

01
02
03
04
05
06
07
08
09
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
COMMERCE COMMITTEE

* * * * *

PUBLIC HEARING

IN RE: HB 1861-PROVIDING FOR THE ESTABLISHMENT OF
BANKING TAX-FREE ZONES

* * * * *

BEFORE: PETER J. DALEY, Majority Chairman
Joseph Brennan, Chris King, Chris Ross,
John Siptroth and James Wansacz, Members

HEARING: Thursday, October 25, 2007
1:30 p.m.

LOCATION: Council Caucus Room 401
Philadelphia City Hall
Broad & Market Streets
Philadelphia, PA

WITNESSES: Marian Tasco, Wilson Goode, Jr., Dwight
Evans, Richard Kunsch, Reginald Evans,
Mary Ellis, Ian Phillips, Donald Kelly,
Paul Wentzel

Reporter: Sharon M. Marsh
Any reproduction of this transcript
is prohibited without authorization
by the certifying agency.

01	I N D E X	
02		
03	OPENING REMARKS	
04	by Chairman Daley	3 - 4
05	TESTIMONY	
06	by Councilwoman Tasco	4 - 9
07	by Councilman Goode	10 - 22
08	by Representative Evans	23 - 34
09	by Mr. Kunsch	34 - 38
10	by Mr. Evans	38 - 44
11	by Ms. Ellis	45 - 48
12	by Mr. Phillips	48 - 52
13	by Mr. Kelly	53 - 60
14	by Mr. Wentzel	60 - 71
15	CERTIFICATE	72
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

01 P R O C E E D I N G S

02 -----

03 CHAIRMAN DALEY:

04 This meeting of the House Commerce
05 Committee will come to order. This is the scheduled
06 time for a hearing here in Philadelphia regarding
07 House Bill 1861. The bill's author, Representative
08 Evans, is on his way. He will be here shortly. He
09 was scheduled to be the first person to testify. I'm
10 going to identify myself as Peter Daley. I'm the
11 Majority Chairman of this committee. Beginning with
12 Representative Brennan, would you introduce
13 yourselves, please?

14 REPRESENTATIVE BRENNAN:

15 Thank you, Chairman. I'm Representative
16 Brennan, 133rd District, Lehigh and Northampton
17 Counties.

18 REPRESENTATIVE SIPTROTH:

19 Good afternoon. State representative
20 John Siptroth of the 189th District, Pike and Monroe
21 Counties.

22 MR. CALLEN:

23 I'm David Callen. I'm the Executive
24 Director of the committee.

25 REPRESENTATIVE ROSS:

01 experienced significant growth in the housing market
02 over the last several years. For the most part the
03 recent housing market has been one of the principal
04 agents of our economy. However, this growth has also
05 come with a costly price.

06 A key portion of the growth in the
07 housing market was based on sub-prime and other costly
08 high-interest loans as a way to provide financing to
09 buy homes, fix houses, start businesses, send children
10 to college or family emergencies. Many people rely on
11 this type of sub-prime and/or predatory lending
12 because they do not have a credit profile to meet the
13 underwriting guidelines of America's traditional
14 banks. Due to this lack of traditional credit, we are
15 witnessing vast numbers of foreclosures based on these
16 loans and this result has caused a downturn in the
17 housing market and threatens our entire economy.

18 Towards the beginning of our nation's
19 housing boom I became aware of an increase in
20 foreclosures in my council district. Historically
21 Philadelphia has one of the nation's highest home
22 ownership rates and my council district is primarily
23 composed of homeowners. In 2000, I assembled a
24 predatory lending task force to review this issue and
25 draft legislation. After nine months of work, the

01 Philadelphia Anti-Predatory Lending ordinance was
02 introduced and passed unanimously.

03 The main focus of the bill was to require
04 consumers to have counseling before they took out a
05 sub-prime loan. Additionally this bill became a
06 national model for consumer protection and similar
07 anti-predatory lending ordinances were passed in
08 Pittsburgh, Cleveland and Oakland. Unfortunately the
09 Philadelphia ordinance was pre-empted by the General
10 Assembly. Without required counseling for sub-prime
11 loans, numerous Philadelphians have been victimized by
12 predatory lending and as a result have faced
13 foreclosure.

14 In the July 29th edition of the
15 Philadelphia Inquirer, business reporter Howard
16 Brubaker wrote about the devastating impact of these
17 high cost loans on the greater Philadelphia region in
18 his story entitled "Spreading Sub-prime Pain." And
19 his story detailed 2005 data from the Federal Home
20 Mortgage Disclosure Act, which demonstrate in two
21 sections of my council district, West Oak Lane and
22 Logan. In the West Oak Lane and the Logan/Ogontz/Fern
23 Rock sections, 54 percent and 52 percent of the home
24 loans in 2005 were sub-prime loans. Considering the
25 nature of sub-prime loans, many of these constituents

01 could be on their way to foreclosure.

02 Too often my office has received calls
03 from constituents and drastic need of help because
04 their home is scheduled for sheriff's sale. Through
05 pre-purchase counseling, constituents could have made
06 a more informed decision before taking out a sub-prime
07 loan.

08 Considering the foregoing information,
09 there clearly is a need for legislative action to
10 provide more banking services to communities that fall
11 prey to sub-prime and predatory lending. Although I
12 applaud this effort, the legislative intent and
13 language on House Bill 1861, should not just focus on
14 bringing more bank branches to underserved
15 communities.

16 Simply building a new branch will not
17 ensure that the surrounding community will be served.
18 This bill should encourage, track and monitor the
19 increase of banking services to these communities. In
20 particular this legislation should encourage
21 traditional banks to review their underwriting
22 guidelines to make their loan products accessible to a
23 larger pool of customers. The legislation should also
24 encourage these banks to employ a more creative
25 marketing plan for these communities.

01 Due to red lining and other historical
02 events, residents of underserved communities may feel
03 that they may not qualify for various banking
04 products, or even residents with excellent credit
05 profiles may have a misunderstanding that they can
06 only qualify for sub-prime and for predatory loans.
07 Accordingly, traditional banks need to do a better job
08 of letting people of underserved communities know that
09 they want their business. House Bill 1861 could make
10 some significant inroads in changing this perception.

11 Through these proposed revisions an
12 accurate analysis of this bill's impact on communities
13 underserved by banking services can be deduced. The
14 bill may achieve this goal of making banking services
15 more available. But more importantly, it could reach
16 an even greater goal of making banking services more
17 accessible to our Commonwealth's underserved
18 communities.

19 Before I end, I'd just like to sort of
20 reiterate to say that if the legislation gave a tax
21 credit for the decrease in the number of foreclosures
22 in a community, that would serve the community better.
23 They don't just get the tax credits moving into the
24 neighborhood, but in going to a new neighborhood, to
25 help cut down on the number of sub-prime loans. And

01 when we did our predatory lending, we found that a
02 number of people who had obtained sub-prime loans
03 could have qualified for prime loans from a bank, but
04 because the bank's not there and the marketing's not
05 there, you know, they were subjected to the sub-prime
06 loans.

07 But I'm also saying that in the area of
08 West Oak Lane, there are a number of banks. And we
09 believe if these people are proactive in helping the
10 consumers in those communities, they should have
11 products that these consumer groups, that consumers to
12 use that would keep them from the predatory lenders.
13 And they should market their products to the community
14 so that the community is aware that they are welcome
15 into the banks.

16 So I think it's a really good idea. I
17 certainly support my friend, my neighbor, my
18 colleague, Dwight Evans for what he's trying to do,
19 because he is always pro-community and pro-consumer.
20 And I'd just like to see us make something maybe a
21 little stronger that will give the people a better
22 service and better access to the products that will
23 help keep them out of the predatory market.

24 Thank you.

25 CHAIRMAN DALEY:

01 Thank you, Councilwoman. The chair would
02 like to acknowledge the presence of Representative
03 Chris King, who has joined us.

04 Are there any questions for Councilwoman
05 Tasco? Thank you very much for your testimony.

06 The next person that will be testifying
07 and he is scheduled at 2:05, and it is currently 2:05,
08 is Councilman Wilson Goode, Jr., and we are on time.
09 Councilman Goode.

10 COUNCILMAN GOODE:

11 Good afternoon, Chairman Daley,
12 Representative Evans in his absence, and members of
13 the Commerce Committee. My name is W. Wilson Goode,
14 Jr. - I have been a member of Philadelphia City
15 Council since January of 2000 and I currently serve as
16 Chairman of the Council's Committee on Commerce and
17 Economic Development. My testimony will be brief.
18 Almost 8 years ago, my office released the Greater
19 Philadelphia Capital Access Report.

20 The executive summary of the report read:
21 'Concerns surrounding capital access for low- and
22 moderate-income as well as predominantly minority
23 communities are longstanding. Social scientists and
24 other analysts have long linked the activities of
25 financial institutions to the deterioration of inner

01 cities. As early as the 1960s, when considering the
02 roots of contemporary urban riots, the Kerner
03 Commission traced the causes to, among other things,
04 redlining by banks and insurance companies. At the
05 time, many believed that banks and other financial
06 institutions were taking deposits from the nation's
07 inner cities and using the capital to make loans
08 primarily outside these communities.

