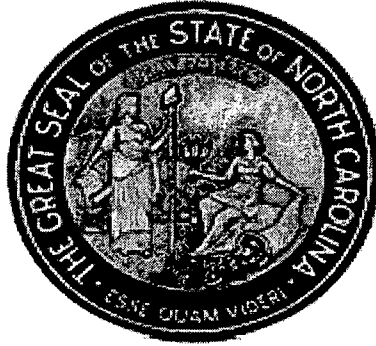


**2008**

**HOUSE STUDY  
COMMITTEE ON  
UNBANKED &  
UNDERBANKED  
CONSUMERS**

**MINUTES**



**2008**

**House Study Committee  
On  
Unbanked and Underbanked  
Consumers**

Rep. Hugh Holliman, Chairman

Carol Bowers, Committee Clerk

# House Study Committee on Unbanked and Underbanked Consumers

<u>Committee Member</u>	<u>Office Number</u>	<u>Legislative Assistant</u>
Rep. Hugh Holliman, Chair	715-0873	Carol Bowers
Rep. Angela Bryant	733-5878	Karon Hardy
Rep. Walter Church	733-5805	Kaye Deal
Rep. Larry Hall	733-5872	Lisa Ray
Rep. Daniel McComas	733-5786	Judy Lowe
Rep. Bill McGee	733-5747	Jayne Nelson
Rep. Drew Saunders	733-5606	Ruth Fish

Hon. Farad Ali      919-560-4396

Mr. David Darby      704-905-2435

Mr. Bob Schall      919-956-4434

Staff: Karen Cochrane-Brown      733-2578  
Drupti Chauhan      733-2578



Office of Speaker Joe Hackney  
North Carolina House of Representatives  
Raleigh, North Carolina 27601-1096

---

**HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED  
CONSUMERS**

**TO THE HONORABLE MEMBERS OF THE  
NORTH CAROLINA HOUSE OF REPRESENTATIVES**

**WHEREAS**, consumers who do not have or maintain traditional bank accounts are considered "unbanked"; and

**WHEREAS**, consumers who have impaired or inadequate credit files are considered financially "underbanked"; and

**WHEREAS**, financial products and financial companies serving these consumers, and laws governing both those transactions and the practices of those companies, have evolved substantially in the last 10 years; and

**WHEREAS**, the General Assembly has not had a comprehensive review of the State's various lending laws and whether those laws foster availability of responsible personal installment lending or leverage the favorable changes that have occurred in the national marketplace in products, business practices, credit information, and operations technology;

**NOW THEREFORE,**

**Section 1.** The House Study Committee on Unbanked and Underbanked Consumers (hereinafter "Committee") is established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26(a) of the Rules of the House of Representatives of the 2007 General Assembly.

**Section 2.** The Committee consists of ten members, including seven legislators and three public members appointed by the Speaker of the House of Representatives. Members serve at the pleasure of the Speaker of the House of Representatives. The Speaker of the House of Representatives may dissolve the Committee at any time.

Representative Hugh Holliman, Chair
Representative Angela R. Bryant
Representative Walter G. Church, Sr.
Representative Larry D. Hall
Representative Daniel F. McComas
Representative William C. "Bill" McGee
Representative Drew Saunders

**Public Members**

The Speaker of the House of Representatives appoints the following public members of the Committee:

- Three members of the public with an interest in credit, consumer protections, and/or economic development.

The Honorable Farad Ali, Durham County
Mr. David C. Darby, Davie County
Mr. Martin Eakes, Durham County

**Section 3.** The Committee shall study the following matters related to access to credit by consumers who are considered unbanked or underbanked:

1. Consumer protection laws, licensing laws, and other regulations involving non-bank consumer installment credit, both unsecured and real estate secured, that have been developed over the last 10 years by the North Carolina General Assembly, the Attorney General, and the Office of the Commissioner of Banks.
2. Whether current day lending processes are understandable, fair, and efficient.
3. An analysis of what may constitute optimum disclosures to consumers so that they might better understand and make reasoned decisions with regard to the products being offered.
4. The economic factors and financial circumstances that are relevant to consumer installment credit businesses, investors, and profitability.
5. The economic factors and financial circumstances that are relevant to products, pricing, costs, cost recovery, and risk based pricing.
6. The personal and community financial impact from improving credit scores.

HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED CONSUMERS

**Section 4.** The Committee shall meet upon the call of its Chair. A quorum of the Committee shall be a majority of its members.

**Section 5.** The Committee, while in the discharge of its official duties, may exercise all powers provided for under G.S. 120-19 and Article 5A of Chapter 120 of the General Statutes.

**Section 6.** Members of the Committee shall receive per diem, subsistence, and travel allowance as provided in G.S. 120-3.1.

**Section 7.** The expenses of the Committee including per diem, subsistence, travel allowances for Committee members, and contracts for professional or consultant services shall be paid upon the written approval of the Speaker of the House of Representatives pursuant to G.S. 120-32.02(c) and G.S. 120-35 from funds available to the House of Representatives for its operations. Individual expenses of \$5,000 or less, including per diem, travel, and subsistence expenses of members of the Committee, and clerical expenses shall be paid upon the authorization of the Chair of the Committee. Individual expenses in excess of \$5,000 shall be paid upon the written approval of the Speaker of the House of Representatives.

**Section 8.** The Legislative Services Officer shall assign professional and clerical staff to assist the Committee in its work. The Director of Legislative Assistants of the House of Representatives shall assign clerical support staff to the Committee.

**Section 9.** The Committee may meet at various locations around the State in order to promote greater public participation in its deliberations.

**Section 10.** The Committee shall submit a final report on the results of its study, including any proposed legislation, to the members of the House of Representatives on or before January 27, 2009 by filing the final report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative Library. The Committee terminates on January 27, 2009, or upon the filing of its final report, whichever occurs first.

Effective this 1<sup>st</sup> day of April, 2008.



---

Joe Hackney  
Speaker  
4/2/2008 3:50 PM

## GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2007

H

2

## HOUSE BILL 1658

Committee Substitute Favorable 5/16/07

Short Title: Unbanked and Underbanked Study. (Public)

Sponsors:

Referred to:

April 19, 2007

## A BILL TO BE ENTITLED

## AN ACT TO CREATE THE UNBANKED AND UNDERBANKED CONSUMERS STUDY COMMISSION.

Whereas, there is a substantial population of North Carolina consumers that do not have access to traditional sources of consumer credit or financial services; and

Whereas, consumers that do not have or maintain traditional bank accounts are considered "unbanked"; and

Whereas, consumers that have impaired or inadequate credit files are considered financially "underbanked"; and

Whereas, estimates indicate that as many as three million North Carolina consumers are considered to be unbanked or underbanked; and

Whereas, this constitutes approximately one out of every three adult North Carolinians; and

Whereas, financial products and financial companies serving these consumers, and laws governing both those transactions and the practices of those companies, have evolved substantially in the last 10 years; and

Whereas, the economic development potential of North Carolina and its communities is limited by the large number of unbanked and underbanked consumers; and

Whereas, the access to traditional installment credit, secured and unsecured, as well as mainstream financial services is a key enabler to wealth for all North Carolinians; and

Whereas, the General Assembly has not had a comprehensive review of the State's various lending laws and whether they foster availability of responsible personal installment lending, utilize sources of financial education, or leverage the favorable changes that have occurred in the national marketplace in products, business practices, credit information, and operations technology; Now, therefore,

The General Assembly of North Carolina enacts:

**SECTION 1.** Commission Created. – The Unbanked and Underbanked Consumers Study Commission is created.

**SECTION 2.(a)** Membership. – The Commission shall consist of 14 members appointed as follows:

- (1) Five members of the House of Representatives appointed by the Speaker of the House.
- (2) Five members of the Senate appointed by the President Pro Tempore of the Senate.
- (3) One member associated with a consumer advocacy corporation specializing in unsecured credit issues appointed by the Speaker of the House.
- (4) One member associated with a consumer advocacy organization specializing in real estate secured credit issue appointed by the President Pro Tempore of the Senate.
- (5) One member associated with a State chartered credit corporation specializing in unsecured credit appointed by the Speaker of the House.
- (6) One member associated with a State chartered credit corporation specializing in real estate secured credit appointed by the President Pro Tempore of the Senate.

**SECTION 2.(b) Vacancies.** – A vacancy in the Commission or as chair of the Commission resulting from the resignation of a member or otherwise shall be filled in the same manner in which the original appointment was made.

**SECTION 3. Duties of Commission.** – The Unbanked and Underbanked Consumers Study Commission shall study the following matters related to access to credit by consumers who are considered unbanked or underbanked:

- (1) The respective academic and economic studies, consumer protection laws, and corporate best practices for consumer installment finance and other short-term lending products developed over the last 10 years in this State, neighboring states, and across the country.
- (2) The potential business models and regulatory economic incentives that could serve to transition and graduate consumers from sub-prime to prime credit scores resulting in increased chances that consumers might accumulate wealth.
- (3) Whether lending processes are understandable, fair, and efficient and what would constitute optimum disclosures to consumers so that consumers can understand and make reasoned decisions with regards to the products being offered.
- (4) The economic impact of raising credit scores and requiring wider reporting and creditor consideration of payments for alternative credit-like accounts, including rent and utilities to major credit bureaus.
- (5) The impact and availability of financial education or incentives to raise personal financial literacy, and personal credit and financial counseling by companies providing customer financial services.
- (6) Whether regulation of financial services is best done on the basis of lender principles and practices or by price, how risk versus reward is determined, whether proper products will be available for consumer needs without economic reward for risk and service cost, and what products or services are not available, and does the lack of these products and services disadvantage consumers.

**SECTION 4. Report.** – The Commission may make an interim report to the 2008 Regular Session of the 2007 General Assembly. Prior to the convening of the 2009 General Assembly, the Commission shall submit a final report of its findings and recommendations,

including legislative and funding recommendations, to the 2009 General Assembly. The Commission shall terminate upon filing its final report.

**SECTION 5.** Expenses of Members. – Members of the Commission shall receive per diem, subsistence, and travel allowances in accordance with G.S. 120-3.1, 138-5, or 138-6, as appropriate.

**SECTION 6.** Chair; Meetings. – The President Pro Tempore of the Senate and the Speaker of the House of Representatives shall each designate one member to serve as cochair of the Commission. The cochairs shall call the initial meeting of the Commission. The Commission shall subsequently meet upon such notice and in such manner as its members determine. A majority of the members of the Commission shall constitute a quorum. The Commission may meet in the Legislative Building or the Legislative Office Building upon the approval of the Legislative Services Commission.

**SECTION 7.** Staff. – Upon the prior approval of the Legislative Services Commission, the Legislative Services Officer may assign professional and clerical staff and other services and supplies, as needed for the Commission to carry out its duties in an effective manner.

**SECTION 8.** Of the funds appropriated to the General Assembly, the Legislative Services Commission shall allocate funds for the expenses of the Commission established by this act.

**SECTION 9.** This act becomes effective July 1, 2007.



## Minutes

### House Study Committee on Unbanked and Underbanked Consumers

August 21, 2008

The House Study Committee on Unbanked and Underbanked Consumers met at 1:00 PM on Wednesday, August 21, 2008 in Room 1228 of the Legislative Building. The following members were in attendance: Representatives Holliman, Bryant, Church, Hall, and McGee. Members: David Darby and Bob Schall. Staff: Karen Cochrane-Brown and Drupti Chauhan.

Chairman Holliman called the meeting to order. He introduced Sgt-of-Arms staff and welcomed the visitors. See Attachment I.

He introduced committee members and asked them to speak briefly on their thoughts and concerns for the study.

Karen Cochrane-Brown, Staff Attorney, was called on to review the charge to the committee. She spoke to the 6 items under section 3 of the Speaker's Authorization and explained to the committee the chairman can expand on other necessary issues concerning the study. See Attachment II.

Chairman Holliman introduced Janneke Ratcliffe, Assoc. Director, UNC Center for Community Capital, UNC Chapel Hill. Ms. Ratcliffe discussed the importance to have banking and how basic banking should be provided. She discussed what is known about unbanked and underbanked. She reviewed a survey conducted by the center in 2000. See Attachment III.

After some committee discussion, Chairman Holliman announced plans for the committee to meet on September 23<sup>rd</sup>, October 23<sup>rd</sup> and November 20<sup>th</sup>.

The meeting was adjourned at 2:15 pm

  
\_\_\_\_\_  
Hugh Holliman, Chairman

  
\_\_\_\_\_  
Carol Bowers, Committee Clerk

**HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED CONSUMERS**

**August 21, 2008  
1:00 P.M.  
ROOM 1228  
Legislative Building**

**Agenda**

**Welcome and Introductions**

Representative Holliman, Chair

**Review of Committee Charge**

Karen Cochrane-Brown, Committee Co-Counsel

**Overview of the Unbanked and Underbanked Consumers in North Carolina**

Janneke Ratcliffe, Associate Director, UNC Center for Community Capital, UNC-Chapel Hill

**Committee Discussion**

**Adjournment**

1:00 PM

Rm.# 1228

House Pages

HOUSE STUDY ON UNBANKED  
& UNDERBANKED CONSUMERS

Name Of Committee: \_\_\_\_\_

Date: \_\_\_\_\_

AUGUST 21, 2008

1. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

2. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

3. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

4. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

5. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

Sgt-At-Arms

1. Name: FRED HINES

2. Name: TOM WILDER

3. Name: DAVID SHEARON

4. Name: \_\_\_\_\_

5. Name: \_\_\_\_\_

VISITOR REGISTRATION SHEET

HOUSE STUDY ON UNBANKED  
 & UNDERBANKED CONSUMERS

AUG. 21, 2008

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Rufus L. Edmisten	Edmisten Law Firm 132 S. Salisbury St. Ral. NC 27601
Thomas Moore	White & Webb
TERRY LAWLER	COMPOCREDIT CORP 4 LOW COURSE PKWY ATLANTA, GA 30326
Lisa Pittman	CRL 302 W. Main St Durham 27701
Carlene McNulty	NC Justice Center PO Box 28068 Raleigh NC 27611
Rochelle Sparks	
Fred Bone	Bone & Assoc.
Phil Lehman	NC AGO
Daniel Baum	K + L GATES
Monte Logan	N M R S
August Bone	Bone & Assoc.

VISITOR REGISTRATION SHEET

HOUSE STUDY ON UNBANKED  
 & UNDERBANKED CONSUMERS

AUG. 21, 2008

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Dennis Patterson	OSC
LORI ANTHONIS	CAHA
DRK Carter	NCBA NCIFA
CHRIS KUKWA	CMU
Paul Stool	NCBA
EVERETT NAWOR	NC INITIATIVE CAPITAL
Sandy S...	WCSR



Office of Speaker Joe Hackney  
North Carolina House of Representatives  
Raleigh, North Carolina 27601-1096

---

**HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED  
CONSUMERS**

**TO THE HONORABLE MEMBERS OF THE  
NORTH CAROLINA HOUSE OF REPRESENTATIVES**

**WHEREAS**, consumers who do not have or maintain traditional bank accounts are considered "unbanked"; and

**WHEREAS**, consumers who have impaired or inadequate credit files are considered financially "underbanked"; and

**WHEREAS**, financial products and financial companies serving these consumers, and laws governing both those transactions and the practices of those companies, have evolved substantially in the last 10 years; and

**WHEREAS**, the General Assembly has not had a comprehensive review of the State's various lending laws and whether those laws foster availability of responsible personal installment lending or leverage the favorable changes that have occurred in the national marketplace in products, business practices, credit information, and operations technology;

**NOW THEREFORE,**

**Section 1.** The House Study Committee on Unbanked and Underbanked Consumers (hereinafter "Committee") is established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26(a) of the Rules of the House of Representatives of the 2007 General Assembly.

**Section 2.** The Committee consists of ten members, including seven legislators and three public members appointed by the Speaker of the House of Representatives. Members serve at the pleasure of the Speaker of the House of Representatives. The Speaker of the House of Representatives may dissolve the Committee at any time.

HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED CONSUMERS

Representative Hugh Holliman, Chair
Representative Angela R. Bryant
Representative Walter G. Church, Sr.
Representative Larry D. Hall
Representative Daniel F. McComas
Representative William C. "Bill" McGee
Representative Drew Saunders

**Public Members**

The Speaker of the House of Representatives appoints the following public members of the Committee:

- Three members of the public with an interest in credit, consumer protections, and/or economic development.

The Honorable Farad Ali, Durham County
Mr. David C. Darby, Davie County
Mr. Martin Eakes, Durham County

**Section 3.** The Committee shall study the following matters related to access to credit by consumers who are considered unbanked or underbanked:

1. Consumer protection laws, licensing laws, and other regulations involving non-bank consumer installment credit, both unsecured and real estate secured, that have been developed over the last 10 years by the North Carolina General Assembly, the Attorney General, and the Office of the Commissioner of Banks.
2. Whether current day lending processes are understandable, fair, and efficient.
3. An analysis of what may constitute optimum disclosures to consumers so that they might better understand and make reasoned decisions with regard to the products being offered.
4. The economic factors and financial circumstances that are relevant to consumer installment credit businesses, investors, and profitability.
5. The economic factors and financial circumstances that are relevant to products, pricing, costs, cost recovery, and risk based pricing.
6. The personal and community financial impact from improving credit scores.

HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED CONSUMERS

**Section 4.** The Committee shall meet upon the call of its Chair. A quorum of the Committee shall be a majority of its members.

**Section 5.** The Committee, while in the discharge of its official duties, may exercise all powers provided for under G.S. 120-19 and Article 5A of Chapter 120 of the General Statutes.

**Section 6.** Members of the Committee shall receive per diem, subsistence, and travel allowance as provided in G.S. 120-3.1.

**Section 7.** The expenses of the Committee including per diem, subsistence, travel allowances for Committee members, and contracts for professional or consultant services shall be paid upon the written approval of the Speaker of the House of Representatives pursuant to G.S. 120-32.02(c) and G.S. 120-35 from funds available to the House of Representatives for its operations. Individual expenses of \$5,000 or less, including per diem, travel, and subsistence expenses of members of the Committee, and clerical expenses shall be paid upon the authorization of the Chair of the Committee. Individual expenses in excess of \$5,000 shall be paid upon the written approval of the Speaker of the House of Representatives.

**Section 8.** The Legislative Services Officer shall assign professional and clerical staff to assist the Committee in its work. The Director of Legislative Assistants of the House of Representatives shall assign clerical support staff to the Committee.

**Section 9.** The Committee may meet at various locations around the State in order to promote greater public participation in its deliberations.

**Section 10.** The Committee shall submit a final report on the results of its study, including any proposed legislation, to the members of the House of Representatives on or before January 27, 2009 by filing the final report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative Library. The Committee terminates on January 27, 2009, or upon the filing of its final report, whichever occurs first.

Effective this 1<sup>st</sup> day of April, 2008.



---

Joe Hackney

Speaker

4/2/2008 3:50 PM

# What do we know about the Unbanked?

Janneke Ratcliffe

UNC Center for Community Capital

August 21, 2008

*Center for Community Capital*  
*Research and analysis on the*  
*transformative power of capital*





UNC  
 CENTER FOR COMMUNITY CAPITAL  
 RESEARCH & SECURITY

CENTER FOR COMMUNITY CAPITAL  
 Research and analysis on the transformative power of capital

# Profile of Unbanked

	Banked	Unbanked	Total
<b>Race/Ethnicity</b>			
White	28.9%	2.4%	21.0%
Black	38.1%	50.8%	41.9%
Other	6.5%	1.8%	5.0%
Hispanic	26.5%	45.1%	32.0%
<b>Highest Education Level</b>			
Less than high school	18.3%	45.9%	26.6%
GED	3.1%	6.4%	4.1%
High school	19.7%	26.1%	21.6%
Some college	24.4%	15.6%	21.8%
Community college	4.3%	2.6%	3.8%
Tech school	1.5%	1.4%	1.5%
College grad	17.3%	1.9%	12.7%
Some post-college	1.7%	0.0%	1.2%
Graduate Degree	9.6%	0.2%	6.8%



# Profile (cont.)

	Banked	Unbanked	Total
<b>Tenure</b>			
Rent	60.7%	90.2%	69.3%
Own	39.3%	9.8%	30.8%
<b>Nativity</b>			
Immigrant	24.1%	35.9%	27.6%
Native Born	75.9%	64.1%	72.4%
<b>Marital Status</b>			
Single	62.0%	72.4%	35.0%
Married	38.0%	27.6%	65.0%
Average Age	47.3	38.2	44.5
Number of Children	1.0	1.6	1.2

From: Center for Financial Services Innovation



UNC  
CENTERS FOR  
ARIS & SOCIETIES

CENTER FOR COMMUNITY CAPITAL  
*Research and analysis on the transformative power of capital*

# Unbanked & Underbanked in NC (2000)

- 17% of lower income families = 222,000 households - no bank account
- 6% had savings account only
- 31% had checking account only
- 46% had both
- 41% of unbanked families were previously banked
- Factors associated with greater likelihood of being unbanked
  - Lower income
  - African-American and Hispanic
  - Lower education levels
  - Fewer bank branches, more check cashing outlets in zip code
  - Grew up in unbanked household
- Most important reasons for not being banked:
  - ✱ • 49% - too costly
  - ✱ • 32% - don't need it
  - difficult to use, privacy, location/hours, language, comfort < 5% each



# Subsegments – Financial Services Attitudes & Usage

- Making it (5%)
- Nearing Success (11%) *Banking - coll. degree*
- Working their Way
  - Young Families (8%)
  - Core Customers (8%)
- Older Natives
  - Older Margin (18%)
  - Older Core (7%)
- Immigrants
  - New Latinos (9%)
  - Settled In (14%)
- Struggling
  - Never Banked Natives (7%) *\$7,900 income young mid age AA HS degree*
  - Formerly Banked (14%) *13,700 income 30 Latino - next us or less*

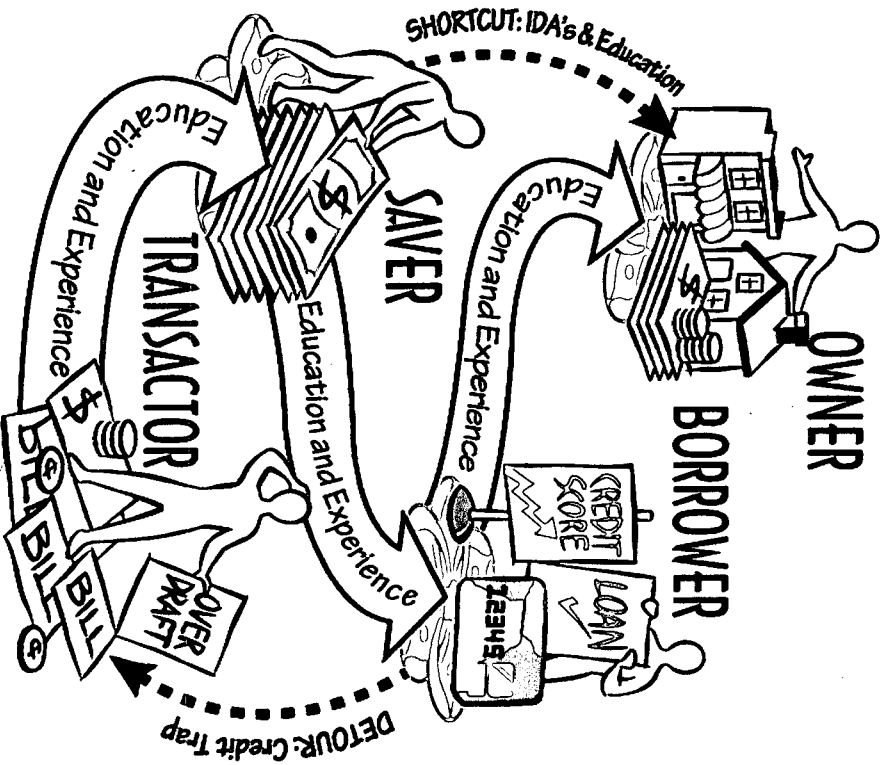
From: CFSI, survey of low- moderate- income neighborhoods in three urban markets



UNC  
UNIVERSITY OF NORTH CAROLINA  
AT RDU

Center for Community Capital  
Research and analysis on the transformative power of capital

# The Credit Path



From: Alternative Federal Credit Union

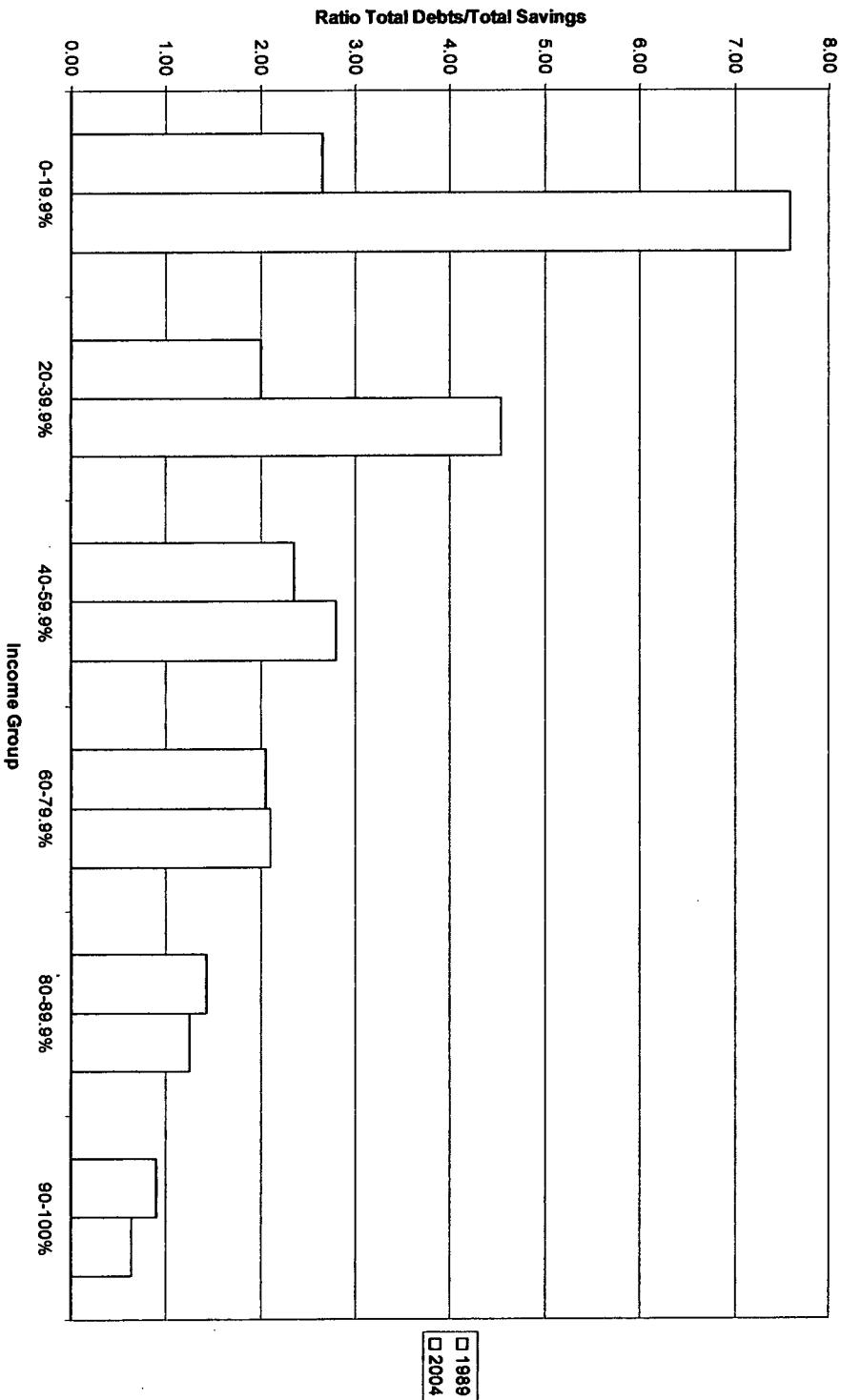


UNC  
 UNIVERSITY OF NORTH CAROLINA  
 ARDS & SOCIETIES

Center for COMMUNITY CAPITAL  
 Research and analysis on the transformative power of capital

# Debt supplants savings

Median Debt-to-Savings Ratio, American Households by Income Group, 1989 and 2004





UNC  
UNIVERSITY OF  
ARBITERS & SOCIETIES

CENTER FOR COMMUNITY CAPITAL,  
*Research and analysis on the transformative power of capital*

**Janneke Ratcliffe, Associate Director**  
**UNC Center for Community Capital**  
**(919) 843-4968/(919) 843-2140**  
**[www.ccc.unc.edu](http://www.ccc.unc.edu)**

Minutes

House Study Committee on Unbanked and Underbanked Consumers

September 23, 2008

The House Study Committee on Unbanked and Underbanked Consumers met at 1:00 PM on Tuesday, September 23, 2008 in Room 1228 of the Legislative Building. The following members were in attendance: Representatives Holliman, Bryant, Church and Hall. Members: David Darby, Farad Ali and Bob Schall. Staff: Karen Cochrane-Brown and Drupti Chauhan.

Chairman Holliman called the meeting to order. He introduced Sgt-of-Arms staff and welcomed the visitors. See Attachment I.

Chairman Holliman asked for a motion to approve the minutes from meeting on August 21<sup>st</sup>. The motion carried.

Mark Pearce, NC Deputy Commissioner of Banks was called on to speak about a review of the regulation of the Banking and Financial Services Industries. He discussed banking services and how a full range of companies were providing services. He reported NC has a strong banking sector and only 10% in the US fall under the unbanked or underbanked. Stating more banks in a community the more likely everyone would use banks. See attachment II.

Paul Stock, Executive Vice President and Counsel, NC Bankers' Assoc. was introduced to address the committee. He explained and offered information on a survey from 144 banks, all members of the NCBA headquartered or with branches in NC. He reported that only 20% of banks surveyed responded to answering how well their products were received for the unbanked and underbanked consumers. See Attachment III.

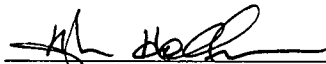
Morris Marshburn with McGladrey and Pullen, LLP was not available. Dick Carleton, representing the NC Financial Services Assn reported the lending laws are outdated and have not been changed to meet demands since 1982. He stated that 50% of NC citizens are unbanked or underbanked. See Attachment IV.

Roger Bone of Bone and Assoc. representing the Resident Lenders of NC also addressed the committee stating the General Statutes should have a comprehensive assessment. He reviewed a list of recommended changes and asked the committee to find a way to provide loans for the unbanked and underbanked consumers. He stated that access to credit is critical for unbanked consumers and legislators should recognize the need for small consumer loans. He pointed out that payday loans are still available on the internet. See Attachment V.


After some committee discussion, Rep. Church suggested a study committee be formed to look into the changes of the laws.

Chairman Holliman announced the committee would meet on Thursday, October 23, 2008.

The meeting was adjourned at 2:15 pm



Hugh Holliman, Chairman



Carol Bowers, Committee Clerk

**HOUSE STUDY COMMITTEE ON UNBANKED AND  
UNDERBANKED CONSUMERS**

---

**AGENDA**

**September 23, 2008**

**1:00 p.m.**

**Legislative Building: Room 1228**

---

- I. Introduction**  
*Representative Hugh Holliman, Chair*
- II. Approval of August 21, 2008 Minutes**
- III. A Review of the Regulation of the Banking and Financial Services Industries**  
*Mark Pearce, North Carolina Deputy Commissioner of Banks*
- IV. Comments on behalf of the NC Bankers Association**  
*Paul Stock, Executive Vice Pres. & Counsel, NC Bankers' Association*
- V. Comments on behalf of the Consumer Credit Industry**  
*Morris Marshburn, McGladrey & Pullen, LLP*
- VI. Committee Discussion**
- VII. Adjourn**

House Pages

House Study on Un Banked

Name Of Committee: \_\_\_\_\_

Date: \_\_\_\_\_

9/23/08

1. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

2. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

3. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

4. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

5. Name: \_\_\_\_\_

County: \_\_\_\_\_

Sponsor: \_\_\_\_\_

Sgt-At-Arms

1. Name: Marvin Lee

2. Name: Toussant Avenit

3. Name: Martha Gadison

4. Name: John Brandon

5. Name: \_\_\_\_\_

2018

Handwritten text at the top right, possibly a date or reference number.

Handwritten text at the bottom right, possibly a signature or name.

VISITOR REGISTRATION SHEET

House Study on Unbanked  
Name of Committee

9-23-08  
Date

VISITORS: PLEASE SIGN BELOW AND RETURN TO COMMITTEE ASSISTANT

<u>NAME</u>	<u>FIRM OR AGENCY</u>
Thomas Moore	Edminster & Wells
Rufus L Edminster	Edminster & Wells
Julia Leggett	The Arc of NC
Clint Atkins	The John Locke Foundation
Chris Kulla	CMA
Dan Schlin	NCWL
Sandra Sander	WCSR
Paul Stok	NCBA
Beth Quincy	BAC
Alex MacFarlane	FCB
C. Eugene Warrick	WEI
Vic Barr	Security Financial Services
Waris Makhadmeh	Rsm Makhadmeh Inc
[Signature]	NCIFA
Phil Lehman	NC AGO
Melanie Chestnut	"
Larry Heckner	HSBC North America
Roy Kelly	HSBC North America
Rosce E. Vette	Time Investment Corp
CHRIS MCKINLEY	GREEN CAP FINANCIAL
R. WAYNE SMITH	CENTURY FINANCE - ROCKY MOUNT
John M. Hyl	Gov Office
Amy McConkey	Smith Anderson
[Signature]	HUMPHREYS & WINS
[Signature]	DLE & Assoc
R.H. Blackledge	NCBA Bill Drafting



## Minutes

### House Study Committee on Unbanked and Underbanked Consumers

August 21, 2008

The House Study Committee on Unbanked and Underbanked Consumers met at 1:00 PM on Wednesday, August 21, 2008 in Room 1228 of the Legislative Building. The following members were in attendance: Representatives Holliman, Bryant, Church, Hall, and McGee. Members: David Darby and Bob Schall. Staff: Karen Cochrane-Brown and Drupti Chauhan.

Chairman Holliman called the meeting to order. He introduced Sgt-of-Arms staff and welcomed the visitors. See Attachment I.


He introduced committee members and asked them to speak briefly on their thoughts and concerns for the study.


Karen Cochrane-Brown, Staff Attorney, was called on to review the charge to the committee. She spoke to the 6 items under section 3 of the Speaker's Authorization and explained to the committee the chairman can expand on other necessary issues concerning the study. See Attachment II.

Chairman Holliman introduced Janneke Ratcliffe, Assoc. Director, UNC Center for Community Capital, UNC Chapel Hill. Ms. Ratcliffe discussed the importance to have banking and how basic banking should be provided. She discussed what is known about unbanked and underbanked. She reviewed a survey conducted by the center in 2000. See Attachment III.

After some committee discussion, Chairman Holliman announced plans for the committee to meet on September 23<sup>rd</sup>, October 23<sup>rd</sup> and November 20<sup>th</sup>.

The meeting was adjourned at 2:15 pm

  
\_\_\_\_\_  
Hugh Holliman, Chairman

  
\_\_\_\_\_  
Carol Bowers, Committee Clerk

**NORTH CAROLINA  
COMMISSIONER OF BANKS**



**Financial Services  
for the Underbanked**

**House Study Committee  
on Unbanked and Underbanked Consumers**

**Mark Pearce  
Deputy Commissioner of Banks**

**September 23, 2008**

**NCCOB regulates state banks and  
alternative financial services**

- 92 state banks and thrifts with \$220 billion in total assets
- 1204 mortgage lenders and brokers, 15,000 mortgage loan officers
- 84 consumer finance lenders with 569 offices and with \$1.6 billion in total assets
- 842 refund anticipation loan (RAL) facilitators, with 1,784 offices
- 354 check cashing businesses, with 1,463 locations
- 68 money transmitter businesses

## Financial citizenship

- Access to banking services is an important aspect of financial well-being.
  - Deposit services provide a reliable and safe place to save for the future
  - Checking accounts provide a well-accepted method for managing bills
  - Loan services provide fuel to invest in future (home, business, college, auto)
- Alternative Financial Services (AFS) offer convenience, speed, and customer service, but often at a high and unrecognized price
- 10% of US families are unbanked
- NCCOB role in promoting innovation across regulated institutions to maximize competition and fairness for consumers

## Understanding the Underbanked

- Research at Volunteer Income Tax Assistance (VITA) sites:
  - Almost all low-income families want to save money and those with bank accounts twice as likely to have higher success in saving
  - Those with bank accounts 43% more likely to have a positive net worth
  - African American and Latino families twice as likely to not have bank accounts

## **Innovation in Banking**

- NCCOB has encouraged banking institutions to enhance penetration into unbanked segment of population through targeted partnerships with large employers.
- Two NC banks among 31 banks participating in FDIC Small Dollar Loan Pilot Program
  - Cooperative Bank (Jacksonville)
  - NewBridge Bank (Greensboro)

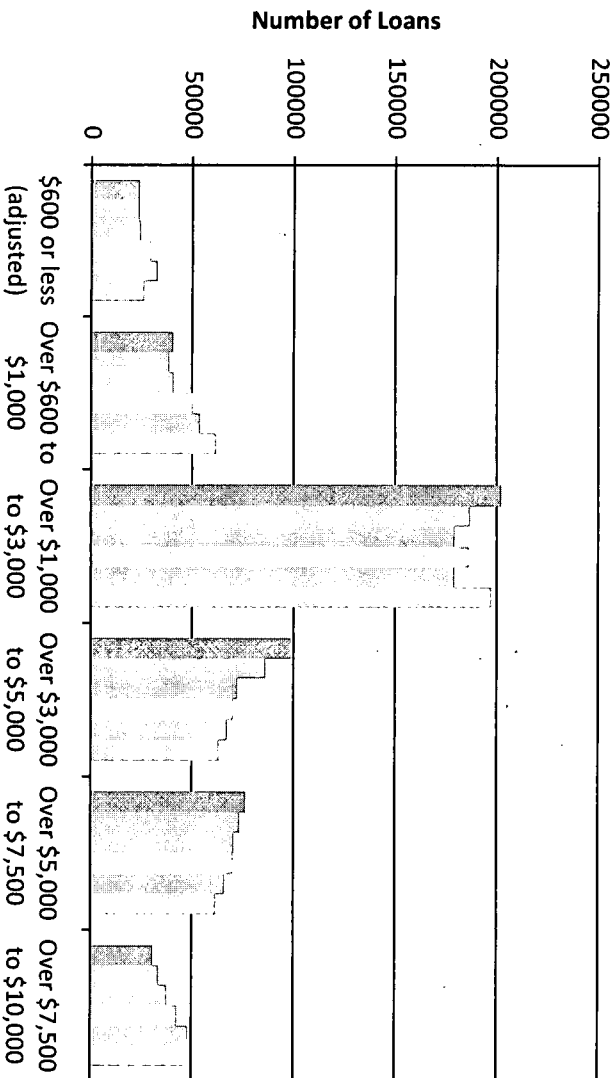
## Payday lending experiment

- Payday lending authorized as an add-on to check-cashing in 1997
- Typical transaction:
  - 400% APR
  - Roll over 8+ times per year
- Payday Lending experiment ended in 2001 based on concern about “debt trap”
- Commissioner of Banks ruling in December 2005 that Advance America business model violated Consumer Finance Act
- All national payday lenders exited NC in 2006
- Enforcement against emergent payday lending shops and internet payday lending

# Return of the small installment loan

- Post payday lending, installment loans through consumer finance lenders have increased, especially in loans between \$600 and \$1,000

**Consumer Finance Loans: 2002-2007**



## **NC consumers have not missed payday lending**

- **UNC Center for Community Capital survey  
(November 2007)**
  - 3 out of 4 low- and middle-income NC families were unaffected by payday loan ban. Of those affected, 2 to 1 think ban had a positive impact
  - 9 out of 10 think payday lending is a “bad thing”
  - Consumers use a range of strategies to manage financial stress

## Reducing use and improving terms of tax refund loans

- Tax refund loans are high-rate loans, but without rollover of payday loans
- NCCOB report on tax refund loans (April 2007)
  - Almost half a million NC taxpayers took out tax refund loan in 2004
    - 86% were low-income
    - 65% were EITC recipients
- NCCOB education campaign ([www.savethererefund.org](http://www.savethererefund.org)) about ability to file electronically for free and receive refund within 2 weeks
- NCCOB settlement with Jackson Hewitt regarding pre-file loans
- Most tax refund lenders have abandoned pre-file loans and reduced charges on tax refund loans
- Experimentation on using tax refund loans to establish banking relationship (H&R Block)

## Recommendations

- Maintain strong regulation of rates/terms of consumer loans
- Continue to increase financial education and literacy in school system
- Promote direct deposit of checks into bank accounts for state employees. NC has low rate of direct deposit for SSL.
- Provide funding for non-profit counselors to expand trusted resources for financial advice and budgeting

## Summary

- North Carolina has strong banking sector with wide-range of products and services satisfying vast majority (96%) of NC consumers
- North Carolina's AFS marketplace is stable and provides ready access to services. Trend toward increasing fairness of rates/terms
- Product innovation (e.g. pre-paid cards) creates opportunities and regulatory challenges



# NC BANKERS

1897 NORTH CAROLINA BANKERS ASSOCIATION

P. O. BOX 19999, RALEIGH, NC 27619-9916 / 800-662-7044 / FAX: 919/881-9909

**Date:** September 23, 2008

**Memorandum to:** House Study Committee on Unbanked and Underbanked Consumers

**From:** Paul Stock, Executive Vice President & Counsel

**Re:** Survey Results – Products and Services for the Unbanked and Underbanked

At the last Committee meeting, I was asked what products and services North Carolina Bankers Association member institutions offer to attract unbanked and underbanked consumers. In response to that inquiry, the NCBA conducted a survey of its member banks asking them to provide information on products and services they offer to attract unbanked and underbanked consumers. The NCBA membership includes all 144 banks headquartered or with branches in the State of North Carolina. A total of 80 banks completed the survey. This memo provides a summary of the responses.

