CHAIRPERSON JAMES: With that, Mr. Coates.

MR. COATES: Thank you and I'm very honored to be invited to address you today. And hopefully what some of what I have to say will be of interest to this Commission and of some help.

I have documentation on nearly everything I intend to present today and I have it in a folder and I'll be happy to turn that over whenever.

First, let me give you just a little bit of background of my situation. I am the director for Consumer Credit Counseling in Des Moines, Iowa. I co-founded that organization in 1987 and I believe that puts me in a rather unique situation to observe what has happened in our state, in our immediate vicinity and the fact that we started out in '87 and I came back to Iowa where there was very little gambling except the lottery. And when I left my home state in '81, there wasn't even that.

And I recognize that there has been a slight shift in some of the public sentiment psychology and as we started back in '87, '88, '89 with our credit counseling; we observed that maybe two to three percent of the people that we were talking to had gambling as a core issue to their debt. Today we have six offices throughout the state. We are far and way the state's largest credit counseling service. And we conduct approximately 400 to 500 new counseling sessions each month through our doors.

Now the shift has been at least in part in the area of credit and debt which I hope to talk about here. And that is that now our data shows about 15 percent of our counseling
involves gambling as a core issue or core reason for the debt that has been taken on.

And, I think it's interesting to note that Iowa was one of the first states to enter the gambling arena with casino gambling and target, not the tourist model, but their native population. So I think perhaps some of what we have witnessed has been a bit different than perhaps if you looked at a state like Nevada or a state like New Jersey.

Now, gambling also in our state involves an assistance program for the people that fall out. Those that are known as problem and pathological gamblers. And in September of 1994 my agency bid for and received the state wide gambling hot line. We call it 1-800-BETSOFF in the state of Iowa. And when we entered that arena we were dealing with about 40 to 50 crisis calls each month. And so in the last year we've been averaging close to 300 crisis calls each month. So I have observed it not only from the credit standpoint but also as the administrator for the last few years on the hot line.

Now the hot line, just so that you will know, is administered by the state of Iowa but it is funded by three tenths of one percent. Three tenths of one percent of all the net gambling revenues in the state of Iowa go toward funding the treatment which is not only for the hot line, it also funds education, public awareness, and the treatment for these people.

Now, I want to give you a little background in regards to the mood in our country in regards to the credit and debit situation. Back when we first founded Consumer Credit Counseling back in '87 the entire amount of credit card debt in
this country amounted to about $100 billion, that was open
revolving credit card debt each month.

Now today, 11 years later in 1998, the amount of
credit card debt in this country as of July of this year amounted
to $543 billion. And when I talk to audiences, they fuzz out on
these massive numbers and so I find it helpful to bring it down
to personal level.

Now back in '87 they average person that carried
credit card had access to five and on the bank cards that were in
that were mix the average line of credit was about $2,000.00,
which I thought at that time was quite a bit.

But, now today in 1998 the average person has a
credit card has access to ten and the average line on a bank card
in that mix is $4,000.00. So in that 11 year span we have
doubled the number of cards and doubled the amount of credit
attached to each one of those cards.

And if I took a survey of average citizens and you
asked them do you revolve a balance, about 60 percent typically
will say no. The reality is that 60 percent of our population in
this country to revolve a balance and the balance that they
revolve carry a balance from month to month has risen recently in
a dramatic fashion where it averages over $7,000.00 per
individual in credit card debt being revolved each month in this
country.

Now Iowa was the only state that I know of to
Commission a prevalence study based upon a time line. That time
line starting prior to the institution of casino gambling within
the state. And one of the most pertinent numbers that I got from
this, time line study, was in 1989 two years prior to the
inception of the casinos in the state, we had a 1.7 percent
lifetime problem and pathology gambling rate within the state of
Iowa.

And that same exact study was Commissioned by the
state of Iowa six years later in 1995. In those six years it
took us from 1.7 percent to 5.4 percent of our state's adult
population being put in the category of lifetime problem or
pathological gamblers.

That's a tremendous increase in a relatively short
period of time on the native population and it demonstrates what
happens when marketing and very close accessibility happens to
the native population, I think.

Now there's some number also from Iowa that show that
in 1995 versus '94 the rest of the country experienced a 12
percent increase in bankruptcy where Iowa was up 21.

From 1995 to '96, even with those elevated numbers
the rest of the country was up 26 percent while Iowa was up 34
percent. And in those times Iowa had a very low rate of
unemployment. Most of the unemployment during that period of
time ran from 2½ to 3½ percent and our state's economy was far
stronger than the average.

So to say that we went through something special in
that farm belt during that period of time isn't fair. The
farmers were doing fine and our economy was very good.

We increased the rate per capita of gambling well
above any historical previous rate of bankruptcy in our state's
history compared to the rest of the country. We also led during
those few years in the rate of increase of sub-prime, second mortgage lending which I think is another factor here. Many of the gamblers that we see through our offices have already instituted this high interest, sub-prime loan against their homes, a second mortgage in many cases to finance their gambling habit.

One of the research projects that I was asked to be a part of and was happy to take part in was one called the SMR Research Report. Now I think this is interesting and it is very telling because this is a report that was put out, Commissioned, and paid for by the big banks in this country. And they didn't want to look at gambling, they wanted to look at bankruptcy and they wanted to know why bankruptcy is escalating in this country at such an alarming rate.

