

EMERGING 'INNOVATIONS' IN SMALL DOLLAR LENDING



INDIANA
COMMUNITY ACTION
POVERTY INSTITUTE

May| 2025

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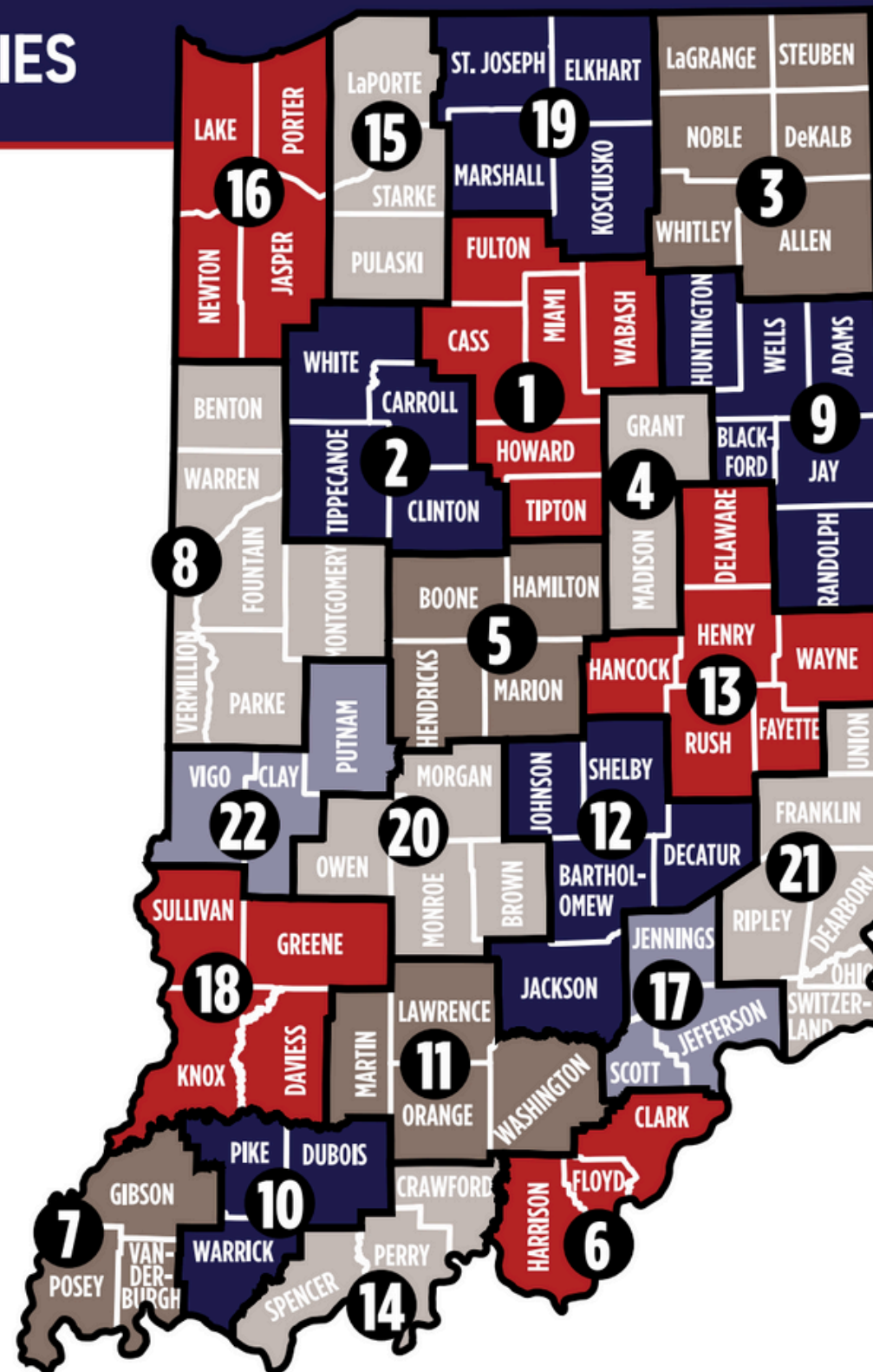
**5 COMMUNITY ACTION OF
GREATER INDIANAPOLIS
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3266 N. Meridian St.
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(317) 396-1800
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**6 COMMUNITY ACTION OF
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8 COMMUNITY ACTION PROGRAM, INC. OF WESTERN INDIANA (CAPWI)
418 Washington St.
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Indiana
Community Action
Association works
to strengthen the
capacity of
**Indiana's
Community Action
Agencies** to
address
community needs
and poverty.

