

**Statement of  
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Before the  
Subcommittee on Financial Institutions and Consumer Credit  
of the  
Committee on Financial Services  
U. S. House of Representatives**

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Chairman Capito, Ranking Member Maloney, and members of the Subcommittee, I appreciate the opportunity to appear on OCC's behalf to discuss consumer credit and the types of products that national banks and federal savings associations are making available to meet small dollar credit needs.

National banks and federal savings associations provide the lion's share of unsecured consumer lending in the United States with over \$600 billion dollars in credit card and other revolving debt outstanding. Consumer credit comes in many forms—unsecured and secured credit cards, term consumer installment loans, and lines of credit linked to checking accounts.

Many banks and thrifts offer credit cards that provide households with a critical source of credit and a flexible repayment schedule. Lines of credit, which are widely offered, are frequently tied to checking accounts and can be set up to automatically transfer funds to cover overdrafts. Most banks and thrifts also have unsecured consumer loan products where the borrower makes installment payments over a set period of time.

But, there are many factors that may limit borrowers' access to traditional types of credit. Some prospective borrowers may have yet to establish a credit history or may have only a limited credit record. For other prospective borrowers, previous late payments, repossession action, bankruptcy, or foreclosure may have damaged their credit score. And some consumers are just unaware that better credit products for which they would qualify are available.

However, a growing number of banks and thrifts recognize that there are ways for these customer segments to be underwritten safely and soundly. And many banks and thrifts have taken initiatives to provide products tailored to the needs of those customers. My written testimony highlights examples of small dollar loan products offered by banks and thrifts, and shows that much is being done to improve access to credit.

Many banks and thrifts use "high touch" manual underwriting when making a loan decision, which allows them to consider mitigating circumstances, such as temporary unemployment or emergency medical expenses. This approach is prudent as long as the customer has otherwise properly managed credit and has the capacity to repay the loan. Other banks offer products, such as secured credit cards, to help borrowers to re-establish or improve their credit.

And new scoring models are helping to automate underwriting for "thin file" consumers. This not only lowers costs for low margin small loans, but also allows rapid decisioning and expedited disbursement of funds.

The bank regulatory agencies' CRA guidance explicitly acknowledges the importance of small dollar loans as a means of serving the credit needs of the community. Programs that provide small, unsecured consumer loans based on the borrower's ability to repay, and with reasonable terms, are eligible for positive CRA consideration. Loan

programs that feature reporting to consumer reporting agencies or include a financial education component also may be favorably considered. And banks and thrifts may receive positive CRA consideration for qualified investments in financial intermediaries that offer small dollar loan programs.

The OCC's Community Affairs staff engages in a variety of activities to encourage nationally-chartered banks and thrifts to address consumer credit needs. We educate by communicating "best practices" through on-line resources and publications. We also work with the other bank regulatory agencies to conduct dozens of seminars each year, where bankers hear first hand from practitioners about how best to implement constructive programs, such as small dollar loan initiatives. The OCC also actively works in partnership with the National League of Cities' "Bank On" initiative, to expand banking opportunities for unbanked and underbanked individuals. Under this initiative, banks and thrifts are offering low cost checking with no minimum balance requirements, prepaid debit cards, and small dollar loans with the support of counseling organizations who provide budgeting and financial counseling assistance.

I'd like to conclude by re-emphasizing that the OCC firmly supports efforts by national banks and federal savings associations to be leaders in their communities. The OCC's guidance and supervision encourages our regulated institutions to offer products and programs that meet a spectrum of credit needs in a safe, sound, and sustainable manner.

Thank you for the opportunity to appear before you today. I would be pleased to answer your questions.