Community Development Bankers Association
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January 29, 2015

Ms. Annie Donovan
Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Mr. Bob Ibanez
Program Manager, Bank Enterprise Award Program
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Dear Director Donovan and Mr. Ibanez:

On behalf of the members of the Community Development Bankers Association (CDBA), we are writing in response to the Notice for Public Comment published on December 23, 2014 by the Community Development Financial Institutions (CDFI) Fund. The Notice seeks comments on the 2015 Bank Enterprise Award Application.

CDFI Bank Sector:

Today there are 109 CDFI certified banks and thrifts. These mission-focused financial institutions are a specialized niche within the banking industry, representing only 1.65% of the 6,589 banks in the nation. CDFI banks, however, are very important to the CDFI sector. While certified banks and their holding companies represent only 12% and 6%, respectively, of all 933 certified CDFIs, by asset size they account for more than 50% of the total assets of the entire CDFI industry.

CDBA is the national trade association of the community development banking sector, the voice and champion of CDFI banks and thrifts. CDBA represents Federal and State chartered banks, thrifts, and their holding companies that are certified by the CDFI Fund. CDBA members serve our nation's most distressed and credit-starved communities and are engines of economic inclusion throughout the United States.

BEA Application:

We applaud the CDFI Fund for its efforts to continuously improve its programs and application materials and to actively engage the CDFI industry for feedback. We appreciate the agency's efforts to streamline and reduce the burden on applicants.

The changes to the draft application are modest; thus, we will focus our comments on only the most significant changes.

A. Worksheet 3:

Worksheet 3 is the only new data collection requirement in the draft application. We understand that Worksheet 3 was mandated by the Office of Management and Budget for all Federal grant programs. This new form requires applicants to indicate how they intend to use any BEA proceeds if awarded. Given the uncertainty of receiving a BEA grant and the amount of such award, we urge the CDFI Fund to maximize flexibility in allowing awardees to amend their use of funds reported in Worksheet 3 after receiving notification of an award. If Worksheet 3 is treated as an estimate only -- with no penalties or restrictions on amending its post-award notice -- the additional reporting burden of Worksheet 3 is minimal.

B. Baseline Period and Assessment Period Amounts

An issue of great concern in the proposed 2015 application is the amended reporting of Baseline Period Amounts and Assessment Period Amounts. The draft 2015 application states that applicants that applied in 2014:

> *"[M]ust ensure that the Baseline Period amounts in the 2015 BEA Application are identical to the FY 2014 BEA Application Assessment Period amounts reported for any activity reported in both the FY 2014 and FY 2015 BEA Program applications."*

We understand the rationale for this change is to provide a transition between the previous 2000 Census Data and the 2006-2010 American Community Survey for determining Distressed Community census tract eligibility. On the surface, this appears to be a fairly technical change. On the ground, however, this amendment will likely create significant unintended consequences and potential inequities across the applicant pool.

The great strength of the BEA Program is that it provides incentives for banks to channel resources to the most distressed census tracts -- while enabling banks to be flexible and respond to market demand. No market (or census tract) has consistent demand for credit or services every year and most BEA eligible Distressed Communities are difficult to serve even when demand exists. Providing a flexible incentive for banks to reach out to as many eligible census tracts as possible is key to achieving the goals of the program. By requiring use of the <u>identical</u> set of numbers, the amendment appears to lock banks into only reporting activities in the new 2015 Assessment Period for those census tracts designated in the prior application. If this is the case, banks that have expanded their service to new or different census tracts would be penalized; they would be prohibited from getting consideration on their new activities if a census tract(s) was not included in the prior application. We ask that the CDFI Fund address any ambiguities and continue to allow the banks full consideration under the BEA Program for such activities.

