

# CBA Community Webinar Series

## Transcript

### November 2024 Webinar: Consumer Lending Regulations and Product Standards (9/19/2024)

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# CBA Community Webinar Series

## Transcript

It is not intended to be a full and exhaustive explanation of any credit product, service or program.

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Hello everyone, and welcome to CBA's November 2024 community webinar. My name is Nydia Alvarez, Senior Specialist in Curriculum Development for the Training Institute. And today we'll be discussing Consumer Lending Regulations and Product Standards.

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be signed into your Training Institute account to access them, and we'll soon put a link in the in the chat where you can find all

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Consumer Loan Product Standards. We'll save some time for Q&A, some questions, at the end. And, as a reminder again, please put your questions in the Q&A box. At any point. That way we can keep track of them.

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So let's go ahead and meet our presenters. Today we have with us Adam Rust, and he is a Director, the Director of Financial Services at the Consumer Federation of America, where he advocates for consumers and non-bank credit payments and financial technology with expertise in fintech, community reinvestment, and policy innovation. Adam has led impactful initiatives across advocacy, research, and regulatory engagement.

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# CBA Community Webinar Series

## Transcript

He holds a graduate...graduate degrees in Journalism, Planning, and Finance and resides in Durham, North Carolina. Brooke Cain is a CBA Fund Manager overseeing lending and technical assistance to expand nonprofits' capacity to offer safe, affordable loans and credit building products. She has worked with Lift Fund and Strategies for International Development and holds masters degrees in Public Administration from the University of Colorado, and then Microfinance and Financial Inclusion from Universidad Autonoma in Madrid.

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With that, we'll go ahead and turn it over to Adam.

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Okay. Can everyone see my presentation? I, had a little bit of trouble there. Yes, we can see you and hear you very well. Perfect. Okay. I'm Adam Rust. I'm the Director of Financial Services at the Consumer Federation of America. Today I'm going to present about two topics: Small Dollar Lending and Special Purpose Credit programs. I suppose it's necessary, given how things are going, to say this is fiat.

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We're not talking about anything crypto today. No crypto lending. So if you're in the crypto lending session, that's the wrong session. So, continuing with that. CFA, I am there with CFA. You know, the...we're heavily involved in working on consumer finance with...have been an agency since 1968. We also work on food policy, investor protections, insurance, housing and consumer product safety.

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# CBA Community Webinar Series

## Transcript

So please reach out to me or to my colleagues any time, we really want to work with your organizations. [muffled] say that I'm really glad that you've come to this session today. I think if you're

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here, it's probably because you're motivated. You want to be a champion for helping consumers. Both of the kinds of programs we're talking today are exactly that.

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So I think I want to just reiterate that this is meaningful work. And I'm glad that we're all thinking about how we can help traditionally underserved individuals...advance.

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Okay. So, today, today, I have...have these goals for a presentation. I'm sure they'll probably be some

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ways...cover a little bit more, but we're going to talk about small-dollar lending. We're going to talk about some watch outs, things not to do, about best practices. I'm also going to highlight some of the places where people or institutions, lenders--really non-bank lenders, have made mistakes that led to enforcement actions.

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Then we're going to talk about special purpose credit programs. I really like special purpose credit programs. But I recognize that they do introduce a lot



# CBA Community Webinar Series

## Transcript

of uncertainty to any lender that hasn't done them before. They seem a little bit counterintuitive in their design, but they really can be impactful. And, you know, I'm going to talk a little bit about the guidance of the CFPB

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and also the credentialers have put out that I think should, again, be the kinds of documents that is a champion. And so in your organization, you can use to allay any kinds of fears that, maybe this is something that you know would be risky. It's quite the contrary. Regulators have really spoken clearly in the last few years to say that they want to support these things, and they've been clear about how they'll ensure and verify that rules are being followed.

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Okay. So there are a few things to understand about small dollar loans. There are these two laws, which have some fairly specific requirements for things like how you collect, how you disclose, how you resolve problems. More broadly, you also need to be paying attention to the Equal Credit Opportunity Act. And also to the Federal Trade Commission Act.

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So it's really important to ensure that your practices are fair, right, that there's nothing deceptive. The Dodd-Frank act adds to that the standard of abusive means, these are all things that you just don't want to...you don't want to design something by accident that ends up leading to this kind of problem. You're trying to do the right thing and then to get tripped up.

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# CBA Community Webinar Series

## Transcript

Well, that seems, you know, completely counterintuitive and not what you want. So I'm going to talk a little bit about these things. First off, I want to say that the agencies have released guidance. Credential agencies released in 2020, talking about ways to make sure that your...your small dollar loan program meets the standards for responsible. So all of these things are things that you probably already know.

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But it's good always to have documentation about this. They were clear that they expect there to be prudent underwriting and paying attention to safety and soundness. Right? Paying attention to the ability of your applicants, to repay loans, having, have concern that you're complying with consumer protection laws and treating customers fairly. So you might say, what does that actually mean?

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I really think they've gone to some length to talk about alternatives to working through sort of traditional loan programs. For example, they've talked about how, reviewing activity inside a deposit account. So, essentially, what is often referred to as cash for underwriting is completely reasonable and something that they think is okay. I think this is an interesting space.

