Remarks by
FDIC Chairman Sheila Bair
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Good morning and thank you for that very kind introduction. I'm delighted to be here to help kickoff this year's conference.

I greatly admire and respect all of you, your dedication to a greater good and your efforts through the Coalition. I share your passion for building prosperity for working families across America.

It began for me when I got a job a few years out of law school working in the 1980s for Senator Bob Dole as his counsel on the Courts Subcommittee of the Senate Judiciary Committee, which he chaired.

I handled civil rights cases, constitutional law and other legal issues.

Since then, we've made a lot of progress in civil rights and on the other issues we were working on at the time.

But the pursuit of equal opportunity continues today. And the focus has shifted to economic stability, making sure that all Americans have equal access to our financial system and the benefits it can give.

What you're doing with the Coalition is very much in tune with our job at the FDIC and what we're trying to do across the country.

We're building partnership between government and business and academia and social advocates to try to help low- and moderate- income families stay in the workforce, stay independent, and attain financial freedom.

At the FDIC, maintaining public confidence in the banking system by insuring depositors is our core mission as a federal regulator.

We do this by supervising institutions, and by protecting the consumers who use their banking services. I see this as two sides of the same coin. Safe and sound practices keep banks out of trouble, and happy customers keep them in business.

Economic Inclusion

The American financial system today remains the largest, most diverse, most innovative in the world. The industry is strong and profitable.

With some 8,600 banks and thrifts, many of them community banks who serve their local customers well, America has more banks than any industrial nation. And they are constantly adapting to changes in the markets and customer needs.

Despite the current turmoil in the subprime mortgage market ... when you look past the problems ... you see that responsible subprime lending has increased access to credit for borrowers from all walks of life, who before had no or very limited access.

Homeownership ... especially among minority and low- and moderate income groups ... is at an all time high.

A financial system that expands access ... that expands ownership and empowers people fosters a culture of entrepreneurship and hope ... of stronger families ... of greater wealth and prosperity for our nation.

A financial system that blocks access, that holds people back fosters a culture of despair, of diminished expectations, of weaker working families, of lost faith in the American dream.

That's why we're here today.

To work on improving access to the financial system, to create opportunity, to meet the economic needs and dreams of all Americans.

Three decades ago neighborhood "redlining" was addressed by the Community Reinvestment Act, which motivated banks and thrifts to put money back into their communities. Since then, lending money, especially mortgages, in low-income communities has become a successful business model for many institutions.

The main issue today, however, is not only access to credit, but at what cost, on what terms, and by whom.

Many of these same formerly "redlined" neighborhoods are now heavily served by high-cost financial services providers such as check cashers, payday lenders, wire transmitters, and non-bank subprime mortgage lenders.

These companies used to be relatively small and unsophisticated. But today they have grown to be large, highly sophisticated and highly aggressive marketers of high-cost financial services.

Last year, 54 percent of Black applicants and 47 percent of Hispanic white applicants received higher-rate home purchase loans, versus only 18 percent of non-Hispanic whites. This is according to the most recent Home Mortgage Disclosure Act (HMDA) data released by the Federal Financial Institutions Financial Examination Council (FFIEC).

Another study by the Brookings Institution compares the prices paid by urban, lower income families for consumer goods, including basic financial services, such as home or car loans and check-cashing.

It found that these families pay higher prices for all these consumer products than higher income families in suburban neighborhoods.

It seems to me that our current financial system is not working as well as it could for low-and-middle income families.

Instead of helping them accumulate wealth, for all too many people, it may be pulling them deeper into debt.

Instead of providing access to reasonably priced basic financial services, it may be creating needless barriers for families or perverse incentives for financial institutions.

What can we do to make our financial system work better for low-and-middle income Americans?

There are no magic bullets.

But there are some areas where banks and regulators can intensify our efforts to make the system work better for all. I would like to highlight a few of those today.

The role of banks & regulators

Banks, thrifts, and credit unions are the traditional gateways to the American financial system.

But as you know, there are tens of millions of people who don't use them.

Why are so many consumers outside the banking system?

Why do they turn to high-cost non-banks for service?

I think part of the answer may lie with the regulatory community and the types of incentives we give.

After the CRA was enacted, the focus was on relieving a severe mortgage credit shortage in low and moderate income neighborhoods, which, as I said, has been successful.

But many argue this focus on mortgage credit access has taken attention away from the need for banks to offer reasonably priced, basic financial services -- such as check-cashing, money orders, savings accounts, and small dollar loans.

FDIC efforts

At the FDIC, we've been working hard to find new incentives for banks to offer lower cost services. I believe offering these kinds of services is in their long-term best interest because it helps them build up a loyal client base.

We've giving banks CRA credit when we examine them for offering low-cost alternatives to high-cost payday loans, which can strip wealth through high, recurring fees.

We issued guidelines in June that recommend common-sense ways to offer affordable, private, and easy-to-use credit products.

Banks are well positioned to offer small dollar loans at greatly reduced costs and help their customers build savings in the process.

I believe this is a win-win solution. After all, most payday loan customers also have bank accounts.

Why not make them regular bank customer?

We're also launching a small-dollar pilot lending program.

We have 56 applications from banks to sign up for the new program, which we're very excited about. If this business model works, if banks can make a profit and if consumers can achieve their goals, the program will be model for banks across the country.

We've also set up a new FDIC advisory committee — the Advisory Committee on Economic Inclusion -- to explore in depth the kinds of incentives regulators currently give banks, and specifically, whether we can do more to encourage savings products.

Encouraging savings is absolutely critical, and for this reason: Americans have forgotten how to save.

We spend our cash. Then we borrow so we can spend more. And we never think about saving any money for a rainy day.

