# **Velocity Executive Summit 2022**

# Small-Dollar Credit and the Future of Short-Term Liquidity

(Be a HERO by supporting your consumers' credit needs!)

Presented By: Bob Sterner



## OVERDRAFT IS NOT GOING AWAY

### We need to separate the FEES from the FUNCTION



 Consumers have always needed responsible, affordable access to short-term credit

...

- Coming off a global pandemic is not the time to pull back on services
- Overdraft protection is one of the most fundamental banking services

Has anyone asked consumers what they want or need?



## **CONSUMER REALITY**

60% of
Millennials don't
have enough
money to cover a
\$1,000
emergency<sup>1</sup>

Almost **47%** of Americans said they wouldn't be able to cover a \$500 emergency expense<sup>2</sup>

**70%** of consumers have less than \$15,000 in savings<sup>3</sup>

54% of Americans live paycheck-topaycheck<sup>3</sup>



<sup>1 -</sup> https://www.washingtonpost.com/us-policy/2019/05/23/americans-arent-ready-weather-sustained-downturn-new-report-shows

<sup>2 -</sup> https://www.personalcapital.com/assets/public/src/2022-Wealth-and-Wellness-Index.pdf

<sup>3 -</sup> https://www.pymnts.com/wp-content/uploads/2021/06/PYMNTS-Reality-Check-Paycheck-to-Paycheck-June-2021.pdf

## CONSUMERS USING SHORT-TERM LIQUIDITY

Velocity has identified 3 distinct groups of consumers in need of short-term liquidity:

1) Swipe & Go

#### **Use Overdraft**

- Overdraft users keep spending until you decline them
- They have determined this is the way they want to run their financial lives because they are not planners
- Aware of the fees but want their transactions paid now

INTELLIGENT LIMIT SYSTEM<sup>®</sup>

...

An automated solution that revolutionizes the way financial institutions manage overdrafts at the account level with customized limits.

2) Planners

#### **Delay Bills**

- Some planners are experts at delaying bills
- They figure out which bills have the least consequences of non-payment
- Also calculate which ones have the lowest late fees and defer accordingly

#### Get a Loan

- Many planners seek loans because they see the negative effects of bill delaying
- They also may not be able to obtain sufficient overdraft limits, don't know the FI will cover the transaction, or didn't opt in to overdraft



Small-dollar, short-term loan program that allows FIs to provide consumers with convenient access to cash at affordable interest rates

3) Pay at Your Pace

#### **Buy Now Pay Later**

- Consumers who want their purchases now, despite a lack of funds to pay in full
- Type of installment loan that comes with varying interest rates and late fees
- Makes it very easy for consumers to rack up debt on "impulse items" they wouldn't otherwise purchase

# Consumer-Friendly Alternatives







### CONSUMERS HAVE BEEN USING EXPENSIVE LOANS FOR YEARS

## And it's only going to get worse

- The payday loan industry has been estimated as high as
   \$46 billion in volume<sup>1</sup>
- Each year 12 million Americans take out payday loans, spending \$9 billion on loan fees<sup>2</sup>
- 80% of payday loans are reborrowed within two weeks<sup>2</sup>
- More than 14 million U.S. consumers are unbanked (people who are living in households where no one has a checking or savings account)<sup>3</sup>
- 7 in 10 borrowers use payday loans for regular, recurring expenses such as rent and utilities<sup>2</sup>











<sup>1 -</sup> https://www.nytimes.com/2017/10/05/business/payday-loans-cfpb.html

 $<sup>2-\</sup>frac{https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2016/01/payday-loan-facts-and-the-cfpbs-impact}{2}$ 

