

Improving Small-Dollar Loan Repayment Through Behavioral Design

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



Panelist



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Vivien Caetano

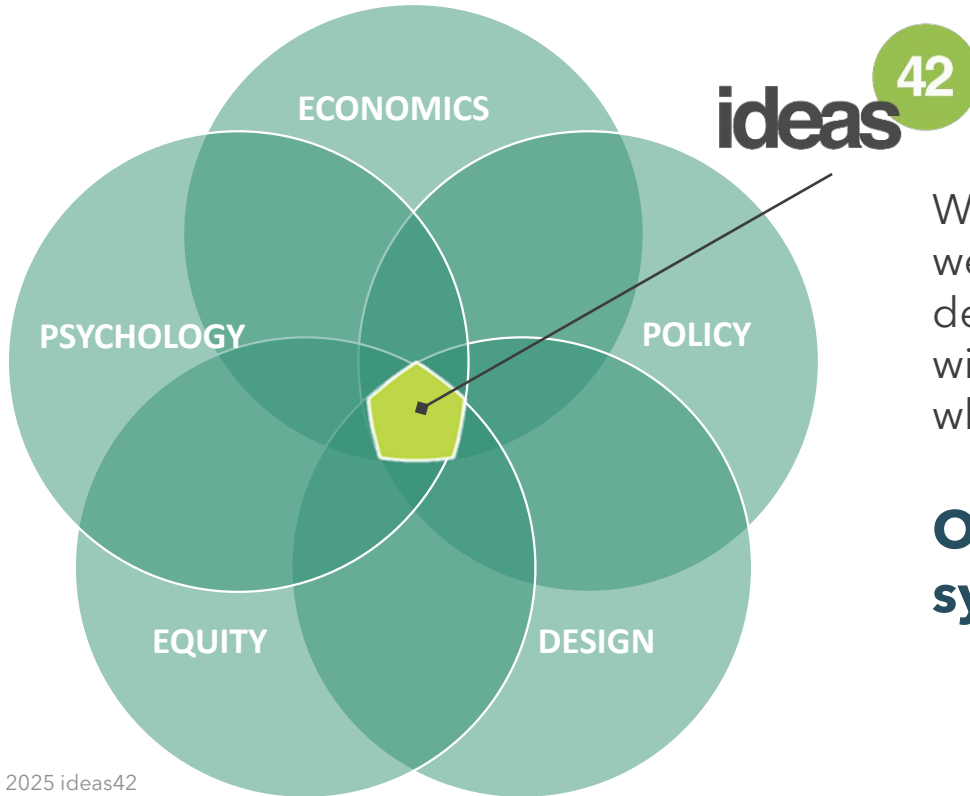
*Associate Managing Director
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Agenda

- Project Overview
- Behavioral Barriers to Repayment
- Design Solutions
- Pilot Results
- Q&A with Justin from PAFCU

Our financial health team



ideas 42

Working closely with partner organizations, we seek to understand the context where decisions are made and remove barriers within the channels and systems through which people navigate their financial lives.

Our ultimate goal: a financial system that works for everyone.

There is an important need for access to affordable short-term liquidity products

Consumer trends reveal...

- **Demand for personal loans spiked** in January 2025.¹
- At all income levels, **Black and Hispanic adults** are more likely to face difficulty paying bills.²
- **Communities of color** are disproportionately targeted by high-cost, predatory loans.³

Small-dollar loans have the potential to meet this need



Short term
and **low cost**



Alternative
lending criteria



Offered by **different types**
of financial institutions

¹. [Vantage Score Credit Gauge, 2025](#); ². [SHED, Federal Reserve, 2022](#); ³. [Center for Responsible Lending, 2020](#)

Improving repayment is imperative for affordable credit to deliver on its promise

Timely loan repayments can...



Improve **equity and financial inclusion** for consumers by:

- ✓ Lowering overall borrowing costs (e.g. avoiding fees)
- ✓ Improving credit scores
- ✓ Helping people graduate to other financial products that were previously inaccessible



Boost profitability for financial institutions by:

- ✓ Lowering product costs, ensuring long-term sustainability
- ✓ Expanding eligible client base for other products and service offerings

Behavioral design can increase loan repayment in ways that support customer financial health and sustainability of affordable credit options

Project goals



Project Goal

Increase **timely repayment** of the Fast Cash Loan (a small-dollar loan) and **help members avoid negative consequences** of being past due

Overarching Goal

Increase the number of people with low and moderate incomes leveraging these loans to **meet their short-term liquidity needs, while safeguarding or improving their credit** scores

Fast Cash, PAFCU's small-dollar loan

What is Fast Cash?

A small-dollar loan product designed to provide **quick financial relief** for individuals facing **urgent, short-term expenses**.

The product offers **immediate access to funds**, with a quick and easy application process.

