Design Matters:
Learning from Consumers’ Experiences with Small-Dollar Loans

Rachel Schneider, Senior Vice President
Nicholas Bianchi, Research Analyst

CFSI Center for Financial Services Innovation
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Introduction

Reliable access to high-quality small-dollar credit (SDC) is vital to the financial success of millions of U.S. consumers. Yet many SDC products, especially those within reach of consumers with limited or low credit scores, carry terms that do not support a successful repayment but instead put borrowers at risk of becoming trapped in mounting cycles of debt.

To understand consumers’ needs, preferences and experiences with small-dollar credit, the Center for Financial Services Innovation, with support from the Ford Foundation, conducted both qualitative and quantitative research with SDC consumers. This research is part of CFSI’s vision to advance quality innovation in the consumer credit marketplace and to inform the development of a new generation of SDC products.1

CFSI released the quantitative portion of this research in 2012, a panel survey of over 1,100 SDC borrowers.2 Among the findings, it revealed that beyond quick access to funds and clear terms, borrowers also value certain loan features, including the length and the price of the loan, repayment policies, and related aspects of customer service. Thus, the quantitative data suggests it is the overall loan structure that defines loan quality for many borrowers.

To gain additional insights into consumer preferences with regard to loan features and terms, CFSI conducted in-depth interviews with customers of three small-dollar credit providers. To draw our sample, CFSI reached out to providers of credit products with at least one unique or potentially innovative feature, in order to gauge the impact of alternative features on customers’ satisfaction and outcomes. In this report we examine borrowers’ experiences with loan payment structures, repayment and related customer service policies, and opportunities to promote economic mobility. Please note that the lenders’ participation in this study does not represent an

![Chart 1: Most Important Factors in SDC Product Choice](image-url)

**Chart 1: Most Important Factors in SDC Product Choice**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Average SDC Consumer Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>I can qualify for this loan</td>
<td>4.4</td>
</tr>
<tr>
<td>Clear terms/knowing exactly what I’ll pay</td>
<td>4.4</td>
</tr>
<tr>
<td>How quickly I can get the money</td>
<td>4.2</td>
</tr>
<tr>
<td>Amount I can borrow</td>
<td>4.1</td>
</tr>
<tr>
<td>Term of length of loan</td>
<td>4.0</td>
</tr>
<tr>
<td>Easy to do/few forms</td>
<td>3.9</td>
</tr>
<tr>
<td>Ability to pay back over multiple payments</td>
<td>3.9</td>
</tr>
<tr>
<td>Feel comfortable/staff is friendly</td>
<td>3.9</td>
</tr>
<tr>
<td>Fees</td>
<td>3.7</td>
</tr>
<tr>
<td>Store location convenient</td>
<td>3.7</td>
</tr>
<tr>
<td>Interest rate/APR</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: CFSI, 2012

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1. Small-dollar credit products refer to payday, pawn, deposit advance, auto title, and installment loans of under $5,000.

2. For a more in-depth look at the findings, see the full report available on CFSI’s website.

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Design Matters: Learning from Consumers’ Experiences with Small-Dollar Loans
In addition to quick access to funds and clear terms, the overall loan structure defines loan quality for many borrowers.

endorsement of the company or the overall quality of their credit product. The lenders selected were: ZestCash, an online small-dollar installment loan; Regions Bank’s Ready Advance™, a deposit advance product; and, Progreso Financiero, a retail-based installment loan product.

The customers interviewed reported that, in addition to seeking less expensive credit, they appreciate amortized installment payments, flexibility, and responsive customer service. Installment payments allow for more affordable monthly payments and serve as a needed structure that enables borrowers to avoid a more costly and prolonged period of indebtedness. At the same time, borrowers need occasional flexibility in paying off their debt, and seek responsive customer service to guide their choices. Providers that strike the right balance between structure and flexibility can maximize borrowers’ ability to repay, to the mutual benefit of borrower and lender. Furthermore, the ability to access additional credit products and better credit terms over time with a trusted lender is a valued incentive—one that can drive timely repayment, win loyalty, and deepen the provider-customer relationship. These insights, in turn, can help accelerate innovation of high-quality SDC products that promote financial health for millions of borrowers.
Methodology

This analysis examines qualitative consumer data from in-depth interviews with 31 SDC customers who had used one of three selected SDC products.