A significant complicating factor is that eligibility of census tracts can change from one period to another. If a census tract was eligible in one year, but updated government data makes it ineligible in the next year, a BEA applicant should not be penalized. Unemployment rates, in particular, can fluctuate significantly within a short period of time; whereas poverty rates or median income data tends to be more stable and a more reliable long term indicator of distress. Requiring an applicant to report activity in a tract that is eligible in a Baseline Period, but ineligible in the Assessment Period is comparing apples to oranges. If a census tract loses eligibility between two periods, any Eligible Activities should be deducted from both the Baseline Period and the Assessment Period.

The proposed amendment creates significant inequities between banks that applied in FY 2014 and those that did not. FY 2014 applicants will be locked into reporting only activities in census tracts reported in the prior application. By contrast, non-FY 2014 applicants can report activity in any BEA eligible census tract. All applicants should be required to play by the same set of rules.

Finally, lack of advance notice of such a significant change is highly problematic. Many CDFI banks use the BEA Program proactively each year as a planning tool. Banks will identify eligible census tracts at the beginning of the year and do targeted outreach. This practice accomplishes a key goal of the program by encouraging banks to seek out and serve the most distressed communities.

Over the course of 2014, CDFI banks have proactively provided credit and services in BEA eligible census tracts in anticipation of reporting those activities in the 2015 application. In good faith, these banks have spent time and money engaging in activities, compiling documentation, and preparing for the upcoming round. It would be fundamentally unfair for the CDFI Fund to prohibit CDFI bank activities in the 2015 funding round after they have already completed activities per the requirements of the published regulations and all other current BEA Program guidance issued by the CDFI Fund. If the CDFI Fund wishes to explore ways to amend how Distressed Communities are designated from one funding round to the next, the CDFI banks would sincerely appreciate the opportunity to provide ideas and engage in a dialogue prior to implementation so that they can make informed business decisions ahead of time.

Recommendation: In the interests of fairness, CDBA strongly urges the CDFI Fund to refrain from implementing the proposed amendment to report of Baseline Period amounts and Assessment Period amounts for FY 2014 applicants.

C. Small Dollar Consumer Loans:

CDBA wishes to thank the CDFI Fund for accepting the recommendation made in its December 30, 2013 public comment letter that certain types of small dollar loans be included as BEA Eligible Activities. As noted in our letter, numerous CDFI banks have developed and/or are experimenting with small dollar consumer loan programs that are directly tied to enhancing financial literacy, repairing credit, and/or getting individuals out of a negative payday lending cycle. These small dollar loan programs create significant social impact, yet they are expensive to operate. Making this activity a BEA Eligible Activity provides resources that can help banks provide these important products into the future.

Given the modest incomes of many CDFI bank customers, many are vulnerable to economic uncertainty -- such as the loss of a job. Further, many low and moderate income households are un- or underbanked. Access to the fast cash of payday or other predatory lenders in an emergency can further undermine the economic stability of vulnerable households. Such circumstances can result in a customer never building a credit history, having a blemished credit record, or being caught in a downward economic spiral of mounting payday debt. Building a credit history – or improving a weak credit score – is an important step in securing access to credit.

The CDFI Fund is seeking guidance to determine the appropriate definition of a Small Dollar Consumer Loan under the BEA Program. Many CDFI banks have developed products to help customers build credit and/or provide an alternative for payday and other predatory products. While many of these programs share similar features, each has unique attributes that are tailored to the people and communities they serve.

To give the CDFI Fund guidance on the Small Dollar Consumer Loan, CDBA offers the following examples of products currently offered by its members. Given the significant challenges faced by CDFI banks in combating the negative effects of predatory lenders on individuals and communities, it is important that the BEA Program definition allow for sufficient flexibility for banks to experiment and develop products tailored to the needs of their local markets.

ABC Bank, which serves the highly distressed Austin Neighborhood of Chicago, offers its Ready Cash loan as a payday alternative. This product is a closed end installment loan of $300-1,000 for a term of 12 months or less with an 11.99% interest rate. The bank does not use credit scores, but requires borrowers to have a debt-to-income ratio of 55% or less. Verification of income is required with a paycheck stub or other proof of income (e.g. SSI payments). Structured to be quick and simple to obtain -- like a payday loan – this product is more affordable and without hidden fees or roll overs. To date, ten borrowers have accessed the Ready Cash loan and two loans have been written off. While not positioned as a payday alternative, the bank also offers a line of credit product that starts at $1,000 with a 9.99% interest rate that can be used for household expenses that has proven popular with its customers.

