Small Sum Loans Insights from the USA

Addressing the short term credit needs of people in financially vulnerable circumstances

June 2025

Introduction

There are **more than 20 million people living in financially vulnerable circumstances** in the UK right now, with millions of people unable to access financial safety nets like savings, insurance or affordable credit.

At the same time, research from L.E.K. estimates there is **£2bn of unmet credit demand in the UK** that's potentially commercially viable[1].

While credit isn't the answer for everyone in financially vulnerable circumstances, access to **small sums of affordable credit can be vital** in helping people deal with unexpected costs and manage low or volatile incomes.

Longer term, it can help people **build their financial resilience** and prevent a financial bump in the road turning into a full blown crisis.

At Fair4All Finance, we're working to increase access to fair and affordable products and services for people in financially vulnerable circumstances.

We're interested in identifying what works well and scaling up solutions to meet the needs of millions of customers who are currently financially excluded.

Through our work we've been learning about the **successful small dollar loans initiatives in the US**.

This paper shares insights from this banking-led initiative and sets out early learnings from the US, looking at regulatory action and wider success factors, as well as bank engagement and how the market has developed.

The small dollar loans initiative is separate to the Community Reinvestment Act in the US and is an interesting example of an initiative on affordable credit that didn't require primary legislation.

We're interested in exploring **how an initiative like this might be adapted to work in the UK** to help match an increasing need with appropriate supply.

The UK market is different, and **we are realistic about the extent of the adaptations that would be needed** should a similar model be adopted here.

This paper is not intended to set out how those adaptations would be set up and initially **focuses on what has worked in the US**.

[1] L.E.K (2023) Improving access to lending for the financially vulnerable

Small Dollar Loans in the USA

What are small dollar loans?

Prior to 2020 the availability of loan products under $1,000 from large banking institutions in the USA was limited. The outstanding lending for this segment didn't exceed $100 million in any quarter between 2010 and 2018, with the average in that period at just $69 million.

However, since 2020 **several large US banking institutions have started offering a sub $1,000 lending product** commonly referred to as small dollar loans (SDL).

The product offering is simple, straightforward and effective. All the products **require online banking accounts** (with transactional history ranging from 6 to 30 months) **with regular deposits** and have a **repayment period of up to four months**.

In some cases, there are requirements about specific deposit amounts. Although **no credit checks are required, with underwriting based on transaction history**, banks may report to credit agencies.

With significant engagement from banks and credit unions, these loans appear transformative. They are not a panacea, but they can help millions of excluded people. **Small sums, an average of $500 typically, are being repaid in three or four instalments**, and to-date the overall repayment rates have been within the acceptable tolerance levels, ensuring the sustainability of product provision.

The increasing deployment of fintech, using innovative technology and alternative underwriting, also means these **small dollar loans have lower unit economic costs and can be issued in significant volumes.**

Figure 1. Mainstream bank product offerings in the Small Dollar Loan segment

Bank	Product	Year Introduced	Loan Size	Payment Structure	Pricing
usbank	**Simple loan**	2018	$100-$1,000	3 equal monthly payments	$6 per $100 (35.65% APR)
BANK OF AMERICA	**Balance assist**	2020	$100-$500	3 equal monthly payments	$5 flat fee (5.99% - 29.76% APR)
Huntington	**Standby cash**	2021	$100-$500	3 equal monthly payments	5% flat fee per advance, or 12% APR
REGIONS	**Protection line of credit**	2022	$50-$500	Minimum payment of 10% of outstanding balance	12% APR
TRUIST	**Cash reserve**	2022	$5-$750	4 equal monthly payments	18%APR
WELLS FARGO	**Flex Loan**	2022	$100-$1,000	4 equal monthly payments	$12-$20 flat fee (19% - 23% APR)

Source:

Initial data from Ideas42[2] updated using compilation of publicly available information from bank websites (October 2024). [3]

Note: exchange rate as of October 2024

[2] Ideas42 (2024) The Promise of Small Dollar Loans for Banks and Consumers
[3] Exchange rate as of October 2024 ($100 = £77, $500 = £386)

Success factors for scaling

Four main factors have contributed to banks and credit union engagement in scaling this product:

- Regulators providing **leadership and regulatory certainty** about small dollar loans conditions
- Technology enabling **alternative underwriting and improving unit economics**
- **Leadership from the banking sector identifying a clear market opportunity** with evidenced consumer demand - new business could be written as borrowers could be assessed with alternative data, reducing costs to automatically assess credit risks and approve loans
- Higher regulatory performance ratings for those banks demonstrating **compliance with the Community Reinvestment Act** (CRA)[4]

Wells Fargo stated in their 2023 Annual Report: 'In the fourth quarter of 2022, we launched Flex Loan [...]. **Customer response continues to exceed our expectations**, and we originated over 350,000 loans last year'[5].

