

# Breaking Down Barriers to Affordable Credit:

*Increasing Access to Small Dollar Loans*

July 13<sup>th</sup>, 2023

Welcome! We'll get started a few minutes past the hour.



Thursday, July 13th at 12 p.m. ET

# Increasing Access to Small Dollar Loans

**Panelist**



**Vivien Caetano**

Principal Behavioral Designer,  
ideas42

**Panelist**



**Tahan Menon**

Associate Behavioral Designer,  
ideas42

**Panelist**



**Justin Cousins**

Chief Risk Officer, Peoples  
Advantage Federal Credit Union

**Moderator**

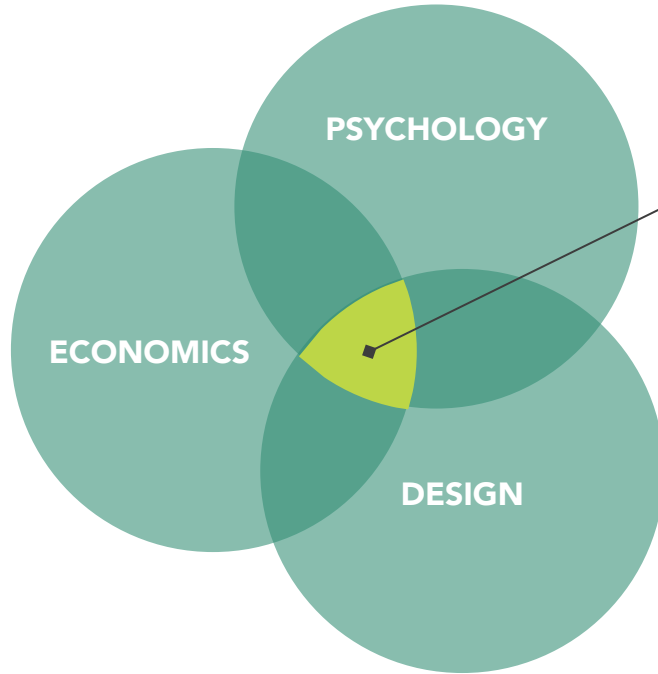


**Dan Rosica**

Senior Behavioral Designer,  
ideas42

# What is ideas42?

---



**ideas**<sup>42</sup>

We apply insights from **behavioral science** – why people do what they do – to help **improve lives, build better systems,** and **drive social change.**

# We want to hear a little bit about you!

---



# There is an important need for affordable credit, especially among communities of color

---

**40% of people in the US would need to borrow money to cover a surprise \$1,000 expense.<sup>1</sup>**

**At all income levels, Black and Hispanic adults are more likely to face difficulty paying bills.<sup>2</sup>**

**Communities of color are disproportionately targeted by high-cost, predatory loans.<sup>3</sup>**

1. [Bankrate, 2023](#); 2. [SHED, Federal Reserve, 2022](#); 3. [Center for Responsible Lending, 2020](#)

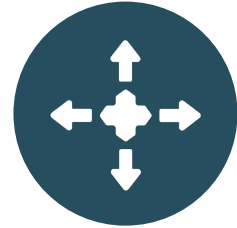
# Small dollar loans have the potential to meet this need for affordable credit



Short-term, **low-cost loans** of generally \$2,500 or less



Decisions about lending are made based on **alternative data** like cashflow, which **can be more equitable**



Offered by **banks, credit unions, and non-bank lenders**

# But questions remain about how to offer small dollar loans at scale...

---



**Profitability:** Some providers question whether small dollar loans are sustainable.



**Impact and equity:** Simply offering small dollar loans doesn't mean people will use them.



**Behavioral design can increase take-up** in ways that support small dollar loan sustainability and customer financial health

# Our goal: Develop behavioral design strategies that support sustainability and impact of small dollar loans

---

1

## Identified

**barriers** across financial providers and for low-to moderate-income customers

2

Generated **behaviorally-informed strategies** to address barriers

3

Aligned with major players to ensure the strategies are **actionable and applicable**



# Our goal: Develop behavioral design strategies that support sustainability and impact of small dollar loans



# How we developed behavioral design strategies for increasing access to small dollar loans



Engagement with broader industry players and financial providers



Review of currently available small dollar loan products across the industry



Partnership with Peoples Advantage Federal Credit Union

# Peoples Advantage Federal Credit Union (PAFCU)

---

Our mission is to **enable the underserved, unbanked, and no credit population** to build and fulfill their dreams by taking the peoples "advantage."