BankPlus, based in rural Belzoni MS, has expanded to 59 branches across the state. BankPlus was one of the original 28 bank participants in the FDIC's landmark 2008 Small Dollar Loan Pilot Program. The bank's CreditPlus product was launched in 2008 as an alternative to high cost payday loans and check cashing services. To obtain a loan, customers must participate in a 3 hour financial literacy program. Borrowers with a credit score below 550 can qualify for a $500 loan. Credit scores of 550 or above qualify for a $1,000 loan. Half of the loan proceeds are deposited into a savings account that serves as collateral. The remainder is deposited into a checking account for immediate use. The interest rate is 5% fixed. No fees are charged.

From 2008 thru 2014, BankPlus originated 19,400 CreditPlus loans totaling $14.8 million. Among 18,803 loans recently analyzed, 10,170 were to customers with only one CreditPlus loan while 8,600 were to customers with more than one loan. Among the latter group of customers, more than 51% increased their credit scores by an average of 47 points between the two loans. Nearly 16% of all CreditPlus participants had no credit score when they entered the program – meaning the program is reaching a key un- or underbanked market segment and enabling them to establish a credit history. Further, nearly 500 customers had a credit score of 620 or higher upon applying for their second CreditPlus loan. This score is a critical threshold required by the secondary market for those seeking mortgage financing to purchase a home. Approximately 32% decreased their score between the two loans and 1% reported no change in credit score. To date, approximately one-fourth of CreditPlus loans have been charged off which translates into 8% of total loan dollars (after capturing savings accounts held as collateral, payments received and/or recoveries).

Building on the success of this product, the CreditPlus Auto loan was created for customers completing two CreditPlus loans. The CreditPlus Auto product has the same underwriting terms as other BankPlus Auto loans, except that the interest rate is capped at 7.5% and customers are given 60 days before the first payment is due. Launched in late 2014, 14 loans totaling $192,461.30 (average $13,747) have been made. Borrower average credit score for these loans is 613 and the average interest rate is 7.018%.

Beneficial State Bank: Teaming with LendUp, Beneficial State Bank of Oakland, CA recently launched the Personal Builder Loan, an online product designed to meet customers' short term cash needs while helping them build credit. Positioned to provide an alternative to and compete with predatory online payday and cash advance sites, loans of $750 and $1,000 are available for a term of 9-12 months at a 25-29% APR interest rate (by comparison 1 million Californians take out payday loans each year and pay $450 million in loan fees with an average APR of 459%). The product does not allow rollovers and all fees are fully and clearly disclosed at the time of application. As a borrower successfully repays, their credit score is reported to the major credit bureaus. If approved, a $35 application fee is charged to borrowers. Loan decisions are made immediately, with approvals conditional upon income verification completed in the following 1-3 days. The design of the Personal Builder Program is informed by a similar pilot Beneficial State Bank ran from 2011-2013, gathering data across 1163 loans and over $1.1 million loaned.

Under the Personal Builder Loan Program, LendUp is responsible for loan servicing and providing the on-line platform infrastructure. The bank provides capital for its customers' loans, has designed the underwriting criteria, and holds the portfolio of loans. Beneficial's customers have immediate access to the full $750-$1,000 in loans, whereas the LendUp ladder typically begins at $150 and only after successful repayment of 10 loans would a Lend Up borrower have access to $1,000. This program was launched in January 2015. Thus, no information is available yet on borrowers served or the performance of the program.

First Eagle Bank's Credit Builder Program is a combination low-interest loan and savings program that helps a customer establish a good payment history, an important step in building a higher credit score. Operating in the City of Chicago and surrounding areas, First Eagle serves neighborhoods that have been hit hard by the recession. The Bank has always taken an active role in its community and is committed to providing credit, capital, and financial services to underserved communities.