Key Features



Up to \$2,000 loan



Apply in six clicks



Decision is as little as 60 seconds



No credit check—based on cash flow and relationship

We identified 7 barriers hindering repayment

Barriers in the Application Phase



Framing and presentation of loan options can lead to suboptimal selections



Impact of loan choices is not fully considered



Past due **consequences are not obvious** or relevant

Barriers in the Repayment Phase



Limited prompts for action before and after due date



Making **adjustments and seeking support** can be challenging



Insufficient cash flow



Competing financial priorities

Design Changes To Improve Repayment



Our designs fell into two categories

Setting up for success

- Landing page redesign
- Application redesign

Staying or getting back on track

- Text message reminders
 - Before due date
 - After a missed payment

Re-design: Making important information salient at key moments to encourage active choices

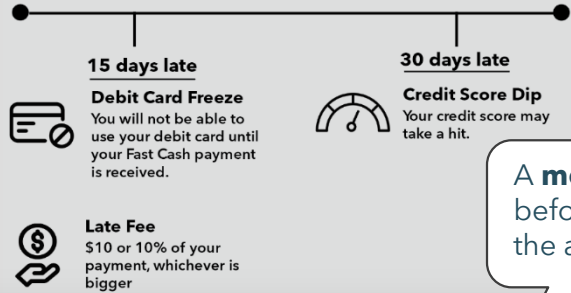
LOAN APPLICATION

Welcome to the Fast Cash Loan application. Please read the information below carefully before proceeding.

Fees and Penalties

- There is a **\$20 application fee** that gets charged when you click "Begin Application", even if you are not approved.
- If you are late on your payments, there are some penalties. For example, there are some penalties if you are late on your payments (see below).

Penalties for Late Payments



Attention: Once you click "Begin Application", you will be charged the \$20 Application Fee, even if you are not approved for the loan.

BEGIN APPLICATION CANCEL REQUEST

A **timeline with penalties** for late payments to ensure this information is considered when members are setting up their loan

A **moment of pause** before being charged the application fee

Now, you choose:

- How much you want to borrow (use the table below to visualize what your payments would look like)
- Monthly due date

What will your payments look like?

NOTE: This table shows approximations of what payments ~~could look like~~ depending on your loan size.

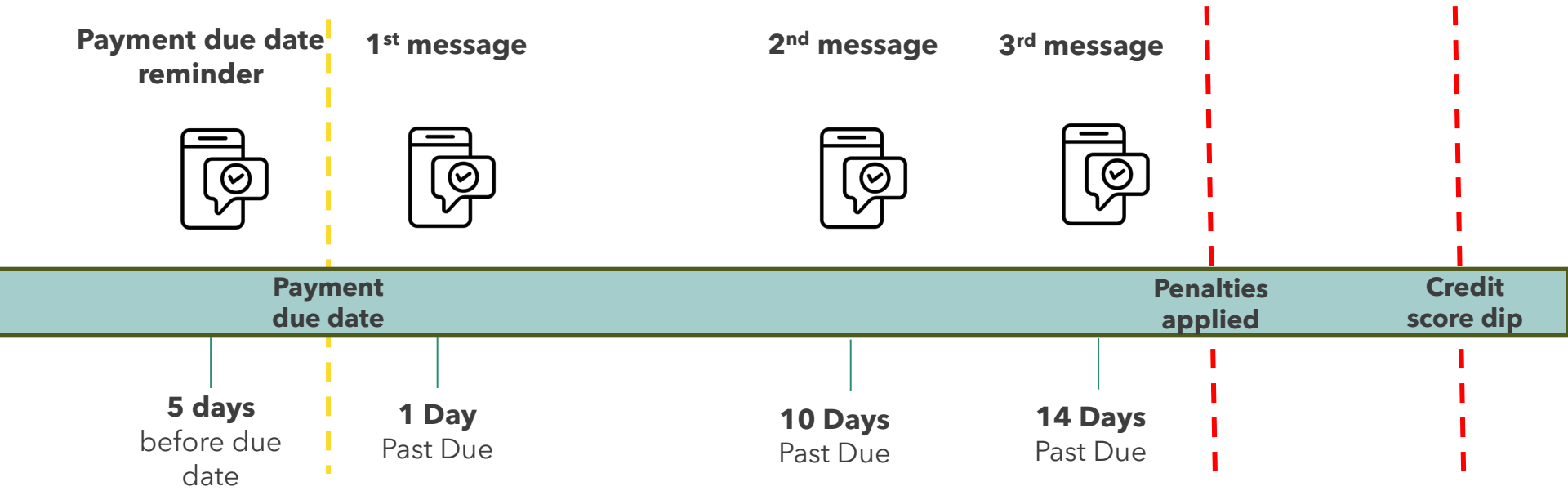
These amounts are estimates to help make your choices

If you borrow...	You would have to pay...
	Estimated <u>monthly</u> payment amount and # of payments
\$2,000	\$191 for 12 payments
\$1,500	\$185 for 9 payments
\$1,000	\$181 for 6 payments
\$500	\$163 for 3 payments

