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April 7, 2005

Dear Mr.

Thank you for taking the time to contact me. I always enjoy hearing from my constituents.

Borrowers who obtain payday loans generally have cash flow difficulties, and few, if any, lower-cost borrowing alternatives. In addition, some payday lenders perform minimal analysis of the borrower's ability to repay either at the loan's inception or upon refinancing; they may merely require a current pay stub or proof of a regular income source and evidence that the customer has a checking account. Payday lenders typically do not obtain or analyze information regarding the borrower's total level of indebtedness or information from the major national credit bureaus (Equifax, Experian, TransUnion). In addition, payday lenders generally do not conduct a substantive review of the borrower's credit history. The combination of the borrower's limited financial capacity, the unsecured nature of the credit, and the limited underwriting analysis of the borrower's ability to repay pose substantial credit risk for insured depository institutions.

Given the risks inherent in payday lending, concentrations of credit in this line of business pose a significant safety and soundness concern. In the context of these guidelines, a concentration would be defined as a volume of payday loans totaling 25 percent or more of a bank's Tier 1 capital. Where concentrations of payday lending are noted, bank management should be criticized for a failure to diversify risks. Examiners will work with institutions on a case-by-case basis to determine appropriate supervisory actions necessary to address concentrations. Such action may include directing the institution to reduce its loans to an appropriate level, raise additional capital, or submit a plan to achieve compliance.

In light of these and other regulations administered by the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation, many banking institutions have revised their portfolios for greater diversification.

I understand your frustration with what seemingly eliminates an entire business sector, and I recommend that you contact both the financial institutions with whom you held sound business relations, and the OCC.

Again, thank you for taking the time to write. Please let me know if I may be of further assistance in the future.

Sincerely,

Richard Shelby

Richard Shelby

RCS:trt