But in that study, the 240 page study that SMR did, they felt they had to deal with the gambling issue and I have brought along that piece. Some of the most important factors that I take from that is that if you live in a county in this country that has one casino you have an 18 percent higher rate per capita of bankruptcies in counties in this country that have none. And if you live in a county that has five or more, you have a 34 percent higher instance per capita rate of bankruptcy than counties that have none.

Now the recommendations, "it is now apparent that gambling is the single fastest growing driver of bankruptcy in this country." And their number one recommendation to the banks on this issue, "make it tougher for customers to obtain cash advances at gambling casinos."

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Now the SMR Research report is also complimented by a Des Moines register survey published back in March the 8th, 1998, showing that nine of the twelve highest per capita bankruptcy filing counties of the hundred in our state had gambling facilities in or directly adjacent to it.

And there's a new study that's just been released by Iowa State University in August of this year and was conducted by Professor Tahera K. Hira (ph) at Iowa State University in Ames, Iowa; and some of the, again I'm going to supply you with the entire report, but the figures that jumped out at me were that they compared gamblers to non-gamblers in Chapter 13 Bankruptcies currently being administered in the state of Iowa.

The mean income for gamblers was $20,340.00 per year. The mean income for non-gamblers was $30,384.00. So people that identified themselves as gamblers had two-thirds of the income of those than identified themselves as non-gamblers. But when you compared the amount of debt, the gamblers registered a mean number of $41,342.00 in debt versus only $34,636.00 for non-gamblers. So even though the gamblers had only two-thirds of the level of income, they had a significantly higher amount of debt.

Also they discovered that 19 percent of the Chapter 13 Bankruptcies currently being administered had gambling, again, as this core issue. These people are saying without gambling, without the debt that I accumulated because of gambling, I would not be in bankruptcy court. I think that is a very significant and very recent study.
Now one of the articles that caught my eye some time ago was one that in the International Gaming and Waging Business, and it to, to the industry itself it says this; it is no secret in the casino industry that patrons will continue to play a game until their cash runs out. What some operators have discovered, however, is if a customer is provided with efficient and easy ways to access cash, often a last time player will wager for longer than he or she originally planned.

Phil Brian (ph), president and chief operating officer of Boom Town, a Las Vegas based casino company is quoted as saying, that if casinos did not have these types of devices, players would simply leave to get cash and it is likely they would not come back. In fact 40 to 60 percent of the cash now wagered in a casino is not physically carried on to the premises.

If casinos can understand this they can increase their drops substantially. Say that ATM's are in a great way to provide quick and convenient access to cash. But they also suffer a major drawback, a cash withdrawal limits of $300.00 a day. Casinos have found a way around this delima by utilizing credit card cash advance services provided by companies like COMDATA and Game Financial.

These cash advance terminals allow players to access as much cash as they want, their funds do not exceed their line availability of credit on that particular card. As I've indicated, this country has greatly expanded the area of customer credit in the last few years.

Now there is a situation that we've dealt with before but it was highlighted in a story that I'm going to give to you about
a man named David Davenport who came into our office this spring in April. The counselor came to me afterwards and said, Tom, we've had another one. We had this fellow with $60,000.00 in credit card debt and we talked about and how sad it was, but it was another one of many stories.

We didn't hear about again until that following Monday when his step-son called and said, started asking questions and we found out that Mr. Davenport had driven to a motel two days later on a Friday and ended his life with a pistol in the motel room. Well I waited a few weeks and called his family and I said, you're not the first ones that we've had through here this has happened to but nobody has been willing to step up and tell their story. Well they consulted and they did tell their story and the article came out large, front page, Des Moines Register in June of this year.

The thing I didn't realize when I put the story together with the reporter was a letter that he had left, his suicide letter. And it says, quote, "I never thought of gambling prior to two to three years ago. I really can't blame anyone but myself but I sincerely hope that restrictions are placed upon credit card cash availability at casinos. The money is too easy to access and goes in no time. My situation is now one of complete despair, isolation, and constant anxiety."

And as the reporter said it's almost like a testimony from the grave from this fellow for what I'm interested in and that is, I've got a few other things but I'm going to run out of time.
The thing that we've been working for in the last couple of years in the state of Iowa is to close the loop. The state denies casinos from granting credit but it does not specifically address the issue of vendors. So they have allowed vendors like COMDATA to come throughout the state and issue these machines out there in the casinos that allow large amounts of credit card debt like David Davenport had to be accessed. And we have tried nearly successfully for the last two years but been told at the last minute by an army of lobbyists that has stopped us from this. It's a high priority, it's high priority for me, it's high priority for them. I see the fallout and I, my, one of my recommendations to this Commission would be to encourage states to look at restriction upon this.

I know I watched, one more quote, I know I watched the cross fire of where Frank Fahrenkopf was debating Tom Grey and he even acknowledged that something needed to be done about the credit card machines in these casinos.

So, I'll have to stop now.

MR. BIBLE: Thank you, Mr. Coates. If you've not already supplied your data to our staff, would you do so?

MR. COATES: Yes.

MR. BIBLE: Thank you.