Designing High-Quality, Small-Dollar Credit:
Insights from CFSI’s Test & Learn Working Group

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Beth Brockland, Director
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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Executive Summary

Millions of Americans lack access to high-quality, affordable credit. Many of the small-dollar loans available to consumers are high-cost, low-quality products that often lead borrowers into a cycle of repeat usage and mounting debt. While there are challenges to innovating in the small-dollar credit industry, the opportunity to serve borrowers in need of high-quality, small-dollar loans is significant. In 2014, borrowers spent an estimated $44 billion on small-dollar loans and $4.2 billion on installment loans. Financial institutions that offer borrowers affordable and sustainable loans will be able to serve a large and growing subset of consumers in need of products and tools that can help them build financial health.

The Center for Financial Services Innovation (CFSI) convened the Small-Dollar Credit Test & Learn Working Group to encourage innovation across the small-dollar credit industry. The Working Group brings together diverse lenders to create a shared understanding of how small-dollar loans can align provider profitability with borrower success. The Working Group has generated a body of knowledge that can be leveraged by financial service providers, regulators, nonprofit organizations, and FinTech start-ups pursuing responsible and profitable small-dollar credit solutions.

The members of the Test & Learn Working Group are diverse:

- **Kinecta Federal Credit Union** is a Los Angeles-based credit union that partnered with LexisNexis Risk Solutions to provide alternative underwriting solutions for a payday consolidation loan through its subsidiary Nix Neighborhood Lending.

- **LexisNexis Risk Solutions** combines proprietary data and advanced scoring analytics to offer products and services that allow lenders and other financial service providers to assess risk and streamline the underwriting process.

- **Regions Bank**, a regional bank primarily serving the southern and mid-western United States, reduced the loan minimum on an existing savings-secured installment loan.

- **Vancity Credit Union**, based in Vancouver, British Columbia, piloted a payday loan alternative that provides borrowers with quick and affordable access to funds.

- **Enova International, Inc.**, an online lender with a global distribution network, launched a payment slider tool that allows customers to choose the size of their payments and the length of their loan term.

CFSI contracted with the University of North Carolina (UNC) Center for Community Capital to execute the research for this engagement. Administrative data and qualitative data from customer surveys were collected across each of the four projects. In addition, qualitative data, in the form of interviews and focus groups, were collected from Kinecta, Regions, and Vancity customers. This data was augmented with insights gleaned from conversations with the members of the Working Group about profitability considerations and business strategies.
This report articulates eight strategies for designing and delivering high-quality, small-dollar loans. These strategies are based on insights generated from the data collected over the course of the Test & Learn Working Group. Together, these strategies shed light on how financial service providers can design high-quality, small-dollar loans that offer value to providers and consumers alike.

**Strategy 1:**
Help borrowers build financial health
A high-quality loan should do more than provide customers with easy access to credit. It should allow borrowers to improve their financial health by helping them pay down high-cost debt, build credit, and access other opportunities to improve their financial wellbeing.

**Strategy 2:**
Prioritize long-term relationships over short-term profits
While creating small-dollar loans that are both affordable and profitable can be challenging, developing such products will allow lenders to establish and strengthen relationships with new and existing customers who may return for additional products and services over time.

**Strategy 3:**
Underwrite to balance inclusivity with risk
An underwriting policy that allows lenders to effectively separate high-risk borrowers from low-risk borrowers is fundamental to a financial institution’s ability to lend profitably. At the same time, underwriting policies should be inclusive enough that traditionally underserved borrowers are able to access and successfully repay the loan.

**Strategy 4:**
Design for success, not failure
High-quality, small-dollar loans should be designed with business models based on successful customer repayment, not on high probabilities of default. Features such as amortizing payments, low loan minimums, and payment due dates that are aligned with paydays can help borrowers successfully repay their loan.

**Strategy 5:**
Offer borrowers choice and flexibility
Offering borrowers choice and flexibility can provide a more positive borrowing experience. When applicants can choose the size, length, and terms of their loans, take-up rates and successful repayments are likely to increase.

**Strategy 6:**
Streamline and automate to reduce costs and increase speed
Profit margins of small-dollar loans are relatively low, so lenders must find ways to responsibly reduce cost. Adopting technology solutions and streamlining the application process will allow providers to do this, while yielding faster processing times for borrowers.

**Strategy 7:**
Provide proactive customer service and support
Technology solutions can contribute to the long-term sustainability of a loan, but lenders must also provide borrowers with enough proactive support and guidance to ensure that they have a successful borrowing experience.

**Strategy 8:**
Use creative marketing to reach critical mass
In addition to reducing operational costs through automation, lending at high volumes can be fundamental to covering costs and maintaining profits over time. Pursuing innovative marketing strategies—such as targeted messaging campaigns and partnerships with community organizations—can help institutions attract new customers.
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Introduction

Access to high-quality small-dollar credit is a key component of a successful financial life.¹ The ability to borrow relatively small sums of money on reasonable terms can help individuals weather a financial shock, smooth income fluctuations, build a positive credit history, and facilitate wealth-building purchases.

Millions of Americans, however, lack access to high-quality, affordable credit. Instead, they use costly loans that often lead them into a cycle of borrowing and mounting debt, undermining their ability to build long-term and lasting financial health.

While there are many challenges to innovating in the small-dollar credit industry—regulatory hurdles, reputational concerns, and tough economics, to name a few—CFSI believes there is also a significant opportunity. In 2014, consumers spent an estimated $44 billion on small-dollar loans and $4.2 billion on installment loans.² Financial institutions that offer borrowers affordable and sustainable loans will be able to serve a large and growing subset of consumers in need of products and tools that can help them build financial health.

To aid the industry in this endeavor, CFSI developed the Compass Guide to Small-Dollar Credit, which outlines practices for the high-quality design and delivery of small-dollar loans. The Compass Guide to Small-Dollar Credit is rooted in CFSI’s Compass Principles, aspirational guidelines that affirm standards of excellence in the financial services industry (Figure 1). At the heart of the Compass Principles is a commitment to mutual success in the customer-provider relationship.

To further encourage innovation in this area, CFSI convened the Small-Dollar Credit Test & Learn Working Group. The Working Group provides a safe space for companies piloting products or features significantly aligned with the Compass Guide to Small-Dollar Credit. By bringing together lenders from across the industry, the Working Group contributes to a shared understanding of how small-dollar credit solutions can align provider profitability with borrower success. This project advances the industry as a whole by generating a body of knowledge that can be leveraged by financial service providers looking to design high-quality products, by regulators seeking to introduce new regulation to the industry, and by nonprofit organizations and FinTech start-ups pursuing responsible and profitable small-dollar lending.

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¹ While there is no universally accepted definition of “small-dollar credit,” the term typically refers to consumer loans of less than $5,000, with terms ranging from two weeks to three years.

The Test & Learn Working Group members are diverse:

- **Kinecta Federal Credit Union** is a Los Angeles-based credit union that partnered with LexisNexis RiskSolutions to provide alternative underwriting solutions for a payday consolidation loan through its subsidiary Nix Neighborhood Lending.

