COUNCIL OF THE CITY OF PHILADELPHIA

PUBLIC HEARING - COMMITTEE ON COMMERCE AND ECONOMIC DEVELOPMENT

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Resolution 050272 - Resolution authorizing the Council Committee on Commerce and Economic Development to hold hearings on the findings and recommendations of the Brookings Institution's report entitled "The Price is Wrong: Getting the Market Right for...

PRESENT:
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COUNCILMAN GOODE: Good morning. This hearing is called to order. This is a public hearing of the Commerce and Economic Development Committee on Resolution No. 050272.

My name is W. Wilson Goode, Jr., Chair of the committee. To my left is Councilwoman Marian Tasco, the primary sponsor of this resolution. A quorum is not necessary for us to take testimony on this resolution. Other members of the committee will be joining us.

The clerk will now read the title of Resolution No. 050272.

THE CLERK: Resolution 050272, authorizing the Council Committee on Commerce and Economic Development to hold hearings on the findings and recommendations of the Brookings Institution's report entitled "The Price Is Wrong: Getting the Market Right for Working Families in Philadelphia"; and further authorizing the Committee to seek advice and recommendations on how Philadelphia can grow its middle class by developing policies that assist working families.

COUNCILMAN GOODE: Let me note for the record Councilman Frank Rizzo has also joined us.

At this time, I'll ask Councilwoman Tasco to make an opening statement.

COUNCILWOMAN TASCO: Thank you, Mr. Chair.

Good morning, everyone.

1950, over 2 million residents. 2005, less than 1.5 million residents.

Good morning, Chairman Goode and colleagues. I state these figures to demonstrate that we have lost over 500,000 residents or more than 25 percent of our City's population. This population loss is a critical issue affecting the finances of our City, because with fewer residents, the City has less revenue to pay for the vital services that maintain the quality of life for our constituents.

In fact, the population loss has a double impact because the residents who leave generally have more financial resources than those who remain. That, in turn, places a greater demand on City assets for City services.

To address this issue, the City has taken great strides, from property tax abatement, to wage tax relief, to bring back middle-income families to Philadelphia. However, these efforts are generally targeted towards people moving into Philadelphia and not geared to helping the City's low-income families to move into the middle class.

Additionally, the City's low-income families have the added burden of paying higher prices for most everyday goods and services than other households. For example, more than half of households with an auto loan that earns less than $30,000 a year pay a higher interest rate than the average borrower, low-income families paying higher prices at the smaller grocery stores and convenience stores that dominate their communities than people in other neighborhoods with full-service supermarkets, and low-income households pay hundreds more, even thousands more every year for the same mortgage taken out by a high-income household.

Consequently, and due to these higher prices, many of the City's residents pay a poor tax for their basic necessities, which reduces their ability to save money, start businesses, pay for educational expenses and ultimately provide revenues for the City.

In fact, the businesses that charge these higher prices are predators and are not much different than the lenders I encountered through my Anti-Predatory Lending legislation. Consequently, we not only have predatory lenders but a total industry of predatory businesses and service providers that prey on low-income families.

Through this hearing, we will have an opportunity to develop a comprehensive understanding of this problem, as well as discuss state and local strategies to address this issue as we work together to improve our City and the lives of our constituents.

In this regard, I would like to thank Bruce Katz and Matthew Fellowes of the

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Brookings Institute for traveling to Philadelphia to discuss their research analysis and findings.

In addition, I would like to thank Banking Secretary Schenck and Representative Evans for providing testimony concerning state initiatives to solve this problem.

Finally, I would like to thank Sharmain Matlock-Turner of the Greater Philadelphia Urban Affairs Coalition for her commentary regarding local proposals to address this issue and convening listening forums and the Steering Committee that provided insightful and significant contributions to this report.

So now we're ready.

COUNCILMAN GOODE: Let me note for the record we've also been joined by Councilman Darrell Clarke and Councilwoman Blondell Reynolds Brown.

I'll ask Councilman Tasco to please call her first witness.

COUNCILWOMAN TASCO: The first witness will be Bruce Katz, Director of

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MR. KATZ: I'm going to be joined by Matthew Fellowes, also from the Brookings Institution.

First of all, I just want to thank you for the opportunity to testify today, and what I would like to do is provide an overview of the findings of this report, but first talk a little about the process that we used to conduct our research.

As you can imagine, we spent a good portion of our time analyzing and assessing a whole series of datasets related to the prices that low wage and other consumers pay for basic goods and necessities, but as Councilwoman Tasco referred to, we also had a Steering Committee for this report that was convened by Sharmain Matlock-Turner, which included Councilman Tasco, State Representative Dwight Evans, Jeremy Nowak of the Reinvestment Fund, David Thornberg of the Pennsylvania Economy League, and others. And to be frank, it would be impossible to think of how we would do this work in Philadelphia without that guidance and advice. And then Matt also interviewed about two dozen other experts and practitioners throughout the City and the state.

So let me focus on the findings, try to be brief.

The primary conclusion, as the Councilwoman referred to, is that low- and moderate-income consumers living in the City are paying higher prices than other residents of the City in the metropolitan area for a wide range of basic goods and necessities.

What are we talking about? We found that low-wage consumers pay hundreds of dollars more to buy the same car than other households; hundreds of dollars more to borrow the same amount for an auto loan as a higher-income household; hundreds of dollars more, sometimes thousands of dollars more, to insure the same car and driver a high-income household insures; hundreds of dollars more to cash checks than higher-income households;

hundreds of dollars more to obtain a short-term loan than higher-income households. The list goes on and on and on. Food prices, gasoline prices, the cost of buying appliances and furniture, utility prices, and obviously for particular families, these higher prices, depending on their consumption patterns, could add up to thousands of dollars more in extra costs for individual poor families that other households just don't pay.

Now, why is this happening? I think that's the principal question for the committee and the Council. We have concluded that three factors drive up the prices for low-income families. First, and I'll talk about this, businesses face higher risks. Second, there are regulatory gaps that allow for market abuses to occur, and, third, there's less access to information that leads consumers to make bad market decisions.

So on the first one, what we have found and what we discuss is that businesses that sell everyday goods and services charge higher prices to low-income households to cover the higher risks they face when they sell to the poor.

The poor are more likely to default on loans, which raises the interest rates they pay. They're more likely to miss bill payments, which lower their credit scores. They're more likely to live in neighborhoods with above-average crime rates, which cuts down competition in those neighborhoods.

In turn, businesses respond to those higher risks by raising the prices they charge poor households. So higher risk is the first factor.

Second, however, prices are higher because of predatory businesses that charge unnecessarily high prices to poor families, what we call at Brookings "the parasitic economy." The most well-known type of predatory businesses sell financial services. This includes businesses like payday lenders, check cashers, pawn shops, rent-to-own stores, some lending companies and some suppliers of remittance services.

We found, for instance, that

short-term interest rates in Pennsylvania are capped at 24 percent, but no regulations govern fees or the annual percentage rates companies can charge. And the implication of this is that companies like Ace Check Casher charge an annual percentage rate of 800 to 900 percent for a short two-week loan. That's astronomically higher than credit cards, which is where most middle- and higher-income households obviously get short-term loan.

The poor are more reliant on these services because so many of them lack access to mainstream financial services. About 30 percent of households earning less than $30,000 are banked and only about 50 percent have a credit card. That's compared to a figure near 100 percent for families earning more than $100,000.

It's not just financial services, as our report also covered. There are insurance companies that systematically charge hundreds of dollars more for insurance policies than other companies, car dealers that charge hundreds of dollars more to poor car buyers, because they generally go into a car sale with less information, predatory tort lawyers who drive up the number of lawsuits that poor families file, and, in turn, all this drives up the prices the insurance companies have to charge in their neighborhoods.

The last reason why we have higher prices is that poor families lack the market information that they need to make rational choices. Most public curriculums in the high schools, for example, don't offer financial education classes any longer. So poor kids aren't getting the skills they need to, particularly at a time when there's so much choice in the market.

Most poor families also don't have access to the Internet, where there's an incredible amount of information that can be used to save money on everyday goods and services, and many mainstream companies don't market their goods and services to low-wage families, so they're receiving less information from businesses.

So the question, I think, for the

Council and for the state as well is, what can you do about these things? Because these three factors are driving up prices for low-income families. And we believe that reforms that would lower risk, close regulatory gaps and broaden access to information could potentially create thousands of dollars of savings every year for low-income families that would then be recycled within the City of Philadelphia, particularly within neighborhood markets.

So for the past 12 months, working with the Steering Committee, we've come up with a series of reforms. To start with, I think the City needs to make an overall commitment to bring more families into the mainstream economy. Promoting market transparency, demanding more accountability and sparking market innovation are the key goals that can drive this commitment.

And then there are a number of specific steps. If you want to reduce the higher risks associated with selling to low-income families, you can invest in financial literacy, obviously reduce crime, develop new, more accurate ways to measure risks, and pay for market demand studies using capital to subsidize the higher risk for business.

The purchasing power in many low-income neighborhoods in this City and others is really quite substantial, but there's a market failure. There's an information failure, so businesses don't understand that there's profit to be made, particularly with regard to groceries.

Regulatory gaps can be closed by new regulations that cap fees, crack down on abusive insurance and financial service companies, publicize the names of these abusive companies and invest in research to study other less well-known practices that may artificially drive up prices for low-income families. So regulation matters here. This is essentially the Elliot Spitzer approach to lowering prices.

And, finally, access to information can be broadened by rethinking and revising

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financial education to account for new market tools and realities, like the Internet and credit scores, directly distributing new types of market information to poor families, like how families can lower their credit scores, which now obviously affect insurance, financial services and even utility security deposits and making new investments in outreach campaigns, like giving low-income families a catalogue of products that are specifically designed to lower prices.

Some market actors; for example, Citizens Bank, offer low-priced checking accounts specifically designed for low-income consumers, and it's that kind of market innovation that ultimately is going to resolve this.

The bottom line, there's not one magic bullet that's going to lower prices either in this City or somewhere else. In some respects, that's probably more of an asset than a liability, because it means there are many different opportunities and many different types of actors to rally to lower prices. Business, government, advocacy groups all have a role here.

So, again, I would just end with the notion that our focus is on making markets work for low-wage working families in the City of Philadelphia, ultimately the Commonwealth of Pennsylvania. There's an enormous amount, however, that government can do to basically make the market work for these particular families.

Thank you very much again for inviting me, and either Matt and I will try to answer some of your questions.

COUNCILMAN GOODE: Good morning and thank you for your testimony.

In response to a lot of predatory lending, federal regulators are now beginning to force the traditional financial institutions to go into the subprime market and to lend to markets they were not in before at higher prices. Do you think that's the answer to this? Do you think that this should be just regulation, this subprime market, or do you think we should try to have people

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banking and receiving financial services from traditional institutions?

MR. KATZ: Well, I think the entree of traditional institutions in these markets is, I think, quite positive over the long term, and as I said before, some of the higher prices are going to be associated with higher risk. And so trying to find that balance between identifying and curbing abusive practices and identifying and permitting practices that account for higher risk is really the balancing act that has to occur here. What you don't want to do is drive out all market innovation and behavior by overregulating.

I think there's a lot of room here, however, both to regulate further and to enforce further, and I think both at the federal level and at the state level and then down to the City level, it's going to have to be that balancing act. My sense, however, in the past number of years is we've leaned too far to sort of a laissez-faire sort of perspective on this and have not really done the kind of regulatory enforcement job that needs to be done.

COUNCILMAN GOODE: What role do you think Community Development Financial Institutions play versus the traditionally characterized as predatory lenders and traditional institutions; in other words, how much of the market can CDFIs take on?

MR. KATZ: Well, I think it's really two separate issues. In one respect, it's a question of market share, but I think the larger the role that CDFIs play is at a catalytic level and as a pioneer. To some extent, they are entering into markets that mainstream financial institutions do not feel comfortable entering into, because they just don't understand the market, and a lot of market information tends to be about suburban communities or higher-income communities. So entering into low-wage communities is something that many mainstream institutions are just having difficulty with.

It's changing, and I think the CDFI movement and CDFI institutions are part of the reasons why it's changing. They're pioneering products. They're pioneering markets. They're showing that there's profit to be made. Ultimately you want the mainstream market to engage. So it's really sort of a sequencing kind of issue more than anything else.

COUNCILMAN GOODE: Any questions from other members of the committee?

COUNCILWOMAN BROWN: Yes.

COUNCILMAN GOODE: Councilman Brown.

COUNCILWOMAN BROWN: Thank you.

Good morning. Let me start out first by commending the work of the task force, Councilwoman Marian Tasco and the Brookings Institute. I had the good fortune to attend the morning of the release of the document and was just blown wide open in terms of the unfairness and uneven playing field when it comes to these kinds of burdens with regards to poor families and ultimately children.

So my first question is, you cite

6/14/05 - Resolution 050272 - Commerce Citizens Bank as one corporate citizen in the City who recognizes this and is doing something tangible to address the practice. Are there other best practices that you can speak to that may be opportunities for us in government?

MR. KATZ: I think there's a range. I think -- and Matt can join in if he'd like. One, obviously, is the new effort to subsidize the development of grocery stores through state --

COUNCILWOMAN BROWN: Repeat that. The what?

MR. KATZ: The new effort to subsidize the development of grocery stores in underretailed neighborhoods within the City. That's a state investment.

I mean, the bottom line is, you're going to have to subsidize some of the higher risks for some of these services and some of these goods, and that's what's happening with regard to the groceries.