Customers can borrow from $200 to $2,500 for 9, 12 or 24 months at a 5% APR. No fees are charged and no credit score is needed to participate. The money borrowed is placed in a Savings Account at the bank that earns interest. When the customer makes a final payment, they can withdraw the money or leave it invested. By the end of the Credit Builder loan, customers typically see an improved credit score (based on payment history) and they have a jump start on savings. Launched in 2012, the Credit Builder program has 60 loans outstanding totaling $59,200 at the end of 2014.

<u>Guaranty Bank</u> has developed two small dollar loan products to help customers build credit history and access credit in the heart of the rural Mississippi Delta. Both programs require completion of a series of financial literacy classes.

> *New Horizon Saving Deposit Loan* is a credit builder product. Loans are available from $500 to $2,000 with an interest rate of 6% for a term of 12-24 months. A maximum debt-to-income ratio of 45% is required. Funds borrowed are deposited in the customer's bank account and held as collateral. If a customer does not have a bank account, a New Horizon account is created with no minimum balance required. When a customer makes a final loan payment, they can withdraw the funds. Over the term of the loan they are building their credit score and history.

> *New Horizon Small Dollar Loan* is available to meet immediate household needs. Loans are available from $500 to $2,000 with an interest rate of 13% for a term of 9-24 months. A maximum debt-to-income ratio of 40% is required. A minimum credit score of 600 is required for loans above $1,000. Customers without a credit score may be able to participate if all other program criteria are met. Half of borrowed funds are deposited in the customer's bank account as collateral and half is available for immediate use.

Over the past two years, 197 loans totaling $224,019 have been originated, with a charge off rate of 1.64%. A total of 927 individuals have participated in financial literacy classes and 703 (79%) completed the 5-week course. Of this group, 197 customers took out a New Horizon loan.

<u>Spring Bank</u>: Based in Harlem and the South Bronx in New York City, Spring Bank was founded with a mission of providing financial services that were a responsive alternative to payday lenders and check cashing services. In 2014, Spring Bank launched two products focused as a payday alternative and to promote credit building.

> *The Borrow-And-Save Loan* is available for $500 to $1,500 at an interest rate of 16% for a term of 6-12 months. A $20 application fee is charged to all applicants.

At origination, loan proceeds are placed in a high yield savings account, of which 75% of the loan is available for immediate use while 25% is held in the savings account and available, with accumulated interest, when the loan is paid. The Borrow-and-Save loan is designed to provide affordable credit and encourage a regular savings plan. It also offers a financial alternative to the high-interest loans offered by non-bank providers. There is no minimum required credit score. Loans are underwritten on the ability to pay. Over the term of the loan, borrowers are establishing or improving their credit score and developing savings.

The Credit Builder Loan provides a way for customers to improve or establish a credit score. Customers can borrow from $500 to $1,500 at an interest rate of 8%. A $20 application fee is charged to all applicants. There is no minimum required credit score. The money borrowed is placed in a savings account or CD at the bank. Over the term of the loan, the borrower makes monthly payments of principal and interest. At the end of the loan, all funds can be withdrawn. Customers should establish or see an improved credit score.

To date, the bank has served 70 applicants, including 44 that received loans. The bank has originated 27 Borrow and Save loans, 9 Credit Builder loans, and 8 Unsecured Consumer loans (these borrowers applied to Borrower and Save, but were eligible for a loan at a lower rate based on good credit scores). The Bank has referred an additional 26 customers to GreenPath, a non-profit credit counseling partner. The average annual income of these customers is $23,000. Given the early stage of these products, no data on credit score improvements are available. To date, only one loan of $600 has been written off. All other loans are performing.