**Of the survey respondents, 68.8% indicated that they offer products and services designed to attract consumers who have not previously had a relationship with a bank or who have had only minimal contact with one.** Those banks answering affirmatively were asked to provide descriptions of their products and services.

Before turning to an analysis of the product and service descriptions, here are the results of a few related questions. **The banks which answered that that they offer products and services for the unbanked and underbanked were asked to rate how well the products have been received. For their *savings/checking* products, 90.2% responded either “extremely well,” or “well;” with only 9.8% indicating “not very well” or “poorly.” For their *credit* products, 88.5% responded “extremely well,” or “well.” 11.5% said “not very well” or “poorly.”**

With regard to the banks’ perception of their offerings for the unbanked and underbanked, 72.7% viewed the offerings “like other products, as potential revenue sources for the bank, though on a longer timeframe,” while 10.9% responded “like other contributions to the community; no profit anticipated.” The remaining 16.4% opted to instead provide a written viewpoint.

The sections below provide detail on the written responses received. Some responses have been redacted to avoid identifying a branded product or service associated with a particular bank and some have been modified to correct typographical errors or improve readability.

### SAVINGS/CHECKING PRODUCTS AND SERVICES

A total of 55 banks provided a written response concerning their savings/checking products and services. Because most banks highlighted their free checking account offerings, the responses are grouped according to this criterion.

**2/3**  
Sixteen banks indicated that they offer "free checking accounts" to all consumers and provided sufficient detail to indicate that there are no monthly maintenance/service fees and either no minimum balance or a low minimum balance, typically of \$100 or less. The written responses appear below.

- Our "Free Checking" Plan is specifically designed to attract the unbanked or underbanked customer. Free Checking - Designed for Straightforward Checking Value. A simple, worry-free personal checking plan with no minimum balance requirements, no service charges, and unlimited check writing, Free Checking offers you all the advantages of an FDIC Insured checking plan -- with none of the costs, minimum balance requirements, or other fees. No Minimum Balance Requirements. No Monthly Service Charges. Unlimited Check Writing. Customer Pays For Checks. Service 24 Hours Through Telephone Banking and Free Online Banking/Bill Pay. Free ATM/VISA Check Card.

- We have our \*\*\* Checking Program which has no fees with no minimum balance requirements. With that product or any other of our deposit products, the customer can have no surcharge (free) ATM access, not only here but throughout the \*\*\* area at any Allpoint ATM network machine, again at no surcharge. Checking and other deposit or loan customers also have access to free on-line banking and bill pay.

- \*\*\* Account with no minimum balance and no fees. We also offer products to the Hispanic population with a \*\*\* Spanish guide.

- Free checking - no minimum balance requirements, no service charge. No restrictions on account in terms of # of checks written, etc. Savings Accounts as all accounts, require \$100 minimum to open. Allows 2 withdrawals per month. Interest rate for all savings customers, regardless of balance, is currently \*\*\*\*%.

- We offer a free basic checking account. There is not a minimum balance requirement and no monthly service charges.

- \*\*\* Checking account that has no minimum balance and no monthly service charges, unlimited check writing, unlimited toll-free access, online banking and online bill pay at no charge.

- \*\*\* Bank offers Free Checking with no minimum balance, unlimited check writing without per check charges. They also get free ATM usage and free telephone banking. We also offer a savings account that only requires \$100.00 daily balance to avoid service charges.

- \*\*\* Free Checking Account with no minimum balance and no service charge

- \*\*\* Checking - No monthly service charge, \$100.00 minimum to open. \*\*\* Checking - Minimum balance \$500.00, \$1,000.00 average, or \$1,000.00 in Savings or Certificate of Deposit - Minimum to open \$100.00.

- Free Checking with no minimum balance or monthly fee. \*\*\* Saving with no minimum balance or monthly fee. Also offers attractive rate and cash bonus when savings goal is achieved.

- \*\*\* Checking is designed for a customer who would not normally qualify for a checking account

based on negative history with Chex Systems (bounced checks, etc). Allows underbanked to get back into the banking system and build a positive history of checking account management so they can move back to mainstream product. Considering a reloadable payroll card.

- Checking accounts can be opened with a \$100 minimum deposit. No minimum balance required to avoid service charges. Passbook savings accounts can be opened with a \$50.00 minimum. No minimum balance required to avoid service charges.
- Offer a checking account with no monthly maintenance fee, no daily minimum balance and unlimited transactions. Minimum to open is \$100.
- Ours is very simple....a Free Checking account which requires no minimum balance; no service charges.
- We offer a completely free checking account with no minimum balance required. This account is very appropriate for all income levels and very easy to understand. It does not have restrictions at various levels to avoid charges or confusing verbage on the amount of transactions allowed. This is a great starter account.
- We offer our "Free Checking" that requires only \$50 to open. We make no other charges or fees and even provide the first set of checks free. Last, some banks require a perfect score from ChexSystems, but we will work with folks as long as outstanding amounts due are cleared. Free personal checking - no minimum balance to maintain - no service charge. Free Online Banking with Bill Pay - can pay unlimited checks with no fees. Free \*\*\* checking - up to 150 debits plus credits without any service charge. Personal Savings -\$200 minimum balance with no fees - minors have no fees.
- \*\*\* Checking: No monthly service charge, no minimum balance, no per check charge, unlimited number of checks allowed per month. \$100 to open Regular Savings: No monthly service charge, no minimum balance, 2 withdrawals allowed each month with no service charge. \$100 to open.

**Twenty-one banks also described a free checking product, but provided fewer details.**

- We offer two products; a free checking account and a second chance checking account. This account is offered to individuals who have had difficulty in managing their accounts.
- Regular savings and free checking accounts are frequently opened by people in this category.
- Free checking.
- Electronic Transfer Accounts. Free checking accounts with gift program. Savings accounts with \$100 minimum to open with access to ATM usage. Minor's savings no minimum and no service charge.
- Free Checking and Passbook Savings.
- Free checking accounts with very low balance requirements.
- We offer a no-minimum balance checking account with unlimited check writing or Point of Sale Transactions by debit or ATM card.
- Free Checking Accounts. No fee check cashing for senior citizens.
- Offer low opening balance, free checking accounts, and low opening balance savings accounts.
- We have a Free checking account which has a no minimum balance requirement.
- \*\*\* Checking which we can market towards the Go Direct Campaign. We also offer a Free Checking account which can be offered to many demographics as it is simple and has no monthly fees.

- \*\*\* Checking - \$100 minimum to open. No monthly minimum after that. \$4.50 monthly fee is waived if they get a direct deposit into the account. Statement Savings Account - \$300 minimum balance to avoid \$4 monthly fee.

- Free Checking Account - no minimum balance. \*\*\* Savings - minimum opening deposit - \$25.00 - No Interest - Individual Development Accounts (IDA) - No Minimum Opening Deposit. Regular Savings - minimum opening deposit - \$100.

- While we have not directly targeted unbanked or underbanked consumers, we have had several mailings by zip code to the homes in our "footprint". These mailings offer our \*\* Free Checking, \*\*\* Free Checking, and \*\*\* Savings - along with a free gift for opening an account. The \*\*\* Checking account requires a \$50 opening deposit and no minimum balance to maintain. The \*\*\* Checking also requires a \$50 opening deposit, at least one direct deposit per statement cycle, and no minimum balance to maintain. The \*\*\* Savings account requires only \$1.00 to open, no minimum balance to maintain, and a \$10 transfer from another \*\*\* account each statement cycle. If a customer has been reported to Chexsystems, we will still open the account, unless they owe us money. If they pay us back, we will open a new account.

- \*\*\* Bank offers an account with no monthly service charge and no fee debit card.
- Free, no minimum balance checking. High rate, no minimum balance savings account.
- \*\*\* Checking. No Service Charge Checking for Balances Over \$100.
- We offer a \*\*\* checking that has no minimum balance requirement, up to 10 checks per statement, over ten has a small fee of .50. Unlimited ATM transactions. No charge on automatic deposits and drafts. Maintenance fee of \$3.50. Also offers a \*\*\*, no minimum balance, free online banking and bill pay; 5 checks per statement period, over 5 a fee of .50 per check. No charge for automatic deposits and drafts. Convenient direct deposit.

- Free Checking. Bounce Protection.

- \*\*\* Free Checking Account. \*\*\* Savings Account.

- These products are offered to all consumers not specifically unbanked or underbanked consumers: Checking Account: \*\*\* Checking – Free with direct deposit, or \$5.95 per month. No minimum balance required. \$25 initial deposit required. Check card included. Overdraft protection available. Savings Account: \*\*\* Savings – No fee with \$300 minimum balance, or \$3 per month. \$25 initial deposit required. ATM card included. Remittance Product: \*\*\* - Free service for checking account customers. Maximum transfer is \$1,500, monthly maximum is \$3,000. 3 transfers allowed per month. If a customer is interested in subscribing to \*\*\*, a prerequisite is that the customer must have a personal checking relationship with \*\*\*.

**The remaining 18 responses are provided below. Three describe products and services specifically designed to attract Hispanic customers.**

- Free Checking. Payroll Checking. This product works in conjunction with a business and is targeted at employers who are paying hourly workers each week and coming into our bank lobbies. Most of the employees in this situation do not otherwise have a banking relationship. We work with the employers and employees to set up accounts so that wages can be directed deposited and issue a "debit" card for the employee to access his/her funds thru our ATM network ETA accounts. We are one of a handful of banks that offer Electronic Transfer Accounts.

- We are a business bank. However, through our \*\*\* package, a consumer who is an employee of one of our commercial customers may enjoy an interest bearing checking account with no service charge or minimum balance provided they use direct deposit of payroll.

- Basic savings account that can be opened for \$25.00. CD's with \$500 minimum.

- We offer a student checking account that is geared towards college students.

- We have offered a savings program via NC Saves in conjunction with a local not-for-profit organization. There was no response. We also offer a bounce-back checking program to rehabilitate consumers who have had issues with returned checks with negative reports.

- Children's Savings Accounts, Teen Banking Packages and non-service accounts regardless as to balances. No service charges or min. balances necessary for savings account.

- \*\*\* passbook savings. \*\*\* Savings with min. of \$100. Sr. Checking account with min. bal. \$100.

- We offer a wide range of accounts but for unbanked or first time bank customers we have some accounts which offer basic services and features at low cost or free. We also offer an account which offers online banking with bill pay and access to ATM world-wide access for a very small fee.

- 1. We offer a Statement Savings Account that only requires \$25.00 to open and maintain the account, no service charges. 2. We offer a checking account for College Students and Faculty - no minimum balance required, Debit Card, Overdraft Privilege for accounts in good standing, first check order is free, no service charge or per check charge. 3. We offer a \*\*\* Savings Account for Minors which pays a higher interest rate with no minimum to open.

- We don't offer any such programs at this time. Our deposit base is primarily deposit brokers and institutional investors.

- \*\*\* checking is designed for individuals who are not able to open another personal account -\*\*\* Personal Savings targeted to beginning savers.

- \*\*\* Checking Product. Past Credit issues - Medical expenses taken into consideration. New account to be introduced very soon that is debit card based. We have a substantial in-school banking program that we believe generates new banking accounts from unbanked customers and teens. We have programs in \*\* Schools.

- We market our workplace or group banking program (\*\*\*) to companies large and small that have employees that have had limited or no experience with a Bank. The customer must qualify for a checking account, but if they don't qualify based on credit or some negative history we will make exceptions on a case by case basis.

- I would not say we have any products specifically designed for the unbanked or underbanked - but from the compliance side, we do offer seminars to our branches to hold in their communities. These seminars, or workshops, concern first time homebuyers, elderly financial abuse, and overall financial responsibility. We provide handouts to the attendees and leave time for questions and answers before it is over.

- We have \*\*\* Latino branches with completely bilingual staff, deposit products, mortgage loans for the first time home buyer, international funds transfer, extended hours operating 7 days.

- \*\*\* primarily caters to the Hispanic unbanked community. We use non traditional grass roots marketing programs to reach the target audience. The bank also has all bilingual/bi-cultural staff. Spanish language statements are offered. Basic low cost/low minimum balance checking account with debit card - flexible forms of ID for ITIN customers. Same for savings.

- We focus on the Hispanic market, which is largely unbanked. We offer checking accounts that basically mirror our regular accounts with some additional features that may fit that demographic's specific needs. A key for us isn't necessarily the product itself, but the delivery by an all Hispanic staff.

## **CREDIT PRODUCTS AND SERVICES**

**A total of 45 banks provided a written response concerning their credit products and services.**

## Thirty banks provided descriptions of their credit products and services.

- When the unbanked or underbanked consumer needs money, \*\*\* is ready. As your Bank \*\*\*, we understand the financial demands of individuals and families, which is why we offer a complete line of affordable, flexible personal lending plans to allow consumers to choose the best loan or combination of credit services to meet their needs, including: Home Equity Lines of Credit, Home Equity Loans, Credit Cards, Auto Loans, Home Loans (construction and permanent), Overdraft Protection, Personal Loans, Home Improvement, Lot Loans, Modular Housing, Recreational Vehicles.
- We are a qualified USDA and FHA lender, which has allowed \*\*\* to make rural loans to residents that are located in underbanked/non-banked areas of our three counties.
- Minimum loan amount is \$2500 for installment loans and \$500 for overline protection. We do not currently offer an Overdraft Privilege product, but may do so in the future.
- FHA loans are available thru \*\*\* Bank \*\*\* line of credits w/checking account starting at \$500 and up. Consumer credit cards offered thru \*\*\* Bank Card.
- Small Consumer loans.
- Overdraft Protection. (2 responses)
- Secured loans or loans with personal guarantors.
- Overdraft privilege product that provides an overdraft up to \$500 not based on credit but in first 30 days no more than 4 nsf's, average balance of \$100 and total deposits of \$300.
- We offer customer loans and small unsecured loans to help individuals establish credit. \*\*\* Bank is a small community bank with our purpose being to serve all people in our communities. We do everything we can to promote the bank to everyone.
- As a community bank our fees and rates are very competitive and we do our best to help a consumer that has never had a loan.
- \*\*\* Bank \*\*\* offers FHA and VA loans. We also offer portfolio mortgage loans for customers that do not meet all of the secondary market requirements.
- First time home buyers loans.
- \$500 cash line overdraft protection line of credit tied to a checking account.
- Offer low income mortgage product; offer a low interest rate consumer loan periodically.
- Our mortgage department offers loans on manufactured and modular homes.
- \*\*\* Loans targeted to low-to-moderate income (LMI) clients or living in a LMI tract - Student Loans (Stafford) - \*\*\* Mortgage.
- FHA Mortgage Loans. VA Mortgage Loans. USDA Mortgage Loans. SBA loans for small business. Overdraft Protection for \*\*\* Checking.
- Secured credit card helps customers learn to manage credit wisely and build a credit history. First time home buyer mortgage programs. Mortgages for customers with less than perfect credit. Seminars and outreach programs are used to promote the products.
- We offer all loans to the unbanked that we offer to any traditional customer. We do offer specific mortgage and auto loan products that are designated as special purpose credits for the Hispanic market. Each has its own unique features as compared to a traditional credit and have customized underwriting standards.
- We offer mortgages for first time homebuyers. We will also work with customers that have limited or no credit history to establish a credit history with the help of a joint applicant or co-maker or via a cash-secured installment loan or revolving credit card.
- Overdraft lines of credit for as low as \$300. Variety of personal secured and unsecured loans available.
- Loan - \$2,500 minimum - origination fee \$6.25 - Rate 16% - Maximum term 24 mo. Cash Reserve - \$500 - Credit card - \$500 - The APR is prime plus 3.9% (Minimum is 8%).

- First Time Home Buyers Mortgages. 1/2% Discount for Origination Fees.
  - Credit Reserve tied to checking account - minimum loan amount is \$500 - minimum monthly payment is 5% of principal balance Mortgage Loans - variety of first time homeowners programs.
  - We currently do not offer any credit product targeting the unbanked consumer. We do offer our time to counsel unbanked individuals, when requested ... and also often participate in community forums.
  - Mortgage loans, secured savings account loans, small business.
  - Secured credit card to assist in building a credit score for those that don't have a score.
- We utilize non traditional underwriting for ITN customers with no credit history.
- Low down payment first time homebuyer mortgage loans with subsidized down payment.
  - No minimum amount for a loan.

**Fifteen banks responded that they did not have targeted credit products for the unbanked and underbanked.**

- No formal credit offers.
- N/A or none (4 responses).
- We do not offer any.
- We do not currently have a credit product that is targeted to the unbanked or underbanked.
- See Comment in #2. I am unaware of the effectiveness of these specific seminars in attracting specifically unbanked or underbanked customers, so I am unable to respond to the remaining questions.
- Our current loan product offering is primarily commercial in nature.
- \*\*\* Checking. New Account to be announced soon. See above.
- We have not had any mailings on our credit products.
- \*\*\* Bank offers consumer loans to customers who qualify.
- We do not have anything specific at this time on the credit side.
- We do not offer credit products specifically for this segment.
- We do not segment accounts based upon unbanked and underbanked consumers. We are an equal service provider, regardless as to personal circumstances or other considerations.

< **VIEWPOINTS ON UNBANKED AND UNDERBANKED CONSUMERS**

**A total of nine banks opted to provide a written response concerning their viewpoints on unbanked and underbanked consumers.** The default answers as described on the first page above were “like other products as potential revenue sources for the bank, though on a longer timeframe” or “like other contributions to the community, no profit anticipated.”

- We hope that when an unbanked/underbanked consumer comes into our bank that through education and service we can help them feel comfortable enough to talk to us about what they need and want and how that can be accomplished.
- Our hopes are that the student continues to bank with us after college using us as their primary bank.
- They are an opportunity to provide products to a wider portion of the community, help serve a segment that is underbanked and also grow deposit and loans. These products can be good for both the bank and the customer.

- Both of the above, we provide services that will benefit our communities' needs and also serve as revenue sources for the bank. We are a community bank which strives on providing the best customer service in the financial industry, and a requirement of good customer service is meeting the needs of the community by offering products and services that best fit their need.
- We do not specifically market to the unbanked though many of our products can cross borders.
- N/A at this time.
- We believe that we are able to bank most of the consumers in our area. Our products are suitable for everyone. While we may make a profit from some of the account holders, we also have a strong commitment to give back to our communities.
- As a community bank we offer everyone an opportunity to bank with \*\*\* Bank. Our accounts are designed to fit each individual financial need.
- Actually, it is a blend of both statements listed above. Banking the unbanked and the underbanked is good for the individual customer, the bank, the community, and the economy. While no hard dollar revenue is realized initially, it does provide "good faith" in the community. And, hopefully, over time, the customer's relationship with the bank will grow to include other needed services and products.

### **ADDITIONAL COMMENTS**

The survey respondents were also given the opportunity to provide any additional comments regarding their banks' relationships with unbanked and underbanked customers. The 26 responses appear below.

- We have a committee that meets to review products and services that include products for the unbanked and underbanked consumers. We also maintain contact with institutions and organizations that represent the unbanked and underbanked consumers.
- At one time, this bank offered services to the local Hispanic consumer market, with a branch staffed only by bilingual staff, but the products were not well received and the branch was closed after a two-year trial. We have been in business for more than \*\*\* and have consistently endeavored to market to all strata of the local market.
- \*\*\* only has home loans and savings accounts, so we do not have a diverse line of products.
- We have brochures in English and Spanish with interpretation available through our Call Center as well; and offer loan products to everyone in all our markets.
- We bank everybody unless they have proven to be untrustworthy.
- We have considered "pay cards" but are unable to determine any economical manner to offer them that would be accepted by potential users.
- The demographics in our community are rather high and, consequently, we don't offer many underbanked opportunities.
- Customer service is our top priority. We spend time needed with the customers to ensure that they understand their checking accounts, set up direct deposits for them, and teach them how to use the debit and or ATM card. Our best advertisement has been "word of mouth" as a satisfied customer tells someone about our bank.
- All products are advertised to the community via the local newspaper and radio and the Bank's website.
- We encourage minors to open accounts with parents as secondary owners and give banking seminars at local schools to teach students about checking and savings accounts and the

importance of good credit. One of our customer service representatives speaks fluent Spanish and is very helpful in explaining services to our Spanish speaking customers.

- We accept ITINs when opening any type of account.
- Products may be added as we consider our community development profile as part of a CRA Strategic Plan program. We will be very interested in the results of this survey to see which products our peers consider to be effective and mutually beneficial.
- The key to improving access to banking products to the unbanked and the underbanked is financial education
  - As we develop the bank, we plan to offer a product to corporate customers that would be card based, through which they could pay employees without a checking account. This is only in the planning stages.
  - We have partnerships with public housing, churches and schools to help educate consumers about money management, the importance of saving and how to obtain and manage credit wisely. \*\*\* also has a \*\*\* bus equipped with computer stations that we take into the community to educate consumers about homebuying, credit management and savings. The bus is currently scheduled to be in \*\*\*.
  - Although we have limited locations, we believe we have the products and services to assist virtually any consumer - including the unbanked and underbanked.
  - ATMs in low-to-moderate income (LMI) Tracts. Provide Financial Education and Home Ownership workshops. Affordable mortgage products to include 102% LTV - No private mortgage insurance (PMI). Website links to printable financial educational materials for kids, teens, young adults, and seniors.
  - We are a de novo and have been in business for \*\*\* months. With respect to how our offering has been received in the market, I think it is too early to tell.
  - (2 responses are omitted. One merely identified the bank and the second was a cross-reference to the bank's earlier responses.)
  - We have made some efforts to reach out to the Hispanic community with little success. We have met with community leaders, community action groups that work closely with these populations, and we have yet to see any real numbers of accounts from these efforts. The main problem we find is that a lot of the underbanked are uneducated, many have language barriers, and they have no trust in the banking system. While the banking community needs and wants to serve the underbanked of all ethnicities, the Hispanic population in our area poses the greatest challenge and would probably be our greatest reward if we could cross the hurdles. As for other populations of underbanked, we have not had any initiatives other than working with community action groups such as \*\*\*, \*\*\*, \*\*\*, and other agencies like these in all the counties we serve.
  - Would like to hear what others are doing successfully in their communities.
  - When we are presented with a customer that is unbanked or underbanked we take that as our charge to educate them in the banking process to help them grow and achieve their financial goals.
  - In addition to the above products, we offer check cashing, remittances, bill payment, and calling cards to non-customers and customers alike. I would be happy to share additional information.
  - Our Branch Managers do weekly visits into the community to provide prospective customers with information about \*\*\* Bank and also obtain feedback from the community on what products and services would best serve them that we do not currently offer.
  - Our staff is committed to serving every component of our community. Operations Manager \*\*\* offers a free seminar to residents of \*\*\* called \*\*\* and in so doing reaches many unbanked and underbanked in the community. It is an opportunity to educate folks about the products we offer.

## HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED CONSUMERS

September 23, 2008

### WHO WE ARE

My name is Dick Carlton.

I am here today representing the N. C. Financial Services Association and the N. C. Independent Finance Association. Together, Roger Bone and I are speaking for the entire consumer finance installment lending community.

Thank you for the opportunity to speak before your group today. Along with the Resident Lenders of North Carolina, our firms are North Carolina corporations operating under the laws of North Carolina; licensed and supervised by the Commissioner of Banks since 1961; with 586 business locations and approximately 3600 employees located in North Carolina. Some of us are locally owned by individuals and families for as many as 45 years. Some of us are publicly owned, with investors that include our employees, North Carolina citizens, retirees, pension funds, state and local employee retirement funds. Some of us are owned by the largest depository institutions in the world. With the current laws, our industry has been forced to cut back on its very needed service to the consumers of North Carolina. Some companies who have operated literally for 100 years in this country are no longer making small consumer loans in North Carolina. The lending industry comes here today in a united voice to help work with regulators and consumer advocates to discuss what we need to do together to help make responsible credit available to N. C. consumers.

Let us tell you a little about our business. We feel very good about our industry, the installment loan industry. The size of loans varies from a few hundred dollars to as high as \$10,000. We make only loans which we believe the borrower can afford, and we try to prove this to both our and their satisfaction by working out a budget with them and quantifying their monthly free income. It makes no sense from our business standpoint, nor is it good customer service, to make a loan without determining to a reasonable

degree the probability that the borrower can repay the loan. This practice directly benefits the lender and, of course, creates an indirect benefit to the borrower.

A critical distinguishing feature of the direct loans made by our members is that those loans are repaid in substantially equal, fully amortizing monthly installments. The equal monthly installments of principal and interest are designed to pay the loan off in a way that fits within the borrower's available free income.

At our companies we also require that our loan transactions be completely transparent and understandable. We believe strongly that the state's role in the consumer credit market should be to promote two things: availability of consumer credit and transparency of transactions. We also believe that price controls deny consumer's access to the credit that they need driving them, all too often, to illegitimate, often shady and always unregulated credit sources (internet lenders, street corner lenders, etc.). It is only by promoting the availability of legitimate, regulated consumer credit with full transparency and leaving pricing up to the marketplace, that the state can make sure that nobody is getting into something they either do not understand or can't afford to pay off.

## **WHERE WE FIT**

There are two different kinds of loans authorized under Chapter 53:

**NC GS 53-173(a) Maximum Rate of Interest.** – Every licensee under this section may make loans in installments not exceeding three thousand dollars (\$3,000) in amount, at interest rates not exceeding thirty-six percent (36%) per annum on the outstanding principal balance of any loan not in excess of six hundred dollars (\$600.00) and fifteen percent (15%) per annum on any remainder of such unpaid principal balance. Interest shall be contracted for and collected at the single simple interest rate applied to the outstanding balance that would earn the same amount of interest as the above rates for payment according to schedule.

(a1) **Maximum Fee.** – In addition to the interest authorized in subsection (a) of this section, a licensee making loans under this section may collect from the borrower a fee for processing the loan equal to five percent (5%) of the loan amount not to exceed twenty-five dollars (\$25.00),

provided that such charges may not be assessed more than twice in any 12-month period.

This rate is calculated in what is referred to as a "blended rate," meaning that a maximum of 36 percent annual interest applies to the first \$600 and a maximum of 15% annual interest applies to every dollar of the loan after that. But it is charged on a single simple interest basis. Therefore, to illustrate:

Loan Amount	Term	Single Rate	Mo Payment	Total Interest	% of Principle
\$500	12 months	36%	\$52.74	\$107.88	21%
\$1,000	12 months	32.04%	\$101.00	\$183	18%
\$2,500	18 months	23.18%	\$168.00	\$484	19%

Much attention has been given to this law's 36% interest rate ceiling for the category of very small sum loans. It should be noted above that the interest rate produces extremely modest dollar charges compared to the actual costs of providing the service, which we will hope to address in future meetings.

Because even the maximum rates permitted under this section do not cover a lender's actual costs for offering loans in this range (*i.e.*, up to \$3,000) to most borrowers, there are only eight companies in all of North Carolina holding licenses under this section.

The second type of loan is:

**NC GS 53-176(a)** In lieu of making loans in the amount and at the interest stated in G.S. 53-173 and for the terms stated in G.S. 53-180, a licensee may at any time elect to make installment loans not exceeding ten thousand dollars (\$10,000) and which shall not be repayable in less than six months or more than 84 months and which shall not be secured by deeds of trust or mortgages on real estate and which are repayable in substantially equal consecutive monthly payments and to charge and collect interest in connection therewith which shall not exceed the following actuarial rates:

- (1) With respect to a loan not exceeding seven thousand five hundred dollars (\$7,500), thirty percent (30%) per annum on that part of the unpaid principal balance not exceeding one thousand dollars (\$1,000) and eighteen percent (18%) per

annum on the remainder of the unpaid principal balance. Interest shall be contracted for and collected at the single simple interest rate applied to the outstanding balance that would earn the same amount of interest as the above rates for payment according to schedule.

(2) With respect to a loan exceeding seven thousand five hundred dollars (\$7,500), eighteen percent (18%) per annum on the outstanding principal balance.

(b) In addition to the interest permitted in this section, a licensee may assess at closing a fee for processing the loan as agreed upon by the parties, not to exceed twenty-five dollars (\$25.00) for loans up to two thousand five hundred dollars (\$2,500) and one percent (1%) of the cash advance for loans above two thousand five hundred dollars (\$2,500), not to exceed a total fee of forty dollars (\$40.00), provided that such charges may not be assessed more than twice in any 12-month period.

This, too is a blended annual rate, charged as a single simple interest rate. Here are examples of loans using the maximum allowable charges and typical terms of maturities:

Loan Amount	Term	Single Rate	Mo. Payment	Total Interest	% of Principle
\$1,000	12 months	29.95%	\$99.89	\$173.68	17%
\$1,500	18 months	27.98%	\$104.87	\$362.66	24%
\$3,000	24 months	23.79%	\$160.25	\$816.00	27%
\$5,000	30 months	21.66%	\$219.34	\$1540.20	30%
\$7,000	36 months	20.67%	\$264.20	\$2471.20	35%

### COMPELLING NEED

This study committee is very timely. There is a credit crunch in our country and it will probably become worse. This has been because of the problems in the mortgage industry.

There has been a credit crunch in the unsecured small loan sector in North Carolina for a long time. Small loans are not available in the numbers to satisfy the great demand in N. C.

Again, companies that have made small consumer loans in this country for 100 years no longer are able to make these loans. Furthermore, new capital will not come to North Carolina because of its outdated laws.

While our state enjoys one of the fastest population increases in the country, the small loan industry is contracting while the demand for loans is rising. As stated in this committee's meeting by UNC Center for Community Capital, upward of 50% of our population is unbanked or underbanked. In 1994, consumer finance industries made approximately 179,000 loans under \$1,000 compared to approximately 88,000 under \$1,000 in 2007. This represents a 200%+ decline while population in N. C. is growing rapidly.

Worse still, many consumers can not get credit. There are very few legal options for them. Some even go after questionable internet loans.

The need is real. Currently, N. C. lenders have to turn down upward to 80% of those consumers who apply for needed loans.

Small loan requests turned down for basics like car repairs and inspection, baby clothes, furniture, school supplies, DMV fees. Others look for money for their businesses. These businesses, that if given a small amount of capital, could potentially grow and not only provide for the owner's family but also create jobs.

## **SUGGESTIONS FOR THE COMMITTEE**

The only responsible answer to filling the strong demand for consumer loan is through installment loans. One must look at the true cost of credit-the price of a loan over time, and the cost incurred by the lender in making that loan.

Regulators, advocates and industry must come together to modernize our current lending laws and make loans available, understandable and with consumer protections. We believe the state's role in the consumer credit market should be to promote the availability of consumer credit and

transparency of transactions. We also believe that price controls deny consumer access to the credit they need driving them all too often to the illegal and unregulated sources.

### **Suggestions to the Committee for Improvements:**

- Recognize there is a need for traditional installment loan products. We cannot successfully discuss what needs to be improved until there is recognition that there is a public and personal need that is currently unmet for these financial services.
- Recognize that a comprehensive review and change needs to be accomplished with the consumer loan laws of North Carolina to permit the competitive operation of legitimate, licensed, and regulated lenders--- who are safe, do it right, follow the law. We are turning down 8 of every 10 customers who walk in asking for help, many completely capable of repaying the loan. Significant, comprehensive changes are required to our antiquated non- depository consumer credit laws to make it possible and attractive to grant this capital to regular citizens.
- This committee needs to review the laws with a careful eye to compare what has changed and what is needed since the last time it addressed traditional consumer installment lending: Risks (in 1982 they were spread among a population of borrowers that included "A" quality who have since migrated to other sources and types of credit); fixed and variable costs of operations (\$8.33 per account per month in 1982, \$22.00 in 2007); bankruptcy laws; collections and contract enforceability (compare the restrictions we have to the substantially fewer restrictions on banks and credit unions).
- Recognize the true costs and economics of unsecured, non-depository, state chartered and locally regulated consumer credit. This includes fixed expenses such as office rent and employees.
- Recognize and consider that our operating laws have not changed in their maximum economic terms since 1982.
- Modernization and rewriting of these laws is necessary because there is no legal source for unsecured credit for many borrowers, and their needs

except the street loan sharks, black market organized crime, cross border payday lenders, and internet scams.

## CONCLUSION

- As previously stated, lenders are turning away 80 percent of the citizens that come to their offices and ask for credit to handle their every day emergency and routine family and personal needs, needs that certainly do not go away if no credit is given. The capital needs of our least sophisticated and economically able citizens are regularly denied. That is seriously wrong and it must be addressed. We stand ready to serve under fair laws but the current laws make it impossible to do so.
- Setting arbitrary limits on APRs discriminates against the poor by outlawing the smallest and, yes, cheapest loans, the loans they need and can afford. A person with limited means measures "cheap" in dollars, not by some artificial indicator like APRs. The market can and should be left to set rates for the renting of money as it does for the renting of videos or cars. The role of state government should be to keep a watchful eye on the key issues of transparency and availability and to invest in financial literacy programs to help people make good informed decisions, including as a minimum standard a requirement that all school-leavers have the ability to prepare their own household budgets.

THANK YOU

**House Study Committee on  
Unbanked and Underbanked Consumers**

September 23, 2008

Legislative Building, Rooms 1228 & 1327

1pm

by Roger W. Bone

Lobbyist for the Resident Lenders of North Carolina

I. Opening Statement

A. Who are the Resident Lenders of North Carolina?

1. Mission statement: The Resident Lenders of North Carolina, a multipurpose organization, is committed to serving the consumer finance needs of the communities in which we operate. We also strive to preserve our industry by promoting to our membership, customers, legislature and through out North Carolina, the following values:
  - a. Financial literacy
  - b. Fair and responsible lending
  - c. Equitable laws for our industry
  - d. Profitable operations
  - e. See Code of Ethics in Resident Lenders of NC booklet on page 2
2. Association who represents the privately held finance companies which operate in North Carolina since 1980.
3. 44 home offices in North Carolina and 177 branch offices in North Carolina. Each office averages 5 employees.

4. Independent consumer finance industry
  - a. Credit to citizens who may not otherwise be able to obtain credit from other sources due to a high-debt ratio or imperfect credit history. Access to credit is critical for unbanked consumers. Major need previously established for consumers in North Carolina.
  - b. Legislators should recognize a need for small consumer loans. They should also recognize that higher interest rates are necessary in order to make the loan.

II. Regulated by the North Carolina Commissioner of Banks

A. NC Chapter 53-173 : limit \$3000 maximum.

*(36% on principal of \$600 and 15% on remainder of unpaid principal balance the origination fee equals 5% of loan or \$25. No more than 2 renewals in a 12-month period.)*

B. NC Chapter 53-176 : limit \$10,000 maximum.

*(30% annual rate on portion of unpaid principal not Exceeding \$1000 and 18% annual rate on the remainder of the unpaid principal. Loans over \$7500 have an interest rate of 18%.)*

⟨ C. NO MORTGAGE LOANS ARE MADE BY RESIDENT LENDERS OF NORTH CAROLINA! ⟩

D. Total assets (regulated by Commissioner of Banks, direct loan) \$1.6 billion in 2007, net income \$21 million in 2007.

### III. Industry Experience

A. Chapters 53-173 and 53-176 passed in 1982. Roger Bone chaired the then Banks and Thrift Committee at that time.

B. Many stories on SB100 and SB101 including a Senator under the desk on the House floor attempting to give directions plus efforts by the Carl Waxman family on consumer finance.

1. Only modification since 1982 is the loan origination fee.

C. One North Carolina office experience:

1. An average loan service cost per month in 1985: \$8.33.

2. An average loan service cost per month in 2007: \$21.58.

D. Number of consumer finance offices in NC in 1996: 722.  
Number of consumer finance offices in NC in 2007: 586.  
Numbers declined by 136 offices or by 18.84%.

E. North Carolina customer charge off cost in 1985: 1.23%  
North Carolina customer charge off cost in 2007: 5.13%

F. North Carolina consumer loans under \$1000 in 1994: 179,000.  
North Carolina consumer loans under \$1000 in 2007: 88,000.  
Number of loans lost in North Carolina between 1994 and 2007 : 91,000.

G. Approximately 8 out of 10 consumers who come into the local loan office for credit are declined today!

H. Consumer finance industry based locally is best suited to handle unbanked customer because of personal attention, local knowledge and greater collection efforts.

#### IV. Congressional Involvement

A. Current financial market conditions will make credit for all more difficult in the coming months. Small loans will be in greater demand. Access to credit must be increased for consumers.

B. Congress banned Pay Day Lending to the military. North Carolina has already banned Pay Day Lending. What North Carolina consumers need is access to reasonable, well regulated installment credit.

C. American Financial Services Association (AFSA) attachment.

1. AFSA: Small-Dollar Short-Term Loans in Illinois. See attachment.

#### V. Consequences of No Action

A. Local loan sharks, 25-cent man

B. Island payday loans

C. Internet activity of all types

#### VI. Recommendations to the Committee

A. "Risk". You cannot solve the problem of the unbanked and underbanked citizens of North Carolina by looking to the banks and credit unions that currently exist in our state. Federal regulations and laws will not permit them to solve the problem. Last month's presentation by the lady from

Chapel Hill advised us that 50% of North Carolina's population was either unbanked or underbanked. You must create "access to credit" for North Carolina consumers.

1. Primarily affects lower income persons or families who do not use banks or those who have lower credit scores. Loans should be based on "access to credit" in North Carolina.

B. You must modernize the old North Carolina Statutes.

1. Allow for new, expanded products regulated by the North Carolina Commissioner of Banks.
2. Utilize guidelines other than credit scores.
3. Provide other sources of income.
4. Provide financial education to consumers.

## VII. Major Activity

- A. To effectively approach the problems of the underbanked and unbanked citizens of North Carolina the Legislature must devote much time and energy to study this critical issue. Emphasis should be on the consumer finance industry which can be controlled at the North Carolina level by the Commissioner of Banks.

### Attachments:

Resident Lenders of North Carolina Statement  
AFSA – Protecting Access to Credit and Consumer Choice  
Demographic Summary of North Carolina  
Examples of Small Loans Denied

# **General Information about Resident Lenders of North Carolina**

## **About Resident Lenders of North Carolina:**

The Resident Lenders Of North Carolina Inc. is the industry association who represents the privately held finance companies who operate in North Carolina. The owners of these companies live in communities across North Carolina.

## **Benefits to Citizens:**

The North Carolina General Assembly strives to provide an environment that permits the operation of businesses which benefit the citizens of North Carolina. One such business is the Independent Consumer Finance Industry. These companies provide a source of credit to the citizens of North Carolina who may not otherwise be able to obtain credit from other sources. The average customer is a hard-working family or individual with average income. These loans are needed to pay for necessary family, personal or household items. Their high debt ratio or imperfect credit history may preclude them from consideration by banks so they turn to consumer finance companies for assistance. Legislatures all over the United States have recognized the need for companies that make these small consumer loans. They have also recognized that higher interest rates are necessary in order to make smaller loans.

In addition to significant governmental regulation by the N. C. State Banking Commission, the Consumer Finance Industry practices significant self-regulation as well. The two industry associations, Resident Lenders of North Carolina and the North Carolina Financial Services Association, are the backbone of this effort. The industry is proud of its efforts in this area and will continue to monitor customer satisfaction.

## **Consumer Lending Compared with Mortgage Lending:**

The Resident Lenders of North Carolina would like to emphasize that their loans do not represent mortgage loans which have received recent publicity for predatory lending practices. These Companies typically serve customers with small loans not secured by real estate.

## **Purpose and Use of Consumer Loans:**

These loans serve very important needs for these customers. The majority of these loans are to meet short-term cash requirements for large expenditures which occur suddenly or are of a non-routine nature.