Since launching its product in 2020, **Bank of America** alone has extended 1.6 million Balance Assist loans for **more than $700 million**.

[4] Community Reinvestment Act 1977. More details in section below on Bank Engagement.
[5] Wells Fargo (2023) Annual Report

The key role of the regulator

Regulatory support in the USA for small dollar loans was crucial to their development. For years this lending had been operating in the margins for some banks until **two key moments in 2020** provided greater regulatory clarity.

Firstly, **five federal financial regulatory agencies**[6] issued a regulatory statement[7] to **encourage banks to increase the issuance of responsible small dollar loans**. This was catalysed initially spurred on by the urgent need to respond to the unexpected circumstances or financial challenges people were facing as a result of the pandemic.

This was followed by the financial agencies releasing more detailed guidelines outlining **Lending Principles to promote Small Dollar Loans**[8] aimed at removing the lack of clarity that had previously prevented banks from lending small sums to lower income households.

The principles outlined tools that banks can use for effective management of risks related to small dollar loans including 'new product development protocols that address, among other issues, the clear disclosures of terms, the risk profile of customers using the products, the use of new technologies, alternative underwriting information[9], or the use of third-party arrangements.'

Secondly, the **Consumer Financial Protection Bureau (CFPB)** issued No Action Letter templates[10] covering small dollar credit products. **No Action Letter Templates** set out the product details that institutions must include in their application to the regulator to receive a No Action Letter.

Once a participating lender's application is approved, this **guarantees the CFPB will not pursue supervisory or enforcement actions** against a company for providing a specified product or service (in this instance it was applied to small dollar loan provision).

This provided greater comfort for potential lenders, **offering clarity and assurance** that - based on the information submitted by the participating lender - the product or service complies with current regulations.

The Bank Policy Institute[11], that coordinated the initial template with the regulator, noted that banks used these to 'obtain a regulatory safe harbour to prevent a good deed from going punished'.

[6] The Board of Governors of the Federal Reserve System, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency
[7] US federal financial regulators (March 2020) Joint Statement Encouraging Responsible Small Dollar Lending in Response to COVID-19
[8] US federal financial regulators (May 2020) Interagency Lending Principles for Offering Responsible Small Dollar Loans
[9] This followed a 2019 Interagency Statement on the Use of Alternative Data in Credit Underwriting which was not specifically focused on small dollar loans, for more detail on new underwriting methods see section below
[10] Consumer Financial Protection Bureau (2020) No Action Letter Template
[11] Bank Policy Institute (2020) Banks receive go ahead to meet consumer small dollar lending needs

1977	• **Community Reinvestment Act (CRA)** • Encourages financial institutions to help meet the credit needs of the communities in which they do business
2018	• **Federal Deposit Insurance Corporation (FDIC): Request for Information on Small Dollar Lending** • Invites input on consumer demand, the supply of small dollar credit products, and how FDIC can encourage these products
2019	• Interagency **Statement on the Use of Alternative Data in Credit Underwriting** • Notes benefits such as expanding access to credit and more favorable pricing, but also outlines potential risks
March 2020	• **Joint statement** by five federal financial regulatory agencies • Encourages banks, savings associations and credit unions to offer responsible small dollar loans
May 2020	• **Interagency Lending Principles** for offering responsible small dollar loans • States innovative technology or processes for customers who may not meet a financial institution's traditional underwriting standards [...] can be implemented in-house or [...] via third-party relationships
May 2020	• **No-Action Letter Template** issued by federal Consumer Financial Protection Bureau (CFPB) • States additional legal protections and conditions under which products would not trigger regulatory concerns

New underwriting methods and alternative data

New technological capability and its availability allowed for **the use of alternative underwriting information, such as transactional data**. This was supported by regulatory clarity on what data and criteria can be used (see above).

In 2019 an Interagency statement discussed the use of alternative data[12], and in 2020 a subsequent statement noted that **both internal sources (such as deposit account activity) and external sources could be used**[13].