# Fast Cash, PAFCU's small dollar loan

## Sustainable Product



28% interest rate



99% graduation rate to other, more affordable loan products

## Quick and Easy Application and Decision



Apply in six clicks



Decision is as little as 60 seconds



No credit check - based on cash flow and relationship

# 5 behavioral barriers providers will need to design for to increase applications



Scarcity



Mental Models



Ambiguity Aversion

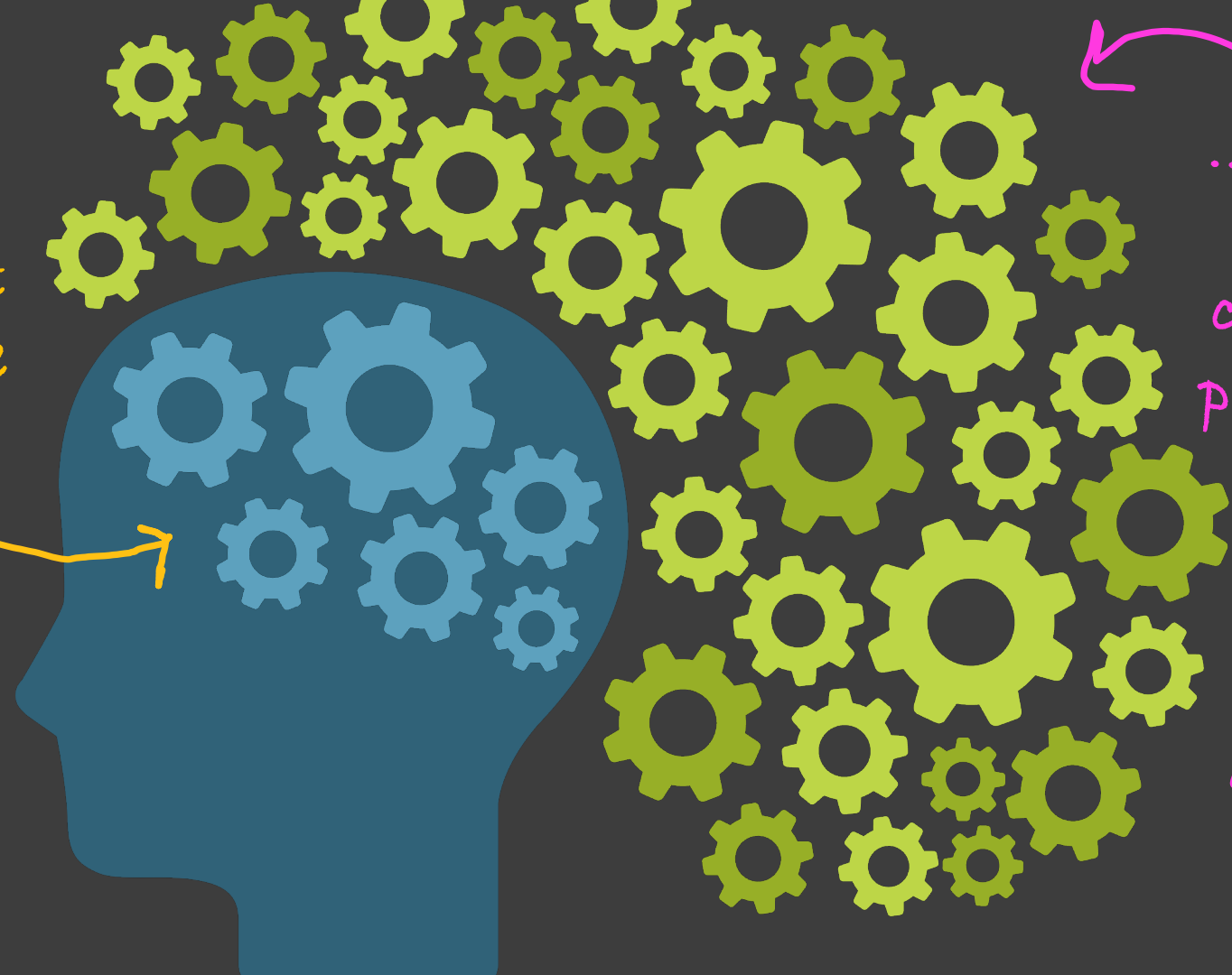


Trust



Hassle Factors

we can't  
change  
this...



...but we  
CAN  
change  
parts of  
this!

# Customers with low-to-moderate incomes are sophisticated financial managers



They are managing complex financial lives...



