

Increasing Applications for Small Dollar Loans

A Behavioral Design Guide
for Financial Providers

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July 2023

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About ideas42



We're a non-profit looking for deep insights into human behavior—into why people do what they do—and using that knowledge in ways that help improve lives, build better systems, and drive social change. Working globally, we reinvent the practices of institutions, and create better products and policies that can be scaled for maximum impact.

We also teach others, ultimately striving to generate lasting social impact and create a future where the universal application of behavioral science powers a world with optimal health, equitable wealth, and environments and systems that are sustainable and just for all.

For more than a decade, we've been at the forefront of applying behavioral science in the real world. And as we've developed our expertise, we've helped to define an entire field. Our efforts have extended to 55 countries as we've partnered with governments, foundations, NGOs, private enterprises, and a wide array of public institutions—in short, anyone who wants to make a positive difference in peoples' lives.

We want to hear from you—contact us at financialhealth@ideas42.org with questions. Visit ideas42.org/financial-health/ and follow [@ideas42](https://twitter.com/ideas42) on Twitter to learn more about our work.

Acknowledgments

ideas42 would like to thank JPMorgan Chase & Co. for their support and our partner, Peoples Advantage Federal Credit Union, for their collaboration and commitment throughout this project. We are also grateful for the time and support of the many organizations that shared their insights with us: Capital Good Fund, Common Wealth Charlotte, Credit Builders Alliance, Financial Access Federal Credit Union, Inclusiv, Local Initiatives Support Corporation, Micro Enterprise Services of Oregon, NACDC Financial Services, and QCash Financial.

The views and opinions expressed in the report are those of the authors and do not necessarily reflect the views and opinions of JPMorgan Chase & Co. or its affiliates.

Introduction

A majority of families in the U.S. live paycheck to paycheck and are vulnerable to financial crises. Ballooning [emergency expenses](#) and [misalignments in income and expenses](#) frequently strain budgets to breaking point. People of color are especially [exposed to financial disruptions](#) and find it harder to navigate them as they have a [smaller savings cushion](#). People across the country need access to affordable credit to meet these challenges. Small dollar loans—short-term, low-cost, installment loans of, on average, \$2,500 or less—offer an affordable credit option.

Small dollar loans are not only more affordable than other common short-term credit options but also provide many customer-centric safeguards. Standards, such as those produced by [The Pew Charitable Trusts](#) for large credit unions and banks and the [Credit Builders Alliance](#) for non-profit lenders, detail some of the safeguards and benefits of small dollar loans—providing a starting point and shared ground for the responsible rollout of small dollar credit. A growing number of banks and credit unions, recognizing that the product meets numerous customer needs, now offer small dollar loans.

While small dollar loans present a number of upsides for customers relative to alternatives, many providers find that uptake is [lower than expected](#). Through structured interviews with low-to-moderate income customers eligible for small dollar loans and financial providers, we identified five main behavioral barriers preventing people from applying to get these loans:



Scarcity: Customers confronting immediate needs have limited bandwidth to consider new options for handling financial shocks or to navigate cumbersome processes.



Mental Models: Customers have existing perceptions about formal loans that keep them from considering a small dollar loan.



Ambiguity Aversion: Customers are unsure about their eligibility or their approval odds for small dollar loans and turn to more certain options, even if they would be eligible.



Trust: Customers may not trust traditional financial institutions.



Hassle Factors: Customers get derailed by complexities in the application process.

This guide offers a number of strategies that providers can leverage to increase the uptake of small dollar loans. We employ a behavioral approach to combating the common barriers holding back customers, including low-to-moderate income customers, from applying for small dollar loans. The strategies, organized into five principles, have been informed by our conversations with a number of financial providers, customers, non-profit lending organizations, and financial networks. We hope that decision-makers and those providing small dollar loans will find this guide useful in delivering an accessible and impactful product, helping more families weather financial shocks through safe, affordable credit.

Increasing Applications for Small Dollar Loans

A Behavioral Design Checklist

This resource is designed to help providers increase uptake of their small dollar loan product. In it, we lay out evidence-based tactics that draw on conversations with customers, financial providers, and financial organizations, as well as decades of behavioral science research. No one tactic is most important, and the best approach will vary depending on the provider's specific circumstances. Below, you'll find a one-page checklist, followed by a deeper explanation of each tactic.

