

MAY 2025

# Improving Small-Dollar Loan Repayment Through Behavioral Design

## At a Glance

ideas42 worked with Peoples Advantage Federal Credit Union to improve their small-dollar loan product, Fast Cash. We focused on making it easier for borrowers to repay their loans on time, which helps both borrowers (who avoid penalties) and the credit union (which maintains a healthier loan portfolio).

Our approach was straightforward: we made repayment terms clearer when people applied for loans and sent strategically timed text message reminders ahead of a payment due date and after a missed payment. The results were significant.

- ▶ **8% fewer borrowers fell behind** on payments each day
- ▶ Borrowers who did fall behind made catch-up payments more quickly, with **11% fewer paying fees**
- ▶ Customer service received **fewer calls from confused or frustrated members**
- ▶ The Credit Union saw **19-20% multi-month drops in the proportion of delinquent end-of-month balances**, resulting in a healthier overall Fast Cash loan portfolio

In addition, the Credit Union applied the text message reminders to their entire loan portfolio and saw over **\$1.3 million fewer dollars in delinquency** within three months.

This project showed that simple, well-timed reminders are a cost-effective way to help borrowers stay or get back on track. It also demonstrated that making the loan application process clearer reduces costs (like staff time spent answering questions) and increases customer satisfaction. These findings can be applied widely to improve financial outcomes for both lenders and borrowers across many types of loans, saving lenders and borrowers millions.

## The Challenge

Today, many households in the United States are struggling to make ends meet. One in six adults are unable to pay all their monthly bills, and more than a third of adults report that they would not have the cash to cover a \$400 unexpected expense.<sup>1</sup> This financial precarity has led to wide demand for rapid credit options, but many come at a high cost: average interest rates have almost doubled in the past ten years, and interest on payday loans are close to 400%.<sup>2,3</sup>

In this environment, people need more affordable credit options that can quickly offer liquidity. [Affordable small-dollar loans](#)—short-term, low-cost installment loans or lines of credit, often underwritten using cashflow and alternative data—are one promising option. However, they must be carefully designed to support consumer financial health, while also ensuring business viability.

<sup>1</sup> [Economic Well-Being of U.S. Households in 2023](#),” Board of Governors of the Federal Reserve System, May 2024.

<sup>2</sup> [“Commercial Bank Interest Rate on Credit Card Plans, Accounts Assessed Interest,”](#) Federal Reserve Bank of St. Louis, November 2024.

<sup>3</sup> [“What is a payday loan?”](#) Consumer Financial Protection Bureau, May 2024.

One key metric is repayment. Behavioral design can improve application processes and increase loan repayment in ways that can help customers avoid penalties and build credit while enhancing business sustainability by lowering product costs such as reducing staff time. With billions of dollars in delinquent loans among federally insured credit unions,<sup>4</sup> supporting and encouraging timely repayment on these loans could save lenders—and borrowers—millions.

## Project Background

ideas42 partnered with Peoples Advantage Federal Credit Union, a Virginia-based Community Development Financial Institution, with the goal of increasing on-time repayments of their Fast Cash small-dollar loan and helping borrowers avoid the penalties of being past due. Fast Cash loans offer up to \$2,000, a quick and easy application process, no credit score checks, and a decision in as little as 60 seconds. These loans are also highly customizable: the borrower can select loan preferences that work best for them, including loan size and preferred due date for monthly payments.

These features make Fast Cash a viable alternative for customers to meet critical liquidity needs quickly and with minimal hassle. However, behavioral barriers hinder timely repayment. The barriers we identified through interviews with Fast Cash borrowers are common barriers ideas42 has heard from borrowers across providers and products.

### Barriers when applying for a loan

- ▶ **Framing of loan options may lead to suboptimal selections:** Applications that prioritize ease and speed help customers quickly secure the credit they need. But such speed can also have its downsides. When consumers rapidly move through an application, they may overlook the option to customize loan features. As a result, customers may retain defaults that are not right for their unique needs—affecting their ability to repay down the line.
- ▶ **Impact of loan choices is not always clear:** Without guidance, borrowers may have trouble visualizing how choices—like changing the loan size—will impact payments in the future.
- ▶ **Past due penalties not immediately obvious:** When they apply, borrowers may not realize the consequences of delinquent payments (such as fees, freezes, or credit score hits) if they are not immediately evident. This, in turn, could contribute to overborrowing or influence how a customer prioritizes loan payments when they come due.