State Bank & Trust of Greenwood Mississippi: Modeled on the FDIC's small dollar loan program guidelines, State Bank & Trust (SB&T) small-dollar loan program provides loans up to $2,500 with an interest rate of 7.5% to 9.0% depending upon the Fair Isaac industry-developed score which approximately equates to a 600 credit bureau score. The credit score for the small dollar loan program is 10 points less than the other consumer product score requirements. The average credit score for these loans over the last two years was 666. The terms range from 12-24 months. Launched in 2009, the program has originated 1,323 loans totaling $3,179,872. A maximum debt-to-income ratio of 40% is required. For loans under $2,000 no fee is charged unless required by State law.

SB&T partnered with several other Mississippi based CDFIs and non-profits in 2014 to provide a credit building product – the SCORE product (Small-dollar, Credit, Overhaul, Repair, & Elevate). The credit score minimum for this product is lower than the small dollar loan program. This product is only offered after successful completion of a 12 hour financial literacy training program held over a five week period. Half of the funds borrowed are deposited into the customer's savings account and held as collateral. The borrower is also required to open a checking account for automatic draft of the loan payment. If the borrower does not qualify for a checking account, a special checking account is opened with a minimum required opening deposit of $25 and a low monthly service charge of $5 with no minimum balance requirement. A borrower with a credit score of 540-599 is eligible for up to a $1,000 loan. With a credit score of 600 or more, a borrower can receive up to a $2,000 loan. A maximum debt-to-income ratio of 40% is required. No fees are charged with an interest rate of 10%. The program has originated 10 loans totaling $12,000 with an average credit score of 569. The median income of all loan applicants for this product is $21,268. Since the bank began offering the product in July 2014, no loans have been past due.

In 2014, SB&T provided $10,000 towards the required financial education classes. The banks involved with the product plan to expand this program throughout the State of Mississippi and are currently contacting other community banks within the State to align additional partners.

Sunrise Banks launched True Connect in 2014. True Connect is a small dollar installment loan targeted to low and moderate income individuals. True Connect is unique in that it is offered through an employer and works in tandem with a company's payroll system. True Connect is designed as a 12 month installment loan with payments of principal and interest and no fees. An individual can be approved for a loan amount of $1,000, $1,500 or $2,000, capped at 8% of their wages to avoid excessive borrowing. True Connect is offered at 24.99% APR.

To qualify for the loan, an individual must be employed at their current employer for at least 6 months. As the product does not require a credit check, it is available to individuals with blemished credit records or individuals with no credit record. Successful repayments of the True Connect loan will help build the consumer's credit score. Sunrise offers financial literacy training through Financial Choice, a counseling and budget program available to all Sunrise Bank customers. Participation in the training program is not a requirement for a True Connect loan.

Sunrise initially tested the product with its own employees. The product has been marketed to a variety of small business, nonprofits, and public sector institutions in order to increase access to responsible products and services that help improve the financial health of the underserved. For example, a small business that is offering True Connect to its 50 employees has had 8 employees (16%) use the program – of which 87.5% of these loans are to those considered low-income. To date, 253 borrowers have obtained loans totaling $333,000. While the product is still new, initial estimates of losses are 3%.

Southern Bancorp is on a mission to ensure access to affordable capital in rural Arkansas and the Mississippi Delta. Southern offers an array of small consumer loans in markets that often lack access to traditional financial products.

Collectively, Southern's 3,740 small loan customers borrowed an average amount of $3,044 at an average interest rate of less than 7% (2014). These borrowers had an annual median income of $38,000. Nearly 90% of these small loans were consumer loans, and of those about 13% were auto loans. Southern's small loans had a 1.5%

charge-off rate and a 1.9% default rate. Southern's minimum credit score is 600 and borrower's debt-to-income ratio should not exceed 40%, but exceptions are permitted. Interest rates are set based on the borrowers' risk profile and loan collateral. Southern couples its loans with one-on-one financial literacy counseling. The details of the bank's small dollar loan programs are outlined below:

> *Credit Builder CD Loan* assists customers build or repair credit. Loans are available from $500 to $1,000 at an interest rate of 5.7% for 12 months, of which half is deposited into an interest-bearing CD. Borrowers make payments, which are reported to the major credit bureaus until the loan is paid-off. Once the loan is paid off, the customer not only has a higher credit score, but has established a savings account. Southern has made 340 Credit Builder loans. Working with Southern's financial counselors, borrowers have increased credit scores by an average of 59 points.
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> *Teacher Certification Loan* product was launched to retain high quality classroom teachers and boost teachers' professional achievements. Loans of up to $2,500 at 5% for 5 months are available to cover costs associated with National Board Certification (the highest standard for teachers). With certification, teachers with modest income can improve their average salaries by 16%. To date, Southern has made 12 Teacher Certification Loans totaling $30,960.
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> *Debt Consolidation Loans* are available to help customers escape from high cost lending traps and credit card debt. In 2014, Southern served 166 people with debt consolation loans averaging $4,100 and 88 loans for medical expenses which averaged $3,300. The average interest rate on this product is 7.8% with an average term of 18 months.
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> *Auto Loans* are available as an alternative to high priced auto dealer financing that often charge rates comparable to payday lenders, as compared to an average interest rate of 8.6% offered by the bank. Southern's 234 vehicle loans averaged just over $5,000 each (2014) for an average term of 24 months.
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> *Fresh Start Loan* assists customers with overdrawn checking accounts by helping them gradually repay the overdrawn amount, and by returning their account to current status. Southern made nearly 300 Fresh Start loans in 2014 at an average rate of 0% for a term of 9 months.

United Bank of Atmore, Alabama: Serving southwest Alabama and northwest Florida, the rural economy served by United Bank is based on agriculture and home grown businesses and has a median income in 2013 of 58% of the Alabama statewide median and 48% of the United States median income. The bank launched its Credit Advantage Small Dollar Loan Program in May 2014 to encourage savings, educate customers with modest incomes about how to improve their personal finances, and serve as an alternative to high cost non-bank providers.

Credit Advantage loans are available for amounts of $500 to $2,000, of which half is placed in a CD as collateral. The CD is held as collateral for the term of the loan – but a hardship withdrawal waiver will be considered on a case-by-case basis for emergencies. Terms are available for 12, 18 and 24 months at a 10% interest rate. Fees are not charged on the account. The account is available for customers with credit scores up to 625, a maximum debt-to-income ratio of 47%. Customers with no credit score may qualify for up to $1,000. To receive a second loan, customers must complete a financial education course conducted by Consumer Credit Counseling Services of Mobile. Customers may receive up to 3 Credit Advantage Loans.

The bank has originated 59 Credit Advantage loans totaling $80,720. The average income of customers is $28,310 and average household size is 2.55 people. Incomes range from $8,000-$65,000. Given the early stage of the program, no data on credit score improvements are available. To date, 8 of the 59 loans have been charged off, resulting in a loss rate of 9.29%.

Urban Partnership Bank, which serves distressed communities in Chicago and Detroit, offers two secured Certificate of Deposit products that allow customers to access "next day" funds – a Consumer Installment Loan and a line of credit.

> *UPB Consumer Installment* loan is available in amounts of $1,000 to $50,000 at an interest rate of 3.0 – 3.75% for up to 5 years. Payments are fully amortizing. All borrowed funds are deposited in the customer's bank account as collateral and is available for immediate use.
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> *UPB CD Secured Line of Credit* is available in amounts of $1,000 to $250,000 (depending on credit limit) at a variable interest rate with interest only payments. All borrowed funds are deposited in the customer's bank account as collateral and is available for immediate use. Interest rates are index based on the prime rate and capped at prime. A customer can pay down the principal and draw down new funds throughout the term of the loan.

No credit scores are required and no fees are charged for either product. Financial literacy workshops are available to all customers, but not required. To date, the two products have served 16 customers. All of the customers have borrowed $30,000 or less. Fifteen customers have borrowed less than $12,000 (5 below $2,500, 1 less than $5,000, and 5 at or below $10,000). All loans are performing.

