February 2, 2007

By Email and U.S. Mail

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

Re: Affordable Small-Dollar Loan Guidance

Dear Mr. Feldman:

I am pleased to support the proposed FDIC Guidelines for Affordable Small Dollar Lending, announced by your office in early December, to assist banks in responsibly meeting the small loan needs of their customers. The FDIC proposes to reward banks through the Community Reinvestment Act when banks meet the financial needs of consumers in their local communities. I believe that will serve the public interest.

The Guidelines encourage interest rates of 36% APR or less for small loans, the rate recently set by Congress for loans to Service members and their families and included in many state small loan statutes. This rate cap is double the 18% cap for federally chartered credit unions and should encourage banks and credit unions to provide customers with credit that is reasonably priced, while allowing a reasonable profit for responsible financial institutions. Other safe features of small loans include an affordable installment repayment schedule so that borrowers can successfully repay loans; using technology to efficiently extend credit and make payments convenient for consumers; and including a savings component to help consumers build assets and avoid borrowing for future needs. Banks should not simply pick and choose from these features, but should consider their small loan products as a package that can taken together help meet the needs of customers by combining affordable pricing with reasonable terms. We also support the FDIC's recommendation that banks avoid extra fees and prepayment penalties that drive up the cost of loans and make cost comparison difficult, especially for open-end credit.

In addition to the features described in the FDIC Guidelines, we suggest that successful bank small loan products should be attractively branded, well publicized to customers, quick and easy to use, and simple to understand with no hidden fees or surprises.

The Office of the New Mexico Attorney General has been critical of high-cost payday loans and bank overdraft loans, two forms of extremely high-cost credit currently available to consumers with bank accounts. Payday loans are based on prospective unfunded checks held for future deposit, are due in full on the borrower's next payday, and cost, on average, 560% APR here in New Mexico. We have seen payday loans in excess of 1,400% APR. Bank overdraft loans are extended as banks impose $20 to $35 fees when their account holders are permitted to overdraw at the ATM, point-of-sale, or by paper checks drawn on insufficient funds. Since the Federal Reserve has failed to extend Truth in Lending disclosure protections to non-contractual overdraft loans, consumers do not apply for these loans or receive important and relevant cost comparison information.

We firmly believe that banks can help their customers avoid debt traps from both payday lending and overdraft loans with well-designed small loan products as envisioned by the FDIC Guidance. It is appropriate for the FDIC to encourage better small lending by banks through CRA recognition.

Thank you for your consideration of these comments.

Sincerely,

Gary King

GARY KING
Attorney General of New Mexico