### Barriers when making payments on the loan

- ▶ **Limited prompts for action:** Without well-timed reminders, borrowers juggling multiple financial responsibilities may miss payment deadlines.
- ▶ **Limited opportunities to seek support:** Without explicit guidance or resources, borrowers facing repayment challenges might struggle to get back on track.

<sup>4</sup> “National Credit Union Administration Quarterly Credit Union Data Summary 2024 Q4,” National Credit Union Administration

Beyond these behavioral barriers, some members simply **do not have the cash flow** to meet payments, particularly as they dealt with multiple financial priorities. This is a reality for some members, and while not a behavioral barrier per se, it is a fundamental element to keep in mind when designing affordable and flexible solutions for resource-constrained populations.

## Our Approach

The ideas42 team's solutions fell into two categories: setting borrowers up for success and helping them stay or get back on track. With Peoples Advantage Federal Credit Union, we redesigned the Fast Cash product page as well as the loan application with a goal of increasing borrowers' awareness of their options and enhancing decision-making at the outset. We also designed a series of text message reminders to be sent before and after payment deadlines. These reminders sought to help borrowers pay on time and seek support if they were unable to pay.

### Application Redesign

When financial service providers tackle repayment issues, they often focus only on the repayment period, but earlier intervention can affect borrower behavior throughout the life of the loan. And while lenders may hesitate to prominently feature details about penalties, borrowers consistently report that they appreciate transparency and clear terms upfront. In fact, fee and penalty transparency can signal trustworthiness and improve the lender's credibility—enhancing customer satisfaction.<sup>5</sup> Accordingly, the ideas42 team redesigned the Fast Cash landing page as well as aspects of the loan application:

- ▶ To ensure members received loans that were right-sized and timed for their situations, we modified information to encourage active choices and provided easy-to-digest examples of monthly payment amounts based on differing loan amounts. We also changed the default first payment date based on feedback from borrowers.
- ▶ The team focused on increasing the salience of potential penalties and displayed them on a timeline to make them easier to understand.

#### LOAN APPLICATION

Welcome to the Fast Cash Loan application. Review 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. Fast Cash is a loan, so there are some penalties if you are late on your payments (see below)

**Penalties for Late Payments**

**15 days late**  
Debit Card Freeze  
You will not be able to use your debit card until your Fast Cash payment is received.

**30 days late**  
Credit Score Dip  
Your credit score may take a hit.

**Late Fee**  
\$10 or 10% of your payment, whichever is bigger

**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 detailing penalties for late payments helps members consider this information when 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 monthly 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

Language to prompt active choice

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

<sup>5</sup> For example, JD Power has found that retail banking satisfaction increased amid increased efforts to make consumers aware of fees and how to avoid them. See "Retail Bank Customer Satisfaction Surges as Banks Ramp Up Customer Support in Uncertain Economic Environment, J.D. Power Finds," JD Power, March 2025.

## Reminders to stay—or get back—on track

Humans can only process so much information at any given time: when we pay attention to certain things, we often do so at the expense of others. This challenge can be exacerbated by living in conditions of financial scarcity and managing multiple financial priorities. With this in mind, the ideas42 team crafted **four text reminders** to help people pay on time or seek support if they were unable to pay.<sup>6</sup>

- ▶ **Text 1:** Sent 5 days before due date, providing a sufficient window for members to take action to pay on time.
- ▶ **Text 2:** Sent 1 day past due, to remind borrowers who may have forgotten or alert those whose payments did not go through.
- ▶ **Texts 3 and 4:** Sent at 10 and 14 days past due, to ensure borrowers were aware of upcoming penalties (which hit at day 15 and 30), while also offering support and providing an easy way to get in touch to talk through options.

Hi! Reminder: Your automatic payment for Fast Cash posts on XX/XX/XX. Questions? Call us at XXX-XXX-XXXX. We're here to help! Reply STOP to opt out.

**Text 1**

Your \$XXX Fast Cash payment is late. No worries! Pay now to stay on track. For support, call XXX-XXX-XXXX. Already paid? Disregard. Reply STOP to opt out.

**Text 2**

Your Fast Cash payment of \$XXX is 10 days late. Pay in 5 days to avoid freeze/fees. Call XXX-XXX-XXXX for help. Paid? Please ignore. Reply STOP to opt out.

**Text 3**

\$XXX Fast Cash payment is 14 days late. Debit card will freeze tomorrow! Avoid this + late fee, call XXX-XXX-XXXX. Paid? Please ignore. Reply STOP to opt out.

