



September 20, 2021

Emailed to: regulations@dfpi.ca.gov and copy to David Bae at [REDACTED]@dfpi.ca.gov.

Subject line: PRO 04-21

Dear Acting Commissioner Christopher Shultz:

The Online Lenders Alliance (OLA) represents the online lending industry and companies that provide services to online lenders. We appreciate the invitation to provide comments on the Department of Financial Protection and Innovation's (DFPI) proposal to amend the Pilot Program for Increased Access to Responsible Small Dollar Loans (PRO 04-21).

The proposed amendments (1) would increase "the upper dollar limit for a permissible Pilot Program loan from \$2,500 to \$7,500 and requires participating lenders to conduct reasonable background checks on finders." In addition, the proposal (2) would enable "certain finders to perform additional services such as disbursing loan proceeds to borrowers on behalf of lenders participating in the Pilot Program, receiving loan payments from borrowers, and providing notices and disclosures to borrowers."¹

Users of small-dollar loans in California experienced a large reduction in credit availability in 2020, largely due to the impacts of COVID-19 and prior rulemaking that has made it challenging to offer small-dollar loans in the State. DFPI's own data shows that covered loans (without a finder) under the Small-Dollar Pilot Program substantially declined from 197,561 loans in 2019 to 116,864 in 2020, a 40 percent reduction in loan volume.² There are no approved finders in the Pilot Program, since Aura Financial declared bankruptcy earlier this year. Aura had represented 40 percent of the loans made under the program in 2019.³

The COVID-19 pandemic had a strong negative impact, not only on Aura Financial, but all lenders operating in this space as well as many consumers who experienced income or expense shocks. Unfortunately, these types of shocks are much more common than most would believe. According to the Consumer Financial Protection Bureau (CFPB), the majority of users of alternative loans (i.e. small-dollar loans) experience an income shock (56 percent of users) or an expense shock (74%) over the past 12-months – and this was before the pandemic took effect.⁴

¹ California Department of Financial Protection and Innovation, "Notice of Proposed Rulemaking," August 6, 2021. Available at: <https://dfpi.ca.gov/wp-content/uploads/sites/337/2021/08/8.6.2021-Notice-of-Proposed-Rulemaking.pdf>.

² California Department of Financial Protection and Innovation, "Annual Report of Activity Under Small Dollar Loan Pilot Program," 2020. Available at: https://dfpi.ca.gov/wp-content/uploads/sites/337/2021/06/DFPI_AnnualReport_RSDL-2020.pdf.

³ Ibid.

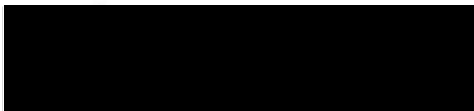
⁴ Consumer Financial Protection Bureau, "Making Ends Meet Survey," May 2021. Available at: https://files.consumerfinance.gov/f/documents/cfpb_consumer-use-of-payday-auto_title-pawn_loans_research-brief_2021-05.pdf.

Despite the economic uncertainty in 2020, the number of complaints about personal loans are low. In fact, the DFPI received only 11 complaints about Pilot Program lenders in 2020, representing a meager 0.009 percent of all borrowers.⁵ The number of complaints at the CFPB's Consumer Complaint Database are also extremely low. In 2020, complaints about personal loans in California represented only 1.1 percent of all financial service complaints.⁶

In contrast, consumers in California are very concerned with the lack of credit availability in the state. According to a Morning Consult poll in 2020, 70 percent of Californians believe that it is "important for those who are underbanked or credit-challenged to have access to credit."⁷ Nonetheless, there was a substantial decline in credit availability in California during the past few years, largely a result of the COVID-19 pandemic and prior rulemaking that has made it difficult to offer small-dollar loans in California. As mentioned, there was a 40 percent reduction in loans without a finder under the Small-Dollar Pilot Program, but there was also a 40 percent decline in loans made under the California Deferred Deposit Transaction Law (CDDTL).⁸

As a result, OLA generally supports programmatic changes by the DFPI that acknowledge and seek to correct the lack of credit availability for California consumers, specifically those who are underserved by traditional financial institutions. OLA hopes the changes proposed by the DFPI are a starting point and look forward to working with the DFPI as they aim to "increase Californians' access to small dollar loans," as stated in the Proposal.⁹

Thank you very much for your consideration,



Andrew Duke
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Online Lenders Alliance

⁵ California Department of Financial Protection and Innovation, "Annual Report of Activity Under Small Dollar Loan Pilot Program," 2020. Available at: https://dfpi.ca.gov/wp-content/uploads/sites/337/2021/06/DFPI_AnnualReport_RSDL-2020.pdf.

⁶ Consumer Financial Protection Bureau, "Consumer Complaint Database," accessed January 15, 2021. Available at: <https://www.consumerfinance.gov/data-research/consumer-complaints/>.

⁷ Morning Consult and the Online Lenders Alliance, "Setting Prices for Loans Polling Presentation," July 2020. Available at: <https://onlendersalliance.org/wp-content/uploads/2020/10/Americans-Support-Access-to-Credit-for-Underbanked-Consumers.pdf>.

⁸ California Department of Financial Protection and Innovation, "Annual Report of Payday Lending Activity Under the California Deferred Deposit Transaction Law," 2020. Available at: https://dfpi.ca.gov/wp-content/uploads/sites/337/2021/07/DFPI_AnnualReport_CDDTL-2020.pdf.

⁹ California Department of Financial Protection and Innovation, "Notice of Proposed Rulemaking," August 6, 2021. Available at: <https://dfpi.ca.gov/wp-content/uploads/sites/337/2021/08/8.6.2021-Notice-of-Proposed-Rulemaking.pdf>.