

RAISE Texas Action Summit
MOVING TEXANS TOWARD FINANCIAL SUCCESS
APRIL 29, 2008

Alternative Small Dollar Consumer Loan Products Working Group Notes

April 29

Introductions:

Eloy opened up the floor by introducing himself, and asking everyone else to participate by introducing themselves and state what they would like to get out of the work in the next two days. There were approximately 21 attendees in the group.

As a way to facilitate the discussion on the product side of the campaign, Eloy recapped the FDIC Small Dollar Loan Program. There are currently 30 banks participating. These 30 institutions are sharing their ideas and experiences with each other, and the FDIC will be compiling a set of best practices from this pilot. The program overview can be found at <http://www.fdic.gov/news/news/financial/2007/fil07050a.html>.

Furthermore, the FDIC has designed a template for lending to members of the military. This template is a good base alternative small dollar loan program and is available on the FDIC website at <http://www.fdic.gov/news/conferences/militaryloans/agenda.html>.

Ann Baddour was asked to give her view on the legislative actions that would make a difference. Ann described the specifics of the data bill that almost passed the State legislature in the 2007 session. She thinks that if we focus on trying to get that passed in 2009, then that will be a good foundation for future legislation. Ann also indicated that they need more voices during the legislative session. The legislators need to know that there are many people that want tighter regulation for the payday lending industry.

The group adjourned and agreed to take the discussion further in tomorrow's session.

April 30

Legislative Campaign

Open Discussion - What needs to be done legislatively?

- We need more voices out there saying this is a bad practice. Potential partners include IBAT, TBA, banks, credit unions, TCUL.
- We should use the media to our advantage. Get them to run some public interest stories that show that this is a problem and is affecting people's lives.
- Need diverse group of voices to push the issue (banks, credit unions, community based organizations, faith based organizations, individuals who have had a bad experience with payday lenders in the past).
- We need to make this a "backyard" issue. Convince legislators that this is a problem in their own backyards. Focus on specific areas that are represented by specific legislators like South Dallas, Fifth Ward in Houston, etc.
- We need to define the level of change we are comfortable with – do we just want to require the payday lending industry to report their activities and later work on further restricting their activities, or push now for tighter restrictions?
- There are several potential courses of action if we wish to work on this from a state-wide legislative perspective. We can
 - Support totally new legislation of our choice.
 - Start with the military template and show that if it is important enough for the military then it is important enough for everybody. Expand its coverage to all citizens.
 - Try to work proposed legislation that has previously died through again by uniting more voices than we had last time
 - Abandon a state-wide effort and focus on trying to get municipalities to pass legislation instead
 - Abandon legislation totally and focus on consumer education.
- There are two different issues at stake for legislation – one bill proposed last session but failed required some reporting requirements by payday lenders (referred to as the data bill). The other course of action would be to try to require enforcement of the payday lending rule we already have in Texas. Payday lenders found a loophole by functioning as Credit Service Organizations (CSO's). If we choose this course of action, we would lobby to require all payday lenders currently operating as CSO's (and completely unregulated or restricted) to have fee limits and debt collection standards.
- Do we want to abandon our work on state-wide legislation and work on helping municipalities pass local legislation (like Mesquite, Richardson and San Antonio)? If more and more municipalities pass legislation, then eventually the state will take notice and realize people care about this issue.

- Banks are highly regulated and it is hard to offer alternative products and stay within the regulations. Alternative providers are not regulated right now at all. Should they be? Mainstream providers are not afforded the same playing field as the fringe providers due to the regulatory environment. Can something be done to lessen the regulatory burden on banks and credit unions?
- We need to select a champion to help us get buy-in in the legislature if that is the route we want to go. When looking at the Talent Amendment, that action was started by commanders who realized that the military personnel's lives were being affected by their use of these products. They took the issue to the legislators and the Talent Amendment is the result. Details of the Talent Amendment can be found at <http://www.fdic.gov/news/news/financial/2007/fi107083.pdf>. There has to be one thing that we focus on as the "problem" we are trying to fix. With the Talent Amendment it was "readiness" – personnel cannot effectively serve if they have financial problems. What is our "problem"? Somebody suggested we look at it from an employer standpoint – how can employees be effective at work if they are worrying about financial problems? What employers would care about this issue and help us champion it? Potential employers discussed include hospitals, school districts and municipalities. Potential champions mentioned are Senator Royce West from Dallas, Representative Villareal from San Antonio and Senator Shapleigh from El Paso.