People always ask us why do people pay more money for food in low-income neighborhoods in the United States. It's because the price of food is directly related to the size of the grocery store. It's just economy is a scale for some of the regional chains or even the international chains. So that's number one. I think that's an example of how government can play, I think, an appropriate role with subsidies and investments to stimulate the market.

The other practice relates to remittances, and I think this is something that ultimately the Council and the committee can look at, because with the increase and the explosion of immigration in the United States, there has been the creation really of a very healthy and robust remittance market, where immigrants in the United States send money back home. And, in fact, large portions of the GDP in places like El Salvador is based on remittances from the United States.

The price of remittances have gone down as more and more mainstream institutions have entered into this market, and there actually is an international effort underway to try to spark even more market innovation, because some of the foreign countries that are receiving the remittances understand that they can lower the price, more funding, more resources to come back into their country.

So those are -- I mean, that's an international example, but to some extent, you're dealing with the same kind of financial institutions that are engaging domestically, and, therefore, if we can spark market innovation in something like the remittance market, I think we can spark innovation with regard to other wider ranges of financial services in our own country.

COUNCILWOMAN BROWN: Finally, you speak about financial education. Do you have any ideas in that area?

MR. KATZ: Well, this City has been doing some very interesting things, because you've got this Don't Borrow Trouble effort underway. I think part of the financing from that came from one of your bond efforts.

COUNCILWOMAN BROWN: And I know

GPUAC has done a series of seminars around this issue.

MR. KATZ: So I think part of the question is really how you sustain those efforts over time with the kind of resources necessary so that they work and they can broaden their impact.

And I think the other question really is about the schools and particularly the high schools. I mean, we live really in a market environment that is highly unregulated with regard to a large number of services, and, therefore, that means that many consumers have a broader array of choices, probably too many choices than they know how to deal with.

So it's only through financial education and literacy coming up through the high schools that I think some consumers are going to understand, Well, how do we negotiate this, either through the Internet or through a variety of other means.

So I would say continue what you've already been doing, because I think it's a model for other cities in the country, but then try to work with the school systems to expand financial literacy, particularly in the high schools.

COUNCILWOMAN BROWN: To the credit, for the record, to the credit of the School Reform Commission and Paul Vallas, that initiative is underway. I do not know if it's system-wide, but they've reckoned with the fact that financial literacy is essential and have already begun to put things in place for that to begin to happen for high school students here.

Thank you for your testimony.

MR. KATZ: Sure.

COUNCILMAN GOODE: Let me note for the record Councilman Donna Reed Miller has also joined us and she has a question.

Councilman Miller.

COUNCILWOMAN MILLER: Thank you.

Good morning. I just want to follow up on the financial literacy issue. I think that that's very important. I think one of the things that got children away from savings is when they took banking out of the schools. I mean, that was one thing.

We had banking available to us every week in school through elementary. I guess through high school. I can't really remember, but I know in elementary school. So it sort of gives you the mind set.

Many children are just creatures of habit. I mean, it's where they live. I used to work for an employment-in-training program and our students received a stipend each week. We had to convince them to go to a bank. In fact, we used to take them to the bank, have someone from the bank come in and then accompany them to the bank to open up accounts so that they can cash their check at the bank. And it wasn't as easy as I just stated, because for some reason, our students wanted to consistently go to check cashing agencies where they had to pay to cash their checks.

And I'll ask this of Sharmain Matlock-Turner when she comes up, but I think it's important that we educate and train block captains and other people in neighborhoods, because of the corner stores -- and many people don't go to the supermarket, they go to the corner store, and I don't know that they realize how much more they're spending on goods and you got to figure out if it's too high, how do you know it's too high. I mean, somebody has to shop there or figure out what the prices are so we can educate people. It may be these folks are just charging you way, way, way too much money for a can of soup or some of those items that they just can't raise the price so much higher.

But I was wondering, what does it look like in other parts of the state in low-wage communities; do you know? I realize you're from Washington and I don't know how much you've studied the State of Pennsylvania, other than Philadelphia.

MR. KATZ: Well, I've done a lot of work in the Commonwealth on other kinds of issues, and we are about to embark upon a ten metropolitan study of the price of goods and services. Philadelphia was the first place that we examined.

I do believe -- and this, again, is just a guess -- that the higher prices the low-wage consumers pay for certain goods and services will be related to how concentrated poverty is in a given city or a given metropolis. The more concentrated poverty is, the less choice, I think, consumers will have.

And so when we start looking at cities like Phoenix or Charlotte in the south, in the Sun Belt, that may have less concentrated poverty than some of the northern cities, I think what we probably will find is greater access to lower-price goods.

That still gets back, I think, to one of your sort of main points, is that it's really critical, I think, to have prices be transparent in the market. People go to a corner store. They don't quite know how much the markup is compared to either a regional chain or even a Wal-Mart.

I think ultimately we're going to move to a system where auto insurance companies and different financial lenders and a whole host of different institutions really have to disclose their prices, not just because government is telling them to do that, because that's going to be the price -- the entry point of competition.

Progressive, which is one of the auto insurance companies we looked at, are on television every night saying here's the price we charge in Pennsylvania or in New Jersey or in Utah. It may not be the lowest price, but we're going to tell you what price we charge.

Well, they're the exception really in the auto insurance world. I think it's a mystery to many people as to why certain companies charge very, very different kinds of prices for different consumers.

COUNCILWOMAN MILLER: I use a particular supermarket and if I don't get a circular on my porch, I'll go on the Internet to see what sales are available, and it's important that you put the exact address, because the circular is different.

Now, I don't know what the difference is. I don't have that kind of time to print them out from the market in

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Germantown that I go to versus one in North Philadelphia, South Philadelphia or the Northeast, but each time I do it, I wonder what's the difference. It's the same market, and I'd really like to have the opportunity at some point or maybe you guys, someone in here, already knows what is the difference.

I mean, if something is on sale, wouldn't it be the same at all those markets? So something is going on. It made me pretty suspicious when there's a different circular for a different location.

MR. KATZ: We obviously didn't go into that level of detail, but I think particularly with regard to grocery stores and that business, I mean, what the principal difference is going to be between the prices and the size of the store.

COUNCILWOMAN MILLER: Actually, when I said market, I actually meant the supermarket.

MR. KATZ: Oh, I see.

COUNCILWOMAN MILLER: Thank you.

Thank you, Mr. Chair.

COUNCILMAN GOODE: Councilman Tasco.

COUNCILWOMAN TASCO: It would be interesting to see, one, if circulars are distributed in all neighborhoods, because there's some neighborhoods where you don't have supermarkets. And because the people did get the circulars, they can certainly look to see what they're paying for some of the goods, groceries they buy at their corner store compared to the other.

The other thing is transportation. So having a supermarket in the neighborhood is very important, because where they are, access is difficult.

In the proposal report that you have submitted, there are a number of things that you talk about the City and the state can do. In terms of a priority, where do you begin? What would you say would be a priority item for, say, the City of Philadelphia?

MR. KATZ: I sort of divide this into categories of low-hanging fruit, things that you could do right away that probably won't cost that much, and then really the structural changes that the government needs to make to influence the market.

So in the low-hanging fruit, a couple ideas. One, the state has essentially launched an Office of Financial Education. My sense is that the City should undertake a parallel effort and sort of set up sort of one place within the City government that is really focused on this issue day in and day out, because I think this is a major issue for low-wage consumers and for cities.

I think this question of market demand and sort of unveiling the hidden assets of inner-city neighborhoods, not just with regard to supermarkets but with a range of other goods and services, is something that's really critical. You probably are going to have to subsidize that in the City initially, because we're still not at a stage where market demand inner-city neighborhoods, the purchasing power of low-wage consumers is very transparent, and there's a lot of different groups and institutions that deal with that around the country.

I think the very fact that you're holding hearings, to be frank, and having a bully pulpit, because these are complicated issues. They tend to separate by different parts of the problem, whether it's car insurance, which is a major issue, or other predatory kinds of financial services or just this whole question of consumer choice.

So continuing to focus in on, perhaps choosing one of the tough issues like car insurance and holding hearings on that would be worthwhile.

Over time I think the bigger issue is to unveil what we call the black box of how insurance companies and others are measuring risk, because I think there are things that insurance companies are doing and others are doing that probably should just not be permitted. But that's going to take some longer-term examination and analysis and then regulatory response.

I think the real answer to this is

market innovation, and as I talked about before, the remittance market is an example of the market that we're seeing costs come down through government pressure but also through competition.

So there's a whole bunch of ideas, risk pooling, alternatives to payday lending and short-term lending and rent-to-own. I mean, we've got to basically incentivize the market to basically crowd out these predatory businesses and serve people at reasonable prices. That's a longer-term issue that government can also be part of.

COUNCILWOMAN TASCO: You said you're going to do a ten city across the country?

MR. KATZ: That's right.

COUNCILWOMAN TASCO: Given the nature of the politics in Pennsylvania and just trying to change the way we do business in Pennsylvania, it would be helpful if we could possibly have a study of the state, because a lot of the issues and recommendations are state -- would be

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controlled by the state legislature, and part of our effort is to educate the state legislators that all the poverty is not concentrated in Philadelphia.

MR. KATZ: Right.

COUNCILWOMAN TASCO: That the study really mirrors what's happening in the rest of the state.

Do you find that would be helpful?

MR. KATZ: Well, I think that would be very helpful, and I think what you would find in the Commonwealth of Pennsylvania is that there are similar issues wherever there are concentrations of poverty or low-wage consumers, and that is not necessarily urban in the Commonwealth of Pennsylvania. There are very large non-metropolitan rural areas in this state where the transportation issue in particular and just basic access issues are really substantial, let alone access to some of the technology and so forth.

So I think that is worth doing. Whether Brookings has to do it or someone else has to do it is another question. I mean, what we're hoping, obviously, with these series of studies is to spark more academic scholars, government agencies, non-profits, civic organizations to take on this issue of prices as a major issue.

I mean, when we think about growing a middle class, obviously there are things that we're all working on, whether it's education, access to quality jobs, supplementing income through the earned income tax credit. We do think that lowering the prices people pay is a major issue, and I think you're right, that in a given state, you probably need to have evidence of that throughout the state to really spark the kind of reforms. Though there are some things already happening at the state level already, which need to be commended and built upon.

COUNCILWOMAN TASCO: Okay. Thank you.

COUNCILMAN GOODE: Let me note for the record we've been joined by Councilman Frank DiCicco.

The Chair recognizes Councilman Clarke and then Councilman Rizzo.

COUNCILMAN CLARKE: Thank you, Mr. Chairman.

Good morning. First, I want to agree with your premise that creating a transparent environment will allow us to attack this very problem area.

One of the things as it relates to auto insurance, and you spoke of that actually a couple of years ago, the City's Auto Insurance Task Force and actually Lance Haver from the Office of Consumer Affairs did a real good job on that. We were able to get the information as it relates to auto insurance companies and created a level of transparency that the Insurance Commissioner ultimately had to acknowledge, that not only the City of Philadelphia but across the state people were being treated unfairly, tort versus non-tort, and we were able to get some reduction. Some people may argue about the size as to whether or not it was what was promised, but we did get some reduction. So I agree with that

6/14/05 - Resolution 050272 - Commerce strategy.

Getting back to the supermarkets, earlier in your testimony you mentioned that the cost associated with produce had to do with the size of the supermarket?

MR. KATZ: Right.

COUNCILMAN CLARKE: And that's probably true, but do you believe that that's the only issue? Because I've heard other things as it relates to locations.

MR. KATZ: Well, I think the issue for many of the supermarket chains is the ease and the cost of developing within inner-city communities. Their footprint tends to be a suburban footprint. So they're looking for sort of a large plot of land on which to build and then they have all the parking associated with it.

Cities tend to be denser places in which to build. The ownership of land tends to be divided among multiple institutions or owners. There's just a whole bunch of issues related to development that are perhaps different in certain cities than in suburban communities, and that's a cost, that if it's not subsidized, it either means the development won't happen or if it does happen, the cost will be passed on to the consumers.

So I do think that the state effort to subsidize the development of supermarkets in the City makes a lot of sense, actually, and my sense is that other states are probably going to follow that model, because you only get so far by disclosing that there's market demand. Ultimately these companies have to step in, and a lot of them are looking at development costs within the City for a whole variety of reasons that they're not very comfortable with.

COUNCILMAN CLARKE: There is the belief in a lot of communities that there is, to some degree, economic red-lining taking place and actually, to be very candid with you, some racial red-lining as it relates to the placement of supermarkets.

I can recall as a teenager, actually, some time ago where I had a friend and his mother always sent him to the

Northeast. He was the only kid that had a car in the neighborhood and his mother sent him to the Northeast to go to the supermarket. And at the time that I was a teenager, I lived in North Philadelphia. It was very a viable working-class community, so it wasn't the level of vacancy in that particular community as it is now. So they were comparable in terms of individuals' ability to have expendable capital. And the belief was that the product in the Northeast was cheaper than the same Acme supermarket as the one at 22nd and Lehigh, and that was just a belief. It could be true. It could not be true.

To some degree, that is still the belief of a lot of people in these communities. And I talked to some operators in somewhat candid. They actually talked about our ability to locate in North Philadelphia, 27th and Girard, to give you an example, because that's a location that we're looking at now. They talk about shrinkage. I know you're familiar with the term, "shrinkage," basically the level of theft in

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the store. They believe that it's higher in a particular community than it is in another community. I, frankly speaking, don't think that's the case, but these are some of the things that are talked about and I'm wondering if some of these stereotypes as it relates to decisions and location have anything to do with the cost, separate and aside from the volume of the store and the cost of development.