About the Institute

The Indiana Community Action Poverty Institute engages in research and promotes public policies to help Hoosier families achieve and maintain financial well-being.

Who Am I?

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THE LANDSCAPE

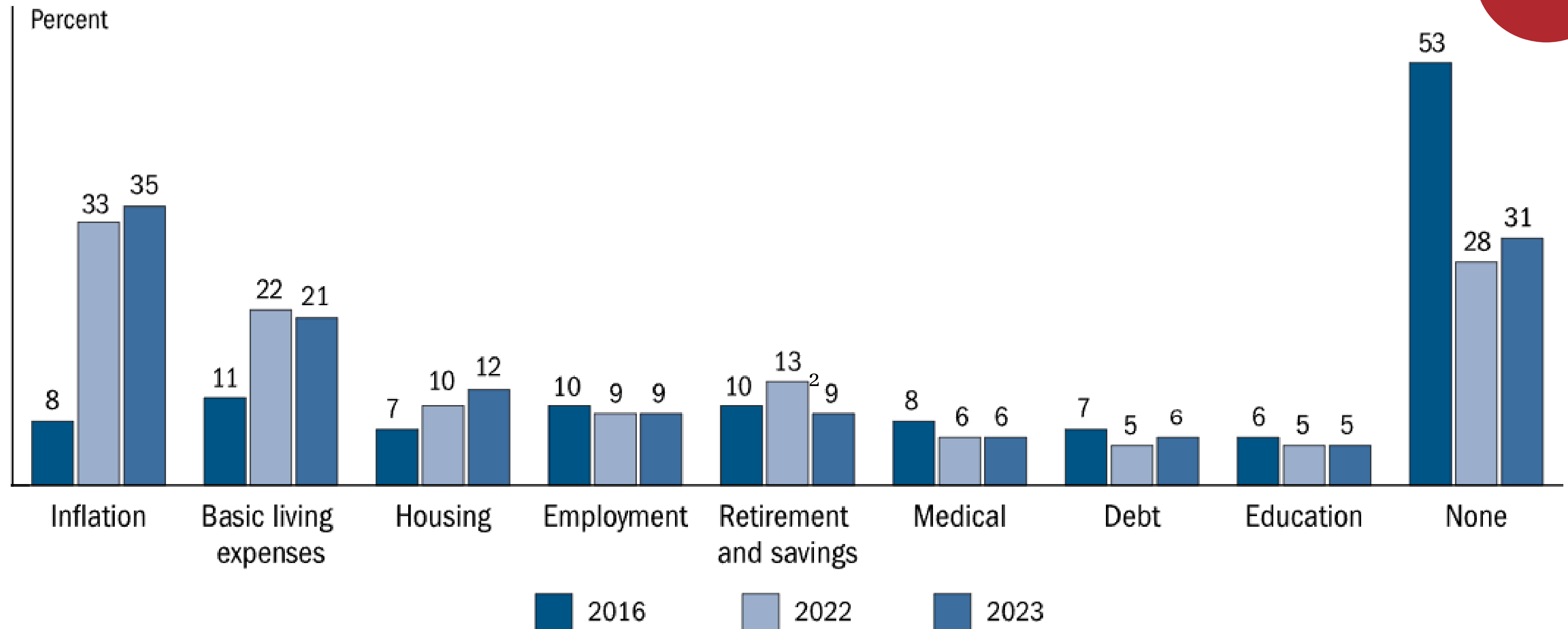
● Living Check-to-Check – or Worse

- 63% of families can cover an unexpected \$400 within budget (Federal Reserve, 2023)
- 36% of those making under \$25k and 24% of those making \$25-\$50k couldn't pay all bills (Federal Reserve, 2023)