List of how different loan amounts translate into monthly payments to highlight **longer-term implication of choices**

Language to **prompt active choice**

New designs: Leveraging timely reminders to facilitate payment and support-seeking



Results

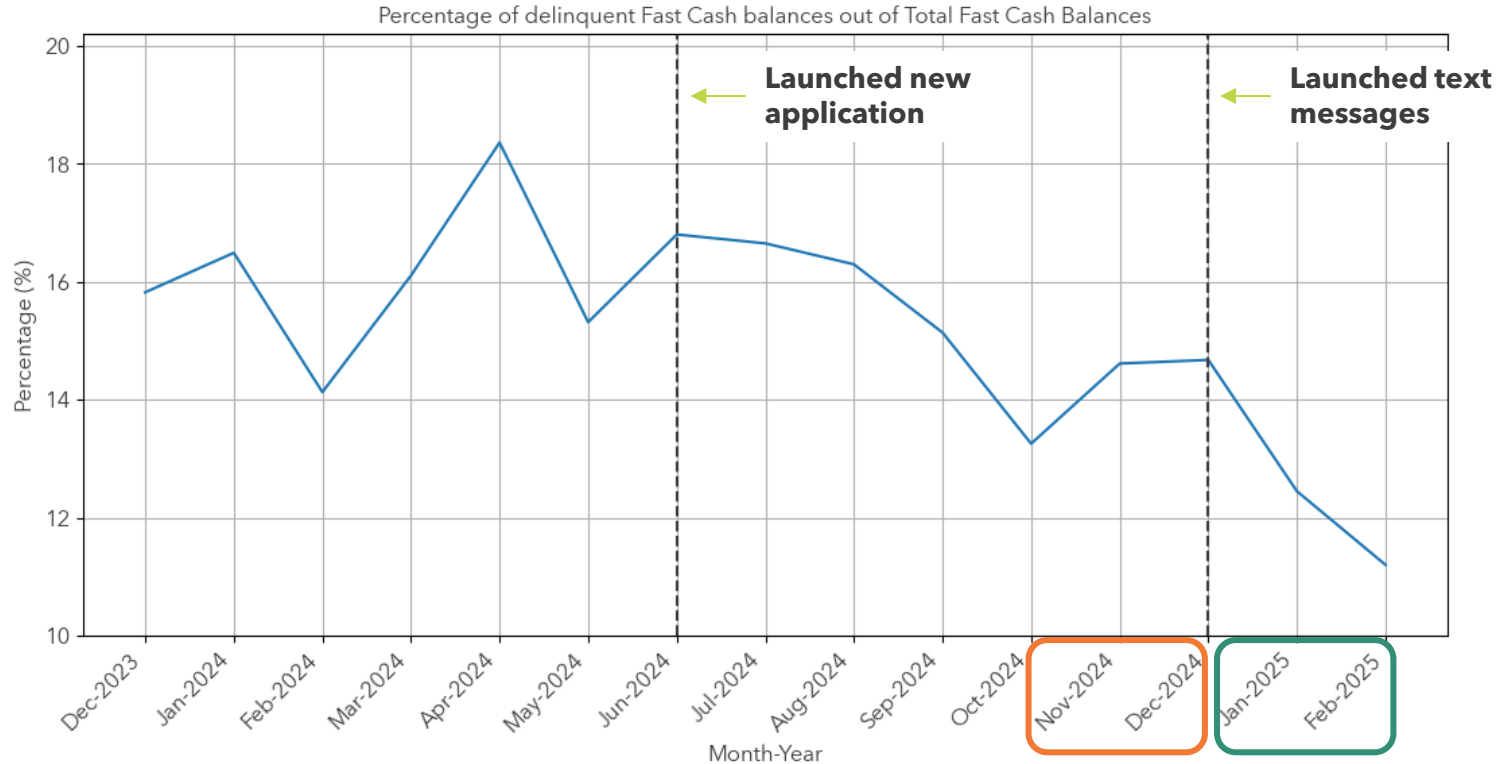


Key research questions

Did our designs...

- 1 Reduce the volume of past due borrowers?
- 2 Help past due borrowers make payments sooner?
(thereby avoiding negative consequences)
- 3 Reduce the percentage of Fast Cash balances that were delinquent and reduce portfolio risk?

Pilot overview



Application Results



Borrowers used the default due dates and loan sizes before and after our changes

Change #1:

We changed the default due date

Change #2:

We made the ability to change loan sizes more obvious

Result: people stuck with the defaults both before and after our changes

Takeaway:
Choose your defaults wisely!

