

REQUEST FOR APPROVAL UNDER THE “GENERIC CLEARANCE FOR DEVELOPMENT AND OR TESTING OF MODEL FORMS, DISCLOSURES, TOOLS, AND OTHER SIMILAR RELATED MATERIALS” (OMB CONTROL NUMBER: 3170-0022)

1. TITLE OF INFORMATION COLLECTION:

Small Dollar Lending Rule Disclosure Testing (Payday)

2. PURPOSE:

The purpose of this qualitative testing is for the Consumer Financial Protection Bureau (“Bureau”) to assess opportunities to facilitate consumer understanding of the impact of a potential rulemaking regarding small dollar loans. The Bureau is considering rulemaking proposals pursuant to its authority under Sections 1031 and 1032 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

The Bureau launched an inquiry of small dollar loan programs in 2012 and issued a white paper of initial study findings, “Payday Loans and Deposit Advance Products” in April 2013. This paper analyzed consumer usage patterns of payday loans and deposit advance products, including sustained use of these products. Sustained use is the long-term use of a short-term high-cost product evidenced by a pattern of repeatedly rolling over or consistently re-borrowing, resulting in the consumer incurring a high level of accumulated fees. The CFPB’s Office of Research released a follow-up Data Point on Payday Lending in March 2014. This paper analyzed additional aspects of sustained use, including the impact of state laws mandating cooling-off periods between payday loans.

On March 26, 2015, the CFPB released an Outline of Proposals under Consideration and Alternatives Considered (Outline). This Outline was released as part of the CFPB’s Small Business Advisory Review Panel, which took place on April 29, 2015. As detailed in the Outline, the rule may restrict when consumers can access small dollar loans if a consumer has recently taken out a similar loan. The rule may also impact how lenders collect payments from consumers through an upcoming payment notice requirement and a limit on how many times a lender can attempt to collect payment. The Bureau is assessing opportunities to facilitate consumer understanding of how repeat borrowing and lender ability to collect payments from consumer accounts will be limited under the rule. The Bureau is also refining a notice for lenders to send before initiating a payment attempt from a consumer’s account. This activity is being undertaken under the Bureau’s authority to prohibit Unfair, Deceptive, or Abusive Acts or Practices (UDAAP) and to prescribe rules to ensure that any feature of a consumer financial product is effectively disclosed. Prior to implementation, the disclosures will be subject to public comment through the rulemaking and related Paperwork Reduction Act processes.

3. DESCRIPTION OF RESPONDENTS:

Participants will include adults (age 18 and older). Some may have experience with payday loans or similar loan products. The likelihood of experience with payday or similar loans will be assessed through a screening question that asks about prior loan usage. Participants will be qualified for the study based on responses to screening questions, which include demographic information to ensure that the participants represent a range of demographic groups such as age, gender, race/ethnicity, income, and education.

4. TYPE OF COLLECTION (ADMINISTRATION OF THE INSTRUMENT):

a. How will you collect the information? (Check all that apply)

- | | |
|--|---|
| <input checked="" type="checkbox"/> Web-based or other forms of Social Media | <input checked="" type="checkbox"/> Telephone |
| <input checked="" type="checkbox"/> In-person | <input type="checkbox"/> Mail |
| <input type="checkbox"/> Small Discussion Group | <input type="checkbox"/> Focus Group |
| <input checked="" type="checkbox"/> Other, Explain: <u>1-on-1 usability testing sessions</u> | |

b. Will interviewers or facilitators be used?

Yes No Not Applicable

c. What type of disclosure or model form is being tested?

- | | | |
|--|---|--|
| <input type="checkbox"/> Mortgage | <input type="checkbox"/> Student Loan | <input type="checkbox"/> Electronic Disclosure |
| <input type="checkbox"/> Credit Card | <input type="checkbox"/> Pre-paid Cards | <input type="checkbox"/> Check Cashing |
| <input type="checkbox"/> Remittances | <input type="checkbox"/> Debt Collection | <input type="checkbox"/> Checking Accounts |
| <input checked="" type="checkbox"/> Payday Loans | <input type="checkbox"/> Other (Explain): _____ | |

5. FOCUS GROUP OR SURVEY:

If you plan to conduct a focus group or survey, please provide answers to the following questions:

a. Do you have a customer list or something similar that defines the universe of potential respondents and do you have a sampling plan for selecting from this universe?

