

**Remarks of North Carolina Commissioner of Banks  
Joseph A. Smith, Jr.  
to the 2006-2007 Annual Meeting Luncheon of  
Consumer Credit Counseling Services of Forsyth County**

**Winston-Salem North Carolina**

**September 21, 2007**

It is a pleasure to be with you today. I am very grateful to Peter Laroche for his kind invitation.

First, I would like to tell you how important I know your work is and how much I appreciate your doing it. You are the front line troops in a battle for the financial health of individuals and families in distress. You are hard-working and marginally funded and the deck is stacked against you: the cult of “buy now pay later” has resources to spread its message over the airwaves and into the consciousnesses of vulnerable people with an effectiveness that you and I can only envy. I know your work isn’t easy but it’s essential. Thank you very much for all you do.

It is becoming more and more clear that our country is facing a serious set of financial problems that are based in the misuse and abuse of consumer credit. The “subprime meltdown” gets most of the public attention these days, but it is only a part of the problem. Personal savings is at an all-time low, consumer debt is at an all-time high and the fallout from the convergence of these two trends is a substantial increase in late payments, mortgage defaults and consumer bankruptcies. The prevalent insanity has harmed a large number of families in ways you know more about than I do and has also wounded our capital markets. All of this is transpiring in an economy that is in fairly good shape. What could happen in a downturn is frightening to contemplate.

Given this threat to the financial health of individuals, families and the nation, what can we do? Legislators and regulators at the state and national level are attempting to address unconscionable conduct and fraud by financial services providers.

These efforts to remedy structural obstacles to financial health are worthwhile and I believe that over time they will have some positive effects. Legislation and regulatory action, however, are not enough. Real success in achieving financial health for our citizens depends on the provision of independent financial counseling to new borrowers, subprime borrowers and distressed borrowers.

The current consumer debt fiasco, which I fear will get worse before it gets better, may have a silver lining in that it will lead to policies supporting enhanced counseling to distressed borrowers. As you are probably aware, the available research on the topic of financial literacy strongly suggests that there are two circumstances where financial literacy activities (including counseling) are effective: (i) preparation to achieve a goal such as home ownership and (ii) avoidance of bankruptcy. These two circumstances apparently focus the minds of borrowers in a way that allows lessons regarding budgeting, deferral of instant

gratification and so forth to sink in. Given our current distress, it is not impossible to imagine a world in which first time home buyers and subprime borrowers are required to have independent home ownership counseling as a condition to getting a loan. The same could be said for the loan modifications that are now being proposed for subprime borrowers who are about to face interest rate resets and for credit card borrowers to whom a home equity line of credit escape route is no longer available.

What stands in the way of my beautiful dream? Money. Who is going to pay for all of this counseling? In the case of borrowers who are either borrowing to buy or refinance a home, I believe the borrower should pay. Such borrowers have to pay or finance a raft of other closing costs; the cost of counseling is a drop in the bucket by comparison. To the extent that an independent counselor stops a loan that should not be made, the cost of counseling to the borrower is cheap at twice the price.

In the case of distressed borrowers, I believe that the requirement of counseling in the bankruptcy law should be extended to those not yet at the courthouse door. This may take legislation and, if so, let the debate begin. The important point is that the counseling should be independent and should be for the benefit of the borrower first and foremost. As I have previously said, the literature on counseling of distressed borrowers strongly supports the conclusion that it is effective.

Our nation faces a day of reckoning with regard to the extension and use of credit. The result will certainly be financial pain to many borrowers and many lenders. It is less clear whether lenders and borrowers will learn lessons of prudence, thrift and self-reliance that will make us all better off after the dust has settled. I hope that they will, and my colleagues and I are doing all we can to bring this result to reality. We cannot succeed without an enhanced role for consumer credit counselors like you. Let's do all we can to achieve this happy ending.

Thank you again for inviting me to be with you today. I look forward to working with you in the future.