Interviews were conducted by CFSI’s research partners, led by University of Washington Associate Professor Jennifer K. Romich, PhD, in May 2012. The three products selected were ZestCash, an online small-dollar installment loan; Regions Ready Advance, a deposit advance loan provided by Regions Bank; and an installment loan offered through retail locations by nonbank lender Progreso Financiero. The interviews queried SDC customers on their household finances, budget, and general use of credit, in addition to the circumstances that led customers to use the particular SDC product in question. The lenders’ selection in this research study does not represent an endorsement of the company or the overall quality of their credit product on the part of CFSI. See Table 1 for more information about these SDC products.

All SDC customers profiled in this report were chosen because they reflect common experiences and opinions among the customers interviewed. Customers’ names used in this report are pseudonyms. For more information on data sources, see the Appendix.

Table 1. SDC Products Selected for Customer Interviews (2012 market data)

<table>
<thead>
<tr>
<th>Provider</th>
<th>SDC Product</th>
<th>Loan Amounts, Eligibility, Rates</th>
<th>Key Product Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progreso Financiero</td>
<td>Installment loan</td>
<td>Loan Amounts: Installment loans from $250 to $2,500&lt;br&gt; Rates: Target portfolio APR to 36%&lt;br&gt; Eligibility: Fully underwritten credit decision, based on customer’s ability to repay</td>
<td>Able to serve customers with little or no credit history&lt;br&gt; No additional fees, costs or products rolled into loan&lt;br&gt; Reports customer payment history to credit bureaus</td>
</tr>
<tr>
<td>Regions Bank</td>
<td>Deposit advance loan</td>
<td>Loan Amounts: Line of credit with loan amounts of $50 to $500&lt;br&gt; Rates: Fee of $10 per $100 borrowed, average APR of 261%&lt;br&gt; Eligibility: Regions Bank checking account holders with six months of history in good standing</td>
<td>Customers can select amortized installment payments over two to four months, for additional periodic interest rate charge of 17%&lt;br&gt; Reports customer payment history to credit bureaus</td>
</tr>
<tr>
<td>ZestCash</td>
<td>Online small-dollar installment loan</td>
<td>Loan Amounts: Online access to $300 to $800 loans with $500&lt;br&gt; Rates: Maximum rate of 330% APR&lt;br&gt; Eligibility: Underwritten based on proprietary data model</td>
<td>Customers can customize payment size by selecting the amount and length of the loan up to 8 months&lt;br&gt; Dedicated customer service representative&lt;br&gt; Reports customer payment history to credit bureaus</td>
</tr>
</tbody>
</table>
Borrowers’ Perspectives on SDC Product Design

Amortized installment payments and lower pricing were valued by consumers shopping for an SDC product.

Loan Structure

Borrowers using SDC products often have difficulty accessing credit they can afford to repay. Affordability is obviously closely connected to price, and SDC borrowers cite the cost of credit (in interest or fees) as an important consideration when they borrow. However, affordability is also a function of the loan’s size and repayment period, as well as the borrower’s unique financial situation. CFSI’s quantitative data (see Chart 1 above), shows that SDC consumers rated the length of a loan and a loan structure that allows for multiple payments as among the most important factors in choosing a loan. Furthermore, the quantitative survey found that payday borrowers, along with auto title borrowers, had poorer loan experiences than the overall group of SDC consumers studied. These borrowers, often facing single-payment loans with very short terms, reported being less satisfied and more likely to find their loan cost higher than expected.

