



OFFICE OF THE CHAIRMAN

May 29, 2012

Ms. Lisa Donner  
Executive Director  
Americans for Financial Reform  
1629 K Street, NW, 10<sup>th</sup> Floor  
Washington, D.C. 20006

Dear Ms. Donner:

Thank you for your February 22, 2012 letter in which your coalition, along with more than 200 other interested organizations and individuals, expressed concerns about banks that are making deposit “advance” loans that are structured like loans from payday loan stores. In your letter, you highlighted that payday lending by banks undermines state law in states that have prohibited or imposed limitations on payday loans as well as provisions of the Military Lending Act aimed at protecting service members from payday loans. Your letter further expresses concerns about a major software system provider that is actively marketing a bank payday software product. The software product is reportedly experiencing strong growth and is being marketed as a tool banks can use to boost revenue.

The FDIC is deeply concerned about these continued reports of banks engaging in payday lending and the expansion of payday lending activities under third-party arrangements. Typically, these loans are characterized by small-dollar, unsecured lending to borrowers who are experiencing cash-flow difficulties and have few alternative borrowing sources. The loans usually involve high fees relative to the size of the loan and, when used frequently or for long periods, the total costs to the borrower can rapidly exceed the amount borrowed.

In 2005 and 2007 the FDIC released guidance designed to limit bank payday lending and to encourage banks to offer affordable small dollar loans.<sup>1</sup> As your letter highlights, however, banks continue to engage in high-cost payday lending activities and such activities appear to be on the rise.

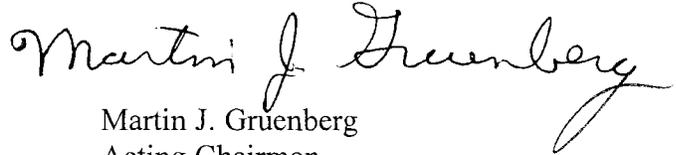
Consequently, I have asked the FDIC’s Division of Depositor and Consumer Protection to make it a priority to investigate reports of banks engaging in payday lending and recommend further steps by the FDIC. We would welcome your input on this issue.

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<sup>1</sup> See *Guidelines for Payday Lending, FIL-14-2005 and Affordable Small-Dollar Loan Guidelines FIL-50-2007*).

Thank you again for sharing your concerns regarding payday lending with me. If you have any questions, please do not hesitate to contact my Chief of Staff, Barbara Ryan, at 202-898-3841.

Sincerely,

A handwritten signature in black ink that reads "Martin J. Gruenberg". The signature is written in a cursive style with a large, sweeping flourish at the end of the word "Gruenberg".

Martin J. Gruenberg  
Acting Chairman