- **LexisNexis RiskSolutions** combines proprietary data and advanced scoring analytics to offer products and services that allow lenders and other financial service providers to assess risk and streamline the underwriting process.

- **Regions Bank**, a regional bank that primarily serves the southern and mid-western United States, reduced the loan minimum on an existing savings-secured installment loan.

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- **Enova International, Inc.**, an online lender with a global distribution network, launched a payment slider tool that allows customers to choose the size of their payments and the length of their loan term.

The remainder of this report explores insights from the Test & Learn Working Group in a series of case studies, presented as eight strategies that lenders should adopt to meet the needs of borrowers. Financial service providers that successfully adopt these strategies will be poised to serve a large and growing subset of consumers in need of high-quality, small-dollar credit solutions.
Methodology

CFSI contracted with the University of North Carolina (UNC) Center for Community Capital to execute the research for this engagement. Approximately six months of administrative data—including loan origination date, size, term length, status, payment date, and days past due—were collected across each of the four projects. Qualitative data from customer surveys were also collected across each of the projects. Additional qualitative data, in the form of interviews and focus groups, were collected from Kinecta, Regions, and Vancity customers. CFSI also collected data on business strategy and profitability metrics from interviews and small-group discussions with the Working Group members. Table 1 depicts the type, duration, and frequency of data collected across the four projects. Table 2 shows a subset of the interview questions that were asked of customers and providers (the Working Group members) across each of the four projects.

### Table 1: Data Collected from Test & Learn Working Group Members

<table>
<thead>
<tr>
<th>Administrative Data</th>
<th>Surveys (Customer)</th>
<th>Interviews and Focus Groups (Customer)</th>
<th>Interviews (Providers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Data</td>
<td>Number of</td>
<td>Date of Data</td>
<td>Type</td>
</tr>
<tr>
<td>Collection</td>
<td>Funded Accounts</td>
<td>Collection</td>
<td></td>
</tr>
<tr>
<td>Enova</td>
<td>6,766</td>
<td>Dec 2014</td>
<td>--</td>
</tr>
</tbody>
</table>

### Table 2: Examples of Interview and Focus Group Questions

<table>
<thead>
<tr>
<th>Interviews and Focus Groups (Customer)</th>
<th>Interviews (Provider)</th>
</tr>
</thead>
<tbody>
<tr>
<td>How did you hear about the loan?</td>
<td>Why did your company decide to launch the loan or loan feature?</td>
</tr>
<tr>
<td>Why did you decide to apply for the loan?</td>
<td>Is the loan or loan feature profitable for your institution to offer?</td>
</tr>
<tr>
<td>If this loan had not been available, what other options would you have considered to meet your financial needs?</td>
<td>What are some challenges of offering this loan or loan feature in a profitable way?</td>
</tr>
<tr>
<td>What loan features have been most helpful to you in repaying the loan?</td>
<td>How do you underwrite the loan?</td>
</tr>
<tr>
<td>Overall, how satisfied are you with this product?</td>
<td>How do the default and delinquency rates on this product compare to that of similar products your institution offers?</td>
</tr>
<tr>
<td>Do you think this loan has affected how you manage your finances?</td>
<td>What features do you think contribute to the successful performance of this loan?</td>
</tr>
<tr>
<td>How likely are you to recommend this loan to someone else?</td>
<td>How do you market this loan or loan feature?</td>
</tr>
<tr>
<td>Has using this product increased your appreciation of the lending institution?</td>
<td>How do you support borrowers during the application process process and throughout the duration of their borrowing experience?</td>
</tr>
</tbody>
</table>
CFSI selected these companies to participate in the Working Group because the products or features they were piloting aligned with many of the recommendations outlined in the Compass Guide to Small-Dollar Credit. At the time of the Working Group launch, the companies were introducing new products or features to the market, creating an ideal environment in which to observe borrowers’ reactions to the new loan or loan feature. This selection of companies also represents a diverse group of institutions with distinct business models, yielding valuable insights about the design and delivery of high-quality, small-dollar credit products that can be applied across the industry.

The Enova project differs from the other three projects in a few key ways. While the other companies piloted a new product, Enova introduced a new feature, the payment slider tool, to an existing product. As a result, CFSI’s analysis of this project is more limited in scope than for the other three projects. The results of the Enova analysis appear in Strategy 5.

This report offers real-market solutions for how to design small-dollar loans that align provider profitability with borrower success. The results of the Working Group are presented as a series of case studies organized around eight distinct strategies, each of which sheds light on how a diverse group of lenders has pursued this goal. This analysis is not intended to provide conclusive evidence about the long-term impact of a product or feature on a borrower’s financial health or on a company’s bottom line. Rather, this report offers tangible insights and strategies for providers looking to offer high-quality small-dollar loans in a responsible and profitable way.

### Project Overview

**Kinecta Federal Credit Union and LexisNexis Risk Solutions**

Kinecta Federal Credit Union has $3.6 billion in assets and serves more than 270,000 members across the country. Headquartered in Manhattan Beach, California, the credit union has 23 branches throughout the state. In 2007, Kinecta purchased Nix Check Cashing, now known as Nix Neighborhood Lending, to fulfill the credit union’s charter to provide convenient financial services to underserved communities. This partnership has allowed the credit union to offer consumers a broad range of alternative and traditional financial products.

In June 2014, Kinecta launched the Payday Payoff and Payday Payoff Plus Loans to help borrowers consolidate high-cost debt under more affordable rates (see Table 3 for product terms). The credit union developed the loan after realizing that many of its members were carrying high-cost debt and lacked the credit scores necessary to borrow at more affordable rates. To make the product accessible to borrowers who might not traditionally be considered creditworthy, the credit union partnered with LexisNexis Risk Solutions to leverage their RiskView score to underwrite the loan. Table 4 describes the performance of the loan over the study period. (See Table 9 for performance of the RiskView score.)

<table>
<thead>
<tr>
<th>Table 3: Kinecta Payday Payoff Loan—Account Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Name</strong></td>
</tr>
<tr>
<td>Amount</td>
</tr>
<tr>
<td>APR</td>
</tr>
<tr>
<td>Term</td>
</tr>
<tr>
<td>Loan Application Fee</td>
</tr>
<tr>
<td>Late Fee</td>
</tr>
<tr>
<td>Loan Purpose</td>
</tr>
<tr>
<td>Membership Requirements</td>
</tr>
<tr>
<td>Credit Bureau Reporting</td>
</tr>
</tbody>
</table>

Account terms as of April 2015

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3 In February 2014, Nix Check Cashing changed its name to Nix Neighborhood Lending to reflect the company’s mission to be a neighborhood financial organization and community partner with a focus on responsible, affordable small-dollar credit.