<sup>3 -</sup> https://www.fdic.gov/householdsurvey/2017/2017report.pdf



# PAYDAY LOAN STOREFRONTS VS. **TOP RETAIL & RESTAURANT CHAINS**

Number of US Locations, 2020



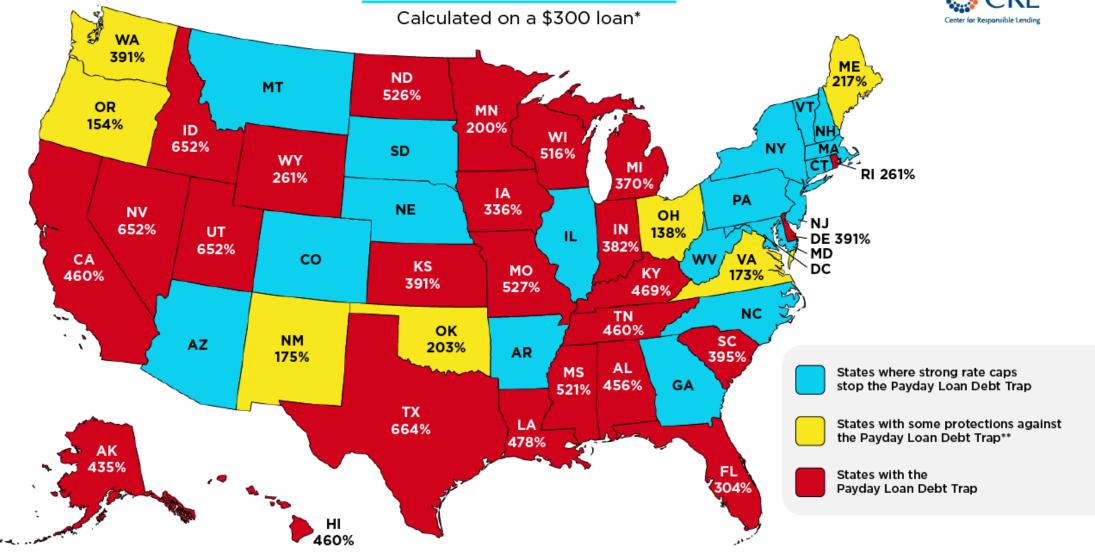
www.statista.com



https://www.restaurantbusinessonline.com/top-500-chains?year=2021#data-table

#### **U.S. Payday Interest Rates**





© 2021 Center for Responsible Lending

\*Typical APR based on rate for a 14-day loan as advertised by largest payday chains or state regulator, except where otherwise noted. \*\*States with some protections include term limits longer than 14 days (NM, OH, OK, OR, VA), limits on fees (OR, ME), and/or number of loans per borrower (WA).



# COMPETITION FOR SMALL-DOLLAR LENDING IS FIERCE

### **PAYDAY LENDERS**







CashNetUSA.



**P2P LENDERS** 











**FINTECHS** 











**BNPL FIRMS** 

...









Klarna.



# INTRODUCING OUR SMALL-DOLLAR, SHORT-TERM LOAN PLATFORM

American consumers need better access to short-term liquidity now more than ever

# What If...

You could provide your account holders with 24/7 digital access to short-term credit?



You could offer far more reasonable interest rates than other high-cost credit sources with no hidden fees?



You could implement such a program that is completely automated, compliant and requires no loan officers?



Your account holders could have the cash in their accounts within minutes?





# A BETTER METHOD OF UNDERWRITING TO BENEFIT CONSUMERS













**December 3, 2019** 

# Federal Regulators Issue Joint Statement on the Use of Alternative Data in Credit Underwriting



...

**WASHINGTON, D.C.** - Five Federal financial regulatory agencies today issued a joint statement on the use of alternative data in underwriting by banks, credit unions, and non-bank financial firms.

The statement from the Federal Reserve Board (Federal Reserve), the Consumer Financial Protection Bureau (CFPB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA) notes the benefits that using alternative data may provide to consumers, such as expanding access to credit and enabling consumers to obtain additional products and more favorable pricing and terms. The statement explains that a well-designed compliance management program provides for a thorough analysis of relevant consumer protection laws and regulations to ensure firms understand the opportunities, risks, and compliance requirements before using alternative data.

Alternative data includes information not typically found in consumers' credit reports or customarily provided by consumers when applying for credit. Alternative data include cash flow data derived from consumers' bank account records. The agencies recognize that use of alternative data in a manner consistent with applicable consumer protection laws may improve the speed and accuracy of credit decisions and may help firms evaluate the creditworthiness of consumers who currently may not obtain credit in the mainstream credit system.















