Testimony of

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Before the
Office of Thrift Supervision
Chicago District Office

Regarding: Application R2-2008-0202

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Thank you for the invitation to testify at today's hearing. My name is Tom Feltner and I am the Policy and Communications Director at Woodstock Institute. Woodstock Institute is a Chicago-based non-profit research and policy organization that for over 35 years has worked locally and nationally to promote reinvestment and economic development in lower-income communities and communities of color. Woodstock has been extremely active conducting research that illustrates the scope of and harm caused by high-cost consumer lending and the impact that that this type of lending has on individuals, neighborhoods, and cities. We have also worked to develop and promote local, state, and federal policy that limit the negative effect of high-cost financial products and services on lower-income people, particularly recipients of the Earned Income Tax Credit.

Many of the Institute's concerns with this application were laid out in the letter sent to the Office of Thrift Supervision on September 10th of this year. For the purpose of this hearing, my comments will concentrate on the impact of the RAL product on lower-income Chicago communities and need to eliminate the refund anticipation loan product or require additional consumer protections.

Briefly, I would like to describe the impact of refund anticipation loans on lower-income communities and the recipients of the Earned Income Tax Credit in the Chicago region:

1. The Earned Income Tax Credit returned $903 million to working families in the Chicago region, with an average value of $1,764 per recipient.

2. In the Chicago region, 38 percent of all Earned Income Tax Credit recipients use refund anticipation loans to receive their refunds faster, paying approximately $48.2 million in tax preparation and loan fees.

3. In the Chicago region, 54 percent of recipients who live in communities of color use RALs compared with only 14 percent of recipients in predominantly white tracts. Similarly, 58 percent of recipients in low-income zip codes use RALS compared with 16.5 percent of recipients in upper-income tracts.

Based on the impact of refund anticipation loans on lower-income communities and communities of color and the failure of Republic Bancorp take steps to address the impact of this product on lower-income people, particularly EITC recipients, Woodstock Institute believes that Republic Bancorp's application for a charter conversion from a bank holding company to a savings and loan holding company should be denied.

However, regardless of the company's regulator going forward, we believe that refund anticipation loan products should be prohibited or be subject to the following strong consumer protections:

1. A cap on refund anticipation loan finance charges of 36 percent

2. Tax preparers should be prohibited from imposing additional fees in addition to the permitted finance charges

3. Prohibit cross lender debt collection

4. Cease any refund anticipation loan partnerships with payday lenders, car dealers, or fringe financial services providers.

5. Cease providing refund anticipation loans to recipients of the Earned Income Tax Credit or provide those RALs free of charge.

Clearly, consumers are seeking out products such as these for a reason. However, we reject the argument that strong demand for the immediate receipt of a tax refund is the same as strong demand for the particular product offered Republic. Certainly, working families with limited income benefit from the additional income provided by the tax credit. This demand is for additional income, not a high cost product that delivers that additional income a few days earlier.

We also reject the Bank's claim that the ability of the RAL product to meet the credit needs of their customers can be adequately measured by customer satisfaction surveys or by the number of complaints about a product filed with a regulatory agency. In general customers who choose to use high-cost payday loans report satisfaction with the product even when it contributes to a long-term cycle of debt. In fact, states throughout the country continue to take steps to curtail the availability of payday products. The purpose of these policies is to curtail the product's negative effect on a borrower's ability to build assets and the majority of voters in those states overwhelmingly registered their support these for these measures. Likewise, egregious credit card practices are roundly criticized by consumers of all income levels, but very few credit card customers file a compliant with a banking regulator.

As policymakers take steps to reduce the negative impact of high cost financial products, the industry itself has offered modest, though ultimately insufficient reforms. Even payday lenders offer fee free repayment plans to some of their most troubled borrowers, and many credit card lenders have eliminated their most unfair practices, such as universal default.

As a refund anticipation loan provider, Republic has not taken any similar steps to reduce the asset stripping effect of refund anticipation loans and should not be approved for a thrift charter.

At this time, I would like to thank the Office of Thrift Supervision for the opportunity to discuss Woodstock Institute's concerns with this application and look forward to your decision.

I would also like to cede my remaining time to the next speaker, as needed.