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I think the rule on section 1033 that came out, very recently, last week, will actually advance these kinds of use cases. So consumers might be able to come to a new lender and say, 'would you look at my existing account history and you'll see that I'm getting regular deposits and my cash flows are irregular, perhaps, would, you know.

# CBA Community Webinar Series

## Transcript

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But they are on the net positive.' So, you know, this person might contend that they don't fit within the current credit box, but they can use their cash flow data to see there's a reasonable expectation for me to be able to repay. And 1033 will help that. Many of you are from credit unions and you're familiar with the power one in the power two programs.

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And those are laid out fairly specifically with rules and expectations for maximum loan amounts, maximum durations of loans, with you...with a PAL I, you're allowed to offer loans that come with an application fee of up to \$20. Just looking at the terms and how this, how this rules out for...if you, if you made a 12 month thousand dollar PAL I loan, bar will be expected to pay slightly less than \$100 per month.

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Ultimately, these can be profitable at a 10% cost of credit. If your cost of capital as an institution is 10%, you make a PAL I loan with a \$20 fee, your net present value is going to be a little over \$100. The cost of capital the times lower. If you're at 5%, it could be \$144. So it's not unprofitable.

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But you know, there are still origination costs, loan servicing costs, things to pay attention to. But, to that point, the guidelines also said that borrow-...lenders could use partnerships. They could take advantage of technology, and perhaps there are ways to lower costs with that kind of approach. So, they're trying to demonstrate that there's room for flexibility.

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# CBA Community Webinar Series

## Transcript

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Another part that I just think is really worth mentioning is that they're also paying attention to, to the back end, to work out strategies if borrowers get in trouble. They're asking if you had an installment loan, perhaps you'd want to have an alternative for an open ended line of credit, or to restructure the loan just to address that ability to repay.

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I want to give an example of a large bank that recently designed a small dollar credit program, something fairly unique about it. They've made it a part of their [muffled] plan that they created a standby cash program, very small loan amount between \$100 and \$500, looking at cash flow data, not credit scores. They had a had an advance fee associated with the line of credit of 5%.

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You know, for a borrower that pulls that data and repays it immediately, that's actually fairly expensive credit. But if a borrower was looking for that as...some more of a source of credit that they can use from time to time and keep a little bit of a cushion, that could be fairly affordable. And they had good results with this.

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And they did a similar program with small business loans, obviously for more money, between \$1000 and \$150,000. But they were willing to look at entrepreneurs who had less than one year of personal experience. They, over the first two years of the program, the average loan that was \$70,000. So those are alternatives that are out there to serve both consumers and small businesses.

# CBA Community Webinar Series

## Transcript

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It was clear guidelines from the regulators and how they consider these to be done in a responsible manner. That's the kind of documentation you can take back to your team to show that this is a plan...worth considering. Now let's look at where the marketplace is. You'll see that these are being offered by, you know, banks, credit unions, finance companies and fintechs.

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This is data from the Federal Reserve, right? This data is fairly current. It doesn't have the average interest rate. You don't have that. But I do think a telling thing is that the delinquency rates for finance company loans were twice as high as for insured depositories. Fintechs were also slightly higher than the depositories. So does seem like when you're in that...inside that banking perimeter that the people working with the programs are finding ways to make loans that are more suitable for the population that they're serving.

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And that's...that's a good story, right? We like that. So the market is out there. There is a lot of this lending going on. It's clearly serving people. You know it's a lower end of the credit score bucket. Yeah. So what do we want to avoid. Well, I talked earlier about, some of those key points that are associated with their lending.

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Right. So it's, it's not it's not mysterious. I think this is probably a slide I can move through pretty quickly. You know, you're going to want to make sure that the terms of the loan are made clear to your applicants. You're going to

# CBA Community Webinar Series

## Transcript

want to make sure that you secure consent to recollect if you're going to use automatic debits, that's a very important...that's an important principle.

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And after [muffled] electronic funds transfer act, you want to pay a lot of attention to that. You know, charging fees that are too high, charging rates, them...charging, um, high interest rates. You know, something to avoid in the spirit of providing credit to affordable. Thinking about your strategic decisions. So that thinks about...thinking about how you designed these programs.

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Are they designed in such a way that will be suitable for the audience you're serving? And this requires a lot of assessment. And this is also something that comes up with special purpose credit programs. But really being thoughtful and intentional about the suitability of a loan for the customer you're serving. And then, finally, being clear with borrowers about whether or not you're going to be reporting these loan repayments to credit bureaus, that's a choice.

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You don't have to, but you should be clear with them. [muffled] I think a lot of people right now are looking at buy now, pay later lending. A lot of consumers think that, sort of, it's the best of both worlds. They imagine they won't have their credit score pulling it, somehow or other will improve, or it will improve their credit score because it'll be reported.

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# CBA Community Webinar Series

## Transcript

Well, that's not how it works. This is a classic example of a lack of transparency. Right. And BNPL is being pulled into the spectrum of lending that now is supervised by REGZ. That's going to change. But this is an example of a case where consumer expectations aren't necessarily being clear. Or we can. Okay. Saying that, I thought what might be interesting would be to see the, the alternative: what happens when you don't follow these rules.

