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## United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

January 6, 2016

The Honorable Barack Obama  
President of the United States  
The White House  
1600 Pennsylvania Avenue, NW  
Washington, D.C. 20500

Dear Mr. President:

I am writing regarding Title XII—*Improving Access to Mainstream Financial Institutions* of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Wall Street Reform). Five and a half years after this legislation became law, I ask that you prioritize funding for the programs in sections 1204, 1205, and 1206 in your Fiscal Year (FY) 2017 budget proposal.

Title XII was intended to “encourage initiatives for financial products and services that are appropriate and accessible for millions of Americans who are not fully incorporated into the financial mainstream.”<sup>1</sup> According to former Senator Akaka, one of the authors of the title, “Title XII...is the most important economic empowerment provision in [Wall Street Reform].”<sup>2</sup> Former Senator Kohl, the other primary author of the title, stated: “This grant making program will dramatically help to increase the number of small dollar loan options to consumers that need quick access to money so that they can pay for emergency medical costs, car repairs and other items they need to maintain their lives.”<sup>3</sup>

Several sections in Title XII permit the Treasury Department to promulgate regulations to implement the title. However, no part of Title XII has been implemented since Wall Street Reform became law in 2010. Section 1204 authorizes the Treasury Department to establish programs with eligible entities to help low- and moderate-income individuals to access accounts at banks and credit unions. Additionally, under section 1204, eligible entities can provide products and services, such as small-dollar loans, financial education, and counseling. Under section 1205, the Treasury Department may establish partnerships with non-profits, federally insured depository institutions, community development financial institutions (CDFIs), or State, local, or tribal governments to provide low-cost, small dollar loans with reasonable terms. Finally, section 1206 amends the Community Development Banking and Financial Institutions Act of 1994 (CDFI Act) to enable the CDFI Fund to help CDFIs defray the costs of operating small dollar loan programs and to encourage CDFIs to establish and maintain small dollar loan programs.

Access to the traditional financial system is more important than ever. In December 2009, the Federal Deposit Insurance Corporation (FDIC) published its first National Survey of Unbanked and

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<sup>1</sup> Section 1202, Wall Street Reform.

<sup>2</sup> Senator Akaka (HI). “Financial Regulatory Reform.” *Congressional Record* 156:104 (July 10, 2010) p. S5871.

<sup>3</sup> Senator Kohl (WI). “Financial Regulatory Reform.” *Congressional Record* 156:104 (July 10, 2010) p. S5927.

Underbanked Households to promote the goal of ensuring that all Americans have access to “basic, safe, and affordable bank services.”<sup>4</sup> The 2009 Survey found that 25.6% of households are unbanked or underbanked, representing at least 60 million adults.<sup>5</sup> The most recent survey, published October 2014, shows that even more Americans are shut out of the financial system: at least 27% of households are now unbanked or underbanked, representing 67.6 million American adults.<sup>6</sup> This means that more than one in four American adults either do not have an account at an insured financial institution or do have an account but have also obtained financial services and products from non-bank, alternative financial services (AFS) in the prior 12 months.<sup>7</sup> AFS include money orders, check cashing, remittances, payday loans, pawn loans, refund anticipation loans, rent-to-own services, and auto title loans.<sup>8</sup>

Not having access to basic financial services such as checking and savings accounts is especially problematic in particular communities. In 2009, 54% of adult African-American households were unbanked or underbanked; in 2013, the percentage was essentially unchanged at 53.6%. For Hispanic households, the problem is more acute: in 2009, 43.3% of households were unbanked or underbanked and in 2013 it was 46.4%. Additionally, among households making less than \$30,000, younger households, unemployed households, and working-age disabled households, approximately half of all such households are underserved.<sup>9</sup>

While AFS can be provided and used responsibly, many individuals who use AFS end up in a dangerous cycle of debt that exacerbates their precarious financial circumstances. For example, the average underserved household has an annual income of \$25,500 and spends \$2,412 on AFS fees and interest, or 9.5% of their income.<sup>10</sup> This is approximately the same portion that the average American household spends on food in one year.<sup>11</sup>

The amount that Americans pay in AFS fees and interest is also increasing: the underserved paid \$82 billion in AFS fees and interest in 2011,<sup>12</sup> a number which increased to \$138 billion in 2014.<sup>13</sup> In just

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<sup>4</sup> 2009 FDIC National Survey of Unbanked and Underbanked Households (Dec. 2009), <https://www.fdic.gov/HOUSEHOLDSURVEY/2009/index.html>. This survey was a result of a new partnership between the FDIC and the Census Bureau and presented a wealth of previously unavailable data. The FDIC conducted the survey to comply with Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, which required the FDIC to conduct bi-annual surveys on efforts by insured depository institutions to bring underserved individuals into the traditional financial system. Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (P.L. 109-173), <https://www.gpo.gov/fdsys/pkg/PLAW-109publ173/pdf/PLAW-109publ173.pdf>.