Text Message Pilot Results



Results overview



Reduced **the average daily proportion** of past due Fast Cash borrowers by **~8%** ★



Helped past due borrowers **make payments sooner**, largely driven by **reducing the proportion** of borrowers who were still past due **5 days after their due date** ★

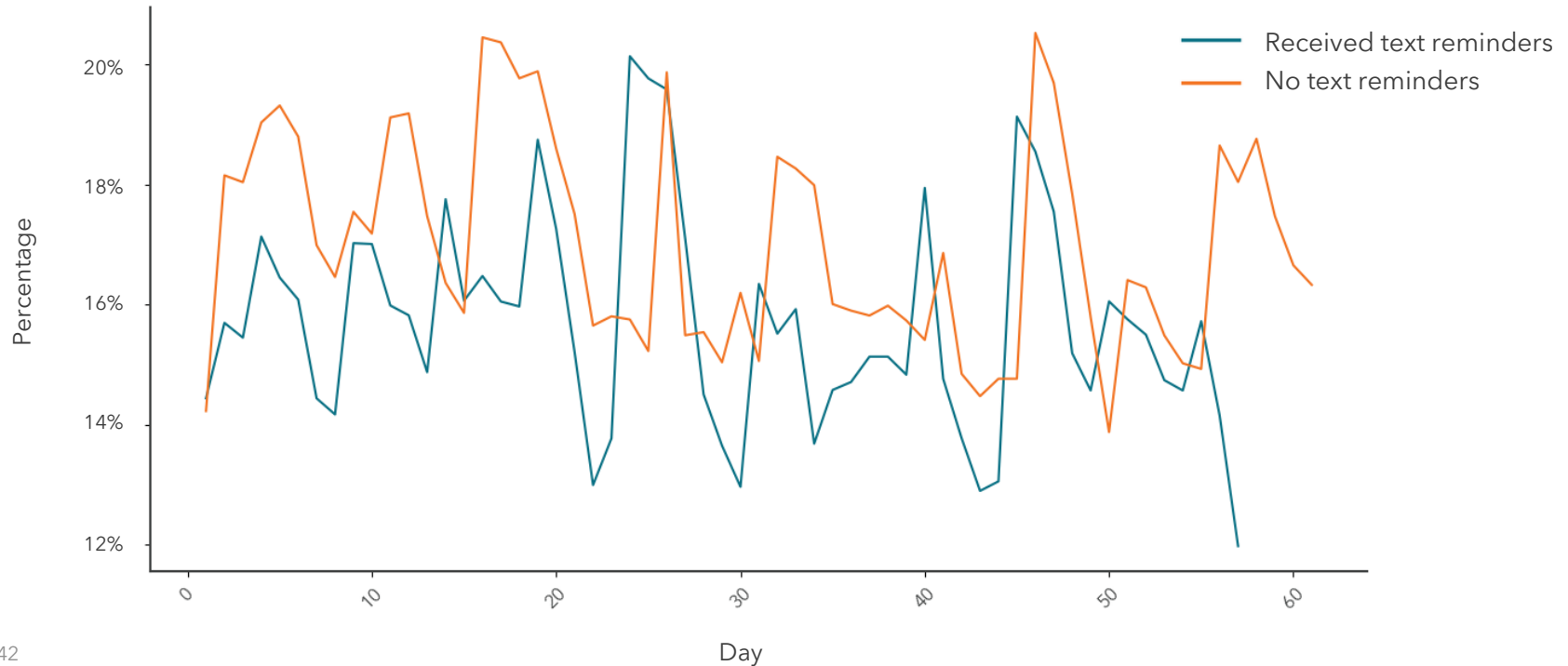


The **proportion of Fast Cash balances** that were delinquent dropped by **~19%**