4 For the remainder of this report, these loans will collectively be referred to as the “Payday Payoff Loan.” Both loans are issued by Kinecta Federal Credit Union and offered at Nix branches. The names “Kinecta” and “Nix” will be used interchangeably in this report based on the context of the sentence.
Table 4: Kinecta Payday Payoff Loan—Loan Performance

<table>
<thead>
<tr>
<th>Name</th>
<th>Payday Payoff</th>
<th>Payday Payoff Plus</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Loans Issued</td>
<td>1,240</td>
<td>1,243</td>
<td>2,483</td>
</tr>
<tr>
<td>Number of Unique Borrowers</td>
<td>1,126</td>
<td>1,074</td>
<td>2,088</td>
</tr>
<tr>
<td>Average Loan Size</td>
<td>$418.14</td>
<td>$730.50</td>
<td>$574.51</td>
</tr>
<tr>
<td>Average Term Length</td>
<td>184 days</td>
<td>171 days</td>
<td>177 days</td>
</tr>
<tr>
<td>Charge-Off Rate</td>
<td>3.1%</td>
<td>5.2%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Data from June 2014 to April 2015 on all funded accounts

Regions Bank
With $122 billion in assets and more than 3.5 million customers, Regions Financial Corporation is one of the nation’s largest providers of consumer and commercial financial services. The bank operates 1,650 branches and 2,000 ATMs across 16 states, predominantly in the southern and mid-western United States.

In January 2014, Regions lowered the minimum amount on its Savings Secured Loan from $2,000 to $250. The Savings Secured Loan is designed to provide access to credit at competitive rates and to give customers an opportunity to establish or build credit. The loan is fully secured by funds the borrower has in a Regions savings account. The decision to reduce the loan minimum on the Savings Secured Loan was reinforced by the bank’s realization that more than 60 percent of deposit advance users had a savings account balance that was higher than their credit limit on that product. The bank conducted interviews and focus groups with customers and found that many individuals were borrowing, even though they had savings, in order to build or repair their credit. Table 5 shows the account terms of the Savings Secured Loan for the purposes of this study and Table 6 describes the performance of the loan over the course of the study period.

Table 5: Regions Savings Secured Loan—Account Terms

<table>
<thead>
<tr>
<th>Amount</th>
<th>$250 - $1,999</th>
</tr>
</thead>
<tbody>
<tr>
<td>APR</td>
<td>6%</td>
</tr>
<tr>
<td>Term</td>
<td></td>
</tr>
<tr>
<td>Loan Application Fee</td>
<td>$8</td>
</tr>
<tr>
<td>Late Fee</td>
<td>5% of unpaid payment</td>
</tr>
<tr>
<td>Loan structure</td>
<td>Fully secured by savings in Regions savings account</td>
</tr>
<tr>
<td>Credit Bureau Reporting</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Account terms as of April 2015

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5 Regions Bank offered Ready Advance, a deposit advance loan, from May 2011 to January 2014. The product was well received by customers but was discontinued because of changing industry dynamics and an evolving regulatory environment.

6 CFSI research shows that more than a third of small-dollar credit borrowers (34 percent) took out a loan even though they had savings. Some said they did this to maintain their savings in case of an emergency. Others said they did not wish to spend down the funds that it had taken them so long to build up. A Complex Portrait: An Examination of Small-Dollar Credit Consumers, Center for Financial Services Innovation, August 2012.
Vancity Credit Union

Vancity is the largest community credit union in Canada, serving more than 509,000 members through 59 branches in British Columbia. With $18.6 billion in assets, the credit union strives to improve the financial wellbeing of its members, while working to develop healthy communities that are socially, economically, and environmentally sustainable.

Vancity first considered developing a small-dollar credit solution in 2012 when the credit union observed that its members were increasingly turning to payday loans and other alternative financial services to meet their financial needs.

Drawing upon consumer insights from interviews and focus groups, assessments of the Canadian and U.S. financial services industries, and advice from CFSI, Vancity developed a payday loan alternative that would provide members with fast, convenient, and affordable credit. Table 7 describes the product terms of the Fair & Fast Loan and Table 8 describes the performance of the loan over the course of the study period.

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Table 6: Regions Savings Secured Loan—Loan Performance

<table>
<thead>
<tr>
<th>Number of Loans Issued</th>
<th>33,281</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Loan Size</td>
<td>$376</td>
</tr>
<tr>
<td>Average Term Length</td>
<td>8 months</td>
</tr>
<tr>
<td>Charge-Off Rate</td>
<td>0.13%</td>
</tr>
</tbody>
</table>

Data from January 2014 to April 2015 on all funded accounts

Table 7: Vancity Fair & Fast Loan—Account Terms

<table>
<thead>
<tr>
<th>Amount</th>
<th>$100 - $1,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>APR</td>
<td>19%</td>
</tr>
<tr>
<td>Term</td>
<td>2 - 24 months</td>
</tr>
<tr>
<td>Loan Application Fee</td>
<td>$0</td>
</tr>
<tr>
<td>Late Fee</td>
<td>$0</td>
</tr>
<tr>
<td>Amortization</td>
<td>Flexible (weekly, bi-weekly, monthly)</td>
</tr>
<tr>
<td>Membership Requirements</td>
<td>Borrowers must be members</td>
</tr>
<tr>
<td>Credit Bureau Reporting</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Account terms as of April 2015

Table 8: Vancity Fair & Fast Loan—Loan Performance

<table>
<thead>
<tr>
<th>Number of Loans Issued</th>
<th>912</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Unique Borrowers</td>
<td>735</td>
</tr>
<tr>
<td>Average Loan Size</td>
<td>$955</td>
</tr>
<tr>
<td>Average Term Length</td>
<td>13.5 months</td>
</tr>
<tr>
<td>Charge-Off Rate</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Data from April 2014 to April 2015 on all funded accounts

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7 Vancity developed the Fair & Fast Loan as part of an enterprise initiative known as the “New Market Strategy.” This effort is focused on designing products and services to better meet the needs of underserved consumers.
Enova International, Inc.
Enova is a multinational company headquartered in Chicago that leverages technology to develop innovative financial products and services for individuals and businesses. In 2014, the company made approximately $2.6 billion in loans, making it one of the largest online consumer lenders in the United States. Enova also lends abroad, including in the United Kingdom, Australia, and Canada.

In January 2014, Enova’s NetCredit brand launched an online tool that allows borrowers to select the size of their payments and the length of their term when they apply for a loan (Figure 5). Enova launched this tool after staff members received compelling feedback that customers wanted more control over their borrowing experience. The company had previously introduced a similar tool that allows customers to select the size of their loan, but customers expressed interest in further customizing their borrowing experience. The payment slider tool allows borrowers to choose between making smaller payments over a longer term or larger payments over a shorter term.8 Given the narrow and focused nature of this engagement, the analysis of this project appears under Strategy 5.

Improving the Financial Health of Struggling Borrowers
Despite the differences in these institutions and products, each lender in the Working Group is focused on helping struggling borrowers improve their financial health. Figure 2 depicts data from customers at each institution who answered survey questions about their financial health. As the graph shows, significant portions of customers at each institution are struggling to make ends meet, to save money regularly, and to build a financial cushion to use in an emergency. Through the strategies outlined in the remainder of this report, each of the Working Group members is striving to help their customers achieve greater financial health.