● Facing Job Loss

- One in four twenty-year old Hoosiers will experience a significant disabling condition (Institute's 'Live in Our Shoes for a Day' Report)
- Lay-offs with little notice create financial hardship (Institute's Link Between Employment & Wellbeing)

Figure 6. Categories of self-reported main financial challenges in 2016, 2022, and 2023



[Accessible Version](#) | [Return to text](#)

Note: Among respondents who provided a text response or selected the none box. Key identifies bars in order from left to right.

Source: Federal Reserve (2024). Report on the Economic Well-Being of U.S. Households.

<https://www.federalreserve.gov/publications/2024-economic-well-being-of-us-households-in-2023-overall-financial-well-being.htm>



**WHEN THE
MONEY
ISN'T THERE**



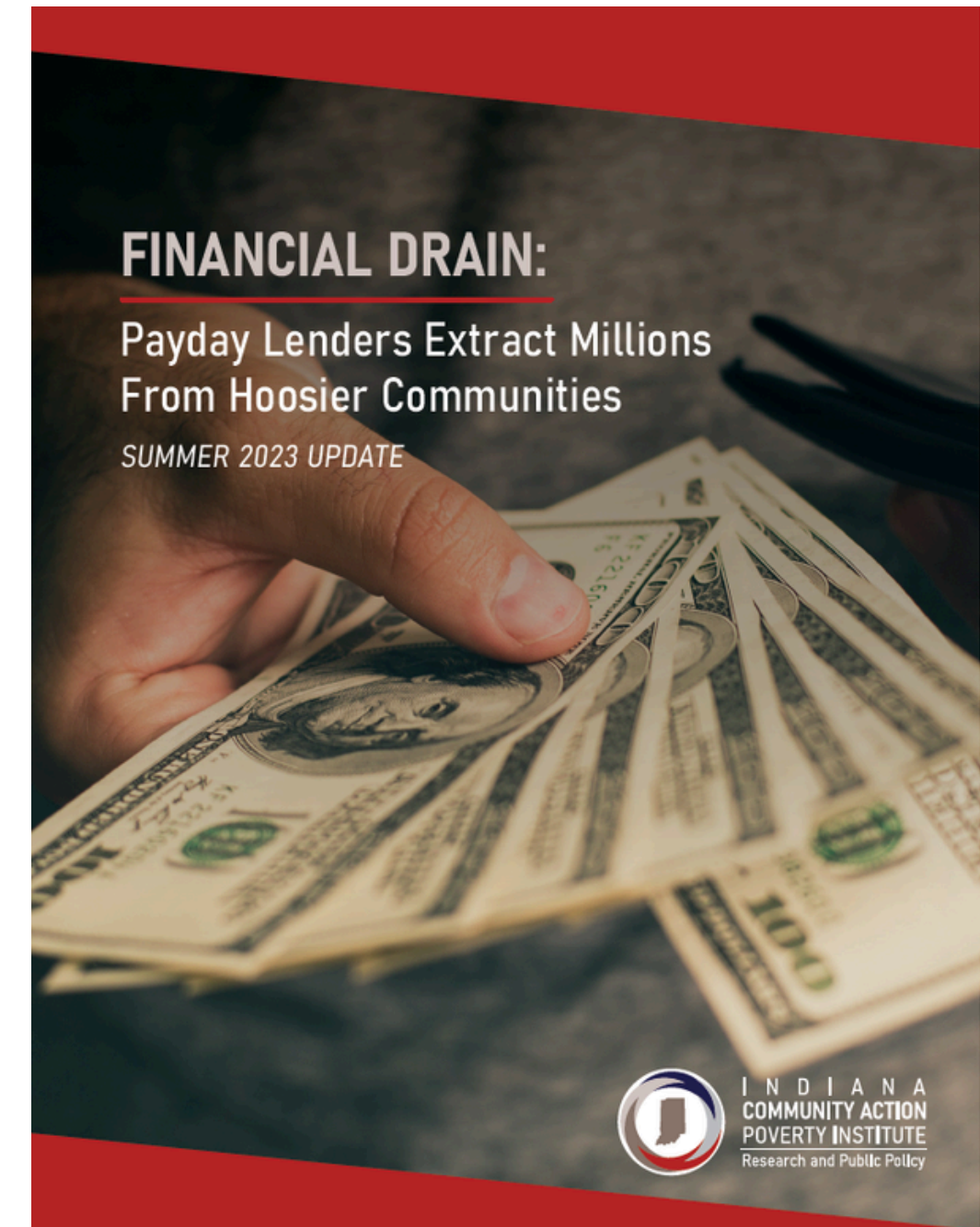
BUDGET SHORTFALLS

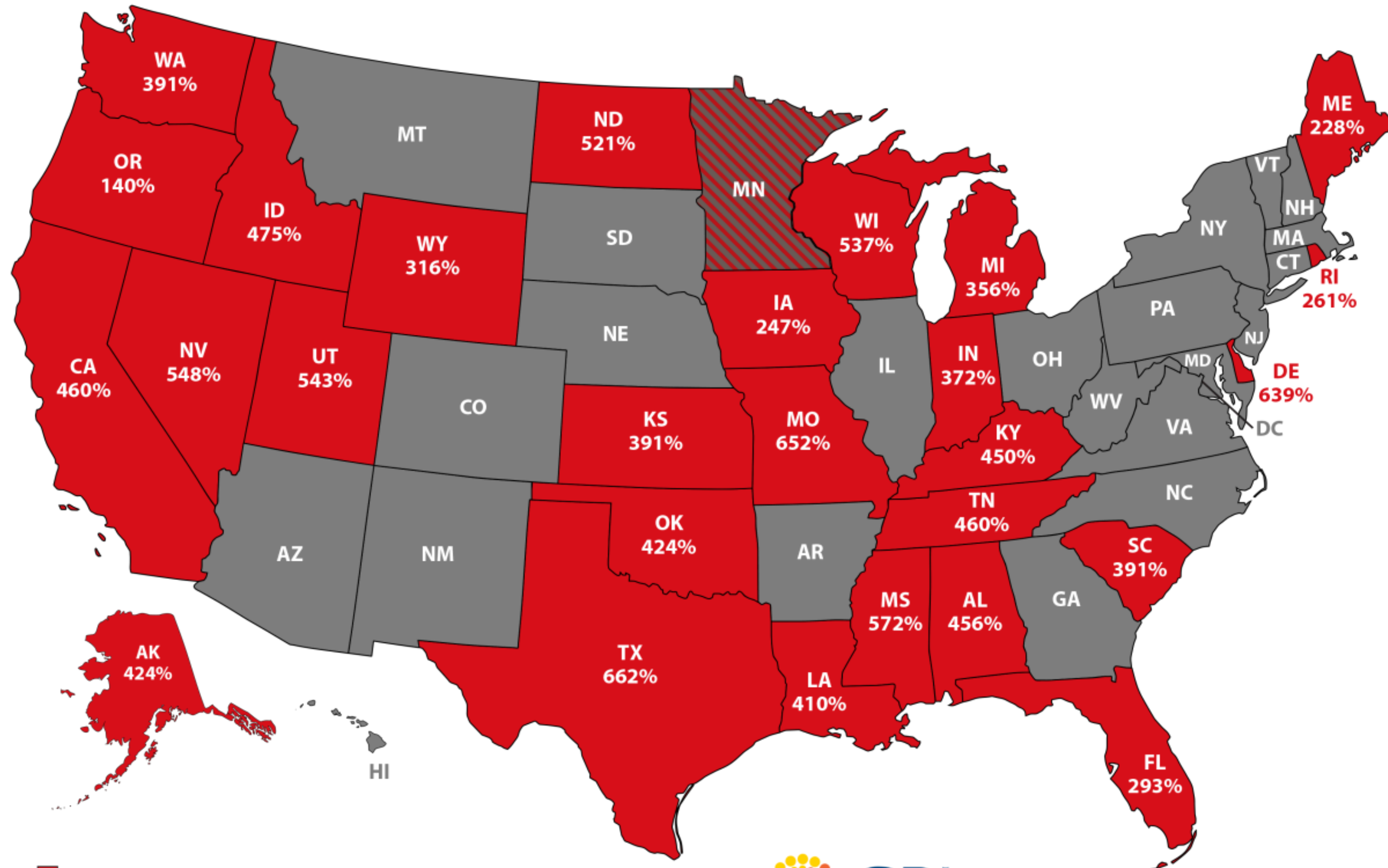
A budget shortfall can cause people to grab what they think is a buoy, but in reality is an anchor.