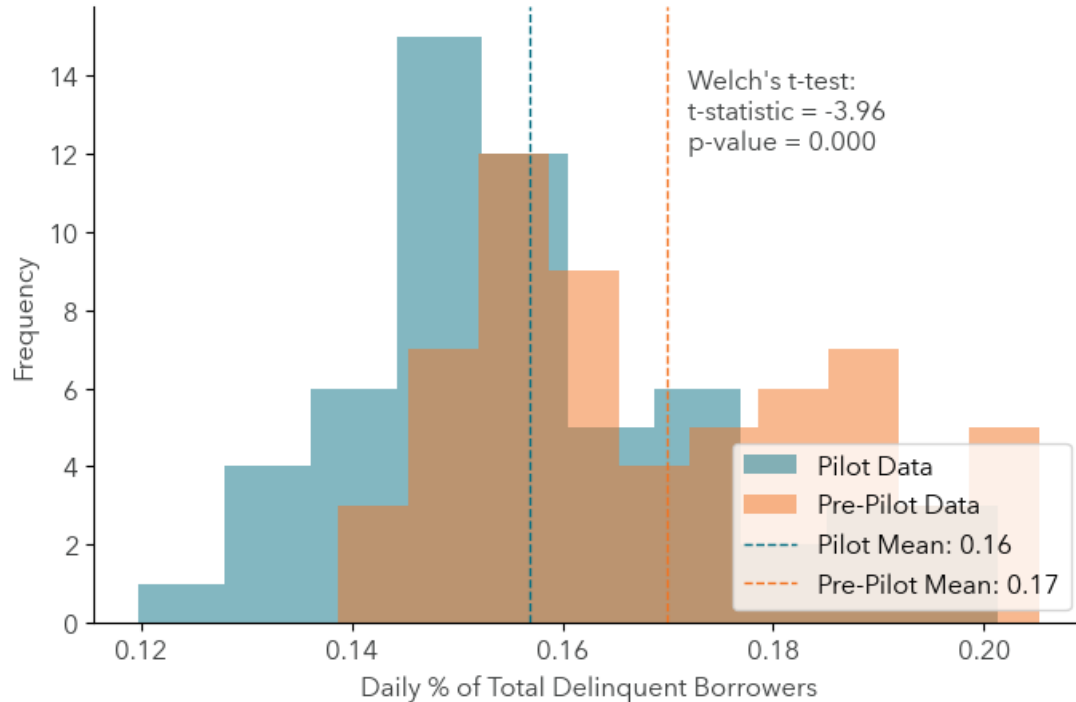
★ statistically significant result

What percentage of Fast Cash borrowers were past due on their payments?

Daily Percentage of Past Due Borrowers: Pilot vs Pre-Pilot



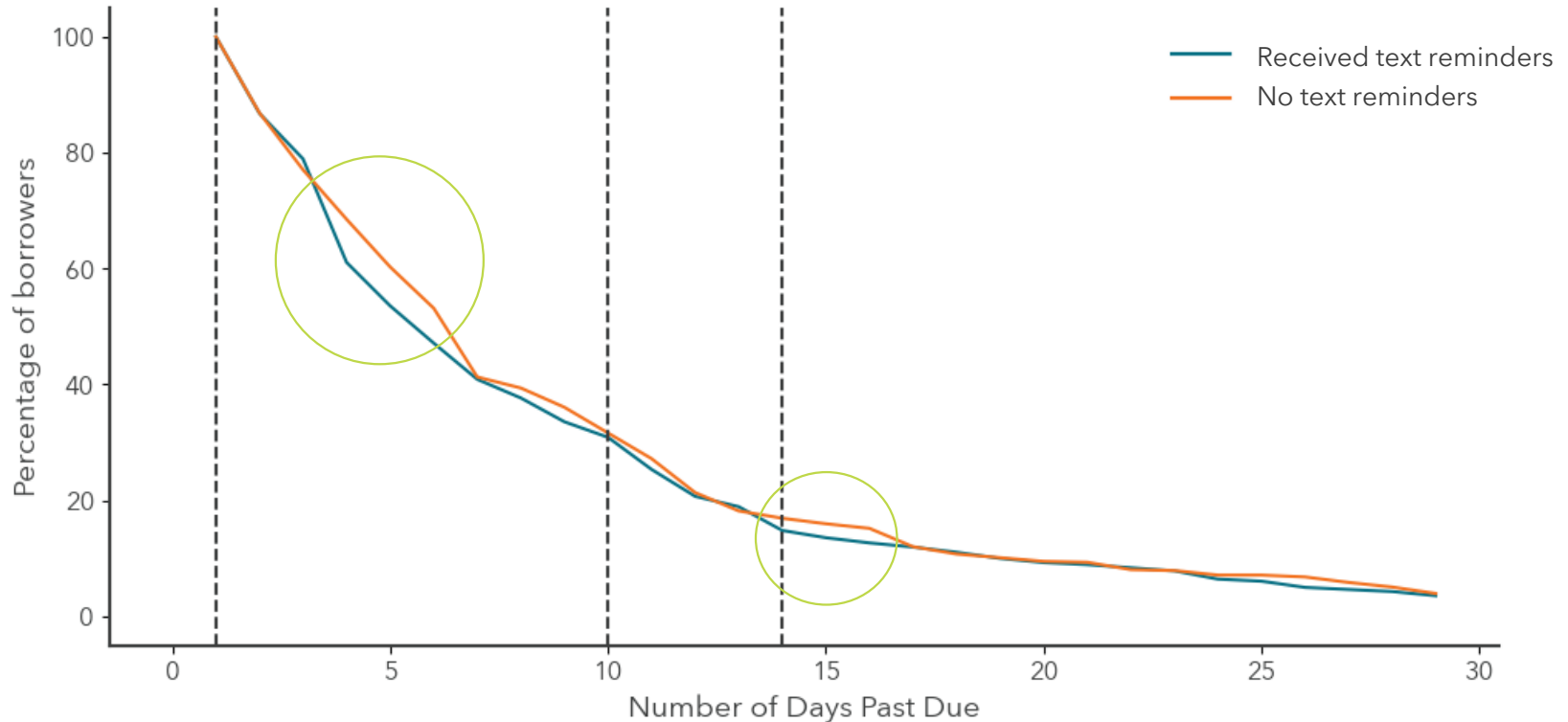
Fewer borrowers were past due when we sent text messages