1. Make It Relevant Send eligible customers messages that are clearly relevant to them.	<ul style="list-style-type: none">1 Is your outreach likely to reach eligible customers when they have a specific need?2 Are you highlighting the ways your small dollar loan meets your customers' needs?
2. Inspire Trust and Confidence Increase transparency, support, and credibility to build confidence in an unfamiliar product.	<ul style="list-style-type: none">3 Are you transparent about eligibility requirements, fees, and the application process?4 Can customers easily access help if they have a question?5 Do you use a friendly, positive tone and normalize customers' circumstances?6 Can customers easily find out about peers' experiences with your loan?
3. Clarify Information Ensure loan information is easy to understand and compare.	<ul style="list-style-type: none">7 Do you use plain language to communicate information?8 Do you give customers a way to understand how much they could be eligible for?9 Do you compare your small dollar loan product to common alternatives?
4. Facilitate Action Help customers follow through on their intentions by simplifying steps and providing resources.	<ul style="list-style-type: none">10 Have you simplified the application process?11 When steps can't be removed or simplified, do you provide tools and resources to make applying as easy as possible?
5. Increase Eligibility Expand your market by helping potential borrowers become eligible.	<ul style="list-style-type: none">12 Are potential borrowers prompted to consider and prepare for their future needs?13 Do you highlight progress to motivate potential borrowers?14 Are you preparing denied borrowers to become eligible?

Make It Relevant

Send eligible customers messages that are clearly relevant to them.

1 Is your outreach likely to reach eligible customers when they have a specific need?

There is often a gap between when people learn about small dollar loans (if they hear about them at all) and when they need money, making it less likely they will remember these affordable products when they're in a crunch. Many customers that could benefit from small dollar loans live paycheck to paycheck and frequently juggle complex financial lives. This can lead them to rely on solutions they've tried in the past (even if sub-optimal), rather than explore new options. Providers should proactively remind eligible customers about their small dollar loan products at moments when they have a specific need. 🗓️

💡 Here are a few times when people are likely to need a small dollar loan:

- ▶ Back-to-school season
- ▶ Winter, which can be costly with expenses such as heating bills, winter tires, and medical costs (e.g., flu season), as well as costs associated with celebrating holidays
- ▶ When there are notable price spikes, such as higher gas prices, which can affect transportation costs, as well as the prices of goods and services

Reminder:

Living expenses are not the only expenses people should be financially prepared for. In some communities, spending during certain events is central to individuals' sense of self, pride, and social standing. Providers should keep this in mind when timing messages about their small dollar loans. For example, a community development financial institution (CDFI) on a Native American reservation reminds customers about their small dollar loans before and during powwows, Easter, Christmas, and back-to-school season when they know their customers will be spending money.

🔍 **Data-driven solution:** Providers can use account data to **identify moments of need**, such as when customer account balances are low, they take out an unusually large sum of money, or they've recently overdrawn their account.ⁱ


🗓️ SCARCITY

When people experience a chronic lack of resources, like money or time, [it affects how they make decisions](#). This can lead to relying on solutions we've tried in the past. People living paycheck to paycheck or earning low incomes are especially likely to experience this chronic scarcity and its effects.

ⁱ We recommend using this data-driven solution as an identification or segmentation tool, rather than as a personalization tool. For example, once you identify a customer who could benefit from a small dollar loan at a particular moment in time, send a generic message about your product rather than highlighting the specific reason you selected them to receive the message.

2

Are you highlighting the ways your small dollar loan meets your customers' needs?

Underwriting criteria for small dollar loans differ from other formal financial products that customers are more familiar with, like credit cards and auto loans. However, customers who have not taken out a small dollar loan are unlikely to know this. Instead, these customers may use their experience and knowledge of other financial products to assume that small dollar loans are difficult to get, such as requiring certain credit scores, or will not fit their needs, such as having a time-consuming application process, being restrictive, or designed for large purchases. This can keep customers from considering small dollar loans simply because they are relying on incorrect mental models. Small dollar loan providers can counteract these mental models by highlighting the ways small dollar loans are designed to meet customer needs. 

Here are a few things to highlight in messaging about small dollar loans:

- ▶ **Uses:** Highlight what other customers have used their small dollar loans for, such as car repairs, medical expenses, rent and utilities, end of year holidays, and back-to-school expenses.ⁱⁱ
- ▶ **Differentiators:** Highlight features that make small loans unique. For example, specify that there is no credit check, that customers can have money in their account in days or hours, or that they're judgment-free—it doesn't matter what they need the money for.

