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TO THE
HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
THE TWENTY-FIFTH STATE LEGISLATURE
REGULAR SESSION OF 2009

Wednesday, March 18, 2009
3:00 p.m.

TESTIMONY ON H.C.R. NO. 16, H.D. 1 - ENCOURAGING STATE AND COUNTY ACTION TO STIMULATE INDIVIDUAL SAVINGS AND DEVELOPMENT OF CREDIT AND TO FORMULATE AN INVENTORY OF BANKING SERVICES AVAILABLE TO LOW-INCOME PERSONS AND THOSE WITH NO CREDIT HISTORY IN THE STATE.

THE HONORABLE ROBERT N. HERKES, CHAIR,
AND MEMBERS OF THE COMMITTEE:

My name is Nick Griffin, Commissioner of Financial Institutions ("Commissioner"), testifying on behalf of the Department of Commerce and Consumer Affairs ("Department"). We appreciate the opportunity to testify on House Concurrent Resolution No. 16, H.D. 1. The Department supports this resolution.

The purpose of this resolution is to encourage State and county action to stimulate individual savings and development of credit and to formulate an inventory of banking

services that are available to low-income persons and those with no credit history in the State, as well as an unbanked population that frequently includes the elderly and senior citizens.

House Concurrent Resolution No. 16, H.D. 1 observes that handling payments through a bank account provides a gateway for households to enter the financial mainstream and become owners of financial assets and that those households are more likely to own other assets, including accounts related to savings, credit, and insurance, while those without financial accounts are less likely to do so.

Consumers without a relationship with a mainstream financial institution may also pay high transaction fees for services, such as check cashing, and pay interest rates to purchase items through rent-to-own companies.

Clearly, in the American economy, consumers who have established banking relationships have access to better tools to save, build assets and enhance their ability to manage money and make significant financial decisions regarding education, homeownership, health care, self employment, and retirement.

In view of these positive outcomes generated by consumer access to mainstream financial services and products, the Department welcomes the opportunity to work with local financial institutions to encourage the integration of the unbanked and underbanked populations into the financial mainstream here in Hawaii.

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Thank you for the opportunity to testify. I would be happy to respond to any questions you may have.

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March 18, 2009

Rep. Robert N. Herkes, Chair
and members of the House Committee on Consumer Protection and Commerce
Hawaii State Capitol
Honolulu, Hawaii 96813

Re: **House Concurrent Resolution 16, House Draft 1 (Encouraging State and County Action to Stimulate Individual Savings and Development of Credit and to Formulate an Inventory of Banking Services Available to Low-Income Persons and those with No Credit History in the State)**
Hearing Date/Time: Wednesday, March 18, 2009, 3:00 P.M.

I am the attorney for **Visa, Inc.** ("VISA"). VISA operates the world's largest retail electronic payments network providing processing services and payment product platforms. This includes consumer credit, debit, prepaid and commercial payments. VISA facilitates global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses, and government entities.

VISA supports the intent of this Resolution.

The purpose of this Resolution is to encourage State and County action to stimulate individual savings and development of credit and to formulate an inventory of banking services available to low-income persons and those with no credit history in the State.

As stated in the Resolution, a bank account "provides a gateway for households to enter the financial mainstream and become owners of financial assets." With savings accounts and checking accounts in financial institutions, a person will be able to obtain a debit card which can be conveniently used to make purchases or pay for expenses. The payments on a debit card would come out of a person's savings account or checking account, and would not exceed the amount of money the person has in his or her account.

Thank you for considering our testimony.

Sincerely,


MARVIN S.C. DANG
Attorney for Visa, Inc.

(MSCD/VISA)

To: Rep. Robert N. Herkes, Chair
Rep. Glenn Wakai, Vice Chair
Committee on Consumer Protection and Commerce

From: R. Craig Schafer, President
Financial Service Providers of Hawaii, Inc.

Date: January 18, 2009, 3PM

Subject: In support of the intent of HCR16
Suggests encouraging savings accounts

Financial Service Providers of Hawaii (FSPoH) is a trade association of check cashers and money service businesses in the State of Hawaii. Our association was formed in September of 2005 and represents 45 stores throughout Hawaii. Working-class consumers depend on us to serve their financial needs through fee-based services.

FSPoH supports open access to the complete array of financial services for all consumers. We have served the financial needs of thousands of Hawaii's working class consumers long before it became a popular cause. We know what they like and what they don't like when it comes to financial services. Our customers make a conscious choice to patronize FSPoH member stores because we offer competitive pricing and financial services that fit their unique requirements.

We support the intent of this Resolution encouraging depository financial institutions to broaden their client base to include the unbanked and underbanked. However the Resolution fails to recognize the important reasons why these consumers prefer alternative financial services. The Resolution should focus on encouraging the savings habit as the key to entry into the financial mainstream.

The FDIC has only recently realized that insured depository institutions aren't doing a good job of serving the financial needs of low-income and working class consumers. The FDIC annual survey of banks' efforts to serve the unbanked and underbanked released on February 5, 2009 noted, "While most banks offer basic checking accounts to all customers, few offer deposit, payment, credit and electronically based products that address the unique needs of unbanked and underbanked customers."

Commenting on the FDIC survey in American Banker, Joseph Coleman, Chairman of Financial Service Centers of America asks, "A core question to consider: Is it better for consumers to have access to banking services or access to banks? The FDIC should work to create a collaborative, inclusive environment where banks and financial service centers can work together to provide the services customers want and expect."

Working class consumers use financial services at FSPoH member stores for very practical reasons. A recent study by Aite Group, a bank consulting firm states that "Fifty-three percent of unbanked consumers in it's survey are impeded by credit issues, while an additional 28% face pricing issues with checking accounts, 12% are impeded by cash flow issues, and 7% constrained by service issues."

Low-income and working class consumers have trouble maintaining sufficient account balances and run into trouble with banking products and practices that create these issues. These practices include automatic enrollment of consumers into courtesy overdraft programs, high-to-low check clearing and deposit crediting programs designed to optimize NSF and overdraft fees and unreasonable holds placed on payroll checks.

FSPoH supports transparency in all financial service fee and credit disclosures. For example, the application of FRB Reg. DD (Truth in Savings) to overdraft programs instead of FRB Reg. Z (Truth in Lending) allows banks to avoid important consumer disclosures. An important reason why working-class consumers continue to prefer payday advances over courtesy overdraft programs is that payday advance terms are fully disclosed upfront and fees are often times less expensive.

FSPoH encourages the savings habit. As non-depository financial institutions, FSPoH member stores cannot readily offer a savings product. Encouraging the opening of savings accounts will provide a greater benefit to unbanked and underbanked than limited-service checking accounts often marketed as “free”. Savings is the cornerstone of financial independence and should be the focus of government’s effort to promote the use of depository financial institutions.

Sincerely,

R. Craig Schafer

President,

Financial Service Providers of Hawaii, Inc.

3/16/2009