# CFPB ISSUES NO-ACTION LETTER ON SMALL-DOLLAR LOAN PROGRAM

- In November 2020, the CFPB granted a no-action letter to Bank of America for its Balance Assist program, which offers loans of \$100 to \$500 for a flat fee of \$5 and an APR the bank says will not exceed 36%.
- No Action Letters (NALs) provide regulatory certainty that the CFPB will not bring a supervisory or enforcement action against the recipient of the letter.
- CFPB said it approved Bank of America's NAL to further competition in small-dollar lending, "which fosters access to credit while including important protections for consumers who seek small-dollar loan products."
- The CFPB has a no-action letter template specifically for these small-dollar loans for their supervised FIs (\$10B+ in assets). See <a href="https://files.consumerfinance.gov/f/documents/cfpb">https://files.consumerfinance.gov/f/documents/cfpb</a> bpi no-action-letter.pdf.
- CashPlease loans in their default configuration comply with the "guardrails" for CFPB's no-action letter template set forth on pages 3 and 4 of that PDF.



# CFPB SMALL-DOLLAR GUARDRAILS (NO-ACTION LETTER TEMPLATE)

- 1. Status. Applicant must be insured FI with assets \$10B+.
- 2. Eligibility. Product offered and provided only to consumers who hold deposit account with applicant.
- 3. Structure. Fixed-term, amortizing small-dollar installment loan paid back in fixed amounts over term of loan.\*
- **4. Dollar Amount.** Amount does not exceed \$2,500.
- 5. Repayment Term and Structure. Where structured as an installment loan, (i) repayment term is more than 45 days and less than one year, and (ii) payments are amortized on a straight-line basis across more than one payment.\*
- 6. No Balloon Payments. No required payment is more than twice as large as any other required payment.
- 7. Rollovers. Rollovers (extension/renewal for an additional fee) are prohibited; no new loan until last one paid off.
- 8. Underwriting. Underwriting includes transaction activity in account with applicant ("cash flow" underwriting).
- **9. Collateral.** Borrowers not required to provide collateral or any other security.
- 10. Costs and Fees. No late payment fees or prepayment penalties.
- **11. Disbursement.** Funds are disbursed into borrower's account with applicant within 3 to 5 business days after approval.
- 12. Disclosures. Consumer disclosures and marketing materials meet legal requirements and modified for online/mobile.
- **13. Servicing.** Product is serviced by the applicant, not a third party.

#### CashPlease Manages ALL of this



## FAST & EASY AUTOMATED LOAN APPLICATION PROCESS

#### Our technology automatically:

Underwrites loan amount

Offers max loan amount

Processes loan

Funds loan process

... making the entire process cost and resource efficient.

Underwriting method dramatically reduces risk.



# PROVEN UNDERWRITING MAXIMIZES APPROVALS AND MINIMIZES RISK

- In the case of the most appropriate loan amount, one approach does not fit all.
- We work with hundreds of community financial institutions and each one has specific needs, as do your account holders.
- We use compliant, experience-based analytics with multiple factors to determine ability to repay on a daily basis.

#### **Key Predictors**

- Age of Account
- # of Deposits/Month
- \$ of Deposits/Month

#### **Key Interactions**

- Changes in Deposit Regularity
- Changes in Repayment Patterns
- Changes in Deposit Amounts

You'll need a <u>650 credit score</u> or higher to even get in the door at a traditional bank for a loan.

Source: Peer Finance 101

23% of Americans are <600 10% are 600 to 649 CashPlease does not pull credit to authorize a loan Source: FICO.com



# MITIGATING SHORT-TERM LIQUIDITY RISK FOR YOU AND YOUR CONSUMERS

- 1) Will my short-term liquidity exposure double if I'm offering both overdraft and short-term loans?
- 2) By taking a second short-term liquidity product will our account holders get into a financial "ditch?"

Velocity is the only provider that has the capability of reducing the overdraft limit by the small-dollar loan amount!

