UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

HEARING ON:
THE EFFECTS OF THE DODD-FRANK ACT
ON SMALL FINANCIAL INSTITUTIONS

Wednesday, March 2, 2011

WRITTEN TESTIMONY OF CHRIS STINEBERT
PRESIDENT AND CEO
THE AMERICAN FINANCIAL SERVICES ASSOCIATION

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My name is Chris Stinebert, and I am the President and CEO of the American Financial Services Association ("AFSA"). AFSA is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. The association encourages and maintains ethical business practices and supports financial education for consumers of all ages. AFSA has provided services to its members for over 95 years. AFSA's 375 member companies include consumer and commercial finance companies, vehicle finance companies including the captives, credit card issuers, mortgage lenders, industrial banks, and other financial service firms that lend to consumers and small businesses.

AFSA appreciates the opportunity to provide testimony to the Members of the Subcommittee on how the Dodd-Frank Act is impacting the ability of America's community finance companies to provide access to affordable credit to consumers and small businesses across the country.

Madam Chair, you and the members are familiar with many of AFSA's bigger member companies, which includes many banks, bank subsidies and large captive auto finance companies, but AFSA's roots lie with locally grown family-owned finance companies that have been serving their communities for generations. Our association was started in 1916 by lenders who worked with consumer advocates to establish best practices. Finance companies provide small dollar personal loans to people in their communities:1) the carpenter who needs to repair the transmission on his pickup, 2) the family that needs a new washer and dryer, or 3) the start-up company that needs a little short-term help to land the next client.

Just this week, one of our members received thanks from a small business owner for extending credit to her "when no bank would" after her taxi was involved in a head-on collision with a drunk driver. “I would never have been able to continue paying my bills during the trying extended time I was waiting for the at-fault’s insurance company to reimburse me for my vehicle,” her email states. “Your company kept my family from the welfare line, and I am an extremely satisfied and thankful customer.”

AFSA member loan products meet the standards of the Center for Financial Services Innovation’s definitional benchmarks for high-quality credit. They are marketed transparently. They are affordable, because our members work with customers to determine their ability to repay the loan. They are structured to support repayment, with amortization schedules. And finally, our members report their customers’ repayment performance to the credit bureaus so that good payment behavior is rewarded by a higher credit score.

The Defense Department, in its recent policymaking on credit for military members and their dependents, described installment loans as a “beneficial” product and specifically cited the differences between installment loans and payday. Key elements of this helpful structure for consumers include:

- Each loan is individually underwritten for affordability and sensible debt;
- Equal installments of principal and interest support repayment over, on average, 9 to 12 months and no balloon payment;
- Lending and customer service are provided by real people in local brick and mortar offices;
- Customers are constantly monitored in their capability to repay, and performance is reported to credit bureaus.

The FDIC recently reported in its small dollar loan pilot program that loans up to $2500 were too costly for the depositories to achieve much acceptance of future participation – except, perhaps, in cases where government taxpayer subsidies could be applied, and/or a savings account was mandatory or additional bank products could be sold.

Finance companies are not afraid of being regulated, but they don’t want to be regulated like depositories because they simply are not banks. Unlike banks, when a finance company makes a loan, the deposits of consumers are not at risk, and the government and its taxpayers do not insure its capital. The only entity harmed by poor underwriting and defaults is the finance company because it's their money that they are lending, not yours and mine. Banks and credit unions often call for a "level playing field" for supervision and examinations. However, finance companies operate under an entirely different structure.

Prior to enactment of the Dodd-Frank Act, federal financial services regulation was dominated by oversight of depositories, banks, thrifts or credit unions. The natural byproduct of this experienced-based familiarity among regulators and those they regulated has been firm understanding of the federal banking model.

For decades, non-bank finance companies have worked effectively with state regulators in complying with both state and federal consumer protection laws. These nonbank financial companies have been successful in providing needed credit and other financial products and services in the communities in which they operate in part because of the oversight of state regulators who have a familiarity with local and regional situations and issues faced by lenders. This knowledge, along with their geographic proximity to a given lender and financial market, means that state regulators are often the first to identify emerging issues, practices or products that may need further investigation or may pose additional risk to the financial industry. AFSA's finance companies are concerned that this wealth of knowledge will be lost on federal regulators and their emphasis on bank-centric experience.

