



September 10, 2020

Mia Sowell
Acting Program Manager
Small Dollar Loan Program
CDFI Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

via electronic submission at cdfihelp@cdfi.treas.gov

Re: Comments on the CDFI Fund's Small Dollar Loan Program Request for Information, 85 FR 45298 Doc #2020-16213

Dear Ms. Sowell:

Please find below the comments of the Hope Enterprise Corporation/Hope Credit Union (HOPE), the African American Credit Union Coalition (AACUC), and Inclusiv in response to the CDFI Fund Request for Information on the CDFI Fund's Small Dollar Loan Program.

HOPE (Hope Enterprise Corporation, Hope Credit Union and Hope Policy Institute) was established to ensure that all people regardless of where they live, their gender, race or place of birth have the opportunity to support their families and realize the American Dream. Since 1994, HOPE has generated over \$2.5 billion in financing that has benefitted more than 1.5 million people throughout Alabama, Arkansas, Louisiana, Mississippi and Tennessee. HOPE is a Black-led, Black-owned Community Development Financial Institution (CDFI).

Sixty-nine percent (69%) of HOPE members have household incomes below \$45,000 and eight out of 10 members are people of color. Our branches are located in areas often left behind from other types of investment, with 86% in counties where the majority of the residents are Black. One-third of our branches are located in counties that have been in deep poverty for more than three decades, and three branches are in small Delta towns with no other depository institution. Further, one third of Hope Credit Union members were unbanked prior to joining HOPE.

The African American Credit Union Coalition (AACUC) is a 501(c)3 non-profit organization created in 1999 to increase the strength of the global credit union community through professional development and advocacy. It has become an all-encompassing organization for individuals (professional and volunteers) in Credit Unions, Insurance, Regulators, Consultants and other entities in the credit union industry. AACUC is considered a leader in the credit union industry adopting the 8th Cooperative Principle and providing knowledge of how credit unions can become more diverse and inclusive.

Inclusiv is a certified CDFI and national network of more than 300 community development credit unions (CDCUs) that serve 10 million people in low-income communities and communities of color. Inclusiv promotes financial inclusion, responsible lending and wealth building in historically excluded communities through capital, capacity building and targeted programming. Inclusiv Network members are dedicated to delivering the financial products and services tailored to the specific needs of underserved communities, are deeply embedded in local community networks, and are known as trusted partners to low-income people and nonprofit service organizations.

We appreciate the opportunity to comment on this program to ensure that small dollar loans made through it are ones that will strengthen, rather than weaken, people's financial security. These comments will focus on two areas of the request for information, including Section III: Small Dollar Loan Characteristics, Policies, and Practices and Section VIII: Performance Goals, Compliance, and Reporting.

Section III: Small Dollar Loan Characteristics

The Request for Information states that, "This funding is intended to help Certified CDFIs address the issues of expanding consumer access to mainstream financial institutions and providing alternatives to high cost small dollar loans. It is also intended to help unbanked and underbanked populations build credit, access affordable capital, and allow greater access into the mainstream financial system."¹ The extent to which these aims are achieved with this program will depend primarily on how the loans are structured as is contemplated in this section. To that end, the small dollar loans made possible through this program should be required to have affordable terms that ensure the loans can be repaid without defaulting or repeat re-borrowing. The loan characteristics, outlined in statute, including the \$2,500 size and requirements for repayment installments without prepayment penalty are a good start, but without an interest rate cap, do not go far enough to ensure the loans under this program are safe and affordable.

We raise the concern about interest rate limits for loans supported by the loan loss reserve fund because the damage of high-cost loans is already too prevalent in the Deep South. In four of the five Deep South states, high-cost lenders, such as payday and car title lenders, are saturating our communities. For example, in 2017 in Tennessee, there were over 1,200 payday loan storefronts, more than McDonald's and Walmart locations combined.² In terms of fees drained by payday and car title lenders, Mississippi, Alabama, Louisiana, and Tennessee are in the top ten states, and **high-cost lenders drain more than \$1.6 billion every year from low-income borrowers in these four states.**³ We hear first-hand from our members and people in the communities where our branches are located about the troubles caused by unaffordable high-cost loans, such as difficulty paying other bills, the psychological stress caused by unaffordable debt, and the subsequent inability to build wealth in the future. Beyond HOPE members, research shows that high-cost loans, even when structured with longer-terms and over installments, can have devastating effects on people's financial situation.⁴

In light of the wealth drain and other harms our members experienced due to these high-cost small dollar loans, Hope Credit Union launched the Borrow and Save consumer loan product in 2014. The product seeks to build, or improve, the credit history of credit union members with a small loan while also establishing emergency savings to help members weather unplanned expenses in the future.