Recommendations:

- Flexibility: As the case studies above demonstrate, a significant number of CDFI banks have designed and are testing a wide variety of Small Dollar Consumer Loan products. All of the banks share the same goal of providing a consumer-friendly and responsible alternative to payday, check cashing and other predatory lending products. Each, however, has designed unique products that are tailored to the markets they work in or customers they serve. Most of these products are new -- with the majority launched within the past two years. Thus, the outcomes are still too early to fully evaluate. We recommend that the definition of a Small Dollar Consumer Loan be sufficiently flexible to allow CDFI banks to design programs to meet the wide variety needs of consumers in different markets.

- Dollar Limits: While most of the CDFI bank Small Dollar Consumer Loans have loan amounts capped at $2,500, others have higher limits. In the interest of promoting innovation and experimentation at this early stage of product development, we recommend that the CDFI not cap eligible Small Dollar Consumer Loans at $2,500. Rather, we suggest the higher ceiling of $5,000 which is under consideration by the CDFI Fund. Given the small dollar among of this type of loan product relative to the expense of product delivery, we recommend the CDFI Fund give consideration to increased weighting for any priority factor that is assigned to Small Dollar Consumer Loans.

- Financial Literacy: We recommend that Community Services used to promote financial literacy and which is provided directly in conjunction with delivery of Small Dollar Consumer Loans be reported and ranked as a Distressed Community activity (versus a Service Activity). The rationale for this recommendation is that such services are often an integral component of the loan product without which it reduces the effectiveness of the loan product. The services component is often the most expensive part of making a loan and cannot be recovered from any interest or fees (if any) generated by the product. Helping banks recover a portion of these expenses, will encourage more institutions to offer similar products.

- Auto Loans/Auto Title Loans: A growing area of concern among many CDFI banks are the growing predatory lending practices of auto dealers and title lenders in their communities. Like other forms of predatory lending, consumers with modest incomes are most likely to be targeted for subprime auto and auto title lending. This issue is particularly important in rural economies whereby it is critically important for residents to have a car to travel to work because public transportation systems are inadequate or non-existent.

  Subprime auto financing is growing rapidly. Experian Automotive reports that outstanding auto loan balances reached a record breaking $870 million in Q3 2014 – an increase of 9.9% and 24.5% over the same period in 2013 and 2012, respectively. Loans below prime credit comprise 38.7% of this market. The Federal Reserve reports that the "dollar value of originations to people with credit score below 660 has roughly doubled since 2009 while originations for other credit score groups increased by only about half. " Analysis conducted by the Center Responsible Lending identified a 70% increase in repossession rates for auto loans between 2013 and 2014.[1] The increases could be traced to loosened underwriting standards, as measured by increased Loan-to-Value rates and

[1] Center for Responsible Lending Issue Brief, "Reckless Driving: Implications of Recent Subprime Auto Finance Growth," January 2015.

longer terms. These features coupled with dealer interest rate mark-ups increased the probability of default.

An auto-title loan is a loan secured by a borrower's title to a vehicle owned outright. A 2013 report[2] by the Consumer Federation of American and the Center for Responsible Lending, identified 7,730 auto-title lenders in 21 states costing borrowers $3.6 billion each year in interest and $1.6 billion in loans. The average auto-title borrower renews their (typically 30 day) loan 8 times, paying $2,142 in interest for $951 in credit. The Annualized Percent Rates (APR) on these loans was 300% and excessive considering that the average Loan-to-Value on the loans analyzed was 26%. Further, 1 in 6 borrowers faced repossession with repossession fees averaging half of the loan balance. Like pay day loans, a typical auto-title loan requires no credit check. Unlike payday loans, borrowers can qualify without a bank account or proof of employment. Like most predatory lending, the combination of features of an auto-title loan places customers at high risk of being trapped into a long-term debt.

