

Testimony before the Subcommittee on Financial Institutions and Consumer Credit

Provided by Gerri Guzman, Executive Director, Consumer Rights Coalition

September 22, 2011

Hello, my name is Gerri Guzman and I am the executive director of Consumer Rights Coalition, or CRC. CRC is a non-profit consumer-based organization dedicated to ensuring that Americans have increased access to credit.

I appreciate the opportunity to be here today on behalf of more than 200,000 of our members who are consumers of alternative, or non-bank, financial services. Our members have traditional bank accounts, but they don't always have a financial safety net. They want to preserve and expand access to a full range of short and intermediate-term credit options and other basic financial services.

Millions of Americans are coming up short. They're struggling to make ends meet for several months at a time or they're dealing with a financial shock like a reduction in work hours, a medical emergency or a broken down car or appliance.

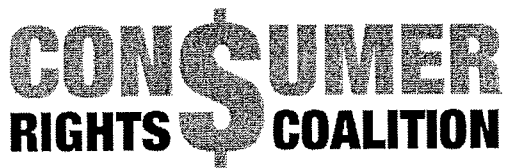
Millions of consumers don't have a rainy day savings account to get them to their next paycheck or to manage the unexpected. And they may not have credit available on their credit cards or family to turn to for a few hundred dollars in order to get through a tough time.

A recent study reported in the *Wall Street Journal* found that half of Americans would not be able to access \$2,000 in a month if they needed to. A second study found that 64% of Americans do not have \$1,000 on hand in case of emergency.

If these consumers chose to go to a traditional bank for a loan, the vast majority of traditional banks and credit unions could not give them the typical \$300 loan needed, to say nothing of \$1,000 or \$2,000. As a result, today almost 20 million Americans are turning to non-bank financial products—like check cashing, installment, payday and pawn loans. The "alternative" to traditional banking is quickly becoming the mainstream.

I know firsthand that traditional bank products don't always offer a realistic solution for people without a significant financial cushion to help absorb unexpected expenses. I relied on a payday loan when I was in danger of losing my home. It was simple, transparent, and less expensive than bouncing a check or making a late payment. And, I knew it wouldn't damage my credit rating.

Short and intermediate-term loans are easily and conveniently available from "alternative" lenders in some states. Unlike most traditional banks, stores are located in minority neighborhoods, open at times the services are needed and the process is understandable, quick and easy. Employees are likely to speak the language of local residents. In addition, these short-term loans will not ruin borrowers' credit ratings; bouncing a check or failing to pay bills would.



Short-term credit options are currently regulated at the state level. Regulations vary state by state regarding the amount, the fees, the types of loans and the terms that may be offered. Research from the Federal Reserve and others indicates that states that have eliminated or restricted credit options have done more harm than good.

For example: When the state of Washington restricted the number of loans an individual could take out, regulators found that it had the effect of driving consumers to more expensive, unregulated online lenders. Studies also found that consumers in North Carolina, Georgia, and Oregon were hurt by payday loan bans that drove them to bounce more checks, incur more late payment penalties, and file for more personal bankruptcies.

Unfortunately, I hear from consumers all the time who no longer have access to short-term credit because of restrictions in their states. They are now spending more on overdraft, bounced check and late bill fees and their credit is suffering. And as a result, their banks are threatening to close their accounts.

The fact is people will always come up short from time to time. If access to one product is eliminated, consumers will seek out another. And it will likely be a more expensive and credit-damaging option. The bottom line is that people need options, the information to compare those options and the ability to make their own decisions.

It is becoming increasingly clear that traditional banks are not a realistic option for a large and growing portion of Americans. Seventy-three percent of banks are aware that significant unbanked and/or underbanked populations are in their market areas, but less than 18 percent of banks identify expanding services to unbanked and/or underbanked individuals as a priority in their business strategy.

When asked to rank the challenges banks face in serving or targeting unbanked and/or underbanked individuals, banks list "profitability issues" first, followed by "regulatory barriers," and "fraud concerns." It is not surprising that such banks do not provide adequate services to underbanked consumers.

A few banks are, however, beginning to compete in the small dollar, short term lending market. That's a very good thing. Consumers will benefit if there are more companies offering more services which will bring prices down, provide more choices, and greater innovation.


But, laws need to change in order to open up the market to more competitors. We would like to see non-bank financial service providers—already trusted in so many communities throughout the U.S.—have the opportunity to provide more and better credit services to underserved communities.

All Americans need access to responsible credit options in order to build strong financial records and healthy credit ratings, move up into the traditional banking system, and, ultimately build personal and community wealth.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

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

1. Name: <i>Gerri Guzman</i>	2. Organization or organizations you are representing: <i>Consumer Rights Coalition</i>
3. Business Address and telephone number: 	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets. 	
7. Signature: <i>Gerri Guzman</i> <i>2/23/12</i>	

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