**Text 4**

## Results

### Website and application changes

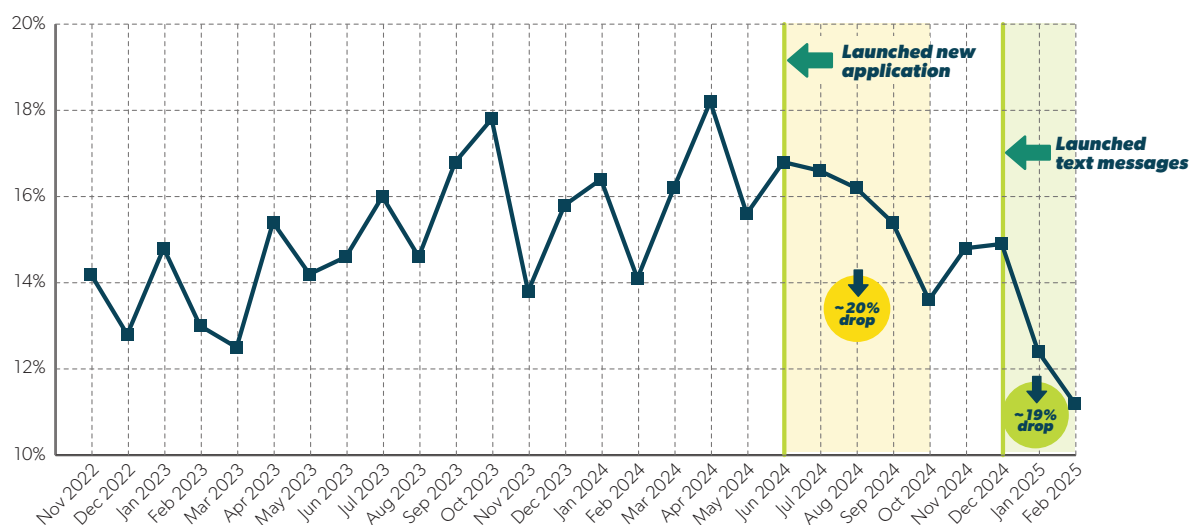
While ideas42 was not able to run a formal pilot test for these adjustments, we observed that borrowers continued to gravitate toward the prepopulated due dates and loan amounts. This finding reinforces a core tenet in behavioral science: **defaults, or preselected choices, matter**, because people tend to follow the path of least resistance. When presented with a preselected choice, many people will stick to that option even if another could be better for them. As a result, it's important to ensure the path of least resistance is a good, or at least not harmful, option for most borrowers.

Additionally, Peoples Advantage Federal Credit Union anecdotally reported important changes in the volume and nature of the calls received by their call center: they received **fewer calls from borrowers asking to change their due date** soon after booking their loan and **fewer calls with clarifying questions** about the loan or application.

<sup>6</sup> We used shorthand in these text messages to adhere to vendor constraints on character limits

We also saw the first of two sustained drops in the end-of-month proportion of delinquent Fast Cash balances: after implementing the application and website changes, this proportion went down roughly **20%** over three months (See graph 1; 16.8% in June 2024 to 13.25% in October 2024). **These findings demonstrate that improving defaults and simple changes aimed at increasing clarity and trust can lower product costs** and help lenders focus resources on borrowers who need more in-depth support.

**Graph 1: Percentage of delinquent Fast Cash balances out of total Fast Cash balances**



## Text message reminders

We pilot-tested our text message intervention, with the following key findings:

- **The reminders reduced the average daily proportion of past due Fast Cash borrowers by 8%**, a statistically significant figure. The timely due date reminder helped a subset of borrowers avoid delinquency altogether.
- **Reminders helped past due borrowers make payments sooner:** Among those who missed a payment, we saw a notable reduction in the proportion of borrowers who were still late at days 4–5, as well as day 15. We hypothesize that the drop at days 4–5, which was statistically significant, was primarily driven by our first past due text message (on day 1) that was designed to increase payment among people who had simply forgotten to pay or had overlooked an issue with their direct deposit. Similarly, the smaller drop at day 15 could have been driven by the reminders at day 10 and 14.
- **11% fewer borrowers paid fees or were subject to having their debit cards shut off.**

These reminders save the average past due borrower between \$30 – \$60 on each Fast Cash loan, depending on the size of the loan. Paying these fees would represent a roughly 15–30% increase in the cost of borrowing.

### A Note on Careful Timing

An important lesson is that the effects of a reminder might not be evident immediately. In the case of loan repayments, a borrower with a direct deposit problem may require 3–4 days to resolve the issue. Lenders should schedule reminders carefully, taking into consideration the necessary steps and lag times involved.

