May 29, 2013

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
comments@fdic.gov

RE: "Proposed Guidance on Deposit Advance Products" (FR Doc. 2013–10101*)*

Dear Mr. Feldman:

Aquinas Associates appreciates the opportunity to comment on the FDIC's Proposed Guidance on Deposit Advance Products ("Proposed Guidance").

This comment is submitted by Aquinas Associates, a shareholder advocacy organization dedicated to improving the lives of Americans through actions involving public companies. Our objective is to promote a financial system that works for all Americans.

We have been in communication with the management of Wells Fargo bank, US Bank, & Regions Bank and have found that they have turned a deaf ear to the dangers of Deposit Advance Products (bank payday lending). It has become obvious that the lure of outlandish returns on equity exceeding 1000% after taxes has blinded them to the evil that they are causing as Americans are lured into a financial death trap.

None of those banks has refuted my calculations of the return on equity. For the sake of simplicity the following calculations are provided:

Gross Return on Assets	304.0%	from CFPB fact sheet
Minus:		
Cost of Funds	0.5%	from various annual reports of banks above
Operating Costs	2.0%	equal to credit card operating costs of banks above
Credit Losses	20.0%	comments from related banks
Net Return on Assets	281.5%	
Gross Return on Equity	2810.5%	ROE= ROA times capital leverage of 10
Minus Income taxes	871.25%	at a 31% tax rate
Net Return on Equity	1939.25%	

As you can see, this is the real reason for their reluctance to modify their program. Ask your staff where these calculations are not accurate. I realize that when credit losses exceed 20% that the FDIC premium increase but factors such as that are inconsequential.

A report from the Center for Economic Policy and Research Aug 2012 details that black populations are exploited at twice their expected participation rate based on Census population. All the other bank credit products at these payday loan banks use risk-based pricing in the credit cost calculations. But not with these deposit advances (which are loans). They are discriminating against the minority populations.

This product is a prime example of much of that which CRA was meant to redress. ***The fundamental question is "How does this product help customers prosper and advance financially?" If its chief effect is to keep poor people poor and help folks move down then it does not belong in the line-up of a taxpayer backed, too big to fail bank.***

The FDIC has stated that a bank could receive CRA credit for a better designed small dollar credit product at 36% interest, longer repayment terms, etc. Why do banks believe that a 304% interest product is better than 36% for a community- especially in the small amounts of total bank wide credit being provided?

Using the product profitability calculation above, a 36% interest rate would still be very profitable (more than almost all consumer loan products). While the government is probably not going to limit interest rates, it is extremely important that banks provide the actual APR of each transaction. There are websites for traditional payday lenders that carry the true APR. The media can be used to castigate and shame those banks that still choose to charge exorbitant interest rates. After four decades of APR education and the ease of banks to calculate APR’s on anything, the public deserves to be told the truth about the APR on these transactions.

Finally, underwriting is very important because customers deserve the benefit of the education which occurs when the bank says “No!”

Thank you,

Frank Rauscher
Senior Principal