

# Woodstock Institute



February 1, 2007

## Board of Directors

### Chair

**Ada Skyles, Ph.D., J.D.**  
Chapin Hall Center for Children  
at the University of Chicago

### Immediate Past Chair

**Charles M. Hill, Sr.**  
Charles Hill & Associates, Inc.

### Secretary

**Edward Jacob**  
North Side Community  
Federal Credit Union

### Treasurer

**Pamela Daniels-Halisi**  
LaSalle Bank, N.A.

### Members

**Malcolm Bush, Ph.D.**  
Woodstock Institute

**Cheryl Devall**  
Journalist

**Thomas Fitzgibbon**  
MB Financial

**Charles Hill, Jr.**  
Mercer County Office of  
Economic Opportunity

**Charles M. Hill, Sr.**  
Charles Hill & Associates, Inc.

**Reginald Lewis**  
Office of the City Administrator  
City of East Orange

**Lisa Lowe**  
Ohio Savings Bank

**Michael Mitchell**  
Mitchell Development  
Consultants, Inc.

**Mary Nelson, Ph.D.**  
Bethel New Life, Inc.

**F. Leroy Pacheco**

**Steve Perkins, Ph.D.**  
Center for Neighborhood  
Technology

**Gail Schechter**  
Interfaith Housing Center of  
The Northern Suburbs

**Sandra P. Scheinfeld, Ph.D.**  
Freelance Documenter

**Gregory Squires, Ph.D.**  
George Washington University

### Founder

**Sylvia R. Scheinfeld**  
1903-1990

**Malcolm Bush, Ph.D.**  
President

**Marva Williams, Ph.D.**  
Senior Vice President

**Patricia Woods-Hessing**  
Administrative Director

407 South Dearborn Ave.  
Suite 550  
Chicago, Illinois 60605-1138  
Phone 312/427-8070  
Fax 312/427-4007  
woodstock@woodstockinst.org  
www.woodstockinst.org

Mr. Robert E. Feldman  
Executive Secretary  
Federal Deposit Insurance Corporation  
550 17th Street, NW  
Washington, DC 20429-9990

## Re: Affordable Small-Dollar Loan Guidance

Dear Mr. Feldman:

Woodstock Institute supports the proposed FDIC Guidelines for Affordable Small Dollar Lending announced in early December to assist banks in responsibly meeting the small loan needs of their customers. The FDIC proposes to reward banks through the Community Reinvestment Act (CRA) when banks meet the financial needs of consumers in their local communities.

The Guidelines encourage interest rates of 36 percent or less for small loans, the rate recently set by Congress for loans to Service members and their families and included in many state small loan statutes. This rate cap is double the 18 percent cap for federally chartered credit unions. Other safe features of small loans include an affordable installment repayment schedule so that borrowers can successfully repay loans, using technology to efficiently extend credit and make payments convenient for consumers, and including a savings component to help consumers build assets and avoid borrowing for future needs. Banks cannot simply pick and choose from these features, but need to consider their small loan product as a package deal that can only meet the needs of customers by combining affordable pricing with reasonable terms. We support the recommendation that banks avoid extra fees and prepayment penalties that drive up the cost of loans and make cost comparison difficult, especially for open end credit.

In addition to the features described in the FDIC Guidance, successful bank small loan products will need to be attractively branded, well publicized to its customers, quick and easy to use, and simple to understand with no hidden fees or surprises.

Woodstock Institute has been critical of high-cost payday loans and payday installment loans, two forms of extremely high-cost credit currently available to consumers with bank accounts. Recent Woodstock Institute research shows that, in Illinois, payday loan borrowers pay nearly 400 percent APR, and that one out of every three borrowers is forced to refinance their loan because they are unable to pay off the entire principal.

We firmly believe that banks can help their customers avoid debt traps from both payday lending and overdraft loans with well designed small loan products as envisioned by the FDIC Guidance. It is appropriate for the FDIC to encourage better small lending by banks through CRA recognition.

Sincerely,

Marva Williams  
Senior Vice President, Woodstock Institute

MW/bab