- ▶ **The proportion of end-of-month delinquent Fast Cash balances dropped by 19%** during pilot months (See graph 1; 14.61% in Nov 2024 to 11.2% in Feb 2025), suggesting an improvement in the financial sustainability of the product.
- ▶ **The total delinquent balances dropped by 24%** after our texts were implemented. In addition, a smaller proportion of the balance was from accounts that were between 1-29 days late (see graph 2). This reinforces that these reminders helped borrowers avoid consequences like late fees, having their debit card turned off, and being negatively reported to the credit bureaus.

Together, these shifts helped Peoples Advantage Federal Credit Union focus their resources on borrowers who needed more in-depth support because borrowers who didn't respond to the reminders were more likely to be facing structural issues, like insufficient cashflow or competing financial priorities.

As a result of these findings, the Credit Union applied the text message changes across their entire loan portfolio, impacting not just Fast Cash borrowers but those who turn to the Credit Union for a variety of lending needs. These texts have had a meaningful effect on delinquencies. Our partner explained: “We rolled out similar reminders across our whole portfolio. It was low-cost and worth trying, and the results far exceeded our expectations: **within three months we saw over \$1.3 million fewer dollars in delinquency. This reduction has sustained, even through the holiday period.**”

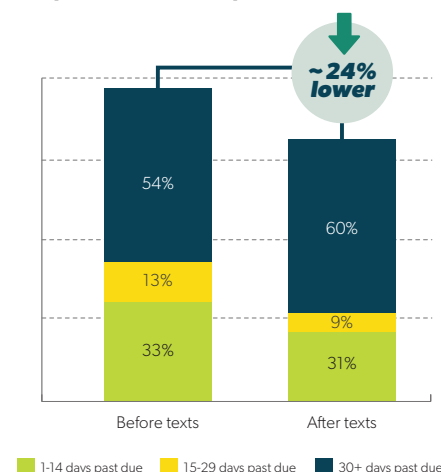
## Conclusion

ideas42 worked with Peoples Advantage Federal Credit Union to help improve repayment of their Fast Cash small-dollar loan, with notable improvements in portfolio quality. But our findings are applicable much more broadly. As the Credit Union proved internally, reminders don't only work for Fast Cash loans; they can improve overall loan performance, free up staff resources, and benefit customers through stronger credit scores and fewer penalties.

This work has gained traction more broadly as well. While our changes to the application were limited by features that were available at the time, the vendor has since implemented changes that mirror or expand those we made: changing the default due date for all credit unions using their product and prompting borrowers to type in their requested loan amount, rather than using a default, which may encourage more borrowers to borrow less than the maximum.

The implications could be enormous. Peoples Advantage Federal Credit Union saw two large drops in delinquent Fast Cash balances: a **20% drop** after we made changes to the application and website and a **19% drop** after our text messages. At the end of 2024, there were \$16 billion in delinquent loans among federally insured credit unions.<sup>7</sup> **Application of these low-cost and low-touch interventions could save lenders—and borrowers—millions.**

Graph 2: Total delinquent Fast Cash funds



<sup>7</sup> “National Credit Union Administration Quarterly Credit Union Data Summary 2024 Q4,” National Credit Union Administration.

## Our research offers important lessons for a wide array of lenders:

- ▶ Some providers may hesitate to make penalties more salient, but in many instances borrowers report that they **appreciate the transparency** and our findings suggest transparency can reduce product costs.
- ▶ **Defaults matter—choose them wisely.** The redesigned application process encouraged users to make active choices about their loan amounts and due dates. But most borrowers continued to use the default option. Even so, because we changed the default date of the first payment, we saw improvements for the Credit Union and its members. The due dates were better aligned with members' cash flow, underscoring the importance of careful design.
- ▶ **Reminders can be an effective, low-cost solution** for past due borrowers, especially when missed payments stem from issues like forgotten a due date or problems with a direct deposit.
- ▶ **Timing of reminders is key:** It may take 3–4 days to see the effect of a reminder, so plan accordingly!
- ▶ **Reminders can help segment borrowers in need of higher-touch intervention.** Past due borrowers facing structural issues (e.g., competing financial priorities, insufficient cash flow) will be easier to identify once reminders are implemented. Collections teams can become more efficient, directing additional support and guidance to the borrowers who are more likely facing structural issues.

Our results are a testament to the power of behavioral design, with far-reaching implications for financial service providers. Lenders who are willing to better understand their customers' needs and realities, and to design responsible solutions, can reduce financial distress while delivering strong business results—a win-win for business and consumer financial health.

To learn more about this work, contact us at [financialhealth@ideas42.org](mailto:financialhealth@ideas42.org).

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