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Mr. Chairman, Representative Sanders and Members of the Subcommittee:

I'm Randy Lively, President and Chief Executive Officer of the American Financial Services Association (AFSA). AFSA is a national trade association whose 300 member companies include consumer and commercial finance companies, "captive" auto finance companies, credit card issuers, mortgage lenders and other financial services firms that lend to consumers and small businesses.

I thank you, Mr. Chairman, for conducting this hearing, given the importance of consumers' credit in driving our economy. As of July 2004, outstanding consumer credit was over two trillion dollars according to seasonally adjusted figures from the Federal Reserve. Census Bureau figures for the second quarter of 2004 show a homeownership rate of 69.2%, meaning there are more homeowners in America than any time in history. Credit availability also enables people to buy vehicles that transport them to work, pay for education and training that qualifies them for jobs and start or expand small businesses. AFSA members are proud of their role in helping create advancement opportunities for many Americans and sustaining growth for our nation's economy.

As you know, we supported the Committee's successful effort that led to last year's enactment of the Fair and Accurate Credit Transactions Act (FACT Act). We thank you for your leadership, Mr. Chairman, in crafting balanced legislation that preserves our nation's consumer credit system. The FACT Act assures uniformity in our national credit granting system and maintains creditors' ability to offer a variety of products and services to meet borrowers' financial needs. It also entitles consumers to one free credit report each year and provides consumers with greater protection from identity theft through several other means, including new guidelines for fraud alerts.

In recent weeks, the subject of consumer credit has emerged on another front with the announcement of the Kerry-Edwards plan to protect Americans from abusive financial deals. A fact sheet on this plan says that Senators Kerry and Edwards "are committed to ensuring that responsible consumers continue to gain access to credit" and that companies "must be responsible and must play fair." AFSA agrees with both of these objectives -- but when it comes to the plan's recommendations on how to reduce lending abuse, we have an entirely different point of view. In the short time I have today, I'd like to touch upon two things that we're doing in this area.

The first is our members' Code of Ethics which includes voluntary standards in a number of areas, such as mortgage lending, arbitration agreements and the collection of past due accounts. AFSA and its members believe the interest of the public can be well served by conducting business in a way which builds and fosters public trust and confidence in the industry. Each AFSA member is expected to review our Code and establish and enforce their own policies to carry out the letter and the spirit of these standards.

Nearly five years ago, we adopted a voluntary standard on credit bureau reporting. Basically, the standard says that AFSA's members agree to not withhold borrower information from credit bureaus in an effort to keep competitors from "poaching" good customers. The standard's ultimate intent is to ensure that borrowers receive the full benefits of their responsible use of credit.

The second thing to mention is our long-time involvement in consumer education initiatives for both adults and youth. The AFSA Education Foundation is a founding partner of the Jump$tart Coalition for Personal Financial Literacy, whose nearly 140+ partners include government agencies, associations, educational institutions and consumer organizations all working together to improve financial understanding in grades K-12 and on into college. As the chairman of the Jump$tart Coalition, I am very proud of its accomplishments and its success in drawing attention to the need for youth financial education in this country.

Our other major education initiative is MoneySKILL, a free, online personal finance curriculum from the AFSA Education Foundation that's aimed at the millions of high school students who graduate each year without understanding credit use, budgeting, retirement or other money management basics. To date, teachers in 45 states as well as in Canada, Guam, China, Germany, Malaysia, New Zealand and South Africa have registered to use the program. We continue to explore opportunities to reach more students with MoneySKILL, including possible partnerships that will allow the curriculum to become available to higher risk youth.

MoneySKILL consists of 34 modules that students complete in about 40 minutes each. Within the course's general content areas – which include income, expenses, assets, liabilities and risk management – students receive unbiased information on a number of fundamentals. These include the effect of income taxes on take-home pay, understanding interest when borrowing, using credit cards responsibly, how buying a car compares with leasing one, understanding different types of insurance and the costs and benefits of borrowing, to name a few.

Mr. Chairman, we certainly appreciate – and welcome -- Senators Kerry and Edwards' interest in reducing abusive lending, a practice that has long been condemned by the association and its members. And we agree that the industry should take a leadership role in addressing the problems, which is in part why we're involved in programs like MoneySKILL and coalitions like Jump$tart.

At the same time, we're concerned about the impact of the Kerry-Edwards plan on the functioning of the consumer credit market. When limits are placed on a creditor's ability to use performance-based pricing, responsible consumers who pay their bills on time inevitably bear the burden of higher costs generated by those who fail to properly manage their use of debt.

As noted by Federal Reserve Board Chairman Alan Greenspan, "Credit-scoring technologies have served as the foundation for the development of our national markets for consumer and mortgage credit, allowing lenders to build highly diversified loan portfolios that substantially mitigate credit risk." Over the past 80 years, the U.S. financial services system has evolved into the most efficient in the world, and one that serves more of its population than any other. Proposals to tinker with the underpinning of this system should not be taken lightly.

The good news is that we already have laws in existence to get at the unscrupulous lenders who are defrauding people – and we ought to do everything possible to enforce those laws to their fullest extent. Ultimately, however, the most effective way to deal with both excessive use of consumer debt and abusive lending is through education. Correct choices by the consumer represent the behavioral solutions to many of the problems the Kerry-Edwards plan seeks to remedy. We believe equipping people with the knowledge to make credit decisions that benefit them -- and avoid those that don't -- will greatly improve their financial situations while making our economy even stronger.

I appreciate the opportunity to be here today and would be happy to answer any questions you may have.