



American Financial Services Association

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The Market Funded Lending Industry

Statement

of

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On Behalf Of

The American Financial Services Association

For Delivery To

**The Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services
U.S. House of Representatives**

**Hearings on Hurricane Katrina: The Financial Institutions'
Response**

**September 14, 2005
Washington, DC**

Mr. Chairman and Members of the Subcommittee:

My name is David Gibbons. I am Senior Executive Vice President and Chief Risk Officer at HSBC North America Holdings. Prior to joining HSBC, I was employed by the Office of the Comptroller of the Currency (OCC), most recently holding positions as Deputy Comptroller for Credit Risk and Deputy Comptroller for Special Supervision. Today, I am testifying on behalf of the 300 members of the American Financial Services Association (AFSA).

The American Financial Services Association, of which HSBC is a member, represents companies that lend to consumers and small business. AFSA members, simply, help individuals and families buy the houses they call home and buy the cars that give them access to work. We help small businesses raise capital to grow and to create jobs.

HSBC North America is one of the nation's 10 largest financial services firms, with business units that offer a full range of banking and lending products. HSBC Group companies – including HSBC North America – operate in nearly 80 countries and territories around the world. In the United States, HSBC engages in the commercial banking business with the operation of more than 400 HSBC retail bank branches, and we are also a top mortgage, credit card and auto lender as well. And under the brand names of HFC and Beneficial, we are one of the country's largest consumer finance companies with some 1,400 offices located in 46 states.

Our customer base is as diverse as we are, as we serve both prime and non-prime consumers.

HSBC is among those members of AFSA who serve customers who live and work in regions of the Gulf Coast that were so dramatically impacted by

Hurricane Katrina. We have consumer finance branch operations in Louisiana, Alabama, and Florida.

Customer Concerns

Like scores of organizations in the public, private and non-profit sectors... we moved swiftly in the days after Hurricane Katrina reached landfall to support rescue and recovery efforts. It is with great pride that I say that AFSA members have contributed more than \$45 million to efforts so far. With companies like HSBC matching employee contributions, and with more aid assuredly on the way, that number will undoubtedly rise, and rise significantly. We recognize that, while our industry deals in financial services, our business is in customer service. If we all don't take steps to protect our customers, to give them opportunities to rebuild, then we do a disservice to them and to ourselves.

And the work has begun. Our industry has extended a hand to those individuals and families who have been directly affected by the hurricane. For example:

AFSA members are working with customers individually to accommodate their needs and to help them get on their feet. HSBC customers who live in FEMA-designated Individual Assistance areas may delay their September payments by 30 days as they tend to their immediate personal needs. This decision, I might add, was made just hours after the media began broadcasting images of destruction. We, like all AFSA members, stand ready to provide further assistance in the coming weeks, as the needs of our customers become clearer.

The association has heard from many lenders who have waived late and over-limit fees for hurricane survivors facing new, incredible demands on their finances; men and women who frankly may have no way to submit payments and stay under their limits, but who need our assistance nonetheless. This

assistance is **vital** for those who are faced with bills for hotels and other temporary lodging, meals, transportation and clothing – bills they could never have anticipated just three weeks ago.

HSBC has waived cash-advance fees for the same reason. And as encouraged by our regulators, we are delaying the reporting to credit bureaus of credit-related information.

Members of AFSA also are offering emergency lines-of-credit increases for many credit card and mortgage customers to help them get over what we hope is just a **temporary** cash-flow problem, but which we in this industry know may be a sustained crisis. Because of the uncertainty our customers face, we stand ready to work with them individually to meet their needs and to help them get back on their feet.

Employee Involvement

It's important to note that employees of AFSA members have made tremendous investments of time and money in the relief effort. They are literally opening the doors of their one, two and three-bedroom apartments to dozens of family members, friends and neighbors. Right now, HSBC has nine employees who have opened their hearts – and their homes – to 100 people. One employee's household has grown to 40. For those employees whose homes were damaged, HSBC has reserved hotel rooms and is locating new housing and offering relocation assistance. Just this week, we helped to reunite a mother and daughter who have been separated for two weeks.