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Now, these are not credit unions. These are not CDFI's. These are entities regulated by the CFPB, but it's sort of a rogues' gallery of mistakes. The column, what we're seeing here are just sort of a set of the most recent set of enforcement actions, not all of them, but the sort of set of activities are really, really, demonstrative.

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So one of the ones I want to point out is the Heights Finance case that was revolving loan churning. That's exactly the kind of practice that we're trying to avoid, right? We're trying to prevent people from getting in a debt trap. Loan churning is, in some ways, the, the entire business strategy, some...of some non-bank, high cost lender, the way that they can overcome the origination costs, the cost of having a store that people rarely go into, the costs of paying for online loans. They need to have, they need to have people getting stuck in recurring debt.

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CFPB's on to that, they're paying attention. Add-on products. That's another one. If you're familiar with, you know, some of the odd products that can be attached to loans. And typically these are attached through a process of securing consent. Nonetheless, you know, they're very expensive. So things

# CBA Community Webinar Series

## Transcript

like auto...auto club memberships which are really being added on to loans. Different kinds of credit insurance products can dramatically increase the cost of the credit.

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So there are also cases where people weren't paying attention to the cost of the credit that they were offering, and they were unfortunately offering high cost credit to service members in violation of the Military Lending Act. So it's very important to understand if the source of funds is coming from, say, an allotment, it can be a problem if it's going to a borrower who's a service member, active duty service member, it could be violating the MLA, important thing to look out for.

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I talked about unauthorized debits. There you see it. Caught. It happened multiple times. Maybe the last one is this emerging concept. And solar funds is the example of it, of seeking tips to...to as a means to generate income for a loan. So you might say the loan is at a very low rate or even free. But then there's a deceptive set of dark pattern practices that convey to people that they ultimately should be tipping.

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For example, there's one, it says, you should tip 10% for this loan, and if you do, we'll give money to feed...for soup pantries or food...food relief. Well, that's actually a little bit not clear because typically they're offering, say, \$0.50 for your \$10 tip. But they hit you with that sort of guilt trip, right?

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# CBA Community Webinar Series

## Transcript

And it's unfortunate when people, something like 70% of people who are pushed into tipping or suggested tipping, choose to tip. They think that's sort of similar to the experience we're all having now in retail stores, we're being encouraged to...It's the thing to watch out for in loans. Okay. So this slide, there's a specific point here, which is just that there's something strange happening.

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I know a lot of people might say, 'oh, this this bureau that we have right now is there's never been a bureau more aggressive.' Well, it's interesting because in, in the space of small dollar lending, there were actually more enforcement actions during the Kraninger administration, which is the Trump one...era. What happened in the second term with the bureau is sort of a the most recent term of the Bureau was there was a focus on going after the very, very large financial institutions.

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So the total number of actions was fewer. The attention paid in the small dollar lending space wasn't quite the same. Things like opening up false accounts by a large bank. Not the small dollar lender. A large, very large institution. That was the kind of thing they were paying a lot of attention to. Will this happen in the next administration?

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It's really hard to know, right? We just don't know. It's something to pay attention to. Okay. So now we're going to take a quick pause. Just a quick pause.

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# CBA Community Webinar Series

## Transcript

And I'm going to talk about special purpose credit programs, which I think are really exciting.

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So special purpose credit programs are very interesting because what they are is they're sort of permission to design a unique lending program that fits the needs of a protected class. So obviously, typically in lending, you want to you want to steer clear of targeting a protected class member because that, that's, that's, that's the kind of thing that can be a violation of ECOA.

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Right? Well, there is an amendment in a WCOA from 1976 that says that it's not discriminatory to provide what's known as a special purpose credit approval. These programs are very specific. You can...you can make loans for a specific type of protected class or even in a neighborhood where there's a higher share of protected class members.

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But there are rules for this. And that's what I kind of want to talk about a little more. So the first thing is, why are we doing this right? Why is this important? And, you know, these are important because we have a lot to overcome in our society. Right? So this slide talks about, you know, the substantial differences in wealth in the United States among different protected class members.

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I'm sure everyone on this call is aware of that. But I think it's always useful to, you know, remember these numbers. Now, we're at a point where incomes have equalized...are closer, right? We're at a point where the the



# CBA Community Webinar Series

## Transcript

ratio in average income among white versus Black households is about 1.5, not anywhere near equivalent, but not as dramatically different as the rates in wealth.

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And so you're seeing here a factor of over 20 between Black and white wealth. If you're familiar with the work of Michael Sheridan, I think he was at the University of Washington. He's a...he's one of the authors who sort of championed the asset building movement. The point that his work and work of other individuals like him was just that:

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wealth has a shielding effect. Wealth helps families work through times when they're in distress. Wealth has incredible outcomes for things like, the chance that children get into college or that you achieve homeownership and ultimately more wealth. More, more economic equality leads to a more...it leads to a healthier economy. You know, our economy is really driven by consumer expenditures.

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If you have a large set of people who are struggling to get by, the net effect is to undermine the economy for everyone. You have more people who can participate. They can start businesses, they can contribute to innovate... innovations, and they can create structures that foster better, better outcomes for their families. So saying that, you know, just in terms of timing, out of that, two thirds [muffled].

