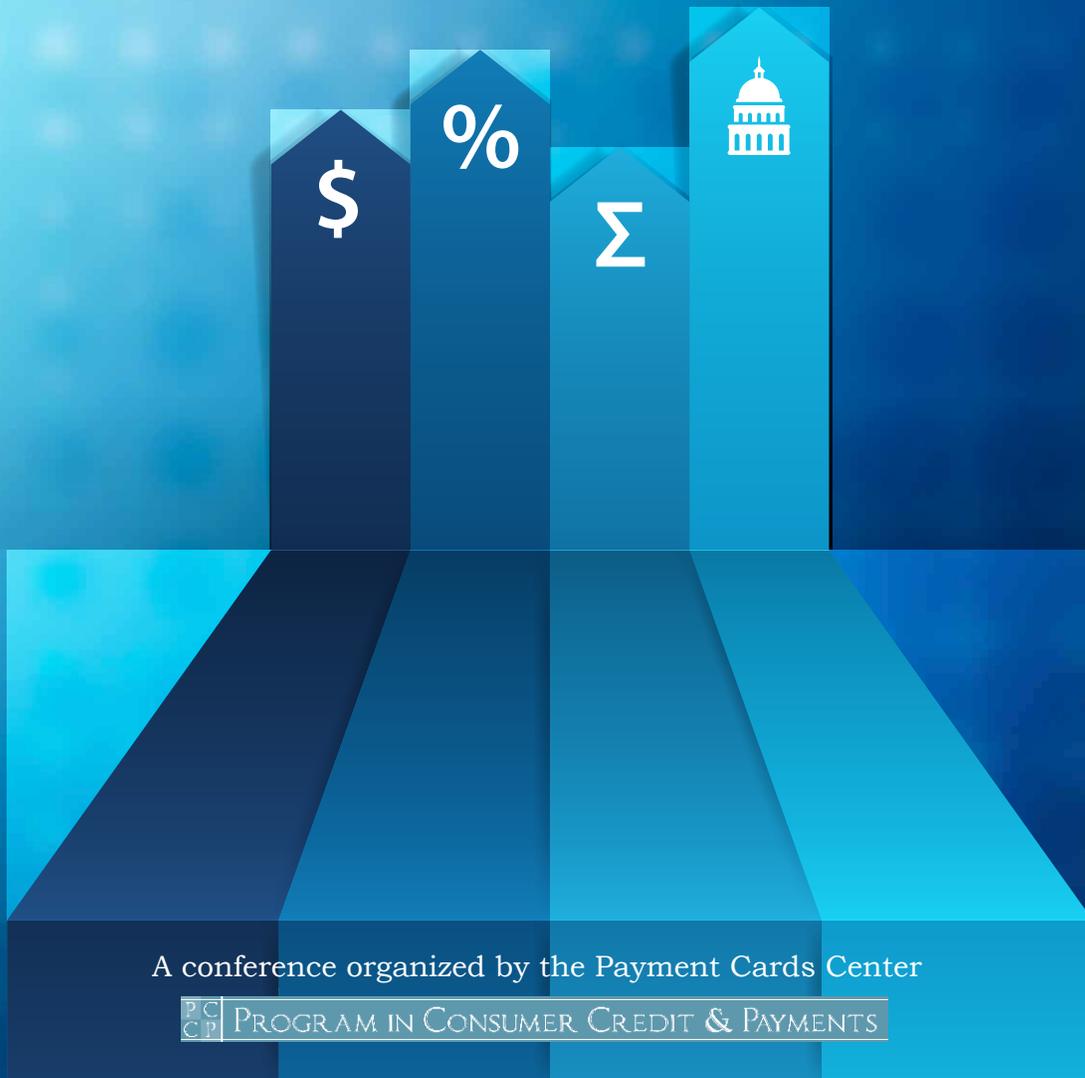




FEDERAL RESERVE BANK
OF PHILADELPHIA

Small-Dollar Credit: Products, Economics, and Regulation

July 11 - 12, 2013



ABOUT THE CONFERENCE

Small-Dollar Credit: Products, Economics, and Regulation

A Conference Organized by the Payment Cards Center of the Federal Reserve Bank of Philadelphia

Each year, millions of Americans use small-dollar credit products. Many of these products have existed for decades, while others are relatively new. Scholars have studied these markets for some time, but there remain many open questions. Recent regulatory developments portend significant policy changes that may affect the design of these products as well as the oversight of bank and nonbank participants in the small-dollar credit industry.

