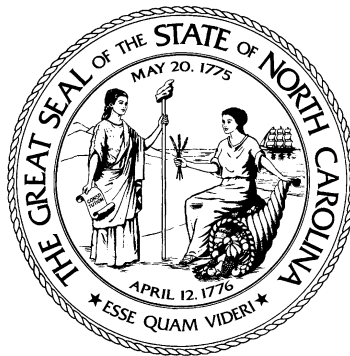


**HOUSE STUDY COMMITTEE ON UNBANKED
AND UNDERBANKED CONSUMERS**



***REPORT TO THE
2009 HOUSE OF REPRESENTATIVES***

January 2009

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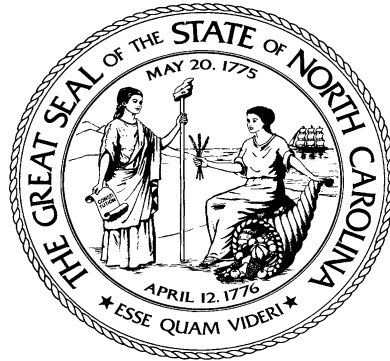
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STATE OF NORTH CAROLINA

HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED
CONSUMERS



January 15, 2009

TO THE MEMBERS OF THE 2009 North Carolina House of Representatives:

Attached for your consideration is the report of the House Study Committee on Unbanked and Underbanked Consumers established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26(a) of the Rules of the House of Representatives of the 2007 General Assembly.

Respectfully submitted,

Representative Hugh Holliman
Chair

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**HOUSE STUDY COMMITTEE ON UNBANKED AND UNDERBANKED
CONSUMERS**

**TO THE HONORABLE MEMBERS OF THE
NORTH CAROLINA HOUSE OF REPRESENTATIVES**

WHEREAS, consumers who do not have or maintain traditional bank accounts are considered "unbanked"; and

WHEREAS, consumers who have impaired or inadequate credit files are considered financially "underbanked"; and

WHEREAS, financial products and financial companies serving these consumers, and laws governing both those transactions and the practices of those companies, have evolved substantially in the last 10 years; and

WHEREAS, the General Assembly has not had a comprehensive review of the State's various lending laws and whether those laws foster availability of responsible personal installment lending or leverage the favorable changes that have occurred in the national marketplace in products, business practices, credit information, and operations technology;

NOW THEREFORE,

Section 1. The House Study Committee on Unbanked and Underbanked Consumers (hereinafter "Committee") is established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26(a) of the Rules of the House of Representatives of the 2007 General Assembly.

Section 2. The Committee consists of ten members, including seven legislators and three public members appointed by the Speaker of the House of Representatives. Members serve at the pleasure of the Speaker of the House of Representatives. The Speaker of the House of Representatives may dissolve the Committee at any time.

Representative Hugh Holliman, Chair
Representative Angela R. Bryant
Representative Walter G. Church, Sr.
Representative Larry D. Hall
Representative Daniel F. McComas
Representative William C. "Bill" McGee
Representative Drew Saunders

Public Members

The Speaker of the House of Representatives appoints the following public members of the Committee:

- Three members of the public with an interest in credit, consumer protections, and/or economic development.

The Honorable Farad Ali, Durham County
Mr. David C. Darby, Davie County
Mr. Bob Schall, Durham County

Section 3. The Committee shall study the following matters related to access to credit by consumers who are considered unbanked or underbanked:

1. Consumer protection laws, licensing laws, and other regulations involving non-bank consumer installment credit, both unsecured and real estate secured, that have been developed over the last 10 years by the North Carolina General Assembly, the Attorney General, and the Office of the Commissioner of Banks.
2. Whether current day lending processes are understandable, fair, and efficient.
3. An analysis of what may constitute optimum disclosures to consumers so that they might better understand and make reasoned decisions with regard to the products being offered.
4. The economic factors and financial circumstances that are relevant to consumer installment credit businesses, investors, and profitability.
5. The economic factors and financial circumstances that are relevant to products, pricing, costs, cost recovery, and risk based pricing.
6. The personal and community financial impact from improving credit scores.

Section 4. The Committee shall meet upon the call of its Chair. A quorum of the Committee shall be a majority of its members.

Section 5. The Committee, while in the discharge of its official duties, may exercise all powers provided for under G.S. 120-19 and Article 5A of Chapter 120 of the General Statutes.

Section 6. Members of the Committee shall receive per diem, subsistence, and travel allowance as provided in G.S. 120-3.1.

