The “Just Right” Small-Dollar Credit Products

Center for Community Self-Help’s (Self-Help) “Just Right” line of small-dollar credit (SDC) products was designed to test features of SDC products offered to clients as affordable and safe credit options. It was made available alongside the many small-dollar products that Self-Help already provides. The organization offered the “Just Right” term loan and “Just Right” line of credit—products that provided customers with up to $1,000 in borrowing capacity—through its network of 19 California Self-Help Federal Credit Union branches. Self-Help employed traditional, streamlined and alternative underwriting methods in issuing loans, with the goal of uncovering the most cost-effective methods to responsibly assess borrowers’ ability to repay a loan.

Self-Help used the “Just Right” products to test the effectiveness of two features designed to promote successful borrower outcomes. A number of line of credit borrowers were given the choice to enroll in a repayment program with the default repayment rate set higher than the minimum to encourage faster repayment of outstanding balances. Borrowers who took out the term loan were given access to mechanisms to support savings such as having a portion of each monthly payment be deposited into a savings account or making commitments to begin saving when the loan was fully paid back. Self-Help worked with Innovations for Poverty Action to conduct a randomized evaluation of the impact of these added features.

The project received funding from the Center for Financial Services Innovation’s Financial Capability Innovation Funds. A partnership with a collaborative of funders led by the Citi Foundation, the Funds provided support to innovative projects designed to help low-income and underserved consumers adopt positive financial behaviors.

Self-Help asked:

» How can providers balance accessibility, sustainability and responsibility in designing SDC products?

» Do behavioral features encouraging accelerated repayment and savings help to yield improved customer performance?

» Can alternative underwriting methods yield more cost-effective ways of assessing a consumer’s ability to repay?

Self-Help learned:

» Nearly half of borrowers had not previously been members of the credit union, creating an opportunity for Self-Help to build relationships with new clients.

» Term-loan borrowers showed an interest in the savings features, with over a third of borrowers accepting the features offered to them; however, actual use of the features appears to be low, with few borrowers utilizing the special sub-accounts created for them (though data suggests that some eligible borrowers may have made savings contributions in general savings accounts with Self-Help).

Just Right results:

» Nearly half of borrowers were new clients.

» The streamlined methods of underwriting increased credit access for credit-worthy borrowers.

» Numerous clients received loans for which they would not have qualified under a standard method of underwriting.

» Greater buy-in from frontline staff and reducing operational complexity would have helped to boost applications.
Future Applications

The pilot provided the credit union with useful lessons that are informing the organization’s other similar small-dollar credit products, which include an offering designed to cover fees for naturalization and Deferred Action for Childhood Arrival applications. These lessons include the importance of engaging frontline staff, small-dollar credit’s role in client acquisition and the increase in access stemming from the use of multiple underwriting methods to ensure loan affordability.

Center for Community Self-Help

Self-Help is based on a firm belief in the power of ownership to safeguard families’ financial security and strengthen our communities. The organization began in the 1980’s by offering innovative micro-loans to small North Carolina businesses. Building on this success, it moved into the home loan market and eventually commercial real estate development. In 1999, the organization helped pass a predatory lending reform law in North Carolina. Three years later, Self-Help founded the Center for Responsible Lending to combat this problem on a national scale. After 35 years, Self-Help is still dedicated to providing affordable banking services to those who need it most and, through its two credit unions, currently serves over 130,000 people across the US.

To learn more, visit self-help.org.

The Financial Capability Innovation Funds

The Financial Capability Innovation Funds were supported by a collaborative of funders led by the Citi Foundation and also including Bank of America, the Capital One Foundation, Charles Schwab Bank, Charles Schwab Foundation, Experian, Morgan Stanley, NYSE Euronext Foundation, US Bank, and Visa.

From 2010-2012, the Center for Financial Services Innovation selected thirteen cutting-edge projects to receive $4 million total in grant support, from among 373 applications totaling more than $107 million in requests.

To learn more, visit cfsinnovation.com/Financial-Capability-Innovation-Funds.

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