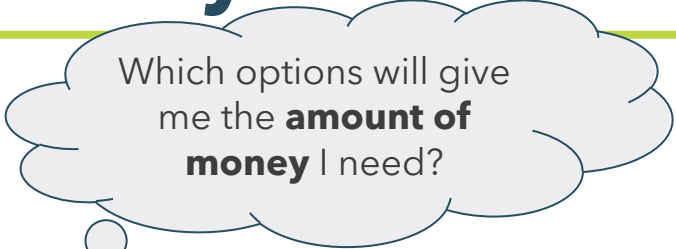
...with very little room for error



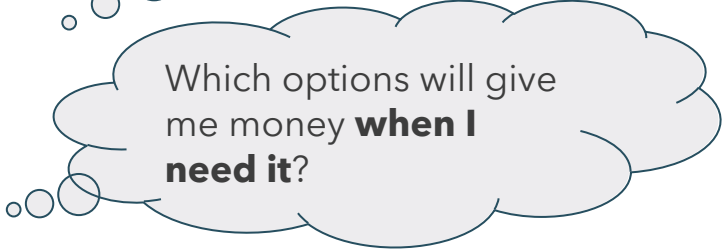
# Problem-solving under scarcity

## What have I done in the past?

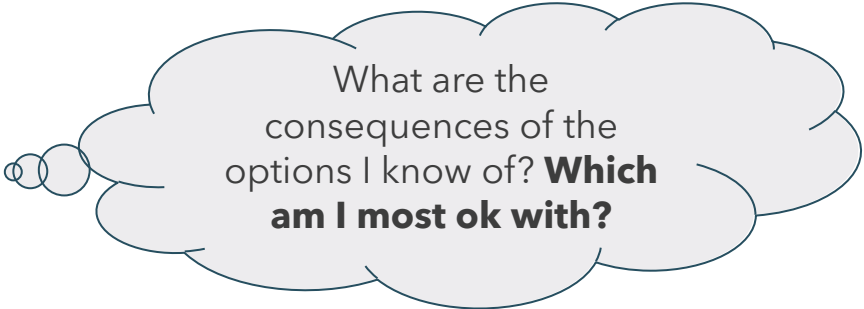
- Put off bills or delaying other expenses
- Used a credit card or overdraft
- Taken out a payday and other predatory loan
- Borrowed from friends and family



Which options will give me the **amount of money** I need?



Which options will give me money **when I need it?**



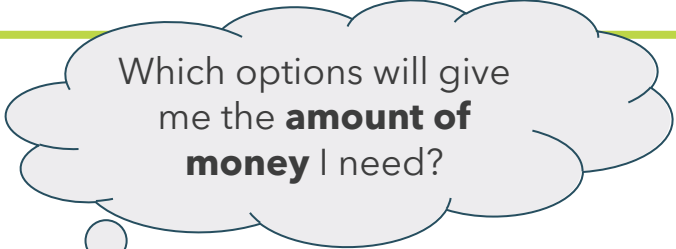
What are the consequences of the options I know of? **Which am I most ok with?**



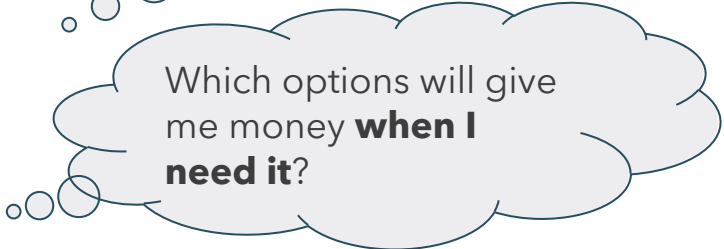
# The challenge: small dollar loans are not in consumers' choice set

## What have I done in the past?

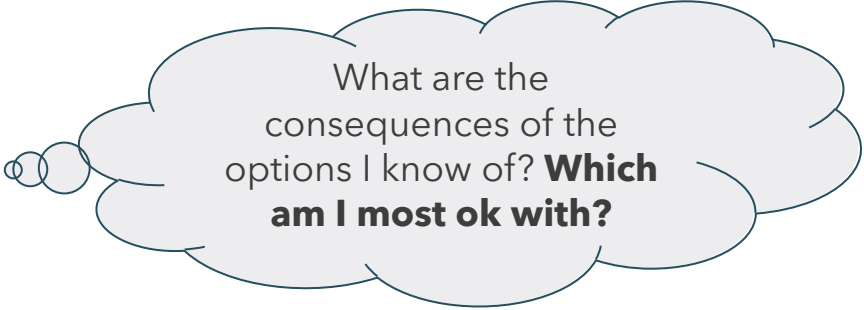
- Put off bills or delaying other expenses
- Used a credit card or overdraft
- Taken out a payday and other predatory loan
- Borrowed from friends and family



Which options will give me the **amount of money** I need?



