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Small Dollar Loan Program

The SDL Program provides grants for Loan Loss Reserves and Technical Assistance to enable CDFIs to establish and/or maintain small dollar loan programs. The intent is to help unbanked and underbanked populations build credit, access affordable capital, and allow greater access into the mainstream financial system. You can apply for up to **\$500,000** to begin or expand a small dollar loan program. The funds you can seek are broken down in two parts, with a maximum request for each:

1. Up to **\$350,000 for ALLL** (up to 20% of your 3-year projected total to be closed in small dollar loans). Note: you would have to project \$1,750,000 to qualify to apply for \$350,000 in **ALLL**
2. Up to **\$150,000 for Technical Assistance** (may be used for compensation, training, equipment, supplies, and other costs associated with establishing and maintaining a small dollar loan program)

REQUIRED CHARACTERISTICS

Program statutes require that for small dollar loan programs to be eligible for the application, loans must have the following characteristics:

- Are made in amounts that do not exceed \$2,500.
- Must be repaid in installments.
- Have no prepayment penalty.
- Have payments that are reported to at least one of the consumer reporting agencies that compiles and maintains files on consumers on a nationwide basis.
- Are underwritten with standards that consider the consumer's ability to repay.

PREFERRED CHARACTERISTICS

The CDFI Fund has noted an Applicant will score favorably if its small dollar loan program offers one or more of the following lending practices and loan characteristics that promote affordable and responsible small dollar lending:

- The loan term is at least ninety (90) days.
- It considers the borrower's ability to repay by assessing both the borrower's income and expenses.
- Loan decisions are made within one business day (twenty-four (24) hours) after receipt of required documents.
- The borrower receives a reduction in its loan rate if they use automatic debit payments.
- The Applicant's small dollar loan program offers automatic savings features.
- The Applicant offers access to financial education, including credit counseling.

PROHIBITED PRACTICES

The following are prohibited practices for any small dollar loan program:

- a. High-rate loans – exceed all-inclusive 36% APR or rate limit set by state.
- b. Coerced automated repayments – delayed disbursements for borrowers who don't agree to automatic repayments; fees for borrowers who select manual; requirements for wire transfers or other means that result in fees for borrowers.
- c. Excessive refinancing – loans that allow refinancing before at least 80% of principal has been repaid.
- d. Automatic loan insurance or credit card add-ons – loans that automatically include add-ons and require borrowers to opt out to decline coverage or opt out of a credit card.
- e. Security interests in household goods, vehicles, or deposit accounts – loans that are secured except for loans with a savings account component or credit builder loans.
- f. Excessive late fees on missed loan payments – loans that charge more than one fee per late payment.
- g. Abusive overdraft practices – lenders may not collect a loan payment from the borrower's account that overdraws the account, triggering overdraft fees.
- h. Aggressive debt collection practices - loans that do not offer a workout program or other accommodations to help struggling borrowers before pursuing debt collection; loans that do not disclose to borrower details of debt collection practices or provide notice when account is placed with debt collectors; must comply with Fair Debt Collection Practices Act.
- i. Forced arbitration clause, class action ban, and other bans – loan contracts that contain mandatory arbitration clauses or other clauses that prevent borrowers from seeking legal remedies in court.

COMPLIANCE & PROJECTIONS REQUIREMENTS

The SDLP program has a three-year performance period, with performance goals that are based on the total dollar amount of projected lending for the small dollar product. Applicants applying for funds to support an existing product must show projected lending that is greater than their two-year historical track record of small dollar program lending.

For Technical Assistance (TA) awardees, TA funds must be 100% expended in the allowable use categories listed above by the end of the three-year performance period.

Annually, during the three-year performance period, SDLP Awardees are required to submit a Performance Progress Report, Uses of Award Report, Financial Statement Audit Report, and an Annual Certification Report. As part of the Uses of Award Report, Awardees who receive LLR funds are required to provide documentation that those funds were deposited into a separate G/L account and of any drawdowns to that account to cover SDLP-funded loan losses.

FINDINGS FROM FY2022 SDLP AWARDEES

- There were 66 awardees, all but four included a TA component. 61 included an LLR component. The total average award amount was \$172,890.
- LLR awards ranged from \$9,213 to \$184,250, with an average of \$110,506.
 - No awardees received the maximum LLR amount (\$250,000 for the FY22 round).
- TA awards ranged from \$8,774 to \$87,738, with an average of \$75,321.
 - No awardees received the maximum TA amount (\$150,000 for the FY22 round).