Increasing Access to Small Dollar Loans in Rural America

Consumer Financial Protection Bureau (CFPB)

The Challenge

Use data and technology to improve access to credit and reduce the origination cost of small dollar loans (<$150k) to help Americans in rural communities achieve homeownership and meet other housing-related needs (e.g., renovations, equity drawdown, etc.).

Executive Champion

Ann Epstein, Assistant Director, CFPB Office of Competition & Innovation

The Problem

Housing finance is an essential tool to help Americans achieve homeownership or address other housing-related needs, such as renovating aging housing. However, rural Americans seeking small dollar loans face disproportionate obstacles.

The scarcity of lenders offering low dollar mortgages for traditional homes, chattel loans for manufactured housing, and other vehicles intended to help with renovations may be caused in part by the regulatory environment and high fixed cost processes that render small dollar loans unprofitable and unsustainable. For example, mortgage lenders report that Regulation Z's loan origination compensation rules may discourage lenders from offering small dollar loans due to reduced financial incentives, while fixed closing costs and administrative requirements can easily exceed points and fee caps on small dollar or other qualified mortgages. Other issues that increase costs to originate loans include geographic challenges, such as fewer local lenders and appraisers familiar with the area, and land ownership variances from standard suburban lots.

Consumers may also lack awareness of the options available to them for financing or lack the ability to compare these options. To address these challenges, congress and the executive branch have enacted multiple programs, exemptions, and adaptations for small creditors, nonprofits, and rural lenders to help provide access to small dollar loans for housing needs. Many of these provisions and programs seem to be underutilized.

The Opportunity

Artificial Intelligence and other new technologies may have the potential to drive down loan origination costs by automating previously expensive tasks. These technologies may also help bring consumers better information about loan choices. Federal agencies can also learn from the experience of technologists and practitioners as they seek to disrupt the status quo. The Consumer Financial Protection Bureau (CFPB), and other federal agencies, collects certain data that may inform solutions to decrease loan origination costs while still protecting consumers and providing them financing choices. The Home Mortgage Disclosure Act (HMDA) requires many financial institutions to maintain, report, and publicly disclose loan-level information about mortgages to the CFPB. Additionally, the National Survey of Mortgage Originations provides information for a nationally representative sample of newly originated closed-end first-lien residential mortgages in the country. In this sprint, using HMDA and other publicly available data and insights from consumer compliance and rural lending program experts, we invite companies to design solutions that address these specific financing gaps in rural America.

Target End Users

Rural Americans, those lending to rural Americans, or technologies that enable lending to rural Americans who are in need of housing finance for small dollar loans via government-backed programs, community banks, credit unions, CDFIs, commercial banks, mortgage companies, etc.

Related Data Sets

- CFPB & Federal Financing Housing Agency National Survey of Mortgage Originations
- CFPB Home Mortgage Disclosure Act

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