*American Financial Services Association*

**Protecting Access to Credit and Consumer Choice**



Installment lenders, in their role as safe providers of small loans, bring significant socio-economic benefits with strong parallels to those of micro-creditors in the developing world. Misunderstanding of the nature and role of installment lenders has led to calls for regulation that could fatally damage the industry.



**North Carolina People Serving North Carolina People**

# The Case for Installment Lending - An Industry Perspective

## 1. INTRODUCTION

The micro-credit revolution in the developing world is broadly comparable to the installment loan industry in the USA, particularly in the terms of the wider socio-economic good that can result. There is, however, one significant difference: Providers of credit to the poor of the developing world are lauded for their positive socio-economic impact. Installment lenders in the USA, on the other hand, are lumped together with more dubious forms of credit.

The fact of the matter is that installment loans are a popular form of credit, allowing easy access to small sums at relatively short notice. Such loans are often the only safe alternative for so-called unbanked populations who lack access to credit. As such, they are critically important, freeing up funds that allow the borrower to deal with emergencies, or take advantage of opportunities that would otherwise be missed. The short-shrift that installment lenders receive among regulators of late is, in part, an aspect of a general attitudinal shift against so-called subprime lending products.

## 2. INSTALLMENT LOANS BRING HUGE SOCIO-ECONOMIC BENEFITS

Installment lenders play an important, arguably vital, socio-economic role in any free-market economy. It has been observed that it is a basic principle of economics that

people should borrow so they can consume based on their 'permanent income', and that such consumption is the fuel for our economy. The middle classes do it to great effect. Poorer sections of society cannot borrow in this way, without access to safe forms of small-sum credit.

Consumer activists suggest that installment loans (or any type of 'subprime' credit) is intended to entrap borrowers into a cycle-of-debt. In his investigation of the Oklahoma installment loan industry<sup>1</sup>, Professor William Clark gives us empirical evidence in support of his conclusion that installment lenders do not trap borrowers into a cycle of perpetual debt and that installment lenders occupy an 'essential niche in the State's Credit Market Continuum'.

## 3. BEWARE THE CREDIT SNOB

The credit snob believes that only the wealthy should be able to borrow money, while the less-advantaged must be protected from themselves and denied credit. To embrace this kind of snobbery is to deny basic economic fact. Small loans can have positive impact on the lives of those who use them; their 'halo-effect' has positive results for local economies, which in turn positively contribute to wider economic well-being.

Another facet of the credit snob's case for

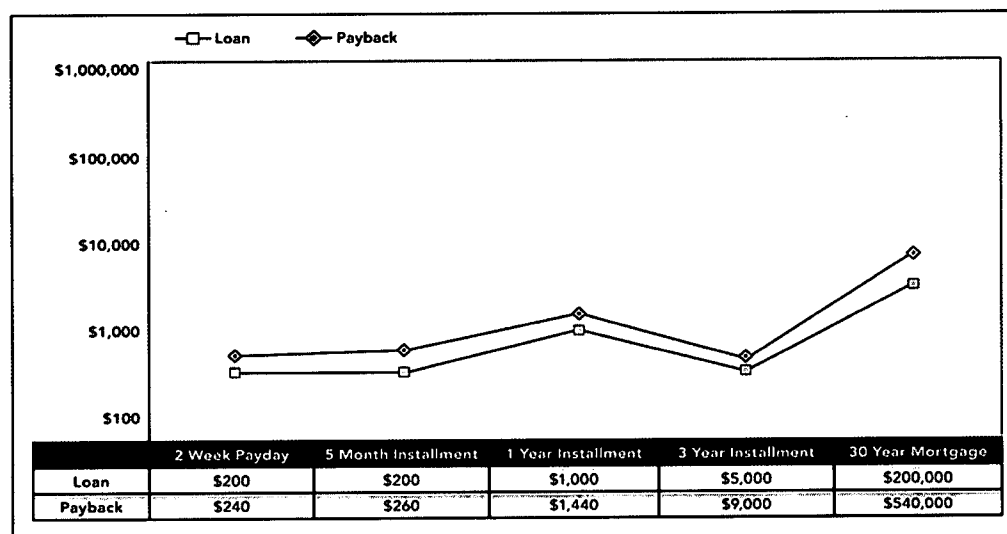


Fig. 1 Loan Cost Comparisons

<sup>1</sup> An Economic Analysis of the Oklahoma Installment Loan Industry by William M. Clark (Fall 2006)

# The Case for Installment Lending - An Industry Perspective

credit denial is to treat installment borrowers as a single, homogenous group, sharing cultural, economic and social characteristics. It appears that often this is not the case. A paper, published in July 2005 by the Center for Financial Services Innovation<sup>2</sup>, looked at low- and moderate-income households found that the concepts of “banked” and “unbanked” were incomplete.

## 4. UNDERSTANDING THE TRUE COST OF CREDIT AND THE CHALLENGES OF APR LIMITS

There is a deep lack of understanding among the public in general, and regulators in particular, as to the true cost of credit – the price of a loan, over time, and the cost incurred by the lender making it. This has resulted in calls for caps on Annual Percentage Rates (APR) associated with a loan – a course that is seen as disastrous for the installment loan industry and one that would almost certainly result in instantaneous loss of credit options for needy borrowers, with all the economic ramifications resulting from a decimation of a valuable industry. (Fig. 1)

Ironically, APRs can be “contra-indicators” of cost in small loans. Typically a smaller loan borrowed over a shorter period will cost less in terms of total dollars and in finance charges as a percentage of principal but have a higher APR. There is typically an inverse relationship

between cost expressed in either of these two ways and APR. (Fig. 2)

Certain indicators of *affordability* or the ability to repay are much more important than APRs when it comes to small loans, including: total dollar cost, total charges as a percentage of principal, manageability of repayment schedule, and a budget showing that such monthly payments are less than the borrower’s monthly free income. Thus, imposing an arbitrary limit on APRs will mean that people who need small loans will be forced to borrow more money for longer terms than they need, and to pay higher real charges or be denied access to credit altogether.

## 5. A SAFER ALTERNATIVE TO PAYDAY AND TITLE LOANS

One of the challenges in understanding installment lending and ensuring that it is regulated efficiently and sensibly is differentiating installment loans from payday or title loans. Unlike payday lenders, installment loan companies have long operated within a legal framework, licensed and thoroughly regulated by state and federal consumer protection agencies. In addition to this key difference, installment loans offer terms and levels of safety over and above those offered by pay day lenders:

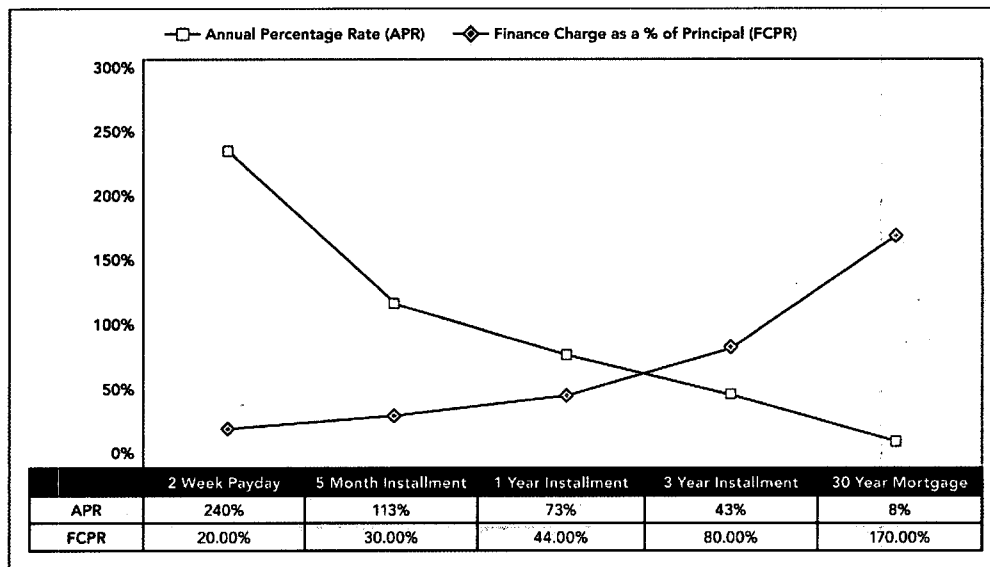


Fig. 2 APR as ‘contra-indicator’ of cost

<sup>2</sup> A Financial Services Survey of Low- and Moderate-Income Households – Center for Financial Services Innovation (July 2005)

# *The Case for Installment Lending - An Industry Perspective*

---

- Installment loans are less expensive for the consumer than pay-day loans;
- Installment lenders do not impose pre-payment penalties on loans;
- Installment lenders work out a borrower's ability to repay a loan before making it, using a monthly net income/expense budget based on information provided by prospective borrowers.
- Installment lenders check the credit of borrowers when making loans to allow a realistic assessment of the borrower's ability to repay. What's more, installment lenders report to credit bureaus, who do not accept reports from payday lenders.
- Installment lenders structure payments as monthly installments, rather than a single payment, in order to provide a manageable method of repayment, allowing borrowers to pay off interest and reduce principal.

The US Department of Defense (DoD), in its final rule on the Warner Act<sup>3</sup>, has recognized the need to protect installment credit while identifying and attacking payday and title loan products.

This recognition of the essential differences between installment lenders and payday or title lenders must be considered by policymakers as they look for ways to best regulate the credit industry.

## **6. SUMMARY**

Promoting increased understanding of the installment lending process and ensuring balance in the sometimes shrill debate concerning how best to regulate the industry, is a worthy goal to be shared by the industry, consumer groups, and regulators.

Legislators should be careful to ensure that they have a balanced view of the installment lending industry before they rush to pass laws, particularly in these times of increased interest in sub-prime lending fueled by the high-profile situation in the mortgage lending industry. Regulators must acknowledge that the installment loan industry operates efficiently and is highly competitive.

---

<sup>3</sup> John Warner National Defense Authorization Act (2007)

## **SOURCES:**

- A Financial Services Survey of Low to Moderate Income Households (Center for Financial Services Innovation) (July 2005)
- An Economic Analysis of the Oklahoma Installment Loan Industry by William M. Clark (University of Oklahoma) (Fall 2006)
- Adios to poverty, hola to consumption (*Economist*) (August 2007)
- In Praise of Usury (*Economist*) (August 2007)
- Financing the American Dream – A cultural History of Consumer Credit by Lendol Calder (1999)
- The Credit Snobs by Alex Tabbarok (Marginalrevolution.com) (March 2007)
- Banker to the Poor* by Muhammad Yunus (2006)

---

## **ABOUT THE AMERICAN FINANCIAL SERVICES ASSOCIATION**

Based in Washington, D.C., AFSA ([www.afsaonline.org](http://www.afsaonline.org)) is the national trade association for the consumer credit industry, protecting access to credit and consumer choice. Its 350 members include consumer and commercial finance companies, auto finance/leasing companies, mortgage lenders, credit card issuers, industrial banks and industry suppliers.

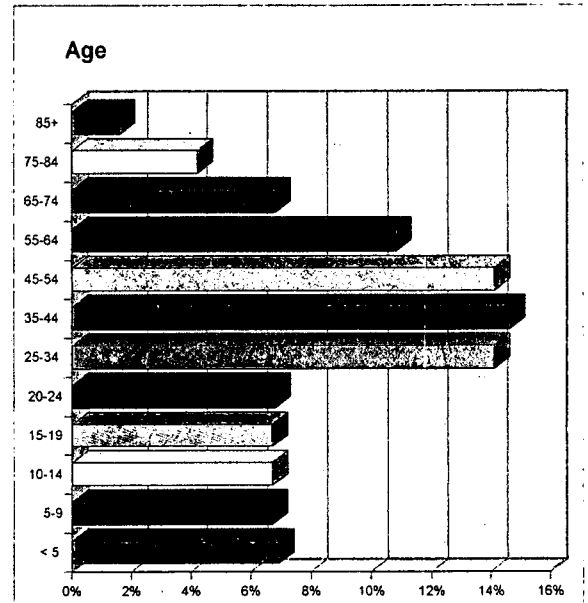
**Demographic Summary  
North Carolina**

**SourceLink, Inc.  
9/12/2008**

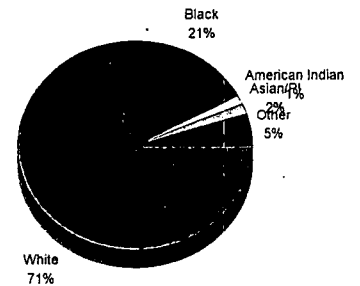
**Customers 8,925,167**

<b>Race:</b>	White	6,349,474	71.1%
	Black	1,854,440	20.8%
	American Indian	114,584	1.3%
	Asian	166,524	1.9%
	Pacific Islander	3,255	0.0%
	Other/Multi-Racial	436,890	4.9%

<b>Age:</b>	18-24 Years	724,454	10.92%
	25-34 Years	1,259,993	19.00%
	35-44 Years	1,303,353	19.65%
	45-54 Years	1,254,740	18.92%
	55-64 Years	968,193	14.60%
	65-74 Years	602,537	9.08%
	75-84 Years	372,490	5.62%
	85+ Years	146,692	2.21%



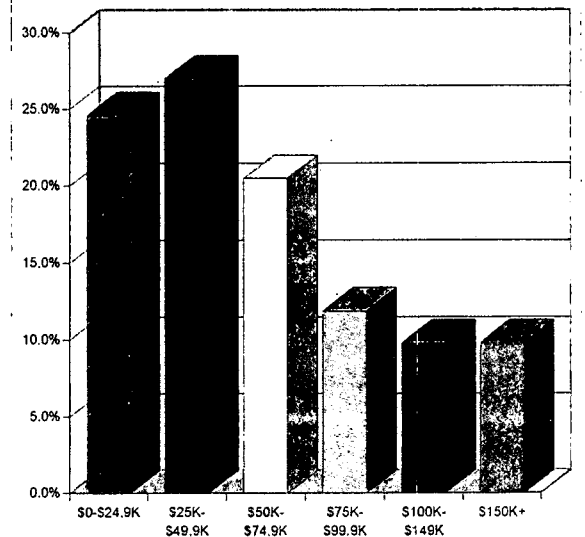
**Race**



**Households by Income**

\$0 - \$24,999	866,010	24.6%
\$25,000 - \$49,999	948,914	27.0%
\$50,000 - \$74,999	720,474	20.5%
\$75,000 - \$99,999	419,223	11.9%
\$100,000 - \$149,999	345,694	9.8%
\$150,000+	215,364	6.1%

**Income**



**Average HH Income \$55,436**  
**Median HH Income \$48,206**  
**Per Capita Income \$22,535**

## **Examples small loans denied**

***Below are real life examples of North Carolina customer loan applications that we could have helped if it made good business sense to lend these smaller amounts. Unfortunately, they did not qualify for a larger loan because of their credit or because of their budget.***

- 1. \$400.00 loan, 12 month term: Mother needed to purchase school supplies for her two children***
- 2. \$300.00 loan, 6 month term: Repair car to get to and from work***
- 3. \$450.00 loan, 12 month term: Rent truck to move to better apartment***
- 4. \$400.00 loan, 12 month term: Pay dentist to fix tooth***
- 5. \$400.00 loan, 12 month term: Surgery for daughter***
- 6. \$500.00 loan, 12 month term: Christmas presents for children***
- 7. \$500.00 loan, 12 month term: Pay tuition for college classes***
- 8. \$600.00 loan, 12 month term: Unexpected personal bills***
- 9. \$500.00 loan, 12 months: License and title car***

## Minutes

### House Study Committee on Unbanked and Underbanked Consumers

November 20, 2008

The House Study Committee on Unbanked and Underbanked Consumers met at 1:00 PM on Thursday, November 20, 2008 in Room 1228 of the Legislative Building. The following members were in attendance: Representatives Holliman, Bryant, Church, Hall and McGee. Members: David Darby, Farad Ali and Bob Schall. Staff: Karen Cochran-Brown, Drupti Chauhan and Ryan Blackledge.

Chairman Holliman called the meeting to order. He introduced Sgt-of-Arms staff and welcomed the visitors. See Attachment I. He then asked for a motion to approve the minutes from the September 23, 2008 meeting. Rep. McGee made the motion and the motion passed.


Dan Schline, Senior Vice President, Association Services with the NC Credit Union League was called on to explain the services provided by the NC Credit Unions. He explained how credit unions serve the unbanked and underbanked consumer. Attachment II


Mr. C. Everett Wallace with the Consumer Credit Industry spoke to the committee on the basic needs of the unbanked consumer and how to modernize lending laws to make this service more available to consumers. See Attachment III.

Chris Kukla, Senior Counsel for Legislative Affairs with the Center for Responsible Lending spoke about consumer finance companies, lending laws, stated that credit is no longer sustainable and 50% of income is paid out on housing. Mr. Kukla stated it all creates a lending cycle for consumers. Attachment IV.

Al Ripley, Director of Consumer Action Network, NC Justice Center passed out a "Fast Fact Sheet" about human needs and inequality in NC. He covered areas of the economic growth and poverty statistics in NC. He stated that banking should be made more affordable without higher fees. He encouraged the committee to work towards requiring banking to be made available to the unbanked and underbanked consumers. Attachment V.

The meeting was adjourned at 2:45 pm

  
\_\_\_\_\_  
Hugh Holliman, Chairman

  
\_\_\_\_\_  
Carol Bowers, Committee Clerk

Minutes

House Study Committee on Unbanked and Underbanked Consumers

September 23, 2008

*Handwritten signature/initials*

The House Study Committee on Unbanked and Underbanked Consumers met at 1:00 PM on Tuesday, September 23, 2008 in Room 1228 of the Legislative Building. The following members were in attendance: Representatives Holliman, Bryant, Church and Hall. Members: David Darby, Farad Ali and Bob Schall. Staff: Karen Cochrane-Brown and Drupti Chauhan.

Chairman Holliman called the meeting to order. He introduced Sgt-of-Arms staff and welcomed the visitors. See Attachment I.

Chairman Holliman asked for a motion to approve the minutes from meeting on August 21<sup>st</sup>. The motion carried.

Mark Pearce, NC Deputy Commissioner of Banks was called on to speak about a review of the regulation of the Banking and Financial Services Industries. He discussed banking services and how a full range of companies were providing services. He reported NC has a strong banking sector and only 10% in the US fall under the unbanked or underbanked. Stating more banks in a community the more likely everyone would use banks. See attachment II.

Paul Stock, Executive Vice President and Counsel, NC Bankers' Assoc. was introduced to address the committee. He explained and offered information on a survey from 144 banks, all members of the NCBA headquartered or with branches in NC. He reported that only 20% of banks surveyed responded to answering how well their products were received for the unbanked and underbanked consumers. See Attachment III.

Morris Marshburn with McGladrey and Pullen, LLP was not available. Dick Carleton, representing the NC Financial Services Assn reported the lending laws are outdated and have not been changed to meet demands since 1982. He stated that 50% of NC citizens are unbanked or underbanked. See Attachment IV.

Roger Bone of Bone and Assoc. representing the Resident Lenders of NC also addressed the committee stating the General Statutes should have a comprehensive assessment. He reviewed a list of recommended changes and asked the committee to find a way to provide loans for the unbanked and underbanked consumers. He stated that access to credit is critical for unbanked consumers and legislators should recognize the need for small consumer loans. He pointed out that payday loans are still available on the internet. See Attachment V.

After some committee discussion, Rep. Church suggested a study committee be formed to look into the changes of the laws.

Chairman Holliman announced the committee would meet on Thursday, October 23, 2008.

The meeting was adjourned at 2:15 pm

  
\_\_\_\_\_  
Hugh Holliman, Chairman

  
\_\_\_\_\_  
Carol Bowers, Committee Clerk

**HOUSE STUDY COMMITTEE ON UNBANKED AND  
UNDERBANKED CONSUMERS**

---

**AGENDA**

**November 20, 2008**

**1:00 p.m.**

**Legislative Building: Room 1228**

---

- I. **Introduction**  
| *Representative Hugh Holliman, Chair*
- II. **Approval of September 23, 2008 Minutes**
- III. **Comments on behalf of the NC Credit Union League**  
(2) *Dan Schline, Senior Vice President, Association Services*
- IV. **Comments on behalf of the Consumer Credit Industry**  
(3) *C. Everett Wallace*
- V. **Comments by Consumer Advocate Organizations**  
(3,4) *Chris Kukla, Senior Counsel for Legislative Affairs,  
Center for Responsible Lending*  
(4,5) *Al Ripley, Director, Consumer Action Network, NC Justice Center*
- VI. **Committee Discussion**
- VII. **Adjourn**

# VISITOR REGISTRATION SHEET

House Comm. ON  
UNBANKED & UNDERBANKED

11/20/08

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Jed Bone	Bone: ASSO.
C. EVERETT WALLACE	NCCPFC
Larry Heckner	HSBC North American
Paul H. Stock	NCBH
Lugh Borady	State Employees' Credit Union
Jervie Lattimore	NC Credit Union Division
WAYNE SMITH	RESIDENT LENDERS OF N.C.
R.E. Everett	NCFAC & RLNC
Vic Barr	SFC Corp
Dick Carlton	NCFSA & NCFBA





**NORTH CAROLINA  
CREDIT UNION LEAGUE**

*Committed to helping credit unions succeed*

# Credit Unions and Underbanked Consumers in North Carolina

House Study Committee on Unbanked  
and Underbanked Consumers

November 20, 2008

Dan Schline  
SVP Association Services  
NC Credit Union League

(H)

---

## About NCCUL & NC Credit Unions:

- NCCUL membership includes – 110 North Carolina credit unions
- 2.9 million credit union members in North Carolina
- \$25 billion in assets held by NC credit unions
- Over 500 branches and 1,000 ATMs statewide

# Who Credit Unions Serve...

- Limited to serving particular “Field of Membership”
- Three charter types (state & federal CUs):
  - Community based
    - Serve a specific geographic area
  - Association based
    - El Centro Hispano, the Veterans of Foreign Wars
  - Employer based – 1000’s statewide
    - Including...Duke Energy, Food Lion, Klaussner Furniture, Krispy Kreme, US Airways

# Structure & Philosophy

- Not-for-profit, cooperatives
- Member owned – operate for the benefit of the members we serve
- Return earnings to members
- Credit union philosophy – “People Helping People”

## How are credit unions serving the unbanked/underbanked?

- Low cost/basic – checking/deposit accounts
- Credit building programs
- Wealth building initiatives
- Credit products – low cost loans, payday alternatives, basic transportation loans
- Financial counseling

# Deposit Account Services

- Allegacy FCU – Winston-Salem
  - “Easy Checking”
    - Chronic bad check writers
    - Overdrawn checking account previously and never repaid
    - Feature of account – Debit card, EFT (to pay bills), direct deposit, NO checks, NO overdraft protection, NO fees
    - Limits possibility of getting into trouble; still have access to basic transaction account services
- Bragg Mutual FCU – Fayetteville
  - One of the companies served – House of Raeford (turkey processing plant)
  - On-site opening accounts, taking deposits, providing basic services

# Estimated Annual Savings to Credit Union Members in NC

- Basic savings / checking accounts services:
  - \$123 million in savings from lower fees on checking accounts at credit unions in NC
  - \$168 million in benefits from higher savings rates at credit unions in NC
  - Total benefit = \$291 million (annually)

Study conducted in February of 2008 by Dr. William Jackson III, Professor of Finance, Professor of Management, Smith Foundation Chair of Business Integrity in the Culverhouse College of Commerce, University of Alabama

## Credit Building Programs:

- Truliant FCU (W-S based), Generations Community CU (Durham based), Latino Community CU (Durham based) – similar programs:
  - No credit/poor credit history
  - Small Loan (\$300- \$500) placed in interest bearing savings account
  - Member pays back loan over a set period of time
    - At times in increments as little as \$25-\$50 per month
  - Once loan is paid back member has access to funds
  - Helps build positive payment history

# Wealth Building Initiatives

- Participation in IRS Volunteer Income Tax Assistance (VITA) program
  - State Employees Credit Union
  - Generations Community CU
  - Local Government FCU
  - Truliant FCU
- VITA – free tax filing assistance program for low/moderate income individuals

# VITA at State Employees CU:

- Results for 2007 Tax Filings:
  - 15,000 individuals
  - \$8 million in tax credits (including \$2.3 million in EITC)
  - Total \$14 million in refunds
  - Free Service – translates to an estimated \$2.2 million in savings in tax preparation fees
  - Available at all 217 SECU branches in NC (2 SECU employees per branch)
  - Also provided low interest, no fee refund anticipation loan (if requested by a member) – estimated \$60,000 in cost savings compared to terms of traditional refund anticipation loans

# Credit Product Offerings:

- Small dollar loans – less than \$1,000
  - Basic “personal loan” – unsecured loans – typical at most NC credit unions
  - Maximum APR of 18% (federal CUs) or 16% (state chartered CUs)
    - Bragg Mutual FCU (Fayetteville) – “Salary Allotment” loans
    - Generations Community CU – salary advance loans with savings component
    - Premier FCU (Greensboro based) – offers a “Payday Solution” loan
    - SECU – Salary Advance Loan

# Salary Advance Loans at SECU:

- Requirements
  - Direct deposit with SECU
- Terms
  - 12% APR
  - No Fees
  - Loan is repaid from funds from next paycheck
  - 5% of each loan placed in savings account
- Began program in January 2001

## Salary Advance Loans at SECCU:

- Results as of February 2008 (7 years of offering loan product):
  - \$1 billion in advances to 100,000 members
  - \$144 million in savings to borrowers (compared to terms of typical payday loan \$15 per \$100 borrowed)
  - \$13.2 million in accumulated savings in accounts of members (because of 5% savings component of program)

## Financial Education Initiatives:

- Providing financial counseling – central to what credit unions do in their efforts to improve the financial well being of their members
- Financial counselors on staff, relationships with certificated financial counselors, community initiatives
- Partnership with National Endowment for Financial Education (NEFE)
- Credit union branches in NC schools

# Credit Union/NEFFE Partnership

- Through NEFFE (National Endowment for Financial Education) partnership – materials are available for free to any high school teacher
- NEFFE material has been approved by NC DPI for use in NC high schools
- Many credit unions (including SECU) – involved at the local level in teaching classes in high schools & providing training to NC teachers



# Community Partnerships – Financial Education

- **Duke University FCU (Durham)** – recently opened a financial counseling center in Durham (2 full time staff members)
- **Marine FCU (Jacksonville)** – financial education "boot camp" started in 2005 - a week-long program aimed at teaching sound financial principles to the credit union's teen members
- **Truliant FCU (Winston-Salem)** – partnership with Golar Family Enrichment Center – financial education workshops
- **Latino Community CU** – every Monday night at every branch (Durham, WS, Fayetteville, Greensboro, Charlotte (2), Raleigh) – financial education workshop – over 9,000 attendees in 8 years

## Credit Union School Branches:

- Student run branches of credit unions in NC schools
  - Union Cross Elementary School in Kernersville – opened in 2007 (partnership with WS City Employees CU)
  - Reidsville High School branch opened in September 2008 (partnership with American Partners FCU)
  - Reagan High School branch in Winston-Salem opened in August of 2008 (partnership with Allegacy FCU)

# Summary

- Credit unions are financial cooperatives that exist to meet the needs of all of their members
- North Carolina credit unions are working in a variety of ways to meet the needs of lower income consumers (many of whom are unbanked/underbanked) that are eligible for membership
- Credit unions deliver significant savings to NC consumers in the form of higher savings rates, lower loan rates and fewer fees

111

**House Study Committee on the  
Unbanked and Underbanked  
Customers of North Carolina**

**Hearing**

**November 20, 2008**

**Testimony by C. Everett Wallace**

**On behalf of**

**North Carolina Credit and Personal  
Finance Council**

**1. What is the  
North Carolina Credit and  
Personal Finance Council  
(NCCPFC)?**

# **NCCPFC**

**Comprised of three associations, speaking  
with one voice:**

- NC Financial Services Association**
- NC Independent Finance Association**
- Resident Lenders of NC**

# Mission

- To improve and protect consumer's access to credit
- To promote responsible, ethical lending for responsible, informed borrowers

# Governing Statutes

- G.S. 53-173 \$ 3,000 or less
- G.S. 53-176 \$10,000 or less

## **2. Who is C. Everett Wallace?**

# CEW Background

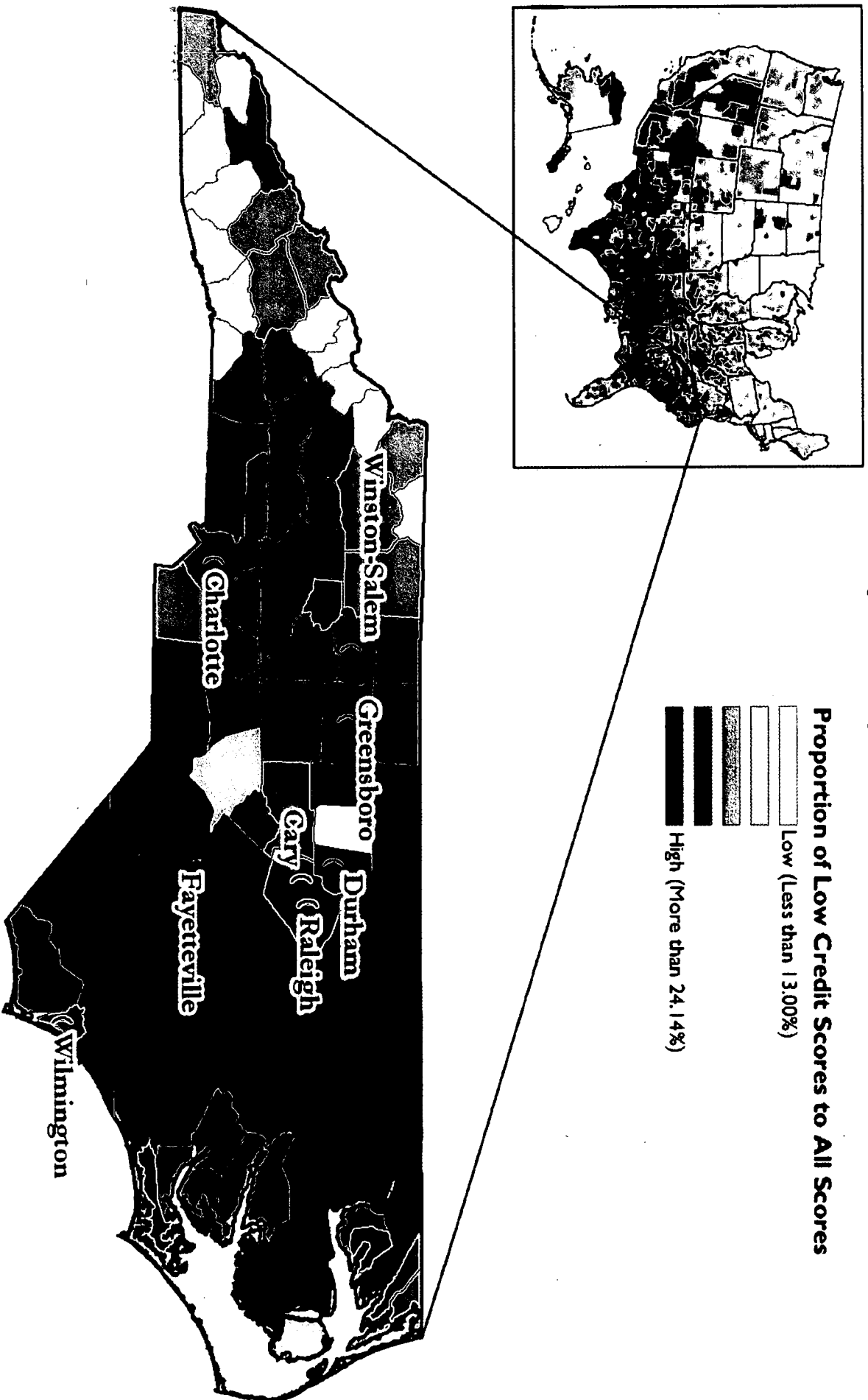
- Last 5 years as President – NCCDI
- Investment Board – Rural Venture Fund (NC Rural Center)
- Reviewer – NC Department of Commerce (Division of Community Assistance)
- Board – Duke Law School (Clinic on Community Enterprises)
- Board – National Asset Building Study (Joint Center on Economic & Political Studies)

# CEW Background

- NBCSI
- NBCSL
- ABA & NBA
- Freddie Mac
- Fannie Mae
- GE Capital
- Countrywide
- NAIC
- NUL
- IFA
- HUD
- HHS
- White House  
Transition Team
- Gov. Office of Tenn.
- US Senate
- JD – Northwestern U.
- LLM – U of Chicago

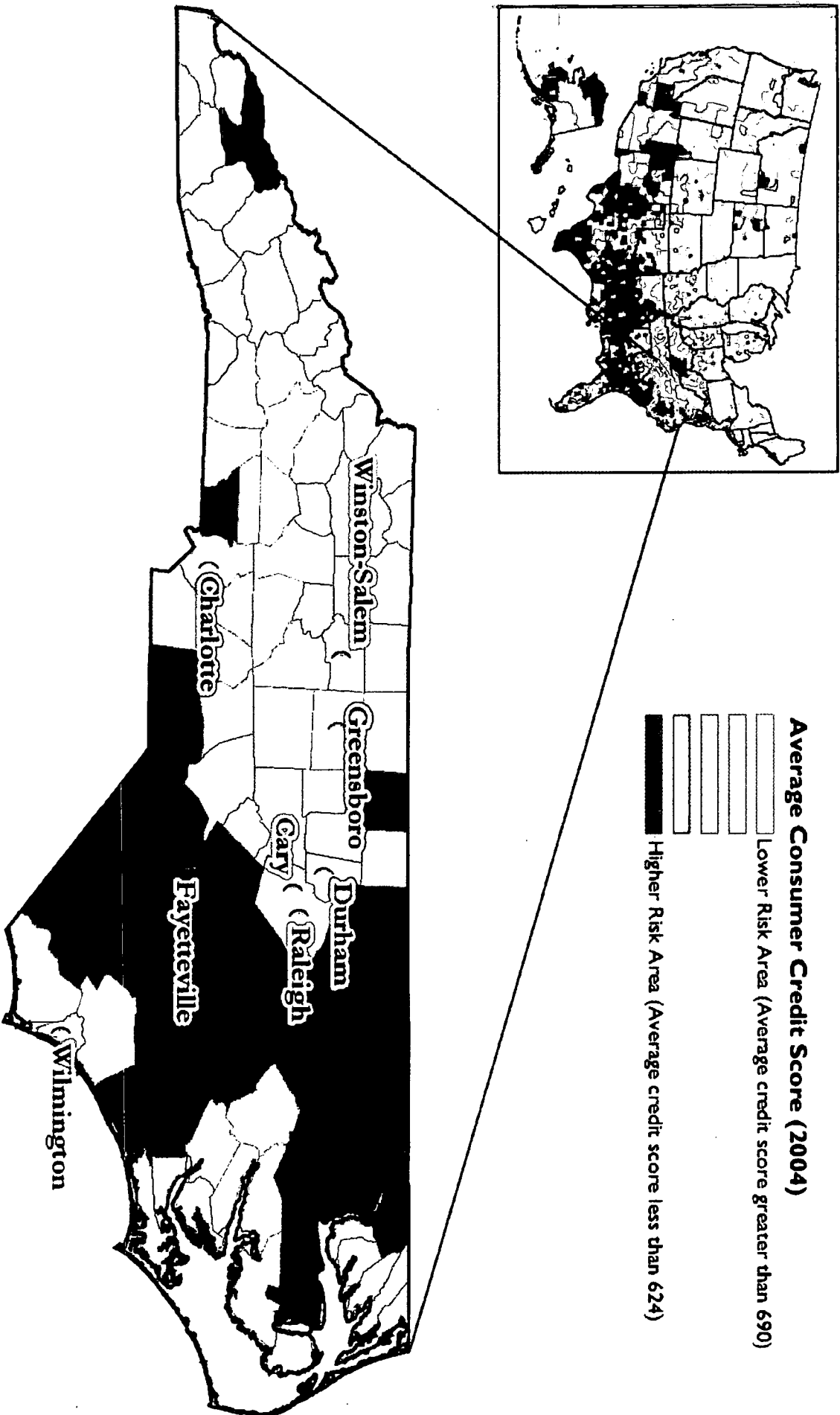
### **3. Who are our customers?**

**Figure. Proportion of Borrowers with Low Credit Scores to All Borrowers, by County (2004)**



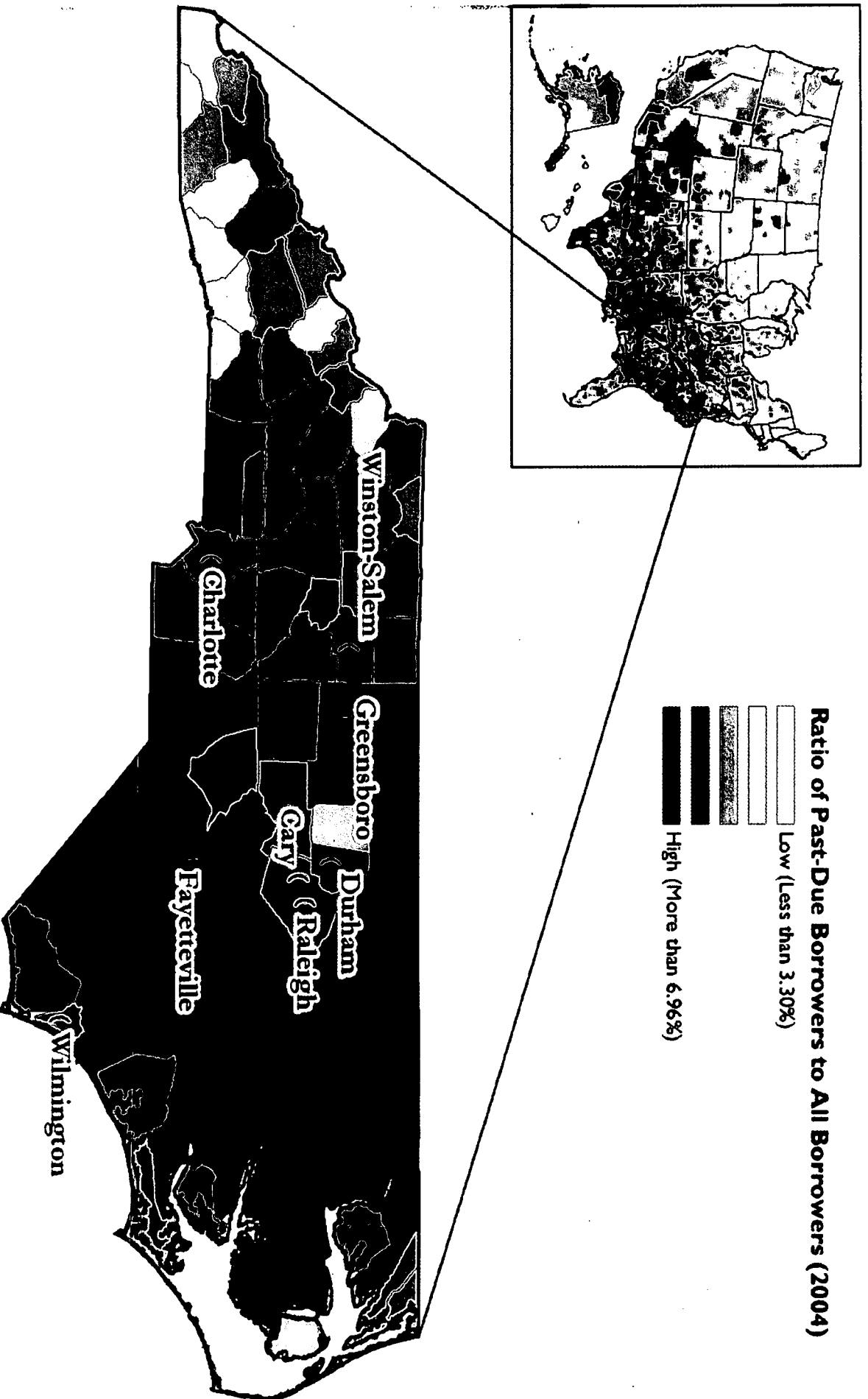
*Notes: All available data in the trend database were aggregated from depersonalized consumer credit reports. Data are displayed by county and in quintiles. Source: Author's analysis of data in Trans Union's trend database*

**Figure. Average Consumer Credit Score in North Carolina, by County (2004)**



*Notes: All available data in the trend database were aggregated from depersonalized consumer credit reports. Data are displayed by county and in quintiles. Source: Author's analysis of data in Trans Union's trend database*