Which options will give me money **when I need it?**



What are the consequences of the options I know of? **Which am I most ok with?**



# Scarcity

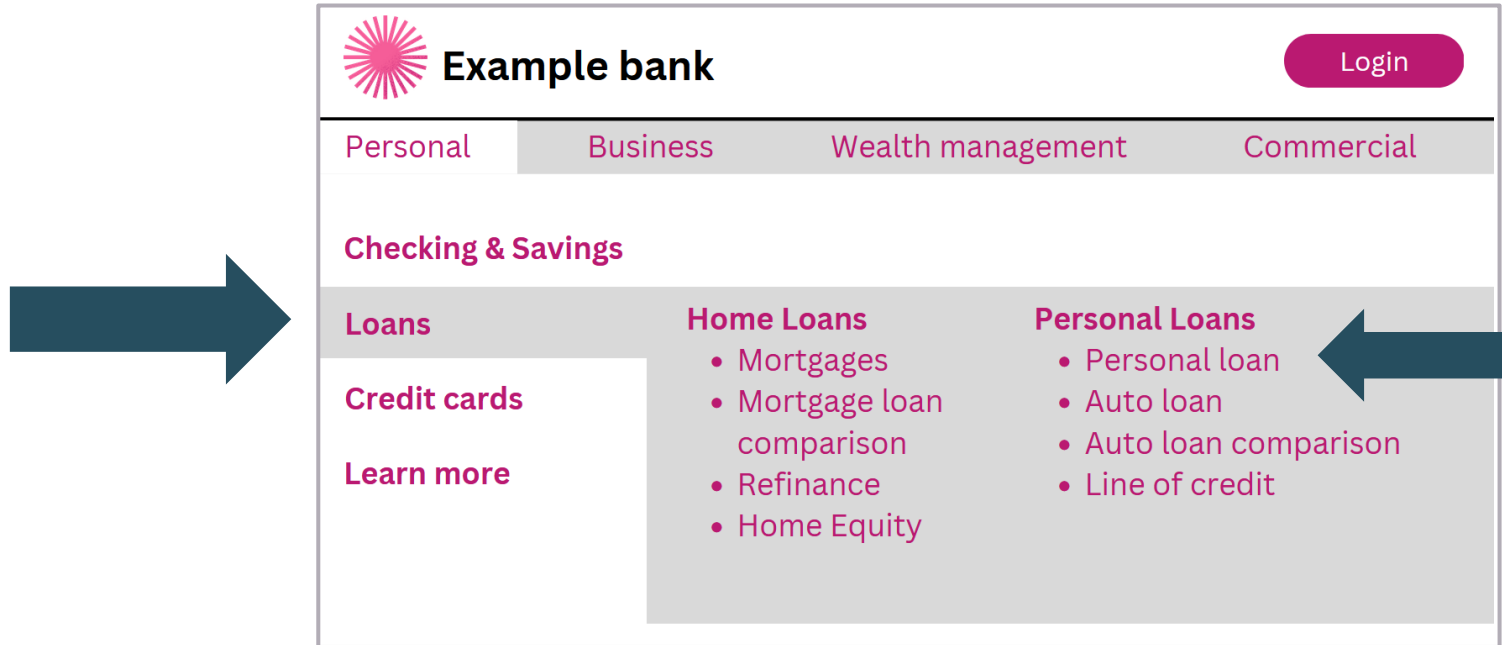
Customers confronting immediate needs have limited bandwidth to consider new options for handling financial shocks or to navigate cumbersome processes.