09 The report examined small business
10 lending throughout the region. The report found that
11 minority and low- and moderate-income neighborhoods
12 were receiving a smaller share of loans relative to
13 their share of population and businesses.

14 Since that time, through my policy and
15 legislative work, the percentage of small business
16 lending in low and moderate income communities in
17 Philadelphia has increased from just 39 percent in
18 2001 to around 55 percent in 2005. We have made
19 progress, but our work is far from done.

20 In a report released in 2006, The
21 National Community Reinvestment Coalition's (NCRC)
22 second comprehensive study on lending trends and
23 branching patterns in the City of Philadelphia
24 revealed that recent legislation and exposure to
25 existing problems have significantly benefited city

01 residents, but that credit gaps remained.

02 NCRC's study revealed satisfactory, but
03 not outstanding performance of banks receiving city
04 deposits. The Community Reinvestment Act (CRA)
05 performance of the depositories was improved in some
06 aspects of lending, but did not budge upwards in
07 others.

08 City depositories significantly improved
09 their CRA and fair lending performance in making home
10 purchase loans available to minorities, women, and
11 low- and moderate-income borrowers. This is
12 particularly important since buying a home is the only
13 form of wealth building for many Americans. However,
14 the City depositories continued to lag in small
15 business lending, which represents another critical
16 means for City residents to build assets. More than
17 half of the City depositories exceeded the performance
18 of other banks in the City on just 40 percent of the
19 CRA indicators in small business lending. This
20 represented no improvement from the performance
21 recorded in NCRC's first report.

22 Significant small business lending
23 disparities still afflict the City. During 2004, the
24 portion of all small business loans made in low-income
25 census tracts was 19.3 percent, but the portion of the

01 City's small businesses located in low-income tracts
02 was 26.3 percent. Likewise, the portion of small
03 business loans in minority tracts was 33.4 percent,
04 but the portion of the City's businesses that was in
05 minority tracts was about 45.1 percent.

06 I firmly believe that there is a
07 correlation between branching patterns and access to
08 capital and credit. Therefore, I am pleased to support
09 House Bill Number 1861 and I applaud Representative
10 Evans for its introduction.

11 In the latest comprehensive study of
12 lending patterns in the City, released in June of this
13 year, Econsult Corporation recommended that the City
14 consider the creation of banking development districts
15 to encourage branches in under-represented low-income
16 and minority neighborhoods, to improve accessibility
17 and stimulate investment.

18 The Econsult study found that there were
19 fewer city depository branches in 2005 than the year
20 before. In fact, Wachovia Bank, the city's primary
21 depository, had 10 fewer branches - and Citizens Bank
22 had 4 fewer branches. Econsult noted that it is
23 important to keep in mind that since most depositories
24 have a relatively small number of branches, the
25 percentage of branches in minority or low-to-moderate

01 income areas can quickly change with the opening or
02 closing of just one or two offices.

03 Econsult found that City depositories had
04 58 percent of their branches in low- and moderate-
05 income areas, but that 69 percent of the census tracts
06 in the City are low- and moderate-income.

07 Econsult also found that City
08 depositories had only 27 percent of their branches in
09 minority areas, but 52 percent of the census tracts in
10 the City are at least one-half minority.

11 Therefore, it is imperative that we
12 address the link between branching patterns and access
13 to capital and credit. Once again, I am pleased to
14 support House Bill Number 1861. It is in the best
15 economic interest of this City and the entire
16 Commonwealth.

17 This concludes my testimony and I am
18 happy to answer any of your questions at this time.
19 Thank you for inviting me to offer testimony.

20 CHAIRMAN DALEY:

21 Thank you, Councilman Goode. Any
22 questions from the committee? Representative
23 Siptroth?

24 REPRESENTATIVE SIPTROTH:

25 Thank you, Mr. Chairman. Mr. Councilman,

01 thank you very much again for allowing us to meet
02 here. Do we as a committee have the opportunity to
03 have that report; do you know?

04 COUNCILMAN GOODE:

05 There are two reports. The latest report
06 I referred to is actually located on the City's web
07 site, the City's records office. It was too large to
08 copy. It's about 250 pages. It's available at
09 phila.gov/treasurer.

10 REPRESENTATIVE SIPTROTH:

11 Thank you.

12 COUNCILMAN GOODE:

13 But I have attached two pages of that
14 report to my testimony.

15 CHAIRMAN DALEY:

16 Questions?

17 REPRESENTATIVE SIPTROTH:

18 Thank you.

19 MR. CALLEN:

20 Councilman, has there been any effort to
21 tie the city deposits in those institutions to
22 performance, the performance indicators that you
23 mentioned?

24 COUNCILMAN GOODE:

25 That is the multi-million dollar question

01 at this point, whether the city is going to have a
02 system. There were two predominant recommendations
03 that came out in the Econsult report. The second I
04 mentioned was for development creation of a
05 development district. The first one is based on CRA
06 fair lending indicators. To some extent we are moving
07 that process along. The major part of the banking
08 business the city does is actually the payroll
09 account. The city traditionally had not bid that
10 account out, so for the first time in the history we
11 are actually going to put for bid, have put it for
12 bid, and have actually received quotes from several
13 institutions which wish to hold an account.

14 As part of the proposal they were to
15 actually tell their CRA fair lending performance and
16 look at strategic plans and incentive plans to deal
17 with any underperforming areas they needed to pick up
18 on. And so council will actually have an opportunity
19 to review the proposals, review that CRA fair lending
20 performance and make a decision on who will hold the
21 city's payroll deposits based upon that criteria.

22 MR. CALLEN:

23 Has that been already developed? Those
24 RFPs are already developed?

25 COUNCILMAN GOODE:

01 The RFPs have been developed, the
02 proposals have been submitted. The city treasurer's
03 office is making a determination. Then they will
04 submit legislation to council and council will make a
05 decision.

06 MR. CALLEN:

07 Can we also see what your outline is of
08 those targets? I mean, how you've structured that.

09 COUNCILMAN GOODE:

10 Actually, in terms of the CRA fair
11 lending performance, the methodology is contained in
12 the report, this latest report. Also in the previous
13 reports by the National Community Reinvestment
14 Coalition, which did two pervious studies and the
15 methodology is contained in there, as well, in terms
16 of how to determine how well these institutions are
17 performing or did perform.

18 MR. CALLEN:

19 Thank you, Councilman. Thank you, Mr.
20 Chairman.

21 REPRESENTATIVE ROSS:

22 Just a question. I know that the
23 Pennsylvania Housing Finance Authority has a program
24 designed to counsel people on appropriate alternatives
25 to financing to help people stay away from sub-prime

01 lending if they can and also an intervention system
02 whereby they attempt to keep people in their houses
03 if, in fact, they fall behind on their mortgage
04 because of sickness or other unexpected problems.
05 Does the city have any similar kinds of programs?

06 COUNCILMAN GOODE:

07 The city has partnered with a number of
08 advocate agencies and a number of programs. Another
09 program that had just came out, as I understand, on
10 Monday, a partnership between PHFA and the state and
11 city. Part of why I believe this legislation is
12 important is because as Councilwoman Tasco stated,
13 Philadelphia is unique within the Commonwealth and it
14 presents a unique economic opportunity. Essentially,
15 Philadelphia is a potential economic engine for the
16 Commonwealth. It can actually recall great growth
17 here.

18 But the reason why this bill is
19 particular important, because even to the extent that
20 new products are not designed or as new products that
21 are being designed to cater to the specific
22 demographics within Philadelphia or demographics like
23 those in Philadelphia, relationship banking is key.
24 Banking is really based upon relationships, and when
25 banks are not located within neighborhoods, the same

01 decision not to locate within those neighborhoods
02 sometimes causes banks to make decisions against
03 people who either live in those neighborhoods or wish
04 to locate businesses within those neighborhoods.

05 And so we've actually had several
06 partnerships within the community, both anti-predatory
07 lending partnerships. One other partnership regarding
08 small business lending the Philadelphia Business
09 Building Program was creating partnerships of several
10 different local banks here, to actually look at the
11 issue of technical assistance as it relates to small
12 business lending, to look into offering technical
13 assistance to those potential entrepreneurs, small
14 business owners, who are looking to create businesses
15 and/or expand and then they submit to their technical
16 assistance are successful in building a capacity to
17 run businesses and essentially the bank is going to
18 look at and change their criteria to meet the needs.
19 But we've been able to bring the banking community
20 together with those types of special projects and
21 create new products. But it helps even further to
22 have those banks located within those communities to
23 understand how profitable those committees can be.