MR. KATZ: I have no doubt that race has been and continues to be an issue with regard to this sector of the economy and other sectors of the economy. What is changing in the United States, though, is, there is increasing evidence that there is profit to be made in many of these communities that have been neglected for decades. And to some extent, what is happening is that the sophistication of information has developed to such a level that you can show in low-wage communities because of just the density of residential living compared to suburban communities, there is market demand, and there's market demand for supermarkets, there are market demands for some of the Walgreens and the CVS's and the Rite-Aids. And companies finding that their suburban markets are saturated, to some extent, are now looking at cities as really the sort of next frontier to expand their operations.

But there's no doubt in my mind that in the past there has been a kind of red-lining that has occurred. The question at this point is whether we're moving beyond that because of these different market and competitive pressures. And I think businesses across a wide range of sectors now understand that cities are very vital and vibrant places to do business in, and the question really for municipal government is how do you sort of accelerate that and leverage that, because my sense is it's a national phenomenon at this stage.

COUNCILMAN CLARKE: Thank you.

Thank you, Mr. Chair.

COUNCILMAN GOODE: Councilman Rizzo.

COUNCILMAN RIZZO: Thank you, Mr. Chair.

By now, most of my questions have been answered, but I do have a couple observations.

Growing up, the corner store was kind of the place where we stopped, and I think today the corner store you always pay a premium if you go to a 7-11, Wawa, whatever, everything in there, and people say, Well, that's the price of convenience. But would you agree it's also a culture thing we have to get by, where people realize that the corner store might not be the best value, especially when you see young people with a big bag of diapers coming where they probably paid twice or three times as much. And I think Councilwoman Tasco hit it, some people just can't get to a grocery store.

So I think that that's important. And when I first came to Council, I met with some of the banking people and said, you know, some of the basic things that young people are not learning is when they come out of high school, they don't even know how to write a check. Everything today is done with technology. You pay your bills on-line, but some of those basic things of saving a few bucks, I think we've lost that.

In the Executive Summary, and I plan to read this entire document, you point out about the disparity between people that make, as an example, $30,000 versus a person making 7. Don't you think sophistication has also -- if you walk in to buy a car and you're not prepared, you didn't do your homework, you didn't go to consumers, you didn't do this, a car salesman is going to try to make as much money as they can. So in many of the areas like car purchases, loans, et cetera, education and also the knowledge that you need to do a good deal, I don't know how you deal with that.

MR. KATZ: I think it's education and it's choice and it's also related to expectations. I think in this City and others, low-wage consumers believe they don't have much choice, and that begins to feed on itself as well. But obviously people have different starting points, and that means -- I mean, I think that's one of the reasons why financial literacy, financial education, the earlier, the better, given the kind of market environment which we all live is absolutely critical. I mean, if we're not teaching 13- to 17-year-olds that, we're not preparing them whatsoever for the environment they're about to enter.

COUNCILMAN RIZZO: Well, what I see happening, and it's a sad situation, as an example, there are car dealers that have focused on people with bad credit, and people with bad credit know that if they need a car, they go to a specific car dealership and that car dealership has the resources to come up with the financing that they need. And it's staggering to see some of the deals that people sign. They need a car so badly that they're ready to just basically sign anything that's put in front of them.

And it's so difficult to tell a person, Well, you shouldn't do that, when they

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look at you and they say, Well, I need a car, I work in Warminster and I live in Philadelphia. So if I have to pay 18 percent interest on whatever the legal -- there must be legal limits, and I think you point that out, there are some ceilings on some of this stuff, but it's so sad to see people that are so desperate to basically do whatever they have to do and eventually six months, eight months down the road they lose the vehicle.

MR. KATZ: Well, I think there's a couple points. One, there are legal limits with regard to certain things and there are not with regard to others. And so that's one critical piece of information to sort of examine.

I think, secondly, these kind of institutions tend to locate disproportionately, almost exclusively, in low-wage communities. So if you live in one of these communities, those are the kind of institutions that you see every day.

One thing I do around the United States is, about a month before tax time, you

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can drive around any city in the United States and what you see are tax prep firms that just sort of sprout up, because they know people are coming in to get -- to file their tax returns and they know that they're eligible to get the earned income tax credit and they're looking to do a refund anticipation loan or some other rapid way for people to get access to their cash.

And so we do have almost two separate kind of economies and two separate kind of institutions which are operating in different parts of the City or different parts of the metropolis. You can't crowd all of that out, but we should be crowding some of it out, because it's abusive and predatory.

COUNCILMAN RIZZO: Thank you. Thank you very much. This is appreciated.

COUNCILMAN GOODE: Questions from other members of the committee?

(No response.)

COUNCILMAN GOODE: Thank you.

COUNCILWOMAN TASCO: I just want to say thank you so much for coming up.

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I thank you for the report, and I was pleased to be a part, very small part, very, very small part, in working on the report, but we look forward to our continued relationship with you. Thank you.

MR. KATZ: Well, I really appreciate your time today and your participation in the Steering Committee as well. Thank you very much.

COUNCILWOMAN TASCO: The next witness is William Schenck, Secretary, Pennsylvania Department of Banking.

MR. SCHENCK: Good morning, Councilwoman Tasco.

COUNCILWOMAN TASCO: Good morning.

MR. SCHENCK: That's not what the name tag says in front of you.

And good morning, other members of Council. Thank you for the opportunity to be here and to speak with you this morning.

There are a number of parallels between what the Brookings Institution and Bruce Katz have found and recommended and what the work of the Banking Department is today. So let me speak about some of those parallels between what the Brookings Institution and Mr. Katz have found and what the Banking Department is working on.

First starting with financial education and talk for a moment on a state-wide basis. Dwight Evans and I chaired a task force for working families last year. Sharmain Matlock-Turner was very active in that task force. We held 24 public forums across Pennsylvania, and people made themselves very clear on one subject in particular over and over again in every forum, and just like the Brookings Institute report has said, we need to focus on financial education in Pennsylvania, especially in the public schools. So let me tell you what we're doing.

Governor Rendell has established the Office of Financial Education and placed that office in the Department of Banking. The office is about to launch a website. It will be full of current information for individuals, professionals, organizations, be a resource library, unlike any other that exists in Pennsylvania today in its completeness and its focus on Pennsylvania. People will be able to get financial literacy information relating to specific geographic areas within Philadelphia.

In addition to the website, which is about to be launched, we're focusing on three places to deliver financial education face to face. The idea is to find where people are and then go to them with our financial education effort. First, of course, public schools, working with the Department of Education, to build into the existing curriculum in math and in reading financial education programs, so that when you go to a third grade reading class, the book that is chosen can have within it information about family financial literacy, or in a fifth grade math problem, instead of just doing a word problem, the word problem could help you learn about financial situations that can help your family. The idea is to get to graduation and have some strong knowledge of family finances by the time you graduate.

There's a commitment on the Department of Education to do this. We have a full-time person within the Department of Banking working with the Department of Education to do this. I think it would be very helpful in the work that Superintendent Vallas is doing in support of his efforts.

In addition, we're working with community organizations and other places where we can get to people with the financial education effort, coordinating some programs that exist. For example, we hope to help in working with the Don't Borrow Trouble campaign to move it state-wide, working with a number of community organizations in a coordinating role and a support role as well.

And then the third place is in working in the work force where we would be working with employers to help in the financial education of employees where that may be helpful to them and provide it as a support to those employers.

Bruce's report titled The Price Is Wrong talks about the high cost of being poor. With the help of the Reinvestment Fund, we focused our energies on what may be the highest financial cost of being poor, and that is a mortgage foreclosure and losing your home. We've cited foreclosures across Pennsylvania in-depth with the Reinvestment Fund for the four-year period 2000 through 2003.

Let me tell you about a couple of things that we're doing, and these steps relate directly to suggestions that Bruce and his colleagues have made.

First of all, you can have all the consumer protective laws in the world, but if you don't have the ability to enforce those laws, laws don't have value. So thanks to the support of the Governor and Dwight Evans and his associate in the legislature, the Banking Department is backing for the first time, with a substantially expanded budget, a true enforcement agency.

When I started in this position two

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years ago, we had 108 people. Today we have 154. With this new budget, we'll have 174. Those 66 new people are entirely devoted to reducing financial abuse, getting the predators out of the business.

We're doubling our examination force. We're doubling our licensing force and substantially increasing the standards for licensing. We're doubling our consumer services function, the people that take the calls on the 1-800-PA-BANK's phone number, and for the first time, we've put in a new investigation unit. We've never had an investigation unit in the Department of Banking before.

We can develop through this investigation unit -- law enforcement people are in it -- civil cases and criminal cases for people that are abusing consumers financially. We've taken those criminal cases to the Attorney General. We developed a working relationship, a real partnership, for the first time.

We will soon be issuing a set of

policies from the Department of Banking, so we don't have to go through the legislature. We can do this much more. It will be happening in the coming weeks. We will be defining unfair, unethical and illegal practices in mortgage lending, and we will treat those policies as law and use them in our examinations. We'll then convert them to regulations and make them law.

We're also asking the legislature to take a number of steps. I'll tell you about a couple of them. First of all, most of the issues that we're seeing in mortgage foreclosures, as was mentioned earlier, I believe, in subprime lending and the vast majority of the subprime loans are sold by mortgage brokers. Today we license the companies that employ mortgage brokers. We do not license the individuals.

If you sell real estate in Pennsylvania, if you're a dentist in Pennsylvania, if you cut somebody's hair in Pennsylvania, you got to have a license. If you're going to take responsibility for

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structuring the most important financial transaction in most families' lives; that is, the creation of a mortgage, you ought to have a license. We have the industry agreeing with this and I believe the legislature will support it as well. That will allow us to de-license the bad players in this business.

I should say at this point, and I think it was, to some degree, discussed earlier as well, but I do want to reinforce that not all subprime loans are bad. There are certainly people that are in houses today making their payments and managing those payments that wouldn't be in their houses if it weren't for someone in the subprime business lending to them.

On the other hand, there are a small number of players in that business who take advantage of consumers. There are also a small number of brokers, not all of them but there are a portion of brokers, which are in the business of taking advantage of consumers.

We're also asking the legislature to allow us to make public the names of companies

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and individuals where we see patterns of abusive lending practices. We're not now able to do that by law. We believe that we're having industry support and legislative support to allow that to happen so that we can warn people when we see a pattern.

There are a number of other steps we're asking the legislature to take, but let me say that virtually everything that we're doing in regulating the mortgage business, all the recommendations that we're making, we have conceptual support from consumer groups and from the industry. That's because for the last year, we had an advisory group of consumer and industry representatives, individuals such as Irv Ackelsberg and Alan White from Community Legal Services, and a number of other consumer organizations, plus mortgage brokers, mortgage bankers, Pennsylvania bankers, working together to come up with a consensus.

There's a lot more to do after this first stage of steps that we've taken or are taking. The Department will continue to work together with community groups and with the industry to provide an increased protection and increased improvement in the environment for consumers in Pennsylvania.

I will say that most of the lenders in this state are in the relationship business, meaning that they want you to come back. They want you to refer your friends and family, but there are people in this business who are in it just to make a buck, people who don't care about whether they see you again. They want to make the most money they can from the transaction they're doing right now. Those are the people who we feel is our job to get out of the business.

One of the themes that runs through The Price Is Wrong is the idea, and this has been discussed, that low-income families in Pennsylvania either have or believe they have limited choices. The fewer choices you have or believe you have, the more vulnerable you are to financial predators. The predators know it and that's why they target low-income neighborhoods.

Our objective in the Department of Banking is to get these predators under control or out of business. Our objective in the Office of Financial Education is to help consumers have more choices, because when you have enough knowledge and information, you are the person who is in control.

Let me also talk for a moment about a subject which I know is controversial and, that is, short-term loans as referred to in the Brookings report, payday loans as we all know them. Let me say this for starters: Payday loans are in this state right now because of a decision that was made by the Attorney General a number of years ago to allow them in under the Consumer Services Act. So they're here, and they're here in a very big way. There are several hundred stores providing payday loans in Pennsylvania. There are a number of them obviously, as we know, in Philadelphia.

We believe in a recent survey that we've done that there may be as much as $700 million of payday loans being made annually in

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Pennsylvania. Whether we like it or not -- I don't think any of us like this business, but whether we like it or not, there is a demand for short-term money and there are many people filling that demand. There's money being made providing it. It's here. It's in Pennsylvania. It's in Philadelphia. And it's not going away. And that's where we're coming from. That's the fundamental assumption that we're making in the Department of Banking, that it's not going away.

I know that there are those people that think the Federal Deposit Insurance Corporation can squeeze them out of Pennsylvania. I don't think that's realistic. I think there's so much demand, so much infrastructure and so much money to be made, that people will find a way to provide this product in Pennsylvania. Therefore, the position we've taken is that we've got to deal with it. We've got to deal with it by regulating it. It's not been regulated before. It needs to be regulated now.

So I just can't emphasize enough

that my own personal belief, for what it's worth, that we've got to get these people under control with strong consumer protection provisions, but not kid ourselves that by doing nothing, they'll go away because the FDIC will take some action.

So we have in the legislature, it's been introduced, Act 1478. It is the strongest consumer protection payday regulation in the country. Illinois just passed one. We don't think it's quite as strong. They modeled it on what we've put in the legislature.

I do need to tell you that we've said to the legislature, and I'm talking about the Banking Department, but I'm also talking about the Administration, that if anybody tries to water this thing down, our support goes away. This is the minimum.

Here's a couple of summary items that are in it or a summary of a couple of key provisions: Maximum loan amount. You can't borrow more than $500 from the industry. I'm not talking about $500 from one payday lender and $500 from another. A total $500 from the industry. If you borrow from two, you can borrow $300 from one, $200 from another. No more than $500 total. That's one thing.