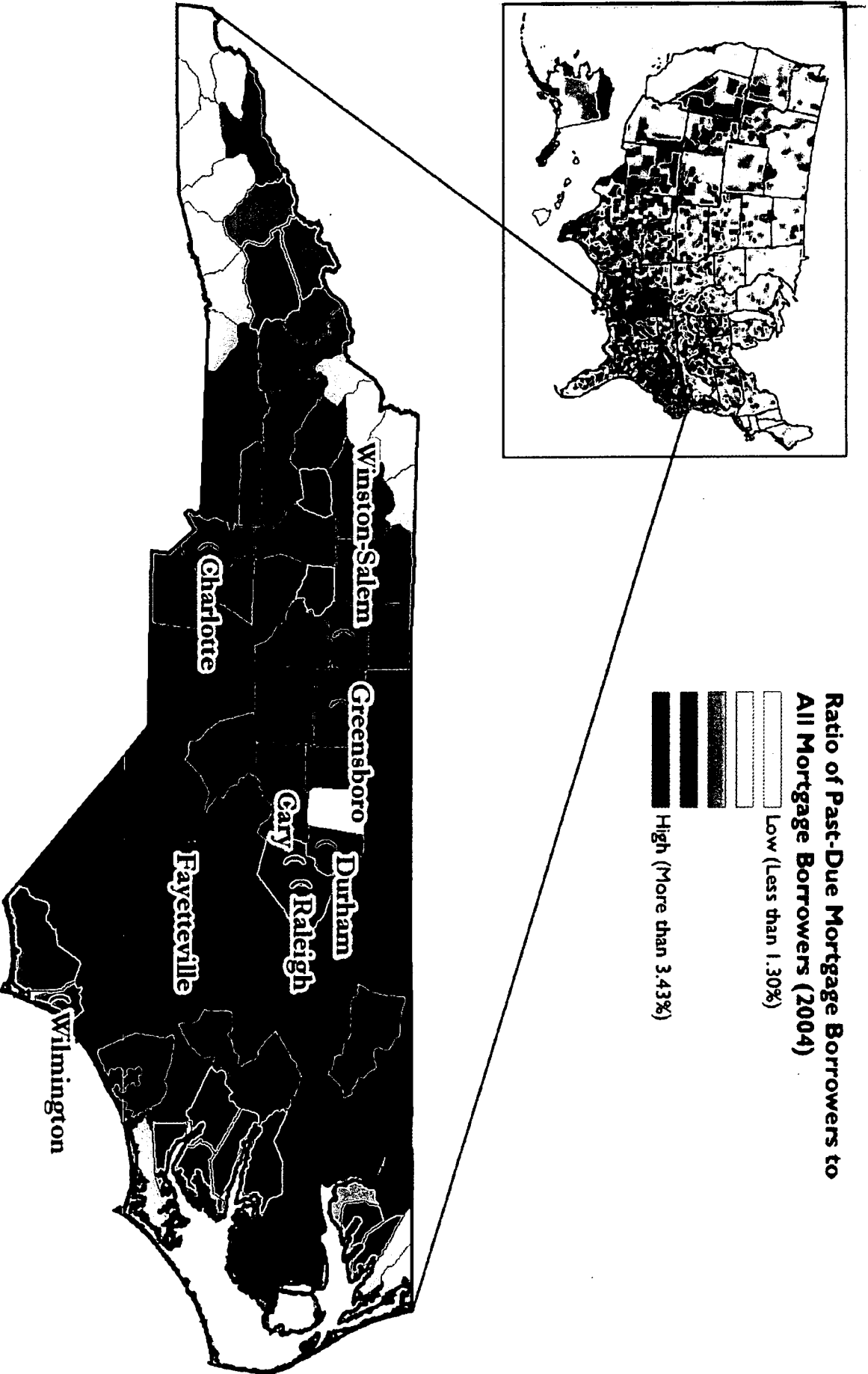
**Figure. Consumer Delinquencies in North Carolina, by County (2004)**



*Notes: All available data in the trend database were aggregated from depersonalized consumer credit reports. Data are displayed by county and in quintiles; past-due borrowers are 60+ days past due.*

*Source: Author's analysis of data in TransUnion's trend database.*

**Figure. Mortgage Delinquencies in North Carolina, by County (2004)**



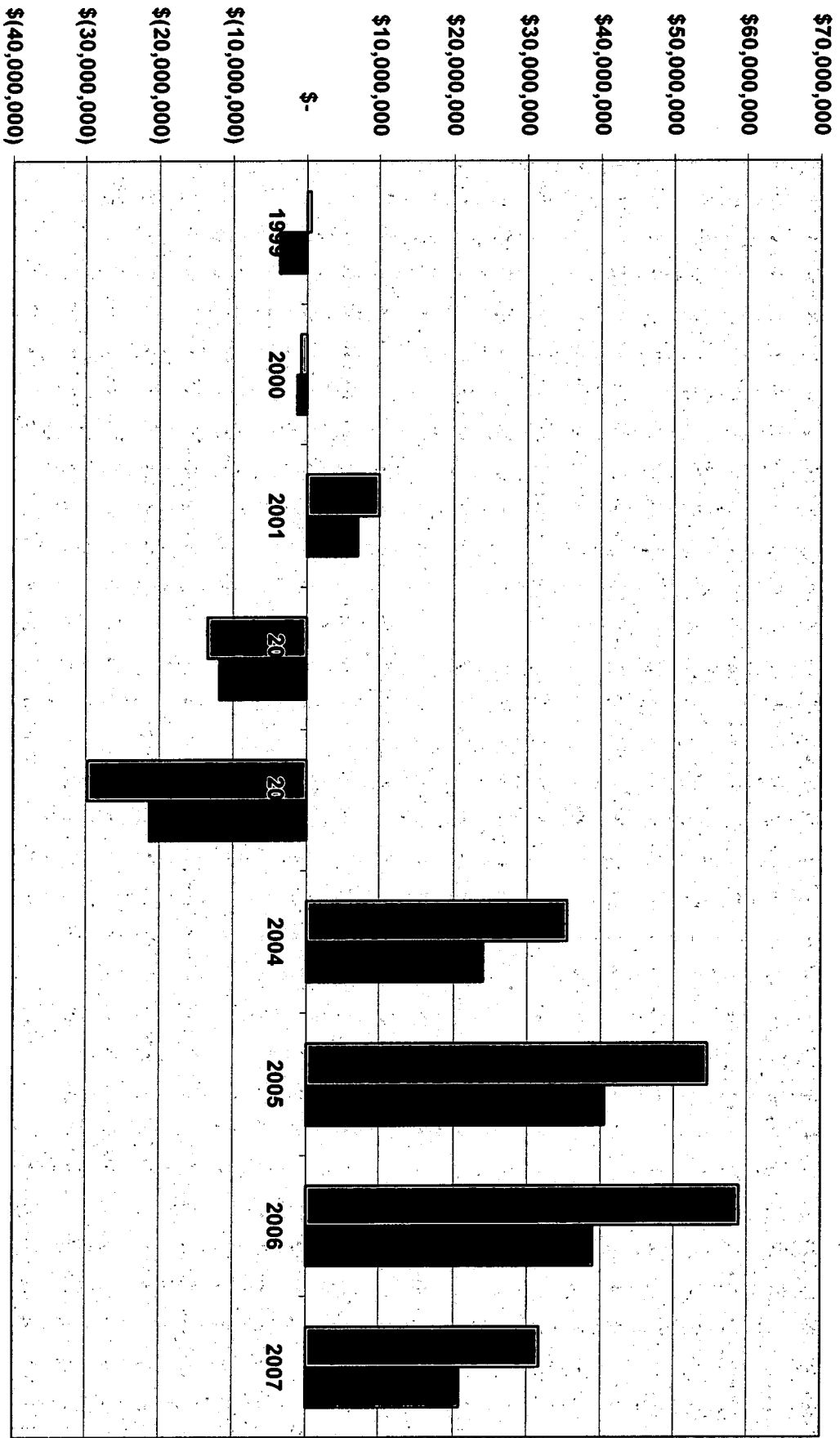
*Notes: All available data in the trend database were aggregated from depersonalized consumer credit reports. Data are displayed by county and in quintiles; delinquent mortgages are 60+ days past due.*

*Source: Author's analysis of data in Trans Union's trend database*

**4. What are their needs?**

**5. How has the industry been  
faring?**

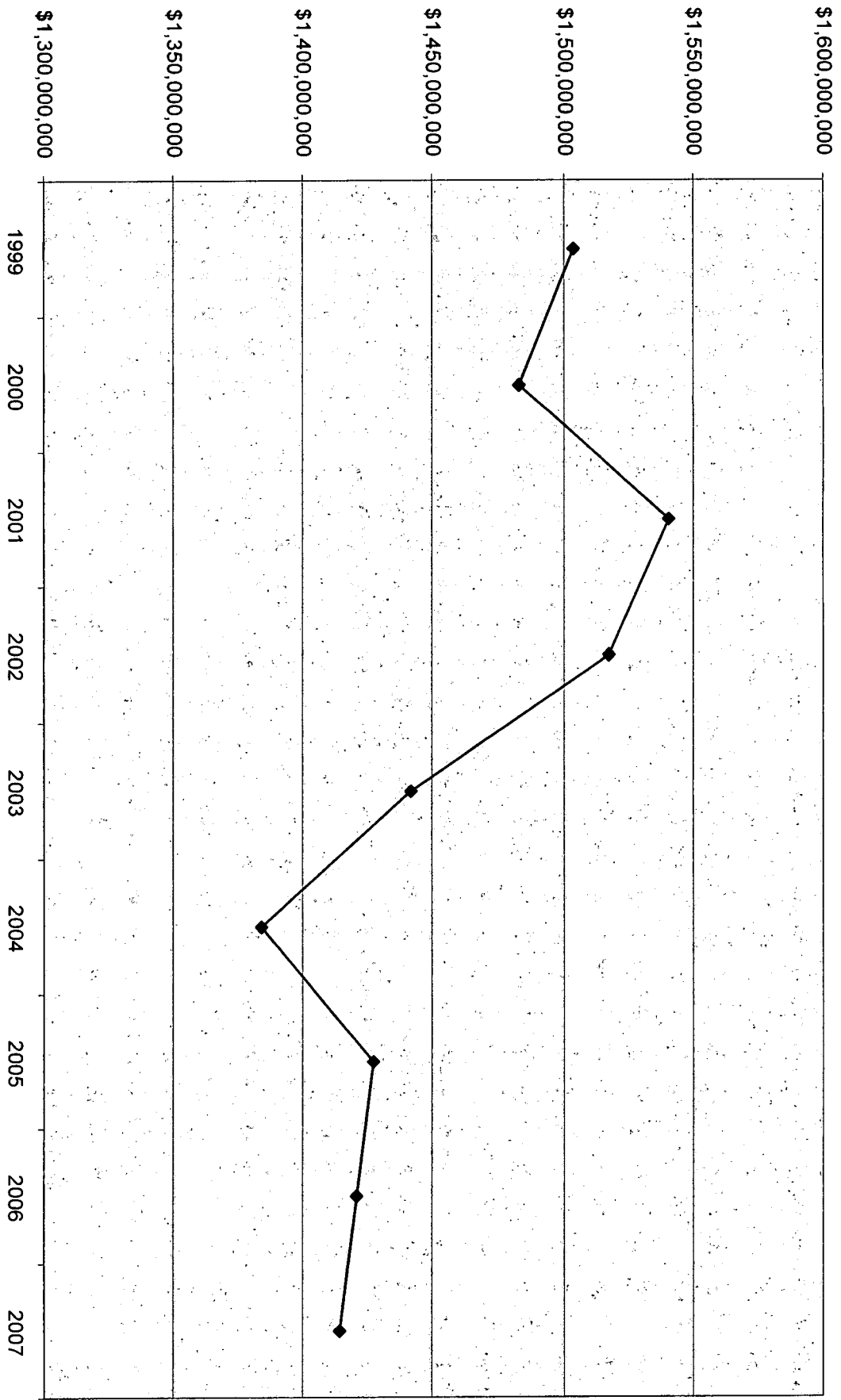
### Consumer Finance Industry Earnings



Net Earnings (before deducting income taxes)
  Total Net Earnings

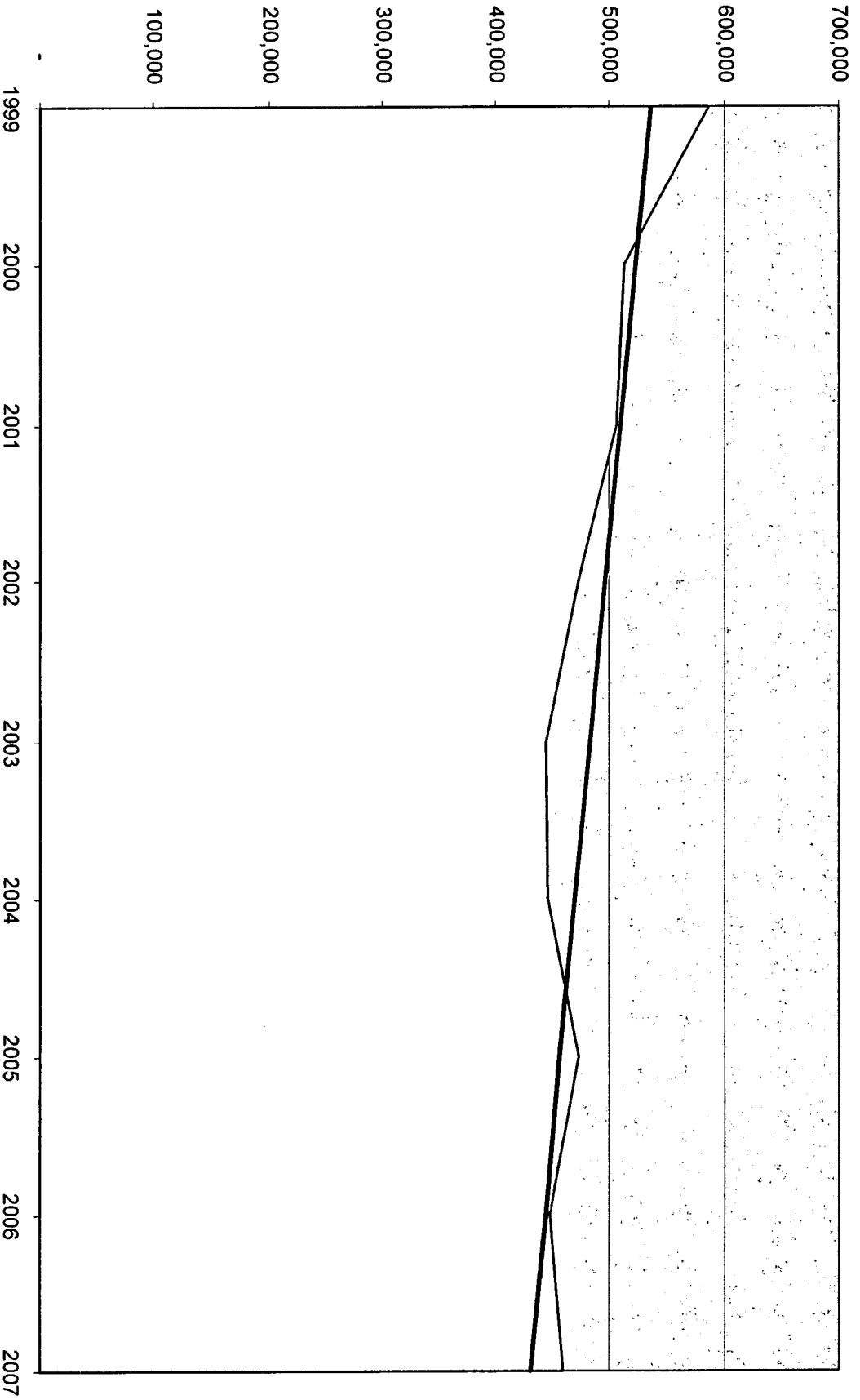
NC Commissioner of Banks Reports 1999 - 2007

Total Amount of Loan Made 1999 - 2007



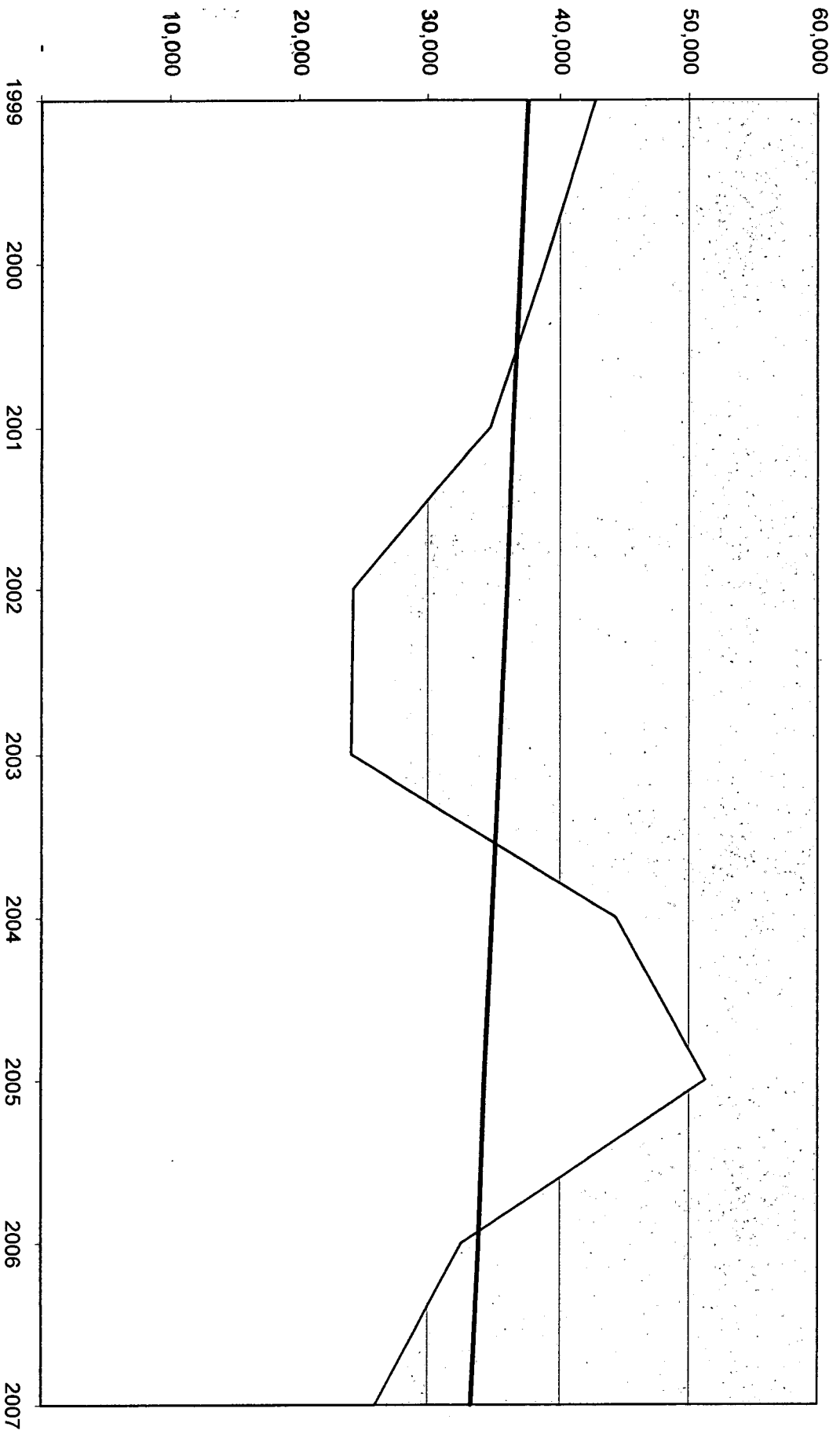
NC Commissioner of Banks Reports 1999 - 2007

**Total Number of Accounts 1999 - 2007**



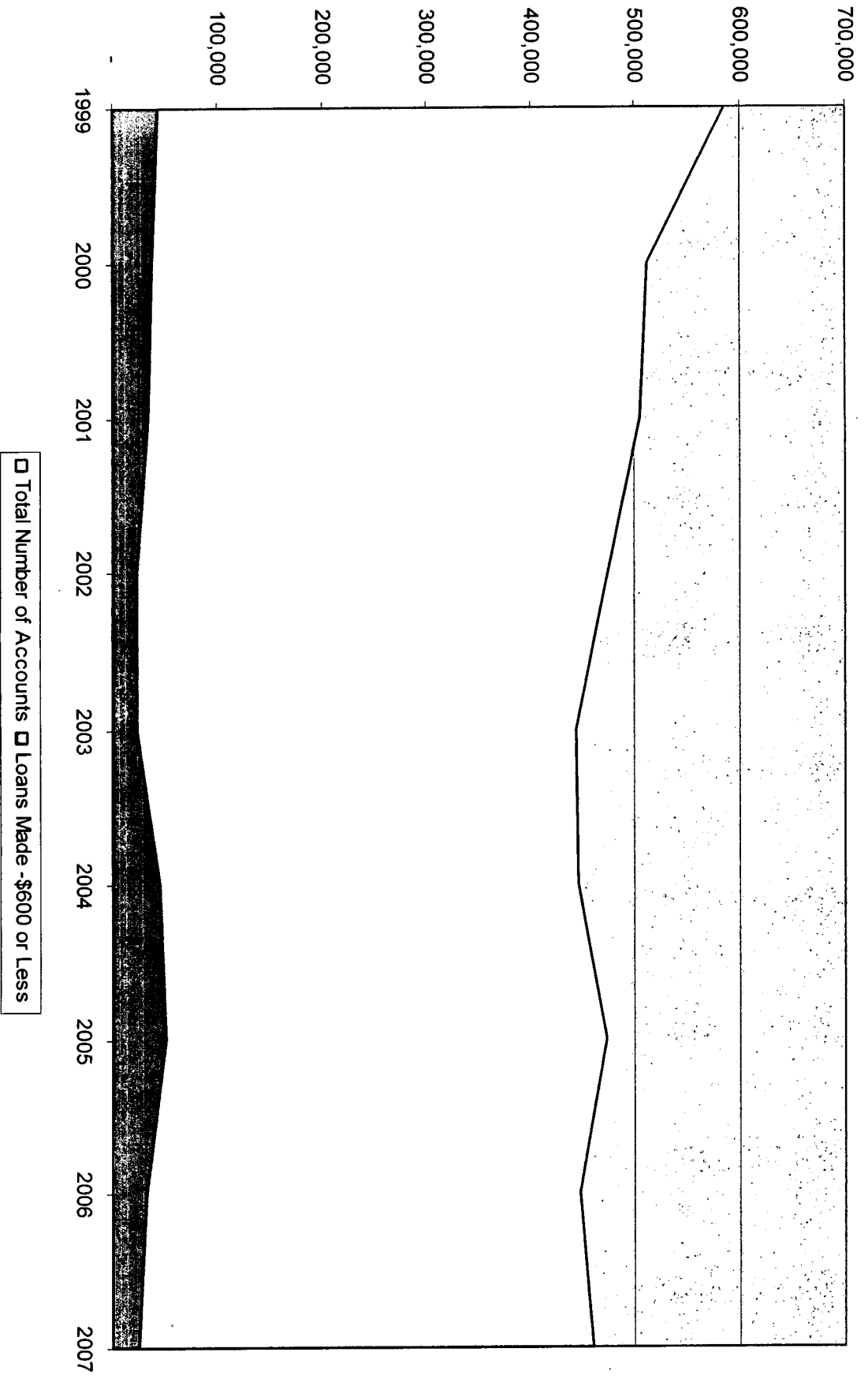
**NC Commissioner of Banks Reports 1999 - 2007**

Loans Made - \$600 or Less



NC Commissioner of Banks Reports 1999 - 2007

# Total Loans vs. Loan \$600 and Less



NC Commissioner of Banks Reports 1999 - 2007

**6. What are our customers facing in the near term?**

*Highly uncertain market*

**7. How can we provide better service for our customers in the future?**

*make us  
friendly and  
convenient*

# 8. Questions?

111

# House Study Committee on the Unbanked and Underbanked Customers of North Carolina

**Hearing  
November 20, 2008**

Testimony by C. Everett Wallace,  
On behalf of,  
North Carolina Credit and Personal Finance Council

## **1. What is the North Carolina Credit and Personal Finance Council (NCCPFC)?**

The North Carolina Credit and Personal Finance Council (NCCPFC) is the umbrella trade association for the traditional installment lending consumer credit industry in North Carolina. NCCPFC is comprised of three associations—the North Carolina Financial Services Association, the North Carolina Independent Finance Association and the Resident Lenders of North Carolina.

These groups represent corporations operating under the laws of North Carolina; licensed and supervised by the Commissioner of Banks since 1961; with 586 business locations and approximately 3600 employees located in North Carolina. Many are locally owned and have been operated by individuals and families for as many as 45 years. Some are publicly owned, with investors that include: their employees, North Carolina citizens, retirees, pension funds, state and local employee retirement funds. A few are owned by some of the largest depository institutions in the world.

NCCPFC's mission is to improve and protect consumer's access to credit and to promote responsible, ethical lending for responsible, informed borrowers.

The North Carolina Consumer Finance Act, General Statute 53-164 et seq., authorizes the Commissioner of Banks to license and supervise loan companies which make direct consumer loans of \$10,000 or less. A licensee

may charge interest that exceeds the rate which Chapter 24 of the North Carolina General Statutes allows. It cannot make a loan secured by real property.

A licensee may choose to make loans under one of the following sections of the Act.

Statutory Reference	Amount of Loans
G.S. 53-173	\$ 3,000 or less
G.S. 53-176	\$10,000 or less

For licensees who loan a cash advance of \$3,000 or less, G.S. 53-173 allows maximum interest charges of 36% per year on that part of the unpaid principal balance which does not exceed \$600 and 15% per year on that portion which is more than \$600 but not more than the \$3,000 ceiling.

Optional rate lenders, those who make cash advances of \$10,000 or less, must adhere to the provisions of G.S. 53-176. This section of the Consumer Finance Act permits maximum interest charges of 30% per year on that part of the unpaid principal balance which does not exceed \$1,000 and 18% per year on the remainder which does not exceed \$7,500. If the principal balance is more that \$7,500, the maximum rate is 18% per year on the entire loan.

## **2. Who is C. Everett Wallace?**

The North Carolina Credit and Personal Finance Council has retained the services of Mr. C. Everett Wallace, Esq. to serve as the lead spokesperson and facilitator of public policy discussions related to the installment lending industry in North Carolina. My first focus has been the current deliberations of the North Carolina House of Representatives' Study Committee on Unbanked and Underbanked Consumers.

For near five years, I served as President of the North Carolina Community Development Initiative Capital ("Initiative Capital") in Raleigh, NC. Initiative Capital is a statewide financial intermediary and is one of the state's largest community development financial institutions (CDFIs), certified by the US Department of Treasury. In 2003, I was retained to serve as the senior consultant to the newly formed, National Black Caucus of

States Institute (NBCSI). This is a 501 (c) 3 think tank established by the National Black Caucus of State Legislators (NBCSL). I helped to direct the organization's standing on several major areas of public policy--aggressively addressing the issue of financial services, credit scoring, payday lending, asset building, tax credits and other key creative financing tools.

I have an extensive career in attracting new services in underserved markets and seeking change by addressing a myriad of public policy issues. I have worked legislators, government agencies, consumer advocates, civic groups and industry leaders. I have been recognized for my ability to collaborate and develop unique partnerships with corporate and non-profit organizations to advance "thinking outside of the box" as a means of removing many of the barriers that were plaguing low-resources communities access to affordable and equitable financial products.

Prior to joining Initiative Capital, I represented numerous national associations and corporate clients. I am particularly proud of the leadership and service I was able to provide to some of the most distinguished minority organizations at the national level. Over the past twenty years I have been privileged to work with the leadership of such entities as: National Congress of Community Economic Development, the National Bankers Association, the National Association of Investment Companies and the National Urban League. I have also work with industry leaders like: Fannie Mae, Freddie Mac, GE Capital, American Bankers Association, the Corporate Roundtable, etc.

I am anxiously looking worked to work with this committee and the various interest groups that are committed to assisting those individuals and families that are unbanked and Underbanked in North Carolina.

### **3. Who are our customers?**

As established in an earlier presentation to the Committee made by Mr. Dick Carlton, the customer base of the installment credit industry in North Carolina is made up, in large part, of those individuals who make up the constituency this committee was formed to examine--the unbanked and underbanked. In fact, the UNC Center for Community Capital indicated in their presentation to the Committee that more than 50% of the state's population falls in this category. At the same time, most of these individuals

fall into the category of “subprime” borrowers according to their FICO score. This category is made up of individuals with FICO score of 640 and below. In an analysis performed for one of the members of NCCPFC by one of the credit agencies, virtually all of their borrowers had credit scores in the “sub-prime” area.

In its 2006 press release announcing the Affordable Small-Dollar Guidelines, the FDIC recognized that the “widespread repeat use of fee-based overdraft programs and the growth of payday lending confirm that loans in small-dollar amounts are in strong demand....The FDIC recognizes that an affordable small-dollar loan program may target customers who have poor or limited credit histories, or who would otherwise be characterized as subprime borrowers...”

In addition, the majority of the consumer credit industry’s borrowers are in the lower two income quintiles (\$0 - \$33,899 in 2004 dollars). The 2008 FDIC Quarterly pointed out that [b]etween 1989 and 2004, the median net worth for households increased in all but the second lowest income quintile, although higher-income households have far greater wealth in absolute terms.

Moreover, while the median net worth of households in the lowest income quintile is about \$7,000, almost 20 percent of these households have negative net worth, compared with fewer than 1 percent of households in the highest quintile. (*FDIC Quarterly, 2008, Volume 2, No. 1, p. 24*)

[Show Charts]

#### **4. What are their needs?**

“There is a seemingly straightforward reason why lower-income households save less—basic necessities such as food, clothing, and shelter consume most, if not all or more, of their available income. Indeed, the median balance in checking, savings, and money market accounts for households in the lowest income quintile was only \$600 [in 2004]. Most of these funds would likely be used for day-to-day expenses, with little left for building emergency funds or long-term planning....

On the surface, it may seem that banks have little financial incentive to build deposit relationships with LMI households. Although LMI deposits accounts

can be used as a funding source, the profitability of these accounts is hampered by the costs of acquiring and servicing them and the limited ability of LMI consumers to build large account balances....[O]ne study reports that upfront fees for developing, marketing, and opening low-cost accounts for unbanked federal benefit recipients are in the range of \$27.60 to \$38.60 per account. Yet the maximum fee banks may charge on these accounts is \$3.00 per month. Another study provides some insight into transaction costs--\$1.07 per teller window transaction, \$0.27 per automated teller machine transaction, and \$0.015 per online banking transaction—suggesting that these costs could outstrip the benefit to the bank of what would likely be low-balance deposit accounts.” (*FDIC Quarterly, 2008, Volume 2, No. 1, p. 26*)

### **5. How has the industry been faring?**

Currently, North Carolina installment lenders are turning down around 80% of the customers who apply to them for much needed loans. Most often these are requests for small loans to cover basics like school supplies, auto repairs, furniture, DMV fees, baby clothes, etc.

[Show Charts]

### **6. What are our customers facing in the near term?**

Access to credit is become more difficult for all American, but especially for those in the lower income quintiles. The FDIC said:

“Access to credit is a critical component of asset building, in that large financial assets are often accumulated by borrowing, which can magnify returns. In addition, households with access to reasonably priced credit can borrow money to fund purchases or meet emergency needs with tapping savings. Except in cases of a wind fall, such as an inheritance, it is very difficult to build wealth without access to credit.”

“Not surprisingly, low- and moderate-income (LMI) households have the most difficulty saving. Conventional wisdom suggests that banks

do not view LMI households as potential profitable customers because these households have less income and fewer assets.”

“The U.S. personal saving rate has been declining since the early 1980s. As recently as the early 1990s, quarterly saving rates were often greater than 7 percent. Since 2005, however, saving rates have hovered between zero and 1 percent, even falling briefly into negative territory. The most recent saving rate, 0.0 percent as of the fourth quarter 2007, is among the lowest since the government began collecting the data in 1959.” (*FDIC Quarterly, 2008, Volume 2, No. 1, p. 23*)

The Federal Reserve Board’s October 2008 Senior Loan Officer Opinion Survey on Bank Lending Practices provides a grim picture for all classes of consumers. The report says that about 75 percent of domestic respondents noted that they had tightened their lending standards for approving application for revolving home equity lines of Credit (HELOCs) over the past three months. Roughly 60% of the banks had lowered limits on existing credit card accounts of nonprime borrowers and no banks reported raising limits to those borrowers. Nearly 65 percent of respondents indicated that they had tightened lending standards on other consumer loans over the past three months. Also, significant number of respondents reportedly raised minimum required down payments, as well as spreads of loan rates, on consumer loans other than credit card loans. Half of domestic banks indicated that they had become either somewhat or much less willing to make consumer installment loans over the past three months, up from 35 percent in the July survey and the largest fraction in more than two decades.

#### **7. How can we provide better service for our customers in the future?**

NCCPFC believes that legislators, regulators, advocates and industry representatives must come together to modernize our state’s existing consumer lending laws. This needs to be done to ensure that unsecured consumer loans of all sizes remain available and affordable for the citizens of North Carolina. These modifications must be understandable, transparent, effective and fair. We strongly believe that the laws governing consumer credit should contain all appropriate consumer protections, but they, also, must ensure profitability for the service provider.

NCCPFC believes that there is a need to re-examine the Consumer Finance Act. This Act has not been substantially changed since 1982 and does not reflect the true costs and economics of providing unsecured, non-depository consumer credit in North Carolina in the year 2008. While, costs have continued to rise over the last 20+ years, the rate structure under which consumer credit industry operates has not been modified or even "indexed" for inflation.

There is a need to understand the nature of this business with its "high touch" and high cost of operation. Because most of these loans are serviced and collected in the same offices at which they are originated, advances in technology have not served to significantly reduce costs in this industry. We must all work together to arrive at a solution that will encourage the consumer credit finance industry to continue to meet the needs of all of our citizens.

Because this industry is built on a foundation that requires its members to first consider the borrower's ability to afford the loan they are requesting, it represents one of the best forms of lending to meet the public's need for small dollars loans. But, the only way this will remain a viable option is to infuse profitability into the statutory and regulatory framework that governs the consumer credit industry in the state.

## **8. Questions?**

1/2



# 2007 CONSUMER FINANCE ANNUAL REPORT



NORTH CAROLINA  
COMMISSIONER OF BANKS

# Office of the Commissioner of Banks

**Joseph A. Smith, Jr.**  
**Commissioner of Banks**



NORTH CAROLINA  
COMMISSIONER OF BANKS

**Location: 316 W. Edenton Street**  
**Mail: 4309 Mail Service Center, Raleigh, NC 27699-4309**  
**Telephone 919/733-3016 Fax 919/733-6918**  
**<http://www.nccob.org>**



**State of North Carolina**  
OFFICE OF THE COMMISSIONER OF BANKS

MICHAEL F. EASLEY  
GOVERNOR

JOSEPH A. SMITH, JR.  
COMMISSIONER OF BANKS

To the Honorable Michael F. Easley, Governor of North Carolina

It is my pleasure to submit our 2007 Annual Report on licensed consumer finance lenders.

The figures in this report represent only a compilation of unaudited reports submitted by licensees in accordance with G.S. 53-184(b). At December 31, 2007, there were 586 licensed loan offices in North Carolina consisting of 8 companies with 8 offices making loans under G.S. 53-173, and 76 companies with 578 offices lending under the optional rate section, G.S. 53-176. Assets of these lenders totaled \$1,602,339,459 as compared to \$1,622,467,144 at December 31, 2006.

As a convenience to the public and the industry, this report is also available on the Commissioner of Banks' website, [www.nccob.org](http://www.nccob.org).

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joseph A. Smith, Jr.", written in a cursive style.

Joseph A. Smith, Jr.  
Commissioner of Banks

## Table of Contents

The North Carolina Consumer Finance Act.....	7
Assets.....	8
Licensee Home Offices.....	9
Offices by City.....	15
Consolidated Balance Sheet.....	38
Consolidated Income Statement.....	39
Classification of Loans.....	40



NORTH CAROLINA  
COMMISSIONER OF BANKS

## The North Carolina Consumer Finance Act

The North Carolina Consumer Finance Act, General Statute 53-164 *et seq.*, authorizes the Commissioner of Banks to license and to supervise loan companies which make direct consumer loans of \$10,000 or less. A licensee may charge interest that exceeds the rate which Chapter 24 of the North Carolina General Statutes allows. It cannot make a loan secured by real property.

A licensee may choose to make loans under one of the following sections of the Act:

<b>Statutory Reference</b>	<b>Amount of Loan</b>
G.S. 53-173	\$ 3,000 or less
G.S. 53-176	\$10,000 or less

For licensees who loan a cash advance of \$3,000 or less, G.S. 53-173 allows maximum interest charges of 36% per year on that part of the unpaid principal balance which does not exceed \$600 and 15% per year on that portion which is more than \$600 but not more than the \$3,000 ceiling.

Optional rate lenders, those who make cash advances of \$10,000 or less, must adhere to the provisions of G.S. 53-176. This section of the Consumer Finance Act permits maximum interest charges of 30% per year on that part of the unpaid principal balance which does not exceed \$1,000 and 18% per year on the remainder which does not exceed \$7,500. If the principal balance is more than \$7,500, the maximum rate is 18% per year on the entire loan.

Lenders which do not charge interest rates in excess of those permitted by Chapter 24 are exempt from the Consumer Finance Act. Also exempted are banks, trust companies, savings and loan associations, cooperative credit unions, agricultural credit corporations, production credit associations, pawn brokers, and installment paper dealers.

