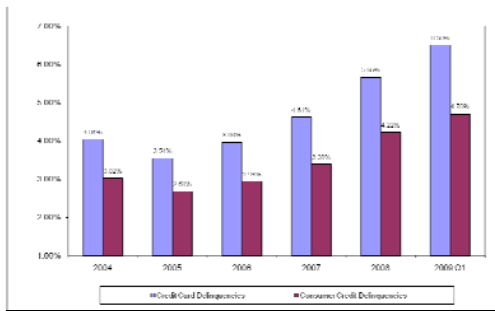


Risk and Regulation: Opportunities for Financial Modernization

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June 1, 2009

Consumer Credit Delinquencies Are Increasing



And The Mood Is Bad

- General state of the economy
 - Unemployment up, personal income down
 - Foreclosures up, property values down
- New understanding of the need to deleverage
 - Savings rate is over 4%, up from barely 0 in the first quarter of 2008
- Don't want to rely on credit, but may have to
- But it's not there
 - Higher rates and fees
 - Lower limits
- Result: Folks are angry and scared, and their political leaders are responding

New Credit Card Legislation

- Much greater clarity about terms and implications
- Restrictions on changing interest rates
- More time to pay, more opportunity to opt out
- Penalties time limited
- Right to refuse individual over-limit charges
- Limits on student cards
- Gift cards must last 5 years; limits on fees

Other Policy Changes Coming?

- Safer mortgages for consumers
 - Preference for loans with stable payments
 - Incentives for more conservative underwriting
- Opt-out for overdrafts
 - Programmatic
 - Individual transactions
- Federal usury ceiling for payday loans
- Financial Services Safety Commission
- Restrictions on OCC preemption of state enforcement of consumer protection laws

Implications for Underbanked

- Traditional credit, including mortgages, more difficult to get, lines reduced, cost increased
- Prepaid likely to become more attractive
- Secured cards and retail installment credit may make a comeback
- Well-priced small dollar credit needed
- Is saving the new credit?