Actually, that's the maximum amount, because it is the lesser of 25 percent of your gross monthly income or $500. So if you make $1,000 a month, you can borrow $250 total from the industry. You got to make more than $2,000 a month to borrow $500 or more. That's one thing.

The other thing is, and this is absolutely key, there will be a database, and there's a big company in Philadelphia that's working that legislature night and day to get rid of this database idea. And here's what it is: It's an independent company providing this database with a contract between that company and the Department of Banking. So it's separate from and totally independent of the industry, although paid for by the industry, and it's a real-time database. So what that means is that you go in to get a payday loan and they put that into the terminal, it goes immediately into that database, and they're required to input it, and we have examiners to make sure that they'll input it, and the result is that we know that they've got to comply with the maximum loan amount, because they borrow $500 from one or 250, that's the most they can borrow, from one payday lender, they go to the next payday lender, try to borrow again, it comes up on that payday lender screen, you can't lend to them, because it comes out of the database. In addition to that, it ensures compliance with statutory cooling-off periods, which I'll talk about in a minute.

I just want to emphasize to you why this database is so important, because there's a real movement to try to get rid of it. Thirty-seven states in the country regulate payday lenders today. We will be number 38. Two states -- Illinois is the next one, but they've just started -- two states actively have a database.

We've been working on this for two years. We've done extensive research, talked to states all over the country. We have been to meetings and conferences, and the only states that will tell you that they can truly enforce their laws with regard to payday lending are the two states that have the databases, because these transactions occur every two weeks. There's rapid turnover. If we were to send an examiner in once a year, there have been thousands of transactions that occurred and they're all over, they're done with. But if we can see them happen every day, it's a very different story about our ability to enforce the law. Got to have that database.

Let's talk about cooling-off periods. This is where the consumer is required to stop, get out of the industry, not move from one payday lender to another, but get out of the industry and enter a cooling-off period where there are no loans from anyone in the payday lending industry, give them a chance to think about it.

There are also built into the law repayment plans so that the consumer can choose and the lender cannot deny the consumer's ability to choose a repayment plan in reasonable amounts over an extended period of time. So you owe $200. You can divide that by eight, $25, pay it off once every two weeks over a 16-week period of time. Hopefully manageable payments, get out of that $200 debt. And you can choose it. You can raise your hand and say, I want it. The company cannot deny it.

Payday lenders are also required to contribute 25 cents per transaction to a Commonwealth fund providing for financial literacy programs in Pennsylvania, and there are strong departmental and criminal penalties for violation of the Act. And we have an examination force that will be going out and checking even after we watch them on a daily basis with the database.

So let me stop there, and I'd be happy to try and comment on anything that you'd like to discuss or try and answer any questions.

COUNCILMAN GOODE: For the

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record, we're joined by Councilman Cohen. Councilman Tasco has questions here.

I have a couple of questions before Councilman Tasco.

Secretary Schenck, let me first thank you for all you've done around the areas of enforcement and education, but as mentioned, some of what you said left something to be desired related to the fact that predatory lenders are a problem, but there is a subprime market. Payday lenders is a problem, but there is a need expressed there. Traditional institutions have not sought to serve that market and have, in effect, abandoned it.

What is being done in between beyond enforcement, beyond education in terms of investment to actually subsidize that market? What is being done to actually create competition within the subprime market?

MR. SCHENCK: You make an excellent point, and because the banks and other financial service providers have basically abandoned the very small loan, short-term loan business, and because a number of people just are not comfortable going into banks, this industry is a risk and it's the reason for check cashing as well.

We have talked with banks about this. We've talked with finance companies about it. We've shown finance companies how, under the present legislation through a combination of fees and allowable interest rates, they could most likely afford to make these short-term loans at higher rates than standard but afford to make them, because it's high cost to lend $200 for two weeks, but do it within the law. And there's some interest.

COUNCILMAN GOODE: My question really is, what are you doing beyond regulating payday lending? I'm speaking more now in the subprime market. Are there other types of loans beyond payday loans? What are you doing to create competition within the subprime market? What are you doing to provide access to capital and credit within that subprime market?

MR. SCHENCK: All right. I

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thought you were talking about payday because you were trying to talk finance companies, banks and credit unions into offering payday loans for one thing at lower prices to create competition with the payday lenders.

But in subprime in general, I would say that the subprime market today has a lot of players, and what we're trying to do is keep the good players in the business and get the bad players out. There's a lot of competition in subprime right now.

COUNCILMAN GOODE: So what are you doing to subsidize the good players or invest in the good players to create competition to make sure that the good players win? For instance, what is the status of the Pennsylvania Community Development Bank?

MR. SCHENCK: Oh, all right. Thank you. I don't have a lot of information about the Pennsylvania Community Development Bank, so I'm just not a good person to ask about that right now.

COUNCILMAN GOODE: Pennsylvania Community Development Bank was essentially the institution that invested state money intermediaries that serve that subprime market, serve those underserved markets, that came up with proactive strategies that was not doing subprime lending in a predatory way and also was receiving support from the banking community, places where the banking community, traditional institutions, would not go into, those banks to invest in those financial intermediaries who would go in there and learn to make the market work.

MR. SCHENCK: Okay.

COUNCILMAN GOODE: Councilman Tasco.

COUNCILWOMAN TASCO: Thank you.

Thank you very much for coming down.

You talked about the demand for short-term loans, payday loans. I think the demand was created by the market. People probably didn't think about it until somebody showed up one day and said, We can give you this money. So it's there, they take advantage of it. So I think if they went away, the demand wouldn't be there, people wouldn't need it.

MR. SCHENCK: The fact is that everybody lived without it for a long time.

COUNCILWOMAN TASCO: They lived without it for a long, long time. So some creative guy said, Let me give you some loans very quickly, you know. So the market now has created demand for it. If it went away, people would go back to status quo where they were before.

You talked about this payday lending and regulating it. What is the effort to outlaw it such as Georgia and North Carolina? Some of these other states just have no payday lending? What is our option on that way to do business?

MR. SCHENCK: Councilwoman Tasco, we have not found any legislative will to put this industry out of business.

COUNCILWOMAN TASCO: You're saying that in Pennsylvania?

MR. SCHENCK: Correct. So our feeling is that the only thing that we can do is try and control it. And our belief is and my belief is that the FDIC is not going to get them out of business for us, so that we've got to take action.

COUNCILWOMAN TASCO: So in your estimations, because of the climate and environment in Pennsylvania, that you would not be successful in getting these lenders out of the state at all?

MR. SCHENCK: That's correct.

COUNCILWOMAN TASCO: When we passed the predatory lending bill in City Council, one of the provisions of that bill was to require counseling if a loan had predatory lending characteristics. Is there any effort in your department to create that kind of legislation so that if a person is going into a predatory loan, there is some requirement that they receive counseling prior to signing on?

They could still apply for the predatory loan, but what happens -- is there some way we can require in the legislation, especially around the mortgage lending business, where people are required to have some counseling prior to signing on to the loan?

MR. SCHENCK: The answer is yes, and I think that that is one of the best solutions to the issues that we have around mortgage lending in Pennsylvania. And what we're working on -- and it's complicated, and I'll tell you why. I don't need to tell you why, but it is complicated, so I'll just say why for the record.

What we're working on is counseling associated with a specific transaction, so that for certain individuals, the most vulnerable individuals, before they would go to closing, it would be required that they have from an independent quality counselor an assessment of the loan transaction that they're about to enter into and have this information from the counselor so that they can make a decision is this good for my family or isn't it, and require that that happens.

Now, the complexity is who do we require that to happen for? In other words, how do we define in this complicated world we all live in who the most vulnerable consumers are.

Secondly, how do we have enough infrastructure in place. We can do this. Working with the PHFA, we now fund 75 counseling agencies across the state. They may or may not be enough. We're in the process of doing some research to find out how many counseling agencies need to be in place and where they need to be. And then the third, who should pay for it. Arguably, the lender should pay for it. We need to work this out with the lenders.

So we see it as a process. We're entering into the discussions of this subject right now, but I do believe that we can work out a way to have transaction-oriented counseling for vulnerable individuals in Pennsylvania before the loan is closed. And that, to me, is a great way of having Mrs. Jones, whose roof is leaking and feels she's in a crisis and is willing to sign anything, stop for a minute, get somebody else to say, Now, wait a minute, Mrs. Jones, look

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at what you're signing, there may be an alternative here. That raises the whole issue of having alternatives available as well.

I know there's a lot of work going on in Philadelphia on that subject, but it's something we need to do.

COUNCILWOMAN TASCO: So are you looking at that?

MR. SCHENCK: Absolutely.

COUNCILWOMAN TASCO: Is that part of this legislation or is this part of the -- is that part of the legislation to deal with the mortgage brokers?

MR. SCHENCK: If we can get this into this round of legislation, we will. What we want to do is get something done this year, and we've got a short legislative session left. If we can get it done in time, get all these questions answered, we will. If not, we'll work on it and do it in the second phase. We'll do it for next year.

I just don't know how fast we can get that done. I think some of these other things we can get done, because they're frankly easier to do.

COUNCILWOMAN TASCO: I know there was a state-wide coalition to address a number of these issues, and as we talk about the climate of the legislature in Harrisburg, have you been able to provide documentation from around the state of how some of these lending practices impact citizens outside of Philadelphia or the urban areas that really impact on the rural areas, too? Because I get a sense maybe from talking to some of the legislators that not all the legislators understand what's going on.

So what are we doing to help educate them? Because they're really getting a real good hit from the payday lenders and the banking people about why they shouldn't. What are we doing to educate the legislators about why we should?

MR. SCHENCK: I think that's a key job responsibility of ours. When we did this study of mortgage foreclosures across the state, with the help of the Reinvestment Fund, we really dug down in multiple counties across the state, and I think that what's happened as a result of that work and those facts has made this more of a real conversation. We've gotten the industry to come to the table, because it's hard to deny now because of the information that we've provided that there are financial abuses going on in every county. And for a while when I first started in this job, I'd hear everybody -- Irv Ackelsberg would come in and talk or you and I would have a conversation and be learning some things about what was going on, and at the other end, I talked to the industry and they say, What do you mean there's predatory lending in Pennsylvania?

A lot of that has stopped at this point because of the facts that we've put in front of them. And those facts we're making available to legislature as well. We've put the TRF study there. We put the Banking Department recommendations and study, because we studied some of this information independently looking at what we found at PHFA, for example, Pennsylvania Housing

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Finance Agency, for example, and at the HEMAT program. And I think that more and more there's an acceptance of the fact that we need to do something legislatively, and there's real support, obviously, by increasing our budget to allow us to hire 66 new people, support for these policies that we're putting in place, becoming an enforcement agency in the Banking Department.

There's a recognition that this needs to be done, and I'm not having the industry push back, as it used to, and getting supportive comments from the legislature at this point.

So I think that what you're recommending is happening.

COUNCILWOMAN TASCO: I'll let someone else ask questions. I have some more, but we'll come back.

COUNCILMAN GOODE: Other questions from members of the committee?

COUNCILWOMAN MILLER: I have a question.

COUNCILMAN GOODE: Councilman

Miller.

COUNCILWOMAN MILLER: Thank you.

I have a question, Mr. Secretary, regarding the payday lending. That is one of the fastest -- it's listed, actually, as one of the fastest-growing industries probably across the country. And I haven't read House Bill 1478, but in your remarks here, it says it would license. So that means that these individuals are opened without license?

MR. SCHENCK: That's correct. The Attorney General let them in, I don't know, eight or nine years ago by saying that they could register under the Consumer Services Act and that was all that was required. So that's how they're in business today.

COUNCILWOMAN MILLER: Because that's one of the -- it's an industry that was listed on -- I was reading something about if someone was interested in starting a business and then it had a list of maybe the 50 top businesses, types of businesses, that people can open that's profitable, and payday lending was listed.

MR. SCHENCK: Is that right?

COUNCILWOMAN MILLER: I was pretty shocked. But I think that that's an area that we really need to figure out how to do tighter control, because I actually think that's where people get in trouble. It's just too easy to access loans, and then they have a problem repaying them.

MR. SCHENCK: It's very easy. You walk in off the street, walk by the store and say, I want one. Walk in, get one, walk out with the money.

COUNCILWOMAN MILLER: Right. And people actually think -- in the communities, they think it's a great service until you tell them it's not.

So, again, it just constantly goes back to education. I would love to see that the state Office of Financial Education -- is there some kind of projected date that that office would actually be developed or have you already developed it?

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MR. SCHENCK: Oh, it's up and operating. We have a Director, whose name is Hilary Hunt. We've got two employees there in addition to Hilary now, and we will have two more over the next several months.

COUNCILWOMAN MILLER: That's different from the 1-800-PA-BANKS?

MR. SCHENCK: Yes. 1-800-PA-BANKS come to our customer service unit within the Department of Banking. The Office of Financial Education will also have a call center and a website. We'll be focused on our -- I think the one that will have one of the biggest impacts is a focus on developing financial education within the public schools.

COUNCILWOMAN MILLER: We're wondering about the PR and public service announcements to let people know that these services are available.

MR. SCHENCK: We've actually gotten approval from the legislature to do that, and I think that we'll have enough money in the budget, in this next budget starting in

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July, to be able to do that. That's our intention.

We also want to include in those PSAs information around tax time for earned income tax credit and free tax preparation.

COUNCILWOMAN MILLER: Thank you, Mr. Chair.

COUNCILMAN GOODE: Councilman Brown.