## Assets Of North Carolina Consumer Finance Licensees 1948 - 2007

Year	Number of Offices	Assets
1948.....	104.....	\$ 9,935,725
1949.....	114.....	\$ 5,964,650
1950.....	131.....	\$ 7,239,910
1951.....	155.....	\$ 11,064,252
1952.....	190.....	\$ 12,341,155
1953.....	216.....	\$ 13,492,017
1954.....	256.....	\$ 15,976,244
1955.....	297.....	\$ 21,246,790
1956.....	319.....	\$ 29,992,837
1957.....	321.....	\$ 37,641,256
1958.....	373.....	\$ 45,233,628
1959.....	487.....	\$ 67,859,304
1960.....	555.....	\$ 85,152,604
1961.....	593.....	\$ 166,760,057
1962.....	587.....	\$ 160,082,898
1963.....	580.....	\$ 189,073,851
1964.....	578.....	\$ 202,566,160
1965.....	583.....	\$ 222,079,264
1966.....	584.....	\$ 238,725,231
1967.....	580.....	\$ 249,014,144
1968.....	586.....	\$ 260,603,202
1969.....	701.....	\$ 334,695,117
1970.....	685.....	\$ 360,245,735
1971.....	688.....	\$ 378,878,200
1972.....	695.....	\$ 401,538,128
1973.....	717.....	\$ 427,714,605
1974.....	711.....	\$ 448,847,415
1975.....	686.....	\$ 438,553,164
1976.....	692.....	\$ 463,949,104
1977.....	712.....	\$ 499,141,278
1978.....	748.....	\$ 518,874,964
1979.....	745.....	\$ 603,497,518
1980.....	708.....	\$ 600,549,541
1981.....	612.....	\$ 551,595,597
1982.....	572.....	\$ 521,120,128
1983.....	572.....	\$ 588,519,354
1984.....	572.....	\$ 661,160,528
1985.....	597.....	\$ 766,645,219
1986.....	614.....	\$ 838,697,616
1987.....	645.....	\$ 896,177,265
1988.....	652.....	\$ 965,331,416
1989.....	671.....	\$ 1,082,181,300
1990.....	667.....	\$ 1,137,318,046
1991.....	639.....	\$ 1,174,903,683
1992.....	635.....	\$ 1,257,532,671
1993.....	642.....	\$ 1,367,659,149
1994.....	663.....	\$ 1,549,514,122
1995.....	693.....	\$ 1,579,263,869
1996.....	722.....	\$ 1,730,488,988
1997.....	704.....	\$ 1,625,306,078
1998.....	663.....	\$ 1,555,347,136
1999.....	654.....	\$ 1,559,789,198
2000.....	644.....	\$ 1,759,216,458
2001.....	618.....	\$ 1,585,572,039
2002.....	582.....	\$ 1,574,377,614
2003.....	581.....	\$ 1,534,472,478
2004.....	568.....	\$ 1,545,284,111
2005.....	583.....	\$ 1,519,067,981
2006.....	597.....	\$ 1,622,467,144
2007.....	586.....	\$ 1,602,339,459

## North Carolina Consumer Finance Act Licensees

December 31, 2007

Licensee Home Office	Number of Offices	Loan Category	Loans Receivable
Allied Finance Company of Kannapolis, Inc. 2113 Dale Earnhardt Blvd. Kannapolis, NC 28082	2	G.S. 53-176	561,815
Allied Financial Services, Inc. 821 Baxter Street, Suite 307 Charlotte, NC 28202	10	G.S. 53-176	11,628,869
American General Financial Services of America, Inc. 601 NW Second Street Evansville, IN 47701-0059	97	G.S. 53-176	216,713,984
Amity Finance of Kings Mountain, Inc. 219 South Battleground Avenue Kings Mountain, NC 28086	1	G.S. 53-176	1,564,768
Amity Finance of Mooresville, Inc. 236 North Main Street Mooresville, NC 28115	1	G.S. 53-176	429,046
Amity Finance of Shelby, Inc. 203 West Dixon Boulevard Shelby, NC 28152	1	G.S. 53-176	862,223
Amity Finance of Troy, Inc. 320 North Main Street Troy, NC 27371	1	G.S. 53-176	302,063
Amity Finance, Inc. 2477 East Ozark Avenue Gastonia, NC 28054	1	G.S. 53-176	1,347,373
Apple Valley Financial Services, Inc. 1819 Asheville Highway, Suite A Hendersonville, NC 28791	1	G.S. 53-176	120,171
Atlantic Discount Corporation dba: Atlantic Financial Services 1300 S. Croatan Highway Kill Devil Hills, NC 27948	3	G.S. 53-176	4,315,716
Auto Finance Co., Inc. 6100 Wilkinson Boulevard Belmont, NC 28012	1	G.S. 53-176	44,610
Basic Finance, Inc. 628 West Main Avenue Taylorsville, NC 28681	4	G.S. 53-176	10,184,381
Beneficial North Carolina Inc. 26525 North Riverwoods Boulevard Mettawa, IL 60045	32	G.S. 53-176	115,884,539

Licensee Home Office	Number of Offices	Loan Category	Loans Receivable
Blue Heron Finance, Inc. 2225 S. Memorial Drive Greenville, NC 27834	1	G.S. 53-176	390,017
Cape Fear Finance Company, LLC 3415 Frederica Road, Suite D St. Simons Island, GA 31522	1	G.S. 53-173	1,530,344
Capitol Credit Company 745 Carolina Avenue Washington, NC 27889	3	G.S. 53-176	2,168,341
Cardinal Finance Company of Lumberton, Inc. 406 North Chestnut Street Lumberton, NC 28358	1	G.S. 53-176	535,958
Cardinal Finance Company of Whiteville, Inc. 608 S. Madison Street Whiteville, NC 28472	1	G.S. 53-176	1,471,298
Carolina Finance Company of Tarboro N.C., Inc. 423 Main Street Tarboro, NC 27886	1	G.S. 53-173	270,270
Carolina Finance, LLC 1713 Spring Garden Street Greensboro, NC 27403	2	G.S. 53-176	913,694
Caswell Financial Services, Inc. Highway 86, Hillcrest Shopping Center Yanceyville, NC 27379	1	G.S. 53-176	177,298
Century Finance, Inc. 453 Sunset Avenue Rocky Mount, NC 27804	5	G.S. 53-176	3,857,384
CitiFinancial, Inc. NC 300 St. Paul Place, BSP17C Baltimore, MD 21202	119	G.S. 53-176	661,819,119
Coastal Finance Company, Inc. 4370-A Arendell Street Morehead City, NC 28557	9	G.S. 53-176	8,863,480
Colonial Credit, Inc. 810 N. Broad Street Edenton, NC 27932	1	G.S. 53-176	345,386
Consumer Financial Services Inc. 119 S. Van Buren Road Eden, NC 27288	1	G.S. 53-176	1,684,297
Cornerstone Loan Center, Inc. 3004 S. Memorial Drive Greenville, NC 27834	1	G.S. 53-176	1,510,486
Creekside Finance, Inc. 171 West Cornish Road Blowing Rock, NC 28605	3	G.S. 53-176	2,380,492

Licensee Home Office	Number of Offices	Loan Category	Loans Receivable
Equity One, Inc. 301 Lippincott Drive, Suite 100 Marlton, NJ 08053-0939	23	G.S. 53-176	54,951,012
Federal Financial Services, Inc. 2644B South Main Street Mount Airy, NC 27030	5	G.S. 53-176	2,837,170
Foothill Credit Corporation of Pilot Mountain 101-D Shoals Road Pilot Mountain, NC 27041	1	G.S. 53-176	387,285
Future Financial Services, LLC 827 Hardee Road Kinston, NC 28504	3	G.S. 53-176	2,417,634
Golden Key Finance, Inc. 211 South Union Chapel Road Pembroke, NC 28372	1	G.S. 53-176	225,520
Green Cap Financial, LLC 2630 Ramada Road Burlington, NC 27215	10	G.S. 53-176	11,083,533
Greene Finance Corporation 141 N. Main Street Mount Airy, NC 27030	1	G.S. 53-176	889,273
Greenville Financial Services, Inc. 3101 S. Memorial Drive Greenville, NC 27834	1	G.S. 53-176	1,699,304
Hanover Financial Services, Inc. 4230 Market Street Wilmington, NC 28405	1	G.S. 53-176	2,722,259
Heritage Finance Co., Inc. 91 East Court Street, Suite 3 Marion, NC 28752	1	G.S. 53-176	884,680
Holiday Finance of Statesville, Inc. 223 North Center Street Statesville, NC 28677	1	G.S. 53-176	691,288
Holiday Finance, Inc. 1410 Dale Earnhardt Blvd. Kannapolis, NC 28083	1	G.S. 53-176	702,594
Home Credit Corporation, Inc. 946 West Andrews Avenue Henderson, NC 27536	11	G.S. 53-176	10,933,157
Household Finance Corporation III 26525 North Riverwoods Boulevard Mettawa, IL 60045	13	G.S. 53-176	33,880,005
Imperial Finance Company of Mount Olive, Incorporated 507-A N. Breazeale Avenue Mount Olive, NC 28365	1	G.S. 53-176	724,913

Licensee Home Office	Number of Offices	Loan Category	Loans Receivable
J. B. Penny dba: Globe Finance Company 115 East Main Street Durham, NC 27701	1	G.S. 53-173	7,984
KR Finance, LLC dba: TICO Credit of Hickory 406 4th Street SW Hickory, NC 28602	1	G.S. 53-176	229,062
Lendmark Financial Services, Inc. 2118 Usher Street Covington, GA 30014	10	G.S. 53-176	30,970,278
M & J Loans, Incorporated 409 South LaFayette Street Shelby, NC 28151	1	G.S. 53-176	891,809
Macon Credit Company, Inc. 339 Westgate Road Franklin, NC 28734	1	G.S. 53-173	816,527
Marion Credit Company, Inc. 216 South Main Street Marion, NC 28752	1	G.S. 53-173	1,475,244
Metrolina Credit Company of Burlington, Inc. 2260 South Church Street, Suite 407 Burlington, NC 27216	1	G.S. 53-176	320,025
Metrolina Credit Company of Cabarrus, Inc. 845 Church Street North, Suite 106 Concord, NC 28025	1	G.S. 53-176	299,938
Metrolina Credit Company of Charlotte, Inc. 7140-A E. Independence Blvd. Charlotte, NC 28227	1	G.S. 53-176	128,920
Metrolina Credit Company of High Point, Inc. 1001 Phillips Ave, Suite 104 High Point, NC 27262	1	G.S. 53-176	441,498
Mid-East Acceptance Corporation of N.C., Inc. 3015 S. Memorial Drive Greenville, NC 27834	3	G.S. 53-176	4,672,475
Mitchell Credit Company, Inc. 155 Oak Avenue Spruce Pine, NC 28777	1	G.S. 53-173	1,184,627
National Finance Company, Inc. 1500 South Horner Boulevard Sanford, NC 27330	22	G.S. 53-176	23,078,473
Nicholas Financial, Inc. 2454 McMullen Booth Rd, Bldg. C Suite 501B Clearwater, FL 33759	4	G.S. 53-176	1,539,909

Licensee Home Office	Number of Offices	Loan Category	Loans Receivable
Nordan Finance Company 311 Vance Street Clinton, NC 28328	1	G.S. 53-176	104,850
North State Acceptance, L.L.C. 2305 East Millbrook Road Raleigh, NC 27604	4	G.S. 53-176	4,416,976
Peoples Finance Company of Lexington, Inc. 128 Forest Hill Road Lexington, NC 27293	3	G.S. 53-176	4,950,170
Premier Financial Services, Inc. dba: Premier Finance 609 Burton Street Madison, NC 27025	1	G.S. 53-176	131,561
Professional Financial Services of North Carolina, LLC 181 Security Place Spartanburg, SC 29307	5	G.S. 53-176	485,125
Quality Finance Co., Inc. 2026 W. US 70 Highway Goldsboro, NC 27530	4	G.S. 53-176	2,522,976
Regional Finance Corporation of North Carolina 509 West Butler Road Greenville, SC 29607	13	G.S. 53-176	12,734,896
Royalty Management Corporation dba: Royalty Finance 200 South Broad Street Edenton, NC 27932	4	G.S. 53-176	6,264,468
Sandhill Finance Company, Inc. Cross Pointe Place 1701 North Sandhills Blvd. Aberdeen, NC 28315	3	G.S. 53-176	3,486,409
Security Credit Corporation 710 S. Brightleaf Blvd. Smithfield, NC 27577	1	G.S. 53-176	3,389,484
Security Finance Corporation of Lincolnton dba: Security Financial Services 181 Security Place Spartanburg, SC 29307	33	G.S. 53-176	47,990,166
SLM Financial Corporation dba: Sallie Mae Financial 6000 Commerce Pkwy., Ste. A Mt. Laurel, NJ 08054	4	G.S. 53-176	6,676,737
Smithfield Financial Services, Inc. 130 Peedin Road Smithfield, NC 27577	1	G.S. 53-176	803,947

Licensee Home Office	Number of Offices	Loan Category	Loans Receivable
Southern Loan Corporation 972 A South Bennett Street Southern Pines, NC 28387	1	G.S. 53-176	1,356,295
Southern Loans, Inc. 112 S. Pearl Street Rocky Mount, NC 27804	10	G.S. 53-176	12,613,254
The Money Shoppe, Inc. 211 N. Main Street Graham, NC 27253	2	G.S. 53-176	520,923
Thrift Management Inc. dba: Thrift Loan & Finance 103 N. Rutherford Street Wadesboro, NC 28170	1	G.S. 53-176	398,499
Time Investment Corporation dba: Time Financing Service 1501-C W. Arlington Blvd. Greenville, NC 27835	17	G.S. 53-176	33,379,671
Trophy Financial, Inc. 1301 Atkinson Street Laurinburg, NC 28352	1	G.S. 53-176	1,551,339
Universal Acceptance Corporation 2600 Discovery Drive Raleigh, NC 27616	1	G.S. 53-176	183,950
Universal Finance, Inc. 839 Wilkesboro Blvd. Lenoir, NC 28645	10	G.S. 53-176	29,817,583
Wagner Financial Services, Inc. 175 Jonestown Road Winston-Salem, NC 27113	3	G.S. 53-176	1,884,536
Warren Finance Services Inc. 103 N. Main Street Warrenton, NC 27589	1	G.S. 53-173	323,789
Welcome Finance Company , Inc. 112 West Center Street Mebane, NC 27302	17	G.S. 53-176	17,014,715
Wells Fargo Financial North Carolina, Inc. 800 Walnut Street Des Moines, IA 50309	15	G.S. 53-176	15,566,292
Whitestone Financial, Inc. 2265-C Lewisville-Clemmons Road Clemmons, NC 27012	1	G.S. 53-176	158,244
Whiteville Finance Company 603 S. Madison Street Whiteville, NC 28472	1	G.S. 53-173	374,210
<b>TOTALS</b>	<b>586</b>		<b>\$ 1,452,064,883</b>

## North Carolina Consumer Finance Offices by City December 31, 2007

City	Name of Company	Offices
Aberdeen	CitiFinancial, Inc. NC	1
	National Finance Company, Inc.	1
	Sandhill Finance Company, Inc.	1
Ahoskie	CitiFinancial, Inc. NC	1
	Mid-East Acceptance Corporation of N.C., Inc.	1
Albemarle	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Green Cap Financial, LLC	1
	National Finance Company, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
Apex	Welcome Finance Company, Inc.	1
	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	The Money Shoppe, Inc.	1
Archdale	Peoples Finance Company of Lexington, Inc.	1
Arden	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
Asheboro	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2
	Green Cap Financial, LLC	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1

City	Name of Company	Offices
Asheville	American General Financial Services of America, Inc.	2
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2
	Equity One, Inc.	1
	Home Credit Corporation, Inc.	1
	Professional Financial Services of North Carolina, LLC	1
	Regional Finance Corporation of North Carolina	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Wells Fargo Financial North Carolina, Inc.	1
Belmont	American General Financial Services of America, Inc.	1
	Auto Finance Co., Inc.	1
Black Mountain	CitiFinancial, Inc. NC	1
Boone	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Welcome Finance Company , Inc.	1
Burlington	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2
	Green Cap Financial, LLC	1
	Household Finance Corporation III	1
	Metrolina Credit Company of Burlington, Inc.	1
	National Finance Company, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Welcome Finance Company , Inc.	1

City	Name of Company	Offices
Burlington	Wells Fargo Financial North Carolina, Inc.	1
Burnsville	American General Financial Services of America, Inc.	1
Carrboro	CitiFinancial, Inc. NC	1
Cary	Beneficial North Carolina Inc.	1
Charlotte	American General Financial Services of America, Inc.	3
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	7
	Equity One, Inc.	1
	Household Finance Corporation III	2
	Metrolina Credit Company of Charlotte, Inc.	1
	Nicholas Financial, Inc.	1
	Professional Financial Services of North Carolina, LLC	1
	Regional Finance Corporation of North Carolina	3
	Wells Fargo Financial North Carolina, Inc.	1
Cherryville	Allied Financial Services, Inc.	1
Clemmons	Whitestone Financial, Inc.	1
Clinton	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	1
	National Finance Company, Inc.	1
	Nordan Finance Company	1
	Quality Finance Co., Inc.	1
Clyde	American General Financial Services of America, Inc.	1
Concord	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1

City	Name of Company	Offices
Concord	CitiFinancial, Inc. NC	2
	Metrolina Credit Company of Cabarrus, Inc.	1
	National Finance Company, Inc.	1
	Professional Financial Services of North Carolina, LLC	1
Conover	CitiFinancial, Inc. NC	1
Cornelius	CitiFinancial, Inc. NC	1
Dunn	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	National Finance Company, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Time Investment Corporation dba Time Financing Service	1
Durham	American General Financial Services of America, Inc.	2
	Beneficial North Carolina, Inc.	2
	CitiFinancial, Inc. NC	2
	Equity One, Inc.	1
	Home Credit Corporation, Inc.	1
	Household Finance Corporation III	1
	J. B. Penny dba Globe Finance Company	1
	National Finance Company, Inc.	1
	Wells Fargo Financial North Carolina, Inc.	1
Eden	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Consumer Financial Services Inc.	1

City	Name of Company	Offices
Eden	Welcome Finance Company , Inc.	1
Edenton	Colonial Credit, Inc.	1
	Royalty Management Corporation dba Royalty Finance	1
	Time Investment Corporation dba Time Financing Service	1
Elizabeth City	American General Financial Services of America, Inc.	1
	Atlantic Discount Corporation dba Atlantic Financial Services	1
	CitiFinancial, Inc. NC	1
	Lendmark Financial Services, Inc.	1
	Time Investment Corporation dba Time Financing Service	1
Elizabethtown	American General Financial Services of America, Inc.	1
Elkin	Basic Finance, Inc.	1
	Federal Financial Services, Inc.	1
Enfield	Southern Loans, Inc.	1
Fayetteville	American General Financial Services of America, Inc.	2
	Beneficial North Carolina Inc.	2
	Cape Fear Finance Company, LLC	1
	CitiFinancial, Inc. NC	3
	Equity One, Inc.	2
	Green Cap Financial, LLC	1
	Lendmark Financial Services, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	SLM Financial Corporation dba Sallie Mae Financial	1

City	Name of Company	Offices
Fayetteville	Time Investment Corporation dba Time Financing Service	1
	Wells Fargo Financial North Carolina, Inc.	1
Forest City	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Universal Finance, Inc.	1
Franklin	American General Financial Services of America, Inc.	1
	Lendmark Financial Services, Inc.	1
	Macon Credit Company, Inc.	1
Fuquay-Varina	CitiFinancial, Inc. NC	1
	Coastal Finance Company, Inc.	1
Garner	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	1
	Household Finance Corporation III	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
Gastonia	American General Financial Services of America, Inc.	1
	Amity Finance, Inc.	1
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2
	Equity One, Inc.	1
Goldsboro	Regional Finance Corporation of North Carolina	1
	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	2
	Equity One, Inc.	1

City	Name of Company	Offices
Goldsboro	Future Financial Services, LLC	1
	Home Credit Corporation, Inc.	1
	Household Finance Corporation III	1
	Lendmark Financial Services, Inc.	1
	North State Acceptance, L.L.C.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
Graham	The Money Shoppe, Inc.	1
Greensboro	American General Financial Services of America, Inc.	4
	Beneficial North Carolina Inc.	1
	Carolina Finance, LLC	1
	CitiFinancial, Inc. NC	4
	Equity One, Inc.	1
	Household Finance Corporation III	1
	Regional Finance Corporation of North Carolina	1
	Wagner Financial Services, Inc.	1
	Wells Fargo Financial North Carolina, Inc.	1
Greenville	American General Financial Services of America, Inc.	2
	Blue Heron Finance, Inc.	1
	Capitol Credit Company	1
	CitiFinancial, Inc. NC	2
	Cornerstone Loan Center, Inc.	1
	Equity One, Inc.	1
	Greenville Financial Services, Inc.	1
	Household Finance Corporation III	1

City	Name of Company	Offices
Greenville	Lendmark Financial Services, Inc.	1
	Mid-East Acceptance Corporation of N.C., Inc.	1
	National Finance Company, Inc.	1
	Southern Loans, Inc.	1
	Time Investment Corporation dba Time Financing Service	1
Havelock	CitiFinancial, Inc. NC	1
Haw River	American General Financial Services of America, Inc.	1
Henderson	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	1
	Equity One, Inc.	1
	Home Credit Corporation, Inc.	1
	National Finance Company, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Southern Loans, Inc.	1
Welcome Finance Company , Inc.	1	
Hendersonville	American General Financial Services of America, Inc.	1
	Apple Valley Financial Services, Inc.	1
	CitiFinancial, Inc. NC	1
	Regional Finance Corporation of North Carolina	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Welcome Finance Company , Inc.	1
Hickory	American General Financial Services of America, Inc.	1

City	Name of Company	Offices
Hickory	Beneficial North Carolina Inc.	2
	CitiFinancial, Inc. NC	2
	Equity One, Inc.	1
	Home Credit Corporation, Inc.	1
	KR Finance, LLC dba TICO Credit of Hickory	1
	Regional Finance Corporation of North Carolina	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Universal Finance, Inc.	1
	Welcome Finance Company , Inc.	1
High Point	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2
	Federal Financial Services, Inc.	1
	Household Finance Corporation III	1
	Metrolina Credit Company of High Point, Inc.	1
	Nicholas Financial, Inc.	1
	Regional Finance Corporation of North Carolina	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Wagner Financial Services, Inc.	1
Wells Fargo Financial North Carolina, Inc.	1	
Hope Mills	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
Hudson	American General Financial Services of America, Inc.	1

City	Name of Company	Offices
Huntersville	Household Finance Corporation III	1
Jacksonville	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2
	Equity One, Inc.	1
	Home Credit Corporation, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
Jefferson	Basic Finance, Inc.	1
Jonesville	American General Financial Services of America, Inc.	1
Kannapolis	Allied Finance Company of Kannapolis, Inc.	1
	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Green Cap Financial, LLC	1
	Holiday Finance, Inc.	1
	Wells Fargo Financial North Carolina, Inc.	1
Kenansville	CitiFinancial, Inc. NC	1
Kernersville	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Household Finance Corporation III	1
	Royalty Management Corporation dba Royalty Finance	1
Kill Devil Hills	Atlantic Discount Corporation dba Atlantic Financial Services	1
King	Peoples Finance Company of Lexington, Inc.	1
Kings Mountain	Amity Finance of Kings Mountain, Inc.	1

City	Name of Company	Offices
Kinston	American General Financial Services of America, Inc.	1
	Carolina Finance, LLC	1
	CitiFinancial, Inc. NC	2
	Future Financial Services, LLC	1
	National Finance Company, Inc.	1
	SLM Financial Corporation dba Sallie Mae Financial	1
Kitty Hawk	CitiFinancial, Inc. NC	1
Knightdale	CitiFinancial, Inc. NC	1
	Southern Loans, Inc.	1
Laurinburg	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Home Credit Corporation, Inc.	1
	National Finance Company, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Trophy Financial, Inc.	1
Lenoir	Allied Financial Services, Inc.	1
	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Equity One, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Universal Finance, Inc.	1
	Welcome Finance Company , Inc.	1
Lexington	American General Financial Services of America, Inc.	1

City	Name of Company	Offices
Lexington	CitiFinancial, Inc. NC	1
	Equity One, Inc.	1
	Peoples Finance Company of Lexington, Inc.	1
	Universal Finance, Inc.	1
Lincolnton	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Universal Finance, Inc.	1
Louisburg	Century Finance, Inc.	1
	Time Investment Corporation dba Time Financing Service	1
Lumberton	American General Financial Services of America, Inc.	2
	Beneficial North Carolina Inc.	1
	Cardinal Finance Company of Lumberton, Inc.	1
	CitiFinancial, Inc. NC	1
	National Finance Company, Inc.	1
Madison	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Premier Financial Services, Inc. dba Premier Finance	1
Marion	Allied Financial Services, Inc.	1
	American General Financial Services of America, Inc.	1
	Equity One, Inc.	1
	Heritage Finance Co., Inc.	1
	Marion Credit Company, Inc.	1

City	Name of Company	Offices
Matthews	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Wells Fargo Financial North Carolina, Inc.	1
Mayodan	American General Financial Services of America, Inc.	1
Mebane	CitiFinancial, Inc. NC	1
	Welcome Finance Company , Inc.	1
Mocksville	American General Financial Services of America, Inc.	1
	Universal Finance, Inc.	1
Monroe	Allied Financial Services, Inc.	1
	American General Financial Services of America, Inc.	2
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2
	National Finance Company, Inc.	1
	Regional Finance Corporation of North Carolina	1
Mooresville	American General Financial Services of America, Inc.	1
	Amity Finance of Mooresville, Inc.	1
	CitiFinancial, Inc. NC	1
	Federal Financial Services, Inc.	1
Morehead City	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Coastal Finance Company, Inc.	1
	Time Investment Corporation dba Time Financing Service	1
Morganton	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1

City	Name of Company	Offices
Morganton	CitiFinancial, Inc. NC	2
	Creekside Finance, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Universal Finance, Inc.	1
	Welcome Finance Company, Inc.	1
Mount Airy	CitiFinancial, Inc. NC	1
	Federal Financial Services, Inc.	1
	Greene Finance Corporation	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
Mount Olive	Imperial Finance Company of Mount Olive, Incorporated	1
	Time Investment Corporation dba Time Financing Service	1
Moyock	Atlantic Discount Corporation dba Atlantic Financial Services	1
Mt. Airy	American General Financial Services of America, Inc.	1
Murfreesboro	Royalty Management Corporation dba Royalty Finance	1
	Time Investment Corporation dba Time Financing Service	1
Murphy	American General Financial Services of America, Inc.	1
	Lendmark Financial Services, Inc.	1
Nashville	CitiFinancial, Inc. NC	1
New Bern	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2
	Coastal Finance Company, Inc.	1

City	Name of Company	Offices
New Bern	Equity One, Inc.	1
	Green Cap Financial, LLC	1
	Home Credit Corporation, Inc.	1
	Southern Loans, Inc.	1
	Time Investment Corporation dba Time Financing Service	1
Newton	American General Financial Services of America, Inc.	1
	Equity One, Inc.	1
North Wilkesboro	Allied Financial Services, Inc.	1
	Basic Finance, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services.	1
	Welcome Finance Company, Inc.	1
Oxford	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
Pembroke	Golden Key Finance, Inc.	1
Pilot Mountain	Foothill Credit Corporation of Pilot Mountain	1
Pineville	American General Financial Services of America, Inc.	1
Pisgah Forest	CitiFinancial, Inc. NC	1
Plymouth	CitiFinancial, Inc. NC	1
	Time Investment Corporation dba Time Financing Service	1
Raeford	National Finance Company, Inc.	1
Raleigh	American General Financial Services of America, Inc.	2
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2

City	Name of Company	Offices
Raleigh	Equity One, Inc.	1
	Home Credit Corporation, Inc.	1
	Household Finance Corporation III	2
	Lendmark Financial Services, Inc.	1
	Nicholas Financial, Inc.	1
	North State Acceptance, L.L.C.	1
	SLM Financial Corporation dba Sallie Mae Financial	1
	Universal Acceptance Corporation	1
Raleigh	Wells Fargo Financial North Carolina, Inc.	1
Red Springs	Sandhill Finance Company, Inc.	1
Reidsville	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Royalty Management Corporation dba Royalty Finance	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Welcome Finance Company , Inc.	1
Roanoke Rapids	American General Financial Services of America, Inc.	1
	Century Finance, Inc.	1
	CitiFinancial, Inc. NC	1
	Green Cap Financial, LLC	1
	National Finance Company, Inc.	1
	Southern Loans, Inc.	1
	Welcome Finance Company , Inc.	1
Rockingham	American General Financial Services of America, Inc.	1

City	Name of Company	Offices
Rockingham	CitiFinancial, Inc. NC	1
	National Finance Company, Inc.	1
	Sandhill Finance Company, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Welcome Finance Company , Inc.	1
Rocky Mount	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	Century Finance, Inc.	1
	CitiFinancial, Inc. NC	2
	Equity One, Inc.	1
	Lendmark Financial Services, Inc.	1
	National Finance Company, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Southern Loans, Inc.	1
Time Investment Corporation dba Time Financing Service	1	
Roxboro	American General Financial Services of America, Inc.	1
	Time Investment Corporation dba Time Financing Service	1
Salisbury	Allied Finance Company of Kannapolis, Inc.	1
	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	National Finance Company, Inc.	1
	Regional Finance Corporation of North Carolina	1

City	Name of Company	Offices
Salisbury	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Universal Finance, Inc.	1
	Welcome Finance Company , Inc.	1
Sanford	Allied Financial Services, Inc.	1
	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Green Cap Financial, LLC	1
	National Finance Company, Inc.	1
Selma	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	CitiFinancial, Inc. NC	1
Shallotte	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Coastal Finance Company, Inc.	1
Shelby	Allied Financial Services, Inc.	1
	American General Financial Services of America, Inc.	1
	Amity Finance of Shelby , Inc.	1
	CitiFinancial, Inc. NC	2
	M & J Loans, Incorporated	1
	National Finance Company, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Universal Finance, Inc.	1
Wells Fargo Financial North Carolina, Inc.	1	

City	Name of Company	Offices
Smithfield	American General Financial Services of America, Inc.	1
	Century Finance, Inc.	1
	Coastal Finance Company, Inc.	1
	Mid-East Acceptance Corporation of N.C., Inc.	1
	North State Acceptance, L.L.C.	1
	Quality Finance Co., Inc.	1
	Security Credit Corporation	1
	Smithfield Financial Services, Inc.	1
Snow Hill	CitiFinancial, Inc. NC	1
Southern Pines	American General Financial Services of America, Inc.	1
	Beneficial North Carolina Inc.	1
	Southern Loan Corporation	1
Southport	Coastal Finance Company, Inc.	1
Spindale	Welcome Finance Company , Inc.	1
Spring Lake	CitiFinancial, Inc. NC	1
Spruce Pine	CitiFinancial, Inc. NC	1
	Mitchell Credit Company , Inc.	1
Statesville	Allied Financial Services, Inc.	1
	American General Financial Services of America, Inc.	2
	Beneficial North Carolina Inc.	1
	CitiFinancial, Inc. NC	2
	Creekside Finance, Inc.	1
	Holiday Finance of Statesville, Inc.	1
	Regional Finance Corporation of North Carolina	1

City	Name of Company	Offices
Statesville	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Universal Finance, Inc.	1
	Wells Fargo Financial North Carolina, Inc.	1
Swansboro	CitiFinancial, Inc. NC	1
	Coastal Finance Company, Inc.	1
Tarboro	American General Financial Services of America, Inc.	1
	Carolina Finance Company of Tarboro N.C., Inc.	1
	Southern Loans, Inc.	1
Taylorsville	Allied Financial Services, Inc.	1
	American General Financial Services of America, Inc.	1
	Basic Finance, Inc.	1
Thomasville	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
Troy	Amity Finance of Troy, Inc.	1
Wadesboro	Thrift Management Inc. dba Thrift Loan & Finance	1
Wake Forest	CitiFinancial, Inc. NC	1
Wallace	American General Financial Services of America, Inc.	1
	Quality Finance Co., Inc.	1
	Time Investment Corporation dba Time Financing Service	1
Warrenton	Warren Finance Services Inc.	1
Warsaw	Future Financial Services, LLC	1
Washington	American General Financial Services of America, Inc.	1
	Capitol Credit Company	1

City	Name of Company	Offices
Washington	CitiFinancial, Inc. NC	1
	Green Cap Financial, LLC	1
	Time Investment Corporation dba Time Financing Service	1
Waxhaw	CitiFinancial, Inc. NC	1
Waynesville	CitiFinancial, Inc. NC	2
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Welcome Finance Company , Inc.	1
West Jefferson	Allied Financial Services, Inc.	1
	American General Financial Services of America, Inc.	1
	Creekside Finance, Inc.	1
Whiteville	Cardinal Finance Company of Whiteville, Inc.	1
	CitiFinancial, Inc. NC	1
	Coastal Finance Company, Inc.	1
	Equity One, Inc.	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Whiteville Finance Company	1
Wilkesboro	American General Financial Services of America, Inc.	1
	CitiFinancial, Inc. NC	1
	Equity One, Inc.	1
Williamston	American General Financial Services of America, Inc.	1
	National Finance Company, Inc.	1
	Time Investment Corporation dba Time Financing Service	1

City	Name of Company	Offices
Wilmington	American General Financial Services of America, Inc.	2
	Beneficial North Carolina Inc.	2
	Capitol Credit Company	1
	CitiFinancial, Inc. NC	3
	Coastal Finance Company, Inc.	1
	Equity One, Inc.	1
	Green Cap Financial, LLC	1
	Hanover Financial Services, Inc.	1
	Home Credit Corporation, Inc.	1
	Lendmark Financial Services, Inc.	1
	North State Acceptance, L.L.C.	1
	Professional Financial Services of North Carolina, LLC	1
	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	SLM Financial Corporation dba Sallie Mae Financial	1
	Southern Loans, Inc.	1
Time Investment Corporation dba Time Financing Service	1	
Wells Fargo Financial North Carolina, Inc.	1	
Wilson	American General Financial Services of America, Inc.	1
	Century Finance, Inc.	1
	CitiFinancial, Inc. NC	2
	Home Credit Corporation, Inc.	1
	National Finance Company, Inc.	1
Quality Finance Co., Inc.	1	

City	Name of Company	Offices
Wilson	Security Finance Corporation of Lincolnton dba Security Financial Services	1
	Southern Loans, Inc.	1
Winston-Salem	American General Financial Services of America, Inc.	2
	Beneficial North Carolina Inc.	2
	CitiFinancial, Inc. NC	4
	Equity One, Inc.	1
	Federal Financial Services, Inc.	1
	Lendmark Financial Services, Inc.	1
	Nicholas Financial, Inc.	1
	Professional Financial Services of North Carolina, LLC	1
	Regional Finance Corporation of North Carolina	1
	Wagner Financial Services, Inc.	1
Wells Fargo Financial North Carolina, Inc.	2	
Winterville	Security Finance Corporation of Lincolnton dba Security Financial Services	1
Yadkinville	American General Financial Services of America, Inc.	1
Yanceyville	Caswell Financial Services, Inc.	1
	<b>Total</b>	<b>586</b>

## Consolidated Balance Sheet

Assets	2007	2006
Cash .....	\$ 10,565,006	\$ 10,048,308
Loans Receivable .....	1,452,064,883	1,423,589,773
Less Reserve for Loan Losses .....	95,023,306	83,573,335
Net Loans Receivable .....	1,357,041,577	1,340,016,438
Real Estate .....	2,991,623	2,502,495
Furniture and Equipment .....	8,326,167	8,866,544
Other Assets .....	223,415,086	261,033,359
<b>Total Assets .....</b>	<b>\$ 1,602,339,459</b>	<b>\$ 1,622,467,144</b>
 <b>Liabilities, Net Worth and Shareholders' Equity</b>		
Accounts and Notes Payable		
(a) Banks and other lending institutions .....	\$ 143,487,077	\$ 121,164,616
(b) Parent company or affiliates .....	1,048,040,477	1,046,037,498
(c) Other .....	39,928,950	47,781,903
Total Accounts and Notes Payable .....	\$ 1,231,456,504	\$ 1,214,984,017
Other Liabilities .....	105,319,622	148,047,928
Total Liabilities .....	1,336,776,126	1,363,031,945
Net Worth and Shareholders' Equity .....	265,563,333	259,435,199
<b>Total Liabilities, Worth And Shareholders' Equity .....</b>	<b>\$ 1,602,339,459</b>	<b>\$ 1,622,467,144</b>

## Consolidated Statement of Income and Expense

January 1, 2007 - December 31, 2007

**Income**

Interest Collected and Earned on Loans under G.S. 53-173 and 53-176.....	\$ 261,514,242
Loan Processing Fees Under G.S. 53-173(a1) and G.S. 53-176(b).....	704,761
Insurance Income, Including Origination Fees.....	13,523,658
Other Income.....	34,109,879
<b>Total Income.....</b>	<b>\$ 309,852,540</b>

**Expenses**

Total Operating Expenses, Excluding Interest on Borrowed Funds and Income Taxes... \$	194,503,786
Interest Paid on Borrowed Funds.....	83,744,470
<b>Total Expenses, Before Income Taxes.....</b>	<b>\$ 278,248,256</b>
Net Income, Before Income Taxes.....	31,604,284
Income Taxes.....	10,688,994
<b>Net Income.....</b>	<b>\$ 20,915,290</b>

### Reconciliation of Loan Balances January 1, 2007 - December 31, 2007

	Number	Amount
Loans Receivable, Beginning of Year.....	454,541	\$ 1,421,170,147
Loans Made During the Year.....	459,560	1,413,994,335
Loan Balances Purchased During the Year.....	2,042	2,853,380
Loan Balances Sold During the Year.....	47	143,532
Loan Balances Charged Off During the Year.....	40,229	87,339,020
Collections of Principal During the Year.....	—	1,298,471,852
<b>Loans Receivable Outstanding at End of Period .....</b>	<b>444,469</b>	<b>\$ 1,452,064,883</b>

### Classification of Loans By Size January 1, 2007 - December 31, 2007

Loans Made During the Year:	Number	Amount
(a) \$600.00 or less.....	25,935	\$ 13,291,117
(b) Over \$600 to \$1,000.....	61,670	47,971,958
(c) Over \$1,000 to \$3,000.....	197,438	336,692,223
(d) Over \$3,000 to \$5,000.....	63,386	241,372,350
(e) Over \$5,000 to \$7,500.....	61,967	365,143,510
(f) Over \$7,500 to \$10,000.....	49,164	409,523,177
<b>Total Loans Made .....</b>	<b>459,560</b>	<b>\$ 1,413,994,335</b>

### Classification of Loans By Type of Security January 1, 2007 - December 31, 2007

Loans Made During the Year:	Number	Amount
(a) Personal property.....	235,413	\$ 512,147,462
(b) Signature endorsement.....	96,527	481,711,714
(c) Motor vehicles.....	104,614	304,006,344
(d) Other considerations.....	23,006	116,128,815
<b>Total Loans Made During the Period .....</b>	<b>459,560</b>	<b>\$ 1,413,994,335</b>

### Classification of Loans By Type of Borrower January 1, 2007 - December 31, 2007

Loans Made During the Year:	Number	Amount
(a) Which renewed existing accounts.....	271,076	\$ 855,754,349
(b) To former borrowers.....	59,547	134,403,664
(c) To new borrowers.....	128,937	423,836,322
<b>Total Loans Made During the Period .....</b>	<b>459,560</b>	<b>\$ 1,413,994,335</b>

October 22, 2008

THE DEBT TRAP

## Banks Mine Data and Woo Troubled Borrowers

By **BRAD STONE**

Handwritten initials "UM" with a diagonal line through them.

Brenda Jerez hardly seems like the kind of person lenders would fight over.

Three years ago, she became ill with cancer and ran up \$50,000 on her credit cards after she was forced to leave her accounting job. She filed for bankruptcy protection last year.

For months after she emerged from insolvency last fall, 6 to 10 new credit card and auto loan offers arrived every week that specifically mentioned her bankruptcy and, despite her poor credit history, dangled a range of seemingly too-good-to-be-true financing options.

“Good news! You are approved for both Visa and MasterCard — that’s right, 2 platinum credit cards!” read one buoyant letter sent this spring to Ms. Jerez, offering a \$10,000 credit limit if only she returned a \$35 processing fee with her application.

“It’s like I’ve got some big tag: target this person so you can get them back into debt,” said Ms. Jerez, of Jersey City, who still gets offers, even as it has become clear that loans to troubled borrowers have become a chief cause of the financial crisis. One letter that arrived last month, from First Premier Bank, promoted a platinum MasterCard for people with “less-than-perfect credit.”

Singling out even struggling American consumers like Ms. Jerez is one of the overlooked causes of the debt boom and the resulting crisis, which threatens to choke the global economy.

Using techniques that grew more sophisticated over the last decade, businesses comb through an array of sources, including bank and court records, to create detailed profiles of the financial lives of more than 100 million Americans.

They then sell that information as marketing leads to banks, credit card issuers and mortgage brokers, who fiercely compete to find untapped customers — even those who would normally have trouble qualifying for the credit they were being pitched.

These tailor-made offers land in mailboxes, or are sold over the phone by telemarketers, just ahead of the next big financial step in consumers’ lives, creating the appearance of almost irresistible serendipity.

These leads, which typically cost a few cents for each household profile, are often called “trigger lists” in the industry. One company, First American, sells a list of consumers to lenders called a “farming kit.”

This marketplace for personal data has been a crucial factor in powering the unrivaled lending machine in the United States. European countries, by contrast, have far stricter laws limiting the sale of personal information. Those countries also have far lower per-capita debt levels.

The companies that sell and use such data say they are simply providing a service to people who are likely to need it. But privacy advocates say that buying data dossiers on consumers gives banks an unfair advantage.

“They get people who they know are in trouble, they know are desperate, and they aggressively market a product to them which is not in their best interest,” said Jim Campen, executive director of the Americans for Fairness in Lending, an advocacy group that fights abusive credit and lending practices. “It’s the wrong product at the wrong time.”

### Compiling Histories

To knowledgeable consumers, the offers can seem eerily personalized and aimed at pushing them into poor financial decisions.

Like many Americans, Brandon Laroque, a homeowner from Raleigh, N.C., gets many unsolicited letters asking him to refinance from the favorable fixed rate on his home to a riskier variable rate and to take on new, high-rate credit cards.

The offers contain personal details, like the outstanding balance on his mortgage, which lenders can easily obtain from the credit bureaus like Equifax, Experian and TransUnion.

“It almost seems like they are trying to get you into trouble,” he says.

The American information economy has been evolving for decades. Equifax, for example, has been compiling financial histories of consumers for more than a century. Since 1970, use of that data has been regulated by the Federal Trade Commission under the Fair Credit Reporting Act. But Equifax and its rivals started offering new sets of unregulated demographic data over the last decade — not just names, addresses and Social Security numbers of people, but also their marital status, recent births in their family, education history, even the kind of car they own, their television cable service and the magazines they read.

During the housing boom, “The mortgage industry was coming up with very creative lending products and then they were leaning heavily on us to find prospects to make the offers to,” said Steve Ely, president of North America Personal Solutions at Equifax.

The data agencies start by categorizing consumers into groups. Equifax, for example, says that 115 million Americans are listed in its “Niches 2.0” database. Its “Oodles of Offspring” grouping contains heads of household who make an average of \$36,000 a year, are high school graduates and have children, blue-collar jobs and a low home value. People in the “Midlife Munchkins” group make \$71,000 a year, have children or grandchildren, white-collar jobs and a high level of education.

### Profiling Methods

Other data vendors offer similar categories of names, which are bought by companies like credit card issuers that want to sell to that demographic group.

In addition to selling these buckets of names, data compilers and banks also employ a variety of methods to estimate the likelihood that people will need new debt, even before they know it themselves.

One technique is called “predictive modeling.” Financial institutions and their consultants might look at who is responding favorably to an existing mailing campaign — one that asks people to refinance their homes, for example — and who has simply thrown the letter in the trash.