24 REPRESENTATIVE ROSS:

25 It's just interesting, I think, my

01 mortgage, I think, comes out of South Carolina or
02 something like that, so getting the information to
03 people I think is the most important thing. I can
04 understand from a development point of view that you
05 might want more businesses actually in your
06 neighborhood as well, but I think getting the
07 information to people is perhaps most important thing.

08 COUNCILMAN GOODE:

09 There's an argument to be made that if
10 all lending begins to become credit based that
11 location of banks will not make a difference. There's
12 an argument to be made that that they should be
13 further investment in financial literacy. But still
14 the data still bears out that it makes a difference
15 where banks are located and there's a lot of decisions
16 still based upon relationship banking.

17 CHAIRMAN DALEY:

18 Representative Brennan?

19 REPRESENTATIVE BRENNAN:

20 Thank you, Mr. Chairman and Councilman.
21 Just quickly, at the bottom of the first page of your
22 testimony you mentioned that the percentage of small
23 business lending in low-to-moderate income communities
24 in Philadelphia has increased over 39 percent in 2001
25 to 55 percent in 2005. And I guess that's the latest

01 figure that you were able to get for us. But what is
02 the percentage of the city community --- of the city
03 that is low-to-moderate income?

04 COUNCILMAN GOODE:

05 Well, the city is around 61 percent low-
06 to-moderate income.

07 REPRESENTATIVE BRENNAN:

08 So that's a significant progress over
09 four years. Do you think that trend is continuing or
10 are you seeing it stagnant?

11 COUNCILMAN GOODE:

12 Those numbers are over four years, but to
13 give you the total story, I've introduced and had
14 passed some legislation. I started with the
15 requirement of creating reinvestment goals for city
16 depositories.

17 So anyone's --- or any institution that's
18 authorized to receive city deposits have to give us
19 annually, how many home mortgages, how many home
20 improvement loans, how many small business loans they
21 intend to do within those criteria. That legislation
22 was passed, I believe, in 2001 or 2002 and it became
23 effective around 2002. The jump from 2002 to 2003 is
24 actually from 40 percent to about 52 percent. And so
25 because we forced our city depositories to give us

01 goals for lending, we actually saw a huge jump in
02 small business lender. Because small business lending
03 was the center of my focus of why the banks had to
04 respond and see what they should do.

05 If not then a substantial increase since
06 that point is from 52 percent to 55 percent. And
07 while we're pleased with that number there are two
08 other things. One, we don't know when we'll get to 61
09 percent, which is supposed to be some carrot in some
10 ways.

11 But the other thing, at the same we have
12 increased small business lending loan to low-and-
13 moderate income neighborhoods, we still see problems
14 with lending, just in low income neighborhoods and we
15 see problems within minority census tracts. And so
16 while we have 55 percent of small business lending
17 made in those neighborhoods, only about 30 is done in
18 minority census tracts.

19 REPRESENTATIVE BRENNAN:

20 Thank you very much.

21 CHAIRMAN DALEY:

22 Thank you, Councilman.

23 COUNCILMAN GOODE:

24 Thank you.

25 CHAIRMAN DALEY:

01 We'd like now to have Representative
02 Dwight Evans, Chairman of the Appropriations
03 Committee. We appreciate your being here.

04 REPRESENTATIVE EVANS:

05 Thank you, Chairman Daley, and thank you
06 members of the Banking and Commerce Committee. First
07 I would just like to welcome you to the City of
08 Philadelphia and I hope that you'll agree that thus
09 far it's been a good visit to this city. And we
10 appreciate this opportunity.

11 Too many of our citizens have been
12 shortchanged regarding financial services. In the
13 last 20 years we've seen a marked decrease in the
14 number of financial services available to low urban
15 and rural income areas. And I want to comment on the
16 goals I think Representative Ross asked Councilman
17 Goode about. I think this kind of issue is important.
18 I do think information is important, but I also do
19 think placed-based approaches are extremely important.
20 And I want to express where this concept came from.

21 I was in Washington, D.C. last year. The
22 Brookings Institute had invited me there to speak
23 about the supermarket initiative that I came up with,
24 the idea about trying to place supermarkets and
25 certain areas. As a result of that initiative, the

01 Commonwealth of Pennsylvania has put up 30 million
02 dollars. We have 14 supermarket initiative projects
03 in the City of Philadelphia, and 18 outside the City
04 of Philadelphia. So there are 32 initiatives.

05 When I was in Washington, D.C. at the
06 National Press Club I met the Secretary of Banking
07 from New York, George Pataki's Secretary. And it is
08 through her that I picked up this concept about place-
09 based banking in this location, so I kind of thought
10 to myself, if we can do it with supermarkets, why
11 can't we do it with banks?

12 Basically if you look at House Bill 1861,
13 it creates a bank development initiative aimed at
14 providing incentives to banks, credits unions and
15 other financial institutions. You know, one of the
16 things, Representative Ross, you and I have dealt with
17 before is the whole aspect of check cashing and
18 predatory lending and I know a little bit about those
19 issues. But I would argue --- I tried to warn you.
20 Chairman Dailey, he knows and understands. I tried to
21 warn him. I gave him a warning before we went down
22 that path, but he didn't listen to me.

23 So what I basically tried to say is I
24 tried to use the carrot and the stick in a much more
25 positive approach. And this approach is using the

01 deposits of the Commonwealth of Pennsylvania as well
02 as using tax policy, as well as using the local --- as
03 the two Councilmen expressed about the policy related
04 to the City of Philadelphia.

05 I could see us at local and at the
06 Commonwealth of Pennsylvania in terms of driving
07 policy outcomes. The Commonwealth of Pennsylvania and
08 the city of Philadelphia, we should be driving the
09 outcome of the policy. As you know, the Commonwealth
10 of Pennsylvania budgets 52 million dollars and then
11 when you come in to look at what money we have
12 available, we can drive the policy around this.

13 This legislation is patterned after a
14 similar very successful program in New York. In fact,
15 some branches were so successful, they became like
16 community centers. Workshops, information, teaching
17 people how to save and build wealth. And I think
18 ultimately that is the key. If we want to transform
19 communities and deal with poverty, you want people to
20 participate in the marketplace. So I believe that
21 this offers an idea of a thriving commercial
22 essentially to all communities. But it also offers
23 poor people the same kind of options that middle class
24 and others have, that they should be treated in that
25 respect.

01 Creating these bank districts is really
02 an initiative. A bank branch can serve as an anchor
03 for businesses. It gives residents an opportunity to
04 access services that are readily available in affluent
05 communities, and it provides educational opportunity
06 to people because they use financial institutions.
07 They become financially empowered. For too long we
08 have accepted the idea that it's okay to have few
09 services or no services in these communities. That is
10 unacceptable. People who live in these communities
11 want full service.

12 I think this is a good activity for
13 Pennsylvanians that we can --- that we can use the
14 power that we have right in our hands in terms of the
15 dollars that we have available to us. I mean, it's
16 not complicated. I have, and I've said this to your
17 Chairman, I had other options, some things that we
18 need to tinker with. Some people talked to me about
19 thrift tax and other forms of incentives that we look
20 at as another way to drive other financial
21 organizations, such as credit unions, because they
22 don't necessarily concern themselves as much with the
23 property tax. But the key thing is I think this is
24 something that we should do. I think that it would
25 demonstrate us moving on economic development in the

01 state. So I would hope that members of this committee
02 will support this initiative. Any questions that you
03 have I'd be glad to answer.

04 CHAIRMAN DALEY:

05 Representative Evans, I want to
06 congratulate you on this bill. We spoke in your
07 office about this and I followed the whole concept
08 with the grocery stores and lack of fresh fruits and
09 vegetables. And I appreciate your tutelage and we
10 participated in many things with you and some of the
11 other Representatives from Philadelphia. But I want
12 to congratulate you, and coming from the environs of
13 Philadelphia it was a surprise to me that this
14 opportunity was not afforded to people of your
15 communities as it was for the many --- and all the
16 communities that I know throughout the Commonwealth.

17 Representative Wansacz, do you have any
18 questions? Representative Ross?

19 REPRESENTATIVE ROSS:

20 Can't let the opportunity slide by. And
21 I do want to give full credit to you for warning me
22 about the dangers of unregulated daily lending. I'm
23 still hopeful that we'll get to do something about it.
24 But I recognize that it's not a very easy thing and
25 you were quite correct in warning me about the

01 complexities and challenges involved in that.

02 And I didn't want my earlier question to
03 be misconstrued. Certainly I am really interested in
04 getting better information to people and I think if
05 folks understand the real options that are available
06 to them that they'll naturally choose better
07 alternatives, particularly if they're clear and simply
08 explained. And some banking offers are not anything
09 like that. They tend to be kind of complex,
10 confusing, have lots of footnotes and complex
11 language. So that's the reason I'm kind of interested
12 in the counseling aspect of this and I've seen it work
13 well with an organization called the Alliance for
14 Better Housing, which is out in my neck of the woods.
15 It deals with this issue for folks who are immigrants
16 and otherwise might be unfamiliar with the options of
17 home ownership.