COUNCILWOMAN BROWN: My couple of questions were also related to financial literacy and the level of the relationship between the Department of Banking and the Department of Education. You have adequately addressed that.

The initiatives that you spoke of were a direct result of House Bill 1478 --

MR. SCHENCK: No.

COUNCILWOMAN BROWN: -- the education on financial literacy?

MR. SCHENCK: No.

COUNCILWOMAN BROWN: Not at all?

MR. SCHENCK: Not relating in

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any way here.
COUNCILWOMAN BROWN: I'm trying to get a handle on the time line here.
MR. SCHENCK: 1478 simply provides another 25 cents per loan to go into the budget that supports financial education, which will expand our budget and expand our ability to communicate publicly. But the office has actually been in place for about 18 months.
COUNCILWOMAN BROWN: Okay. So the initiatives, if you had to speak to how broad-based they are, what would that be or are we really at the door step of having them implemented, the financial literacy initiatives?
MR. SCHENCK: Well, we have been working on this website for six months or so. We've been coordinating programs within state government for a while. The Office of Financial Education was very active in the Task Force for Working Families. So it's been active.
COUNCILWOMAN BROWN: Okay.

MR. SCHENCK: This process with the Department of Education is a long and complicated one. We're having, for example, this summer 100 teachers come together -- we're funding this meeting -- to teach them about financial education so that they can go back and put it into their classrooms.

COUNCILWOMAN BROWN: And the upside to that, looking at the glass half full, that's great that there are 100 teachers. The half empty side of that question is, why only 100? Is this a volunteer opportunity or they had to pay to come, or what?

MR. SCHENCK: We're actually paying for them to come, and we expect to do this every year. We're doing it from different school districts. So the idea is to seed somebody in that school district who knows about it, believes in it and will take the message back into the school district.

COUNCILWOMAN BROWN: And these teachers, I would presume, are state-wide?

MR. SCHENCK: Yes, they are

state-wide.

COUNCILWOMAN BROWN: With Philadelphia represented?

MR. SCHENCK: I hope so, yes.

COUNCILWOMAN BROWN: Okay.

MR. SCHENCK: One of the issues that we're dealing with is, there are 501 school districts in Pennsylvania and they're quite independent. So the idea of mandating to them that they must teach financial education is something that's difficult to get done.

So we are working on a curriculum that allows them to put into the math curriculum, the existing math curriculum, financial education information, into the existing reading curriculum financial education information. And then one of the ways that we're assuring that they're going to teach it is that we're mandating that it go into the PSSA test that is given every year, because we know that they want to make sure they do well on those tests. So that they'll be teaching it if it's in the test.

COUNCILWOMAN BROWN: Could you please forward to the Chair the information regarding this opportunity for the 100 teachers, please?

MR. SCHENCK: Yes.

COUNCILWOMAN BROWN: And just a follow-up on your last point, I would presume that before you can make it an expectation in PSSA tests, which is a state-wide test for students, that it has to be taught system-wide. So I would expect that it would be a year or two or three before we reach the point where it's an expectation in the PSSA test if we're only starting out with 100 teachers.

There's a disconnect if there's an expectation to see that in 12 or 24 months, when whatever the total number of teachers state-wide have to be ultimately taught the specs of a financial literacy course so that they can teach it in the classroom.

Do you follow me?

MR. SCHENCK: Oh, yes. I think you're being very practical. On the other hand, there are a number of people out there now who can do this work. We're trying to create an enthusiasm for it and some specific belief in it so that they can go back and get the enthusiasm going within their individual school districts.

COUNCILWOMAN BROWN: Thank you again for your testimony. It's an exciting opportunity for educators and for families alike once they get the information. Thank you.

MR. SCHENCK: Thank you.

COUNCILMAN GOODE: Councilman Tasco has a point of information, then Councilman DiCicco, then Councilman Cohen.

COUNCILWOMAN TASCO: I just wanted to follow through on that, her comment, in terms of I had -- my question is about teaching training. The other thing is that we do have some input into the state college and college university system that financial literacy should be a part of their curriculum as sort of like a mandate from the state and that a lot of our college students are coming out of school in debt because they get these -- so they need it, too, in college, as well as those who are going to teach. It could be part of their curriculum in developing and training them and educating them about financial literacy.

MR. SCHENCK: You raise an excellent point. It's in the colleges, universities. It's also teaching the teachers in the colleges and universities. And we're exploring that as well. I think what we're doing now is beginning to plant some small trees, and over time these things are going to grow and have a real impact, but it's going to take some time.

COUNCILWOMAN TASCO: Well, you see, we have a friendly Administration who is concerned about this issue, so we're trying to get you to cram everything in before you leave.

MR. SCHENCK: We're trying. I'll tell you, we're trying.

COUNCILWOMAN TASCO: So that's why we're so intense about all of this, because we don't know what's going to happen down the road and we didn't have much success prior to your coming, and I just want to say you have been very receptive and have been open for this discussion and have tried to make some moves. So I want to say -- and we want you to do it all and we want you to do it the way we want you to do it, even though that's not going to happen, but we certainly appreciate your efforts.

MR. SCHENCK: Thank you.

COUNCILMAN GOODE: Councilman DiCicco.

COUNCILMAN DICICCO: Thank you, Mr. Chairman.

Good afternoon. Earlier in your testimony you spoke of either legislation or regulations that will require mortgage lenders to be licensed, which I think is a good thing. What determines a mortgage lender? I know there are storefronts that are set up in places that you go in, you make application to get a mortgage. But is there a certain criteria -- and let me further explain what

I'm saying. That way, you might be able to answer me a little better.

There are developers and there are landlords who own multiple properties, who from time to time engage in financing the sale of a particular property. Now, that's not a bad thing. Sometimes that helps the potential homeowner be able to afford to buy because the terms are a little bit different than having gone to an institution, a banking, lending institution, et cetera. But there are very unscrupulous as well developers and landlords out there who primarily offer properties for sale at a so-called discount rate, but the terms are so expensive, that you really never get to own that property, and in many cases, the landlord, who is the mortgagee at the time, will then foreclose.

Is there anything that is encompassed in what you're looking to do that would protect the consumer from that? I mean, I'm not trying to hurt someone. If I own a house and I want to sell it to my colleague Wilson Goode, that we make a deal and I take back a portion of the mortgage is one thing, but there are people who are in the business, more or less, of owning and selling properties and the sideline business is holding the mortgage, the paper on it. And in many cases, they're only doing it because they know at some point, you're never going to be able to make the payments and they're going to take that property back.

MR. SCHENCK: It's interesting how many things we're talking about where we're basically on the same page.

There are two exceptions in the law right now that we're trying to get closed. One is that if you're a realtor, you can arrange a mortgage for someone without a license. The other thing is if you're a builder/developer, you can arrange a mortgage for someone without a license. We're trying to get both of those exceptions closed.

So the definition of someone that would be licensed is any person who can structure or arrange or sell a mortgage, has contact with the borrower and arranges that

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mortgage, anybody. That's who we're trying to get licensed.

COUNCILMAN DICICCO: Thank you. One other question. Payday loan businesses, I'm not sure how this works, but I know tax time there are a number of CPA, accounting firms, tax firms that offer the customer an instant refund, assuming they're getting a refund, for a fee, and I don't know what the fees are. I assume that there may be some -- and it may be a wrong assumption -- that there may be some of those companies who are charging extraordinary rates or fees for that.

Is that part of what is being looked at as well?

MR. SCHENCK: That's a separate subject and it's one that, I'm sorry, Councilwoman Tasco, we just haven't gotten to yet. But it's a separate subject and it's an issue, because you can go many places in Pennsylvania and get your tax return done for free and get your money quickly, or you can go to one of these outfits and get your tax return done for a fee and they'll tell you, Do you want your money today, and they'll give it to you with what ends up being the equivalent of a very, very high percentage rate.

COUNCILMAN DICICCO: That's what I was concerned with.

MR. SCHENCK: And it's a matter of education. At this point, limited regulation.

COUNCILMAN DICICCO: Thank you.

COUNCILMAN GOODE: Councilman Cohen.

COUNCILMAN COHEN: Thank you, Mr. Chairman.

Sir, what do you consider is the industry? You referred earlier, I think, several times to "the industry." What makes up the industry, in your judgment?

MR. SCHENCK: Okay. When I was talking about the industry, I was talking about the work that we're doing on mortgages.

COUNCILMAN COHEN: Well, the industry that deals with mortgages or payday loans. I'm particularly interested in the question of payday loans, because there, despite the outstanding work of Councilwoman Tasco on behalf of the City Council, there's been no success in reaching anyone. Daily News advertises despite, I think, numerous objections by Councilwoman Tasco, by myself and I'm sure by other members of Council. They give it prominent. So it's not something that just develops unattended.

The water goes on the plant every day in the Daily News reminding people that there are payday loans available, just call a phone. In fact, they've, I think, increased it to accepting ads from two or three companies. So that it's not just developing a need; it's making that need so easy to fulfill.

So I was wondering what you mean when you talk about the loan industry. Is there such an industry?

MR. SCHENCK: I would --

COUNCILMAN COHEN: And what is the relationship of the Banking Department to the basic portion of that industry that we're all concerned about?

MR. SCHENCK: All right. I would separate the payday lending industry from everybody else, and we have at this point no relationship with the payday lending industry, and there is nothing in the legislation that allows us to have such a relationship, except that they're required to register under the Consumer Services Act, which it gives us no regulatory authority over them whatsoever.

COUNCILMAN COHEN: Don't they get their funds from banks --

MR. SCHENCK: Yes.

COUNCILMAN COHEN: -- the funds that they use to lend?

MR. SCHENCK: They do.

COUNCILMAN COHEN: And couldn't that provide a basis for regulation by your department with respect to loans by banks to companies that make payday loans?

MR. SCHENCK: Yes. And what we have said to the Pennsylvania banks is, those banks that we oversee, meaning they have state charters, that we do not want you providing money to payday lenders. And there are no state-chartered Pennsylvania banks, there are no nationally chartered Pennsylvania banks, there are no banks in Pennsylvania which are providing dollars to payday lenders. All the payday lenders in Pennsylvania are getting their money from state banks outside of Pennsylvania, over which we have no control.

COUNCILMAN GOODE: Excuse me, Councilman, one second.

COUNCILMAN COHEN: Well, I think that's a very important point.

COUNCILMAN GOODE: Just one quick follow-up.

COUNCILMAN COHEN: What's that?

COUNCILMAN GOODE: They're not providing funds. Are they providing real estate and other information? Are they supporting the payday lenders in any way?

MR. SCHENCK: You know, that's a good question. I mean, they could be providing checking accounts, taking their deposits. That's something that I don't know. That's a very good point.

COUNCILMAN GOODE: And my understanding is that they haven't begun to do it. They're actually acquiring real estate. They're setting up in places that used to be bank branches, that they're providing other financial information to these payday lenders, and it's similar to what was being done in terms of predatory lenders where there were not only investments there but essentially the bankers were carving out that niche within the market for people who they know were going to be involved in predatory activity.

MR. SCHENCK: I'm glad you've raised that. That's something that we've not seen. And there's certainly a possibility that there is banking support in terms of banking services being provided to payday lenders in Pennsylvania. That's a very good point.

COUNCILMAN GOODE: I would particularly look at the real estate particularly in the future.

Councilman Cohen, I'm sorry. Please continue.

MR. SCHENCK: Thank you for that.

COUNCILMAN COHEN: May I proceed?

COUNCILMAN GOODE: Please continue. Yes.

COUNCILMAN COHEN: Is there an APR rate associated with the payday loans, and what would that be?

MR. SCHENCK: Oh, yes. If you borrow for two weeks, it's about 450 percent.

COUNCILMAN COHEN: You referred sometime to good payroll lenders and bad ones. Would that 450 percent rate, is that the rate of the good or the bad or does it have nothing to do with good or bad?

MR. SCHENCK: When I was talking about good or bad, I was talking about the mortgage business.

COUNCILMAN COHEN: Are there any good payroll lenders?

MR. SCHENCK: Any good payday lenders?

COUNCILMAN COHEN: Only those

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that go out of business.

(Applause.)

MR. SCHENCK: Good for you.

COUNCILMAN COHEN: Is there any standard rate or do they vary?

MR. SCHENCK: No. It varies, actually. And as a matter of fact, in Florida where there's some pretty stringent regulation in place -- what we're proposing is substantially stronger, but competition is developed there and the rates are down. They're probably down 40 percent, down a percentage of the total rate 40 percent, which means it's probably still over 200 percent, but it's down substantially from where it started as a result of competition.

COUNCILMAN COHEN: Well, is there any way of determining what the rate would become if the bill that the Banking Department is proposing for the legislature to adopt were adopted? What do you assume the rate would become?

MR. SCHENCK: I think it's going to start at 450 percent. It could be less, it could be 400, but it's going to be huge.

COUNCILMAN COHEN: It's going to be 450 percent after the legislation?

MR. SCHENCK: Yes.

COUNCILMAN COHEN: And it's 450 percent now?

MR. SCHENCK: Yes.

COUNCILMAN COHEN: Well, what relief would the legislation be affording?

MR. SCHENCK: Well, the legislation does not focus on rate. The legislation focuses on getting people out of this cycle of debt.

When this legislation is in place, it will not be possible for consumers to be in the same cycle of debt that they can get into today. They have to go into a cooling-off period. They have to get out of these loans. That's not available to them today. They have to get counseling or choose to get themselves out some way.

Also what's not available to them today is the ability to take these loans and term them out over a period of time so that they can make the payments. If they owe $200, under the legislation they can divide that $200 by eight, pay $25 every two weeks and get out of the business, get away from them. They can't do that without this legislation.

