



# Aligning for Impact: Innovation in Short-term Lending Products

November 3, 2015



# About CFSI

The Center for Financial Services Innovation is an authority on consumer financial health, leading a network of financial services innovators committed to building better consumer products and practices.

**Using our Compass Principles as a framework for quality, we:**

## **Connect**

We foster dialogue and collaboration through CFSI events and networking opportunities.

## **Inform**

We provide deep consumer insights and industry research.

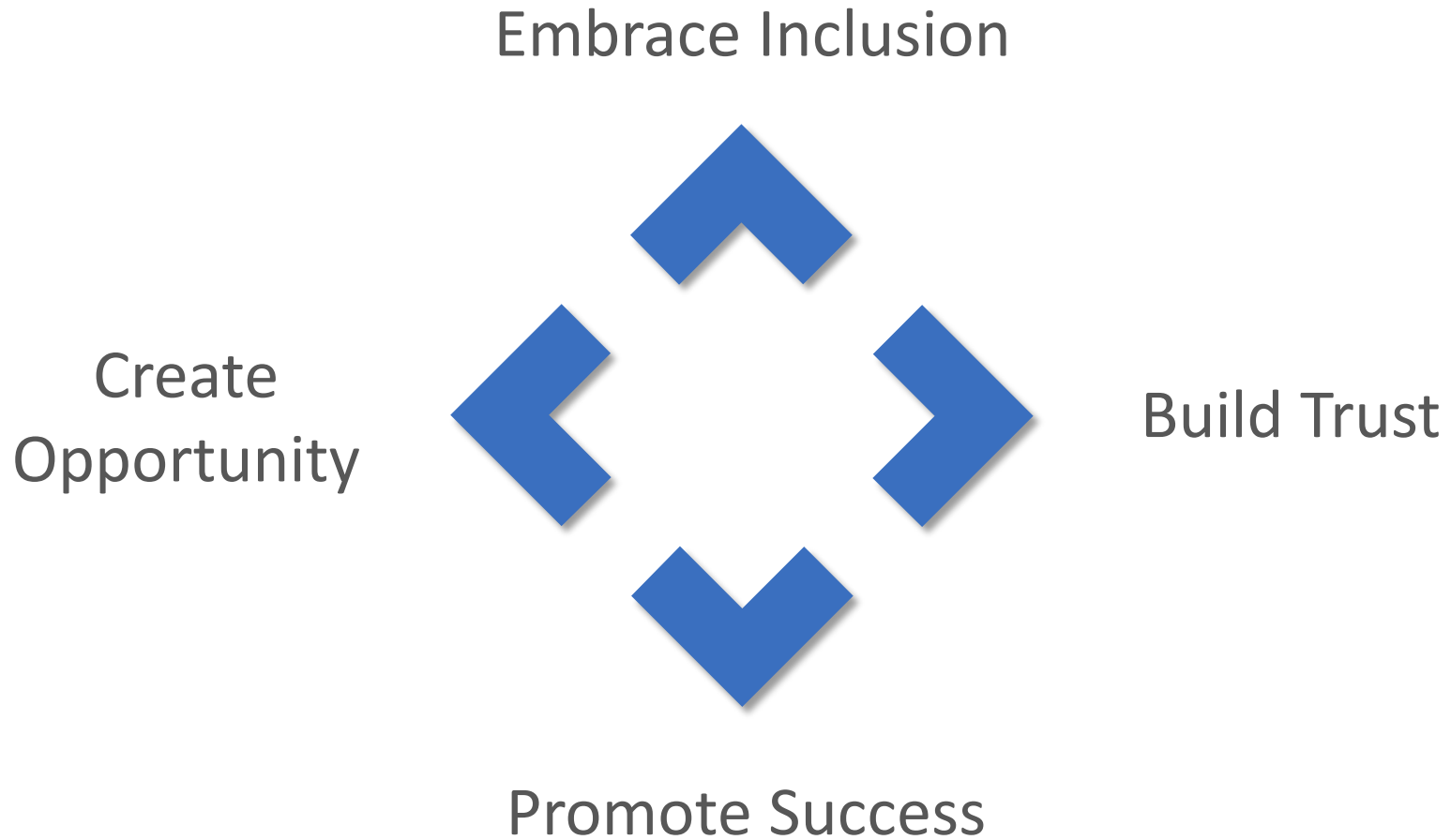
## **Innovate**

We seed and test promising new ideas.

## **Advise**

We offer consulting services to both for-profit and nonprofit providers.