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8 Enova launched the payment slider tool across its entire NetCredit portfolio, but only borrowers of the 35% NetCredit Gold Loan are included in this analysis.
**Strategies to Design High-Quality Credit**

The following strategies shed light on how financial service providers can design high-quality, small-dollar loans that offer value to providers and consumers alike. These strategies are based on insights derived from an analysis of the qualitative and quantitative data collected throughout the duration of the Test & Learn Working Group.

**Strategy 1: Help borrowers build financial health**

A high-quality loan should offer customers more than easy access to credit. It should help them achieve financial health by paying down high-cost debt, building credit, or accessing other opportunities to accumulate wealth and improve their financial wellbeing. Designing products that help borrowers pursue financial health is strategically advantageous for providers because it improves customer satisfaction and increases the likelihood that borrowers will return to the lender for other products and services in the future (see Strategy 2).

Kinecta, Regions, and Vancity have each developed products to help borrowers improve their financial health. Kinecta’s Payday Payoff Loan is designed to help customers pay down high-cost debt, build or rebuild their credit, and accumulate savings. Three-quarters (75%) of the Payday Payoff Loan borrowers interviewed said they were consolidating between two and four payday loans from multiple lenders. When borrowers were asked what they would have done if the loan had not been available, a few customers said they would have taken out additional payday loans, while others said that they did not know what they would have done. “I didn’t have any other options,” explained a Kinecta borrower. “I would have had to just keep flipping those other loans until I could afford to pay them off.” Nearly all borrowers interviewed (90%) said they were less financially stressed after receiving the Payday Payoff Loan, compared to before they took out the loan. A majority of respondents (87%) found it easier to pay their bills on time after receiving the loan (Figure 3).

Among surveyed borrowers of Regions’ Savings Secured Loan, the most commonly reported reasons for using the loan were to build or repair credit (42%) and to be able to borrow but still have emergency savings available (25%). If the Savings-Secured Loan had not been available, no respondents knew of other products that were similar to this loan that they could have accessed elsewhere. For the 18 percent of borrowers for whom credit score data was available, approximately 70 percent experienced an increase in their credit scores during the 15-month study period. Nearly half of these borrowers (45%) saw an increase of 50 points or less, 9

### Figure 3: Impact of Loans on Borrowers’ Financial Health

<table>
<thead>
<tr>
<th>100%</th>
<th>90%</th>
<th>80%</th>
<th>70%</th>
<th>60%</th>
<th>50%</th>
<th>40%</th>
<th>30%</th>
<th>20%</th>
<th>10%</th>
<th>0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relieved a great deal of financial stress</td>
<td>Made it easier to pay bills on time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9 In order to receive a Payday Payoff Loan, customers are required to open a savings account at the credit union with a minimum balance of $5, which is funded by the credit union. Previous research conducted by CFSI showed that Kinecta borrowers perceived this savings account to be a sign that the credit union cared about its customers and had their best interests in mind.

10 For the remainder of this report, “surveyed borrowers” will refer to customers who responded to a survey and “interviewed borrowers” will refer to customers who participated in an interview or a focus group conducted as a part of this study.

11 Regions refreshes borrowers’ credit score data every three months, so only borrowers with loans that have been outstanding for more than three months will have data indicating a change in their credit score.
approximately 21 percent saw an increase of between 50 and 100 points, and three percent saw an increase of 100 points or more.

More than a third of interviewed borrowers (35%) of Vancity’s Fair & Fast Loan said they used the loan to consolidate their debts, typically multiple payday loans. The same number (35%) used the loan to cover an unanticipated expense, such as a car repair or a license renewal. Nearly a third of borrowers (32%) used the loan for emergency cash to smooth an interruption in income. For example, one borrower was a teacher who was not receiving pay over the summer, and another borrower was waiting for her retirement or disability benefits to begin. A vast majority of interviewed borrowers said that the loan had relieved a great deal of financial stress (87%) and made paying bills on time easier (80%) (Figure 3). For those who consolidated multiple payday loans, the financial relief was particularly appreciated. One Vancity borrower said, “I’m much less stressed, no longer having to think every week about how I was going to come up with payday loan interest.”

**Strategy 2: Prioritize long-term relationships over short-term profits**

Low profit margins and high fixed costs can make it difficult for lenders to offer affordable small-dollar loans profitably. However, offering such products will allow lenders to develop relationships with customers over time. Although representatives from Kinecta, Regions, and Vancity reported that their loans broke even or generated a profit during the study period, each of them acknowledged that this was not the main reason their companies offered these loans. Each of the lenders considered these loans to be products that would help their institutions establish long-term relationships with new and existing customers over time.

Luis Peralta, president of Nix Neighborhood Lending (Kinecta), explained that the Payday Payoff Loan helps customers build or repair credit, create savings, and build a cushion for the future. “Once we position [our customers] for success, we expect them to be loyal and to come back for other products, such as credit cards, checking accounts, and mortgage accounts,” he said. “It’s a long-term strategy.”

Tracy Jackson, senior vice president of Consumer Lending at Regions, had a similar explanation for why his institution offers the Savings Secured Loan. “Regions offers this loan to establish a relationship with customers and to help them establish and improve their credit,” he said. “The hope is that customers will look to Regions as their financial health improves. It’s a strategic position.”

Similarly, Guy Kutany, director of the New Market Strategy at Vancity, said, “Our vision was to develop an innovative offering that will help members move along the financial continuum from high-cost fringe products to more affordable mainstream offerings. While the profit that the Fair & Fast Loan generates is not huge, the impact for both Vancity and our members is.”

Qualitative data collected from interviews and focus groups shows that these approaches may be paying off. Kinecta, Regions, and Vancity customers overwhelmingly said they were satisfied with the product, they would be likely to recommend this product to someone else, and they would be likely to return to the financial institution for future products and services (Figure 4).

![Figure 4: Borrower Satisfaction](image-url)
Strategy 3: Underwrite to balance inclusivity with risk

An underwriting policy that allows lenders to effectively separate high-risk borrowers from low-risk borrowers is fundamental to a financial institution’s ability to lend profitably. At the same time, underwriting policies should be inclusive enough that traditionally underserved or higher-risk borrowers may be able to access a loan. Underwriting policies must also be designed to ensure that loans are made with a high confidence in a borrower’s ability to repay. When it comes to serving this consumer segment, the most effective underwriting policies are those that balance borrower inclusivity with lender risk. Kinecta, Regions, and Vancity have each addressed this challenge in their own way.

In partnership with LexisNexis Risk Solutions, Kinecta has developed an underwriting solution to serve borrowers not considered creditworthy under traditional measures. The credit union has leveraged LexisNexis’s RiskView score—which draws upon alternative data such as property data, public records, and address stability—to develop a more granular understanding of borrowers’ risk profiles.12 The idea for this partnership came about when Kinecta realized that it did not have a viable method for underwriting the Payday Payoff Loan. As Kinecta’s Peralta explained, “The biggest challenge when it came to launching [the Payday Payoff Loan] was that we didn’t have a robust underwriting system to evaluate credit worthiness or to understand the full picture of a borrower’s income and debt.” Kinecta experimented with many other risk models and alternative data providers before finally deciding upon LexisNexis’ RiskView score.