And they can choose to do it without the -- they can go to the payday lender and say, We want to do this and you can't stop me. Payday lenders are required to allow them to get out.

And then there's this important database that's in place that allows us to track the activities of payday lenders down to the daily loan per office, per person and understand what's happening and make sure they're obeying the law.

COUNCILMAN COHEN: Well, I must admit, I fail to see that there will be very much relief given to those who need it most. The most vulnerable are going to be the most difficult to educate. It's going to take the longest time, and whether they can ever be educated to solve an intractable problem just not having enough money to live. I just don't see how education is going to do a thing of any real significance in this area.

I thought your proposal was aimed at somehow finding a way to get more money into the hand of those that are most impoverished, and only by getting a higher share of income in the hands of those that need it can you deal with this problem effectively. Otherwise, it seems to me we'll get high marks for having very fine legislation, but the numbers that are in poverty and are victimized by payday loans and those kind of loan procedures will be basically the same, maybe improve by one or two percent.

But it seems to me the City of Philadelphia, what we need are techniques for getting more money, more jobs into the portions of the population that need jobs in order to get the income and also, as a goal, to make school worthwhile going to if the possibility of a job becomes a realistic one.

It seems to me that things like a tax proposal I made for elimination of the

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City's wage tax on worker income is one method of helping put more money in, and I'd like to see a lot of other methods to get more money into the hands of the impoverished. Maybe new forms of union organization that have not yet been developed would help. But I don't really see an educational program.

How do you educate somebody who needs a dollar, say, to live a day and you only give them a quarter in income? He or she have impossible choices to make. And when the need gets big enough and somebody is going to come around and threaten your life or your kids' life in the next day if some payment isn't made, then you're going to feel no matter what the cost is, a payday loan may be the only alternative you have. But if you had more dollars, you'd have a real alternative.

What do you think about those kind of suggestions?

MR. SCHENCK: I think payday lending is not the way to get money in people's pockets. That's not what it should be.

COUNCILMAN COHEN: Well, how do you do it? I think we ought to be concentrating not -- I'm not arguing against your doing what you're urging be done, but I'm saying I don't think it meets the problem.

MR. SCHENCK: I don't either.

COUNCILMAN COHEN: And I think we got to concentrate on how does government make life better for people. It's what we've been talking about at least ever since the days of the new deal when government in the United States took a sharp turn in the direction of accepting a responsibility to make life better for people. And how can you do that with the poor people?

We in Philadelphia emphasize maybe making ourselves more available to immigrants. Maybe we ought to give rich people all kinds of incentives to come here, which means making life cheaper for rich and more expensive for poor, just working in the opposite direction --

COUNCILMAN GOODE: Councilman --

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COUNCILMAN COHEN: -- than you ought to be working. But I don't know of any real programs we have in the City or goals that we have toward achieving changing the income of the very poor people and increasing that.

COUNCILMAN GOODE: Councilman Cohen?

COUNCILMAN COHEN: Yes, sir.

COUNCILMAN GOODE: We're going to move on to the next panel in a second, but I think you make an excellent point. I want to try to rephrase your question.

Who are actually the good lenders for poor people?

MR. SCHENCK: Not the payday lenders.

COUNCILMAN GOODE: But who are, and what are we doing to create good lenders for poor people?

MR. SCHENCK: I think credit unions are doing a pretty good job.

COUNCILMAN GOODE: So we should be investing in credit unions?

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MR. SCHENCK: Oh, I think so, yes.

COUNCILMAN GOODE: We should be investing in Community Development Financial Institutions?

MR. SCHENCK: Yes, we should.

COUNCILMAN GOODE: And we should be investing in Pennsylvania Community Development Bank?

MR. SCHENCK: Yes, we should. And as you described it, and I thank you for that description, we should be.

(Applause.)

COUNCILMAN GOODE: Thank you, Secretary.

MR. SCHENCK: And a number of the banks are doing an excellent job as well. They're trying quite hard, as you know.

COUNCILMAN GOODE: For poor people?

Thank you, Secretary. We want to invite you to stay around a little bit longer. We wanted to move to our next panel also.

MR. SCHENCK: All right. Thank

you.

COUNCILMAN GOODE: Councilwoman.

COUNCILWOMAN TASCO: Thank you.

We're going to call up the panel of State Representative Dwight Evans, Sharmain Matlock-Turner and Hannah Burton from The Food Trust.

Good afternoon. We'll recognize Representative Evans first and then Sharmain and then Hannah. We'll let you make your presentations and then we'll have questions at the end of the three.

REPRESENTATIVE EVANS: Good afternoon. Thank you, Mr. Chairman. Thank you, Madam Councilperson. I'd like to thank you for the opportunity to speak to you about some exciting things for the City of Philadelphia and its neighborhoods.

This spring, as a result of the budget process, for the Pennsylvania Fresh Food Financial Initiative we provided a $10 million in economic stimulus grant from the state Department of Community and Economic

6/14/05 - Resolution 050272 - Commerce Development. That grant is being used to provide supermarkets with planning grants, direct loans and loan guarantees.

Access to full-service grocery stores has long been an issue in large urban and small rural areas of Pennsylvania. Access to fresh, nutritional, affordable groceries and produce is critical to the health of every community.

The Fresh Food Financing Initiative is an innovative new program that will continue to work to increase the number of supermarkets or other grocery stores to underserved communities across the state. It will meet the financial needs of supermarket operators that plan to operate in these underserved communities where infrastructure costs and credit needs cannot be fulfilled by conventional financial institutions. Its partners are the Reinvestment Fund, The Food Trust and the Greater Philadelphia Urban Affairs Coalition.

To date, the Fresh Food Financing Initiative has committed resources to five

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supermarket projects state-wide, three of them in Philadelphia. Applications for another nine eligible projects have been received.

The first project to receive funding from the initiative is Brown's Shop Rite right here in Philadelphia, resulting in the creation of 250 good-paying jobs. 97 percent of the hiring are minority and female employees.

Within two weeks of the advertising for these jobs, store owner, Jeff Brown, had 4,500 applications, primarily from local residents. He continues to receive at least 100 applications each week from people just starting in the work force, welfare-to-work candidates, retirees who are seeking to supplement their income and others with previous retail experience.

The two other Philadelphia sites participating so far in the initiative are the Shop N Bag at 4th and Brown, which will retain 30 jobs, and the Fresh Grocer in Progress Plaza, which will result in 240 new jobs.

These three projects received over a

half a million dollars in Fresh Food Financing Initiative funds. The three projects total more than 15.2 million invested in our communities, creating jobs and improving the quality of life in our neighborhoods.

Having said all this, I encourage City Council to make use of all the typical tools of economic development to attract major grocery stores, including the TIF, small business loans and political leadership. The results will only be positive for our City.

Since this effort should be strategic in nature, I believe it would be to the City's benefit to invest in market studies to determine true market demands for supermarkets in our neighborhoods. It would provide the information businesses need to make decisions about investing in local communities. The Philadelphia Department of Commerce has a program, the Urban Industry Initiative, which would serve as an excellent model.

I take this opportunity to persuade City Council to work with state legislators

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and other state officials in promoting the recommendations of the Governor's Task Force on Working Families. Just a few minutes ago you heard from the Secretary of Banking, Bill Schenck, as he discussed some of the steps being taken by his department. We have taken these recommendations seriously at the state level and are moving forward with regulations, policies and enforcement and, when needed, legislation to strengthen consumer protections and encourage families to create their own jobs and security.

What I'd like to do is, I heard your questioning about the payday loan. I'd like to speak a little bit to that issue.

In Washington, D.C., Congress just voted to change the laws governing the filing of bankruptcy. The new law prohibits an individual debtor from filing until the individual has received a briefing from an approved non-profit budget and credit counseling service. Particularly with the issue that Councilwoman Marian Tasco raised, as you know, at the state level, we do have in

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law currently under the financial abuse issue to deal with that question.

House Bill 1478 now before the state House would establish a new regulatory program governing the making of payday loans in Pennsylvania. A payday loan is defined as a short-term loan, advance of money or credit to a consumer for a fee, charge or any other consideration. I plan to amend 1478 to make credit counseling mandatory for the potential debtor before a payday loan or extended payment is approved. The counseling must occur within 90 days prior to the loan application.

While we cannot save everyone, the fact of the matter is, uniform financial decisions is bad for all of us. I believe this move extends consumer protection at a moment it is most needed to include front line financial education, another recommendation of the Task Force.

In an ideal world, I would absolutely agree with all of the comments that I've heard that payday loans are bad, but the fact of the matter is, we also understand the political reality.

It is my hope that City Council and Mayor Street will continue the efforts and strengthen whatever policies and regulations are appropriate at the City level. A partnership in this area will further move families beyond living paycheck to paycheck and make sure working families are treated fairly by financial institutions.

To quote the Brookings report you are discussing here today, "Philadelphia must grow a middle class by making the market work for low-income families."

Thank you very much, Mr. Chairman.

COUNCILWOMAN TASCO: Thank you.

MS. MATLOCK-TURNER: Good morning. My name is Sharmain Matlock-Turner. I'm the President of the Greater Philadelphia Urban Affairs Coalition, and it's a pleasure to be here, Councilman Goode and Councilwoman Marian Tasco, Councilman Cohen.

As Bruce Katz stated in his comments this morning, GPUAC was pleased to work with them to make sure that as they took a look at Philadelphia and the issues that are facing low-income working families, that there was an opportunity for us to really sort of dig into the data with them, bring our real-life experiences to the table to ultimately develop a report that I think that we all are very proud of and one that as we can see, from Councilwoman Marian Tasco's participation and leadership today, we're continuing to look at to see what we should do to really move the issues forward.

I want to talk about this morning a couple of things, but I want to impress that it is important that as we look at issues to support low-income working families, that certainly I don't think anyone as a part of this process is forgetting the importance of improving incomes, whether it's with the earned income tax credit, better jobs, affordable housing. All of those things are absolutely critical, but if we are incentivizing on the one side to improve incomes, if all the money is going out the door on the other side for expenses that are too high, then what are we ultimately doing to improve the incomes in helping low-income working families move into the middle class?

So I think these issues around expenses are just so critical, at least for those who are accountants, that we make sure that we look at both sides of the ledger.

In focusing on how do we reduce expenses for families, I think we clearly need to make sure that we are creating alternative products. We all know that education and information is absolutely critical, but I think as your questions certainly highlight and focused this morning, that we must also make sure that the market is working, and, that is, we can give people the best information in the world. If there's not some place for them to then go and use that information where there are fairly priced goods and services, they're ultimately going to only be there -- they're only going to be responding to predatory services.

So we clearly need to get people

information, make sure they're informed about choices, what's going on in the market, and, of course, I think what the other conversation is about curbing abuses.

We've talked, I think, or at least you've heard a lot this morning about what I would consider the big picture. I want to share with you the story of one particular family that lives in the City of Philadelphia. They're the Brown family. It's a real family. It's not a family that we made up. It's a family that lives next door to my assistant, Bonnie Morgan, who works with me at GPUAC.

The family next door to her, Candi, Calvin and their four children, live in the Overbrook section of Philadelphia. The children are ages 2 to 13. The family is currently financing a home in the Overbrook section, a $65,000 rowhouse. Calvin is employed full time. He earns $33,000 a year.

Candi worked full time at one point at a pharmaceutical company as a data-entry clerk until this last December. The company went through a merger and she was ultimately laid off. Currently she's receiving unemployment and working part time on the weekends at a shoe store. She brings home roughly about $150 a week.

Candi also is taking classes at Philadelphia Community College and wants to get her Associate's degree and become a veterinarian technician.

So how are the Browns paying for basic necessities? Let's take a look at what is really mentioned in the Brookings Institution's study highlights. What are the three areas where they are spending their money? Groceries, utilities and a car.

Candi is pretty good at shopping. She goes to all of the discount shops. She goes to BJ's Wholesale, Save-a-Lot, Shop Rite, all those kinds of stores and really looks for the best possible bargains. She spends about $430 a month on groceries.

Her utility bills, she's got the same sort of set of utilities that all of us have. She does live in Philadelphia, so you know that she has that PGW bill, which happens to be the highest utility. And I'm sure in looking at the Brookings report, you sort of see where PGW sort of fits on the list of utilities.

In our region, she's paying $138 a month for natural gas, $72 for electricity and about $70 a month for her telephone services.

The Brown family also has a car. And the car expenses -- now, remember what I said about some of the other expenses and that they're buying a house and all that? Their car expenses are $1,177 a month. That's nearly $1,200 a month. That's their car expenses.

Let me tell you about this car. You might think that maybe she's driving a Mercedes or a BMW or a Lexus. Candi is financing a used 2004 Dodge Intrepid through Triad Financial through a lender called Bar None. Her car note is $511 per month. Why so high? It is because, number one, she's financing the car for six years at an interest rate of 16.99 percent. Financing charges alone are $13,817 over the life of the loan.

These financing charges are the same amount the Blue Book says it would cost to buy a second 2004 Dodge Intrepid.

Candi has insurance through Safe Auto at a cost of $426 per month for full tort, a more expensive option for those who know, that you can get limited tort insurance, which restricts your ability to bring certain kinds of lawsuits. But she's got the full tort insurance, and she spends about another $240 a month for gasoline. That's how we add up to $1,177 per month for her car.

Now, let's add that in to her other expenses, she and Calvin's expenses. Home mortgage, $588; day care, about $400; again that car at $1,177; all her utilities together, about $280 a month; and then her groceries, $430, giving a grand total of $2,875 a month.

