

OFFICE OF KENTUCKY LEGAL SERVICES PROGRAMS

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Delivered VIA EMAIL

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

Re: Affordable Small-Dollar Loan Guidelines

Dear Mr. Feldman:

The Office of Kentucky Legal Services Programs (OKLSP) supports the proposed FDIC Affordable Small-Dollar Loan Guidelines announced in early December which will encourage banks to responsibly meet the small loan needs of their customers.

OKLSP is a statewide support and advocacy organization that addresses the legal needs and issues of low-income Kentuckians through litigation, policy advocacy and legislative advocacy. We often work in partnership with the four civil legal services programs in Kentucky. These programs represent low-income Kentuckians in a variety of civil legal matters. On a daily basis, legal services advocates assist individuals who have been victimized by predatory lending in many forms, including payday lending. In Kentucky, payday lenders may charge up to 459 percent annual interest. In addition, low-income consumers with bank accounts sometimes unintentionally end up with a bank overdraft loan, paying \$20 to \$35 in bank fees when their accounts are overdrawn. Both forms of these high-cost loans strain family budgets and trap borrowers in a cycle of unaffordable debt and place essential family assets at risk.

We applaud the FDIC for these proposed guidelines, which will encourage financial lenders to offer responsible small loans as a much-needed alternative to payday loans and bank overdraft loans. We also are very pleased that the FDIC will give favorable consideration to banks under the Community Reinvestment Act for establishing a small dollar loan program consistent with these guidelines.

The Guidelines encourage interest rates of 36 percent or less for small loans, the rate recently set by Congress for loans to Service members and their families. This is also the

maximum rate allowed under many state small loan statutes, including Kentucky's. This rate cap is double the 18% cap for federally chartered credit unions. We agree that capping interest rates under this program at 36 percent is appropriate. Other safe features of these small loans that we support include setting up an affordable installment repayment schedule so that borrowers can successfully repay loans, and using technology to efficiently extend credit and to make payments more convenient for consumers. The FDIC guidelines also encourage banks to offer a welcome savings component to help consumers build assets and avoid borrowing for future needs. Under the guidelines, banks could not simply pick and choose from these features, but would need to consider their small loan product as a package deal that meets the needs of customers by combining affordable pricing with reasonable terms. We support the 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 Guidance, successful bank small loan products will need to be attractively branded, well publicized to their customers, quick and easy to use, and simple to understand with no hidden fees or surprises.

We firmly believe that banks can help their customers avoid debt traps from both payday lending and bank 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 allowing us the opportunity to comment on these important proposed guidelines.

Sincerely,

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