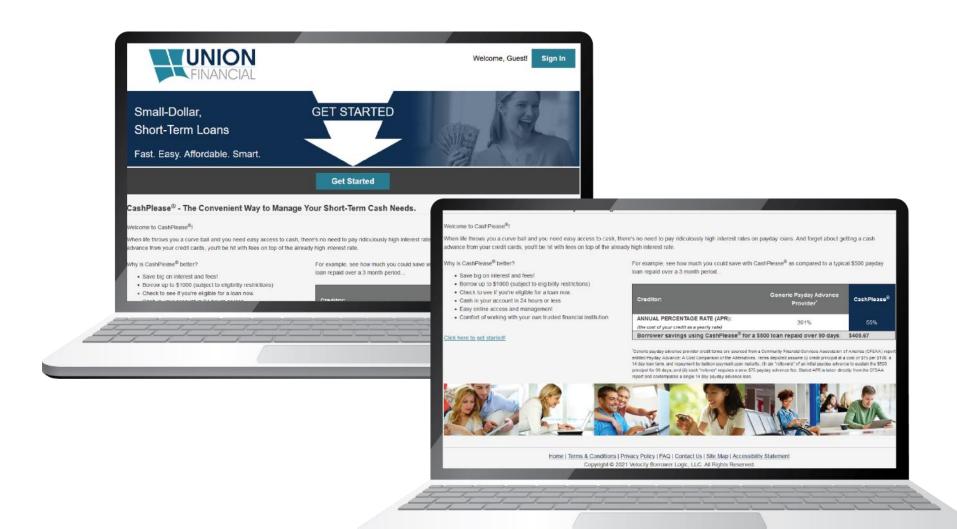
\$850 Overdraft limit (\$550) CashPlease loan \$300 New OD limit

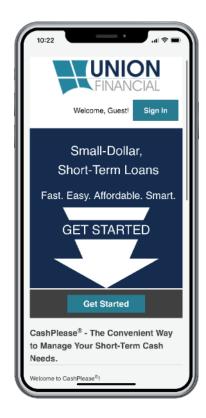
### Velocity Data (with both ILS and CashPlease)

- 28% of Checking Accounts had at least 1 NSF/OD event
- 9% had at least 1 CashPlease loan
- 2% had at least 1 CashPlease loan and 1 NSF/OD event