Average daily proportion of past due borrowers **decreased by ~8%**

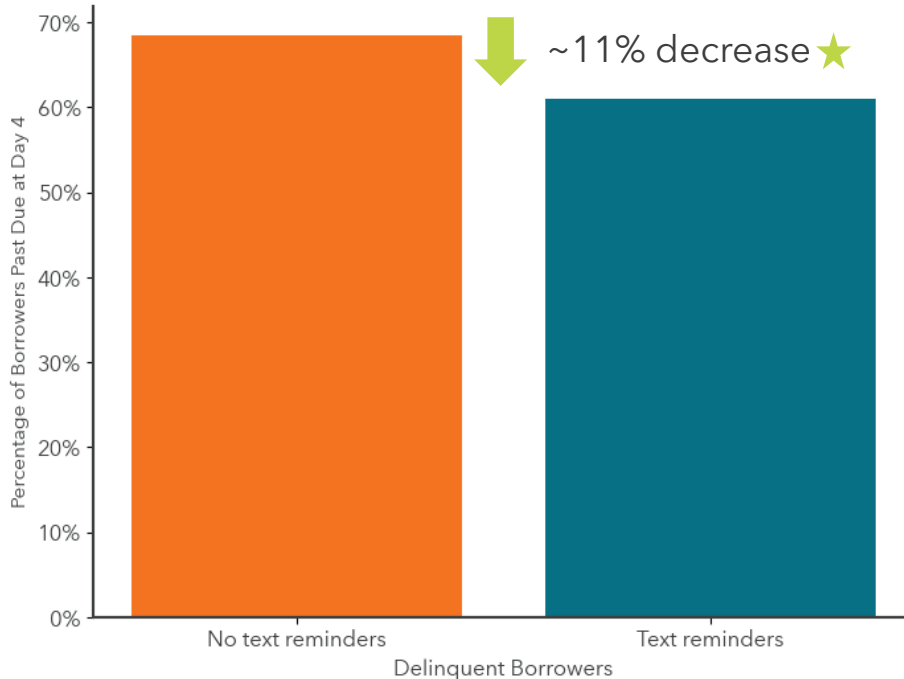
This is the **payment due date** reminder at work!

When did past due borrowers make payments?

