FDIC Small Loan Pilot Program Shows Bank Can't Compete with Payday Loans

In the *FDIC Quarterly* (volume 3, issue 2), the FDIC published their report on the first four quarters of their two year pilot program to encourage banks to offer small dollar loans comparable to payday loans. The report provides ample evidence that, while FDIC considers the program a success, small dollar loans from banks cannot compete with the cost and ease of payday loans.

Full article available at http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_2/SmallDollar.pdf

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The report showed that:

- **Despite the program, very few banks offer small-dollar loans to very few customers.**

  Only 31 banks participate in the program. Those banks represent a mere 446 locations in only 26 states.

  Banks without a small-dollar loan product prior to this program issued *"on average, 9 SDLs [small-dollar loans]…in the fourth quarter [of the pilot]."*

  The program has only "originated 8,346 SDLs with a balance of $5.5 million," whereas the payday loans industry originates more than 150 million loans each year.

- **The total cost of program loans is similar to that of traditional payday loans.**

  The FDIC program doesn't save consumers any money. By offering loans over a longer period of time, interest rates in the FDIC pilot program appear lower. However, in terms of actual cost, 15 percent interest paid over a 12 month period equals $15 per $100 borrowed, similar to payday loans.

  Additionally, where the average amount of a payday loan is $300, the banks in the FDIC program are lending, on average, double or triple that amount (depending on the type of loan), and so are ultimately making more money on the process.

  "The average size of SDLs has hovered around $675, the interest rate has remained at about 15 percent, and loan terms have ranged from 10 to 12 months in each of the first four quarters. Similarly, for NSDLs, the average size has been close to $1,700, the interest rate has remained between 14 and 15 percent, and the term has ranged from 14 to 16 months."

- **Banks do not see small-dollar loans as a profitable endeavor, but rather as a community service and opportunity to sell more profitable products.**

  "Only a few participating banks have indicated that short-term profitability is the primary goal for their small-dollar loan program…Most pilot banks are using the small-dollar loan product as a cornerstone for long-term relationship building that also creates goodwill in the community."

  "Banks with existing programs have been able to generate long-term profitability through volume and by using the SDL and NSDL products to cross-sell additional products."

- **Small-dollar bank loans are less convenient for consumers.**

  "All pilot banks require…a credit report to determine loan amounts and repayment ability."

  "Ten banks require SDL customers to open a savings account linked to SDLs, while nine encourage… customers to open a savings account."

Highlights prepared by:

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