Pew Research emphasises the importance of the **No Action Letter template** provided by Consumer Financial Protection Bureau (CFPB) also providing further **clarity that lenders can utilise transactions to underwrite risk**:

'Underwriting criteria [for small dollar lending] would focus on the consumer's transaction activity in their accounts at the Depository Institution, also known as 'cash flow underwriting'.[14]

This meant lenders could assess potential borrowers' needs through their current account activity and choose whether to undertake a credit reference agency check or not.

This signposting to alternative methods of underwriting aimed to improve access to credit for people with lower credit rating or thin files.

[12] US federal financial regulators (2019) Interagency Statement on the Use of Alternative Data in Credit Underwriting
[13] US federal financial regulators (2020) Interagency Lending Principles for Offering Responsible Small Dollar Loans
[14] Consumer Financial Protection Bureau (2020) No Action Letter Template

Significant increases in small dollar loans

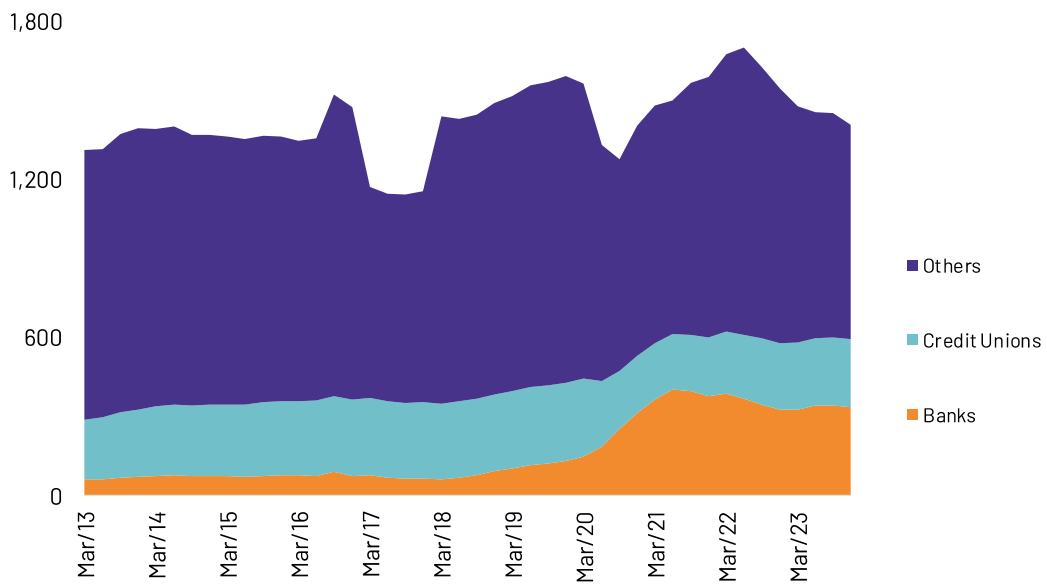
In the first four years since the US regulators intervened to encourage responsible small dollar loans, the average balances of these products actively in repayment to USA banks rose by 286% to $336m[15] with the entry of household brands like Bank of America, U.S. Bank and Wells Fargo driving the initiative.

Figure 2. Average active small dollar loans with USA banks

2019	2023	% difference
$117m	$336m	286%

By Q4 2023 banks and credit unions combined in the USA had $599 million outstanding in small dollar loans owed by more than 1.1 million borrowers.

Figure 3. Active small dollar loans (millions of US Dollars)



Source: Federal Reserve (December 2023)[16]

Given not all lenders report this lending to the Credit Rating Bureaus (which is the main source for Federal Reserve lending statistics), it is possible that the total sum of small dollar loans advanced exceeds this even further. For example, since launching its product in 2020, Bank of America alone has extended 1.6 million Balance Assist loans worth more than $700 million[17].

[15] Federal Reserve (2023) Small-Dollar Loans in the US: Evidence from Credit Bureau Data: average quarterly balances between Q1-Q4 2019 and Q1-Q4 2023
[16] Federal Reserve (2023) Small-Dollar Loans in the US: Evidence from Credit Bureau Data
[17] American Banker (2024) Banks fight payday lenders with cheaper small dollar loans

Impact for banks

Some of the largest US banks are now offering small dollar loans to consumers (six of the top ten by branch number, and four of the top ten by assets - see Figures 4 and 5).