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## Transcript

So the standards for special purpose credit programs are different for for-profits and nonprofits, obviously. That, that sort of makes sense because nonprofits come to their customers in a different way than for profits. The rules in general for nonprofits are, are more flexible. There's not, you know, the same hard and fast expectations, but they're still there and they're still of, of similar, characteristics.

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So the first one is that a special purpose credit program has to meet what they call special, social needs. And that means that it has to be designed in such a way to meet a class of persons who would not [muffled]...

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...where the applicant has come or they would receive it on less favorable terms.

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A really central part of the special purpose credit program is [muffled]

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...now. Because that's in terms of how you're going to build this for your organization, this is the central activity that you will have to do. So a written plan, I am going to re-emphasize...well for-profits and nonprofits both have to have written plans. The expectations for nonprofits are much lighter, much more fluid. A lot of that is somewhat your choic. For for-profits it's pretty hard and fast.

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# CBA Community Webinar Series

## Transcript

You have to, you have to do research. You have to document that the lend- ... the applicants who are coming, to your organization, who are in a specific protected class that you're trying to meet, don't fit the credit requirements that you have. And that that is something that can be articulated in a lot of different ways.

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I think an important thing to understand is that filling out an application, to have a written plan, to do a special purpose credit program is not itself the kind of activity that will line you up for an code enforcement action. That's an important thing to tell everyone in your organization. This is an okay thing to do. We're not going to get ourselves in trouble.

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You need to have pretty clear terms on how long you will conduct this special purpose credit program. So will it be a year? Will it be three years? You need to have details on the nature of the shortcoming and the way that you're going to resolve. So you might create a written plan that says: minority residents of low to moderate income census tracts.

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We're, we're going to serve operators of small farms in rural counties who are, Latino, or we're going to address, loans for consumers with limited English proficiency or residents living in tribal lands. There's, there's a lot of creativity here. So ultimately, this is kind of fun. Now you have to create a linkage between this group and how your credit terms don't necessarily fit their needs. And then, how your solution, your intervention, your new program will do that.

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# CBA Community Webinar Series

## Transcript

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Right. Now again, this is another point. The next point is another place where nonprofit and for-profits diverge. For, for nonprofits, you have memberships. If you're a credit union, you have a field of membership.

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If you're a CDFI, you already have a special

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audience that you're serving. In that case, you don't really have to do so much research to demonstrate that you can meet this, this other group.

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Right. But if you are a for-profit, you might have to use things like HMDA, the upcoming 1071 can be very useful if you're making small business loans already. You could use SBA's small business credit surveys. You can use your own internal data. Right. So that's that's perfectly suitable. And you wanted to describe your current standards for credit.

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And then again, how this will make a difference. So it might be something along the lines of, you know, something very straightforward, like just a lower down payment requirement or a more flexible credit score bucket. Those are options you have. You can talk about historical redlining that's going on in your community, in areas in the community that don't have access to a particular kind of credit.

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# CBA Community Webinar Series

## Transcript

And then another thing you have to do is show how you're going to measure the outcomes and how you're going to show that you're realizing the goals of the special purpose credit program. And this is the kind of thing that your regulator will want to see. They'll want to pay attention

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to just understand how effectively you're doing this.

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These are all kinds of, you know, important steps, just in terms of reaching goals. And, if you're at a financial institution, you're probably a metric-driven organization in the first place. So this is going to be already within your DNA.

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Now, this one is kind of...this is meant to be a little bit of a business structure approach, but let's talk about the actual steps of how to do this. I talked about the research phase. You are going to identify this intervention that you need to address in your community, and you're going to talk to your lawyers. Again, did I mention I am not a lawyer and this is not advice... and this is not meant to be legal advice? But you're going to want to make sure your lawyers are in the loop and probably early on.

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Then you're going to design this credit intervention and you're going to write the written plan. Very important step in the process, building out your model. Then you'll talk to your regulator. Hopefully your regulator will be on board or your regulator may suggest alterations to it. But this is really great because you're getting that clear guidance. That clear, sort of,

# CBA Community Webinar Series

## Transcript

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'you've checked the box' from your regulator that this is going to be okay. And then you obviously take the next step of training your staff and you think about marketing and then how to deliver the product and then how to monitor it over time. Okay. So, now let's talk about some watch outs. I think that's always important. You want to ensure that your special purpose credit program is serving the populations that you intend it to serve.

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So, if...if it turns out that it's actually serving, not the population that you intended, that may be a flag. It may not mean that the program is going to get your organization into the, into a difficult spot, but it certainly is something that will raise eyebrows and probably lead to conversations. One very tactical thing to pay attention...attention to is just paying attention to how you're incentivizing your staff to produce loans.

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So if you have a mortgage program, don't pay a different amount to your originators, to your...to your MLO's, when they bring in the special purpose credit program client versus standard clients. Certainly don't pay them less, right? If you're seeing that these loans are not being repaid, that's a big flag that's telling you that the intervention you design probably isn't really suitable.

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And so get on that right away. If you see something like that, pull back. Think about, 'hey, maybe we need to get in touch with the regulator.' Now let's just figure out what's going on, pay attention to that. And again,



# CBA Community Webinar Series

## Transcript

metric-driven organizations like banks and credit unions, like CDFI's, that's totally something that probably will happen quickly.

