Written Testimony of
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House Subcommittee on Financial Institutions and Consumer Credit
An Examination of the Availability of Credit for Consumers
September 22, 2011

Thank you, Chairman Capito, Ranking Member Maloney and members of the Committee. On behalf of the Corporation for Enterprise Development, I appreciate the opportunity to present testimony before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit on the pressing need to improve access to appropriate credit for underbanked consumers.

The Corporation for Enterprise Development (C-F-E-D) is a 32 year old economic development nonprofit that fosters social innovations that help low income families and communities build wealth and financial resiliency. We see access to high quality credit as a fundamental tool in the effort to help households build wealth. But it is a tool that must be used with great care and intention, and the overwhelming majority of evidence in recent years shows that while there are many fundamental barriers to financial well being that America's families are struggling with today, access to credit is not the primary one. In fact, the proliferation of alternative high cost credit products and accumulated debt is actually a large part of the problem.

Even a cursory review of recent data on the status of American household balance sheets helps us put this issue in perspective. Simply put, Americans are underemployed and overleveraged. We have a consumer credit problem in this country, but the problem is *not* inadequate access to consumer credit: it is access to high quality and affordable credit. We are literally drowning in debt. Just last week the company CardHub.com published its Q2 2011 Credit Card Debt Study, showing that consumers accumulated $18.4 billion in new debt in the second quarter of 2011 – a 66% increase over the same quarter in 2010, and a 368% increase over the same period in 2009.

Couple this information with what we know about the increasing ratio between household debt and income. Economist Edward Wolff discussed the explosion of debt-to-income ratios in his most recent analysis of household economics. Middle income household debt-to-income ratios rose from 67 percent in 1983 to 100 percent in 2001 and 157 percent in 2007. He further concluded that the debt build-up of the 2000s went for normal consumption, not enhanced consumption.

Findings from the recent (2009) Financial Capability Study administered by the Financial Industry Regulatory Authority (FINRA) Investor Education Foundation substantiate this finding. Nearly half of survey respondents reported facing difficulties in covering monthly expenses and paying bills. And the majority of respondents did not have any type of "rainy day" funds set aside for financial emergencies. With inadequate incomes and inadequate savings, the only option open to millions of families is to turn to credit to finance basic consumption. But our own analysis of consumer credit scores suggest that over 60% of consumers have subprime credit scores, so the credit product options that are available to them are often suboptimal and the most vulnerable households who can least afford additional financial burdens end up paying a premium for access to the credit they need to simply make ends meet.

The ultimate lens through which we should look at any financial product or policy is relatively intuitive and straightforward: Does this product help a consumer improve their financial situation, or does it make the situation worse? A growing body of evidence that shows that many of the short term alternative credit products that are available in the market for cash-strapped consumers with either thin credit files or no- or low-credit scores don't pass this fundamental tenet of "do no harm."

CFED's Assets & Opportunity Initiative provides in depth information on state and local level policies that can help households increase financial stability and build and protect assets. We support regulation of short term consumer lending products. . Small dollar installment loans – when responsibly regulated – can be a safe product. We recommend capping the interest rate charged on loans such as payday loans, car-title lending and small dollar installment loans.

Ten states have banned or capped all three types of predatory loan products and include short-term lending in basic consumer protection laws. Fourteen states do not effectively regulate any of the three predatory loan products, although nine of these states include short-term lending in basic consumer protection laws. All other states protect consumers against some, but not all, predatory short-term loan products.

So what can and should the Federal Government do? I will leave you with three recommendations that CFED feels would go a long way to helping families truly regain their financial footing.

1. *Protect Consumers from financial products that exacerbate financial distress*. States are currently innovating in this area, and the Federal Government can support these efforts in several ways. What would be a true disservice would be to preempt state efforts with federal regulation that creates any kind of ceiling on the kind of protections states can impose that are less rigorous and robust than what many states are currently fighting to enact or keep in place. We should continue down the

course of regulating all financial service providers under the same set of rules and regulations and ensure that these rules protect consumers. CFED strongly supports the Consumer Financial Protection Bureau's mandate. We are active in providing guidance in areas of mortgages, consumer credit and small business lending.

2. *Help Families Save*. First and foremost, if we can help families build more liquidity, we will greatly curb the need for emergency credit. When it comes to building assets, savings and credit are compliments. But at the day-to-day level of household budgets, savings and credit are substitutes, and the need for short term and emergency credit is ultimately a need for short term and emergency savings. The research coming out of the innovative SaveNYC and SaveUSA savings pilots provide clear evidence of this fact. In the long run, American household balance sheets would be much better served by expanding access to savings opportunities than by further expanding access to high cost credit. We appreciate the Treasury Department's leadership to enable people to buy Savings Bonds on their tax returns. We are concerned that eliminating the over the counter paper bonds program will make it more difficult for low-income families to save. Treasurydirect.gov does not provide the same access as paper bonds purchased at a financial institution. A simplifed and refundable Saver's Credit would also expand access to savings in significant and meaningful ways.

   Finally, to promote and expand banking access and savings, Congress must lift or eliminate the current "asset limits" in basic social programs that penalize savings and make it hard for families to get ahead.

3. *Help Families Build Good Credit*. I will finish where I started. The quality of credit available to families is all-important. Congress should support private efforts to

help consumers improve their credit score so that they can access the highest quality, lowest cost and lowest risk credit products available. New types of financial counseling and financial coaching models can be very beneficial to helping low-income consumers manage their financial lives and build good credit. Products such as credit-builder loans through credit unions can also be useful. One of the biggest ways that CFED feels we can help as many as 120 million of consumers to build and improve their credit score is through full file reporting. Congress should end the regulatory uncertainty and provide permission to utility and telecom companies to report on-time payment to credit reporting agencies.

Thank you for the opportunity to speak with you today. I look forward to your questions.

United States House of Representatives
Committee on Financial Services

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

1. Name:	**2. Organization or organizations you are representing:**
Ida Rademacher	CFED

3. Business Address and telephone number:

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4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
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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.

U.S. Department of Treasury contract to provide resources and tools for community base
financial access initiatives. $887,000. 2010 Calendar year.
No work explicity relates to access to credit. Just access to basic banking.

7. Signature:

Ida S Rademacher

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