Table 9 shows the performance of the Payday Payoff Loan portfolio by banded RiskView score, from June to December 2014. Because borrowers with lower RiskView scores have higher rates of default and vice versa, the data suggest that the model is allowing Kinecta to accurately assess borrowers’ risk profiles. Kinecta has been continuously refining its underwriting technique to try to further reduce charge-off rates. For example, the credit union is experimenting with thresholds (the lowest score at which it will lend to customers) and calibrating certain attributes within the RiskView solution that may correspond with lower likelihoods of customer default.

Because the Savings Secured Loan is secured by cash held in a Regions bank account, underwriting for the loan is relatively straightforward. While credit scores are not evaluated in the underwriting process, loan officers look at whether borrowers are currently applying for bankruptcy or have a fraud logged at one of the credit bureaus, either of which would be disqualifying. Since the eligibility requirements for the Savings Secured Loan are minimal, the bank’s approval rate for the product is around 95 percent, which is high compared to the bank’s approval rates for other products.13 Given the low risk associated with offering the loan, Regions is considering opportunities to further streamline and automate its underwriting process (see Strategy 6).

Vancity has taken an iterative approach to improving its underwriting policies for the Fair & Fast Loan. Vancity’s Kutany explains, “As a first-of-its-kind product for us, we deliberately decided on a Test & Learn approach. We wanted to get the product to market and then learn from member and staff feedback.” Reflecting member insights, in the fourth quarter of 2014, Vancity updated its underwriting policies on the Fair & Fast Loan to accept disability benefits as a valid source of income when determining a customer’s ability to repay.14 As a result of this adjustment and others like it, the credit union’s approval rate for the loan gradually increased from 50 to 80 percent.

Table 9: Kinecta Payday Payoff Loan Performance, by RiskView Score

<table>
<thead>
<tr>
<th>RiskView Score</th>
<th>Number of Fully Matured Accounts</th>
<th>Cumulative Percentage of File</th>
<th>Charge-Off Balance Rate</th>
<th>Cumulative Percentage of Charge-Off Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-600s</td>
<td>580</td>
<td>39.8%</td>
<td>6.2%</td>
<td>50.3%</td>
</tr>
<tr>
<td>601-620</td>
<td>444</td>
<td>70.2%</td>
<td>4.6%</td>
<td>83.0%</td>
</tr>
<tr>
<td>621+</td>
<td>435</td>
<td>100.0%</td>
<td>2.4%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>1,459</td>
<td>100.0%</td>
<td>4.5%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Data from June 2014 to April 2015 on all funded accounts

12 In addition to using the RiskView score to underwrite the Payday Payoff Loan, Kinecta assesses borrowers’ ability to repay by measuring an individual’s monthly gross income against self-reported debt payments to ensure that loan payments do not exceed five percent of the customer’s income.

13 Approval rates for Regions’ unsecured loans range from 15 to 40 percent.

14 In addition to determining a customer’s ability to repay through a debt-to-income ratio that incorporates self-reported and administrative data, Vancity also looks at borrowers’ credit histories and whether borrowers have a sustainable source of income.
Vancity plans to continue optimizing the underwriting policy for the Fair & Fast Loan to make the loan “Fairer & Faster.” Kutany is optimistic that “Vancity can further increase take-up while maintaining similar levels of risks” by incorporating members’ feedback and by pursuing some of the opportunities to streamline the application process described in Strategy 6.

Strategy 4: Design for success, not failure
Lenders should design loans with business models that are based on successful customer repayment, not on high probabilities of default. Loans designed to facilitate timely repayment will help borrowers build or repair their credit and successfully repay the loan. Each of the loans piloted in this study has features—such as amortizing payments, low loan minimums, or the option to align payment due dates with pay days—that facilitate on-time and successful repayment.

Amortizing Payments
Kinecta, Regions, and Vancity customers said they appreciated the installment structure of the loans they borrowed. Several of the Savings Secured Loan borrowers said that having the same payment amount due each month was helpful because it created a sense of consistency. Many borrowers also said they appreciated that the payments were due monthly and not as a lump sum. The vast majority of Fair & Fast Loan borrowers (90%) said that having affordable payments made it easier for them to repay the loan. Many also said that having the option to pay more than the minimum payment some months made it easier for them to repay their loan faster.

A Payday Payoff Loan borrower contrasted her positive borrowing experience at Kinecta with the short and inflexible turnaround times for payday loans: “A lot of times, when you have to pay off another [payday] loan, you have to get that [new] loan to pay it off. So for me it worked out that [Kinecta] stretched the time out for five or six months.”

Low Loan Minimums
A majority of Vancity borrowers (77%) and all Regions borrowers who participated in a focus group said they appreciated the low loan amounts that were offered. The option to borrow small sums of money is important because it allows customers to access credit without borrowing more than they need. Administrative data from Regions supports these insights; once the bank lowered the loan minimum on the Savings Secured Loan from $2,000 to $250 at the end of January 2014, demand for the product increased.15 One Regions borrower said, “The thing with [Regions] ... is that you can borrow two hundred and fifty dollars. I’d never heard of that before. All the other banks are asking for a thousand dollars.”

Timing of Payments
Kinecta and Vancity allow borrowers to align payment due dates with pay days. A majority of interviewed Kinecta borrowers (88%) and all interviewed Vancity borrowers said the ability to choose their due dates was a major factor contributing to their ability to repay their loans. A few of the Vancity customers contrasted the flexibility of this feature with the rigidity of a traditional payday loan. “It would have been difficult if I’d had to pay the first of the month, when our rent is due,” said one Vancity borrower. “Having [payments] start on the 16th made it much easier.”

Automatic Withdrawals
Kinecta, Vancity, and Regions allow borrowers to set up automatic withdrawals to facilitate on-time repayment. A quarter or more of customers from each of these lenders said that the ability to set up automatic payments helped them successfully repay their loans (25%, 40%, and 32%, respectively). Customers appreciated this feature because it simplified the borrowing process and made it so they did not have to keep track of multiple payment due dates.

“It was just automatic, so it was easy,” explained a Regions borrower. A Vancity borrower explained, “It cleared a huge weight off my shoulders. [The loan] gets paid automatically; I don’t even notice it.” In addition to automatic withdrawals, all three institutions offer multiple loan payment options and setting up automatic withdrawals is not a requirement of receiving the loan.

Credit-Building Opportunities
Kinecta, Vancity, and Regions report borrowers’ payment histories to the credit bureaus. This allows customers to build or repair their credit histories through successful repayment. All of the interviewed Vancity customers and the majority of interviewed Vancity customers (87%) said the credit-building feature of the loans was an important factor in their decision to apply for the loan. More than one in four surveyed Regions borrowers (42%) said the primary reason they decided to apply for the Savings Secured Loan was to build or repair their credit. One borrower said that she was paying all of her bills on time to improve her credit. Although the opportunity to build credit is not a feature that directly facilitates on-time repayment, the value that many borrowers place on credit-building opportunities likely contributes to their desire to pay on time.