While the Consumer Financial Protection Bureau has begun to focus more attention on curbing deceptive and abusive auto and auto-title lending, consumers need to have alternatives. Regulated financial institutions provide a safer, more responsible alternative for these products. Thus, CDBA recommends that the CDFI Fund consider adding such products to BEA Eligible Activities to provide CDFI banks with incentives to offer better choices to consumers in low income communities. If such a product were offered, we recommend that the dollar limit be not less than $10,000 per loan, but not in excess of $20,000.

D. Other Questions

As part of the notice, the CDFI Fund invited comments on the following subjects:

Whether the collection of information is necessary for the proper performance of the functions of the CDFI Fund, including whether the information shall have practical utility.

CDBA Comment: Generally, the collection of data required under the BEA Program is necessary for assessing Eligible Activities under the program.

The accuracy of the CDFI Fund's estimate of the burden of the collection of information.

CDBA Comment: The CDFI Fund's estimate of 15 hours to complete the application is generally correct. The hours to collect the data needed to complete the application, however, are substantially greater and highly variable depending on the scope of activities that an applicant chooses to report (e.g. CDFI Support Activities, Development Services) and volume of those activities. Collection of the data and supporting documentation is often collected by banks throughout the calendar year.

[2] Consumer Federation of America and Center for Responsible Lending, "Driven to Disaster: Car-Title Lending and Its Impact on Consumer," February 28, 2013

Since most CDFI banks report Distressed Community Activities as part of their application, banks estimated time to collect the data and documentation needed to file a BEA application ranges from 20-100 hours (in addition to the 15 hours to complete the application itself) depending on the size of the institution, volume of activities reported, capacity of staff and internal systems, and other factors.

Ways to enhance the quality, utility, and clarity of the information to be collected;

CDBA Comment: The draft FY 2015 BEA Program application and the reporting requirements are substantially the same as the prior application. Thus, we do not believe that it will impose a materially greater burden than the prior application. We do not have any specific recommendations to enhance the quality, utility and clarity of the information to be collected.

Ways to minimize the burden of the collection of information on respondents, including through the use of technology.

Geocoding: The most burdensome aspect of the application process is using the CDFI Fund's online geocoder. Enhancing the technological capacity and speed of the geocoder to allow for faster mass uploading of transaction data would significantly reduce the number of hours needed to prepare an application. Alternatively, if the CDFI Fund could accept comparable data collected through other commercially available geocoding software or technology platforms in lieu of mandating the use of its geocoder, it could significantly reduce time burden and cost for applicants.

Technology Challenges: We wish to note that during the FY 2014 funding round, several banks reported discrepancies between the loans deemed eligible under the BEA regulations and Notice of Funding Availability and what the myCDFI geocoder determined to be qualified. We ask that the CDFI Fund give attention to correcting the geocoder discrepancies in time for the FY 2015 funding round.

Eligible Activity Definitions: In preparation for the FY 2016 funding round, we urge you to revisit the regulations and application to create greater alignment between the definitions of Eligible Activities and reporting categories required for the regulators' Call Reports. Greater alignment would ease information collection. Currently, each loan reported from a bank's core system (which use loan categories defined by the regulatory agencies) must be manually reviewed to reconcile with the BEA Eligible Activity definitions in order to be reported to the CDFI Fund in the correct categories. This process is laborious and time consuming.

Estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Response: As noted above, the start-up and ongoing costs to participate in the BEA Program vary significantly depending on the scope of activities that an applicant chooses to report (e.g. CDFI Support Activities, Development Services), volume of those activities reported, the size of the institution, capacity of internal systems, and other factors. This cost is difficult to estimate.

In closing, we thank the CDFI Fund for the opportunity to comment on the FY 2015 BEA Program application. This program is very important to the CDFI bank sector. We look forward to working with you.

If you have any questions, please contact Jeannine Jacokes at 202-689-8935 ext. 222 or jacokesj@pcgloanfund.org.

Sincerely,

The Membership of the Community Development Bankers Association

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