

RIN 3064-ZA04

January 22, 2019

Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th St NW
Washington, D.C. 20429

RE: Small-Dollar Lending RIN 3064-ZA04

Dear Mr. Feldman,

We represent the Roman Catholic Bishops of Kansas. We appreciate the opportunity to submit our Bishops' comments on the FDIC's request for information on small-dollar lending.

The Catholic Church in states across the country has sought, through continued, robust legislative efforts, to ameliorate the practices of the Payday Loan industry. We believe that making safer and more affordable financial products available through regulated institutions will help break the strangle-hold the Payday and "alternative financial services" have on our most vulnerable citizens.

On February 3, 2018, addressing the St. John Paul II Anti-Usury Non-Profit Association of Italy, Pope Francis said, "Usury stomps on human dignity, promotes corruption and sets up obstacles to the common good." The Holy Father echoes Our Lord Jesus Christ who teaches that respect for the dignity of the human person is the foundation of a moral vision for an ethical, virtuous and prosperous society.

For this reason, the Catholic Bishops join their voices to the undersigned organizations and strongly encourage the FDIC to make it possible for supervised financial institutions to offer affordable small installment loans while preventing harmful deposit advance loans and the use of dangerous rent-a-charter deals with payday lenders.

The FDIC's latest National Survey of Unbanked and Underbanked Households found that 19% of American families are both banked and also turning to alternative financial products, including harmful high-cost payday and auto title loans.¹ Consumers spend more than \$30 billion in fees and interest each year for high-cost, non-bank small loans.²

Payday lenders continue to rely on their ability to collect from borrowers' checking accounts, leading some bank customers to lose their checking accounts in connection with payday loans. Payday lenders repeatedly charge borrowers fees to renew unaffordable loans, and their business model succeeds because borrowers fail to repay the loans as advertised.

Rather than see their customers leave the bank to borrow payday loans at 400% APR, banks should be encouraged to provide safe, small installment loans directly. Banks can profitably offer safer loans for a

¹ FDIC, 2017 FDIC National Survey of Unbanked and Underbanked Households (October 2018)
<https://www.fdic.gov/householdsurvey/>

² Center for Financial Services Innovation, 2014 *Underserved Market Size: Financial Health Opportunity in Dollars and Cents* (December 2015), <http://www.cfsinnovation.com/Document-Library/2014-Underserved-Market-Size-Financial-Health-Opportunity>.

fraction of the cost of payday, auto title, pawn, rent-to-own or other high-cost credit that underbanked consumers use today.³

Typical Cost to Borrow \$400 for 3 months, by Lender			
New Bank Loans	Pawn Loans	Auto Title Loans	Payday Loans
\$48-60	\$240	\$300	\$360

With clarity from regulators- such as the final October 2017 CFPB rule and May 2018 OCC Bulletin- banks can challenge predatory lenders by offering fair products of their own.⁴ If banks offer safe, affordable loans to their customers, millions of underbanked consumers can save billions of dollars each year.⁵

The FDIC should provide supervised banks with similar clarity and encourage all small loans to have reasonable safeguards including affordable payments, appropriate terms, and fair prices:

- **Fair Prices:** Charging \$36 for a three-month, \$300 loan, as US Bank has begun doing, is fair. That pricing would save underbanked consumers hundreds of dollars per year.
- **Affordable payments:** In addition to conducting automated underwriting, loans should have an affordability safeguard that limits payments to five percent of a borrower's paycheck.
- **Enough time to repay:** Borrowers need more than two weeks to repay. The final CFPB payday loan rule wisely included additional restrictions for loans due back in less than 45 days.
- **Credit Building:** Successful repayment should be reported to credit bureaus so borrowers can improve their credit scores and qualify for mainstream products like auto loans and mortgages.
- **No overdraft:** Payments on small loans from banks should never trigger overdraft fees. Harmful overdraft fees drive struggling consumers out of the banking system.
- **Prevent return of high-cost, balloon-payment Deposit Advances:** The FDIC should not allow banks to return to making "Deposit Advance" loans that are due back on the customer's next payday. Deposit Advance featured unaffordable balloon payments and excessive prices with APRs of 200-300%.
- **Prevent rent-a-charter deals with payday lenders:** The FDIC should strongly discourage supervised institutions from partnering with high-cost non-bank lenders to evade state-level consumer protections. These arrangements let payday lenders avoid state laws by having a bank originate loans, while payday lenders rely on their ability to collect unaffordable payments from borrowers' checking accounts at APRs of 300-500 percent.

³ Albuquerque Journal, "Editorial: Technology Leads the Way to Fair, Small-Dollar, Short-Term Loans" (September, 2018) <https://www.abqjournal.com/1227262/technology-leads-way-to-fair-small-dollar-short-term-loans.html>

⁴ St Louis Post Dispatch, "Editorial: Finally Banks and Other Lenders are Challenging Predatory Lenders" (September, 2018) https://www.stltoday.com/opinion/editorial/editorial-finally-banks-and-others-are-challenging-payday-lenders/article_fa29143b-8d73-57b3-af47-723fa7871bb7.html

⁵ The Pew Charitable Trusts, Standards Needed for Safe Small Installment Loans From Banks, Credit Unions (February 2018) <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2018/02/standards-needed-for-safe-small-installment-loans-from-banks-credit-unions>

With clear guidance and strong consumer safeguards from the FDIC, we're hopeful that consumers who are being taken advantage of outside the banking system today can gain access to much better, bank-issued small installment loans and collectively save billions of dollars each year.

The oversight and protection provided by mainstream financial entities will, we believe, help reduce incidences of exploitation that are more prolific in the Payday and "alternative," financial industry.

Human institutions are never perfect, but the Catholic Bishops feel that the proposed measures are helpful steps in the direction of stabilizing our working poor families, thus contributing to the common good of all.

Signed,

Mr. Chuck Weber

Executive Director of the Kansas Catholic Conference

Representing the Roman Catholic Bishops of Kansas