<sup>5</sup> The FDIC notes that there could be an additional 4.1%, or 11 million adults, that are unbanked or underbanked, as the FDIC was unable to obtain adequate data to determine banking status for those individuals.

<sup>6</sup> 2013 FDIC Survey of Unbanked and Underbanked Households (Oct. 2014), <https://www.fdic.gov/householdsurvey/2013report.pdf>. Note, however, that the survey notes that underbanked rates are not directly comparable due to changes in definition of underbanked households across the three surveys. The report also notes that an additional 5.3% of households may be underbanked but the FDIC could not determine their status.

<sup>7</sup> <https://www.fdic.gov/householdsurvey/2013report.pdf>. See <http://quickfacts.census.gov/qfd/states/00000.html> for total population estimates. 67.6 million adults represents approximately 28% of the American adult population.

<sup>8</sup> <https://www.fdic.gov/householdsurvey/2013report.pdf>.

<sup>9</sup> <https://www.fdic.gov/householdsurvey/2013report.pdf>.

<sup>10</sup> Providing Non-Bank Financial Services for the Underserved, United States Postal Service Office of the Inspector General (Jan. 27, 2014), [https://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rare-wp-14-007\\_0.pdf](https://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rare-wp-14-007_0.pdf).

<sup>11</sup> *Id.*

<sup>12</sup> Center for Financial Services Innovation, Financially Underserved Market Size Study 2012 (Dec. 1, 2013), <http://www.cfsinnovation.com/Document-Library/2012-Financially-Underserved-Market-Size-Study.aspx>.

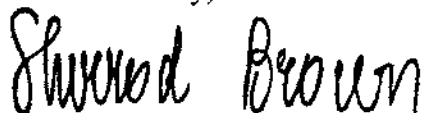
three years, the growth in AFS fees and interest paid by the underserved has increased by nearly 70%. In Ohio alone, 836 payday lending storefronts generate more than \$500 million in fees each year, twice the amount collected in 2005.<sup>14</sup> Seventy-five percent of payday fees are generated by borrowers with more than 10 loans a year, and 80% of payday loans are rolled over or followed by another loan within 14 days.<sup>15</sup> The mean payday loan has an APR of 339%.<sup>16</sup> Twelve million people use payday loans annually, spending an average of \$520 in interest to repeatedly borrow an average of \$375 in credit.<sup>17</sup>

The financial system is not working for many Americans. When one in four Americans cannot access financial products with reasonable terms, it is imperative to explore solutions to ensure that the financial system is inclusive of all people. Title XII was intended to address these concerns and can potentially lead to alternatives that will enable more people to responsibly manage their finances.

The White House and the Treasury Department have an opportunity to use the authority provided by Congress in title XII to improve financial inclusion, and I ask that you include funding for these important programs in your budget to ensure that the Treasury Department has the resources it needs to proceed with implementation.

Thank you for your time and attention to consider this important request.

Sincerely,



Sherrod Brown  
United States Senator

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<sup>13</sup> Center for Financial Services Innovation, 2014 Underserved Market Size: Financial Health Opportunity in Dollars and Cents (Dec. 8, 2015), <http://www.cfsinnovation.com/Document-Library/2014-Underserved-Market-Size-Financial-Health-Opportunity>.

<sup>14</sup> Center for Responsible Lending, The Buckeye Burden: An Analysis of Payday and Car Title Lending in Ohio (Nov. 2015), [http://www.responsiblelending.org/payday-lending/research-analysis/crl\\_ohio\\_analysis\\_nov2015.pdf](http://www.responsiblelending.org/payday-lending/research-analysis/crl_ohio_analysis_nov2015.pdf).

<sup>15</sup> Consumer Financial Protection Bureau (CFPB), CFPB Data Point: Payday Lending (Mar. 2014), [http://files.consumerfinance.gov/f/201403\\_cfpb\\_report\\_payday-lending.pdf](http://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf).

<sup>16</sup> CFPB, Payday Loans and Deposit Advance Products (Apr. 24, 2013), [http://files.consumerfinance.gov/f/201304\\_cfpb\\_payday-dap-whitepaper.pdf](http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf).

<sup>17</sup> Pew Charitable Trusts, Payday Lending in America: Policy Solutions (Oct. 2013), [http://www.pewtrusts.org/~media/legacy/uploadedfiles/pew\\_assets/2013/pewpaydayoverviewandrecommendationspdf.pdf](http://www.pewtrusts.org/~media/legacy/uploadedfiles/pew_assets/2013/pewpaydayoverviewandrecommendationspdf.pdf). See also Pew Charitable Trusts, Payday Lending in America collection (Mar. 27, 2015), <http://www.pewtrusts.org/en/research-and-analysis/collections/2014/12/payday-lending-in-america>.