18 One question I did have, I think your tax
19 exemption piece of this makes good sense. I think the
20 idea of trying to get more banks in the neighborhood
21 is a good one. But one area that I wasn't completely
22 clear on, and I know it's near and dear to your heart
23 since your Appropriations Committee. You mentioned
24 that the bank that applies as a depository for state
25 funds and they pay something below the top interest

01 rate that they would otherwise be paying other
02 customers, I didn't see a total amount that might be
03 used in this way, or how much the potential impact
04 would be on the state funds and are there any
05 potential issues associated with that sort of blow-
06 back when people saying that we didn't do our best to
07 invest those funds or at the best possible rate.

08 REPRESENTATIVE EVANS:

09 You raise a good point. The way that
10 I've structured it is to have the Banking Department,
11 which is here, and the DCED really be the ones to set
12 the criteria. We basically set the framework and they
13 would set the criteria. Because again, I'm not
14 looking for anyone to being a loser. It would be a
15 win-win. A win for the Commonwealth, and obviously a
16 win for banks, both. So it doesn't have to be a ---
17 basically they would be the ones who set the criteria,
18 they being the Department of Banking and DCED. They
19 can just ---.

20 Representative Ross, in a sense it's like
21 what we did with our Keystone zones, our enterprise
22 zones. You know, we have --- what we do is pass it to
23 various organizations. They in turn set up the
24 regulatory environment, as we set up the structure.
25 You know, we theoretically could put this inside of,

01 you know, a KEZ somewhere. I mean, you could do a KEZ
02 somewhere. That's the kind of organization. I spoke
03 to the Secretary of Banking. I don't know if they've
04 testified yet the other day, but in concept they think
05 it's a good idea. I've spoken to the Secretary of the
06 DCED the other day. He too liked the concept.

07 So the key thing that I've been trying to
08 do is to narrow banking policy and use our existing
09 resources to drive the outcome, but the criteria have
10 to be set up by those two agencies that the return is
11 set up and make a determination on what is the ---
12 what are the regulations that would have to be placed.

13 REPRESENTATIVE ROSS:

14 Aside from DCED and the Banking
15 Department, I still think on the depository side, we
16 might want to tune that up a tad, because
17 theoretically if we all the state's funds in the
18 depository at something below the typical rate of
19 return, we might get yelled at a little bit.

20 REPRESENTATIVE EVANS:

21 I understand.

22 REPRESENTATIVE ROSS:

23 I know that's not your intent, but ---.

24 REPRESENTATIVE EVANS:

25 No, it's not.

01 REPRESENTATIVE ROSS:

02 Maybe some range that would be considered
03 in that regard ---

04 REPRESENTATIVE EVANS:

05 Exactly.

06 REPRESENTATIVE ROSS:

07 --- as to how much this would actually
08 cost. The KEZ tax exemption portion, is different and
09 I'm perfectly comfortable with what we have. As you
10 point out, we've used that in the past. It's the
11 depository piece that you'd probably want to talk to
12 the Treasurer and others about.

13 REPRESENTATIVE EVANS:

14 And I would agree with you, because I'm a
15 trustee on the pension board, the teacher's pension
16 board, and I understand that financial responsibility,
17 like you.

18 But the only part I'm trying to stress is
19 the concept of driving. New York is probably the best
20 example. I have a young man I hired out of New York.
21 He's from that particular area up in New York and let
22 me tell you, it flourished when they did this in New
23 York in terms of the number of banks. It was run by a
24 gentleman who used to run Burger King and they have
25 probably been one of the most successful in placing

01 retail.

02 Because what most banks will tell you is
03 they recognize that while you and I may use ATMs,
04 internet banking and things of that nature, retail
05 banking still is a very attractive asset. And we need
06 never to forget that in terms of community building.
07 A bank can be used as an anchor, bank, supermarket,
08 education, things of that nature. And I think that
09 using our dollars to attract --- one thing I want to
10 say is, Harvard recognized the supermarket initiative
11 as one of the best 50 --- one of the best programs of
12 the nation.

13 REPRESENTATIVE ROSS:

14 You can't count on Harvard.

15 REPRESENTATIVE EVANS:

16 So I got to say to myself, if they
17 recognize supermarkets, why can't we do banks? So I
18 say to Representative Ross that I think we can work
19 out those kinds of things.

20 CHAIRMAN DALEY:

21 I think you know that we're going to be
22 cleaning this legislation before it leaves committee
23 and the committee will offer suggestions.
24 Representative King?

25 REPRESENTATIVE KING:

01 Thank you, Mr. Chairman, and Mr.
02 Chairman, what a pleasure it is to be on this end.

03 REPRESENTATIVE EVANS:

04 I can probably ask all kinds of
05 questions. Out of curiosity, really I just wondered
06 if you could speak to, have you had the opportunity,
07 and I imagine you have, to speak to banks?

08 REPRESENTATIVE EVANS:

09 Citibank, largest, Citibank. I spoke to
10 a gentleman last week. And the reason is Citibank is
11 talking about putting a particular bank in the
12 northwest part. It's more closer to Montgomery County
13 than it is to Bucks County. And the gentleman I spoke
14 to was from New York, Dallas and down in Philadelphia.
15 His name is Bill Brown from Citibank. And he
16 indicated that he used this in New York.

17 So I made this specifically to talk to a
18 banker and he expressed this would be very possible in
19 the Commonwealth, but I don't want to put words --- he
20 can speak for himself, but ---.

21 CHAIRMAN DALEY:

22 Yes. He did speak for himself. Citibank
23 is not testifying at this hearing, but he
24 indicated to us that he is supportive of this
25 legislation.

01 REPRESENTATIVE EVANS:

02 Okay. But that's good then. I just
03 wanted --- and I mean, what can you say about Citibank
04 and as large as they are?

05 REPRESENTATIVE KING:

06 No. That's very helpful from my vantage
07 point, certainly, the legislation asking credible
08 assets. And when you hear that people are going to
09 come in and take advantage of that, that's fantastic.
10 Thank you, Mr. Chairman.

11 CHAIRMAN DALEY:

12 Any other questions? Hearing none, thank
13 you for testifying. Our office will be working
14 closely with yours on this legislation.

15 Dwight, you can join us at the front
16 table, if you like. The next gentleman who will
17 testify is Richard Kunsch. He's president and CEO of
18 Phoenixville Federal Bank and Trust. Mr. Kunsch?

19 MR. KUNSCH:

20 Thank you, Chairman.

21 CHAIRMAN DALEY:

22 Please identify your associate for the
23 record.

24 MR. EVANS:

25 My name is Reg Evans. I'm counsel ---

01 outside counsel to the Pennsylvania Association of
02 Community Bankers. Good afternoon.

03 CHAIRMAN DALEY:

04 Thank you.

05 MR. KUNSCH:

06 Chairman Daley and members of the
07 committee, thank you for the opportunity to
08 participate in this hearing today on House Bill 1861,
09 sponsored by Representative Dwight Evans to establish
10 banking tax-free zones. We thank you for including
11 PACB, which is the Pennsylvania Association for
12 Community Bankers in this discussion and commend
13 Representative Evans for introducing this proposal
14 that will spur the placement of banking services in
15 underserved areas of the Commonwealth.

16 By definition, community banks are about
17 service to our communities and as a general
18 proposition we support public policy changes to
19 encourage community banking to do an even better job
20 at serving our communities. We welcome this
21 discussion and pledge our cooperation with the
22 committee and with Representative Evans as you
23 consider this legislation.

24 Prior to discussing legislation and our
25 specific comments for ways to improve the legislation,

01 we believe it's important to share with you PACB's
02 history and the essence of community banking. PACB is
03 the oldest financial services association in the
04 nation, dating back to 1877 and currently represents
05 over 175 community banks across the Commonwealth.
06 PACB is proud to be a voice of community banking in
07 Pennsylvania.

08 Our member banks serve as an epicenter of
09 community activity, providing key financial services
10 to citizens and funding community-based businesses and
11 programs. Community bankers are dedicated to serving
12 their communities and take great pride in the positive
13 impact we contribute by reinvesting in the community
14 through residential mortgages, small business loans
15 and agricultural and student loans. As you know, Mr.
16 Chairman, and members of the committee, community
17 banking is about relationships and trust with our
18 customers, which in some cases date back decades.

19 Many of our institutions are celebrating
20 their 75th, 100th or 125th anniversaries. Prior to
21 any federal or state regulations and mandates,
22 community banks were doing community reinvestment as
23 their principal stock and trade. That continues to be
24 the case today. We have survived wars, depressions,
25 recessions, boom markets and bust markets and we

01 continue to be anchored on the main streets of
02 Pennsylvania towns and cities.

03 Our members live by the motto
04 Pennsylvanians first, for we truly are the financial
05 institutions reinvesting in the state. This is not
06 mere rhetoric, but the very reason our members exist.
07 Our combined assets of over \$90 billion are almost
08 entirely reinvestment in the Commonwealth and its
09 citizens. Collectively we have been serving the
10 Pennsylvania's communities for over 23,000 years.
11 That's even older than Frank Piccolo (phonetic).