The attributes of the people who bite on the offer, like their credit card debt, cash savings and home value, are then plugged into statistical models. Those models then are used for the next round of offers, sent to people with similar financial lives.

The brochure for one Equifax data product, called TargetPoint Predictive Triggers, advertises “advanced profiling techniques” to identify people who show a “statistical propensity to acquire new credit” within 90 days.

An Equifax spokesman said the exact formula was part of the company’s “secret sauce.”

Data brokers also sell another controversial product called “mortgage triggers.” When consumers apply for home loans, banks check their credit history with one of the three credit bureaus.

In 2005, Experian, and then rivals Equifax and TransUnion, started selling lists of these consumers to other banks and brokers, whose loan officers would then contact the customer and compete for the loan.

At Visions Marketing Services, a company in Lancaster, Pa., that conducts telemarketing campaigns for banks, mortgage trigger leads were marketing gold during the housing boom.

“We called people who were astounded,” said Alan E. Geller, chief executive of the firm. “They said, ‘I can’t believe you just called me. How did you know we were just getting ready to do that?’ ”

“We were just sitting back laughing,” he said. In the midst of the high-flying housing market, mortgage triggers became more than a nuisance or potential invasion of privacy. They allowed aggressive brokers to aim at needy, overwhelmed consumers with offers that often turned out to be too good to be true. When Mercurion Suladdin, a county librarian in Sandy, Utah, filled out an application with Ameriquest to refinance her home, she quickly got a call from a salesman at Beneficial, a division of HSBC bank where she had taken out a previous loan.

The salesman said he desperately wanted to keep her business. To get the deal, he drove to her house from nearby Salt Lake City and offered her a free Ford Taurus at signing.

What she thought was a fixed-interest rate mortgage soon adjusted upward, and Ms. Suladdin fell behind on her payments and came close to foreclosure before Utah’s attorney general and the activist group Acorn interceded on behalf of her and other homeowners in the state.

“I was being bombarded by so many offers that, after a while, it just got more and more confusing,” she says of her ill-fated decision not to carefully read the fine print on her loan documents.

Data brokers and lenders defend mortgage triggers and compare them to offering a second medical opinion.

“This is an opportunity for consumers to receive options and to understand what’s available,” said Ben Waldshan, chief executive of Data Warehouse, a direct marketing company in Boca Raton, Fla.

Among its other services, according to its Web site, Data Warehouse charges banks \$499 for 2,500 names of subprime borrowers who have fallen into debt and need to refinance.

Representatives of these data firms argue that their products merely help lenders more carefully pair people with the proper loans, at their moment of greatest need. The onus is on the banks, they say, to use that information responsibly.

“The whole reason companies like Experian and other information providers exist is not only to expand the opportunity to sell to consumers but to mitigate the risk associated with lending to consumers,” said Peg Smith, executive vice president and chief privacy officer at Experian. “It is up to the bank to keep the right balance.”

### Decrease in Mailings

In today’s tight credit world, the number of these kinds of credit offers is falling rapidly. Banks mailed about 1.8 billion offers for secured and unsecured loans during the first six months of this year, down 33 percent from the same period in 2006, according to Mintel Comperemedia, a tracking firm.

Countrywide Financial, one of the most aggressive companies in the selling of subprime loans during the housing boom, says it sent out between six million and eight million pieces of targeted mail a month between 2004 and 2006. That is in addition to tens of thousands of telemarketing phone calls urging consumers to either refinance their homes or take out new loans.

Even with the drop-off over the last year in such mailings, lenders continue to be eager customers for refined data on consumers, say people at banks and data companies. The information on consumers has become so specific that banks now use it not just to determine whom to aim at and when, but what specifically to say in each offer.

For example, unsolicited letters from banks now often state what each person’s individual savings might be if a new home loan or new credit card replaced their existing loan or card.

Peter Harvey, chief executive of Intellidyn, a consulting company based in Hingham, Mass., that helps banks with their targeted marketing, says the industry’s newest challenge is to personalize each offer without appearing too invasive.

He describes one marketing campaign several years ago that crossed the line: a bank purchased satellite imagery of a particular neighborhood and on each envelope that contained a personalized credit offer, highlighted that recipient’s home on the image.

The campaign flopped. “It was just too eerie,” Mr. Harvey said.

Copyright 2008 The New York Times Company

[Privacy Policy](#) | [Search](#) | [Corrections](#) | [RSS](#) | [First Look](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)

July 20, 2008

THE DEBT TRAP

## Given a Shovel, Americans Dig Deeper Into Debt

By GRETCHEN MORGENSON

The collection agencies call at least 20 times a day. For a little quiet, Diane McLeod stashes her phone in the dishwasher.

But right up until she hit the wall financially, Ms. McLeod was a dream customer for lenders. She juggled not one but two mortgages, both with interest rates that rose over time, and a car loan and high-cost credit card debt. Separated and living with her 20-year-old son, she worked two jobs so she could afford her small, two-bedroom ranch house in suburban Philadelphia, the Kia she drove to work, and the handbags and knickknacks she liked.

Then last year, back-to-back medical emergencies helped push her over the edge. She could no longer afford either her home payments or her credit card bills. Then she lost her job. Now her home is in foreclosure and her credit profile in ruins.

Ms. McLeod, who is 47, readily admits her money problems are largely of her own making. But as surely as it takes two to tango, she had partners in her financial demise. In recent years, those partners, including the financial giants Citigroup, Capital One and GE Capital, were collecting interest payments totaling more than 40 percent of her pretax income and thousands more in fees.

Years of spending more than they earn have left a record number of Americans like Ms. McLeod standing at the financial precipice. They have amassed a mountain of debt that grows ever bigger because of high interest rates and fees.

While the circumstances surrounding these downfalls vary, one element is identical: the lucrative lending practices of America's merchants of debt have led millions of Americans — young and old, native and immigrant, affluent and poor — to the brink. More and more, Americans can identify with miners of old: in debt to the company store with little chance of paying up.

It is not just individuals but the entire economy that is now suffering. Practices that produced record profits for many banks have shaken the nation's financial system to its foundation. As a growing number of Americans default, banks are recording hundreds of billions in losses, devastating their shareholders.

To reduce the risk of a domino effect, the Bush administration fashioned an emergency rescue plan last week to shore up Fannie Mae and Freddie Mac, the nation's two largest mortgage finance companies, if necessary.

To be sure, the increased availability of credit has contributed mightily to the American economy and has allowed consumers to make big-ticket purchases like homes, cars and college educations.

But behind the big increase in consumer debt is a major shift in the way lenders approach their business. In earlier years, actually being repaid by borrowers was crucial to lenders. Now, because so much consumer debt is packaged into securities and sold to investors, repayment of the loans takes on less importance to those lenders than the fees and charges generated when loans are made.

Lenders have found new ways to squeeze more profit from borrowers. Though prevailing interest rates have fallen to the low single digits in recent years, for example, the rates that credit card issuers routinely charge even borrowers with good credit records have risen, to 19.1 percent last year from 17.7 percent in 2005 — a difference that adds billions of dollars in interest charges annually to credit card bills.

Average late fees rose to \$35 in 2007 from less than \$13 in 1994, and fees charged when customers exceed their credit limits more than doubled to \$26 a month from \$11, according to CardWeb, an online publisher of information on payment and credit cards.

Mortgage lenders similarly added or raised fees associated with borrowing to buy a home — like \$75 e-mail charges, \$100 document preparation costs and \$70 courier fees — bringing the average to \$700 a mortgage, according to the Department of Housing and Urban Development. These “junk fees” have risen 50 percent in recent years, said Michael A. Kratzer, president of FeeDisclosure.com, a Web site intended to help consumers reduce fees on mortgages.

“Today the focus for lenders is not so much on consumer loans being repaid, but on the loan as a perpetual earning asset,” said Julie L. Williams, chief counsel of the Comptroller of the Currency, in a March 2005 speech that received little notice at the time.

Lenders have been eager to expand their reach. They have honed sophisticated marketing tactics, gathering personal financial data to tailor their pitches. They have spent hundreds of millions of dollars on advertising campaigns that make debt sound desirable and risk-free. The ads are aimed at people who urgently need loans to pay for health care and other necessities.

It is not just financial conglomerates that are profiting on consumer debt loads. Some manufacturers and retailers can generate more income from internal financing arms that lend to their customers than from their primary businesses.

Tallying what the lenders have made off Ms. McLeod over the years is revealing. In 2007, when she earned \$48,000 before taxes, she was charged more than \$20,000 in interest on her various loans.

Her first mortgage, originated by the EquiFirst Corporation, charged her \$14,136 a year, and her second, held by CitiFinancial, added \$4,000. Capital One, a credit card company that charged her 28 percent interest on her balances, billed \$1,400 in annual interest. GE Money Bank levied 27 percent on the \$1,500 or so that Ms. McLeod owed on an account she had with a local jewelry store, adding more than \$400.

Olde City Mortgage, the company that arranged one of Ms. McLeod’s loans, made \$6,000 on a single refinancing, and EquiFirst received \$890 in a loan origination fee.

Such fees and interest rates are a growing burden on Americans, especially those who rely on credit cards to make ends meet.

And recent changes in the bankruptcy laws, supported by financial services firms, make it all the harder for consumers, especially those with modest incomes, to get out from under their debt by filing for bankruptcy.

But with so many borrowers in trouble, some bankruptcy experts and regulators are beginning to focus on the responsibilities of lenders, like requiring them to make loans only if they are suitable to the borrowers applying for them.

The Federal Reserve Board, for instance, recently put into effect rules barring a lender from making a loan without regard to the borrower's ability to repay it.

Henry E. Hildebrand III, a Bankruptcy Court trustee in Nashville since 1982 and one of the nation's busiest, has seen at first hand what happens when lenders do not take some responsibility for loans that go bad. "I look across the table at people who are right out of school and have more debt than they can handle, and they are starting out life in a bankruptcy," he said.

Ms. McLeod used debt to keep going until she was fired from her job in March for writing inappropriate e-mail messages. Since then, she has been selling her coveted handbags and other items on eBay to raise money while waiting to be evicted from her home.

"I think a lot of people in this country have a lot more debt than they let the outside world know," Ms. McLeod said. "I worked in retail for five years. And men, women would open up their wallets to pay and the credit cards that were in some of the wallets just amazed me."

### Borrowing to Shop

For decades, America's shift from thrift could be summed up in this familiar phrase: When the going gets tough, the tough go shopping. Whether for a car, home, vacation or college degree, the nation's lenders stood ready to assist.

Companies offered first and second mortgages and home equity lines, marketed credit cards for teenagers and helped college students to amass upward of \$100,000 in debt by graduation.

Every age group up to the elderly was the target of sophisticated ad campaigns and direct mail programs. "Live Richly" was a Citibank message. "Life Takes Visa," proclaims the nation's largest credit card issuer.

Eliminating negative feelings about indebtedness was the idea behind MasterCard's "Priceless" campaign, the work of McCann-Erickson Worldwide Advertising, which came out in 1997.

"One of the tricks in the credit card business is that people have an inherent guilt with spending," Jonathan B. Cranin, executive vice president and deputy creative director at the agency, said when the commercials began. "What you want is to have people feel good about their purchases."

Mortgage lenders took to cold-calling homeowners to persuade them to refinance. Done to reduce borrowers' monthly payments, serial refinancings allowed lenders to charge thousands of dollars in loan processing fees, including appraisals, credit checks, title searches and document preparation fees.

Not surprisingly, such practices generated dazzling profits for the nation's financial companies. And since 2005, when the bankruptcy law was changed, the credit card industry has increased its earnings 25 percent,

according to a new study by Michael Simkovic, a former James M. Olin fellow in Law and Economics at Harvard Law School.

The “2005 bankruptcy reform benefited credit card companies and hurt their customers,” Mr. Simkovic concluded in his study. He said that even though sponsors of the bankruptcy bill promised that consumers would benefit from lower borrowing costs as delinquent borrowers were held more accountable, the cost of borrowing from credit card companies has actually increased anywhere from 5 percent to 17 percent.

Among the most profitable companies were Ms. McLeod’s creditors.

For Capital One, which charges her 28 percent interest on her credit card, net interest income, after provisions for loan losses, has risen a compounded 25 percent a year since 2002.

GE Money Bank, which levied a 27 percent rate on Ms. McLeod’s debt and is part of the GE Capital Corporation, generated profits of \$4.3 billion in 2007, more than double the \$2.1 billion it earned in 2003.

Because many of these large institutions pool the loans they make and sell them to investors, they are not as vulnerable when the borrowers default. At the end of 2007, for example, one-third of Capital One’s \$151 billion in managed loans had been sold as securities.

Officials at General Electric declined to comment. Capital One did not return phone calls.

As the profits in this indebtedness grew, financial companies moved aggressively to protect them, spending millions of dollars to lobby against any moves lawmakers might take to rein in questionable lending.

But consumers are voicing anger over lending practices. A recent proposal by the Federal Reserve Board to limit some abusive practices has drawn more than 11,000 letters since May. Most are from irate borrowers.

### A Rising Tide of Bills

Just two generations ago, America was a nation of mostly thrifty people living within their means, even setting money aside for unforeseen expenses.

Today, Americans carry \$2.56 trillion in consumer debt, up 22 percent since 2000 alone, according to the Federal Reserve Board. The average household’s credit card debt is \$8,565, up almost 15 percent from 2000.

College debt has more than doubled since 1995. The average student emerges from college carrying \$20,000 in educational debt.

Household debt, including mortgages and credit cards, represents 19 percent of household assets, according to the Fed, compared with 13 percent in 1980.

Even as this debt was mounting, incomes stagnated for many Americans. As a result, the percentage of disposable income that consumers must set aside to service their debt — a figure that includes monthly credit card payments, car loans, mortgage interest and principal — has risen to 14.5 percent from 11 percent just 15 years ago.

By contrast, the nation's savings rate, which exceeded 8 percent of disposable income in 1968, stood at 0.4 percent at the end of the first quarter of this year, according to the Bureau of Economic Analysis.

More ominous, as Americans have dug themselves deeper into debt, the value of their assets has started to fall. Mortgage debt stood at \$10.5 trillion at the end of last year, more than double the \$4.8 trillion just seven years earlier, but home prices that were rising to support increasing levels of debt, like home equity lines of credit, are now dropping.

The combination of increased debt, falling asset prices and stagnant incomes does not threaten just imprudent borrowers. The entire economy has become vulnerable to the spending slowdown that results when consumers like Ms. McLeod hit the wall.

### That First Credit Card

Growing up in Philadelphia, Diane McLeod never knew financial hardship, she said. Her father owned six pizza shops and her mother was a homemaker.

"There was always money for everything, whether it was bills or food shopping or a spur-of-the-moment vacation," Ms. McLeod recalled. "If they worried about money, they never let us know."

Hers was a pay-as-you-go family, she said. Although money was not discussed much around the dinner table, credit card debt was not a part of her parents' financial plan, and sometimes personal purchases were put off.

When Ms. McLeod married at 18, she and her husband carried no credit cards. She stayed at home after her son was born, but when she was 27 her husband died.

She remarried a few years later and continued as a homemaker until her son turned 13. Between her husband's job laying carpets and her own, money was not exactly tight.

In the mid-'90s, Ms. McLeod got several credit cards. When the marriage began to founder, she said, she shopped to make herself feel better.

Earning a livable wage at Verizon Yellow Pages, Ms. McLeod finally decided to leave her marriage and buy a home of her own in February 2003. The cost was \$135,000, and her mortgage required no down payment because her credit history was good.

"I was very proud of myself when I bought the house," Ms. McLeod explained. "I thought I would live here till I died." Adding to her burden, however, was about \$25,000 in credit card debt she had brought from her marriage. Because her husband did not have a regular salary, all the cards were in her name.

After she had been in the house for a year, a friend who was a mortgage broker suggested she consolidate her debts into a new home loan. The property had appreciated by about \$30,000, and once again she put no money down for the loan. "It was amazing how easy it was," she recalled. "But that's a trap, and I didn't know it then."

Naturally, the refinance had costs. There was an \$8,000 penalty to pay off the previous mortgage early as well as roughly \$1,500 in closing costs on the new loan.

To cover these fees, Ms. McLeod dipped into her retirement account. Only later did she realize that she had to pay an early-withdrawal penalty of \$3,000 to the Internal Revenue Service. Short on cash, she put it on a credit card.

Soon she had racked up another \$19,000 in credit card debt. But because her home had appreciated, she once again refinanced her mortgage. Although she was making \$50,000 a year working two jobs, her income was not enough to support the new \$165,000 loan. She asked her son to join her on the loan application; with his income, the numbers worked.

"Boy, would I regret that," she said. The decision would drive a wedge between mother and son and damage his credit profile as well.

Almost immediately after she refinanced, in late 2005, the department store where she worked her second job, as a jewelry saleswoman at night and on weekends, cut back her hours. She quit altogether, and her son moved out of the house, where he had been helping with the rent, to live with a girlfriend. Ms. McLeod was on her own and paying \$1,500 a month on her mortgage.

Because the house had been recently appraised at \$228,000, she said, she felt sure she could refinance again if she needed to pay off her credit card. "You felt like you had a way out," she said.

But as happens with many debt-laden Americans, an unexpected illness helped push Ms. McLeod over the edge. In January 2006, her doctor told her she needed a hysterectomy. She had health care coverage, but she could no longer work at a second job.

She made matters worse during her recovery, while watching home shopping channels. "Eight weeks in bed by yourself is very dangerous when you have a TV and credit card," Ms. McLeod said. "QVC was my friend."

Later that year, Ms. McLeod realized she was in trouble, squeezed by her mortgage and credit card payments, her \$350 monthly car bill, rising energy prices and a stagnant salary. She started to sell knickknacks, handbags, clothing and other items on eBay to help cover her heating and food bills. She stopped paying her credit cards so that she could afford her mortgage.

A year ago she was back in the hospital, this time with a burst appendix. Her condition worsened, and she lost the use of one kidney. She spent 19 days in the hospital and six weeks recuperating. Her prescription-drug costs added to her expenses, and by September she could no longer pay her mortgage.

When her father died in early January, she was devastated. About a month later, on Feb. 14, Ms. McLeod was suspended and soon afterward fired from Verizon.

Toting up her financial obligations, Ms. McLeod said she owed \$237,000 on her home mortgage. Of that, sheriff's costs are \$4,350, and "other" fees related to the foreclosure come to \$3,000. A house of similar size down the street from Ms. McLeod sold for \$153,000 in January.

Her credit card debt totals around \$34,000, she said. Each month the late fees and over-limit penalties add to her debt. Ms. McLeod said she would probably file for bankruptcy.

Patricia A. Hasson, president of the Credit Counseling Service of Delaware Valley, said Ms. McLeod would

probably wind up having to repay 40 percent to 60 percent of her credit card debt. The owner of her mortgages could come after her for the difference between what she owes on her loan and what her house ultimately sells for. The first mortgage was sold to investors; Citigroup declined to say whether it held onto the second mortgage or sold it to investors.

A sheriff's auction of her home on June 12 received no bidders, Ms. McLeod said. The bank will soon evict her.

"Oh, I definitely have regrets," Ms. McLeod said. "I regret not dealing with my emotions instead of just shopping. And I regret involving my son in all this because that has affected him and his finances and his self-esteem."

Ms. McLeod says she hopes to be living in an apartment she can afford soon and to get back to paying her bills on time.

She does not want another credit card, she said. But even though her credit profile is ruined, she still receives come-ons.

Recently an envelope arrived offering a "pre-qualified" Salute Visa Gold card issued by Urban Bank Trust. "We think you deserve more credit!" it said in bold type.

A spokeswoman at Urban Bank said the Salute Visa is part of a program "designed to provide access to credit for folks who would not otherwise qualify for credit."

The Salute Visa offered Ms. McLeod a \$300 credit line. But a closer look at the fine print showed that \$150 of that would go, as annual fees, to Urban Bank.

Copyright 2008 The New York Times Company

[Privacy Policy](#) | [Search](#) | [Corrections](#) | [RSS](#) | [First Look](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)

---

August 10, 2008

THE DEBT TRAP

## Outside U.S., Credit Cards Tighten Grip

By MARK LANDLER

ISTANBUL — In Turkey, where borrowing money was until very recently a family affair, being in debt carried a fearful stigma. Some here even likened it to the disgrace that drives people to commit the honor killings that still occur in parts of this society.

“People who would kill their sisters or daughters for bringing shame on the family would do anything to avoid being labeled a debtor,” said Nazim Kaya, the president of Consumers Union, an advocacy group that helps those who fall into debt.

But in a cultural shift that has swept aside centuries of tradition, credit cards have become commonplace here. Only three decades ago, Turkey had fewer than 10,000 cards; today it has more than 38 million.

As the American blessing of credit cards became widespread, so did the American curse of debt. Outstanding card debt here ballooned to nearly \$18 billion last year, six times the level five years earlier. Default rates spiked and consumer groups protested sky-high interest charges. Newspapers were filled with stories of desperate card holders killing themselves or others.

In 2006, a fierce outcry prompted Turkey to pass a law clamping down on credit card marketers.

“We did not listen to our ancestors’ proverb,” Mr. Kaya said. “Stretch your leg only as far as your blanket.”

Few American exports have proved as popular as credit cards. In just a generation, they have gone from a totem of Western affluence to an everyday accessory in Brazil, Mexico, India, China, South Korea and elsewhere. More than two-thirds of the world’s 3.67 billion payment cards circulate abroad.

This global shopping spree has turned Visa and MasterCard into Wall Street wonders: Visa completed the largest stock offering in American history in March, and MasterCard’s shares have risen almost 500 percent since the company went public in 2006.

Their real opportunities for higher profits lie abroad. The card issuers make their money by collecting a fee on each card and a tiny percentage on purchases. (Banks primarily make their profit by charging interest.) In Asia, Latin America and Central Europe, card transaction volume is rising 20 to 30 percent a year, more than twice the growth rate in the United States.

But when credit cards are handed out to unsophisticated consumers — as they often are in shopping malls, factories and university campuses in middle-income developing countries — they can pile up debts that can take years to pay off, if they ever are.

In South Korea, for instance, a surge of defaults in 2003 set off a national crisis. Now industry experts say

they see similar dangers in rapidly growing markets like Turkey and China, where there are more than 100 million cards.

While acknowledging the risks, many here argue that the advantages of credit cards outweigh their dangers.

Like cellphones, they hasten economic development. They offer convenience to people who might never have had a bank account but whose rising incomes give them the power to buy motorcycles, refrigerators and stereos. By registering transactions, they also shrink the size of the black-market economy, allowing governments to collect taxes they might have missed.

The business is lucrative for Turkish banks: profit per card is higher here than in America. That has made the banks attractive to foreign investors.

“This is a society that has transformed itself,” said Suzan Sabanci Dincer, scion of one of Turkey’s wealthiest families and the chairwoman of Akbank, a large card issuer here. In 2006, Citigroup bought 20 percent of Akbank — drawn partly, she said, by its credit card franchise.

Yet, Turkey — with its stumbles and its tentative recovery — offers a cautionary tale.

#### The Cost of Credit

At the upscale Akmerkez mall in Istanbul, the siren call of credit is everywhere. Advertisements posted in the doorways of stores promise bonus points if shoppers pay with a preferred card. Big-ticket items like refrigerators can be paid for over several months, provided the purchase is made with plastic.

Turkey’s two biggest card issuers, Yapi Kredi and Garanti, have branches in the shopping mall, with agents busily processing applications. In the anything-goes era before the 2006 law, banks handed out applications to families as they shopped. Cards were issued with only cursory credit checks.

That is how Halim Uzel got his first taste of American-style credit. In 1999, two salesmen from a Turkish bank turned up on the floor of the textile factory where he worked, hawking cards. He showed them identification and his cellphone, filled out a one-page form, and in three weeks received a Visa and a MasterCard in the mail.

By 2001, Mr. Uzel was deep in debt. Earning the equivalent of \$4,360 a year, he had nearly \$6,000 in unpaid balances on five credit cards. Seven years later, after borrowing from family, friends and even his boss to meet payments, he finally paid off his cards.

“My best years as a young man have been wasted,” said Mr. Uzel, 32, fingering a set of worry beads. “I haven’t had a social life for 10 years. I’ve given the last penny in my pocket to the banks.”

Turkish bankers acknowledge there were excesses, but they chalk it up to the times. “Some banks may have gone too far,” said Mehmet Sezgin, the general manager of the card business at Turkey’s second-largest issuer, Garanti. “We were coming out of a crisis in 2001.”

Turkey’s economy had nearly collapsed. Banks’ main business of lending to the state was no longer profitable, so they focused on consumer lending. Because many Turks did not have bank accounts, the fastest way to build business was to hand out credit cards.

Until then, lending in Turkey had been confined primarily to families. Consumer loans were too expensive or too hard to get, said Ahmet Faruk Aysan, a professor of economics at Bosphorus University in Istanbul.

The first card, from Diners Club, turned up in Turkey in 1968, followed by American Express. Visa's arrival accelerated things, by helping set up a system for card payments among banks.

Mr. Sezgin opened an office for MasterCard in Istanbul in 1993. In the early days, he said, Visa and MasterCard were featured prominently on the cards. Now, banks here drive the market, and their brand names are most prominent.

With loyalty programs and cards tailored to every demographic group, Turkey's market is a model for foreigners. UniCredit of Italy owns a stake in Yapi Kredi and has used its card expertise in other countries. And Ms. Sabanci says Akbank and Citigroup are talking about marketing a joint card.

For Turkey or any fast-growing market, the chilling example of a credit culture run amok is South Korea. Frenzied competition in a deregulated market led to the issuance of 148 million credit cards in a country of 49 million people.

Korean banks and industrial conglomerates showered consumers, even high school students, with free, unsolicited cards. They put little effort into credit checks and competed to offer ever bigger cash advances.

As consumers took advances on new cards to pay old ones, debt ballooned. In 2003, with default rates soaring to 28 percent, the industry collapsed. The government had to intervene to rescue issuers; the largest was taken over by banks.

Korea's default rate plummeted. Issuers began sharing data about customers and importing Western credit-rating firms' methods for vetting applicants.

"They learned a big lesson," said Park Chang-gyun, a business professor at Chung-Ang University, referring to credit card companies. "They no longer chase blindly after market share."

### Restraining Debt

In Turkey, change was prompted by a grim statistic. From 2003 to 2006, consumer groups said, 41 people died because of credit card debt, either through suicide or homicide.

In one widely publicized case, a 37-year-old policeman shot himself in the head on an Istanbul street after friends tried to wrest the gun from him. He was depressed over \$40,000 in debts.

Turkey's 2006 law capped the monthly interest charged by banks. (Because of inflation, annual rates once topped 100 percent.) The law tied credit limits to a user's income, doubled minimum payments and stiffened credit checks.

Analysts say it has curbed the worst excesses. The amount of credit card debt in default declined to 6.3 percent in March, from a peak of 8 percent in early 2006, according to the Turkish central bank. While that is not excessive by world standards, it is higher than the 5.17 percent rate in the United States.

"You still don't have the kinds of credit information in Turkey that you have in the States," said David

Robertson, publisher of the Nilson Report, which tracks the industry. "So you're not going to be able to ratchet down the level of bad credit like you can here."

After six years of torrid growth, Turkey's economy is cooling and political instability is deepening. With double-digit inflation and interest rates at 16.75 percent, maximum monthly interest charges on cards remain high.

"This is a very volatile place," said Ali A. Ertenu, a banker who used to work for Yapi Kredi. "With a global downturn, there could be trouble ahead for credit card customers."

Two years after the reforms, thoughts of suicide still occur to Nazli, a 26-year-old woman struggling to pay off charges her father accumulated on 10 credit cards. (To protect her family's reputation, she will not say how much the debts are, or give her last name.)

Nazli negotiated repayment schedules with the banks. But after she missed a payment, one bank charged interest for the entire repayment period, erasing the progress she had made. "The more you try to pay it back, the bigger the amount grows," she said.

Until that burden is lifted, Nazli cannot even think of being married or taking a vacation. "More than the fear of losing our property would be the shame, in front of our neighbors, of having a collection agent show up on our doorstep," she said.

For Mr. Uzel, climbing out of debt was less about saving his name than reclaiming his life.

Until 2005, he kept his head above water by taking cash advances on one card to pay the minimum on the other cards. But then Mr. Uzel married, which meant paying for a party for his bride's family.

"I was still trying to have a normal life," he said, as his 3-year-old daughter wriggled on his lap.

Mr. Uzel finally paid off the banks in April with a loan from his brother-in-law. But a collection agency recently called, demanding \$1,058 for unpaid electricity bills.

The long ordeal strained his marriage and made him the butt of his friends' jokes. He says he is partly to blame, and swears that from now on, will only use cash.

But Nazim Kaya, the consumer advocate, said American-style credit is here to stay. "We can't blame American hegemony for this," he said. "We should learn to use credit cards properly."

*Sebnem Arsu contributed reporting from Istanbul, and Martin Fackler from Seoul.*

Copyright 2008 The New York Times Company

[Privacy Policy](#) | [Search](#) | [Corrections](#) | [RSS](#) | [First Look](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)

August 15, 2008

## Home Equity Frenzy Was a Bank Ad Come True

By LOUISE STORY

“Live Richly.”

That catchy slogan, dreamed up by the Fallon Worldwide advertising agency, was pitched in 1999 to executives at Citicorp who were looking for a way to lure Americans to financial products like home equity loans. But some in the room did not like it. They worried the phrase would encourage people to live exorbitantly, says Stephen A. Cone, a top Citi marketer at the time.

Still, “Live Richly” won out. The advertising campaign, which cost some \$1 billion from 2001 to 2006, urged people to lighten up about money and helped persuade hundreds of thousands of Citi customers to take out home equity loans — that is, to borrow against their homes. As one of the ads proclaimed: “There’s got to be at least \$25,000 hidden in your house. We can help you find it.”

Not long ago, such loans, which used to be known as second mortgages, were considered the borrowing of last resort, to be avoided by all but people in dire financial straits. Today, these loans have become universally accepted, their image transformed by ubiquitous ad campaigns from banks.

Since the early 1980s, the value of home equity loans outstanding has ballooned to more than \$1 trillion from \$1 billion, and nearly a quarter of Americans with first mortgages have them. That explosive growth has been a boon for banks. Banks’ returns on fixed-rate home equity loans and lines of credit, which are the most popular, are 25 percent to 50 percent higher than returns on consumer loans over all, with much of that premium coming from relatively high fees.

However, what has been a highly lucrative business for banks has become a disaster for many borrowers, who are falling behind on their payments at near record levels and could lose their homes.

The portion of people who have home equity lines more than 30 days past due stands 55 percent above its average since the American Bankers Association began tracking it around 1990; delinquencies on home equity loans are 45 percent higher. Hundreds of thousands are delinquent, owing banks more than \$10 billion on these loans, often on top of their first mortgages.

None of this would have been possible without a conscious effort by lenders, who have spent billions of dollars in advertising to change the language of home loans and with it Americans’ attitudes toward debt.

“Calling it a ‘second mortgage,’ that’s like hocking your house,” said Pei-Yuan Chia, a former vice chairman at Citicorp who oversaw the bank’s consumer business in the 1980s and 1990s. “But call it ‘equity access,’ and it sounds more innocent.”

Changing the Language

Many experts say the ads encouraged Americans to go deeper into debt.

"It's very difficult for one advertiser to come to you and change your perspective," said Sendhil Mullainathan, an economist at Harvard who has studied persuasion in financial advertising. "But as it becomes socially acceptable for everyone to accumulate debt, everyone does." A spokesman for Citigroup said that the bank no longer runs the "Live Richly" campaign and that it no longer works with the advertising agency that created it.

Citi was far from alone with its simple but enticing ad slogans. Ads for banks and their home equity loans often portrayed borrowing against the roof over your head as an act of empowerment and entitlement. An ad in 2002 from Fleet, now a part of Bank of America, asked, "Is your mortgage squeezing your wallet? Squeeze back." Another Fleet ad said: "The smartest place to borrow? Your place."

One in 2006 from PNC Bank pictured a wheelbarrow and the line, the "easiest way to haul money out of your house."

In 2003, one from Citigroup said a home could be "the ticket" to whatever "your heart desires." It continued: "You've put a lot of work into your home. Isn't it time for your home to return the favor?"

In 2004, Banco Popular said in its "Make Dreams Happen" ads: "Need Cash? Use Your Home."

"Seize your someday," a Wells Fargo ad advised in 2007.

It might seem hard to believe, but not long ago people borrowed money to buy a home with the expectation that they would eventually pay off the debt. A mortgage had a finish line. You mailed your check to the bank every month for 20 or 30 years, paying interest and principal, and bit by bit, at the end you owned your home free and clear.

The newly mortgage-free even used to throw mortgage-burning parties to celebrate their financial freedom. In 1975, Edith and Archie Bunker torched their mortgage on "All in the Family." Two years later, the Walton family burned theirs on "The Waltons."

Now the idea of paying off the mortgage and owning a home outright is disappearing. One reason is that many people make smaller down payments on homes than they once did, so it takes longer to pay off their debt.

But another reason is that banks now enable homeowners to keep borrowing. In fact, they encourage it. Little by little, millions of Americans surrendered equity in their homes in recent years as home prices seemed to rise inexorably from one peak to the next.

As a result, the United States has become a nation of half-home owners. For the first time since World War II, the portion of home value that Americans own has fallen to less than 50 percent. In the 1980s, that figure was 70 percent.

Bankers defend home equity loans by saying they merely give customers what they want: Easy credit to buy things that they otherwise might not be able to afford. Advertising executives say society's attitudes about debt shaped the ads, not the other way around.

The phrase home equity loan has been around since at least the Depression, when it appeared in classified ads. But the transformation of the second mortgage into the home equity loan began in earnest in the 1970s and early 1980s.

That was when federal laws allowed mainstream banks to offer second mortgages as well as loans with interest-only, adjustable rates and so-called piggyback features combining first and second mortgages. Until then, such products were primarily marketed to lower-income customers by savings and loans and financing companies, like Beneficial and Household Finance.

Marketing executives knew that “second mortgage” had an unappealing ring. So they seized the idea of “home equity,” with its connotations of ownership and fairness. The phrase was also used for lines of credit, which are sometimes taken out by people who have already paid off their first mortgage.

But in the early 1980s, Americans were not very familiar with the concept of dipping into home equity. Charles Humm, the senior vice president for marketing and sales at Merrill Lynch Credit Corporation, had to go on a road show explaining the idea to potential customers.

He had to change the notion that only people in financial trouble took out a second mortgage, he recalls. Merrill wanted to sell second mortgages to consumers who did not need to borrow money urgently.

“The second mortgage category, then as probably now, suffered from a pretty bad reputation,” he said. “It generally tended to be a credit facility of last resort, and it was done by people in dire straits. That was not the audience we were after.”

The campaign worked. The amount of home equity loans outstanding grew from \$1 billion in 1982 to \$100 billion in 1988 — in part because a portion of the loans were tax deductible, as the ads often pointed out.

A Bank of New York ad in 1986, for instance, told homeowners who exploited those tax advantages they were “absolutely brilliant.”

An ad from CIT Financial, now struggling, said, “You don’t have to sell your home to get \$10,000, \$30,000 or even more in cash. You don’t even have to walk out the door.”

Citibank’s home equity ads portrayed housing as a revolving account similar to the plastic card in your wallet. One in the mid-’80s, for example, bragged: “Now, when the value of your home goes up, you can take credit for it.” Citigroup also used equity in its product name, calling the line an “Equity Source Account.”

### A Different Approach

Advertising historians look back at the ’80s as the time when bank marketing came into its own. Citigroup led the way by hiring away advertising staff from packaged goods companies like General Mills and General Foods, where catchy ads were more common.

“Banking started using consumer advertising techniques more like a department store than like a bank,” said Barbara Lippert, an advertising critic for the magazine Adweek. “It was a real change in direction.”

Banks thought they were in safe territory. A Merrill Lynch executive, Thomas E. Capasse, told The New

York Times in 1988 that home equity loans were safe because bankers believed that consumers would spend the money on wise investments and not “pledge the house to buy a blouse.”

Mr. Capasse worked in the bank’s division that was repackaging mortgage loans into bundles of loans to resell to investors, a practice that enabled lenders to make even more loans.

But other executives at Merrill were worried about the explosion of home equity lending. Mr. Humm, the marketing executive in Merrill’s credit division, said he was concerned about ads from other banks that suggested using home equity loans for family vacations, new pools and shopping jaunts.

“We thought it was an inappropriate use,” Mr. Humm said. “We thought it would bring to the equity access category the same kind of reputation over time that had come to the second mortgage category.”

Marketing executives who pushed the easy money slogans of the 1980s and 1990s now say their good intentions went awry.

Mauro Appezzato used to run marketing at The Money Store, now defunct, the lender whose longtime television spokesman was Phil Rizzuto, the former Yankees shortstop and announcer. In 1993, Mr. Appezzato helped come up with the pitch line “less than perfect credit,” a phrase he said was meant to refer to people whose credit was only slightly problematic.

But by the late 1990s, the phrase was co-opted by subprime lenders like Countrywide Financial, Washington Mutual, New Century and Ameriquest.

Ameriquest ran an ad in 2004 during the Super Bowl, one of the biggest advertising events of the year, that has come to symbolize the excesses of subprime lending. The ad showed a woman on an airplane climbing over the man sitting next to her to reach the aisle. The plane’s lights go off during turbulence and the woman slips, landing on the man’s lap. Other passengers gasp because it looks as if they were in a sexual embrace.

“Don’t Judge Too Quickly,” the ad said. “We Won’t.” Two and a half years later, Ameriquest went bankrupt.

Bank executives say that their customers wanted to borrow more money, and that desire is what drove changes in the marketplace. Consumers gave a resounding yes to offers of new credit, said Richard Kovacevich, the chairman of Wells Fargo, recalling questions he raised back in the 1980s when he oversaw retail banking at Citigroup.

“When you went to market research and asked people questions: would you like to have 24 by 7 access to your money? Would you like to have access to home mortgages and credit cards? Even if the product didn’t exist as such, would you like a line of credit where you can just write a check anytime?” Mr. Kovacevich said. “There’s no question, then, that that caused credit to enlarge.”

Still, Elizabeth Warren, a professor at Harvard Law School who has studied consumer debt and bankruptcy, said that financial companies used advertising to foster the idea that it is good, even smart, to borrow money.

“That ‘unused home equity in your house? Put it to work for you.’” Professor Warren said, mimicking the

ads. "Doesn't that sound financially sophisticated?" Not to Professor Warren. "Put it to work," she said, is just a euphemism for borrowing.

Copyright 2008 The New York Times Company

[Privacy Policy](#) | [Search](#) | [Corrections](#) | [RSS](#) | [First Look](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)

---

Washingtonpost.com

## Banks Hoard Cash as Credit Card Defaults Rise

By Zachary A. Goldfarb  
Washington Post Staff Writer  
Thursday, October 16, 2008; D01

Consumers are increasingly unable to pay off their credit cards, forcing banks to hoard cash to protect against future losses and lend to fewer people, according to reports yesterday from several of the nation's largest banks.

These financial disclosures showed a spike in credit card loans going bad, putting further pressure on already-stressed balance sheets. J.P. Morgan Chase said the number of credit card loans in default rose 45 percent in the third quarter from the comparable period a year ago and predicted that default rates would sharply accelerate through 2009, with 7 percent of credit card loans going bad.

"We have to be prepared that it gets a lot worse," J.P. Morgan chief executive Jamie Dimon said about the overall economic outlook.

Capital One, a credit card lender and bank based in McLean, announced rising default rates and delinquencies in its portfolio of credit cards and auto finance loans yesterday. The company said 6.34 percent of credit card loans went into default last month, up from 5.96 percent of loans in August. The company has said it expects default rates to rise to 7 percent next year.

The deterioration in consumer credit, the latest downturn to whack Americans after the housing slump and mortgage meltdown, threatens one of the linchpins of the U.S. economy. Over the past 10 years, credit card debt has gone up 75 percent as Americans' real wages and savings rate have stayed flat. That means Americans have been spending beyond their means -- and fueling economic growth with borrowed money.

Now, the housing crash, financial downturn and contracting economy have made it more difficult for Americans to settle their bills, setting off a downward spiral. As people fail to pay off their credit card bills and other loans, banks must put away money to cover expected losses. So banks lend less. Americans who tended to rely on loans to fuel their spending must cut back, readjusting their spending habits to conform with what they earn.

"Given that the savings rate has been minuscule, there's no reserves in the tank for the consumer to tap his savings to support his spending," said Scott Valentin, a financial services analyst at Arlington investment bank Friedman Billings Ramsey. But consumers have been driving about two-thirds of the U.S. economy.

Overall, the rate of credit card loans going bad increased 54 percent in the second quarter of 2008 from the same period in 2007, according to Federal Reserve data, the latest available.

A report this week from Innovest, a research firm, said banks and other credit card lenders could record nearly \$100 billion in losses because of bad loans through the end of next year. Innovest said financial firms could be reaching a "tipping point" at which years of growth in credit card debt starts to decline.