00:31:03:06 - 00:31:29:14

Unknown

Okay. I'm getting close here. But I do think that there has been a lot written from the various regulators to say that this is okay, and, you know, these are on the internet. I can't link through them in a webinar. But starting in December 2020, under the Kraninger administration, there's been a lot of effort to say, 'hey, there is no reason not to do these.'

00:31:29:16 - 00:32:11:15

Unknown

And then clearly, for example, the CFPB, they laid out a very clear set of expectations, especially for the written plan and for the research and monitoring components, for for-profits in 2020. Later on during the administration, things like blog posts were written to sort of further, further say that this is something that we support. Right? To say that this isn't something that you're going to endanger your organization with, to say that doing a special purpose credit program will not increase the chance that your supervisor comes in to say, 'we want to review your account regulation.'

00:32:11:17 - 00:32:16:23

Unknown

It's not what's going to happen. And then state regulators in February

00:32:16:23 - 00:32:41:14

Unknown

2022, including NCUA, did an interagency statement again, sort of restating all the important elements. How to so SPCP's. And finally, HUD added that SPCP's comply with the Fair Housing Act. So I think it's really fair to say that, the writing is on the wall, that these things are going to be given a pass, that they're going to be okay.



# CBA Community Webinar Series

## Transcript

00:32:41:16 - 00:33:06:07

Unknown

Your organization can...can really step forward by offering one, you know...as you know...as you know, it's going to make a difference in your community. I've talked about the concern about culpability. You know, that's one to think about. Marketing, of course, you know, how you market these things is kind of an art in and of itself.

00:33:06:09 - 00:33:25:24

Unknown

How you determine if the person who is applying for the loan is a member of a protected class. The rules for that are different depending on whether or not it's a type of loan where you're already allowed to ask that. If it's a mortgage loan, not a problem. If it's a small business loan, again, not a problem.

00:33:26:01 - 00:33:48:22

Unknown

If it's an installment loan, though, you have to tread carefully. Now, if you're a nonprofit, it's not quite the same because you're likely to have relationships with your customers. If you're a minority CDFI, there's no need to ask at all. It's obvious, ahead of time, that that's your audience. It's an alternative to do-...well, I'll get ahead of myself and say it's alternative to place based loans.

00:33:48:22 - 00:34:13:07

Unknown

That's something that a lot of lenders, immediately after the 2020 guidance, some of the first examples of new ones by large banks were place based programs--in essence, will make loans in in a neighborhood that has a has a high share of protected class members. You have to consider the benefits and the risks to your own balance sheets, obviously to your liquidity.



# CBA Community Webinar Series

## Transcript

00:34:13:07 - 00:34:31:03

Unknown

It's likely that you'll be holding on to these. I know that FHFA has thought a little bit about how it's going to treat its PCP mortgage loans. But that's definitely the kind of thing you want to look at more to make sure that there's a linkage. If you want to sell these, if you're going to fulfill

00:34:31:03 - 00:34:38:12

Unknown

the requirements to deliver them to the GSE's, obviously, the chances of default, that's not just a business concern.

00:34:38:12 - 00:35:05:12

Unknown

That's also a key priority for the SPCP to be considered safe, to be considered responsible. The last part is that the Students for Fair Admissions case, a really, obviously there's been a lot of politics lately about those things, and the regulators have reaffirmed that they won't see this as a violation of that kind of that aspect.

00:35:05:12 - 00:35:23:21

Unknown

So again, there's more on that that's getting into kind of a legal territory. So I'm not going to get into...into detail on it because I only make it [muffled...quite right. But yeah, that that's I think what I wanted to say. So just going forward, I really want to encourage you to do this.

00:35:23:21 - 00:35:29:20

Unknown

You can consider place-based, but people-based I think is really where it gets exciting.

# CBA Community Webinar Series

## Transcript

00:35:29:22 - 00:35:56:09

Unknown

I give it some examples of just really creative ways to serve people in your community. That's the kind of work you can do here. I'm optimistic the 1071 and now 1033 will play a role in this. And then I just want to say that you do need to be careful about monitoring and evaluation. And that's, you know, that goes without saying, but just to pay attention to that.

00:35:56:11 - 00:36:22:15

Unknown

Okay. This slide is, I want to encourage you that there are other resources, other places you can go between now and going to your regulator with a plan. So, these are all sources of, of institutions that have spent time looking at how to design SPCP's and have really expansive guidances and sets of, kind of, best practices.

00:36:22:15 - 00:36:49:13

Unknown

So the National Fair Housing Alliance, you familiar with them? NFHA is there now partnered up to make a toolkit with the Mortgage Bankers Association. Urban Institute has built one. I really want to pay attention to this-...point this one out to you on the bottom left: the Homeownership Council of America. This is a group that has a great board with, sort of, socially responsible organizations from across the country.

00:36:49:15 - 00:37:21:04

Unknown

They've created a certification group. I really think this is something that, if you're serious about trying an SPCP, you should...you should reach out to them because they have people who've done these. They'll walk you through, you know, a good idea, turn a good idea into a good program. And then they can certify it. So that's, again, one more way that you, as a

# CBA Community Webinar Series

## Transcript

champion within your financial institution, go forward to say, 'let's do an SPCP, this is going to be great.'

00:37:21:06 - 00:37:31:08

Unknown

All right. So I'm going to stop there. And no crypto.