Section 7. The expenses of the Committee including per diem, subsistence, travel allowances for Committee members, and contracts for professional or consultant services shall be paid upon the written approval of the Speaker of the House of Representatives pursuant to G.S. 120-32.02(c) and G.S. 120-35 from funds available to the House of Representatives for its operations. Individual expenses of \$5,000 or less, including per diem, travel, and subsistence expenses of members of the Committee, and clerical expenses shall be paid upon the authorization of the Chair of the Committee. Individual expenses in excess of \$5,000 shall be paid upon the written approval of the Speaker of the House of Representatives.

Section 8. The Legislative Services Officer shall assign professional and clerical staff to assist the Committee in its work. The Director of Legislative Assistants of the House of Representatives shall assign clerical support staff to the Committee.

Section 9. The Committee may meet at various locations around the State in order to promote greater public participation in its deliberations.

Section 10. The Committee shall submit a final report on the results of its study, including any proposed legislation, to the members of the House of Representatives on or before January 27, 2009 by filing the final report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative Library. The Committee terminates on January 27, 2009, or upon the filing of its final report, whichever occurs first.

Effective this 1st day of April, 2008.



Joe Hackney

Speaker

4/2/2008 3:50 PM

8/11/2008 10:58 AM -- Mr. Bob Schall replaces Mr. Martin Eakes

COMMITTEE PROCEEDINGS

The House Study Committee on Unbanked and Underbanked Consumers held 4 meetings.

August 21, 2008

Review of Committee Charge

- Karen Cochrane-Brown, Committee Co-Counsel

Overview of the Unbanked and Underbanked Consumers in North Carolina

- Janneke Ratcliffe, Associate Director, UNC Center for Community Capital, UNC-Chapel Hill

September 23, 2008

Review of the Regulation of the Banking and Financial Services Industries

- Mark Pearce, North Carolina Deputy Commissioner of Banks

Comments on Behalf of the North Carolina Bankers Association

- Paul Stock, Executive Vice President and Counsel, North Carolina Bankers Association

Comments on Behalf of the Consumer Credit Industry

- Dick Carleton, North Carolina Financial Services Association
- Roger Bone, Bone and Associates, Resident Lenders of North Carolina

November 20, 2008

Comments on Behalf of the North Carolina Credit Union League

- Dan Schline, Senior Vice President, Association Services, North Carolina Credit Union League

Comments on Behalf of the Consumer Credit Industry and the North Carolina Credit and Personal Finance Council

- C. Everett Wallace

Comments by Consumer Advocate Organizations

- Chris Kukla, Senior Counsel for Legislative Affairs, Center for Responsible Lending
- Al Ripley, Director, Consumer Action Network, North Carolina Justice Center

January 15, 2009

Adoption of Final Report

SUMMARY OF COMMITTEE PROCEEDINGS

House Study Committee on Unbanked and Underbanked Consumers August 21, 2008 – 1:00 pm – Room 1228, Legislative Building

Karen Cochrane-Brown, Committee Counsel, reviewed the charge to the Committee from the Authorizing Letter. Next, Janneke Ratcliffe, the Associate Director at the UNC Center for Community Capital, UNC-CH, provided an overview of unbanked and underbanked consumers in North Carolina. According to studies done by the Center, 17% of lower income families in the State (about 222,000 households) had no bank account and 41% of the unbanked families did previously have bank accounts. The factors associated with being unbanked included: lower incomes; being African-American or Hispanic; lower education levels; living in areas with fewer bank branches and more check cashing outlets; growing up in an unbanked household. Ms. Ratcliffe stated that among unbanked individuals, 49% stated that it was too costly to have a bank account.

Ms. Ratcliffe stated that State policies and programs should focus on providing options for consumers to borrow small amounts of money at low interest rates. However, financial education should also address that bank accounts (including checking and savings accounts) are the most important elements of financial literacy and that borrowing should be secondary.

There were various questions from the Committee members and Committee discussion on how to bring greater access to banking services to unbanked and underbanked persons.