Traditionally, consumers having difficulty paying credit card bills could transfer balances to new credit cards with

Advertisement

Have you found your road to riches? Here are 10!

Discover how the super rich made their fortunes, and how you could make yours, too! In **The Ten Roads to Riches**, self-made billionaire and *New York Times* bestselling author Ken Fisher describes 10 tried and true ways to build long-term wealth.

[Click Here to Learn More!](#)

lower rates. But now that may be tougher. A recent Federal Reserve survey showed 65 percent of credit card issuers had tightened standards in the past three months, up from 5 percent from the comparable period a year ago. Credit issuers are lowering credit limits on existing cardholders and issuing fewer cards.

"There's a complete freeze of lending to low-income, high-risk borrowers as banks try to stabilize their balance sheet. They're not going after anyone with moderately shaky credit. They're even being cautious with people who have great credit," said Gregory Larkin, a senior analyst with Innovest.

Credit card debt is not the only area showing weakness. Defaults on auto loans are also rising fast. "Even somebody with great credit is going to have an extremely difficult time getting a loan if they don't have a down payment," said Greg McBride, senior financial analyst at Bankrate.com.

Credit card debt is especially worrisome for banks because it is not backed by real assets, such as home mortgages and auto loans. But that has meant credit card issuers routinely have been more cautious.

Nancy Bush, who runs independent firm NAB Research, said it was unclear whether the government's announcement this week that it will invest up to \$250 billion in banks to stabilize balance sheets and spur lending will make much of a difference in the consumer market.

"The people with a lot of debt who need the money are not going to get it. Is the Treasury now trying to encourage lending to these same sort of substandard customers?" Bush asked.

In reporting sharply lower profits for his company earlier this month, Bank of America chief executive Kenneth Lewis called lending conditions "a damn disaster." Lewis added, "We are making every good loan we can find," but "it's not going to be pretty for awhile."

At J.P. Morgan Chase, the percentage of loans going bad was only a part of the gloomy picture in its quarterly earnings report yesterday. The bank said profit dropped 84 percent, to \$527 million (11 cents per share) from \$3.4 billion (97 cents) a year earlier. Revenue fell to \$14.7 billion from \$16.1 billion. J.P. Morgan, the nation's largest bank by market capitalization, acquired struggling Washington Mutual last month.

Wells Fargo, based in San Francisco, yesterday said it was boosting its reserves by \$500 million to cover losses, to total \$8 billion. Wells Fargo said it made a third-quarter profit of \$1.6 billion, down 25 percent from the year earlier. The bank has weathered the economic downturn well so far and has announced that it is buying Charlotte-based Wachovia Corp., which was brought low by the mortgage crisis.

The stock market, in what was an overall rout of shares, walloped J.P. Morgan and Capital One but left Wells Fargo untouched. J.P. Morgan shares fell \$2.22, or 5.45 percent, to \$38.49. Capital One fell \$6.71, or 15.1 percent, to \$37.76. Wells Fargo fell 17 cents, or 0.51 percent, to \$33.35.

#### Post a Comment

[View all comments](#) that have been posted about this article.

Comments that include profanity or personal attacks or other inappropriate comments or material will be removed from the site. Additionally, entries that are unsigned or contain "signatures" by someone other than the actual author will be removed. Finally, we will take steps to block users who violate any of our posting standards, terms of use or privacy policies or any other policies governing this site. Please review the [full rules](#) governing commentaries and discussions. You are fully responsible for the content that you post.

V

# North Carolina Justice Center

presentation to the

## N.C. House Study Committee on Unbanked and Under-banked Consumers

November 20, 2008

Alfred Ripley  
Counsel for Consumer and Housing Affairs  
North Carolina Justice Center  
(919) 856-2573 voice  
[al@ncjustice.org](mailto:al@ncjustice.org)  
[www.ncjustice.org](http://www.ncjustice.org)

### I. Introduction

The Justice Center is a private, nonprofit anti-poverty organization located in Raleigh. Its mission is to reduce and eliminate poverty in North Carolina by helping to ensure that every North Carolina household gains access to the resources, services and fair treatment that it needs in order to enjoy economic security. Founded in 1996 through the merger of two former Legal Services organizations and staffed by a diverse array of professionals, the Justice Center pursues its ambitious mission through four main strategies:

**Litigation** - Justice Center lawyers take on carefully selected, high-impact cases that are designed to protect and expand the rights of low-income groups and individuals.

**Research and analysis** - Justice Center experts research and analyze public policies affecting low-income North Carolinians, identify strategies for improvement and publish their findings in an array of reports, newsletters and issue briefs.

**Public Policy Advocacy** - Justice Center advocates speak out on behalf of vulnerable North Carolinians and work to win concrete policy changes from elected officials and administrative agencies.

**Grassroots Action** - Justice Center activists build relationships with groups and individuals at the grassroots level and pursue a two-way process of education and empowerment.

## II. Obstacles to banking and saving:

1. The unbanked tend to be lower income with lower levels of education
2. Unaffordable fees and charges for financial services make banking too costly
3. High cost unaffordable loans
4. Increased unemployment, and a lack of quality education, affordable housing, childcare, health care and other factors contribute to low wealth and poverty.

### Recent poverty statistics in NC:

#### Child Care

- Average cost of child care in NC ranges from \$480 to \$650 a month. (NC Child Care Resource and Referral Network)
- As of August 2008 there were 38,905 children on the subsidized childcare waiting list compared to August of 2007 when there were 25,207. (DHHS - NC Division of Child Development Monthly Statistical Report)

#### Health Care

- In 2007, 1.5 million people in NC were uninsured, an increase of 500,000 people since 2001. (US Census Data)

#### Poverty

- According to 2005 census data there were 1,115,000 people in NC living in poverty, and in 2007 of the State's 8.7 million people 14.3 percent or approximately 1,257,000 lived in poverty. (Family of four making less than \$21,200) (US Census -American Community Survey)

#### Unemployment

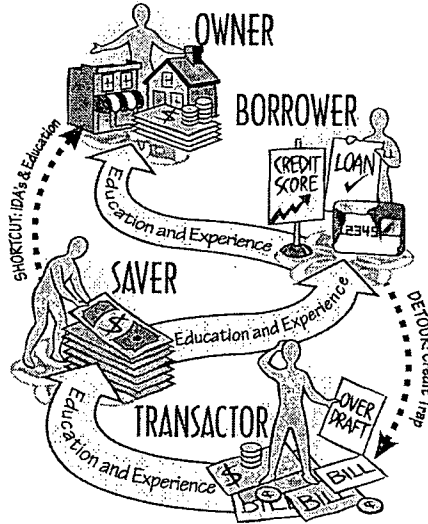
- September, 2007 4.7% or 214,000 people in the labor force were jobless and actively seeking work and in September, 2008 7 % or 318,000 were unemployed. (U.S Bureau Of Labor Statistics/ Employment Security Commission Of North Carolina)

5. The unbanked get mired in high cost debt making it impossible to save



## The Credit Path: the theory

From: Alternatives  
Federal Credit Union



**The reality** is very different, with many getting mired in consumer debt before starting to save and build good credit.

✂ III. Practices that keep consumers from becoming banked

1. High cost financial services
2. High minimum balances
3. High cost debt and loans
4. Loan product characteristics that encourage repeat high cost transactions

- Many other states have stronger consumer lending laws than North Carolina. Other states (36) have at least one interest rate cap that is lower than those under North Carolina Law. The report gave North Carolina a failing grade of F in two of its loan categories (Consumers Union, et al -Publisher of Consumer Reports August 20, 2008)

*“Background: Abusive lending practices not only harm individual consumers, but they place a needless drag on the overall U.S. economy. Abusive lending practices include those in which the lender charges excessive fees and interest rates, lends without regard to the borrowers’ ability to repay, refinances borrowers’ loans repeatedly over a short period of time without any economic gain for the borrower, and commits outright fraud or deception.<sup>9</sup> Consumers experiencing abusive lending practices pay more for their loans and often get trapped in cycles of debt from which they cannot emerge. As a result, these consumers have fewer resources to devote toward building family wealth.<sup>10</sup> This is especially true of consumers who are of modest means and just trying to make ends meet. Indeed, numerous studies have documented the consumer harms related to these abusive lending practices.<sup>11</sup>”*

- At the Justice Center we get many complaints about lending abuses but we do not get any complaints about a lack of credit in NC. People are already over extended in high cost debt and having more debt at high cost does not help. We need to be lowering interest rates on loan products not increasing rates.

*Laws stronger*

*“Consumer”*

#### **IV. Approaches to encourage consumers to use beneficial banking services:**

1. Reliable social safety net that prevents poverty and enables families to save: i.e. health care, affordable housing, affordable childcare, higher State Earned Income Tax Credit, etc...
2. Jobs that pay a living wage and have good benefits
3. Low-cost financial services with low minimum balance requirements
4. Initiatives that promote low cost financial services

#### **“Bank-On” Initiatives that reduce barriers to banking**

##### **“Bank-On” San Francisco**

- a. “Bank-On” San Francisco was started two years ago and has been very successful. The model is being utilized in other cities like New York, Seattle, Savannah, Houston, Philadelphia.
- b. Partnership between Government, Financial Institutions, and Community Organizations.
- c. Raise Awareness of unbanked issues and encourage people to get a bank account to avoid and discourage the use of high cost financial products and services.
- d. Starter Depositor Account features checking with no minimum balance and low cost or no cost fees.
- e. Promotes direct deposit.
- f. Waives or refunds one set of insufficient funds (NSF fees) a year.
- g. Allow multiple forms of identification for opening an account.
- h. Adapt internal systems to allow customers on ChexSystems to open “second chance” checking accounts.
- i. Expand marketing in targeted, low-income neighborhoods. Increase the visibility of appropriate products in San Francisco and develop new strategies to reach unbanked customers in low-income neighborhoods.
- j. Partner with nonprofits in San Francisco to identify customers ready to enter the financial mainstream.

##### **“Bank-On” San Francisco Statistics**

- a. Approximately 20,000 accounts opened in two years
- b. Average Balance is \$800
- c. Endorsement by the National League of Cities, AARP, US Treasury Department, the Clinton Foundation and others.
- d. “Bank on California”, will be the first state-wide initiative and has had a soft launch already and is set for hard launch in December 2008.

“Bank-On” San Francisco Partners (Credit Unions and Banks):





# THE WALL STREET JOURNAL. ONLINE

January 24, 2008

## OPINION

### **Beyond Payday Loans**

By WILLIAM J. CLINTON and ARNOLD SCHWARZENEGGER  
*January 24, 2008*

The American dream is founded on the belief that people who work hard and play by the rules will be able to earn a good living, raise a family in comfort and retire with dignity.

But that dream is harder to achieve for millions of Americans because they spend too much of their hard-earned money on fees to cash their paychecks or pay off high-priced loans meant to carry them over until they get paid at work.

Here is one initiative that can unite progressives and conservatives as well as business leaders and community activists: helping the "unbanked" enter the financial mainstream by opening checking and savings accounts, and working collaboratively with financial institutions and community groups to develop and market products that work for this untapped market. This will put money in the pockets of individuals and grow the economy. And it won't cost taxpayers a dime.

Imagine the economic and social benefits of putting more than \$8 billion in the hands of low- and middle-income Americans. That is the amount millions of people now spend each year at check-cashing outlets, payday lenders and pawnshops on basic financial services that most Americans receive for free -- or very little cost -- at their local bank or credit union. Over a lifetime, the average full-time, unbanked worker will spend more than \$40,000 just to turn his or her salary into cash.

Many nonbank customers are either leery of banks or believe they do not have the products they need. The result is that the market for basic financial services is booming. Today, the number of check cashers, payday lenders and pawnshops is more than double the number of McDonald's franchises in the United States. More than 20 million Americans cash more than \$60 billion in checks each year at check-cashing businesses. Full-time workers without a checking account typically pay \$40 on average to cash their paychecks. And payday lenders sell an additional \$40 billion in expensive small-dollar loans each year that carry fees 30 times the average credit-card rate.

But these Americans can become bank customers if they have access to the right products at the right terms, and the support they need to make good, responsible financial decisions. People outside of the financial mainstream are the heart of America. The vast majority of people without bank accounts work, and they have an average household income of \$27,000. Most are also married, have at least one child, and are employed by a small business.

And consider that, according to a new Brookings Institution report, as much as \$360,000 in pre-tax wealth could be created if the average, full-time unbanked worker invested in the stock market what he will spend over his lifetime paying to cash his paychecks. That would allow one of those workers to finance about 25 years of retirement at his current standard of living.

This year, California will become the first state in the nation to launch an effort to help unbanked residents open starter accounts -- the first step into the financial mainstream. Approximately 11% of California households, including 25% of Latino and African-American households, do not have a checking account. And nearly half of households in the state don't have a savings account.

In coordination with the Federal Deposit Insurance Corporation, we will partner with financial institutions to increase the supply of starter accounts that work for unbanked consumers and banks. We will form regional coalitions of financial institutions, mayors and community groups to market accounts and help the unbanked build financial literacy. And we will build on work already being done in San Francisco, where city officials, working with banks and credit unions, have already signed up 11,000 individuals who previously had no checking or savings account.

The William J. Clinton Foundation's Economic Opportunity Initiative will help more people enter the financial mainstream by supporting the work of California -- as well as that of mayors in Boston, Los Angeles, Miami, New York, Providence, San Francisco, Savannah and Seattle, each of whom are spearheading their own efforts. It will also work to engage additional cities and states, and the private sector.

We need other leaders across the country in the public, private and nonprofit sectors to join this effort. Banks and credit unions can expand their efforts to broaden access to transaction accounts and alternatives to payday loans with terms attractive to the unbanked and underserved. They already have the storefronts to compete for this business: More than 90% of nonbank alternatives are located within one mile of a bank or credit union branch.

Employers can also help reduce the financial stress in workers' lives and boost workplace morale by helping employees to gain access to banking services, and to save and better manage their finances. Community-based organizations can work with the public and private sectors to help people access the trustworthy, high-quality money management support they may need to develop and sustain good personal financial

practices.

By working together, we can improve the lives of millions of people, boost our economy, and strengthen our communities.

*Mr. Clinton was the 42nd president of the United States. Mr. Schwarzenegger is governor of California.*

URL for this article:

<http://online.wsj.com/article/SB120113610711211855.html>

## **V. Conclusion**

To encourage the unbanked to become banked North Carolina should:

1. Strengthen Our Lending Laws To Reduce Rates and Fees on High Cost Debt Products
2. Discourage High Cost Financial Services and High Minimum Balances
3. Strengthen Programs and Services That Provide A Social Safety Net
4. Promote Initiatives Like Bank-On California And Other Low-Cost Financial Services

# Fast Facts

## About Human Needs & Inequality in North Carolina

A half-decade of economic growth failed to improve the financial well-being of the typical North Carolina family. Between 2001 and 2006, median household income stagnated, poverty rates remained unchanged, and health insurance coverage eroded.

### INCOME

- Median household income equaled \$42,625 in 2006; statistically, this is no different from the 2001 level.
- 44 percent of the state's families with children earned low incomes in 2006.
- The state's richest families now earn, on average, 12 times as much as the poorest families and 4 times as much as middle-income ones.

### POVERTY

- 1.3 million North Carolinians - 15 percent of the state's population - lived in poverty in 2006.
- 20 percent of the state's children were poor in 2006.
- 10 percent of whites, 26 percent of blacks and 26 percent of Hispanics were poor in 2006.

### HOUSING

- 43 percent of renters and 26 percent of owners were "housing burdened" and spent at least 30 percent of their incomes on housing in 2006.
- Home foreclosure filings grew by 174 percent between 1998 and 2006.

### HEALTH INSURANCE COVERAGE

- 1.4 million North Carolinians - 17 percent of the state's population - were uninsured in 2005-06.
- 19 percent on the state's non-elderly working adults (ages 18-64) lacked health insurance in 2006.

### CHILDREN

- Nearly 30,000 eligible low-income children currently are waiting for a subsidized child care slot.
- 17,246 children were substantiated as victims of child abuse and neglect in 2006.

### PUBLIC EDUCATION

- 32 percent of the state's ninth graders fail to graduate within four years of starting high school.

- Economically disadvantaged students have slightly better than a 50-50 chance of graduating on time.

### HEALTH AND WELLNESS

- 1,229 new HIV/AIDS cases were reported in 2006. 68 percent of those cases involved African Americans.
- 26 percent of North Carolina adults reported having poor mental health in 2004.
- North Carolina posted the nation's seventh-worst infant mortality rate in 2005.

### PRISONS

- The average daily prison population in 2006 equaled 37,725. This is a 20-percent increase over 2000.
- African Americans accounted for almost 60 percent of the prison population.
- 70 percent of the individuals entering state prisons in 2006 had no more than an 11th grade education.

### TAXES

- State and local taxes consume 10.7 percent of the incomes of the lowest-earning 20 percent of taxpayers but 7.1 percent of the incomes of the highest-earning one percent of taxpayers.

### HIGHER EDUCATION

- Some two-thirds of North Carolina's prime-age workers (ages 25-54) lacked a post-secondary degree or credential in 2006.
- 62 percent of young adults (ages 18-24) were not pursuing post-secondary education in 2006.

Prepared for the A.J. Fletcher Foundation by NC Policy Watch ([www.ncpolicywatch.com](http://www.ncpolicywatch.com)) and the NC Budget and Tax Center ([www.ncjustice.org](http://www.ncjustice.org)). Update by John Quintero.

- 1 U.S. Census Bureau, 2006 American Community Survey.
- 2 Ibid.
- 3 Center on Budget and Policy Priorities & Economic Policy Institute.
- 4 Ibid.
- 5 Ibid.
- 6 Ibid.
- 7 Ibid.
- 8 N.C. Administrative Office of the Courts.
- 9 U.S. Census Bureau, 2006 Current Population Survey.
- 10 Population Reference Bureau, analysis of 2006 Current Population Survey.
- 11 N.C. Budget & Tax Center.
- 12 Action for Children North Carolina.
- 13 N.C. Department of Public Instruction.
- 14 Ibid.
- 15 The Henry J. Kaiser Family Foundation.
- 16 Ibid.
- 17 The Annie E. Casey Foundation.
- 18 N.C. Department of Correction, Office of Research and Planning.
- 19 Ibid.
- 20 Ibid.
- 21 Institute on Taxation and Economic Policy.
- 22 Population Reference Bureau, analysis of 2006 American Community Survey.
- 23 Ibid.

## Minutes

### House Study Committee on Unbanked and Underbanked Consumers

January 15, 2009

The House Study Committee on Unbanked and Underbanked Consumers met at 10:00 AM on Thursday, January 15, 2009 in Room 1425 of the Legislative Building. The following members were in attendance: Representatives Holliman, Bryant, Hall and McGee. Members: David Darby Ali and Bob Schall. Staff: Karen Cochrane-Brown, Drupti Chauhan.

Chairman Holliman called the meeting to order. He introduced Sgt-of-Arms staff and welcomed the visitors. See Attachment I. He then asked for a motion to approve the minutes from the November 20, 2008 meeting. Mr. Darby made the motion and the motion passed.

Chairman Holliman asked staff to review the committee report with the members. Karen Cochrane-Brown addressed the draft report and reviewed the recommendations. After some committee discussion, Mr. Schall made a motion to accept the draft report. Motion passed. See attachment III.


Rep. L. Hall made recommendations for the next study to consider. He made a motion to include these in the report and the motion passed. See attachment IV.

Rep. A. Bryant also made some recommendations to be considered in the study. She motioned these be included in the final report and the motion passed. See attachment V.

After some committee discussion a motion by Rep. Hall and second by Mr. Schall was made recommending the report as amended be sent to the House Financial Institutions Committee to be studied under a sub-committee. The motion passed unanimously.

Included in these minutes are recommendations from Eli Wallace with the NC Credit and Personal Finance Council. The committee did not address these. See Attachment VI.

The meeting was adjourned at 10:45 AM.

  
\_\_\_\_\_  
Hugh Holliman, Chairman

  
\_\_\_\_\_  
Carol Bowers, Committee Clerk

**HOUSE STUDY COMMITTEE ON UNBANKED AND  
UNDERBANKED CONSUMERS**

---

**AGENDA**

**January 15, 2009**

**10:00 a.m.**

**Legislative Building: Room 1425**

---

- I. Introduction**  
*Representative Hugh Holliman, Chair*
- II. Approval of November 20, 2008 Minutes**
- III. Review of Draft Report**
- IV. Committee Discussion**
- V. Adjourn**



# VISITOR REGISTRATION SHEET

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Laura W. Bone	Bone and Associates PO Box 28586 Raleigh, NC 27611
Larry Heckner	HSBC North America
Don Corbett	Law Office of Richard H. Corbett
Al Epling	NC Justice Center
Chris Kolda	Ctr for Responsible Lending
Dan Schline	at Credit Union League
Amy Fullbright	Amston's WMS
Heather Barrett	NC Credit Union League
Mickey Fannery	NC Credit Union League

att # 17

# Minutes

## House Study Committee on Unbanked and Underbanked Consumers

November 20, 2008

The House Study Committee on Unbanked and Underbanked Consumers met at 1:00 PM on Thursday, November 20, 2008 in Room 1228 of the Legislative Building. The following members were in attendance: Representatives Holliman, Bryant, Church, Hall and McGee. Members: David Darby, Farad Ali and Bob Schall. Staff: Karen Cochran-Brown, Drupti Chauhan and Ryan Blackledge.

Chairman Holliman called the meeting to order. He introduced Sgt-of-Arms staff and welcomed the visitors. See Attachment I. He then asked for a motion to approve the minutes from the September 23, 2008 meeting. Rep. McGee made the motion and the motion passed.

Dan Schline, Senior Vice President, Association Services with the NC Credit Union League was called on to explain the services provided by the NC Credit Unions. He explained how credit unions serve the unbanked and underbanked consumer. Attachment II

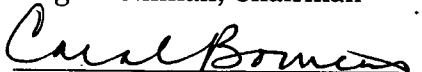
Mr. C. Everett Wallace with the Consumer Credit Industry spoke to the committee on the basic needs of the unbanked consumer and how to modernize lending laws to make this service more available to consumers. See Attachment III.

Chris Kukla, Senior Counsel for Legislative Affairs with the Center for Responsible Lending spoke about consumer finance companies, lending laws, stated that credit is no longer sustainable and 50% of income is paid out on housing. Mr. Kukla stated it all creates a lending cycle for consumers. Attachment IV.

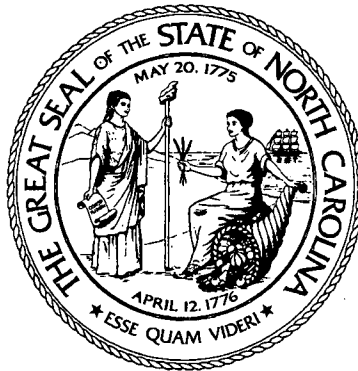
Al Ripley, Director of Consumer Action Network, NC Justice Center passed out a "Fast Fact Sheet" about human needs and inequality in NC. He covered areas of the economic growth and poverty statistics in NC. He stated that banking should be made more affordable without higher fees. He encouraged the committee to work towards requiring banking to be made available to the unbanked and underbanked consumers. Attachment V.

The meeting was adjourned at 2:45 pm

  
\_\_\_\_\_  
Hugh Holliman, Chairman

  
\_\_\_\_\_  
Carol Bowers, Committee Clerk

**HOUSE STUDY COMMITTEE ON UNBANKED  
AND UNDERBANKED CONSUMERS**



***REPORT TO THE  
2009 HOUSE OF REPRESENTATIVES***

DRAFT

A LIMITED NUMBER OF COPIES OF THIS REPORT IS AVAILABLE FOR DISTRIBUTION THROUGH THE LEGISLATIVE LIBRARY.

ROOMS 2126, 2226  
STATE LEGISLATIVE BUILDING  
RALEIGH, NORTH CAROLINA 27611  
TELEPHONE: (919) 733-7778

OR

ROOM 500  
LEGISLATIVE OFFICE BUILDING  
RALEIGH, NORTH CAROLINA 27603-5925  
TELEPHONE: (919) 733-9390

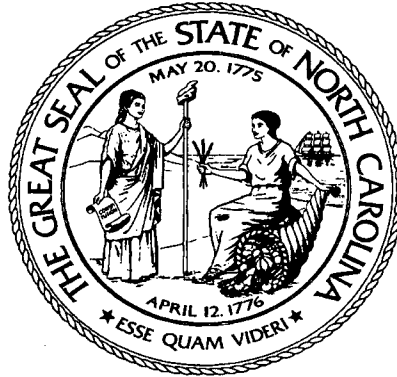
## TABLE OF CONTENTS

LETTER OF TRANSMITTAL.....	1
COMMITTEE MEMBERSHIP.....	2
AUTHORIZING LEGISLATION.....	3
COMMITTEE PROCEEDINGS.....	6
SUMMARY OF COMMITTEE PROCEEDINGS.....	7
COMMITTEE FINDINGS AND RECOMMENDATIONS.....	10

DRAFT

STATE OF NORTH CAROLINA

HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED  
CONSUMERS



January \_\_, 2009

TO THE MEMBERS OF THE 2009 North Carolina House of Representatives:

Attached for your consideration is the report of the House Study Committee on Unbanked and Underbanked Consumers established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26(a) of the Rules of the House of Representatives of the 2007 General Assembly.

Respectfully submitted,

---

Representative Hugh Holliman  
Chair

**HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED  
CONSUMERS  
Membership List**

The Honorable Hugh Holliman, Chair  
103 Sapona Road  
Lexington, NC 27295  
[Hughh@ncleg.net](mailto:Hughh@ncleg.net)

Mr. David Darby  
175 Orchard Park Drive  
Bermuda Run, NC 27006  
[Ddarby1@triad.rr.com](mailto:Ddarby1@triad.rr.com)

The Honorable Angela R. Bryant  
717 West End Street  
Rocky Mount, NC 27803  
[Angelab@ncleg.net](mailto:Angelab@ncleg.net)

Mr. Bob Schall  
Self-Help  
301 West Main St.  
Durham, NC 27701  
[bob.schall@self-help.org](mailto:bob.schall@self-help.org)

The Honorable Walter G. Church Sr.  
5253 Mineral Springs Mtn. Avenue  
Valdese, NC 28690  
[Waltc@ncleg.net](mailto:Waltc@ncleg.net)

Staff

The Honorable Larry D. Hall  
1526 Southwood Drive  
Durham, NC 27707  
[Larryh@ncleg.net](mailto:Larryh@ncleg.net)

Ms. Karen Cochrane-Brown  
545 Legislative Office Building  
300 N. Salisbury St.  
Raleigh, NC 27603  
[karenc@ncleg.net](mailto:karenc@ncleg.net)

The Honorable Daniel F. McComas  
1717 Softwind Way  
Wilmington, NC 28403  
[Dannym@ncleg.net](mailto:Dannym@ncleg.net)

Ms. Drupti Chauhan  
545 Legislative Office Building  
300 N. Salisbury St.  
Raleigh, NC 27603  
[druptic@ncleg.net](mailto:druptic@ncleg.net)

The Honorable Wm. C. "Bill" McGee  
6102 Arden Drive  
Clemmons, NC 27102  
[Williamm@ncleg.net](mailto:Williamm@ncleg.net)

The Honorable Drew Saunders  
6102 Sherwood Drive  
Huntersville, NC 28078-9003  
[Drews@ncleg.net](mailto:Drews@ncleg.net)

The Honorable Farad Ali  
Durham City Council  
101 City Hall Plaza  
P.O. Box 2271  
Durham, NC 27701  
[Farad.ali@durham.nc.gov](mailto:Farad.ali@durham.nc.gov)



Office of Speaker Joe Hackney  
North Carolina House of Representatives  
Raleigh, North Carolina 27601-1096

---

**HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED  
CONSUMERS**

**TO THE HONORABLE MEMBERS OF THE  
NORTH CAROLINA HOUSE OF REPRESENTATIVES**

**WHEREAS**, consumers who do not have or maintain traditional bank accounts are considered "unbanked"; and

**WHEREAS**, consumers who have impaired or inadequate credit files are considered financially "underbanked"; and

**WHEREAS**, financial products and financial companies serving these consumers, and laws governing both those transactions and the practices of those companies, have evolved substantially in the last 10 years; and

**WHEREAS**, the General Assembly has not had a comprehensive review of the State's various lending laws and whether those laws foster availability of responsible personal installment lending or leverage the favorable changes that have occurred in the national marketplace in products, business practices, credit information, and operations technology;

**NOW THEREFORE,**

**Section 1.** The House Study Committee on Unbanked and Underbanked Consumers (hereinafter "Committee") is established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26(a) of the Rules of the House of Representatives of the 2007 General Assembly.

**Section 2.** The Committee consists of ten members, including seven legislators and three public members appointed by the Speaker of the House of Representatives. Members serve at the pleasure of the Speaker of the House of Representatives. The Speaker of the House of Representatives may dissolve the Committee at any time.

Representative Hugh Holliman, Chair
Representative Angela R. Bryant
Representative Walter G. Church, Sr.
Representative Larry D. Hall
Representative Daniel F. McComas
Representative William C. "Bill" McGee
Representative Drew Saunders

**Public Members**

The Speaker of the House of Representatives appoints the following public members of the Committee:

- Three members of the public with an interest in credit, consumer protections, and/or economic development.

The Honorable Farad Ali, Durham County
Mr. David C. Darby, Davie County
Mr. Bob Schall, Durham County

**Section 3.** The Committee shall study the following matters related to access to credit by consumers who are considered unbanked or underbanked:

1. Consumer protection laws, licensing laws, and other regulations involving non-bank consumer installment credit, both unsecured and real estate secured, that have been developed over the last 10 years by the North Carolina General Assembly, the Attorney General, and the Office of the Commissioner of Banks.
2. Whether current day lending processes are understandable, fair, and efficient.
3. An analysis of what may constitute optimum disclosures to consumers so that they might better understand and make reasoned decisions with regard to the products being offered.
4. The economic factors and financial circumstances that are relevant to consumer installment credit businesses, investors, and profitability.
5. The economic factors and financial circumstances that are relevant to products, pricing, costs, cost recovery, and risk based pricing.
6. The personal and community financial impact from improving credit scores.

**Section 4.** The Committee shall meet upon the call of its Chair. A quorum of the Committee shall be a majority of its members.

**Section 5.** The Committee, while in the discharge of its official duties, may exercise all powers provided for under G.S. 120-19 and Article 5A of Chapter 120 of the General Statutes.

**Section 6.** Members of the Committee shall receive per diem, subsistence, and travel allowance as provided in G.S. 120-3.1.

**Section 7.** The expenses of the Committee including per diem, subsistence, travel allowances for Committee members, and contracts for professional or consultant services shall be paid upon the written approval of the Speaker of the House of Representatives pursuant to G.S. 120-32.02(c) and G.S. 120-35 from funds available to the House of Representatives for its operations. Individual expenses of \$5,000 or less, including per diem, travel, and subsistence expenses of members of the Committee, and clerical expenses shall be paid upon the authorization of the Chair of the Committee. Individual expenses in excess of \$5,000 shall be paid upon the written approval of the Speaker of the House of Representatives.

**Section 8.** The Legislative Services Officer shall assign professional and clerical staff to assist the Committee in its work. The Director of Legislative Assistants of the House of Representatives shall assign clerical support staff to the Committee.

**Section 9.** The Committee may meet at various locations around the State in order to promote greater public participation in its deliberations.

**Section 10.** The Committee shall submit a final report on the results of its study, including any proposed legislation, to the members of the House of Representatives on or before January 27, 2009 by filing the final report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative Library. The Committee terminates on January 27, 2009, or upon the filing of its final report, whichever occurs first.

Effective this 1<sup>st</sup> day of April, 2008.



---

Joe Hackney  
Speaker

4/2/2008 3:50 PM

8/11/2008 10:58 AM -- Mr. Bob Schall replaces Mr. Martin Eakes

## COMMITTEE PROCEEDINGS

The House Study Committee on Unbanked and Underbanked Consumers held 4 meetings.

### August 21, 2008

#### Review of Committee Charge

- Karen Cochrane-Brown, Committee Co-Counsel

#### Overview of the Unbanked and Underbanked Consumers in North Carolina

- Janneke Ratcliffe, Associate Director, UNC Center for Community Capital, UNC-Chapel Hill

### September 23, 2008

#### Review of the Regulation of the Banking and Financial Services Industries

- Mark Pearce, North Carolina Deputy Commissioner of Banks

#### Comments on Behalf of the North Carolina Bankers Association

- Paul Stock, Executive Vice President and Counsel, North Carolina Bankers Association

#### Comments on Behalf of the Consumer Credit Industry

- Dick Carleton, North Carolina Financial Services Association
- Roger Bone, Bone and Associates, Resident Lenders of North Carolina

### November 20, 2008

#### Comments on Behalf of the North Carolina Credit Union League

- Dan Schline, Senior Vice President, Association Services, North Carolina Credit Union League

#### Comments on Behalf of the Consumer Credit Industry and the North Carolina Credit and Personal Finance Council

- C. Everett Wallace

#### Comments by Consumer Advocate Organizations

- Chris Kukla, Senior Counsel for Legislative Affairs, Center for Responsible Lending
- Al Ripley, Director, Consumer Action Network, North Carolina Justice Center

### January \_\_, 2009

#### Adoption of Report

## **SUMMARY OF COMMITTEE PROCEEDINGS**

### **House Study Committee on Unbanked and Underbanked Consumers August 21, 2008 – 1:00 pm – Room 1228, Legislative Building**

Karen Cochrane-Brown, Committee Counsel, reviewed the charge to the Committee from the Authorizing Letter. Next, Janneke Ratcliffe, the Associate Director at the UNC Center for Community Capital, UNC-CH, provided an overview of unbanked and underbanked consumers in North Carolina. According to studies done by the Center, 17% of lower income families in the State (about 222,000 households) had no bank account and 41% of the unbanked families did previously have bank accounts. The factors associated with being unbanked included: lower incomes; being African-American or Hispanic; lower education levels; living in areas with fewer bank branches and more check cashing outlets; growing up in an unbanked household. Ms. Ratcliffe stated that among unbanked individuals, 49% stated that it was too costly to have a bank account.

Ms. Ratcliffe stated that State policies and programs should focus on providing options for consumers to borrow small amounts of money at low-interest rates. However, financial education should also address that bank accounts (including checking and savings accounts) are the most important elements of financial literacy and that borrowing should be secondary.

There were various questions from the Committee members and Committee discussion on how to bring greater access to banking services to unbanked and underbanked persons.

### **House Study Committee on Unbanked and Underbanked Consumers September 23, 2008 – 1:00 pm – Room 1228, Legislative Building**

Mark Pearce, the North Carolina Deputy Commissioner of Banks, provided a review of financial services for the underbanked. Mr. Pearce stated that the access to banking services is an important aspect of financial well-being. Although alternative financial services (such as check cashing outlets) offer consumers convenience, speed, and customer services, the prices can often be quite high. Mr. Pearce stated that research shows that low-income families do want to save money and if they have a bank account, they are more likely to have success in savings and a positive net worth. African American and Latino families were twice as likely to not have bank accounts. The North Carolina Commissioner of Banks has encouraged banking institutions to penetrate into the unbanked population through targeted partnerships with large employers. It has also encouraged more participation from State chartered banks in federal programs that provide small dollar loans. Mr. Pearce also commented on North Carolina's payday lending "experiment" which lasted from 1997 to 2001. Installment loans through consumer finance lenders have increased over the past few years for loans between the amount of \$600 and \$1000 and surveys show that North Carolina consumers have not missed payday lending. Mr. Pearce recommended that the State:

- Maintain strong regulation of rates and terms of consumer loans
- Continue to increase financial education and literacy in schools
- Promote direct deposit of checks for State employees
- Provide funding for non-profit counselors for financial advice and budgeting

Paul Stock, Executive Vice President and Counsel, NC Bankers Association, spoke about the results of a survey the Bankers Association conducted of banks headquartered or with branches in the State. The survey asked the banks to provide information on products and services offered to attract unbanked and underbanked consumers. According to Mr. Stock, of the survey respondents, 68.8% stated that they offered products and services for consumers that had not had a previous relationship with a bank. The banks felt that their products had been received well. A number of banks stated they offered free checking accounts to consumers with no or low service fees or no or low minimum balances. The survey also provided information on

credit product and services offered by the banks and the banks views on unbanked and underbanked consumers. Mr. Stock recommended that the State needs to bring financial education to "the masses".

Dick Carleton of the North Carolina Financial Services Association stated that access to small loans in North Carolina is decreasing. He recommended that there needs to be a review of the statutes as the consumer loan laws in the State have become outdated since they have not changed since 1982. He asked that the Committee recognize the need for traditional installment loan products and that the Committee take into consideration the true costs of unsecured, non-depository consumer credit. He stated that if these loans become unavailable, there will be no legal source for unsecured credit for many borrowers.

Roger Bone of Bone and Associates and representing the Resident Lenders of North Carolina stated that the North Carolina statutes on small loans needed to be modernized and new products needed to be developed (which could be regulated by the Commissioner of Banks). Mr. Bone asked the committee to find a way to provide loans for the unbanked and underbanked consumers. He stated that access to credit is critical for unbanked consumers and legislators should recognize the need for small consumer loans.

There were questions from committee members and some committee discussion around the various issues and presentations.

**House Study Committee on Unbanked and Underbanked Consumers  
November 20, 2008 – 1:00 pm – Room 1228, Legislative Building**

Dan Schline, Senior Vice President, Association Services with the North Carolina Credit Union League explained the services provided by the North Carolina credit unions and how credit unions serve unbanked and underbanked consumers. Some of these services include: low-cost/basic checking deposit accounts; credit building programs; wealth building initiatives; various credit programs such as low-cost loans, payday alternatives (salary advance loans), and basic transportation loans; and financial counseling.

C. Everett Wallace spoke on behalf of the North Carolina Credit and Personal Finance Council (Council). Mr. Wallace stated that the Council was the umbrella trade association for the traditional installment lending consumer credit industry in the State. The Council's mission is to "improve and protect consumers' access to credit and promote responsible and ethical lending for responsible and informed borrowers". Mr. Wallace explained that G.S. 53-173 governed the licensed entities that make loans of \$3,000 or less and G.S. 53-176 governed loans made by licensed entities of \$10,000 or less. Mr. Wallace stated that the customer base of the installment credit industry in the State is made up largely of the unbanked and underbanked and various analyses show that many of these borrowers have credit scores in the "sub-prime" area. The majority of the consumer credit industry's borrowers are from lower-income households and have very low savings or even negative net worth. Mr. Wallace noted that North Carolina's installment lenders are turning down about 80% of the applicants who apply for loans to cover basic needs. This is happening due to the rising costs of providing unsecured, non-depository consumer credit and the rate structure under which the consumer credit industry operates has not been modified or "indexed" for inflation. Mr. Wallace advocated "infusing profitability in the statutory and regulatory framework that governs the consumer credit industry."

Chris Kukla, Senior Counsel for Legislative Affairs with the Center for Responsible Lending spoke next about the current lending laws that governed the consumer finance industry. Mr. Kukla pointed out that a number of bills had been introduced in recent legislative sessions which would have raised the statutory caps on the interest rates on types of loans that had been discussed by the Committee. Mr. Kukla stated that none of the bills had been enacted by the General Assembly and that these issues need to be studied more broadly.

Al Ripley, Director of Consumer Action Network at the North Carolina Justice Center addressed issues of economic growth and poverty statistics in the State. Mr. Ripley stated there were 4 obstacles to banking and saving: (i) the unbanked tend to be lower income with lower levels of education; (ii) unaffordable fees and charges for financial services made banking too costly; (iii) high cost unaffordable loans; and (iv) increased unemployment, and a lack of quality education, affordable housing, childcare, health care and other factors contributed to low wealth and poverty. Mr. Ripley then described practices that keep consumers from becoming banked: (i) high cost financial services; (ii) high minimum balances; (iii) high cost debt and loans; and (iv) loan product characteristics that encourage repeat high cost transactions. Mr. Ripley stated that other states have stronger consumer lending laws compared to North Carolina and many states have at least one interest rate cap that is lower than those under North Carolina law. He stated that at the Justice Center they "get many complaints about lending abuses" but they "do not get complaints about a lack of credit in North Carolina." According to Mr. Ripley, "people are already overextended in high debt cost and having more debt at high cost does not help." He advocated lowering interest rates on loan products. Mr. Ripley then set forth approaches to encourage consumer to use beneficial banking services. These are: (i) reliable social safety nets that prevent poverty and help families to save; (ii) jobs that pay living wages and have good benefits; (iii) low-cost financial services with low minimum balance requirements; and (iv) initiatives that promote low cost financial services. Finally, Mr. Ripley discussed the "Bank-On" San Francisco initiative. This initiative is a partnership between government, financial institutions, and community organizations which raises the awareness of unbanked issues and encourages people to get a bank account. It has features such as checking accounts with no minimum balance and low or no cost fees. In San Francisco, the initiative has had 20,000 accounts opened with an average balance of \$800. "Bank-On California" will be the first state-wide initiative and is scheduled to be launched in December, 2008.