00:37:31:10 - 00:37:57:23

Unknown

Thank you so much Adam for all of those insights and that valuable information. We are putting Adam's information right in the chat, if you wanted to reach out to him with more questions. But we do have a question really quickly from one of our participants, Jonathan Anderson. And he was asking, can we establish a group that has low credit scores regardless of income status?

00:37:58:00 - 00:38:00:05

Unknown

So wait the question is, can you

00:38:00:05 - 00:38:11:04

Unknown

establish a group? You mean, can you establish a program? I think that that's what, for borrowers who have low credit scores. But, but income is not a factor.

00:38:13:21 - 00:38:36:19

Unknown

Oh sure. Yeah. And that would be the case. Are you asking for SPCP's or for small dollars? I mean, it really, it would be a different answer, but the answer would be yes. And then how to do it would...but yes, I mean with an SPCP that's, that's a perfect example of a specific intervention, right, to...sort of works for people who, who have, those characteristics.

# CBA Community Webinar Series

## Transcript

00:38:36:21 - 00:38:59:22

Unknown

So, yeah, absolutely. Okay. Well, thank you so much, Adam. We are going to go ahead and we'll leave the rest of the questions for the end. But we want to present, Brooke from CBA fund. And we really thank Adam for taking his time to be able to, you know, give us this valuable information for all the participants.

00:38:59:22 - 00:39:07:18

Unknown

So, Brooke, take it away.

00:39:07:22 - 00:39:13:16

Unknown

Hey, everybody. And so, just a little bit about CBA Fund for

00:39:13:16 - 00:39:28:09

Unknown

those who don't know about us: CBA created CBA Fund., its CDFI intermediary, in 2018 to catalyze and grow the capacity of nonprofits to offer safe and affordable small dollar consumer loans in their communities. And

00:39:28:09 - 00:39:30:20

Unknown

we were really looking to help build out alternatives

00:39:30:20 - 00:39:34:02

Unknown

to high cost predatory loans.

00:39:34:04 - 00:40:04:20

Unknown



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## Transcript

Affordable small dollar loans are an important intervention because they directly support credit building in underserved communities and help consumers weather financial-...periods of financial distress, cover emergency expenses, eventually help them build wealth and graduate to affordable, mainstream financial products. CBA Fund provides three prongs of support. So we provide access to low cost loan capital. We provide capacity building grants and technical assistance.

00:40:04:22 - 00:40:19:05

Unknown

And since inception, CBA Fund has provided \$5.6 million in loans and \$1.7 million in capacity building grants to 53 organizations.

00:40:19:05 - 00:40:21:24

Unknown

I think we all know this, that payday loans are expensive.

00:40:21:24 - 00:40:48:14

Unknown

Let's look at how expensive they are. Lenders charge an average, these types of lenders charge an average of \$15 for every \$100 borrowed, which translates to an APR of 391%. Car title loans often have monthly finance fees as high as 25% of the loan amount, which translates to an APR of 300%.

00:40:48:16 - 00:41:16:15

Unknown

So predatory loans exacerbate financial struggles in underserved communities. Payday loans have repayment periods that are too short, required payments that are too large, and annual percentage rates that are often ten times higher than mainstream...mainstream loans or credit cards. In addition, predatory lenders often have deceptive business models and the result is consumers cut and high cost debt traps.



# CBA Community Webinar Series

## Transcript

00:41:16:17 - 00:41:43:06

Unknown

So payday lenders are substantially more likely to locate their storefronts in communities with higher poverty. And add to that the fact that banks have closed over 17,000 branches in the last ten years, and one third of these closures were in LMI communities and communities of color. And that's really, for-...further limits access to credit in these communities. But who's the most impacted by these high cost and unsafe loans?

00:41:43:08 - 00:42:12:17

Unknown

So research shows that 77% of consumers using alternative financial services experienced a shock and had difficulty paying a bill or expense. So the need to take on a payday loan often starts with an issue, just making ends meet. Three fourths of payday lenders...I mean, payday loan users do not have access to other forms of personal credit and generally have subprime credit scores or no credit score at all.

00:42:12:24 - 00:42:40:23

Unknown

And Black and Latino consumers are more likely than white consumers to depend on alternative financial services. And this, again, is because they have fewer banks and more payday lenders in their communities. So CBA started to focus on small dollar consumer loan products and standards because there was a lack of affordable small dollar products in underserved communities. And we're seeing more CDFI's and nonprofit lenders entering into this space.

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Unknown

So we saw a need for a framework and standards to support CBA members who want to provide small dollar consumer loans. As part of our work to



# CBA Community Webinar Series

## Transcript

encourage more non-profits to enter this space, CBA led a coalition of 19 organizations and we all worked together for over 18 months to develop the small dollar consumer loan product standards to help lenders better understand how to provide safe and affordable loans in their communities.

00:43:10:14 - 00:43:58:09

Unknown

And I think Nydia has shared that in the chat. And now CBA is providing a small dollar loan product certification. So the certification process has certified standards and self certified standards. The certified standards listed here include loan products must have a max APR of 36%, as defined by the Military Lending Act. Loans have equal amortizing installment payments instead of balloon payments, and there must be clear disclosure of the full cost of the loan, with all anticipated charges and payments included in the annual percentage rate and no allegedly voluntary payments, such as tips or expedite fees included.