- “A red flag should have raised, but...I was so busy and caught up in the fire, I didn't pay it no mind. That's what messed me up. [You feel] just like if you had this extra dollar today, you would be in the safe zone. And I was hoping for a better outcome, but it doesn't work that way.” – Deondra
- “At the time, you don't think about it. I think it's trying to get through until the next, you know, pay period or whatnot.” –David



- Payday lenders drain over \$29 million in finance charges from Hoosiers annually
- Short-term loans averaging \$386
- Max APR of 391%
- In 2020 (COVID-19) drop in loan volume that has been climbing





- \$400, single-payment, triple-digit payday loans are issued
- Legislation passed to eliminate \$400, single-payment, triple-digit payday loans
- \$400, single-payment, triple-digit payday loans are not issued



- Study comparing differences in Arizona, New Hampshire, Montana relative to stable states using data from National Financial Capability Study (NFCS) State by State Survey (FINRA)
- Consumers in states with new bans significantly reduced the usage of payday loans and alternative financial services relative to those in other states
- Also a lower likelihood of difficulty in paying bills and mortgages
- Effects are stronger for consumers with lower levels of financial literacy.

McKee, Eric and Zhang, Wei and Solis, Oscar, Can Payday Loan Bans and Financial Literacy Benefit Consumers? (December 06, 2024). Finance Research Letters, 2025[10.1016/j.frl.2025.107326], Available at SSRN: <https://ssrn.com/abstract=5046969> or <http://dx.doi.org/10.1016/j.frl.2025.107326>

The image features a white background with three vertical bars on the left: a red bar, a grey bar, and a dark blue bar. In the top right corner, there is a grid of red dots. In the bottom right corner, there is a pattern of red dots that tapers off to the right.