## CASHPLEASE – THE CONSUMER EXPERIENCE







# THE TECHNOLOGY POWERING THE CASHPLEASE® PLATFORM

Mobile Responsive Website

Email and SMS Loan Updates

Ease of Integration

Single

Sign-On

Custom

**Branding of** 

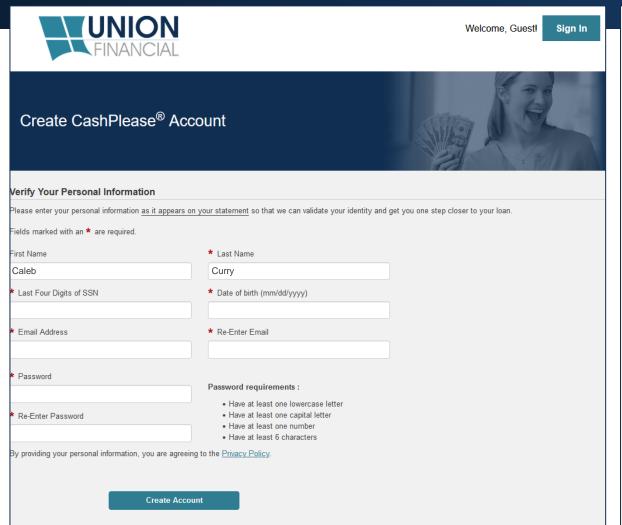
**Platform** 

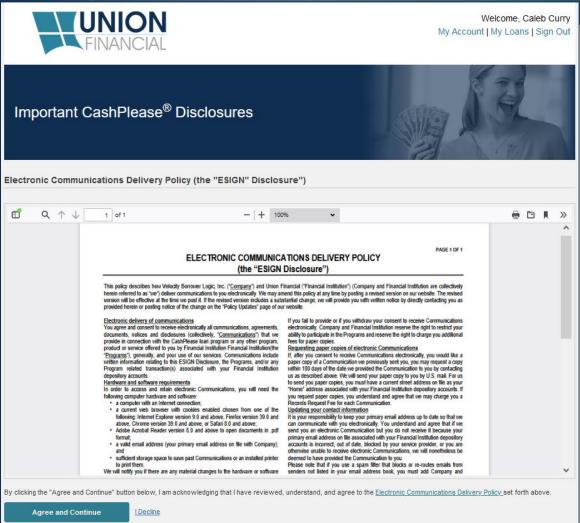
WCAG 2.0 Compliant

Military Lending Act Compliant Two Factor Authentication

Automated
Loan
Processing
to Core











Welcome, Caleb Curry
My Account | My Loans | Sign Out

# My Loans

#### To be eligible for a CashPlease® loan, you must:

- \* Not already have an active CashPlease loan
- \* Wait at least one day after paying off a prior CashPlease loan
- \* Not have three or more CashPlease loans during a six-month period

Appl

Active Loan									
Loan ID	Account Number	Principal Amount	Prepaid Finance Charge	Payment Method	ANNUAL PERCENTAGE RATE (APR)	Interest	Total of Payments	Status	Statu Date
<b>+</b> 306155	*********6062	\$ 500.00	\$ 0.00	Easy Pay	24.06 %	\$ 20.18	\$ 520.18	Pending	11/10/2



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#### My Loans



Tue Mar 30 2021

Dear Applicant:

Thank you for applying to us for a CashPlease loan. After carefully reviewing your eligibility, we are sorry to advise you that we cannot grant a loan to you at this time because your Union Financial deposit account activity does not meet our criteria to qualify you for at least the minimum loan amount of \$200. If you would like a statement of specific reasons why your application was denied, please contact us as shown below within 60 days of the date of this letter. We will provide you with the statement of reasons within 30 days after receiving your request.

...

Union Financial 1710 Dawson St. Wilmington NC 28403 910-254-9383

If we obtained information from a consumer reporting agency as part of our consideration of your application, its name, address, and telephone number is shown below. The reporting agency played no part in our decision and is unable to supply specific reasons why we have denied credit to you. You have a right under the Fair Credit Reporting Act to know the information contained in your credit file at the consumer reporting agency. You have a right to a free copy of your report from the reporting agency, if you request it no later than 60 days after you receive this notice. In addition, if you find that any information contained in the report you received is inaccurate or incomplete, you have the right to dispute the matter with the reporting agency. You can find out about the information contained in your file (if one was used) by contacting:

N/A - We did not obtain information from a consumer reporting agency as part of our consideration of your application.

Sincerely, Union Financial

Notice: The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal agency that administers compliance with this law concerning this creditor is National Credit Union Administration, Office of Consumer Protection, 1775 Duke Street, Alexandria, VA 22314.

PLEASE TAKE THE TIME TO PRINT A COPY OF THIS NOTICE FOR YOUR RECORDS.







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#### **Loan Summary**



#### Select Your Loan Amount

You have been approved for the loan amount indicated below based on your account history. If you would like to request a lesser amount, simply type in the new amount in the "Request Loan Amount" field and your final approved loan amount will be updated automatically.

Upon acceptance, we strive to have the funds in your account in 24 hours or less. If you accept the loan term set forth on this screen, please be sure to carefully review the loan documentation presented for your signature on the next screen.

LOAN OFFER	
Account Number	******6062 ~
Your Maximum Loan Amount Offered	\$500.00
Requested Loan Amount This amount must be less than the Loan Amount Offered shown above but at least \$200.00	\$500.00
PAYMENT OPTION - with Easy Pay <sup>1</sup>	
Amount Financed The amount of credit provided to you or on your behalf.	\$500.00
Prepaid Finance Charge Prepaid Finance Charge	\$0.00
Total Finance Charge The dollar amount the credit will cost you.	\$20.18
Annual Percentage Rate The cost of your credit as a yearly rate.	24.08%

Payment Schedule							
Due on	Principal Amount	Interest	Total Payment				
12/10/2021	\$ 163.54	\$ 9.86	\$ 173.40				
01/10/2022	\$ 166.54	\$ 6.86	\$ 173.40				
02/10/2022	\$ 169.92	\$ 3.48	\$ 173.38				

Total of Payments \$ 520.18

The amount you will have paid when you have made all scheduled payments.