12 CHAIRMAN DALEY:

13 Barely.

14 MR. KUNSCH:

15 With the majority of our members in
16 existence for over a hundred years, we appreciate the
17 sensitivity you have, Mr. Chairman, for the burdens
18 that community banking faces with government over-
19 regulations and paperwork burdens that continue to
20 mount and distract us and detract from our services to
21 our communities. That is why it is so refreshing to
22 see legislation introduced to encourage more banking
23 services rather than public policy and regulation that
24 oftentimes have the effect of discouraging and
25 impeding the delivery of important financial services.

01 At this point I'd like to turn the
02 testimony over to Reginald Evans, Esquire, who's
03 already introduced himself, who will share with the
04 committee some detailed analysis he conducted that we
05 believe will strengthen this legislations and its
06 goals and implementation, if enacted by the General
07 Assembly. Thank you, Mr. Chairman.

08 MR. EVANS:

09 Thank you again, Chairman Daley. In the
10 spirit of strengthening this legislation I will
11 provide the following comments. I'm not going to read
12 verbatim from the written testimony that we've
13 provided to you, but I'll condense the comments, many
14 of which are tweaks as Representative Evans mentioned,
15 some of which are more significant, but all focus of
16 enhancing the legislation.

17 CHAIRMAN DALEY:

18 Well, our staff will work with you on the
19 more comprehensive version of your concerns.

20 MR. EVANS:

21 Thank you. The purpose of the bill, as
22 stated, the suggestion would be that the committee may
23 want to focus it to specifically state that it is to
24 --- the focus is it's not going to be underserved
25 communities or blighted areas, as it's stated right

01 now. More broadly stated, this is to benefit the
02 community.

03 In terms of the definition of banks and
04 what type of financial institutions would be eligible
05 to participate, that could be extended as well to
06 include bank and trust companies, savings
07 associations, federal and state charters. There was a
08 mention of credit unions in there, and of course, you
09 know, the banks and credit unions have their ongoing
10 discussion regarding tax exemption. And you'll find
11 this in the testimony that the credit unions already
12 have the tax exemption, but let me clarify that.
13 Their tax exemption is pertaining to stock and income.
14 It's not pertaining to real estate. They do pay taxes
15 on real estate as required by state law.

16 The application process is probably the
17 most significant comment. It could be potentially
18 streamlined. As it's phrased right now if you have
19 two applications that you know, bank development
20 district application that would be filed under
21 municipality in conjunction with the bank and then
22 filed with the Secretary of Banking who has 60 days to
23 review all of the criteria and make a determination.
24 And then the other applications you have is the tax
25 exemption application, which would be filed by the

01 owner, which could be the bank or some owner or lessor
02 from which the bank is leasing the property. And that
03 would be filed with the municipality's tax assessor.

04 So one idea would be that the banks will
05 want some level of certainty, most likely, before they
06 start construction as to not only whether they're in a
07 bank development district or whether they're going to
08 have that tax exemption so that they can economically
09 make the determination of how they're going to make
10 the numbers work. So it might be --- and my summary
11 is you want to do it to consolidate two applications
12 into one or to place a specific timetable on how long
13 a tax assessor has to decide whether to approve, as
14 the tax assessor does have a decision ability there.
15 It's not automatic. You might want to make it
16 automatic as well in terms of the banking development
17 districts to determine if there would be automatic tax
18 exemption. They wouldn't have the two applications.
19 And in any event, having the time limit on the tax
20 assessor would be positive, I believe.

21 There are two sections regarding
22 regulations that can be consolidated into one. And
23 you might want to clarify, because right now it's
24 possible to read the law stating that the law doesn't
25 really --- you know, becomes effective in 60 days I

01 think it was listed. It might not be effective until
02 the Department regulations can be drafted, which could
03 cause a delay, but most likely not long, as the review
04 process can take a period of time.

05 You might want to clarify which existing
06 branches are eligible for the tax exemption and how
07 much alteration is needed. There's language in the
08 bill regarding branches that are opened after December
09 31, 2007, but that language could potentially be
10 clarified just to make it clear that those are
11 existing branches that happened to open after December
12 31 or whether it's branches that actually come into
13 play and commence in terms of buying and beginning
14 work on the property after December 31. That's a
15 little minor thing.

16 Banks oftentimes lease the property, so
17 you might want to have some specific language about
18 banks leasing property receiving a pass-through kind
19 of credit since it would be as presently drafted, the
20 owner who applies for the tax exemption. And the
21 banks would likely put something in their lease
22 contracts that say, awaiting regulatory approval or
23 waiting for tax approval, they expect the tax, the
24 real estate tax, to pass through.

25 Sometimes these branches are acquired one

01 way or the other, whether the entire institution is
02 acquired or whether a particular branch is sold to
03 another branch (sic). You might want to reference
04 that in the tax exemption remains in effect and passes
05 through the successor entity, although arguably
06 automatically it would in any way under just general
07 corporate law in terms of the transfer of property
08 contracts.

09 Definitions, in the definition of branch,
10 it would probably be adequate to say full time or full
11 time banking service office as opposed to listing
12 specifics down to who's working there, because that
13 varies from branch to branch. Municipality, I didn't
14 know whether you might want to define that.

15 There's reference of becoming an inactive
16 depository of public funds. You might want to define
17 that. I mentioned bank already. We talked about
18 credit union.

19 And finally, sometimes branches don't
20 work out and banks end up closing them. As presently
21 drafted normal bank discontinuation rules would apply,
22 but I'm just making you aware of that in the event
23 that you decide you want to address it and make a
24 broad statement that normal banking rules otherwise
25 apply to the institution.

01 Those are my comments. If you have any
02 questions I'd be happy to address them. Thank you.

03 CHAIRMAN DALEY:

04 Representative Siptroth?

05 REPRESENTATIVE SIPTROTH:

06 Thank you, Mr. Chairman. Could you
07 disclose the average lease period that banks normally
08 negotiate with particular landlords or an institution?

09 MR. KUNSCH:

10 Yes. We recently, up until our current
11 branch, opening by the way, next Saturday in Limerick
12 Township, we've always owned ours. We've never
13 leased. But what we negotiated there with Pat is ten
14 years.

15 REPRESENTATIVE SIPTROTH:

16 Ten years? With options?

17 MR. KUNSCH:

18 With options for two to succeeding terms.
19 So altogether it would be as long as 30 years.

20 REPRESENTATIVE SIPTROTH:

21 So if 1831 were applicable to that
22 particular property, if it were, the ten-year time
23 frame more or less coincide with the ten-year mark
24 down?

25 MR. KUNSCH:

01 Yes.

02 REPRESENTATIVE SIPTROTH:

03 Now, regarding that, would you folks
04 negotiate with a landlord on a reduction in lease
05 payment to compensate for, or as you indicated, Mr.
06 Evans, it should be ---.

07 MR. KUNSCH:

08 A pass-through. That the banks would be
09 recipients of that.

10 MR. EVANS:

11 I would expect that one way or the other
12 the banks would seek from their landlord for the pass-
13 through to occur since oftentimes basically the real
14 estate taxes are being passed through. So when
15 there's black real estate taxes due to an exemption it
16 should automatically apply. And that may be covered
17 really by the lease itself and I expect that that's
18 what the banks would do and that's what they'd be
19 advised by counsel.

20 REPRESENTATIVE SIPTROTH:

21 Thank you, Mr. Chairman.

22 CHAIRMAN DALEY:

23 No other questions? Gentlemen, I want to
24 thank you for your participation today. And Mr.
25 Evans, we'll be in touch with you regarding this

01 process.

02 MR. EVANS:

03 Very good.

04 CHAIRMAN DALEY:

05 We would welcome your contributions.

06 MR. EVANS:

07 Thank you very much. And I applaud the
08 laudable purposes of this bill. Thank you.

09 CHAIRMAN DALEY:

10 Thank you. The agenda indicates that we
11 have a break, and the rules of order say we that we
12 must abide by the agenda, so we'll now take a break.

13 SHORT BREAK TAKEN

14 CHAIRMAN DALEY:

15 As the Chairman I will call it back to
16 order, unless there is an objection. Hearing none,
17 our next testifier will be Ian Phillips and also Mary
18 Ellis. Ian Phillips is the Legislative Director for
19 ACORN and Mary Ellis is a member of ACORN.

20 Welcome to the House Commerce Committee.

21 And please identify yourself for the record.

22 MS. ELLIS:

23 My name is Mary Ellis and I'd like to
24 thank you, Chairman Daley, Chairman Hess and members
25 of the committee for giving ACORN the opportunity to

01 testify on House Bill 1861, the Banking Development
02 District Act.

03 In 1996 I wanted to refinance my home to
04 take care of a few repair problems that I had, new
05 roof, a broken furnace and hot water heater. I went
06 to Fidelity Bank that was located across the street
07 from me in Cheltenham Township. They told me I missed
08 qualifying for a home repair loan by ten points.