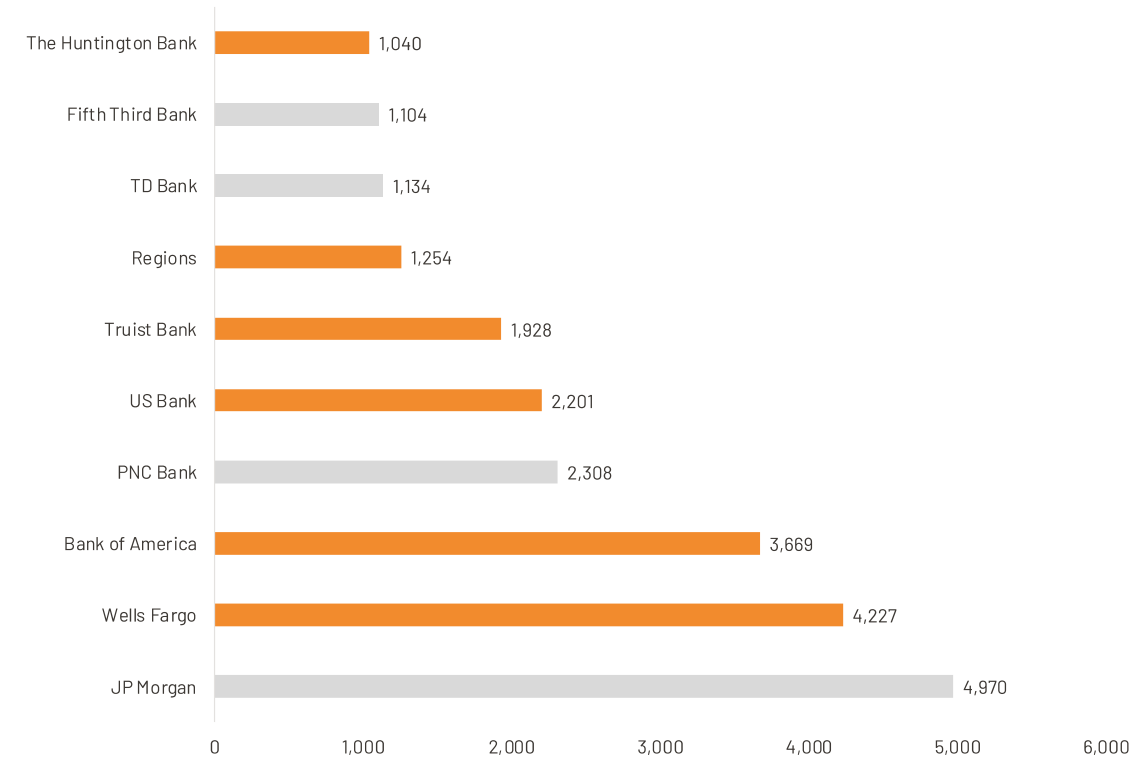
A number of banks in the US have told us offering this product was an **important way they address the consumer need of low to moderate income households**.

On a commercial basis, we've heard anecdotally that this is has been a profitable or breakeven product that has been effective as part of a **broader customer acquisition strategy**.

This also brings additional benefit for banks as these loans are **considered favourably for Community Reinvestment Act (CRA) purposes**, whereby regulators issue performance ratings to assess a bank's contribution to low and moderate income neighbourhoods.

These ratings are then considered in the analysis of a bank's applications for new branches, mergers and acquisitions[18].