Many of the credit products available to SDC borrowers—including single-payment payday loans and non-fully amortized revolving credit lines charging subprime interest rates—are not set up for affordable and timely repayment. More than half of SDC consumers today are estimated to use loans that demand a single, lump-sum payment in one month or sooner. This represents a significant gap between supply of small-dollar credit, which leans toward the provision of lump-sum payment loans, and consumer demand, which prefers more innovative and affordable loan structures.
Online installment loan borrower Anita, provides an example of a small-dollar credit borrower who has used both payday loans and credit cards and has struggled at times to manage and repay her debt. As a retired police officer, Anita relies on her pension and a part-time customer service job. After an on-the-job injury resulting in her early retirement from the police department, her finances took a turn for the worse as she adjusted to living on a fixed income. She soon depleted her savings, “got into trouble” with credit card debt, and ended up declaring bankruptcy. She has since used payday loans to cover household expenses when funds are short at the end of the month.

Anita is concerned about loan affordability and repayment:

“\textit{I once had three payday loans at one time. It wasn’t easy to manage. Every payday I was paying it off and then taking it back out. So I made up my mind that I’m going to pay off the payday loans. But I couldn’t just pay it off completely. I had to pay it down. And that’s what I did; I paid the loans down to zero.”}"

When Anita received a shut-off notice for an overdue gas bill, she considered taking out another payday loan or borrowing the money from her brother. Both options required a single lump-sum payment within a few weeks. Instead, Anita chose an online installment loan because she felt it made payments more affordable and would improve her ability to repay the loan in full.

\textit{“I look at what is the best option for me as far as how much I have to pay back, if I can do it on a monthly basis versus a big chunk of money all at one time. I want payments I can afford and pay back over a few months. But I also want to know that in just a few months, it’ll be all over with.”}

- Anita, ZestCash customer
Barbara, age 41, exemplifies a segment of SDC consumers who have some access to both installment loans and credit cards. Barbara immigrated to the United States 12 years ago. She is a mother of three children who works full time cleaning commercial buildings. Because the family’s budget is tight, she occasionally finds it necessary to rely on credit to address unexpected family events and major planned purchases.

In the past, she borrowed the maximum available on her credit cards but could not pay down her balance in a timely manner. Barbara, like many similar SDC consumers, prefers installment repayment structures over revolving credit structures:

“The money escapes you with credit cards, it disappears; you don’t even notice how. I don’t like the type of charge that you pay interest and it is never lowered. I didn’t know that the minimum payment doesn’t reduce any of the money you owe.”

Barbara has also used installment loans to make planned purchases and to pay off her credit card balance. The credit structure of amortized installment payments gives her greater ability to repay her debt over a manageable time period.

“I like that [the installment loan] is nothing like credit cards. I feel comfortable that they give you a specific time period that you will end up paying it. You pay in 12 months, and I don’t feel that it is heavy because I already know that I am only going to pay $70 every 15 days. They show you the balance and what you’ll pay. I know that the money I owe will be discounted, and I know by which date I need to finish paying it.”

“The money escapes you with credit cards, it disappears; you don’t even notice how. I didn’t know that the minimum payment doesn’t reduce any of the money you owe.”

- Barbara, Progreso Financiero customer
Implications for SDC Product Design

SDC consumers’ experiences with installment loan structures provide direction for future product design.

**Commitment structures and default settings can maximize customer success**

For many SDC borrowers interviewed, fully amortized installment credit appears to provide a needed commitment device or structure that enables easier repayment than either loans requiring one lump-sum payment due within a month or lines of credit with minimum payments that do not reduce the outstanding balance.

For amortized installment loans, the default setting for the payment owed is an amount that results in paying off the debt. In contrast, the default setting of a typical credit card payment is a minimum payment which will not result in retiring the debt in an affordable time frame. Borrowers like Barbara favor an optimal minimum payment that by default creates a structure through which they will successfully repay debt in a timely manner.

Borrowers may have behavioral biases that influence their credit repayment behavior. Some borrowers simply resort to the provider’s default payment setting despite having payment options that would be more affordable and reduce their overall cost of debt. Others may favor immediate financial solutions while giving short shrift to longer-term implications. This phenomenon, known as hyperbolic discounting, can lead a borrower to value a short-term gain from paying less today over the longer-term benefit of faster repayment. For example, a significant percentage (22%) of SDC borrowers with credit cards pay only a small portion of their total balance due, even though paying off more debt sooner could benefit them.

