

Fintech, CDFI offer small-dollar loan with new twist

By [Miriam Cross](#) December 15, 2021, 5:04 p.m. EST 4 Min Read

A new small-dollar loan for borrowers with limited credit histories has emerged from a partnership between a community development financial institution and a fintech.

NAAC Finance, the new digital lending arm of the National Asian American Coalition, developed the product with Asenso Finance, a startup that processes and services loans for financial institutions. The loan has two unusual features: Customers must complete financial literacy training before their loan is approved, and alternative data such as income is used in the underwriting.

The relationship between NAAC — a CDFI in Daly City, California — and Asenso in Manhattan Beach, California, has an unusual origin.

NAAC partnered with Talino Ventures Labs, a venture studio in Los Angeles that builds financially inclusive fintech around the world, to win one of three categories at the Federal Deposit Insurance Corp.'s first tech sprint this summer. Talino launched Asenso in the U.S. after the sprint and spun it off as a stand-alone company, with NAAC as its first client.

Small-dollar loans are offered by a number of fintechs, but the community institution involvement, the educational component and the low rates that will be charged set this product apart, experts say.

“Financially vulnerable households and small businesses often face challenges accessing credit on affordable terms,” said Leslie Parrish, strategic advisor in the retail banking and payments practice at Aite-Novarica Group. “This program has the potential to drive down the cost of offering affordable loans to these borrowers while providing relevant education at the right time to put them on more solid footing going forward.”

Peter Renton, co-founder of LendIt Fintech, says the demand for [small-dollar loans](#) outstrips supply, especially for low- to moderate-income borrowers. It is also something banks have generally shied away from offering, [with a few exceptions](#).

The SPRING small-dollar loan (which stands for Social, People, Responsible, Innovative, National, Good), is available to California and Nevada residents right now, but is slated to go national at a later date. Customers may apply online for loans of \$1,000, \$2,000 or \$2,500 that carry interest rates between 3.5% and 20%. NAAC Finance plans to process 6,000 loan applications per month, which it predicts will result in 2,000 approved and performing loans.

Before the loan is approved, every borrower must complete a financial literacy program on the FDIC website and submit a certificate of completion. The company uses alternative credit data such as bank statements and employment verification to assess customers with thin credit histories. If a customer doesn't have a bank account, NAAC loan specialists will help them open one through MetaBank, a unit of the \$6.7 billion-asset Meta Financial Group in Sioux Falls, South Dakota.

"We want the individuals turning to this alternative to understand what it means to take out a loan and become creditworthy to qualify for larger loans in future," said Carina Oriel, corporate development and strategy lead of Asenso.

Oriel expects the company to partner with nonprofits, CDFIs and community banks in the future.

Renton says the financial education piece is unusual, and could result in positive selection of people who are willing to go that extra step to obtain the loan. He notes the interest rates are considerably lower than what other small-dollar lenders typically charge, and that the backing of a CDFI is a plus, because "they've got a connection to their community that is not purely commercial," he said.

One downside to the SPRING loan: Funding could take up to two weeks to arrive, according to the NAAC Finance website.

“That’s not acceptable for most people who find themselves in dire financial need,” said Renton. “Lots of companies are doing it instantly and disbursing funds within 24 hours or even quicker.”

Asenso chairman Winston Damarillo said that the company expects most of its loans to get approved the same day and funded in two to three days, but in cases that require follow-up on documents or bank accounts, that might extend the disbursement timeline to two weeks.

The next product that Asenso and NAAC Finance will launch, in the first quarter of 2022, is a small-business loan based on the concept of social borrowing. This is the product idea that led to the NAAC-Talino Finance team’s win in the FDIC sprint’s Market Readiness category.

Participants in the tech sprint were asked to devise techniques and tools to support unbanked consumers. The NAAC-Talino team’s idea was that a group of individuals, typically bound by a similarity such as geography or trade, act as co-borrowers and co-guarantors on a loan that they may not qualify for individually.

In September, the FDIC also announced that [Goalsetter](#) won the creativity award. The Onramp team, which encompassed Amazon Web Services, the digital banking provider Narmi and the payments company Galileo, topped the effectiveness and impact category. In October, the FDIC held another sprint, this time to come up with ways that financial institutions could determine their operational resilience against a major disruption.