Last year, Americans saved just 0.4 percent of their incomes. That's the lowest rate since records have been kept, some 50 years ago.

We need to get back to basics: saving for a rainy day, building wealth, and buying less of what we want and stick with what we need.

For working families, a savings cushion to fall back on in an emergency may be the only thing that keeps them from bouncing a check, or turning to a payday lender for help.

The more we can encourage people to save ... and the easier we can make it for them ... the better off they'll be.

I feel very strongly that we need to re-instill a savings habit into our culture, a habit that's gone missing over recent years.

Financial education and product innovation are parts of the solution.

Teaching people about how money works is a key part of economic inclusion. Low income families, including VITA clients, need reliable information about how to manage their financial affairs.

We have an award-winning financial education curriculum, Money Smart, that we offer free of charge. After taking the class, a Gallup study found that people save more, spend less, pay their bills on time and comparison shop for services.

We're also in the process of expanding the program to reach a broader audience.

I hope you look at ways that you can use our materials to leverage free tax services by also teaching people how they can help themselves by learning more about managing their finances.

In addition to our Advisory Committee that I mentioned, FDIC is setting up a national network starting in nine cities across the country to bring more of the unbanked and underserved into the financial mainstream.

Like the Tax Coalition, our network -- the Alliance for Economic Inclusion -- is community-based and shares your goal of improving the financial well-being of lower income Americans.

The alliance works with banks, community organizations, academics, and local, state, and federal regulators to expand basic retail banking services.

For example, 32 banks have agreed to develop their own small dollar loan programs.

In Baltimore, the alliance is developing an alternative to payday loans. They hope to have a draft loan product MOU for partner banks to review by year-end.

And, in Chicago, there's a new special loan program for permanent immigrants applying for citizenship and in need of financing to pay for costly application and legal fees.

I know that some of you here today have already linked up with our alliance and are working on initiatives in your communities. Part of our game plan is to continue working closely with local EITC coalitions to help working families take advantage of this $41 billion tax break.

We're especially keen on finding ways to encourage EITC-eligible families save at least a portion of their tax refunds.

Once again this year, we'll be sending out an official letter to all our banks (some 5,200 of them) encouraging them to get involved with free tax assistance initiatives during the upcoming tax season.

We'll also be talking with the National Credit Union Administration and the other bank regulatory agencies about them doing something similar.

We've heard this can be an effective means of helping working families get their tax benefits and connect with asset-building opportunities.

Along these same lines, our experts will be working on a "best practices" research paper on how EITC coalitions and banks can work together.

They'll be looking at such things as splitting refunds with portion going into a savings account.

And we'll also be reminding our bank examiners about giving CRA credit, for banks involved with VITA and EITC programs.

Bank efforts

To their credit, many banks ... on their own ... are doing many good things.

Banks from coast-to-coast are very involved with the free voluntary income tax assistance program. They are naturals for this kind of numbers crunching.

Several banks are represented here today. And I thank you for your past efforts.

And let me offer you a couple new ways to bring more working families into your banks.

First, try offering Individual Development Accounts or IDAs, or matched savings programs.

Banks usually act as depositories for the matching funds from donors as well as provide and service the accounts. They can also give matching funds.

The same individuals who qualify for IDAs often qualify for the EITC.

For that reason, IDAs are frequently linked to free tax assistance programs. Research suggests that a strong cross-referral network between VITA clients and IDA participants can help improve participation rates in both programs.

Second, I'm a big fan of school bank programs that are sponsored by a local bank or bank branch.

This gets kids learning at an early age about how to handle money responsibly. I worked in my children's school bank in Massachusetts and found it very effective.

What's more, think about it this way.

For bankers, today's young savers may eventually be your future customers. And they're likely to bring in their parents, too, and maybe one day their own families as well.

I encourage all of you ... including you bankers ... to be in touch with the FDIC Community Affairs Officer for your region to talk about ways to involve banks in your community with local asset-building programs.

Subprime mortgage turmoil

Finally, let me say a few more words about the problems we're seeing with subprime mortgages.

It's a very complicated issue. But let me give you some of the basic facts.

First, most of the outstanding problem subprime mortgages were made by non-bank lenders, not traditional banks and thrifts.

As a result, these lenders were lightly regulated, if they were regulated at all. Many of the loans they made involved "predatory lending" practices or were poorly "underwritten," meaning few questions were asked by lenders.

Because many of the loans were so-called hybrid, 2-28s and 3-27s ARMs, they are now resetting at vastly higher rates after two or three years of low starter rates. And people cannot afford the payments.

Some borrowers are facing foreclosure and are in danger of losing their homes. But in the months ahead, we hope that a majority can be restructured or refinanced into more affordable loans.

The banking regulatory agencies have issued new guidelines for banks and thrifts that curb risky mortgage lending, and encourage them to work with borrowers to get into affordable mortgages.

The ultimate solution for future borrowers is a national standard that covers all lenders ... including the mortgage brokers and others that were making subprime loans.

The Federal Reserve will propose such national standards by the end of the year.

In the meantime, the FDIC recently signed a national partnership with NeighborWorks America's Center for Foreclosure Solutions. We'll be promoting foreclosure-prevention strategies for consumers at risk in selected markets across the nation.

The ultimate goal of the new partnership is to find workable solutions to keep good-faith borrowers in their homes. No one wins when a home is foreclosed — more exactly, everyone loses.

Closing

As you can tell, I'm passionate about fostering economic prosperity for working families. This is not an easy task. America is a consumption-driven culture and economy.

But as a banking regulator, I am committed to finding ways to help families to save and to find affordable credit products.

We're committed to working with the Tax Coalition and all its members. And the FDIC will continue to encourage financial institutions to do the same.

Thank you very much.

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