Yes No Not Applicable

b. If the answer is yes, please provide a description below. If the answer is no, please provide a description of how you plan to identify your potential group of respondents and how you will select them?

The CFPB has retained a contractor to recruit participants and to conduct cognitive and user experience testing of forms with the participants. The contractor will screen participants from their database of contacts that have expressed interest in participating in research studies. They will also advertise the study to recruit new participants through fliers in the local community and by advertising on social media and in local publications. Potential participants will complete a web-based screener, and respondents who qualify based on the web screener will be called and administered a phone screener. Qualifying respondents who agree to participate in the study will then be scheduled for a session.

The participation goals described in the recruitment screener are intended to ensure a mix of participants in terms of age, gender, race/ethnicity, income, and education. Because this research is qualitative and results will not be generalized to a larger population, the characteristics of participants are not required to match a larger population distribution. However, the CFPB believes that it is possible that consumers' understanding and use of payday and similar loans may differ based on these demographic variables, and therefore seeks to ensure the inclusion of a variety of perspectives among the interview participants. Recruitment will particularly focus on ensuring that consumers with low incomes and consumers with low educational attainment are included.

6. PERSONALLY IDENTIFIABLE INFORMATION:

a. Is personally identifiable information (PII) collected? Yes No

b. If Yes, is the information that will be collected included in records that are subject to the Privacy Act of 1974? Yes No Not Applicable

If applicable, provide name and link to the Privacy Impact Assessment (PIA):

Name: Consumer Experience Research

Link: http://files.consumerfinance.gov/f/201406_cfpb_consumer-experience-research_pia.pdf

c. If Applicable, has a System or Records Notice been published?

Yes No Not Applicable

If yes, cite the SORN.

Title: CFPB.022 Market and Consumer Research Records
77 FR 67802.

7. **INCENTIVES:**

a. **Is an incentive provided to participants?** [X] Yes [] No

b. **If Yes, provide the amount or value of the incentive?** \$ 75.

c. **If Yes, provide a statement justifying the use and amount of the incentive.**

A central goal of this testing is to obtain feedback about effectiveness of the forms from former and current consumers of small dollar loan products. A relatively small portion of the US population uses these products. According to the 2013 FDIC Survey of Unbanked and Underbanked Households, approximately 2% of households report using a payday loan in the past 12 months. Only 0.9% report using an auto title loan in the past 12 months. We expect this recruitment process to be difficult and believe that a \$75 incentive is the minimum that will help us be more successful in recruiting small dollar loan consumers.

In addition to concerns about successfully recruiting small dollar loan consumers, we have concerns about achieving a successful show rate. While the interviews will last 60 minutes, participants are required to arrive early to sign in, and to ensure sessions begin on time. Upon completion of the session, participants are required to sign out and receive their incentive. Thus, they are in the office for about 75 minutes. Further, many participants have to travel to and from the facility. We want to avoid a situation where difficulty in recruiting small dollar loan consumers and a low show rate result in unsatisfactory or limited feedback on the forms. Such unsatisfactory results could require that we repeat the costly recruiting and testing process.

When considering the potential estimated time and cost of participating in this test, such costs as childcare, transportation, and potential lost wages could result in a high no show rate. For example, a conservative estimated child cost of \$32, transportation cost \$35, and potential lost wages of \$23 amounts to an estimated \$90 cost of participation. The bases of our participant cost analysis are outlined below.

Child Care: We found that nationally the babysitting rate is typically around \$8 - \$12 per hour with an average of \$10 per hour. While some participants will have multiple children who will require childcare, others will have none. Therefore, we are taking a conservative estimate of only one child.