You will not be entitled to a rebate of any prepaid finance charge if the obligation is prepaid in full or in

A late payment percentage of 25% may be imposed before maturity due to a late payment.

You should refer to the promissory note contained in your loan documents for information about nonpayment, default, the right to accelerate the maturity of obligation, and prepayment rebates and

Required 32 C.F.R § 232 Disclosure for Military Lending Act 'Covered Borrowers

Federal law provides important protections to members of the Armed Forces and their dependents relating to extensions of consumer credit, in general, the cost of consumer credit to a member of the Armed Forces and his or her dependent may not exceed an annual percentage rate of 36 percent. This Insurance premiums; fees for ancillary products sold in connection with the credit transaction; any application fee charged (other than certain application fees for specified credit transactions or accounts); and any participation fee charged (other than certain participation fees for a credit card

To receive the above disclosure and payment information by phone, a covered borrower should call the following telephone number 1-055-005-7533

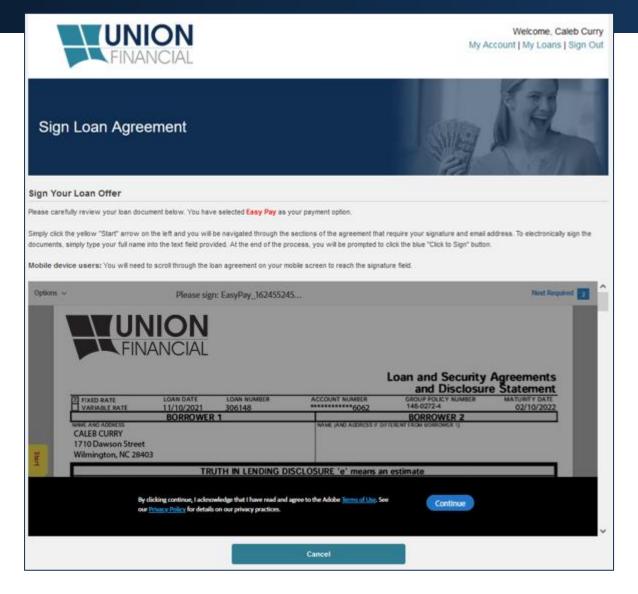
WHAT IS EASY PAY? By choosing Easy Pay, you are authorizing Union Financial to automatically and electronically withdraw your loan payments from your checking account in accordance with the "Payment Schedule" set forth above.

Accept Loan Offer with Easy Pay

View with Manual Payments

Decline Loan Offer







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My Account | My Loans | Sign Out

#### Loan Confirmed!



...

#### Loan Confirmation

Your loan process has been completed. We strive to have the funds in your account within 24 hours.

	CURRENT LOAN INFORMATION									
Loan ID	Account Number	Principal Amount	Prepaid Finance Charge	Payment Method	Annual Percentage Rate (APR)	Interest	Total of Payments	Status	Status Date	
<b>-</b> 306155	******6062	\$ 500.00	\$ 0.00	Easy Pay	24.06%	\$ 20.18	\$ 520.18	Pending	11/10/2021	<u>View/Print</u> <u>Agreement</u>

PAYMENT SCHEDULE							
Due On	Principal Amount	Interest	Total Payment				
12/10/2021	\$ 163.54	\$ 9.86	\$ 173.40				
01/10/2022	\$ 166.54	\$ 6.86	\$ 173.40				
02/10/2022	\$ 169.92	\$ 3.46	\$ 173.38				
		Total of Paymer	nts \$ 520.18				
The amount you will have paid when you have made all scheduled payments.							