Data-driven solution: Providers can use account data to **identify relevant uses** for particular customers.

- ▶ For customers who have made payments to payday lenders, highlight the ways your small dollar loan compares to payday loans.ⁱⁱⁱ
- ▶ For customers with high spending in December based on past years' data (high heating, holidays, etc.), highlight that other customers have used small dollar loans to cover end-of-year costs.

MENTAL MODELS

Mental models are shortcuts that help us navigate the world as efficiently as possible. They're effective when they're accurate, but potentially troublesome when they're not. Many people have mental models that formal financial institutions are strict and alternatives like overdraft or payday lenders are easy. This means that, in a bind, they're more likely to turn to costly alternatives than a more affordable small dollar loan.

ⁱⁱ We have not differentiated between “unexpected” and “predictable” expenses. While these designations can be useful for understanding customer needs, small dollar loan providers need to be careful about stigmatizing certain financial needs and harming the customer relationship. Additionally, unexpected and predictable expenses are [interrelated](#). Responsible lending practices should ensure that taking out a small dollar loan for a “predictable” expense does not lead to a debt cycle.


ⁱⁱⁱ We recommend using this data-driven solution as an identification or segmentation tool, rather than as a personalization tool. For example, in lieu of, “We noticed you've been making a lot of payments to payday lenders—we have a more affordable alternative,” consider something like, “By switching from payday lenders, our [Loan Name] borrowers have saved \$XX. Find out if you're eligible.”

Inspire Trust and Confidence

Increase transparency, support, and credibility to build confidence in an unfamiliar product.

3

Are you transparent about eligibility requirements, fees, and the application process?

When people are deciding where to get a loan, they **value certainty**. Will I be approved? When will I get the money? How much will it cost me? This is in part because people don't like ambiguity: when choosing between options, people tend to pick the option that feels more certain. For example, **many check-cashing customers report they prefer to pay a flat fee** they understand rather than deal with unexpectedly having to pay charges and fees at a bank. Small dollar loan providers should be transparent and concrete about eligibility requirements, fees, and how long processes will take. Burying this information in footnotes or using vague language can, at best, introduce enough ambiguity to detract customers and, at worst, come off as intentionally hiding important information. 



Here's how to describe your small dollar loan:

- ▶ Specify how long each step in the process will take in units of time (e.g., minutes, hours, days).
- ▶ List out all the fees and costs of the loan and repayment terms. If there are no fees, make sure to explicitly state that.
- ▶ Share an example loan so customers can easily understand costs and terms.
- ▶ Clearly state eligibility criteria. If your loan does not require a credit check, say, "No credit check."
- ▶ Give your small dollar loan product a name that emphasizes attributes customers care about, like speed or certainty. For example, Peoples Advantage Federal Credit Union's small dollar loan is called Fast Cash, and Truist's is called Ready Now Loan.
- ▶ After customers submit their applications, send them updates about their application.

Go deeper:



Develop an online calculator that calculates the cost, time to decision and disbursement, and other key attributes based on information the customer provides (e.g., amount of loan, installment period, etc.). If possible, show users how using alternatives like payday loans and overdraft for the same need would compare.



AMBIGUITY AVERSION

People tend to dislike ambiguity or uncertainty, avoiding options they consider ambiguous or missing information. This means that customers might not apply if 1) there is doubt or uncertainty about their likelihood of being approved, or 2) they aren't certain they will get enough funds to cover their needs. Alternatives that feel more certain may be more attractive, even if they are more expensive.

4 Can customers easily access help if they have a question?

Taking out a loan, even a small dollar loan, can feel like a significant decision. The application process will feel especially ambiguous for first-time customers who will likely to want to confirm they understand the loan and make sure they have completed the process correctly. Research shows that access to a loan officer can [increase the probability of loans being issued](#) and improve institutional trust. By offering personalized assistance and support, providers can increase take-up by [reducing ambiguity](#) throughout the application process, and simultaneously build trust and confidence in their institution.  