**SO, WHAT'S
NEW?**

EARNED WAGE ACCESS

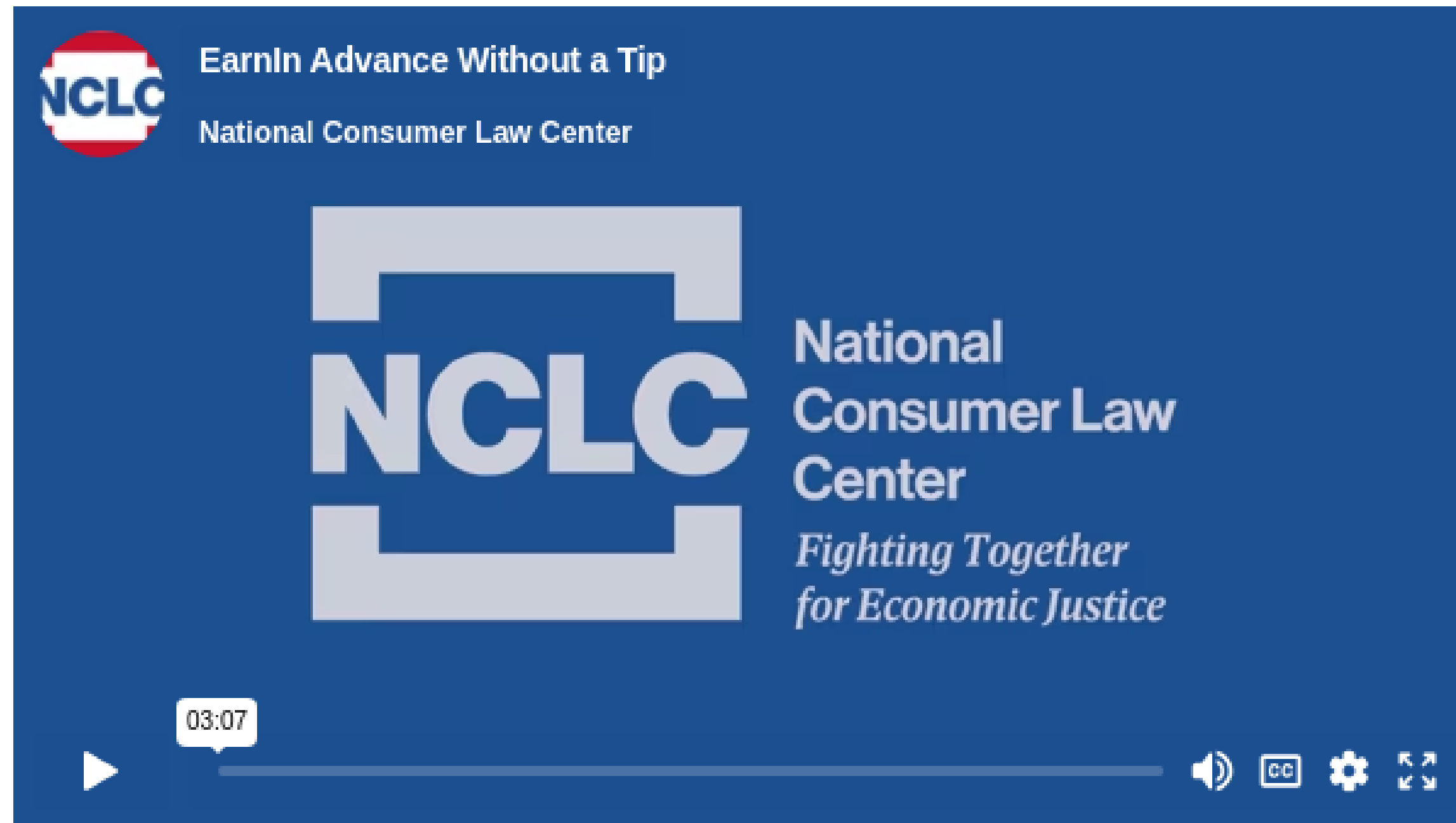
8

Take an advance on your pay before payday!

Employer-Integrated, Employer Paid	Employer-Integrated, Employee Paid	Direct-to-Consumer
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TIPS?



Buy Now Pay Later

- **Marketing as “risk-free” credit alternative**
 - **Contrasting with harms to credit scores for failure to pay on time**
 - **Little or no regulation, not licensed lenders**
- **Lower financial stability among users of BNPL**
- **Proliferation of BNPL in everyday industries**
 - **Expansion to UberEats**
 - **6.5% of Americans use BNPL for groceries (PYMNTS, 2024)**
 - **Garbage bag purchases up 182% 2023-2024 (Afterpay, 2024)**



COMMUNITY LOAN CENTER

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WHAT'S NOT NEW?

● Budget shortfalls happen.

For a variety of reasons, people need access to small dollar loans to cover basic and emergency expenses.

● Innovations or payday loans?

Are new products filling a void or creating a new form of payday lending?

● Is the best answer a loan?

Small dollar loans may or may not be a great fix for budget shortfalls.

● Time & cost matter.

People need longer repayment periods at a reasonable cost.