00:43:58:11 - 00:44:32:05

Unknown

The self certified standards include that loan decisioning is based on the borrower's ability to repay the loan on agreed terms and follows applicable laws, regulations, and guidance. The loans do not rely solely on collateral for repayment. All qualifying and disqualifying factors are communicated prior to the application, so the borrower has a clear understanding before they apply. And that customers can access their loan information and customer service support throughout the course of the loan.

00:44:32:07 - 00:44:56:02

Unknown

So CBA is working with the National Consumer Law Center as the external assessor for these certifications. In order for the NCLC to certify a lender's loan products first, the lender must confirm that they comply with all local



# CBA Community Webinar Series

## Transcript

and state lending laws, to include ensuring that they have a state consumer lending license or proof of exemption for each state in which they land.

00:44:56:04 - 00:45:21:04

Unknown

They must also comply with all federal lending laws, including the Electronic Funds Transfer Act, the Truth and Lending Act, Fair Credit Reporting Act, among some of them. And I think Adam went over some of these earlier in the webinar. So if you're interested in certification, the process starts with the lender reaching out to CBA to start the process and pay the certification fee.

00:45:21:06 - 00:46:06:22

Unknown

Next, the lender must acknowledge that they meet all the self certified standards listed here and that I've already gone over. Then we ask lenders to provide their small dollar loan documentation to include loan marketing materials, including screenshots of loan information on their websites, loan contracts, and all loan disclosures. The National Consumer Law Center will use these materials in their assessment to confirm if the lender complies with the certified standards. So we found that, once the lender provides the necessary materials to CBA, NCLC can usually do the assessment within a week or two.

00:46:06:24 - 00:46:37:15

Unknown

So once NCLC certifies small dollar consumer loan products as safe and affordable, the lender receives the CBA certification seal that they can display on their website. So, this is Angie Main from NACDC in Browning, Montana--and she wanted to join us today to give her testimonial, that had to be at a board meeting. So I'm going to read her testimony about the certification process.

# CBA Community Webinar Series

## Transcript

00:46:37:17 - 00:46:59:04

Unknown

She said. 'We're a small native CDFI located in the Blackfeet Reservation in Montana, but our service area is Native Americans throughout Montana. When the email came across that those who would like to have their small dollar loan programs certified by Credit Builders Alliance, the first thing I thought was, yes, I want to do that. Through the years,

00:46:59:04 - 00:47:07:05

Unknown

we've developed our products and, for instance, for our home loan program, we became a certified HUD 184 guaranteed lender.

00:47:07:07 - 00:47:33:23

Unknown

And for our AG program, we are a certified FSA guaranteed loan program. What those certifications do for us is they raise the visibility of our programs and it gives us credibility. We've had our small dollar consumer loan, loan program since about 2015 and it's mostly been a local program. We recently raised our loan limit from \$1,000 to 1500.

00:47:34:00 - 00:47:54:09

Unknown

And since Christmas time is our biggest time for our small dollar loan program, I thought immediately, I want to have our small dollar loan program certified, so I applied. I started by sending an email saying I was interested, and within no time I was put in touch with Julian at CBA. So we worked with Julian on the certification.

00:47:54:11 - 00:48:23:00

Unknown

He had some materials that he requested and we sent the information and in no time we were certified. So compared to the FSA and HUD certification,



# CBA Community Webinar Series

## Transcript

this was relatively smooth. So I was really happy about that. We put the certification seal on our website next to our native CDFI logo. So yes, I would definitely encourage anybody that wants to raise the visibility of their programs and have that credibility, like nonprofit organization and loan funds to apply.'

00:48:23:06 - 00:48:49:08

Unknown

And so here is a screenshot, of the seal on NACDC's website to so you get a view of that. And then here are some screenshots of other lenders who have had their loan products certified as well. Lenders tell us that they put the certification seal on their websites, not only to signal to their borrowers that their loans are safe and affordable, but also to raise the visibility of their programs with their

00:48:49:10 - 00:49:21:19

Unknown

fundors. Lenders also like to link the seal to the small dollar loan product standards on the CBA fund website, so that if somebody clicks on the seal, it will take them to the information about the loan standards so they understand what the organization was certified on. So, just want to say, if you're interested in getting your small dollar loan products certified, please reach out to [CBAfund@creditbuildersalliance.org](mailto:CBAfund@creditbuildersalliance.org), so we can help you start the process.

00:49:21:21 - 00:49:45:06

Unknown

If you're interested in getting your product certified before the end of the year, we encourage you to reach out soon. And also feel free to reach out if you have any questions about CBA Fund, our services, and establishing a small dollar consumer loan program. Now I'm going to just take us here to Q&A. Thank you so much, Brooke.



# CBA Community Webinar Series

## Transcript

00:49:45:06 - 00:50:14:03

Unknown

And we do have quite a few questions. And this one's particularly around collateral. So we've we had a question from one of our participants, and I'll bring up the question here. So since the personal loans do not rely solely on collateral in the case of a default, are they unsecured loans? Yeah. I mean, generally small dollar consumer loans are unsecured.