Product Campaign:

Open Discussion – What products or services need to be developed to provide alternatives?

- People choose payday lenders because they are comfortable with the service provider. Cost is not an issue. They have a relationship with the payday lender. They start out cashing checks and then evolve into a payday loan customer.
- There are different reasons that people use payday lenders and they come from all walks of life. It is dangerous to assume that all payday lending customers look and think alike. It is hard to address the barriers of all customers. Perhaps we should focus on one or two segments.
- How do we educate people that there are alternatives? Do they know that banks and credit unions have alternatives?
- Financial institutions need to partner with community based partners. The community service providers are a great partner to establish trust, as well as to increase marketing of these products. From the financial institution's standpoint, the relationship that is built by community based organizations helps improve the odds that the customer will be a good customer (will repay the loan on time).
- Will banks be able to service the needs of those with bad credit?
- A new credit union in Houston is being established to reach out to the unbanked and underserved (Neighborhood Centers, Inc.). Can we help them get the word out about their services if other mainstream providers cannot offer these products?

- We do not actually have a very good idea of what is being offered out there already by mainstream providers. Shouldn't we start by inventorying what is already available before we determine if more/new products need to be developed? Maybe a better use of our resources would be to focus on helping the products already available be successful.
- Mainstream products should focus on being convenient – that is more important to these customers than price. To compete, mainstream products must be easy, fast and convenient.
- First Financial Credit Union (CEO Ben ???) has a good payday loan alternative. They have branches in Texas. We can learn from them. It even has a savings component.
- PeopleFund in Austin has a desire to launch a payday loan alternative. How can we as a group and other financial institutions assist them in this project? They volunteered to be an intermediary between the consumers and a loan pool. Once they successfully pilot this program, we can replicate it to other intermediaries.

Action Steps:

All brainstorm ideas were considered and the following were determined to be the priorities for moving forward in the next year. The time frames from May 2008 are in bold after each action step.

- Develop a fact sheet for members to use when talking about the issue. We all need to be fully informed of the issue at hand before we can speak to potential “champions” and/or change agents. **(July 2008)**
- After we have a fact sheet drafted, we need to engage our members to speak out about this problem to their local legislators. **(Starting August 2008 throughout the entire year)**
- Pull together a database of local ordinances already passed in cities across the US so that we can serve as a resource to municipalities across Texas and help them get similar ordinances passed. Ann Baddour volunteered to lead this effort. **(June 2008)**
- Work with municipalities to help them pass local legislation. Our goal is 20 cities within one year. We already have three cities – Mesquite, Richardson, and San Antonio. **(Starting June 2008 throughout the entire year)**
- Focus on getting more media coverage of this issue. Eloy Villafranca will lead this effort. **(Starting June 2008 throughout the entire year)**
- Complete a market analysis of what alternatives are already being offered within the mainstream. The AEI has already started to compile this and will share with the group as a starting point. Gina Vincent will be the lead on this effort. **(Completed July 2008)**
- Assist these financial institutions, community based organizations and other organizations that have already developed products. Make their programs successful so that others will want to replicate them. **(Starting June 2008 throughout the entire year)**

- Sponsor a policy forum on this issue. Municipalities can be invited to learn more about the problem and solutions that have already been implemented by other cities already. Additionally, we can include some best practices for alternative small dollar loan programs that have been implemented. Roy Lopez said the Federal Reserve Bank of Dallas will sponsor this in the 4th quarter of 2008 in either San Antonio or Austin. Roy will be the lead on this objective.
(September-October 2008)

The group agreed to continue this discussion and follow-up on the action steps via regular conference calls set up by Gina. The first call will occur in early June 2008.