As Anita’s experience indicates, SDC consumers’ preference for amortized installment payments underlines the need for a loan’s default structure to serve as a successful plan for repayment. While some borrowers may be able to manage their debt payments and overall household finances, others, such as Anita, who have struggled with payday loans or maxed-out credit cards, can benefit from a loan structure that by default is affordable and supports the timely repayment of debt.

Default setting: a predetermined value or product setting that is automatic unless the user selects a substitute.

“I want to see the principal going down... but you should be able to get payments that you can manage”

— Jon, ZestCash customer

“I got in debt for $2,500 on a credit card with high interest and I felt that it was costly because I would pay, pay, and pay and it wouldn’t go down. I say it’s better with the installment loan. Right now I’m paying $97 [every two weeks], very little in comparison with other places and I know when I will be done paying.”

— Daniela, Progreso Financiero customer

“The thing is with any lender you don’t want to borrow more than your means allow you to. And most of the time they would have it set up where you can’t.”

— Chris, Regions Bank customer
Design products to frame and guide borrower choice

There may also be opportunities to use choice architecture to encourage borrowers to make better decisions about debt repayment. Faced with pressing household expenses on a tight budget, consumers have many factors to consider when borrowing, consolidating, and repaying credit debt. When and how borrowers receive information about loan repayment can help overcome some common biases. For example, a lender could address the tendency toward hyperbolic discounting by framing information carefully and using point-of-decision prompts. Through text messages, web browser pop-ups, or live customer service contact, providers could proactively help borrowers better understand the financial benefits of retiring their debt and could reframe payment options to promote accelerated repayment.12

Furthermore, given some SDC borrowers’ history of trouble with debt repayment, there may be a need for additional incentives to support debt repayment. Commitment devices—which encourage consumers to identify with a goal to increase their sense of ownership and agency over the outcome—have shown some success in encouraging savings and the attainment of financial goals.13 Similar commitment devices might also improve borrowers’ motivation to pay on time and retire debt. Additionally, prize-linked rewards, which have been effective to help people increase savings, might also help reduce their debt.14

Questions for Future SDC Product Testing

- How can loan amortization and length provide payment amounts that maximize loan affordability and the consumer’s ability to repay?
- How can consumers have choice over loan terms that are by default affordable and structured to support repayment?
- How could other behavioral incentives be used to motivate consumers to prioritize debt repayment?

Choice architecture: the strategic presentation of information and points of decision to drive desired consumer choices.

“It feels easier to pay back. We don’t have to pay a big lump sum. It is nice to know that, if we do need [credit], that we can pay them in installments instead of all at one time in a couple of days.”

– Janelle, Regions Ready Advance customer

“It’s easier to pay back. We don’t have to pay a big lump sum. It is nice to know that, if we do need [credit], that we can pay them in installments instead of all at one time in a couple of days.”

– Angela, ZestCash customer

“The thing is with any lender you don’t want to borrow more than your means allow you to. And most of the time they would have it set up where you can’t.”

– Chris, Regions Bank customer

“People [using SDC products] mainly need somebody to give them education and guidance, so that the right choices can be made.”

– Angela, ZestCash customer
**Repayment Flexibility**

While amortized installment payments establish a structure for affordable and timely repayment that can better position many SDC borrowers for success, some borrowers also need flexible repayment terms to help with occasional cash flow problems. Without flexibility, the realities of tight budgets, low account balances, and mismatched income and expenses can often mean late fees or overdraft charges. In fact, SDC consumers are roughly twice as likely as non-SDC consumers to pay overdraft fees on a checking account, and the cost of overdraft fees can determine why they use SDC products instead of overdraft as a form of credit.  

Because a temporary cash flow shortage can disrupt a borrower’s overall ability to repay, customers value a degree of control that allows them to choose the best strategy in making a payment. This is supported by the survey data, which finds that SDC borrowers say price transparency and knowing the price “up front” are a very important consideration in choosing an SDC product—second only to their ability to qualify for the loan. Policies that help borrowers avoid additional fee payments during their credit use—which borrowers generally found to be an unexpected and unwelcome cost—are important to improving consumers’ successful repayment and their satisfaction and trust with their lender.

