ACORN

February 1, 2007

Delivered VIA EMAIL

Robert E. Feldman, Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429-9990

Re: Affordable Small Loan Guidelines

Dear Mr. Feldman:

I am submitting these comments on behalf of the more than 230,000 ACORN member families in 103 cities across the country. ACORN, the Association of Community Organizations for Reform Now, is the nation's largest grassroots community organization. We work to empower low and moderate-income people to have a greater voice in the decisions, structures, and policies that affect their lives. Since 1970 ACORN has taken action and won numerous victories on issues of concern to our members, particularly improved access to credit on fair terms.

Thank you for the opportunity to share our comments regarding the FDIC's proposed Affordable Small-Dollar Loan Guidelines. We applaud the FDIC for addressing this issue and encouraging its supervised banks to do more in this area.

We are deeply concerned about the emergence and growth of a predatory economy made up of check-cashers, pawnshops, payday loan stores, and car title lenders. The practices of these businesses harm our communities and strip billions of dollars from the neighborhoods and working families who are the most in need.

The existence of two separate and very unequal financial systems has become more and more clear in recent years, although the way these different systems are defined has changed.

The distinction used to be based on whether or not one had a bank account – whether they were "banked" or "unbanked" -- and attention was focused on the

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ways that banks shut out lower-income and minority families and on how to bring these unbanked families into the mainstream economy.

Now, there is growing awareness of the large numbers of "underbanked" people and of how banks fail to meet the needs of their existing clients. By some estimates there are tens of millions of people who have a bank account but do much of their business through other types of companies (e.g. check cashers, payday lenders, etc.)

Nowhere is this more evident than in the proliferation of payday loan stores, which require the customer to have a bank account and to provide a post-dated check for the repayment amount. Ten years ago payday lending was almost unheard of, and even five years ago payday lending played only a marginal role in the economy. Today, according to the Consumer Federation of America, there are approximately 25,000 payday loan stores that make $40 billion a year in loans. The number of payday loan stores now is more than the number of McDonalds and Burger Kings combined.

Bank customers go to payday lenders because they:

1) Know that their bank does not offer small loans
2) Are fearful of being hit with overdraft fees and possibly check collection fees, and so take out a payday loan to try to avoid overdrawing their account and having to pay those fees
3) Do not know about, or did not qualify for, a conventional overdraft protection line of credit that usually has an APR of about 18%
4) Do not know about, or did not qualify for, a credit card through their bank

On top of this, many of the larger banks profit from the predatory economy through their investments in payday lenders, either as shareholders or by providing the lines of credit that payday lenders use to finance their loans.

That is why the FDIC's release of these guidelines is so important. It would be a great benefit to low and moderate-income families if banks follow the FDIC's recommendations and implement affordable and responsible small loan programs with the terms suggested by the FDIC.

- We agree that there should be a maximum 36% APR on banks' small loans. While this rate is high compared to other types of credit, it is substantially lower than what is currently charged in the predatory economy and would represent significant savings for low-income families.

- We also agree that unlike predatory payday lenders who structure their loans in order to trap their customers into a cycle of debt, bank small loan programs should be set up with the goal of customers paying off the debt.

We were pleased to see that the FDIC recognized that in order for banks to compete with payday predators, who beckon customers with promises of "E-Z Money," Fast Bucks" or "Cash Now," that banks have to also deliver their loans quickly and easily, while also maintaining sound underwriting guidelines.

As the FDIC described in the guidelines, small loan programs could not only serve as an alternative to more costly payday loans, but could also benefit customers in several other ways to help them improve their overall financial situation.

- Bank loans could help improve customers' credit ratings by reporting their timely payments to the credit bureaus. Predatory payday lenders only report their customers' accounts when they have gone into default or collection. They do not report when they pay off a loan as agreed.

- Building in a savings component to the small loan programs can help customers build the assets necessary not only to avoid payday loans in the future but also to truly advance economically.

- Similarly, providing financial counseling and education to customers can help customers achieve their financial goals.

Not only will the availability of small loan programs better serve existing bank customers, we believe it is a selling point to attract and bring in new customers.

Finally, we strongly agree with the FDIC's suggestion that banks partner with non-profit community organizations who can play a valuable role in connecting lower-income families with the mainstream economy and serving as a bridge over this wide chasm. As Frank DeGiovanni, the President of the Ford Foundation said, "Most mainstream financial institutions don't understand the needs, preferences or behaviors of a market they have not served". Community organizations can help banks understand that market, develop programs and programs to serve this market, and conduct the necessary outreach or education.

We have been very encouraged by the number of credit unions that have developed and implemented alternative payday loan programs. The entrance of banks into this market would be an additional step towards equalizing the current financial system. We hope that banks will follow the FDIC's recommendations and provide these products to its customers.

Sincerely,

Maude Hurd
ACORN National President