Transportation: In order to recruit the desired population, participants may need to drive an hour or more to the test site. In this regard, we took a moderately conservative estimate of an average of 30 miles each direction. Given that the IRS mileage rate is the standard rate that includes gas as well as wear, we used this rate to estimate the cost of driving to the test site.

Lost Wages: We have no specific data on the hourly wage of potential

participants; however, generally payday customers earn lower wages than the majority of the U.S. population. In order to estimate the potential lost wages of participants, we took a very conservative approach and based this estimate on the Federal minimum wage.

Summary of Estimated Participant Costs

- **Child Care: \$32**
 \$32 per child (\$10 per hour / per child with up to 2 hours commuting + 1.25 hours at test site = 3.25 hours of child care)
- **Transportation: \$35**
 \$35 (2015 Federal mileage rate of 57.5 cents per mile @ an average of 60 miles (30 miles each direction))
- **Lost Wages: \$23**
 \$ 23 (Federal minimum wage of \$7.25 per hour x (2 hours commuting + 1.25 hours at test site) = 3.25 hours of potential lost wages)
- Total: \$90**

In summary, given the difficulties of recruiting the desired population (payday loan customers) and the potential costs of participation, we believe that \$75 is the minimum incentive necessary to recruit and retain the desired test population. There is also a concern that if the incentive is not attractive enough to participants, there may be a high no show rate and the test would need to be redone in order to obtain quality results. Redoing the test would be much costlier than an effective incentive. For example, at the \$75 incentive level, total incentives would be \$3,150 (42 participants x \$75) verses a test redo at a cost of approximately \$147,000.

8. BURDEN ESTIMATES:

Information Collection	Number of Respondents	Frequency	Number of Annual Responses	Average Response time (hours)	Burden Hours
Participant Screener	168	1x	168	.17	29
Phone-based Screener (to confirm participation)	42	1x	42	.05	2
One-on-One Sessions – Rounds 1-2	28	1x	28	1	28
One-on-One Sessions – Round 3 (optional)	14	1x	14	1	14
Totals	168*	//////////	252	//////////	73

* Respondents to the Phone-based screener and One-on-One sessions are a subset of those to the Web-based screener; therefore, the number of respondents is 168.

9. **FEDERAL COST:** The estimated annual cost to the Federal government is \$ 147,430.

10. CERTIFICATIONS

PURSUANT TO 5 CFR 1320.9, AND THE RELATED PROVISIONS OF 5 CFR 1320.8(b)(3) :

By submitting this document, the Bureau certifies the following to be true:

- (a) It is necessary for the proper performance of agency functions;
- (b) It avoids unnecessary duplication;
- (c) It uses plain, coherent, and unambiguous terminology that is understandable to respondents;
- (d) Its implementation will be consistent and compatible with current reporting and recordkeeping practices;
- (e) It indicates the retention period for recordkeeping requirements;
- (f) It informs respondents of the information called for under 5 CFR 1320.8(b)(3):
 - (i) Why the information is being collected;
 - (ii) Use of information;
 - (iii) Burden estimate;
 - (iv) Nature of response (voluntary);
 - (v) Nature and extent of confidentiality; and
 - (vi) Need to display currently valid OMB control number;
- (g) It was developed by an office that has planned and allocated resources for the efficient and effective management and use of the information to be collected (see note in Item 19 of the instructions)
 - (i) It uses effective and efficient statistical survey methodology; and
 - (ii) It makes appropriate use of information technology.

CERTIFICATION FOR INFORMATION COLLECTIONS SUBMITTED UNDER A GENERIC INFORMATION COLLECTION PLAN

- (a) The collection is voluntary.
- (b) The collection is low-burden for respondents and low-cost for the Federal Government.
- (c) The collection is non-controversial and does not raise issues of concern to other federal agencies.
- (d) The results are not intended to be disseminated to the public.
- (e) Information gathered will not be used for the purpose of substantially informing influential policy decisions.
- (f) The collection is targeted to the solicitation of opinions from respondents who have experience with the topics or issues being studied.
- (g) The results will not be used to measure regulatory compliance or for program evaluation.
- (h) The results are not intended to be generalizable or otherwise draw inferences beyond the surveyed population.