“They’ve worked with us, not on missing payments but scheduling a payment to where it works best within our budget.”  
- Jon, ZestCash customer
Consumer Profile #3: Chris
Regions Bank Customer

Chris, age 34, works in the mortgage-processing department of a bank (not the credit provider Regions Bank). He has completed some college and owns a home. He is typical of borrowers who seek products that provide occasional flexibility with the timing or amount of debt payments to help manage cash flow while limiting penalties and additional expenses.

When Chris began using credit cards at age 19, he quickly exceeded his ability to repay. A friend and mentor in the banking industry helped Chris get a consolidation loan to pay off his debt, and Chris has not used credit cards since. He also does not use retail or online payday loans, but had previously borrowed installment loans from a credit union.

Initially skeptical of deposit advance loans, Chris first decided to use the credit product “to stay on top of a bounced check” for $450 that led to a series of additional overdrafts and fees totaling over $500.

“The first time I used the [deposit advance loan] was to get me out of a hole. I really first got it to make sure nothing else in my account affected my status.”

Given his tight budget, Chris values the ability to avoid late fees. Having recently bought a used vehicle, he was glad he could reschedule his installment payment after he ran into a “nightmare” car repair that cost $1,000.

“With the Ready Advance, if it’s late you can call them and let them know, ‘Hey, I’m not going to have it on this day, but I’ll do it at the end of the month.’ And it’s like: ‘OK, as long as you have it before the month’s over.’ So it’s much better if I’m not able to make a payment. I can let them know and they won’t try to withdraw from my account, so that I won’t incur any extra charges.”

“The first time I used the [deposit advance loan] was to get me out of a hole. I really got it to make sure nothing else in my account affected my status.”

- Chris, Regions Bank customer
Implications for SDC Product Design

SDC consumers’ need for repayment flexibility is another factor that can inform future product design.

- **Repayment policies can support and build trust**

SDC borrowers favor repayment plans that offer both clarity and flexibility, so that they can navigate financial bumps in the road proactively with their lenders. Late-payment penalties may create a strong incentive to repay, but they also may come at a significant cost in terms of lost consumer trust and the ultimate affordability of the loan.

Repayment policies that provide the flexibility to avoid fees can help build mutual trust between lenders and borrowers. Presenting repayment options through regular customer contact, such as monthly statements, or other provider-initiated communications could also help providers offer flexibility that gives consumers some degree of control while prioritizing the overall debt repayment schedule.

- **Responsive customer service is key to support success and trust**

Effective customer service and account management policies are closely related to repayment policies and consumers’ need for flexibility and guidance. Interviewees reported relying on their credit provider’s customer service channels when seeking occasional repayment flexibility or needing reliable financial advice. ZestCash borrowers, in particular, appreciated having access to live customer service representatives who were dedicated to their account. They were on a first-name basis with their representatives, and borrowers felt this familiarity both added to their trust and helped improve repayment.

Furthermore, the experience of borrowers like Chris, who relied on a trusted mentor at his bank to help him consolidate his out-of-control credit card debt, suggests that many SDC borrowers turn to their credit providers not only for repayment support but also for advice in selecting loan products and structures.

Depending on the provider’s business model, customer service delivery may vary greatly—from in-person or live communication to online, automated options. While not all providers can offer live, individual customer service support, their service still must be responsive, proactive, and customized to the customer’s immediate and longer-term financial needs. SDC products that address consumers’ desire for repayment flexibility and their need for trusted guidance have the most potential to help borrowers make payments while managing their overall costs.

Questions for Future SDC Product Testing

- How can credit products offer repayment policies that enforce the borrower’s commitment to repay while providing flexibility to deal with financial instability?
- What features can motivate or better prepare consumers to make on-time debt payments while maintaining the overall affordability of the loan?
- How can customer service be provided in ways that are both cost effective and personalized?
Opportunities for Improved Access

For many SDC consumers, potential opportunities for expanded and improved access to credit, such as higher credit limits or more favorable terms, are key considerations in assessing a loan’s quality and building long-term customer satisfaction.