At this conference, the Payment Cards Center seeks to improve the understanding of the historical background of small-dollar credit, the evolution in products and product delivery methods, insights from economic research and theory about how markets for small-dollar credit products function, and new data sources that may provide systematic evidence about how consumers use these products, the conditions that precipitate their use, and the consequences of their use. These are interesting and important questions in themselves, but the answers to these questions are also relevant to public policy decisions.

About the Payment Cards Center

Established in 2000, the Payment Cards Center of the Federal Reserve Bank of Philadelphia has provided insights into developments in the markets for consumer credit and payments for over a decade. The center carries out its work through an agenda of applied research and analysis as well as forums and conferences that encourage dialogue incorporating industry, consumer, academic, and public-sector perspectives. Its approach is both rigorous and interdisciplinary.

The center seeks to anticipate emerging issues and to invest in research and programming that improve our understanding of those issues. Through the years, the center has studied many topics, including consumer payment choice, the security of consumer payments, identity theft, prepaid cards, mobile payments, payment innovations for governments and small businesses, merchant acquiring, transit payments, credit reporting and scoring, risk modeling and default, risk-based pricing, credit counseling, debt collection, consumer disclosures, fair lending, and securitization.

Since its creation, the Payment Cards Center has organized or co-organized 30 conferences and more than 80 workshops. The center's staff and its visiting scholars have written more than 115 discussion and working papers and published dozens of articles in journals and books. In addition, center staff have participated in hundreds of industry, policy, and academic events, ensuring frequent and open dialogue with the center's audience.

For the latest research produced by and news about the Payment Cards Center, visit www.philadelphiafed.org/consumer-credit-and-payments/payment-cards-center/.

AGENDA

Thursday, July 11, 2013

Boehne Auditorium

- 1:00 p.m. Registration**
- 2:00 p.m. Welcome and Opening Remarks**
Stephanie Wilshusen, Federal Reserve Bank of Philadelphia
- 2:15 p.m. The Small-Dollar Loan Industry and Research: 100 Years in 30 Minutes**
John Caskey, Swarthmore College
- 3:00 p.m. Break**
- 3:15 p.m. Evolution in Products and Product Delivery Methods**
Moderator: Bob Hunt, Federal Reserve Bank of Philadelphia
Panelists: Gary Phillips, Republic Finance LLC
Patrick O'Shaughnessy, Advance America
Brad Hanson, Meta Payment Systems
Tracy Jackson, Regions Bank
- 5:00 p.m. Reception**
Eastburn Court

AGENDA

Friday, July 12, 2013

Boehne Auditorium

- 7:30 a.m. Registration and Breakfast**
- 8:00 a.m. Evidence-Based Policymaking: Small-Dollar Loans**
Jonathan Zinman, Dartmouth College
- 9:00 a.m. Break**
- 9:15 a.m. Insights from Economic Research and Theory**
Moderator: Loretta Mester, Federal Reserve Bank of Philadelphia
Panelists: Gregory Elliehausen, Federal Reserve Board of Governors
Neil Bhutta, Federal Reserve Board of Governors
Signe-Mary McKernan, Urban Institute
Jialan Wang, Consumer Financial Protection Bureau
- 10:45 a.m. Break**
- 11:00 a.m. Data Sources for Research and Policymaking**
Moderator: Chet Wiermanski, Aether Analytics
Panelists: Jeff Feinstein, LexisNexis Risk Solutions
Nathan Groff, Veritec Solutions
Tom Durkin, Federal Reserve Board of Governors (Retired)
- 12:30 p.m. Lunch**
- 1:30 p.m. Regulatory Environment**
Moderator: Howard Beales, George Washington University
Panelists: Karyen Chu, Federal Deposit Insurance Corporation
David Silberman, Consumer Financial Protection Bureau
- 3:00 p.m. Closing Remarks**
- 3:15 p.m. Adjourn**