# WE WORK WITH ANY CORE! Here's just a sample:

NuPoint



UltraData, Phoenix



Cleartouch, CUBE, DataSafe, DNA, Hogan, Galaxy, i-Power, ITI System, Portico, Precision, Premier, ITI, Signature, SourceOne, Spectrum, Summit, XP2-XP Systems



Hogan Systems



CIF 20/20, Core Director, Silverlake



**Episys** 



**NewSolutions** 



**CUProdigy** 



Keystone



CU\*BASE



BankPac, Bankway, Horizon,IBS, Miser, Systematics, FIS, Horizon



**FPSGold** 



i-Power



Alnova



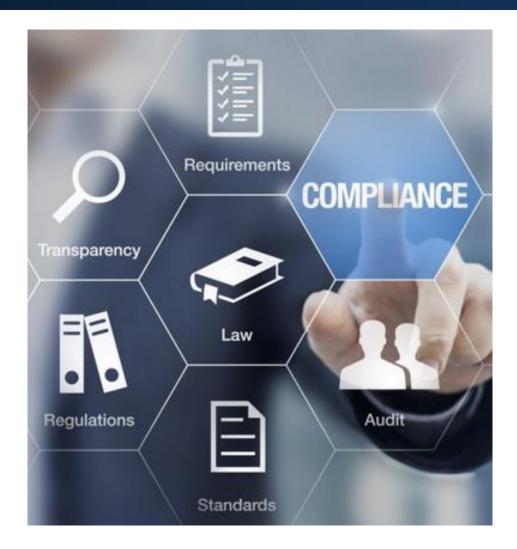
CMC



CU\*NORTHWEST



## REGULATORY COMPLIANCE



In addition to improving your revenue and service, CashPlease® aids with compliance

 Regulators are now encouraging small-dollar lending by banks and credit unions

- Regulators are also encouraging the use of alternative data in credit underwriting
- CashPlease default loan settings are 46+ days, meaning they are largely exempt from CFPB final payday rule
- Fully compliant with the Military Lending Act
- Loans may qualify for CRA credit



### MARKETING SAMPLES

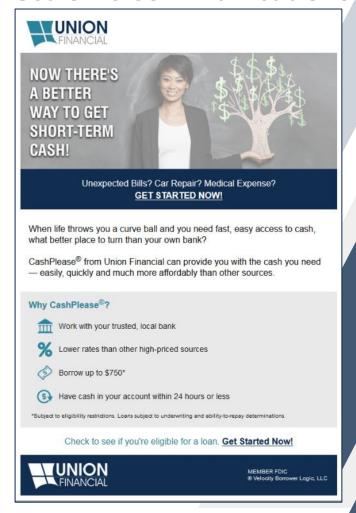
#### **Web Banners**



#### **Social Media**



#### **Electronic Communications**



#### **Print**





## DATA-DRIVEN MARKETING

Ability to market directly to your account holders who have demonstrated usage of high-cost lending sources:

- Vendor names
- Payment patterns

<b>Transaction ID</b>	Transaction Date	Amount	Description
9874621	1/2	\$23.50	POS-Payment TOYS R US #7802 2100 State Rd 3, TX
7717020	1/3	\$56.25	POS-Payment TARGET STORES 800-555-2865
5879576	1/4	\$525.00	POS-Payment PAYDAY CASH 800-555-5555
5078934	1/6	\$178.74	POS-Payment DTV*DIRECTV SERVICE 800-555-3288
6386357	1/9	\$233.00	POS-Payment PAYDAY CASH 800-555-5555
8726143	1/14	\$41.98	POS-Payment SHELL Service St. 12555 Hwy 4 East
9644047	1/15	\$25.00	POS-Payment AMAZON DIGITAL SVCS AMZN.COM/BILL WA
6889487	1/20	\$112.00	POS-Payment GROCERY EXPRESS 888-555-4321
1974268	1/24	\$45.60	POS-Payment WALMART STORES 877-555-5555
2414536	1/26	\$95.47	POS-Payment GROCERY EXPRESS 888-555-4321
9762637	1/27	\$200.00	POS-Payment UF CAR TITLE 800-555-2134
2190812	1/29	\$111.00	POS-Payment 1ST BANKCARD CTR ONLINE PMT 180402 JOE SMITH
3623882	1/30	\$27.68	POS-Payment BAMBOO WOK RESTAURANT #123