The importance of credit building and credit reporting varies with different borrowers. Those accessing credit for planned purchases, and those with access to larger loans in general, are more likely to consider it important to be able to build a positive credit history through SDC use. For example, several Progreso Financiero customers, many of whom had little or no credit histories, said they took out an installment loan not only to meet a financial need but also because it promised to open the wider opportunities that come with a positive credit score. For these borrowers, opportunity and success are associated with loans that help them gain access to additional consumer financial services, including the ability to purchase a home or qualify for a better rate on an auto loan.

In contrast, the quantitative data finds that the most frequent small-dollar credit borrowers and those who take out the smallest loan amounts (loans under $250) do not rate improving their credit score as highly important to the same degree.16 These borrowers, as evidenced by the ZestCash and Regions Bank customers, generally view credit bureau reporting features positively but not as an important factor of overall product quality.17 Rather, these customers defined opportunity as the ability to access lower rates, longer terms, and higher credit amounts through a positive relationship with their existing lender. In addition, borrowers accessing very short-term loan products defined success as being in control of their finances, viewing access to credit for planned purchases to be a future goal.
Harold, age 65, is a retired manufacturing worker and pastor who served in the U.S. Navy. He has some college education and is married, with two adult children now in college. His children, he feels, are his “best investment.” A few years ago, Harold and his wife decided to cut back on their own expenses to better support their kids’ college tuition and living expenses. They sold the home they owned and rented a more affordable apartment. Harold has used a deposit advance loan to cover the unexpected expense of repairing his daughter’s laptop computer and occasionally paying his son’s rent.

Harold’s credit history is below prime, and he feels limited by this rating: “I talked to the bank about getting a larger loan, but my credit score wouldn’t allow that. I don’t think a credit score is a fair measure of a person’s true potential because society and the economic system dictates a lot of that.”

When considering a quality credit product, the ability to graduate to better credit terms and loan structures with his existing credit provider is more important to Harold than the long-term potential to gradually improve his credit score.

When asked how SDC products could be improved, Harold said incremental access to higher loan limits, lower pricing, and longer terms through a positive borrowing history were key:

“After a certain amount of years, there should be privileges that they will allow customers, instead of just the standard dictated by the market. I think the loan needs to be spread out longer and I think that the amount of money borrowers get probably can be increased, and the fees and rates should come down, especially for people that have history with a particular institution.”

Harold also identified a need for providers to engage more fully with potential customers to improve their long-term financial health.

“If the bank really wants to help people, then they can help them devise a market plan, strategize their personal finances, show them a budget and help them to develop their long range goals.”

“There should be privileges that they will allow customers, instead of just the standard dictated by the market... especially for people that have history with a particular institution.”

- Harold, Regions Bank Customer
Implications for SDC Product Design

Future product design should keep in mind the benefits of providing pathways for wider access for SDC consumers.

- **Opportunities for improved credit access can win customer loyalty**

  Consumer credit building and credit reporting, as well as improved loan terms from the current lender for proven borrowers, are fundamental product features that providers can use to support customer success and opportunities for upward mobility, while improving customer satisfaction and long-term loyalty.18

SDC consumers care about loan amounts, the price of credit, and the total length of a loan. Therefore, these features represent key areas around which credit graduation strategies for improving credit access can be designed. Graduation strategies can also be part of a commitment mechanism or a customer reward program to incentivize on-time debt repayment and enhance customer loyalty and satisfaction.

SDC borrowers, like all consumers, seek control and stability in their financial lives. They all want to use credit to meet a financial need, and then retire the debt and be well positioned to seize future opportunities. Providers must keep borrowers’ long-term financial health in mind when designing credit building and credit graduation strategies.

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**Questions for Future SDC Product Testing**

- How can consumers’ desire for improved access be leveraged to maximize customer loyalty and successful repayment?
- How can positive SDC use provide opportunities for consumers to improve their longer-term financial health?
SDC borrowers need loans they can repay and retire. While borrowers may define overall financial success differently, they generally seek credit products that offer affordable repayment structures, policies that build trust, and opportunities for improved access and upward mobility.