Non-bank finance companies want to make sure that they're not regulated to the point that it is no longer sustainable to make small dollar loans. The Center for Financial Services Innovation said it best: "Because of the high-touch aspects of this model, installment loans are costly to provide. The primary cost drivers of the installment lending model arise from the operation of physical stores and from underwriting expenses…" U.S. Small Business Administration studies show that the expense for small firms to comply with federal rules is 45 percent greater than for their larger business competitors. And almost 90 percent of our country's 26 million small businesses use some form of credit.

As part of the Dodd-Frank Act, the CFPB is required to comply with the Small Business Regulatory Enforcement Fairness Act (SBREFA) panel process. The SBREFA panel is tasked with studying the potential ramifications of the CFPB's proposed rules on small businesses. The panel involves industry representatives from small institutions that would be affected by a given proposal to get a better understanding of the real world impacts and compliance costs, as well as possible workable alternatives. We believe that this committee should be very clear with the CFPB that it expects it to include a full complement of small institutions represented on these panels to review the rulemaking process.

Consumers and the economy need to expand traditional installment credit, not look for ways to curtail it. At a CFPB conference last week, Michael Heller from Argus Information and Advisory Services stated that consumer credit availability has gone down by 30% for credit cardholders since 2008. The FDIC has validated the urgency of these loans being made widely available in its studies and reports. Respected consumer advocate groups, like the World Bank's Consultative Group to Assist the Poor and the Center for Financial Services Innovation, both have recently proclaimed the importance of small dollar personal and business credit. Jennifer Tescher of CFSI stated in the American Banker, "Demand for small amounts of credit is high. We need to increase access to responsible, scalable, and ultimately profitable forms of credit for households that need and can benefit from it."

Just last month, a Member of Congress asked a group of our members about compliance costs. One company that has been in business for more than 40 years replied that when he took over the business 20 years ago, his costs were minimal but now he has two full-time employees dedicated to nothing but compliance. For a small institution, this often means the difference between a profit and a loss.

While the Obama administration is currently working to implement the Dodd-Frank Act and create a new CFPB, AFSA members, particularly our smaller ones, are struggling to meet the cost of complying with the mortgage licensing requirements under the SAFE Act. According to industry estimates, it costs an average of $661 to train and license every loan originator in each state, whether that officer underwrites 500 or 5 loans a year, as opposed to the $30 it costs a bank to register one loan originator in all states. While the training and licensing of mortgage loan originators is certainly merited and beyond debate, the cost of regulatory compliance must remain a primary consideration in a fragile economy.

Just as power hates a vacuum, capital despises uncertainty. If investors are unsure about how the finance company model will be impacted, they don't hesitate. They move their money to where the future is more certain. Liquidity is equally important in today's tightened credit market. To maintain liquidity, it is imperative that policymakers and regulators avoid imposing new mandates and policies for consumer credit that would create uncertainty for investors.

For example, the CFPB recently went live with a consumer complaint database as required under the Dodd-Frank Act. Let's review the process. In January, CFPB published the framework of the proposed database in the Federal Register with a 30-day comment period ending on February 9. Coincidentally, this was the same day that they went live with the database. The overlapping deadline meant the database went live before the comments could even be reviewed or considered. Additionally, the Dodd-Frank Act states that the CFPB can share the data with other federal regulators, but the proposal states that they intend to share the data with a host of other parties. Moreover, there is no evidentiary standard for complaints or any process for dealing with frivolous claims. Processes like this create greater uncertainty as opposed to instilling confidence in small institutions.

Again, AFSA appreciates the opportunity to testify before the Subcommittee on the impact of the Dodd-Frank Act on small financial institutions, and I'd be happy to take any questions from Members of the Subcommittee.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	**2. Organization or organizations you are representing:**
Chris Stinebert	Amer. Financial Services Assn.
3. Business Address and telephone number:	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☒ No	☐ Yes ☒ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature:	

Please attach a copy of this form to your written testimony.