ivy, 70
OCCUPATION Retired
MONTHLY INCOME \$2,380
MONTHLY EXPENSES \$1,700 - \$2,000
CREDIT USE Infrequent Emergencies

As a retiree, Ivy has a fixed income and doesn't rely on small-dollar loans regularly, only for large expenses related to an unexpected or emergency event.

With a limited budget, Ivy can't afford health insurance and takes the bus to save money. Her elderly mother depends on her financially, which limits her ability to put money aside in a savings fund.

Without credit cards, her only option was to take out a small-dollar loan during the holidays when the water main inside her one bedroom condo broke, damaging the bathroom.

BORROWER STATS

SDC PRODUCTS USED



PRIMARY LOAN USES

LOANS USED IN A YEAR

LOAN AMOUNTS

% W/ SAVINGS PRIOR TO CREDIT USE



MISALIGNED CASH FLOW Borrowers

BORROWER PROFILE

WHO Jane, 56
OCCUPATION Administrative Assistant & Hotel Staff
MONTHLY INCOME \$2,000 - \$2,400
MONTHLY EXPENSES \$1,600 - \$2,000
CREDIT USE Occasional to Frequent

Despite working two jobs, Jane sometimes finds herself short on money to pay the bills. Her tight budget relies on income from her second job, which varies from week to week. Jane has also struggled to manage her expenses in the past which led her to file for bankruptcy.

Without access to credit cards, Jane uses payday loans when she's behind on her phone bill or to make a rent payment.

She says having the ability to pay bills in installments and to time the payments around her payday helps her manage her uncertain finances and avoid late fees.

BORROWER STATS

SDC PRODUCTS USED



PRIMARY LOAN USES

LOANS USED IN A YEAR

LOAN AMOUNTS

% W/ SAVINGS PRIOR TO CREDIT USE



EXCEEDING INCOME Borrowers

BORROWER PROFILE

WHO Nicole, 27
OCCUPATION Debt Collector at Bank
MONTHLY INCOME \$2,100
MONTHLY EXPENSES \$2,200
CREDIT USE Frequent

Nicole's expenses regularly exceed her income. She and borrowers in similar financial situations are likely to repeatedly use very short-term credit and rollover the loans over longer periods of time.

To cover the costs of her grandmother's medicine, Nicole took out a payday loan. However she is unable to retire her debt so she renews the loan every two weeks.

Nicole also used an advanced deposit loan to cover a car insurance payment, which she renews every two weeks.

BORROWER STATS

SDC PRODUCTS USED



PRIMARY LOAN USES

LOANS USED IN A YEAR

LOAN AMOUNTS

% W/ SAVINGS PRIOR TO CREDIT USE



PLANNED PURCHASE Borrowers

BORROWER PROFILE

WHO Daniela, 35
OCCUPATION Janitor
MONTHLY INCOME \$2,400
MONTHLY EXPENSES \$2,000
CREDIT USE Infrequent / Planned

Daniela's husband works in construction, and together they are able to stay on top of their expenses and not rely on borrowing regularly.

High fees prompted Daniela to cancel her credit card, but it also lowered her credit score. So for major purchases, she uses non-bank installment loans.

She plans ahead and makes prudent decisions about borrowing. Daniela took out a \$1,400 loan to pay for her son's summer camp. She also borrowed to cover travel expenses to visit family abroad, and to help build a small house for her mother in Mexico.

BORROWER STATS

SDC PRODUCTS USED



PRIMARY LOAN USES

LOANS USED IN A YEAR

LOAN AMOUNTS

% W/ SAVINGS PRIOR TO CREDIT USE



Small-dollar credit consumers deserve high-quality solutions that address their need for credit and help them improve their financial health. The challenge of how to responsibly extend small-dollar credit can be met, and it starts with knowing the needs of the borrower.

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