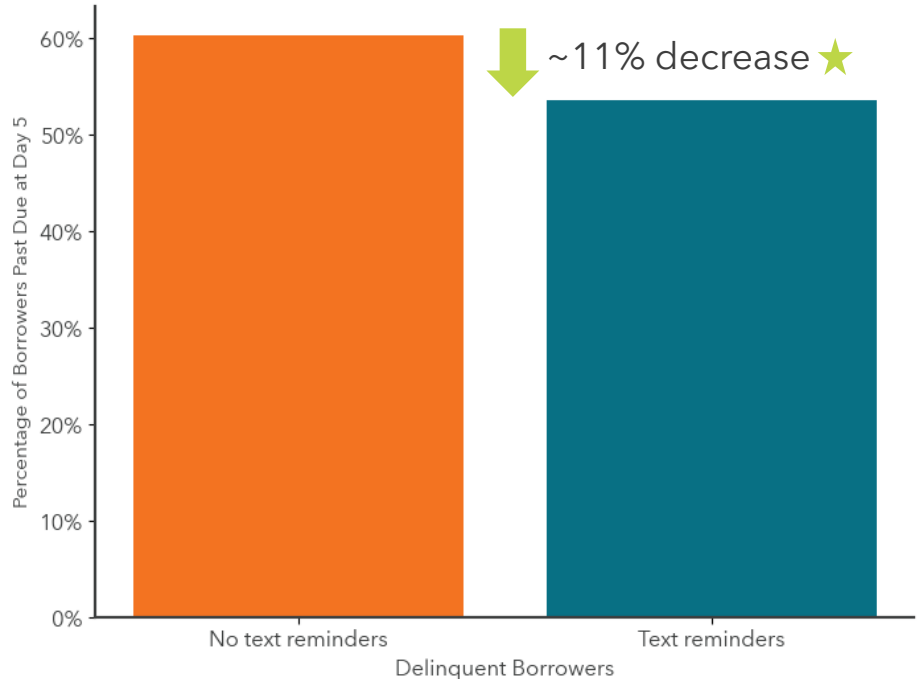


We had the biggest impact at days 4 & 5

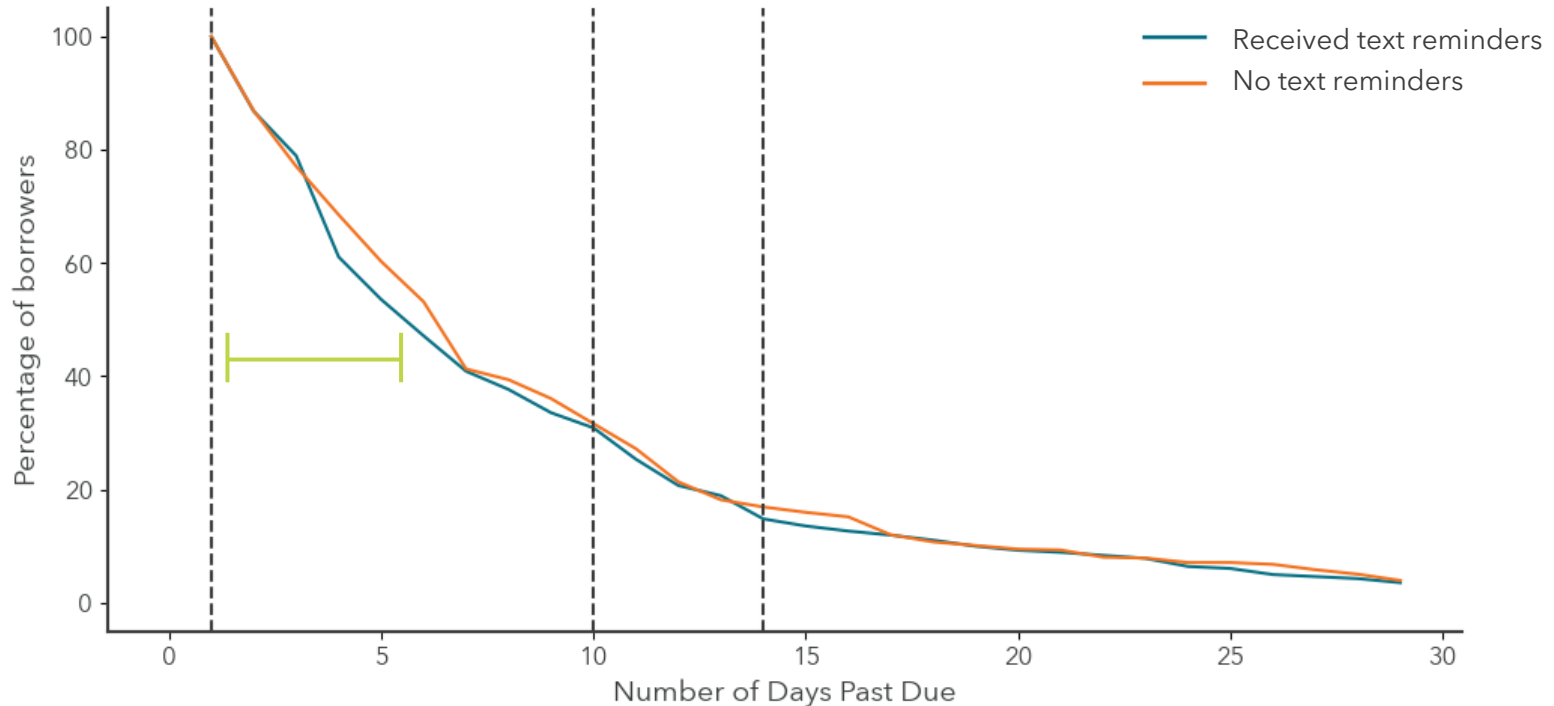
4 days past due



5 days past due



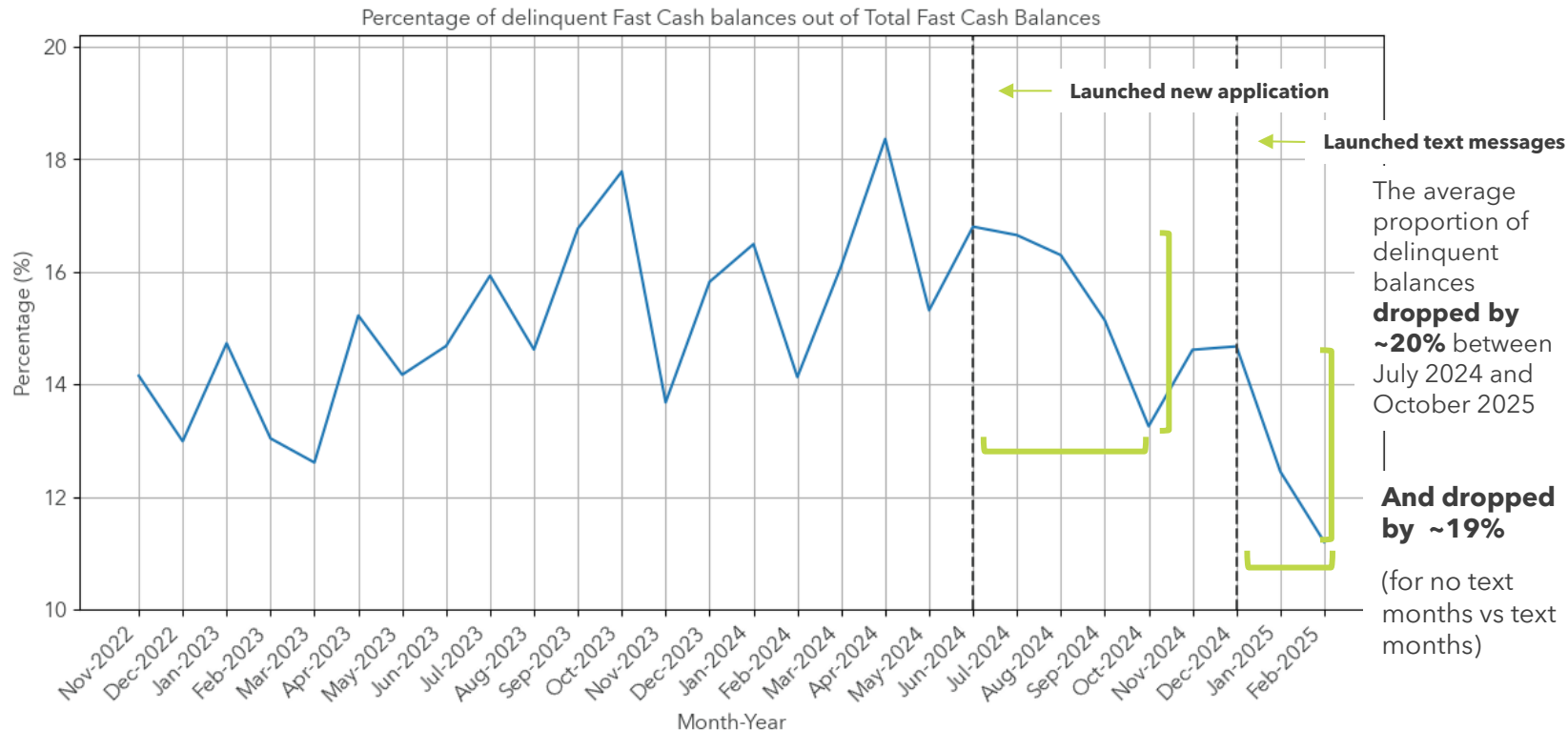
The 1-day past due reminder is likely having an impact within 3-4 days