# Predatory lenders are designing for scarcity



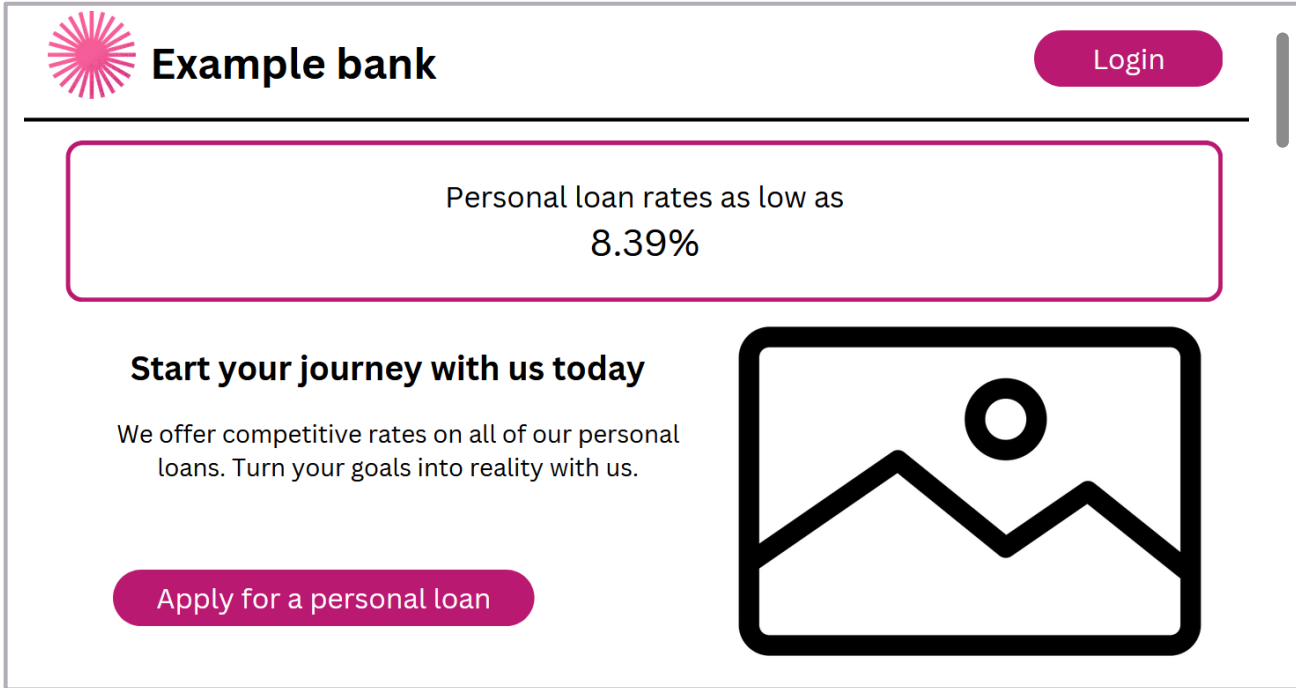
Images: [WAMU](#); [Argus Leader](#); [Chicago Catholic](#)

# Meanwhile, small dollar loans can be difficult to find



Mock-ups are intended for illustrative purposes only and not based on any one bank's website.

# Meanwhile, small dollar loans can be difficult to find



Mock-ups are intended for illustrative purposes only and not based on any one bank's website.

# Meanwhile, small dollar loans can be difficult to find



Example bank

Login

## Our Personal Loans

### Type

### About

### Learn more

Personal Loan

Have a big purchase? Use our personal loan for a one-time lump size.

- Fixed or variable rate
- Flexible terms

➤ [Learn more](#)

➤ [Learn more](#)

YourLoan®

Our small dollar loan. Easy and quick for anyone's needs

- Up to \$2,500
- Adjustable payments

➤ [Learn more](#)

➤ [Learn more](#)

Line of Credit

Our line of credit for more flexible funds.

- Access your credit at any time
- Unsecured and secured

➤ [Learn more](#)

➤ [Learn more](#)

Mock-ups are intended for illustrative purposes only and not based on any one bank's website.

# Strategies to design for scarcity

- Put the most important details upfront and state them simply
- Remind customers about your small dollar loan product at strategic moments

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

Mock-ups are intended for illustrative purposes only and not based on any one bank's website.



# Mental Models

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



# Customers can have a range of mental models about formal loans...

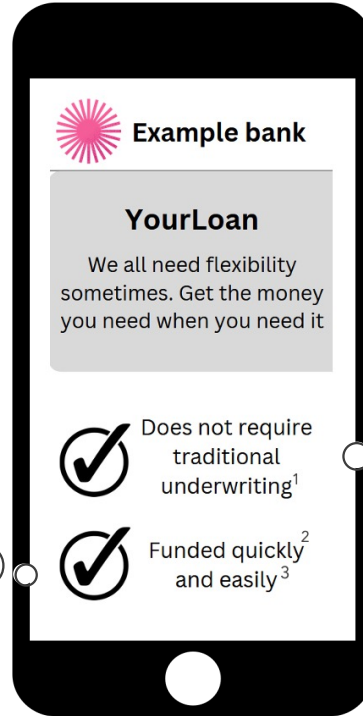
- They are **designed for large purchases**, like a car or home
- They have **strict requirements** that I won't be able to meet, like a credit score
- Formal bank processes are **time-consuming**

**"You hear about a loan from the bank, people might see it as a big thing.** They may think the process is a lot tougher than it is with the payday loan."  
- Credit union customer



# ...and many small dollar loan providers fail to counteract these mental models

Banks are slow, so quick for them probably means a few days



I'm not sure what underwriting is, but this is a bank so they'll probably have strict requirements

Mock-ups are intended for illustrative purposes only and not based on any one bank's website.