House Study Committee on Unbanked and Underbanked Consumers September 23, 2008 – 1:00 pm – Room 1228, Legislative Building

Mark Pearce, the North Carolina Deputy Commissioner of Banks, provided a review of financial services for the underbanked. Mr. Pearce stated that the access to banking services is an important aspect of financial well-being. Although alternative financial services (such as check cashing outlets) offer consumers convenience, speed, and customer services, the prices can often be quite high. Mr. Pearce stated that research shows that low-income families do want to save money and if they have a bank account, they are more likely to have success in savings and a positive net worth. African American and Latino families were twice as likely to not have bank accounts. The North Carolina Commissioner of Banks has encouraged banking institutions to penetrate into the unbanked population through targeted partnerships with large employers. It has also encouraged more participation from State chartered banks in federal programs that provide small dollar loans. Mr. Pearce also commented on North Carolina's payday lending "experiment" which lasted from 1997 to 2001. Installment loans through consumer finance lenders have increased over the past few years for loans between the amount of \$600 and \$1000 and surveys show that North Carolina consumers have not missed payday lending. Mr. Pearce recommended that the State:

- Maintain strong regulation of rates and terms of consumer loans
- Continue to increase financial education and literacy in schools
- Promote direct deposit of checks for State employees
- Provide funding for non-profit counselors for financial advice and budgeting

Paul Stock, Executive Vice President and Counsel, NC Bankers Association, spoke about the results of a survey the Bankers Association conducted of banks headquartered or with branches in the State. The survey asked the banks to provide information on products and services offered to attract unbanked and underbanked consumers. According to Mr. Stock, of the survey respondents, 68.8% stated that they offered products and services for consumers that had not had a previous relationship with a bank. The banks felt that their products had been received well. A number of banks stated they offered free checking accounts to consumers with no or low service fees or no or low minimum balances. The survey also provided information on

credit product and services offered by the banks and the banks views on unbanked and underbanked consumers. Mr. Stock recommended that the State needs to bring financial education to "the masses".

Dick Carleton of the North Carolina Financial Services Association stated that access to small loans in North Carolina is decreasing. He recommended that there needs to be a review of the statutes as the consumer loan laws in the State have become outdated since they have not changed since 1982. He asked that the Committee recognize the need for traditional installment loan products and that the Committee take into consideration the true costs of unsecured, non-depository consumer credit. He stated that if these loans become unavailable, there will be no legal source for unsecured credit for many borrowers.

Roger Bone of Bone and Associates and representing the Resident Lenders of North Carolina stated that the North Carolina statutes on small loans needed to be modernized and new products needed to be developed (which could be regulated by the Commissioner of Banks). Mr. Bone asked the committee to find a way to provide loans for the unbanked and underbanked consumers. He stated that access to credit is critical for unbanked consumers and legislators should recognize the need for small consumer loans.

There were questions from committee members and some committee discussion around the various issues and presentations.

House Study Committee on Unbanked and Underbanked Consumers November 20, 2008 – 1:00 pm – Room 1228, Legislative Building

Dan Schline, Senior Vice President, Association Services with the North Carolina Credit Union League explained the services provided by the North Carolina credit unions and how credit unions serve unbanked and underbanked consumers. Some of these services include: low-cost/basic checking deposit accounts; credit building programs; wealth building initiatives; various credit programs such as low-cost loans, payday alternatives (salary advance loans), and basic transportation loans; and financial counseling.

C. Everett Wallace spoke on behalf of the North Carolina Credit and Personal Finance Council (Council). Mr. Wallace stated that the Council was the umbrella trade association for the traditional installment lending consumer credit industry in the State. The Council's mission is to "improve and protect consumers' access to credit and promote responsible and ethical lending for responsible and informed borrowers". Mr. Wallace explained that G.S. 53-173 governed the licensed entities that make loans of \$3,000 or less and G.S. 53-176 governed loans made by licensed entities of \$10,000 or less. Mr. Wallace stated that the customer base of the installment credit industry in the State is made up largely of the unbanked and underbanked and various analyses show that many of these borrowers have credit scores in the "sub-prime" area. The majority of the consumer credit industry's borrowers are from lower-income households and have very low savings or even negative net worth. Mr. Wallace noted that North Carolina's installment lenders are turning down about 80% of the applicants who apply for loans to cover basic needs. This is happening due to the rising costs of providing unsecured, non-depository consumer credit and the rate structure under which the consumer credit industry operates has not been modified or "indexed" for inflation. Mr. Wallace advocated "infusing profitability in the statutory and regulatory framework that governs the consumer credit industry."

Chris Kukla, Senior Counsel for Legislative Affairs with the Center for Responsible Lending spoke next about the current lending laws that governed the consumer finance industry. Mr. Kukla pointed out that a number of bills had been introduced in recent legislative sessions which would have raised the statutory caps on the interest rates on types of loans that had been discussed by the Committee. Mr. Kukla stated that none of the bills had been enacted by the General Assembly and that these issues need to be studied more broadly.