BIOGRAPHIES

Howard Beales has been on faculty at the School of Business at George Washington University since 1988. His research interests encompass a wide variety of consumer protection regulatory issues, including privacy, law and economics, and the regulation of advertising. He has published numerous articles addressing these issues in academic journals. From 2001 to 2004, Beales served as the director of the Bureau of Consumer Protection at the Federal Trade Commission (FTC). In that capacity, he was instrumental in redirecting the FTC's privacy agenda to focus on the consequences of the use and misuse of consumer information. During his tenure, the FTC proposed, promulgated, and implemented the national Do Not Call Registry. He also worked with Congress and the administration to develop and implement the Fair and Accurate Credit Transactions Act of 2003. His law enforcement program produced the largest redress orders in FTC history and attacked high-volume frauds promoted through heavy television advertising. From 1977 to 1987, Beales held several different positions at the FTC. In 1987-1988, he was the chief of the Human Resources and Housing Branch of the Office of Information and Regulatory Affairs in the Office of Management and Budget. Beales graduated magna cum laude from Georgetown University with a B.A. in economics in 1972 and received a Ph.D. in economics from the University of Chicago in 1978.

Neil Bhutta is an economist in the Financial Structure section of the Division of Research and Statistics at the Federal Reserve Board in Washington, D.C. Bhutta's research and policy work focuses on consumer credit markets and household finance, including work on the effects of the Community Reinvestment Act, household mortgage default decisions, the causes and consequences of using payday loans, and consumer protection in mortgage and other consumer credit markets. Bhutta has been at the Board since 2008 and earned a Ph.D. in economics from the Massachusetts Institute of Technology.

John P. Caskey is a professor of economics at Swarthmore College. For the past 25 years, his research and publications have focused on financial institutions serving lower-income households in the U.S. and on topics in community economic development. In addition to his academic work, Caskey has long served on the board of directors of the Chester Community Improvement Project, a nonprofit low-income housing development agency, and the Franklin Mint Federal Credit Union. He received a B.A. from Harvard University and a Ph.D. from Stanford University.

Jim Christiansen is vice president and chief scoring officer at

LexisNexis Risk Solutions and has nearly 30 years of experience in developing information-based credit risk and fraud scoring solutions for the retail, banking, and financial services industries. As chief scoring officer, he is responsible for developing credit risk assessment and fraud detection technologies based on public record data, as well as automated fraud detection and identity authentication services.

Prior to joining LexisNexis in 1997, Christiansen was vice president of credit policy scoring at Bank One/First USA Bank and credit scoring R&D manager for Fingerhut Companies. Christiansen received a B.A. in psychology from St. John's University, and attended Arizona State University as a Ph.D. candidate in applied social psychology.

Karyen Chu is chief of consumer research and examination analytics in the FDIC's Division of Depositor and Consumer Protection. Chu and her team conduct consumer finance research, including the FDIC Survey of Unbanked and Underbanked Households and the FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked. The team conducts analyses to support the FDIC's policymaking activities, examinations and enforcement actions. Chu's individual research focuses on mortgages and access to mortgage credit.

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Previously, Chu was a health policy researcher at Mathematica Policy Research, where she worked on studies of Medicaid managed care and health care market changes. Chu has a B.A. from Occidental College and also holds an M.P.P. and a Ph.D. in economics from the University of California, Berkeley.

Thomas A. Durkin has specialized in the economics and regulation of consumer financial services in the federal government, academic, and private sectors. Before retiring in December 2007, he was senior economist in the Division of Research and Statistics at the Federal Reserve Board where he has also been visiting professor. From 1988 to 1998, he was regulatory planning and review director in the Federal Reserve Office of the Secretary. Since retiring from the Federal Reserve position, he has been engaged in a variety of writing projects concerning consumer financial services.

He has also been assistant and associate professor of finance at Pennsylvania State University and chief economist and director of research of the American Financial Services Association. He has frequently testified on financial matters before congressional committees, spoken to business groups, and appeared on radio and television interview programs.

He has published extensively in the field of financial institutions,

especially consumer credit, and is the coauthor of four books, including *Truth in Lending: Theory, History, and a Way Forward* published in 2011 by Oxford University Press, and *Consumer Credit and the American Economy* to be published later this year by Oxford. He holds an A.B. from Georgetown University and a Ph.D. from Columbia University.