Maximize the impact of customer service representatives by:

- ▶ Providing customers with a direct phone number they can call to discuss their eligibility. This number should be easy to find in marketing materials.
- ▶ Offering customer support through multiple channels, including live chat, phone, and in-person assistance.
- ▶ Training anyone who interacts with customers to understand your products and communicate about them effectively. This might include providing customer service representatives with talking points that explain details about your small dollar loan product to ensure they answer customer questions clearly and confidently.
- ▶ Translating customer support materials into the languages spoken by your customers.
- ▶ Making customer-facing materials accessible to people with disabilities by using high-contrast colors and larger fonts, providing transcripts of audio and video content, and making sure your website is compatible with screen readers and other assistive technologies.

Lower cost ways to offer help:

- Develop a detailed FAQ page and update it frequently to reflect common questions with actionable instructions or information.
- Add FAQs directly into the application. For example, when asking customers how much they want to borrow, you can add the most frequently asked question about loan amount (see image below).

Enter your desired loan amount: Not to exceed \$2000

Frequently asked question:
How much am I eligible for?

We cannot guarantee how much you will be eligible for until we receive your application, but we look at how much money has gone in and out of your account to make our decision. For example, if you have deposited at least \$500 into your account each month for the last 3 months, you are likely to be approved for at least \$1,000.

Please select your payment date: 1st 3rd 5th 10th
 15th 20th 25th

Frequently asked question:
Will I be able to change my payment date?


Yes, you can change your payment date either in your mobile banking app or by calling us at 1-800-123-4567.

This is the date of each month that your payment will be automatically withdrawn.

This mockup is intended for illustrative purposes only and should be adjusted for your context.

5

Do you use a friendly, positive tone and normalize customers' circumstances?

Most small dollar loans are offered alongside traditional financial products, many of which have not historically been available to people with low credit scores or limited banking history. As a result, customers will likely assume small dollar loans are similar to these other products. If they have a [mental model](#) that they will be rejected for a formal loan, they are likely to assume the same is true of small dollar loans. Additionally, customers who have bad experiences with financial services or who [expect to be stigmatized](#) because of their financial situation may think they will have a similarly negative experience when applying for a small dollar loan. Using a friendly, positive tone that normalizes customers' circumstances can encourage less-experienced customers to feel more comfortable and [take action](#), like applying for a small dollar loan, [even if they're facing financial hardship](#). 

Example phrases that use a friendly, positive tone without judgment:

- ▶ “We know things happen”
- ▶ “Life gets in the way at times”
- ▶ “We’re here for you”
- ▶ “Have you experienced a few unexpected expenses this fall and need some extra cash for holiday presents?”
- ▶ “Don’t want to dip into your savings for that car maintenance?”


Go deeper:

Show empathy through action by:

- Training employees to deliver information about the loan clearly and free of judgment.
- Referring customers to a different product that might be a better fit (e.g., a credit builder loan if someone isn't eligible for small dollar loans).
- Being flexible with the application fee, either by waiving it or taking it out of the loaned amount. For example, instead of requiring a \$20 fee upfront, a customer approved for \$500 would receive \$480.^{iv}
- Waiving the application fee the first time a customer gets rejected.

^{iv} This strategy needs to conform to regulations and policies. For example, [per the NCUA](#), the effective APR/interest rate cannot exceed 28% for any Payday Alternative Loan product for credit unions. If any waivers are baked into the loan proceeds, this needs to be accounted for.

6 Can customers easily find out about peers' experiences with your loan?

When people consider trying something new, they often [look to others](#), especially [peers](#), to make a decision. While small dollar loans are increasingly popular, their uptake pales in comparison to [payday loans](#) or [borrowing from friends and family](#). Because many people [don't trust the financial services sector](#)—particularly [people of color](#) who have valid reasons for their distrust^v—not knowing that someone like you has taken out a small dollar loan from a formal financial institution can allow that distrust to persist and reduce the likelihood of applying. Knowing that others—especially peers—were approved for their loan and had a good experience can encourage new customers to apply for your small dollar loan. 

Share information about peers' small dollar loan experience on your marketing materials by:

- ▶ Providing statistics around usage and repayment shows that other people are using and benefiting from these loans, such as:
 - “90% of our customers qualify for this loan.”
 - “87% of customers who took out a small dollar loan would recommend it to others.”
 - “This is our fastest growing product: twice as many customers have used it this year as last year.”
- ▶ Highlighting testimonials and success stories from customers from diverse backgrounds. These testimonials can explain how your small dollar loan helped them in a time of need or how the application experience was easier than expected.
- ▶ Facilitating word of mouth through strategies like offering an incentive that motivates existing customers to refer their friends and family.