# CASHPLEASE: AN EMERGING ACQUISITION TOOL IN 2022

#### How and why should you use CashPlease as a customer/member acquisition tool?<sup>1</sup>

- CashPlease uses alternative data in underwriting that allows you to approve more loans, increase average loan sizes, reduce charge-offs and dramatically mitigate risk from groups of consumers that may be considered "too risky" in traditional underwriting methods.
- Change your targeting methodologies: reach out to new groups of consumers and serve the underbanked:
  - Millennials lacking credit history
  - Minority Populations<sup>2</sup>
  - Consumers with damaged credit
  - Lower-income Americans

- Single parents
- Immigrants
- Disabled Americans
- Elderly Americans
- It's digital, contactless and private! Let prospective account holders know they can count on you for safe, short-term loans 24/7 when they become a customer/member.
- **Be a hero** to your community's consumers and prevent them from resorting to high-priced, predatory loans.









# CASHPLEASE AS A RESPONSIBLE ALTERNATIVE TO BNPL

BNPL Market Forecast to Account for Nearly One-Fourth of World's Online Retail Sales in Five Years Klarna Class Action Alleges 'Buy Now, Pay Later' Claim Misleads Customers

...

In 2021, Americans Spent More Than **\$20 Billion**Through Buy Now, Pay Later Services

"Buy Now, Pay Later" is Sending the TikTok Generation Spiraling into Debt

- 1. https://www.sfgate.com/news/article/influencers-lead-Gen-Z-into-debt-17142294.php
- 2. https://finance.yahoo.com/news/global-buy-now-pay-later-124500871.html
- 3. https://topclassactions.com/lawsuit-settlements/money/klarna-class-action-alleges-buy-now-pay-later-claim-misleads-customers/
- https://www.fastcompany.com/90742180/buy-now-pay-later-services-have-grown-more-popular-but-there-remains-virtually-no-oversight

As BNPL Services Have Grown More Popular, There Remains Virtually No Oversight



## CASHPLEASE: FLEXIBLE PRICING AND TERMS

 Loan pricing/terms for your account holders is set by your institution and is configurable in a variety of pricing/term combinations

#### These may impact pricing/servicing:

- State Usury Laws
- Military Lending Act
  - CashPlease handles MLA automatically
- NCUA's Payday Alternative Loan Program (PAL) (applicable only to federal credit unions)
- CFPB's Payday Lending Rule
- Most Favored Lender Preemption
- Exportation Doctrine

For more detail, ask your Velocity representative for our "Pricing Restrictions" document

Pricing examples and information related to CashPlease is for your convenience. Your institution remains solely responsible for compliance with all applicable laws, regulations, guidance and regulator directives. You should consult with your legal counsel to obtain advice which you may rely upon in making your pricing and other lending decisions.

#### Sample Bank Client Pricing/Terms\*

...

	Payment Structure	Min Loan	Max Loan	Interest Rate	Prepaid Finance Fee
Bank A	3 payments/3 months	\$200	\$750	32%	\$20
Bank B	12 payments/6 months	\$200	\$1,000	30%	4%
Bank C	6 payments/3 months	\$150	\$500	25%	6%, \$25 max

#### Sample Credit Union Client Pricing/Terms\*

	Payment Structure	Min Loan	Max Loan	Interest Rate	Prepaid Finance Fee
CU A	3 payments/3 months	\$250	\$1,500	24.99%	\$0
CU B	12 payments/6 months	\$200	\$800	24%	\$6
CU C	6 payments/3 months	\$200	\$1,000	28%	\$20

\*Sample pricing does not account for all possible legal restrictions or discounts you may offer for "Easy Pay" option



## HOW TO COMBAT THE POTENTIAL LOSS OF FEE REVENUE?

# **PAY MORE TRANSACTIONS**

1

Increase account volume by acquiring new accounts that are more profitable, transact more frequently, and stay with you longer.

2

Get your existing accounts more active and transacting with you as their primary financial institution.

3

Couple access to your (potentially) lower-priced overdraft service with a premium subscription product that provides valuable benefits and services.

4

Deploy a managed, responsible overdraft management program based on ability to repay—and equipped with tools to encourage Reg. E decisions.

5

...

Provide affordable, responsible and compliant small-dollar, short term consumer loans.



