

RESCINDED

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Replaced - See OCC 2020-54

Installment Lending: Core Lending Principles for Short-Term, Small-Dollar Installment Lending

Summary

The Office of the Comptroller of the Currency (OCC) encourages banks to offer responsible short-term, small-dollar installment loans, typically two to 12 months in duration with equal amortizing payments, to help meet the credit needs of consumers. The OCC is issuing this bulletin to remind banks¹ of the core lending principles for prudently managing the risks associated with offering short-term, small-dollar installment lending programs. Banks should develop and implement these programs in a manner consistent with sound risk management practices and should align the programs with the banks' overall business plans and strategies. Such strategies could include working with consumers who have an ability to repay a loan despite a credit profile that is outside of a bank's typical underwriting standards for credit scores and repayment ratios. In all programs, banks should offer lending products in a manner that ensures fair access to financial services and fair treatment of consumers and complies with applicable laws and regulations. This bulletin is consistent with the OCC's support for responsible innovation by banks to meet the evolving needs of consumers, businesses, and communities.

To

Chief Executive Officers of All National Banks, Federal Savings Associations, and Federal Branches and Agencies; Department and Division Heads; All Examining Personnel; and Other Interested Parties

Note for Community Banks

This guidance applies to all OCC-supervised banks.

Highlights

The OCC encourages banks to

- refer to the core lending principles in this bulletin when conducting short-term, small-dollar installment lending activities.
- discuss plans to offer short-term, small-dollar lending products with their OCC portfolio manager, examiner-in-charge, or supervisory office before implementation, particularly if the offerings constitute substantial deviations from their existing business plans.²

Background

U.S. consumers borrow nearly \$90 billion every year in short-term, small-dollar loans typically ranging from \$300 to \$5,000.³ Many banks have withdrawn from this market, resulting in consumers often turning to alternative lenders.

Banks can provide affordable short-term, small-dollar installment lending options that can help consumers with their short-term financial needs while establishing a path to more mainstream financial products. Banks can meet consumers' short-term, small-dollar credit needs while providing other financial services such as financial education and credit reporting. Consumers can also benefit when they are offered products with reasonable pricing and repayment structures.

In October 2017, the OCC rescinded its guidance for deposit advance products.⁴ Continuing the guidance would have subjected banks to potentially inconsistent regulatory direction and undue burden as they prepared to comply with the Bureau of Consumer Financial Protection's (BCFP) final rule titled "Payday, Vehicle Title, and Certain High-Cost Installment Loans" (Payday Rule). The Payday Rule's underwriting requirements, which have a compliance date in August 2019, generally apply to consumer loans with maturities shorter than 45 days or longer-term loans that involve balloon payments.

In January 2018, the BCFP stated that it intends to engage in a rulemaking process to reconsider the Payday Rule⁵ but did not indicate the specific changes that it is considering. The OCC intends to work with the BCFP and other stakeholders to ensure that OCC-supervised

banks can responsibly engage in consumer lending, including lending products covered by the Payday Rule.

Core Lending Principles

Banks already offer a variety of installment lending products with maturities greater than 45 days that do not include balloon payments. The OCC believes that banks can offer these loans safely, profitably, and with reasonable pricing and repayment terms. These loans generally are not covered by the Payday Rule's underwriting requirements.

The OCC has published three core lending principles that banks should consider when offering short-term, small-dollar installment lending products:⁶

- All bank products should be consistent with safe and sound banking, treat customers fairly, and comply with applicable laws and regulations.
- Banks should effectively manage the risks associated with the products they offer, including credit, operational, compliance, and reputation.
- All credit products should be underwritten based on reasonable policies and practices, including guidelines governing the amounts borrowed, frequency of borrowing, and repayment requirements.

Reasonable policies and practices specific to short-term, small-dollar installment lending would generally include the following:

- Loan amounts and repayment terms that align with eligibility and underwriting criteria and that promote fair treatment and access of applicants. Product structures should support borrower affordability and successful repayment of principal and interest in a reasonable time frame.
- Loan pricing that complies with applicable state laws and reflects overall returns reasonably related to product risks and costs. The OCC views unfavorably an entity that partners with a bank with

the sole goal of evading a lower interest rate established under the law of the entity's licensing state(s).

- Analysis that uses internal and external data sources, including deposit activity, to assess a consumer's creditworthiness and to effectively manage credit risk. Such analysis could facilitate sound underwriting for credit offered to consumers who have the ability to repay but who do not meet traditional standards.
- Marketing and customer disclosures that comply with consumer protection laws and regulations and provide information in a transparent, accurate, and customer-friendly manner.
- Loan servicing processes that assist customers, including distressed borrowers. To avoid continuous cycles of debt and costs disproportionate to the amounts borrowed, timely and reasonable workout strategies should be used.
- Timely reporting of a borrower's repayment activities to credit bureaus. Borrowers should have the ability to demonstrate positive credit behavior, build credit history or rebuild credit scores, and transition into additional mainstream financial products.

Further Information

Please contact Steven Jones, Director for Retail Credit Risk, at (202) 649-6220.

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Related Links

The following links provide more information regarding sound risk management of consumer lending activities, appropriate underwriting, and fair access and fair treatment of consumers in compliance with applicable laws and regulations.

- ["Installment Lending"](#) booklet of the *Comptroller's Handbook*

- ["Retail Lending"](#) booklet of the *Comptroller's Handbook*
- [Advisory Letter 2000-7](#), "Abusive Lending Practices"
- [Advisory Letter 2000-10](#), "Payday Lending"
- [Advisory Letter 2000-11](#), "Title Loan Programs" (for national banks)
- [CEO Memo 131](#), "Title Loan Programs" (for federal savings associations)

The following links provide relevant risk management principles for new, modified, or expanded short-term, small-dollar installment lending products or products that may result in relationships with third parties.

- [OCC Bulletin 2013-29](#), "Third-Party Relationships: Risk Management Guidance"
- [OCC Bulletin 2017-21](#), "Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29"
- [OCC Bulletin 2017-43](#), "New, Modified, or Expanded Bank Products and Services: Risk Management Principles"

¹"Banks" refers collectively to national banks, federal savings associations, and federal branches and agencies of foreign banks.

²Refer to OCC Bulletin 2017-43, "New, Modified, or Expanded Bank Products and Services: Risk Management Principles," October 20, 2017.

³Refer to Center for Financial Services Innovation, "2017 Financially Underserved Market Size Study," pp. 44–47, for revenue and volume data on pawn loans, online payday loans, storefront payday loans, installment loans, title loans, and marketplace personal loans.

⁴Refer to OCC news release 2017-118, "Acting Comptroller of the Currency Rescinds Deposit Advance Product Guidance," October 5, 2017, announcing the rescission of OCC Bulletin 2013-40, "Deposit Advance Products: Final Supervisory Guidance." Separately, the OCC has updated the "Installment Lending" and "Retail Lending" booklets of the *Comptroller's Handbook* to add Bulletin 2018-14 and to delete Bulletin 2013-40 in the references sections.

⁵Refer to "CFPB Statement on Payday Rule," January 16, 2018.

⁶Refer to OCC news release 2017-118.