I didn't think I would get the small dollar loan because my credit score isn't great. But I needed the money to get my car fixed and they said they wouldn't look at my credit score, so I tried it out. And I got it! The money was in my account in less than 5 minutes!



—Vivien, customer since 2018

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TRUST


Trust is the willingness to rely on a person or organization to follow through on their statements. Customers are [less likely to do business with businesses they don't trust](#), including financial services providers.

^v Baradaran, M. (2017). *The Color of Money: Black banks and the racial wealth gap*. Harvard University Press.


Clarify Information

Ensure loan information is easy to understand and compare.

7 Do you use plain language to communicate information?


Many customers who could benefit from small dollar loans manage complex financial lives, [spending a lot of mental energy](#) to make ends meet and regularly dealing with unexpected expenses. Alternative lenders, like payday lenders, design their products and marketing [with this reality in mind](#). Information about loans is clearly stated and prominently displayed, reducing the effort customers must put into understanding their options and [reducing ambiguity](#). Providers should similarly ensure that their small dollar loans are described in clear, simple language, making it easier for customers to understand eligibility criteria, their likelihood of approval, and costs. 

Here's how to ensure you're using plain language:

- ▶ Borrow tactics from alternative financial service providers, such as using “menus” with cost information (e.g., “Small Dollar Loan—\$5 fee for every \$100 borrowed”).^{vi}
- ▶ Either remove or clearly define industry jargon, like “collateral,” “grace period,” “origination fee,” and others.
- ▶ Key information (e.g., costs, duration, eligibility, caveats) should be in a legible font size, even if the same information is repeated in smaller font in footnotes.
- ▶ Test language with customers to confirm they find it easy to understand.
- ▶ Use  [tooltips](#) throughout your website to provide additional information and definitions without cluttering.
- ▶ Make information available in the languages spoken by your customers and [accessible to people with disabilities](#).

Tip:


When using annual percentage rate (APR), include an explanation or example. For instance, for a \$1,000 loan with a \$50 fee, you might say: “Your monthly payment will be \$175 and your total repayment amount over 6 months will be \$1,050 with an effective APR of 16.95%.”^{vii}

 **What are tooltips?** Tooltips are often used to provide more information about an icon, button, or hyperlink, without requiring the user to navigate to a different page or interrupt their workflow. Tooltips can enhance the user experience by providing contextual information and making it easier for users to understand the purpose and functionality of different elements on a website.

^{vi} Servon, L. (2017). *The Unbanking of America: How the new middle class survives*. Houghton Mifflin Harcourt.


^{vii} Please refer to industry standards produced by [The Pew Charitable Trusts](#) and the [Credit Builders Alliance](#) that detail some of the safeguards for designing small dollar loans.

8 Do you give customers a way to understand how much they could be eligible for?

When customers experience a financial shock, they need a specific amount of money: [\\$1,000 to repair their car](#) or [\\$1,300 for a health emergency](#). Uncertainty around whether they'll be able to get the full amount from a small dollar loan introduces complexity into their efforts to cover their costs. Should they look for other sources for the remaining funds they need, or will this be enough? Because [people don't like ambiguity](#), customers choosing between a small dollar loan and an option that feels more certain are likely to choose certainty, even if it's an expensive payday loan option. Small dollar loan providers should offer customers information that gives them a way to understand how much they could be eligible for, increasing their peace of mind and making small dollar loans a more appealing option. 

Ways to help customers understand how much they could be eligible for:

- ▶ State what factors determine loan amounts.
- ▶ Provide examples of real customers, their loan amount, and specific information that affected how much they were approved for.




Meet Dan...

- ✓ He has been a customer for 12 months
- ✓ He gets a paycheck of \$1,200 every two weeks via direct deposit
- ✓ He has at least \$5 in all his accounts

Dan is eligible for a \$1,000 loan at 28% interest!



His monthly payment would be \$180/month for six months.

This mockup is intended for illustrative purposes only and should be adjusted for your context.

 **Data-driven solution:** Providers can use account data to **identify which customers are likely eligible** and for how much. For example, if you know a customer is eligible, rather than clearly stating eligibility criteria, you can say, “Based on your account status, you are eligible for a loan of at least \$1,000. A \$1,000 loan at a 28% interest rate means that your monthly payment will be about \$180 per month for six months.”^{viii}

^{viii} This strategy needs to conform to appropriate prescreen regulations and policies. For example, providers might not be able to guarantee customers are eligible for exact amounts.