09 For the next few weeks I didn't know what
10 to do. There were no other banks in my neighborhood
11 and I thought I had no other options. A few weeks
12 later I received a call from Liberty Mortgage, a
13 brokerage, telling me they would take care of me and
14 make me a nice loan. They told me my loan would be
15 fixed and, in fact, I found out later it was
16 adjustable. They told me I would be getting the
17 lowest rate I could qualify for when, in fact, the
18 lender kicked back over \$4,000 in fees to the broker
19 for convincing me to make a loan starting at 11.75
20 percent.

21 Since then my loan was sold over and over
22 to different servicers and my rate has gone up to as
23 high as 18.5 percent. My loan was done completely
24 over the phone until the closing. And Liberty
25 Mortgage was located in Montgomery County. They did

01 not have a Philadelphia office. And they rushed me
02 through the loan process.

03 And I believe that myself and my
04 neighbors are entitled to sit down at a bank with a
05 qualified representative, reputable loan officer to
06 work through the loan process at a reasonable pace.

07 When I moved in my neighborhood we had
08 banks from Cheltenham Avenue all the way down to 72nd.
09 There was a bank almost on every corner. I could have
10 walked into any one of them. I knew the people
11 personally in the bank. We ate lunch together. But
12 in 1996, the only bank that was available to me, and
13 it was my bank, was Fidelity, which was across the
14 street in Cheltenham Township in Montgomery County.
15 But from Cheltenham Avenue all the way down to the end
16 of Cheltenham Avenue there is not one bank at all.

17 No bank in our area, in our neighborhood
18 to serve our community. The only bank that's
19 available to us, we have to go outside of Philadelphia
20 into Montgomery County to use their --- use their
21 facilities. I know my state representative knows
22 exactly what I'm talking about.

23 And I just think that it's time that the
24 banking community sat down and really did what state
25 representatives said, that the community needs to be

01 more interactive, they need to be educated. They
02 shouldn't have to be counseled by these legal loan
03 sharks, predatory loans, sub-prime loans.

04 I think of myself as a reasonably
05 intelligent person. However, I'm in the ocean, not
06 even in the swimming pool, when it comes to finding
07 and securing a loan and trusting somebody who's really
08 just a shark out to cut your throat and take your
09 property and resell it again.

10 So I'd like to thank you for giving me
11 this opportunity to say what I have to say. Thank
12 you.

13 CHAIRMAN DALEY:

14 Mary Ellis, thank you very much.

15 MR. PHILLIPS:

16 I'm Ian Phillips. I'm the legislative
17 Director for Pennsylvania ACORN.

18 Today we find ourselves in a situation
19 where the unprecedented number of foreclosures in
20 Pennsylvania and around the county are affecting
21 markets around the globe. All too often stories we
22 hear about this bank or this sub-prime lender has lost
23 an amount of money that is so large that it's
24 unfathomable to us in our daily lives.

25 But despite these stories low-and-

01 moderate-income families are bearing the brunt of this
02 foreclosure crunch and sub-prime loans they hold are
03 six times more likely to wind up in foreclosure than
04 loans made by banks.

05 Families are losing their homes in
06 Pittsburgh, Carlisle, Philadelphia and East
07 Stroudsburg. Their neighbors are seeing their homes
08 go empty and their own properties values slipping.
09 Cities are losing tax revenue and at the same time
10 they have to pay for increased services to clean
11 abandoned lots and pay for the increased policing
12 costs that comes with the associated blight.

13 Part of this problem can be attributed to
14 the lack of access to reputable banks that offer
15 conventional fixed-rate loans with reasonable interest
16 rates. These banks, as studies show, are serving low
17 to moderate income tracts far less than they are
18 Philadelphia's upper and middle income neighborhoods.
19 When the banks and their prime products leave
20 predatory sub-prime lenders and brokers are ready to
21 swoop in. When a borrower is presented with no other
22 options, predatory lenders flourish.

23 Numerous studies have shown that there is
24 a direct link to increased sub-prime loans and lack of
25 access to institutions that make these loans. I

01 addressed this Tuesday. We released a report that
02 showed the cost of high cost loans will cost
03 Philadelphia \$345 million; the Allentown Bethlehem
04 area \$110 million; Pittsburgh \$110 million; Harrisburg
05 \$85 million and Erie \$9 million in the associated
06 costs that come with increased policing, loss in city
07 tax revenue and loss to property values for the homes
08 that are close --- associated and the surrounding
09 foreclosure in neighborhoods.

10 Predatory lenders make little effort to
11 make loans that would work for their borrowers.
12 Eighty (80) percent of the loans made by sub-prime
13 lenders included a lower interest rate and payment
14 initially, then a reset of their rate at hundreds of
15 dollars more a month. In Ms. Ellis' case, as she
16 elaborated on, started at 11.75 percent and jumped as
17 high as 18.5 percent. I'm happy to say that today
18 that ACORN Housing, our sister organization, Ms. Ellis
19 has been moved into a loan that's fixed and it's at
20 7.5 percent.

21 Ms. Ellis' loan originator made risky
22 loan and then immediately sold it off in the secondary
23 market, whose thirst for these loans was unquenchable.
24 In fact, many of these banks while removing braches
25 from low-income neighborhoods heavily invested in sub-

01 prime lenders and loans, hoping to catch a piece of
02 the action, the securities that we are talking about.
03 In investing in those loans the banks recognized that
04 there was a potential for profitability but did not
05 want to devote a branch to these neighborhoods.

06 They in large part turn their backs on
07 low-and-moderate-income communities and their less
08 ethical counterparts in the sub-prime industry were
09 ready to reap the rewards. Each day more of these
10 toxic loans are reset. Nearly each week another sub-
11 prime lender goes bankrupt and every month the sheriff
12 auctions off nearly a thousand homes that were once
13 occupied by Philadelphia's families.

14 Today we need banks to help solve the
15 crisis they created when they turned their backs on
16 north and southwest Philadelphia and other
17 neighborhoods like them. We need them to invest
18 equitably as they are legally and morally obligated to
19 do, in all of Pennsylvania's neighborhoods. Today in
20 the midst of a state and national foreclosure crisis,
21 reputable financial institutions are needed now more
22 than ever. These banks would help put people back
23 into conventional loans with payments that are
24 affordable long term, and bringing with them
25 stability, with the force to push back blight.

01 We need sub-prime lenders and banks that
02 are behind them to put all homeowners with adjustable
03 rates back into fixed rate loans with affordable
04 terms. We need them to stop foreclosures that are
05 tearing apart communities and crushing Pennsylvania's
06 families. We need elected officials to pass laws that
07 will wipe out these modern-day loan sharks and the
08 toxic loans they push. We need outreach programs that
09 would bring borrowers into HUD-certified housing
10 counseling agencies before their payments jump and
11 before their home is on the auction block.

12 ACORN wants to thank Representative Evans
13 and the members of the Commerce Committee for taking
14 up this issue and looks forward to your action on the
15 subject.

16 CHAIRMAN DALEY:

17 Thank you, Mr. Phillips. As you know,
18 the Commerce Committee was here in Philadelphia, on a
19 six-pack of bills regarding foreclosures and several
20 other issues we're attempting. Although we know
21 they're not a cure-all we're addressing that issue.
22 We hope to have those bills out of committee in the
23 not-too-distant future. Thank you both for your
24 testimony. Are there any questions? Hearing none,
25 thank you for your testimony.

01 The next gentleman who will be testifying
02 is Mr. Donald Kelly, Director of Community and
03 Economic Development for the Greater Philadelphia
04 Urban Affairs Coalition.

05 MR. KELLY:

06 Thank you. And thank you for the
07 opportunity to present some testimony, Chairman Daley
08 and to the committee and Representative Evans.

09 The Greater Philadelphia Urban Affairs
10 Coalition is a partnership of major corporations and
11 community development groups that builds bridges with
12 lower income people into mainstream economy. Banks
13 are part --- very much part of our partnership and
14 most major banks are on our board working with our
15 committees.

16 This bill seeks to provide financial
17 incentives in the forms of low-cost deposits and tax
18 exemptions to financial institutions so as to change
19 the equations when such institutions calculate the
20 feasibility of establishing or expanding or
21 maintaining a branch in a particular location.

22 This strategy assumes that profitability
23 is the ultimate determinant in a bank branch location
24 decision. And we think this is something that's right
25 on the money. Banks are in the business of making a

01 profit and they have to make these kind of
02 calculations.

03 Now, it's true that some banks have
04 branches in unprofitable locations for political or
05 community relations or compliance reasons, but the
06 reality is that those branches have tenuous lives,
07 because when there's a downturn in the economy or in
08 the profitability and strength in that institution,
09 management will look for places to pare down costs and
10 they'll look where they're not profitable. And
11 branches that are not profitable then will be very
12 prone towards being closed down. So these kinds of
13 branches if they're not profitable are short-lived and
14 have tenuous lives.