Loan Consolidation
Kinecta and Vancity encourage borrowers to consolidate high-cost debt with their loans by providing borrowers with checks addressed to other lenders. A majority of interviewed Kinecta borrowers (88%) said they appreciated not having

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15 The spike in demand for the Savings Secured Loan may have also been the result of a teller incentive program that Regions implemented at the same time (see Strategy 8).
to pay off multiple lenders in different locations. “I was really happy to be able to pay [the lenders] off at one time instead of running from one to another,” said a Kinecta borrower. In light of the popularity of the Payday Payoff Loan, Kinecta has extended the loan to serve other debt consolidation purposes—including auto title loans, pawnshop loans, medical bills, and auto repairs—and has allowed borrowers to cover expenses associated with immigration applications, including legal fees and citizenship courses.

**Strategy 5: Offer borrowers choice and flexibility**

Offering borrowers choice and flexibility can increase the likelihood that they have a positive borrowing experience. Allowing applicants to choose the size, length, and terms of their loan can boost take-up rates and contribute to the successful repayment of a loan.

In January 2014, Enova began testing a payment slider tool designed to give borrowers more control over their borrowing experience. Applicants can select the size of their payments and the length of their loan term, offering them a choice between making smaller payments over a longer term or larger payments over a shorter term. Enova was interested in determining whether giving borrowers more choice would have an impact on loan conversion rates and the overall performance of the loan.\(^{16}\)

Enova randomly assigned approximately half of borrowers to receive the payment slider tool at the beginning of the loan application process (Table 10). Borrowers who received the payment slider were offered the tool along with an additional slider tool that allowed them to select the size of the loan on the first of two webpages of the application process (Figure 5). The second page of the application process consisted of a loan contract that was populated with the payment amount and term length that the borrower selected. Borrowers who did not receive the payment slider tool only saw a slider that allowed them to select the amount of their loan, not the size of their payments, and they received a standard contract on the second page of the application process.

**Table 10: Total Sample Size of NetCredit Applicants**

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>Did not receive payment slider</th>
<th>Received payment slider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total applicants</td>
<td>16,099</td>
<td>8,173</td>
<td>7,926</td>
</tr>
<tr>
<td>Did not receive payment slider</td>
<td>8,173</td>
<td>5,277</td>
<td></td>
</tr>
<tr>
<td>Received payment slider</td>
<td>7,926</td>
<td>4,776</td>
<td></td>
</tr>
<tr>
<td>Signed contracts</td>
<td>10,053</td>
<td>5,277</td>
<td></td>
</tr>
<tr>
<td>Funded accounts(^{17})</td>
<td>6,766</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Data from January 2014 to April 2015

**Table 11: Conversion Rate of All Applicants**

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>Signed Contracts</th>
<th>Conversion Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did not receive payment slider</td>
<td>8,173</td>
<td>5,277</td>
<td>64.6%*</td>
</tr>
<tr>
<td>Received payment slider</td>
<td>7,926</td>
<td>4,776</td>
<td>60.3%*</td>
</tr>
<tr>
<td>Total</td>
<td>16,099</td>
<td>10,053</td>
<td>62.4%</td>
</tr>
</tbody>
</table>

* Statistically significant at the 5% level

\(^{16}\) Conversion rate is defined as the number of customers who signed a contract out of the number of eligible applicants. Loan performance is measured by the percentage of funded loans that had a first payment default. Enova considers first payment default to be a valid indicator of loan performance because it is closely correlated with overall default rates.

\(^{17}\) The number of funded accounts is lower than the number of signed contracts because after a customer signs a contract, Enova decides whether to fund the loan based on their underwriting criteria.
At first glance, applicants who received the payment slider tool appeared to have a lower conversion rate than those who did not receive the tool, suggesting that borrowers were not interested in customizing their loan terms (Table 11). However, a closer examination of the data suggests that a more complicated dynamic may be at play. Table 12 shows conversion rates among applicants who proceeded to the second of the two application webpages, which displayed the loan contract. Of these individuals, applicants who received the payment slider tool were significantly more likely to sign a contract (86.2%) than those who did not receive the payment slider tool (71.0%). This is true regardless of whether applicants used the tool to change their payment amount (85.7%), or simply interacted with the tool but did not ultimately use it to change their payment amount (87.2%).

<table>
<thead>
<tr>
<th>Table 12: Conversion Rate of Applicants who Viewed Contract (Second Webpage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did not receive payment slider</td>
</tr>
<tr>
<td>Did not receive payment slider</td>
</tr>
<tr>
<td>Received payment slider (total)</td>
</tr>
<tr>
<td>Did not use slider to change payment amount</td>
</tr>
<tr>
<td>Used Slider to change payment amount</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

*Statistically significant at the 5% level

These results suggest that when some applicants are given an opportunity to actively choose their loan terms, they are more likely to sign a contract than those who are presented with fixed terms. “Many people simply click through the application process to see what comes next,” explained Briana Fabbri, Head of Marketing at NetCredit. “When we offered more choice on the loan offer page, we encouraged borrowers to really think about their borrowing experience.”

Offering the tool may have caused some applicants to drop off at the beginning of the process because it forced them to pause and truly consider the terms of the loan they were requesting. However, for other borrowers, having the opportunity to customize their loan terms up front may have led them to feel even more confident and invested in the decision they were making. This conclusion is reinforced by Enova’s observations that borrowers who received the payment slider tool spent less time on the contract page (an average of 11 minutes) than those who did not receive the payment slider tool (an average of 17 minutes).

Likewise, Enova found that offering borrowers the option to customize their loan payments improved the overall performance of the loan. Table 13 shows that first payment defaults are lower among borrowers who received the payment slider tool and used it to change their payment amount, compared with those who did not receive the tool or those who received the tool but did not use it to change their payment amount. Fabbri hypothesizes that allowing borrowers to choose the size of their monthly payments allows them to identify an amount that better fits their budget, increasing the likelihood that they will be able to successfully repay the loan.

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18 Enova did not track whether customers interacted with the tool, but decided not to use it to change their payment amount.
Based on these findings, Enova concluded that allowing borrowers to customize their loan terms was beneficial both to borrowers and to the company’s bottom line. In July 2015, the company made the tool available to all applicants and refined it to be simpler and therefore less likely to overwhelm prospective borrowers. While the experimental tool required all applicants to interact with it before they could advance through the process, the revised tool offers a default loan option that applicants can either adjust or accept and move on. And, whereas the beta payment slider tool allowed applicants to adjust the loan amount in increments of $10, the revised slider is simplified with increments of $100. Enova continues to see improvement in both conversion rates and default rates based on these refinements.

Enova’s experience with the payment selector tool suggests that providing applicants with a degree of choice and flexibility can benefit both borrowers and lenders with higher conversion rates and lower first-payment default rates. However, the company’s experience with the tool also underscores that financial service providers must be open to revising and iterating on a loan feature if they do not get it right the first time.