And more is happening. Employees at HSBC across the country are conducting fundraisers and collecting donations. With just 48 hours' notice, some 1,000 HSBC volunteers joined hundreds more at Capital One and other

private companies to accept contributions during a September 2nd concert to benefit the American Red Cross. We're prepared to do it again, if need be. And there are teams at our headquarters keeping in touch with employees who have been affected, ensuring they get their paychecks even though several of our branch offices remain closed, and making certain they know of public services being offered. Thousands of employees throughout the financial services industry have stepped to the plate, making further contributions of their time, money, energy and talents. Individuals are helping families. Neighbors are helping neighbors.

Working Together to Rebuild

As our nation moves from the stage of rescue and recovery to the stage of rebuilding, it is of utmost importance that we establish a platform upon which hurricane-affected individuals and families **can** rebuild. To do that, we believe, government, the nonprofit community and the private sector must join together to ensure that the whole of our efforts are indeed greater than the sum of each sector's part.

As we rebuild, there are certain priorities that we in the financial services community believe we must share with the public sector to ensure that hurricane-affected families have access to the capital and credit they need to rebuild their lives.

These families and their private sector lenders will need the support of government in finding creative, but safe and sound, ways to make it easier for families to rebuild. As we have all witnessed, many thousands of homeowners in the region have had their homes and possessions either totally destroyed or significantly damaged by the devastation of Katrina. Many customers will find that their property values have declined to levels significantly below the outstanding balances on their mortgages and now face the daunting challenge of

incurring additional debt, and debt service burden, to rebuild their homes and their lives. We – private sector lenders and government agencies at all levels – must work together to ensure that these individuals and families can afford to service their debts on what they already owe and on the incremental debt they may need to incur to rebuild. But as financial managers, we are also aware that the financial resources of government at all levels are in many cases already limited on the revenue side by tax policy decisions. In fashioning our rebuilding efforts, we all need to be aware of the impact that policy decisions may have on prudential national monetary and fiscal policies. We must ensure that our efforts do not impair the long-term ability of the U.S. economy to produce private-sector jobs and to compete in a global market.

Policy Recommendations

AFSA is appreciative of the Subcommittee's request for its members input on several legislative proposals under consideration to provide relief to victims and the financial service providers in the region that include:

- Temporarily increasing the deposit insurance coverage from \$100,000 to \$130,000 to improve confidence in institutions and the financial system as a whole, as well as to protect the expected influx of funds for rebuilding efforts;
- Providing an indemnity for institutions that accept checks from victims of the hurricane with limited identification;
- Permitting financial institutions to capitalize interest on loans to businesses;
- Encouraging the waiver of fees associated with wire transfers and waive disclosure requirements in the affected areas;
- Developing pooling mechanisms for businesses and institutions to rebuild and to meet salary demands;

- Relaxing prompt corrective action standards so that institutions from the region that face impaired capital levels will not have to face a reorganization process or closure;
- Requiring the federal home loan bank system to give priority consideration to affordable housing programs.

Due to the immediate need for today's hearing, AFSA is still in the process of gathering input from its members on these proposals. However, all of these initiatives seem to be reasonable approaches worthy of additional action by Congress and the appropriate financial regulatory agencies. AFSA looks forward to working with the members of the Subcommittee on further refining these concepts in the weeks ahead.

While AFSA is in the process of developing its input to advise you, we do wish to offer some recommendations of our own for your consideration in the following areas:

- **Immediate regulatory recommendations to help victims of Hurricane Katrina**

First, consistent with the efforts of the Federal financial regulators working through the interagency coordination process to encourage financial institutions to ease customer identification requirements, it would be appropriate to pursue administrative changes relaxing certain Bank Secrecy Act, Know-Your-Customer, and Privacy – or inter-company data-sharing – requirements for those individuals and families needing the help of the financial services sector to reestablish their access to cash and credit. Affected individuals may no longer have the forms of identification that would be required to transact business. Further, it may not be practical for an individual with several financial services products from large diverse institutions to call multiple affiliates of those institutions. At HSBC, we have established a widely publicized toll-free number for our customers (1-866-

727-4722), and we would hope to be able to use that number to meet our hurricane-affected customers' product needs without running afoul of the law, notwithstanding the HSBC affiliate with which they do business.