Gregory Elliehausen is a senior economist in the Household and Real Estate Finance section of the Division of Research and Statistics at the Board of Governors of the Federal Reserve System. His current research focuses on consumer financial behavior, regulation of financial markets and services, and high-rate credit products. His research has been published in numerous professional journals. He coauthored *Truth in Lending: Theory, History, and a Way Forward*, published in 2011 by Oxford University Press. Previously, Elliehausen held positions at George Washington University (2006–2009), Georgetown University (1998–2005), and the Board of Governors of the Federal Reserve System (1981–1998). He holds a Ph.D. in business administration from Pennsylvania State University.

Jeffrey Feinstein is senior director of analytic strategy at LexisNexis Risk Solutions and is responsible for developing the LexisNexis®

RiskView™ Credit Risk Score. He also leads innovation efforts to bring new analytic solutions and content to the market leveraging LexisNexis data. Before joining LexisNexis in 2010, Feinstein developed expertise in credit data and scoring during his 14-year tenure at FICO. He was a lead developer for FICO Score and other credit bureau-based scores. He also led the research team that brought the alternative data-driven FICO Expansion Score to market. He has received three U.S. patents for his innovations in credit modeling. Feinstein holds an undergraduate degree from SUNY Buffalo and a Ph.D. from Ohio State in experimental psychology and applied statistics.

Nathan Groff is an owner and a senior executive officer at Intuition Systems, a Jacksonville, Florida financial services company with additional offices in Tampa and Tallahassee, Florida; and Phoenix, Arizona. In 2001, Groff formed Veritec Solutions, a technology and program management solutions company that works with state regulators to protect more than 85 million U.S. consumers, with contracts in a number of states. Veritec developed the first of its kind real-time compliance system, which enables industry to comply with complex regulations at their point-of-sale. As chief government relations officer and chief business development officer, Groff travels both domestically and internationally,

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advising various government entities about effective nondepository financial services regulation. Groff obtained a B.A. in economics from the University of North Florida.

Brad Hanson has more than 20 years of experience in financial services, including numerous banking, card industry and technology-related capacities. During his career, Hanson has played a significant role in the development of the prepaid card industry. His experience working with regulators and many financial innovators provides a unique perspective on the history of prepaid cards, current threats and opportunities, and the changing roles of key participants in the prepaid value chain.

Hanson is the president of Meta Payment Systems and a member of the board of directors, executive committee and executive vice president of Meta Financial Group and MetaBank. He is a founding member of the Network Branded Prepaid Card Association and still serves in an advisory role on its board. Hanson has been recognized as a Paybefore Industry Achievement Award winner and serves on the advisory board for the Gallup-HOPE Index, which studies and promotes financial literacy in our nation's schools.

Bob Hunt is a vice president at the Federal Reserve Bank of

Philadelphia. He became director of the Bank's Payment Cards Center in April 2009. Prior to this appointment, he was a senior economist in the Bank's Research Department. His research has focused on consumer payments, consumer finance, and the economics of innovation. His published research includes studies of the dynamics of the consumer credit reporting industry, credit counseling organizations, mortgage default, the collections industry, and antitrust issues in consumer payment networks. He has also published papers on topics in economic geography and intellectual property. Before joining the bank in 1998, Hunt worked for the U.S. Congressional Budget Office. Prior to graduate school, he was an industry risk analyst for Bank One, Indianapolis. Hunt received a B.A. in political science and economics from Butler University in 1986 and a Ph.D. in economics from the University of Pennsylvania in 1996.

Tracy Jackson is senior vice president of consumer lending at Regions Bank and currently manages the consumer lending direct to consumer efforts, including Ready Advance. In this role, Jackson is responsible for sales initiatives and strategy related to alternative delivery channels for consumer lending products.

Since joining Regions, Jackson has held a variety of positions, including as Region's senior product manager

for consumer lending for six years. In that role, he managed the development, pricing, and strategy for all equity and direct lending consumer products. Previously, he also managed the insurance services division with direct oversight of the debt protection, insurance services, and direct mail activities.

Prior to joining Regions, Jackson held several key leadership roles with SouthTrust Bank from 1995 to 2001, including alternative delivery, loan operations, mergers and acquisitions, customer service, and project management. Jackson is a graduate of Southeastern in Birmingham, Alabama where he holds degrees in both theology and business finance. He is currently pursuing an M.A. in leadership from Luther Rice University in Atlanta.