**Strategy 6: Streamline and automate to reduce costs and increase speed**

Profit margins of small-dollar loans are relatively low, so lenders must find ways to responsibly reduce the costs associated with offering these loans. Streamlining and automating the application process will allow lenders to reduce decisioning and approval costs. Adopting technology solutions will also yield faster processing times, so borrowers can access their funds more quickly. Since borrowers can receive funds from a payday lender nearly instantly, reducing processing time will allow providers to compete with payday lenders more directly. Yet, there is a trade-off to consider: Automated processes provide speed and efficiency, but customers derive value from face-to-face interactions with loan officers (see Strategy 7).

Customers can find out if they are eligible for Kinecta’s Payday Payoff Loan either online or in-person at one of Nix’s branches (Figure 6). After customers fill out a form with a few data fields, a loan officer will do a soft pull of their RiskView score to determine whether they qualify for the loan. If the applicant is not eligible, the loan officer explains how she can become eligible in the future. This process is beneficial to borrowers because it provides them with actionable information about how they can access credit opportunities in the future. This also allows borrowers to find out whether they are eligible for a loan before paying the loan application fee. If the customer is eligible for the Payday Payoff Loan, she is invited to apply for a loan in-person at a Nix branch that offers the loan. The loan application is one page, and borrowers can walk out of the branch that day with a check or money order payable to their lenders.

The current process is relatively quick, but it is fairly high touch. Kinecta is exploring ways to reduce time and costs by automating a portion of the process. Instead of having an employee manually enter applicants’ information into the underwriting system after they apply, the credit union is considering syncing its systems so that an applicant’s data is automatically transferred into the underwriting system. This would dramatically reduce the time it would take for applicants to learn whether they are eligible for a loan, but borrowers would still need to come into a Nix branch to apply for the loan.

**Table 13: First-Payment Default Rates, by Payment Slider**

<table>
<thead>
<tr>
<th>Did not receive payment slider</th>
<th>1.31%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received payment slider</td>
<td>1.06%</td>
</tr>
<tr>
<td>Used the payment slider to change a payment</td>
<td>0.71%</td>
</tr>
<tr>
<td>Did not use the payment slider to change a payment</td>
<td>1.24%</td>
</tr>
<tr>
<td>Total</td>
<td>1.18%</td>
</tr>
</tbody>
</table>

Data from July 2014 to April 2015

**Figure 6: Online Application for Kinecta’s Payday Payoff Loan**

Customers can find out if they are eligible for Kinecta’s Payday Payoff Loan—before paying an application fee—by completing an online form or by speaking to a loan officer on the phone.

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19 Data is displayed from July 2014 to August 2015 because Enova refined the payment slider tool in the first few months after the tool was launched. Default numbers have remained stable throughout the rest of the year.

20 The theory that too much choice can overwhelm borrowers is well documented in research. The most famous of these studies shows that shoppers presented with a large selection of jams at a supermarket were less likely to purchase a jar than shoppers who were presented with a smaller selection of jams. Sheena S. Iyengar and Mark R. Lepper. “When Choice is Demotivating: Can One Desire Too Much of a Good Thing?” Journal of Personality and Social Psychology, Vol. 79, No. 6, 995-1006, (2000).
Borrowers of Regions’ Savings Secured Loan may apply for the loan through any channel but they must complete the application process at one of the bank’s branches. The bank is building a system that allows customers to apply for and receive the loan entirely online. The steps needed to book and process the loan would be minimal and the entire process would be streamlined, resulting in a more economical product overall. According to Regions’ Jackson, this would yield a fully automated application process that would allow customers to apply, receive a loan decision, and access their funds within minutes.

Regions is also considering additional ways that it might streamline and eliminate inefficiencies in the decisioning process. Since the Savings Secured Loan is backed by funds held in a savings account at the bank, perhaps customers could submit less documentation to apply for the loan. Since the loan is so low risk, perhaps the bank could re-evaluate what data it reviews from the credit bureaus. The current credit agreement is nearly nine pages, but perhaps it could be simplified to create a better customer experience.

As the Fair & Fast name suggests, Vancity designed the loan to close quickly. Customers can complete most of an application for the Fair & Fast Loan over the phone, but they must come into a branch to sign for the loan. 

Strategy 7: Provide proactive customer service and support

While technology solutions can contribute to the long-term sustainability of a loan, lenders must also provide borrowers with enough proactive support and guidance to ensure that they can successfully repay the loan. At the outset of the borrowing experience, loan officers should help borrowers determine whether a product will meet their needs or whether another solution might work better. Once a loan has been issued, customer service representatives should work with borrowers to help them make timely payments and provide assistance if they are struggling. Such an approach will ultimately benefit lenders by contributing to the strong performance of their loan portfolios. Kinecta, Regions, and Vancity have each invested in high-quality customer service through a variety of approaches.

Kinecta staff members are trained to discuss the benefits of the Payday Payoff Loan with prospective borrowers and to highlight the advantages of consolidating multiple high-cost loans under a single installment loan. Staff members are also trained to emphasize the credit-building aspect of the loan and to educate borrowers on breaking a cycle of debt. In the event that borrowers are struggling to repay, loan officers will work with them to find a more suitable payment plan. This might entail reducing the size of their monthly payments or better aligning payment due dates with borrowers’ paydays. As Peralta explained, such an approach is in the credit union’s best interest because it ensures that they will continue receiving payments from the borrower.

Jackson explained that at Regions, “customer service is our culture; it’s baked into everything we do.” Branch personnel are trained to listen to customers’ needs and assess whether the Savings Secured Loan would be right for them (Figure 7). One borrower explained, “I was talking to one of the representatives and we were trying to figure out ways for me to improve my credit and to make it a little easier, and we decided that that the [Savings Secured Loan] would be a great thing to do.”

Once the borrower has received the loan, Regions employees are dedicated to ensuring that borrowers have a positive loan experience and are able to continue repaying the loan. Many of the Savings Secured Loan borrowers talked about assistance they had received from staff members during their borrowing experience. One borrower explained how she would consult with a particular bank employee every time she visited a Regions branch and how that employee would show her how to save money “on a little chart or write it down on a piece of paper.” Another borrower added, “Their total staff is amazing. And yes, just the convenience of being able to get them on the phone. I have [one of the staff members’] cell phone numbers. So, if I have an issue, I can call her directly.”

Figure 7: Regions Customer Service

A Regions customer service representative reviews loan terms with a prospective borrower.

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21 In the fourth quarter of 2014, Regions introduced an $8 processing fee to the Savings Secured Loan to cover operational costs and ensure the ongoing sustainability of the loan. The bank is reluctant to add further fees to the loan, so it is actively pursuing other ways to offset costs.

22 Customers can complete most of an application for the Fair & Fast Loan over the phone, but they must come into a branch to sign for the loan.
Vancity has also invested heavily in member experience for the Fair & Fast Loan. The credit union designed the product to meet borrowers’ needs “from the ground up,” and high-quality customer service is integral to the design of the loan. When a prospective borrower applies for the Fair & Fast Loan, a credit union employee helps the borrower determine whether the loan is the right product for them. If another product offered by the credit union is a better fit for the customer’s needs, the employee will refer the customer to that product instead. If a borrower who has received the loan is struggling to repay, credit union employees proactively reach out via a letter or a phone call to devise a payment plan that will allow the borrower to successfully repay.