15 And so this bill correctly understands
16 that there are two ways to increase the economic
17 feasibility of a branch. One being to increase the
18 income and the other is to decrease its expenses.
19 This is just a basic concept. And that below market
20 rate deposits would increase the bank's income and the
21 tax exemptions would reduce its expenses. So it's a
22 sound premise for this strategy.

23 But we have some concerns and some
24 cautions. One is that the basic premise of the
25 strategy is sound, but it places the primary cost

01 burden on the municipality not on the state. While
02 both state and municipality may make below market rate
03 deposits, the municipality must provide a tax
04 exemption for a portion of the bank's real estate
05 taxes.

06 The willingness of the municipality to
07 forego real estate tax revenues will depend on its
08 overall fiscal strength. Fiscally strong
09 municipalities will be in a better position then, to
10 use the program, rather than the weaker ones. Yet the
11 fiscally weaker municipalities may well be the ones in
12 greatest need of a branch in these lower income
13 deprived areas.

14 There are several possible ways to mitigate the burden
15 on the municipality. One worth considering we think,
16 would be for the state to commit to compensating the
17 municipality for some portion of the foregone real
18 estate tax revenues.

19 The second concern we have is with the
20 linked deposits by the state and the municipality in
21 that they're pegged to the two-year certificate of
22 deposit or CD rate. The law doesn't explicitly limit
23 deposits to two years, but pegs the return to the two-
24 year rate. The problem is that this could result in a
25 misalignment between the return commitment of the

01 government who makes deposits and the expected
02 reciprocal term commitment of the bank. The deposits
03 being for two-year periods and the bank being for a
04 ten-year period. This term misalignment would be
05 compounded by any long-term mortgages made by the bank
06 through that particular branch.

07 This problem could be mitigated by
08 commitments on the part of the state and municipality
09 to deposit their funds for a commensurate term period,
10 specifically a ten-year period. The interest rate
11 could be reset periodically every two years to stay
12 current. But we think it would be a greater incentive
13 to the bank if you're looking for the bank to commit
14 to ten years, that the depositors, the state and
15 municipal depositors, have an equal term commitment.

16 We'd also like to introduce a variation
17 for your consideration. In the mid '90s there was a
18 multi-bank initiative in Philadelphia to establish
19 what was called shared branches in areas that were
20 under-served by additional financial institutions.
21 The assumption was that areas with no branches were in
22 that condition because banks simply couldn't make a
23 profit in those a areas. If several banks wanted to
24 service those areas for compliance, community
25 relations or political reasons, it would be less

01 burdensome were the losing costs to be shared among
02 several institutions rather than absorbed by just one
03 institution.

04 The shared branch model thereby had two
05 advantages. One, it provided consumers with several
06 choices of financial institutions in one location.
07 And secondly, it reduced the burden of a losing
08 operation because it was shared among institutions
09 instead of just one. The weakness of the model was
10 that it didn't change the equation, the basic equation
11 of profitability. It just spread the pain. As such
12 it was neither replicable on a large scale, nor
13 sustainable during hard times. However, this banking
14 development district program could change the
15 equation, thus making the shared branch model both
16 replicable and sustainable.

17 We therefore recommend a variation of the
18 incentive package in this bill to provide extra
19 incentives for branch facilities that accommodate more
20 than one financial institution. A possible approach
21 to this would be for the state deposit to be at an
22 even lower rate than the deposit that would support a
23 traditional branch institution.

24 Our organization, because it does build
25 bridges between banks and communities, lower income

01 communities, would be very available and interested in
02 working with the Department of Banking, the Department
03 of Community and Economic Development and this
04 committee if you'd like to pursue that angle.

05 CHAIRMAN DALEY:

06 Thank you. Thank you very much for your
07 testimony, Mr. Kelly. And questions from any members
08 of the representative of the house?

09 REPRESENTATIVE ROSS:

10 Although I agree in theory with your
11 concept that there may be difficulties for a
12 financially less-robust municipality from being able
13 to participate in this program, I think that's scale
14 compared to decent opportunities or something like
15 that. We're talking about probably a few institutions
16 in a section of a city could do an awful lot of good.
17 It would be relatively small, it would seem to me, in
18 terms of the total real estate taxes that were
19 foregone on a scale issue. And since it has worked in
20 some cases, with Keystone Opportunity Zones, which is
21 much more massive, I'm wondering --- I maybe doubt
22 that a little bit here, your assertion there.

23 And secondarily, we're also doing this
24 for two other reasons. One, we're hoping that we're
25 going to improve home ownership and maintenance of

01 residences, which again helps with tax revenues.

02 And secondarily, to the degree that they
03 do create some additional businesses, and supports
04 retail entities, we're going to get some other
05 revenues associated to offset the taxes foregone. So
06 although I take your warning I'm perhaps a little less
07 scared of it than perhaps maybe you are.

08 CHAIRMAN DALEY:

09 Representative Siptroth?

10 REPRESENTATIVE SIPTROTH:

11 Thank you, Mr. Chairman. Very quickly.
12 Thank you for testifying. I only have one concern
13 about the shared branch model that you indicated.
14 What happens to the competitiveness in the banking
15 industry itself? That's one concern we have.

16 MR. KELLY:

17 Well, in the model it offers a variety of
18 institutions under one roof. I mean, conceivably
19 you'd have five teller windows and each teller
20 representing a different institution. So it doesn't
21 eliminate the competition. In fact, it brings more
22 competition to the area. And each bank has its own
23 policies, its own products, its own prices.

24 REPRESENTATIVE SIPTROTH:

25 Okay. And I think --- that's where I was

01 going. It creates, I think, over-competition. I
02 think it will be pretty difficult for individuals who
03 work rates in particular issues doing that. Thank you
04 very much for that.

05 CHAIRMAN DALEY:

06 Thank you, Mr. Kelly, for your testimony
07 today. Our next testifier is Paul Wentzel with the
08 Pennsylvania Department of Banking.

09 MR. WENTZEL:

10 Thank you, Mr. Chairman, for having the
11 Department here today to discuss this very important
12 piece of legislation.

13 I know that Secretary Kaplan, the new
14 Secretary of Banking can't be here today. He is from
15 Philadelphia. This is his hometown. And this is a
16 very important issue for him. Last week he sat down
17 with Representative Evans and discussed the
18 legislation and to support the legislations with
19 trying to make it a good piece of legislation. The
20 reason he's not here today, he's at the first meeting
21 of the Conference of State Bank Supervisors, which is
22 the association of all the banking commissioners in
23 the United States and it's his first meeting, so he
24 thought he had to be there. It's a two-day meeting,
25 so he couldn't be here today.

01 We commend Representative Evans and the
02 Chairman and Representative Parker, Representative
03 Wheatley for introducing this very important piece of
04 legislation, which we believe will significantly help
05 municipalities in the Commonwealth that are undeserved
06 by depository institutions. It's very good
07 legislation.

08 In my first conversation with new
09 Secretary of Banking Kaplan, when he first arrived in
10 Harrisburg in June he was telling me that he had two
11 primary goals as Secretary of Banking. Since he's
12 come on board we've tried to talk him into a few more
13 goals. But his two primary goals were to try
14 encourage more banks to locate or maintain their
15 headquarters here in Pennsylvania and what we could do
16 to aid that. An example would be Bank of New York
17 Mellon with the merger with Mellon. I'm trying to
18 think of --- those headquarters would be in Pittsburgh
19 or in Pennsylvania and also have other banks have
20 their headquarters here, particularly in Philadelphia.
21 Which to some towns is very important to have.

22 Secondly, was to convince more banks and
23 credit unions to establish branch offices in areas
24 where there's a demonstrated need for banking
25 services. Representative Evans' bill does that in a

01 very logical way.

02 We believe there are too many
03 Pennsylvanians living outside the financial
04 mainstream. It is costing them a lot of money.
05 National estimates that we have seen indicate that
06 nearly ten percent of Americans do not use banks or
07 depository institutions to meet their financial needs.
08 These people are known as the un-banked.

09 The un-banked do not use depository
10 institutions to cash their checks, transmit their
11 money, pay bills or to secure a mortgage or other
12 loans. They use money orders. They use check cashing
13 agents, pawnbrokers and until recently --- I hesitate
14 to use the word --- payday lenders, because they are
15 more convenient and available in certain areas of the
16 Commonwealth. Some of these services, as you know,
17 are high-priced. It's costly to deal with these other
18 financial providers.

19 Just to be clear, the Department of
20 Banking has nothing against these entities as long as
21 they operate within the boundaries of the state
22 statutes, and they perform a much-needed services. In
23 fact, part of our business we license a great number
24 of these entities. The Department licenses and
25 regulations approximately 700 check cashers on a

01 statewide basis under the Check Cashing Licensing Act.