HOPE's Borrow and Save product is a small dollar loan that is supplemented with a savings account equal to half the amount of the loan principal. There are two loan options: \$500 with a 6-month repayment term and \$1,000 with a 12-month repayment term. The interest rate varies based on a consumer's credit risk, but is capped at 18% APR. In addition, Hope charges a \$10 application fee for every applicant. Since the introduction of HOPE's Borrow and Save loan product in 2014, approximately 2,744 loans have been issued to members. For many the product served as a "gateway" toward other financial products by 2018, 60% of Borrow and Save borrowers had also opened a checking account at HOPE and almost half were able to qualify for another type of consumer loan.

HOPE also has other small dollar loan products, including Hope Signature Loans, Power of Hope Loans, and cash advances from Hope credit cards. Hope Signature Loans are a long-standing Hope product that are underwritten to make sure they are affordable in light of a borrower's income and expenses and provide unsecured loans for a loan size of up to 10% of a borrower's gross income. APRs vary from 5-18% and for a term of up to 48 months. The Power of Hope loans are 12-month, \$1,000 loans at a low 2% rate for the purposes of helping people with unexpected expenses or temporary loss of income due to COVID-19. Repayment is not required until after the first 90 days after the funds are made available to the borrower.

While we recommend an 18% APR rate cap or, lower if required by state law, we would be opposed to any effort that would allow a Small Dollar Loan Program to include loans with a fee-inclusive APR over 36%, the maximum rate allowed by U.S. law for active duty Military personnel.⁵

Section VIII: Reporting Requirements

Section VIII of the Request for Information seeks input on the period of performance, performance goals, and reporting requirements for the CDFI Fund's Small Dollar Loan Program. These factors are important for the success of the program, accountability, and oversight. Reporting requirements should be designed to collect enough data about the program to allow evaluation of the program to be substantive and transparent to the public.

On reporting requirements, the request specifically asks whether tracking the Small Dollar Loan Program at the loan level would be a burden. As a certified CDFI, HOPE already reports loan-level data to the CDFI Fund for over 1,000 loan transactions annually. Providing data at the loan level holds HOPE and other CDFIs accountable for serving the needs of our communities. HOPE does not find this level of reporting to be burdensome given the benefits of collecting this data to the CDFI industry as a whole. These benefits include, making sure resources are getting to the areas that are most in need, including CDFI investment areas, persistent poverty areas, and areas where a majority of residents are people of color. All of these may be assessed by reporting location data, including census tract, at the loan level.

An additional reporting requirement that should be included for lenders participating in this program, is reporting on loan performance, repeat reborrowing, delinquencies, defaults, charge-offs, and collections. These data should be reported in terms of the numbers of loans and number of borrowers.

HOPE, AACUC, and Inclusiv appreciate the ability to provide input on the implementation of the Small Dollar Loan Program. Please feel free to contact us with any questions.

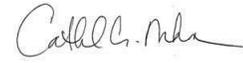
Sincerely,



William Bynum
Chief Executive Officer
Hope Enterprise Corporation
Hope Credit Union



Renée Sattiewhite
President/CEO
African-American Credit Union Coalition



Cathie Mahon
President/CEO
Inclusiv

¹ Federal Register, Notice by the CDFI Fund on the Small Dollar Loan Fund 85 FR 45298, July 27, 2020

² Metro Ideas Project, “Fighting Predatory Lending in Tennessee,” 2017,
<https://metroideas.org/projects/fightingpredatory-lending-in-tennessee/>

³ Center for Responsible Lending, “Payday and Car-Title Lenders Drain Nearly \$8 Billion in Fees Every Year,” April 2019, <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-statebystatefee-drain-apr2019.pdf>

⁴ Hope Policy Institute, Comments to the Office of the Comptroller of the Currency, Sept. 2, 2020
<http://hopepolicy.org/blog/hope-submits-comments-opposing-occ-true-lender>

⁵ Military Lending Act of 2006 <https://www.militaryonesource.mil/financial-legal/personal-finance/borrowing/expanded-credit-protections-for-service-members-and-their-families>