There were questions from committee members and some committee discussion around the various issues and presentations.

**House Study Committee on Unbanked and Underbanked Consumers  
January \_\_, 2009 – 1:00 pm – Room 1228, Legislative Building**

The meeting opened with a discussion about the draft of the final report of the Committee. After some Committee discussion, Representative \_\_\_\_\_ moved that the Committee accept the report, which will be presented to the members of the 2009 North Carolina House of Representatives. The report was seconded and adopted unanimously.

## **COMMITTEE FINDINGS AND RECOMMENDATIONS**

The House Study Committee on Unbanked and Underbanked Consumers makes the following findings and recommendations to the 2009 House of Representatives:

### **FINDINGS:**

The Committee finds that:

1. A significant number of households in the State are currently not using banking services.
2. The unbanked tend to be disproportionately African American and Hispanic.
3. The unbanked have lower incomes and less education and live in areas with fewer bank branches and more check cashing outlets.
4. Although some banks and credit unions have developed programs to address the needs of the unbanked, more needs to be done.
5. The high cost of many financial services may play a role in keeping consumers unbanked.
6. More study is needed to determine the role of access to and the cost of credit in helping the unbanked begin the process of building wealth.

### **RECOMMENDATIONS:**

The Committee recommends that no statutory proposal be offered at this time and that the General Assembly continue to study this issue to determine whether there is an appropriate policy solution.

**COMMITTEE FINDINGS AND RECOMMENDATIONS**

The House Study Committee on Unbanked and Underbanked Consumers makes the following findings and recommendations to the 2009 House of Representatives:

ATT # IV

**FINDINGS:**

The Committee finds that:

1. A significant number of households in the State are currently ~~not~~ using banking services.
2. The unbanked tend to be disproportionately African American and Hispanic. ✓
3. The unbanked have lower incomes and less education and live in areas with fewer bank branches and more check cashing outlets.
4. Although some banks and credit unions have developed programs to address the needs of the unbanked, more needs to be done.
5. The high cost of many financial services may play a role in keeping consumers unbanked.
6. More study is needed to determine the role of access to and the cost of credit in helping the unbanked begin the process of building wealth.

**RECOMMENDATIONS:**

The Committee recommends that no statutory proposal be offered at this time and that the General Assembly continue to study this issue to determine whether there is an appropriate policy solution.

Special Committee →  
Specific Objectives

Regulation Update - see draft recommendation

①  → Consumer Based Analysis - Who

2  → Parties charged to be involved, Inclusively,  
Consumer Advocacy, Coun. of Banks Etc.

3  → House Banking Comte to study; Banking Comm.;  
\* Financial Institutions →

4  Credit Counseling Component \*

EITC <sup>Bryant</sup> TAX - Preparation (via) Availability  
Direct Deposits - Commer. Banks + St Emples

Rep. A. Bryant's recommendation  
for new study

ATT: # V

- ① The Committee strongly encourage the Commissioner of Banks, and the NC Credit Union League to continue their efforts to bring banking services to NC residents through the Earned Income Tax Credit and free tax preparation.  
add: NC Bankers Assoc.
- ② The Committee strongly encourages the Commissioner of Banks, the NC Credit Union League, the State Comptroller, and the State Personnel Commission to develop strategies to provide direct deposit services for unbanked State employees.

**Recommendations for the House Study Committee on the  
Unbanked and Underbanked Customers of North Carolina**

**The North Carolina Credit and Personal Finance Council**

**January 15, 2009**

The North Carolina Credit & Personal Finance Council (NCCPFC) is the umbrella trade association for the traditional installment lending consumer credit industry in North Carolina. NCCPFC is comprised of three associations—the North Carolina Financial Services Association, the North Carolina Independent Finance Association and the Resident Lenders of North Carolina.

The NCCPFC has followed the testimony presented to the Study Committee with great interest. This industry is highly regulated under the North Carolina Consumer Finance Act, General Statute 53-164 et seq., which authorizes the Commissioner of Banks to license and supervise loan companies which make direct consumer loans of \$10,000 or less. A licensee may charge interest that exceeds the rate which Chapter 24 of the North Carolina General Statutes allows. It cannot make a loan secured by real property.

In the early days of reforming installment credit by the Russell Sage Foundation 1906-1940, and in the nationally leading consumer protections created in North Carolina's high cost mortgage laws there was a recognition that credit may be priced higher for some than for others in order for it to be available.

The customer base of the installment credit industry in North Carolina is comprised, in great measure by the same individuals and families who comprise the constituency this committee was formed to examine--the unbanked and underbanked. This is a considerable portion of the citizenry of our state. In fact, the UNC Center for Community Capital stated in their presentation to the Committee that more than 50% of the state's population falls in this category. Lower income households dominate these groups and their need for access to credit, especially small-dollar loans is increasing.

In fact, the FDIC recently recognized that the "widespread repeat use of fee-based overdraft programs and the growth of payday lending confirm that loans in small-dollar amounts are in strong demand and affordable small-dollar loan programs may target customers who have poor or limited credit histories, or who would otherwise be characterized as subprime borrowers.

The lack of savings contributes directly to the need for credit products that are readily available and affordable. As we pointed out in our testimony before the committee, there is a seemingly straightforward reason why lower-income households save less—basic necessities such as food, clothing, and shelter consume most, if not all or more, of their available income. Indeed, the median balance in checking, savings, and money market accounts for households in the lowest income quintile was only \$600 [in 2004]. Most of these funds would likely be used for day-to-day expenses, with little left for building emergency funds or long-term planning. These families and individuals are not the primary target of the banking industry that is seeking customers with greater assets and more opportunity of cross-sell and profitability.

They are the primary customer of our industry. But it is becoming increasingly difficult to provide access to many of the households and individuals that approach our members' retail outlets. Currently, North Carolina installment lenders are turning down around 80% of the new customers who apply to them for much needed loans. Most often these are requests for small loans to cover basics like school supplies, auto repairs, furniture, DMV fees, baby clothes, etc.

Access to credit has become more difficult for all Americans, but especially for those in the lower income quintiles. The FDIC said:

“Access to credit is a critical component of asset building, in that large financial assets are often accumulated by borrowing, which can magnify returns. In addition, households with access to reasonably priced credit can borrow money to fund purchases or meet emergency needs without tapping savings. Except in cases of a wind fall, such as an inheritance, it is very difficult to build wealth without access to credit.”

“Not surprisingly, low- and moderate-income (LMI) households have the most difficulty saving. Conventional wisdom suggests that banks do not view LMI households as potential profitable customers because these households have less income and fewer assets.”

The installment credit industry provides an affordable and convenient source of capital for these customers. When compared with the high cost of alternative forms of credit that are used by lower income individuals who have bank accounts; such as, bank overdraft protection, credit card charges, or payday advance, installment loans are a reasonably priced, effective and stable product for this population.

Given the current credit crisis, we believe that a determined and conclusive effort must be made to ensure the availability of credit for these families in North Carolina. The Federal Reserve Board's October 2008 Senior Loan Officer Opinion Survey on Bank Lending Practices provides a grim picture for all classes of consumers. The report says that about 75 percent of domestic respondents noted that they had tightened their lending standards for approving applications for revolving home equity lines of credit (HELOCs) over the past three months. Roughly 60% of the banks had lowered limits on existing credit card

accounts of nonprime borrowers and no banks reported raising limits to those borrowers. Nearly 65 percent of respondents indicated that they had tightened lending standards on other consumer loans over the past three months. Also, a significant number of respondents reportedly raised minimum required down payments as well as spreads of interest rates on loans to consumers other than credit card loans. Half of domestic banks indicated that they had become either somewhat or much less willing to make consumer installment loans over the past three months, up from 35 percent in the July survey and the largest fraction in more than two decades.

### **Recommendations:**

#### **Expert Economic Examination of North Carolina's Consumer Finance Act**

Because the traditional installment loan industry is built on a foundation that requires its members to first consider the borrower's ability to afford the loan they are requesting, it represents one of the best forms of lending to meet the public's need for small dollar loans. The reports from the Commissioner of Banks indicate that the number of loans and revenues is trending down. The industry reports that expenses continue to increase and credit applications must be rejected at increasingly record high numbers. The only way personal installment lending will remain a viable option for North Carolinians is to recognize the economic requirement for profitability in the statutory and regulatory framework that governs the consumer credit industry in the state.

NCCPFC believes that the North Carolina General Assembly must modernize the Consumer Finance Act. This Act has not been substantially changed since 1982 and does not reflect the true costs and economics of providing unsecured, non-depository consumer credit in North Carolina in the year 2009. Recognizing that all business costs related to personnel, facilities, insurance, taxes, communications, and government compliance have consistently increased over the last 20+ years (inflation =124%), it demands to be considered that the maximum interest rates that can be charged have not been allowed to account for normal business expenses or even "indexed" for inflation. The distinctive costs related to consumer lending beg for still more weight in the expense equation. In this moment it should be noted, in 1916, the rate determined by advocates and industry reformers to be fair for both borrowers and lenders in the Uniform Small Loan Act was 42%.

Borrowers, policy makers, and the industry should seek to have the most comprehensive and valid answer to the question of "What is a fair rate?" We recommend the committee request the Chairperson of the newly constituted House Financial Institutions Standing Committee to assign a subcommittee to review the economic issues and facts facing members of the industry to determine how they can both operate and serve citizens in this state. A report to the full committee of the findings, with legislative recommendations, should be made as soon as conclusions can be made after meetings with borrowers, the industry, consumer representatives, business and community leaders.

The Subcommittee should attempt to review and determine:

1. What are the general economic forces that determine the supply and price of credit?
2. What are the so-called retail costs of consumer lending and how are they recaptured in the price? That is, what are the non-interest costs of operating a consumer finance business? Is this different by credit score or size of the loan? Can we establish a breakeven point in pricing, upon which could be added a reasonable profit? At what point in the life of a loan is it likely that the retail costs borne by a lender are recovered with the interest charges?
3. Can we determine the economic impact and/or additional cost of risk in these loans? Are they different by credit score or size of the loan?
4. What are the expectations of industry investors (rate of return or dividends) or, separately, the costs of borrowed funds? What are the variable costs of compliance for investor owned companies and the costs for reserves held back as a function of delinquency? How do they compare with other institutions?
5. Are there different economic cases for lenders offering different size loans?
6. What is the function and result of origination fees and late penalties in recovering costs? Is there a difference, if any, between the amount of interest contracted for and the effective rate ultimately received in a lender's portfolio? How do lenders recover losses?

### Universal Consumer Protections Update

During the testimony we were reminded of the trouble we have seen nationally over the last ten years of widely available, some would say recklessly available, credit. These troubles point to failures in financial literacy, fairness and transparency in the transactions, affordability and sustainability tests in underwriting. Reforms have been established to correct these different shortcomings variously in mortgage lending, credit cards, and military family borrowing. The focus of all the reforms has been on ensuring the fair treatment of the customer and to ensure helpful products or services, to fight the potential of locking-in a never-ending cycle of debt. We need to review those new consumer protections and update the Consumer Finance Act for borrowers.

In the early days of reforming installment credit by the Russell Sage Foundation 1906-1940, and in the nationally leading consumer protections created in North Carolina's high cost mortgage laws there was a recognition that credit must be priced fairly for the lender in order for it to be available; for some higher than others. At the same time, those reformers also insisted, almost one hundred years apart, that in exchange for charging higher prices there is a higher obligation, a stricter legal duty to ensure transparency of the terms, fairness of practices, and a requirement to improve the borrower when making the loan.

The NCCPFC agrees with those reformers and agree that legislative or regulatory attention to revising consumer protection should be an equally urgent part of modernizing the Consumer Finance Act. We recommend the Study Committee request the Subcommittee mentioned above to also convene hearings with a goal to develop a legal framework of installment lending consumer protection based on broad principles like responsibility, transparency, and accountability and to recommend legislative changes to the full committee as soon as possible, including any that are necessary to ensure a strong regulatory enforcement mechanism.

Key components of those discussions should be:

1. What practices or policies must be in place to gauge a borrower's ability to repay, including sustaining potential periodic payment or financial difficulty, and also to have clear policies that ensure loans are offered on the best terms for which the borrower can qualify with the lender?
2. What is the best method to ensure borrowers receive at the outset, and during the term of the loan transaction, clear, consistent, and relevant information about all the key components of a loan---including penalty fees and collection remedies?
3. Fair loans to borrowers do not have tricks or traps. Does the Commissioner of Banks have sufficient regulatory authority to review rapidly changing loan terms and lender practices and initiate a process for hearings and possible orders or regulations to modify or cease those that are found not in the public interest?

### **Lender Practices Ensuring Safety for Borrowers and Improving Personal Economics**

The NCC&PFC will submit to the Subcommittee and other interested parties additional principles and best practices for marketplace conduct and will collaborate with the Subcommittee and other interested parties to timely recommend for adoption in law or regulation with any legislation recommended above. Some ideas are:

1. Employees who interface with customers to offer or collect loans must be trained in fundamentals of personal finance, credit, household and personal budgeting, and important lending laws of both the state and federal government to properly serve borrowers needs.
2. Personal or household budgets must be created and provided to the borrower at the time of closing.
3. Lenders should offer assistance to customers in contacting credit counseling agencies in the case of serious default.

4. Lenders must have and promote materials for customers to improve financial literacy that include basic budgeting skills, an understanding of credit products, especially relating to how some carry a greater or lesser risk of chronic indebtedness, and reinforces responsible borrowing practices and emphasizes accountability in personal decision making.
5. Lenders must have policies to discourage ill advised borrowing and policies for establishing that there is a net tangible benefit to the borrower before making a loan.

Contact: C. Everett Wallace, Counsel to NC Credit and Personal Finance Council,  
919-389-8822, Suite 1130, 150 Fayetteville Street, Raleigh, NC

August 6, 2008

**MEMORANDUM**

**TO:** Members of the House Study Committee on Unbanked and Underbanked Consumers

**FROM:** Rep. Hugh Holliman, Chairman

**SUBJECT:** Meeting Notice

There will be a meeting of the House Study Committee on Unbanked and Underbanked Consumers:

DAY: Wednesday TIME: 10:30 AM

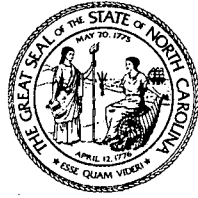
DATE: August 20, 2008

LOCATION: Room 1228 Legislative Building

Committee members, please advise Carol Bowers, Committee Assistant, or Seth Palmer, Office Assistant at 715-0873, or e-mail [Hollimanla@ncleg.net](mailto:Hollimanla@ncleg.net) if you are unable to attend.

Posted:

cc: Committee  
Record  
Interested Parties \_\_\_\_\_



**NORTH CAROLINA GENERAL ASSEMBLY**  
**16 West Jones St. Room 2301**  
**LEGISLATIVE BUILDING**  
**RALEIGH NC 27601**

**PLEASE NOTE DATE AND TIME CHANGE**

August 12, 2008

**MEMORANDUM**

**TO:** Members of the House Study Committee on Unbanked and Underbanked Consumers

**FROM:** Rep. Hugh Holliman, Chairman

**SUBJECT:** Meeting Notice

There will be a meeting of the House Study Committee on Unbanked and Underbanked Consumers:

**DAY:** THURSDAY                      **TIME:** 1:00 PM

**DATE:** August 21, 2008

**LOCATION:** Room 1228 Legislative Building

Committee members, please advise Carol Bowers, Committee Assistant, or Seth Palmer, Office Assistant at 715-0873, or e-mail [Hollimanla@ncleg.net](mailto:Hollimanla@ncleg.net) if you are unable to attend.

Posted:

cc: Committee \_\_\_\_\_  
Record \_\_\_\_\_  
Interested Parties \_\_\_\_\_



**NORTH CAROLINA GENERAL ASSEMBLY**  
**16 West Jones St. Room 2301**  
**LEGISLATIVE BUILDING**  
**RALEIGH NC 27601**

September 15, 2008

**MEMORANDUM**

**TO:** Members of the House Study Committee on Unbanked and Underbanked Consumers

**FROM:** Representative Hugh Holliman, Chair

**SUBJECT:** Meeting Notice

The House Study Committee on Unbanked and Underbanked Consumers will meet on the following date:

DAY: Tuesday  
DATE: September 23, 2008  
TIME: 1:00 pm  
LOCATION: Room 1228 Legislative Bldg.

If you have any questions concerning this meeting, please contact Carol Bowers or Seth Palmer at 715-0873. If you cannot attend, please contact our office.



OFFICE OF THE HOUSE MAJORITY LEADER  
NORTH CAROLINA HOUSE OF REPRESENTATIVES  
STATE LEGISLATIVE BUILDING  
RALEIGH, NC 27601-1096

REPRESENTATIVE L. HUGH HOLLIMAN  
DAVIDSON COUNTY

HOME ADDRESS:  
103 SAPONA DRIVE  
LEXINGTON, NC 27295

October 2, 2008

COMMITTEES:  
INSURANCE, CHAIR  
FINANCE, VICE CHAIR  
APPROPRIATIONS SUBCOMMITTEE ON  
CAPITAL  
RULES, CALENDAR AND OPERATIONS  
OF THE HOUSE  
WAYS AND MEANS

MEMORANDUM

**TO:** Members of the House Study Committee on  
Unbanked and Underbanked Consumers

**FROM:** Representative Hugh Holliman, Chair

**SUBJECT:** Meeting Notice

The House Study Committee on Unbanked and Underbanked Consumers will meet on the following date:

DAY: Thursday  
DATE: October 23, 2008  
TIME: 1:00 pm  
LOCATION: Room 1228 Legislative Bldg.

If you have any questions concerning this meeting, please contact Carol Bowers, Committee Clerk at 715-0873. If you cannot attend, please contact our office.

*Cancelled*



OFFICE OF THE HOUSE MAJORITY LEADER  
NORTH CAROLINA HOUSE OF REPRESENTATIVES  
STATE LEGISLATIVE BUILDING  
RALEIGH, NC 27601-1096

REPRESENTATIVE L. HUGH HOLLIMAN  
DAVIDSON COUNTY

HOME ADDRESS:  
103 SAPONA DRIVE  
LEXINGTON, NC 27295

COMMITTEES:  
INSURANCE, CHAIR  
FINANCE, VICE CHAIR  
APPROPRIATIONS SUBCOMMITTEE ON  
CAPITAL  
RULES, CALENDAR AND OPERATIONS  
OF THE HOUSE  
WAYS AND MEANS

November 12, 2008

**MEMORANDUM**

**TO:** Members of the House Study Committee on Unbanked and Underbanked Consumers

**FROM:** Representative Hugh Holliman, Chair

**SUBJECT:** Meeting Notice

The House Study Committee on Unbanked and Underbanked Consumers will meet on the following date:

DAY: Thursday  
DATE: November 20, 2008  
TIME: 1:00 pm  
LOCATION: 1228 LB

If you have any questions concerning this meeting, please contact Carol Bowers or Seth Palmer at 715-0873. If you cannot attend, please contact our office.



OFFICE OF THE HOUSE MAJORITY LEADER  
NORTH CAROLINA HOUSE OF REPRESENTATIVES  
STATE LEGISLATIVE BUILDING  
RALEIGH, NC 27601-1096

REPRESENTATIVE L. HUGH HOLLIMAN  
DAVIDSON COUNTY

HOME ADDRESS:  
103 SAPONA DRIVE  
LEXINGTON, NC 27295

COMMITTEES:  
INSURANCE, CHAIR  
FINANCE, VICE CHAIR  
APPROPRIATIONS SUBCOMMITTEE ON  
CAPITAL  
RULES, CALENDAR AND OPERATIONS  
OF THE HOUSE  
WAYS AND MEANS

December 18, 2008

**MEMORANDUM**

**TO:** Members of the House Study Committee on Unbanked and Underbanked Consumers

**FROM:** Representative Hugh Holliman, Chair

**SUBJECT:** Meeting Notice

The House Study Committee on Unbanked and Underbanked Consumers will meet on the following date:

DAY: Thursday  
DATE: January 15, 2009  
TIME: 10:00 pm  
LOCATION: Room 1425 LB

If you have any questions concerning this meeting, please reply to this email or contact Carol Bowers, Committee Clerk or Seth Palmer at 715-0873. If you cannot attend, please contact our office.

**HOUSE STUDY COMMITTEE ON UNBANKED  
AND UNDERBANKED CONSUMERS**



***REPORT TO THE  
2009 HOUSE OF REPRESENTATIVES***

***January 2009***

A LIMITED NUMBER OF COPIES OF THIS REPORT IS AVAILABLE  
FOR DISTRIBUTION THROUGH THE LEGISLATIVE LIBRARY.

ROOMS 2126, 2226  
STATE LEGISLATIVE BUILDING  
RALEIGH, NORTH CAROLINA 27611  
TELEPHONE: (919) 733-7778

OR

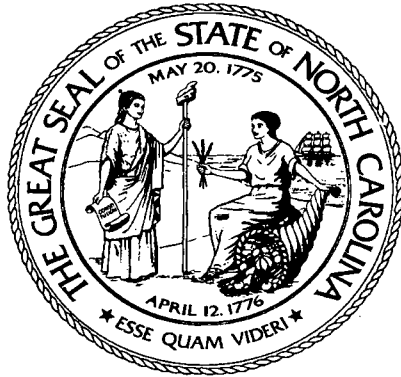
ROOM 500  
LEGISLATIVE OFFICE BUILDING  
RALEIGH, NORTH CAROLINA 27603-5925  
TELEPHONE: (919) 733-9390

## TABLE OF CONTENTS

LETTER OF TRANSMITTAL.....	1
COMMITTEE MEMBERSHIP.....	2
AUTHORIZING LEGISLATION.....	3
COMMITTEE PROCEEDINGS.....	6
SUMMARY OF COMMITTEE PROCEEDINGS.....	7
COMMITTEE FINDINGS AND RECOMMENDATIONS.....	10

STATE OF NORTH CAROLINA

HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED  
CONSUMERS



January 15, 2009

TO THE MEMBERS OF THE 2009 North Carolina House of Representatives:

Attached for your consideration is the report of the House Study Committee on Unbanked and Underbanked Consumers established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26(a) of the Rules of the House of Representatives of the 2007 General Assembly.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Hugh Holliman", is written over a horizontal line.

Representative Hugh Holliman  
Chair

**HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED  
CONSUMERS  
Membership List**

The Honorable Hugh Holliman, Chair  
103 Sapona Road  
Lexington, NC 27295  
[Hughh@ncleg.net](mailto:Hughh@ncleg.net)

The Honorable Angela R. Bryant  
717 West End Street  
Rocky Mount, NC 27803  
[Angelab@ncleg.net](mailto:Angelab@ncleg.net)

The Honorable Walter G. Church Sr.  
5253 Mineral Springs Mtn. Avenue  
Valdese, NC 28690  
[Waltc@ncleg.net](mailto:Waltc@ncleg.net)

The Honorable Larry D. Hall  
1526 Southwood Drive  
Durham, NC 27707  
[Larryh@ncleg.net](mailto:Larryh@ncleg.net)

The Honorable Daniel F. McComas  
1717 Softwind Way  
Wilmington, NC 28403  
[Dannym@ncleg.net](mailto:Dannym@ncleg.net)

The Honorable Wm. C. "Bill" McGee  
6102 Arden Drive  
Clemmons, NC 27102  
[Williamm@ncleg.net](mailto:Williamm@ncleg.net)

The Honorable Drew Saunders  
6102 Sherwood Drive  
Huntersville, NC 28078-9003  
[Drews@ncleg.net](mailto:Drews@ncleg.net)

The Honorable Farad Ali  
Durham City Council  
101 City Hall Plaza  
P.O. Box 2271  
Durham, NC 27701  
[Farad.ali@durham.nc.gov](mailto:Farad.ali@durham.nc.gov)

Mr. David Darby  
175 Orchard Park Drive  
Bermuda Run, NC 27006  
[Ddarby1@triad.rr.com](mailto:Ddarby1@triad.rr.com)

Mr. Bob Schall  
Self-Help  
301 West Main St.  
Durham, NC 27701  
[bob.schall@self-help.org](mailto:bob.schall@self-help.org)

Staff

Ms. Karen Cochrane-Brown  
545 Legislative Office Building  
300 N. Salisbury St.  
Raleigh, NC 27603  
[karenc@ncleg.net](mailto:karenc@ncleg.net)

Ms. Drupti Chauhan  
545 Legislative Office Building  
300 N. Salisbury St.  
Raleigh, NC 27603  
[druptic@ncleg.net](mailto:druptic@ncleg.net)



Office of Speaker Joe Hackney  
North Carolina House of Representatives  
Raleigh, North Carolina 27601-1096

---

**HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED  
CONSUMERS**

**TO THE HONORABLE MEMBERS OF THE  
NORTH CAROLINA HOUSE OF REPRESENTATIVES**

**WHEREAS**, consumers who do not have or maintain traditional bank accounts are considered "unbanked"; and

**WHEREAS**, consumers who have impaired or inadequate credit files are considered financially "underbanked"; and

**WHEREAS**, financial products and financial companies serving these consumers, and laws governing both those transactions and the practices of those companies, have evolved substantially in the last 10 years; and

**WHEREAS**, the General Assembly has not had a comprehensive review of the State's various lending laws and whether those laws foster availability of responsible personal installment lending or leverage the favorable changes that have occurred in the national marketplace in products, business practices, credit information, and operations technology;

**NOW THEREFORE**,

**Section 1.** The House Study Committee on Unbanked and Underbanked Consumers (hereinafter "Committee") is established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26(a) of the Rules of the House of Representatives of the 2007 General Assembly.

**Section 2.** The Committee consists of ten members, including seven legislators and three public members appointed by the Speaker of the House of Representatives. Members serve at the pleasure of the Speaker of the House of Representatives. The Speaker of the House of Representatives may dissolve the Committee at any time.

Representative Hugh Holliman, Chair
Representative Angela R. Bryant
Representative Walter G. Church, Sr.
Representative Larry D. Hall
Representative Daniel F. McComas
Representative William C. "Bill" McGee
Representative Drew Saunders

**Public Members**

The Speaker of the House of Representatives appoints the following public members of the Committee:

- Three members of the public with an interest in credit, consumer protections, and/or economic development.

The Honorable Farad Ali, Durham County
Mr. David C. Darby, Davie County
Mr. Bob Schall, Durham County

**Section 3.** The Committee shall study the following matters related to access to credit by consumers who are considered unbanked or underbanked:

1. Consumer protection laws, licensing laws, and other regulations involving non-bank consumer installment credit, both unsecured and real estate secured, that have been developed over the last 10 years by the North Carolina General Assembly, the Attorney General, and the Office of the Commissioner of Banks.
2. Whether current day lending processes are understandable, fair, and efficient.
3. An analysis of what may constitute optimum disclosures to consumers so that they might better understand and make reasoned decisions with regard to the products being offered.
4. The economic factors and financial circumstances that are relevant to consumer installment credit businesses, investors, and profitability.
5. The economic factors and financial circumstances that are relevant to products, pricing, costs, cost recovery, and risk based pricing.
6. The personal and community financial impact from improving credit scores.

**Section 4.** The Committee shall meet upon the call of its Chair. A quorum of the Committee shall be a majority of its members.

**Section 5.** The Committee, while in the discharge of its official duties, may exercise all powers provided for under G.S. 120-19 and Article 5A of Chapter 120 of the General Statutes.

**Section 6.** Members of the Committee shall receive per diem, subsistence, and travel allowance as provided in G.S. 120-3.1.

**Section 7.** The expenses of the Committee including per diem, subsistence, travel allowances for Committee members, and contracts for professional or consultant services shall be paid upon the written approval of the Speaker of the House of Representatives pursuant to G.S. 120-32.02(c) and G.S. 120-35 from funds available to the House of Representatives for its operations. Individual expenses of \$5,000 or less, including per diem, travel, and subsistence expenses of members of the Committee, and clerical expenses shall be paid upon the authorization of the Chair of the Committee. Individual expenses in excess of \$5,000 shall be paid upon the written approval of the Speaker of the House of Representatives.

**Section 8.** The Legislative Services Officer shall assign professional and clerical staff to assist the Committee in its work. The Director of Legislative Assistants of the House of Representatives shall assign clerical support staff to the Committee.

**Section 9.** The Committee may meet at various locations around the State in order to promote greater public participation in its deliberations.

**Section 10.** The Committee shall submit a final report on the results of its study, including any proposed legislation, to the members of the House of Representatives on or before January 27, 2009 by filing the final report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative Library. The Committee terminates on January 27, 2009, or upon the filing of its final report, whichever occurs first.

Effective this 1<sup>st</sup> day of April, 2008.



---

Joe Hackney

Speaker

4/2/2008 3:50 PM

8/11/2008 10:58 AM -- Mr. Bob Schall replaces Mr. Martin Eakes

## **COMMITTEE PROCEEDINGS**

The House Study Committee on Unbanked and Underbanked Consumers held 4 meetings.

### **August 21, 2008**

#### **Review of Committee Charge**

- Karen Cochrane-Brown, Committee Co-Counsel

#### **Overview of the Unbanked and Underbanked Consumers in North Carolina**

- Janneke Ratcliffe, Associate Director, UNC Center for Community Capital, UNC-Chapel Hill

### **September 23, 2008**

#### **Review of the Regulation of the Banking and Financial Services Industries**

- Mark Pearce, North Carolina Deputy Commissioner of Banks

#### **Comments on Behalf of the North Carolina Bankers Association**

- Paul Stock, Executive Vice President and Counsel, North Carolina Bankers Association

#### **Comments on Behalf of the Consumer Credit Industry**

- Dick Carleton, North Carolina Financial Services Association
- Roger Bone, Bone and Associates, Resident Lenders of North Carolina

### **November 20, 2008**

#### **Comments on Behalf of the North Carolina Credit Union League**

- Dan Schline, Senior Vice President, Association Services, North Carolina Credit Union League

#### **Comments on Behalf of the Consumer Credit Industry and the North Carolina Credit and Personal Finance Council**

- C. Everett Wallace

#### **Comments by Consumer Advocate Organizations**

- Chris Kukla, Senior Counsel for Legislative Affairs, Center for Responsible Lending
- Al Ripley, Director, Consumer Action Network, North Carolina Justice Center

### **January 15, 2009**

#### **Adoption of Final Report**

## **SUMMARY OF COMMITTEE PROCEEDINGS**

### **House Study Committee on Unbanked and Underbanked Consumers August 21, 2008 – 1:00 pm – Room 1228, Legislative Building**

Karen Cochrane-Brown, Committee Counsel, reviewed the charge to the Committee from the Authorizing Letter. Next, Janneke Ratcliffe, the Associate Director at the UNC Center for Community Capital, UNC-CH, provided an overview of unbanked and underbanked consumers in North Carolina. According to studies done by the Center, 17% of lower income families in the State (about 222,000 households) had no bank account and 41% of the unbanked families did previously have bank accounts. The factors associated with being unbanked included: lower incomes; being African-American or Hispanic; lower education levels; living in areas with fewer bank branches and more check cashing outlets; growing up in an unbanked household. Ms. Ratcliffe stated that among unbanked individuals, 49% stated that it was too costly to have a bank account.

Ms. Ratcliffe stated that State policies and programs should focus on providing options for consumers to borrow small amounts of money at low interest rates. However, financial education should also address that bank accounts (including checking and savings accounts) are the most important elements of financial literacy and that borrowing should be secondary.

There were various questions from the Committee members and Committee discussion on how to bring greater access to banking services to unbanked and underbanked persons.

### **House Study Committee on Unbanked and Underbanked Consumers September 23, 2008 – 1:00 pm – Room 1228, Legislative Building**

Mark Pearce, the North Carolina Deputy Commissioner of Banks, provided a review of financial services for the underbanked. Mr. Pearce stated that the access to banking services is an important aspect of financial well-being. Although alternative financial services (such as check cashing outlets) offer consumers convenience, speed, and customer services, the prices can often be quite high. Mr. Pearce stated that research shows that low-income families do want to save money and if they have a bank account, they are more likely to have success in savings and a positive net worth. African American and Latino families were twice as likely to not have bank accounts. The North Carolina Commissioner of Banks has encouraged banking institutions to penetrate into the unbanked population through targeted partnerships with large employers. It has also encouraged more participation from State chartered banks in federal programs that provide small dollar loans. Mr. Pearce also commented on North Carolina's payday lending "experiment" which lasted from 1997 to 2001. Installment loans through consumer finance lenders have increased over the past few years for loans between the amount of \$600 and \$1000 and surveys show that North Carolina consumers have not missed payday lending. Mr. Pearce recommended that the State:

- Maintain strong regulation of rates and terms of consumer loans
- Continue to increase financial education and literacy in schools
- Promote direct deposit of checks for State employees
- Provide funding for non-profit counselors for financial advice and budgeting

Paul Stock, Executive Vice President and Counsel, NC Bankers Association, spoke about the results of a survey the Bankers Association conducted of banks headquartered or with branches in the State. The survey asked the banks to provide information on products and services offered to attract unbanked and underbanked consumers. According to Mr. Stock, of the survey respondents, 68.8% stated that they offered products and services for consumers that had not had a previous relationship with a bank. The banks felt that their products had been received well. A number of banks stated they offered free checking accounts to consumers with no or low service fees or no or low minimum balances. The survey also provided information on

credit product and services offered by the banks and the banks views on unbanked and underbanked consumers. Mr. Stock recommended that the State needs to bring financial education to "the masses".

Dick Carleton of the North Carolina Financial Services Association stated that access to small loans in North Carolina is decreasing. He recommended that there needs to be a review of the statutes as the consumer loan laws in the State have become outdated since they have not changed since 1982. He asked that the Committee recognize the need for traditional installment loan products and that the Committee take into consideration the true costs of unsecured, non-depository consumer credit. He stated that if these loans become unavailable, there will be no legal source for unsecured credit for many borrowers.

Roger Bone of Bone and Associates and representing the Resident Lenders of North Carolina stated that the North Carolina statutes on small loans needed to be modernized and new products needed to be developed (which could be regulated by the Commissioner of Banks). Mr. Bone asked the committee to find a way to provide loans for the unbanked and underbanked consumers. He stated that access to credit is critical for unbanked consumers and legislators should recognize the need for small consumer loans.

There were questions from committee members and some committee discussion around the various issues and presentations.

**House Study Committee on Unbanked and Underbanked Consumers  
November 20, 2008 – 1:00 pm – Room 1228, Legislative Building**

Dan Schline, Senior Vice President, Association Services with the North Carolina Credit Union League explained the services provided by the North Carolina credit unions and how credit unions serve unbanked and underbanked consumers. Some of these services include: low-cost/basic checking deposit accounts; credit building programs; wealth building initiatives; various credit programs such as low-cost loans, payday alternatives (salary advance loans), and basic transportation loans; and financial counseling.

C. Everett Wallace spoke on behalf of the North Carolina Credit and Personal Finance Council (Council). Mr. Wallace stated that the Council was the umbrella trade association for the traditional installment lending consumer credit industry in the State. The Council's mission is to "improve and protect consumers' access to credit and promote responsible and ethical lending for responsible and informed borrowers". Mr. Wallace explained that G.S. 53-173 governed the licensed entities that make loans of \$3,000 or less and G.S. 53-176 governed loans made by licensed entities of \$10,000 or less. Mr. Wallace stated that the customer base of the installment credit industry in the State is made up largely of the unbanked and underbanked and various analyses show that many of these borrowers have credit scores in the "sub-prime" area. The majority of the consumer credit industry's borrowers are from lower-income households and have very low savings or even negative net worth. Mr. Wallace noted that North Carolina's installment lenders are turning down about 80% of the applicants who apply for loans to cover basic needs. This is happening due to the rising costs of providing unsecured, non-depository consumer credit and the rate structure under which the consumer credit industry operates has not been modified or "indexed" for inflation. Mr. Wallace advocated "infusing profitability in the statutory and regulatory framework that governs the consumer credit industry."

Chris Kukla, Senior Counsel for Legislative Affairs with the Center for Responsible Lending spoke next about the current lending laws that governed the consumer finance industry. Mr. Kukla pointed out that a number of bills had been introduced in recent legislative sessions which would have raised the statutory caps on the interest rates on types of loans that had been discussed by the Committee. Mr. Kukla stated that none of the bills had been enacted by the General Assembly and that these issues need to be studied more broadly.

Al Ripley, Director of Consumer Action Network at the North Carolina Justice Center addressed issues of economic growth and poverty statistics in the State. Mr. Ripley stated there were 4 obstacles to banking and saving: (i) the unbanked tend to be lower income with lower levels of education; (ii) unaffordable fees and charges for financial services made banking too costly; (iii) high cost unaffordable loans; and (iv) increased unemployment, and a lack of quality education, affordable housing, childcare, health care and other factors contributed to low wealth and poverty. Mr. Ripley then described practices that keep consumers from becoming banked: (i) high cost financial services; (ii) high minimum balances; (iii) high cost debt and loans; and (iv) loan product characteristics that encourage repeat high cost transactions. Mr. Ripley stated that other states have stronger consumer lending laws compared to North Carolina and many states have at least one interest rate cap that is lower than those under North Carolina law. He stated that at the Justice Center they "get many complaints about lending abuses" but they "do not get complaints about a lack of credit in North Carolina." According to Mr. Ripley, "people are already overextended in high debt cost and having more debt at high cost does not help." He advocated lowering interest rates on loan products. Mr. Ripley then set forth approaches to encourage consumer to use beneficial banking services. These are: (i) reliable social safety nets that prevent poverty and help families to save; (ii) jobs that pay living wages and have good benefits; (iii) low-cost financial services with low minimum balance requirements; and (iv) initiatives that promote low cost financial services. Finally, Mr. Ripley discussed the "Bank-On" San Francisco initiative. This initiative is a partnership between government, financial institutions, and community organizations which raises the awareness of unbanked issues and encourages people to get a bank account. It has features such as checking accounts with no minimum balance and low or no cost fees. In San Francisco, the initiative has had 20,000 accounts opened with an average balance of \$800. "Bank-On California" will be the first state-wide initiative and is scheduled to be launched in December, 2008.

There were questions from committee members and some committee discussion around the various issues and presentations.

**House Study Committee on Unbanked and Underbanked Consumers  
January 15, 2009 – 10:00 am – Room 1425, Legislative Building**

The meeting opened with a discussion about the draft of the final report of the Committee. After some Committee discussion, Representative Hall moved to add a recommendation that the House Financial Services Committee create a Standing Subcommittee to continue to study the issues of the unbanked and underbanked during the upcoming 2009 Session. The Committee approved the recommendation. Representative Bryant then moved to add a recommendation to encourage various groups to continue their efforts to bring banking services through Earned Income Tax Credits and free tax preparation. Representative Bryant also moved to a recommendation to encourage various groups to develop strategies to provide direct deposit services for unbanked State employees. The Committee adopted both recommendations. The Committee then voted to adopt the report as amended and present to the members of the 2009 North Carolina House of Representatives.

## **COMMITTEE FINDINGS AND RECOMMENDATIONS**

The House Study Committee on Unbanked and Underbanked Consumers makes the following findings and recommendations to the 2009 House of Representatives:

### **FINDINGS:**

The Committee finds that:

1. A significant number of households in the State are currently not using banking services.
2. The unbanked tend to be disproportionately African American and Hispanic.
3. The unbanked have lower incomes and less education and live in areas with fewer bank branches and more check cashing outlets.
4. Although some banks and credit unions have developed programs to address the needs of the unbanked, more needs to be done.
5. The high cost of many financial services may play a role in keeping consumers unbanked.
6. More study is needed to determine the role of access to and the cost of credit in helping the unbanked begin the process of building wealth.

### **RECOMMENDATIONS:**

1. The Committee recommends that no statutory proposal be offered at this time and that the General Assembly continue to study this issue to determine whether there is an appropriate policy solution.
2. The Committee strongly encourages the Commissioner of Banks, the North Carolina Bankers Association, and the North Carolina Credit Union League to continue their efforts to bring banking services to North Carolina residents through the Earned Income Tax Credit and free tax preparation.
3. The Committee strongly encourages the Commissioner of Banks, the North Carolina Bankers Association, the North Carolina Credit Union League, the State Comptroller, and the State Personnel Commission to develop strategies to provide direct deposit services for unbanked State employees.
4. The Committee recommends that a subcommittee of the House Financial Institutions Committee be created to further study this issue and to make specific recommendations with regard to strategies to provide improved services to unbanked and underbanked consumers in the State. The subcommittee's work should include the following:
  - A regulatory update.
  - A consumer based analysis.
  - Consultation with all interested parties, including the Commissioner of Banks and the consumer advocacy community.
  - A consumer credit counseling component.