Signe-Mary McKernan is a senior fellow in the Center on Labor, Human Services and Population at the Urban Institute. McKernan is a national asset-building and poverty expert with more than 17 years of experience researching access to assets and credit for the poor and the impact of welfare programs on the poor. She recently published the book, *Asset Building and Low-Income Families* with Michael Sherraden, and coleads the Urban Institute's *Opportunity and Ownership Project*. She advised the Consumer Financial Protection Bureau about setting up its research unit. Prior to joining the Urban

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Institute in 1999, McKernan was the lead economist on credit issues at the Federal Trade Commission. She was also a visiting and adjunct professor at Georgetown University.

McKernan has extensive experience using rigorous econometric methods and large national survey databases. Her research has been published in books, policy briefs, reports, and journal articles and has been presented at more than 50 professional conferences and seminars. Her research on wealth includes the role of assets in helping families cope with adverse events, racial wealth disparities, the role of individual development accounts in sustaining homeownership, mortgage loan closing costs, and the alternative financial sector. In her poverty-related work, McKernan evaluates the effectiveness of social programs that aim to reduce poverty and material hardship. She earned a Ph.D. in economics from Brown University.

Loretta J. Mester is an executive vice president and director of research at the Federal Reserve Bank of Philadelphia. As director of research, she leads a staff of economists and analysts who conduct research on macroeconomics, banking, payments, finance, and the regional economy. Mester also attends meetings of the Federal Open Market Committee in Washington, D.C. with the Bank's president. She

oversees the Bank's Payment Cards Center, which conducts research on consumer finance and payments, and the Bank's Financial Statistics Department, which collects data and reports from financial institutions.

Mester is also an adjunct professor of finance at the Wharton School of the University of Pennsylvania, and a Fellow at the Wharton Financial Institutions Center. She is a member of the finance department advisory council of the Fox School of Business and Management at Temple University and the economics advisory council of the LeBow College of Business at Drexel University.

Her publications include research on the organizational structure and production efficiency of financial institutions, the theory of financial intermediation, agency problems and regulatory issues in banking, and central bank governance. Mester is an associate editor of several academic journals and serves on the management committee of the *International Journal of Central Banking*. She started a three-year term as co-editor of the *International Journal of Central Banking* in 2013. She is a founding member and director of the Financial Intermediation Research Society, a member of the American Economic Association and its Committee on the Status of Women in the Economics Profession, the American Finance Association, the Financial Management Association

International, and the Econometric Society. She was elected as a practitioner director of the Financial Management Association International and began a two-year term in October 2012.

Mester earned a B.A. in mathematics and economics summa cum laude from Barnard College of Columbia University and an M.A. and Ph.D. in economics from Princeton University, where she held a National Science Foundation Fellowship.

Patrick O'Shaughnessy is the president and chief executive officer of Advance America. O'Shaughnessy was recruited as chief financial officer and a member of the board of directors of Advance America in August 2007 and was promoted to CEO in March 2011. Within one year of being named CEO, he delivered a return of more than 100 percent to shareholders. Shortly thereafter, he led the merger of Advance America with Grupo Elektra, the leading consumer financial services firm in Latin America.

Prior to joining Advance America, O'Shaughnessy worked in the investment banking industry. He was most recently a partner at Thomas Weisel Partners in New York. Prior to joining Thomas Weisel, he spent most of his investment banking career at Donaldson, Lufkin & Jenrette and with Credit Suisse First Boston, where he remained after its acquisition of Donaldson, Lufkin &

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Jenrette until 2002. He began his investment banking career in 1992 at Kidder, Peabody & Co. As an investment banker, O'Shaughnessy originated and executed transactions in mergers and acquisitions, equity and equity-linked securities and leveraged finance, with concentrated experience in consumer and services industries.

O'Shaughnessy was appointed chairman of the board of the Community Financial Services Association of America in March 2013. In addition, he serves on the board of trustees of Converse College. He graduated from the University of Notre Dame and received an M.B.A. from the University of Chicago's Booth School of Business.

Gary Phillips is the chief executive officer of Republic Finance, a traditional installment lender with 118 branches in six states. He started his career as an auditor with Arthur Andersen and worked for Conoco for five years after graduate school. Phillips moved back to his home town of Baton Rouge, Louisiana, and joined Republic Finance in 1985 and was named CEO in 1989. Phillips is active in several state and national industry associations. He is on the board of the American Financial Services Association, is the immediate past president of the National Installment Lenders Association, and is the president of the Georgia Financial Services

Association. He is also on the board of three other state trade associations. He currently serves as chairman of the board of the Louisiana Art and Science Museum. Phillips is a graduate of Emory University and Harvard Business School.