00:50:14:05 - 00:50:41:19

Unknown

Except for in the case of a credit builder loan that's secured by the loan proceeds themselves. Just because, like, taking collateral and then, like, working to recover that is probably more expensive than the loan itself. Thank you. Here's another question that came in. It says: what regulations apply to those of us who aren't required to be licensed in our state?

00:50:41:19 - 00:51:07:23

Unknown

For example, 0% interest lending? Yeah. So we do have cases where lenders are exempt from owning a lending license. And if you work with CBA Fund, you just need to provide proof of that exemption. Anybody who's interested in learning more, like, where they can find out more about their state lending license laws, we...like, reach out to us.

00:51:07:23 - 00:51:36:11

Unknown

We can provide you some resources. Again, we're not lawyers, and it's best to, like, work with a lawyer. Eventually. But, yes, we can provide that information. And, yeah, in some cases, lenders will be exempt from needing a consumer lending license. Thank you. Adam, this question is for you. It says: how can lenders navigate some of the conflicting messages from regulators and what will be the impact of the new administration?

# CBA Community Webinar Series

## Transcript

00:51:36:13 - 00:52:09:12

Unknown

So I suppose you mean, what do you mean, in general, or do you mean for, say, small dollar and special purpose credit programs? Yes. I mean, I would start by reading what they've written, right? They have, they've put out several sets of documents to talk about, standards they have for, you know, small dollar lending or for special purpose credit programs, but really encourage you to start there because, I actually think they want people to do well, particularly for special prosecutor programs.

00:52:09:14 - 00:52:33:24

Unknown

I think that's really an emerging, kind of exciting area. And then small dollar credit, we've all been talking for a long time about how that's valuable. And if you're, if you're if you're a, a bank and you can get credit for it. So thank you. All right. And so, I think we have time just for one more question.

00:52:33:24 - 00:53:14:04

Unknown

And this one I will, directed to Brooke. What are the most significant differences surrounding compliance between small dollar consumer loans and small business lending? Yeah. So we've found that consumer loans have a lot more regulation just because they're like protecting the consumer, where business loans don't generally. But really it's a it's by state. And so it's good to review the like requirements by state whether you need one for business lending and consumer lending or just for consumer lending, like a license.

00:53:14:06 - 00:53:23:03

Unknown

Thank you. I will there's more questions coming in. So I will ask one more because they seem like they're really important

# CBA Community Webinar Series

## Transcript

00:53:23:03 - 00:53:36:05

Unknown

lenders assessing risk. Is anyone using a strong risk analysis when approving a borrower. Yeah. So that really depends on the lender. We've seen all kind of like underwriting criteria.

00:53:36:11 - 00:54:01:22

Unknown

It may be that like you, if you're like a high tech lender, you might be using, cash flow underwriting or if you have like a high touch and you really know your, borrowers well that you like, have more of a sense of their ability to repay because you've worked with them on their financial, planning and capability.

00:54:01:24 - 00:54:29:10

Unknown

Yeah, I would, I would say like one good thing to think about is CBA is, launching a small dollar consumer lender bootcamp, which has six trainings, and it will be, the training institute by the end of the year. And one of those trainings is on underwriting. And just like everything you need to think about, when underwriting these loans.

00:54:29:12 - 00:54:59:01

Unknown

Okay. And I think this will be the very, very last question from Malcolm. Would, 2500 be the average upper threshold for a small dollar consumer loan? Yeah. And so it really depends. But like the way that we look at it, and the way like for the certification process, the high end is \$2,500. And the Cdphe funds small dollar loan program also has a limit of \$2,500 as well.

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Unknown

But technically they



# CBA Community Webinar Series

## Transcript

00:55:01:22 - 00:55:22:03

Unknown

they can be any size. But just like for our purposes, we settle in \$2,500. Okay. And I think this is a very short yes or no question, but, Mel is asking if we encounter nonprofits or community based groups seeking guidance and becoming community lenders, may we for them to CVA because

00:55:22:22 - 00:55:43:12

Unknown

All right. Well, thank you so much, Brooke. And thank you, Adam. And thank you to all of our participants, for asking your questions and sharing with us today. We just have a, a few things we want to, remind you of today. So we want to remind you that these recording and the slides will be available on the training institute soon.

00:55:43:14 - 00:56:03:24

Unknown

So we invite you to register for a free account at CBA Training institute.org. And you can also find a lot of our courses and other webinars there. That will benefit you. We have some reporter courses. We have, you know, quite a few things that you'll be able to benefit from. And if you're not a member yet, go ahead and visit Credit Builders alliance.org.

00:56:04:04 - 00:56:18:23

Unknown

We'd be happy to, you know, have you as a member of CBA and so you can get all of the things your membership, will give you it's it's a great thing to have.

00:56:19:00 - 00:56:40:18

Unknown



# CBA Community Webinar Series

## Transcript

So thank you very much for joining us today. And again, thank you to our speakers and all of you, who joined us today for this very interesting webinar. If you do have any questions, you feel free to email us at webinars at Credit Builders alliance.org. This is the last webinar of the year. So from everyone at CBA, we hope that you have a wonderful holiday with your family and your friends.

00:56:40:18 - 00:56:57:00

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And don't forget to check our events calendar on the CBA Training Institute site. To keep up to breast of all of our events happening in 2025. Thank you so much everyone. Have a wonderful day. See you soon.

00:56:57:00 - 00:57:26:09

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