9 Do you compare your small dollar loan product to common alternatives?


When customers need to cover cash flow mismatches and financial emergencies, they choose from a set of solutions they are familiar with: from delaying bills and borrowing from friends and family to selling something or taking out a harmful loan from a nonbank lender. In these moments of *scarcity*, customers are also less likely to explore new options and *more likely to be tripped up by hassles*, such as the hassle of figuring out how the terms of a small dollar loan compare to an alternative they have used in the past. Providers can position their small dollar loans as a viable competitor to these alternatives and make it easy for customers to understand their benefits by providing simple, clear comparisons between their small dollar loan product and common alternatives.  

 **Highlight how your loan compares on features customers care about, like cost, speed, loan amount, and ease of application. Comparisons can take the form of:**

- ▶ A comparison table.
- ▶ A user journey map of the steps a customer would need to take to apply for your small dollar loan compared to the steps they would need to take for an alternative.
- ▶ An interactive tool that compares the costs and terms of your small dollar loan to alternatives based on the amount the customer needs.

	SMALL DOLLAR LOAN	Payday Loan	Bank Overdraft Protection	Cash Advance Apps
Money available in minutes	✓	✓	✓	✓
Pay back over multiple months	✓	✗	✗	✗
Builds credit history	✓	✗	✗	✗
Apply on your phone	✓	✓	✗	✓

This mockup is intended for illustrative purposes only and should be adjusted for your context.

 **Data-driven solution:** Providers can use account data to **identify customers using payday loans or other more expensive products**, then send those customers targeted messaging showing how your small dollar loan compares on cost, ease, or speed of approval.^{ix}

HASSLE FACTORS

Hassle factors are seemingly minor inconveniences in a process. Behavioral science research shows that hassles, like *collecting documentation* or *navigating complicated forms*, can prevent us from following through on our intentions, especially when we're *dealing with scarcity*.

^{ix} We recommend using this data-driven solution as an identification or segmentation tool, rather than as a personalization tool. For example, in lieu of saying, "We noticed you've been making a lot of payments to payday lenders," simply share information like, "On average, our product saves former payday loan borrowers \$200 in interest payments for every \$500 they take out as a loan."

Facilitate Action

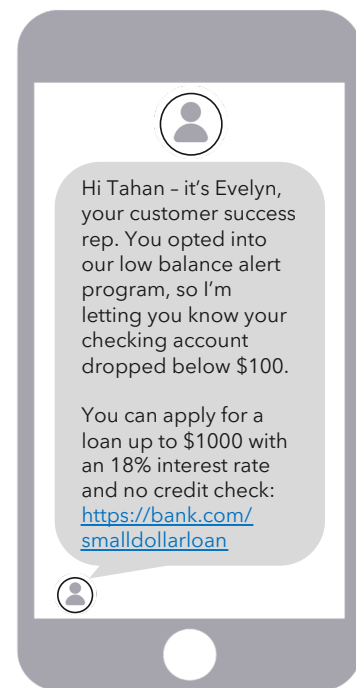
Help customers follow through on their intentions by simplifying steps and providing resources.

10 Have you simplified the application process?

Customers needing a loan place a premium on **speed**, especially when dealing with a financial emergency. Additionally, each extra step in an application process has the potential to become a **hassle** and derail customers. As a result, small dollar loan application processes should aim to be quick and easy to complete. Providers should consolidate or eliminate as many steps as possible, especially those that may involve multiple or uncertain steps. 🌀

💡 **In addition to removing requirements, here are other ways to simplify the application processes:**

- ▶ Ensure messages about your loan product contain links that easily direct customers to the application.
- ▶ Simplify application forms and interfaces to clarify where customers need to fill in information.
- ▶ Remove questions asking customers to share information you already know about them, or use administrative data to pre-fill those questions.
- ▶ Offer limited choice sets for certain questions. For example, when asking how much a customer would like to apply for, you can provide multiple choice options, such as “\$250, \$500, \$750, \$1000, or other,” that could help speed up the process.
- ▶ Allow customers to submit applications and supporting documents via phone cameras.