Now, let's compare that to she and Calvin's income, and you're looking at an income of a little bit more than $3,000. Take away the expenses, which again don't include all of her expenses, and right there, Candi and Calvin have $181 left after paying those major expenses. We haven't sort of added in the other costs of healthcare, clothing, entertainment, the cost of Candi going to Community College.

So you can see how easy it is for this family to get in debt. And the deeper they get in debt, the worst it could become. A cycle of debt. Missed payments, possible payday lending, short-term borrowing.

We believe we can reduce the odds of the Brown family getting into debt by reducing their expenses. Reducing their expenses makes a clear difference in how much money this family would have at the end of the month.

If we just reduced the car loan and the gas bill in particular, let's take a look at the difference it would make. If their car costs were cut in half, they could save $5,628 a year. If we could cut the gas bill in half, that would save $828 a year. That would be a total savings of almost $6,500, raising the amount of income that the family would have to spend by 16 percent.

In your packet I've included charts that will help you take a look at these numbers.

In order to accomplish these changes, I am not suggesting that government go it alone. This will take a concerted effort by leaders from all sectors in Philadelphia, but what is important and clear is that the effort can make a major difference in the lives of families in our communities. It is families like the Browns who are the backbone of our City, and our success as a City depends, to some extent, on their ability to move themselves and their children forward into a stronger economic situation. If the Browns can build a successful future, their community will be stronger and the City will thrive.

Now I'd like to turn my attention to some of the recommendations in the Brookings report. You heard about the Browns' car loan at 16.99 percent. As you know, it's not just car loans. Predatory loans, as you've already talked about, are too common in the home mortgage lending industry. That can also be found among short-term lenders, check cashers, rent-to-own stores and at tax time when commercial tax preparers promote refund anticipation loans.

Typical victims of predatory lenders are people with numerous debts and poor credit records who are in need of cash, or people like the Browns who need a car and might not realize that they could get a better deal.

In order to combat predatory lending, we will need a real partnership between business, government at the state and City level and the non-profit sector.

Here are some examples of how this is working today. To combat predatory lending, GPUAC manages two programs. One is called PHIL-Plus and its companion, Mini-PHIL. These products are home improvement and debt consolidation loans. They are for homeowners with credit problems or for those who do not meet the credit worthiness requirements of lenders participating in the City's PHIL Loan program. They enable owners to borrow money for home improvements and debt consolidation at reasonable rates and affordable terms. Thereby, helping them avoid predatory loans.

Participating banks offer the loans, and when we talk about can we create competitive products in the current marketplace, right now the interest rates for the Mini-PHIL and PHIL-Plus loans, which are subprime loans, the lowest rate is 5.49 percent. To date, 72 loans have been made totalling $1.3 million. GPUAC, in partnership with the City's Neighborhood Transformation Initiative, banks and housing counseling agencies, developed and administers the loans.

Another initiative that's going on in Philadelphia that we hope that you will continue to support is the Campaign for Working Families. We offer free tax services and we educate the public about getting the earned income tax credit and avoiding refund anticipation loans, whose interest rates can be as high as you've heard, as 600 percent, to provide cash for only a few days before tax refunds would have arrived anyway.

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This tax season the campaign brought $20 million to 12,000 low-wage families working with the IRS and other partners and operated 21 free tax sites. The campaign has brought a total of $45.2 million to Philadelphia's households over the last three years.

And one additional program that I want to share with you, because we are just in the beginning stages of developing and rolling out this initiative, with the support of City Council and the Neighborhood Transformation Initiative, and that's the Philadelphia Home Buy Now program. You may have seen an article in Sunday's Inquirer that talked about the success of this. And this is a program that helps those through their employers actually gain support to buy property in the City of Philadelphia.

Now, I just want to touch a little bit on the second issue that is so important that I know you've heard a lot about, and that's about consumer information and financial education. As the Banking Secretary said, financial education is critical to helping low-income working families really make good decisions.

I am going to skip ahead and just make one other comment before I close and ask that the rest of my comments be included as a part of the record.

There really are -- again, I want to emphasize, as we look at this whole area, it is important that we continue to deal with all three legs of this stool. We've got to make sure that there are really fairly priced goods and services in the marketplace and we need to figure out how best to incentivize the market to do that, whether it's a PHIL Loan program or a Fresh Food Financing Initiative. We need to make sure that the information is available in a way that people are going to be able to use it effectively, whether it's in schools, whether it's on the Internet, whether it's in community groups and organizations, whether it's through housing counseling agencies, CDFIs.

And, finally, we need to make sure

that the rules are fair for everybody and we need to let people know what's going on with people who are really doing things that they shouldn't be doing in our communities and publishing that information and making sure that we know what's going on with people who are doing the right thing. Thank you.

COUNCILWOMAN TASCO: Thank you.

MS. BURTON: Good afternoon. My name is Hannah Burton and I'm a Senior Associate at The Food Trust where I manage the Pennsylvania Supermarket Campaign and work with Sharmain at the Greater Philadelphia Urban Affairs Coalition and the Reinvestment Fund to manage the Pennsylvania Fresh Food Financing Initiative.

Philadelphia faces a unique paradox in which communities like lower North Philadelphia and West Philadelphia have buying powers of approximately $130 million per square mile. This buying power, which is a pretty impressive number in and of itself, exceeds the City average, which is $97 million per square mile, and yet Philadelphia as a whole, despite this attractive buying power, has the second fewest supermarkets of any comparably sized city in the nation.

We've talked a lot today about how this impacts low-income consumers in terms of direct price impacts, but there's some indirect costs that I'd like to touch on as well.

For transportation-limited families, the limited access to supermarkets adds to transportation costs, and there are health effects as well. The Food Trust's report Food for Every Child showed that for communities with limited access to supermarkets, these were also the same communities where you saw very dire impacts of health-related diseases, cancers, diabetes, obesity.

Last year, Pennsylvania spent more than $4 billion on the cost of obesity-related diseases, and these costs are increasingly being borne by those who can afford it least.

I'd like to say that Pennsylvania is emerging as a leader in the fight to increase access to healthy foods. Thanks, in part, to the leadership of Councilwoman Tasco and Councilwoman Reynolds Brown, who held hearings starting in 2002, and Representative Evans and Representative Oliver, who held hearings at the state-wide level, we now have this incredible opportunity to finance supermarkets in low-income communities to help take care of some of these health-related costs that low-income communities are facing.

The response to the initiative has been tremendous from the supermarket industry, which Representative Evans touched on, and we're seeing in Philadelphia in particular responses ranging from mom-and-pop stores, small stores about 8,000 square feet to the 57,000-square-foot Shop Rite that Representative Evans mentioned.

Increasing the number of supermarkets in low-income communities really helps contribute to the stability of these communities, gives options to families who are limited in terms of their transportation choices, and it creates a more competitive environment, which I think is a critical factor in terms of bringing those prices down, which we've discussed earlier.

Financing, obviously, is a very important tool to close the urban grocery store gap, but it's not the only action that's needed, and the Brookings report mentions two additional reasons why low-income neighborhoods have fewer full-service grocery stores, problems with market analysis and problems in the development process in Philadelphia.

In terms of the market analysis, I think we've touched on the reasons for that today. They tend to underestimate the demand for food retail because they rely on national census data and national market trends and don't do a good job of capturing the incredible diversity that we see in Philadelphia's neighborhoods.

Our neighborhoods have population density that results in a concentrated buying power, which is significantly higher than the suburbs where the median incomes may be higher.

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I strongly support the recommendation that this City would invest in a market study of the true market demand in its neighborhoods and then market the results. A City-wide marketing package could also address the perception of safety issue, with up-to-date crime statistics to directly head on the misperception that Philadelphia isn't a safe place to do business.

Cities like Milwaukee and Chicago have already done this, used independent data analysis, specifically to attract more supermarkets in the absence of financing, so we know that it works.

The second issue in the Brookings report cited evidence that the development process in Philadelphia is slower and more cumbersome. Philadelphia's neighborhoods would benefit from a strategic City-wide plan focused on stimulating new investments and improvements in the food retail sector. This has already been tried successfully in cities like Dallas and Baltimore, where cities have worked to assemble large parcels and build a

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comprehensive package of financial incentives to attract full-service operators.

The historical assumption has been that retail will follow housing, but that's not always true, and we have an incredible opportunity with the Neighborhood Transformation Initiative to assemble those sites that are large enough to have full-service grocery stores and to build neighborhoods that address this basic daily service. To this end, I recommend that Philadelphia create a dedicated economic development entity to help attract retail development to neighborhoods.

In closing, I would like to say that cities around the country are really looking to Philadelphia and to Pennsylvania as a leader in stimulating the redevelopment of supermarkets in low-income areas. We can go further, though, by focusing attention on how Philadelphia can market itself and how it can direct resources to retail development projects to build jobs and create healthier neighborhoods. Thank you.

COUNCILWOMAN TASCO: Thank you very much. Really great testimony.

Representative Evans, we'll start with you first. First, I want to thank you for your leadership in establishing the process to finance and support food markets, supermarkets in the City of Philadelphia.

And reading your testimony, Hannah, I said, Well, we've already begun, but there's some more work to be done.

We talked earlier about the whole issue of this bill that's coming up and you said that you're going to amend the bill to require counseling?

REPRESENTATIVE EVANS: Yes.

COUNCILWOMAN TASCO: What else are you doing in the state? We talked about the political will of the legislators, and I've sort of called on you often to sort of provide the leadership to other Representatives to read the Reinvestment Fund and look how all of this impacts on their constituents in other parts of the state.

What's happening with that?

REPRESENTATIVE EVANS: Well, I think, Madam Councilperson, that you're correct in the information that you provided. The way that I've attempted to approach it is, one, starting off, first and foremost, was with the study with the Working Families policy report; in other words, getting the Governor's office involved in building a consensus across the state.

There were 70 people that were on this particular task force, all types of people, all types of issues. So the first thing is trying to build the political consensus. You understand the dynamics of Harrisburg first.

Secondly, in building that political consensus, you heard some of the things that Sharmain Matlock-Turner said, which is on our legislative agenda. For example, trying to deal with CDCs, community development corporations. We are trying to -- that's on our budget list that we're attempting to finance, those particular organizations.

The third thing is the education

process. For the first time, the element of financial literacy, the Secretary of Banking I think indicated to you that he now has an office on financial literacy. That never happened before.

We're now working with the Secretary of Education in trying to educate all of the school districts across the Commonwealth of Pennsylvania. The debate that's constantly a part of this whole question is, is it volunteer or is it mandated. That's basically the debate that's occurring.

As you know, we had PSFS at one time. As a kid, that's basically how I began to learn my banking practices, was at PSFS. Well, the debate centers on the question what is the best way to approach this.

One of the reasons why I quoted what took place with the Bankruptcy Law was, for the first time, the United States government has embraced mandatory counseling. And with this huge debate around Social Security, obviously people are going to need and understand far more knowledge about what to do

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about their money.

So I think there is a question that people are now moving in the direction of having some sort of mandatory counseling. So I think that's one part of it, but the other part of is, as Sharmain Turner said, you must also have different venues available for people, because there's no question that when you start talking about payday loans, predatory lending, rent-to-own, that is fundamentally a market failure, and as a result of that market failure, fundamentally we have to create alternatives.

I think that that's the direction that we're trying to move in the legislature, but in moving in that direction, first let's talk about education. You have to -- I'm not talking about people. I'm talking about the process. I'm talking about legislators in the process.

We have, I think, two great blueprints, this document and this document. This is the only City in the nation and the only state in the nation that basically you have a state blueprint and you have a City blueprint. Now the question is, for those of us at the legislative side and executive branch, is to begin to get into the question of implementation. That's where we now are. Through your leadership in this hearing, we're now having a hearing on this discussion.

So I think we got the blueprint. We need to begin that process of looking at how we can create other venues for people, other than things like payday loans and people taking advantage of individuals who are vulnerable.

COUNCILWOMAN TASCO: To Sharmain, I certainly thank you, the Coalition, for its leadership and your whole program around the Working Families and the whole issue of providing products to families as alternatives. I appreciate your leadership in working with the banks to come up with some of the products that you have developed. In looking at all of this, the two blueprints, one from the state, which you participated on, and the City blueprint, we certainly have a lot of work to do, but it gives us this whole area and gives us an opportunity to discuss some of the needs and help educate -- our Council was on board with everything, so we'll be finding, I'm sure, creative ways to address some of the many issues.

I just want to point this out. Normally I throw these flyers away, but I picked this up from my door today and it says -- this is from a company that's offering home improvement work and it says "senior citizens discount" and "payment as low as $45, but we give free estimates for PHIL loans." So we're going to check this out.

Usually when people start with stuff like this, we're talking about PHIL loans, City does this, it adds credibility to this flyer. And we certainly hope that the company is a credible company. I'm not speaking on the company. I don't know who they are, but I thought it was very interesting that they're using this term now, because it's all about gaining people's confidence in their company and then, of course, they then proceed to prey on these individuals.

MS. MATLOCK-TURNER: Well, the good news is that the PHIL Loan advertising seems to be working.

COUNCILWOMAN TASCO: Yes.

MS. MATLOCK-TURNER: I hope that the company is a positive. But, again, part of the whole effort is trying to get out into the marketplace. As a part of developing the PHIL-Plus and the Mini-PHIL loan, part of the roll-out -- and that part has been a little bit slower -- is, our partnership with local community groups and organizations who are actually going to work throughout the City of Philadelphia actually getting information into the hands of people to sort of know that these loans are actually available.

