

Statement of Michael A. Grant
President
National Bankers Association

Before the
Subcommittee on Financial Institutions and Consumer Credit
September 22, 2011

First, I would like to thank Chairman Capito, Ranking Member Maloney and the entire subcommittee for the privilege of addressing a matter of grave concern to all who are witnessing – first hand – the devastating impact of our nation’s on-going financial crisis.

Specifically, I would like to address the subcommittee’s desire to better understand credit products that are available for consumers who cannot always access more traditional financial institution products and services.

In a capsule, the under-banked and the unbanked, usually in low-to-moderate income neighborhoods, continue their historical struggles to access credit for a number of reasons. The number one reason is that many of these individuals create such high risks for lending institutions that they do not meet the minimum underwriting requirements imposed by the regulators of traditional financial institutions. A classic example of what happened when one of our banks, Citizens Trust Bank of Atlanta, Georgia, attempted in 2008 (at the beginning of the financial meltdown) to advertise – in the three markets that it served – the availability of the Small Dollar Loan Program is described below.

Although the bank’s intentions was to meet pressing economic needs of consumers in its market, a 13% default rate rendered the program a costly failure. With comparatively lenient underwriting criteria, the bank sought to help consumers with house payments or car note payments or other financial needs with small loans ranging from \$500 - \$1,500 max.

At the beginning of the program, the following underwriting criteria were established:

- A credit score of 500;

- Allowed a higher debt to income ratio (along with a \$48 document preparation fee, which was financed into the loan document);
- 12-month same residence;
- Credit report could not have outstanding liens or judgments;
- Allowed for collection items on their report;
- Must provide 6 months income from same employer;
- Two years discharged from bankruptcy (chapter 13);
- No chapter 7 bankruptcy allowed.

The result was still a 13% default rate which was subtracted from the bank's loan loss resources. Today, the bank provides this small dollar loan program – with more rigid requirements – in only one of its eleven branches (Green County, Alabama). This is one of the poorest counties in America. But the default rate is near zero.

The only recommendation I would make today is that if Regulation E were modified to allow banks to debit borrowers' bank accounts, the bank's risks would be mitigated and borrowers would probably act more responsibly. Having direct deposit accounts would also ensure lenders that timely payments could be made on small dollar loans.

The largest issue looming over this discussion, Mr. Chairman, is: How should public policy address the inescapable problem of risk? If we are to balance the equation associated with lending and borrowing to high risk consumers, how do we determine what constitutes a reasonable cost of that risk?


Thank you, Mr. Chairman, for your time.

Michael A. Grant
President
National Bankers Association

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: <i>MICHAEL A. GRANT</i>	2. Organization or organizations you are representing: <i>NATIONAL BANKERS ASSOCIATION</i>
3. Business Address and telephone number: 	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input type="checkbox"/> No	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? <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. <i>Michael A. Grant</i>	
7. Signature: <i>Michael A. Grant</i>	

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

* THE NATIONAL BANKERS ASSOCIATION HAS NOT
RECEIVED FEDERAL GRANTS OR CONTRACTS.
Michael A. Grant Sept. 28, 2011