02 Many of them are here in Pittsburgh (sic).

03 We worked on this legislation for a
04 number of years. You will recall Representative
05 Curtis Thomas, until we were able to get it passed in
06 1998. And the industry seems to grow with it each
07 year. There's a few more of them each year that are
08 licensed.

09 Just sort of a commercial. We are
10 currently developing regulations which will clarify
11 some of the important provisions and positions the
12 Department is taking under the Check Cashing statute.
13 Positions that have been taken over the last nine
14 years of it, have been lost in effect.

15 The Department also licenses pawnbrokers,
16 which typically makes small denomination
17 collateralized loans, many of them here in the
18 Philadelphia area; money transmitters that issue money
19 orders and transmit funds electronically. And also,
20 getting into the payday lending issue, we had worked
21 for about four years with Representative Ross to try
22 and craft a licensing regulatory bill for payday
23 lenders that were doing business in Pennsylvania. But
24 now bricks and mortar payday lending stores cannot
25 operate in Pennsylvania under current law.

01 There were several hundred payday lenders
02 operating in Pennsylvania that have been forced out of
03 business by federal banking regulatory restrictions
04 imposed on the payday lending banks that were actually
05 lending prior to early 2006.

06 What had happened was that the banks that
07 were actually making the loans in Pennsylvania on
08 behalf of payday lenders were getting maximum pressure
09 from the federal regulators. And the restriction
10 became heavy; the profitability of the payday loans
11 was reduced; and so most of the banks pulled out of
12 the business and therefore under Pennsylvania statute
13 there was no authorization for the payday lenders
14 themselves that made the loans.

15 What we were trying to do with
16 Representative Ross' bill was to authorize loans to be
17 made by the payday lenders without the banks and do it
18 in an effective and consumer-protective way. But at
19 the time it was decided that this would be enabling
20 payday lending instead of regulating it. That has
21 sort of gone by the boards.

22 Just an update on payday lending, over
23 the past years the Department has taken legal action
24 against Advance America, the nation's largest payday
25 lender, which operated over 110 offices in

01 Pennsylvania. The Commonwealth Court has ruled
02 Advance America can no longer offer their choice of
03 line credit to Pennsylvania consumers and that the
04 product under which consumers borrowed up to \$500, if
05 they paid \$149.95 monthly participation fee and 5.98
06 percent rate of interest violating Consumer Discount
07 Company Act. And so the court has ordered that that
08 product no longer be offered so effectively Advance
09 America is out of business in Pennsylvania, as are all
10 the other bricks and mortar payday lenders.

11 So the only payday lending that would be
12 happening would be on the internet --- which
13 Representative Ross is shaking his head. And I know
14 he has a concern, a huge concern about payday lending
15 on the internet. And it is a problem, just a tough
16 thing to get to, regulating the internet.

17 In terms of this very good legislation, I
18 really appreciate being able to give testimony here
19 today. As Representative Evans said it's based on New
20 York's statute that was passed in 1997. It's been
21 very successful. Approximately 40 branches have been
22 established, primarily in New York City and Buffalo.
23 So it's really doing its job. Of course, the purpose
24 of the legislation is to encourage establishment of
25 banking and credit union branches --- Representative

01 Evans' legislation --- in geographic areas in need of
02 banking services.

03 House Bill 1861 is different from the New
04 York State statute in that it includes credit union
05 branches in the banking development district program.
06 The New York law does not include credit unions.
07 There are over 600 credit unions currently operating
08 in Pennsylvania and there are more credit unions
09 operating in Pennsylvania than any other state.

10 One thing we caught when analyzing the
11 bill is that credit unions are not authorized to be
12 inactive state depositories under the Fiscal Code. So
13 the extent of those state deposits would not be
14 available to them unless the Fiscal Code would be
15 amended. And we discussed that with the chief counsel
16 over at Treasury yesterday and he verified that. So
17 that's a little bit of a glitch as far as credit
18 unions participating. And we know that there are
19 credit unions that would participate, particularly in
20 the urban areas. There are credit unions are putting
21 branches in the City of Philadelphia right now, under
22 TruMark. The TruMark Credit Union is putting a branch
23 in the city in the area that's been under banked for
24 quite a while. We're really pleased that that's
25 happening.

01 Just some technical things, the language
02 in Section Seven on page four relating to state and
03 federally chartered savings banks and savings and loan
04 associations, that Mr. Evans spoke about, should be
05 deleted. We feel like the institutions should be
06 treated equally and added to the definition of bank in
07 the definition section of the bill. And we need to
08 have that because a lot of people don't know that some
09 of the larger banks, for example, Citizens Bank here
10 in Philadelphia, and Sovereign Bank that operates from
11 Philadelphia are saving banks. And so we want them to
12 be not required to go through a regulatory process to
13 participate in this program. I think they would be,
14 you know, candidates to participate in this program.

15 This is sort of internal stuff. In
16 section four of the bill requires the Department of
17 Banking to develop criteria for establishment of
18 banking development districts in consultations with
19 the DCED and to administer the application process for
20 the banking development districts.

21 We feel that the Department is up to this
22 task with the assistance of DCED, but we will need to
23 employ probably one additional person in the
24 Department to the depository institution application
25 division in order to efficiently and effectively

01 process the applications. So we would make sure that
02 Representative Evans would be okay with us adding an
03 employee?

04 REPRESENTATIVE EVANS:

05 Tell him, Mr. Chairman, he got the
06 person.

07 MR. WENTZEL:

08 As Representative Evans will attest,
09 because he's done business with them, and they handle
10 a huge number of transactions, branches and
11 applications. It's only two people and they're really
12 busy, so we need that person. Certainly we can pay it
13 out of fees without any other costs for the
14 Department.

15 One thing, we're concerned that the
16 incentives contained in the proposed legislation, the
17 deposit of public funds in the development district
18 branches at the interest rate at or below the market
19 rate and a ten-year annual --- annually declining 50
20 percent reduction in property taxes may not be enough
21 in real dollars to encourage depository institutions
22 to participate in this program.

23 I think some of that is because we think
24 that in some areas the property taxes would be not
25 great, and wouldn't be enough of an incentive to

01 eliminate half of those taxes or a portion of those
02 taxes for ten years.

03 Pennsylvania's depository institutions
04 like those in other states face constant earnings
05 pressures when operating in this modern super-
06 competitive banking environment. And that's a fact.
07 We know that as regulators. It's tough being in the
08 banking business now to make a buck. And so it may be
09 difficult for an institution to operate a branch in an
10 area where profitability of the branch is a challenge
11 without appropriate incentives.

12 So we feel like we need to, you know, sit
13 down with the depository industry to determine what
14 their actual costs are that are involved in operating
15 a branch in an un-banked area and what additional
16 incentives may be appropriate.

17 So to sum up, the Banking Department
18 believes there should be greater access to banking
19 services for all Pennsylvanians, and that those who do
20 not have banking relationships should be encouraged to
21 become part of the financial mainstream. Enactment of
22 House Bill 1861 with the proper incentives for
23 financial institutions, will assist in accomplishing
24 that goal and should also encourage banks to provide
25 the services necessary to stimulate local economies

01 and increase access to capital for small businesses
02 and other economic development initiatives in
03 underserved areas of the Commonwealth.

04 So we're very supportive, but we think it
05 needs a little work and a little study with the
06 industry to find out if these are the appropriate
07 incentives or whether we have to come up with more to
08 encourage them to participate.

09 CHAIRMAN DALEY:

10 Thank you, Paul, for your testimony. And
11 I know Representative Ross has one quick question.

12 REPRESENTATIVE ROSS:

13 It's more of a nature of a comment. And
14 I agree with a great deal of your testimony. We
15 usually agree with each other on many things. I just
16 would have one additional note that there literally
17 are hundreds of thousands of people that have been
18 borrowing with bricks and mortar payday lenders.

19 You point out the concern that the
20 internet may well wind up filling that gap and
21 enabling even more people to go in a direction that I
22 would find more troubling yet, than the existing
23 problems we've had with the current payday lenders.
24 And I'm hoping in one form or another, painful though
25 this subject is and difficult for people to wrestle

01 with, that we will attempt to get that whole payday
02 lending issue under control properly in Pennsylvania.

03 But your comments on the legislation I
04 think were well taken. Thank you.

05 MR. WENTZEL:

06 Well, we concur with that. I would just
07 mention that at Secretary Kaplan's confirmation
08 hearing before the Senate Banking and Insurance
09 Committee, Chairman White indicated that this is an
10 issue he'd like to take it on, so maybe Chairman Evans
11 would like to call Senator White, and ---.

12 CHAIRMAN DALEY:

13 Well, maybe. Does anybody else have any
14 questions? Paul, thank you for your testimony.
15 Chairman Evans introduced House Bill 1861 we'll be
16 working with him and his staff and the other members
17 of the committee to draft, as well as with outside
18 advice that we've had today. We thank you very much
19 for this opportunity. Meeting adjourned.

20

21

* * * * *

22

HEARING CONCLUDED AT 4:00 P.M.

23

* * * * *

24

25