CFSI believes that innovation, when deeply informed by consumer experience, can produce high-quality products in the SDC market to meet consumers’ needs responsibly and profitably. It is vital to not only examine quantitative data about SDC usage, but to also hear from borrowers in their own words about why they appreciate particular product features. Through borrowers’ voices, we hear that installment structures are valuable not only because they make debt payments more affordable, but also because they establish a commitment structure and a more optimal default setting that supports successful repayment. Borrowers state that personalized customer service is appreciated both for its warm touch, and as a means to request occasional flexibility and guidance with loan repayment. Finally, we find that achieving a higher credit score is valued by many borrowers, while others view the opportunity to receive preferred terms from a trusted lender as a way to improve their credit access.

The small-dollar credit marketplace is poised for change. Further experimentation informed by direct consumer insights is needed if we are to succeed in creating a new generation of high-quality small-dollar credit products that drive sustained improvements in consumers’ financial health.
Appendix

Data Sources

Qualitative Data
This research is based on qualitative data consisting of a 31 in-depth interviews with SDC customers of three nontraditional small-dollar credit products. To construct a sample of borrowers, CFSI selected providers that offer a credit product with at least one unique or potentially innovative feature intended to meet the needs of underserved customers. The interviews queried SDC customers on their household finances, budget, and general use of credit, in addition to the circumstances that led customers to use the particular SDC product in question.

Please note: The lenders’ participation in this research study does not represent an endorsement of the company or the overall quality of their credit product. Lenders used were ZestCash, an alternative online small-dollar installment loan; Regions Bank’s Ready Advance™, a deposit advance product; and Progreso Financiero, a retail-based installment loan product.

Lenders provided a list of potential interviewees according to CFSI’s criteria, which required that a significant number of repeat credit users be included in the sample. The research team, led by University of Washington Associate Professor Jennifer K. Romich, PhD, and assisted by social work practitioner and researcher Jody Miesel, ultimately selected candidates from the eligible pool of customers. The research team conducted one- to two-hour in-depth interviews (IDI) between May and September 2012. The ZestCash customers interviewed were located in Kansas City, Missouri; the Regions Bank customers were in Birmingham, Alabama; and the Progreso Financiero customers resided in California’s San Francisco Bay area.

Qualitative Interview Questionnaire
The interviews consisted of questions in a semi-structured format on the following areas:

- Borrower’s demographic information
- Personal financial background
- Monthly income and expense calendar
- Payment methods and services used
- Credit history
- Annual financial calendar
- Past credit product use
- Recent credit product use

Quantitative Data
CFSI’s interpretation of the interview data was informed by quantitative analysis of SDC consumers. The SDC quantitative data comes from a survey of 1,121 small-dollar credit users, defined as people who, in the past 12 months, have used a payday loan, pawn loan, direct deposit advance, auto title loan, or nonbank installment loan of $5,000 or less at least once. The SDC quantitative data was gathered by an online...
consumer survey conducted by GfK between January 5 and January 27, 2012. Survey respondents were randomly sampled from GfK’s KnowledgePanel®, which is statistically representative of the U.S. population of adults ages 18 and over with household incomes below $75,000.

The survey collected data on various issues related to consumers’ use of credit, including the reasons consumers report for using credit. The margin of error for the overall SDC sample is +/- 4%. All statistical testing of proportions and means was conducted at the 95% confidence level, and all subgroup findings are representative of that particular subgroup. Data in the tables and charts are reported as received and may be directional but not statistically significant when comparing among subgroups. Additional information on GfK KnowledgePanel® is available online at http://www.knowledgenetworks.com/knpanel/.