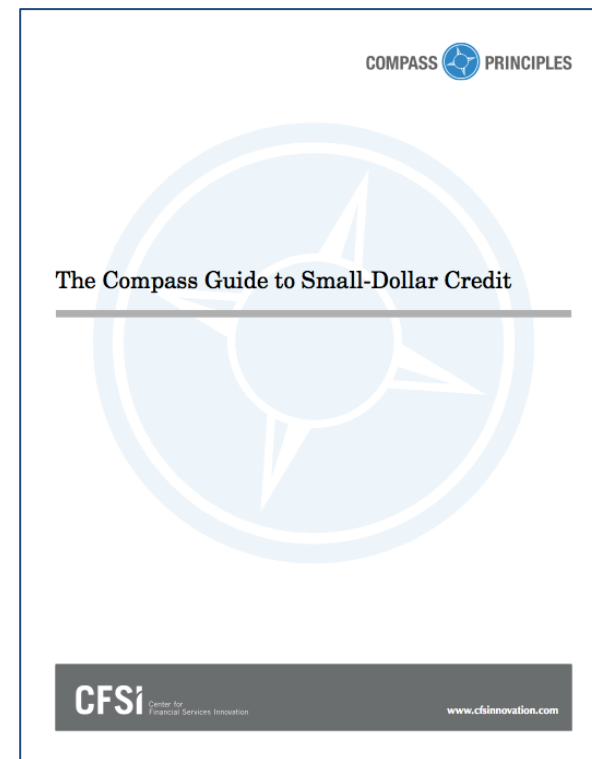
# CFSI's Compass Principles



# Compass Principles Applied to SDC

*The Compass Guide to Small-Dollar Credit (2014)* defines a high-quality small-dollar loan as one that:

- 1** Is made with a high confidence in the borrower's ability to repay.
  - ✓ EMBRACE INCLUSION
  - ✓ BUILD TRUST
  - ✓ PROMOTE SUCCESS
- 2** Is structured to support repayment.
  - ✓ BUILD TRUST
  - ✓ PROMOTE SUCCESS
- 3** Is priced to align profitability for the provider with success for the borrower.
  - ✓ BUILD TRUST
  - ✓ PROMOTE SUCCESS
- 4** Creates opportunities for upward mobility and greater financial health.
  - ✓ BUILD TRUST
  - ✓ CREATE OPPORTUNITY
- 5** Has transparent marketing, communications and disclosures.
  - ✓ BUILD TRUST
  - ✓ PROMOTE SUCCESS
- 6** Is accessible and convenient.
  - ✓ EMBRACE INCLUSION
  - ✓ BUILD TRUST
- 7** Provides support and rights for borrowers.
  - ✓ BUILD TRUST



# Insights from CFSI's SDC Test & Learn

In 2014, borrowers spent an estimated **\$44 billion on small-dollar loans.**



“Innovating in the small-dollar credit industry is not a one-time endeavor, nor can it be done in silos. **True innovation will require the ongoing commitment and collaboration** of stakeholders across the small-dollar credit ecosystem, including banks, credit unions, regulators, nonprofit organizations, consumer advocates, and the FinTech community.”

The Center for Financial Services Innovation (CFSI) convened the Small-Dollar Credit Test & Learn Working Group to encourage innovation across the small-dollar credit industry. The Working Group has generated a body of knowledge that can be leveraged by financial service providers, regulators, nonprofit organizations, and FinTech start-ups pursuing responsible and profitable small-dollar credit solutions.

# Aligning for Impact

 **Filene**  
Research  
Institute



In its Accessible Financial Services Incubator, **Filene Research Institute**, along with the **National Federation of Community Development Credit Unions** developed the *Borrow and Save* small-dollar credit product.



With the *Borrow and Save* product, consumers have access to high-quality credit and the opportunity to build savings, allowing them to meet short-term cash needs while improving their ability to manage future cash shortfalls. With this product, a percentage on top of the loan amount (25% to 50%) is frozen in a savings account and is only available to the borrower, with accumulated interest, when the loan is paid in full.

*Borrow & Save* loan amounts range from \$250 to \$5,000, repayment periods range from 3 to 36 months, and loans must adhere to the NCUA interest rate guidelines, not exceeding a 28% APR.

# Aligning for Impact



National nonprofit specialized in economic advancement and financial stability of low-income youth and young adults.



Nonprofit providing urban young adults with the skills, experience, and support that will empower them to reach their potential through professional careers and higher education.



CDFI credit union with more than \$600 million in assets that serves more than 60,000 members with a complete range of financial products and services.

## Fresh Start Loan

Fresh Start is a loan secured with a deposit targeted to someone who is interested in starting their credit score for the first time or for a second chance.

*Fresh Start loan amounts range from \$500 to \$3,000, repayment periods range from 12 to 24 months, and loans must adhere to the NCUA interest rate guidelines, not exceeding a 28% APR.*

# Thank you!



## **Brenton Peck**

Manager, Network Development

[bpeck@cfsinnovation.com](mailto:bpeck@cfsinnovation.com) | (312) 881-5809

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