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Tip:

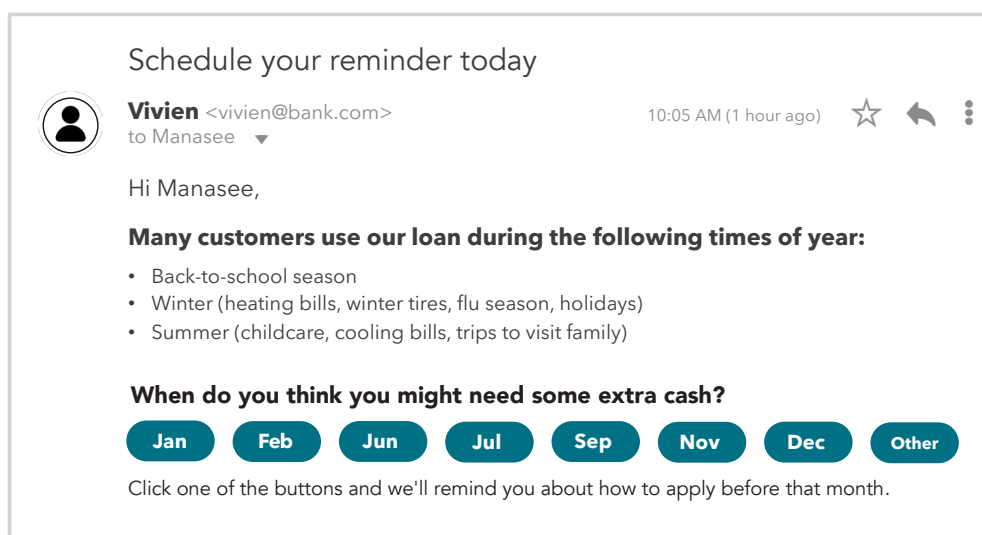
Many providers—from small community development financial institutions (CDFIs) to credit unions and banks—rely on the growing number of companies (such as *QCash Financial*, *Happy Mango Credit*, and *Velocity Solutions*) for automating their small dollar loan underwriting and origination. Automation also makes it faster for customers to apply and receive a small dollar loan.

11 When steps can't be removed or simplified, do you provide tools and resources to make applying as easy as possible?

It's not always possible to remove or simplify steps in application processes, such as those required by regulators. In these situations, providers should reduce the impact of these hassles by offering customers tools that make it easier for them to navigate the process and keep them motivated. This is especially important for manual small dollar loan applications that usually have more steps and take more time to complete. For example, creating a [detailed plan](#) can help customers anticipate and navigate obstacles. Reminders can provide needed accountability, support, and feedback to help customers follow through on their plans. 🌀

💡 Tools and resources to use:

- ▶ **Reminders:** Send customers reminders about steps they need to complete and deadlines.
- ▶ **Plan-making prompts:** Prompt customers to identify when and how they will complete steps.
- ▶ **Checklists:** Use checklists so customers can easily see the information they need to collect or the steps they need to take to complete their application.
- ▶ **Timelines or progress bars:** Use timelines and progress bars to communicate how long steps will take, and help customers visualize where they are in the process and how much further they need to go.



This mockup is intended for illustrative purposes only and should be adjusted for your context.

Increase Eligibility

Expand your market by helping potential borrowers become eligible.

12

Are potential borrowers prompted to consider and prepare for their future needs?

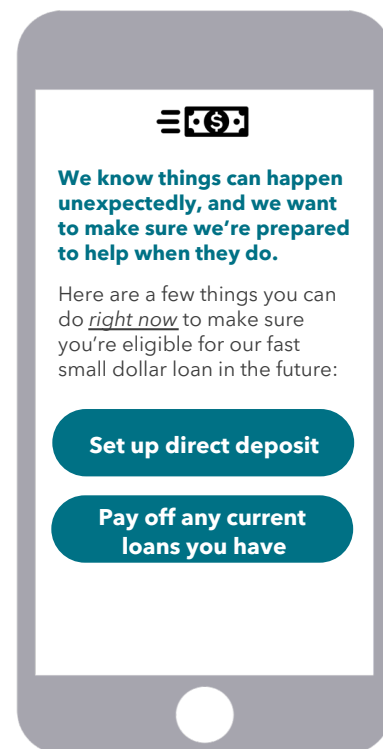
Most small dollar loan products require borrowers to meet eligibility requirements before they can borrow, which can require planning, often months ahead of their financial need. However, people living paycheck to paycheck are often forced to focus, or [tunnel](#), on their immediate needs, which can crowd out thinking about future ones. They are also frequently in situations where they need to find quick solutions to those immediate needs so those that are not yet eligible cannot wait to become eligible. Small dollar loan providers can help more potential borrowers take advantage of small dollar loan products by prompting them to consider and prepare for future needs. 📱

💡 To prompt potential borrowers to consider and prepare their future needs:

- ▶ **Concretize future needs:** Remind potential borrowers that financial emergencies happen, such as a car breaking down or unexpected medical expenses, and that your product can help them weather those emergencies.
- ▶ **Use tools and resources that facilitate action,** like helping borrowers make a plan and reminding them of next steps.