Consumers’ ranking of important SDC loan attributes comes from their responses given to survey question #15: “In choosing to use a [loan type], how important was each of the following factors in your decision-making?”
Endnotes

1 CFSI’s small-dollar credit work includes the development of industry quality standards in “The Compass Guide to Small-Dollar Credit” in 2014; a quantitative survey of SDC consumers’ needs, decisions, and experiences presented in “A Complex Portrait: An Examination of Small-Dollar Credit Consumers,” 2012; and an analysis of SDC consumers’ needs for credit use in “Know Your Borrower, The Four Need Cases of Small-Dollar Credit Consumers,” 2013.


3 ZestCash provides online short-term installment loans as permitted by state law. This particular version of the ZestCash product reference here was available from 2009 through 2012.

4 As of January 22, 2014, Regions Ready Advance no longer accepts enrollments, and the product will cease for current customers by the end of 2014.

5 Progreso Financiero is a portfolio company of Core Innovation Capital, a strategic partner of CFSI.

6 In CFSI’s survey of SDC consumers, borrowers rate “Fees” 9th and “Interest Rate” APR 11th among all 18 loan attributes in the SDC consumer survey data. The importance of price appears to reflect a borrower’s level of credit access. Borrowers taking out the larger sized SDC loans, installment loans and auto title loans, were significantly more likely to rate “Fees” and “Interest/APR” higher in importance than other SDC borrowers.

7 “Length of loan” and “ability to pay back over multiple payments” ranked 5th and 7th, respectively, among all 18 loan attributes in the SDC consumer survey data.


9 Single-payment loans due in full on the borrowers’ next payday include most but not all payday loans, deposit advance loans, pawn loans, and many auto title loans.


12 An example of this is the CARD Act, which as of 2010 requires credit card monthly statements to include how much consumers need to pay each month to pay off their debt in three years, as well as the total cost and savings compared to if the consumer made only the minimum payment. As a result, 60% of consumers report to have a clearer understanding of their credit terms, and 45% said they paid more each month because of the information provided. Furthermore, the rate at which cardholders pay off their balances increased in the years following the CARD Act. See Consumer Financial Protection Bureau, “The CARD Act, One Year Later”, 2011; and Jenna Herron, “The CARD Act: Pros and Cons Three Years Later,” Bankrate.com, Sept. 12, 2013.

13 Richard H. Thaler and Shlomo Benartzi. “Save More Tomorrow: Using Behavioral Economics to Increase Employee Savings,” The Journal of Political Economy 112, 2004. This article provides an example of savings commitment features used in the Save More Tomorrow program, which asked employees to commit to increasing their retirement plan contribution rates well in advance of a scheduled pay increase. The program sought to use this commitment mechanism to help employees who would like to save more but lack the willpower to act on this desire. Eighty percent of those who joined remained in the program over several pay raises and increased their savings rates on average by 10% over 40 months.

14 Doornis to Dreams Fund, “Building Financial Security Through Fun: Findings from the Save to Win Expansion,” April 2013. The “Save to Win” prize-linked savings product was made available through several credit unions in 2012, and the pilot project produced an average year-end savings balance of $1,163.

15 Fifteen percent of SDC consumers surveyed have used overdraft on a checking account intentionally as a loan in the past year, compared to 8% of non-SDC consumers. Furthermore, the most popular reason reported for not using overdraft on an account, given by 25% of those surveyed, is the high cost, indicating that SDC borrowers often use one credit product to avoid a more costly one.

16 SDC borrowers accessing installment loans and auto title loans, those borrowing over $500, and infrequent SDC borrowers all rated the loan attribute: “Will help me build my credit score” significantly higher than other SDC borrowers.

17 Regions and ZestCash products reported credit use to the credit bureaus. Most - but not all - of the borrowers interviewed were aware of credit bureau reporting by these providers.

18 For more information on how credit providers can support credit building, see Kate Dole and Rob Levy, “Building Consumer Credit: A Winning Strategy for Financial Institutions and Consumers,” CFSI, 2012.
About CFSI

The Center for Financial Services Innovation (CFSI) is the nation’s authority on consumer financial health. CFSI leads a network of financial services innovators committed to building a more robust financial services marketplace with higher quality products and services. Through its Compass Principles and a lineup of proprietary research, insights and events, CFSI informs, advises, and connects members of its network to seed the innovation that will transform the financial services landscape.

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