One borrower recalled, “[Vancity staff] helped me figure out what was affordable and I based the payback on that, rather than on my first inclination which was to pay it back faster… But she just told me if that’s an issue, come back and see me and we’ll take care of it.” Another borrower said, “One time I didn’t have enough money in my checking [account] to cover the upcoming withdrawal, so Vancity actually called me to let me know and offered to transfer money to cover it. Other places would have just let it default, so I thought that was pretty cool.”

**Strategy 8: Use creative marketing to reach critical mass**

In addition to reducing operational costs through automation, lending at a high volume is fundamental to a lender’s ability to cover costs and maintain profits over time. However, the companies profiled in this report have small marketing budgets, so reaching a large number of customers can be challenging. To address these budgetary constraints, Kinecta, Regions, and Vancity are pursuing innovative marketing strategies, including developing partnerships with nonprofit organizations, designing targeted marketing campaigns, and leveraging earned media attention to attract new customers.

From June 2014 to April 2015, Kinecta issued 2,483 Payday Payoff Loans (Table 4). Given that the loans were only available at a few Nix branches, and the credit union did limited marketing of the loans, Peralta considers this to be a strong start. However, to ensure continued success of the loan, the credit union needs to increase the number of loans it processes.

Kinecta also needs to attract new customers; as of April 2015, only 12 percent of Payday Payoff Loan borrowers were new customers to the credit union. Kinecta is developing relationships with nonprofit organizations and other trusted community entities to attract new customers. Peralta recently met with representatives of a local nonprofit organization that offers credit counseling and debt management services to struggling borrowers. Through partnerships like these, Peralta is optimistic that the credit union can reach its goal of 10,000 Payday Payoff Loans by the end of 2015.23

From January 2014 to April 2015, Regions issued 33,281 Saving Secured Loans (Table 6). The product was one of the bank’s most popular non-equity loans during this period.24 In January, February, and March of 2014, the Savings Secured Loan was the most popular product the bank offered, representing 60 percent of all loans booked. However, despite high customer demand, Regions only met 80 percent of its 2014 goal for this product.

This may be partially because the bank stopped offering an employee incentive program to promote the loan. When the incentive program was in place during the first quarter of 2014, the number of Savings Secured Loans issued was much higher than in other months. But the incentive program proved to be financially unsustainable, and when the bank removed the incentive program at the end of the first quarter, the number of loans issued dropped dramatically (Figure 8). This decline suggests that promoting the loan with incentives may contribute to high customer take-up, but that Regions should explore more economical ways to promote the loan.

**Figure 8: Regions Booked Savings Secured Loans, by Month**

<table>
<thead>
<tr>
<th>Month</th>
<th>Jan 2014</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan 2015</th>
<th>Feb</th>
<th>Mar</th>
<th>Mid-Apr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>1000</td>
<td>1500</td>
<td>2000</td>
<td>2500</td>
<td>3000</td>
<td>3500</td>
<td>4000</td>
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<td>6500</td>
<td>7000</td>
<td>7500</td>
<td>8000</td>
<td>8500</td>
</tr>
</tbody>
</table>

23 Kinecta and Nix will be expanding the Payday Payoff offering from 10 to 33 branches in Q4 of 2015.

24 The two most popular loans Regions offered during this period were an unsecured loan and an auto loan.
In an attempt to do just that, Regions is improving its direct-to-consumer marketing. Through a quarterly direct mailing campaign, the bank is planning to notify eligible customers with a Regions savings account that they have been pre-approved for a Savings Secured Loan. The bank’s marketing team is also revising promotional materials to better articulate the loan’s affordable nature and other benefits. Through these efforts, Regions is developing awareness among each of the bank’s 3.5 million customers that there is a credit product suitable for their needs.

Vancity issued 912 loans from April 2014 to April 2015 (Table 8). The credit union exceeded its financial goals, but differently than it had initially envisioned. Vancity based its original projections on payday loan usage in British Columbia, where the average payday loan value is approximately $450. However, Fair & Fast Loan borrowers used this loan differently than a typical payday loan. The average size of the loan is larger (approximately $1,000) and the average term is longer (approximately 1 year) than a typical payday loan.

The credit union promoted the Fair & Fast Loan through a carefully crafted marketing campaign, a curated online presence, and a robust outreach initiative directed at existing members. Vancity advertised the loan on its website, via in-branch fliers, and through direct mailers (Figure 9). During the soft launch of the product from March to June 2014, the credit union sent 50,000 direct mailers to credit union members, each of which cost the bank approximately $1 to send. These direct mailers were also used as promotional fliers in branches, making them a cost-effective marketing tool.

Because the Fair & Fast Loan is now more widely known, the credit union is not planning to engage in another round of direct mailers. However, Kutany explained that “it was useful to go through this exercise during the loan’s soft launch as a way to generate awareness and gather member feedback on the product.”

In addition to these activities, Vancity has also benefited from a significant amount of earned media attention in the form of articles, videos, blog posts, radio spots, and television interviews about the loan. The credit union has been profiled by more than 40 media outlets, including some of the largest ones in British Columbia, such as the Vancouver Sun and Business in Vancouver. Kutany attributes the media’s interest in the Fair & Fast Loan to the fact that it was the first of its kind in Canada and specifically designed to serve a customer segment traditionally overlooked by mainstream financial institutions.

The media attention that Vancity has received has resulted in the unexpected benefit of new member acquisitions. Approximately 10 percent of Fair & Fast borrowers are new members who joined Vancity to access the loan. Kutany is pleased with this number, given that the credit union did not use any external advertising. In the coming months, the credit union plans to redirect its marketing efforts to attract new customers through an advertising campaign focused on transit stops, subways, and other public spaces.

Figure 9: Direct Marketing Sample for Vancity’s Fair & Fast Loan

Vancity sent 50,000 direct mailers to eligible customers during the soft launch of the Fair & Fast Loan to create customer awareness of the offering.
Conclusion

Each of the Test & Learn Working Group members profiled in this report is addressing the needs of struggling borrowers through the strategies outlined above. Together with the recommendations in CFSI’s Compass Guide to Small Dollar Credit, these eight strategies yield valuable insights for other lenders pursuing high-quality, small-dollar credit solutions that align provider profitability with borrower success.

However, this is just a start. Innovating in the small-dollar credit industry is not a one-time endeavor, nor can it be done in silos. True innovation will require the ongoing commitment and collaboration of stakeholders across the small-dollar credit ecosystem, including banks, credit unions, regulators, nonprofit organizations, consumer advocates, and the FinTech community.

Although it will not be without challenges, the opportunity to serve consumers in need of high-quality credit solutions is significant. Developing products that help customers build financial health is fundamentally a sound business decision and an investment in the future.