# Strategies to design for mental models

- Highlight how your small dollar loan is different from typical loans, including:
  - Speed of the process
  - Requirements
- Use plain, specific language

## Examples of plain, specific language

"Apply in 5 minutes"

"Once approved, funds will be in your account in under 5 minutes"

"To be eligible, you'll need:

- A checking account that has been open for 3 or more months
- No overdraft charges in the past 3 days"

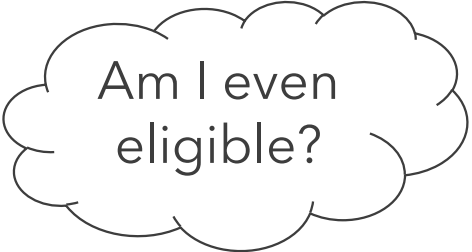


# Ambiguity Aversion

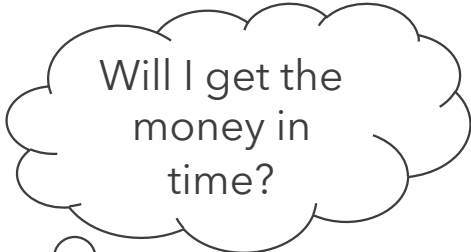
Customers are unsure about their eligibility or their approval odds for small dollar loans and turn to more certain options, even if they would be eligible.

# Small dollar loans can feel uncertain to new borrowers in many ways

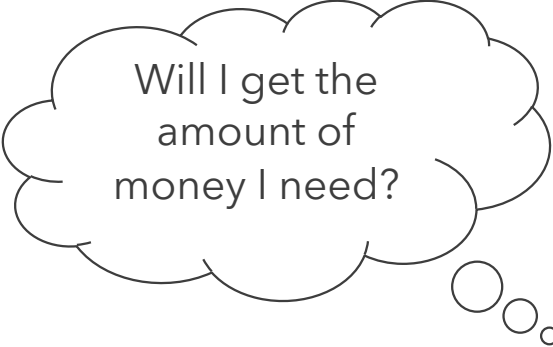
---



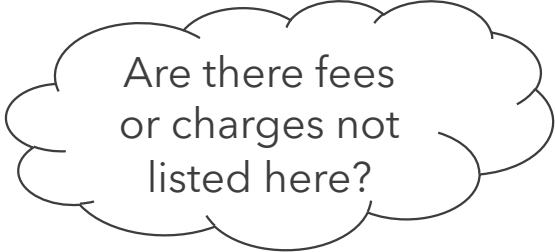
Am I even eligible?



Will I get the money in time?



Will I get the amount of money I need?



Are there fees or charges not listed here?

# Most marketing materials for small dollar loans don't reduce ambiguity



**Example Bank**

Login

Terms like “quick” and “real-time decision” don’t clarify when customers will have access to loan funds.



## **Low APR and convenient payments**

Borrow up to \$1,500 at a 16% APR and repay the loan in fixed monthly payments.<sup>1</sup>

Customers have no way of figuring out how much they, personally, will be eligible for.



## **Speedy access to funds**

Receive a real-time decision and have funds deposited quickly.




## **Say “NO” to fees**

No application fee, no origination fee, and no late payment fee.<sup>2</sup>

Mock-ups are intended for illustrative purposes only and not based on any one bank’s website.

# Strategies to design for ambiguity aversion

- Be transparent and specific about eligibility requirements, fees and the application process
- Give customers a way to understand how much they could be eligible for



**Meet Tahan...**

- ✓ He has been a customer for 12 months
- ✓ He gets a paycheck of \$1200 every two weeks via direct deposit
- ✓ He has at least \$5 in all his accounts

**Tahan is likely eligible for a \$1,000 loan at a 28% interest!**

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

Mock-ups are intended for illustrative purposes only and not based on any one bank's website.





# Trust


Traditional financial institutions are not seen as trustworthy institutions, especially among people of color.