Al Ripley, Director of Consumer Action Network at the North Carolina Justice Center addressed issues of economic growth and poverty statistics in the State. Mr. Ripley stated there were 4 obstacles to banking and saving: (i) the unbanked tend to be lower income with lower levels of education; (ii) unaffordable fees and charges for financial services made banking too costly; (iii) high cost unaffordable loans; and (iv) increased unemployment, and a lack of quality education, affordable housing, childcare, health care and other factors contributed to low wealth and poverty. Mr. Ripley then described practices that keep consumers from becoming banked: (i) high cost financial services; (ii) high minimum balances; (iii) high cost debt and loans; and (iv) loan product characteristics that encourage repeat high cost transactions. Mr. Ripley stated that other states have stronger consumer lending laws compared to North Carolina and many states have at least one interest rate cap that is lower than those under North Carolina law. He stated that at the Justice Center they "get many complaints about lending abuses" but they "do not get complaints about a lack of credit in North Carolina." According to Mr. Ripley, "people are already overextended in high debt cost and having more debt at high cost does not help." He advocated lowering interest rates on loan products. Mr. Ripley then set forth approaches to encourage consumer to use beneficial banking services. These are: (i) reliable social safety nets that prevent poverty and help families to save; (ii) jobs that pay living wages and have good benefits; (iii) low-cost financial services with low minimum balance requirements; and (iv) initiatives that promote low cost financial services. Finally, Mr. Ripley discussed the "Bank-On" San Francisco initiative. This initiative is a partnership between government, financial institutions, and community organizations which raises the awareness of unbanked issues and encourages people to get a bank account. It has features such as checking accounts with no minimum balance and low or no cost fees. In San Francisco, the initiative has had 20,000 accounts opened with an average balance of \$800. "Bank-On California" will be the first state-wide initiative and is scheduled to be launched in December, 2008.

There were questions from committee members and some committee discussion around the various issues and presentations.

**House Study Committee on Unbanked and Underbanked Consumers
January 15, 2009 – 10:00 am – Room 1425, Legislative Building**

The meeting opened with a discussion about the draft of the final report of the Committee. After some Committee discussion, Representative Hall moved to add a recommendation that the House Financial Services Committee create a Standing Subcommittee to continue to study the issues of the unbanked and underbanked during the upcoming 2009 Session. The Committee approved the recommendation. Representative Bryant then moved to add a recommendation to encourage various groups to continue their efforts to bring banking services through Earned Income Tax Credits and free tax preparation. Representative Bryant also moved to a recommendation to encourage various groups to develop strategies to provide direct deposit services for unbanked State employees. The Committee adopted both recommendations. The Committee then voted to adopt the report as amended and present to the members of the 2009 North Carolina House of Representatives.

COMMITTEE FINDINGS AND RECOMMENDATIONS

The House Study Committee on Unbanked and Underbanked Consumers makes the following findings and recommendations to the 2009 House of Representatives:

FINDINGS:

The Committee finds that:

1. A significant number of households in the State are currently not using banking services.
2. The unbanked tend to be disproportionately African American and Hispanic.
3. The unbanked have lower incomes and less education and live in areas with fewer bank branches and more check cashing outlets.
4. Although some banks and credit unions have developed programs to address the needs of the unbanked, more needs to be done.
5. The high cost of many financial services may play a role in keeping consumers unbanked.
6. More study is needed to determine the role of access to and the cost of credit in helping the unbanked begin the process of building wealth.

RECOMMENDATIONS:

1. The Committee recommends that no statutory proposal be offered at this time and that the General Assembly continue to study this issue to determine whether there is an appropriate policy solution.
2. The Committee strongly encourages the Commissioner of Banks, the North Carolina Bankers Association, and the North Carolina Credit Union League to continue their efforts to bring banking services to North Carolina residents through the Earned Income Tax Credit and free tax preparation.
3. The Committee strongly encourages the Commissioner of Banks, the North Carolina Bankers Association, the North Carolina Credit Union League, the State Comptroller, and the State Personnel Commission to develop strategies to provide direct deposit services for unbanked State employees.
4. The Committee recommends that a subcommittee of the House Financial Institutions Committee be created to further study this issue and to make specific recommendations with regard to strategies to provide improved services to unbanked and underbanked consumers in the State. The subcommittee's work should include the following:
 - A regulatory update.
 - A consumer based analysis.
 - Consultation with all interested parties, including the Commissioner of Banks and the consumer advocacy community.
 - A consumer credit counseling component.