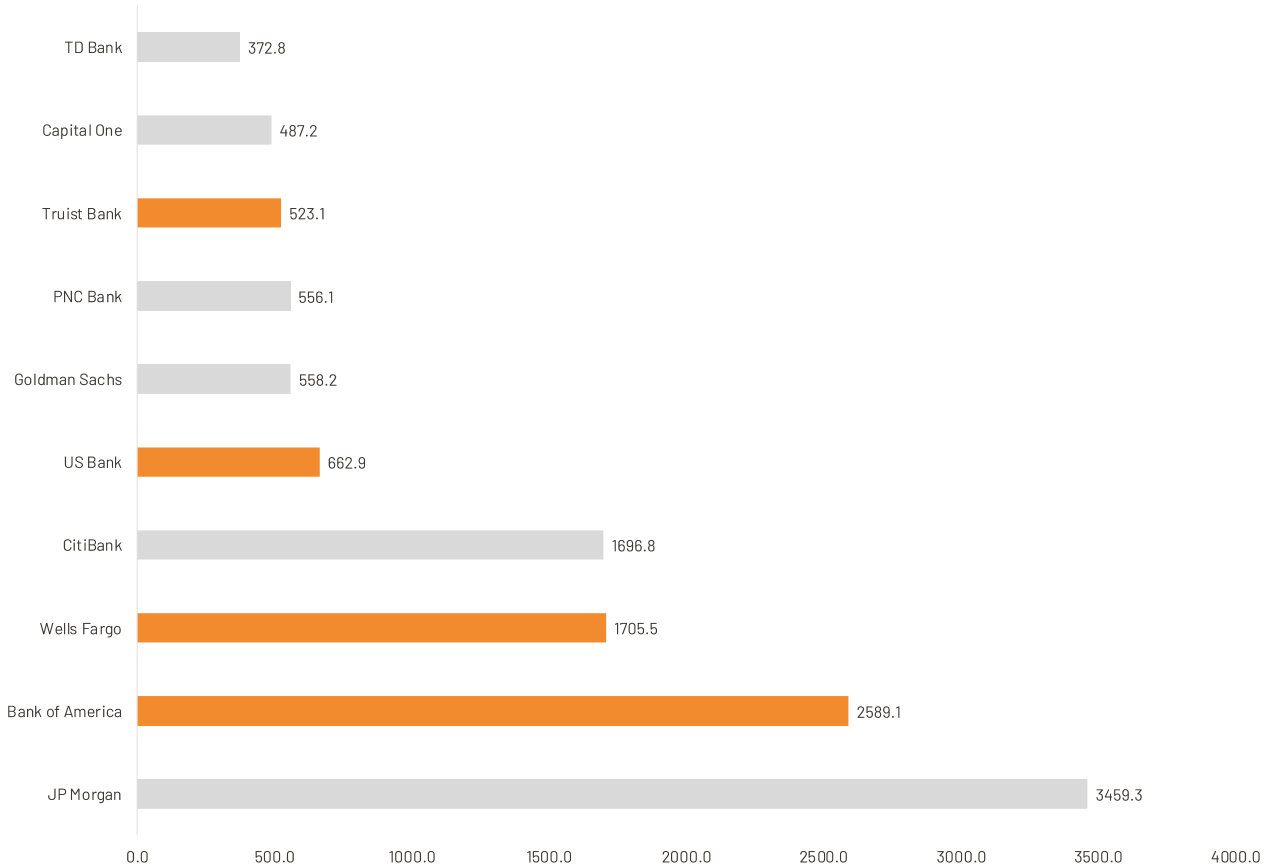
Figure 4. USA largest banks (by number of branches) that offer small dollar loans



Source: Federal Reserve (June 2024)[19]

[18] Congressional Research Service (2024) Modernization of the Community Reinvestment Act
[19] Federal Reserve (June 2024) Statistical Release: Large Commercial Banks

Figure 5. USA largest banks (by assets - $million) that offer small dollar loans



Source: Federal Reserve (June 2024)[20]

[20] Federal Reserve (June 2024) Statistical Release: Large Commercial Banks

Impact for consumers

Early data shows the success of this initiative in **supporting those who might otherwise be excluded from mainstream credit**.

Borrowers using small dollar loans have a median Equifax credit score of 602 placing the borrower in the subprime cohort[21].

The data also suggests that small sum bank lending may be **displacing payday loans in the USA** with banks holding over 20% market share.

This is significant because the price of small dollar loans is commonly cited as being about **fifteen times less than the high cost loan market for payday and similar loans in America**[22].

Formal studies to quantify this are currently in train, but whilst we await their publication **we can assume significant consumer savings on interest paid amounting to billions of dollars**.

Small dollar loans provide fairer alternatives to much higher cost lending and support access to short term credit for millions.

