

**Remarks of
Martin J. Gruenberg, Vice Chairman,
Federal Deposit Insurance Corporation (FDIC)
at the
FDIC Alliance for Economic Inclusion
Baltimore Forum; University
of
Baltimore Business Center
Baltimore, Maryland
May 1, 2007**

Good morning and thank you, Lee. I am very happy to be in Baltimore this morning. As Doreen mentioned, I had the privilege of working for nearly 20 years for Senator Sarbanes on the staff of the Senate Banking Committee, so I have a special attachment to the state of Maryland and the City of Baltimore.

I would like to thank all of you for taking the time to attend this event to officially kick-off the FDIC's Alliance for Economic Inclusion (AEI) in the Baltimore area. We are particularly pleased that we will have the honor of hearing from a very impressive group today, including Andrew Frank, the Deputy Mayor of the City of Baltimore, Marco Cocito-Monoc, the CEO/President of the Southeast Community Development Corporation, Daniel Weiss from Microfinance International Corporation, and Melissa Fischer from Bank of America. I would also like to recognize Bob Mooney, Acting Deputy Director of the FDIC's Division of Supervision and Consumer Protection and the FDIC's Community Affairs group, including Lee Bowman, Valerie Williams, and Joan Lok, for all of the work they have done to pull together this event.

Economic Inclusion

I would like to begin by framing this issue in its broadest context. In many ways, access to an account at a federally insured institution is the starting point for economic citizenship in the United States. Banks provide individuals with the opportunity to save, borrow, invest, and build a credit record. Individuals who use banks have a higher level of participation in consumer credit markets, and ultimately housing markets. This, in turn, can promote stable neighborhoods and better living conditions.

But the fact is that there are millions of Americans who do not have a bank account. We don't know exactly what portion of the U.S. population is unbanked and underbanked, but we do know that it is substantial and that many spend more on financial transactions as a result. The Federal Reserve has estimated that up to 10 percent of American families are unbanked. A recent study estimated that there are 28 million unbanked people in the U.S. and another 45 million underserved who lack adequate access to credit.¹ Another study indicates that the population underserved is significantly concentrated among minorities. According to this study, 46 percent of African

Americans and 34 percent of Hispanic Americans do not have an account at a federally insured financial institution.²

The FDIC's Economic Inclusion Initiatives

This issue of economic inclusion, access to the financial mainstream, is a top priority for the FDIC. Last year our Chairman, Sheila Bair, announced the formation of an Advisory Committee on Economic Inclusion to explore ways of bringing the unbanked into the financial mainstream. The members of the Committee include bankers, regulators, consumer advocates, and academics. Diana Taylor, the former New York State Superintendent of Banks, chairs the Committee. The first meeting took place on March 28th and focused on affordable, small-dollar loans as an alternative to high-cost payday lenders for underserved communities.

The formation of the Committee coincided with the FDIC's start-up of the Alliance for Economic Inclusion, the FDIC's new national initiative to form a network of local coalitions around the country charged with helping underserved communities gain access to federally insured institutions. AEI is focusing on unbanked and underserved populations in nine markets across the country. These markets, which were identified through extensive market and demographic research, include the Black Belt area of Alabama; Boston, Massachusetts; Chicago, Illinois; Austin and Houston, Texas; Kansas City, Missouri; the Gulf Coast areas of Louisiana and Mississippi; Wilmington, Delaware; Los Angeles, California; and here in Baltimore, Maryland.

In each of these markets, including Baltimore, AEI is now organizing coalitions and developing strategies to expand economic inclusion in a measurable way. In each area we have identified target populations and challenges and obstacles that prevent unbanked consumers from participating in the financial mainstream. We are working with banks, community organizations, foundations, academics, and local, state, and federal agencies. These coalitions are developing strategies to expand basic retail financial services for underserved populations in their areas, and to promote basic checking and savings accounts, low cost remittance products, small-dollar loan programs, and responsible mortgage lending based on the borrower's ability to pay. The goal of AEI is to expand financial access and to do so in a way that delivers measurable results.

The Baltimore Alliance for Economic Inclusion – Why Baltimore?

Baltimore is a natural choice for this effort. The FDIC has a history of working with the City of Baltimore on collaborative financial outreach efforts such as the "CASH Program," standing for "Creating Assets, Savings and Hope." CASH helps low-income households in Baltimore by providing free income tax preparation and financial services. Since 2001, the Baltimore CASH Campaign has assisted over 12,000 taxpayers and resulted in over \$44 million in saved tax preparation fees.

Baltimore is also a natural choice because it is an area with a highly diverse population, in need of lower cost financial services. A study published last year by The Brookings Institution found that lower income families in Baltimore tend to pay higher prices for financial services such as check cashing and short term loans.³ The study found that high priced check cashers and alternative loan providers are very densely concentrated in poor areas of Baltimore, far more so than in other areas of Baltimore. In its study, Brookings further documented that in the Baltimore metro area, a significant share of low income residents utilize high-priced refund anticipation loans and are more likely than other households to get high-priced mortgages.

Our initial AEI efforts here will focus on East Baltimore. Almost a quarter of the households in the East Baltimore neighborhood live below the poverty level. Like many such neighborhoods, East Baltimore lacks providers of low cost financial products and services. Travel down Eastern Avenue and you will see abundant check cashing services, rent-to-own shops, money transfer, title and payday loan providers. Our goal is to expand the financial alternatives available to the residents of East Baltimore so that they can get lower cost financial services on responsible terms.

The Baltimore Alliance for Economic Inclusion – Next Steps

This morning you will hear from some innovative providers of low cost financial services. At lunch, Bob Mooney of the FDIC will talk to you about our small dollar loan program initiative, an alternative to payday loans that banks can offer on a profitable basis but at a far lower cost to the borrower. This afternoon you will have the opportunity to join working groups to identify products and strategies, and determine ways to deliver measurable results to people in the East Baltimore community.

I strongly encourage all of you to take advantage of the opportunity to join a working group. It is our hope that working together through AEI we will be able to make a real difference in the lives of residents of East Baltimore. The FDIC is committed to this effort, and we look forward to the opportunity to work with all of you.

Thank you.

¹The Board of Governors of the Federal Reserve System has reported that from 9 to 13 percent of U.S. households lack transaction accounts in its Survey of Consumer Finances as summarized in Federal Reserve Bulletins dated January 1997, January 2000, January 2001, and January 2004; "Private-Label Card Program From GE Offers 'Road to Credit' To Tap Greater Portion of Market," citing statistics from Bearing Point, The Wall Street Journal, July 7, 2006.

²Sherrie L. W. Rhine, "A Closer Look at the Unbanked," May 22, 2006, and Sherrie L. Rhine and William H. Greene, "The Determinants of Being Unbanked for U.S. Immigrants," Journal of Consumer Affairs, summer 2006, Vol. 40 Issue 1, p. 21-40. Statistics cited refer to U.S. born African Americans and Hispanic Americans.

3 "From Poverty, Opportunity, Putting the Market to Work for Lower Income Families,"
The Brookings Institution Metropolitan Policy Program, 2006. Also see
http://www.brookings.edu/metro/pubs/20060718_Baltimore.pdf. 194k (PDF Help)

Last Updated 5/01/2007