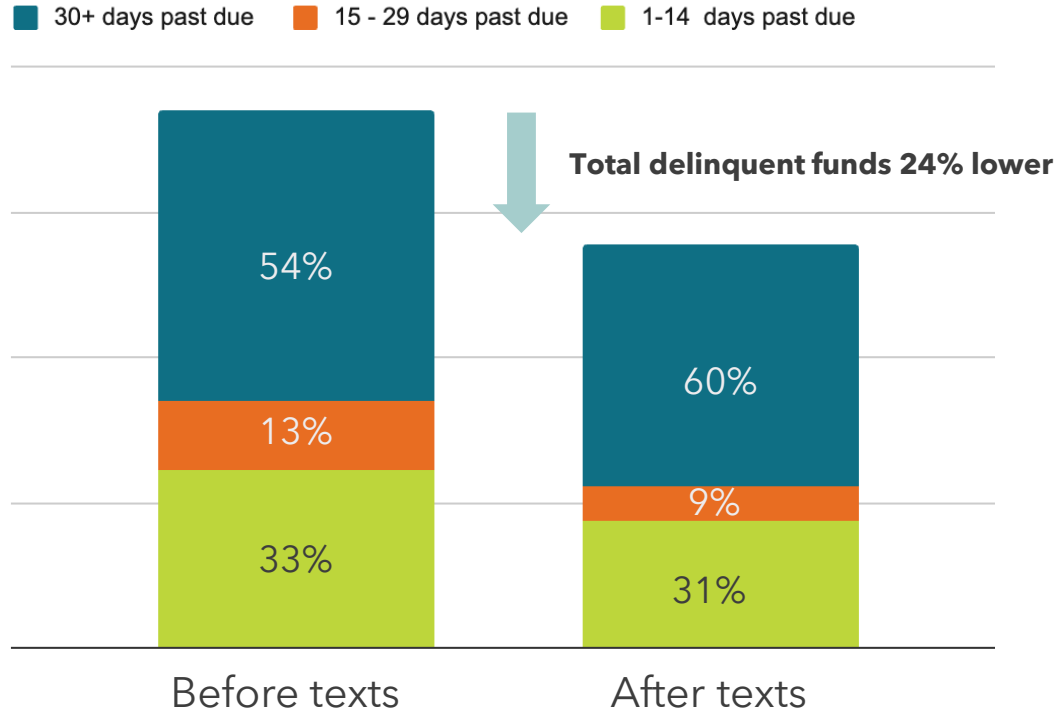
Financial Results: Using End-of-Month Snapshots



The proportion of delinquent Fast Cash balances dropped



The breakdown of delinquent balances changed



Takeaways



Reminders can be an effective, low-cost solution for a segment of past due borrowers facing issues of **limited attention**.

Timing is key: It may take 3-4 days to see the effect of a reminder, so plan when to send these accordingly!



Past due borrowers who are facing structural issues (e.g., competing financial priorities, insufficient cashflow) may need more support, **and reminders may not be sufficient**.

Reminders can help segment borrowers, making it easier to target this group with direct outreach or other customer support options

Q & A!