Tip:

Help more potential borrowers become eligible for your small dollar loan through your account opening process. For example, if your eligibility criteria include direct deposits of \$300, you can nudge customers to set that up during account opening. Offer a brief explanation of the loan, highlighting its benefits, then list out actions the customer can take during their account set up to become eligible. For each of the actions potential borrowers select, guide them through the steps to complete those actions.



This mockup is intended for illustrative purposes only and should be adjusted for your context.

13

Do you highlight progress to motivate potential borrowers?

Becoming eligible for a small dollar loan may take time. Potential borrowers may need to meet requirements over a period of time, like meeting direct deposit minimums or having an account at an institution for three months. Showing potential borrowers that they've already made progress toward becoming eligible can encourage potential borrowers to take action thanks to the **endowed progress effect**. Highlighting progress can also remind potential borrowers of the loan, increasing the likelihood that they will remember it once they are eligible. Providers should help potential borrowers understand where they are in the process and what steps remain, and use affirming language to highlight that they are on their way to their goal. 🎯

💡 Here's how to highlight progress on the potential borrower application journey:

- ▶ Use tools like progress bars and checklists to show borrowers what steps they have completed and what they have left to do.
- ▶ Use encouraging language to highlight the progress potential borrowers have made.




This mockup is intended for illustrative purposes only and should be adjusted for your context.

💡 **What is endowed progress effect?** Providing people with information about either real or artificial advancement toward a goal can increase their motivation to complete that goal.

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Are you preparing denied borrowers to become eligible?

Not everyone who applies for a small dollar loan will be approved, but those denied borrowers could still become viable ones in the future. If they don't understand why they were rejected or what they could do to become eligible, they are less likely to apply in the future. A lack of transparency about why a borrower was denied can reinforce harmful existing [mental models](#) about formal loans and is a missed opportunity to reduce ambiguity for the customer. These potential borrowers may also tell their friends and family about the experience, making it more difficult to attract more eligible customers. To encourage denied borrowers to apply again in the future, providers should clearly explain why they were rejected and offer next steps. 



Reduce the negative impact of being denied for a loan:

- ▶ Specify why the customer was denied in clear, simple language.
- ▶ Provide pathways to approval, like highlighting which criteria a potential borrower has not yet met and prompting them to outline steps they will take to become eligible.
- ▶ Refer denied borrowers to different products that might be a better fit, such as a line of credit for frequent cash flow shortfalls.
- ▶ Share testimonials from previously rejected customers detailing how they felt and what they did to get the loan the next time they applied.
- ▶ Refer customers to local service providers such as [United Way](#) and [Financial Opportunity Centers](#), or tools such as [The Opportunity Finder](#), to ensure they can get the immediate assistance or financial coaching support they need.

Tip:

Adverse action notices, like many legal documents, are often required by law and cannot be changed. These documents also go against many of our recommendations: they are filled with legal jargon, dense, and can feel harsh. To counter the negative impact of these letters on denied borrowers, providers should make sure they are not the first message customers see about their rejection. Instead, providers should send clear, simple messages explaining the rejection and possible next steps with the adverse action notice attached.

Conclusion

Small dollar loans have the potential to give low-to-moderate income customers an important tool for navigating cash shortfalls and emergency expenses. However, simply making them available is not sufficient to ensure they reach the customers who could most benefit. By addressing key behavioral barriers—scarcity, mental models, ambiguity aversion, trust, and hassle factors—small dollar loan providers can increase uptake of a more affordable option, support their customers' financial health, and increase trust in their institutions.

No one tactic is most important, and the best approach will vary depending on the provider's specific circumstances. It is crucial for practitioners to start with a few tactics, learn from the results, and gradually expand their efforts based on what works best for their institution and their customers. By taking a thoughtful and incremental approach, small dollar loan providers can meet their customers' needs so they can have a financially secure present and a self-determined future.

