Remarks by

Thomas J. Curry

Comptroller of the Currency

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Good afternoon, I'm delighted to be invited to speak at this conference. The first thing I'd like to do is thank Susan Howard from the OCC and all of the staff from the other agencies who organized this great event. It is no small feat to develop this comprehensive program agenda and secure so many experts to participate on all these panels. Additionally, I want to acknowledge and applaud the impressive accomplishments of the CRA Awards recipients. Kudos for all your efforts.

Leonardo Da Vinci once noted that "…people of accomplishment rarely sat back and let things happen to them. They went out and happened to things." When you face obstacles in your work—and there are many—you confront and overcome them. It takes that kind of determination to bring effective community and economic development to underserved neighborhoods, to provide low- and moderate-income families with the financial products and services they need, and to better the lives of those who most need your help. The success of your work certainly demonstrates that you make things happen.

This biennial conference is both a celebration of what the Community Reinvestment Act has accomplished and an opportunity to learn through training about new and better ways to make your work even more effective. This conference is one aspect of the broader efforts to improve training for the industry as well as the agencies' examination staff. I believe one of the most critical goals at the OCC is to develop and maintain the expertise of our examiners. In-depth training is necessary to fully prepare examiners to deal with the complexities of compliance and CRA requirements. We also strive to provide our examiners with up-to-date information on new consumer protection regulations and revisions to the CRA Questions and Answers.

Key objectives in the interagency effort to update and modernize our CRA guidance are to align the agencies' approaches to CRA evaluations, improve evaluation procedures, and provide effective training that prepares examiners to develop well-supported CRA evaluations. Also, the complexity and changing nature of many community development loans and investments make these complicated transactions. Therefore, ongoing training for our specialists is a must to equip them with all the skills and tools they need for this challenging work. Indeed, there is a compelling case for fostering career paths that will encourage examiners and community affairs officers to specialize in these disciplines.

A related OCC initiative involves the ongoing effort to enhance the diversity of our agency's workforce. I firmly believe that continuing to develop and maintain a corps of examiners with backgrounds and experiences that are diverse in many ways helps to ensure that we do the best possible job in all of our bank supervision – and particularly in our supervision of CRA and consumer compliance issues.

Now I would like to turn to an issue that has received a lot of focus lately – how banks can provide a better alternative for consumers who rely heavily on high cost payday loans. Just last week the Consumer Financial Protection Bureau issued a report on payday lending and held a field hearing in Nashville. The report highlighted data showing the propensity of borrowers to fall into a cycle of debt by continually rolling over payday loans. This is a troubling trend that causes concern for us at the OCC.

It is clear to me that banks do a good job of providing consumer loan products to customers with strong credit histories. Generally, banks offer such customers a wide variety of credit products, ranging from credit cards to unsecured credit lines. Banks also offer installment loans for larger purchases, such as cars or appliances, or to meet households' other consumer credit needs. Interest rates on these products tend to be competitive and repayment terms usually are flexible enough to allow consumers to make payments that fit their budgets.

However, this picture does not tell the whole story. Mainstream credit products with reasonable pricing and repayment terms are often out of reach for two large groups of consumers: those with meager credit histories and those who managed their finances poorly in the past. Estimates of the number of "thin-file" consumers range anywhere from 35 to 50 million people in the United States, while one-third of the U.S. population has FICO scores below 649. To meet these customers' credit needs, some banks offer "gateway" products such as small lines of credit or secured credit cards where a customer agrees to hold funds in a deposit account equal to the credit limit amount assigned. When these products work well, customers are able to establish a positive payment history with that institution and establish or repair credit ratings. Then, with the customer's agreement, the credit line may be increased or secured card customers can "graduate" to unsecured credit products.

Consumers who cannot qualify for mainstream credit often turn to high cost payday lenders to meet their borrowing needs. But this kind of credit comes at a steep price. Many states now regulate fees on some or all of these loan products, but the costs still remain high. For payday loans, fees range up to $20 per $100 borrowed. In a recent white paper, the Consumer Financial Protection Bureau noted that the mean effective annual percentage rate for payday loans was an astounding 339 percent.

In addition to their high cost, the other major obstacle that payday loans present is the short repayment time frame. The name "payday" loan says it all – a single balloon payment is generally due within 14 days, and is often timed to coincide with the borrower's next payday. This short repayment window forces far too many consumers to roll over their loan when their next paycheck is insufficient to cover the loan and fees, plus their ongoing living expenses and other debts. Although findings vary, it is clear from numerous research studies that a repetitive cycle of debt – sometimes called "churning" – is the norm for a substantial number of consumers who resort to this type of high-cost, short-term credit. CFPB's most recent study indicated that over 80 percent of payday loans are rolled over or followed by another loan within 14 days.

Despite the potential financial harm that payday loans can inflict, an estimated 12 million consumers turn to payday lenders each year. Studies generally agree that most payday borrowers use this high-cost credit to meet basic living expenses. To a lesser extent, consumers depend on these products to cover unanticipated expenses, such as a major repair or medical expense, or to compensate for a reduction in income due to unforeseen circumstances, such as job loss or illness.

The OCC has long been concerned about the dangers associated with payday loans. In 2000, we issued an advisory letter warning national banks about the compliance, legal, and reputation risks associated with payday lending. We also shut down so-called "rent-a-charter" arrangements between banks and payday lenders. We made clear that the benefits of a national bank charter, particularly with respect to the application of state and local law, would be unavailable to a third-party payday lender that established a relationship with a bank. These actions proved effective in curtailing payday lending by national banks both directly and through third-party arrangements.