# Small dollar loan marketing is not designed to build trust and can sometimes backfire

 **Example Bank** [Login](#)

 **Low APR and convenient payments**  
Borrow up to \$1,500 at a 16% APR and repay the loan in fixed monthly payments.<sup>1</sup>

 **Speedy access to funds**  
Receive a real-time decision and have funds deposited quickly.

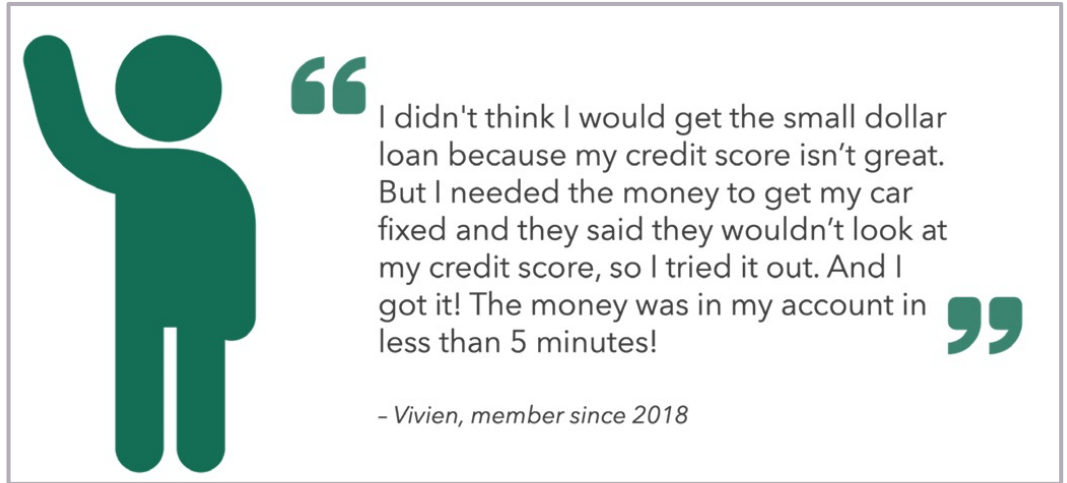
 **Say "NO" to fees**  
No application fee, no origination fee, and no late payment fee.<sup>2</sup>

Although this description makes this seem like a no-fee product, **there is a fee listed in the footnote**

Mock-ups are intended for illustrative purposes only and not based on any one bank's website.

# Strategies to design for lack of trust

- Be transparent and specific about eligibility requirements and fees
- Make it easy for customers to find out about peers' experiences with your loan



Mock-ups are intended for illustrative purposes only and not based on any one bank's website.



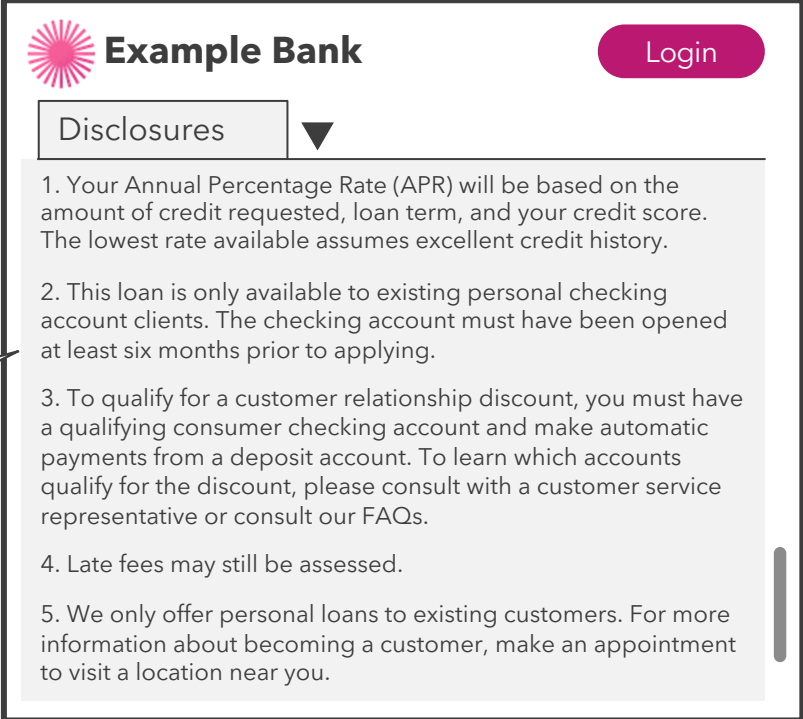
# Hassle Factors

Customers get derailed by complexities in the application process.