Second, because it is important to get cash into the hands of these consumers – and to enable them to keep more of their own funds – we believe it prudent for the bank regulators to delay implementing supervisory policy that requires lending organizations to assess higher minimum payments on their credit cards. At the very least, these rules should be deferred for those families affected by Hurricane Katrina who will need to maximize their disposable income after debt service in order to access basic necessities and rebuild their lives. As well, we believe bank regulators should be asked to more broadly reconsider the timing of the implementation of higher minimum credit card payments. With gas prices up significantly in the past year and home-heating costs expected to be higher this winter, now may not be the time to ask low- to middle-income families to shoulder yet another financial burden by raising their minimum credit card payments. While AFSA, HSBC and others do not dispute the spirit and intent of the policy, we question whether the timing of its implementation remains appropriate for the economy in the near term given significantly higher fuel prices and the catastrophic damage caused by Hurricane Katrina.

- **Longer-term policy issues requiring legislative and regulatory actions to help victims of Hurricane Katrina**

In terms of longer-term policy issues, we believe that there may be significant environmental issues that will need to be addressed as we learn more about the extent of the damage caused by flood waters, described in the news media as “toxic soup.” Home lenders will need government cooperation and guidance to ensure that the land our customers rebuild on is safe from biological and/or chemical contaminants left behind by receding floodwaters. The Subcommittee is certainly aware of the many commendable efforts of the Federal

financial regulators to work together to address the operations needs of financial institutions. This spirit of interagency cooperation will need to be expanded to include the Environmental Protection Agency (EPA) and other appropriate agencies to develop environmental clean-up and assistance policies that foster a safe environment for residents and for private sector lenders in hurricane-affected areas.

Second, Hurricane Katrina is expected to require the insurance industry to pay out nearly \$60 billion in damage claims. While the supervision and regulation of insurance is primarily a matter of state jurisdiction, Congress has wisely provided some limited Federal insurance coverage to consumers and to business through the National Flood Insurance Act and the Terrorism Risk Insurance Act (TRIA). Prior to the August 29 hurricane and flood, Congress was actively engaged in discussions on extending the TRIA program beyond its December 31, 2005 expiration date, and we would encourage the Committee on Financial Institutions to stay on course to markup H.R. 1153 at the earliest practical date. Given the enormity of the flood damage from Hurricane Katrina, displacing millions of people from their homes and flooding more than 80 percent of New Orleans, Congress and taxpayers will all be rightfully questioning the policy underpinnings of the National Flood Insurance program. From an operational viewpoint, one of our company's foremost business concerns is what we can and should do to help our customers rebuild homes that have suffered flood insurance damage that in many cases were either not covered by flood insurance policies or that were under-insured.

Third, AFSA members applaud the efforts of the Federal bank regulators who are working with their institutions to ensure customers access to banking facilities, cash and credit. Just last week, the Office of the Comptroller of the Currency broadened its interpretation of "temporary hardship programs" for credit card customers so that flexible supervisory treatment is given to those affected by the hurricane with all forms of consumer credit. This is clearly a proactive and

empathetic response. It's important to note, however, that many AFSA members are not banking organizations, and therefore may not be allowed the same flexibility to work with their hurricane-affected customers. To that end, we would ask you to work with the Securities and Exchange Commission and state regulators to ensure that non-bank lenders who have provided so much credit to the region and who are critical to its rebuilding efforts are afforded the same flexibility to work with their hurricane-affected customers as has been afforded to the banks and other depository institutions.

Lastly, and I say "lastly" while recognizing that it will take a good deal of time for all of the effects of the hurricane to become known, some of the new loans we'll make to customers that enable them to rebuild may be backed by FEMA or other government agency guarantees. To ensure customers get the best loans at the lowest rates, government must ensure that the financial institutions who are sharing in the credit risk are not relegated to the back of the line in the case of default. Subordinating our lien position behind the U.S. government's may ensure the government is first in line to collect in case of default, but most assuredly will increase the financial risk to the lenders, which inevitably leads to higher rates – and higher payments – for all consumers, not just those in the hurricane-affected areas.

Mr. Chairman and members of the Subcommittee – there is much that needs to be done. We all have taken the first of what we believe will be many, many steps to rebuild what Hurricane Katrina has damaged. We are contributing to the relief efforts. We are matching our employees' contributions. We are giving our customers the flexibility they need, and we are working with those customers to find solutions that work for them, individual by individual, family by family.

By working together, the public and private sectors can help individuals and families rebuild their lives, their homes and their communities.

I thank you for this opportunity to testify before you today, and I will be pleased to answer any questions you may have.