For the last several years, storefront and online non-bank financial services providers have been the chief source of payday loans. But, in addition, a handful of banks offered deposit advance products with similar high-cost and short-term features. Last fall, the OCC and the FDIC both issued guidance, addressing safe and sound banking practices and consumer protection in connection with deposit advance products. Our guidance outlines the OCC's supervisory expectations for how banks should manage the variety of credit, reputation, operational, compliance, and other risks posed by deposit advance products. In response to the concerns raised in this guidance, several national banks and federal thrifts that offered deposit advance products are in the process of withdrawing those products from the marketplace.

The story must not end there. We at the OCC recognize that consumers need access to responsible small-dollar credit products. We made very clear in our deposit advance guidance that the OCC encourages banks to offer small-dollar loans with reasonable repayment terms at a reasonable cost. Our deposit advance guidance clearly articulated the risks that concerned us about those products, and we firmly believe that properly managed small-dollar loan programs do not exhibit the same level of risks we identified with deposit advance products, and that such loans <u>can</u> be made available to consumers.

We do understand the challenges presented by small-dollar consumer lending. Specifically, banks have told us that underwriting processes need to be streamlined to make such products viable. We generally hear two reasons for this – the cost of putting these small balance loans on the books needs to be kept low, and funding decisions need to be made quickly to address customers' needs.

We remain firm in our conviction that fundamental safe and sound practices require banks to consider borrowers' ability to repay any loan, including small-dollar products, but we also recognize that underwriting practices are not one size fits all. Appropriate underwriting may vary depending on the particular type of credit product. The degree of analysis required for a $250 installment loan will differ from the steps banks should take to underwrite a $300,000 mortgage, which will differ from what is necessary for a $20,000 auto loan.

Also, by setting reasonable product terms, a bank can expand the potential pool of eligible customers. For example, monthly installment payments scheduled over a reasonable period of time, or a reasonable minimum payment schedule on a line of credit will allow far more consumers to manage their repayment obligations and regular living expenses appropriately than would the requirement of full loan repayment from the next paycheck or direct deposit.

Many of the risks described in the deposit advance guidance were directly related to that product's short-term balloon payment feature. In many cases, the entire loan repayment was taken out of the next direct deposit, which left consumers with insufficient remaining income to cover expenses and existing debt obligations. This, in turn, ultimately resulted in high aggregate costs due to consumers' repetitive use when advances were rolled over.

Offering small-dollar loan products with reasonable loan terms also can put consumers on a path toward a brighter credit future. Reporting payment information on small-dollar loans to credit bureaus may give consumers the chance to establish credit or repair their credit ratings by demonstrating on-time payment performance. Banks can also play a role in helping customers improve their financial management skills by connecting customers with effective financial counseling and by encouraging savings. As I have said previously, effective counseling can take many forms – it can be offered online or in person; through a series of financial education and budgeting classes; or in one-on-one financial coaching sessions.

Banks have a number of tools at their disposal to help customers establish better savings patterns and, in turn, avoid over-reliance on small-dollar loans. An FDIC survey found that less than 30 percent of low-income households and less than half of moderate-income households have at least $500 in emergency savings. Low-cost savings accounts, automatic savings plans, and rebate incentives are examples of ways that banks can help consumers build better savings habits.

Developing new and innovative ways to serve small-dollar credit needs can be a win-win endeavor for both banks and customers. This is a highly competitive space. Local storefront payday lenders may be familiar to customers, and they offer extended business hours and quick, virtually assured loan approvals. However, banks have their own competitive advantages. Bank branch and ATM networks already exist, and adding a new product only adds an incremental cost to a bank's operations. Offering responsible small-dollar loan programs can help banks build a positive reputation in the community, establish relationships with new customers, and deepen relationships with existing customers.

There is also the potential for CRA consideration for responsible small-dollar loan or credit programs in which payment history is reported to consumer credit bureaus, helping transition consumers to lower-cost loans. Such programs are explicitly acknowledged in the Interagency CRA guidance under the Lending Test as examples of lending activities that are likely to be responsive in helping to meet the credit needs of communities. Offering credit counseling to low- and moderate-income customers may also receive positive CRA consideration under the Service Test.

Recently, several banks have posed questions about how we would view certain practices associated with the small-dollar loan programs they are offering or developing. We are always open to such dialogue and, indeed, we encourage early consultation. Our district structure is designed to foster strong interaction between banks and the OCC's supervisory staff. Community banks can turn to their local Assistant Deputy Comptroller to discuss product-related questions, and larger banks can meet with on-site examiners for such supervisory conversations on an ongoing basis. Working together we can improve the products and services available to consumers in need of small-dollar loans.

Let me conclude by reaffirming the OCC's commitment to helping consumers by encouraging banks to offer reasonable loan products in a safe, sound, and responsible manner. Properly structured small-dollar loans can offer borrowers a safe and affordable path, as opposed to high-cost loans that can lead to a cycle of debt. When consumers are able to reduce their dependence on short-term financial expedients, they benefit, banks benefit, and the economy benefits. Thank you for the opportunity to discuss this very important topic, and I would be happy to take a few questions.