And what happens a lot of times as we develop these initiatives, the real tough part is finding the appropriate venues to get the information out to people. So the more support that we can have, as we think about developing these, we've got to make sure that we get approval for money and budgets and

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Because if we can't get the information out, if we can't get it in circulars, if we can't get billboards up, if we can't do advertising that are going to reach the largest number of people, then it becomes a small program that doesn't have the kind of impact that we really want it to have. So we must continue the positive marketing of those programs that we know that we have that are actually working well.

COUNCILWOMAN TASCO: Thank you.

Thank you all for your testimony. We thank you for the time you've taken to come today. We will continue with this dialogue and discussion as we move forward, and we want to thank you.

We have two other people to testify. And State Representative Evans, you might not want to leave. We have Lance Haver. Lance Haver wants to come forward and testify, and he may raise some issues you might want to respond to.

REPRESENTATIVE EVANS: Thank

you very much.

COUNCILWOMAN TASCO: Thank you.

MR. HAVER: I brought the sign to hold it up. Let me introduce myself first. I'm Lance Haver. I'm Director of Consumer Affairs for the City of Philadelphia. Thank you very much for this opportunity. I'd like to start out by saying how much I appreciate these hearings and focusing on this issue.

The reason why I brought the sign here today and wanted to make an issue of it is to try and convey to you how difficult this issue is to address. Here you have the Secretary of Banking, who is a decent, honorable man, who is saying that he is on the side of poor people, supporting legislation that would raise the legal interest rate in the State of Pennsylvania from 24 percent to 910 percent. A decent, honorable man, who is so overwhelmed by how bad the situation is for poor and working people that his solution is to raise the legal interest rate for those poor people from 24 percent to 910 percent.

There is something fundamentally

wrong with that. That's why I appreciate these hearings. That's why I'm thankful for the opportunity to speak about it, because, unfortunately, it's not just payday lending. It's also when you talk about milk prices.

I really appreciate the Mayor giving me this job, because I was able to go through the Milk Marketing Board. The Milk Marketing Board sets the floor price for milk. If you sell milk at a lower price than what the state says is legal, technically you can go to jail. Realistically, you get fined.

If that corner store that you heard about sells milk for three times the floor price, that's legal. We failed, even though we tried. We went before the Milk Marketing Board and said, If you can set a floor price for milk below which if you sell it you go to jail, how come there isn't a ceiling price for milk?

And it's not just milk prices. It's also SEPTA. Poor people, according to SEPTA, are captured riders. They don't have a choice. So the City Transit Division is subsidized at a much lower level than the suburban riders. And it's easy to see, anyone who rides the train or sees Wayne junction, if you just think for a second, would that train station in that shape be allowed to exist in Lower Merion? And you can see what the problems of poor people, poor consumers are, and it's true, poor pay more.

I have some very concrete ideas, if you allow me to talk about them. I do want to talk about car insurance briefly. As Councilman Clarke pointed out, we were successful in the attempt to lower car insurance by pointing out the numbers for limited tort. We've had some very minor success at lowering other rate increases.

What we are now focusing on is setting the rates based on credit histories. The State of Missouri has done a study that showed that race and credit histories correlate much better than anything else. We are getting ready to file that. The Law Department is going over that, and I would circulate that to City Councilmembers and ask that you have a look at it and decide to join it so that we don't allow the insurance industry to say that because you are divorcing, because you are out of work, because you've had some health problems, that your house is more likely to catch on fire, because that's what they're doing. They're saying if your credit history goes down because you haven't been able to pay your bills on time, then it's more likely you'll have a catastrophic fire in your house. That's why they have to charge you more money.

The second issue for car insurance and homeowners insurance is legal red-lining. What they do is, they group areas together, and just miraculously it turns out that Chestnut Hill in Allstate's grouping turns out to be in the suburbs and West Oak Lane turns out to be in North Philadelphia. They assure me it's not based on race. It just happens to be racial in its content.

Now, what do we do about that issue? The answer to me is stockholder advocacy. To the extent that we share the same interest that New York City shares, Chicago shares, Detroit shares, Washington, D.C. shares, we should reach out to their City Councils and say, Will you join us with introducing resolutions saying unless Allstate stops their red-lining against people of color, we're going to move to have our pension plans drop Allstate stock.

That's a very real threat if we get the top 50 cities in America to enter into it with us. We have the same interests. We have the same issues. We should be working with them for stockholder advocacy. In the same brilliant way this Council has used stockholder advocacy for other victories, we can use it for economic parity for poor and working people in the City of Philadelphia.

On utilities, there are some concrete things again that we can do. First and foremost, we should fight the merger between Exelon and PSE&G, which will give Exelon the largest utility merger in the history of the United States. It will give the new company much more market power, and what it will do, unfortunately, is give them control of the pipeline, which means PGW will end up paying much more for natural gas unless we protect PGW, and that means that poor people in the City of Philadelphia will end up paying much more than the surrounding counties, because the surrounding counties will have the control of the gas pipeline.

We should also continue to think about lowering costs for the utilities by combining meter reading with gas and water.

We should establish a revolving fund from some of the NTI money, from some of the other pools of money to help people put new heaters into their homes so they can lower their energy bills.

We should use the collective buying power of the City residents whenever we can. Now, I tried to do that with car insurance. We put out a request for proposals to the car insurance industry for a basic no-bones car insurance where we could use the collective buying power of the entire City. We got no bids. We're analyzing why we failed, whether

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it's the problems of the insurance industry or there is something -- because I did this, and to be honest with you, I may have made a mistake. But we have to figure out how do we use the collective buying power of the City.

Another example is for the City to offer an Affinity credit card, like many people say you can get a credit card and the Affinity goes to support your favorite charity. Well, we should have an Affinity credit card for the City of Philadelphia where the Affinity charge goes to support the arts. That's one of the ways to continue to support the arts. It costs absolutely nothing out of the City's operating budget.

We're such a large market, that we could actually control the interest rates that the credit card company could charge, and we would have another revenue stream and we'd also be able to have a better product for the consumers in the City.

We should also start talking to the socially responsible investment funds, talk to them about investing in our supermarkets and

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investing in some of the other industries that are here in the City and actually negotiate with them. If you're willing to help us bring supermarkets into the City so consumers can get quality food at affordable prices, we'll be willing to talk with you about investing some of our pension fund in those investments.

Finally, in education, the School District last year, I went before the School Reform Commission. They committed to instituting a mandatory consumer education, financial education program. I would ask Council that when the School Reform Commission comes before you, to ask what's the status of that. Because as important as Shakespeare is, as important as it is to know who Romeo and Juliet are, it's also important to know what the APR is and how do you budget and how do you write checks and how do you stay away.

So I fully support all education. I'm not suggesting that we should be anti-intellectual like the current President, but I am suggesting that just as important as being able to recite a Shakespearean sonnet is to know when I've been taken advantage of at the car lot.

I'd be happy to answer any questions. Again, I want to stress the payday lending bill that the decent Secretary of Banking is supporting would raise interest rates legally to 910 percent. If you follow his logic, it would be like this: We have criminals who hit people over the head. We do all types of things to try and stop it. We haven't been successful, so let's legalize it and tax it a little bit, and, therefore, that will be the best we can do.

I think we have to say no, we can do better and we should do better. Thank you very much.

COUNCILWOMAN TASCO: Thank you very much, Lance. I think we've got to find some way to get to the other state reps, because he's fighting the political will. Because basically he is a good, decent guy. So he's fighting what they're being presented with by the payday lenders. So he's trying to offer an alternative, because we can't get what we really want, but that's another discussion that we -- and I will be calling you for a meeting.

MR. HAVER: I understand that, and that may be a tactical decision, but I think in all honesty, we have to say to each other that when you legalize an interest rate at 910 percent, you're not helping poor people.

COUNCILWOMAN TASCO: Oh, I agree.

MR. HAVER: It may be the best you can do, but don't tell me it's good. It may be the best choice of all bad choices.

COUNCILWOMAN TASCO: I agree with you.

We have one last person to testify, Anthony Jones.

Good afternoon.

MR. JONES: Good afternoon. Thank you very much for allowing me and Wynelle Coleman, my partner, to come and speak to you in regards to the different things that are going on in our community today. I'd like to thank Dave Cohen, Councilman Wilson Goode, Jr. and all Council.

MS. COLEMAN: My name is Wynelle Coleman and I'm here with Mr. Jones as a partner in creating financial literacy. Anthony Jones is proud to testify today, as well as myself, because we're committed to the Philadelphia community as members of the community and dedicated to each individual.

As partners, Anthony has created relationships with organizations such as NOVA Bank and other organizations outside of the City. He is a liaison that does business development for the federal government, bringing relationships and partnerships together through an extensive network of technology, CDICs, CDFICs and CRAs and community relationships.

He brought to me a copy of the Brookings Institute report three months ago, and with that, a copy of that report, it empowered us to validate and solidify our financial literacy program.

Myself, I am a community worker

6/14/05 - Resolution 050272 - Commerce through Grace Baptist Church of Germantown and I am also a financial planner by trade and education.

You should have before you a copy of our report, and what I would like to do first of all is address some of the resolutions. This financial literacy, it's just a brief synopsis of what we could do globally for the entire state and the community.

We'd like to address some of the resolutions that you put forth in your memorandum. However, if addressing what the Secretary of Banking was saying and our predecessors were saying, one of the crux problems of financial literacy is, the community as a whole, all we really have learned from the beginning is that you get money, you spend it and use it.

What our program hopes to address or will address emphatically is how to take advantage of our current technology that is going on with a cashless society that was created about 20 years ago as we move forward to the future. It also will serve the

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underbank and it will also address the needs of educating children from the time they enter a school system. So we would hope to accomplish this from a grass roots basis.

Your customer requirement, that particular slide is all about reaching that child by the time he's working age and he knows how to get a paycheck. We still have a lot of our community using cash checking systems, and this way, they will learn how to use banking so that they can create and save and pay themselves first and stop being consumers of products instead of being consumers of savings.

We also would like to help their parents in getting their parents to understand how you can purchase a home, as well as be an entrepreneur. This way, you're giving back to your local community, as well as being a taxpayer.

We would like to help raise the economic level of our community so that we are consumers of empowerment as opposed to just out of need and necessity in a negative way.

Anthony will speak at this point on some of...

MR. JONES: In developing this, I've been working about ten years at community reinvestment. I've been blessed to have people like Prince Gilliard, who is the President of the Hospitality Association, as a very good friend and mentor, a gentleman like Ed long, who is involved in creating something called Corporate and Government Partnership, Brian Hartline from NOVA Savings Bank, Bob Smick, to help me develop this as a company to deliver to our community things that I know, because I was born in Philadelphia. I was raised in 15th and Green in a basement apartment, and my mother came up out of that basement apartment and moved into a house in New Jersey. Now me and my brothers and sisters are good, tax-paying, educated individuals, as well as my children.

What I have developed is called an Online Community. This Online Community is designed to generate products and services, and the transactions that occur in the particular community where it occurs and a portion of that revenue goes back by strategically negotiating with manufacturers, retail stores from A to Z. Because the consumers currently today are just consuming products. We are very large consumers, but we're not getting a piece of the transaction. And I have developed that Online Community with a partner named Rodney Mitchell. We have our own Internet service providing company. The transactions are manageable. You can build them for the school, you can build them for chambers of commerces, college/universities, and the structure is to have a university adopt a high school, a high school adopt a middle school, and a middle school adopt a grade school.

I received an award from Councilman Clarke for being involved in giving money to the smaller elementary schools, because the children didn't have books and pencils and pens and holes in their sneakers. So I was a part of an organization called Real Kappa Phi. This motivated me to get involved in this more. I went to the NOVA Savings Bank and said, I don't want a job, I want to know how to buy a bank. I said, I want you to teach me how transactions occur.

We have to learn how to process our own transactions. Currently today we're not doing that. And we can do it. Under the law, the current law, is CDFIs. My vision is to have these CDFIs, online community services, in our community directly across the street from predatory companies, such at check cashing places or these bill payment companies who are taking a lot of our transactions from our community.

If we teach the one, two, three's of paying your bills, banking, saving and investing, I think that's going to help all of us as a community.

And in my components here, you'll see my memorandum understanding of the Online Community. 80 percent of the money comes to me. However, ten percent of the money is going to go to a foundation, and the foundation is going to be structured where the

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transaction is going to be based on zip code. That money will go back to that community where that person lives. And they can use a piece of plastic anywhere in the world, but the money of the transaction that's supposed to be shared back to the community will go to that fund, and it will administered by your community, that organization. It may be a church, chamber of commerce, something that is developed by that online community. All of this is on the website and it's more detailed.

The other thing, this revenue-sharing will go into a pot. I'm currently involved and on the Board of the Community Lenders Community Development Corporation. That's a corporation of 16 banks that pulled together their monies to help in different areas. Their goals and strategy is to achieve community investment loans, mixed loans, mixed-used loans for housing, also use loans, eligible borrowers, eligible projects, eligible transaction security, loan income affordability. Every transaction that occurs, a portion of that transaction must have a piece that goes towards education, because that's our problem currently today. I think if we had the money, we can do a lot of different things. Currently our schools wouldn't have to go through this.

So in closing, I'm thanking this committee and the Brookings Institute for showing us as a community how we've been taken advantage of for so long, and I thank you very much.

COUNCILMAN GOODE: Any questions?

(No response.)

COUNCILMAN GOODE: Is there anyone else to testify on this resolution?

(No response.)

COUNCILMAN GOODE: We thank everyone for their testimony. This hearing is recessed to the call of the Chair.

(Committee on Commerce and Economic Development concluded at 1:45 p.m.)

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CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on June 14, 2005, and that this is a true and correct transcript of same.

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MICHELE L. MURPHY
RPR-Notary Public

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