# Hassles come up when gathering information...

- Technical terms without definitions
- Heavy footnote usage
- Important information at the bottom of webpages

Some important information is only found in the footnotes, so customers must cross-reference the footnotes and earlier text



The mock-up shows a bank website header with a pink sunburst logo and the text "Example Bank". A "Login" button is in the top right. Below the header is a "Disclosures" section with a dropdown arrow. The disclosures are listed as follows:

1. Your Annual Percentage Rate (APR) will be based on the amount of credit requested, loan term, and your credit score. The lowest rate available assumes excellent credit history.
2. This loan is only available to existing personal checking account clients. The checking account must have been opened at least six months prior to applying.
3. To qualify for a customer relationship discount, you must have a qualifying consumer checking account and make automatic payments from a deposit account. To learn which accounts qualify for the discount, please consult with a customer service representative or consult our FAQs.
4. Late fees may still be assessed.
5. We only offer personal loans to existing customers. For more information about becoming a customer, make an appointment to visit a location near you.


Mock-ups are intended for illustrative purposes only and not based on any one bank's website.

# ...and when asking for help

- Help is hard to find and sometimes hard to access

Vague description  
of how to get  
more information

Making it easy for customers  
to get their questions  
answered is crucial

 **Example Bank** [Login](#)

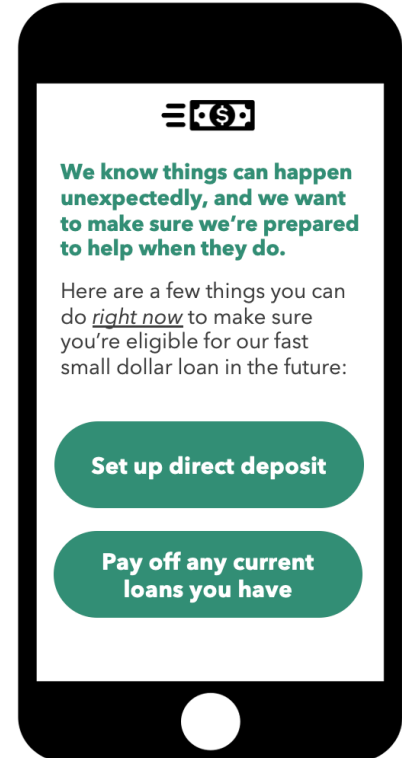
**Disclosures** ▼

1. Your Annual Percentage Rate (APR) will be based on the amount of credit requested, loan term, and your credit score. The lowest rate available assumes excellent credit history.
2. This loan is only available to existing personal checking account clients. The checking account must have been opened at least six months prior to applying.
3. To qualify for a customer relationship discount, you must have a qualifying consumer checking account and make automatic payments from a deposit account. To learn which accounts qualify for the discount, please consult with a customer service representative or consult our FAQs.
4. Late fees may still be assessed.
5. We only offer personal loans to existing customers. For more information about becoming a customer, make an appointment to visit a location near you.

Mock-ups are intended for illustrative purposes only and not based on any one bank's website.

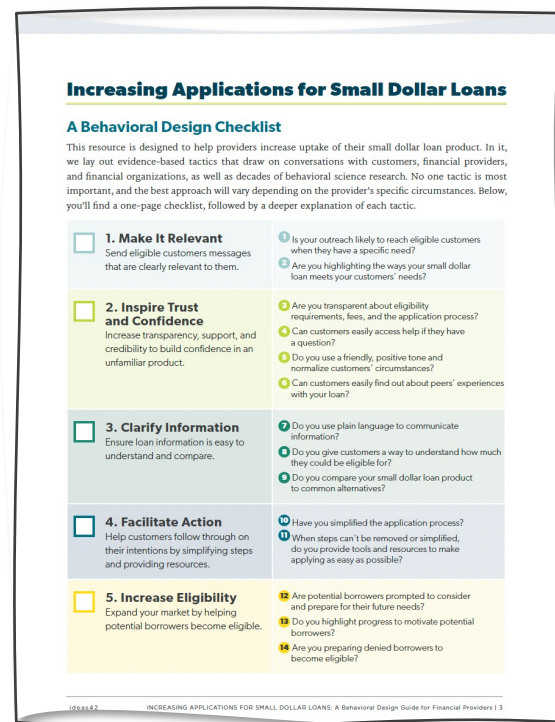
# Strategies to design for hassle factors

- Critically evaluate your application process for hassles, then try to remove them
- Make it easy for customers to get help
  - Be proactive in offering help when you can't remove hassles!



Mock-ups are intended for illustrative purposes only and not based on any one bank's website.

# Take a deeper dive into our work



# Q&A