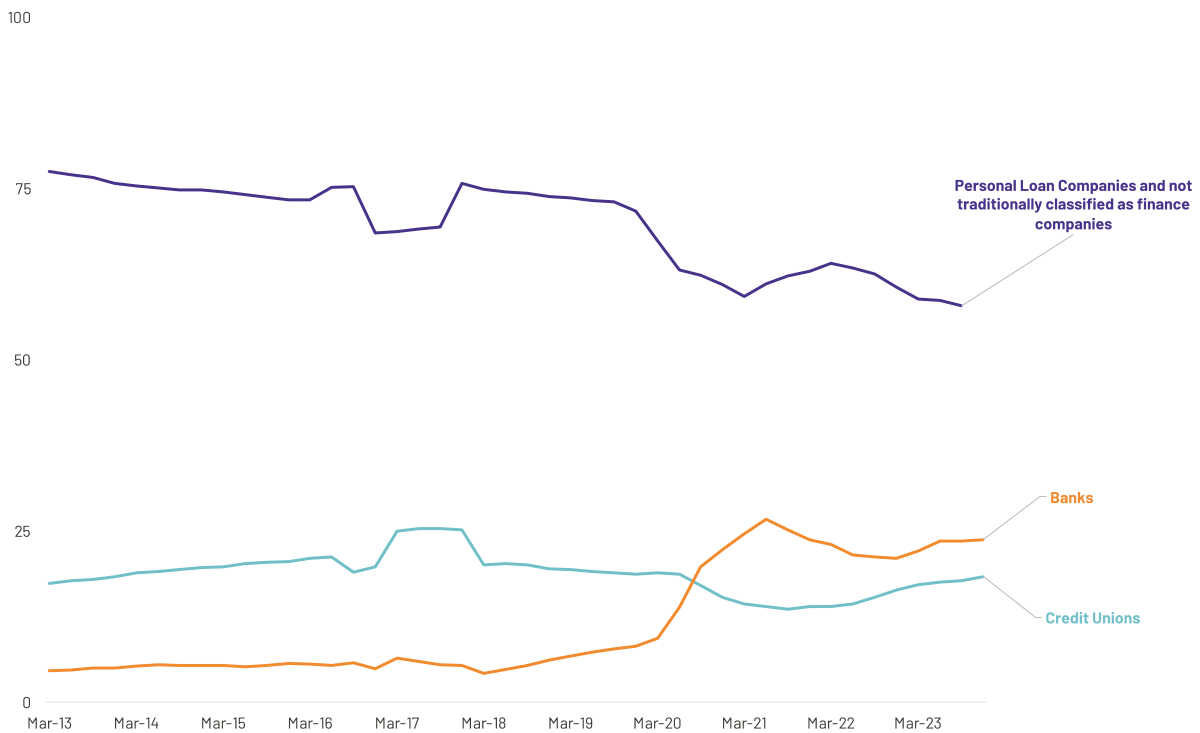
In a 2022 survey by the Federal Reserve[23], **around a third of respondents said they would have some difficulty coming up with $400 immediately.**

About 70% of these households would cover the $400 expense at least in part by running a balance on their credit card or borrowing from a friend or a family member, while the remaining 30% said they would have to sell an asset, use a payday loan or simply not pay the unexpected expense.

This shows that **small dollar loans have and will continue to play a significant role in consumer financial resilience.**

[21] Federal Reserve (July 2024) Small-Dollar Loans in the U.S.: Evidence from Credit Bureau Data
[22] The Financial Brand (2024) How a regulatory nudge pushed payday lending into the mainstream benefiting borrowers and banks
[23] Federal Reserve (May 2023) Economic Well-Being of U.S. Households in 2022

Figure 6. Share of the market for active small dollar loans (%)



Source: Federal Reserve (December 2023)[24]

[24] Federal Reserve (2023) Small-Dollar Loans in the US: Evidence from Credit Bureau Data

Learnings from the USA

The intervention by US regulators in 2020 with clear guidance was important, providing the assurances to banks that this type of lending was encouraged and could be undertaken responsibly.

This led to a significant scaling in lending volumes by providing clarity to the lenders that they were operating within the regulatory parameters and with limited risk of negative regulatory repercussions.

The US small dollar loans initiative shows the potential and possibilities for **active bank and regulatory engagement to advance new products at scale and at pace in the UK, while retaining hard-earned consumer protections.**

Exploring a UK small sum loans scheme

The US experience demonstrates the **importance of all relevant actors working together to make small sum lending a reality**.

Questions to test

- What would need to be true for major lenders to participate in a trial?
- What is the appropriate regulatory clarity required from the FCA and FOS to enable any scheme?
- How do we ensure appropriate and proportional levels of consumer protections are retained and that these don't infringe on innovation or access?
- How would success be measured and by whom?
- What involvement would be needed from Credit Rating Agencies?
- What role could fintech solutions play in alternative underwriting methods?
- How should this be promoted to those most likely to benefit?