David Silberman currently serves as the associate director for Research, Markets, and Regulations at the Consumer Financial Protection Bureau (CFPB). Silberman's involvement with consumer financial services began when, as deputy general counsel of the AFL-CIO, he created an organization to provide financial services to union members and negotiated the first AFL-CIO credit card program. Silberman went on to serve as president and chief executive officer of Union Privilege and later as director of the AFL-CIO Task Force on Labor Law. Prior to joining the CFPB as the assistant director for Card Markets, Silberman served as general counsel and executive vice president of Kessler Financial Services, a privately held company providing advisory services in developing and marketing new credit card products and in the purchase and sale of credit card portfolios. He began his career as a law clerk to Justice Thurgood Marshall and then became a member of the law firm Bredhoff & Kaiser. Silberman is a graduate of Brandeis University and Harvard Law School.

Jialan Wang is an economist in the Office of Research at the Consumer Financial Protection Bureau. She conducts research in small-dollar lending, credit cards, and consumer bankruptcy. Prior to joining the Bureau, she was an assistant professor of finance at the Olin School of Business at Washington University in St Louis. She earned a B.S. in mathematics from Caltech and a doctorate in financial economics from the Massachusetts Institute of Technology.

Chet Wiermanski is the managing director of Aether Analytics, LLC, a company focused on developing credit bureau-based account acquisition and credit risk assessment platforms based on the sequence and trend interactions between variables. He is a co-inventor of patent pending applications involved with the calculation of anticipatory and historical credit characteristics and credit scores and vintage time series trends derived from current consumer credit reports. As an advisory board member for Black Oak Partners, he assists business partners and lenders with the implementation of solutions based on the direction and velocity of consumer credit scores and credit behavior patterns.

During the past 30 years, Wiermanski was responsible for identifying, evaluating, and developing new platforms involving

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alternative data sources, predictive modeling, econometric forecasting, and related services. During his tenure and leadership at TransUnion, LLC, his team introduced a wide variety of credit bureau-based solutions in Africa, Asia, North America, and South America. Wiermanski has participated in many industry and government research projects focused on the use and accuracy of consumer credit report information and credit scoring. Recognized as a pioneer and expert on the use of consumer credit report information and credit scoring, he has testified before Congress and is often invited to share his knowledge and experience at industry-sponsored events.

Stephanie Wilshusen is a senior industry specialist in the Federal Reserve Bank of Philadelphia's Payment Cards Center where her research focuses on analyses of consumer credit markets and payment behavior. Prior to joining the Bank, she served as associate director of the Financial Services Research Program at George Washington University and as assistant director and senior research associate at Georgetown University's Credit Research Center. Before that, she worked for Charles River Associates and the Brookings Institution. Wilshusen's research published through the center includes a paper examining debt relief options for consumers and a transaction-based analysis of

consumers' use of prepaid cards. Her current research projects include a study exploring the relationship between collection activity and the pricing and supply of unsecured credit, and a paper on the use of nontradeline data in the calibration of credit scoring models.

Jonathan Zinman is a tenured professor of economics at Dartmouth College. He joined the faculty in 2005 after working as a researcher at the Federal Reserve Bank of New York. In addition to his work at Dartmouth, Zinman also serves on the inaugural Consumer Advisory Board of the Consumer Financial Protection Bureau, as a visiting scholar at the Federal Reserve Bank of Philadelphia, a research associate of the National Bureau of Economic Research, and is a cofounder and the academic director of the U.S. Household Finance Initiative of Innovations for Poverty Action.

Zinman's research focuses on intertemporal choice and household finance. His work tests economic theories of how firms and consumers interact in markets and closely examines the merits of incorporating specific features of psychology into economic models. He also works on methodological questions, developing randomized-control field experiments and survey designs that permit clean tests of economic theories and related policy questions.

He applies his research by working with policymakers and financial institutions around the globe. He works directly with institutions to develop and test innovations throughout the retail arena in pricing, product development, marketing, risk assessment, risk management, and client communication. Zinman earned a B.A. in government from Harvard in 1993 and a Ph.D. in economics from the Massachusetts Institute of Technology in 2002.

For more information, including events we sponsor and the research we produce, please visit our website.



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