

# Filene Research Institute

## FINANCIAL EMPOWERMENT INCUBATOR: POTENTIAL FOR SMALL DOLLAR LENDING

Adam Lee, MPA  
Incubator Director

Federal Reserve Bank, National Conference: Exploring Financial Resiliency and Mobility  
Kansas City, MO • September 2016

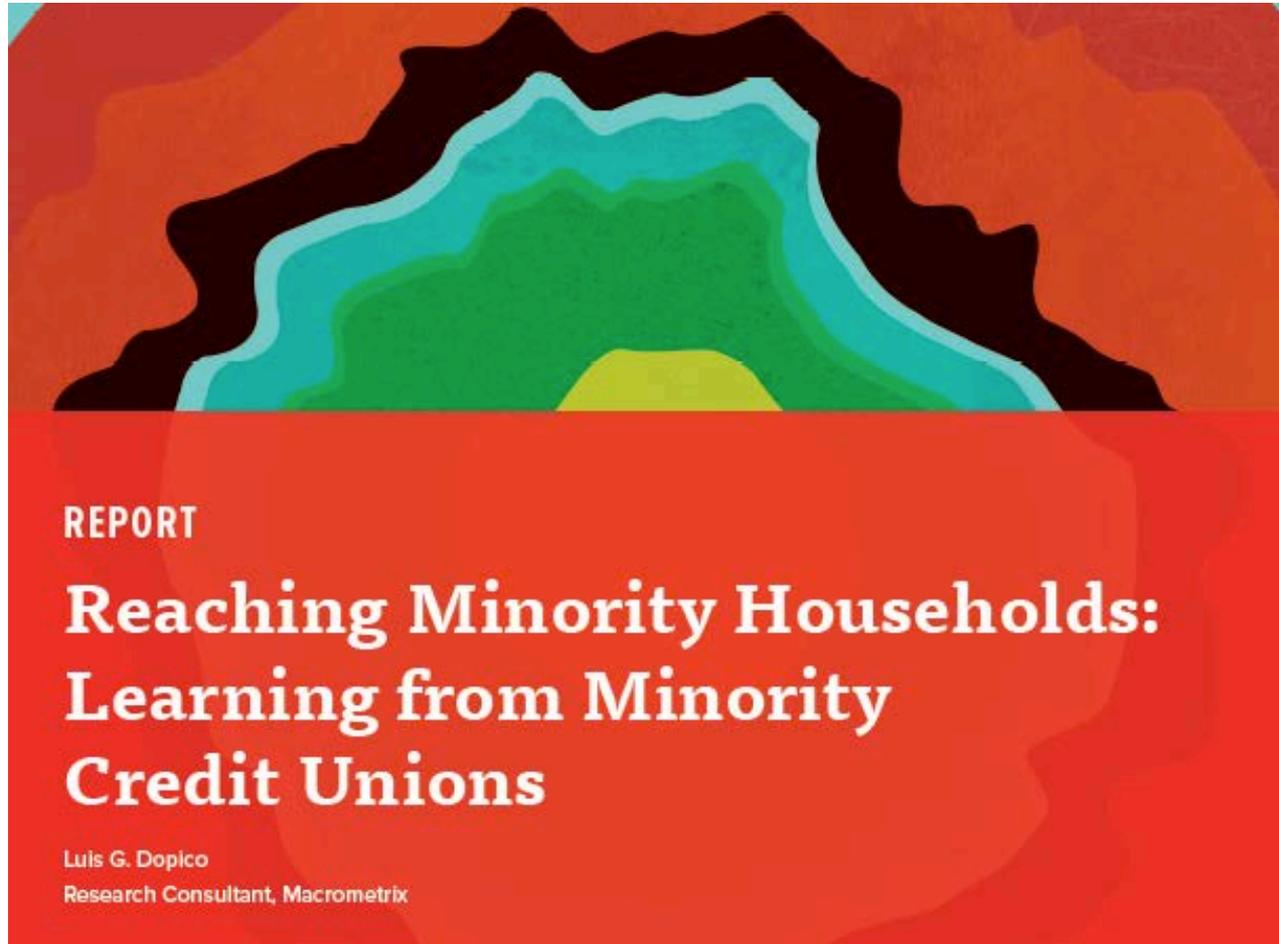
FILENE RESEARCH INSTITUTE

# RESEARCH & APPLIED INNOVATION

**WE ARE A**  
**NONPROFIT \* INDEPENDENT**  
**THINK & DO TANK**

AVAILABLE ON FILENE.ORG

# THE RESEARCH AND THE NEED



# MINORITY COMMUNITIES CAN BENEFIT FROM FAIRLY PRICED LOANS

Minorities represent

# 30%

of U.S. households



*Minority communities are twice as likely to have a concentration of payday loan stores.*

## BUT HOLD ONLY



Source: US Census Bureau (2013)

Source: CFPB (2016)

# LASTING CHANGE FOR CONSUMERS

Filene's Research has identified that lasting change for consumers comes through:

→ Regulatory change

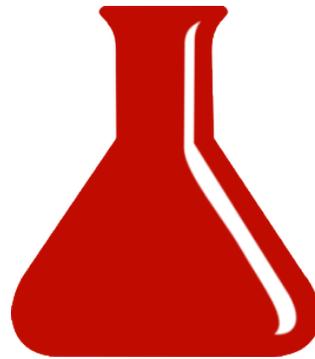
→ Consumer financial literacy and education



→ Innovative, fairly priced programs that meet consumer needs

CREATING ACCESS TO INNOVATE PRODUCTS

# FINANCIAL EMPOWERMENT INCUBATOR



**Seek**

**Test**

**Share**

# BORROW AND SAVE

 *BnS is a small dollar, short term loan with a 25-50% built in savings component*

## What did we learn?

- Consumers and credit unions liked it
- 9 of 12 CUs planned to continue
- Ability to pay test showed promise
- ROA varied, 7% to -13%, high volumes needed for sustainability

*Average Borrower  
Credit Score: 562*

*Average Loan:  
\$947*

# EMPLOYER SPONSORED SMALL DOLLAR LOAN

 *ESSDL is a partnership with CUs and employers to issue small dollar, short term loans with a savings component*

## What did we learn?

- 12 of 13 CUs planned to continue
- ROA varied widely, 5% to -147%, high volumes needed for sustainability
- Scalability challenge, implementation and partnering with employers

*Average Borrower  
Credit Score: 560*

*Average Loan:  
\$1,173*

# PAYDAY PAYOFF AND QCASH (TESTING)

## Payday Payoff Installment Loans

- Consolidate up to \$2,500 high cost debt into affordable installment loan
- 11,700 loans issued, net charge off rates less than 6%



## QCash Quick Small Dollar Loans

- Omni-channel, instant funding in less than 60 seconds
- In 2015, \$28M lent, saving members \$3.7M, with a net margin of 11%

# BREAKING PAYDAY ALT. MYTHS

## #1

There are no viable payday alternatives



## #2

Payday alternatives are not financially sustainable



## #3

One size (of payday alternative) fits all

WHAT WE HAVE LEARNED

## TAKE ACTION, CREATE CHANGE

The need is great; improving access to short term credit is possible, makes an impact, & requires action

- There are viable alternatives to payday lending
- Credit Unions and Banks have a role to play
- Testing and information sharing is critical
- Educate, behavioral change is hard
- Change is inevitable: don't be paralyzed to meet consumer need that exists now





**Thank you!**  

---

**adaml@filene.org**